

On behalf of the Applicants
CBE Philipps
First witness statement
11 July 2022
Exhibit CPEB1/AJM1

On behalf of the Proposed Administrators
A J Manson
First witness statement
11 July 2022
Exhibit CPEB1/AJM1

Case number: _____
Company Registered No. 04343841

IN THE HIGH COURT OF JUSTICE
BUSINESS AND PROPERTY COURTS OF ENGLAND AND WALES
INSOLVENCY AND COMPANIES LIST (ChD)

IN THE MATTER OF PETROPAVLOVSK PLC
AND IN THE MATTER OF THE INSOLVENCY ACT 1986

EXHIBIT CPEB1/AJM1

This is the Exhibit marked “**CPEB1/AJM1**” referred to in the first witness statement of Charlotte Bertha Elisabeth Philipps dated 11 July 2022 and the first witness statement of Allister Jonathan Manson dated 11 July 2022.

INDEX TO EXHIBIT CPEB1/AJM1

| Tab | Document | Date | Pages |
|-----|--|---|-----------|
| 1. | Memorandum of the Company, as filed at Companies House on 23 September 2009 | 20 December 2001 | 6-10 |
| 2. | Trust Deed for US\$ 500 million notes due 14 November 2022 and issued by Petropavlovsk 2016 Limited (“ 2022 Notes ”) | November 2017 [Unsigned execution version] | 11-121 |
| 3. | Offering Memorandum for 2022 Notes | 10 November 2017 | 122-645 |
| 4. | Deed of Guarantee relating to 2022 Notes | 14 November 2017 | 646-663 |
| 5. | Trust Deed for US\$ 125 million convertible bond due in 2024 and issued by Petropavlovsk 2010 Limited (“ Convertible Bonds ”) | 3 July 2019 | 664-779 |
| 6. | US\$ 200 million committed term loan facility agreement between Bank GPB (JSC) (“ GPB ”) (as lender) and Petropavlovsk PLC (the “ Company ”) (as borrower) (the “ Term Loan ”) (redacted) | 28 July 2019 | 780-877 |
| 7. | Offering Memorandum for Convertible Bonds | 26 September 2019 | 878-1128 |
| 8. | Terms of reference for the division of responsibilities between the Chairman, the Chief Effective Officer and the Senior Independent Director | 4 December 2019 | 1129-1131 |
| 9. | Articles of Association of the Company, as filed at Companies House on 18 July 2020 | 30 June 2020 | 1132-1201 |
| 10. | Annual report for the Petropavlovsk group (the “ Group ”) made up to 31 December 2020 and consolidated Group balance sheet as at 31 December 2020 | 31 December 2020 | 1202-1429 |
| 11. | Executive committee terms of reference | 25 January 2021 | 1430-1432 |
| 12. | Audit committee terms of reference | 21 May 2021 | 1433-1442 |
| 13. | Schedule of matters reserved for the board of directors of the Company | 31 August 2021 | 1443-1447 |
| 14. | Company Press Release – Group’s interim financial report for the period 1 January 2021 to 30 June 2021 | 1 September 2021 | 1448-1449 |
| 15. | Malomyr Mine Revolving Credit Line Agreement (Russian) | 10 November 2021 | 1500-1512 |
| 16. | UMMC Presentation | January 2022 | 1513-1528 |

| Tab | Document | Date | Pages |
|-----|---|------------------------|-----------|
| 17. | Company Press Release – Statement on Events in Ukraine | 9 March 2022 | 1529-1530 |
| 18. | Company Press Release – Statement on UK Sanctions on Dealings in Transferable Securities | 9 March 2022 | 1531-1532 |
| 19. | FTSE Russell notice of removal of Company shares from all FTSE Russell indices effective from 21 March 2022 | 11 March 2022 | 1533-1534 |
| 20. | Interfax News Report - Makhmudov, Bokarev no longer controlling beneficiaries of four UMMC entities | 14 March 2022 | 1535 |
| 21. | Interfax News Report - Euroclear restricts transactions on NSD account | 18 March 2022 | 1536-1538 |
| 22. | <i>Left intentionally blank</i> | | |
| 23. | Office of Financial Sanctions Implementation General Licence INT/2022/1424276 | 24 March 2022 | 1539-1540 |
| 24. | Company Press Release – Statement in relation to GPB | 25 March 2022 | 1541-1542 |
| 25. | Company Press Release – Update in relation to GPB | 30 March 2022 | 1543-1544 |
| 26. | Company Press Release – Board Update Director Resignation | 4 April 2022 | 1545 |
| 27. | TR-1 filed with the London Stock Exchange by ‘Uzhuralzoloto Group of Companies Joint Stock Company’ (“UGC”) in respect of its shareholding in the Company | 5 July 2022 | 1546-1548 |
| 28. | Correspondence between the Board and Match Liquidity | 5 April – 20 May 2022 | 1549-1560 |
| 29. | Correspondence between the Board and Prosperity | 8 April – 28 June 2022 | 1561-1565 |
| 30. | Company Press Release – Board Update | 11 April 2022 | 1566-1567 |
| 31. | Company Press Release – Update regarding GPB and Corporate Options | 14 April 2022 | 1568-1569 |
| 32. | Letter of demand for pre-term repayment from GPB to Albynskiy Rudnik LLC in relation to Loan Agreement dated 10 November 2021 No. 133/21-P | 18 April 2022 | 1570-1572 |
| 33. | Letter of demand for pre-term repayment from GPB to Malomyrskiy Rudnik LLC in relation to Loan Agreement dated 10 November 2021 No. 134/21-P | 18 April 2022 | 1573-1575 |
| 34. | Letter of demand for pre-term repayment from GPB to JSC Pokrovskiy Mine in relation to Loan Agreement dated 21 April 2021 No. 39/21-P | 18 April 2022 | 1576 |

| Tab | Document | Date | Pages |
|-----|--|---------------------|-----------|
| 35. | Event of default and acceleration notice from GPB to the Company in relation to the Term Loan | 18 April 2022 | 1579-1581 |
| 36. | Notice of intention of resignation from GPB to the Company in relation to the Term Loan | 18 April 2022 | 1582-1583 |
| 37. | Resignation notice from GPB (as agent) to the Company in relation to the Term Loan | 19 April 2022 | 1584-1586 |
| 38. | Assignment notice from Joint Stock Company “UMMC-INVEST” (“ UMMC ”) to the Company in relation to the Term Loan | 19 April 2022 | 1587-1598 |
| 39. | Company Press Release – Update regarding GPB | 20 April 2022 | 1599-1600 |
| 40. | Hannam & Partners (“ Hannam ”) ‘teaser’ memorandum | 20 April 2022 | 1601-1607 |
| 41. | Hannam Process Letter (Stage I) | 20 April 2022 | 1608-1611 |
| 42. | Extract showing GPB’s designation as a sanctioned person under the Regulations | 21 April 2022 | 1612-1614 |
| 43. | Company Press Release – Q1 2022 Production and Sales Report | 22 April 2022 | 1615-1621 |
| 44. | Letter from Atlas Mining LLC (on behalf of JSC Pokrovskiy Mine) to Petropavlovsk Rouble Treasury Limited | 26 April 2022 | 1622 |
| 45. | Letter from Atlas Mining LLC (on behalf of LLC Malomyrskiy Mine) to Petropavlovsk Rouble Treasury Limited | 26 April 2022 | 1623 |
| 46. | Letter from Atlas Mining LLC (on behalf of JSC Pokrovskiy Mine) to the Company | 26 April 2022 | 1624 |
| 47. | Structure chart of the Group as at 5 July 2022 | 5 July 2022 | 1625 |
| 48. | Company Press Release – Update on Guaranteed Notes and Convertible Bonds | 29 April 2022 | 1626-1627 |
| 49. | Monthly notice of significant shareholdings in the Company | 30 June 2022 | 1628-1630 |
| 50. | Fair market valuation prepared by Kroll Advisory Ltd. | 2 May 2022 | 1631-1674 |
| 51. | Minute of board meeting on 3 May 2022 | 3 May 2022 | 1675-1678 |
| 52. | Correspondence between the Board and UGC | 3 May – 7 July 2022 | 1679-1733 |
| 53. | Hannam Process Letter (Stage II) | 4 May 2022 | 1734-1736 |

| Tab | Document | Date | Pages |
|-----|--|------------------|-----------|
| 54. | Letter from UMMC to LLC Malomyrskiy Rudnik as guarantor under the Term Loan (in Russian and with English translation) | 6 May 2022 | 1737-1740 |
| 55. | Company Press Release – Update on debt and gold sales | 12 May 2022 | 1741-1742 |
| 56. | Notice of assignment from GPB and Nordic LLC to the JSC Pokrovskiy Mine in relation to the subsidiary facilities (English translation) | 12 May 2022 | 1743-1744 |
| 57. | Notice of event of default to holders of the 2022 Notes | 15 May 2022 | 1745 |
| 58. | Company Press Release – Update on Gazprombank Debt | 16 May 2022 | 1746-1747 |
| 59. | Offer letter from UMMC to the Company | 16 May 2022 | 1748-1758 |
| 60. | Letter from Nordic LLC to the Company | 23 May 2022 | 1759 |
| 61. | <i>Left intentionally blank</i> | | |
| 62. | Letter from UGC to the Company (requisition notice and statement) | 4 June 2022 | 1760-1767 |
| 63. | Company’s “Investors” webpage | 5 June 2022 | 1768-1769 |
| 64. | Company’s “Contact Us” webpage | 5 June 2022 | 1770 |
| 65. | Company’s overview page from Companies House | 5 June 2022 | 1771-1772 |
| 66. | Company’s directorship register from Companies House | 5 June 2022 | 1773-1775 |
| 67. | Company’s mortgage index from Companies House | 5 June 2022 | 1776 |
| 68. | <i>Left intentionally blank</i> | | |
| 69. | Form AA01 (change of accounting reference date), as filed at Companies House on 7 June 2022 | 7 June 2022 | 1777 |
| 70. | Company Press Release – Change of Accounting Reference Date and Corporate Update | 7 June 2022 | 1778-1779 |
| 71. | Company’s management report | 9 June 2022 | 1780-1791 |
| 72. | HM Government Press Release | 26 June 2022 | 1792-1794 |
| 73. | Company Press Release – Moscow Exchange Listing Level Re-classification | 27 June 2022 | 1795-1796 |
| 74. | Email chain between GPB and the Company | 27- 28 June 2022 | 1797-1798 |

| Tab | Document | Date | Pages |
|------------|--|--------------|--------------|
| 75. | Letter from JHA to OFSI | 29 June 2022 | 1799-1818 |
| 76. | UMMC Final Extension Letter | 30 June 2022 | 1819-1820 |
| 77. | Company Press Release - Resignation of Auditor | 1 July 2022 | 1821-1822 |
| 78. | Draft SPA | 2 July 2022 | 1823-1869 |
| 79. | Letter from JHA to OFSI | 5 July 2022 | 1870-1871 |
| 80. | Company Press Release - Update on Convertible Bonds | 11 July 2022 | 1872-1873 |
| 81. | Email from Mr Potapov to the Company with attachment | 11 July 2022 | 1874-1876 |
| 82. | Resolutions of a meeting of the board of directors of the Company (approval of administration application) | 11 July 2022 | 1877-1878 |
| 83. | GlobalX insolvency search carried out in respect of the Company | 11 July 2022 | 1879-1887 |
| 84. | Proposed administrators' statements and consents to act | 11 July 2022 | 1888-1893 |
| 85. | Company letterhead | Undated | 1894 |
| 86. | Draft Estimated Outcome Statement | Undated | 1895-1899 |

No. 4343841

**The Companies Acts 1985 to 1989
Public Company Limited by Shares**

MEMORANDUM OF ASSOCIATION

of

PETROPAVLOVSK PLC

WEDNESDAY



"LONWXDIW"
LD1 23/09/2009
COMPANIES HOUSE

49

1. The Company's name is "Petropavlovsk PLC"¹.
2. The Company is to be a Public Company.
3. The Company's registered office is to be situated in England and Wales.
4. The Company's objects are:
 - (a) (i) the object of the Company is to carry on business as a general commercial company;
 - (ii) without prejudice to the generality of clause 4(a)(i) of this Memorandum of Association, and the powers of the Company derived from Section 3A of The Companies Act 1985 to 1989, the Company has power to do all or any of the following objects or any of them;
 - (b) to carry on any other trade or business whatever, which can in the opinion of the Directors be advantageously carried on in connection with or ancillary to any of the businesses of the Company;
 - (c) to purchase, take on lease or in exchange, hire or otherwise acquire and hold for any estate or interest any lands, buildings, easements, rights, privileges, concessions, patents, patent rights, licences, secret processes, machinery, plant, stock-in-trade, and any real or personal property of any kind necessary or convenient for the purposes of or in connection with the Company's business or any branch or department thereof;
 - (d) to erect, construct, lay down, enlarge, alter and maintain any roads, railways, tramways, sidings, bridges, reservoirs, shops, stores, factories buildings, works, plant and machinery necessary or convenient for the Company's business, and to contribute to or subsidise the erection, construction and maintenance of any of the above;
 - (e) to borrow or raise or secure the payment of money for the purposes of or in connection with the Company's business, and for the purposes of or in connection with the borrowing or raising of money by the Company to become a member of any building society;

¹ Pursuant to a special resolution dated 25 February 2002, the name of the company was changed from Excelsior Corporation plc to Peter Hambro Mining plc; Pursuant to a special resolution dated 14 September 2009, the name of the company was changed from Peter Hambro Mining plc to Petropavlovsk PLC.

- (f) to mortgage and charge the undertaking and all or any of the real and personal property and assets, present or future, and all or any of the uncalled capital for the time being of the Company and to issue at par or at a premium or discount, and for such consideration and with and subject to such rights, powers, privileges and conditions as may be thought fit, debentures or debenture stock, either permanent or redeemable or repayable, and collaterally or further to secure any securities of the Company by a trust deed or other assurances;
- (g) to issue and deposit any securities which the Company has power to issue by way of mortgage, and also by way of security for the performance of any contracts or obligations of the Company or of its customers or other persons or corporations having dealings with the Company, or in whose businesses or undertakings the Company is interested, whether directly or indirectly;
- (h) to receive money on deposit or loan upon such terms as the Company may approve, and to guarantee the obligations and contracts of customers and others;
- (i) to lend money to any company, firm or person and to give all kinds of indemnities and either with or without the Company receiving any consideration or advantage, direct or indirect, for giving any such guarantee, to guarantee either by personal covenant or by mortgaging or charging all or any part of the undertaking property and assets present and future and uncalled capital of the Company or by both such methods, the performance of the obligations and the payment of the capital or principal (together with any premium) of and dividends or interest on any debenture stocks, shares or other securities of any company, firm or person and in particular (but without limiting the generality of the foregoing) any company which is for the time being the Company's holding or subsidiary company as defined by Section 736 of the Companies Act 1985 or otherwise associated with the Company in business and whether or not this Company receives directly or indirectly any consideration or advantage therefrom;
- (j) to establish and maintain or procure the establishment and maintenance of any non-contributory or contributory pension or superannuation funds for the benefit of, and give or procure the giving of donations, gratuities, pensions, allowances, or emoluments to any persons who are or were at any time in the employment or service of the Company, or of any company which is for the time being the Company's holding or subsidiary company as defined by Section 736 of the Companies Act 1985 or otherwise associated with the Company in business or who are or were at the time directors or officers of the Company or of any such other company as aforesaid, and the wives, widows, families and dependants of any such persons, and also to establish and subsidise or subscribe to any institutions, associations, clubs or fund calculated to be for the benefit of or to advance the interests and well-being of the Company or of any such other company as aforesaid, or of any such persons as aforesaid, and to make payments for or towards the insurance of any such persons as aforesaid, and to subscribe or guarantee money for charitable or benevolent objects or for any exhibition or for any public, general or useful object; and to establish, set up, support and maintain share purchase schemes or profit-sharing schemes for the benefit of any employees of the Company or of any company which is for the time being the Company's holding or subsidiary company as defined by Section 736 of the Companies Act 1985 and to do any of the matters aforesaid, either alone or in conjunction with any such other company as aforesaid;
- (k) to draw, make, accept, endorse, negotiate, discount and execute promissory notes, bills of exchange and other negotiable instruments;
- (l) to invest and deal with the moneys of the Company not immediately required for the purposes of its business in or upon such investments or securities and in any such manner as may from time to time be determined;

- (m) to pay for any property or rights acquired by the Company, either in cash or in fully or partly paid-up shares, with or without preferred or deferred or special rights or restrictions in respect of dividend, repayment of capital, voting or otherwise, or by any securities which the Company has power to issue, or partly in one mode and partly in another, and generally on such terms as the Company may determine;
- (n) to accept payment for any property or rights sold or otherwise disposed of or dealt with by the Company, either in cash, by instalments or otherwise, or in fully or partly paid-up shares of any company or corporation, with or without deferred or preferred or special rights or restrictions in respect of dividend, repayment of capital, voting or otherwise, or in debentures or mortgage debentures or debenture stock, mortgages or other securities of any company or corporation, or partly in one mode and partly in another, and generally on such terms as the Company may determine, and to hold, dispose of or otherwise deal with any shares, stock or securities so acquired;
- (o) to enter into any partnership or joint-purse arrangement or arrangement for sharing profits union of interests or co-operation with any company, firm or person carrying on or proposing to carry on any business within the objects of this Company and to acquire and hold, sell, deal with or dispose of shares, stocks or securities of any such company and to guarantee the contracts or liabilities of, or the payment of the dividends, interest or capital of any shares, stock or securities of and to subsidise or otherwise assist any such company;
- (p) to establish or promote or concur in establishing or promoting any other company whose objects shall include the acquisition and taking over of all or any of the assets and liabilities of the Company or the promotion of which shall be in any manner calculated to advance directly or indirectly the objects or interests of this Company, and to acquire and hold or dispose of shares, stock or securities and guarantee the payment of dividends, interest or capital of any shares, stock or securities issued by or any other obligations of any such company;
- (q) to purchase or otherwise acquire and undertake all or any part of the business, property, assets, liabilities and transactions of any person, firm or company carrying on any business which this Company is authorised to carry on;
- (r) to sell, improve, manage, develop, turn to account, exchange, let on rent, royalty, share of profits or otherwise, grant licences, easements and other rights in or over, and in any other manner deal with or dispose of the undertaking and all or any of the property and assets for the time being of the Company for such consideration as the Company may think fit;
- (s) to amalgamate with any other company whose objects are or include objects similar to those of this Company, whether by sale or purchase (for fully or partly paid-up shares or otherwise) of the undertaking, subject to the liabilities of this or any such other company as aforesaid, with or without winding up, or by sale or purchase (for fully or partly paid-up shares or otherwise) of all or a controlling interest in the shares or stock of this or any such other company as aforesaid, or by partnership, or any arrangement of the nature of partnership, or in any other manner;
- (t) to subscribe or guarantee money for or organise or assist any national, local, charitable, benevolent, public, general or useful object, or for any exhibition or for any purpose which may be considered likely directly or indirectly to further the objects of the Company or the interests of its members;
- (u) to distribute among the members in specie any property of the Company, or any proceeds of sale or disposal of any property of the Company, but so that no distribution amounting to

a reduction of capital be made except with the sanction (if any) for the time being required by law;

- (v) to give such financial assistance, directly or indirectly, for the purpose of the acquisition of shares in the Company or the Company's holding company as defined by Section 736 of the Companies Act 1985 or for the purpose of reducing or discharging any liability incurred by any person for the purpose of the acquisition of shares in the Company or the Company's holding company as defined by Section 736 of the Companies Act 1985 as may be lawful;
- (w) to do all or any of the above things in any part of the world, and either as principals, agents, trustees, contractors or otherwise, and either alone or in conjunction with others, and either by or through agents, trustees, sub-contractors or otherwise;
- (x) to do all such things as are incidental or conducive to the above objects or any of them.

And it is hereby declared that the objects of the Company as specified in each of the foregoing paragraphs of this clause (except only if and so far as otherwise expressly provided in any paragraphs) shall be separate and distinct objects of the Company and shall not be in any way limited by reference to any other paragraph or the name of the Company.

- 5. The liability of the members is limited.
- 6. The Company's share capital is £3,500,000 divided into 350,000,000 Ordinary Shares of £0.01 each².

²

Following admission of the Company's shares to trading on the AIM Market of the London Stock Exchange on 29 April 2002 each of the then existing A Ordinary Shares was sub-divided and converted into 100 Ordinary Shares of £0.01 each and each of the B shares was converted into one Ordinary Share of £0.01 each, thus the authorised share capital of £1,000,000 comprised 100,000,000 Ordinary Shares of £0.01 each. Pursuant to an ordinary resolution dated 21 June 2005 the authorised share capital was increased from £1,000,000 to £1,200,000 by the creation of 20,000,000 additional Ordinary Shares of £0.01. Pursuant to an ordinary resolution dated 25 March 2009 the authorised share capital was increased from £1,200,000 to £3,500,000 by the creation of 230,000,000 additional Ordinary Shares of £0.01.

WE, the several persons whose names, addresses and descriptions are subscribed are desirous of being formed into a Company in pursuance of this Memorandum of Association and we respectively agree to take the number of shares in the capital of the Company set opposite our respective names.

Names, Addresses and Descriptions
of Subscribers

Number of Shares
taken by each Subscriber

Luciene James Limited
280 Gray's Inn Road
London WC1X 8EB

One

Limited Company

The Company Registration Agents Limited
280 Gray's Inn Road
London WC1X 8EB

One

Limited Company

DATED 20 December 2001

WITNESS to the above signatures:-

Frederick Paul Curtis
166 Westmorland Avenue
Luton LU3 2PU

Company Registration Agent

_____ November 2017

PETROPAVLOVSK 2016 LIMITED
(as *Issuer*)

CITIBANK, N.A., LONDON BRANCH
(as *Trustee*)

TRUST DEED



Freshfields Bruckhaus Deringer

Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London EC4Y 1HS

CONTENTS

| CLAUSE | PAGE |
|---|------|
| 1. Interpretation | 1 |
| 2. Amount of the Notes and Covenant to Pay | 5 |
| 3. Form of the Notes | 7 |
| 4. Stamp Duties and Taxes | 8 |
| 5. Application of Moneys Received by the Trustee | 9 |
| 6. Covenants | 10 |
| 7. Remuneration and Indemnification of the Trustee | 13 |
| 8. Provisions Supplemental to the Trustee Act 1925 and the Trustee Act 2000 | 16 |
| 9. Trustee's Liability | 22 |
| 10. Proof of Default..... | 22 |
| 11. Trustee not Precluded from Entering into Contracts | 23 |
| 12. Modification, Waiver and Substitution | 23 |
| 13. Appointment, Retirement and Removal of the Trustee | 25 |
| 14. Currency Indemnity..... | 26 |
| 15. Communications..... | 26 |
| 16. Further Issues | 27 |
| 17. Law and Jurisdiction | 28 |
| 18. Counterparts | 29 |
| Schedule 1 | 30 |
| Part 1 Form of Regulation S Global Note..... | 30 |
| Part 2 Form of Rule 144A Global Note..... | 38 |
| Schedule 2 | 47 |
| Part 1 Form of Regulation S Definitive Notes..... | 47 |
| Part 2 Form of Rule 144A Definitive Notes | 51 |
| Schedule 3 Terms and Conditions of the Notes | 56 |
| Schedule 4 Provisions for Meetings of Noteholders | 102 |

THIS TRUST DEED is made on ____ November 2017

BETWEEN:

- (1) **PETROPAVLOVSK 2016 LIMITED**, a private limited company incorporated in Jersey (registered number 122639), with its registered office at 13-14 Esplanade, St Helier, Jersey JE1 1BD, United Kingdom (the **Issuer**); and
- (2) **CITIBANK, N.A., LONDON BRANCH**, the **Trustee**, which expression, where the context so admits, includes any other trustee for the time being of this Trust Deed.

WHEREAS:

- (A) The Issuer, incorporated in Jersey, has authorised the issue of U.S.\$500,000,000 8.125 per cent. Guaranteed Notes due 2022 to be constituted by this Trust Deed.
- (B) The Notes will be guaranteed on a joint and several basis under a deed of guarantee by Petropavlovsk PLC (the **Parent**) and the other Guarantors named herein.
- (C) The Trustee has agreed to act as trustee of this Trust Deed on the following terms and conditions.

This Deed witnesses and it is declared as follows:

1. Interpretation

1.1 Definitions

The following expressions have the following meanings:

Agency Agreement means the agreement referred to as such in the Conditions, as amended from time to time, and includes any other agreements appointing Successor Agents or altering any such agreements;

Agents means the parties defined as such in the Agency Agreement;

Auditors means the auditors for the time being of the Parent or, if they are unable or unwilling to carry out any action requested of them under this Trust Deed, such other internationally recognised firm of accountants as may be nominated and appointed by the Issuer;

Authorised Signatory means, (i) in relation to the Issuer, a director for the time being of the Issuer or any officer of the Issuer who is authorised to bind the Issuer by virtue of the Issuer's constitutive documents or any person who is authorised under a power of attorney executed by such an officer on behalf of the Issuer and, (ii) in relation to the Parent, a member of the board of directors of the Parent or any officer of the Parent who is authorised to bind the Parent by virtue of the Parent's constitutive documents or any person who is authorised under a power of attorney executed by such an officer on behalf of the Parent and, (iii) in relation to any other Guarantor, a director for the time being of such Guarantor or any officer of such Guarantor who is authorised to bind such Guarantor by virtue of such Guarantor's constitutive documents or any person who is authorised under a power of attorney executed by such an officer on behalf of such Guarantor;

Business Day means a day on which commercial banks generally are open for business in London, Moscow, Jersey, New York and in the city where the specified office of the Principal Paying Agent is located;

Clearstream, Luxembourg means Clearstream Banking, SA;

Closing Date means 14 November 2017;

Conditions means, in relation to the Notes, the terms and conditions set out in Schedule 3 as from time to time modified in accordance with this Trust Deed and with respect to any Notes represented by the Global Notes, as modified by the provisions of the Global Notes, and any reference to a particularly numbered Condition shall be construed accordingly;

Custodian means Citibank, N.A.;

Deed of Guarantee means the deed of guarantee to be entered into by the Guarantors with the Trustee on or around the Closing Date;

Default has the meaning attributed to such term in the Conditions;

Definitive Notes means the Regulation S Definitive Notes and the Rule 144A Definitive Notes and includes any replacement Definitive Notes issued pursuant to Condition 11;

DTC means The Depository Trust Company;

Euroclear means Euroclear Bank SA/NV;

Exchange Act means the U.S. Securities Exchange Act of 1934, as amended;

Event of Default means an event described in Condition 9;

Extraordinary Resolution has the meaning given to it in Schedule 4;

FSMA means the Financial Services and Markets Act 2000;

Global Notes means the Rule 144A Global Note and the Regulation S Global Note;

Guarantees means the unconditional and irrevocable, joint and several, guarantees of the payment and other obligations of the Issuer under the Notes and this Trust Deed given by the Guarantors pursuant to the Deed of Guarantee and **Guarantee** shall have a corresponding meaning;

Guarantors means the entities giving the Guarantees, which as at the date hereof include the Parent and JSC “Pokrovskiy Mine”, LLC “Albyskiy Rudnik” and LLC “Malomyrskiy Rudnik”, and which shall include any additional Guarantors that may be caused by the Issuer to provide a Guarantee pursuant to Condition 4.13;

Material Subsidiary has the meaning given to it in the Conditions;

Noteholder and **Holder** means a person in whose name a Note is registered in the Register (or, in the case of joint holders, the first named thereof);

Notes means the notes in registered form comprising U.S.\$500,000,000 8.125 per cent. Guaranteed Notes due 2022 constituted by this Trust Deed (and represented by

the Global Notes or Definitive Notes, as the case may be) or the principal amount thereof for the time being outstanding or as the context may require, a specific number of them and includes any replacement Notes issued pursuant to the Conditions;

outstanding means, in relation to the Notes, all the Notes issued except (a) those which have been redeemed in accordance with the Conditions, (b) those in respect of which the date for redemption in accordance with the Conditions has occurred and for which the redemption moneys (including all interest accrued on such Notes to the date for such redemption and any interest payable under the Conditions after such date) have been duly paid to the Trustee or to the Principal Paying Agent as provided in Clause 2 and the Agency Agreement (and, where appropriate, notice to that effect has been given to the Noteholders in accordance with Condition 16) and remain available for payment against presentation and surrender of the Notes in accordance with the Conditions, (c) those which have become void, (d) those which have been purchased and cancelled as provided in the Conditions, (e) those mutilated or defaced Notes which have been surrendered in exchange for replacement Notes, (f) (for the purpose only of determining how many Notes are outstanding and without prejudice to their status for any other purpose) those Definitive Notes alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to Condition 11, and (g) any Global Note to the extent that it shall have been exchanged for another Global Note or Definitive Notes pursuant to its provisions, provided that for the purposes of (1) ascertaining the right to attend at any meeting of Noteholders or to vote at any meeting or to participate in any Written Resolution, (2) the determination of how many Notes are outstanding for the purposes of this Trust Deed and the Conditions, and (3) the exercise of any discretion, power or authority which the Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the Noteholders, those Notes which are beneficially held by or on behalf of the Issuer, any Guarantor or any of their respective Subsidiaries and not cancelled shall (unless no longer so held) be deemed not to be outstanding;

Principal Paying Agent means the bank named as such in the Conditions or any Successor Principal Paying Agent;

QIB means a qualified institutional buyer (as defined in Rule 144A);

Register means the register maintained by the Registrar pursuant to the Conditions and the Agency Agreement, containing (*inter alia*) details of the Noteholders and any transfers of the Notes;

Registrar has the meaning given to it in the Agency Agreement;

Regulation S means Regulation S under the Securities Act;

Regulation S Definitive Notes means the Notes in definitive, fully registered form, without interest coupons, substantially in the form set out in Part 1 of Schedule 2;

Regulation S Global Note means the single, permanent global Note in fully registered form, without interest coupons, substantially in the form set out in Part 1 of Schedule 1;

Regulation S Notes means Notes offered and sold in “offshore transactions” (within the meaning of Regulation S) in compliance with Regulation S;

Regulations means the regulations concerning the transfer, exchange and registration of the Notes set out in Schedule 1 to the Agency Agreement as the same may be amended, supplemented or replaced from time to time by the Issuer, with the prior written approval of the Trustee, the Registrar and the Transfer Agents, but without the consent of the Noteholders;

Rule 144A means Rule 144A under the Securities Act;

Rule 144A Definitive Notes means the Notes in definitive, fully registered form, without interest coupons, substantially in the form set out in Part 2 of Schedule 2;

Rule 144A Global Note means the single, permanent global Note in fully registered form, without interest coupons, substantially in the form set out in Part 2 of Schedule 1;

Rule 144A Notes means Notes offered and sold within the United States in reliance on Rule 144A to persons who are QIBs;

Securities Act means the U.S. Securities Act of 1933, as amended;

specified office means, in relation to a Paying Agent, the Registrar or a Transfer Agent, the office identified with its name at the end of the Conditions or any other office approved by the Trustee and notified to Noteholders pursuant to Clause 6.10;

Stock Exchange means the Irish Stock Exchange plc;

Subsidiary has the meaning ascribed thereto in the Conditions;

Successor means, in relation to any Agent, such other or further person as may from time to time be appointed by the Issuer and the Guarantors as such Agent with the written approval of, and on terms approved in writing by, the Trustee and notice of whose appointment is given to Noteholders pursuant to Clauses 6.6 and 6.10;

this **Trust Deed** and this **Deed** means this Trust Deed (as from time to time altered in accordance with this Trust Deed) and any other document executed in accordance with this Trust Deed (as from time to time so altered) and expressed to be supplemental to this Trust Deed;

Transfer Agents has the meaning given to it in the Agency Agreement;

trust corporation means a trust corporation (as defined in the Law of Property Act 1925) or a corporation entitled to act as a trustee pursuant to applicable foreign legislation relating to trustees;

United States has the meaning ascribed to it in Regulation S; and

VAT means within the European Union such tax as may be levied in accordance with (but subject to derogation from) Directive 2006/112/EC and outside the European Union, any tax levied by reference to added value or sales.

1.2 Defined Terms

Terms defined in the Conditions have the same meanings in this Trust Deed except where otherwise defined in this Trust Deed.

1.3 Construction of Certain References

References to:

- 1.3.1 costs, charges, remuneration or expenses include any value added, turnover or similar tax charged in respect thereof;
- 1.3.2 *dollars, United States dollars* and *U.S.\$* are to the lawful currency for the time being of the United States; and
- 1.3.3 an action, remedy or method of judicial proceedings for the enforcement of creditors' rights include references to the action, remedy or method of judicial proceedings in jurisdictions other than England as shall most nearly approximate thereto.

1.4 Headings

Headings and sub-headings are for ease of reference only and shall not affect the construction of this Trust Deed.

1.5 Schedules

The Schedules are part of this Trust Deed and have effect accordingly.

1.6 Contracts (Rights of Third Parties) Act 1999

Subject to Clause 7.4, a person who is not a party to this Trust Deed has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Trust Deed except and to the extent (if any) that this Trust Deed expressly provides for such act to apply to any of its terms.

2. Amount of the Notes and Covenant to Pay

2.1 Amount of the Notes

The aggregate principal amount of the Notes is limited to \$500,000,000 outstanding at any time.

2.2 Covenant to pay

Subject to the provisions hereof, the Issuer will on any date when any Notes become due to be redeemed in accordance with the Conditions, unconditionally pay to or to the order of the Trustee in United States dollars in same day funds the principal amount of the Notes becoming due for redemption or repayment on that date together with any applicable premium and will (subject to the Conditions) until such payment (both before and after any judgment) unconditionally so pay to or to the order of the Trustee interest on the principal amount of the Notes outstanding as set out in the Conditions; *provided* that subject to the provisions of Clause 2.4: (i) payment of any sum due in respect of the Notes made to the Principal Paying Agent as provided in the Agency Agreement shall, to that extent, satisfy such obligation of the Issuer in this Clause 2.2, except to the extent that there is failure in its subsequent payment to the relevant Noteholders under the Conditions; and (ii) a payment made after the due date or pursuant to Condition 9 will be deemed to have been made when the full amount due has been received by the Trustee or the Principal Paying Agent and notice to that effect has been given to the Noteholders (if required under Clause 6.8), except to the

extent that there is failure in the subsequent payment to the relevant Noteholders under the Conditions. The Trustee will hold the benefit of this covenant on trust for the Noteholders in accordance with the provisions hereof.

2.3 Discharge

Subject to Clause 2.4, any payment to be made in respect of the Notes by the Issuer, the Guarantors or the Trustee may be made as provided in the Conditions and any payment so made will (subject to Clause 2.4) to that extent be a good discharge to the Issuer, the Guarantors or the Trustee, as the case may be.

2.4 Payment after a Default

At any time after an Event of Default or a Default has occurred and is continuing the Trustee may:

- 2.4.1 by notice in writing to the Agents (such notice being copied to the Issuer and the Guarantors), require the Agents (or those specified in such notice), until notified by the Trustee to the contrary, so far as permitted by applicable law:
 - (a) to act thereafter, until otherwise instructed by the Trustee, as Agents of the Trustee under this Trust Deed and the Notes on the terms of the Agency Agreement (with consequential amendments as necessary and except that the Trustee's liability for the indemnification, remuneration and expenses of the Agents will be limited to the amounts for the time being held by the Trustee in respect of the Notes on the terms of this Trust Deed and available to the Trustee for such purpose) and thereafter to hold the Global Notes or Definitive Notes and all moneys, documents and records held by them in respect of Notes to the order of the Trustee; or
 - (b) to deliver the Global Notes or Definitive Notes and all moneys, documents and records held by them in respect of the Notes to the Trustee or as the Trustee directs in such notice, *provided* that such notice shall not apply to any documents or records which the relevant Agent is obliged by any law or regulation not so to release; and
- 2.4.2 by notice in writing to the Issuer and the Guarantors require them to make all subsequent payments in respect of the Notes to or to the order of the Trustee and not to the Principal Paying Agent and thereafter, until such notice is withdrawn, the proviso (i) in Clause 2.2 shall cease to apply.

2.5 Enforcement action after the Notes become due and payable

Pursuant to Conditions 9 and 13, at any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such actions, steps or proceedings against the Issuer and/or any Guarantor as it may think fit to enforce the rights of the Noteholders and the terms of this Trust Deed, the Notes and/or the Deed of Guarantee, but it need not take any such proceedings and nor shall the Trustee be bound to take or omit to take any step or action (including instituting such proceedings) unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-quarter in principal amount of the Notes outstanding and (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction. No Noteholder may proceed

directly against the Issuer or any Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

3. Form of the Notes

3.1 The Global Notes

3.1.1 **Regulation S Global Note:** The Regulation S Notes shall be represented by a permanent Regulation S Global Note in fully registered form, without interest coupons, and shall be deposited with Citibank Europe plc as common depositary for, and registered in the name of Citivic Nominees Limited as nominee of, Euroclear and Clearstream, Luxembourg. The Regulation S Global Note shall be printed or typed in the form or substantially in the form set out in Part 1 of Schedule 1.

3.1.2 **Rule 144A Global Note:** The Rule 144A Notes shall be represented by a permanent Rule 144A Global Note, in fully registered form, without interest coupons, deposited with the Custodian for, and registered in the name of Cede & Co. as nominee of, DTC. The Rule 144A Global Note shall be printed or typed in the form or substantially in the form set out in Part 2 of Schedule 1.

3.1.3 **Signatures:** Each Global Note shall be signed manually or in facsimile by an Authorised Signatory of the Issuer and shall be authenticated by or on behalf of the Registrar. The Issuer may use on each Global Note a facsimile signature of an Authorised Signatory of the Issuer notwithstanding the fact that when such Global Note shall be delivered any such person shall have ceased to hold such office; *provided* that such person held such office at the date on which such Global Note is expressed to be issued. Each Global Note so executed shall be a binding and valid obligation of the Issuer.

3.2 The Definitive Notes

Definitive Notes shall not be issued except in the limited circumstances provided in the relevant Global Note. If issued, such Definitive Notes shall be substantially in the form set forth in Schedule 2 hereto. The Definitive Notes shall be signed in the manner provided for in the relevant Definitive Note.

3.3 Legends

The Issuer may require such legend or legends on the Global Notes and the Definitive Notes (if any) as it shall from time to time deem appropriate.

3.4 Denominations

The Notes shall be held in denominations of U.S.\$200,000 or integral multiples of U.S.\$1,000 in excess thereof.

3.5 Title

Title to the Notes represented by Global Notes and, if Definitive Notes are issued, Definitive Notes, passes by and upon registration of transfer in the Register. All Definitive Notes and any relevant Global Note issued upon any registration of a transfer or exchange of Definitive Notes or the relevant Global Note (as the case may be) shall be valid obligations of the Issuer, evidencing the same obligation, and entitled to the same benefits under this Trust Deed, as the Definitive Notes or the

relevant Global Note (as the case may be) surrendered upon such registration of the transfer or exchange.

3.6 Transfer:

Every Definitive Note and the relevant Global Note presented or surrendered for registration of a transfer or for exchange shall (if so required by the Issuer or the Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Registrar, duly executed, by the holder thereof or his attorney duly authorised in writing.

3.7 Notice of Conditions

Noteholders have notice of and have accepted the Conditions.

3.8 Noteholders

To the fullest extent permitted by applicable law, the Issuer, each Guarantor, the Trustee and each Agent may treat the person or persons in whose name or names any Note is registered in the Register, for the purpose of making payments and all other purposes, as the absolute owner thereof (whether or not such Note shall be overdue and notwithstanding any notice which any person may have of the right, title, interest or claim of any other person thereto and the Issuer, Trustee, each Guarantor and each Agent shall not be liable for so treating such holder).

4. Stamp Duties and Taxes

4.1 Stamp Duties

The Issuer will pay, or procure the payment of, any stamp, issue, documentary or other taxes and duties, including interest and penalties, payable in Belgium, the Grand Duchy of Luxembourg, Jersey, the Russian Federation, the United States and the United Kingdom in respect of the creation, issue and offering of the Notes and the execution, delivery, performance and enforcement of this Trust Deed and/or the Deed of Guarantee. The Issuer will also indemnify the Trustee and the Noteholders against all stamp, issue, documentary or other taxes paid by any of them in any jurisdiction in connection with any action taken by or on behalf of the Trustee or, as the case may be, the Noteholders to enforce any obligations under this Trust Deed or the Notes or the Deed of Guarantee. This Clause 4 will continue in full force and effect as regards the Trustee even if the Trustee is no longer acting in such capacity.

4.2 Change of Taxing Jurisdiction

If the Issuer or any of the Guarantors becomes subject generally to the taxing jurisdiction of a territory or a taxing authority of or in that territory with power to tax other than or in addition to (in the case of the Issuer) Jersey or (in the case of the Guarantors) the Russian Federation, the United States or the United Kingdom or any such authority of or in such territory then the Issuer or the Guarantors, as the case may be, will (unless the Trustee otherwise agrees), give the Trustee an undertaking satisfactory to the Trustee in terms corresponding to the terms of Condition 8 with the substitution for, or (as the case may require) the addition to, the references in that Condition to Jersey, the Russian Federation, the United States or the United Kingdom, or references to that other or additional territory or authority to whose

taxing jurisdiction the Issuer or any of the Guarantors has become so subject. In such event this Trust Deed, the Deed of Guarantee and the Notes will be read accordingly.

5. Application of Moneys Received by the Trustee

5.1 Declaration of Trust

All moneys received by the Trustee in respect of the Notes, amounts payable under this Trust Deed or amounts received pursuant to the Deed of Guarantee will, despite any appropriation of all or part of them by the Issuer or the Guarantors, be held by the Trustee on trust to apply them (subject to Clause 2.1.7 of the Deed of Guarantee and Clause 5.2):

- 5.1.1 first, in payment of all costs, charges, expenses and liabilities properly incurred by the Trustee (including remuneration payable to it) in carrying out its functions under this Trust Deed and the Deed of Guarantee;
- 5.1.2 secondly, in payment of all costs, charges, expenses and liabilities properly incurred by the Agents (including remuneration payable to the Agents) in carrying out their obligations under the Agency Agreement;
- 5.1.3 thirdly, in payment of any amounts owing in respect of the Notes *pari passu* and rateably; and
- 5.1.4 fourthly, in payment of any balance to the Issuer for itself or, if any moneys were received from the Guarantors pursuant to the Deed of Guarantee and to the extent of such moneys, the Guarantors.

If the Trustee holds any moneys in respect of Notes which have become void, the Trustee will hold them on these trusts.

5.2 Accumulation

If the amount of the moneys at any time available for payment in respect of the Notes under Clause 5.1 is less than 10 per cent. of the amount then payable in respect of the Notes then outstanding, the Trustee may, at its discretion, invest such moneys in the investments authorised in Clause 5.3. The Trustee may retain such investments and accumulate the resulting income until the investments and the accumulations, together with any other funds for the time being under its control and available for such payment, amount to at least 10 per cent. of the amount then payable in respect of the Notes then outstanding and then such investments, accumulations and funds (after deduction of, or provision for, any applicable taxes) will be applied as specified in Clause 5.1.1. The Trustee will not be liable for any resulting loss.

5.3 Investment

Moneys held by the Trustee may be invested in its name or under its control in any investments or other assets anywhere, whether or not they produce income, or deposited in its name or under its control at such bank or other financial institution in such currency as the Trustee may in its absolute discretion deem fit. If that bank or institution is the Trustee or a subsidiary, holding or associated company of the Trustee, it need only account for an amount of interest equal to the standard amount of interest payable by it on such a deposit to an independent customer. The Trustee may at any time vary any such investments or assets or convert any moneys so

deposited into any other currency, and will not be responsible for any resulting loss, whether by depreciation in value, change in exchange rates or otherwise.

6. Covenants

So long as any of the Notes are outstanding, the Issuer (with respect to itself only) (and each Guarantor pursuant to its obligations under the Deed of Guarantee, and in relation to each Guarantor other than the Parent, with respect to itself only) will:

6.1 Books of Account

keep, and procure that each of its Material Subsidiaries keeps, its books of accounts and accounting records in accordance with accounting standards applicable to it in its jurisdiction of incorporation and, at all times during normal business hours upon prior request of the Trustee, so far as permitted by applicable law, allow, and procure that each such Material Subsidiary will allow, the Trustee and its representatives to whom the Issuer, the Guarantors and/or the relevant Material Subsidiary have no reasonable objection, access to its books of account.

6.2 Notice of Default or Relevant Event

Notify the Trustee in writing immediately on becoming aware of the occurrence of any Event of Default, Default or Relevant Event.

6.3 Provision of Information to Trustee

So far as permitted by applicable law, give the Trustee such information and in such form (including, but not limited to, any certificate, report or opinion) as it reasonably requires to perform its duties and functions under this Trust Deed, the Notes and the Deed of Guarantee.

6.4 Financial Statements etc.

6.4.1 Furnish to the Noteholders (which obligation may be satisfied by publishing such statements in accordance with the listing rules applicable to the Parent and on its website) and deliver to the Trustee:

- (a) within 120 days after the end of each financial year, annual reports containing the following information in English with a level of detail that is substantially comparable to those published by the Parent in respect of prior periods and in accordance with applicable regulatory requirements: (A) audited consolidated balance sheets of the Parent as of the end of the two most recent financial years and audited consolidated income statements and statements of cash flow of the Parent for the two most recent financial years, in each case prepared in accordance with IFRS, and including complete footnotes to such financial statements and the report of the independent auditors on the financial statements; (B) to the extent relating to annual periods, an operating and financial review of the audited financial statements, including a discussion of the results of operations, financial condition, and liquidity and capital resources, and a discussion of material commitments and contingencies and critical accounting policies as may be published by, and consistent with the past practice of, the Parent and in accordance with the listing rules applicable to the Parent;

- (b) within 90 days after the end of the first six months of each financial year of the Parent semi-annual reports in English containing the following information: (A) an unaudited condensed consolidated balance sheet as of the end of such semi-annual period and unaudited condensed statements of income and cash flow for the semi-annual period ending on the unaudited condensed balance sheet date, and the comparable prior year period, in each case prepared in accordance with IFRS, together with a review report thereon conducted in accordance with International Standards on Review Engagements No. 2400 (or such replacement standard in force at such time), and with condensed footnote disclosure; (B) an operating and financial review of the unaudited financial statements, including a discussion of the results of operations, financial condition, and liquidity and capital resources, and a discussion of material commitments and contingencies and changes in critical accounting policies as may be published by, and consistent with the past practice of, the Parent and in accordance with the listing rules applicable to the Parent; and
- (c) promptly after the occurrence of a material acquisition, disposition, restructuring or change in auditors or any other material event, a report containing a description of such event; and

6.4.2 Furnish to the Trustee an Officers' Certificate of the Parent, within 14 days of the annual reports being sent to the Trustee pursuant to Clause 6.4.1(a) and, in addition, within 14 days of any request by the Trustee, with respect to compliance with the Conditions and specifying the Material Subsidiaries of the Parent in accordance with the definitions thereof.

6.5 Certificate of Authorised Signatory

Send to the Trustee, within 14 days of the date the accounts are sent to the Trustee pursuant to Clause 6.4.1, and also within 14 days of any request by the Trustee certificates of (i) the Issuer and (ii) the Parent (on behalf of all the Guarantors), each in the English language and signed by any two Authorised Signatories of the Issuer or the Parent (as the case may be) to the effect that, to the best of the knowledge, information and belief of the Issuer, or, as the case may be, the Parent (on behalf of all the Guarantors), having made all reasonable enquiries, as at a date (the **Certification Date**) being not more than seven days before the date of the relevant certificate (a) no Relevant Event, Event of Default or Default or any other breach of this Trust Deed had occurred since the date of this Trust Deed or the Certification Date of the last such certificate (if any) or, if such an event had occurred, giving details of it and (b) that the Issuer has or, as the case may be, each of the Guarantors have complied with their obligations under the Conditions, the Trust Deed and the Deed of Guarantee, as applicable.

6.6 Notices to Noteholders

Send to the Trustee in English (i) at least 7 days prior to publication the form of each notice to be given to Noteholders and, once given, two copies of each such notice, such notice to be in a form approved by the Trustee (such approval, unless so expressed, not to constitute approval for the purposes of Section 21 of the FSMA of any such notice which is a communication within the meaning of Section 21 of the FSMA) and issue such notice itself or as provided in the Agency Agreement and (ii) as soon as reasonably practicable after publication, copies of any notice sent to

shareholders, or sent to holders of securities other than shareholders, of the Issuer, the Parent and each other Guarantor.

6.7 Further Acts

So far as permitted by applicable law, do such further things as may be necessary in the opinion of the Trustee to give effect to this Trust Deed.

6.8 Notice of Late Payment

Forthwith upon request by the Trustee give notice to the Noteholders of any unconditional payment to the Principal Paying Agent or the Trustee of any sum due in respect of the Notes made after the due date for such payment or pursuant to Condition 9.

6.9 Listing and Trading

Use their reasonable endeavours to obtain and maintain a listing for the Notes on the Stock Exchange for as long as any Note is outstanding. If, however, they are unable to do so, having used such reasonable endeavours, or if the maintenance of such listing on the Stock Exchange is determined by the Issuer to be unduly onerous, each of the Issuer and the Guarantors will instead use reasonable endeavours promptly to obtain and thereafter to maintain a listing for the Notes on another platform of an internationally recognised stock exchange of which the Issuer will notify the Trustee promptly thereafter.

6.10 Change in Agents

Give at least seven days' prior notice to the Noteholders of any future appointment, resignation or removal of an Agent or of any change by an Agent of its specified office and not make any such appointment or removal without the Trustee's written approval.

6.11 Early Redemption

Give prior notice to the Trustee of any proposed early redemption pursuant to Condition 6 and provide the Trustee with evidence satisfactory that (where applicable) all conditions to such redemption have been satisfied and that the Guarantors have been given notice of such redemption.

6.12 Consents and Licences

Take all necessary action or procure the taking of all necessary actions by the Guarantors, as the case may be, to maintain, obtain and promptly renew, and do or cause to be done all things reasonably necessary to ensure the continuance of all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required in Ireland, Jersey, the Russian Federation, the United States and the United Kingdom for the execution, delivery or performance of and compliance with this Trust Deed, the Agency Agreement, the Notes and the Deed of Guarantee, or for the validity or enforceability thereof.

6.13 Validity of Guarantees

Not do or permit to be done any act which would invalidate in whole or in part the obligations and liability of any of the Guarantors under the Deed of Guarantee.

6.14 Covenant to Comply with Provisions

Comply with and perform and observe all the provisions of this Trust Deed, the Conditions, the Deed of Guarantee and the Agency Agreement and procure that each Guarantor will comply with, perform and observe all the provisions of the Trust Deed, the Conditions, the Deed of Guarantee which are binding on the Issuer and each Guarantor, as the case may be. The Conditions shall be binding on each of the Issuer, the Guarantors, the Trustee, and the Noteholders. The Trustee shall be entitled to enforce the obligations of the Issuer under the Notes and the Conditions and each Guarantor under the Deed of Guarantee as if the same were set out and contained in this Trust Deed which shall be read and construed as one document with the Notes.

6.15 Register

Deliver or procure the delivery to the Trustee (as soon as practicable after being so requested in writing by the Trustee) of an up-to-date copy of the Register in respect of the Notes, certified as being a true, accurate and complete copy, at such times as the Trustee may reasonably require.

6.16 Information

For so long as any of the Notes are restricted securities (as defined in Rule 144 under the Securities Act) and during any period during which the Issuer is not subject to the reporting requirements of the Exchange Act or exempt therefrom pursuant to Rule 12g3-2(b), furnish to any Noteholder or beneficial owner of Notes initially offered and sold in the United States to qualified institutional buyers pursuant to Rule 144A under the Securities Act, and to prospective purchasers in the United States designated by such Holder or beneficial owners, upon request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

6.17 Notes held by the Issuer etc.

Send to the Trustee as soon as practicable after being so requested by the Trustee a certificate signed by any two Authorised Signatories of the Issuer and/or the Parent, as the case may be, stating the number of Notes which are beneficially held at the date of such certificate by or on behalf of the Issuer, any Guarantor or any Subsidiary of the Issuer or any Guarantor, as the case may be.

7. Remuneration and Indemnification of the Trustee

7.1 Normal Remuneration

So long as any Note is outstanding the Issuer will, on presentation of relevant invoices, pay the Trustee as remuneration for its services as Trustee such sum on such dates in each case as they may from time to time agree. Such remuneration will accrue from day to day from the date of this Trust Deed. However, if upon the due date for repayment of the principal amount of the Notes any payment to a Noteholder of moneys due in respect of any Note is improperly withheld or refused, such

remuneration will again accrue as from the date of such withholding or refusal until payment or delivery to such Noteholder is duly made.

7.2 Extra Remuneration

If an Event of Default or a Default shall have occurred, the Issuer hereby agrees that the Trustee shall be entitled to be paid additional remuneration calculated at its normal hourly rates in force from time to time. In any other case, if the Trustee finds it expedient or necessary or is requested by the Issuer to undertake duties which they both agree to be of an exceptional nature or otherwise outside the scope of the Trustee's normal duties under this Trust Deed, the Issuer will pay such additional remuneration as they may agree (and which may be calculated by reference to the Trustee's normal hourly rates in force from time to time) or, failing agreement as to any of the matters in this Clause 7.2 (or as to such sums referred to in Clause 7.1), as determined by a financial institution or person (acting as an expert and not an arbitrator) selected by the Trustee and approved by the Issuer or, failing such approval, nominated by the President for the time being of The Law Society of England and Wales. The expenses involved in such nomination and such financial institution's fee will be borne by the Issuer. The determination of such financial institution or person will be conclusive and binding on the Issuer, each Guarantor, the Trustee and the Noteholders.

7.3 Expenses

The Issuer will on written demand by the Trustee specifying the account to which payment shall be made pay or discharge all out-of-pocket costs, charges, liabilities and out-of-pocket expenses properly incurred and documented by the Trustee in the preparation and execution of this Trust Deed and the Deed of Guarantee and the performance of its functions under this Trust Deed and the Deed of Guarantee (which shall include any related amount of irrecoverable VAT properly payable by the Trustee thereon) including, but not limited to, legal and travelling expenses and, subject to Clause 4.1, any stamp, documentary or other taxes or duties paid by the Trustee in connection with any legal proceedings brought or contemplated by the Trustee against the Issuer or any Guarantor to enforce any provision of this Trust Deed, the Notes or the Deed of Guarantee. Such costs, charges, liabilities and expenses will:

- 7.3.1 in the case of payments actually made by the Trustee before such demand carry interest from the date of the demand at the rate of 2 per cent. per annum over the base lending rate of Citibank, N.A., London Branch on the date on which the Trustee made such payments; and
- 7.3.2 in other cases carry interest at such rate from 30 days after the date of the demand or, where the demand specifies that payment is to be made on an earlier date, from such earlier date, but in any event, no earlier than the date of the demand.

All remuneration payable to the Trustee shall carry interest from the due date therefor.

7.4 Indemnity

The Issuer will, on written demand by the Trustee indemnify the Trustee on an after-tax basis, in respect of Amounts or Claims paid or incurred by it in acting as trustee under this Trust Deed and the Deed of Guarantee (including (1) any Agent/Delegate Liabilities and (2) in respect of disputing or defending any Amounts or Claims made against the Trustee or any Agent/Delegate Liabilities). The Issuer will on written demand by such agent or delegate indemnify such agent or delegate, on an after tax basis, against such Agent/Delegate Liabilities. **Amounts or Claims** are losses, liabilities, fees, claims, actions, demands or properly incurred and documented out-of-pocket costs, charges and expenses and **Agent/Delegate Liabilities** are Amounts or Claims which the Trustee is or would be obliged to pay or reimburse to any of its agents or delegates (**Agents or Delegates**) appointed pursuant to this Trust Deed or the Deed of Guarantee. The Agents and Delegates of the Trustee shall have the right under the Contracts (Rights of Third Parties) Act 1999 to enforce their rights against the Issuer under this Clause 7.4.

7.5 Survival

The provisions of Clauses 7.3 and 7.4 shall survive the resignation or removal of any Trustee and the termination or discharge of this Trust Deed.

7.6 Payment Free and Clear

Each of the Issuer and the Guarantors undertakes to the Trustee that all payments made by such person to the Trustee hereunder or under the Deed of Guarantee (as the case may be) shall be made without set-off, counterclaim, deduction or withholding, unless otherwise compelled by law. In the event of any deduction or withholding compelled by law, the Issuer and the Guarantors (subject to the Deed of Guarantee) will pay such additional amount as will result in the payment to the Trustee of the amount which would otherwise have been payable by the Issuer or the Guarantors (as the case may be) to the Trustee hereunder or under the Deed of Guarantee (as the case may be).

7.7 Continuing Effect

Clauses 7.3 and 7.4 will continue in full force and effect as regards the Trustee even if it no longer is Trustee.

7.8 Separate and independent obligations

The indemnities in Clause 7.4 shall constitute separate and independent obligations of the Issuer under these presents, shall give rise to separate and independent causes of action, shall apply irrespective of any indulgence granted by the Trustee from time to time and shall continue in full force and effect notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due under these presents, the Deed of Guarantee, the Notes or under any such judgment or order.

8. Provisions Supplemental to the Trustee Act 1925 and the Trustee Act 2000

8.1 Advice

The Trustee may act and rely on the opinion or advice of, or information obtained from, the Auditors, the chief accountant of the Issuer or any Guarantor, legal counsel or any other legal, financial or other professional expert and will not be responsible to anyone for any loss occasioned by so acting or relying or not acting or not relying, notwithstanding whether such advice is obtained by or addressed to the Issuer, the Trustee or any other person and whether or not liability in relation thereto is limited by reference to a mandatory cap, methodology or otherwise. Any such opinion, advice or information may be sent or obtained by email, letter or fax and the Trustee will not be liable to anyone for acting in good faith on any opinion, advice or information purporting to be conveyed by such means even if it contains some error or is not authentic.

The Trustee may act, or not act, and rely (or not rely) upon (i) the certification, opinion or reports of the Auditors or any other expert as to the accuracy of any financial statements (whether audited or unaudited, translated and/or converted into United States dollars) and compliance or otherwise by the Issuer and the Guarantors with the covenants and undertakings of the Issuer set forth in the Conditions and the Deed of Guarantee; and (ii) any other certification, advice, opinion or report provided hereunder or in the Conditions by the Auditors, legal counsel or any other legal, financial or other professional expert, and shall not be responsible to the Noteholders or any other person for any loss occasioned by so acting or relying or not acting or not relying or any loss occasioned to the Noteholders or any other person for failure to call for any such certificate, advice, opinion, report, confirmation, financial statements or any other information at any particular time. Such certification, advice, opinion, report, confirmation, financial statements or any other information may be sent or obtained by email, letter or facsimile transmission and may or may not be addressed to the Trustee and the Trustee shall not be liable to the Noteholders or any other person for acting or relying or not acting or not relying in good faith on such certification, advice, opinion, report, confirmation, financial statements or other information purporting to be conveyed by such means though it shall contain some error or shall not be authentic and whether or not any certificate, advice, opinion or report delivered by the Auditors, legal counsel or any other legal, financial or other professional expert contains any limit on the liability of the Auditors, legal counsel or any other legal, financial or other professional expert (whether by reference to a monetary cap or otherwise).

8.2 Trustee to Assume Performance

The Trustee need not notify anyone of the execution of this Trust Deed or do anything to find out if an Event of Default or a Default or Relevant Event has occurred. Until it has actual knowledge or express notice in writing to the contrary, the Trustee may assume that no such event has occurred and that the Issuer and the Guarantors are performing all their obligations under this Trust Deed, the Notes and the Deed of Guarantee.

8.3 Direction of Noteholders

The Trustee will not be responsible for having acted in good faith on any direction or request or resolution of Noteholders, including, without limitation, a direction given in accordance with Conditions 12.1.1 and 12.1.2 and/or a request given in accordance with Conditions 9 and 13, even if it is later found that there was a defect in the direction, resolution or request or that the direction, resolution or request was not valid or binding on the Noteholders. The Trustee shall be entitled to rely without further enquiry and without liability on any certificate provided to it by the Issuer to the effect that Noteholders of the requisite principal amount of Notes outstanding have consented to the supplement, amendment or waiver as referred to in Conditions 12.1.1 and 12.1.2.

8.4 Certificate signed by Authorised Signatories

If the Trustee, in the exercise of its functions, requires to be satisfied or to have information as to any fact or the expediency of any act, it may call for and accept as sufficient evidence of that fact or the expediency of that act a certificate, declaration or other document signed by two Authorised Signatories of the Issuer or the Parent (on behalf of the Guarantors) as to that fact or to the effect that, in their opinion, that act is expedient and the Trustee need not call for further evidence and will not be responsible for any loss occasioned by acting on such a certificate, declaration or other document.

8.5 Deposit of Documents

The Trustee may appoint as custodian, on such terms as it may deem appropriate, any bank or entity whose business includes the safe custody of documents or any lawyer or firm of lawyers believed by it to be of good repute and may deposit this Trust Deed and the Deed of Guarantee and any other documents with such custodian and pay all sums due in respect thereof. The Trustee is not obliged to appoint a custodian of securities payable to bearer.

8.6 Discretion

The Trustee will (save as expressly otherwise provided herein) have absolute and uncontrolled discretion as to the exercise or non-exercise of its functions and will not be responsible for any loss, liability, cost, claim, action, demand, expense or inconvenience which may result from their exercise or non-exercise but, whenever the Trustee is under the provisions of this Trust Deed, the Notes or the Deed of Guarantee bound to act at the request or direction of the Noteholders, the Trustee shall nevertheless not be so bound unless first indemnified and/or secured and/or pre-funded to its satisfaction against all actions, proceedings, claims and demands to which it may render itself liable and all costs, charges, damages, expenses and liabilities which it may incur by so doing.

8.7 Agents

Whenever it considers it expedient in the interests of the Noteholders, the Trustee may, in the conduct of its trust business, instead of acting personally, employ and pay an agent selected by it, whether being a lawyer or other professional person, to transact or conduct, or concur in transacting or conducting, any business and to do or

concur in doing all acts required to be done by the Trustee hereunder or pursuant to the Deed of Guarantee (including the receipt and payment of money).

8.8 Delegation

Whenever it considers it expedient in the interests of the Noteholders, the Trustee may delegate to any person on any terms (including power to sub-delegate) all or any of its functions hereunder or pursuant to the Deed of Guarantee.

8.9 Nominees

In relation to any asset held by it under this Trust Deed or the Deed of Guarantee, the Trustee may appoint any person to act as its nominee on any terms.

8.10 Forged Notes

The Trustee will not be liable to the Issuer or the Guarantors or any Noteholder by reason of having accepted as valid or not having rejected any Note purporting to be such and later found to be forged or not authentic.

8.11 Confidentiality

Unless ordered to do so by a court of competent jurisdiction the Trustee shall not be required to disclose to any Noteholder any confidential financial or other information made available to the Trustee by the Issuer or the Guarantors and no Noteholder shall be entitled to take any action to obtain from the Trustee any such information.

8.12 Determinations Conclusive

As between itself and the Noteholders the Trustee may determine all questions and doubts arising in relation to any of the provisions of this Trust Deed and the Deed of Guarantee. Such determinations, whether made upon such a question actually raised or implied in the acts or proceedings of the Trustee, will be conclusive and shall bind the Trustee and the Noteholders.

8.13 Currency Conversion

Where it is necessary or desirable for the purposes of this Trust Deed to convert any sum from one currency to another, it will (unless otherwise provided hereby or required by law) be converted at such rate or rates, in accordance with such method and as at such date as may reasonably be specified by the Trustee but having regard to current rates of exchange, if available. Any rate, method and date so specified will be binding on the Issuer and the Noteholders.

8.14 Events of Default and Default

The Trustee may determine whether an Event of Default or a Default is in its opinion capable of remedy in accordance with Condition 9. Any such determination shall be conclusive and binding on the Issuer, the Guarantors and the Noteholders.

8.15 Notes held by Issuer etc.

In the absence of knowledge or express notice to the contrary the Trustee may assume without enquiry (other than requesting a certificate under Clause 6.17) that no Notes

are for the time being held by or on behalf of the Issuer, any Guarantor or any of their respective Subsidiaries.

8.16 Payment for and Delivery of Notes

The Trustee will not be responsible for the receipt or application by the Issuer of the proceeds of the issue of the Notes, any exchange of Notes or the delivery of Notes to the persons entitled to them.

8.17 Responsibility for agents, etc.

If the Trustee exercises reasonable care in selecting any custodian, agent, delegate or nominee which it believes to be of good repute appointed under this Clause 8 (an *Appointee*), it will not have any obligation to supervise the Appointee or any sub-delegate or be responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of the Appointee's or any sub-delegate's act, omission, misconduct or default or the act, omission, misconduct or default of any substitute appointed by the Appointee (for the avoidance of doubt, the Issuer and the Guarantors shall also not be responsible for the foregoing).

8.18 Effectiveness of Documents

The Trustee shall not be responsible for the execution, delivery, legality, effectiveness, adequacy, genuineness, validity, enforceability or admissibility in evidence of this Trust Deed or the Deed of Guarantee or any other document relating hereto or thereto and shall not be liable for any failure to obtain any licence, consent or other authority for the execution, delivery, legality, effectiveness, adequacy, genuineness, validity, performance, enforceability or admissibility in evidence of this Trust Deed or the Deed of Guarantee or any other document relating hereto or thereto.

8.19 Legal Opinions

The Trustee shall have no responsibility to Noteholders or any other person in the event that it fails to request, require or receive any legal opinion relating to the Notes or the Guarantees or for checking or commenting upon the content of any such legal opinion and shall not be responsible for any loss, damage, cost, charge, claim, demand, expense, judgment, action, proceeding or other liability whatsoever incurred thereby.

8.20 Freedom to Refrain

Notwithstanding anything else herein contained, the Trustee may refrain without liability from doing anything which would or might in its opinion be contrary to any law of any jurisdiction (including the United States, or any jurisdiction forming a part of it, or England and Wales) or any directive or regulation of any agency of any such jurisdiction or which would or might otherwise render it liable to any person and may without liability do anything which is, in its opinion, necessary to comply with any such law, directive or regulation.

8.21 No obligation to monitor compliance

The Trustee shall be under no obligation to monitor or supervise the functions of any other person under the Trust Deed, Agency Agreement, the Notes, the Deed of

Guarantee or any other agreement or document relating to the transactions herein or therein contemplated and shall be entitled, in the absence of actual knowledge of a breach of obligation, to assume that each such person is properly performing and complying with its obligations.

8.22 Exercise of Powers

In connection with the exercise by it of any of its trusts, powers, authorities and discretions under this Trust Deed (including, without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the interests of the Noteholders as a class and, in particular but without limitation, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 8.

8.23 Regard to Clearing System Accountholders

In considering the interests of Noteholders while a Global Note is registered in the name of a nominee for a clearing system, the Trustee, without being obliged so to do, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to a Global Note and may consider such interests as if such accountholders were the holders of such Global Note.

8.24 Breach of Covenants

The Trustee assumes no responsibility for ascertaining whether or not (i) a breach of any of the covenants in Condition 4 shall have occurred or (ii) any such breach shall have been rectified. Unless and until the Trustee has actual knowledge of any of the above events it shall be entitled to assume that no such event has occurred and shall have no liability to any person for so doing. The Trustee shall not be liable for any loss arising from any determination or calculation made pursuant to the Conditions or the Deed of Guarantee or from any failure or delay in making any such determination or calculation.

8.25 Incurrence of Financial Liability

Nothing contained in this Trust Deed or in the Deed of Guarantee shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties or the exercise of any power, rights, authority or discretion hereunder if it has grounds for believing the repayment of the funds or adequate security or indemnity against such risk or liability is not reasonably assured to it.

8.26 Reliance on Certification of Clearing System

The Trustee may call for and shall be at liberty to accept and place full reliance on as sufficient evidence thereof and shall not be liable to the Issuer any Guarantor or any Noteholder by reason only of either having accepted as valid or not having rejected any certificate or other document issued by any clearing system as to the nominal

amount of the Notes beneficially owned by any person or any other matter (and any such certificate or other document so accepted by the Trustee shall, in the absence of manifest error, be conclusive and binding for all purposes) and any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system in accordance with its usual procedures and in which the holder of a particular principal amount of the Notes is clearly identified together with the amount of such holding.

8.27 Right to Deduct or Withhold

Notwithstanding anything contained in this Trust Deed, to the extent required by any applicable law, if the Trustee is or will be required to make any deduction or withholding from any distribution or payment made by it hereunder or if the Trustee is or will be otherwise charged to, or is or may become liable to, tax as a consequence of performing its duties hereunder whether as principal, agent or otherwise, and whether by reason of any assessment, prospective assessment or other imposition of liability to taxation of whatsoever nature and whensoever made upon the Trustee, and whether in connection with or arising from any sums received or distributed by it or to which it may be entitled under this Trust Deed (other than in connection with its remuneration as provided for herein) or any investments or deposits from time to time representing the same, including any income or gains arising therefrom or any action of the Trustee in connection with the trusts of this Trust Deed (other than the remuneration herein specified) or otherwise, then the Trustee shall be entitled to make such deduction or withholding or, as the case may be, to retain out of sums received by it an amount sufficient to discharge any liability to tax which relates to sums so received or distributed or to discharge any such other liability of the Trustee to tax from the funds held by the Trustee upon the trusts of this Trust Deed.

8.28 Professional and other charges

Any trustee of the trusts of this Trust Deed and the Deed of Guarantee being a lawyer, accountant, broker or other person engaged in any profession or business shall be entitled to charge and be paid all usual and proper professional and other charges for business transacted and acts done by him or his firm in connection with the trusts of this Trust Deed, the Deed of Guarantee or the Agency Agreement and also his reasonable and documented charges in addition to disbursements for all other work and business done and all time spent by him or his firm in connection with matters arising in connection with this Trust Deed, the Agency Agreement and the Deed of Guarantee including matters which might or should have been attended to in person by a trustee not being a banker, accountant or other professional person.

8.29 Actions

The Trustee shall not be bound to take any steps, action or proceedings in connection with this Trust Deed, the Deed of Guarantee or the Notes or obligations arising pursuant thereto, including, without prejudice to the generality of the foregoing, forming an opinion or employing a financial adviser, where it is not satisfied that it will be indemnified, and/or secured and/or prefunded to its satisfaction against all its liabilities and costs incurred in such steps, action or proceedings and may demand prior to taking any such steps, action or proceedings that there be paid to it in advance such sums as it considers (without prejudice to any further demand) shall be sufficient

to indemnify and/or secure and/or prefund it. For the avoidance of doubt, the Trustee shall not be obliged to agree to any amendment, supplement or waiver pursuant to Clauses 12.1 or 12.2 which, in the sole opinion of the Trustee would have the effect of (i) exposing the Trustee to any liability against which it has not been indemnified and/or secured and/or prefunded to its satisfaction, or (ii) increasing the obligations or duties or diminishing the rights or protections of the Trustee under the Trust Deed, the Notes or the Deed of Guarantee.

8.30 No liability for consequential loss

Notwithstanding any provision of this Trust Deed or the Deed of Guarantee to the contrary, the Trustee shall not in any event be liable for special damages or for indirect, punitive or consequential loss or damage of any kind whatsoever, or for lost profits, loss of goodwill or loss of opportunity, whether or not foreseeable, even if the Trustee has been advised of the likelihood of such loss or damage and regardless of whether the claim for loss or damage is made in negligence, breach of contract, duty or otherwise.

8.31 Noteholders as a Class

Whenever in this Trust Deed the Trustee is required in connection with any exercise of its powers, trusts, authorities or discretions to have regard to the interests of the Noteholders, it shall have regard to the interests of the Noteholders as a class and in particular, but without prejudice to the generality of the foregoing, shall not be obliged to have regard to the consequences of such exercise for any individual Noteholder resulting from his or its being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory nor shall any Noteholder be entitled to claim, from the Issuer, the Guarantors, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

9. Trustee's Liability

Section 1 of the Trustee Act 2000 shall not apply to any function of the Trustee. Notwithstanding anything to the contrary in this Trust Deed, the Trustee shall not be liable to any person for any matter or anything done or omitted in any way in connection with this Trust Deed, the Agency Agreement, the Deed of Guarantee, the Conditions and the other transaction documents, *provided* however that if the Trustee fails to show the degree of care and diligence required of it as trustee, nothing in this Trust Deed shall relieve or indemnify it from or against any liability which would otherwise attach to it in respect of any fraud, gross negligence or wilful default of which it may be guilty. Where there are any inconsistencies between the Trustee Act 1925, the Trustee Act 2000 and the provisions of this Trust Deed, the provisions of this Trust Deed shall, to the extent allowed by law, prevail and, in the case of any such inconsistency with the Trustee Act 2000, the provisions of this Trust Deed shall constitute a restriction or exclusion for the purposes of that Act.

10. Proof of Default

Proof that the Issuer has or the Guarantors have failed to pay a sum due to the Holder of any one Note will (unless the contrary be proved) be sufficient evidence that it has made a similar default as regards all other Notes which are then payable.

11. Trustee not Precluded from Entering into Contracts

The Trustee and any other person, whether or not acting for itself, may acquire, hold or dispose of any Note or other security (or any interest therein) of the Issuer, the Guarantors or any other person, may enter into or be interested in any contract or transaction with any such person and may act on, or as depositary or agent for, any committee or body of holders of any securities of any such person in each case with the same rights as it would have had if the Trustee were not acting as Trustee and need not account for any profit.

12. Modification, Waiver and Substitution

12.1 Modification and Waiver

Pursuant to Condition 12.2, the Trustee may agree with the Issuer and the Guarantors, without the consent of the Noteholders, to (i) any modification of any of the provisions of this Trust Deed which is, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in this Trust Deed), and any waiver or authorisation of any breach or proposed breach of any of the provisions of this Trust Deed which is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and, if the Trustee so requires, shall be notified to the Noteholders as soon as possible.

12.2 Substitution

12.2.1 The Trustee may, without the consent of the Noteholders, agree to the substitution of the Issuer's successor in business or any Subsidiary of the Issuer or any Guarantor or its successor in business (the ***Substituted Obligor***) in place of the Issuer (or of any previous substitute under this Clause 12.2) as the principal debtor under this Trust Deed and the Conditions, and the Trustee may, without the consent of the Noteholders, agree to the substitution of any Guarantor's successor in business or any Subsidiary of any Guarantor or its successor in business (also a ***Substituted Obligor***) in place of such Guarantor (or any previous substitute under this Clause 12.2) as a guarantor under the Deed of Guarantee and the Conditions in each case provided that:

- (a) a deed is executed or undertaking given by the Substituted Obligor to the Trustee, in form and manner satisfactory to the Trustee, agreeing to be bound by this Trust Deed or the Deed of Guarantee and the Conditions (with consequential amendments as the Trustee may deem appropriate) as if the Substituted Obligor had been named in this Trust Deed or the Deed of Guarantee and the Conditions as the principal debtor in place of the Issuer or as a guarantor in place of a Guarantor, as the case may be;
- (b) if the Substituted Obligor is subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the ***Substituted Territory***) other than the territory to the taxing jurisdiction of which (or to any such authority of or in which) the Issuer is subject generally (the ***Issuer's Territory***) or to which the relevant Guarantor is subject generally (the ***Guarantor's Territory***), the Substituted Obligor will (unless the Trustee otherwise agrees)

give to the Trustee an undertaking satisfactory to the Trustee in terms corresponding to Condition 8 with the substitution for or addition to the references in that Condition to the Issuer's Territory or the Guarantor's Territory, as the case may be, of references to the Substituted Territory whereupon the Trust Deed, the Deed of Guarantee and the Conditions will be read accordingly;

- (c) two directors of the Substituted Obligor certify that it will be solvent immediately after such substitution (the Trustee will be entitled to rely absolutely on such certificate and the Trustee need not consider the Substituted Obligor's financial condition, profits or prospects or compare them with those of the Issuer or the relevant Guarantor);
- (d) the Issuer, the relevant Guarantor and the Substituted Obligor comply with such other requirements as the Trustee may direct in the interests of the Noteholders; and
- (e) (unless the Issuer's successor in business or, where relevant, the Guarantor or its successor in business is the Substituted Obligor as the principal debtor in place of the Issuer or as a guarantor in place of a Guarantor, as the case may be) the obligations of the Substituted Obligor as the principal debtor in place of the Issuer or as a guarantor in place of a Guarantor as the case may be under this Trust Deed, the Deed of Guarantee and the Conditions are guaranteed by the Issuer and, if relevant, the relevant Guarantors in the same terms (with consequential amendments as necessary) to the Trustee's satisfaction.

12.2.2 In the case of such a substitution the Trustee may agree, without the consent of the Noteholders, to a change of the law governing the Notes and/or this Trust Deed and/or the Deed of Guarantee provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

12.2.3 **Release of Substituted Issuer or Substituted Guarantor:** An agreement by the Trustee pursuant to this Clause 12.2 will, if so expressed, release the Issuer or the relevant Guarantor (or a previous substitute of either of them) from any or all of its obligations under this Trust Deed, the Deed of Guarantee and the Conditions. Notice of the substitution will be given to the Noteholders within 14 days of the execution of such documents and compliance with such requirements.

12.2.4 **Completion of Substitution:** On completion of the formalities set out in this Clause 12.2, the Substituted Obligor will be deemed to be named in this Trust Deed or the Deed of Guarantee, as the case may be, and the Conditions as the principal debtor in place of the Issuer (or of any previous substitute) or as the guarantor in place of the relevant Guarantor (or of any previous substitute), as the case may be, and this Trust Deed and the Conditions will be deemed to be amended as necessary to give effect to the substitution.

12.2.5 The Trustee shall be entitled to refuse to approve any Substituted Obligor, if, pursuant to the law of the country of incorporation, domicile or residence of the Substituted Obligor, the assumption by the Substituted Obligor of its obligations imposes responsibilities on the Trustee over and above those which have been assumed under this Trust Deed.

12.2.6 In connection with any proposed substitution, the Trustee shall not have regard to, or be in any way liable for, the consequences of such substitution

for any Noteholders resulting from the Noteholder being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder shall, in connection with any such substitution, be entitled to claim from the Issuer, the Guarantors, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such substitution.

13. Appointment, Retirement and Removal of the Trustee

13.1 Appointment

Subject as provided in Clause 13.2 below, the Issuer has the power to appoint new trustees but no-one may be so appointed unless previously approved by an Extraordinary Resolution (save that no consent of the Trustee for such appointment shall be required if the Trustee is substituted by such new trustee). A trust corporation will at all times be a Trustee and may be the sole Trustee. Any appointment of a new Trustee will be notified by the Issuer to the Noteholders as soon as practicable.

13.2 Retirement and Removal

Any Trustee may retire at any time on giving at least three months' prior written notice to the Issuer and the Guarantors without giving any reason or being responsible for any costs occasioned by such retirement and the Noteholders may remove any Trustee by way of an Extraordinary Resolution with the prior written consent of the Issuer and the Guarantors *provided* that any retirement or removal of a sole trust corporation will not be effective until a trust corporation is appointed as successor Trustee. If a sole trust corporation gives notice of retirement or the Noteholders act to remove such sole trust corporation, the Issuer will use all reasonable endeavours to procure that another trust corporation be appointed as Trustee; *provided* that if the Issuer has failed to do so within two months of such notice being given or since the date of such removal, the Trustee may at the Issuer's expense exercise the power of appointing a successor trustee.

13.3 Co-Trustees

The Trustee may, despite Clause 13.1, by written notice to the Issuer and the Guarantors appoint anyone to act as an additional Trustee jointly with the Trustee:

- 13.3.1 if the Trustee considers the appointment to be in the interests of the Noteholders;
- 13.3.2 to conform with a legal requirement, restriction or condition in a jurisdiction in which a particular act is to be performed; or
- 13.3.3 to obtain a judgment or to enforce a judgment or any provision of this Trust Deed or the Deed of Guarantee in any jurisdiction.

Subject to the provisions of this Trust Deed the Trustee may confer on any person so appointed such functions as it thinks fit. The Trustee may by written notice to the Issuer and the Guarantors and that person remove that person. At the Trustee's request, the Issuer will use all reasonable endeavours to do all things as may be required to perfect such appointment or removal and each of them irrevocably appoints the Trustee as its attorney in its name and on its behalf to do so.

13.4 Competence of a Majority of Trustees

If there are more than two Trustees the majority of them will be competent to perform the Trustee's functions provided the majority includes a trust corporation.

14. Currency Indemnity

14.1 Currency of Account and Payment

United States dollars (the *Contractual Currency*) is the currency of account and payment for all sums payable by the Issuer or the Guarantors under or in connection with this Trust Deed or the Deed of Guarantee, including damages.

14.2 Extent of discharge

An amount received or recovered in a currency other than the Contractual Currency (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer or any Guarantor or otherwise), by the Trustee or any Noteholder in respect of any sum expressed to be due to it from the Issuer will only discharge the Issuer to the extent of the Contractual Currency amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

14.3 Indemnity

If that Contractual Currency amount is less than the Contractual Currency amount expressed to be due to the recipient under this Trust Deed or the Notes or the Deed of Guarantee, the Issuer, upon written demand specifying the account to which payment shall be made, shall indemnify it against any loss sustained by it as a result and substantiated by it in accordance with applicable law. In any event, the Issuer will indemnify the recipient, upon written demand and on an after-tax basis, against the cost of making any such purchase.

14.4 Indemnity separate

The indemnities in Clause 14 and Clause 7.4 constitute separate and independent obligations of the Issuer from the other obligations in this Trust Deed, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by the Trustee and will continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under this Trust Deed, the Deed of Guarantee and/or the Notes or any other judgment or order.

15. Communications

Any communication shall be by letter, fax or electronic communication:

in the case of the Issuer, to it at:

13-14 Esplanade
St Helier
Jersey
JE1 1BD

United Kingdom

Email: aks@petropavlovsk.net
Attention: Mrs Anna-Karolina Subczynska, Director of Petropavlovsk 2016
Limited

in the case of the Parent, to it at:

11 Grosvenor Place
Belgravia
London
SW1X 7HH
United Kingdom

Email: aks@petropavlovsk.net
Attention: Mrs Anna-Karolina Subczynska, Group Head of Legal Affairs

and in the case of the Trustee, to it at:

Citibank, N.A., London Branch
Citigroup Centre
Canada Square, Canary Wharf
London E14 5LB
United Kingdom

Fax: +44 20 7500 5877
Attention: Agency and Trust
Email: emea.at.debt@imceu.eu.ssmb.com

Communications will take effect, in the case of a letter, when delivered, in the case of a fax, when the relevant delivery receipt is received by the sender or, in the case of an electronic communication when the relevant receipt of such communication being read is given, or where no read receipt is requested by the sender, at the time of sending, provided that no delivery failure notification is received by the sender within 24 hours of sending such communication; provided further that any communication which is received (or deemed to take effect in accordance with the foregoing) outside business hours or on a non-business day in the place of receipt shall be deemed to take effect at the opening of business on the next following business day in such place. Any communication delivered to any party under this Trust Deed which is to be sent by fax or electronic communication will be written legal evidence.

16. Further Issues

16.1 Supplemental Trust Deed

If the Issuer issues further securities as provided in Condition 15, the Issuer shall, before their issue, (i) execute and deliver to the Trustee a deed supplemental to this Trust Deed containing such provisions (corresponding to any of the provisions of this Trust Deed) as the Trustee may require and (ii) procure each Guarantor (and any additional guarantor as the Trustee may require) to execute and deliver to the Trustee

a deed supplemental to the Deed of Guarantee containing such provisions (corresponding to any of the provisions of the Deed of Guarantee) as the Trustee may require.

16.2 Modification, Waiver, Substitution and Meetings of Noteholders

Unless the Trustee otherwise directs, Clause 12.1 and Schedule 4 shall apply equally to Noteholders and to holders of any further securities issued pursuant to Condition 15 as if references in it to “*Notes*” and “*Noteholders*” were also to such securities and their holders respectively.

17. Law and Jurisdiction

17.1 Governing Law

This Trust Deed and the Notes, and any non-contractual obligations arising out of or in connection with this Trust Deed and the Notes, are governed by, and shall be construed in accordance with, English law.

17.2 Jurisdiction

The Issuer hereby irrevocably agrees for the benefit of the Trustee and the Noteholders that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with this Trust Deed (respectively, *Proceedings* and *Disputes*) and, for such purposes, irrevocably submits to the jurisdiction of such courts.

17.3 Appropriate forum

The Issuer irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agrees not to claim that any such court is not a convenient or appropriate forum.

17.4 Process Agent

The Issuer irrevocably appoints Petropavlovsk PLC of 11 Grosvenor Place, Belgravia, London, SW1X 7HH¹, to receive, for it and on its behalf, service of process in any Proceedings in England. Such service shall be deemed completed on delivery to such process agent (whether or not it is forwarded to and received by the Issuer). If such person is not or ceases to be effectively appointed to accept service of process on the Issuer’s behalf, the Issuer shall, notify the Trustee in writing, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Agent or the Trustee shall be entitled to appoint such a person by written notice to the Issuer, at the Issuer’s cost. Nothing in this Clause shall affect the right of any Agent or the Trustee to serve process in any other manner permitted by law. The Issuer shall inform the Trustee in writing of any change in address of the process agent within 14 calendar days of such change.

17.5 Non-Exclusivity

The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of the Trustee or any of the Noteholders to take Proceedings in any other court of competent jurisdiction nor shall the taking of proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by applicable law.

17.6 Severability

In case any provision in or obligation under this Trust Deed shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

18. Counterparts

This Deed may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties hereto. Delivery of a counterpart of this Deed by e-mail attachment or telecopy shall be an effective mode of delivery. In relation to each counterpart, upon confirmation by or on behalf of a party that such party authorises the attachment of its counterpart signature page to the final text of this Deed, such counterpart signature page shall take effect, together with such final text, as a complete authoritative counterpart.

Schedule 1

Part 1 Form of Regulation S Global Note

ISIN: [•]

Common Code: [•]

Petropavlovsk 2016 Limited (the *Issuer*)
U.S.\$500,000,000 8.125 per cent Guaranteed Notes due 2022
guaranteed by the Guarantors

REGULATION S GLOBAL NOTE

This Regulation S Global Note is a permanent global Note issued without interest coupons in respect of U.S.\$ [•] aggregate principal amount of the US\$500,000,000 8.125 per cent. Guaranteed Notes due 2022 of the Issuer guaranteed by the Guarantors (the *Notes*). Each of the Guarantors have entered into a deed of guarantee with Citibank, N.A., London Branch (the *Trustee*), dated 14 November 2017 (the *Deed of Guarantee*). The Notes are constituted by a trust deed dated 14 November 2017 (as amended or supplemented from time to time, the *Trust Deed*) between the Issuer and the Trustee. The Issuer has entered into an agency agreement dated 14 November 2017 (as amended or supplemented from time to time, the *Agency Agreement*) with the Guarantors, the Trustee, Citibank, N.A., London Branch as the principal paying agent and the transfer agent (the *Principal Paying Agent* and *Transfer Agent*) and Citigroup Global Markets Deutschland AG as registrar (the *Registrar*). In this Note, *Registrar*, *Principal Paying Agent* and *Transfer Agent* shall include any successors thereto appointed from time to time in accordance with the provisions of the Agency Agreement.

This Regulation S Global Note is exchangeable in whole, but not in part only (free of charge to the holder), by the holder hereof for the Regulation S Definitive Notes, without interest coupons, only in the limited circumstances set out below. Upon any exchange this Regulation S Global Note shall become void. This Regulation S Global Note and the Regulation S Definitive Notes for which this Regulation S Global Note is exchangeable are limited to the aggregate principal amount of the Notes. The Regulation S Definitive Notes, if issued, will be in fully registered form and in, or substantially in, the form set out in Part 1 of Schedule 2 to the Trust Deed. References herein to specific terms and conditions of the Notes (the *Conditions*) shall be construed as references to the relative Conditions to be endorsed on the Regulation S Definitive Notes as set out in Part 1 of Schedule 2 to the Trust Deed.

1. Transfers of this Regulation S Global Note

This Regulation S Global Note is registered in the name of Citibank Europe plc as common depositary (the *Common Depositary*) (or a nominee thereof) for Euroclear Bank SA/NV (*Euroclear*) and Clearstream Banking, SA (*Clearstream, Luxembourg*).

Unless this Regulation S Global Note is presented by an authorised representative of the Common Depositary, as appropriate, to the Issuer or its agent for registration of transfer, exchange or payment and any Regulation S Definitive Note issued is registered in the name of such Common Depositary (or a nominee thereof), or such

other name as is requested by an authorised representative thereof (and any payment is made to such nominee or other entity), any transfer, pledge or other use hereof for value or otherwise by or to any person is wrongful in as much as the registered owner of this Regulation S Global Note specified above has an interest herein.

2. Exchange for Regulation S Definitive Notes

The Regulation S Global Note is exchangeable in whole, but not in part, (free of charge to the holder) for Regulation S Definitive Notes if this Regulation S Global Note is held by or on behalf of Euroclear or Clearstream, Luxembourg, and Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or the Transfer Agent.

On or after the Exchange Date (as defined below) the holder of this Regulation S Global Note may surrender this Regulation S Global Note to or to the order of the Registrar or the Transfer Agent. In exchange for this Regulation S Global Note, as provided in the Agency Agreement, the Registrar will deliver or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Regulation S Definitive Notes in, or substantially in, the form set out in Part 1 of Schedule 2 to the Trust Deed.

Exchange Date means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

3. Exchange for Interests in the Rule 144 A Global Note

If a holder of a beneficial interest in the Notes represented by this Regulation S Global Note wishes at any time to transfer such beneficial interest to a person who wishes to take delivery thereof in the form of a beneficial interest in the Rule 144A Global Note (as defined in the Trust Deed), such holder may transfer such beneficial interest in accordance with the Regulations and the rules and operating procedures of The Depository Trust Company (**DTC**), Euroclear and Clearstream, Luxembourg in a principal amount of not less than U.S.\$200,000; *provided* that no such transfer may take place later than one Clearing System Business Day (as defined in this Regulation S Global Note and the Rule 144A Global Note and if such dates are different, the earlier time) prior to the due date for any payment of principal or interest in respect of the Notes; and *provided further* that any such transfer shall be in accordance with the provisions of the Agency Agreement. Upon notification to the Registrar by the Common Depositary or Custodian (as defined in the Trust Deed), as the case may be, that the appropriate debit and credit entries have been made in the accounts of the relevant participants of Euroclear and Clearstream, Luxembourg or DTC, as the case may be, the Issuer shall procure that the Registrar will decrease the aggregate principal amount of Notes registered in the name of the holder of, and represented by, this Regulation S Global Note, and increase the aggregate principal amount of Notes registered in the name of the registered holder for the time being of, and represented by, the Rule 144A Global Note. Such beneficial interest will, upon transfer, cease to be an interest in such Regulation S Global Note and become an interest in such Rule

144A Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to interests in a Rule 144A Global Note for as long as it remains such an interest.

4. Payments

Payments of principal and interest in respect of this Regulation S Global Note shall be made to the person who appears at the relevant time on the register of Noteholders as holder of this Regulation S Global Note against presentation and (if no further payment falls to be made on it) surrender thereof to or to the order of the Principal Paying Agent (or to or to the order of such other Paying Agent as shall have been notified to the Noteholders for this purpose) which shall endorse such payment or cause such payment to be endorsed in Schedule A and Schedule B hereto (such endorsement being *prima facie* evidence that the payment in question has been made). No person shall however be entitled to receive any payment on this Regulation S Global Note falling due after the Exchange Date, unless the exchange of this Regulation S Global Note for Regulation S Definitive Notes is improperly withheld or refused by or on behalf of the Issuer.

5. Record Date

Notwithstanding Condition 7.5 for so long as this Regulation S Global Note is held by or on behalf of a common depositary for Euroclear, Clearstream, Luxembourg or an Alternative Clearing System (as defined below), **Record Date** shall mean close of business on the Clearing System Business Day before the relevant due date for payment where **Clearing System Business Day** means Monday to Friday inclusive except 25 December and 1 January.

6. Prescription

This Regulation S Global Note will become void unless presented for payment within 10 years (in the case of principal) or five years (in the case of interest) from the due date for payment in respect of this Regulation S Global Note.

7. Purchase and Cancellation

Cancellation of any Notes evidenced by this Regulation S Global Note required by the Conditions to be cancelled following its redemption will be effected by reduction in the principal amount of the Notes in the Register and notation of this Regulation S Global Note.

8. Enforcement

For the purposes of enforcement of the provisions of the Trust Deed against the Trustee, the persons named in a certificate of the holder of the Notes in respect of which this Regulation S Global Note is issued shall be recognised as the beneficiaries of the trusts set out in the Trust Deed to the extent of the principal amount of their interest in the Notes set out in the certificate of the holder as if they were themselves the holders of Notes in such principal amounts.

9. Notice

Notwithstanding Condition 16, so long as this Regulation S Global Note is held by or on behalf of a common depositary for Euroclear, Clearstream, Luxembourg or any other clearing system (an *Alternative Clearing System*), notices to Noteholders represented by this Regulation S Global Note may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System rather than in the manner specified in Condition 16 and shall be deemed to be given to holders of interests in this Regulation S Global Note with the same effect as if they had been given to such Noteholder in accordance with Condition 16. Any such notice shall be deemed to have been given to Noteholders on the date of delivery to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System.

10. Trustee Powers

In considering the interests of Noteholders while this Regulation S Global Note is held on behalf of a clearing system, the Trustee may, to the extent it considers it appropriate to do so in the circumstances (i) have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to this Regulation S Global Note and (ii) consider such interests as if such accountholders were the holders of this Regulation S Global Note.

11. Benefit of the Conditions

Unless this Regulation S Global Note has been exchanged or cancelled, the holder hereof shall, except as herein provided, be entitled to the same rights and benefits and subject to the Conditions as if such holder were the holder of the Regulation S Definitive Notes for which this Regulation S Global Note may be exchanged.

This Regulation S Global Note shall not be valid or become obligatory for any purpose until authenticated by or on behalf of the Registrar.

This Regulation S Global Note and any non-contractual obligations arising out of or in connection with it shall be governed by and construed in accordance with English law.

IN WITNESS WHEREOF the Issuer has caused this Regulation S Global Note to be signed and delivered on its behalf.

DATED [•] November 2017

SIGNED by)
)
a duly authorised attorney of)
PETROPAVLOVSK 2016 LIMITED)

This Regulation S Global Note
authenticated without recourse,
warranty or liability by or on behalf of
Citigroup Global Markets Deutschland AG
as Registrar

By:

By:

Schedule A
Principal Amount of this Regulation S Global Note

Reductions in the principal amount of this Regulation S Global Note following redemption or the purchase and cancellation of Notes are entered in the second and third columns below.

| Date | Reason for increase/decrease in the principal amount of this Regulation S Global Note | Amount of such increase/decrease | Principal amount of this Regulation S Global Note following such increase/decrease | Notation made by or on behalf of the Principal Paying Agent |
|-------------|--|---|---|--|
|-------------|--|---|---|--|

Schedule B
Interest Payments in respect of this Regulation S Global Note

The following payments of interest in respect of this Regulation S Global Note and the Notes represented by this Regulation S Global Note have been made:

| Date made | Amount of interest due and payable | Amount of interest paid | Notation made by or on behalf of the Principal Paying Agent |
|------------------|---|------------------------------------|--|
|------------------|---|------------------------------------|--|

**Schedule C
Transfer**

**Petropavlovsk 2016 Limited (the *Issuer*)
U.S.\$500,000,000 8.125 per cent. Guaranteed Notes due 2022
guaranteed by the Guarantors**

(To be executed by the registered holder if such holder desires to transfer its Notes
represented by the Regulation S Global Note)

FOR VALUE RECEIVED [•] hereby sells, assigns and transfers unto

PLEASE INSERT TAX IDENTIFYING

NUMBER OF TRANSFEREE

[•]

(Please print name and address of transferee)

[•]

its U.S.\$[•] Notes represented by the Regulation S Global Note, together with all right, title and interest herein, and does hereby irrevocably constitute and appoint the Registrar to transfer its U.S.\$[•] Notes represented by the Regulation S Global Note on the Register for the Notes, with full power of substitution.

Dated: [•]

Signature of Noteholder

NOTICE: The signature to the foregoing Transfer must correspond to the name as written upon the face of this Regulation S Global Note in every particular, without alteration or any change whatsoever.

Part 2
Form of Rule 144A Global Note

ISIN: [•]

CUSIP: [•]

THIS SECURITY AND THE GUARANTEE IN RESPECT HEREOF HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES (U.S.) SECURITIES ACT OF 1933, AS AMENDED (THE *SECURITIES ACT*), OR ANY STATE SECURITIES LAWS AND, ACCORDINGLY, NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF WITHIN THE U.S. OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, (1) REPRESENTS THAT (A) IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT (*RULE 144A*)) OR (B) IT IS NOT A U.S. PERSON AND IS ACQUIRING THE SECURITY IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 UNDER THE SECURITIES ACT AND (2) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY) (THE “RESALE RESTRICTION TERMINATION DATE”) ONLY (A) TO THE ISSUER, THE COMPANY OR ANY SUBSIDIARY THEREOF, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A “QUALIFIED INSTITUTIONAL BUYER” AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES TO NON-U.S. PERSONS IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT IN EACH OF THE FOREGOING CASES TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF ITS PROPERTY OR THE PROPERTY OF SUCH INVESTOR ACCOUNT OR ACCOUNTS BE AT ALL TIMES WITHIN ITS OR THEIR CONTROL AND TO COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS, AND ANY APPLICABLE LOCAL LAWS AND REGULATIONS AND FURTHER SUBJECT TO THE ISSUER’S AND THE TRUSTEE’S RIGHTS PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER (I) PURSUANT TO CLAUSE (D) PRIOR TO THE END OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT OR PURSUANT TO CLAUSE (E) PRIOR TO THE RESALE RESTRICTION TERMINATION DATE TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF

THEM, (II) IN EACH OF THE FOREGOING CASES, TO REQUIRE THAT A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE AND (III) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. AS USED HEREIN, THE TERMS “OFFSHORE TRANSACTION,” “UNITED STATES,” AND “U.S. PERSON” HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

BY ACCEPTANCE OF THIS NOTE BEARING THE ABOVE LEGEND, WHETHER UPON ORIGINAL ISSUANCE OR SUBSEQUENT TRANSFER, EACH HOLDER OF THIS NOTE ACKNOWLEDGES THE RESTRICTIONS ON THE TRANSFER OF THIS NOTE SET FORTH ABOVE AND AGREES THAT IT SHALL TRANSFER THIS NOTE ONLY AS PROVIDED HEREIN AND IN THE TRUST DEED (AS DEFINED BELOW).

Petropavlovsk 2016 Limited (the *Issuer*)
U.S.\$500,000,000 8.125 per cent. Guaranteed Notes due 2022
guaranteed by the Guarantors

RULE 144A GLOBAL NOTE

This Rule 144A Global Note is a permanent global Note issued without interest coupons in respect of U.S.\$[•] aggregate principal amount of the US\$500,000,000 8.125 per cent. Guaranteed Notes due 2022 of the Issuer guaranteed by the Guarantors (the *Notes*). Each of the Guarantors have entered into a deed of guarantee with Citibank, N.A., London Branch (the *Trustee*), dated 14 November 2017 (the *Deed of Guarantee*). The Notes are constituted by a trust deed dated 14 November 2017 (as amended or supplemented from time to time, the *Trust Deed*) between the Issuer and the Trustee. The Issuer has entered into an agency agreement dated 14 November 2017 (as amended or supplemented from time to time, the *Agency Agreement*) with the Guarantors, the Trustee, Citibank, N.A., London Branch as the principal paying agent and the transfer agent (the *Principal Paying Agent* and *Transfer Agent*) and Citigroup Global Markets Deutschland AG as registrar (the *Registrar*). In this Note, *Registrar*, *Principal Paying Agent* and *Transfer Agent* shall include any successors thereto appointed from time to time in accordance with the provisions of the Agency Agreement.

This Rule 144A Global Note is exchangeable in whole, but not in part only (free of charge to the holder), by the holder hereof for the Rule 144A Definitive Notes, without interest coupons, only in the limited circumstances set out below. Upon any exchange this Rule 144A Global Note shall become void. This Rule 144A Global Note and the Rule 144A Definitive Notes for which this Rule 144A Global Note is exchangeable are limited to the aggregate principal amount of the Notes. The Rule 144A Definitive Notes, if issued, will be in fully registered form and in, or substantially in, the form set out in Part 2 of Schedule 2 to the Trust Deed. References herein to specific terms and conditions of the Notes (the *Conditions*) shall be construed as references to the relative Conditions to be endorsed on the Rule 144A Definitive Notes as set out in Part 2 of Schedule 2 to the Trust Deed.

1. Transfers of this Rule 144A Global Note

This Rule 144A Global Note is registered in the name of Cede & Co. as nominee of The Depository Trust Company (**DTC**). Unless this Rule 144A Global Note is presented by an authorised representative of DTC to the Issuer or its agent for registration of transfer, exchange or payment, and any Rule 144A Definitive Note issued is registered in the name of Cede & Co. or in such other name as is requested by an authorised representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorised representative of DTC), any transfer, pledge or other use hereof for value or otherwise by or to any person is wrongful in as much as the registered owner hereof, Cede & Co., has an interest herein.

2. Exchange for Rule 144A Definitive Notes

The Rule 144A Global Note is exchangeable in whole, but not in part, (free of charge to the holder) for Rule 144A Definitive Notes if this Rule 144A Global Note is held by or on behalf of DTC and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to this Rule 144A Global Note or ceases to be a “clearing agency” registered under the Exchange Act (as defined in the Trust Deed) or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC, by the holder giving notice to the Registrar or Transfer Agent.

On or after the Exchange Date (as defined below) the holder of this Rule 144A Global Note may surrender this Rule 144A Global Note to or to the order of the Registrar or the Transfer Agent. In exchange for this Rule 144A Global Note, as provided in the Agency Agreement, the Registrar will deliver or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Rule 144A Definitive Notes in, or substantially in, the form set out in Part 2 of Part 2 to the Trust Deed.

Exchange Date means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

3. Exchange for Interests in the Regulation S Global Note

If a holder of a beneficial interest in the Notes represented by this Rule 144A Global Note wishes at any time to transfer such beneficial interest to a person who wishes to take delivery thereof in the form of a beneficial interest in the Regulation S Global Note (as defined in the Trust Deed), such holder may transfer such beneficial interest in accordance with the Regulations and the rules and operating procedures of DTC, Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**); *provided* that no such transfer may take place later than one Clearing System Business Day (as defined in this Rule 144A Global Note and the Regulation S Global Note and if such dates are different, the earlier in time) prior to the due date for any payment of principal or interest in respect of the Notes; and *provided further* that any such transfer shall be in accordance with the provisions of

the Agency Agreement. Upon notification to the Registrar by the Custodian (as defined in the Trust Deed) or Citibank Europe plc as common depositary, as the case may be, that the appropriate debit and credit entries have been made in the accounts of the relevant participants of DTC, Euroclear and Clearstream, Luxembourg, as the case may be, the Issuer shall procure that the Registrar will decrease the aggregate principal amount of Notes registered in the name of the holder of, and represented by, this Rule 144A Global Note, and increase the aggregate principal amount of Notes registered in the name of the registered holder for the time being of, and represented by, the Regulation S Global Note. Such beneficial interest will, upon transfer, cease to be an interest in such Rule 144A Global Note and become an interest in such Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to interests in a Regulation S Global Note for as long as it remains such an interest.

4. **Payments**

Payments of principal and interest in respect of this Rule 144A Global Note shall be made to the person who appears at the relevant time on the register of Noteholders as holder of this Rule 144A Global Note against presentation and (if no further payment falls to be made on it) surrender thereof to or to the order of the Principal Paying Agent (or to or to the order of such other Paying Agent as shall have been notified to the Noteholders for this purpose) which shall endorse such payment or cause such payment to be endorsed in Schedule A and Schedule B hereto (such endorsement being *prima facie* evidence that the payment in question has been made). No person shall however be entitled to receive any payment on this Rule 144A Global Note falling due after the Exchange Date, unless the exchange of this Rule 144A Global Note for Rule 144A Definitive Notes is improperly withheld or refused by or on behalf of the Issuer.

5. **Record Date**

Notwithstanding Condition 7.5 for so long as this Rule 144A Global Note is held by or on behalf of a custodian for DTC or an Alternative Clearing System, **Record Date** shall mean close of business on the Clearing System Business Day before the relevant due date for payment where **Clearing System Business Day** means Monday to Friday inclusive except 25 December and 1 January.

6. **Prescription**

This Rule 144A Global Note will become void unless presented for payment within 10 years (in the case of principal) or five years (in the case of interest) from the due date for payment in respect of this Rule 144A Global Note.

7. **Purchase and Cancellation**

Cancellation of any Notes evidenced by this Rule 144A Global Note required by the Conditions to be cancelled following its redemption will be effected by reduction in the principal amount of the Notes in the Register and notation of this Rule 144A Note.

8. Enforcement

For the purposes of enforcement of the provisions of the Trust Deed against the Trustee, the persons named in a certificate of the holder of the Notes in respect of which this Rule 144A Global Note is issued shall be recognised as the beneficiaries of the trusts set out in the Trust Deed to the extent of the principal amount of their interest in the Notes set out in the certificate of the holder as if they were themselves the holders of Notes in such principal amounts.

9. Notice

Notwithstanding Condition 16, so long as this Rule 144A Global Note is held by or on behalf of a custodian for DTC or any other clearing system (an *Alternative Clearing System*), notices to Noteholders represented by this Rule 144A Global Note may be given by delivery of the relevant notice to DTC or (as the case may be) such Alternative Clearing System rather than in the manner specified in Condition 16 and shall be deemed to be given to holders of interests in this Rule 144A Global Note with the same effect as if they had been given to such Noteholder in accordance with Condition 16. Any such notice shall be deemed to have been given to Noteholders on the dates of delivery to DTC or (as the case may be) such Alternative Clearing System.

10. Trustee Powers

In considering the interests of Noteholders while this Rule 144A Global Note is held on behalf of a clearing system, the Trustee may, to the extent it considers it appropriate to do so in the circumstances (i) have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to this Rule 144A Global Note and (ii) consider such interests as if such accountholders were the holder of this Rule 144A Global Note.

11. Benefit of the Conditions

Unless this Rule 144A Global Note has been exchanged or cancelled, the holder hereof shall, except as herein provided, be entitled to the same rights and benefits and subject to the Conditions as if such holder were the holder of the Rule 144A Definitive Notes for which this Rule 144A Global Note may be exchanged.

This Rule 144A Global Note shall not be valid or become obligatory for any purpose until authenticated by or on behalf of the Registrar.

This Rule 144A Global Note and any non-contractual obligations arising out of or in connection with it shall be governed by and construed in accordance with English law.

12. Information Delivery

The statements set forth in the legend above are an integral part of the Notes in respect of which this Rule 144A Global Note is issued and by acceptance hereof each registered holder of such Notes agrees to be subject to and bound by the terms and

provisions set forth in such legend. For so long as any of the Notes are outstanding and are restricted securities (as defined in Rule 144 under the Securities Act (as defined in the Trust Deed)) and during any period during which the Issuer is not subject to the reporting requirements of the Exchange Act (as defined in the Trust Deed) or exempt therefrom pursuant to Rule 12g3-2(b), the Issuer will furnish to any Holder or beneficial owner of Notes initially offered and sold in the United States to qualified institutional buyers pursuant to Rule 144A under the Securities Act, and to prospective purchasers in the United States designated by such Holder or beneficial owners, upon request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

IN WITNESS WHEREOF the Issuer has caused this Rule 144A Global Note to be signed and delivered on its behalf.

DATED [•] November 2017

SIGNED by)
)
a duly authorised attorney of)
PETROPAVLOVSK 2016 LIMITED)

This Rule 144A Global Note is
authenticated without recourse,
warranty or liability by or on behalf of
Citigroup Global Markets Deutschland AG
as Registrar

By:

By:

Schedule A
Principal Amount of this Rule 144A Global Note

Reductions in the principal amount of this Rule 144A Global Note following redemption or the purchase and cancellation of Notes are entered in the second and third columns below.

| Date | Reason for increase/decrease in the principal amount of this Rule 144A Global Note | Amount of such increase/decrease | Principal amount of this Rule 144A Global Note following such increase/decrease | Notation made by or on behalf of the Principal Paying Agent |
|-------------|---|---|--|--|
|-------------|---|---|--|--|

Schedule B
Interest Payments in respect of this Rule 144A Global Note

The following payments of interest in respect of this Rule 144A Global Note and the Notes represented by this Rule 144A Global Note have been made:

| Date made | Amount of interest due and payable | Amount of interest paid | Notation made by or on behalf of the Principal Paying Agent |
|------------------|---|------------------------------------|--|
|------------------|---|------------------------------------|--|

**Schedule C
Transfer**

**Petropavlovsk 2016 Limited (the *Issuer*)
U.S.\$500,000,000 8.125 per cent Guaranteed Notes due 2022
guaranteed by the Guarantors**

(To be executed by the registered holder if such holder desires to transfer its Notes
represented by the Rule 144A Global Note)

FOR VALUE RECEIVED [•] hereby sells, assigns and transfers unto

PLEASE INSERT TAX IDENTIFYING

NUMBER OF TRANSFEREE

[•]

(Please print name and address of transferee)

[•]

its U.S.\$[•] Notes represented by the Rule 144A Global Note, together with all right, title and interest herein, and does hereby irrevocably constitute and appoint the Registrar to transfer its U.S.\$[•] Notes represented by the Rule 144A Global Note on the Register for the Notes, with full power of substitution.

Dated: [•]

Signature of Noteholder

SIGNATURE GUARANTEE: _____

Signatures must be guaranteed by an “eligible guarantor institution” meeting the requirements of the Registrar, which requirements include membership or participation in the Securities Transfer Agent Medallion Program (“STAMP”) or such other “signature guarantee program” as may be determined by the Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934.

Schedule 2

Part 1 Form of Regulation S Definitive Notes

[ON THE FRONT OF THE NOTES]

U.S.\$ No.

Petropavlovsk 2016 Limited (the *Issuer*)
U.S.\$500,000,000 8.125 per cent Guaranteed Notes due 2022
guaranteed by the Guarantors

This Regulation S Definitive Note is one of the U.S.\$[•] aggregate principal amount of the US\$500,000,000 8.125 per cent Guaranteed Notes due 2022 of the Issuer guaranteed by the Guarantors (the *Notes*). Each of the Guarantors have entered into a deed of guarantee with Citibank, N.A., London Branch (the *Trustee*), dated 14 November 2017 (the *Deed of Guarantee*). The Notes are constituted by a trust deed dated 14 November 2017 (as amended or supplemented from time to time, the *Trust Deed*) between the Issuer and the Trustee. The Issuer has entered into an agency agreement dated 14 November 2017 (as amended or supplemented from time to time, the *Agency Agreement*) with the Guarantors, the Trustee, Citibank, N.A., London Branch as the principal paying agent and transfer agent (the *Principal Paying Agent* and the *Transfer Agent*) and Citigroup Global Markets Deutschland AG as registrar (the *Registrar*). In this Regulation S Definitive Note, *Registrar*, *Principal Paying Agent* and *Transfer Agent* shall include any successors thereto appointed from time to time in accordance with the provisions of the Agency Agreement.

This is to certify that:

of _____

is the person registered in the register maintained by the Registrar in relation to the Notes (the *Register*) as the duly registered holder of the Notes represented by this Regulation S Definitive Note or, if more than one person is so registered, the first-named of such persons (the *Holder*).

The Issuer, for value received, promises to pay to the Holder, and the Holder is entitled to receive, the principal sum of:

[denomination in words and numerals]

on such date or dates as the same may become repayable in accordance with the Conditions, together with interest on such principal sum at the times and the rate specified in the terms and conditions endorsed hereon (the *Conditions*) together with any additional amounts payable in accordance with the Conditions, all subject to and in accordance with the Trust Deed and the Conditions.

This Regulation S Definitive Note is evidence of entitlement only. Title to the Notes passes only on due registration in the Register and only the Holder is entitled to payment in respect of this Regulation S Definitive Note.

Payments made by the Issuer to, or to the order of, the Trustee or the Principal Paying Agent shall *pro tanto* satisfy the obligations of the Issuer in respect of the Notes except to the extent that there is a failure in the subsequent payment to the relevant Noteholders under the Conditions.

This Regulation S Definitive Note is subject to and has the benefit of the Trust Deed.

This Regulation S Definitive Note shall not be valid or become obligatory for any purpose until authenticated by or on behalf of the Registrar.

This Regulation S Definitive Note and any non-contractual obligations arising out of or in connection with it shall be governed by and construed in accordance with English law.

IN WITNESS WHEREOF the Issuer has caused this Regulation S Definitive Note to be signed and delivered on its behalf.

DATED [•]

SIGNED by)
)
a duly authorised attorney of)
PETROPAVLOVSK 2016 LIMITED)

By:

Director:

This Regulation S Definitive Note
is authenticated without recourse, warranty
or liability by or on behalf of
Citigroup Global Markets Deutschland AG
as Registrar

By:

By:

On the back:

[Terms and Conditions from Schedule 3 of the Trust Deed to be inserted here]

PRINCIPAL PAYING AGENT

Citibank, N.A., London Branch
Citigroup Centre Canada Square
Canary Wharf
London E14 5LB
United Kingdom

REGISTRAR

Citigroup Global Markets Deutschland AG
Reuterweg 16
60323 Frankfurt
Germany

Petropavlovsk 2016 Limited (the *Issuer*)
U.S.\$500,000,000 8.125 per cent Guaranteed Notes due 2022
guaranteed by the Guarantors

Transfer

(To be executed by the registered holder if such holder
desires to transfer this Regulation S Definitive Note)

FOR VALUE RECEIVED [•] hereby sells, assigns and transfers unto

PLEASE INSERT TAX IDENTIFYING

NUMBER OF TRANSFEREE

[•]

(Please print name and address of transferee)

[•]

this Regulation S Definitive Note, together with all right, title and interest herein, and does hereby irrevocably constitute and appoint the Registrar to transfer this Regulation S Definitive Note on the Register for the Notes, with full power of substitution.

Dated: [•]

Signature of Noteholder

NOTICE: The signature to the foregoing Transfer must correspond to the name as written upon the face of this Regulation S Definitive Note in every particular, without alteration or any change whatsoever.

Part 2
Form of Rule 144A Definitive Notes

[ON FRONT OF THE NOTES]

THIS SECURITY AND THE GUARANTEE IN RESPECT HEREOF HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES (U.S.) SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR ANY STATE SECURITIES LAWS AND, ACCORDINGLY, NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF WITHIN THE U.S. OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, (1) REPRESENTS THAT (A) IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT (**RULE 144A**)) OR (B) IT IS NOT A U.S. PERSON AND IS ACQUIRING THE SECURITY IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 UNDER THE SECURITIES ACT AND (2) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY) (THE “RESALE RESTRICTION TERMINATION DATE”) ONLY (A) TO THE ISSUER, THE COMPANY OR ANY SUBSIDIARY THEREOF, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A “QUALIFIED INSTITUTIONAL BUYER” AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES TO NON-U.S. PERSONS IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT IN EACH OF THE FOREGOING CASES TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF ITS PROPERTY OR THE PROPERTY OF SUCH INVESTOR ACCOUNT OR ACCOUNTS BE AT ALL TIMES WITHIN ITS OR THEIR CONTROL AND TO COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS, AND ANY APPLICABLE LOCAL LAWS AND REGULATIONS AND FURTHER SUBJECT TO THE ISSUER’S AND THE TRUSTEE’S RIGHTS PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER (I) PURSUANT TO CLAUSE (D) PRIOR TO THE END OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT OR PURSUANT TO CLAUSE (E) PRIOR TO THE RESALE RESTRICTION TERMINATION DATE TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM, (II) IN EACH OF THE FOREGOING CASES, TO REQUIRE THAT A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF

THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE AND (III) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. AS USED HEREIN, THE TERMS “OFFSHORE TRANSACTION,” “UNITED STATES,” AND “U.S. PERSON” HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

BY ACCEPTANCE OF THIS NOTE BEARING THE ABOVE LEGEND, WHETHER UPON ORIGINAL ISSUANCE OR SUBSEQUENT TRANSFER, EACH HOLDER OF THIS NOTE ACKNOWLEDGES THE RESTRICTIONS ON THE TRANSFER OF THIS NOTE SET FORTH ABOVE AND AGREES THAT IT SHALL TRANSFER THIS NOTE ONLY AS PROVIDED HEREIN AND IN THE TRUST DEED (AS DEFINED BELOW).

U.S.\$ No.

Petropavlovsk 2016 Limited (the *Issuer*)
U.S.\$500,000,000 8.125 per cent Guaranteed Notes due 2022
guaranteed by the Guarantors

This Rule 144A Definitive Note is one of the U.S.\$[•] aggregate principal amount of the US\$500,000,000 8.125 per cent. Guaranteed Notes due 2022 of the Issuer guaranteed by the Guarantors (the *Notes*). Each of the Guarantors have entered into a deed of guarantee with Citibank, N.A., London Branch (the *Trustee*), dated 14 November 2017 (the *Deed of Guarantee*). The Notes are constituted by a trust deed dated 14 November 2017 (as amended or supplemented from time to time, the *Trust Deed*) between the Issuer and the Trustee. The Issuer has entered into an agency agreement dated 14 November 2017 (as amended or supplemented from time to time, the *Agency Agreement*) with the Guarantors, the Trustee, Citibank, N.A., London Branch as the principal paying agent and transfer agent (the *Principal Paying Agent* and the *Transfer Agent*) and Citigroup Global Markets Deutschland AG as registrar (the *Registrar*). In this Rule 144A Definitive Note, *Registrar*, *Principal Paying Agent* and *Transfer Agent* shall include any successors thereto appointed from time to time in accordance with the provisions of the Agency Agreement.

This is to certify that:

of _____

is the person registered in the register maintained by the Registrar in relation to the Notes (the *Register*) as the duly registered holder of the Notes represented by this Rule 144A Definitive Note or, if more than one person is so registered, the first-named of such persons (the *Holder*).

The Issuer, for value received, promises to pay to the Holder, and the Holder is entitled to receive, the principal sum of:

[denomination in words and numerals]

on such date or dates as the same may become repayable in accordance with the Conditions, together with interest on such principal sum at the times and the rate specified in the terms and conditions endorsed hereon (the **Conditions**) together with any additional amounts payable in accordance with the Conditions, all subject to and in accordance with the Trust Deed and the Conditions.

This Rule 144A Definitive Note is evidence of entitlement only. Title to the Notes passes only on due registration in the Register and only the Holder is entitled to payment in respect of this Rule 144A Definitive Note.

Payments made by the Issuer to, or to the order of, the Trustee or the Principal Paying Agent shall *pro tanto* satisfy the obligations of the Issuer in respect of the Notes except to the extent that there is a failure in the subsequent payment to the relevant Noteholders under the Conditions.

The statements set forth in the legend above are an integral part of the Notes in respect of which this Rule 144A Definitive Note is issued and by acceptance hereof each holder of such Notes agrees to be subject to and bound by the terms and provisions set forth in such legend. For so long as any of the Notes are outstanding and are restricted securities (as defined in Rule 144 under the Securities Act (as defined in the Trust Deed)) and during any period during which the Issuer is not subject to the reporting requirements of the Exchange Act (as defined in the Trust Deed) or exempt therefrom pursuant to Rule 12g3-2(b), the Issuer will furnish to any Holder or beneficial owner of Notes initially offered and sold in the United States to qualified institutional buyers pursuant to Rule 144A under the Securities Act, and to prospective purchasers in the United States designated by such Holder or beneficial owners, upon request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

This Rule 144A Definitive Note is subject to and has the benefit of the Trust Deed.

This Rule 144A Definitive Note shall not be valid or become obligatory for any purpose until the authenticated by or on behalf of the Registrar.

This Rule 144A Definitive Note and any non-contractual obligations arising out of or in connection with it shall be governed by and construed in accordance with English law.

IN WITNESS WHEREOF the Issuer has caused this Rule 144A Definitive Note to be signed and delivered on its behalf.

DATED [•]

SIGNED by)
)
a duly authorised attorney of)
PETROPAVLOVSK 2016 LIMITED)

By:

Director:

This Rule 144A Definitive Note
is authenticated without recourse, warranty
or liability by or on behalf of
Citigroup Global Markets Deutschland AG
as Registrar

By:

By:

On the back:

[Terms and Conditions from Schedule 3 of the Trust Deed to be inserted here]

PRINCIPAL PAYING AGENT

Citibank, N.A., London Branch
Citigroup Centre Canada Square
Canary Wharf
London E14 5LB
United Kingdom

REGISTRAR

Citigroup Global Markets Deutschland AG
Reuterweg 16
60323 Frankfurt
Germany

Petropavlovsk 2016 Limited (the *Issuer*)
U.S.\$500,000,000 8.125 per cent Guaranteed Notes due 2022
guaranteed by the Guarantors

Transfer

(To be executed by the registered holder if such holder
desires to transfer this Rule 144A Definitive Note)

FOR VALUE RECEIVED [•] hereby sells, assigns and transfers unto

PLEASE INSERT TAX IDENTIFYING

NUMBER OF TRANSFEREE

[•]

(Please print name and address of transferee)

[•]

this Rule 144A Definitive Note, together with all right, title and interest herein, and does hereby irrevocably constitute and appoint the Registrar to transfer this Rule 144A Definitive Note on the Register for the Notes, with full power of substitution.

Dated: [•]

Signature of Noteholder

SIGNATURE GUARANTEE: _____

Signatures must be guaranteed by an “eligible guarantor institution” meeting the requirements of the Registrar, which requirements include membership or participation in the Securities Transfer Agent Medallion Program (“STAMP”) or such other “signature guarantee program” as may be determined by the Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities Exchange Act of 1934.

Schedule 3
Terms and Conditions of the Notes

TERMS AND CONDITIONS OF THE NOTES

The US\$500,000,000 8.125 per cent. guaranteed notes due 2022 of Petropavlovsk 2016 Ltd (the “**Issuer**”) (the “**Notes**”, which expression includes any further Notes issued pursuant to Condition 15 and forming a single series therewith) are guaranteed unconditionally and irrevocably, on a joint and several basis, by Petropavlovsk PLC (the “**Parent**”) and LLC “Albinskiy Rudnik”, LLC “Malomirskiy Rudnik” and JSC “Pokrovsky Mine” (together with the Parent, each a “**Guarantor**” and, together, the “**Guarantors**”). The Notes were authorised by meetings of the board of directors of the Issuer dated 23 October 2017 and 8 November 2017 and the Guarantee (as defined below) of the Notes by the Parent was authorised by the meeting of the board of directors of the Parent dated 22 October 2017. The other Guarantees (as defined below) of the Notes were authorised by resolutions of each of the Guarantors passed between 10 May 2017 and 31 May 2017.

The Notes are constituted by, are subject to and have the benefit of, a trust deed dated 14 November 2017 (as amended or supplemented from time to time, the “**Trust Deed**”) between the Issuer and Citibank, N.A., London Branch (the “**Trustee**”, which expression shall include all persons for the time being who are the trustee or trustees under the Trust Deed) as trustee for the Holders of the Notes. The Guarantors have entered into a deed of guarantee with the Trustee, dated on or about the date of the Trust Deed (the “**Deed of Guarantee**”).

These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Deed of Guarantee.

The Issuer and the Guarantors have entered into an agency agreement dated 14 November 2017 (as amended or supplemented from time to time, the “**Agency Agreement**”) with the Trustee, Citibank, N.A., London Branch at its specified office in London, as principal paying agent and transfer agent (the “**Principal Paying Agent**” and the “**Transfer Agent**” which expressions shall include any successors appointed from time to time in connection with the Notes) and Citigroup Global Markets Deutschland AG, at its specified office in Frankfurt, as the registrar (the “**Registrar**” which expression shall include any successor appointed from time to time in connection with the Notes) and the paying agents named in the Agency Agreement (and together with the Principal Paying Agent, the “**Paying Agents**” and each a “**Paying Agent**”, which expressions shall include any successors). References herein to the “**Agents**” are to the Registrar, the Paying Agents and the Transfer Agent, and any reference to an “**Agent**” is to any one of them.

Copies of the Trust Deed, the Deed of Guarantee and the Agency Agreement are available for inspection and collection during normal business hours at the specified office of the Trustee, being at the date hereof Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom, and at the specified offices of the Agents. The Noteholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Deed of Guarantee and are deemed to have notice of those provisions of the Agency Agreement applicable to them.

Capitalised terms used but not defined in these Conditions shall have the respective meanings given to them in the Trust Deed and the Deed of Guarantee.

1 Form and Denomination

The Notes are issued in fully registered form, without interest coupons attached, in denominations of US\$200,000 or integral multiples of US\$1,000 in excess thereof (each an “**Authorised Denomination**”). The Notes may be transferred only in amounts not less than an Authorised Denomination. Title to the Notes shall pass by and upon registration in the Register (as defined below) which the Issuer shall procure to be kept by the Registrar.

The Notes are initially issued in global, fully registered form, and will only be exchangeable for Notes in definitive, fully registered form (“**Definitive Notes**”) in the limited circumstances set forth in the Agency Agreement.

2 Guarantee and Status

2.1 Guarantee

The Guarantors have each separately, pursuant to the Deed of Guarantee, unconditionally and irrevocably, on a joint and several basis, guaranteed the payment when due of all sums expressed to be payable by the Issuer under the Trust Deed and the Notes (each a “**Guarantee**” and together the “**Guarantees**”).

2.2 Status

The Notes constitute direct, unsubordinated and (subject to Condition 4.6) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. Each Guarantee constitutes direct, unsubordinated and (subject to Condition 4.6) unsecured obligations of the relevant Guarantor. Each of the Issuer and the Guarantors shall ensure that at all times the claims of the Noteholders against them under the Notes and the Guarantees, respectively, rank at least *pari passu* with claims of all their other present and future unsecured and unsubordinated creditors (other than claims preferred under any bankruptcy, insolvency, liquidation or similar laws).

3 Register, Title and Transfers

3.1 Register

The Registrar shall maintain the register (the “**Register**”) at the specified office for the time being of the Registrar in respect of the Notes in accordance with the provisions of the Agency Agreement and shall record in the Register the names and addresses of the Holders of the Notes, particulars of the Notes and all transfers and redemptions thereof. In these Conditions, the “**Holder**” of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “**Noteholder**” shall be construed accordingly.

3.2 Title

Title to the Notes will pass by and upon registration in the Register. The Holder of each Note shall (except as otherwise required by a court of competent jurisdiction or applicable law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Definitive Note relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Definitive Note) and no person shall be liable for so treating such Holder.

3.3 Transfers of Definitive Notes

Subject to Conditions 3.6 and 3.7 below, a Note may be transferred in whole or in part in an Authorised Denomination upon surrender of the relevant Definitive Note representing that Note, together with the form of transfer (including any certification as to compliance with restrictions on transfer included in such form of transfer endorsed thereon) (the “**Transfer Form**”), duly completed and executed, at the specified office of the relevant Transfer Agent or Registrar, together with such evidence as such Transfer Agent or Registrar may reasonably require to prove the title of the transferor and the authority of the persons who have executed the Transfer Form. Where not all the Notes represented by the surrendered Definitive Note are the subject of the transfer, a new Definitive Note in respect of the balance not transferred will be delivered by the Registrar to the transferor in accordance with Condition 3.4. Neither the part transferred nor the balance not transferred may be less than US\$200,000.

3.4 Registration and delivery of Definitive Notes

Within five Business Days of the surrender of a Definitive Note in accordance with Condition 3.3 above, the Registrar shall register the transfer in question and deliver a new Definitive Note to

each relevant Holder at the specified office of the Registrar or (at the request of the relevant Noteholder) at the specified office of the Transfer Agent or (at the request and risk of such relevant Holder) send it by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder.

In this paragraph, “**business day**” means a day on which commercial banks are open for business (including dealings in foreign currencies) in cities where the Registrar or (if applicable) the relevant Transfer Agent has its specified offices.

3.5 No Charge

The registration of the transfer of a Note shall be effected without charge to the Holder or transferee thereof, but against such indemnity from the Holder or transferee thereof as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

3.6 Closed periods

Noteholders may not require the transfer of a Note to be registered (i) during the period of 15 days ending on the due date for any payment of principal or interest in respect of such Note and (ii) after any Note has been called for redemption.

3.7 Regulations concerning Transfer and Registration

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer and registration of Notes set out in the First Schedule to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee, the Transfer Agent and the Registrar. A copy of the current regulations will be sent by the Registrar free of charge to any person who so requests and who can confirm they are a Holder to the satisfaction of the Registrar and will also be available at the specified office of the Registrar.

4 Covenants

For so long as any amount remains outstanding under the Notes:

4.1 Limitation on Indebtedness

4.1.1 The Parent will not, and will not permit any Subsidiary of the Parent to, Incur, directly or indirectly, any Indebtedness; provided, however, that the Parent and any Subsidiary of the Parent will be entitled to Incur Indebtedness if:

- (i) after giving effect to such Incurrence and the application of the proceeds thereof, on a pro forma basis, no Default or Event of Default would occur or be continuing; and
- (ii) on the date of such Incurrence and after giving effect thereto on a pro forma basis the Consolidated Net Leverage Ratio does not exceed 3 to 1.

4.1.2 Notwithstanding the foregoing Condition 4.1.1, the Parent and its Subsidiaries will be entitled to Incur any or all of the following Indebtedness (each, “**Permitted Indebtedness**”):

- (i) intercompany Indebtedness owed to and held by the Parent or a Subsidiary of the Parent in respect of the Parent or a Subsidiary of the Parent; provided, however, that any subsequent issuance or transfer of any Capital Stock which results in any such Subsidiary ceasing to be a Subsidiary or any subsequent disposition, pledge or transfer of such intercompany Indebtedness (other than to the Parent or a Subsidiary of the Parent) shall be deemed, in each case, to constitute the Incurrence of such Indebtedness by the relevant obligor in respect of such Indebtedness;

- (ii) Indebtedness represented by the Notes and the Guarantees of the Notes;
- (iii) Indebtedness outstanding on the Issue Date (including, for the avoidance of doubt, the Senior Bank Debt and the Convertible Bonds);
- (iv) Indebtedness of the acquiring Parent or Subsidiary of the Parent or an acquired Subsidiary of the Parent Incurred and outstanding on or prior to the date on which such Subsidiary was acquired by a member of the Group (other than Indebtedness Incurred in connection with, or to provide all or any portion of the funds or credit support utilised to consummate, the transaction or series of related transactions pursuant to which such Subsidiary became a Subsidiary of the Parent or was acquired by the Parent); provided, however, that on the date of such acquisition and after giving pro forma effect thereto, the Parent would have been entitled to Incur at least US\$1.00 of additional Indebtedness pursuant to Condition 4.1.1;
- (v) Refinancing Indebtedness Incurred by the Issuer, the Parent or a Subsidiary of the Parent in respect of Indebtedness Incurred by the Issuer, the Parent or a Subsidiary of the Parent pursuant to Condition 4.1.1 or pursuant to sub-Conditions (ii), (iii), (iv), (v), (xv) or (xvi) of this Condition 4.1.2;
- (vi) Hedging Obligations Incurred in the ordinary course of business of the Parent or any Subsidiary of the Parent; provided that such Commodity Agreement, Interest Rate Agreements or Currency Agreements giving rise to such Hedging Obligations are entered into for the purpose of limiting interest rate, currency or commodity risk (including but not limited to gold price fluctuation risk), as the case may be, and are not entered into for speculative purposes;
- (vii) obligations in respect of performance, bid and surety bonds, completion guarantees, letters of credit, *veksels* or similar obligations provided by the Parent or any Subsidiary of the Parent in the ordinary course of business, provided that, upon demand being made under such obligations, such obligations are reimbursed or the Indebtedness thereunder repaid within 60 days following such payment or disbursement in respect of such demand;
- (viii) Indebtedness arising from the honouring by a bank or other financial institution of a cheque, draft or similar instrument inadvertently drawn against insufficient funds in the ordinary course of business; provided, however, that such Indebtedness is extinguished within five Business Days of its Incurrence;
- (ix) Indebtedness arising from agreements of the Parent or a Subsidiary of the Parent providing for indemnification, adjustment of purchase price or similar obligations, in each case, Incurred or assumed in connection with the acquisition or disposition of any business, assets or Capital Stock of the Parent or any Subsidiary of the Parent; provided that the maximum aggregate liability in respect of all such Indebtedness shall at no time exceed the relevant purchase price in connection with such acquisition or disposition;
- (x) Purchase Money Indebtedness Incurred to finance the repair, improvement, lease or acquisition by the Parent or a Subsidiary of the Parent of assets in the ordinary course of business, and any Refinancing Indebtedness Incurred to Refinance such Indebtedness in an aggregate principal amount which, when added together with the amount of all other Indebtedness Incurred pursuant to this sub-Condition (x) and then outstanding, does not exceed US\$25 million at any time outstanding;
- (xi) Indebtedness in respect of workers' compensation claims or claims arising under similar legislation, or pursuant to self-insurance obligations and not in connection with the borrowing of money or the obtaining of advances or credit;
- (xii) customer deposits and advance payments received from customers in the ordinary course of business;

- (xiii) any guarantee provided in connection with a VAT refund from the budget of the Russian Federation in the ordinary course of business;
 - (xiv) any guarantee extended to suppliers of goods or services to any member of the Group on an arm's length basis and on commercial terms and in the ordinary course of business;
 - (xv) Project Finance Indebtedness; and
 - (xvi) any other Indebtedness of the Parent or any Subsidiary of the Parent in the aggregate principal amount at any time outstanding not to exceed US\$25 million.
- 4.1.3 Notwithstanding the foregoing, neither the Parent nor any Guarantor will Incur any Indebtedness pursuant to Condition 4.1 if the proceeds thereof are used, directly or indirectly, to Refinance any Subordinated Obligations of the Parent or any Guarantor unless such Indebtedness shall be subordinated to the Notes or the applicable Guarantee to at least the same extent as such Subordinated Obligations.
- 4.1.4 For purposes of determining compliance with this Condition 4.1:
- (i) in the event that an item of Indebtedness (or any portion thereof) meets the criteria of more than one of the types of Indebtedness described in Conditions 4.1.1 or 4.1.2, the Parent, in its sole discretion, will classify such item of Indebtedness (or any portion thereof) at the time of Incurrence and will only be required to include the amount and type of such Indebtedness in one of the Conditions 4.1.1 or 4.1.2;
 - (ii) the Parent will be entitled to divide and classify an item of Indebtedness in more than one of the types of Indebtedness described in Conditions 4.1.1 or 4.1.2 and may change the classification of an item of Indebtedness (or any portion thereof) to any other type of Indebtedness described in Conditions 4.1.1 or 4.1.2 at any time. The outstanding principal amount of any particular Indebtedness shall be counted only once and any obligations arising under any guarantees, Lien, letters of credit or similar instrument supporting such Indebtedness shall not be double counted; and
 - (iii) any entity that is allowed to incur Indebtedness under Condition 4.1.1 or under any of the paragraphs in Condition 4.1.2 may provide a guarantee of any other entity's Incurrence of such Indebtedness, provided that such other entity Incurs such Indebtedness pursuant to Condition 4.1.1 or the same paragraph in Condition 4.1.2 under which the guaranteeing entity provides its guarantee of such Indebtedness.
- 4.1.5 For purposes of determining compliance with any US dollar denominated restriction on the Incurrence of Indebtedness where the Indebtedness Incurred is denominated in a different currency, the amount of such Indebtedness will be the US Dollar Equivalent determined on the date of the Incurrence of such Indebtedness; provided, however, that if any such Indebtedness denominated in a different currency is subject to a Currency Agreement with respect to US dollars covering all principal, premium, if any, and interest payable on such Indebtedness, the amount of such Indebtedness expressed in US dollars will be as provided in such Currency Agreement. The principal amount of any Refinancing Indebtedness Incurred in the same currency as the Indebtedness being Refinanced will be the US Dollar Equivalent, as appropriate, of the Indebtedness Refinanced, except to the extent that (A) such US Dollar Equivalent was determined based on a Currency Agreement, in which case the Refinancing Indebtedness will be determined in accordance with the preceding sentence, and (B) the principal amount of the Refinancing Indebtedness exceeds the principal amount of the Indebtedness being Refinanced, in which case the US Dollar Equivalent of such excess, as appropriate, will be determined on the date such Refinancing Indebtedness is Incurred. Notwithstanding any other provision of this Condition 4.1, the maximum amount that the Parent or a Subsidiary of the Parent may Incur pursuant to this Condition 4.1 shall not be deemed to be exceeded, with respect to outstanding Indebtedness, due solely as a result of fluctuations in the exchange rates of currencies.

4.2 Limitation on Restricted Payments

4.2.1 The Parent will not, and will not permit any Subsidiary of the Parent, directly or indirectly, to make a Restricted Payment if at the time the Parent or such Subsidiary makes such Restricted Payment:

- (i) a Default or Event of Default shall have occurred and be continuing (or would result therefrom);
- (ii) the Parent is not entitled to Incur an additional US\$1.00 of Indebtedness pursuant to Condition 4.1.1; or
- (iii) the aggregate amount of such Restricted Payment and all other Restricted Payments since the Issue Date would exceed the sum of (counting each amount or event in only one category below):
 - (a) 50 per cent. of the Consolidated Net Income accrued during the period (treated as one accounting period) from 1 January 2017 to the end of the most recent semi-annual financial period ending prior to the date of such Restricted Payment for which financial statements are available (or, in case such Consolidated Net Income shall be a deficit, minus 100 per cent. of such deficit); plus
 - (b) 100 per cent. of the aggregate Net Cash Proceeds received by the Parent from the issuance or sale of its Capital Stock (other than Disqualified Stock), or warrants, options or rights to purchase shares of its Capital Stock (other than Disqualified Stock) but solely upon the exercise of such options, warrants or rights, in each case, subsequent to the Issue Date (other than an issuance or sale to a Subsidiary of the Parent and other than an issuance or sale to an employee stock ownership plan or to a trust established by the Parent or any of its Subsidiaries for the benefit of their employees) and 100 per cent. of any cash capital contribution received by the Parent from its shareholders subsequent to the Issue Date; plus
 - (c) the amount by which Indebtedness of the Parent or any Subsidiary of the Parent is reduced on the Parent's balance sheet upon the conversion or exchange subsequent to the Issue Date of any Indebtedness of the Parent convertible or exchangeable for Capital Stock (other than Disqualified Stock) of the Parent (less the amount of any cash, or the fair value of any other property, distributed by the Parent upon such conversion or exchange); provided, however, that (i) subject to sub-Condition (ii) of this Condition 4.2.1 (iii)(c), the foregoing amount shall not exceed the Net Cash Proceeds received by the Parent or any Subsidiary of the Parent from the sale of such Indebtedness (excluding Net Cash Proceeds from sales to a Subsidiary of the Parent or to an employee stock ownership plan or a trust established by the Parent or any of its Subsidiaries for the benefit of their employees); and (ii) the foregoing amount, as limited by sub-Condition (i) of this Condition 4.2.1 (iii)(c), shall be increased by the aggregate Net Cash Proceeds, if any, received by the Parent or a Subsidiary of the Parent upon such conversion or exchange (excluding any such Net Cash Proceeds comprising funds borrowed from the Parent or any Subsidiary of the Parent until and to the extent such borrowing is repaid); plus
 - (d) an amount equal to the sum of (x) the net reduction in the Investments (other than Permitted Investments) made by the Parent or any Subsidiary of the Parent in any Person resulting from repurchases, repayments or redemptions of such Investments by such Person, (y) proceeds realised on the sale of such Investment and (z) proceeds representing the return of capital (excluding dividends and distributions), in each case received by the Parent or any Subsidiary of the Parent less the cost (including taxes payable in connection with such repurchase, repayment or redemption) of such repurchase, repayment or redemption, and in the case of an Investment (other than a Permitted Investment) that is a guarantee made by the

Parent or a Subsidiary of the Parent to any Person (other than the Parent or a Subsidiary of the Parent), an amount equal to the amount of such guarantee upon the full and unconditional release of such guarantee; provided, however, that the foregoing sum shall not exceed, in the case of any such Person, the amount of Investments (excluding Permitted Investments) previously made (and treated as a Restricted Payment) by the Parent or any Subsidiary of the Parent in such Person; plus

- (e) in the event that the Parent or any Subsidiary of the Parent makes any Investment in a Person that, as a result of or in connection with such Investment, becomes a Subsidiary of the Parent, an amount equal to the Parent's or such Subsidiary's existing Investment in such person that was previously treated as a Restricted Payment (provided that such existing Investment and/or Restricted Payment was made in accordance with, or permitted by, the Conditions).

4.2.2 Condition 4.2.1 shall not prohibit:

- (i) any Restricted Payment made out of the Net Cash Proceeds of the substantially concurrent sale of, or made by exchange for, Capital Stock of the Parent (other than Disqualified Stock and other than Capital Stock issued or sold to a Subsidiary of the Parent or an employee stock ownership plan or to a trust established by the Parent or any of its Subsidiaries for the benefit of their employees) or a substantially concurrent cash capital contribution received by the Parent from its direct or indirect shareholders; provided, however, that (A) such Restricted Payment shall be excluded from the calculation of the amount of Restricted Payments and (B) the Net Cash Proceeds from such sale or such cash capital contribution (to the extent so used for such Restricted Payment) shall be excluded from the calculation of amounts under sub-Condition (iii)(b) of Condition 4.2.1;
- (ii) so long as no Default or Event of Default has occurred and is continuing, any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Obligations of a Guarantor made by exchange for, or out of the proceeds of the substantially concurrent Incurrence of, Refinancing Indebtedness of such Person in respect of such Subordinated Obligations; provided, however, that such purchase, repurchase, redemption, defeasance or other acquisition or retirement for value shall be excluded from the calculation of the amount of Restricted Payments;
- (iii) dividends paid by the Parent within 60 days after the date of declaration thereof if at such date of declaration such dividend would have complied with this Condition 4.2; provided, however, that such payment (without duplication of the relevant dividend) shall be included in the calculation of the amount of Restricted Payments;
- (iv) so long as no Default or Event of Default has occurred and is continuing, the purchase, redemption or other acquisition of Capital Stock of the Parent or any of its Subsidiaries from employees, former employees, directors or former directors of the Parent or any of its Subsidiaries or any Affiliate of the Parent (or permitted transferees of such employees, former employees, directors or former directors), pursuant to the terms of the agreements (including employment agreements) or plans (or amendments thereto) approved by the Board of Directors under which such individuals purchase or sell or are granted the option to purchase or sell, shares of such Capital Stock; provided, however, that the aggregate amount of such Restricted Payments shall not exceed US\$10 million in the aggregate; provided further, however, that such Restricted Payments shall be excluded in the calculation of the amount of Restricted Payments;
- (v) repurchases of Capital Stock deemed to occur upon exercise of stock options or warrants if such Capital Stock represents a portion of the exercise price of such options; provided, however, that such Restricted Payments shall be excluded from the calculation of the amount of Restricted Payments;

- (vi) cash payments in lieu of the issuance of fractional shares in connection with stock dividends, splits or combinations, the exercise of warrants, options or other securities convertible into or exchangeable for Capital Stock of the Parent; provided, however, that any such cash payment shall not be for the purpose of evading the limitation of this Condition 4.2 (as determined in good faith by the Board of Directors); provided further, however, that such payments shall be excluded from the calculation of the amount of Restricted Payments;
- (vii) in the event of a Relevant Event, and so long as no Default or Event of Default has occurred and is continuing, the payment, purchase, redemption, defeasance or other acquisition or retirement of Subordinated Obligations of any Guarantor, in each case, at a purchase price not greater than 101 per cent. of the principal amount of such Subordinated Obligations, plus any accrued and unpaid interest thereon; provided, however, that prior to such payment, purchase, redemption, defeasance or other acquisition or retirement, the Issuer (or a third party to the extent permitted by the Conditions) has issued a Relevant Event Put Event Notice with respect to the Notes as a result of such Relevant Event and has repurchased or shall repurchase all Notes validly tendered and not withdrawn in connection with such Relevant Event; provided further, however, that such payments, purchases, redemptions, defeasances or other acquisitions or retirements shall be included in the calculation of the amount of Restricted Payments;
- (viii) payments of intercompany Indebtedness (in cash or otherwise), the Incurrence of which was permitted under sub-Condition (i) of Condition 4.1.2, provided, however, that no Default or Event of Default has occurred and is continuing or would otherwise result therefrom; provided further, however, that such payments shall be excluded from the calculation of the amount of Restricted Payments;
- (ix) payments or distributions to dissenting shareholders pursuant to applicable law in connection with or contemplation of a merger, consolidation or transfer of assets that complies with the provisions of the Notes relating to mergers, consolidations or transfers of substantially all of any Guarantor's assets; provided however, that such payments or distributions shall be excluded from the calculation of the amount of Restricted Payments; or
- (x) Restricted Payments in an amount which, when taken together with all Restricted Payments made pursuant to this sub-Condition (x), does not exceed US\$15 million; provided, however, that (A) at the time of each such Restricted Payment, no Default or Event of Default shall have occurred and be continuing (or result therefrom) and (B) such payments shall be included in the calculation of the amount of Restricted Payments.

4.3 Limitation on Restrictions on Distributions from Subsidiaries

4.3.1 The Parent will not, and will not permit any Subsidiary of the Parent to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Subsidiary of the Parent to (A) pay dividends (in cash or otherwise) or make any other distributions on its Capital Stock to the Parent or a Subsidiary of the Parent or pay any Indebtedness owed to the Parent or a Subsidiary of the Parent, (B) make any loans or advances to the Parent or a Subsidiary of the Parent or (C) transfer any of its property or assets to the Parent or a Subsidiary of the Parent, except:

- (i) any encumbrance or restriction pursuant to an agreement in effect at or entered into on the Issue Date;
- (ii) encumbrances and restrictions contained in any agreement or other instrument of any Person acquired by the Parent or any Subsidiary of the Parent in effect at the time of such acquisition (but not created in contemplation thereof) which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired;

- (iii) any encumbrance or restriction consisting of customary non-assignment provisions in leases governing leasehold interests to the extent such provisions restrict the subletting, assignment or transfer of the lease or the property leased thereunder;
- (iv) any encumbrance or restriction contained in security agreements, operating leases of real property or mortgages securing Indebtedness of the Parent or a Subsidiary of the Parent to the extent such encumbrance or restriction restricts the transfer of the property subject to such security agreements, operating leases during the continuation of a default in the payment of rent or mortgages;
- (v) customary encumbrances or restrictions in connection with Purchase Money Indebtedness for property acquired in the ordinary course of business;
- (vi) encumbrances or restrictions existing by reason of any Permitted Lien;
- (vii) any encumbrance or restriction pursuant to an agreement effecting a Refinancing of Indebtedness Incurred pursuant to an agreement referred to in sub-Condition (i), (ii) or this sub-Condition (vii) or contained in any amendment to an agreement referred to in sub-Condition (i), (ii) or this sub-Condition (vii); provided, however, that the encumbrances and restrictions with respect to such Subsidiary or the Parent contained in any such refinancing agreement or amendment, are not materially less favourable to the Noteholders than encumbrances and restrictions with respect to such Subsidiary or the Parent contained in such predecessor agreements;
- (viii) encumbrances or restrictions contained in contracts for sale of Capital Stock or assets permitted by Condition 4.4 with respect to the assets or Capital Stock to be sold pursuant to such contract or in customary merger or acquisition agreements (or any option to enter into such contracts) for the purchase or acquisition of Capital Stock assets or any of the Parent's Subsidiaries by another Person;
- (ix) customary limitations on the distribution or disposition of assets or property of a Subsidiary of the Parent in joint venture agreements entered into in the ordinary course of business and in good faith; provided that such encumbrance or restriction is applicable only to such Subsidiary and provided that:
 - (a) the encumbrance or restriction is not materially more disadvantageous to the Noteholders than is customary in comparable agreements (as determined in good faith by the Parent); and
 - (b) the Parent determines in good faith that any such encumbrance or restriction will not materially affect the ability of the Parent or any Guarantor to make any anticipated principal or interest payments on the Notes and any other Indebtedness for borrowed money that is an obligation of the Parent or a Guarantor;
- (x) encumbrances or restrictions imposed by applicable law or regulation or by governmental licence, concession or permit; and
- (xi) encumbrances or restrictions on cash or other deposits or net worth imposed by customers and suppliers under contracts entered into in the ordinary course of business.

4.4 Limitation on Sales of Assets and Subsidiary Stock

4.4.1 The Parent will not, and will not permit any Subsidiary of the Parent to, directly or indirectly, consummate any Asset Disposition unless:

- (i) the Parent or such Subsidiary receives consideration at the time of such Asset Disposition at least equal to the Fair Market Value (including as to the value of all non-cash consideration) of the Capital Stock and assets subject to such Asset Disposition;

- (ii) at least 75 per cent. of the consideration thereof received by the Parent or such Subsidiary is in the form of (A) cash, (B) Cash Equivalents (as defined below) or (C) Additional Assets; and
- (iii) an amount equal to 100 per cent. of the Net Available Cash from such Asset Disposition is applied by the Parent or such Subsidiary, as the case may be
 - (a) to the extent the Parent elects (or is required by the terms of any Indebtedness), to prepay, repay, redeem or purchase Senior Indebtedness of the Parent or any Subsidiary of the Parent (in each case other than Indebtedness owed to the Parent or an Affiliate of the Parent) within 360 days from the later of the date of such Asset Disposition or the receipt of such Net Available Cash;
 - (b) to the extent the Parent elects, to acquire or invest in Additional Assets within 360 days from the later of the date of such Asset Disposition or the receipt of such Net Available Cash;
 - (c) for working capital purposes within 360 days from the later of the date of such Asset Disposition or the receipt of such Net Available Cash; and
 - (d) to invest in Temporary Cash Investments within 360 days from the later of the date of such Asset Disposition or the receipt of such Net Available Cash,

or any combination thereof, provided, however, that in connection with any prepayment, repayment or purchase of Indebtedness pursuant to sub-Condition (iii)(a) above, the Parent or such Subsidiary shall permanently retire such Indebtedness and shall cause the related loan commitment (if any) to be permanently reduced in an amount equal to the principal amount so prepaid, repaid or purchased and provided further that if the use of Net Available Cash is applied under sub-Condition (iii)(d) above, such Net Available Cash must be applied pursuant to sub-Condition (iii)(a), (iii)(b) or (iii)(c) within 540 days from the date of such Asset Disposition or the receipt of such Net Available Cash.

4.4.2 Any Net Available Cash from Asset Dispositions that is not applied or invested as provided in Condition 4.4.1 within 540 days after receipt thereof will be deemed to constitute “**Excess Proceeds**” and:

- (i) when the aggregate amount of Excess Proceeds exceeds US\$20 million, the Issuer will be required to make an offer (an “**Asset Disposition Offer**”) to all Holders of Notes to purchase the maximum principal amount of Notes that may be purchased out of the Excess Proceeds (equal to US\$200,000 and any integral multiple of US\$1,000 in excess thereof and provided that any unpurchased portion of any Note surrendered is in a principal amount of at least US\$200,000), at an offer price in cash in an amount equal to 100 per cent. of the principal amount of the Notes plus accrued and unpaid interest and any additional amounts payable pursuant to Condition 8, to the date of purchase. If there is any Indebtedness outstanding that ranks *pari passu* with the Notes and contains similar provisions to this Condition 4.4 requiring the Parent to make an offer to purchase such Indebtedness following as Asset Disposition, the Parent (x) may make an offer to purchase such Indebtedness on similar terms (but at a price not exceeding 100 per cent. of the relevant principal amount) as, or on terms that are no better than the terms of, the Asset Disposition Offer and, (y) to the extent that the aggregate principal amount of Notes validly tendered and not withdrawn (the “**Tendered Notes**”) together with the amount of such *pari passu* Indebtedness validly tendered and not withdrawn (the “**Aggregate Tendered Amount**”) exceeds the Excess Proceeds, the proportion of the Excess Proceeds to be applied to the purchase of the Tendered Notes shall be the amount which bears the same proportion (rounded, as applicable) to the Excess Proceeds as the aggregate principal amount of the Tendered Notes bears to the Aggregate Tendered Amount, and any reference below to Excess Proceeds shall be taken to mean such proportional amount.

- (ii) If the aggregate principal amount of Notes surrendered by Holders thereof exceeds the amount of Excess Proceeds, the Issuer shall select the Notes (equal to US\$200,000 and any integral multiple of US\$1,000 in excess thereof and provided that any unpurchased portion of any Note surrendered is in a principal amount of at least US\$200,000) to be purchased on a pro rata basis subject to the aforementioned denomination, by lot or by such other method as the Issuer in its sole discretion deems fair and appropriate, provided that such method is in compliance with the rules of any stock exchange on which the Notes are listed and the requirements of any depository. Immediately following such selection, the Issuer shall notify the Principal Paying Agent and the Trustee in writing thereof. Upon completion of such Asset Disposition Offer, the amount of Excess Proceeds shall be reduced by the aggregate amount of such Asset Disposition Offer.

The Parent will determine the relevant procedures in respect of any Asset Disposition Offer, provided that such procedures are in compliance with the rules of any stock exchange on which the Notes are listed. Notice of the Asset Disposition Offer will be given to Noteholders. The Asset Disposition Offer will remain open for a period of 20 Business Days following its commencement, except to the extent that a longer period is required by applicable law (the “**Asset Disposition Offer Period**”). No later than five Business Days after the expiration of the Asset Disposition Offer Period (the “**Asset Disposition Purchase Date**”), the Parent will purchase and pay for the principal amount of Notes required to be purchased pursuant to this Condition 4.4.2 (the “**Asset Disposition Offer Amount**”).

Any Note tendered and not accepted for purchase will be promptly mailed or delivered by the Issuer to the Holder thereof. The Issuer will publicly announce the results of the Asset Disposition Offer on the Asset Disposition Purchase Date.

The Issuer will comply, to the extent applicable, with any securities laws or regulations in connection with the repurchase of Notes pursuant to the Trust Deed. To the extent that the provisions of any securities laws or regulations conflict with provisions of this Condition 4.4.2, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Trust Deed by virtue of any conflict.

To the extent that all or any portion of the Excess Proceeds remains after completion of an Asset Disposition Offer, the Parent or such Subsidiary may use any remaining Excess Proceeds for any corporate purposes permitted by the covenants contained in these Conditions.

4.4.3 For the purposes of this Condition 4.4, the following are deemed to be “**Cash Equivalents**”:

- (i) the assumption or discharge of (a) Senior Indebtedness of the Parent (other than obligations in respect of Disqualified Stock of the Parent) or any Subsidiary of the Parent (other than obligations in respect of Disqualified Stock or Preferred Stock of a Guarantor) and the release of the Parent or such Subsidiary from all liability on such Indebtedness in connection with such Asset Disposition or (b) Senior Indebtedness of a Subsidiary of the Parent that is no longer a Subsidiary of the Parent as a result of such Asset Disposition, if the Parent and each other Subsidiary of the Parent is released from any obligation under such Indebtedness as a result of such Asset Disposition;
- (ii) securities received by the Parent or any Subsidiary of the Parent from the transferee that are converted within 180 days by the Parent or such Subsidiary of the Parent into cash, to the extent of the cash received in that conversion; and
- (iii) Temporary Cash Investments.

4.5 Limitation on Affiliate Transactions

- 4.5.1 The Parent will not, and will not permit any Subsidiary of the Parent to, enter into or permit to exist any transaction or a series of related transactions (including, without limitation, the purchase, sale, lease or exchange of any assets or property, employee compensation

arrangements or the rendering of any service) with, or for the benefit of, any Affiliate of the Parent or any other Subsidiary of the Parent (an “**Affiliate Transaction**”) unless:

- (i) the terms of the Affiliate Transaction are no less favourable to the Parent or such Subsidiary than those that could be obtained at the time of the Affiliate Transaction in arm’s length dealings with a Person who is not an Affiliate;
- (ii) if such Affiliate Transaction involves an amount in excess of US\$15 million, the terms of the Affiliate Transaction are set forth in writing and a majority of the directors of the Parent disinterested with respect to such Affiliate Transaction (or, in the event that there is only one disinterested director, by the resolution of such disinterested director or, in the event that there are no disinterested directors, by unanimous resolution of the entire Board of Directors) have determined in good faith that the criteria set forth in sub-Condition (i) above are satisfied and have approved the relevant Affiliate Transaction as evidenced by a resolution of the Board of Directors; and
- (iii) if such Affiliate Transaction involves an amount in excess of US\$20 million, the Board of Directors shall also have received a written opinion from an Independent Qualified Party to the effect that such Affiliate Transaction is fair, from a financial standpoint, to the Parent and its Subsidiaries or is not less favourable to the Parent and its Subsidiaries than could reasonably be expected to be obtained at the time in an arm’s length transaction with a Person who was not an Affiliate.

4.5.2 The provisions of Condition 4.5.1 above will not prohibit:

- (i) any Investment (including a Permitted Investment) or other Restricted Payment, in each case permitted to be made pursuant to Condition 4.2;
- (ii) any transaction or series of related transactions in an aggregate amount not exceeding US\$5 million in any 12 month period;
- (iii) any issuance of securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, employment arrangements, insurance plans, deferred compensation plans, retirement and savings plans, stock options and stock ownership plans that are customary and are approved by the Board of Directors in good faith and it is deemed by the Board of Directors that the services theretofore or thereafter to be performed for such compensation or payments are fair consideration therefor;
- (iv) loans or advances or guarantees of third party loans (but not any forgiveness of such loans or advances or guarantees) to employees, directors, officers and consultants in the ordinary course of business in accordance with the past practices of the Parent or its Subsidiaries, but in any event not to exceed US\$5 million in the aggregate outstanding at any one time;
- (v) transactions between or among all or any of the Parent and a Subsidiary of the Parent;
- (vi) the issuance or sale of any Capital Stock (other than Disqualified Stock) of the Parent;
- (vii) agreements and arrangements existing on the Issue Date and any amendment, extension, renewal, refinancing, modification or supplement thereof, provided that following such amendment, extension, renewal, refinancing, modification or supplement, the terms of any such agreement or arrangement so amended, modified or supplemented are not materially more disadvantageous to the Noteholders and to the Parent and the Subsidiary of the Parent, as applicable, than the original agreement or arrangement as in effect on the Issue Date and provided, further, that such amendment or modification is (A) on a basis substantially similar to that which could reasonably have been obtained at such time in an arm’s length transaction with third parties who are not Affiliates and (B) in the case of any transaction having a Fair Market Value of greater than US\$15 million, approved by the Parent’s Board of Directors (including a majority of the disinterested directors or, in the

event that there is only one disinterested director, by the resolution of such disinterested director or, in the event that there are no disinterested directors, by unanimous resolution of the entire Board of Directors);

- (viii) transactions with customers, clients, suppliers or purchasers or sellers of goods or services (other than any sales of the Group's products to an Affiliate engaged in the business of leasing or renting the Group's products) consistent with past practice, in each case, in the ordinary course of business and otherwise in compliance with these Conditions, which are fair to the Parent or the relevant Subsidiary in the reasonable determination of the Board of Directors or the senior management of the Parent or the relevant Subsidiary, in each case, that are disinterested with respect to such Affiliate Transaction or are on terms no less favourable than those that could reasonably have been obtained at such time in an arm's length transaction with third parties that are not Affiliates; or
- (ix) transactions permitted by the proviso to Condition 4.8.2.

4.6 Limitation on Liens

The Parent will not, and will not permit any Subsidiary of the Parent to, directly or indirectly, create, incur or suffer to exist any Lien (the "**Initial Lien**") of any nature whatsoever on any of its properties or assets (including Capital Stock of a Subsidiary of the Parent), whether owned at the Issue Date or thereafter acquired, or on any income, revenue or profits therefrom, securing any Indebtedness, other than Permitted Liens, without at the same time or prior thereto effectively providing that the Issuer's obligations under the Notes and the Trust Deed or the relevant Guarantor's obligation under the Guarantee, as the case may be, shall be secured (i) if such Indebtedness is Senior Indebtedness, equally and rateably with the Indebtedness secured by such Lien or (ii) if such Indebtedness is subordinated Indebtedness, senior in priority to the Lien securing such obligations, in each case, for so long as such obligations are so secured.

4.7 Limitation on Lines of Business

The Parent will not, and will not permit any Subsidiary of the Parent, to engage in any business other than a Core Business.

4.8 Merger and Consolidation

4.8.1 The Issuer will not consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of transactions, directly or indirectly, all or substantially all its assets to, any Person, unless:

- (i) either (A) the Issuer will be the continuing entity or (B) the resulting, surviving or transferee Person, if not the Issuer (the "**Successor Issuer**"), shall be a Person which is organised and existing under the laws of an Approved Jurisdiction and the Successor Issuer (if not the Issuer) shall expressly assume, by a trust deed supplemental thereto, executed and delivered to the Trustee, in form and content satisfactory to the Trustee, all the obligations of the Issuer under the Notes and the Trust Deed;
- (ii) immediately after giving pro forma effect to such transaction (and treating any Indebtedness which becomes an obligation of the Successor Issuer or any Subsidiary of the Successor Issuer as a result of such transaction as having been Incurred by such Successor Issuer or such Subsidiary at the time of such transaction), no Default or Event of Default shall have occurred and be continuing;
- (iii) immediately after giving pro forma effect to such transaction, the Successor Issuer would be able to incur an additional US\$1.00 of Indebtedness pursuant to Condition 4.1.1 or the Consolidated Net Leverage Ratio would not be increased;

- (iv) the Issuer shall have delivered to the Trustee an Officers' Certificate (including in respect of Condition 4.8.1(ii) and (iii)) and an Opinion of Counsel, each stating that such consolidation, merger or transfer complies with these Conditions (provided that the Opinion of Counsel may rely on the Officers' Certificate as to compliance with the Conditions and as to matters of fact (without further investigation or enquiry and without liability) and may contain customary assumptions, qualifications and limitations), each in form and substance satisfactory to the Trustee and upon each of which the Trustee shall be entitled to rely without liability to any person; and
- (v) the Issuer shall have delivered to the Trustee an Opinion of Counsel, in form and substance satisfactory to the Trustee, upon which the Trustee shall be entitled to rely without liability to any person, to the effect that the Noteholders will not recognise income, gain or loss for Jersey income tax purposes as a result of such transaction and will be subject to Jersey income tax on the same amounts, in the same manner and at the same times as would have been the case if such transaction had not occurred.

provided, however, that this Condition 4.8.1 and Condition 4.4 will not apply to any substitution conducted in full compliance with Condition 12.3 and the relevant provisions of the Trust Deed and (i) (A) the disposition of the Issuer in its entirety to a Subsidiary of the Parent, whether through a merger, consolidation or sale of Capital Stock or (B) the sale of all or substantially all the assets of the Issuer to a Subsidiary of the Parent or (ii) the Issuer engaging in a transaction with an Affiliate of the Parent solely for the purpose and with the sole effect of reincorporating the Issuer in another jurisdiction that is an Approved Jurisdiction; and provided further, however, that Condition 4.8.1 shall not apply to any transaction in which any Subsidiary of the Guarantor consolidates with, or merges into, or transfers all or parts of its assets to the Issuer (with the Issuer as the continuing entity).

The Successor Issuer will be the successor to the Issuer and shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer under the Notes, and the predecessor company (except in the case of a lease of all or substantially all of its assets, in which case the predecessor company shall not be released from such obligations) shall be released from the obligation to pay the principal of and interest on the Notes.

4.8.2 The Parent will not, and will not permit any Guarantor to, consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of transactions, all or substantially all of its assets to any Person unless:

- (i) the resulting, surviving or transferee Person (if not the Parent or such Guarantor, the "**Successor Guarantor**") shall be a Person which is organised and existing under an Approved Jurisdiction, and such Person (if not the Parent) shall expressly assume, by executing a deed of guarantee in substantially the same form as the relevant Deed of Guarantee, in a form and content satisfactory to the Trustee, all the obligations of such Guarantor, if any, under its Guarantee;
- (ii) immediately after giving effect to such transaction or transactions on a pro forma basis (and treating any Indebtedness which becomes an obligation of the Successor Guarantor as a result of such transaction as having been issued by such Successor Guarantor at the time of such transaction), no Default or Event of Default shall have occurred and be continuing;
- (iii) immediately after giving pro forma effect to such transaction, the Successor Guarantor would be able to Incur an additional US\$1.00 of Indebtedness pursuant to Condition 4.1.1 or the Consolidated Net Leverage Ratio would not be increased; and
- (iv) the Parent delivers to the Trustee an Officers' Certificate (including in respect of Condition 4.8.2(ii) and (iii)) and an Opinion of Counsel, each stating that such consolidation, merger or transfer complies with these Conditions (provided that the Opinion of Counsel may rely on the Officers' Certificate as to compliance with the Conditions and as to matters of fact (without further investigation or enquiry and without

liability) and may contain customary assumptions, qualifications and limitations), each in form and substance satisfactory to the Trustee and upon each of which the Trustee shall be entitled to rely without liability to any person,

provided, however, that this Condition 4.8.2 and Condition 4.4 will not apply to any substitution conducted in full compliance with Condition 12.3 and the relevant provisions of the Trust Deed and (i) (A) the disposition of a Guarantor that is not the Parent in its entirety to another Guarantor, whether through a merger, consolidation or sale of Capital Stock, (B) the sale of all or substantially all the assets of a Guarantor that is not the Parent to another Guarantor or (C) the disposition of all or a portion of the Capital Stock of a Guarantor that is not the Parent which ceases to be a Subsidiary of the Parent, each of which is permitted, if in connection therewith the Parent provides an Officers' Certificate to the Trustee (in form and substance satisfactory to the Trustee and upon which the Trustee shall be entitled to rely without liability to any person) to the effect that the Parent will comply with its obligations under Condition 4.4 and 4.13 (treating the date of such disposition as a Guarantor Testing Date and making the calculations required in Condition 4.13 on a pro forma basis for such disposition by reference to the most recent annual or interim financial report referred to in Condition 4.9) in respect of such sale or disposition; or (ii) a Subsidiary of the Parent consolidating with, merging into or transferring all or part of its properties and assets to a Guarantor (so long as no Capital Stock of the Parent or a Guarantor is distributed to any Person), (iii) a merger between or among any Guarantors or (iv) a Guarantor engaging in a transaction with an Affiliate of the Parent solely for the purpose and with the sole effect of reincorporating such Guarantor in another jurisdiction that is an Approved Jurisdiction.

- 4.8.3 For purposes of this Condition 4.8, the sale, lease, conveyance, assignment, transfer or other disposition of all or substantially all of the properties and assets of one or more Subsidiaries of a Guarantor, which properties and assets, if held by such Guarantor instead of such Subsidiaries, would constitute all or substantially all of the properties and assets of such Guarantor on a consolidated basis, shall be deemed to be the transfer of all or substantially all of the properties and assets of such Guarantor.

The Successor Guarantor will be the successor to such Guarantor and shall succeed to, and be substituted for, and may exercise every right and power of the relevant Guarantor, as the case may be, under its Guarantee and the Notes, and the predecessor company (except in the case of a lease of all or substantially all of its assets, in which case the predecessor company shall not be released from such obligations) shall be released from the obligation to pay the principal of, premium, if any, and interest on the Notes.

4.9 Reports

- 4.9.1 The Parent will make available on its website and deliver to the Trustee:

- (i) within 120 days after the end of each financial year, annual reports containing the following information in English with a level of detail that is substantially comparable to those published by the Parent in respect of prior periods and in accordance with applicable regulatory requirements: (A) audited consolidated balance sheets of the Parent as of the end of the two most recent financial years and audited consolidated income statements and statements of cash flow of the Parent for the two most recent financial years, in each case prepared in accordance with IFRS, and including complete footnotes to such financial statements and the report of the independent auditors on the financial statements; (B) to the extent relating to annual periods, an operating and financial review of the audited financial statements, including a discussion of the results of operations, financial condition, and liquidity and capital resources, and a discussion of material commitments and contingencies and critical accounting policies as may be published by, and consistent with the past practice of, the Parent and in accordance with the listing rules applicable to the Parent;
- (ii) within 90 days after the end of the first six months of each financial year of the Parent semi-annual reports in English containing the following information: (A) an unaudited condensed consolidated balance sheet as of the end of such semi-annual period and unaudited

condensed statements of income and cash flow for the semi-annual period ending on the unaudited condensed balance sheet date, and the comparable prior year period, in each case prepared in accordance with IFRS, together with a review report thereon conducted in accordance with International Standards on Review Engagements No. 2400 (or such replacement standard in force at such time), and with condensed footnote disclosure; (B) an operating and financial review of the audited and unaudited financial statements, including a discussion of the results of operations, financial condition, and liquidity and capital resources, and a discussion of material commitments and contingencies and changes in critical accounting policies as may be published by, and consistent with the past practice of, the Parent and in accordance with the listing rules applicable to the Parent; and

- (iii) promptly after the occurrence of a material acquisition, disposition, restructuring or change in auditors or any other material event in respect of the Notes, an announcement of such event.
- 4.9.2 The Parent will deliver to the Trustee an Officers' Certificate of the Parent, annually and, in addition, within 14 days of request by the Trustee, with respect to compliance with the Conditions.
- 4.9.3 Substantially concurrently with the issuance to the Trustee and the Noteholders of the reports specified in Condition 4.9.1, the Parent shall also use its reasonable efforts to post copies of such reports in compliance with the guidelines published by the Stock Exchange or any agency or service customarily used by entities with debt securities listed on such Stock Exchange for the dissemination of information. All reports referred to in this Condition 4.9 will be available for inspection and collection at the respective offices of the Paying Agents and Transfer Agent. Any Noteholder may request that a copy of any such report be mailed to such Noteholder, at the expense of the Issuer, by written request to the Issuer.
- 4.9.4 In addition, so long as any of the Notes are restricted securities (as defined in Rule 144A of the Securities Act) and during any period during which the Parent is not subject to the reporting requirements of the Exchange Act or exempt therefrom pursuant to Rule 12g3-2(b), the Parent will furnish to any Noteholder or beneficial owner of the Notes initially offered and sold in the United States to Qualified Institutional Buyers (as defined in Rule 144 under the Securities Act) pursuant to Rule 144A under the Securities Act, and prospective purchasers in the United States designated by such Noteholder or beneficial owners, upon request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.
- 4.10 Payment of Taxes and Other Claims

The Parent shall, and shall cause its Subsidiaries to, pay or discharge or cause to be paid or discharged, before the same shall become overdue and without incurring penalties, (a) all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or assets of the Parent or any Subsidiary of the Parent (which, in the context of any entity incorporated in the Russian Federation, shall mean the earlier of either a ruling of the tax inspection based on an act of audit (*reshenie, vynesennoye po aktu proverki*) or a request to pay taxes (*trebovanie ob uplate naloga*)) and (b) all lawful claims for labour, materials and supplies which, if unpaid, might by law become a Lien (other than a Permitted Lien) upon the property of the Parent or any Subsidiary of the Parent; provided, however, that:

- (i) none of the Parent nor any Subsidiary of the Parent shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment or charge (which, in the context of any entity incorporated in the Russian Federation, shall mean the earlier of either a ruling of the tax inspection based on an act of audit (*reshenie, vynesennoye po aktu proverki*) or a request to pay taxes (*trebovanie ob uplate naloga*)) or any such claim (x) whose amount, applicability or validity is being contested in good faith by appropriate proceedings or (y) whose amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims, does not in the aggregate exceed US\$25 million; and

- (ii) any such failure to comply with provisions of (a) or (b) above is remedied within 60 days, this covenant will be deemed not to have been breached.

4.11 Maintenance of Authorisations

The Issuer (with respect to itself only) and each Guarantor (if not the Parent, with respect to itself only) shall obtain or make, and procure the continuance or maintenance of, all registrations, recordings, filings, consents, licences, approvals and authorisations, which may at any time be required to be obtained or made in the Russian Federation, Jersey and the United Kingdom or any other jurisdiction under the laws of which the Issuer or a Guarantor is organised, for the purposes of the execution, delivery or performance by the Issuer or any such Guarantor, as applicable, of the Notes, the Deed of Guarantee and the Trust Deed and for the validity and enforceability thereof.

4.12 Maintenance of Property and Insurance

The Parent shall, and shall cause each of its Subsidiaries to, cause all material property used in the conduct of its or their business to be insured in line with industry standards and maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements and improvements thereof, all as, in the judgment of the Parent or the relevant Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times; provided, however, (i) that nothing in this Condition 4.12 will prevent the Parent or any of its Subsidiaries from discontinuing or reducing the operation or maintenance of any such property if such discontinuance or reduction is determined by the Parent or any such Subsidiary having managerial responsibility for such property to be desirable in the conduct of its business or the business of any such Subsidiary or immaterial to the conduct of its business or the business of any such Subsidiary and (ii) that if any failure to maintain such insurance or make any such necessary repairs, renewals, replacements and improvements of property to comply with provisions above (x) relates to property with a value not exceeding US\$25 million or (y) is remedied within 60 days, this covenant will be deemed not to have been breached.

4.13 Additional Guarantors

4.13.1 The Parent shall ensure that on the date on which each annual or interim financial report referred to in Condition 4.9 is made available in accordance thereof (each a **"Guarantor Testing Date"**):

- (i) aggregate total assets, after intragroup eliminations, of the Guarantors (calculated in accordance with IFRS and the accounting policies of the Parent for inclusion into the consolidated financial statements of the Parent), comprise 80 per cent. or more of the consolidated total assets of the Group (calculated in accordance with IFRS), in each case with reference to the relevant financial information of the Guarantors prepared for inclusion into the consolidated financial statements of the Parent and the consolidated balance sheet of the Parent as at the end date of the relevant financial period immediately prior to the relevant Guarantor Testing Date; and
- (ii) aggregate EBITDA and aggregate revenue, after intragroup eliminations of the Guarantors (calculated in accordance with IFRS and the accounting policies of the Parent for inclusion into the consolidated financial statements of the Parent, comprises 80 per cent. or more of the consolidated EBITDA and consolidated revenues of the Group (calculated in accordance with IFRS) in each case for the last two semi-annual periods ending on the end date of the relevant financial period immediately prior to the relevant Guarantor Testing Date and by reference to the relevant financial information of the Guarantors prepared for inclusion into the consolidated financial statements of the Parent and the consolidated income statements of the Parent for such periods.

- 4.13.2 In the event that any of the tests in Condition 4.13.1 are not satisfied on any Guarantor Testing Date, the Issuer will cause additional Subsidiaries of the Parent to execute and deliver to the Trustee a deed of guarantee in the same form as the Deed of Guarantee, pursuant to which each such Subsidiary will unconditionally and irrevocably, on a joint and several basis with each other Guarantor, guarantee the payment of all moneys payable under the Trust Deed and the Notes and will become vested with all the duties and obligations of a Guarantor as if originally named a Guarantor under a Deed of Guarantee, as soon as practicable (but in any event no later than 90 days after the date on which reports referred to in Condition 4.9 are made available), such that, following such execution and delivery, if such additional Subsidiaries had been included as Guarantors prior to or as of such date, each of the tests in Condition 4.13.1 would have been satisfied.
- 4.13.3 A Guarantor or Guarantors shall be released from the Deed of Guarantee on request of the Issuer or the Parent if, after giving pro forma effect to such release, each of the tests in Condition 4.13.1 would have been satisfied on the relevant Guarantor Testing Date. When the Issuer or the Parent desires to procure such release, it shall provide to the Trustee an Officers' Certificate (in form and substance satisfactory to the Trustee) certifying compliance with such tests in Condition 4.13.1 on the relevant Guarantor Testing Date after giving pro forma effect to such release which the Trustee shall be entitled to rely on without liability to any person. Upon the Trustee's acceptance of such Officers' Certificate, the Trustee shall enter into such documents in form and substance satisfactory to the Trustee to effect such release. The Noteholders by purchasing the Notes hereby authorise and instruct the Trustee to enter into such release documentation upon acceptance of such Officers' Certificate.
- 4.13.4 The Trustee shall be entitled to rely on any Officers' Certificate provided to it pursuant to Condition 4.13.3 and shall have no liability to any person for any action or step taken in reliance on such certification.
- 4.13.5 The Issuer will give notice to the Trustee and to Holders in accordance with Condition 16 hereof forthwith upon any Guarantor ceasing to be a Guarantor, any additional Subsidiary of the Parent becoming a Guarantor and, so long as the Notes are listed on the Stock Exchange and/or any other stock exchange on which the Notes may be listed or quoted from time to time, shall comply with applicable rules of the Stock Exchange and/or such other exchange in relation to any Guarantor ceasing to be a Guarantor or any of the Subsidiaries of the Parent becoming Guarantors.
- 4.13.6 The Issuer shall also procure that the following opinions are delivered to the Trustee (at the expense of the Issuer) on the date of the execution of each deed of guarantee referred to in Condition 4.13.2:
- (i) an Opinion of Counsel or tax advisors of recognised standing acceptable to the Trustee, in form and substance satisfactory to the Trustee, to the effect that neither the Trustee nor any Noteholders will recognise any income, gain or loss for Tax purposes as a result of any additional Guarantor executing such deed of guarantee, subject to customary exceptions, qualifications and limitations; and
 - (ii) an Opinion of Counsel of recognised standing acceptable to the Trustee, in form and substance satisfactory to the Trustee, stating that the additional Guarantor has due capacity to enter into such deed of guarantee and that such deed of guarantee constitutes legal, valid and binding obligations of the respective additional Guarantor, enforceable in accordance with its terms, subject to customary exceptions, qualifications and limitations.
- 4.14 The Issuer
- The Issuer will not engage in any business activity or undertake any other activity, except (a) any activity relating to the Incurrence of Indebtedness to the extent permitted by these Conditions and the lending or otherwise advancing the proceeds thereof to the Parent or a Subsidiary of the Parent and any activities in connection therewith, (b) any activity undertaken with the purpose of fulfilling any obligations under the Notes, the Trust Deed, any Deed of

Guarantee or any document ancillary thereto or (c) any activity directly related to the establishment and maintenance of the Issuer's corporate existence.

4.15 Officers' Certificate

The Issuer and the Guarantors have each undertaken in the Trust Deed and/or the Deed of Guarantee, as the case may be, to deliver to the Trustee annually and otherwise within 14 days of a request by the Trustee, a certificate signed by two of their respective Authorised Signatories as to their respective compliance with the covenants contained in this Condition 4 and as to there not having occurred any Default or Event of Default since the date of the last such certificate, or if such event has occurred, as to the details of such event. The Trustee will be entitled to rely without liability to any person on such certificate (and any other certificates provided to it in accordance with this Condition 4) and shall not be obliged to independently monitor compliance by the Issuer or the Guarantors with the covenants contained in this Condition 4 or any of their other obligations under these Conditions or the Trust Deed, nor shall it be liable to any person for not so doing.

5 Interest

The Notes bear interest from and including the Issue Date at the rate of 8.125 per cent. per annum, payable semi-annually in arrear on 14 May and 14 November in each year (each an **"Interest Payment Date"**). Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to (but excluding) that day are received by or on behalf of the relevant Holder, and (b) the day seven days after the Trustee or the Principal Paying Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to (but excluding) that seventh day (except to the extent that there is failure in the subsequent payment to the relevant Holders under these Conditions). If interest is required to be calculated for a period of less than a complete Interest Period (as defined below), the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an **"Interest Period"**.

6 Redemption and Purchase

6.1 Final redemption

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 14 November 2022 (the **"Maturity Date"**). The Notes may not be redeemed at the option of the Issuer or any Guarantor other than in accordance with this Condition 6.

6.2 Redemption for tax reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders, Trustee and Principal Paying Agent (which notice shall be irrevocable) at the principal amount thereof, together with interest accrued to (but excluding) the date fixed for redemption, if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it (or if the Guarantees have been called, a Guarantor) has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws, treaties or regulations of any Relevant Jurisdiction, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date and (ii) such obligation cannot be avoided by the Issuer (or the relevant Guarantor, as the case may be) taking reasonable measures available to it; provided that no such notice of redemption shall be given earlier

than 90 days prior to the earliest date on which the Issuer (or the relevant Guarantor, as the case may be) would be obliged to pay such additional amounts were a payment in respect of the Notes (or the Guarantees, as the case may be) then due. Prior to the publication of any notice of redemption pursuant to this Condition 6.2, the Issuer (or the Parent on behalf of the relevant Guarantor, as the case may be) shall deliver to the Trustee (x) a certificate signed by two directors of the Issuer (or the Parent on behalf of the relevant Guarantor, as the case may be) stating that the obligation referred to in (i) above cannot be avoided by the Issuer (or the relevant Guarantor, as the case may be) taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (ii) above, in which event it shall be conclusive and binding on the Noteholders and (y) an opinion of independent legal advisers of recognised standing to the effect that the Issuer (or the relevant Guarantor, as the case may be) has or will become obliged to pay such additional amounts as a result of such change or amendment and the Trustee shall be entitled to accept such opinion as sufficient evidence of the satisfaction of the circumstances set out in (i) above in which event it shall be conclusive and binding on the Noteholders. All Notes in respect of which any such notice of redemption is given under and in accordance with this Condition 6.2 shall be redeemed on the date specified in such notice in accordance with this Condition 6.2.

6.3 Redemption upon a Relevant Event

6.3.1 Unless the Issuer has exercised its right to redeem all the Notes pursuant to Condition 6.2 or Condition 6.4, upon the occurrence of any of the following events (each a “**Relevant Event**”), the Holder of a Note will have the option (the “**Relevant Event Put Option**”) to require the Issuer to redeem all or any part (equal to US\$200,000 and any integral multiple of US\$1,000 in excess thereof and provided that any unpurchased portion of any Note surrendered is in a principal amount of at least US\$200,000) of such Note on the Relevant Event Put Settlement Date (as defined below) at 101 per cent. of its principal amount together with accrued and unpaid interest (if any) to (but excluding) the Relevant Event Put Settlement Date (as defined below) (subject to the right of Holders of record on the relevant Record Date to receive interest due on the relevant interest payment date).

- (i) (whether or not approved by the Board of Directors) any “**person**” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) or group of persons acting in concert (as such term is defined in the City Code on Takeovers and Mergers) or any persons acting on behalf of any such person(s), at any time is or becomes interested in (within the meaning of Part 22 of the Companies Act 2006) or becomes the “beneficial owners” (as defined in Rules 13d-3 and 13d-5 under the Exchange Act except that such person shall be deemed to have “beneficial ownership” of all shares that any such person has the right to acquire within 120 days), directly or indirectly, of more than 50 per cent. of the total voting power of the Voting Stock of the Parent;
- (ii) the adoption of a plan relating to the liquidation or dissolution of the Parent other than in a transaction which complies with the provisions described under Condition 4.8;
- (iii) the merger or consolidation of the Parent with or into another Person or the merger of another Person with or into the Parent, or the sale of all or substantially all the assets of the Parent (determined on a consolidated basis) to another Person other than a transaction following which (x) in the case of a merger or consolidation transaction, holders of securities that represented 100 per cent. of the Voting Stock of the Parent immediately prior to such transaction (or other securities into which such securities are converted as part of such merger or consolidation transaction) own directly or indirectly at least a majority of the voting power of the Voting Stock of the surviving Person in such merger or consolidation transaction immediately after such transaction and in substantially the same proportion (as between such holders) as before the transaction or (y) in the case of a sale of assets transaction, each transferee becomes an obligor in respect of the Notes and a Subsidiary of the Parent; or
- (iv) the Capital Stock of the Parent at any time ceases to be admitted to listing on the Official List of the UK Listing Authority and to trading on the Regulated Market of the London Stock

Exchange (or if the Capital Stock has been admitted to listing and trading on another Regulated Market in place of (and not in addition to) the London Stock Exchange, has ceased to be admitted to listing and trading on such Regulated Market), save that the movement of listing from the Official List of the UK Listing Authority and to trading on the Regulated Market of the London Stock Exchange to another Regulated Market shall not constitute a Relevant Event if completed within 120 calendar days, or trading of the Capital Stock on the Regulated Market of the London Stock Exchange (or any such other Regulated Market on which the Capital Stock are at the relevant time listed and admitted to trading in place of (and not in addition to) the London Stock Exchange) is suspended for a period of 10 consecutive dealing days or more or, in circumstances where such suspension is requested by the Parent in connection with a corporate reorganisation, a period of 60 consecutive dealing days.

- 6.3.2 Unless the Issuer has exercised its right to redeem all the Notes pursuant to Condition 6.2 or Condition 6.4, the Issuer shall promptly, and in any event within 14 calendar days, upon the Issuer becoming aware that a Relevant Event has occurred, give notice (a **"Relevant Event Put Event Notice"**) to the Trustee, Principal Paying Agent and the Noteholders in accordance with Condition 16, specifying the details relating to the occurrence of the Relevant Event and the procedure for exercising the Relevant Event Put Option.

In order to exercise the Relevant Event Put Option, the Holder of a Note must deliver within the period from and including the date that the Relevant Event Put Event Notice is given to and including the date that is 30 days after the Relevant Event Put Event Notice is given (the **"Relevant Event Put Period"**), to the specified office of the Principal Paying Agent, evidence satisfactory to the Principal Paying Agent of such Holder's entitlement to such Note and a duly completed put option notice (a **"Relevant Event Put Option Notice"**) specifying the principal amount of the Notes in respect of which the Relevant Event Put Option is exercised, in the form obtainable from the Principal Paying Agent. The Principal Paying Agent will provide such Noteholder with a non-transferable receipt. On the Business Day following the end of the Relevant Event Put Period, the Principal Paying Agent shall notify in writing the Issuer of the exercise of the Relevant Event Put Option specifying the aggregate principal amount of the Notes to be redeemed in accordance with the Relevant Event Put Option. Provided that the Notes that are the subject of any such Relevant Event Put Option Notice have been delivered to the Principal Paying Agent prior to the expiry of the Relevant Event Put Period, then the Issuer shall redeem all such Notes on the date falling ten Business Days after the expiration of the Relevant Event Put Period (the **"Relevant Event Put Settlement Date"**). No Relevant Event Put Option Notice, once delivered in accordance with this Condition 6.3, may be withdrawn.

- 6.3.3 The Issuer will not be required to issue a Relevant Event Put Event Notice following a Relevant Event if (i) a third party makes an offer in substantially similar terms to the provisions of this Condition 6.3 in the manner, at the times and otherwise in compliance with the requirements set forth in this Condition 6.3 and purchases all Notes validly tendered and not withdrawn thereunder or (ii) a notice of redemption has been given pursuant to the Trust Deed as described in Condition 6.4, unless and until there is a default in payment of the applicable redemption price.

In the event Holders of not less than 90 per cent. of the aggregate principal amount of the outstanding Notes exercises the Relevant Put Event Option and the Issuer redeems or purchases all the Notes held by such Holders, within 90 days of such purchase, the Issuer will have the right, upon not less than 10 days and not more than 60 days prior notice, to redeem all the Notes that remain outstanding following such redemption or purchase at 101 per cent. of their principal amount (subject to the right of Holders of record on the relevant Record Date to receive interest on the relevant interest payment date occurring on or prior to the redemption date).

- 6.3.4 To the extent that the provisions of any securities laws or regulations conflict with the provisions of this Condition 6.3, the Issuer will comply with the applicable securities laws and regulations and shall not be deemed to have breached the obligations contained in this Condition 6.3 by virtue of its compliance with such securities laws or regulations.

6.4 Optional Redemption at Make Whole and Maturity Par Call

6.4.1 At any time, upon not less than 30 nor more than 60 days' notice, the Issuer may redeem all, but not part, of the Notes at a redemption price equal to 100 per cent. of the principal amount thereof plus the Applicable Redemption Premium and accrued and unpaid interest to (but excluding) the redemption date specified in such notice.

6.4.2 At any time on or after three months prior to 14 November 2022, on giving not more than 60 nor fewer than 30 days' irrevocable notice to Noteholders, the Issuer may redeem all, but not part, of the Notes at a redemption price equal to 100 per cent. of the principal amount thereof plus accrued and unpaid interest to (but excluding) the redemption date specified in such notice.

6.5 Purchase

The Issuer, each Guarantor and any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise at any price.

6.6 Cancellation

All Notes redeemed or purchased pursuant to this Condition 6 (other than Condition 6.5) shall be cancelled forthwith, and may not be held or resold. Any Notes purchased pursuant to Condition 6.5 may be either cancelled forthwith or held or resold. Any Notes cancelled pursuant to this Condition 6.6 may not be reissued.

7 Payments

7.1 Principal and other amounts

Payment of principal and interest in respect of the Notes will be made to the persons shown in the Register at the close of business on the Record Date (as defined below). Payments of all amounts other than as provided in this Condition 7.1 will be made as provided in these Conditions.

7.2 Payments

Each payment in respect of the Notes pursuant to Condition 7.1 will be made by transfer to a US dollar account maintained by or on behalf of the payee with a bank in London. Payment instructions (for value on the due date or, if that is not a business day (as defined below), for value the first following day which is a business day) will be initiated on the business day preceding the due date for payment (for value the next business day).

7.3 Payments subject to laws

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment or other laws to which the Issuer or its Agents agree to be subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

7.4 Payments on business days

If the due date for any payment of principal or interest under this Condition 7 is not a business day, the Holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition 7 only, "**business day**" means any day on which banks are open for business in the place of the specified office of the relevant Paying Agent and, in the case of payment by transfer to a US Dollar account as referred to in Condition 7.2, on which dealings in foreign currencies may be carried on both in London and in such other place.

7.5 Record date

“Record Date” means the fifteenth business day, in the place of the specified office of the Registrar, before the due date for the relevant payment.

7.6 Agents

The initial Agents and their initial specified offices are listed below. The Issuer reserves the right to vary or terminate the appointment of all or any of the Paying Agents at any time and appoint additional or other payment or transfer agents, in each case, with the prior written approval of the Trustee (such approval not to be unreasonably withheld), provided that it will maintain (i) a Principal Paying Agent and a Registrar and (ii) a Paying Agent and a Transfer Agent having specified offices in London or at least one major European city. Notice of any such change will be provided to Noteholders as described in Condition 16.

8 Taxation

All payments of principal and interest in respect of the Notes by or on behalf of the Issuer or under the Guarantees by the Guarantors shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by Jersey or the Russian Federation or the United States or the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer or (as the case may be) the relevant Guarantor shall increase the relevant payment so as to result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note presented for payment:

- (a) held by or on behalf of a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or the Guarantees by reason of its having some connection with Jersey or (as the case may be) the Russian Federation or the United States or the United Kingdom other than the mere holding of such Note or the benefit of the Guarantees; or
- (b) where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts if it had surrendered the relevant Definitive Note on the last day of such period of 30 days; or
- (c) where such withholding or deduction is imposed pursuant to: (i) sections 1471-1474 of the United States Internal Revenue Code of 1986, as amended, or any associated regulations or other official guidance, (ii) any treaty, law, regulation or other official guidance enacted in any other jurisdiction, or relating to any intergovernmental agreement between the United States and any other jurisdiction, which (in either case) facilitates the implementation of (i) above; or
- (d) where such withholding or deduction is imposed by reason of failure by a Noteholder to comply with a request made by the Issuer and notified to the Noteholder in accordance with Condition 16 with reasonable notice (at least 30 days before any such withholding is payable) to make a declaration of non-residence or other claim for exemption to the relevant tax authority, which declaration or claim is required by law in the relevant jurisdiction; or
- (e) any combination of sub-Conditions (a) through (d) above.

In these Conditions, **“Relevant Date”** means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received by or for the account of the Principal Paying Agent or the Trustee on or prior to such due date,

the date on which (the full amount having been so received) notice to that effect has been given by the Issuer to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed.

If the Issuer or any Guarantor is or becomes subject at any time to any taxing jurisdiction other than (or in addition to) Jersey or the Russian Federation or the United States or the United Kingdom, respectively, references in these Conditions to Jersey or the Russian Federation or the United States or the United Kingdom shall be construed as references to Jersey or (as the case may be) the Russian Federation or the United Kingdom and/or such other jurisdiction.

9 Events of Default

The Trustee at its discretion may, and if so requested in writing by the Holders of not less than one-quarter of the principal amount of the Notes then outstanding shall (subject in each case to its being indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer that the Notes are immediately due and repayable at their principal amount together with accrued interest if any of the following events occurs and is continuing (each an “**Event of Default**”):

- (a) the Issuer or any of the Guarantors fails to pay the principal of or any interest on any of the Notes or under a Guarantee when due (whether at its stated maturity, on optional redemption, on required purchase, on declaration of acceleration or otherwise) and such failure continues for a period of 14 days in the case of interest and 7 days in the case of principal;
- (b) the Issuer or any of the Guarantors, as the case may be, defaults in the performance or observance of any of their respective other obligations under the Notes, the Trust Deed or the Deed of Guarantee, as the case may be, and except where such default is not, in the opinion of the Trustee, capable of remedy, such default, in the opinion of the Trustee, remains unremedied for 30 calendar days (or such longer period as the Trustee may permit) after written notice thereof, addressed to the Issuer or the relevant Guarantor, as the case may be, has been delivered by or on behalf of the Trustee to the Issuer or such Guarantor, as the case may be;
- (c) (i) any Indebtedness of the Issuer, any Guarantor or any Material Subsidiary is not paid when due or payable (as the case may be) within any applicable grace period; or (ii) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer, a Guarantor or (as the case may be) such Material Subsidiary or (provided that no event of default, howsoever described, has occurred) any Person entitled to such Indebtedness; provided that the amount of Indebtedness referred to in (i) and/or (ii) above individually or in the aggregate exceeds US\$25 million (or its US Dollar Equivalent);
- (d) the amount of final (non-interim) unsatisfied judgments, decrees or orders of courts or dispute resolution bodies of competent jurisdiction for the payment of money against the Issuer, any Guarantor or any Material Subsidiary in the aggregate at any given moment of time exceeds US\$25 million or its US Dollar Equivalent unless such judgment, decree or order is appealed, reversed, discharged or stayed within a period of 60 calendar days of the imposition thereof;
- (e) the Issuer, any Guarantor or any Material Subsidiary is unable or admits inability to pay its debts generally as they fall due, generally suspends making payments on its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with its creditors generally with a view to rescheduling its Indebtedness; and/or a moratorium is

declared in respect of the Indebtedness of the Issuer, any Guarantor or any Material Subsidiary;

- (f) the occurrence of any of the following events, other than in each case a transaction that complies with Condition 4.8:
- (i) the Issuer, any Guarantor or any Material Subsidiary ceases to have corporate existence or is seeking or consenting to (or an effective decision is made by any court of competent jurisdiction, any competent arbitration court or any competent governmental agency for) the introduction of proceedings for its winding up, liquidation or dissolution or the appointment of a liquidator or liquidation commission (*likvidatsionnaya komissiya*) or a similar officer of the Issuer, any Guarantor or any Material Subsidiary, as the case may be;
 - (ii) the presentation or filing of a petition in respect of any of the Issuer, any Guarantor or any Material Subsidiary in any court of competent jurisdiction, any competent arbitration court or before any competent agency alleging, or for, the bankruptcy, winding-up, insolvency, dissolution, administration, examination, reorganisation (other than any corporate reorganisation on a solvent basis) or liquidation (or any analogous proceedings) including in the case of any entity in the Russian Federation the institution of supervision (*nablyudeniye*), financial rehabilitation (*finansovoye otdorovleniye*), external management (*vneshneye upravleniye*) or bankruptcy management (*konkursnoye proizvodstvo* as such terms are defined in the Federal Law of the Russian Federation No. 127-FZ "On Insolvency (Bankruptcy)" dated 26 October 2002 (as amended or replaced from time to time) (the "**Insolvency Law**")), of any of the Issuer, any Guarantor or any Material Subsidiary, other than any petition (presented or filed by a person that is not the Issuer, any Guarantor or any Material Subsidiary) which is not accepted by such competent court or competent agency for review on its merits or is accepted, but is otherwise discharged, stayed or dismissed within 14 days of commencement;
 - (iii) the institution, in respect of any of the Issuer, any Guarantor or any Material Subsidiary, of composition with creditors, reprieve from payment, compromise, assignment, arrangement, controlled management, fraudulent conveyance, general settlement with creditors, examination, reorganisation or similar process affecting the rights of creditors generally (other than any corporate reorganisation on a solvent basis) which, in the case of any entity in the Russian Federation and without limitation, shall include the implementation of measures for the prevention of its bankruptcy, including implementation of recovery (*sanatsiya*, as defined in the Insolvency Law) or entry into an amicable settlement (including *mirovoye soglasheniye*, as defined in the Insolvency Law) with its creditors generally; or
 - (iv) any extra-judicial liquidation or analogous act in respect of the Issuer, any Guarantor or any Material Subsidiary;
- (g) any Guarantee is finally held in any judicial proceeding to be unenforceable or invalid or ceases to be in full force and effect (other than in accordance with, the terms of such Guarantee) or any Guarantor denies, disaffirms, repudiates (or purports to repudiate) its obligations under its Guarantee, provided such judgment, decree or order is not appealed, reversed, discharged or stayed within a period of 60 calendar days of the imposition thereof;
- (h) it is or will become unlawful for the Issuer or any Guarantor to perform or comply with any one or more of its obligations under any of the Notes, the Guarantees or the Trust Deed provided, however, that the Issuer or relevant Guarantor has not rectified such non-performance or non-compliance within 60 calendar days of performance or compliance becoming unlawful;

- (i) any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer or a Guarantor lawfully to enter into, perform and comply with its obligations under and in respect of the Notes, the Trust Deed or the Deed of Guarantee, as the case may be, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Notes, the Trust Deed and the Deed of Guarantee admissible in evidence in an arbitration court in London, is not taken, fulfilled or done and such circumstance continues for a period of more than 60 calendar days;
- (j) any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation, condemnation, or nationalisation of all or substantially all of the property, undertaking, assets and revenues of the Issuer or any Guarantor; and the Issuer or any Guarantor is prevented by any such person from exercising normal control over the whole or substantially all of, its property, undertaking, assets and revenues;
- (k) if the Parent ceases to hold a direct or indirect participation of at least 51 per cent. in the share capital of any of the Guarantors from time to time; or
- (l) any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs,

provided that, with respect to any circumstance specified in Conditions 9(g), 9(h) and 9(i) in relation to the Guarantors and Guarantees (as applicable) only, there shall be no Event of Default if, on the date which is 60 days after the occurrence of such circumstance, the Parent otherwise would be in compliance with Condition 4.13 hereof, tested by reference to the circumstances existing on such date (and for the purpose of such test, excluding any assets or EBITDA attributable to each Guarantor which is the subject of such circumstance). For the avoidance of doubt, to the extent that the Parent is required to appoint any additional Subsidiary of the Parent as a Guarantor in order to be in compliance with Condition 4.13, it will comply with the conditions specified in Conditions 4.13.

10 Prescription

Claims for the payment of principal and interest in respect of any Note shall be prescribed unless made within 10 years (for claims for the payment of principal) or five years (for claims for the payment of interest) of the appropriate Relevant Date.

11 Replacement of Definitive Notes

If any Definitive Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Registrar may reasonably require. Mutilated or defaced Definitive Notes must be surrendered before replacements will be issued.

12 Meetings of Noteholders, Modification and Waiver

12.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such meetings shall be held in accordance with the provisions set out in the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (i) to modify the

maturity of the Notes or the dates on which interest is payable in respect of the Notes, (ii) to reduce or cancel the principal amount of, or interest on, the Notes, (iii) to alter the method of calculating the amount of any payment in respect of the Notes, (iv) to change the currency of payment of the Notes, (v) to modify the provisions in Schedule 3 of the Trust Deed concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, (vi) to modify or cancel the Guarantees, (vii) to sanction the exchange or substitution for the Notes of, or the conversion of the Notes into, shares, bonds or other obligations or securities of the Issuer, the Guarantors or any other entity, or (viii) amending the proviso to paragraph 2 to Schedule 4 of the Trust Deed, in which case the necessary quorum will be one or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed). A written resolution signed by or on behalf of the Holders of not less than 75 per cent. of the aggregate principal amount of Notes outstanding shall be as valid and effective as a duly passed Extraordinary Resolution.

12.2 Modification and Waiver

The Trustee may agree with the Issuer and the Guarantors, without the consent of the Noteholders, to (i) any modification of any of the provisions of the Trust Deed, the Deed of Guarantee or the Notes which is, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach of any of the provisions of the Notes or the Trust Deed or the Deed of Guarantee, which is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and, if the Trustee so requires, shall be notified to the Noteholders as soon as practicable.

12.3 Substitution

The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the substitution of certain other entities in place of the Issuer or a Guarantor, or of any previous substituted company, as principal debtor or guarantor under the Trust Deed and the Notes or the Deed of Guarantee. In the case of such a substitution the Trustee may agree, without the consent of the Noteholders, to a change of the law governing the Notes and/or the Trust Deed and/or the Deed of Guarantee provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

12.4 Entitlement of the Trustee

In connection with the exercise of its functions (including but not limited to those referred to in these Conditions) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Guarantors, the Trustee or any other Person, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders.

13 Enforcement

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such actions, steps or proceedings against the Issuer and/or any Guarantor as it may think fit to enforce the rights of the Noteholders and the terms of the Trust Deed, the Notes and/or the Deed of Guarantee, but it need not take any such proceedings and nor shall the Trustee be bound to take, or omit to take any step or action (including instituting such proceedings) unless (a) it shall have been so requested by an Extraordinary Resolution of Noteholders or in writing by Noteholders holding at least one-quarter in principal amount of the Notes outstanding and (b) it shall have been indemnified and/or secured and/or prefunded to its

satisfaction. No Noteholder may proceed directly against the Issuer or any Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

14 Indemnification and Removal of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer, each Guarantor and any entity related to the Issuer or each Guarantor without accounting for any profit. The Trustee may rely without liability to Noteholders on any certification, advice, opinion or report provided by the Auditors, legal counsel or any other legal, financial or other professional expert pursuant to the Trust Deed, whether or not addressed to the Trustee and whether or not the Auditors', legal counsel's or other legal, financial or professional expert's liability in respect thereof is limited by a monetary cap or otherwise. The Trust Deed provides that the Noteholders shall together have the power to remove the Trustee (or any successor trustee or additional trustees) in certain circumstances provided that the removal of the Trustee or any other trustee shall not become effective unless there remains a Trustee in office after such removal.

15 Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) and so that such further issue shall be consolidated and form a single series with the outstanding Notes. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any such other securities shall be constituted by a deed supplemental to the Trust Deed and will benefit from guarantees substantially in the form of the Deed of Guarantee given in respect of these Notes.

16 Notices

Notices to the Noteholders shall be valid if sent to them by first class mail (airmail if overseas) at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, so long as the Notes are listed on the Stock Exchange, notices to the Noteholders shall be valid if sent to them by any means permitted by the rules and guidelines of that exchange. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

17 Currency Indemnity

If any sum due from the Issuer in respect of the Notes or the Trust Deed or from the Guarantors under the Deed of Guarantee or any order or judgment given or made in relation thereto has to be converted from the currency (the **"first currency"**) in which the same is payable under these Conditions or the Deed of Guarantee or such order or judgment into another currency (the **"second currency"**) for the purpose of (a) making or filing a claim or proof against the Issuer or any Guarantor, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes or the Deed of Guarantee, the Issuer, failing whom the Guarantors jointly and severally, shall indemnify each recipient, on the written demand of such recipient addressed to the Issuer and the Guarantors and delivered to the Issuer and the Guarantors or to the specified office of the Registrar, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such recipient may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer or, as the case may be, the Guarantors and shall give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by any Noteholder or any other person and will

continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under the Trust Deed, the Deed of Guarantee and/or the Notes or any other judgment or order.

18 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

19 Governing Law

The Trust Deed, the Notes, the Deed of Guarantee and these Conditions and any non-contractual obligations arising out of or in connection therewith shall be governed by, and construed in accordance with, English law.

20 Definitions

In these Conditions the following terms have the meaning given to them in this Condition 20.

“Additional Assets” means:

- (a) any property, plant or equipment used in a Core Business;
- (b) the Capital Stock of a Person that becomes a Subsidiary of the Parent as a result of the acquisition of such Capital Stock by the Parent or another Subsidiary of the Parent; or
- (c) Capital Stock constituting a minority interest in any Person that at such time is a Subsidiary of the Parent;

provided, however, that any such Subsidiary of the Parent described in paragraph (b) or (c) above is primarily engaged in a Core Business.

“Affiliate” of any specified Person means (i) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person or (ii) any other Person who is a director or officer (a) of such specified Person, (b) of any Subsidiary of such specified Person or (c) of any Person described in (i) above. For the purposes of this definition, **“control”** when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms **“controlling”** and **“controlled”** have meanings correlative to the foregoing.

“Applicable Redemption Premium” means the sum of the present values of the principal amount outstanding of the Notes to be redeemed and the aggregate amount of scheduled payment(s) of interest on such Notes for the remaining term of such Notes determined on the basis of the rate of interest applicable to such Notes from and including the date on which such Notes are to be redeemed (exclusive of interest accrued to the date of redemption), calculated by discounting such amounts to the date of redemption on an annual basis (assuming a 360-day year consisting of twelve 30-day months or, in the case of an incomplete month, the number of days elapsed) at the rate per annum equal to the annual or semi-annual yield (as the case may be) to maturity or interpolated yield to maturity (on the relevant day count basis) of a US government security having an actual or interpolated maturity comparable with the remaining term of the Notes, that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities denominated in US dollars, assuming a price for such US government security (expressed as a percentage of its nominal amount) equal to the arithmetic average of the bid and offered prices for such US government security (expressed in each case as a percentage of its nominal amount) quoted by the two banks selected by the Issuer, or their affiliates, which are (A) primary government securities dealers or (B) market makers in pricing corporate bond issues for such date of redemption, plus 50 basis points.

“Approved Jurisdiction” means any state which was a member of the European Union as at 1 January 2004, Jersey, Hong Kong, the Russian Federation, the United Kingdom, any member country of the European Economic Area, Switzerland, Canada, the United States, any state thereof or the District of Columbia.

“Asset Disposition” means any sale, lease, transfer or other disposition (or series of related sales, leases, transfers or dispositions) by the Parent or any Subsidiary of the Parent, including any disposition by means of a merger, consolidation or similar transaction (each referred to for the purposes of this definition as a **“disposition”**), of:

- (a) any Capital Stock of a Subsidiary of the Parent (other than directors’ or employee qualifying shares or shares required by applicable law to be held by a Person other than the Parent or a Subsidiary of the Parent);
- (b) all or substantially all the assets of any division or line of business of the Parent or any Subsidiary of the Parent; or
- (c) any other assets of the Parent or any Subsidiary of the Parent outside of the ordinary course of business of the Parent or such Subsidiary of the Parent,

other than,

- A. a disposition by a Subsidiary of the Parent to the Parent or by the Parent or a Subsidiary of the Parent to a Subsidiary of the Parent;
- B. for the purposes of Condition 4.4 only, (i) a disposition that constitutes a Permitted Investment or a Restricted Payment (or would constitute a Restricted Payment but for the exclusions from the definition thereof) and that is not prohibited by Condition 4.2 and (ii) a disposition of all or substantially all of the Capital Stock or assets of a Guarantor in accordance with Condition 4.8;
- C. a disposition of assets in a single transaction or a series of related transactions with a Fair Market Value not exceeding US\$10 million in any 12 month period to any Person that is not a member of the Group;
- D. a disposition of cash or Temporary Cash Investments;
- E. the creation of a Lien (but not the sale or other disposition of the property subject to such Lien).
- F. the licensing or sublicensing of rights to intellectual property or other intangibles in the ordinary course of business;
- G. any disposition constituting or resulting from the enforcement of a Lien Incurred in compliance with Condition 4.6;
- H. the sale, lease or other disposition of obsolete, worn out, negligible, surplus or outdated equipment or machinery or inventory in the ordinary course of a Core Business;
- I. the lease, assignment or sublease of any real or personal property in the ordinary course of the business;
- J. sales or other dispositions of assets or property received by the Parent or any Subsidiary of the Parent upon the foreclosure on a Lien granted in favour of the Parent or any Subsidiary of the Parent or any other transfer of title with respect to any ordinary course secured investment in default; and

- K. the surrender or waiver of contract rights or the settlement, release, or surrender of contract, tort or other claims, in the ordinary course of the business.

“Authorised Signatory” means, (i) in relation to the Issuer, a director for the time being of the Issuer or any officer of the Issuer who is authorised to bind the Issuer by virtue of the Issuer’s constitutive documents or any person who is authorised under a power of attorney executed by such an officer on behalf of the Issuer and, (ii) in relation to the Parent, a member of the Board of Directors or any officer of the Parent who is authorised to bind the Parent by virtue of the Parent’s constitutive documents or any person who is authorised under a power of attorney executed by such an officer on behalf of the Parent and (iii) in relation to any other Guarantor, a director for the time being of such Guarantor or any officer of such Guarantor who is authorised to bind such Guarantor by virtue of such Guarantor’s constitutive documents or any person who is authorised under a power of attorney executed by such an officer on behalf of such Guarantor.

“Average Life” means, as of the date of determination, with respect to any Indebtedness, the quotient obtained by dividing (a) the sum of the products of the numbers of years from the date of determination to the dates of each successive scheduled principal payment of, or redemption or similar payment with respect to, such Indebtedness multiplied by the amount of such payment by (b) the sum of all such payments.

“Board of Directors” means the Board of Directors of the Parent or any committee thereof duly authorised to act on behalf of such Board of Directors.

“Business Day” means, other than for the purposes of Condition 7, a day on which, if on that day a payment is to be made hereunder, commercial banks generally are open for business in Jersey, London, New York and Moscow, and in the city where the specified office (as defined in the Agency Agreement) of the Principal Paying Agent is located.

“Capital Lease Obligation” means an obligation that is required to be classified and accounted for as a capital lease for financial reporting purposes in accordance with IFRS, and the amount of Indebtedness represented by such obligation shall be the capitalised amount of such obligation determined in accordance with IFRS; and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty. For purposes of Condition 4.6, a Capital Lease Obligation will be deemed to be secured by a Lien on the property being leased.

“Capital Stock” of any Person means any and all shares, interests (including partnership interests), rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity.

“Commodity Agreement” means any hedging contract, swap agreement or other similar agreement with respect to commodity values.

“Consolidated Indebtedness” means at any date of determination (and without duplication) all consolidated Indebtedness of the Parent and its consolidated Subsidiaries as calculated in accordance with the then most recently published consolidated financial statements of the Parent prepared in accordance with IFRS.

For the avoidance of doubt, for the financial year as at and for the year ended 31 December 2016 and as at and for the six months ended 30 June 2017 the guarantee given by the Group in favour of the Industrial and Commercial Bank of China Ltd pursuant to the ICBC Facility and guarantee in respect of Investment agreement with the Russian Ministry of Far East Development was not recorded in the published consolidated financial statements of the Parent prepared in accordance with IFRS as indebtedness and accordingly would not fall within this definition on the basis of such financial statements.

“Consolidated Net Indebtedness” of the Parent and its consolidated Subsidiaries means, at any date of determination, Consolidated Indebtedness less cash and Temporary Cash Investments of the Parent and its consolidated Subsidiaries, without giving effect on a pro forma basis to cash and Temporary Cash Investments representing the proceeds of any Indebtedness proposed to be Incurred pursuant to the Incurrence of Indebtedness giving rise to the need to calculate Consolidated Net Indebtedness.

“Consolidated Net Leverage Ratio” as of any date of determination, means the ratio of (x) the Consolidated Net Indebtedness outstanding on such date to (y) the aggregate amount of EBITDA for the most recent two consecutive semi-annual periods ending prior to the date of such determination for which financial statements are available (the **“Measurement Period”**), as determined in good faith by a responsible financial or accounting Officer of the Parent, whose determination will be conclusive (in the absence of manifest error); provided, however, that:

- (a) if the Parent or any Subsidiary of the Parent has Incurred any Indebtedness (which for the avoidance of doubt, excludes any intercompany Indebtedness within the Group) since the beginning of the relevant Measurement Period that remains outstanding on such date of determination or if the transaction giving rise to the need to calculate the Consolidated Net Leverage Ratio is an Incurrence of Indebtedness, or both, Consolidated Net Indebtedness at the end of such Measurement Period and EBITDA for such Measurement Period shall be calculated after giving effect on a pro forma basis to such Consolidated Net Indebtedness and the use of proceeds therefrom as if such Indebtedness had been Incurred on the first day of the relevant Measurement Period;
- (b) if the Parent or any Subsidiary of the Parent has repaid, repurchased, defeased or otherwise discharged any Indebtedness since the beginning of the relevant Measurement Period or if any Indebtedness is to be repaid, repurchased, defeased or otherwise discharged (in each case other than Indebtedness Incurred under any revolving credit facility unless such Indebtedness has been permanently repaid and has not been replaced) on the date of the transaction giving rise to the need to calculate the Consolidated Net Leverage Ratio, the Consolidated Net Leverage Ratio shall be calculated on a pro forma basis as if such discharge had occurred on the first day of the relevant Measurement Period and as if the Parent or such Subsidiary had not earned the interest income actually earned during such period in respect of cash or Temporary Cash Investments used to repay, repurchase, defease or otherwise discharge such Indebtedness;
- (c) if since the beginning of the relevant Measurement Period the Parent or any Subsidiary of the Parent shall have made any Asset Disposition, Consolidated Net Indebtedness at the end of such Measurement Period shall be reduced by an amount equal to the Indebtedness discharged, defeased or retired with the Net Cash Proceeds of such Asset Disposition and the assumption of Indebtedness by the transferee and EBITDA for such Measurement Period shall be reduced by an amount equal to EBITDA (if positive) directly attributable to the assets which are the subject of such Asset Disposition for such Measurement Period, or increased by an amount equal to EBITDA (if negative), directly attributable thereto for such Measurement Period, in each case as if such Asset Disposition had occurred on the first day of such Measurement Period;
- (d) if since the beginning of the relevant Measurement Period the Parent or any Subsidiary of the Parent (by merger or otherwise) shall have made an Investment in any Subsidiary of the Parent (or any Person which becomes a Subsidiary of the Parent) or an acquisition of assets, including any acquisition of assets occurring in connection with a transaction requiring a calculation to be made hereunder, which constitutes all or substantially all of an operating unit of a business, Consolidated Net Indebtedness at the end of such Measurement Period and EBITDA for such Measurement Period shall be calculated after giving pro forma effect thereto (including the Incurrence of any Indebtedness) as if such Investment or acquisition had occurred on the first day of such Measurement Period; and

- (e) if since the beginning of the relevant Measurement Period any Person (that subsequently became a Subsidiary of the Parent or was merged with or into the Parent or any Subsidiary of the Parent since the beginning of such period) shall have made any Asset Disposition, any Investment or acquisition of assets that would have required an adjustment pursuant to paragraphs (c) or (d) above if made by the Parent or a Subsidiary of the Parent during such period, the Consolidated Net Leverage Ratio at the end of such Measurement Period shall be calculated after giving pro forma effect thereto as if such Asset Disposition, Investment or acquisition had occurred on the first day of such Measurement Period.

For the purposes of this definition, whenever pro forma effect is to be given to an acquisition of assets and the amount of income or earnings relating thereto, the *pro forma* calculations shall be determined in good faith by a responsible financial or accounting officer of the Parent, whose determination will be conclusive (in the absence of manifest error).

“Consolidated Net Income” means, for any period, the Net Income of the Parent and its consolidated Subsidiaries; provided, however, that there shall not be included in such Consolidated Net Income:

- (a) any net after-tax effect of gains or losses relating to the fair value change of financial instruments carried at fair value through the profit or loss account pursuant to IFRS;
- (b) any net after-tax effect of gains or losses relating to deferred taxation;
- (c) any net after-tax effect of non-cash gains or losses relating to foreign exchange;
- (d) the cumulative effect of a change in accounting principles after the Issue Date;
- (e) any after-tax effect of extraordinary, non-recurring, non-operating or unusual gains, losses, income or expenses or charges (including all fees and expenses relating thereto), severance, relocation costs, consolidation and closing costs, integration costs, non-recurring and unusual expenses relating to opening, expansion, relocation, remodeling, or modernization of fixed assets, plant or facility costs or losses, business optimization costs, transition costs, restructuring costs, signing, retention or completion bonuses and curtailments;
- (f) any net after-tax effect of income or loss from disposed, abandoned, transferred, closed or discontinued operations or fixed assets and any net after-tax gains or losses on disposal of disposed, abandoned, transferred, closed or discontinued operations or fixed assets shall be excluded;
- (g) any net after-tax effect of gains or losses (including all fees and expenses relating thereto) attributable to business dispositions or asset dispositions or the sale or other disposition of any Capital Stock of any Person other than in the ordinary course of business, as determined in good faith by the Parent;
- (h) the Parent's or the Subsidiary of the Parent's share of the net income for such period of any Person that is not a Subsidiary of the Parent, or that is accounted for by the equity method of accounting (other than a Guarantor); provided that Consolidated Net Income shall be increased by the amount of dividends or distributions or other payments that are actually paid in cash (or to the extent converted into cash) to the referent Person or a Subsidiary thereof in respect of such period;
- (i) any net after-tax income (loss) from any acquisition, write-off, forgiveness or the early extinguishment of (i) Indebtedness, (ii) Hedging Obligations or (iii) other derivative instruments (including deferred financing costs written off and premiums paid);
- (j) any impairment charge or expense, asset write-off or write-down, including impairment charges or asset write-offs or write-downs related to intangible assets, long-lived assets or investments in debt and equity securities or as a result of a change in law or regulations,

in each case, pursuant to IFRS and the amortization of intangibles arising pursuant to IFRS;

- (k) any deductions attributable to minority interests (other than to the extent of dividends declared or paid during the relevant or prior period);
- (l) any net unrealized gain or loss (after any offset) resulting in such period from Hedging Obligations and the application of IFRS standards related thereto; and
- (m) any net unrealized gain or loss (after any offset) resulting in such period from currency translation or other non-cash gains or losses related to currency remeasurements of Indebtedness (including any net loss or gain resulting from hedge agreements for currency exchange risk);

in each case, for such period. Notwithstanding the foregoing, for the purposes of Condition 4.2 only, there shall be excluded from Consolidated Net Income any repurchases, repayments or redemptions of Investments, proceeds realised on the sale of Investments or return of capital to the Parent or a Subsidiary of the Parent to the extent such repurchases, repayments, redemptions, proceeds or returns increase the amount of Restricted Payments permitted under Condition 4.2.1(iii)(d).

“Consolidated Total Assets” means at any date of determination the total assets of the Parent and its consolidated Subsidiaries as shown in the most recently available balance sheet of the Parent prepared in accordance with IFRS.

“Convertible Bonds” means the U.S.\$100,000,000 9% guaranteed convertible bonds due 2020 issued by Petropavlovsk 2010 Limited.

“Core Business” means any business of the type in which the Parent or any Subsidiary of the Parent was engaged on the Issue Date and any business ancillary or complementary to such business.

“Currency Agreement” means any foreign exchange contract, currency swap agreement or other similar agreement with respect to currency values.

“Default” means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, could constitute an Event of Default.

“Disqualified Stock” means, with respect to any Person, any Capital Stock which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder) or upon the happening of any event:

- (a) matures or is mandatorily redeemable (other than redeemable only for Capital Stock of such Person which is not itself Disqualified Stock) pursuant to a sinking fund obligation or otherwise;
- (b) is convertible or exchangeable at the option of the holder for Indebtedness or Disqualified Stock; or
- (c) is mandatorily redeemable or must be purchased upon the occurrence of certain events or otherwise, in whole or in part;

in each case on or prior to the first anniversary of the Stated Maturity of the Notes; provided, however, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to purchase or redeem such

Capital Stock upon the occurrence of an Asset Disposition or Relevant Event occurring prior to the first anniversary of the Stated Maturity of the Notes shall not constitute Disqualified Stock if:

- A. the Asset Disposition or Relevant Event provisions applicable to such Capital Stock are not more favourable to the holders of such Capital Stock than the terms applicable to the Notes and described under Condition 4.4 and Condition 6.3; and
- B. any such requirement only becomes operative after compliance with such terms applicable to the Notes, including the purchase of any Notes tendered pursuant thereto.

The amount of any Disqualified Stock that does not have a fixed redemption, repayment or repurchase price will be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were redeemed, repaid or repurchased on any date on which the amount of such Disqualified Stock is to be determined pursuant to these Conditions; provided, however, that if such Disqualified Stock could not be required to be redeemed, repaid or repurchased at the time of such determination, the redemption, repayment or repurchase price will be the book value of such Disqualified Stock as reflected in the most recent financial statements of such Person.

“**EBITDA**” for any period means profit/loss before taxation, as adjusted by the following to the extent included or deducted, as the case may be, in calculating profit/loss before taxation:

- (a) adding back interest expense;
- (b) excluding investment income;
- (c) excluding any changes in the fair value of derivative financial instruments;
- (d) adding back other finance losses;
- (e) excluding other finance gains;
- (f) adding back foreign exchange losses;
- (g) excluding foreign exchange gains;
- (h) adding back depreciation, amortisation and impairment;
- (i) excluding impairment reversals;
- (j) excluding the Group’s share of the type referred in paragraphs (a) to (i) above of joint ventures or associates accounted for using the equity method; and
- (k) taking no account of any other non-monetary items,

in each case, as such amount is calculated as presented in the most recently published consolidated financial statements of the Parent prepared in accordance with IFRS.

“**Exchange Act**” means the US Securities Exchange Act of 1934, as amended.

“**Fair Market Value**” means, with respect to any asset or property, the price which could be negotiated in an arm’s length, free market transaction, between a willing seller and a willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction. Fair Market Value will, in relation to any transaction or series of related transactions with an aggregate value in excess of US\$10 million be determined in good faith by a majority of the Board of Directors of the Parent disinterested with respect to such transaction (or, in the event that there is only one disinterested director, by the resolution of such disinterested director or, in the event that there are no disinterested directors, by unanimous resolution of the entire Board

of Directors) of the Parent or the relevant Subsidiary, whose determination will be conclusive (evidenced by a resolution of the Board of Directors). If such transaction involves an amount in excess of US\$50 million, the Board of Directors shall also have received a written opinion from an Independent Qualified Party to the effect that such transaction is fair, from a financial standpoint, to the Parent and its Subsidiaries or is not less favourable to the Parent and its Subsidiaries than could reasonably be expected to be obtained at the time in an arm's length transaction with a Person who was not an Affiliate.

"Group" means the Parent and its consolidated Subsidiaries taken as a whole.

"guarantee" means any financial obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and any obligation, direct or indirect, contingent or otherwise, of such Person (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay or otherwise) or (b) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided, however, that the term **"guarantee"** will not include endorsements for collection or deposit in the ordinary course of business. The term **"guarantee"** used as a verb has a corresponding meaning.

"Hedging Obligations" of any Person means the obligations of such Person pursuant to any Commodity Agreement, Interest Rate Agreement or Currency Agreement.

"IFRS" means International Financial Reporting Standards (IFRS and IFRIC interpretation), which are in effect for the relevant accounting period.

"Incur" means issue, assume, guarantee, incur or otherwise become liable for; provided, however, that any Indebtedness of a Person existing at the time such Person becomes a Subsidiary of the Parent (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Person at the time it becomes a Subsidiary of the Parent. The term **"Incurrence"** when used as a noun shall have a correlative meaning. Solely for purposes of determining compliance with Condition 4.1:

- (a) amortisation of debt discount or the accretion of principal with respect to a non interest bearing or other discount security;
- (b) the payment of regularly scheduled interest in the form of additional Indebtedness of the same instrument or the payment of regularly scheduled dividends on Capital Stock in the form of additional Capital Stock of the same class and with the same terms; and
- (c) the obligation to pay a premium in respect of Indebtedness arising in connection with the issuance of a notice of redemption, the making of a mandatory offer to purchase such Indebtedness, any prepayment or repayment, or otherwise in accordance with the terms of such Indebtedness,

will not be deemed to be the Incurrence of Indebtedness.

"Indebtedness" means, with respect to any Person on any date of determination (without duplication):

- (a) indebtedness of such Person for money borrowed (the amount of which as determined in accordance with IFRS);
- (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments (the amount of which as determined in accordance with IFRS);

- (c) any principal amount raised under any other transaction having the economic or commercial effect of a borrowing (the amount of which as determined in accordance with IFRS); and
- (d) the amount of any liability in respect of the guarantee or indemnity for, or similar undertaking given in respect of, any of the items referred to above in relation to any Person.

Notwithstanding the foregoing, the term “**Indebtedness**” will exclude (i) trade payables and accrued liabilities incurred in the ordinary course of business and maturing in less than 150 days; (ii) advances received from customers; (iii) any tax liability, customs liability or tax payments; (iv) contingent obligations not relating to items of Indebtedness in sub-paragraphs (a) to (d) above; (iv) any amounts of liability in relation to derivative financial instruments embedded within the Senior Bank Debt or bonds existing on the Issue Date; (v) any intercompany Indebtedness within the Group; (vi) obligations with respect to letters of credit securing obligations entered into in the ordinary course of business of such Person to the extent such letters of credit are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than 45 days following receipt of a demand for reimbursement; and (vii) any counter-indemnity obligation in respect of a guarantee, indemnity, standby or documentary letter of credit or any other financial instrument issued by a bank or financial institution which arises in the ordinary course of business and that is discharged within three months after the relevant obligation crystallises.

“**Independent Qualified Party**” means an independent investment banking firm, accounting firm or appraisal firm of recognised international standing; provided, however, that such firm is not an Affiliate of the Parent.

“**Interest Rate Agreement**” means any interest rate swap agreement, interest rate cap agreement or other financial agreement or arrangement with respect to exposure to interest rates.

“**Investment**” in any Person means any direct or indirect advance, loan or other extensions of credit (including by way of guarantee or similar arrangement) (other than advances to customers, accounts receivable and trade creditors, all in the ordinary course of business that are recorded as accounts receivable on the balance sheet of the lender and travel and similar advances made to employees in the ordinary course of business) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by such Person. If the Parent or any Subsidiary of the Parent issues, sells or otherwise disposes of any Capital Stock of a Person that is a Subsidiary of the Parent such that, after giving effect thereto, such Person is no longer a Subsidiary of the Parent, any Investment by the Parent or any Subsidiary of the Parent in such Person remaining after giving effect thereto will be deemed to be a new Investment at such time. The acquisition by the Parent or any Subsidiary of the Parent of a Person that holds an Investment in a third Person will be deemed to be an Investment by the Parent or such Subsidiary in such third Person at such time. Except as otherwise provided for herein, the amount of an Investment shall be its Fair Market Value at the time the Investment is made and without giving effect to subsequent changes in value.

“**Issue Date**” means 14 November 2017.

“**Lien**” means any mortgage, pledge, encumbrance, lien, charge or other security interest (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction and any conditional sale or other title retention agreement in the nature thereof).

“**Material Subsidiary**” means any Subsidiary of the Parent which has total assets (if positive) or EBITDA (if positive) representing 10 per cent. or more of the Parent’s total assets or consolidated EBITDA, but, in each case, excluding IRC Limited and its subsidiaries. Compliance with the conditions set out in this definition shall be determined by reference to the latest financial information of that Subsidiary prepared in accordance with IFRS and the accounting policies of

the Parent for inclusion into the consolidated financial statements of the Parent and the latest audited IFRS consolidated financial statements of the Parent.

A certificate of two directors of the Parent that, in their opinion, a Subsidiary of the Parent, is or is not or was or was not at any particular time or throughout any specified period a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Issuer, the Guarantors, the Trustee and the Noteholders.

“Net Available Cash” from an Asset Disposition means cash payments received therefrom (including any cash payments received by way of deferred payment of principal pursuant to a note or instalment receivable or otherwise and proceeds from the sale or other disposition of any securities received as consideration, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring Person of Indebtedness or other obligations relating to such properties or assets or received in any other non-cash form), in each case net of:

- (a) all legal, title and recording tax expenses, commissions and other fees and expenses incurred, and all federal, state, provincial, foreign and local taxes paid or required to be accrued as a liability under IFRS, as a consequence of such Asset Disposition;
- (b) all payments made on any Indebtedness which is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon or other security agreement of any kind with respect to such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Disposition, or by applicable law, be repaid out of the proceeds from such Asset Disposition;
- (c) all distributions and other payments required to be made to minority interest holders in a Subsidiary of the Parent as a result of such Asset Disposition;
- (d) the deduction of appropriate amounts provided by the seller as a reserve, in accordance with IFRS, against any liabilities associated with the property or other assets disposed in such Asset Disposition and retained by the Parent or any Subsidiary of the Parent after such Asset Disposition; and
- (e) any portion of the purchase price from an Asset Disposition placed in escrow, whether as a reserve for adjustment of the purchase price, for satisfaction of indemnities in respect of such Asset Disposition or otherwise in connection with that Asset Disposition; provided, however, that upon the termination of that escrow, Net Available Cash will be increased by any portion of funds in the escrow that are released to the Parent or any Subsidiary of the Parent.

“Net Cash Proceeds” with respect to any issuance or sale of Capital Stock or Indebtedness, means the cash proceeds of such issuance or sale net of attorneys’ fees, accountants’ fees, underwriters’ or placement agents’ fees, discounts or commissions and brokerage, consultant and other fees actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

“Net Income” means net consolidated income (loss) of the Group determined in accordance with the consolidated financial statements of the Group prepared in accordance with IFRS.

“Officers’ Certificate” means, in the case of the Issuer, a certificate signed on behalf of the Issuer by two Authorised Signatories of the Issuer, in the case of the Parent, a certificate signed on behalf of the Parent by two Authorised Signatories of the Parent at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Parent or, in the case of any other Guarantor, a certificate signed by two Authorised Signatories of such Guarantor.

“Opinion of Counsel” means a written opinion from international legal counsel of recognised standing.

“Permitted Investment” means an Investment by the Parent or any Subsidiary of the Parent in:

- (a) the Parent, a Subsidiary of the Parent or a Person that will, upon the making of such Investment, become a Subsidiary of the Parent; provided, however, that the primary business of such Subsidiary of the Parent is the Core Business;
- (b) another Person if, as a result of such Investment, such other Person is merged or consolidated with or into, or transfers or conveys all or substantially all its assets to, the Parent or a Subsidiary of the Parent; provided, however, that such Person’s primary business is a Core Business;
- (c) cash and Temporary Cash Investments;
- (d) receivables owing to the Parent or any Subsidiary of the Parent if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; provided, however, that such trade terms may include such concessionary trade terms as the Parent or any such Subsidiary deems reasonable under the circumstances;
- (e) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;
- (f) loans, advances or guarantees of loans or advances to employees, directors and officers made in the ordinary course of business consistent with past practices of the Parent or such Subsidiary;
- (g) stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Parent or any Subsidiary of the Parent or in satisfaction of judgments or foreclosure of Liens;
- (h) any Person to the extent such Investment represents the non-cash portion of the consideration received for (i) an Asset Disposition as permitted pursuant to Condition 4.4 or (ii) a disposition of assets not constituting an Asset Disposition;
- (i) any Person where such Investment was acquired by the Parent or any of its Subsidiaries (i) in exchange for any other Investment or accounts receivable held by the Parent or any such Subsidiary in connection with or as a result of a bankruptcy, workout, reorganisation or recapitalisation of, or compromise with, the issuer of such other Investment or accounts receivable or (ii) as a result of a foreclosure by the Parent or any of its Subsidiaries with respect to any secured Investment or other transfer of title with respect to any secured Investment in default;
- (j) any Person to the extent such Investments consist of prepaid expenses, negotiable instruments held for collection and lease, utility and workers’ compensation, performance and other similar deposits (or guarantees in respect thereof) made in the ordinary course of business by the Parent or any Subsidiary of the Parent;
- (k) any Person to the extent such Investments consist of Hedging Obligations otherwise permitted under the covenant described under Condition 4.1;
- (l) any Person to the extent such Investment exists on the Issue Date, or is made pursuant to a binding commitment existing on the Issue Date, and any extension, modification, refinancing or renewal of any such Investments existing on the Issue Date, but only to the extent not involving additional advances, contributions or other Investments of cash or other assets or other increases thereof (other than as a result of the accrual or accretion of interest or original issue discount or the issuance of pay in kind securities, in each case, pursuant to the terms of such Investment as in effect on the Issue Date or required by the terms of such Investment as in effect on the Issue Date);

- (m) guarantees permitted to be Incurred under Condition 4.1;
- (n) any Person where such Investment was acquired by the Parent or any of its Subsidiaries solely in exchange for the Issuance of Capital Stock (other than Disqualified Stock) of the Parent;
- (o) any Investments in a Person which, when taken together with all other Investments made pursuant to this paragraph (o) and outstanding on the date such Investment is made, do not exceed 1.5 per cent. of consolidated total assets as derived from the latest consolidated IFRS accounts of the Parent;
- (p) the Convertible Bonds, the Notes or the Guarantees; and
- (q) Investments in an entity or joint venture engaged in the Core Business in an amount which, when taken together with all Investments made pursuant to this paragraph (q), does not exceed US\$25 million at any one time outstanding; provided, however, that at the time of each such Investment, no Default or Event of Default shall have occurred and be continuing (or result therefrom).

“Permitted Liens” means:

- (a) any Liens existing on the Issue Date or required to be provided as at the Issue Date, including in respect of the Senior Bank Debt;
- (b) any Lien granted by the Parent or any Subsidiary of the Parent in favour of the Parent or another Subsidiary of the Parent;
- (c) Liens incurred, or pledges and deposits in connection with workers’ compensation, unemployment insurance and other social security benefits, and leases, appeal bonds and other obligations of like nature in the ordinary course of business;
- (d) Liens for taxes or assessments and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which the Parent has set aside in its books of account reserves to the extent required by IFRS, as consistently applied;
- (e) with respect to any Person, survey exceptions, encumbrances, easement or reservations of, or rights of others, licences, rights of way, sewers, electrical lines, telegraph or telephone lines and other similar purposes, or zone or other restrictions as to the use of real property or Liens incidental to the conduct of the business of such Person or to the ownership of its properties which do not act in the aggregate materially adversely effect the value of the property or materially impair their use in the operation of the business of such person;
- (f) any bankers’ Liens in respect of deposit accounts, statutory landlords’ Liens and deposits to secure bids, contracts, leases, and other similar obligations (provided such Liens do not secure obligations constituting Indebtedness and are incurred in the ordinary course of business), any netting or set-off arrangement entered into by any member of the Group in the normal course of its banking arrangements for the purpose of netting debit and credit balances and judgment Liens not giving rise to a Default or an Event of Default so long as such Lien is adequately bonded and any appropriate legal proceedings that may have been duly initiated for the review of such judgment have not been finally terminated or the period within which such proceedings may be initiated has not expired;
- (g) any title transfer or retention of title arrangement entered into by any member of the Group in the ordinary course of its trading activities on the counterparty’s standard or usual terms or otherwise any Lien arising by operation of law and in the ordinary course of business;

- (h) any extension, renewal of or substitution for any Lien permitted by any of the paragraphs of this definition, provided, however, that such extension, renewal or replacement shall be no more restrictive in any material respect than the original Lien; with respect to Liens incurred pursuant to this paragraph (h) the principal amount secured has not increased (other than any increase representing costs, fees, expenses or commission associated with such extension, renewal or substitution) and the Liens have not been extended to any additional property or assets (other than proceeds of the property or assets in question);
- (i) Liens securing Hedging Obligations so long as such Hedging Obligations are permitted to be Incurred under these Conditions and (if applicable) the related Indebtedness is, and is permitted to be in accordance with these Conditions, secured by a Lien on the same property securing such Hedging Obligation;
- (j) Liens on property or Capital Stock of another Person at the time such other Person becomes a Subsidiary of the Parent; provided, however, that such Liens are not created, Incurred or assumed in connection with, or in contemplation of, such Person becoming a Subsidiary of the Parent and provided further that the Liens may not extend to any other property owned by the Parent or a Subsidiary of the Parent (other than assets and property affixed or appurtenant thereto);
- (k) Liens on property at the time such Person or any of its Subsidiaries acquires the property, including any acquisition by means of a merger or consolidation with or into the Parent or a Subsidiary of the Parent; provided, however, that such Liens are not created, Incurred or assumed in connection with, or in contemplation of, such acquisition and provided further, that the Liens may not extend to any other property owned by such Person or any of its Subsidiaries (other than assets and property affixed or appurtenant thereto);
- (l) any interest or title of a lessor or other Lien arising under any Capital Lease Obligations or operating lease;
- (m) Liens securing Indebtedness that comprises Permitted Indebtedness pursuant to Condition 4.1.2 or which is permitted to be Incurred pursuant to Condition 4.1.1; and
- (n) any Liens (other than those contemplated above in paragraphs (a) to (m)) where the aggregate value of the assets or revenues subject to such Liens at any one time outstanding do not exceed US\$10 million.

“Person” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality.

“Preferred Stock”, as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over Capital Stock of any other class of such Person.

“Project Finance Indebtedness” means any Indebtedness (other than Indebtedness Incurred by the Parent) Incurred to finance the ownership, acquisition, development and/or operation of any assets or projects relating to the Core Business, in respect of which the Person or Persons to whom any such Indebtedness is or may be owed by the relevant borrower (whether or not a member of the Group) has or have no recourse whatsoever to any member of the Group for the repayment thereof except for:

- (a) recourse to such borrower for amounts limited to the present and future cash flow or net cash flow from the relevant assets or projects; and/or
- (b) recourse to such borrower for the purpose only of enabling amounts to be claimed in respect of such Indebtedness in an enforcement of any security or encumbrance given by such borrower over any such assets or projects or the income, cash flow or proceeds

deriving therefrom provided that the extent of such recourse to such borrower is limited solely to the amount of any recoveries made on any such enforcement; and/or

- (c) recourse to any shareholder or the like in the borrower over its shares or the like (in each case, to the extent paid up) in the capital of or shareholder loans or the like (in each case, to the extent drawn) to secure such Indebtedness; and/or
- (d) recourse to a member of the Group, under any form of assurance, undertaking or support, which recourse is limited to a claim for damages (other than liquidated damages and damages required to be calculated in a specified way) for breach of an obligation (not being a payment obligation or an obligation to procure payment by another or an indemnity in respect thereof or an obligation to comply or to procure compliance by another with any financial ratios or other tests of financial condition) by the person against whom such recourse is available; and/or
- (e) recourse to the Parent under a guarantee provided in respect of such Indebtedness as an integral part of such Indebtedness and given when such Indebtedness was first incurred or issued.

“Purchase Money Indebtedness” means Indebtedness (including Capital Lease Obligations) (i) consisting of the deferred purchase price of property, the Capital Stock of a Person owning such property, to the extent permitted by these Conditions, conditional sale obligations, obligations under any title retention agreement, other purchase money obligations and obligations in respect of industrial revenue bonds or similar Indebtedness, in each case where the maturity of such Indebtedness does not exceed the anticipated useful life of the asset being financed, and (ii) Incurred to finance the acquisition by the Parent or a Subsidiary of the Parent of such asset or Capital Stock, including construction, additions and improvements, in the ordinary course of business (including the cost of design, development, construction, acquisition, transportation, installation, improvement and migration of assets); provided, however, that (A) any Lien arising in connection with any such Indebtedness shall be limited to the specific asset being financed or, in the case of real property or fixtures, including additions and improvements, the real property on which such asset is attached, (B) such Indebtedness is Incurred within 180 days after such acquisition of such assets and (C) the aggregate principal amount of Purchase Money Indebtedness at one time outstanding shall not exceed (x) the Fair Market Value of the acquired or constructed asset or improvement so financed or (y) in the case of an uncompleted constructed asset, the amount of the asset to be constructed, as determined on the date the contract for construction of such asset was entered into by the Parent or the relevant Subsidiary of the Parent (including, in each case, any reasonable related fees and expenses incurred in connection with such acquisition, construction or development).

“Refinance” means, in respect of any Indebtedness, to refinance, extend, renew, refund, repay, prepay, purchase, redeem, defease or retire, or to issue other Indebtedness in exchange or replacement for, such Indebtedness. **“Refinances”**, **“Refinanced”** and **“Refinancing”** shall have correlative meanings.

“Refinancing Indebtedness” means Indebtedness that Refinances any Indebtedness of the Parent or any Subsidiary of the Parent existing on the Issue Date or Incurred in compliance with the Notes, including Indebtedness that Refinances Refinancing Indebtedness; provided, however, that:

- (a) such Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness being Refinanced;
- (b) such Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is Incurred that is equal to or greater than the Average Life of the Indebtedness being Refinanced;
- (c) such Refinancing Indebtedness has an aggregate principal amount (or if Incurred with original issue discount, an aggregate issue price) that is equal to or less than the

aggregate principal amount (or if Incurred with original issue discount, the aggregate accreted value) then outstanding (plus all accrued interest and fees and expenses, including any premium and defeasance costs) under the Indebtedness being Refinanced; and

- (d) if the Indebtedness being Refinanced is subordinated in right of payment to the Notes, such Refinancing Indebtedness is subordinated in right of payment to the Notes at least to the same extent as the Indebtedness being Refinanced.

“Regulated Market” means a market as defined by Article 4(1)14 of the Markets in Financial Instruments Directive 2004/39/EC.

“Relevant Jurisdiction” means (in the case of payment by the Issuer) Jersey or the United Kingdom or (in each case) any political subdivision or any authority thereof or therein having power to tax or (in the case of payments by the Guarantors) the Russian Federation, the United States or the United Kingdom or (in each case) any political subdivision or any authority thereof or therein having power to tax or in any case any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer or any Guarantor is or becomes subject in respect of payments made by it of principal or interest on the Notes.

“Restricted Payment” with respect to any Person, means:

- (a) the declaration or payment of any dividends or any other distributions of any sort in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving such Person) or similar payment to the direct or indirect holders of its Capital Stock (other than (i) dividends or distributions payable solely in the form of its Capital Stock (other than Disqualified Stock) or in options, warrants or other rights to acquire shares of such Capital Stock (other than Disqualified Stock), (ii) dividends or distributions payable solely to the Parent or a Subsidiary of the Parent and (iii) pro rata dividends or other distributions made by a Subsidiary that is not a Wholly Owned Subsidiary to minority stockholders (or owners of an equivalent interest in the case of a Subsidiary of the Parent that is an entity other than a corporation) or such dividends or distributions on a basis that results in the Parent or a Subsidiary of the Parent receiving dividends or other distributions of greater value than would result on a pro rata basis);
- (b) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of any Capital Stock of the Parent held by any Person (other than by a Subsidiary of the Parent) or of any Capital Stock of a Subsidiary of the Parent held by any Affiliate of the Parent (other than by a Subsidiary of the Parent), including in connection with any merger or consolidation and including the exercise of any option, warrant or other rights to acquire any Capital Stock or to exchange any Capital Stock (other than into Capital Stock of the Parent that is not Disqualified Stock);
- (c) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment of any Subordinated Obligations of the Issuer or any Guarantor (other than (A) from the Parent or a Subsidiary of the Parent or (B) the purchase, repurchase, redemption, defeasance or other acquisition or retirement of Subordinated Obligations purchased in anticipation of satisfying a sinking fund obligation, principal instalment or final maturity, in each case due within one year of the date of such purchase, repurchase, redemption, defeasance or other acquisition or retirement); or
- (d) the making of any Investment (other than a Permitted Investment) in any Person.

“Securities Act” means the US Securities Act of 1933, as amended.

“Senior Bank Debt” means the following credit facilities:

- (a) US\$340,000,000 facility between the Parent, LLC “KS GOK” and the Industrial and Commercial Bank of China Ltd dated 13 December 2010, and the guarantee given by the Parent in relation thereto (as amended and restated);
- (b) US\$200,000,000 facility between the Parent, JSC VTB Bank and VTB (France) S.A. in various capacities dated 7 October 2011 (as amended and restated);
- (c) US\$295,250,000 facility between the Parent and, among others, Sberbank of Russia dated 16 December 2016 (as amended and restated); and
- (d) US\$200,000,000 facility between the Parent and, among others, Sberbank of Russia dated 22 March 2012 (as amended and restated).

“Senior Indebtedness” means, with respect to any Person:

- (a) Indebtedness of such Person, whether outstanding on the Issue Date or thereafter Incurred; and
- (b) all other obligations of such Person (including interest accruing on or after the filing of any petition in bankruptcy or for reorganisation relating to such Person whether or not post filing interest is allowed in such proceeding) in respect of Indebtedness described in paragraph (a) above,

unless, in the case of paragraphs (a) and (b), in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is provided that such Indebtedness or other obligations are subordinate in right of payment to the Notes or the Guarantees of such Person, as the case may be; provided, however, that Senior Indebtedness shall not include:

- (i) any obligation of such Person to the Parent or any Subsidiary of the Parent;
- (ii) any liability for federal, state, local or other taxes owed or owing by such Person;
- (iii) accounts payable or other liability to trade creditors arising in the ordinary course of business;
- (iv) any Indebtedness or other obligation of such Person which is subordinate or junior in any respect to any other Indebtedness or other obligation of such Person; or
- (v) that portion of any Indebtedness which at the time of Incurrence is Incurred in violation of these Conditions.

“Stated Maturity” means, with respect to any security, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

“Stock Exchange” means the Irish Stock Exchange plc.

“Subordinated Obligation” means, with respect to a Person, any Indebtedness of such Person (whether outstanding on the Issue Date or thereafter Incurred) which is subordinate or junior in right of payment to the Notes or a Guarantee of such Person, as the case may be.

“Subsidiary” of any specified person means any corporation, partnership, joint venture, association or other business or entity, whether now existing or hereafter organised or acquired, (a) in the case of a corporation, of which more than 50 per cent. of the total voting power of the Voting Stock is held by such first-named person and/or any of its Subsidiaries and such first-named person or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; or (b) in the case of a partnership, joint venture, association, or other business or

entity, with respect to which such first-named person or any of its Subsidiaries has the power to direct or cause the direction of the management and policies of such entity by contract or otherwise if (in each case) in accordance with IFRS, as consistently applied, such entity would be consolidated with the first-named person for financial statement purposes.

“Taxes” means any taxes (including interest or penalties thereon) which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by a Relevant Jurisdiction or any tax authority thereof or therein and the term **“Taxation”** shall be construed accordingly.

“Temporary Cash Investments” means any of the following:

- (a) any investment in direct obligations of a member of the European Union, the Russian Federation, the United Kingdom, the United States or any agency thereof or obligations guaranteed by a member of the European Union, the Russian Federation, the United Kingdom, or the United States or any agency thereof;
- (b) investments in demand and time deposit accounts, certificates of deposit and money market deposits with a maturity of one year or less from the date of acquisition thereof issued by a bank or trust company which is organised under the laws of the Russian Federation, a member of the European Union, the United Kingdom, or the United States or any state thereof, and has outstanding debt which is rated “BBB-” by Standard & Poor’s Ratings Group or “Baa3” by Moody’s Investors Service, Inc. (or such similar equivalent rating) or higher by at least one nationally recognised statistical rating organisation;
- (c) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in paragraph (a) entered into with a bank meeting the qualifications described in paragraph (b);
- (d) investments in commercial paper with a maturity of one year or less from the date of acquisition, issued by a corporation (other than an Affiliate of the Parent) organised and in existence under the laws of a member of the European Union, the United States, the United Kingdom, or the Russian Federation with a rating at the time as of which any investment therein is made of “P 1” (or higher) according to Moody’s Investors Service, Inc. or “A1” (or higher) according to Standard & Poor’s Ratings Group;
- (e) investments in securities with maturities of six months or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of a member of the European Union, the United States, the United Kingdom, or the Russian Federation or by any political subdivision or taxing authority thereof, and rated at least “BBB-” by Standard & Poor’s Ratings Group or “Baa3” by Moody’s Investors Service, Inc.; and
- (f) investments in money market funds that invest substantially all their assets in securities of the types described in paragraphs (a) to (e).

“US Dollar Equivalent” means with respect to any monetary amount in a currency other than US dollars, at any time for determination thereof, the amount of US dollars obtained by converting such foreign currency involved in such computation into US dollars at the spot rate for the purchase of US dollars with the applicable foreign currency as published in The Wall Street Journal in the “Exchange Rates” column under the heading “Currency Trading” on the date two Business Days prior to such determination.

“Voting Stock” of a Person means all classes of Capital Stock of such Person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of the board of directors, managers or trustees (or Persons performing similar functions) thereof.

“Wholly Owned Subsidiary” means a Subsidiary all the Capital Stock of which (other than directors’ qualifying shares or shares of Subsidiaries required to be owned by third parties under applicable law) is owned by the Parent or one or more other Wholly Owned Subsidiaries.

Schedule 4

Provisions for Meetings of Noteholders

1. Interpretation

In this Schedule:

- 1.1 references to a meeting and to a meeting of Noteholders and include, unless the context otherwise requires, any adjournment;

agent means a proxy, sub-proxy for, or representative of, a Noteholder;

Extraordinary Resolution means (i) a resolution passed at a meeting duly convened and held in accordance with this Trust Deed by a majority of at least 75 per cent. of the votes cast, or (ii) by a written resolution signed by or on behalf of all holders of the Notes outstanding (a “**Written Resolution**”) or (iii) by an Electronic Consent. A Written Resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders; and

- 1.2 references to persons representing a proportion of the Notes are to Noteholders or agents holding or representing in the aggregate at least that proportion in principal amount of the Notes for the time being outstanding.

2. Powers of meetings

A meeting shall, subject to the Conditions and without prejudice to any powers conferred on other persons by this Trust Deed, have power by Extraordinary Resolution:

- 2.1 to sanction any proposal by the Issuer, the Guarantors or the Trustee for any modification, abrogation, variation or compromise of, or arrangement in respect of, the rights of the Noteholders against the Issuer or the Guarantors, whether or not those rights arise under this Trust Deed or a Deed of Guarantee;
- 2.2 to assent to any modification of this Trust Deed, any Deed of Guarantee or the Notes proposed by the Issuer, the Guarantors or the Trustee;
- 2.3 to authorise anyone to concur in and do anything necessary to carry out and give effect to an Extraordinary Resolution;
- 2.4 to give any authority, direction or sanction required to be given by Extraordinary Resolution;
- 2.5 to appoint any persons (whether Noteholders or not) as a committee or committees to represent the Noteholders’ interests and to confer on them any powers or discretions which the Noteholders could themselves exercise by Extraordinary Resolution;
- 2.6 to sanction the exchange or substitution of the Notes for, or the conversion of the Notes into, shares, bonds or other obligations or securities of the Issuer, the Guarantors or any other entity;
- 2.7 other than a substitution in accordance with Clause 12.2, to approve the substitution of any entity for the Issuer or Guarantor (or any previous substitute) as principal

debtor under this Trust Deed or as guarantor under the Deed of Guarantee (except as otherwise provided for under the Trust Deed or the Deed of Guarantee);

- 2.8 to approve a proposed new Trustee and to remove a Trustee;
- 2.9 to discharge or exonerate the Trustee from any liability in respect of any act or omission for which it may become responsible under this Trust Deed, a Deed of Guarantee or the Notes; and
- 2.10 provided that the special quorum provisions in paragraph 7 shall apply to any Extraordinary Resolution (a special quorum resolution) for the purpose of sub-paragraphs 2.6 or 2.7, any of the proposals listed in Condition 12.1 or any amendment to this proviso.

3. Convening a meeting

- 3.1 The Issuer, the Guarantors or the Trustee may at any time convene a meeting. If it receives a written request by Noteholders holding at least 10 per cent of the aggregate principal amount of the Notes for the time being outstanding and is indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses, the Trustee shall convene a meeting of the Noteholders. Every meeting shall be held at a time and place approved by the Trustee.
- 3.2 At least 21 days' notice (exclusive of the day on which the notice is given and of the day of the meeting) shall be given to the Noteholders in the manner provided by Condition 16. A copy of the notice shall be given by the party convening the meeting to the other parties. The notice shall specify the day, time and place of meeting and, unless the Trustee otherwise agrees, the nature of the resolutions to be proposed and shall explain how Noteholders may appoint proxies or representatives and the details of the time limits applicable.

4. Arrangements for voting

Proxies and Representatives:

- 4.1 A Holder of a Note may, by an instrument in writing in the form available from the specified office of the Registrar or the Principal Paying Agent in the English language (a ***form of proxy***) executed by or on behalf of the Noteholder or, in the case of a corporation, executed under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation and delivered to the specified office of the Registrar or the Principal Paying Agent at least 48 hours before the time fixed for a meeting, appoint any person (a ***proxy***) to act on his or its behalf in connection with that meeting. A proxy need not be a Noteholder.
- 4.2 Any Holder of a Note which is a corporation may by delivering to the Principal Paying Agent or the Registrar at least 48 hours before the time fixed for a meeting a certified copy of a resolution of its directors or other governing body (with, if it is not in English, a certified translation into English) authorise any person to act as its representative (a ***representative***) in connection with that meeting.
- 4.3 Any proxy or sub-proxy appointed pursuant to sub-paragraph 4.1 above or representative appointed pursuant to sub-paragraph 4.2 above shall, so long as such appointment remains in full force be deemed, for all purposes in connection with the

relevant meeting or adjourned meeting of the Noteholders, to be the holder of the Notes to which such appointment relates and the holder of the Notes shall be deemed for such purposes not to be the holder or owner, respectively.

5. Chairman

The chairman of a meeting shall be such person as the Trustee may nominate in writing, but if no such nomination is made or if the person nominated is not present within 15 minutes after the time fixed for the meeting the Noteholders or agents present shall choose one of their number to be chairman, failing which the Issuer may appoint a chairman. The chairman need not be a Noteholder or agent. The chairman of an adjourned meeting need not be the same person as the chairman of the original meeting.

6. Attendance

The following may attend and speak at a meeting:

- 6.1 Noteholders and agents;
- 6.2 the chairman; and
- 6.3 the Issuer, the Guarantors and the Trustee (through their respective representatives) and their respective financial and legal advisers.

No-one else may attend or speak without the consent of the Trustee.

7. Quorum and adjournment

- 7.1 No business (except choosing a chairman) shall be transacted at a meeting unless a quorum is present at the commencement of business. If a quorum is not present within 15 minutes from the time initially fixed for the meeting, it shall, if convened on the requisition of Noteholders or if the Issuer and the Trustee agree, be dissolved. In any other case it shall be adjourned until such date, not less than 14 nor more than 42 days later, and time and place as the chairman may decide. If a quorum is not present within 15 minutes from the time fixed for a meeting so adjourned, the meeting shall be dissolved.

- 7.2 Two or more Noteholders or agents present in person shall be a quorum:

- (a) in the cases marked “No minimum proportion” in the table below, whatever the proportion of the Notes which they represent;
- (b) in any other case, only if they represent the proportion of the Notes shown by the table below.

| COLUMN 1 | COLUMN 2 | COLUMN 3 |
|-------------------------------------|--|---|
| Purpose of meeting | Required proportion for any meeting except one referred to in column 3 | Required proportion for meeting previously adjourned through want of a quorum |
| To pass a special quorum resolution | 75 per cent. | 25 per cent. |

| | | |
|--|-----------------------|-----------------------|
| To pass any other Extraordinary Resolution | A clear majority | No minimum proportion |
| Any other purpose | No minimum proportion | No minimum proportion |

7.3 The chairman may with the consent of (and shall if directed by) a meeting adjourn the meeting from time to time and from place to place. Only business which could have been transacted at the original meeting may be transacted at a meeting adjourned in accordance with this paragraph or paragraph 7.

7.4 At least 10 days' notice of a meeting adjourned through want of a quorum shall be given in the same manner as for an original meeting and that notice shall state the quorum required at the adjourned meeting. Subject to the foregoing, no notice need be given of an adjourned meeting.

8. Voting

8.1 Each question submitted to a meeting shall be decided by a poll.

8.2 A poll shall be taken in such manner and (subject as provided below) either at once or after such adjournment as the chairman directs. The result of the poll shall be deemed to be the resolution of the meeting at which it was demanded as at the date it was taken. A demand for a poll shall not prevent the meeting continuing for the transaction of business other than the question on which it has been demanded.

8.3 A poll demanded on the election of a chairman or on a question of adjournment shall be taken at once.

8.4 At any meeting every person who is so present shall have one vote in respect of U.S.\$1,000 in principal amount of each Note so held or owned or in respect of which he is a proxy, sub-proxy or a representative. Without prejudice to the obligations of proxies, any persons entitled to more than one vote need not use all his votes or cast all the votes to which he is entitled in the same way. The proxies and representatives need not be Noteholders.

8.5 Each form of proxy shall be deposited by the Principal Paying Agent, or (as the case may be) by the Registrar at such place as the Trustee shall designate or approve not less than 24 hours before the time appointed for holding the meeting or adjourned meeting at which the proxies named in the form of proxy propose to vote and in default the form of proxy shall not be treated as valid unless the chairman of the meeting decides otherwise before such meeting or adjourned meeting proceeds to business. A copy of each form of proxy shall be deposited with the Trustee before the commencement of the meeting or adjourned meeting but the Trustee shall not thereby be obliged to investigate or be concerned with the validity of or the authority of the proxies named in such form of proxy.

8.6 Any vote given in accordance with the terms of a form of proxy shall be valid notwithstanding the previous revocation or amendment of the form of proxy or of any of the Noteholders' instructions pursuant to which it was executed, provided that no intimation in writing of such revocation or amendment shall have been received by the Principal Paying Agent at its registered office or by the chairman of the meeting,

in each case by the time being 48 hours before the commencement of the meeting or adjourned meeting at which the form of proxy is intended to be used.

- 8.7 In case of equality of votes the chairman shall have a casting vote in addition to any other votes which he may have as a Noteholder or proxy or representative.
- 8.8 A resolution in writing signed by or on behalf of the holders of not less than 75 per cent of the aggregate principal amount of the Notes outstanding who are for the time being entitled to receive notice of a meeting in accordance with these provisions shall for all purposes take effect as if it were a duly passed Extraordinary Resolution. Such resolution in writing may be in one document or several documents in like form, each signed by or on behalf of one or more of the Noteholders.

9. Effect and publication of an Extraordinary Resolution

An Extraordinary Resolution shall be binding on all the Noteholders, whether or not present at the meeting and each of them shall be bound to give effect to it accordingly. The passing of such a resolution shall be conclusive evidence that the circumstances justify its being passed. The Issuer shall give notice of the passing of an Extraordinary Resolution to Noteholders within 14 days in accordance with Condition 16 but failure to do so shall not invalidate the resolution.

10. Minutes

Minutes shall be made of all resolutions and proceedings at every meeting and, if purporting to be signed by the chairman of that meeting or of the next succeeding meeting, shall be conclusive evidence of the matters in them. Until the contrary is proved every meeting for which minutes have been so made and signed shall be deemed to have been duly convened and held and all resolutions passed or proceedings transacted at it to have been duly passed and transacted.

11. Trustee's power to prescribe regulations

- 11.1 Subject to all other provisions in this Trust Deed, the Trustee may without the consent of the Noteholders prescribe such further regulations as do not prejudice the terms of this Trust Deed regarding the holding of meetings and attendance and voting at them as it in its sole discretion determines including (without limitation) such requirements as the Trustee thinks reasonable to satisfy itself that the persons who purport to make any requisition in accordance with this Trust Deed are entitled to do so.
- 11.2 The holder of a Global Note shall be treated as two persons for the purposes of any quorum requirements of a meeting of Noteholders.

12. Written Resolution and Electronic Consent

Subject to the following sentence, a Written Resolution may be contained in one document or in several documents in like form, each signed by or on behalf of one or more of the Noteholders.

For so long as the Notes are in the form of a Global Note registered in the name of any nominee for one or more of Euroclear, Clearstream, Luxembourg or an

Alternative Clearing System, then, in respect of any resolution proposed by the Issuer, any Guarantor or the Trustee:

12.1 *Electronic Consent:* where the terms of the resolution proposed by the Issuer, a Guarantor or the Trustee (as the case may be) have been notified to the Noteholders through the relevant clearing system(s) as provided in sub-paragraphs (a) and/or (b) below, each of the Issuer, the Guarantors and the Trustee shall be entitled to rely upon approval of such resolution given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) to the Principal Paying Agent or another specified agent and/or the Trustee in accordance with their operating rules and procedures by or on behalf of all holders of the Notes (the “**Required Proportion**”) (“**Electronic Consent**”) by close of business on the Relevant Date. Any resolution passed in such manner shall be binding on all Noteholders even if the relevant consent or instruction proves to be defective. None of the Issuer, the Guarantor or the Trustee shall be liable or responsible to anyone for such reliance;

- (a) When a proposal for a resolution to be passed as an Electronic Consent has been made, at least 10 days’ notice (exclusive of the day on which the notice is given and of the day on which affirmative consents will be counted) shall be given to the Noteholders through the relevant clearing system(s). The notice shall specify, in sufficient detail to enable Noteholders to give their consents in relation to the proposed resolution, the method by which their consents may be given (including, where applicable, blocking of their accounts in the relevant clearing system(s)) and the time and date (the “**Relevant Date**”) by which they must be received in order for such consents to be validly given, in each case subject to and in accordance with the operating rules and procedures of the relevant clearing system(s).
- (b) If, on the Relevant Date on which the consents in respect of an Electronic Consent are first counted, such consents do not represent the Required Proportion, the resolution shall, if the party proposing such resolution (the “**Proposer**”) so determines, be deemed to be defeated. Such determination shall be notified in writing to the other party or parties to the Trust Deed. Alternatively, the Proposer may give a further notice to Noteholders that the resolution will be proposed again on such date and for such period as shall be agreed with the Trustee (unless the Trustee is the Proposer). Such notice must inform Noteholders that insufficient consents were received in relation to the original resolution and the information specified in sub-paragraph (a) above. For the purpose of such further notice, references to “Relevant Date” shall be construed accordingly.

For the avoidance of doubt, an Electronic Consent may only be used in relation to a resolution proposed by the Issuer, the Guarantors or the Trustee which is not then the subject of a meeting that has been validly convened in accordance with paragraph 3 above, unless that meeting is or shall be cancelled or dissolved; and

12.2 *Written Resolution:* where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution has been validly passed, the Issuer, the Guarantors and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Issuer, the Guarantors and/or the Trustee, as the case may be,

(a) by accountholders in the clearing system with entitlements to such Global Note and/or, (b) where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer, the Guarantors and the Trustee shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, Euroclear, Clearstream, Luxembourg or any other relevant alternative clearing system (the “**relevant clearing system**”) and, in the case of (b) above, the relevant clearing system and the accountholder identified by the relevant clearing system for the purposes of (b) above. Any resolution passed in such manner shall be binding on all Noteholders, even if the relevant consent or instruction proves to be defective. Any such certificate or other document shall, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear’s EUCLID or Clearstream, Luxembourg’s CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. None of the Issuer, the Guarantors and the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

A Written Resolution and/or Electronic Consent shall take effect as an Extraordinary Resolution. A Written Resolution and/or Electronic Consent will be binding on all Noteholders, whether or not they participated in such Written Resolution and/or Electronic Consent.

IN WITNESS WHEREOF this Deed has been executed as a deed by the Issuer and the Trustee and entered into the day and year first above written

SIGNATORIES

Executed and delivered as a deed by)
PETROPAVLOVSK 2016 LIMITED)

Director:

Witness:

Name:

Address:

Executed and delivered as a deed by)
CITIBANK, N.A., LONDON BRANCH)

Authorised Signatory:

Authorised Signatory:



PETROPAVLOVSK

Petropavlovsk 2016 Limited

(Registered number 122639, incorporated with limited liability under the laws of Jersey)

as issuer of

US\$500,000,000 8.125 per cent. Guaranteed Notes due 2022

**Fully, unconditionally and irrevocably guaranteed on a joint and several basis by Petropavlovsk PLC,
JSC Pokrovskiy Rudnik, LLC Albynskiy Rudnik and LLC Malomirskiy Rudnik**

(Petropavlovsk PLC Registered number 4343841, incorporated as a public limited company under the laws of England)

Issue price of Notes: 100 per cent.

Petropavlovsk 2016 Limited (the **Issuer**), a wholly owned subsidiary of Petropavlovsk PLC (the **Company** or **Parent**), is offering (the **Offering**) US\$500,000,000 aggregate principal amount of 8.125 per cent. guaranteed notes due 2022 (the **Notes**). Interest on the Notes will accrue from 14 November 2017 at a rate of 8.125 per cent. per annum of their outstanding principal amount payable semi-annually in arrear on 14 May and 14 November of each year, commencing on 14 May 2018. Each of the Guarantors (as defined below) will enter into a deed of guarantee with Citibank, N.A., London Branch as trustee for the holders of the Notes (the **Trustee**) to be dated on or about 14 November 2017 (the **Deed of Guarantee**) to fully, unconditionally and irrevocably, on a joint and several basis, guarantee the due and punctual payment of all amounts at any time becoming due and payable in respect of the Notes (each a **Guarantee** and together, the **Guarantees**). The Notes will be constituted by, subject to, and have the benefit of, a trust deed between the Trustee and the Issuer to be dated on or about 14 November 2017 (the **Trust Deed**).

Payments on the Notes will be made free and clear of any withholding taxes imposed by the United Kingdom, the Russian Federation, the United States or Jersey to the extent described in Part 17: "*Terms and Conditions of the Notes*" herein. The Notes may be redeemed by the Issuer in whole but not in part at their principal amount, plus accrued and unpaid interest, if the Issuer becomes obliged to pay certain additional amounts and otherwise as described under Part 17: "*Terms and Conditions of the Notes — Redemption and Purchase — Redemption for tax reasons*". Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 14 November 2022.

This document (the **Offering Memorandum**) constitutes the listing particulars in respect of the admission of the Notes to the official list (the **Official List**) and to trading on the Global Exchange Market of the Irish Stock Exchange (the **Global Exchange Market**). Application has been made to the Irish Stock Exchange for the approval of this document as listing particulars and for the Notes to be admitted to the Official List and trading on the Global Exchange Market. The Global Exchange Market is not a regulated market for the purposes of Directive 2004/39/EC. No assurance can be given that the application will be granted. Furthermore, admission of the Notes to the Official List and trading on the Global Exchange Market is not an indication of the merits of the Issuer, the Guarantors, the Notes or the Guarantees. There can be no assurance that a trading market in the Notes will develop or be maintained.

This Offering Memorandum is not an offer to sell nor is it an offer to buy any securities in any jurisdiction where such offer or sale is not permitted or to any person or entity to whom it is unlawful to make an offer or sale.

An investment in the Notes involves certain risks. Prospective investors should have regard to the factors described under Part 3: "*Risk Factors*" beginning on page 20.

The Notes will be unsecured and unsubordinated obligations of the Issuer and will rank equally in right of payment with all existing and future unsecured and unsubordinated obligations of the Issuer. The Notes will be irrevocably, fully and unconditionally guaranteed on a joint and several basis by the Parent, JSC Pokrovskiy Rudnik (**Pokrovskiy Rudnik**), LLC Albynskiy Rudnik (**Albynskiy Rudnik**) and LLC Malomirskiy Rudnik (**Malomirskiy Rudnik**) (the **Guarantors**). The Guarantees will be unsecured and unsubordinated obligations of the Guarantors and will rank equally in right of payment with all existing and future unsecured and unsubordinated obligations of the Guarantors.

The Notes and Guarantees (collectively, the **Securities**) have not been and will not be registered under the United States Securities Act of 1933, (the **Securities Act**) or with any securities regulatory authority of any State or other jurisdiction of the United States, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Securities are being offered and sold by Citigroup Global Markets Limited, J.P. Morgan Securities plc, SIB (Cyprus) Limited and VTB Capital plc collectively (the **Joint Lead Managers**) outside the United States in reliance on Regulation S under the Securities Act (the **Regulation S**) and within the United States to qualified institutional buyers (**QIBs**) in reliance on Rule 144A under the Securities Act (the **Rule 144A**). Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of the Securities and the distribution of this Offering Memorandum, see Part 21: "*Subscription and Sale*" and Part 18: "*Clearing and Settlement—Transfer Restrictions*".

The Securities have not been approved or disapproved by the US Securities and Exchange Commission, any State securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Securities or the accuracy or adequacy of this Offering Memorandum. Any representation to the contrary is a criminal offence in the United States.

The Notes that are being offered and sold in accordance with Regulation S (the **Regulation S Notes**) will initially be represented by beneficial interests in a Regulation S global note certificate (the **Regulation S Global Note**) in registered form, without interest coupons attached, which will be registered in the name of a nominee for, and will be deposited with, a common depository for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) on or about 14 November 2017 (the **Closing Date**). The Notes which are offered and sold in reliance on Rule 144A will initially be represented by beneficial interests in a Rule 144A global note certificate (the **Rule 144A Global Note**) and, together with the Regulation S Global Note, the **Global Notes** in registered form, without interest coupons attached, which will be deposited on or about the Closing Date with a custodian for, and registered in the name of, Cede & Co. as nominee for, The Depository Trust Company (**DTC**). Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their account holders. Definitive notes in respect of beneficial interests in the Regulation S Global Note and the Rule 144A Global Note (**Regulation S Definitive Notes** and **Rule 144A Definitive Notes**, respectively, and together, the **Definitive Notes**) will not be issued except as described under Part 18: "*Clearing and Settlement*".

The Notes have been assigned a rating of B- (CreditWatch Positive) by Standard & Poor's Rating Services, a division of McGraw-Hill Companies, Inc. (**S&P**) and B- (exp) by Fitch Ratings Limited (**Fitch**). The Company has been assigned a rating of B- (CreditWatch Positive) by S&P and an expected rating of B- (exp) with Stable Outlook by Fitch. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. S&P and Fitch are established in the European Union (the **EU**) and registered under Regulation (EC) No 1060/2009, as amended by Regulation (EU) No 513/2011 (the **CRA Regulation**). As such, S&P and Fitch are included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

The Notes will be in registered form and will be offered and sold in the minimum denomination of US\$200,000 (or integral multiples of US\$1,000 in excess thereof).

Joint Lead Managers

Citigroup

J.P. Morgan

Sberbank CIB

VTB Capital

The date of this Offering Memorandum is 10 November 2017

The Issuer and the Parent each accepts responsibility for the information contained in this Offering Memorandum. To the best of the knowledge and belief of each of the Issuer and the Parent (which have taken all reasonable care to ensure that such is the case), the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information. Each Guarantor accepts responsibility for the information contained in this Offering Memorandum relating to itself and to its Guarantee. To the best of the knowledge and belief of each Guarantor (each of which has taken all reasonable care to ensure that such is the case), the information contained in this Offering Memorandum in relation to the information relating to itself and its Guarantee is in accordance with the facts and does not omit anything likely to affect the import of such information.

THE NOTES ARE OF A SPECIALIST NATURE AND SHOULD ONLY BE BOUGHT AND TRADED BY INVESTORS WHO ARE PARTICULARLY KNOWLEDGEABLE IN INVESTMENT MATTERS. AN INVESTMENT IN THE NOTES IS SPECULATIVE, INVOLVES A HIGH DEGREE OF RISK AND MAY RESULT IN THE LOSS OF ALL OR PART OF THE INVESTMENT.

In addition, the Parent, having made all reasonable inquiries, confirms that (i) this Offering Memorandum contains all information with respect to the Issuer, the Company and its consolidated subsidiaries and affiliates taken as a whole (the **Group**), the Notes and the Guarantees that is material to the Offering; (ii) such information is true and accurate in every material respect and is not misleading in any material respect; (iii) the opinions, assumptions and intentions expressed in this Offering Memorandum on the part of the Issuer are honestly held or made, have been reached after considering all relevant circumstances, are based on reasonable assumptions and are not misleading in any material respect; (iv) this Offering Memorandum does not contain any untrue statement of a material fact nor does it omit to state a material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading; and (v) all proper inquiries have been made to ascertain and verify the foregoing.

No person has been authorised to give any information or to make any representation other than those contained in this Offering Memorandum and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Parent, the Trustee or the Joint Lead Managers. The information contained in this Offering Memorandum is current as of the date hereof. Neither the delivery of this Offering Memorandum nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer, the Guarantors or the Group since the date hereof or that there has been no adverse change in the financial position of the Issuer or the Guarantors or the Group since the date hereof or that the information contained herein or any other information supplied in connection with the Securities is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. Neither the Issuer nor any other person assumes any obligation (and expressly declares that it has no such obligation) to update or change any information contained in this Offering Memorandum.

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY THE JOINT LEAD MANAGERS OR THE TRUSTEE AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS OFFERING MEMORANDUM, AND NOTHING CONTAINED IN THIS OFFERING MEMORANDUM IS, OR SHALL BE RELIED UPON AS, A PROMISE OR REPRESENTATION, WHETHER AS TO THE PAST OR THE FUTURE.

EACH PERSON RECEIVING THIS OFFERING MEMORANDUM ACKNOWLEDGES THAT SUCH PERSON HAS NOT RELIED ON THE JOINT LEAD MANAGERS OR THE TRUSTEE OR ANY OF THEIR RESPECTIVE AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF IN CONNECTION WITH ITS INVESTIGATION OF THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION OR ITS INVESTMENT DECISION. EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN ANY NOTES MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF THE ISSUER AND THE GROUP AND ITS OWN DETERMINATION OF THE SUITABILITY OF ANY SUCH INVESTMENT, WITH PARTICULAR REFERENCE TO ITS OWN INVESTMENT OBJECTIVES AND EXPERIENCE, AND ANY OTHER FACTORS WHICH MAY BE RELEVANT TO IT IN CONNECTION WITH SUCH INVESTMENT.

NONE OF THE JOINT LEAD MANAGERS OR THE TRUSTEE ACCEPTS ANY RESPONSIBILITY WHATSOEVER FOR THE CONTENTS OF THIS OFFERING MEMORANDUM OR FOR ANY OTHER STATEMENT MADE OR PURPORTED TO BE MADE BY IT, OR ON ITS BEHALF, IN CONNECTION WITH THE ISSUER, THE GROUP, THE GUARANTORS, THE NOTES OR THE GUARANTEES. EACH OF THE JOINT LEAD MANAGERS AND THE TRUSTEE ACCORDINGLY DISCLAIM ALL AND ANY LIABILITY WHETHER ARISING IN TORT, CONTRACTS OR OTHERWISE WHICH IT MIGHT OTHERWISE HAVE IN RESPECT OF THIS OFFERING MEMORANDUM OR SUCH STATEMENT.

The Issuer reserves the right to withdraw the Offering at any time prior to the Issue Date, and the Issuer and the Joint Lead Managers reserve the right to reject any commitment to subscribe for the Securities in the whole or in part and to allot to any purchaser of the Notes less than the full amount subscribed by the purchaser of the Notes.

The Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Securities are being offered and sold outside the United States in accordance with Regulation S and within the United States to QIBs in reliance on Rule 144A. Prospective purchasers are hereby notified that sellers of the Securities may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. None of the Issuer, the Parent or the Joint Lead Managers, are making an offer to sell the Securities in any jurisdiction where such offer or sale would be unlawful. The Securities are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and applicable state securities laws pursuant to registration thereunder or exemption therefrom. Prospective purchasers should be aware that they might be required to bear the financial risks of an investment in the Securities for an indefinite period of time.

For a more complete description of restrictions on offers, sales and transfers, see Part 21: "*Subscription and Sale*" and Part 18: "*Clearing and Settlement—Transfer Restrictions*".

This Offering Memorandum does not constitute an offer to sell or an invitation to subscribe for or purchase any of the Securities in any jurisdiction in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. Laws in certain jurisdictions may restrict the distribution of this Offering Memorandum and the offer and sale of the Securities. Persons into whose possession this Offering Memorandum or any of the Securities are delivered must inform themselves about, and observe, any such restrictions. Each prospective purchaser of the Securities must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the Securities or possesses or distributes this Offering Memorandum. In addition, each prospective purchaser must obtain any consent, approval or permission required under the regulations in force in any jurisdiction to which it is subject or in which it purchases, offers or sells the Securities. The Issuer shall not have any responsibility for obtaining such consent, approval or permission. In particular there are restrictions on the distribution of this Offering Memorandum and the offer or sale of Securities in the United States and the United Kingdom. For a description of these further restrictions on offers and sales of the Securities and distribution of this Offering Memorandum, see Part 21: "*Subscription and Sale*".

Each of the Joint Lead Managers is acting for the Issuer and the Guarantors and no one else in connection with the Offering and will not regard any other person (whether or not a recipient of this Offering Memorandum or any other offering materials relating to the Securities) as its client in relation to the offer, sale and delivery of the Securities. None of the Joint Lead Managers shall be responsible to anyone other than the Issuer and the Guarantors for providing the protections afforded to clients of the Joint Lead Managers, or for providing advice in relation to the Offering, the

contents of this Offering Memorandum or any other offering materials relating to the Securities, or any transaction, arrangement or other matter referred to in this Offering Memorandum.

Each potential investor in the Securities must determine the suitability of an investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in or appended to this Offering Memorandum or in any supplement thereto;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Securities and the impact such investment will have on its overall investment portfolio;
- understand thoroughly the terms of the Securities and be familiar with the behaviour of financial markets in which it participates; and
- be able to evaluate possible scenarios for economic, interest rate and other factors (especially the risks related to the Russian Federation, set out in this Offering Memorandum) that may affect its investment and its ability to bear the applicable risks.

NO RESALE OR OTHER TRANSFER OF ANY NOTE OR ANY INTEREST THEREIN WILL BE MADE TO ANY TRANSFEREE UNLESS (A) SUCH TRANSFEREE IS NOT, AND WILL NOT ACQUIRE SUCH NOTE OR ANY INTEREST THEREIN ON BEHALF OF OR WITH THE ASSETS OF, ANY EMPLOYEE BENEFIT PLAN AS DEFINED IN SECTION 3(3) OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (**ERISA**), THAT IS SUBJECT TO TITLE I OF ERISA OR ANY OTHER "**PLAN**" AS DEFINED IN SECTION 4975(e)(1) OF THE INTERNAL REVENUE TAX CODE OF 1986, AS AMENDED (**THE U.S. TAX CODE**), THAT IS SUBJECT TO SECTION 4975 OF THE U.S. TAX CODE OR ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE PLAN ASSETS BY REASON OF AN EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN SUCH ENTITY OR ANY GOVERNMENTAL PLAN OR NON-U.S. PLAN OR CHURCH PLANS THAT ARE SUBJECT TO ANY SUBSTANTIALLY SIMILAR PROVISION OF NON U.S. STATE OR LOCAL LAW (**SIMILAR LAW**) OR (B) NO NON-EXEMPT "**PROHIBITED TRANSACTION**" UNDER ERISA OR SECTION 4975 OF THE U.S. TAX CODE AND NO VIOLATION OF SIMILAR LAW WILL OCCUR IN CONNECTION WITH THE PURCHASER'S OR SUCH TRANSFEREE'S ACQUISITION OR HOLDING OF SUCH NOTE OR ANY INTEREST THEREIN AND SUCH TRANSFEREE MAKES THE ADDITIONAL REPRESENTATIONS REQUIRED FOR ELIGIBLE BENEFIT PLAN INVESTORS AS SET FORTH IN PART 20: "**CONSIDERATIONS FOR ERISA AND OTHER U.S. EMPLOYEE PLANS**". EACH PURCHASER OR TRANSFEREE OF A NOTE (INCLUDING A FIDUCIARY OF SUCH PLAN), BY ITS ACCEPTANCE OF SUCH NOTE OR ANY INTEREST THEREIN, WILL BE DEEMED TO HAVE MADE THE REPRESENTATIONS SET FORTH IN PART 18: "**CLEARING AND SETTLEMENT—TRANSFER RESTRICTIONS**" HEREIN.

No action is being taken to permit a public offering of the Securities or the distribution of this Offering Memorandum (in any form) in any jurisdiction where action would be required for such purposes. The contents of this Offering Memorandum should not be construed as legal, financial, business or tax advice. Each prospective investor should consult his or her own legal adviser, financial adviser or tax adviser for legal, financial or tax advice in relation to any purchase or proposed purchase of Notes. Prospective purchasers should be aware that they might be required to bear the financial risks of an investment in the Securities for an indefinite period of time.

In connection with the offering of the Securities, the Joint Lead Managers and any of their affiliates, acting as investors for their own accounts, may purchase Notes and in that capacity may retain, purchase, sell, offer to sell or otherwise deal for their own accounts in such Notes and other securities of the Issuer or the Guarantors or related investments in connection with the Offering or otherwise.

Accordingly, references in this Offering Memorandum to the Securities being issued, offered, acquired, placed or otherwise dealt in should be read as including any issue or offer to, or acquisition, placing or dealing by, the Joint Lead Managers and any of their affiliates acting as investors for their own accounts. The Joint Lead Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligations to do so.

Recipients of this Offering Memorandum are authorised to use it solely for the purpose of considering an investment in the Securities and may not reproduce or distribute this Offering Memorandum, in whole or in part, and may not disclose any of the contents of this Offering Memorandum or use any information herein for any purpose other than considering an investment in the Securities. In making an investment decision, prospective investors must rely upon their own examination of the Issuer, the Group and the Guarantors and the terms of this Offering Memorandum, including the risks involved.

None of the Issuer, any Guarantor, the Joint Lead Managers or the Trustee are making any representation to any offeree or purchaser of the Securities regarding the legality of an investment by such offeree or purchaser.

The Joint Lead Managers and their respective affiliates have performed or entered into and expect to perform or enter into various financial advisory, investment banking and commercial banking services for, and may arrange loans and other non-public market financing for, and have entered into or may enter into derivative transactions or trading agreements with, the Parent (including its shareholders) and/or the Issuer and/or the other Guarantors and their respective affiliates in the ordinary course of their respective businesses. As such, the Joint Lead Managers may have interests independent of and separate to, and which may conflict with, their roles as Joint Lead Managers in respect of the issuance of the Securities. The Joint Lead Managers are acting exclusively for the Issuer, the Parent and the other Guarantors and no one else in connection with the Securities and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the Offering.

In particular, as described further in Part 10: "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", affiliates of CJSC "Sberbank CIB" and SIB (Cyprus) Limited (such affiliates, **Sberbank**) and VTB Capital plc (such affiliates of VTB Capital plc, **VTB Bank**) have (a) been lenders to the Group for several years, most recently providing the Banking Facilities, (b) entered into derivative transactions with the Group; and (c) are currently the sole purchasers of the gold produced by the Group. In addition, the proceeds of the Offering will be used to substantially refinance the Banking Facilities (as described further in Part 7: "*Use of Proceeds*").

The Issuer was incorporated with limited liability under the laws Jersey on 24 November 2016. The registered office of the Issuer is located at 13-14 Esplanade, St Helier, Jersey, JE1 1EE.

A copy of this Offering Memorandum has been delivered to the Jersey registrar of companies in accordance with Article 5 of the Companies (General Provisions) (Jersey) Order 2002, and he has given, and has not withdrawn, his consent to its circulation.

The Jersey Financial Services Commission has given, and has not withdrawn, its consent under Article 4 of the Control of Borrowing (Jersey) Order 1958 to the issue of the Notes.

It must be distinctly understood that, in giving these consents, neither the Jersey registrar of companies nor the Jersey Financial Services Commission takes any responsibility for the financial soundness of the Issuer or for the correctness of any statements made, or opinions expressed, with regard to it. The Jersey Financial Services Commission is protected by the Control of Borrowing (Jersey) Law 1947, as amended, against liability arising from the discharge of its functions under that law.

If recipients of this Offering Memorandum are in any doubt about the contents of this Offering Memorandum they should consult their stockbroker, bank manager, solicitor, accountant or other financial adviser.

THE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE US SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER US REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OR THE ACCURACY OR THE ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

STABILISATION

In connection with the issue of the Notes, Citigroup Global Markets Limited (the **Stabilising Manager**) (or persons acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the Offering is made and, if begun, may cease at any time, but it must end no later than the earlier of (i) 30 days after the issue date of the Securities; and (ii) 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted in accordance with all applicable laws and rules.

AVAILABLE INFORMATION

The Issuer and Guarantors have agreed that, so long as any Securities are "restricted securities" within the meaning of Rule 144(a)(3) of the Securities Act, the Issuer and Guarantors will, during any period in which they are neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934 (the **U.S. Exchange Act**) nor exempt from reporting thereunder pursuant to Rule 12g3-2(b) under the U.S. Exchange Act, provide to any holder or beneficial owner of any such "restricted security", or to any prospective purchaser of such restricted security designated by such holder or beneficial owner, or to the Trustee for delivery to such holder, beneficial owner or prospective purchaser, the information specified in, and meeting the requirements of, Rule 144A(d)(4) of the Securities Act upon the request of such holder or beneficial owner, prospective purchaser or Trustee.

This Offering Memorandum is being furnished by the Issuer and the Guarantors in connection with the Offering solely for the purpose of enabling a prospective investor to consider the acquisition of the Securities described herein. The information contained in this Offering Memorandum has been provided by the Issuer and the Guarantors. Any reproduction or distribution of this Offering Memorandum, in whole or in part, in the United States and any disclosure of its contents or use of any information herein in the United States for any purpose, other than considering an investment by the recipient in the Securities offered hereby, is prohibited. Any websites referred to herein do not form part of this Offering Memorandum. Each potential investor in the Securities, by accepting delivery of this Offering Memorandum, agrees to the foregoing.

FORWARD-LOOKING STATEMENTS

This Offering Memorandum includes "forward-looking statements". All statements other than statements of historical facts included in this Offering Memorandum, including, without limitation, those regarding the Issuer's, the Guarantors' or the Group's financial positions, business strategies, plans and objectives of management for future operations, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Issuer, the Guarantors, or the Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Issuer's, the Guarantors' and the Group's present and future business strategies and the environment in which the Issuer, the Guarantors and the Group will operate in the future. Among the important factors that could cause the Issuer's, the Guarantors' or the Group's actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, changes in the demand for and pricing of the Group's commodities, in particular, gold and changes in production levels at the Group's mines. Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under Part 3: '*Risk Factors*'. These forward-looking statements speak only as of the date on which they are made and are not intended to give any assurance as to future results. The Issuer and Guarantors expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Issuer, the Guarantor or the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

THIS OFFERING MEMORANDUM IS ONLY BEING DISTRIBUTED TO AND IS ONLY DIRECTED AT (I) PERSONS WHO ARE OUTSIDE THE UNITED KINGDOM; OR (II) TO INVESTMENT PROFESSIONALS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AS AMENDED (THE **ORDER**); OR (III) PERSONS FALLING WITHIN ARTICLE 49(2)(A) TO (D) ("HIGH NET WORTH COMPANIES, UNINCORPORATED ASSOCIATIONS, ETC.") OF THE ORDER; OR (IV) OTHER PERSONS TO WHOM IT MAY LAWFULLY BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS **RELEVANT PERSONS**). THE SECURITIES ARE ONLY AVAILABLE TO, AND ANY INVITATION, OFFER OR AGREEMENT TO SUBSCRIBE, PURCHASE OR OTHERWISE ACQUIRE SUCH SECURITIES WILL BE ENGAGED IN ONLY WITH, RELEVANT PERSONS (AND SUBJECT TO THE OTHER RESTRICTIONS REFERRED TO IN THIS OFFERING MEMORANDUM). ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THIS OFFERING MEMORANDUM OR ANY OF ITS CONTENTS.

NOTICE TO RUSSIAN INVESTORS

THIS OFFERING MEMORANDUM OR INFORMATION CONTAINED THEREIN IS NOT AN OFFER, OR AN INVITATION TO MAKE OFFERS, TO SELL, PURCHASE, EXCHANGE OR OTHERWISE TRANSFER SECURITIES IN THE RUSSIAN FEDERATION TO OR FOR THE BENEFIT OF ANY RUSSIAN PERSON OR ENTITY AND DOES NOT CONSTITUTE AN ADVERTISEMENT OR OFFERING OF SECURITIES IN THE RUSSIAN FEDERATION WITHIN THE MEANING OF RUSSIAN SECURITIES LAWS. INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM IS NOT INTENDED FOR ANY PERSONS IN THE RUSSIAN FEDERATION WHO ARE NOT "QUALIFIED INVESTORS" WITHIN THE MEANING OF ARTICLE 51.2 OF THE FEDERAL LAW NO. 39-FZ "ON THE SECURITIES MARKET" DATED 22 APRIL 1996, AS AMENDED (THE **RUSSIAN QIS**) AND MUST NOT BE DISTRIBUTED OR CIRCULATED INTO THE RUSSIAN FEDERATION OR MADE AVAILABLE IN THE RUSSIAN FEDERATION TO ANY PERSONS WHO ARE NOT RUSSIAN QIS, UNLESS AND TO THE EXTENT THEY ARE OTHERWISE PERMITTED TO ACCESS SUCH INFORMATION UNDER RUSSIAN LAW.

Contents

| Part | | Page |
|---------|--|------|
| PART 1 | OVERVIEW OF THE GROUP | 1 |
| PART 2 | OFFERING STRUCTURE | 17 |
| PART 3 | RISK FACTORS | 20 |
| PART 4 | ENFORCEABILITY OF JUDGMENTS | 58 |
| PART 5 | PRESENTATION OF FINANCIAL AND OTHER INFORMATION | 60 |
| PART 6 | EXCHANGE RATE INFORMATION | 65 |
| PART 7 | USE OF PROCEEDS | 66 |
| PART 8 | CAPITALISATION | 67 |
| PART 9 | SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER INFORMATION | 68 |
| PART 10 | MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS | 89 |
| PART 11 | DESCRIPTION OF THE BUSINESS OF THE GROUP | 136 |
| PART 12 | INDUSTRY OVERVIEW | 179 |
| PART 13 | RUSSIAN REGULATIONS AND SUMMARY OF THE GROUP'S KEY SUBSOIL LICENCES | 185 |
| PART 14 | DESCRIPTION OF THE ISSUER AND THE GUARANTORS | 200 |
| PART 15 | PRINCIPAL SHAREHOLDERS AND RELATED PARTY TRANSACTIONS | 203 |
| PART 16 | THE COMPANY'S DIRECTORS AND SENIOR MANAGEMENT | 208 |
| PART 17 | TERMS AND CONDITIONS OF THE NOTES | 214 |
| PART 18 | CLEARING AND SETTLEMENT | 259 |
| PART 19 | TAXATION | 268 |
| PART 20 | CONSIDERATION FOR ERISA AND OTHER U.S. EMPLOYEE PLANS | 285 |
| PART 21 | SUBSCRIPTION AND SALE | 288 |
| PART 22 | GENERAL INFORMATION | 291 |
| PART 23 | DEFINITIONS AND GLOSSARY | 293 |
| PART 24 | INDEX TO FINANCIAL STATEMENTS | F-1 |

[INTENTIONALLY LEFT BLANK]

PART 1

OVERVIEW OF THE GROUP

This overview may not contain all the information that may be important to prospective purchasers of the Notes and, therefore, should be read in conjunction with this entire Offering Memorandum, including the more detailed information regarding the Group's business and the Financial Statements and related notes appended to this Offering Memorandum. Prospective purchasers of the Notes should also carefully consider the information set forth in Part 3: "Risk Factors". Certain statements in this Offering Memorandum include forward-looking statements that also involve risks and uncertainties as described under "Forward-Looking Statements".

1 Overview

Petropavlovsk is one of Russia's major gold mining companies. As at 30 September 2017, the Group had produced approximately 6.7Moz of gold since its formation. This figure includes production from the four mining assets described below as well as production from alluvial operations and joint ventures which are no longer part of the Group. As at 31 December 2016, the Group had approximately 20.2Moz of Mineral Resources, including approximately 8.0Moz of Ore Reserves. Mineral Resources are concentrations or occurrences of solid material of economic interest in or on the Earth's crust in such form, grade (or quality) and quantity that there are reasonable prospects for eventual economic extraction. Ore Reserves are those parts of the Mineral Resources that have been evaluated by a feasibility study as being considered to be valuable and legally, economically and technically feasible to extract.

Petropavlovsk's key area of focus is the Amur region in the Russian Far East, where it has operated since 1994. The Company is, in the management's opinion, one of the leading employers and contributors to the development of the local economy in the region, which benefits from well-developed infrastructure, access to hydroelectric power and a strong mining tradition.

The Group's key mining assets are the Pioneer, Albyn, Malomir and Pokrovskiy mines and adjacent deposits (satellites) (**Key Mining Assets**), which are all located in the Amur region. The principal operations at all four mines are open pit but the Group also started production from high grade ore using underground mining at the Pioneer and Malomir mines in June 2017.

At present, gold is extracted on site at all four mines using cyanide based processing technologies, and resin in pulp (**RIP**) plants, which are operational throughout the year. In addition, there are seasonal heap leaching facilities, normally operating between April and November, at two of the mines. In 2016, the Group's four mines processed approximately 16Mtpa through their RIP plants and produced an aggregate of 416.3koz of gold.

The table below sets out an overview of the Group's four key gold producing assets in operation:

| | Pioneer | | Malomir | | Albyn | | Pokrovskiy ¹ | |
|--|------------------------------------|-----------------|----------------------------------|-----------------|------------------------------------|-----------------|---------------------------------|-----------------|
| Licence area | Approximately 1,280km ² | | Approximately 820km ² | | Approximately 1,053km ² | | Approximately 95km ² | |
| Production to 30 September 2017 | Approximately 2.4Moz Au | | Approximately 0.6Moz Au | | Approximately 0.9Moz Au | | Approximately 2.0Moz Au | |
| Plant (RIP) capacity | 6.7Mtpa | | 3.0Mtpa | | 4.7Mtpa | | 1.8Mtpa | |
| JORC R&R as of 31 December 2016 ^{2,3} | Resources | Reserves | Resources | Reserves | Resources | Reserves | Resources | Reserves |
| Total⁴ | 5.5Moz | 2.6Moz | 7.1Moz | 3.0Moz | 4.8Moz | 2.1Moz | 1.4Moz | 0.1Moz |
| Non-refractory | 2.4Moz | 1.2Moz | 0.9Moz | 0.4Moz | 4.8Moz | 2.1Moz | 1.4Moz | 0.1Moz |
| Refractory | 3.1Moz | 1.5Moz | 6.1Moz | 2.6Moz | — | — | — | — |

- (1) The licence area for Pokrovskiy does not include the approximately 94km² licence area on which the Burinda deposit is located, nor the 51km² licence area on which the Zheltunak deposit is located. Ore from Burinda and Zheltunak was previously processed at Pokrovsky. The Burinda Mineral Resources (approximately 284koz) and the Zheltunak Mineral Resources (approximately 46koz) are included in the figure for the Pokrovskiy mine Mineral Resources (there are no Ore Reserves attributable to either the Burinda or the Zheltunak deposits).
- (2) In this Part, the resource and reserve data comes from independent reports produced by Wardell Armstrong International (WAI), whilst data regarding depletion and total gold mined was sourced internally.
- (3) Resource figures are inclusive of reserves.
- (4) Totals may not add up due to the effect of rounding.

On the basis of publicly available information, the Company's management consider *Pioneer* to be one of the largest gold mines in Russia in terms of its processing capacity. It accounted for approximately 34 per cent. of the Group's total gold production in 2016 (approximately 39 per cent. in the first nine months of 2017). *Pioneer* was acquired as a greenfield site in 2001 and was explored, developed and built principally using in-house expertise, as opposed to external contractors. Since commissioning in 2008, the RIP plant at the mine has been expanded in phases to reach its current processing capacity of approximately 6.7Mtpa. Up to 30 September 2017, *Pioneer* had produced approximately 2.4Moz of gold. As at 31 December 2016, *Pioneer* contained an estimated approximately 5.5Moz of Mineral Resources, of which approximately 2.6Moz were Ore Reserves. In late 2015, with the acquisition of a new exploration licence for the Sosnovaya asset, the *Pioneer* project area was more than doubled. Having six active pits, it is still being actively explored and exploration results to date indicate that there is potential for increases in ore reserves to be identified. Underground development at the *Pioneer* mine is progressing as planned for full scale high grade ore production by the end of 2017 with the first underground production having commenced in June 2017. In addition, in the first nine months of 2017 two new zones of non-refractory mineralisation suitable for open pit mining were discovered at *Pioneer*.

Pokrovskiy is the Group's oldest mine, accounting for approximately 9 per cent. of total gold production in 2016 (approximately 7 per cent. in the first nine months of 2017). Since commissioning in 1999, by 30 September 2017 *Pokrovskiy* had produced approximately 2.0Moz of gold. As at 31 December 2016, *Pokrovskiy* (including the Burinda deposit whose ore was processed at *Pokrovskiy*) had an estimated approximately 1.4Moz of Mineral Resources, of which approximately 0.1Moz were Ore Reserves.

It is intended that as *Pokrovskiy* nears the end of its mine life, the mine and its related infrastructure will transition into the site for the POX Hub, which is currently under construction. The POX Hub is an integral part of the Group's future plans in allowing for refractory gold production and *Pokrovskiy* provides an important strategic location, not only due to its on-site and regional infrastructure, but also its close proximity to *Pioneer*'s limestone deposit, limestone being a key ingredient for the pressure oxidation process to be used at the POX Hub. The POX project comprises the construction of the POX Hub, which is expected to be commissioned in the fourth quarter of 2018, the refractory ore flotation plant at the Malomir mine, the first stage of which is expected to be commissioned by the end of 2017 (with the second stage expected to be commissioned in 2019), and the refractory ore flotation plant at the *Pioneer* mine which is expected to be commissioned in 2023. These flotation plants are intended to produce concentrate to be delivered to the POX Hub for processing. The POX Hub may also process concentrate sourced from third parties.

Malomir was acquired by the Group as a greenfield site. On the basis of publicly available information, the Company's management consider that it is now one of the largest gold mines in Russia, in terms of its Mineral Resource size. *Malomir*'s production accounted for approximately 14 per cent. of the Group's total gold production in 2016 (approximately 13 per cent. in the first nine months of 2017). As at 31 December 2016, *Malomir*'s Mineral Resources stood at an estimated approximately 7.1Moz, of which 3.0Moz were Ore Reserves. As at 30 September 2017, *Malomir* had produced approximately 0.6Moz of gold since commissioning in mid-2010. Underground development at the *Malomir* mine is moving ahead for full scale high grade ore production by the end of 2017; the first ore was mined in June 2017. Over 85 per cent. of *Malomir*'s Mineral Resources and Ore Reserves are estimated to be refractory, requiring flotation and pressure oxidation for efficient gold recovery. Once the *Malomir* flotation plant and POX Hub have been commissioned, the mine is expected to become a major contributor to the Group's gold production.

Albyn is the Group's newest mine, commissioned in 2011 and accounting for approximately 43 per cent. of total gold production in 2016 (approximately 41.0 per cent. in the first nine months of 2017). The Group acquired its first licence for *Albyn* in 2005, when the project area was still a greenfield site. The project was subsequently explored, developed and built principally using in-house expertise. Subsequent exploration identified two substantial adjacent (satellite) deposits: Elginskoye and Unglichikanskoye. Up to 30 September 2017, *Albyn* had produced approximately 0.9Moz of gold. As at 31 December 2016, the *Albyn* project (including its satellites) had an estimated approximately 4.8Moz of Mineral Resources, of which approximately 2.1Moz were Ore Reserves. Large areas adjacent to the mine remain under-explored and Group geologists consider *Albyn* to have the potential for further, considerable gold discoveries, with the recently identified continuation of the Unglichikan deposit confirming strong exploration potential near the *Albyn* mine.

Although Pokrovskiy is at the end of its mine life, the other three sites – Pioneer, Malomir and Albyn – each have, on the basis of the Group's current mining plan (including implementation of the POX project and the planned underground mining), an estimated mine life of at least 15 years assuming that the POX Hub is successfully commissioned.

Following a drop in the gold price in 2013, the Group carried out a review of its strategy and decided to shift away from absolute production levels, concentrating on the mining and production of ounces which the Group believed should generate higher profit margins. As a result of this, a number of high cost assets, such as the alluvial operations at Koboldo and Berelekh, were disposed of and production schedules were adjusted to increase profit margins. In 2014, the Group produced 624.5koz of gold, which included 29.1koz of production from alluvial assets. In 2015, gold production totalled 504.1koz, in line with this revised strategy and the asset disposals.

In 2016, the exceptionally high levels of rainfall experienced in the second half of the year intermittently impaired the mining of high grade ore at Andreevskaya (Pioneer), which resulted in total 2016 production being reduced to 416.3koz. Mining of the ore that the Group was unable to mine in 2016 due to the adverse weather was deferred to the 2017 mine plan.

During the first nine months of 2017, management remained focused on optimising production plans to ensure the most efficient use of the Group's existing asset base, whilst aiming to maximise profitability. Together with the continued work of the Group's experienced operational team, this strategy contributed to a 91 per cent. increase in operating profit to US\$65 million for the first six months of 2017, compared to an operating profit of US\$34 million for the first six months of 2016. A 150 per cent. increase (compared to the first six months of 2016) in net cash from operating activities to US\$74.6 million for the six months ended 30 June 2017 has enabled the Group to proceed with its capital expenditure programme to seek to ensure the timely delivery of its key development projects.

In the first six months of 2017, the Group achieved Total Cash Costs (**TCC**) of US\$675/oz, slightly up from US\$663/oz in the first six months of 2016 but within the original forecast range for 2017 of US\$600 – 700/oz. The increases in the Company's All-in-Sustaining Costs (**AISC**) to US\$965/oz and All-in Costs (**AIC**) to US\$1,044/oz primarily reflect the capital expenditure relating to underground developments and tailing dam expansion, exploration and stripping costs and greater central administration expenses. AIC was also affected by capital expenditure in relation to the POX project.

A table of the Group's gold production for the periods indicated is set out below:

| | 9 months ended 30 September 2017 koz | 9 months ended 30 September 2016 koz | Year ended 31 December 2016 koz | Year ended 31 December 2015 koz | Year ended 31 December 2014 koz |
|----------------------------------|--|--|--|--|--|
| Pioneer | 131.8 | 105.3 | 141.9 | 231.4 | 263.0 |
| Pokrovskiy | 22.8 | 27.7 | 37.6 | 56.0 | 64.2 |
| Malomir | 43.8 | 40.0 | 56.8 | 59.1 | 82.2 |
| Albyn | 138.0 | 125.1 | 180.0 | 157.6 | 186.0 |
| Alluvial operations ² | – | – | – | – | 29.1 |
| Total gold production | 336.4 | 298.1 | 416.3 | 504.1 | 624.5 |

Note:

- (1) Commencing 2017, the Company moved to using gold poured as the definition for production. The data for the nine months to 30 September 2016 has been restated to reflect this. However, it should be noted that the full year 2016, 2015 and 2014 numbers have not been restated.
- (2) Alluvial operations included that carried on by Koboldo, a former subsidiary which was sold in early 2015. Currently the Group has no alluvial operations.

Total gold production (being defined as gold poured) for the first nine months of 2017 was approximately 336koz. The Group's guidance for the full year production for 2017 is 420-460koz.

The Group's in-house exploration team has a strong track record of identifying new targets and adding to the Group's resource base. As at 30 September 2017, the Group's total gold production since formation was approximately 6.7Moz. Since 2002 and to the end of 2016 Petropavlovsk has established a total of 31.4Moz of JORC Resources (including 4.8Moz of JORC Resources which have been sold) through exploration. At present, the Group is working to identify and explore prospective areas in the vicinity of its four hard-rock gold mines with the aim of adding new Ore Reserves suitable for processing at the Group's existing facilities and those under construction, including ore mined using underground mining methods.

The Group is vertically-integrated with expertise and operations across the mining lifecycle. It has a laboratory network, research and development centres, engineering facilities, a construction company, and exploration, geological survey, mine planning and feasibility study capabilities. This operating structure has been instrumental to the Group's project development and processing capacity growth. All four of the Group's hard rock gold mines have been explored, designed and built principally using in-house expertise. Since 2008, the Group's RIP processing capacity has increased by more than 600 per cent. as the Group commissioned and expanded mines.

As at 30 September 2017, Petropavlovsk also held a 31.1 per cent. interest in IRC, a producer and developer of industrial commodities, principally iron ore. Based in the Russian Far East, IRC benefits from low production costs and proximity to the Chinese border, China being the world's largest consumer of IRC's main product, iron ore. IRC was Petropavlovsk's Non Precious Metals Division before it was listed on the Hong Kong Stock Exchange in late 2010. As part of its ongoing balance sheet optimisation, the Group also continues to assess the ways to realise the value of its current interest in IRC.

2 Key Strengths

The Group believes that it benefits from a number of key strengths, including the following:

- **Exploitable and long life mineral resource base with expansion potential**

As at 31 December 2016, the Group's total Mineral Resources amounted to an estimated 727Mt, of which Ore Reserves amounted to an estimated 262Mt containing an estimated 20.2Moz of gold.

Based on a review of publicly available data, the Group believes that its gold mines are among the largest in Russia, in terms of the volume of gold produced (approximately 298.1koz in the first nine months of 2016 and 336.4koz in the first nine months of 2017, in each case on a restated basis of using gold poured as the definition for production), the capacity of its processing facilities (approximately 17.3Mt of ore processed in full year 2016 and 13.6Mt in the first nine months of 2017) and the size of its Mineral Resources (727 Mt as at 31 December 2016) base.

The Group's current principal gold mining projects each have an estimated mine life, based on the Group's current mining plan (including implementation of the POX project and the planned underground mining), of at least 15 years, with the exception of the Pokrovskiy mine. Pokrovskiy is expected to cease to be mined in 2018 and is being converted into the site for the POX Hub as described below.

The Group currently has gold exploration and mining licences covering approximately 3,430km² within the Amur Region. Some of the Group's licence areas are considered by the Group's management to be under-explored, with exploration work to date suggesting the potential for the discovery of additional Mineral Resources.

- **Strong track record of mine development, expansion and asset optimisation**

From its inception in 1994, to 30 September 2017 the Group had produced approximately 6.7Moz of gold. During the period of rapid expansion between 2008 and 2016 the Group increased RIP processing volumes by over 600 per cent. from 2.2Mtpa in 2008 to 16.2Mtpa in 2016.

Most of the growth in the Group's reserves and resources has been achieved over time through in-house exploration of greenfield and brownfield sites, as opposed to the acquisition of mining assets from third parties. The Group has an established track record of organic growth and project execution from initial exploration to mining, flowsheet design and development, as demonstrated by the commissioning and subsequent expansion at the Pokrovskiy, Pioneer, Malomir and Albyn mines. The current management team has demonstrated its ability to complete major projects, principally using in-house expertise rather than external contractors for the exploration, construction, development and maintenance of the Group's assets.

- **New Growth Opportunities – POX Hub and underground mining**

The Group's expertise in developing assets is being used to develop the POX project and underground mining project. Commissioning of the POX Hub, which is expected to be operational by the end of 2018, and of the Malomir flotation plant, the first stage of which is expected to be operational by the end of 2017, should allow the Group to exploit its substantial refractory gold reserves and resources that are currently not being mined. The POX Hub has been designed on a modular basis, to facilitate future expansion. Underground mining is expected to contribute between 10 and 20 per cent. of the Group's gold production between 2018 and 2022. The processing of non-refractory ore produced from the underground operations is expected to replace processing of lower grade ore from the open pit mines.

- **Strategic location and access to developed infrastructure**

The Group's assets are located in the Amur region of the Russian Far East, on and around a major belt of gold mineralisation, including the presence of large granite and granodiorite intrusions that host epithermal gold and black schist formations which is a favourable environment for large scale orogenic type refractory gold deposits. Gold mining has been one of the region's key industries for over 100 years and the Company benefits from this well-established gold mining tradition as a result of the skilled workforce and well established infrastructure present in the region.

Because of its operational foothold in the Far East of Russia, the Group believes that it is well positioned to capitalise on existing and future opportunities in the region and has a competitive advantage when it comes to bidding for new licences and assets locally because of its comprehensive knowledge of the area, deep understanding of the legislative framework and proven track record of successful exploration, development and operation.

The Company believes that the existing high quality regional infrastructure is sufficient to support the Group's current development plans. The Amur region is served by two major rail lines: the Russian Trans-Siberian and BAM railways. All of the Group's operating mines are connected to railway stations and to the regional capital, Blagoveschensk, via all seasonal roads, and have access to electrical power from the Russian national grid. The Amur region has a surplus of electrical power including cheap and reliable electricity from renewable hydro-electric power which provides approximately 85 per cent. of the region's electricity.

- **Highly efficient mining and processing operations**

The Group efficiently manages a portfolio of large-scale open pit mines, which the Group believes provides it with a sustainable cost advantage as a result of its established bulk tonnage operations, providing economies of scale. This enables the Group to process its relatively low grade gold reserves with substantial margins (a 37.5 per cent. Underlying EBITDA margin was achieved in the first six months of 2017).

In late 2013 the Group initiated and subsequently successfully implemented operational efficiency initiatives such as optimising schedules, cutting idle time and improving workforce distribution. The Group's cash cost advantage was further improved by the depreciation of the rouble in 2014 – 2016. As a result the Group was able to improve TCC significantly. The 2013 TCC for hard-rock mines was US\$976/oz whilst for the first six months of 2017 TCC for hard-rock mines was US\$675/oz. The Group continues to identify further cost-cutting opportunities.

The Group believes that it is well positioned to convert its Ore Reserve base into gold production while maintaining its cost advantage and discipline.

- **Experienced, management team and skilled workforce**

The Group has operated in Russia since 1994. Many of the Group's senior management team, including the Interim Chief Executive Officer and the Chief Operating Officer, as well as the majority of the middle level management, have been with the Group since inception and possess a range of relevant skills across the mining spectrum. The average industry experience for the members of Executive Committee is more than 30 years. This includes knowledge of the Russian gold mining industry, the legislative and regulatory environment and an understanding of local operating conditions.

The Amur region, where Petropavlovsk is based, is home to a large pool of highly qualified individuals with gold mining experience due to the historic presence of the industry. This significantly facilitates the Group's hiring programme and its close cooperation with regional colleges and universities assists it in attracting high quality personnel across its operations.

3 Strategy

The Group's current strategy focuses on the following aspects:

- **Maintain and expand reserve and resource base**

The Group aims, through its exploration and development programme, to identify and develop new reserves and resources to offset depletion and expand the reserve and resource base to support long term growth. The Group believes that its licence areas present potential for further development, with exploration work to date suggesting the potential for the discovery of additional Mineral Resources.

Starting in 2014, the Group initiated a comprehensive ongoing review of its assets with a view to optimising its development pipeline, and identifying additional prospective and capital efficient growth opportunities. The review identified a number of initiatives, including low risk and low cost development projects located near to current infrastructure or continuations of known ore bodies.

The Group's short-term reserve and resource strategy is to focus on:

- maintaining non-refractory production to continue efficient utilisation of the Group's current processing capacity, through exploration on or adjacent to the Group's current mining operations; and
- further exploration to expand the reserves and resources at the existing underground operations which have been carried out at Pioneer and Malomir.

The Group's longer-term reserve and resource strategy is to focus on:

- further exploration of the identified refractory targets at Pioneer and Malomir;
- further exploration to seek to establish underground reserves and resources at Albyn and its satellites and to identify further underground targets in the Pioneer and Malomir areas; and

- potential licence acquisitions adjacent to existing Group infrastructure to achieve growth with minimal capital expenditure.
- **Unlock existing refractory and underground gold reserves**

Over 50 per cent. of the Group's existing Reserve base consists of refractory ore, which requires processing via pressure oxidation or other methods, and higher grade underground ore located within the Group's existing open pit mines. The POX project and the Group's underground operations are designed to unlock these reserves. Successful commissioning of the POX Hub and Malomir and later Pioneer flotation plants is expected to ensure sustainable refractory production.

The POX project comprises the construction of the POX Hub, which is expected to be commissioned in the fourth quarter of 2018, the refractory ore flotation plant at the Malomir mine, the first stage of which is expected to be commissioned by the end of 2017, and the refractory ore flotation plant at the Pioneer mine which is expected to be commissioned in 2023. These flotation plants will produce concentrate to be delivered to the POX Hub for processing. The POX Hub may also process concentrate sourced from third parties. As of the end of September 2017, the construction of the POX Hub was approximately 80 per cent. complete.

In 2016, work commenced on the development of underground mines at Pioneer and Malomir and during the first half of 2017 the Group reached underground high grade ore at both mines, and commenced mining in June 2017. Full scale production is expected to be achieved at both mines before the end of 2017.
- **Continue optimising costs and strengthening profitability**

The Group's strategic plan for the identification and implementation of operational efficiencies and cost optimisation focuses on new projects and continued operations.

New project cost initiatives include:

 - Developing full scale high grade underground operations.
 - Optimisation of waste stripping when mining refractory ore bodies.
 - Implementing efficient processing methods for our refractory reserves (through the POX project).

The Group is also committed to continuous operational improvements, aimed in part at increasing throughput and recovery rates and comprehensive cost control.

As a complementary measure, management constantly monitors the gold price and maintains a hedging position which aims to ensure that levels of cash generation will meet development budget needs.
- **Strengthen the balance sheet and liquidity position**

Management continues to look for ways to de-risk the Group's development plans, including focusing on improving cash flow generation and optimising its capital structure.

As part of this strategy, the Group expects (on the basis of the current gold price and exchange rates) to generate strong and sustainable net operating cash flows to enable the Group to meet its planned capital expenditure program of approximately US\$100 million in 2017, approximately US\$110 million in 2018, and approximately US\$50 million in 2019, and deleverage to achieve a target leverage ratio (Net Debt/EBITDA) of under 2.5x.

In addition, the Group currently intends to refinance all or a majority of its current loan facilities through the issue of the Notes described in this Offering Memorandum, in order to reduce the debt service requirements and improve its liquidity position by extending the maturity of its debt.

As part of its ongoing balance sheet optimisation, the Group also continues to assess the ways to realise the value of its current interest in IRC.

- **Maintain stringent environmental health and safety standards**

Petropavlovsk is committed to providing its employees with a safe working environment and complying with all applicable environmental regulations.

The Group complies with Russian labour legislation, the most significant of which is the Labour Code of the Russian Federation, and has health and safety systems in place that support the Code. Petropavlovsk conducts regular reviews of labour protection in the workplace and regularly examines all internal policies and procedures to ensure they remain robust and effective.

Occupational health and safety (**OHS**) risks are identified, reviewed and evaluated to mitigate their impact. All accidents are recorded and reported to the Executive Committee and the Board, which then provides an immediate response and action plan. The Board Health, Safety and Environmental Committee meets regularly and one of their duties is to assess and evaluate OHS management systems. Petropavlovsk also conducts regular on-site inspections to ensure all operations comply with regulations.

4 Organisational structure and corporate information

The Parent is a holding company, and its various subsidiaries conduct all of the Group's operations and own all of the Group's operating assets. Most of the Group's producing mines are each owned by individual wholly owned subsidiaries of the Parent.

The Parent was incorporated on 20 December 2001 and registered with the registered number 04343841 under the laws of England and Wales as a public company limited by shares under the name Excelsior Corporation PLC. The Parent's name was changed to Peter Hambro Mining PLC on 14 March 2002 and then to Petropavlovsk PLC on 23 September 2009. The Parent is a public limited company. The Parent's registered office is located at 11 Grosvenor Place, Belgravia London, SW1X 7HH, UK, and the telephone number of its registered office is +44 207 201 8900.

The Issuer, Petropavlovsk 2016 Limited, was incorporated in Jersey on 24 November 2016, with registered number 122639 as a private company limited by shares. The principal legislation under which the Issuer operates is the Companies (Jersey) Law 1991, as amended (the **Jersey Companies Law**). The registered office of the Issuer is located at 13-14 Esplanade, St Helier, Jersey JE1 1EE. The Issuer is a wholly owned subsidiary of the Parent. The Issuer is organised as a special purpose company and was established to raise capital by the issue of debt securities. Since its incorporation, the Issuer has not engaged in any material activities other than those incidental to its registration as a company under the Jersey Companies Law and those related to the issue of the Notes.

See the offering structure chart on page 16.

5 Summary consolidated financial information and other information

Consolidated income statement

| | Six months ended 30 June | | Year ended 31 December | | |
|--|--------------------------|---------|------------------------|---------|---------|
| | 2017 | 2016 | 2016 | 2015 | 2014 |
| | US\$ | US\$ | US\$ | US\$ | US\$ |
| | million | million | million | million | million |
| | (unaudited) | | | | |
| Continuing operations | | | | | |
| Group revenue | 304.0 | 254.0 | 540.7 | 599.9 | 865.0 |
| Operating expenses | (236.2) | (216.2) | (460.1) | (619.6) | (816.2) |
| | 67.9 | 37.8 | 80.6 | (19.7) | 48.7 |
| Share of results of associates | (3.0) | (3.6) | (3.6) | (60.4) | 3.0 |
| Operating profit/(loss) | 64.9 | 34.2 | 77.0 | (80.1) | 51.7 |
| Investment income | 0.4 | 0.2 | 0.6 | 1.0 | 1.7 |
| Interest expense | (14.4) | (30.5) | (61.0) | (71.5) | (67.7) |
| Other finance gains | 2.0 | 2.3 | 11.9 | 9.1 | – |
| Other finance losses | (6.1) | (1.5) | (1.5) | – | – |
| Profit/(loss) before taxation | 46.8 | 4.8 | 27.0 | (141.6) | (14.3) |
| Taxation | (22.3) | 4.4 | 4.7 | (48.9) | (167.9) |
| Profit/(loss) for the period from continuing operations | 24.5 | 9.2 | 31.7 | (190.5) | (182.2) |
| Discontinued operations¹ | | | | | |
| Loss for the period from discontinued operations | – | – | – | (107.0) | (165.5) |
| Profit/(loss) for the period | 24.5 | 9.2 | 31.7 | (297.5) | (347.7) |
| Attributable to: | | | | | |
| Equity shareholders of | | | | | |
| Petropavlovsk PLC | 23.3 | 9.2 | 33.7 | (238.8) | (260.7) |
| Continuing operations | 23.3 | 9.2 | 33.7 | (190.2) | (184.3) |
| Discontinued operations | – | – | – | (48.6) | (76.4) |
| Non-controlling interests | 1.1 | 0.0 | (2.0) | (58.7) | (87.0) |
| Continuing operations | 1.1 | 0.0 | (2.0) | (0.3) | 2.1 |
| Discontinued operations | – | – | – | (58.4) | (89.1) |

¹ IRC was presented as a discontinued operation in the income statement for the year ended 31 December 2014 and for the period from 1 January 2015 until 7 August 2015, when it ceased being a subsidiary and became an associate to the Group.

Consolidated balance sheet

| | As at 30 June | | As at 31 December | | |
|---|-------------------------|--|--|--|--|
| | 2017 US\$ million | 2016 Restated ¹ US\$ million | 2016 Restated ¹ US\$ million | 2015 Restated ¹ US\$ million | 2014 Restated ¹ US\$ million |
| | (unaudited) | | | | |
| Assets | | | | | |
| Non-current assets | 1,129.5 | 1,140.4 | 1,104.1 | 1,212.9 | 1,295.3 |
| <i>including</i> | | | | | |
| Exploration and evaluation assets | 52.9 | 56.2 | 49.3 | 69.0 | 97.5 |
| Property, plant and equipment | 952.1 | 983.0 | 953.8 | 1,038.3 | 1,143.0 |
| Investments in associates | 33.3 | 35.6 | 36.1 | 39.4 | 1.2 |
| Inventories | 68.5 | 54.5 | 51.7 | 51.4 | 42.4 |
| Current assets | 289.2 | 268.1 | 293.1 | 255.5 | 968.8 |
| <i>including</i> | | | | | |
| Inventories | 180.8 | 187.0 | 183.3 | 175.2 | 206.5 |
| Trade and other receivables | 75.1 | 62.8 | 89.7 | 48.1 | 74.9 |
| Cash and cash equivalents | 32.7 | 18.3 | 12.6 | 28.2 | 48.1 |
| Assets of disposal groups classified as held for sale | — | — | — | — | 629.9 |
| Total assets | 1,418.8 | 1,408.5 | 1,397.2 | 1,468.4 | 2,264.1 |
| Liabilities | | | | | |
| Current liabilities | (120.9) | (427.3) | (143.2) | (361.6) | (778.0) |
| <i>including</i> | | | | | |
| Trade and other payables | (58.8) | (75.5) | (55.6) | (96.6) | (66.7) |
| Borrowings | (53.7) | (344.2) | (85.3) | (260.2) | (415.2) |
| Liabilities of disposal groups associated with assets classified as held for sale | — | — | — | — | (289.8) |
| Non-current liabilities | (712.4) | (446.6) | (683.6) | (575.1) | (720.0) |
| <i>including</i> | | | | | |
| Borrowings | (549.1) | (271.8) | (525.9) | (378.0) | (562.6) |
| Deferred tax liabilities | (116.3) | (131.2) | (119.0) | (152.8) | (136.2) |
| Total liabilities | (833.3) | (874.0) | (826.9) | (936.7) | (1,498.0) |
| Equity attributable to the shareholders of Petropavlovsk PLC | 568.0 | 516.2 | 553.9 | 513.3 | 569.3 |
| Non-controlling interests | 17.5 | 18.3 | 16.4 | 18.4 | 196.8 |
| Total equity | 585.5 | 534.5 | 570.3 | 531.7 | 766.1 |

1 See Part 9: "Selected Consolidated Financial and Other Information—Details of restatement".

Consolidated statement of cash flows

| | Six months ended 30 June | | Year ended 31 December | | |
|--|--------------------------|---------|------------------------|-------------------|-------------------|
| | 2017 | 2016 | 2016 | 2015 ¹ | 2014 ¹ |
| | US\$ | US\$ | US\$ | US\$ | US\$ |
| | million | million | million | million | million |
| | (unaudited) | | | | |
| Cash and cash equivalents at beginning of period | 12.6 | 28.2 | 28.2 | 48.1 | 170.6 |
| Net cash from operating activities | 74.6 | 29.9 | 37.0 | 103.4 | 133.2 |
| Net cash (used in)/from investing activities | (41.3) | 3.9 | (8.7) | (66.2) | (187.3) |
| Net cash used in financing activities | (13.3) | (45.9) | (46.8) | (36.4) | (72.0) |
| Net (decrease)/increase in cash and cash equivalents in the period | 20.0 | (12.1) | (18.4) | 0.8 | (126.1) |
| Effect of exchange rates on cash and cash equivalents | 0.0 | 2.1 | 2.8 | (5.3) | (33.1) |
| Cash and cash equivalents re-classified as assets held for sale at beginning of the period | — | — | — | 55.5 | 92.1 |
| Cash and cash equivalents re-classified as assets held for sale at disposal | — | — | — | (70.8) | — |
| Cash and cash equivalents re-classified as assets held for sale at the end of the period | — | — | — | — | (55.5) |
| Cash and cash equivalents at end of period | 32.7 | 18.3 | 12.6 | 28.2 | 48.1 |

¹ IRC was presented as a discontinued operation in the income statement for the year ended 31 December 2014 and for the period from 1 January until 7 August 2015, when it ceased being a subsidiary and became an associate to the Group.

Selected segmental information

Six months ended 30 June 2017

| | Pioneer US\$ million | Pokrovskiy US\$ million | Malomir US\$ million | Albyn US\$ million | Corporate and other US\$ million | Consoli- dated US\$ million |
|---|----------------------------|-------------------------------|----------------------------|--------------------------|---|--------------------------------------|
| | (unaudited) | | | | | |
| Revenue | | | | | | |
| Gold | 119.0 | 19.4 | 35.9 | 116.6 | — | 290.8 |
| Silver | 0.5 | 0.1 | 0.0 | 0.1 | — | 0.8 |
| Other external revenue | — | — | — | — | 12.4 | 12.4 |
| Inter-segment revenue | — | — | 0.8 | 0.2 | 70.8 | 71.8 |
| Intra-group eliminations | — | — | (0.8) | (0.2) | (70.8) | (71.8) |
| Total Group revenue from external customers | 119.5 | 19.4 | 36.0 | 116.7 | 12.4 | 304.0 |
| Operating expenses and income | | | | | | |
| Operating cash costs | (66.6) | (19.9) | (32.8) | (37.9) | (11.8) | (169.0) |
| Depreciation | (14.9) | (3.4) | (7.5) | (22.2) | (0.0) | (48.0) |
| Central administration expenses | — | — | — | — | (23.1) | (23.1) |
| Reversal of impairment/ (impairment) of ore stockpiles | 3.1 | (0.1) | (0.3) | 3.6 | — | 6.3 |
| Impairment of gold in circuit | — | (0.8) | (0.6) | — | — | (1.4) |
| Impairment of non-trading loans | — | — | — | — | (0.5) | (0.5) |
| Total operating expenses | (78.5) | (24.2) | (41.1) | (56.4) | (35.4) | (235.7) |
| Share of results of associates | — | — | — | — | (3.0) | (3.0) |
| Segment result | 41.0 | (4.7) | (5.1) | 60.3 | (26.0) | 65.4 |
| Foreign exchange losses | | | | | | (0.5) |
| Operating profit | | | | | | 64.9 |
| Investment income | | | | | | 0.4 |
| Interest expense | | | | | | (14.4) |
| Other finance gains | | | | | | 2.0 |
| Other finance losses | | | | | | (6.1) |
| Taxation | | | | | | (22.3) |
| Profit for the period | | | | | | 24.5 |

Year ended 31 December 2016

| | Pioneer US\$ million | Pokrovskiy US\$ million | Malomir US\$ million | Albyn US\$ million | Corporate and other US\$ million | Consoli- dated US\$ million |
|---|-------------------------------------|--|-------------------------------------|-----------------------------------|---|--|
| Revenue | | | | | | |
| Gold | 163.5 | 46.7 | 67.1 | 211.2 | – | 488.5 |
| Silver | 1.0 | 0.3 | 0.1 | 0.2 | – | 1.5 |
| Other external revenue | – | – | – | – | 50.7 | 50.7 |
| Inter-segment revenue | – | – | 1.2 | 0.4 | 101.0 | 102.7 |
| Intra-group eliminations | – | – | (1.2) | (0.4) | (101.0) | (102.7) |
| Total Group revenue from external customers | 164.5 | 47.0 | 67.2 | 211.4 | 50.7 | 540.7 |
| Operating expenses and income | | | | | | |
| Operating cash costs | (85.3) | (33.8) | (45.2) | (101.0) | (49.0) | (314.3) |
| Depreciation | (38.8) | (6.6) | (13.6) | (45.7) | (0.5) | (105.3) |
| Central administration expenses | – | – | – | – | (32.6) | (32.6) |
| Impairment of exploration and evaluation assets | – | – | – | (9.2) | – | (9.2) |
| (Impairment/) reversal of impairment of ore stockpiles | (6.1) | (1.0) | 5.8 | 0.1 | – | (1.2) |
| Gain on disposal of non-trading loans | – | – | – | – | 6.7 | 6.7 |
| Gain on disposal of subsidiaries | – | – | – | – | 0.8 | 0.8 |
| Total operating expenses | (130.2) | (41.4) | (53.0) | (155.7) | (74.6) | (454.9) |
| Share of results of associates | – | – | – | – | (3.6) | (3.6) |
| Segment result | 34.3 | 5.6 | 14.2 | 55.6 | (27.5) | 82.2 |
| Foreign exchange losses | | | | | | (5.2) |
| Operating profit | | | | | | 77.0 |
| Investment income | | | | | | 0.6 |
| Interest expense | | | | | | (61.0) |
| Other finance gains | | | | | | 11.9 |
| Other finance losses | | | | | | (1.5) |
| Taxation | | | | | | 4.7 |
| Profit for the period | | | | | | 31.7 |

For selected segmental information for the six months ended 30 June 2016 and the years ended 31 December 2015 and 2014, see Part 9: “*Selected Consolidated Financial Information and Other Information*”.

Other financial information

Underlying EBITDA

| | Six months ended 30 June | | Year ended 31 December | | |
|--|--------------------------|--------------|------------------------|--------------|--------------|
| | 2017 | 2016 | 2016 | 2015 | 2014 |
| | US\$ | US\$ | US\$ | US\$ | US\$ |
| | million | million | million | million | million |
| Profit/(loss) for the period from continuing operations | 24.5 | 9.2 | 31.7 | (190.5) | (182.2) |
| Add/(less): | | | | | |
| Investment income | (0.4) | (0.2) | (0.6) | (1.0) | (1.7) |
| Interest expense | 14.4 | 30.5 | 61.0 | 71.5 | 67.7 |
| Other finance gains | (2.0) | (2.3) | (11.9) | (9.1) | — |
| Other finance losses | 6.1 | 1.5 | 1.5 | — | — |
| Foreign exchange losses | 0.5 | 5.9 | 5.2 | 12.0 | 31.3 |
| Taxation | 22.3 | (4.4) | (4.7) | 48.9 | 167.9 |
| Depreciation | 48.0 | 59.3 | 105.3 | 129.1 | 144.0 |
| Reversal of impairment of mining assets | — | — | — | — | (28.9) |
| Impairment of exploration and evaluation assets | — | — | 9.2 | 37.4 | 22.0 |
| (Reversal of impairment)/impairment of ore stockpiles | (6.3) | (12.3) | 1.2 | 17.4 | 10.1 |
| Impairment of gold in circuit | 1.4 | — | — | — | — |
| Impairment of non-trading loans | 0.5 | — | — | — | — |
| Impairment of investments in associates | — | — | — | — | 9.7 |
| Write-down to adjust the carrying value of Kobooldo's net assets to fair value less cost to sell | — | — | — | — | 11.9 |
| Share of results of associates ¹ | 5.1 | 0.9 | 2.4 | 57.0 | — |
| Underlying EBITDA | 114.1 | 88.0 | 200.1 | 172.8 | 251.8 |
| Group revenue from continuing operations | 304.0 | 254.0 | 540.7 | 599.9 | 865.0 |
| Underlying EBITDA margin | 37.5% | 34.6% | 37.0% | 28.8% | 29.1% |

1 Group's share of interest expense, investment income, other finance gains and losses, foreign exchange losses, taxation, depreciation and impairment recognised by an associate.

Financial ratios and measures used in their calculation

| | As at 30 June and for the year then ended ⁴ | | As at 31 December and for the year then ended | | |
|--|--|--------------|---|--------------|--------------|
| | 2017 | 2016 | 2016 | 2015 | 2014 |
| | US\$ million | US\$ million | US\$ million | US\$ million | US\$ million |
| | unless ratio | unless ratio | unless ratio | unless ratio | unless ratio |
| Net Debt¹ | 570.1 | 597.6 | 598.6 | 610.0 | 929.7 |
| Underlying EBITDA² | 226.2 | 170.8 | 200.1 | 172.8 | 251.8 |
| Net Debt/Underlying EBITDA | 2.5 | 3.5 | 3.0 | 3.5 | 3.7 |
| Net Finance Charges³ | 55.8 | 59.3 | 55.7 | 68.1 | 78.9 |
| Underlying EBITDA/Net Finance Charges | 4.1 | 2.9 | 3.6 | 2.5 | 3.2 |

1 See Part 9: "Selected Financial Information and Other Information—Non-IFRS financial information and reconciliations—Net debt and Net debt/Underlying EBITDA" for the calculation of Net Debt.

2 See Part 9: "Selected Financial Information and Other Information—Non-IFRS financial information and reconciliations—Underlying EBITDA" for the reconciliation of Underlying EBITDA to profit/(loss) for the period from continuing operations.

3 See Part 9: "Selected Financial Information and Other Information – Non-IFRS financial information and reconciliations – Net Finance Charges" for the reconciliation of Net Finance Charges to interest expense for the period.

- 4 Underlying EBITDA and Net Finance Charges shown in this table represent amounts for the last twelve months ended 30 June 2017 and 2016.

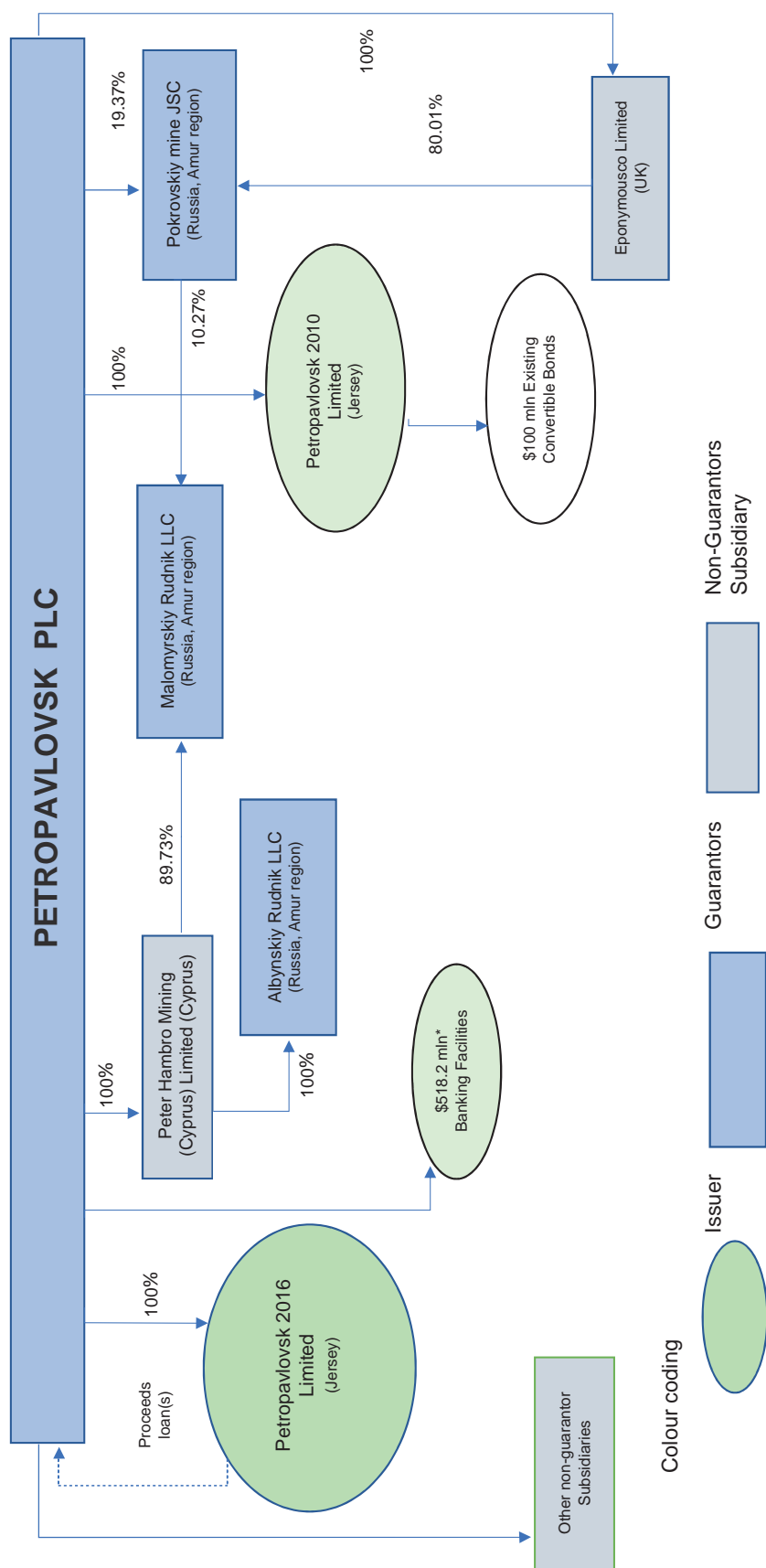
Other information

| | Nine months ended 30 September | | Year ended 31 December | | |
|--|--------------------------------|--------------------|------------------------|-------|-------|
| | 2017 | 2016 | 2016 | 2015 | 2014 |
| Gold production¹ (Koz) | | | | | |
| Pioneer | 131.8 | 105.3 | 141.9 | 231.4 | 263.2 |
| Pokrovskiy | 22.8 | 27.7 | 37.6 | 56.0 | 64.2 |
| Malomir | 43.8 | 40.0 | 56.8 | 59.1 | 82.2 |
| Albyn | 138.0 | 125.1 | 180.0 | 157.6 | 186.0 |
| Alluvial operations | — | — | — | — | 29.1 |
| Total | 336.4 | 298.1 | 416.3 | 504.1 | 624.5 |
| Average number of employees at the Group's gold mining operations (number of people) | 5,160 ² | 4,994 ³ | 4,998 | 5,196 | 5,070 |

1 From the beginning of 2017, the Company moved to using gold poured as the definition for production.

2 This number is calculated for the six months ended 30 June 2017.

3 This number is calculated for the six months ended 30 June 2016.



*As at 30 June 2017

PART 2

OFFERING STRUCTURE

*The following is an overview of the terms of the Notes. The overview is derived from, and should be read in conjunction with the full text of the Terms and Conditions of the Notes (the **Conditions**), the Guarantees and the Trust Deed constituting the Notes, which prevail to the extent of any inconsistency with the terms set out in this overview. Capitalised terms used herein and not otherwise defined have the respective meanings given to such terms in the relevant Conditions.*

| | |
|---------------------------|--|
| Notes being offered | US\$500,000,000 8.125 per cent. guaranteed Notes due 2022 |
| Issuer | Petropavlovsk 2016 Limited |
| Guarantors | Petropavlovsk PLC JSC Pokrovskiy Rudnik LLC Albynskiy Rudnik LLC Malomirskiy Rudnik |
| Joint Lead Managers | Citigroup Global Markets Limited J.P. Morgan Securities plc SIB (Cyprus) Limited VTB Capital plc |
| Issue price | 100 per cent. |
| Issue date | 14 November 2017 |
| Maturity date | 14 November 2022 |
| Interest | The Notes will bear interest at the rate of 8.125 per cent. per annum from and including 14 November 2017. |
| Interest payment dates | Interest on the Notes will be payable semi-annually in arrear, on 14 May and 14 November of each year commencing on 14 May 2018. |
| Ranking of the Notes | The Notes will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer. The payment obligations of the Issuer under the Notes shall, save for such exceptions as may be provided by applicable legislation at all times rank equally with each other and will rank equally with all its other present and future unsecured and unsubordinated obligations. |
| Ranking of the Guarantees | Each Guarantee will constitute a direct, unconditional and unsecured obligation of the relevant Guarantor. The payment obligations of each Guarantor under the Guarantees shall, save for such exceptions as may be provided by applicable legislation at all times rank equally with each other and will rank equally with all its other present and future unsecured and unsubordinated obligations. |
| Use of proceeds | It is anticipated that the net proceeds from the issue and sale of the Notes will be approximately US\$495,500,000. The Company intends to use the net proceeds from the issue of the Notes to substantially refinance the loans |

provided pursuant to the Banking Facilities by Sberbank and VTB Bank (further details of which are set out in Part 10: “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”).

Further issues

The Issuer may from time to time, without the consent of the holders of the Notes, create and issue further notes or bonds either ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) so that the same shall be consolidated and form a single series with the outstanding notes or bonds of any series (including the Notes) constituted by the Trust Deed or upon such terms as the Issuer may determine at the time of their issue. See Part 17: “*Terms and Conditions of the Notes—Further Issues*”.

Additional amounts

In the event that withholding taxes are required to be withheld or deducted from payments on any of the Notes in Jersey, the Russian Federation, the United Kingdom or the United States, the Issuer will, subject to certain exceptions described in this Offering Memorandum, pay such additional amounts as will result, after deduction or withholding of such taxes, in the payment of the amounts which would have been payable in respect of such Notes had no such withholding or deduction been required. See Part 17: “*Terms and Conditions of the Notes—Taxation*”.

Redemption for taxation reasons

The Notes may be redeemed at the option of the Issuer, in whole but not in part, at any time with prior notice at the principal amount thereof plus accrued interest on the date fixed for redemption if certain events occur that would require the Issuer or a Guarantor to pay additional amounts, as described under Part 17: “*Terms and Conditions of the Notes—Redemption for Tax Reasons*”.

Relevant Event

If a Relevant Event (as defined in Part 17: “*Terms and Conditions — Redemption upon a Relevant Event*”) has occurred, each holder of a Note will have the option to require the Issuer to redeem such Note on the Relevant Event Put Settlement Date (as defined in Part 17: “*Terms and Conditions — Redemption upon a Relevant Event*”) at an amount equal to 101 per cent. of the principal amount of the Note together with interest accrued (if any) to the Relevant Event Put Settlement Date, as further described in Part 17: “*Terms and Conditions of the Notes—Redemption upon a Relevant Event*”.

Form and denomination

The Notes will be in registered form, without interest coupons attached, in denominations of US\$200,000 or multiples of US\$1,000 in excess thereof.

The Notes will be issued in the form of a Regulation S Global Note and a Rule 144A Global Note, each in registered form without interest coupons. The Regulation S Global Note will be deposited with a common depository for, and registered in the name of, a nominee of Euroclear and Clearstream, Luxembourg. The Rule 144A Global Note will be deposited with a custodian for, and registered in the name of, Cede & Co., as nominee of DTC.

| | |
|---|--|
| | <p>Ownership interests in the Global Regulation S Global Note and the Rule 144A Global Note will be shown on, and transfer thereof will be effected only through, records maintained by DTC, Euroclear, Clearstream, Luxembourg and their respective participants. Notes in definitive form will be issued only in limited circumstances.</p> |
| Listing and Trading | <p>Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and to trading on the Global Exchange Market. The admission of the Notes to trading on the Irish Stock Exchange's Global Exchange Market for listed securities will take place on or about 14 November 2017.</p> |
| Events of Default and certain covenants | <p>The terms and conditions of the Notes contain events of default and covenants (including a cross default provision and a negative pledge) as described further in Part 17: "<i>Terms and Conditions of the Notes—Events of Default</i>" and "<i>Terms and Conditions of the Notes—Covenants</i>".</p> |
| Trustee | <p>Citibank, N.A., London Branch is the trustee under the Trust Deed to be dated on or about 14 November 2017.</p> |
| Principal Paying Agent and Transfer Agent | <p>Citibank, N.A., London Branch</p> |
| Registrar | <p>Citigroup Global Markets Deutschland AG</p> |
| Governing law | <p>The Notes, the Guarantees and the Trust Deed will be governed by, and construed in accordance with, English law.</p> |
| Risk factors | <p>An investment in the Notes involves a high degree of risk. Prospective purchasers of the Notes should consider carefully all of the information set forth in this Offering Memorandum and, in particular, the information set forth under Part 3: "<i>Risk Factors</i>" before making an investment in the Notes.</p> |
| Selling restrictions | <p>The Notes are subject to selling restrictions in the United States, the United Kingdom, the Russian Federation and Jersey. See Part 21: "<i>Subscription and Sale</i>".</p> |
| Security Codes | <p>Regulation S ISIN: XS1711554102 Regulation S Common Code: 171155410 Rule 144A ISIN: US71675MAA45 Rule 144A Common Code 171181208 Rule 144A CUSIP: 71675M AA4</p> |
| Ratings | <p>The Notes have been assigned an expected rating of B- (CreditWatch Positive) by S&P and B- (exp) by Fitch. The Company has been assigned a rating of B- (CreditWatch Positive) by S&P and an expected rating of B- (exp) with Stable Outlook by Fitch.</p> <p>A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.</p> |

PART 3

RISK FACTORS

Any investment in the Notes is subject to a number of risks. Prospective investors should carefully consider, in light of their own financial circumstances and investment objectives, the following risks and other information contained in this Offering Memorandum before making an investment in the Notes. If any of the following risks actually occur, the market value of the Notes may be adversely affected.

The risks discussed below are those that the Group believes are material, but these risks and uncertainties may not be the only risks that the Group faces. Additional risks that are not known to the Group at this time, or that it currently believes are immaterial, could also have a material adverse effect on the Group's business, results of operations, financial condition and prospects. The order in which the following risks are presented is not intended to be an indication of the probability of their occurrence or of the magnitude of their potential effects.

Risks relating to the Group

1 The Group requires ongoing access to liquidity to meet operational and financial requirements and there is a risk that the Group may not be able to obtain these funds.

The Group needs ongoing access to liquidity and funding in order to:

- substantially refinance/repay the Group's debts, including any outstanding debts under the Notes when issued and the Banking Facilities, as they fall due;
- support its existing operations with future growth in the level of the Group's production requiring significant amounts of working capital which is not currently available to the Group;
- invest in and develop its exploration projects;
- complete the construction of the POX Hub and the associated flotation plant at Malomir;
- continue development of the Group's underground mining projects; and
- extend the life and capacity of its existing mining operations.

There is a risk that the Group may be unable to obtain the necessary funds when required or that such funds will only be available on unfavourable terms. The Group may therefore be unable to develop and/or meet its operational or financial requirements which in turn could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

2 The Group may not be able to finance its capital expenditure requirements in order to sustain and expand its operations or future planned capital expenditure.

Some additional capital expenditure and ongoing infrastructure work is required at Pioneer, Malomir and Albyn in the medium-term and delays or cost overruns in relation to this work could adversely affect the Group's business, results of operations, financial condition and prospects. Furthermore, the Group's business will, in the longer term, require significant capital expenditure, including in relation to exploration and development, including underground mining, production, transport, meeting the Group's obligations under environmental laws and regulations, and on the development of the POX Hub.

The Group's long term strategy relies on the successful completion of the POX Hub and related flotation facilities and successful delivery of underground mining projects. Production from underground mining commenced in June 2017 and the POX Hub is expected to be commissioned in late 2018. If the Group, through insufficient funding or otherwise, is unable to commission the POX Hub and the flotation facilities and/or complete the development of the

underground mining projects within the projected budget and timeframes, this may have an adverse impact on the Group's growth plans and its future profitability.

To be in a position to make these capital expenditures, the Group will need to generate sufficient operating cash flow internally or to access the necessary funding externally which it may seek to do through equity financing and/or from external borrowings subject to any negative pledge, conversion price adjustment provisions and restrictions on indebtedness as may be applicable in the Existing Convertible Bonds, the Notes and in the Banking Facilities. However, no assurances can be given that the Group will be able to raise the funding required for such capital expenditure, on a secured basis or otherwise, on acceptable terms or at all. If the Group is unable to raise the necessary funding, the Group will have to reduce its capital expenditure. Any such reduction could materially and adversely affect the Group's ability to carry out future mineral exploration programmes and/or to appraise or develop any of its mineral resources. If the reductions are severe enough, the Group may not be able to commence or continue operations at one or more of its licensed territories.

The Group's ability to obtain outside funding will depend, in addition to the Group's financial position, in part upon the price of minerals and the industry's perception of the minerals' (including gold, iron ore and related products) future price and other factors outside the Group's control. If the Group is unable to obtain any required funding in a timely manner, at a reasonable cost or on reasonable terms, it could be required to scale back, defer, curtail or abandon its operational plans, which could have a material adverse effect on the Group's business, results of operations and financial condition.

3 The Group's longer term profitability may be dependent on implementing changes to its technology for gold extraction, including the POX Hub.

Historically, the Group has used heap leach and RIP recovery routes at Pokrovskiy to extract gold from mined ore. The Group's level of profitability, results of operations and financial condition are dependent on its continued ability to satisfactorily operate its RIP plants. The consistency of the head grade of ore (being the grade of ore delivered to the mill) and heap leach operations can affect that process.

In addition, given the Group's strategy and focus to utilise the POX Hub, the Group's longer term profitability may become dependent on its ability to satisfactorily commission and utilise the POX Hub in order to treat non-refractory ore. In addition, the POX Hub may be subject to defects in design or construction, and cost overruns. No assurance can be given that the POX Hub will deliver the expected operational improvements as currently envisaged. In the event the POX Hub does not come into operation, the Group would have to find an alternative process to exploit its refractory ores. Any failure or delay utilising the POX Hub to exploit the significant refractory ore could have a material adverse effect on the Group's business, results of operations and financial condition.

4 If there is deterioration in the performance of the Group there is a risk that the Group could breach one or more of the financial covenants contained in the Group's Financing Arrangements and any additional document entered into in connection therewith and/or be unable to meet its repayment obligations.

The Group's borrowing facilities include certain customary financial covenants for a leveraged company, including specific covenants in relation to the ratio of Underlying EBITDA to net debt, Underlying EBITDA to net finance charges and the positive net asset value of certain Group members. If the Group does not generate sufficient Underlying EBITDA, ensure that relevant Group members maintain a positive net asset value or if any bank waivers do not cover any particular breach that has occurred at such time, it will be in breach of such covenants.

Certain of the Group's Financing Arrangements also include production covenants. If the Group does not produce enough gold, it will be in breach of such covenants.

There is a minimum “tangible net assets” test in the ICBC Facility Agreement. The ICBC Facility Agreement also requires K&S, a member of the IRC Group which develops the K&S Project, to comply with a debt service cover ratio, which tests the ability of K&S to service the ICBC Facility. The obligations of K&S under the ICBC Facility Agreement are guaranteed by the Company. In addition, the Company has provided a guarantee to ICBC in respect of the ICBC Facility. The ICBC Facility is fully drawn and as at 30 June 2017 the outstanding loan principal amounted to US\$233.75 million.

A breach of a relevant covenant under a particular facility could (unless relaxed or waived by the relevant lender) result in the relevant lenders of such facility demanding immediate repayment of such facility. Due to the nature of the borrowing facilities, an event of default under one facility would result in cross-defaults and/or cross-accelerations under other financing arrangements, including under the terms of the Notes, Existing Convertible Bonds and the ICBC Facility Agreement, which could result in the relevant lenders demanding immediate repayment. An event of default under one facility could also result in the termination and close out of the Group’s hedging arrangements. This could therefore result in a significant proportion of the Group’s borrowings becoming repayable immediately.

If this were to happen the Company might cease to be a going concern and could, in the absence of securing alternative funding and/or substantial proceeds from the realisation of assets, become unable to repay its bank debts or procure the Issuer to repay the Notes and/or maintain its investment programme and its licences.

5 The Group is subject to mining risks.

The Group’s operations, like those of other mining companies, are subject to all of the hazards and risks normally associated with the exploration, development and production of natural resources, any of which could result in production shortfalls or damage to persons, property or the environment. The Group engages in open pit and underground mining. Hazards associated with the Group’s mining operations include flooding, collapses of the open pit wall or shelf or underground structures, accidents associated with the operation of mining transportation equipment, accidents associated with the preparation and ignition of large-scale open pit, and underground, blasting operations, production disruptions due to weather and hazards associated with the disposal of mineralized waste water, such as groundwater and waterway contamination. The Group may experience any of these hazards. The occurrence of any of these or similar hazards could delay production, increase production costs, damage the Group’s reputation or result in injury or death to persons and damage to property, as well as associated liability for the Group, and may result in actual production differing potentially materially from estimates of production. Although the Group has purchased some insurance, the Group may incur costs that are not covered under this insurance, which may have a material adverse effect on the Group’s business, results of operations, financial condition and prospects.

6 The interests of Shareholders and Noteholders may not be aligned.

The interests of shareholders may not in all cases be aligned with the interests of Noteholders, particularly if the Group is in financial difficulties. Shareholders may have an interest in causing the Board to declare dividends, incur additional indebtedness or pursue acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their equity investment, even though such transactions might involve risks to Noteholders.

Shareholders may sell their shares and different Shareholders may perceive their interests differently. Accordingly, Shareholders may change their approach to the same set of circumstances over time in a way detrimental to Noteholders.

7 Shareholder votes can result in changes to the Board.

The Company has applied a policy of the Directors resigning and re-submitting themselves for re-election at each Annual General Meeting. Shareholder votes, whether exercised at an Annual General Meeting or on any other resolution relating to the appointment or removal of a Director,

could result in changes to the Board. This occurred at the Company's June 2017 Annual General Meeting, which resulted in a majority of the Board changing with the re-election of one of the founders, Peter Hambro, and three non-executive directors being opposed, and four new directors being appointed to the Board after having been proposed by the Company's largest Shareholders. Any such changes could in turn result in changes to the way in which the Group is managed which could affect its ability to make payments to Noteholders.

8 The Group is exposed to IRC's business and the value of the IRC Shares as well as having guarantee exposure relating to IRC's debt.

As at 30 June 2017, the Group had a 31.1 per cent. interest in the issued share capital of IRC. IRC targets the Chinese market for a significant proportion of the sales of its products, principally iron ore. The financial performance of IRC, and therefore the value of the Group's investment in IRC, is dependent on, *inter alia*, the global prices of, and demand for, iron ore, ilmenite, titanium, steel making composites, steel and steel products, the prices of which have been, and may continue to be, volatile. IRC has not entered into any long-term fixed price contracts for its products, which increases its vulnerability to short- to medium-term variations in the spot price market. In the past, IRC has had to suspend its operations as a result of volatility in the iron ore industry and steel sector and may need to do so again in the future. A decline in the price of IRC's products, principally iron ore, a decline in Chinese demand, and/or an increase in Chinese domestic production or other competition, could adversely affect IRC's business, results of operations, financial condition and prospects.

IRC is also exposed to the state of diplomatic relations between the Russian Federation and China. For example, the imposition of export controls in the Russian Federation or import controls in China could limit the quantity of, or prices at which, iron ore could be exported to China or imported from the Russian Federation, which could have a material adverse effect on IRC's business, results of operations, financial condition and prospects.

The IRC Shares are listed on the Hong Kong Stock Exchange. The market price of the IRC Shares is subject to fluctuations due to changes in sentiment in the market or in response to various facts and events, whether occurring in Hong Kong, China, the Russian Federation or in other jurisdictions. Factors such as changes in interest rates, exchange rates and the rate of inflation, changes in fiscal, monetary or regulatory policies or international hostilities may also negatively affect the market price of the IRC Shares. Additionally, IRC's results and prospects may from time to time be below the expectations of market analysts and investors.

In addition, the Company has provided a guarantee to ICBC in respect of a US\$340 million project loan facility provided to K&S by ICBC to fund the construction of IRC's iron ore mining operation at K&S. See Part 9: "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Other financing arrangements*". If there were to be an event of default by K&S, the Company may become liable to repay all outstanding amounts under the ICBC Facility pursuant to the ICBC Guarantee and early repayment of other Group indebtedness pursuant to cross default or other provisions thereof may become triggered. This could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

9 The Group's financial position is materially dependent on the price at which it can sell its gold.

The Group's financial position is materially dependent on the price at which it sells its gold production. Following the substantial drop in the gold price since 2011, the Group has been materially and adversely affected. The Gold PM Fix peaked at US\$1,895 per ounce in September 2011, but thereafter trended down to a low of US\$1,049 per ounce (a decrease of 45 per cent.) in December 2015. One explanation for the marked decrease is that as the impact of the 2007 financial crisis began to ease, some investors began to position themselves to take advantage of the impending economic recovery and thus rotated out of gold and into other assets.

A further sustained period of relatively low gold prices, and any sustained downward movement in the price for gold, may negatively affect the Group's profitability and cash flow. The majority of the Group's revenues and cash flows are derived from the sale of gold. Traditionally, the market price for gold has experienced volatility and has been affected by factors over which the Group has no control. These factors include, but are not limited to:

- global supply, both mine production and recycled supply;
- global demand levels, including industrial, jewellery and investment demand;
- speculative trading activity in gold and gold derived instruments;
- international or regional political, economic or military events / action and the expectations thereof;
- actual or expected purchases and sales of gold holdings by central banks or other large gold holders or dealers;
- the strength of the US Dollar (the currency in which gold prices are generally quoted) and of other currencies;
- inflation and financial market expectations regarding the rate of inflation;
- interest rates and the financial market expectations of future interest rates;
- local and foreign government regulations, including tariffs and quotas;
- hedging activity by gold producers; and
- production and cost levels for gold in major gold-producing nations

The average annual gold price declined 8 per cent. in 2015 to US\$1,160 per ounce and, in contrast, appreciated by 8 per cent. in 2016 to an average of US\$1,251 per ounce. As at 6 November 2017 (being the latest practicable date prior to the publication of this Offering Memorandum), the London PM Fix gold price closed at US\$1,270.90 per ounce, averaging US\$1,254.55 per ounce for the year up to and including that date.

Should gold prices fall below and remain below the Group's cost of production for a sustained period, the Group may experience losses and may be forced to curtail or suspend some or all of its mining operations, subject to certain covenants in its Financing Arrangements requiring it to maintain minimum gold production or sales. In addition, the Group would also have to assess the economic impact of low gold prices on its ability to recover any losses it may incur during that period and on its ability to maintain adequate reserves.

In line with the Group's hedging policy, the Group has entered into forward sales contracts with Sberbank and VTB to implement a partial hedge against adverse changes in the gold price. Forward contracts to sell an aggregate 441,551 ounces of gold at US\$1,252.58 per ounce were outstanding as at 6 November 2017 (being the latest practicable date prior to the publication of this Offering Memorandum). If the gold price is higher than the price at which the Group has contracted to sell under such contracts, the Group will not be able to obtain the benefit of such higher price in relation to the gold contracted to be sold under such contracts.

There is no certainty that the Group will in the future be able to enter into such contracts to the extent it wishes to do so, and in such event it would not have the benefit of the protection which it would get were such contracts to be entered into. The Group is subject to credit and performance risk in relation to the counterparties to these contracts.

10 The Group is dependent on production from its Key Mining Assets in order to generate revenue and cash flow and comply with the production and sales covenants in its Financing Arrangements.

The Group is dependent on production from its Key Mining Assets in order to generate revenue and cash flow and comply with the production and sales covenants in its Financing Arrangements. In 2014, 2015, 2016 and the first six months of 2017, a substantial portion of the Group's revenues and cash flows were derived from sales of gold mined from Pokrovskiy, Pioneer, Malomir and Albyn with these mines providing all of the Group's revenues from mining operations in 2016 and the first six months of 2017. The Group expects that Pioneer, Malomir and Albyn will continue to provide a substantial portion of the Group's operating revenues and cash flows in at least the short- to medium-term.

The achievement of the Group's operational targets and ability to produce the expected amounts of gold will be subject to the completion of planned operational goals on time and according to budget, and will be dependent on the effective support of the Group's personnel, systems, procedures and controls. Any failure of these or any adverse mining conditions at the mines may result in delays in the achievement of operational targets with a consequent material adverse effect on the business, results of operations, financial condition and prospects of the Group.

11 The impact of weather conditions causing flooding may have a material adverse effect on the Group.

The Group's assets are located in the Russian Far East, which is an area that can be subject to severe climatic conditions. Severe weather conditions, such as cold temperatures in winter and torrential rain, potentially causing flooding in the region, could have a material adverse effect on operations, including on the delivery of supplies, equipment and fuel, and exploration and production levels. For example, in 2016, exceptional rainfall resulted in disruptions to the mining operations at the Andreevskaya deposit at Pioneer which in turn resulted in lower average grades mined.

In the future, if the perma frost in the Russian Far East continues to melt, that may lead to ground collapse, which may affect the surrounding infrastructure and have other adverse effects.

12 Interruptions to supply of services and equipment may have a material adverse effect on operations.

The Group relies on the supply and availability of various services and equipment in order to successfully run its operations. For example, timely delivery of mining equipment and jaw crushers and their availability is essential to the Group's ability to extract ore from its assets and to crush the mined ore prior to production. Unscheduled interruptions in the Group's operations due to mechanical or other failures, or problems or issues with the supply of goods or services may occur resulting in significant delays to production and could have a material adverse effect on the financial performance of those operations.

13 Production may be materially and adversely affected by grades of ore, stripping costs and other costs.

The Group's levels of production may also be materially and adversely affected by:

- the grades of ore which can be processed – unless gold prices are high, the mining of low grade ore may be uneconomical;
- stripping costs – in open-pit mining operations, removal of overburden and other waste materials is required to obtain access to the ore body. In the event that a large amount of overburden removal is required, this may result in production being uneconomical; and
- costs of production – the key drivers of production costs are labour, energy, fuel and consumables.

Any adverse changes in any of these drivers (or a combination of them) could have a material adverse effect on production. If costs of production increase, profitability and possibly production capacity could be negatively affected, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

14 The Group is subject to currency risk.

The Group reports its results in US Dollars, which is the currency in which gold is principally traded and therefore in which most of the Group's revenue is generated. Significant costs are incurred in and/or influenced by the local currencies in which the Group operates, principally Russian Roubles. The appreciation of the Russian Rouble against the US Dollar tends to result in an increase in the Group's costs relative to its revenues, whereas the depreciation of the Russian Rouble against the US Dollar tends to result in a decrease in the Group's costs relative to its revenues. In addition, a portion of the Group's corporate overheads is denominated in Pounds Sterling. Therefore, adverse currency movements could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. There has recently been very substantial volatility in the Russian Roubles/US Dollar exchange rate. The average exchange rate for 2014, 2015, 2016 and 2017 (to 30 September) between the Russian Rouble and US Dollar was respectively: 39.14 RUB/1 USD; 61.87 RUB/1 USD; 66.35 RUB/1 USD; and 58.15 RUB/1 USD.

If inflation in the Russian Federation were to increase without a corresponding devaluation of the Russian Rouble relative to the US Dollar, given, among other things, significant costs are incurred in Russian Roubles and much of the Group's revenue is generated in US Dollars, this could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

15 The Group is subject to environmental risks and issues arising from compliance with environmental regulations and permitting requirements.

The Group's operations are subject to the extensive environmental risks inherent in the mining and processing industry. Although the Group believes that the Company and its relevant subsidiaries are in compliance in all material respects with applicable environmental laws and regulations and hold all necessary approvals, licences and permits under those laws and regulations, there are certain risks inherent in their activities, such as risks of accidental spills, leakages or other unforeseen circumstances, that could subject the Group to considerable liability or the loss of necessary approvals, licences or permits. In addition, the Group is subject to checks, including spot checks, regular inspections and reporting requirements by various regulators including the Russian environmental regulator, Rosprirodnadzor. During the conduct of its operations, the Group must comply with the maximum acceptable concentrations, determined by state authorities, for air quality, water quality, soils and sediments. Rosprirodnadzor may make announcements relating to such investigations when they are at a preliminary stage and in advance of any findings. The activity of the Group is also subject to regular inspections in respect of industrial safety, including with respect to the exploitation of various hazardous industrial objects which are required for extraction of minerals, processing and production of gold. During the exploitation of hazardous industrial objects, the Group is required to comply with a significant number of established technical and regulatory requirements relating to mining operations. In the event that any issues are identified during such inspections conducted by state authorities, this could have a material adverse effect on the Group's business, results of operations, financial condition and prospects from penalties up to suspensions of operations.

Environmental legislation and permitting requirements and the manner in which these are enforced are likely to evolve in a manner which will require higher and more demanding standards and stricter enforcement, as well as increased fines and penalties for non-compliance. However, the Group is unable to predict the extent and effect of additional environmental laws and regulations which may be adopted in the future, including whether any such laws or regulations would materially increase the Group's cost of doing business or affect its operations in any area.

Some obligations relating to industrial safety are fulfilled by the Group's contractors who perform some operations envisaged by the Group's subsoil licences. Any breaches of these requirements by such contractors, over which the Group may have limited control, or by the Group's own personnel, may negatively affect the licence holders and the status of their respective licences.

16 The Group's business is subject to complex and substantial regulations which may change.

In addition to the specific laws and regulations discussed elsewhere in this Part 3: "*Risk Factors*", the Group must comply with laws and regulations in the Russian Federation, the United Kingdom and elsewhere that relate to, among other things, financing, property, land use, employment law, and the establishment, reorganisation and structuring of the Group's business. These laws and regulations often provide broad discretion to the administering authorities, who may interpret these requirements differently from the interpretation taken by the Group. Failure to manage regulatory and legal risks in respect of these matters adequately could lead to significant liabilities or penalties, which could have a material adverse effect on the business, results of operations, financial condition and prospects of the Group.

Additionally, the laws and regulations with which the Group must comply are subject to change, which may be retrospective, and changes in regulations may require substantial changes to the manner the Group operates its business. Such changes could cause the Group to incur increased capital expenditure or running costs to ensure compliance with the new applicable laws or regulation. In short, compliance with new or changed regulation in these or other areas could have an adverse impact on the Group in a variety of ways, including because of the Group's need to spend more on compliance, and/or to change its existing operations, any of which could have a material adverse effect on the Group's business, results of operations financial condition and prospects.

17 The Group requires various licences and permits in order to operate and the Group's mineral licences may be challenged, terminated, suspended, limited or not extended.

The exploration and production activities of the Group are subject to various laws governing prospecting, development, production taxes, labour standards, occupational health, site safety, toxic substances and other matters, including in connection with obtaining and renewing licences and permits and ongoing compliance with existing laws and regulations. Regulatory authorities exercise considerable discretion in the issuance and renewal of licences and permits, in monitoring licensees' compliance with the terms thereof and in interpreting and enforcing applicable laws and regulations. Future inspections by regulatory authorities may conclude that the Group has violated applicable laws or regulations. If the Group is unable to refute these conclusions or to remedy these violations, the regulatory authorities may impose fines, criminal and administrative penalties or severe sanctions, including the suspension, amendment or termination of the Group's licences and permits and compel the Group to cease certain of its business activities. The loss of any licences or permits may have a material adverse effect on the Group's business, financial condition and results of operations.

Amendments to current laws and regulations governing operations and activities of exploration and production of mineral resources, or more stringent implementation thereof, could have a material adverse effect on the business, results of operations and the financial condition of the Group. Although the Group believes that the exploration, development and production activities of the Group are currently carried out in accordance with applicable rules and regulations relevant to the current stage of development in all material respects, and that they hold all necessary approvals, licences and permits under those laws and regulations for their current activities, no assurance can be given that new rules and regulations will not be applied in a manner which could limit or curtail exploration, production or development.

The Group's principal activity is the mining of precious and non-precious metals which requires the Group to hold licences that permit it to explore and mine in particular areas in the Russian Federation. The licensing regime in the Russian Federation for the exploration and production of minerals is governed primarily by the Subsoil Law and regulations promulgated thereunder and

the Federal Law No.41-FZ dated 26 March 1998 “Precious Metals and Precious Stones” (as amended), and the Group’s licences are regulated by Rosnedra and its territorial departments. However, the legal and regulatory basis for obtaining and maintaining licences in the Russian Federation can be unclear and subject to change. In addition, it is possible that licences obtained from the relevant regulatory agencies could subsequently be challenged by governmental, prosecutorial or other authorities as being invalid or issued in breach of the required procedures. Consequently, the Group cannot predict whether the Group will be able to obtain or maintain at all times all the licences that it requires for its operations. If any of the Group’s material licences were to be challenged or terminated (for example, as a result of insolvency of a Group Company or non-compliance with terms), this could have a material adverse effect on the business, results of operations and financial condition of the Group.

In addition, various government regulations require the Group to obtain permits to implement new projects, to commence certain operations, to renew existing permits or to have existing permits reviewed in order to continue existing projects. For example, the Group is presently awaiting renewal of the subsoil licence in respect of the Pokrovskoye gold ore deposit, which expires 31 December 2017. Certain of the Group’s activities are also subject to other requirements, such as, for example, the approval of an Environmental and Social Impact Assessment by the relevant state environmental experts. In addition, certain activities of the Group are conditional upon advance consultation with local communities and other indigenous population associations. Any failure to obtain, or delay in obtaining, any permits or approvals, or to meet the requirements associated therewith, could adversely affect the Group’s investment plans or operations, which could in turn have a material adverse effect on the business, results of operations, financial condition and prospects of the Group.

Moreover, title to some of the properties (including rights to extract minerals) held by the Group may be challenged or impugned. The Group does not hold any title insurance for its properties and insurance for these rights may not be available or sufficient. In the Russian Federation, Rosnedra, the governmental agency, is the sole authority able to grant mineral property rights, and the Group’s ability to maintain mineral rights on some of its properties will be partly dependent on government policy, rules for the use of subsoil and compliance with any special conditions. In addition, some of the properties that the Group has acquired may be subject to prior claims, and the Group’s rights to the properties may be affected by, among other things, undetected title defects.

In order to obtain and maintain its required licences and permits, the Group must make the required payments and satisfy a variety of other specified obligations. For example, Russian law and the licences held by the Group generally provide that they may be revoked if the relevant licence holder: (i) fails to comply with any material terms of the licences and/or the project documentation, such as minimum work commitments or completing work to be carried out by specified milestones; (ii) systematically breaches the established rules of subsoil use; (iii) does not make timely payments of levies and taxes for the use of the subsoil; (iv) fails to provide geological data and information on the results of geological-exploration works; (v) goes bankrupt or is liquidated; or (vi) fails to fulfil or is unable to fulfil annual output levels. Additionally, regulatory authorities in the Russian Federation exercise considerable discretion in the monitoring of a holder’s compliance with the terms of a licence or permit, which may result in additional requirements being imposed. Consequently, the Group may from time to time not be able to comply with all of the licence requirements of one or more of its licences or permits. If the Group fails to fulfil the terms of any of its licences or permits or to make timely payments or if the Group operates in the licence areas in a manner that violates Russian law, regulators may impose fines on the Group or suspend or withdraw or fail to renew its licences, any of which could have a material adverse effect on the business, results of operations and financial condition of the Group.

The Group’s licences are granted for a defined period as specified in the terms of the relevant licence. Currently, the Subsoil Law does not provide for an automatic extension of a mining licence to its current holder, but allows the current holder to apply to the licensing authority for the extension of an existing licence, provided that it has complied with the terms and conditions of that licence. The subsoil user’s application for the extension of a licence must be supported by

the applicable technical information and documentation. In the event that a subsoil user breaches the terms and conditions of a licence or is unable to provide the licensing authorities with the required technical documentation, there is a risk that the licences will not be extended. Commonly, the extension of a licence is granted for the life of a deposit provided that the project documentation contains relevant substantiation and evidence. While the Group has been successful in extending several of its gold production licences in the past, no assurances can be given that the Group will be in a position to secure renewals of its licences by way of extension in the future. The non-renewal of a key licence or material permit may cause the Group to discontinue certain operations and the imposition of additional conditions may cause the Group to incur additional compliance costs, either of which could have a material adverse effect on the business, results of operations, financial condition and prospects of the Group.

18 The Group must obtain access rights to mining tenements, Land Rights and third party rights.

There may be cases where the Group requires rights in addition to its mining licences to access or to exploit future mining projects, such as permits to use water objects or linear objects (for example electricity lines), servitude rights and construction permissions.

In accordance with Russian legislation and terms commonly included in licence terms and conditions, a licence holder is obliged to obtain Land Rights to the part of the licensed area where certain subsoil operations are carried out, and is obliged to enter into lease agreements in respect of those areas to ensure it has all of the required Land Rights. Depending on the purpose of use of the land, the term of lease agreements can vary. Land plot lease agreements concluded for more than one year must also be registered with the authorised Russian state authority to be enforceable. If the Land Rights are not obtained, fines can be imposed on licence holders. Furthermore, failure to have Land Rights means an absence of sufficient legal grounds for the use and mining of the licence area. This may constitute a breach of licence terms and in a worst case scenario may result in the early termination of the subsoil licence.

Obtaining the required Land Rights can be a long, drawn-out and bureaucratic process for licence holders for reasons beyond their control. The Group and its subsidiaries may not always have the required Land Rights at the time of commencing mining operations or for periods of time where agreements expire in relation to Land Rights. A failure to obtain Land Rights and any resulting blocking of access to the surface within respective licence areas or fines could have a material adverse effect on the Group's business operations or results of operations.

19 The Group may be party to litigation in relation to its business and operations.

Legal proceedings may arise from time to time in the course of the Group's business. The Group cannot prevent proceedings being brought against the Group. There have been occasions in the Russian Federation where litigation has been used as a means of creating difficulties for companies operating in the natural resources sector including by environmental activists and persons with competing business interests. In the event that the Group becomes involved in any significant litigation proceedings, this could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

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

The Group's success is closely aligned to the experience, abilities and contributions of certain of its key senior managers. The Group depends on personnel with a range of skills and a good knowledge of the customs and practices in the mining industry in the Russian Federation, and for certain senior positions a considerable fluency in English and Russian may be required. The Group's growth and future success will depend in significant part upon the continued contributions of a number of the Group's key senior management, personnel, geologists and other experts.

There is no certainty that the services of these key persons will continue to be available to the Group and, if the Group is not successful in retaining or attracting highly qualified individuals in key management positions, its business may be harmed. The Group's growth and profitability may be adversely affected by the loss of the services of these key senior managers or its inability to attract additional highly-qualified and experienced people with the requisite skills.

Presently, the Company has an Acting Chief Executive Officer, namely Mr Sergey Ermolenko. There is a formal recruitment process underway to find a permanent Chief Executive Officer, and the Company believes that Mr Ermolenko will ensure a smooth transition, but there is a risk that no appropriate person can be found for the permanent role (or that, when found, the transition may be less smooth than hoped for).

21 Labour disputes and disruptions could affect the Group.

The Group is at risk of having its mining and exploration operations stopped for indefinite periods due to strikes and other labour disputes. Should any labour disruptions occur, the Group's business, results of operations, financial condition and prospects could be materially and adversely affected.

A substantial number of employees of the Group's subsidiaries, Pokrovsky Rudnik, are members of trade unions. Employees of Irgiredmet are members of an initial trade union organisation of the Mining and Metallurgical Trade Union of Russia. Employees of other Group's subsidiaries are not unionised. There are collective bargaining agreements between some of the Group's subsidiaries and their employees: between Pokrovsky Rudnik and its employees (valid from November 2016 until November 2019), between Albynskiy Rudnik and its employees (valid from November 2016 until November 2019), between Malomirskiy Rudnik and its employees (valid from November 2016 until November 2019) and between Irgiredmet and its employees (valid from January 2017 until December 2019).

The collective bargaining agreements with employees of Pokrovsky Rudnik, Albynskiy Rudnik and Malomirskiy Rudnik are based on the same template and provide similar benefits and guarantees to the companies' employees. In particular, the collective bargaining agreements (i) require at least two months' written notice in the event of any planned redundancies (or 3 months in the case of any mass redundancies), and (ii) provide that, subject to the employers observing the terms of the agreements, the employees will not take any industrial action and the employees' representatives will not make any new demands with regard to socioeconomic and labour matters. However, provisions limiting the employees' representatives' powers to make new demands with regard to socioeconomic and labour matters may be deemed unenforceable by Russian courts and regulatory authorities.

The collective bargaining agreement between Irgiredmet and its employees is based on a different template and does not contain provisions described above.

There can be no guarantee that the collective bargaining agreements will not be renewed on terms which are less favourable to the Group than the current agreements or that the agreements will be renewed at all.

22 The Group relies on subcontractors who may not complete their operations.

Some operations are undertaken by the Group's contractors. The Group may not be able to monitor adequately whether its contractors are in full compliance with all applicable environmental, industrial, health and safety and licensing requirements, or obtain complete information about such contractors' actual operations. If any of the Group's key contractors terminates or is unable to perform its obligations, the Group may find it difficult or time-consuming to replace that contractor with an equally qualified contractor. As a result, the Group's operations may be materially adversely affected.

23 The Group's insurance may be inadequate.

The Group's insurance coverage may prove inadequate to satisfy future claims against the Group or to protect the Group against natural disasters or operational catastrophes.

The exploration for and production of metals and minerals including gold is hazardous. Natural disasters, operator error or other occurrences can result in spills of hazardous chemicals, explosions, leakage, leaching, cratering, fires and equipment failure, which can injure or kill people, damage or destroy pits, mines or equipment and production facilities, and damage property and the environment. Operations are subject to governmental regulations as well as interruptions or termination by governmental authorities based on environmental and other considerations.

The Group, as a participant in exploration and mining programmes, may become subject to liability for hazards that cannot be insured against, which could exceed policy limits or against which it may elect not to be so insured because of high premium costs. The Group may incur a liability to third parties in excess of any insurance cover arising from pollution or other damage or injury.

The insurance industry in the Russian Federation is in a relatively early stage of development and, accordingly, the available cover is relatively limited. Many forms of insurance designed to protect against hazards, common in other parts of the world, may not be available in respect of some of the risks faced by the Group.

The Group does not have full coverage for all of its plants and facilities, for business interruption, for third-party liability in respect of property, and for environmental damage arising from accidents on its property or relating to its operations. The Group also does not hold any title insurance for its properties. Until the Group is able, or decides, to obtain more comprehensive insurance coverage, there is a risk that losses and liabilities arising from adverse events could significantly increase its costs and have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

24 The Group may incur costs related to environmental compliance and rehabilitation above and beyond expectations.

The Group accrues estimated rehabilitation costs over the operating life of a mine with an aggregate provision for close down and restoration costs for its Key Mining Assets of US\$19.15 million as at 31 December 2016. Estimates of rehabilitation costs are subject to revision as a result of future changes in regulations and cost estimates. The costs associated with complying with laws and government regulations may ultimately have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Mine construction work can involve considerable cost and raises a range of environmental issues. Costs associated with rehabilitating areas which have been mined or disturbed and addressing environmental, health and community issues upon closure of operations are estimated and provided for based on the most current information available. Estimates may, however, be insufficient and/or further issues may be identified. Any underestimated or unidentified costs associated with the construction and operation of the Group's mines, including unforeseen closing costs, may reduce earnings and could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

25 Adverse publicity from consumer and environmental groups may damage the Group's business or reputation.

There is an increasing level of consumer awareness relating to the effect of mining production on its surroundings, communities and environment. Consumer groups therefore exist to encourage participants in the mining industry to employ practices which minimise any adverse impact that mining may have on communities, workers and the environment. Whilst the Group seeks to operate in a socially responsible manner, adverse publicity generated by such consumer groups

which relates either to the gold mining industry as a whole, or to the Group in particular, could have a material adverse effect on the reputation and financial position of the Group and/or its treatment by the State and regional authorities.

Petropavlovsk maintains an ongoing dialogue with local communities to ensure they are actively engaged in the Group's development plans. Local issues are addressed through public consultation. The Group continues to monitor circumstances in line with the commitment to maintain good relationships with local authorities and communities.

Petropavlovsk takes a responsible approach to operations in areas inhabited by the Evenki people (an indigenous community) of the Amur region, actively seeking their support for operations, continually assessing potential risks and contributing to community development. Petropavlovsk notes the accusations in relation to Mr Sergey Nikiforov, former head of the Evenki village, in particular the accusation that he was sentenced to 4 years in prison in connection with a protest movement he led against Petropavlovsk and its developments. This case was in no way linked to Petropavlovsk and the Company has responded publicly to media accusations that suggested otherwise. The Company continues to manage its relationship with the Evenki community for the benefit of all parties involved.

In June 2017, independent consultants travelled to the Amur region to further investigate current relations and ways these might be improved. As part of their conclusions, they recommended that Petropavlovsk should enhance its stakeholder engagement efforts, and suggested corrective steps the Company should take. The Company is developing a detailed plan as to how it will implement this guidance to better facilitate a positive relationship with local communities and NGOs. However, whilst these actions might mitigate impacts to the community and risks to the project to an extent, it does not mean risks are eliminated fully. The Company continues to monitor the situation and will adopt community engagement policies and procedures in line with international best practice, such as the International Finance Corporations Performance Standards, including Performance Standard 7 on the rights of indigenous peoples.

Risks relating to the mining industry

1 Competition for mineral interests in the mining industry is intense.

The Group faces competition from other mining companies in all areas of its operations, including the acquisition of mineral licences, exploratory prospects and producing properties. In conducting its exploration activities, the Group competes with other mining companies in connection with the search for and acquisition of properties producing or possessing the potential to produce gold. Some of these companies may have significantly greater resources than those of the Group. Other companies may have a competitive advantage as a result of legislation which regulates foreign investment in the Russian Federation, if (for example) their ownership structure reduced the consents required for certain transactions. Existing or future levels of competition in the mining industry could materially and adversely affect the Group's prospects for the acquisition of mining rights which could materially and adversely affect the Group's future growth.

2 Exploration is highly speculative and involves commercial risks and if the Group fails to acquire or find and develop additional reserves, its reserves and production will decline, potentially materially from their current levels.

Exploration is highly speculative and involves numerous risks, including the risk that the Group will encounter no commercially exploitable reserves. These activities often require substantial expenditure to establish reserves through drilling and metallurgical and other testing, determine appropriate recovery processes to extract gold from the ore and construct or expand mining and processing facilities.

The Group's future growth and profitability will depend, in part, on its ability to identify and acquire additional mineral rights and/or properties containing reserves, and on the costs and results of its continued exploration and development programmes. The Group's reserves will decline as gold is produced. In addition, the volume of production from the properties generally declines as

reserves are depleted. The subsoil areas over which the Group's mineral exploration rights relate may not contain commercially exploitable reserves of metals and minerals including gold. Uncertainties as to the metallurgical recovery of any minerals discovered may mean that it does not warrant processing on the basis of available technology. If the Group's total reserves and production decline, that would have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

If the Group discovers a viable deposit, it will usually take several years from the initial phases of exploration until production is possible. During this time, the economic feasibility of production may change. Moreover, the Group will use the evaluation work of professional geologists, geophysicists and engineers for estimates in determining whether to commence or continue mining. These estimates generally rely on scientific and economic assumptions, which in some instances may not be correct, and could result in the expenditure of substantial amounts of money on a deposit before it can be determined whether or not the deposit contains economically recoverable mineralisation. As a result of these uncertainties, the exploration programmes in which the Group is engaged may not result in the expansion or replacement of the current production with new reserves or operations.

If management determines that capitalised costs associated with any of the Group's mineral interests are not likely to be recovered, the Group would incur a write-down on its investment in that interest. All of these factors may result in losses in relation to amounts spent which are not recoverable. The Company carries out a regular review of its exploration assets. This may lead to an impairment charge being incurred as described in paragraph 6.2(b)(i) of Part 10: *"Management's Discussion and Analysis of Financial Condition and Results of Operations"*.

The Group's operations are subject to the inherent hazards and risks associated with the exploration for and development of mineral deposits. Any metals exploration programme entails risks relating to the location of economically viable ore bodies or gold deposits, the development of appropriate metallurgical processes, the receipt of necessary governmental permits and the construction of mining and processing facilities. The geology in which gold mineralisation occurs can make evaluations of the potential size of deposits especially difficult to determine, as the gold-bearing mineralised zones have inherently unpredictable characteristics. No assurance can be given that any minerals exploration programme will result in any new commercial mining operation or in the discovery of new resources.

3 The Group's mineral reserves and resources are estimates based on a range of assumptions and actual mineral resources could be less than current estimates. The Group's estimates of mine life may prove to be inaccurate.

The Group's mineral reserves and resources are estimates based on a range of assumptions, including the results of exploratory drilling, ongoing sampling of the ore bodies, past experience with mining properties and the experience of the expert engaged to carry out the reserve estimates. Other uncertainties inherent in estimating reserves include subjective judgments and determinations based on available geological, technical, contractual and economic information. Some assumptions may be valid at the time of estimation but may change significantly when new information becomes available.

Because the ore reserve and resource estimates are calculated based on current estimates of production costs and product prices, they should not be interpreted as assurances of the economic life of the deposits or the profitability of the Group's future operations. Descriptions of mineral resources in this Offering Memorandum constitute estimates of the Group that comply with standard evaluation methods generally approved in the international mining industry and, where specified, are stated in conformity with the JORC Code. In respect of these estimates, there can be no assurance that the anticipated tonnages and grades will be achieved, that the indicated level of recovery will be realised or that mining and processing will be economically profitable. The actual mineral resources may not conform to geological, metallurgical or other expectations. A sustained decline in relevant market prices could render ore reserves and resources containing lower grades and/or mineralisation uneconomic to recover and ultimately require a restatement of reserves and resources. Increased production costs, reduced recovery

rates and other factors, may also render exploitation of the Group's mineral resources uneconomical. These and other factors could mean that the Group's estimates of a mine life could be inaccurate.

The information provided in this Offering Memorandum on the Group's mineral resources is not indicative of the Group's future production levels or results of operations. Furthermore, the estimates of different geologists and mining engineers may vary, and the results of the Group's mining and production subsequent to the date of an estimate may lead to revision of estimates.

Changes to any of the assumptions on which the Group's reserve and resource estimates are based could lead to the reported resources and reserves being restated. Changes in the reserves and resources could adversely impact the economic life of deposits and the profitability of the Group's operations. Further, mineral resources are based on limited sampling and, consequently, are uncertain as the samples may not be representative of the entire deposit and mineral resource. As a better understanding of the deposit is obtained, the estimates may change significantly. If the Group's actual mineral resources are less than current estimates or there is a failure of the reserves and resources to meet recovery expectations, it could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

4 Environmental, health and safety regulations and incidents may adversely affect the Group's business.

As with other mining companies, certain of the operations of the Group are carried out under potentially hazardous conditions. Group employees may become exposed to health and safety risks which may lead to the occurrence of work-related accidents and harm to the Group's employees. In the past, the Group has suffered fatal accidents. Any future accidents or other occupational health and safety incidents, including the violation of health and safety laws or failure to comply with the instructions of the relevant health and safety authorities could result in investigations, adversely affect production levels, cause production stoppages, harm the Group's reputation and adversely affect its relationship with its contract partners and other stakeholders. Any such event could have a material adverse effect on the Group's business, financial condition and results of operations. In particular, the Group's operations require the use of hazardous substances including cyanide and other reagents. Accidental spillages of cyanide and other chemicals may result in damage to the environment, personnel and individuals within the local community, which could also result in production delays and financial loss.

Whilst the Group intends to continue to operate in accordance with relevant health and safety regulations and requirements, the Group remains susceptible to the possibility that liabilities might arise as a result of accidents, fatalities or other workforce-related misfortunes, some of which may be beyond the Group's control. The occurrence of any accidents could delay production, increase production costs and/or result in liability for the Group. If this occurs, it could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

5 Maintenance and repair works can have a material impact on financial results.

The Group's assets are subject to ongoing maintenance and repair costs which are allocated to results during the period in which they are incurred. The need for maintenance and repair, particularly on older assets, can have a material impact on financial results both because maintenance and repairs can be costly and because the work can interrupt mining and production processes and cause losses and delays. If this occurs, it could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Risks relating to the Russian Federation and operating in the Russian Federation

1 The Group may be subject to risks that may arise from the current political instability between the Russian Federation and the West concerning Ukraine.

The political and economic turmoil witnessed in the region, including the developments in Ukraine have had and may continue to have a negative impact on the Russian economy. The Group has no assets or operations in Ukraine, however, the European Union and the United States have imposed targeted sanctions on a number of Russian individuals and companies. This has included sectoral sanctions on a number of large Russian banks (including VTB and Sberbank, affiliates of which are senior lenders to the Group, have entered into derivative transactions with the Group and are currently the sole purchasers of the gold produced by the Group) which cannot access Western capital because EU and U.S. persons are prohibited from extending them debt financing with a maturity exceeding 30 days (to be reduced to 14 days from the end of November 2017 under the U.S. sanctions) or dealing in their new equity issuances (under the U.S. sanctions) or new transferable security and money market instruments (under the EU sanctions) and providing related services. These sectoral sanctions have had an effect of increasing the overall cost of capital in the Russian Federation and have been one factor in the rise of lending rates in the Russian Federation over the past year, which could have an adverse effect on the Group's cost of borrowing. The imposition by the United States, the European Union and other countries of sanctions, asset freezes, travel limitations and certain other measures against specified Ukrainian and Russian individuals and companies (including VTB and Sberbank) have not had a direct impact on the Group's business but could do so in the future if such tensions escalate and/or further sanctions are imposed that affect the Group's ability to deal with certain persons or the Russian economy, or demand for the Group's gold production is affected by any of the above factors. The Russian Federation has responded by imposing certain sanctions itself, including some import and travel restrictions.

The current sanctions regime is a result of multiple extensions by the U.S. and EU in the term and scope of sanctions, the most recent of which were taken in December 2016 (in relation to the EU sanctions) and January 2017 (in relation to the U.S. sanctions). It is currently unclear how long these sanctions will remain in place and whether new sanctions may be imposed.

In January 2017, U.S. governmental agencies released a report alleging that the Russian Government had covertly attempted to influence the 2016 U.S. presidential election. Investigations into these allegations are currently being conducted by agencies of the U.S. Government, including the Federal Bureau of Investigation (FBI), and in May 2017, the U.S. Justice Department appointed a special counsel to oversee the FBI investigation. Concurrently with these investigations, committees of the U.S. Senate and U.S. House of Representatives are conducting their own investigations and hearings into these allegations. These investigations could potentially lead to further U.S. sanctions against the Russian Federation and Russian interests.

In addition, on 2 August 2017, President Trump signed into law the Countering America's Adversaries Through Sanctions Act (the **CAATs Act**) that includes additional sanctions against Russian entities. The CAATs Act, *inter alia*, a) codifies the existing sanctions against the Russian Federation established by former President Obama's executive orders, b) reduces the permitted terms of financing under the existing sectoral sanctions and further restricts supplies of equipment to certain Russian energy companies, c) allows the U.S. President to extend sectoral sanctions to further sectors of the Russian economy (such as railways, mining and metals) and introduce additional sanctions against new persons, d) provides for imposing a set of "secondary sanctions", which target activities of non-U.S. persons, such that foreign persons who engage in certain activities in the Russian Federation (in relation to, *inter alia*, construction, modernisation and repair of energy export pipelines, intelligence and defence sectors, sanctions evasion, privatisations and activities that undermine the cybersecurity of any person or government) now face the prospect of adverse economic consequences from the United States in the form of a denial of U.S. benefits. The sanctions package may have a material adverse effect on the Russian financial markets and investment climate and the Russian economy generally. The CAATs Act also widens the differences between U.S. and EU sanctions against the Russian

Federation. The EU recently extended its own sectoral sanctions until 31 January 2018 but has not adopted new, broader sanctions like those in the CAATs Act. Instead, some EU leaders have discussed possible “blocking” or retaliatory measures in response to those U.S. secondary sanctions that may adversely affect European companies.

Following the expansion of U.S. sanctions, the Russian Federation has significantly decreased the number of diplomatic representatives of the United States permanently placed in the Russian Federation while the United States has, in turn, closed several Russian consular offices. Continued escalation of diplomatic tensions remains possible and there can be no assurance that the sanctions will not be expanded further. No individual or entity within the Group has been designated by either the U.S. or the EU as a specific target of their respective sanctions imposed in connection with the Ukrainian crisis. However, no assurance can be given that any of those persons or entities will not be so designated in the future, or broader sanctions against the Russian Federation that affect the Group, may not be imposed. Although no entity within the Group is a U.S. person, some Group entities, as well as the Issuer, are EU persons and are therefore required to comply with the EU sanctions, including not conducting business with any sanctioned persons. None of the proceeds of the issue of the Notes will be used to fund activities or persons that are subject to specifically targeted sanctions introduced by the U.S. and the EU. In the ordinary course of business, the Group, like many major Russian companies, has commercial operations with Russian persons and entities (such as GazPromNeft, Rosneft, Sberbank and VTB) that are currently either under “sectoral” sanctions or included in the Specially Designated Nationals and Blocked Persons List. Such operations are permissible pursuant to applicable law. Although the Group’s transactions and commercial relations with these entities are not prohibited or otherwise negatively affected by the sanctions, should the sanctions regime in respect of these entities be widened or should new sanctions be introduced in respect of the above or other major suppliers or counterparties of the Group, the Group’s business could be adversely affected.

The sanctions imposed by the U.S. and the EU in connection with the Ukraine crisis so far have had an adverse effect on the Russian economy, to which the Group is exposed significantly, prompting revisions to the credit ratings of the Russian Federation and a number of major Russian companies that are ultimately controlled by the Russian Federation, causing extensive capital outflows from the Russian Federation and impairing the ability of Russian issuers to access international capital markets.

The situation is volatile, with further sanctions and actions being considered by all parties. The governments of the U.S. and certain EU member states, as well as certain EU officials, have indicated that they may consider additional sanctions should tensions in Ukraine continue. Such additional sanctions may have an adverse effect on the Russian economy, its credit ratings, and consequently the credit ratings of the Group and the trading price of the Notes. This has led to further uncertainty and volatility in the financial markets including an increase in the perceived risk of investing in the Russian Federation. The crisis in Ukraine is ongoing and could escalate. Were full-fledged hostilities to break out between Ukraine and the Russian Federation, it would likely cause significant economic disruption. Even the current level of ongoing civil insurrection in eastern Ukraine, if no resolution is forthcoming and the Russian Federation is continued to be perceived as acting inimically, may lead to further strengthening and broadening of sanctions by the West against Russian persons and business enterprises. These, and other events, may have a significant impact on the Group’s operations, ability to access funding and financial position, the effect of which is difficult to predict. The consequential increase of the perceived risk of investing in the Russian Federation could also be materially detrimental to the Group.

Although the Group has no reason to believe that it may be specifically targeted by the U.S. or EU sanctions, if the Group becomes subject to U.S. or EU sanctions, either as a result of the above or through the targeting of a broader segment of the Russian economy, such sanctions will likely have a material adverse impact on the Group’s business. For example, the Group might become unable to deal with persons or entities bound by the relevant sanctions, including international financial institutions and rating agencies, transact in U.S. Dollars, raise funds from international capital markets, acquire equipment from international suppliers or access the Group’s assets held abroad. Moreover, investors in the Notes may be restricted in their ability to

sell, transfer or otherwise deal in or receive interest payments with respect to the Notes because the investor is subject to the jurisdiction of an applicable sanctions regime, which could make such Notes partially or completely illiquid and have a material adverse effect on their market value. All of the above could have a material adverse impact on the Group's business, financial condition, results of operations or prospects.

2 The Group is subject to risks associated with actions by the Russian Federation or other governments or changes in economic, political, judicial, administrative, taxation or other regulatory factors or foreign policy in the countries in which the Group operates or holds its major assets.

The Group may be adversely affected by changes in economic, political, judicial, administrative, taxation or other regulatory factors or foreign policy in the areas in which the Group operates or will operate and holds or will hold its major assets, as well as other unforeseen matters. The principal assets of the Group are located in the Russian Federation, a country which is still developing from a command to a market-driven economy. The Russian Federation has also suffered and may continue to suffer from a volatile financial system and political and economic instability. There are a number of potential risks inherent in doing business in international markets, including the following:

- unfavourable or unfamiliar political or economic factors (including political or economic instability);
- currency controls;
- fluctuations in foreign currency exchange rates;
- potentially adverse tax consequences;
- unexpected legal or regulatory changes, and in some cases less established judicial systems;
- difficulties in recruiting and retaining personnel, and managing international operations; and
- less developed infrastructure.

Unlawful, selective, discriminatory or arbitrary government action could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. Any inability of the Group to successfully manage the risks in its international activities could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

In addition, following volatility in eastern Ukraine and the shooting down of a Malaysia Airlines jet over the region, the U.S. Treasury and the EU imposed financial sanctions over many Russian financial institutions and companies in the energy and defence sectors. The sanctioned entities are restricted from issuing new equity or long-term debt in the U.S. and EU markets which could have a material effect on their ability to raise financing. It is also possible that the sanctions may be extended in the future and, in general, could result in diminished investor confidence in the Russian Federation, the possibility of increased capital flight and weaker economic growth. In response to the sanctions, President Putin has enforced certain import restrictions on Russian companies in respect of products emanating from states that have imposed sanctions, which could lead to greater instability in the Russian economy, which could have a material adverse effect on the value of investments relating to the Russian Federation and on the Group's business, results of operations, financial condition and prospects.

3 **Russian foreign investment legislation may affect transactions by, and investments in, the Group.**

In May 2008, the Strategic Asset Laws were introduced in the Russian Federation regulating foreign investments into strategic sectors of the Russian economy, including the Federal Law No. 57-FZ.

Federal Law No. 57-FZ imposes on a Foreign Investor a requirement to obtain Strategic Approval before entering into a transaction (including transactions entered into on a stock exchange) as a result of which such investor:

- (a) acquires direct or indirect control over 25 per cent. or more of the voting shares of a Strategic Entity;
- (b) increases its existing direct or indirect control over 25 per cent. or more of the voting shares of a Strategic Entity by acquiring direct or indirect control over any additional voting shares of the Strategic Entity (not applicable when the existing shareholding already exceeds 75 per cent.);
- (c) obtains the right of ownership, possession or use of fixed production assets of a Strategic Entity, if the book value of such assets amounts to 25 per cent. or more of the book value of all assets of the Strategic Entity;
- (d) obtains the right to appoint the chief executive officer, and/or 25 per cent. or more of the collegial executive body of a Strategic Entity;
- (e) obtains an unconditional ability to elect 25 per cent. or more of the board of directors or other collegial management body of a Strategic Entity;
- (f) performs the functions of the management company (manager) in relation to a Strategic Entity; or
- (g) is otherwise able to determine the decisions of management bodies of a Strategic Entity, including the ability to direct the conduct of business of a Strategic Entity.

Each of the consequences mentioned above is defined as Influence for the purposes of this Offering Memorandum.

In addition, a Foreign Investor is required to notify the FAS on acquisition of more than five per cent. of the shares of a Strategic Entity.

In addition, the most recent amendments (in July 2017) to a number of Russian foreign investment laws have resulted in strengthening of state control over transactions of foreign investors targeted at Russian companies. Such amendments include, *inter alia*, the so-called 'de-offshorisation' amendments to the Federal Law No. 57-FZ. The amendments ban establishment of control over Strategic Entities (or their assets) by offshore companies and companies controlled by such offshore companies. The list of jurisdictions in which companies incorporated will be considered offshore companies is compiled by the Ministry of Finance of the Russian Federation and it currently includes 40 jurisdictions.

The requirement to obtain Strategic Approval does not apply to transactions where acquirers are controlled by, in particular, Russian citizens who are Russian tax residents (i.e., reside in the Russian Federation for not less than 183 calendar days in 12 consecutive months), except for the Russian citizens who also have citizenship of another country.

The penalties for the failure to obtain Strategic Approval in violation of the Federal Law No. 57-FZ, include (i) disenfranchisement of the Strategic Entity's shares controlled by that Foreign Investor, (ii) invalidation of the Strategic Entity's transactions and management bodies' decisions

made after Influence was acquired by such Foreign Investor in breach of the Federal Law No. 57-FZ, and (iii) imposition of an administrative fine on the Foreign Investor concerned.

The penalties for failure to file a post-notification to FAS include: (i) disenfranchisement of the Strategic Entity's shares controlled by that Foreign Investor; and (ii) an administrative fine of up to US\$8,700.

At present, three of the Group's assets, Pioneer, Malomir and Elginskoye are classified as Strategic Deposits. Pokrovskiy Rudnik, Malomirskiy Rudnik and Temi, as the companies holding the respective subsoil licences in relation to the Pioneer, Malomir and Elginskoye ore fields, are therefore considered to be Strategic Entities. Pioneer produced approximately 34 per cent. of the Group's total annual gold production in 2016 and Malomir produced approximately 14 per cent. of the Group's total annual gold production in 2016. In addition, if the requirements of the Strategic Asset Laws are met in relation to other Group assets, through new discoveries or otherwise, the Russian Group companies holding subsoil licences in relation to such assets would also become Strategic Entities.

As three of the Group's assets are currently designated as Strategic Deposits, the Group's ability to dispose of interests in certain Group companies, to effect a group reorganisation or to raise equity or debt finance (with the provision of security) must take account of the Strategic Asset Laws and the constraints contained in such legislation. Moreover, the Strategic Asset Laws are worded vaguely, which leaves wide scope for their interpretation by the authorities, which may further hinder the Group's ability to conduct certain transactions. For example, the Strategic Asset Laws are unclear on various issues, including the exact definition of the term "control" and in what circumstances Influence may be viewed as being exercised indirectly. Consequently, where Strategic Approval for a proposed transaction is required, the ability of the Group to agree and complete a proposed transaction with certain third parties may be materially and adversely affected. Likewise, the Group may be materially and adversely affected by the actions of the Russian authorities (including granting the Strategic Approval subject to the Foreign Investor assuming certain obligations under the agreement it will have to enter into with the Russian authorities (the FAS), or a refusal to grant the Strategic Approval or inconsistencies between the Strategic Approvals sought and the Strategic Approvals granted) or by delays in procedures which have to be followed under the Strategic Asset Laws.

In view of the aforesaid, there is a risk that transactions between Shareholders of the Company (or members of their groups of persons) with respect to the affairs of the Group and/or between Group companies might be affected if such transactions required or will require Strategic Approval and such approval was not or will not have been obtained in accordance with the Federal Law No. 57-FZ (for these purposes, "groups of persons" are determined by reference to Russian legislation), which, in turn, could, depending on the transaction concerned, have a material adverse effect on the Group's business, results of operations and financial condition.

4 Russian foreign investment legislation may also impact the exploration and development of new or existing projects of the Group.

The Subsoil Law permits the Russian Government to prevent the detailed exploration and production of a Strategic Deposit on the grounds that such detailed exploration and production is a threat to state security. Under the Subsoil Law, the Russian Government has the following powers in respect of licences granted in relation to Strategic Deposits:

- the power to terminate a mineral licence which is classified as a "combined licence" after a discovery of a strategic deposit has been made; and
- the power to refuse to issue a "production" or "detailed exploration and production" licence to the holder of an exploration (prospecting) only licence.

The Subsoil Law also envisages that the detailed exploration and production stage within the Strategic Deposit can be carried out by a subsoil user controlled by foreign investors concurrently with the search and assessment stage on the basis of a decision of the Russian Government

confirming the right of such subsoil user to carry out detailed exploration and production on the relevant deposit.

The provisions of the Subsoil Law outlined above in respect of Strategic Deposits only apply to such deposits discovered after 7 May 2008, when the relevant amendment to the Subsoil Law was enacted. They do not apply to Strategic Deposits where exploration was completed and detailed exploration and development of such deposits began before that date.

The way in which the restrictions envisaged by the Subsoil Law could be applied to other licences of the Group depends on (i) the specific stage of development of works under the licences; and (ii) whether it is expected that a deposit will be discovered. If a deposit contains 50 tonnes (or more) of hard rock (vein) gold reserves, copper reserves of 500,000 tonnes (or more) or deposits of any Precious Minerals with approved reserves irrespective of the quantity, the above mentioned provisions would apply. If the Russian Government exercises its powers under the Subsoil Law which are described above, the subsoil user would have no right to carry out further work at the relevant deposit and the subsoil user could seek limited compensation, which would typically be calculated by reference to the costs incurred by the licence holder at the deposit.

If a licence of the Group was granted in violation of the Russian law, there is a risk that such licence may be terminated and possibly without any compensation. If any of the Group's mineral licences were to be terminated, this could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

5 The Group may experience risks relating to the Russian legal system and Russian legislation.

Weaknesses in the Russian legal system and Russian legislation could create an uncertain environment for investment and for business activity. The Russian Federation is still developing the legal framework typically required by a market economy. Several fundamental Russian laws have only recently become effective. The implementation of much of the Russian Federation's legislation and the rapid evolution of the Russian legal system place the enforceability and underlying constitutionality of some laws in doubt and result in ambiguities, inconsistencies and anomalies. In addition, Russian legislation often leaves substantial gaps in the regulatory infrastructure and delays may occur in the production of necessary ancillary or subordinate legislation.

The risks of the current Russian legal system include:

- pieces of legislation at times overlapping and contradicting one another;
- lack of independence in the judicial system;
- limited judicial and administrative guidance on interpreting Russian legislation;
- conflicting views and judgments as regards the interpretation of and the effect of Russian law in a number of key areas which affect investment in the Russian Federation, including the terms on which licences are granted;
- difficulties in enforcing arbitral awards under the 1958 Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention) (arbitral awards under this convention, while enforceable in the Russian Federation, can be subjected to procedural delays and re-examination of the subject matter);
- substantial gaps in the regulatory structure due to delay or absence of implementing legislation;
- the difficulty in enforcing court judgments in practice;

- corruption laws and bankruptcy procedures that are insufficiently developed and subject to abuse;
- governmental attempts to affect the applicability of court decisions by retroactively applying relevant legislative changes;
- understaffing and underfunding of Russian court systems;
- limited public availability of many court decisions;
- the relative inexperience of judges in interpreting new Russian business legislation, particularly relating to capital markets, companies, corporate governance and investor protection; and
- a high degree of discretion on the part of governmental authorities.

All of these weaknesses could affect the Group's ability to enforce its rights under licences, contracts or statutes, or to defend itself against claims by others which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

These uncertainties also extend to property rights. During the Russian Federation's transformation from a centrally planned economy to a market economy, legislation has been enacted to protect private property and investments made by a foreign investor against expropriation and nationalisation. However, it is possible that due to the lack of experience in enforcing these provisions and due to political changes, these protections would not be enforced by a Russian court in the event of an attempted or actual expropriation or nationalisation. In such a scenario, the Group might have no remedy under protections afforded to a foreign investor by customary international law or relevant international treaties or, if a remedy was available, might not be able or willing to enforce its rights or enforce any award that it obtained.

Expropriation or nationalisation of the Group's assets or portions thereof, potentially with inadequate or no compensation, could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Russian companies in the Group may be required by their constituent documents to obtain the approval of disinterested directors or shareholders/participants for certain transactions with "interested parties". Under Russian law, the definition of an "interested party" is widely drawn and rules for transactions with interested parties can extend to intra-group transactions, with shareholders/participants in a group potentially being disenfranchised from voting. Although Russian law has recently been amended to provide more clarity in relation to the concept of transactions with "interested parties", there is potentially still some scope for inappropriate claims by minority shareholders, including possible historical risks relating to the understanding of the concept under the previous law and lack of practical experience in the application of new concepts. While most of the Group companies, other than the Company, are wholly-owned by their immediate parent company, there are some minority holders in some Group companies and provisions on approval of transactions with "interested parties" could therefore on occasion result in minority shareholders being able to preclude Group companies from carrying on activities which they would otherwise wish to undertake. In addition, the provisions of Russian law defining which transactions constitute "interested party" transactions are subject to differing interpretations. In view of this uncertainty, the Group cannot be certain that its application of these concepts will not be subject to challenge. Any such challenge could result in the invalidation of transactions that are important to the Group's business. High-profile cases against or involving major multinational companies (including major foreign companies or joint ventures involving such companies operating in the natural resources sectors) and their employees have caused concern in relation to the investment climate in the Russian Federation and no assurances can be given that these cases will not affect the public perception both of investment in the Russian Federation and foreign investment into the Russian Federation.

Governmental authorities in the Russian Federation have a high degree of discretion and may at times exercise their discretion arbitrarily, without a hearing or prior notice, or in a manner that is unduly influenced by political or commercial considerations. Selective or arbitrary governmental actions have included unscheduled inspections by regulators, suspension or withdrawal of licences and permissions, unexpected tax audits, criminal prosecutions and civil actions. Furthermore, federal and local government entities have used common defects in matters surrounding the documentation of business activities as pretexts for court claims and other demands to invalidate such activities or to void transactions, often to further interests different from the formal substance of the claims. The occurrence of such selective or arbitrary action against the Group could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

6 The Group's title to the assets obtained as a result of acquisition of the Group's subsidiaries that were formed through a privatisation can be challenged.

Some subsidiaries of the Group have been established through the privatisation that started in the Russian Federation in 1992 with the adoption of the Federal Law No. 1531-1 dated 3 July 1991 "On Privatisation of State and Municipal Enterprises in the Russian Federation".

Russian legal regulations in the 1990s, and, in particular, those relating to privatisation, were very unclearly drafted, internally inconsistent and contained many ambiguities and contradictions. There was no practice as to how the law should be applied at that time. Many commentators of law and court practice show that almost no instance of privatisation in the Russian Federation during that period was conducted in full compliance with the law and applicable procedures. Although the statute of limitations for challenging transactions entered into in the course of privatisations has likely expired, privatisations may still be vulnerable to challenge, including through selective action by governmental authorities motivated by political or other extra-legal considerations. If any of the Group's acquisitions are challenged as having been improperly conducted, the Group should be able to successfully defend itself, otherwise such challenges may have an adverse effect on the Group's business, financial standing, reputation and operations.

7 Emerging markets are subject to greater risks than more developed markets, including significant legal, economic and political risks.

Investors in emerging markets such as the Russian Federation should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks, and heightened volatility resulting from political and economic conflicts. Future political instability in the Russian Federation could result in a worsening of the overall economic situation, including capital flight and a slowdown of investment and business activity, which could in turn lead to further political instability. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in debt or equity markets of all emerging market countries as investors move their money to more stable, developed markets. Financial problems or an increase in the perceived risks associated with investing in emerging economies may adversely affect the level of foreign investment, which may, in turn, adversely affect the economies in those countries. In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. As a result, financial turmoil in the Russian Federation could seriously disrupt the Group's business and its ability to make payments under the Notes, as well as result in a decrease in the trading price of the Notes. Investors should also note that an emerging economy such as that of the Russian Federation is subject to rapid change and that the information set out in this Offering Memorandum may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved. Potential investors are urged to consult with their own legal and financial advisors before making an investment in the Notes.

8 Potential political or social conflicts could create an uncertain operating environment hindering the Group's long-term planning ability and could have a material adverse effect on the value of investments in the Russian Federation, including the trading price of the Notes.

Since 1991, the Russian Federation has evolved from a one-party state with a centrally-planned economy to a federal republic with democratic institutions and a market-oriented economy. However, the Russian political system remains vulnerable to popular dissatisfaction, including demands for autonomy from particular regional and ethnic groups.

The Russian Federation is a federation of sub-federal units (territorial sub-divisions), consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts, some of which have the right to manage their internal affairs pursuant to agreements with the federal government and in accordance with applicable laws. The delineation of authority and jurisdiction among the territorial sub-divisions of the Russian Federation and the federal government is, in some instances, unclear. In practice, the division of authority and uncertainty could hinder the Group's long-term planning efforts and may create uncertainties in the Group's operating environment, which may prevent it from effectively carrying out its business strategy.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, acts of terrorism (principally connected with the North Caucasus region) and military conflict, including the military conflict between the Russian Federation and Georgia in 2008, recent deterioration in relations between the Russian Federation and Turkey as a result of attack on the Russian military jet by Turkish Air Forces along the Syrian-Turkish border in November 2015 and recent participation of the armed forces of the Russian Federation in the Syrian conflict. If existing conflicts remain unresolved, or new disturbances or hostilities arise, the Group may be unable to access capital, or access capital on terms reasonably acceptable to it, which may have a material adverse effect on the Group's business, results of operations, financial condition, its ability to make payments under the Notes or the trading price of the Notes.

Since Vladimir Putin was first elected President in March 2000, the Russian Federation has generally experienced a higher degree of governmental stability. However, after becoming prime minister in 2008, Mr Putin was again elected as President in 2012 and since that time opposition organisations have become more active. This may in the future lead to increased, or more disruptive, protest activity, popular dissatisfaction and political instability, and possibly a cycle of civil protest followed by increased authoritarianism. Following Russian parliamentary elections in December 2011 and the presidential elections in March 2012, controversy concerning alleged voting irregularities during such elections led to organised protests in several Russian cities, including Moscow.

Future shifts in governmental policy and regulation in the Russian Federation could also lead to political instability and disrupt or reverse political, economic and regulatory reforms, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

In addition, there is a growing polarisation of wealth in Russian society which could lead to labour and social unrest and may have adverse political, social and economic consequences. Any of these could restrict the Group's operations and lead to loss of revenue and/or a decrease in the value of the Group's securities.

External perceptions of the Russian Federation with respect to the treatment of non-Russian businesses, and media coverage of matters of foreign policy and of crime and corruption could also affect the Group's ability to raise finance and otherwise affect its business.

Over the last two decades, the Russian Federation has experienced or continues to experience at various times:

- significant declines in its GDP and rate of GDP growth;

- high levels of inflation;
- high and fast-growing interest rates;
- unstable credit conditions;
- instability of the Russian Rouble;
- pervasive capital flight;
- high levels of government debt relative to GDP;
- a weakly diversified economy which depends significantly on global prices of commodities;
- a lack of reform in the banking sector and a weak banking system, providing limited liquidity to Russian enterprises;
- continued operation of loss-making enterprises due to the lack of effective bankruptcy proceedings;
- high levels of corruption and the penetration of organised crime into the economy;
- widespread tax evasion;
- significant increases in unemployment and under-employment;
- ethnic and religious tensions;
- low personal income levels of a significant part of the Russian population; and
- major deterioration of physical infrastructure.

The Russian economy has also been characterised by significant reductions in foreign investment. As the Russian Federation produces and exports large quantities of crude oil, natural gas, petroleum products and other commodities, the Russian economy is particularly vulnerable to fluctuations in oil and gas prices as well as other commodities prices, which have experienced significant volatility during the global financial crisis, beginning in the second half of 2008. Russian banks, and the Russian economy generally, were adversely affected by the global financial crisis, and the Russian economy has not fully recovered from the economic crisis. The impact of the global economic downturn on the Russian economy has led to, among other things, several suspensions of trading on the Moscow Exchange MOEX by market regulators since September 2008, a reduction in Russian GDP and the disposable income of the general population, severely impacted bank liquidity, a significant devaluation of the Rouble against the US Dollar and euro, a sharp decrease in industrial production and a rise in unemployment. Furthermore, following the imposition of economic sanctions by the United States and the EU and the decline of oil prices, Russian GDP declined by 0.2% and 2.8% in real terms in 2016 and 2015, respectively. Any deterioration in the general economic conditions in the Russian Federation could have a material adverse effect on the Group's business, results of operations, financial condition and ability to make payments under the Notes or the trading price of the Notes. There can be no assurance that any measures adopted by the Russian Government to mitigate the effect of any financial and economic crisis will result in a sustainable recovery of the Russian economy.

9 Fluctuations in the global economy may adversely affect Russia's economy.

The Russian Federation's economy is increasingly dependent on global economic trends and, as an emerging economy, is vulnerable to market downturns and economic slowdowns elsewhere in the world, as well as to reductions and fluctuations in the prices of hydrocarbons and minerals. Events occurring in one geographic or financial market sometimes result in an entire region or

class of investments being disfavoured by international investors – the so-called “contagion effect”. The Russian Federation has been adversely affected by contagion effects in the past, and it is possible that the market for Russian investments, including the Notes, will be similarly affected in the future by negative economic or financial developments in other countries. Economic volatility, or a future economic crisis, may undermine the confidence of investors in the Russian economy and the ability of Russian businesses to raise capital in international markets or procure supplies, or restrict demand in the Group’s products, which, in turn, could have a material adverse effect on the Group’s business, results of operations, financial condition and prospects.

Oil prices are volatile. This is demonstrated by the decline in the oil price since the second half of 2014 which, coupled with the imposition of sanctions and other negative factors, has resulted in the devaluation of the Russian Rouble. The Russian Central Bank undertakes certain measures to stabilise the Russian national currency, such as by increasing and decreasing interest rates depending on market changes (for example, from 10.5 per cent. to 17 per cent. overnight in 2014 and a gradual decrease down to 8.5 per cent. in September 2017) and currency interventions on the foreign exchange market. Although this has allowed the Russian Rouble to achieve a certain level of stability in 2017, significant fluctuations are not ruled out in the future. Furthermore, the Russian Government requested a few major state-controlled companies, which are exporters, to sell their export proceeds in foreign currency in excess of certain established limits using its administrative powers. Should oil prices not rise back to a certain level and these actions prove to be ineffective, the Russian economy is likely to fall into recession which will, in particular, cause financial instability for a number of private banks and private companies operating in the Russian Federation.

As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in the Russian Federation. This could materially and adversely affect the Russian economy and the Group’s business.

In June 2016, a majority of voters in the United Kingdom elected to withdraw from the EU in a national referendum. The British Government triggered the exit process on 29 March 2017. It is expected that the United Kingdom will officially leave the EU on 29 March 2019. There is a possibility of trade barriers resulting from the UK leaving the EU, which may affect the macroeconomic environment in Europe. The referendum has also given rise to calls for the governments of other EU member states to consider withdrawal.

In addition, the latest U.S. presidential election, as a result of which the Republican Party nominee, Donald Trump, became the president of the United States, may impact the financial markets and lead to greater uncertainty on the status of trade relations between the United States and some of its largest trade partners, including the United States’ existing trade agreements. The worsening of such trade relations, in particular between the United States and China, could result in negative repercussions in these countries and have a knock-on effect on global trade and the economic environment. These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to fund their capital and liquidity requirements and operate in certain financial markets. Any of these factors could depress economic activity, commodities markets and restrict access to capital. If global economic conditions deteriorate, the resulting contraction in demand for many of the Group’s products and the tightening of the credit markets could have a material adverse effect on the Group.

10 Some of the infrastructure in the Russian Federation is out of date or inadequate.

The Russian Federation’s physical infrastructure largely dates back to the Soviet period and in certain respects has not been adequately maintained and developed due to insufficient funding and policy decisions. In some areas, the road networks, power generation and transmission, communication systems and building stock are particularly affected. Road conditions in the Russian Federation are poor, with many roads not meeting minimum requirements for usability

and safety. The further deterioration of the Russian Federation's physical infrastructure could harm the economy, disrupt the transportation of goods and supplies, add costs to doing business in the Russian Federation and interrupt business operations, any of which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

11 From time to time some of the Russian Group companies may have net assets lower than the amount of their respective charter capitals or negative net assets (as defined under Russian accounting standards).

There are certain requirements under the Civil Code of the Russian Federation as well as under both the Federal Law "On Limited Liability Companies" and the Federal Law "On Joint Stock Companies" that require limited liability or joint stock companies to have net assets that are equal to, or more than, their charter capital at the end of the second or each subsequent financial year. In common with a number of other groups in the Russian mining and exploration sector, a number of the subsidiaries of the Company from time to time have negative net assets or net assets lower than their charter capital, especially those in the early stages of exploration, and which are prior to the development, mining and/or production stage and those subsidiaries may voluntarily decide not to rectify the situation. In particular, Malomirskiy Rudnik's net assets, as at the end of 2014, 2015 and 2016, were lower than Malomirskiy Rudnik's charter capital and as at the end of 2014, 2015 and 2016, Temi, which holds Elginskoye (which is classified as a Strategic Deposit), had negative assets. If a company has negative net assets or net assets lower than the company's charter capital, there is a risk that the Russian tax authorities and other interested parties may bring a claim to liquidate such a company, but there are a number of examples where Russian courts have not upheld such claims on the grounds that the relevant company has paid its debts and taxes as they fell due, and/or has subsequently become profitable and/or has received a capital contribution to remedy that company's net assets position (under Russian Law). However, there is no guarantee that Russian courts will continue to decide in this way, and Russian courts have on occasion not decided this way, in which event one or more of the members of the Group could be the subject of a court order to be liquidated which would, among other matters, result in the loss of any mineral licence held by such company which could have a material adverse effect on the business results of operations and the financial condition of the Group. Even if the Group does take any necessary steps available to it to remedy this situation to the extent permissible under Russian Law, there can be no certainty that the Russian tax authorities will not seek to bring a claim in any event.

An additional risk exists in respect of any joint venture participations of the Group, or any other investment that is less than a 100 per cent. subsidiary, which has negative net assets or net assets lower than the company's charter capital, since there can be no assurance that the partner(s) or the other shareholder(s) in such joint ventures will take the same steps as the Group to remedy a deficiency in such joint venture entity's negative net assets, in which case their share might have to be funded by the Group.

12 Russian tax legislation and regulations are complex, uncertain and often enforced in a manner that does not favour taxpayers, and the Group therefore may be subject to a greater than expected tax burden that could materially and adversely affect the Group's business, results of operations, financial condition and prospects.

Generally, Russian taxes that Russian companies of the Group are subject to are substantial and include, among others: income tax, value added tax (**VAT**), property tax, payroll related insurance payments and other taxes. The Company as well is subject to duties and corresponding liabilities of a tax agent with respect to taxes due from some of its counterparties.

Russian tax laws, regulations and court practice are complex and subject to frequent change, varying interpretations and inconsistent and selective enforcement. The law and legal practice in the Russian Federation are not as clearly established as those of Western countries, and there are a number of practical uncertainties associated with the application of Russian tax legislation. In addition, in some past instances, although it may be viewed as contradictory to the Russian Constitution, Russian tax authorities have applied certain tax laws retroactively, issued tax claims

for periods for which the statute of limitations had expired and reviewed the same tax period multiple times.

Although the Russian tax climate and the quality of tax legislation have generally improved with the introduction of the Tax Code of the Russian Federation (the **Russian Tax Code**), the possibility exists that the Russian Federation may impose arbitrary and/or onerous taxes and penalties in the future. Russia's inefficient tax collection system increases the likelihood of such events, which could adversely affect the Company's business.

Since Russian federal, regional and local tax laws and regulations are subject to frequent change and, in addition, some of the sections of the Russian Tax Code are comparatively new, interpretation and application of these laws and regulations is often unclear, unstable or non-existent. Differing interpretations of tax regulations exist both among and within government ministries and organisations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. There are no clear rules or implementation practice for distinguishing between lawful tax optimisation and tax evasion. Furthermore, taxpayers, the Russian Ministry of Finance and the Russian tax authorities often interpret tax laws differently. Under current practice, private clarifications issued by the Russian Ministry of Finance in respect of a specific taxpayer's tax position are not binding on Russian tax authorities, and there can be no assurance that the Russian tax authorities will not take positions contrary to those set out in such clarifications. In recent years, the Russian tax authorities have shown a tendency to take more assertive positions in their interpretation of tax legislation which has led to an increased number of material tax assessments as a result of tax audits of companies operating in various industries, including the mining sector. In practice, the Russian tax authorities often interpret the tax laws in ways that do not favour taxpayers, who often have to resort to court proceedings against the Russian tax authorities to defend their position. Furthermore, in the absence of a binding upper court instruction, court rulings on tax or related matters taken by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

The Russian tax system is, therefore, impeded by the fact that, at times, it continues to be characterised by inconsistent judgment of local tax authorities and the failure by the Russian tax authorities to address many of the existing problems. It is, therefore, possible that transactions and activities of the Company that have not been challenged in the past may be challenged in the future, which may have a material adverse effect on the Company's business, financial condition and results of operations and/or prospects and the trading price of the Notes.

On 12 October 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation (the **Supreme Arbitration Court**) issued Resolution No. 53, which formulated a concept of an "unjustified tax benefit". This concept is defined mainly by reference to circumstances such as absence of business purpose or transactions where the form does not match the substance, and which could lead to the disallowance of tax benefits resulting from the transaction or the re-characterisation of the transaction for tax purposes. To date, there is a growing practice on the interpretation of this concept by the Russian tax authorities and the courts and it is apparent that the Russian tax authorities actively seek to apply this concept when challenging tax positions taken by taxpayers.

Although the explicit intention of Resolution No. 53 was to combat the abuse of tax law, it can be seen from the cases relating to Resolution No. 53 that have been brought before the courts that the Russian tax authorities have started applying the "unjustified tax benefit" concept in a broader manner than may have been intended by the Supreme Arbitration Court. Importantly, there are cases that were negative for the taxpayers where this concept has been applied by the Russian tax authorities in order to disallow benefits granted by double tax treaties.

This approach was further developed in the recent amendments to the Russian Tax Code, which became effective on 19 August 2017. The amendments introduce the new Article 54.1 to the Russian Tax Code limiting activities aimed at reducing the amount of taxes payable. Under these provisions, a taxpayer may not reduce the tax base and/or the amount of tax payable by misrepresenting information on economic events and objects of taxation which are required to be disclosed in a taxpayer's tax and/or accounting records or tax statements. A taxpayer has the

right to reduce the tax base and/or the amount of taxes payable provided that the following conditions are met: (i) it is not the principal objective of a transaction to cause an amount of tax not to be paid (or not to be paid in full) and/or refunded, or (ii) the obligation arising from a transaction was performed by a person who is a party to the contract concluded with the taxpayer and/or a person who such obligation was transferred to by contract or law. The following circumstances do not on their own constitute grounds for regarding the tax benefit as unjustified: (i) primary documents have been signed by unidentified or unauthorised persons, (ii) a taxpayer's counterparty has violated tax law, or (iii) the same economic result could have been obtained through other transactions.

As a result of these rules, it is possible that despite the best efforts of the Group to comply with Russian tax laws and regulations, certain transactions and activities of the Group that have not been challenged in the past may be challenged in the future, resulting in a greater than expected tax burden, exposure to significant fines and penalties and potentially severe enforcement measures for the Group.

Current Russian tax legislation is generally based upon the formal way in which transactions are documented, looking to form rather than substance. However, the Russian tax authorities are increasingly taking a "substance over form" approach, which may cause additional tax exposures to arise in the future.

Recently, Russian tax policy has focused on curtailing Russian businesses from using foreign companies mostly or only for tax reasons and the Russian Federation has introduced policies to allow Russian tax authorities to tax foreign income attributable to Russian companies.

In addition, according to the legal position expressed by the Plenum of the Higher Arbitrazh Court of the Russian Federation in Resolution No. 57 dated 30 July 2013, Russian taxes which are not withheld on payments to foreign recipients and respective penalties may be collected from a Russian taxpayer who failed to act as a tax agent.

In the framework of such policies the provisions of Federal Law No. 376-FZ dated 24 November 2014 "On amending Parts I and II of the Tax code of the Russian Federation (in respect of taxation of profits of controlled foreign companies and income of foreign organizations)" and follow up amendments to this law (**Federal Law**) are the result of the joint work undertaken by the Ministry of Finance and the Russian Government to implement measures previously announced under the Russian Government's action plan to counteract the "offshorisation" of the Russian economy. The major changes implemented by the new law include: (1) the introduction of the "controlled foreign corporation" (CFC) regime, (2) the concept of there being a beneficial owner of income and (3) the concept that foreign legal entities may have Russian tax residency if they are effectively managed from the Russian Federation. These factors raise the risk of a sudden imposition of arbitrary or onerous taxes on operations in the Russian Federation and abroad, and the application of the abovementioned rules may result in the imposition of fines, penalties and enforcement measures, which could have a material adverse effect on the business, financial condition and results of operations of the Company.

Recently the Russian Tax Code has been amended to allow in certain cases for judicial recovery of outstanding tax arrears of subsidiary/associated companies from principal (dominant or interest holding) companies that follows preceding trends in the court practice. These or similar amendments and initiatives may have a significant negative effect on Russian taxpayers and may expose them to additional tax, administrative and criminal risks, as well as extra costs necessary to secure compliance with the new rules.

In September 2016, a draft law introducing country-by-country reporting (**CbCR**) requirements was published. Introduction of mandatory filing of CbCR is, in general, in line with the Organisation for Economic Co-operation and Development (**OECD**) recommendations within the Base Erosion and Profit Shifting (BEPS) initiative. This initiative could potentially give rise to new amendments to and interpretations of the Russian tax law on the basis of international best practice, that may potentially cause an additional tax burden for the Group's business.

In early 2017, the Russian Government announced essential changes to the Russian tax system that will have substantial impact on its structure. It is mentioned by Government officials that labour taxes (social security contributions), indirect taxes and personal income tax may be affected by the proposed changes. The scope and substance of these changes is still under discussion and their final content and process of implementation are still unclear. Due to lack of clear vision of upcoming changes in the Russian tax system, it is difficult to define at this stage what effect these changes will have on Russian taxpayers, including the Company. From this perspective, it is unclear how these changes would operate; the introduction of such changes could affect the overall tax efficiency of the Group's operations and result in significant additional tax liabilities.

On 7 June 2017, the Russian Federation has joined the OECD Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting. This Convention will enter into force in the Russian Federation on the first day of the month following the expiration of a period of three months from (i) the date on which the Russian Federation deposits its instrument of ratification with the OECD, or (ii) if fewer than four other states have by that date deposited instruments of ratification, acceptance or approval, the date on which the fifth such deposit is made, while the relevant double tax treaty (DTT) provisions will be changed as soon as the Russian Federation's partners have completed their internal procedures that are required to adopt this Convention. Thus, changes to individual tax treaties will be introduced gradually, not immediately. The Convention will amend DTTs with new provisions that considerably restrict tax benefits. Once the Convention is ratified, it may result in significant changes to tax treaties' provisions and how they are applied in practice that potentially may result in higher tax burden for the Group's business.

In addition, the Russian Federation has joined the Convention on Mutual Administrative Assistance in Tax Matters developed by the Council of Europe and the OECD. Ratification of this Convention enables the Russian tax authorities to obtain certain information relating to tax matters from a number of countries, including certain offshore jurisdictions. The provisions of the Convention came into force in the Russian Federation on 1 July 2015. This Convention gives Russian tax authorities an effective mechanism of obtaining financial and tax information about foreign companies and there is a risk that certain information may potentially be interpreted in negative sense raising an additional tax burden for the Group.

These developments and changing conditions create tax risks in the Russian Federation that are more significant than those typically found in jurisdictions with more developed tax systems and complicate tax planning and related business decisions of the Company. In addition, there can be no assurance that the current tax rates will not be increased, that new taxes will not be introduced or that additional sources of revenue or income, or other activities, will not be subject to new taxes, charges or similar fees in the future. There also can be no assurance that the Russian Tax Code will not be changed in the future in a manner adverse to the stability and predictability of the tax system.

All the aforesaid evolving tax conditions create tax risks in the Russian Federation that are greater than the tax risks typically found in countries with more developed taxation, legislative and judicial systems. The above risks and uncertainties complicate the Group's tax planning and related business decisions, potentially exposing the Group to significant penalties and interest for late payments and enforcement measures, and could have a material adverse effect on the business, results of operations, financial condition and prospects of the Group. The Company cannot provide Noteholders with any assurance that additional Russian tax exposures will not arise. Additional tax exposure could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

13 Russian subsidiaries of the Company are subject to tax audits by the Russian tax authorities, which may result in additional tax liabilities.

Russian subsidiaries of the Company are subject to periodic tax inspections that may result in tax assessments, penalties and interest being claimed from such subsidiaries for prior tax periods. Generally, tax declarations of Russian subsidiaries remain open and subject to audit by tax and/or customs authorities for three calendar years so that the tax declarations made in the

three calendar years immediately preceding the year in which the decision to conduct an audit is taken may be audited. However, the fact that a particular year has been reviewed by tax authorities does not preclude that year from further review or audit during the eligible three-year limitation period by a superior tax authority.

Moreover, the Russian tax authorities are allowed to carry out repeat field tax audits in connection with the restructuring or liquidation of a taxpayer, or if the taxpayer resubmits an adjusted tax return based on which the amount of tax is reduced. The limitation of the tax audit period corresponds to the statute of limitations on the commission of a tax offence, which is also limited to three years from the date on which a tax offence was committed or from the date following the end of the tax period during which the tax offence was committed (depending on the nature of the tax offence).

The Russian Tax Code provides for the extension of the three-year statute of limitations if the actions of the taxpayer created insurmountable obstacles for the tax audit. As none of the relevant terms are defined, tax authorities may have broad discretion to argue that a taxpayer has “obstructed”, “hindered” or “created insurmountable obstacles” in respect of an inspection and may ultimately seek to review and possibly to apply penalties beyond the three-year term, and there is no guarantee that the tax authorities will not review compliance with applicable tax law beyond the three-year limitation period.

Tax audits may result in additional costs if the relevant authorities conclude that the Russian subsidiaries did not satisfy their tax obligations in any given year. They may also impose additional burdens by diverting the attention of the Company's management. The outcome of these audits may result in significant fines, penalties and enforcement measures which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group believes that it has provided adequately for tax liabilities based on its interpretation of applicable Russian tax legislation, official pronouncements and court decisions. There can be no assurance, however, that the interpretations of the relevant tax authorities will not differ from the Company's interpretation. A successful challenge by the tax authorities of the Company's provisions for tax liabilities could have a material adverse effect on the Group's business, results of operations and financial condition.

14 Dividends paid by Russian subsidiaries of the Parent to the Parent may be subject to payment of withholding tax.

Dividends paid by Russian subsidiaries to their foreign corporate shareholders are generally subject to Russian withholding income tax at a rate of 15 per cent., although this tax rate may be reduced under an applicable double tax treaty. In certain circumstances a group's corporate structure may preclude the ability to rely on double tax treaties, the benefit of which might otherwise be available.

The Group has not recorded a deferred tax liability in respect of withholding tax and other taxes that would be payable on the unremitted earnings associated with investments in its subsidiaries and associates as the Group should be able to control the timing of dividends from its subsidiaries and therefore it should not represent an immediate risk.

15 Russian transfer pricing rules may adversely affect business of Russian companies of the Group, financial condition and results of operations.

Russian transfer pricing legislation has been effective from 1 January 2012. The rules are technically elaborate, detailed and, to a certain extent, aligned with the international transfer pricing principles developed by the OECD.

The rules allow the Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of transactions which are considered “controlled” for Russian transfer pricing purposes. The list of “controlled” transactions includes transactions performed

with related parties and certain types of cross-border transactions. The rules have considerably increased the compliance burden for the taxpayers compared to the law which was in effect before 2012 due to, *inter alia*, shifting the burden of proving market prices from the Russian tax authorities to the taxpayer and obliging the taxpayer to keep specific documentation. Furthermore, the taxpayers are obliged to notify the Russian tax authorities of “controlled” transactions. Although the transfer pricing rules are supposed to be in line with international transfer pricing principles developed by the OECD, there are certain significant differences in how these principles are reflected in the local rules. Special transfer pricing rules apply to transactions with securities and derivatives. It is difficult to evaluate what effect transfer pricing rules may have on Russian companies of the Group.

Since the date when Russian transfer pricing rules came into force, transactions between affiliated parties have been examined by the Russian tax authorities for conformance with the “arm’s-length principle”. It is stipulated by the Russian Tax Code that an audit of the proper calculation and payment of taxes in connection with the conclusion of transactions between interdependent persons shall be performed by the Federal Tax Service. However, currently territorial tax authorities try to scrutinise terms and conditions in transactions concluded between related parties under the “unjustified tax benefit” concept. Accordingly, due to the uncertainties in the interpretation of Russian transfer pricing legislation, no assurance can be given that the Russian tax authorities will not challenge transfer prices of Russian companies of the Group and make adjustments which could affect the tax position of Russian companies of the Group unless these companies are able to confirm the use of market prices with respect to “controlled” transactions supported by the appropriate transfer pricing documentation. The imposition of additional tax liabilities under the Russian transfer pricing rules may have a material adverse effect on business of Russian companies of the Group and their financial condition, results of operations and/or prospects, and the value of the Notes.

16 Russian thin capitalisation rules allow different interpretations which may affect the Company’s business.

Russian regulations on thin capitalisation rules expressly restrict the ability to deduct interest charged on foreign controlled debt (**Foreign Controlled Debt**), which includes loans and other debt received by a Russian organisation (i) from a foreign person (legal entity or individual) acknowledged as a related party for Russian transfer pricing purposes, if this foreign person directly or indirectly holds shares in the Russian organisation’s charter capital; (ii) from another person that is a related party of the aforementioned foreign person; or (iii) which are guaranteed or otherwise secured by any of the above mentioned persons.

The ability to deduct interest is restricted to the extent that Foreign Controlled Debt exceeds net assets by more than 3 times (12.5 for banks and leasing companies). Interest on excess debt is non-deductible and treated as a dividend subject to withholding tax. In the event the taxpayer has negative net assets, the whole amount of interest accrued on the controlled debt will be non-deductible and treated as a dividend.

The above stated definition of Foreign Controlled Debt was introduced by the Federal Law No. 25-FZ adopted on February 15, 2016 “On amending the article 269 of Part II of the Tax Code of the Russian Federation in respect to definition of controlled indebtedness”. This law introduced significant changes to Foreign Controlled Debt and the range of transactions controlled for the purposes of applying thin capitalisation rules. The law significantly extended the list of debt obligations that can be acknowledged as controlled by a direct provision of the Russian Tax Code: for instance, debt obligations to foreign sister companies will be included within the scope of Foreign Controlled Debt by a direct provision of the Russian Tax Code. New rules entered into force on 1 January 2017, with the exception of the amendments related to loans from banks described above, which apply retroactively, starting from 1 January 2016. The Russian companies of the Group may be affected by the thin capitalisation rules in the Russian Federation if at any time they are the recipient of Foreign Controlled Debt.

It is currently unclear how the Russian tax authorities will interpret and apply the amended thin capitalisation rules. Therefore, it cannot be ruled out that Russian companies of the Group might be subject to additional tax liabilities, which could have a material adverse effect on Russian companies of the Group.

Risks Relating to the Notes

1 The Issuer is a special purpose finance subsidiary with no revenue generating operations of its own and its ability to fulfil its obligations under the Notes is dependent on the Group.

The Issuer is a wholly owned subsidiary of the Parent and the net proceeds from the issuance of the Notes will be used for substantial refinancing of loans provided pursuant to the Banking Facilities provided by Sberbank and VTB Bank (further details of which are set out in Part 10: “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”). The Issuer is a special purpose finance subsidiary that has no revenue generating operations of its own. The Issuer conducts no business or operations and, after giving effect to this offering and the use of proceeds therefrom, will have no assets other than the loan to the Parent or its subsidiaries to be made with the proceeds of the Offering. The Issuer’s ability to service the Notes (or other future indebtedness it may incur under limited circumstances), is entirely dependent upon the receipt of funds from the Group under the terms of the loan to Parent and/or its subsidiaries or otherwise. Accordingly, in meeting its payment obligations under the Notes, the Issuer is wholly dependent on the profitability and cash flow of the Group. Any delay or failure by the relevant Group companies to make payments of principal and interest to the Issuer under an intercompany loan will affect the Issuer’s ability to make payments of interest and principal under the Notes as those payments fall due. The Parent’s ability to make payments to the Issuer will depend on Parent’s cash flows and earnings which, in turn, may be affected by all of the factors discussed in these Part 3: “*Risk Factors*”.

In addition, the other members of the Group are separate and distinct legal entities and have no obligation, other than the Guarantors in relation to the Guarantee, contingent or otherwise, to pay any amounts due pursuant to the Notes or to make any funds available for these purposes, whether by dividends, loans, distributions or other payments, and do not, apart from the Guarantors, guarantee the payment of interest on, or principal of, the Notes.

2 The Guarantees may be structurally subordinated.

The Guarantees will be structurally subordinated to the claims of all holders of debt securities and other creditors, including trade creditors, of the Guarantors’ subsidiaries, and effectively subordinated to all secured creditors of the Guarantors to the extent of the collateral securing such indebtedness. In the event of an insolvency, liquidation, reorganisation, dissolution or winding up of the business of any subsidiary of the Guarantors, creditors of such subsidiary generally will have the right to be paid in full before any distribution is made to the Guarantors.

3 The Notes may be redeemed at the option of the Issuer prior to maturity.

The Terms and Conditions of the Notes as set out in Part 17: “*Terms and Conditions of the Notes*” provide that the Notes are redeemable at the Issuer’s option in certain circumstances and, accordingly, the Issuer may choose to redeem the outstanding Notes at times when prevailing interest rates may be relatively low. In such circumstances, an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Notes. Even if the Issuer does not exercise its option to redeem the Notes, its ability to do so may adversely affect the value of the Notes.

4 The Issuer may not be able to repurchase the Notes upon a Relevant Event.

Upon the occurrence of a Relevant Event, the Issuer may be required to offer to repurchase all of the Notes in cash in an amount equal to 101 per cent. of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of repurchase. See Part 17: “*Terms and Conditions of the Notes*”. If a Relevant Event occurs, the Group may not have sufficient funds at the time of any such event to make the required repurchases. The source of funds for any repurchase required as a result of any such event will be available cash or cash generated from operating activities or third party financing. Sufficient funds may not be available at the time of any such events to make any required repurchases of the Notes tendered.

5 Payments under the Guarantees made by Guarantors incorporated in the Russian Federation may be subject to Russian withholding tax or Russian personal tax as applicable.

Pursuant to the Russian Tax Code, payments made by a Russian entity to a legal entity which is non-resident for Russian tax purposes should be subject to Russian withholding tax to the extent such payments represent Russian source income. The Russian Tax Code provides an open list of Russian source income, referring to “other similar income” that could include any income similar to specific examples of types of Russian source income provided in the Russian Tax Code (for instance, dividends, interest, royalties, fines, penalties, etc.), including guarantee payments.

Payments under the Guarantees by a Guarantor incorporated in the Russian Federation to a Noteholder might be characterised as Russian source income that would be subject to a 20 per cent. withholding tax (if the Noteholder is a non-Russian legal entity or organisation having no registered presence or permanent establishment in the Russian Federation), unless the criteria for application of the exemption established for “traded bonds” are all met or the Russian withholding tax is reduced or eliminated under an applicable double tax treaty and the recipient has duly confirmed its tax residence and beneficial ownership prior to receiving the interest income. However, there is a risk that the withholding taxation exemption will not be applicable to the Notes, since the criteria for its application may not be met. For more details, please refer to Part 19: “*Russian Taxation*”.

Where the Noteholders are Individuals that are non-residents for Russian tax purposes, a 30 per cent. personal income tax would apply to the gross payment less any available duly documented cost deduction (including the acquisition cost of the Notes and other documented expenses related to the acquisition, holding and sale or other disposal of the Notes) subject to the application of any provision of a relevant double tax treaty to which the Russian Federation is a party, but obtaining advance relief or a refund of the tax withheld may be extremely difficult.

If tax is not withheld at source by the Guarantors which are Russian legal entities, the Noteholders that are Russian tax non-residents may be obliged to pay Russian personal income tax on their own on the basis of a personal income tax return, and such tax, if it arises, would not be in any way indemnified by the Issuer and/or the Guarantors.

If such payments are subject to Russian withholding tax, each of the Guarantors incorporated in the Russian Federation will be obliged (subject to certain exceptions) to pay additional amounts to ensure that every net payment made by it under the relevant Guarantee after deduction or withholding of any taxes is not less than the full amount then due and payable.

6 The tax gross-up provisions contained in the Terms and Conditions of the Notes and/or the Deeds of Guarantee, to the extent that the Guarantors incorporated in the Russian Federation are required to make payments under the Guarantees, may be unenforceable under Russian law.

If payments made by the Issuer on the Notes, or by the Guarantors on the Guarantees, are subject to withholding tax, the Issuer or the Guarantors, as the case may be, will be required (subject to certain exceptions) to make additional payments to the Noteholders to ensure that they receive a net amount that is not less than the amount they would have received in the absence of such withholding. There is some doubt as to whether such gross-up provisions are enforceable under Russian law. There is a risk that the gross-up for withholding tax may not take place and that payments made by the Guarantors incorporated in the Russian Federation under the Guarantees will be reduced by Russian income tax withheld by the Guarantor incorporated in the Russian Federation at a rate of 20 per cent., if the Noteholder is not an individual, or at a rate of 30 per cent., if the Noteholder is an individual who is non-resident for Russian tax purposes. In the event that such payments are reduced for the amount of tax withheld, Noteholders may not receive the required payments of interest and principal in respect of the Notes in full, which would constitute an Event of Default under the Notes.

7 Noteholders may face difficulties in protecting their interests and enforcing their rights under the Guarantee or the Notes.

The Guarantors, other than the Parent, are incorporated in the Russian Federation. As such, the enforceability of the Guarantees pursuant to the Deed of Guarantee issued in connection with the Notes may be subject to numerous legal defences and legal risks. See Part 4: “*Enforceability of Judgments*”.

8 Tax might be withheld on dispositions of the Notes in the Russian Federation, reducing their value.

Noteholders – Individuals

Where proceeds from a disposition of the Notes are received from a source within the Russian Federation (e.g. through a Russian broker) by an individual Noteholder not qualifying as resident for Russian tax purposes, a personal income tax at a rate of 30 per cent. applies to the gross amount of those proceeds after having deducted any available documented cost deductions (including the acquisition cost of the Notes).

In case of Noteholders that are non-residents for Russian tax purposes, such tax may be reduced or eliminated under an applicable tax treaty subject to compliance with the treaty clearance formalities. See Part 19: “*Taxation of Non-Resident Noteholders – Individuals*” for more information on the double tax treaty relief.

Even though, in case of income from transactions with securities, the Russian Tax Code is typically interpreted such that only a licensed broker or an asset manager or other party that is a Russian legal entity or an organisation, or any other person, including a foreign company with a permanent establishment or, arguably, any registered presence in the Russian Federation or an individual entrepreneur registered in the Russian Federation who carries out operations under an asset management agreement, brokerage service agreement, agency agreement, a commission agreement or commercial mandate agreement, has to withhold the tax from payments associated with disposition of securities made to a non-Russian individual, there may be other categories of companies/foreign companies/individual entrepreneurs which may be recognised as tax agents for tax withholding purposes in the Russian Federation. Noteholders should ascertain whether tax is withheld by the tax agent correctly, otherwise (including in cases where no withholding tax on Russian source income is applied) a personal obligation for Noteholders to file an individual income tax return may arise.

Noteholders – Legal Entities

Generally, there should be no Russian tax on gains from a sale or other disposal of the Notes imposed on a Noteholder who is a legal entity (as defined under Russian law) and non-resident for Russian tax purposes. There is some uncertainty regarding the tax treatment of the portion of the sales or disposal proceeds (if any) attributable to accrued interest (coupon) on the Notes (i.e. debt obligations) where proceeds from a sale or other disposal of the Notes are received from a source within the Russian Federation by a Noteholder who is a legal entity and non-resident for Russian tax purposes. The imposition or possibility of imposition of the withholding tax could adversely affect the value of the Notes. See Part 19: “*Taxation – Russian Taxation – Taxation of the Notes*”. In addition, while some Noteholders might be eligible for an exemption from or a reduction in Russian withholding tax under applicable double tax treaties, there is no assurance that such exemption or reduction will be available in practice under these circumstances.

9 The issuance of further Notes could adversely affect the value of the Notes.

Whether further securities with the same terms and conditions as the Notes would be fungible with the Notes for U.S. federal income tax purposes depends on whether each further issuance of such securities would be treated as a qualified reopening of the original offering of the Notes within the meaning of U.S. Treasury regulations. This determination will depend on the date when the further Notes are issued, the yield of the outstanding Notes at that time (based on their fair

market value), whether the outstanding Notes were issued with original issue discount and whether any outstanding Notes are publicly traded or quoted at the time of the new issuance. If issuance of the further Notes is not a qualified reopening, the further Notes may have OID, as defined in Part 19: "Taxation". Unless the further Notes can be distinguished from the Notes, this may adversely affect the market value of the previously outstanding Notes.

10 No prior market exists for the Notes, and an active trading market may not develop for the Notes.

Prior to their issue, there was no public market for the Notes. The Notes are expected to be admitted to the official list of the Irish Stock Exchange and traded on the Global Exchange Market. However, no assurance can be given that a liquid market will develop for the Notes, that the Notes can be sold at a particular time or that the price received on the sale of the Notes will reflect their value. In addition, liquidity may be limited if large allocations of the Notes are made to a limited number of investors. The liquidity of any market for the Notes will depend on a number of factors, including:

- the number of Noteholders;
- the Group's operating performance and financial condition;
- the market for similar securities;
- the interest of securities dealers in making a market for the Notes; and
- prevailing interest rates.

An active market for the Notes may not develop and, if it develops, it may not continue. Illiquidity may have a materially adverse effect on the market value of Notes and Noteholders may not be able to sell their Notes.

Historically, the markets for non-investment grade debt, such as the Notes, have been subject to disruptions that have caused substantial volatility in their prices. The market, if any, for the Notes may be subject to similar disruptions. In addition, general market fluctuations, including changes in interest rates, exchange rates and the rate of inflation as well as economic conditions, have adversely affected the market price of many securities. There can be no assurance that these conditions will not adversely affect the market price of the Notes.

11 The market price of the Notes may be volatile. It should be remembered that the market price of the Notes and the income from them can go down as well as up.

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Group's and its competitors' operating results, adverse business developments, changes to the fiscal, monetary or regulatory environment in which the Group operates, changes in financial estimates by securities analysts, the actual or anticipated sale of a large number of Notes or other securities and other factors.

In addition, securities markets, in recent periods, have experienced significant price fluctuations. These fluctuations were often unrelated to the operating performance of the companies whose securities are traded on such stock markets. Market fluctuations as well as adverse economic conditions have negatively affected the market price of many securities and may affect the market price of the Notes.

12 The Notes may only be transferred in accordance with the procedures of the depositaries in which the Notes are deposited.

Except in limited circumstances, the Notes will be issued only in global form with interests therein held through the facilities of DTC, Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in the Notes will be shown on, and the transfer of that ownership will be

affected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg or their nominees and the records of their participants. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. These laws may impair the ability to transfer beneficial interests in the Notes. Because DTC, Euroclear and Clearstream, Luxembourg can only act on behalf of their participants, which in turn act on behalf of owners of beneficial interests held through such participants and certain banks, the ability of a person having a beneficial interest in a Note to pledge or transfer such interest to persons or entities that do not participate in the DTC, Euroclear and Clearstream, Luxembourg systems may be impaired.

13 The Notes are subject to risks relating to exchange rate and exchange controls.

The Issuer will pay principal and interest on the Notes in US Dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency (the **Investor's Currency**) other than the US Dollar. These include the risk that exchange rates may significantly change (including changes due to devaluation of the US Dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the US Dollar would decrease (i) the Investor's Currency's equivalent yield on the Notes; (ii) the Investor's Currency equivalent value of the principal payable on the Notes; and (iii) the Investor's Currency equivalent market value of the Notes.

14 Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to investment laws and regulations, or to the review by, or regulation of, certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments to it; (ii) the Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk based capital or similar rules.

15 An adverse change in an applicable credit rating could adversely affect the trading price for the Notes.

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes.

The Notes have been assigned rating of B- (CreditWatch Positive) by S&P and B- (exp) by Fitch. The Company has been assigned a rating of B- (CreditWatch Positive) by S&P and an expected rating of B- (exp) with Stable Outlook by Fitch. The foregoing credit ratings do not mean that the Notes are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. The significance of each rating should be analysed independently from any other rating. Any changes in the credit ratings of the Group or the Notes could adversely affect the value of the Notes and the price that a subsequent purchaser will be willing to pay for the Notes.

16 The insolvency laws of Jersey and the Russian Federation may not be as favourable to investors as English bankruptcy laws and may preclude holders of the Notes from recovering payments due on the Notes.

The Issuer is incorporated under the laws of Jersey and the Guarantors other than the Parent are incorporated under the laws of the Russian Federation. Accordingly, insolvency proceedings with respect to any of those entities would be likely to proceed under, and be governed by, Jersey or Russian insolvency law, as applicable. Jersey or Russian insolvency law may not be as

favourable to investors as the laws of England and Wales or other jurisdictions with which investors are familiar.

In the event that the Issuer, the Guarantors, any future Guarantors, if any, or any other of Parent's subsidiaries experiences financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced, or the outcome of such proceedings. The insolvency and other laws of each of these jurisdictions may be materially different from, or in conflict with, each other, including in the areas of rights of secured and other creditors, the ability to void preferential transfer, priority of governmental and other creditors, ability to obtain post-petition interest and duration of the proceeding. The application of these laws, or any conflict among them, could call into question whether any particular jurisdiction's laws should apply, adversely affect your ability to enforce your rights under the Guarantees in these jurisdictions and limit any amounts that you may receive. See Part 4: "*Enforceability of Judgments*".

17 **Certain ERISA Considerations.**

The Employee Retirement Income Security Act of 1974, as amended (**ERISA**) and Section 4975 of the Internal Revenue Tax Code of 1986, as amended (the **U.S. Tax Code**) place certain restrictions on those pension plans and other employee benefit plans to which they apply. Pursuant to regulations issued by the United States Department of Labor (**DOL Regulations**), if the Notes are treated as indebtedness of the Issuer without substantial equity features under applicable local law, the assets of the Issuer will not be treated as plan assets of any Benefit Plan Investor for the purposes of ERISA and the U.S. Tax Code, thereby generally avoiding certain potential adverse consequences under ERISA and the U.S. Tax Code. The Issuer believes that the Notes should be treated as indebtedness of the Issuer without substantial equity features for the purposes of such regulations. Regardless of whether the Notes are considered to be equity interests for purposes of DOL Regulations, ERISA's and the U.S. Tax Code's prohibited transaction rules may be applicable to the purchase and holding of the Notes. Certain exemptions from the prohibited transaction rules could be applicable, however, with respect to the purchase and holding of the Notes. Accordingly, the Notes may be acquired by Benefit Plan Investors subject to certain restrictions. Government Plans, non-U.S. plans and certain church plans are not subject to ERISA requirements, but may be subject to similar restrictions under applicable non-U.S., state or local law (**Similar Law**). Each Benefit Plan Investor that purchases Notes and such investor's fiduciary will be deemed to represent and warrant that its acquisition and holding of the Notes will not give rise to a non-exempt prohibited transaction under ERISA or the U.S. Tax Code. In addition, to the extent that the DOL Final Fiduciary Rule remains in effect, investment by Benefit Plan Investors will be limited to Eligible Benefit Plan Investors as defined in the Part 20: "*Considerations for ERISA and other U.S. Employee Plans*" and each such Eligible Benefit Plan Investor will be deemed to make the representations and warranties set forth in such section. Each investor that purchases a Note with assets of a Government Plan or church plan and such investors' fiduciary will be deemed to represent and warrant that its acquisition and holding of the Notes will not give rise to a violation of Similar Law. See Part 20: "*Considerations for ERISA and other U.S. Employee Plans*" herein.

PART 4

ENFORCEABILITY OF JUDGMENTS

The Issuer is a private limited company incorporated under the laws of Jersey. The Issuer is managed and controlled in the UK and is currently treated as UK resident for UK tax purposes. The Guarantors are the Parent, a public company incorporated under the laws of England and Wales, and certain of the Group's principal operating companies, which are private limited companies incorporated under the laws of the Russian Federation. Substantially all of the Group's assets are located in the Russian Federation.

It may be difficult for the Noteholders or the Trustee to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom or United States, liabilities predicated upon English laws or U.S. Securities Laws. Courts in the Russian Federation will generally recognise judgments rendered by a court in any jurisdiction outside the Russian Federation only if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the jurisdiction where the judgment is rendered or a federal law is adopted in the Russian Federation providing for the recognition and enforcement of foreign court judgments. No such treaty for the reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters exists between the Russian Federation and certain other jurisdictions, including the United Kingdom, the United States and Jersey, and no relevant federal law on enforcement of foreign court judgments has been adopted in the Russian Federation. As a result, new proceedings may have to be brought in the Russian Federation in respect of a judgment already obtained in any such jurisdiction against the Issuer or its officers or directors or the Guarantors or their respective officers or directors. These limitations, as well as the general procedural grounds set out in Russian legislation for the refusal to recognise and enforce foreign court judgments in the Russian Federation, may significantly delay the enforcement of such judgments or deprive the Issuer, the Guarantors and/or the Noteholders of effective legal recourse for claims related to the investment in the Notes.

In the absence of an applicable treaty, a final judgment rendered by a foreign court may still be recognised and enforced by a Russian court on the basis of reciprocity, if courts of the jurisdiction where the foreign judgment is rendered have previously enforced judgments issued by Russian courts. In a number of recent instances, Russian courts have recognised and enforced a foreign court judgment (including English court judgments) on the basis of a combination of the principle of reciprocity and the existence of a number of bilateral and multilateral treaties to which the Russian Federation and certain other jurisdictions, including the United Kingdom, are parties. The courts determined that such treaties constituted grounds for the recognition and enforcement of the relevant foreign court judgment in the Russian Federation. In the absence of established court practice, however, no assurances can be given that a Russian court would be inclined in any particular instance to recognise and enforce a foreign court judgment on these or similar grounds. The existence of reciprocity must be established at the time the recognition and enforcement of a foreign judgment is sought, and it is not possible to predict whether a Russian court will in the future recognise and enforce on the basis of reciprocity a judgment issued by a foreign court, including an English court.

Accordingly, it may be difficult or impossible for investors to:

- effect service of process within the United Kingdom, the United States or other jurisdictions in which investors may be located, on certain members of senior management of the Group or certain directors or members of senior management of the Guarantors;
- enforce judgments obtained in courts in the United Kingdom, the United States or other jurisdictions in which investors may be located, against the Issuer's or the Guarantors' assets; or
- enforce, in original actions brought in courts in the Russian Federation, liabilities predicated upon the civil liability provisions of the laws of the United Kingdom, the United States or other jurisdictions in which investors may be located.

The Notes, the Guarantees and the Trust Deed will be governed by English law and will provide that any dispute between the parties thereto may be finally settled by arbitration in accordance with the

Rules of the London Court of International Arbitration (the **LCIA**), with the seat of such arbitration being in London, England. The United Kingdom and the Russian Federation are parties to the New York Convention. Consequently, an arbitral award from an arbitral tribunal in London, England should generally be recognised and enforced in the Russian Federation on the basis of the rules of the New York Convention, subject to qualifications set out therein and in compliance with applicable Russian legislation.

The Arbitrazh Procedural Code of the Russian Federation (the **Arbitrazh Procedural Code**) establishes the procedure for Russian courts to refuse to recognise and enforce such arbitral award. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign arbitral award in the Russian Federation.

Under current Russian law, state duty may be payable upon the initiation of any action or proceeding (including any proceeding for enforcement) arising out of the Notes or the Guarantees in any court of the Russian Federation.

The above limitations may deprive investors of effective legal recourse for claims related to an investment in the Notes.

Prospective investors should read the entire document and, in particular, Part 3: “*Risk Factors*” when considering an investment in the Notes.

PART 5

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Statements of the Issuer

The Issuer, Petropavlovsk 2016 Limited, was incorporated on 24 November 2016 for the purpose of incurring financing for the Group and became a subsidiary of the Company on 13 January 2017. Therefore, the 2016 Financial Statements, the 2015 Financial Statements and the 2014 Financial Statements do not include the Issuer. See Part 9: “*Selected Consolidated Financial and Other Information*”.

Financial Statements of the Company

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (**IFRS**) as adopted by the European Union, which includes International Accounting Standards and Interpretations issued by the International Accounting Standards Board. The 2016 Financial Statements, 2015 Financial Statements and 2014 Financial Statements included in this Offering Memorandum have been audited by Deloitte LLP (**Deloitte**), independent accountants and Registered Auditors and members of the Institute of Chartered Accountants in England and Wales, with an address at 2 New Street Square, London, EC4A 3BZ, as stated in their reports appearing therein. Deloitte has reviewed the 2017 Interim Financial Statements included in this Offering Memorandum. The Financial Statements include the financial information of the Guarantor companies and non-Guarantor companies, on a consolidated basis. See Part 9: “*Selected Consolidated Financial and Other Information*”.

The 2016 Financial Statements, 2015 Financial Statements and 2014 Financial Statements contain independent auditor’s audit reports from Deloitte that contain language limiting the scope of Deloitte’s duty of care in relation to such reports and the financial statements to which they relate. If any court were to give effect to this limiting language, the recourse that investors in the Notes may have against Deloitte based on their reports or the aforementioned financial statements to which they relate could be limited. The SEC would not permit such limiting language to be included in a registration statement or a prospectus used in connection with an offering of securities registered under the Securities Act, or in a report filed under the Exchange Act.

Non-IFRS financial information

This Offering Memorandum includes certain non-IFRS measures. The Group believes that these non-IFRS measures provide valuable information to readers because they provide incremental focus on factors that directly impact the underlying performance of the Group’s business. The following non-IFRS financial information is used:

- Underlying EBITDA;
- Underlying EBITDA margin;
- Operating cash costs;
- Operating cash expenses;
- Total cash costs (**TCC**);
- All-in sustaining cash costs (**AISC**);
- All-in cash costs (**AIC**);
- Net debt;
- Net debt/Underlying EBITDA;

- Net Finance Charges; and
- Underlying EBITDA/Net Finance Charges.

Underlying EBITDA is defined as profit/(loss) for the period from continuing operations before investment income, interest expense, other finance gains, other finance losses, foreign exchange gains and losses, taxation, depreciation, impairments, reversals of impairment, write-downs to adjust the carrying value of net assets of disposal groups held for sale to fair value less costs to sell and the Group's share of interest expense, investment income, other finance gains, other finance losses, foreign exchange gains and losses, taxation, depreciation and impairments recognised by an associate.

Underlying EBITDA is presented in this Offering Memorandum because the Group considers it to be an important supplemental measure of the Group's financial performance. Additionally, the Group believes this measure is frequently used by investors, securities analysts and other interested parties to evaluate the efficiency of a group's operations and its ability to employ its earnings toward repayment of debt, capital expenditures and working capital requirements. Underlying EBITDA has limitations as an analytical tool and should not be considered in isolation or as a substitute for the Group's operating results as reported under IFRS. Some of these limitations are as follows:

- Underlying EBITDA does not reflect:
 - the impact of significant interest expense or the cash requirements necessary to service interest or principal payments in respect of any borrowings, which could further increase if the Group incurs more debt;
 - the impact of income tax expense on the Group's operating performance;
 - the impact of depreciation of assets on the Group's performance. The assets of the Group's business which are being depreciated will have to be replaced in the future, and such depreciation expense may approximate the cost to replace these assets in the future. By excluding this expense from Underlying EBITDA, Underlying EBITDA does not reflect the Group's future cash requirements for these replacements;
 - the Group's cash expenditure or future requirements for capital expenditure or contractual commitments;
 - changes in or cash requirements for the Group's working capital needs;
 - the impact of a number of other significant non-cash items, specifically foreign exchange losses/(gains), impairment of ore stockpiles, impairment of mining assets, and impairment of exploration and evaluation assets; and
- Other companies in the Group's industry may calculate Underlying EBITDA differently or may use them for different purposes than the Group, limiting their usefulness as a comparative measure.

For the calculation of the Group's Underlying EBITDA and the reconciliation to profit/(loss) for the period from continuing operations, see Part 9: "*Selected Consolidated Financial and Other Information*" of this Offering Memorandum.

Underlying EBITDA is also presented on a segment basis, which is defined as segment result add/(less) depreciation, impairments, (reversals of impairment), write-downs to adjust the carrying value of net assets of disposal groups held for sale to fair value less costs to sell and the Group's share of interest expense, investment income, other finance gains, other finance losses, foreign exchange gains and losses, taxation, depreciation and impairment recognised by an associate. For the calculation of the Underlying EBITDA presented on a segment basis and the reconciliation to segment result, see Part 9: "*Selected Consolidated Financial and Other Information*" of this Offering Memorandum.

Underlying EBITDA margin is defined as Underlying EBITDA for the period as a percentage of Group revenue from continuing operations for the equivalent period. For the calculation of the Group's Underlying EBITDA margin, see “– Non-IFRS financial information and reconciliations” below.

Operating cash costs are defined as operating expenses less/(add) foreign exchange losses/(gains), depreciation, impairments, (reversals of impairment) and central administration expenses. For the calculation of the Group and its business segments' operating cash costs and the reconciliation to operating expenses, see Part 9: “*Selected Financial Information and Other Information*” and Part 10: “*Management Discussion and Analysis of Financial Condition and Results of Operations*” of this Offering Memorandum.

Operating cash expenses are defined as operating cash costs less refinery and transportation, other taxes, mining tax and deferred stripping. For the calculation of the Group's and its business segments' operating cash expenses and the reconciliation to operating cash costs, see Part 9: “*Selected Financial Information and Other Information*” and Part 10: “*Management Discussion and Analysis of Financial Condition and Results of Operations*” of this Offering Memorandum.

TCC are presented for gold operations. TCC are defined as operating cash costs less co-product revenue. TCC per oz are defined by the Group as total cash costs divided by physical volume of gold sold measured in ounces. For the calculation of the Group's and its business segments' TCC and the reconciliation of TCC to operating cash costs, see Part 9: “*Selected Financial Information and Other Information*”.

AISC are defined as TCC add/(less) impairments, (reversals of impairment), central administration expenses, capitalised stripping at end of the period, (capitalised stripping at beginning of the period), close-down and site restoration, sustaining exploration and sustaining capital expenditure. For the calculation of the Group's and its business segments' AISC and the reconciliation of AISC to TCC, see Part 9: “*Selected Financial Information and Other Information*” of this Offering Memorandum.

AIC are defined as AISC add/(less) non-sustaining exploration expenditure, non-sustaining capital expenditure, impairments of refractory ore stockpiles and (reversal of impairments of refractory ore stockpiles). For the calculation of the Group's and its business segments' AIC and the reconciliation to AISC, see Part 9: “*Selected Financial Information and Other Information*” of this Offering Memorandum.

The financial items “operating cash expenses”, “operating cash costs”, “TCC”, “AISC” and “AIC” presented by the Group have been calculated by management and have not been independently verified by the Group's auditor. Operating cash expenses, operating cash costs, TCC, AISC and AIC are discussed throughout this Offering Memorandum because the Company believes they provide a measure for comparing the Group's operational performance against that of its peer group. In addition, the Group uses these measurements to compare the performance of the Group's operations period-to-period, to monitor costs and to evaluate operating efficiency.

Operating cash expenses, operating cash costs, TCC, AISC and AIC are not defined by IFRS and should not be considered in isolation or as an alternative to operating expenses or cost of sales, or any measure of liquidity such as net cash from operating activities. Although the presentation of operating cash expenses, operating cash costs, TCC, AISC and AIC is common industry practice, the Group's calculations of these items may vary from other gold mining companies' calculations, and by themselves do not necessarily provide a basis for comparison with other gold mining companies.

While the Gold Institute has provided definitions for the calculation of “operating cash expenses”, “operating cash costs”, “TCC”, “AISC” and “AIC”, the application and precise definition of these measurements and the definitions of certain other non-IFRS financial measures as utilised by the Group and included herein may vary significantly from those utilised by other gold mining companies, and as such may not necessarily provide a basis for comparison with other gold mining companies. An investor should not consider these items in isolation or as alternatives to cost of sales, profit for the year attributable to shareholders of the Company, net cash generated from operating activities or any other measure of financial performance presented in accordance with IFRS. However, the Company believes that operating cash expenses, operating cash costs, total cash costs and total cash costs per oz by mine are useful indicators to investors and management of a mine's performance because they provide

a useful indication of a mine's profitability, efficiency and cash flows. They also show the trend in costs as the mine matures over time and on a consistent basis. These costs can also be used as a benchmark of performance to allow for comparison against mines belonging to other gold mining companies.

Net debt is defined as total borrowings less cash and cash equivalents. For the calculation of the Group's net debt and the reconciliation to total borrowings, see Part 9: "*Selected Financial Information and Other Information*" of this Offering Memorandum.

Net debt/Underlying EBITDA is a ratio calculated as Net debt as at the end of the period divided by the Underlying EBITDA for the twelve months prior to the end of the relevant period. For the calculation of the Group's Net debt/Underlying EBITDA, see Part 9: "*Selected Financial Information and Other Information*" of this Offering Memorandum.

Net Finance Charges are defined as interest expense plus/(less) interest capitalised, (unwinding of discount on environmental obligation), (investment income) and (financial guarantee fee). For the calculation of the Group's Net Finance Charges and the reconciliation to interest expense, see Part 9: "*Selected Financial Information and Other Information*".

Underlying EBITDA/Net Finance Charges is a ratio calculated as Underlying EBITDA for the twelve months prior to the end of the relevant period divided by Net Finance Charges for the equivalent period. For the calculation of the Group's Underlying EBITDA/Net Finance Charges, see Part 9: "*Selected Financial Information and Other Information*" of this Offering Memorandum.

Presentation of certain financial information

Percentages in tables may have been rounded and accordingly may not add up to 100 per cent. Certain financial and other data has also been rounded. As a result of this rounding, the totals of data presented in this Offering Memorandum may vary slightly from the arithmetical totals of such data.

Ore Reserve and Mineral Resource reporting – basis of preparation

The Group reports its reserves, referred to as Ore Reserves, and resources, referred to as Mineral Resources, estimates according to the JORC Code in respect of its most developed assets (last reported according to the JORC Code as at 31 December 2016 for Pioneer, Pokrovskiy, Malomir and Albyn, with the last report according to the JORC Code for Tokur produced in March 2011). The JORC Mineral Resource and Ore Reserve Statements for the Group have been prepared internally by the Group's technical experts following the methodology advised by independent mineral experts, WAI, in 2011 and 2012. The statements were based on the results of an extensive exploration programme, metallurgical testing and other technical work.

In accordance with Russian law, the Group also reports to the relevant Russian authorities its reserves and resources in accordance with the Russian GKZ Classification System. The GKZ estimates are maintained in order to comply with Russian Law.

Cautionary note to U.S. investors concerning estimates of measured, indicated and inferred resources for mining operations

There are differences in reporting regimes for reserve estimates between Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, 2012 edition (the **JORC Code**) and the Russian GKZ Classification System on the one hand, each of which are used by the Group, and the United States reporting regime under the requirements as adopted by the SEC in its *Industry Guide – Description of Property by Issuers Engaged or to Be Engaged in Significant Mining Operations (Industry Guide 7)* on the other hand.

The principal difference is the absence under Industry Guide 7 of any provision for the reporting of estimates other than proved (measured) or probable (indicated) reserves, as the SEC does not permit mining companies to disclose mineral resources in SEC filings. There is, therefore, no equivalent for Ore Reserves or Mineral Resources under the SEC's Industry Guide 7. In addition, under Industry

Guide 7, reserves must be estimated on the basis of current economic and legal conditions, whereas the JORC Code permits the use of “realistic” assumptions, which may include forecast prices and reasonable expectations that required permits will be granted in the future and contracts will be entered into for the sale of production.

The SEC has applied the following reporting definitions to reserves under Industry Guide 7:

- A “reserve” is “that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Reserves are customarily stated in terms of ‘ore’ when dealing with metalliferous minerals; when other materials such as coal, oil, shale, tar, sands, limestone, etc. are involved, an appropriate term such as ‘recoverable coal’ may be substituted”.
- “Proven (measured) reserves” are “reserves for which: (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling; and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established”.
- “Probable (indicated) reserves” are “reserves for which quantity and grade and/or quality are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven (measured) reserves, is high enough to assume continuity between points of observation”.

This Offering Memorandum uses the term “Mineral Resources”, which are comprised of “Measured”, “Indicated” and “Inferred” Mineral Resources. “Inferred” Mineral Resources have a great amount of uncertainty as to their existence and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an “Inferred” Mineral Resource will ever be upgraded to a higher category. Under SEC rules, estimates of “Inferred” Mineral Resources may not form the basis of feasibility or other economic studies. Investors should not assume that all or any part of “Measured” or “Indicated” Mineral Resources will ever be converted into Ore Reserves.

Investors are also cautioned not to assume that all or any part of an “Inferred” Mineral Resource exist or is economically or legally mineable.

Accordingly, investors should be aware that if this Offering Memorandum had been prepared in accordance with Industry Guide 7, the Group’s Mineral Resources would not be permitted to be reported and the Group’s Ore Reserves would differ from those described herein.

PART 6

EXCHANGE RATE INFORMATION

The official currency of the Russian Federation, where the majority of the Group's assets and operations are located, is the Rouble, which is the functional currency of entities based in the Russian Federation. Part of the Group's revenue and indebtedness, as well as certain capital and operating expenditures, are US Dollar-denominated. As a result, fluctuations in the value of the Rouble against the US Dollar may affect the Group's results, assets and revenues.

The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the Rouble and the US Dollar. This information is based on the Central Bank of the Russian Federation's (the **CBR**) published exchange rates which is set by the CBR without the CBR assuming any obligations to buy or sell foreign currency at the published exchange rate. Fluctuations in the exchange rate between the Rouble and the US Dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of the Financial Statements and other information presented in this Offering Memorandum.

| Year | RUB per US\$1.00 | | | |
|---|------------------|-------|-------------------------------|------------|
| | High | Low | Period average ⁽¹⁾ | Period End |
| 2012 | 34.04 | 28.95 | 31.09 | 30.37 |
| 2013 | 33.47 | 29.93 | 31.98 | 32.73 |
| 2014 | 67.79 | 32.66 | 39.14 | 56.26 |
| 2015 | 72.88 | 49.18 | 61.87 | 72.88 |
| 2016 | 83.59 | 60.27 | 66.35 | 60.66 |
| January 2017 | 60.66 | 59.15 | 59.69 | 60.16 |
| February 2017 | 60.31 | 56.77 | 58.54 | 57.94 |
| March 2017 | 59.22 | 56.38 | 58.01 | 56.38 |
| April 2017 | 57.39 | 55.85 | 56.46 | 56.98 |
| May 2017 | 58.54 | 56.07 | 56.95 | 56.52 |
| June 2017 | 60.15 | 56.54 | 57.95 | 59.09 |
| July 2017 | 60.74 | 58.93 | 59.69 | 59.54 |
| August 2017 | 60.75 | 58.53 | 59.61 | 58.73 |
| September 2017 | 58.55 | 57.00 | 57.74 | 58.02 |
| October 2017 | 58.32 | 57.09 | 57.70 | 57.87 |
| November 2017 (up to and including 8 November 2017) | 58.46 | 58.09 | 58.25 | 58.46 |

Source: CBR

(1) The period average in respect of a year is calculated as the average of the exchange rates on the last business day of each month for the relevant annual period. The period average in respect of a month is calculated as the average of the exchange rates for each business day in the relevant month.

No representation is made that the Rouble or US Dollar amounts referred to herein could have been or could be converted into Roubles or US Dollars, as the case may be, at these rates, at any particular rate or at all. The official exchange rate quoted by the CBR per US\$1.00 for 8 November 2017 is RUB58.46.

See Part 3: "Risk Factors – Risk Relating to the Group – The Group is subject to currency risk" for a description of the foreign exchange risk faced by the Group.

PART 7

USE OF PROCEEDS

The Company intends to use the net proceeds from the issue of the Notes to substantially refinance the loans provided pursuant to the Banking Facilities provided by Sberbank and VTB Bank (further details of which are set out in Part 10: *“Management’s Discussion and Analysis of Financial Condition and Results of Operations”*).

PART 8

CAPITALISATION

The table below sets out the Group's total capitalisation as at 30 June 2017:

- on a historical basis, as extracted without material adjustment from the Financial Statements as at and for the six months ended 30 June 2017; and
- as adjusted to give effect to the issue of the Notes and the substantial repayment of the loans discussed in note (1) below the table, as if these transactions had occurred on 30 June 2017.

| | As at 30 June 2017 US\$ million | Adjustments ⁽¹⁾ US\$ million | As at 30 June 2017 (adjusted) ⁽¹⁾ US\$ million |
|---|--|--|---|
| | (unaudited) | | |
| Cash and cash equivalents | 32.7 | – | 32.7 |
| Current borrowings | 53.7 | (25.8) | 27.9 |
| including | | | |
| Bank loans | 53.7 | (25.8) | 27.9 |
| Non-current borrowings | 549.1 | 36.3 | 585.4 |
| including | | | |
| Notes | – | 495.5 | 495.5 |
| Convertible Bonds | 89.9 | – | 89.9 |
| Bank loans | 459.2 | (459.2) | – |
| Total borrowings | 602.8 | 10.5 | 613.3⁽⁴⁾ |
| Share capital | 48.9 | – | 48.9 |
| Share premium | 518.1 | – | 518.1 |
| Hedging reserve | (5.7) | – | (5.7) |
| Other reserves | (15.3) | – | (15.3) |
| Retained earnings | 21.9 | (10.5) ⁽⁵⁾ | 11.4 |
| Total equity attributable to the shareholders of the Company | 568.0 | (10.5) | 557.5 |
| Total capitalisation⁽²⁾ | 1,170.8 | – | 1,170.8 |

(1) Adjusted to give effect to the issue of the Notes. For the purposes of this table, the net proceeds from the issue of the Notes of US\$495.5 million have been applied to substantially repay the loans provided pursuant to the Banking Facilities provided by Sberbank and VTB Bank (US\$25.8 million and US\$459.2 million IFRS carrying value of current and non-current bank loans, respectively). Further details of the Banking Facilities are set out in Part 10: "Management's Discussion and Analysis of Financial Condition and Results of Operations".

(2) Total borrowings and equity attributable to Shareholders.

(3) The above table does not reflect the debt guaranteed by the Company in favour of ICBC pursuant to the ICBC Facility. For details relating to ICBC Guarantee, see Part 10: "Management's Discussion and Analysis of Financial Condition and Results of Operations".

(4) There will be no change to the principal amount as a result of the issue of the Notes.

(5) Adjusted to reflect the effect of early repayment of the Banking Facilities.

There has been no material change to the Group's total capitalisation since 30 June 2017.

PART 9

SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER INFORMATION

The tables set forth below show certain selected consolidated financial and other information of the Group as at the dates and for the periods indicated below. For a discussion of the presentation of financial information, see Part 5: “Presentation of Financial and Other Information”.

The financial information as at and for the six months ended 30 June 2017 and the financial information for the six months ended 30 June 2016 has been extracted from the 2017 Interim Financial Statements appended in Part 24: “Index to Financial Statements” to this Offering Memorandum. Prospective investors should not rely on interim results as being indicative of results the Group may expect for the full year. The financial information for the years ended 31 December 2016, 2015 and 2014 has been extracted from the 2016 Financial Statements, 2015 Financial Statements and 2014 Financial Statements, respectively, appended in Part 24: “Index to Financial Statements” to this Offering Memorandum.

The financial information as at 31 December 2016 and 30 June 2016 has been extracted from the 2017 Interim Financial Statements, as appended in Part 24: “Index to Financial Statements” to this Offering Memorandum, which were restated due to the adjustments that were identified during the six months ended 30 June 2017.

The financial information as at 31 December 2015 and 2014 has been derived from the 2015 Financial Statements and 2014 Financial Statements, respectively, as appended in Part 24: “Index to Financial Statements” to this Offering Memorandum and amended, where applicable, to reflect the impact of the restatement identified during the six months ended 30 June 2017.

See Part 9: “Selected Financial Information and Other Information—Details of Restatement” of this Offering Memorandum for the details of the restatement identified during the six months ended 30 June 2017.

The selected consolidated financial information should be read in conjunction with Part 10: “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Financial Statements and the notes thereto included elsewhere in this Offering Memorandum.

Consolidated income statement

| | Six months ended 30 June | | Year ended 31 December | | |
|--|-----------------------------|----------------------|------------------------|----------------------|----------------------|
| | 2017 US\$ million | 2016 US\$ million | 2016 US\$ million | 2015 US\$ million | 2014 US\$ million |
| | (unaudited) | | | | |
| Continuing operations | | | | | |
| Group revenue | 304.0 | 254.0 | 540.7 | 599.9 | 865.0 |
| Operating expenses | (236.2) | (216.2) | (460.1) | (619.6) | (816.2) |
| | 67.9 | 37.8 | 80.6 | (19.7) | 48.7 |
| Share of results of associates | (3.0) | (3.6) | (3.6) | (60.4) | 3.0 |
| Operating profit/(loss) | 64.9 | 34.2 | 77.0 | (80.1) | 51.7 |
| Investment income | 0.4 | 0.2 | 0.6 | 1.0 | 1.7 |
| Interest expense | (14.4) | (30.5) | (61.0) | (71.5) | (67.7) |
| Other finance gains | 2.0 | 2.3 | 11.9 | 9.1 | — |
| Other finance losses | (6.1) | (1.5) | (1.5) | — | — |
| Profit/(loss) before taxation | 46.8 | 4.8 | 27.0 | (141.6) | (14.3) |
| Taxation | (22.3) | 4.4 | 4.7 | (48.9) | (167.9) |
| Profit/(loss) for the period from continuing operations | 24.5 | 9.2 | 31.7 | (190.5) | (182.2) |
| Discontinued operations^(a) | | | | | |
| Loss for the period from discontinued operations | — | — | — | (107.0) | (165.5) |
| Profit/(loss) for the period | 24.5 | 9.2 | 31.7 | (297.5) | (347.7) |
| Attributable to: | | | | | |
| Equity shareholders of Petropavlovsk PLC | 23.3 | 9.2 | 33.7 | (238.8) | (260.7) |
| Continuing operations | 23.3 | 9.2 | 33.7 | (190.2) | (184.3) |
| Discontinued operations | — | — | — | (48.6) | (76.4) |
| Non-controlling interests | 1.1 | 0.0 | (2.0) | (58.7) | (87.0) |
| Continuing operations | 1.1 | 0.0 | (2.0) | (0.3) | 2.1 |
| Discontinued operations | — | — | — | (58.4) | (89.1) |

(a) IRC was presented as a discontinued operation in the income statement for the year ended 31 December 2014 and for the period from 1 January 2015 until 7 August 2015, when it ceased being a subsidiary and became an associate to the Group.

Consolidated balance sheet

| | As at 30 June | | As at 31 December | | |
|---|----------------|---|---|---|---|
| | 2017 | 2016 | 2016 | 2015 | 2014 |
| | US\$ million | Restated ^(a) US\$ million | Restated ^(a) US\$ million | Restated ^(a) US\$ million | Restated ^(a) US\$ million |
| | (unaudited) | | | | |
| Assets | | | | | |
| Non-current assets | | | | | |
| Exploration and evaluation assets | 52.9 | 56.2 | 49.3 | 69.0 | 97.5 |
| Property, plant and equipment | 952.1 | 983.0 | 953.8 | 1,038.3 | 1,143.0 |
| Prepayments for property, plant and equipment | 11.0 | 0.2 | 0.7 | 1.8 | 10.7 |
| Investments in associates | 33.3 | 35.6 | 36.1 | 39.4 | 1.2 |
| Available-for-sale investments | 0.8 | 0.6 | 1.1 | 0.3 | 0.1 |
| Inventories | 68.5 | 54.5 | 51.7 | 51.4 | 42.4 |
| Other non-current assets | 10.9 | 10.4 | 11.4 | 12.6 | 0.3 |
| Deferred tax assets | — | — | — | — | 0.0 |
| | 1,129.5 | 1,140.4 | 1,104.1 | 1,212.9 | 1,295.3 |
| Current assets | | | | | |
| Inventories | 180.8 | 187.0 | 183.3 | 175.2 | 206.5 |
| Trade and other receivables | 75.1 | 62.8 | 89.7 | 48.1 | 74.9 |
| Derivative financial instruments | 0.7 | — | 7.5 | 3.9 | 9.4 |
| Cash and cash equivalents | 32.7 | 18.3 | 12.6 | 28.2 | 48.1 |
| | 289.2 | 268.1 | 293.1 | 255.5 | 338.9 |
| Assets of disposal groups classified as held for sale | — | — | — | — | 629.9 |
| | 289.2 | 268.1 | 293.1 | 255.5 | 968.8 |
| Total assets | 1,418.8 | 1,408.5 | 1,397.2 | 1,468.4 | 2,264.1 |
| Liabilities | | | | | |
| Current liabilities | | | | | |
| Trade and other payables | (58.8) | (75.5) | (55.6) | (96.6) | (66.7) |
| Current income tax payable | (4.5) | (0.8) | (2.3) | (4.7) | (6.3) |
| Borrowings | (53.7) | (344.2) | (85.3) | (260.2) | (415.2) |
| Derivative financial instruments | (0.4) | (6.9) | — | — | — |
| Provision for close down and restoration costs | (3.6) | — | — | — | — |
| | (120.9) | (427.3) | (143.2) | (361.6) | (488.2) |
| Liabilities of disposal groups associated with assets classified as held for sale | — | — | — | — | (289.8) |
| | (120.9) | (427.3) | (143.2) | (361.6) | (778.0) |
| Net current assets/(liabilities) | 168.3 | (159.3) | 149.9 | (106.1) | 190.8 |
| Non-current liabilities | | | | | |
| Borrowings | (549.1) | (271.8) | (525.9) | (378.0) | (562.6) |
| Derivative financial instruments | (23.5) | (16.2) | (10.3) | (14.7) | — |
| Deferred tax liabilities | (116.3) | (131.2) | (119.0) | (152.8) | (136.2) |
| Provision for close down and restoration costs | (15.9) | (17.3) | (19.2) | (17.2) | (21.2) |
| Financial liabilities | (7.6) | (10.2) | (9.2) | (12.4) | — |
| | (712.4) | (446.6) | (683.6) | (575.1) | (720.0) |
| Total liabilities | (833.3) | (874.0) | (826.9) | (936.7) | (1,498.0) |
| Net assets | 585.5 | 534.5 | 570.3 | 531.7 | 766.1 |
| Equity | | | | | |
| Share capital | 48.9 | 48.9 | 48.9 | 48.9 | 3.0 |
| Share premium | 518.1 | 518.1 | 518.1 | 518.1 | 377.0 |
| Own shares | — | — | — | (9.0) | (8.9) |
| Hedging reserve | (5.7) | (5.4) | 5.9 | 3.1 | 4.9 |
| Convertible bond reserve | — | — | — | — | 48.2 |
| Share based payments reserve | — | — | — | 0.3 | 3.3 |
| Other reserves | (15.3) | (18.9) | (17.6) | (21.0) | (16.7) |
| Retained earnings/(losses) | 21.9 | (26.6) | (1.5) | (27.2) | 158.4 |
| Equity attributable to the shareholders of Petropavlovsk PLC | 568.0 | 516.2 | 553.9 | 513.3 | 569.3 |
| Non-controlling interests | 17.5 | 18.3 | 16.4 | 18.4 | 196.8 |
| Total equity | 585.5 | 534.5 | 570.3 | 531.7 | 766.1 |

(a) See “—Details of restatement” below.

Details of restatement

Correction of error in accounting for deferred tax liabilities

During the six months ended 30 June 2017, the Group undertook a detailed review of the implications of taking an impairment provision recognised in relation to property, plant and equipment in prior periods on deferred taxation and concluded that its deferred tax liability has been overstated. The error has been corrected in the 2017 Interim Financial Statements by restating each of relevant balance sheet financial statement line items in the affected comparative prior periods, 31 December 2016 and 30 June 2016, as follows:

| | 31 December 2016 | (Decrease)/ increase | 31 December 2016 Restated | 30 June 2016 | (Decrease)/ increase | 30 June 2016 Restated |
|--------------------------|---------------------|-------------------------|---------------------------------|-----------------|-------------------------|-----------------------------|
| | US\$ million | US\$ million | US\$ million | US\$ million | US\$ million | US\$ million |
| | | | | (unaudited) | | (unaudited) |
| Deferred tax liabilities | 139.7 | (20.7) | 119.0 | 151.9 | (20.7) | 131.2 |
| Net assets | 549.6 | 20.7 | 570.3 | 513.8 | 20.7 | 534.5 |
| Retained losses | 22.2 | (20.7) | 1.5 | 47.3 | (20.7) | 26.6 |
| Total equity | 549.6 | 20.7 | 570.3 | 513.8 | 20.7 | 534.5 |

As a result, the relevant balance sheet financial statement line items for the years ended 31 December 2015 and 2014 were extracted from the 2015 Financial Statements and 2014 Financial Statements, respectively, and amended to reflect the impact of the aforementioned restatement as follows:

| | 31 December 2015 | (Decrease)/ increase | 31 December 2015 Restated | 31 December 2014 | (Decrease)/ increase | 31 December 2014 Restated |
|----------------------------|---------------------|-------------------------|---------------------------------|---------------------|-------------------------|---------------------------------|
| | US\$ million | US\$ million | US\$ million | US\$ million | US\$ million | US\$ million |
| Deferred tax liabilities | 173.5 | (20.7) | 152.8 | 156.9 | (20.7) | 136.2 |
| Net assets | 511.0 | 20.7 | 531.7 | 745.4 | 20.7 | 766.1 |
| Retained losses/(earnings) | 47.9 | (20.7) | 27.2 | (137.7) | (20.7) | (158.4) |
| Total equity | 511.0 | 20.7 | 531.7 | 745.4 | 20.7 | 766.1 |

Presentation of the ICBC guarantee arrangements

During the six months ended 30 June 2017, the Group reviewed arrangements under the ICBC guarantee (see note 20 to the 2017 Interim Financial Statements) and concluded it would be more appropriate to disclose the associated receivable from IRC and the financial liability under the ICBC guarantee contract on a gross basis. The presentation has been corrected in the 2017 Interim Financial Statements by re-presenting each of relevant balance sheet financial statement line items in the affected comparative prior periods, 31 December 2016 and 30 June 2016, as set out below. This re-presentation did not have any impact on the net assets, retained losses or total equity.

| | 31 December 2016 | Increase | 31 December 2016 Restated | 30 June 2016 | Increase | 30 June 2016 Restated |
|--------------------------|---------------------|--------------|---------------------------------|-----------------|--------------|-----------------------------|
| | US\$ million | US\$ million | US\$ million | US\$ million | US\$ million | US\$ million |
| | | | | (unaudited) | | (unaudited) |
| Other non-current assets | 2.2 | 9.2 | 11.4 | 0.2 | 10.2 | 10.4 |
| Financial liabilities | – | 9.2 | 9.2 | – | 10.2 | 10.2 |

As a result, the relevant balance sheet financial statement line items for the year ended 31 December 2015 were extracted from the 2015 Financial Statements and amended to reflect the impact of the aforementioned re-presentation as follows:

| | 31 December 2015 | Increase | 31 December 2015 Restated |
|--------------------------|---------------------|--------------|---------------------------------|
| | US\$ million | US\$ million | US\$ million |
| Other non-current assets | 0.2 | 12.4 | 12.6 |
| Financial liabilities | – | 12.4 | 12.4 |

Note that there was no impact on the relevant balance sheet financial statement line items for the year ended 31 December 2014.

Consolidated statement of cash flows

| | Six months ended 30 June | | Year ended 31 December | | |
|--|-----------------------------|----------------------|------------------------|-------------------------------------|-------------------------------------|
| | 2017 US\$ million | 2016 US\$ million | 2016 US\$ million | 2015 ^(a) US\$ million | 2014 ^(a) US\$ million |
| | (unaudited) | | | | |
| Cash flows from operating activities | | | | | |
| Cash generated from operations | 115.8 | 74.4 | 126.0 | 208.8 | 245.4 |
| Interest paid | (26.8) | (25.1) | (53.7) | (72.2) | (77.6) |
| Income tax paid | (14.4) | (19.3) | (35.3) | (33.3) | (34.6) |
| Net cash from operating activities | 74.6 | 29.9 | 37.0 | 103.4 | 133.2 |
| Cash flows from investing activities | | | | | |
| Proceeds from disposal of subsidiaries, net of cash disposed and liabilities settled | — | 14.8 | 19.2 | 6.5 | 2.7 |
| Proceeds from disposal of the Group's interests in associates | — | 0.2 | 0.2 | 1.0 | — |
| Purchase of property, plant and equipment | (31.0) | (4.3) | (12.8) | (58.8) ^(b) | (164.2) ^(b) |
| Exploration expenditure | (10.9) | (7.6) | (16.6) | (18.9) ^(b) | (34.7) ^(b) |
| Proceeds from disposal of property, plant and equipment | 0.2 | 0.6 | 0.7 | 0.8 | 5.1 |
| Loans granted | — | — | — | (0.0) | (0.0) |
| Repayment of amounts loaned to other parties | — | 0.0 | 0.0 | 0.0 | 0.6 |
| Interest received | 0.4 | 0.2 | 0.5 | 2.2 | 3.4 |
| Dividends received from joint venture | — | — | — | 0.9 | — |
| Net cash used in investing activities | (41.3) | 3.9 | (8.7) | (66.2) | (187.3) |
| Cash flows from financing activities | | | | | |
| Proceeds from issue of ordinary shares capital, net of transaction costs | — | — | — | 156.2 | — |
| Proceeds from issue of ordinary shares by IRC, net of transaction costs | — | — | — | 49.4 | 38.9 |
| Proceeds from borrowings | — | — | 295.3 ^(c) | 82.9 ^(d) | 154.0 ^(e) |
| Repayments of borrowings | (11.6) | (27.0) | (322.2) ^(c) | (304.2) ^(d) | (235.1) ^(e) |
| Debt transaction costs paid in connection with bank loans | (1.7) | (0.4) | (4.0) | (1.9) | — |
| Transaction costs | — | (2.7) | — | — | — |
| Debt transaction costs paid in connection with ICBC facility | — | — | — | (0.0) | (0.5) |
| Restricted bank deposit placed in Connection with ICBC facility | — | — | — | (1.0) | (21.3) |
| Refinancing costs | — | — | — | (34.4) | (7.8) |
| Funds advanced to the Group under investment agreement with the Russian Ministry of Far East Development | — | — | 30.8 | 15.1 | — |
| Funds transferred under investment agreement with the Russian Ministry of Far East Development | — | (16.9) | (47.7) | — | — |
| Guarantee fee in connection with ICBC facility | — | 1.1 | 1.1 | 2.2 | — |
| Dividends paid to non-controlling interests | — | — | — | (0.5) | (0.3) |
| Purchase of own shares | — | — | — | (0.0) | — |
| Net cash used in financing activities | (13.3) | (45.9) | (46.8) | (36.4) | (72.0) |
| Net increase/(decrease) in cash and cash equivalents in the period | 20.0 | (12.1) | (18.4) | 0.8 | (126.1) |
| Effect of exchange rates on cash and cash equivalents | 0.0 | 2.1 | 2.8 | (5.3) | (33.1) |
| Cash and cash equivalents at beginning of period | 12.6 | 28.2 | 28.2 | 48.1 | 170.6 |
| Cash and cash equivalents re-classified as assets held for sale at beginning of the period | — | — | — | 55.5 | 92.1 |
| Cash and cash equivalents re-classified as assets held for Sale at disposal | — | — | — | (70.8) | — |
| Cash and cash equivalents re-classified as assets held for sale at the end of the period | — | — | — | — | (55.5) |
| Cash and cash equivalents at end of period | 32.7 | 18.3 | 12.6 | 28.2 | 48.1 |

- (a) IRC was presented as a discontinued operation in the income statement for the year ended 31 December 2014 and for the period from 1 January until 7 August 2015, when it ceased being a subsidiary and became an associate to the Group.
- (b) Including US\$45.1 million and US\$102.1 million related to discontinued operations for the years ended 31 December 2015 and 2014, respectively.
- (c) Including US\$295.25 million in connection to bank debt refinancing.
- (d) Including US\$62.5 million proceeds from borrowings and US\$36.2 million repayments of borrowings for the year ended 31 December 2015 related to discontinued operations.
- (e) Including US\$154.0 million proceeds from borrowings and US\$81.1 million repayments of borrowings for the year ended 31 December 2014 related to discontinued operations.

Selected segmental information

Six months ended 30 June 2017

| | Pioneer US\$ million | Pokrovskiy US\$ million | Malomir US\$ million | Albyn US\$ million | Corporate and other US\$ million | Consolidated US\$ million |
|---|-------------------------|----------------------------|-------------------------|-----------------------|--|------------------------------|
| (unaudited) | | | | | | |
| Revenue | | | | | | |
| Gold | 119.0 | 19.4 | 35.9 | 116.6 | — | 290.8 |
| Silver | 0.5 | 0.1 | 0.0 | 0.1 | — | 0.8 |
| Other external revenue | — | — | — | — | 12.4 | 12.4 |
| Inter-segment revenue | — | — | 0.8 | 0.2 | 70.8 | 71.8 |
| Intra-group eliminations | — | — | (0.8) | (0.2) | (70.8) | (71.8) |
| Total Group revenue from external customers | 119.5 | 19.4 | 36.0 | 116.7 | 12.4 | 304.0 |
| Operating expenses and income | | | | | | |
| Operating cash costs ^(a) | (66.6) | (19.9) | (32.8) | (37.9) | (11.8) | (169.0) |
| Depreciation | (14.9) | (3.4) | (7.5) | (22.2) | (0.0) | (48.0) |
| Central administration expenses | — | — | — | — | (23.1) | (23.1) |
| Reversal of impairment/ (impairment) of ore stockpiles | 3.1 | (0.1) | (0.3) | 3.6 | — | 6.3 |
| Impairment of gold in circuit | — | (0.8) | (0.6) | — | — | (1.4) |
| Impairment of non-trading loans | — | — | — | — | (0.5) | (0.5) |
| Total operating expenses ^(b) | (78.5) | (24.2) | (41.1) | (56.4) | (35.4) | (235.7) |
| Share of results of associates | — | — | — | — | (3.0) | (3.0) |
| Segment result | 41.0 | (4.7) | (5.1) | 60.3 | (26.0) | 65.4 |
| Foreign exchange losses | | | | | | (0.5) |
| Operating profit | | | | | | 64.9 |
| Investment income | | | | | | 0.4 |
| Interest expense | | | | | | (14.4) |
| Other finance gains | | | | | | 2.0 |
| Other finance losses | | | | | | (6.1) |
| Taxation | | | | | | (22.3) |
| Profit for the period | | | | | | 24.5 |

(a) See “—Non-IFRS financial information and reconciliations” below for the relevant reconciliations of each of the Group’s and its business segments’ non-IFRS measures to their nearest comparable IFRS measures.

(b) Operating expenses less foreign exchange losses.

Six months ended 30 June 2016

| | Pioneer US\$ million | Pokrovskiy US\$ million | Malomir US\$ million | Albyn US\$ million | Corporate and other US\$ million | Consolidated US\$ million |
|---|-------------------------|----------------------------|-------------------------|-----------------------|--|------------------------------|
| (unaudited) | | | | | | |
| Revenue | | | | | | |
| Gold | 84.8 | 20.5 | 29.6 | 98.5 | — | 233.4 |
| Silver | 0.5 | 0.1 | 0.1 | 0.1 | — | 0.7 |
| Other external revenue | — | — | — | — | 19.8 | 19.8 |
| Inter-segment revenue | — | — | 0.6 | 0.2 | 44.8 | 45.5 |
| Intra-group eliminations | — | — | (0.6) | (0.2) | (44.8) | (45.5) |
| Total Group revenue from external customers | 85.3 | 20.6 | 29.7 | 98.6 | 19.8 | 254.0 |
| Operating expenses and income | | | | | | |
| Operating cash costs ^(a) | (41.8) | (14.0) | (22.7) | (51.9) | (19.0) | (149.4) |
| Depreciation | (21.9) | (3.1) | (8.4) | (25.6) | (0.2) | (59.3) |
| Central administration expenses | — | — | — | — | (13.1) | (13.1) |
| Reversal of impairment of ore stockpiles | 4.7 | 0.6 | 5.9 | 1.0 | — | 12.3 |
| Loss on disposal of subsidiaries | — | — | — | — | (0.8) | (0.8) |
| Total operating expenses ^(b) | (59.0) | (16.5) | (25.2) | (76.5) | (33.1) | (210.3) |
| Share of results of associates | — | — | — | — | (3.6) | (3.6) |
| Segment result | 26.3 | 4.1 | 4.5 | 22.1 | (16.9) | 40.1 |
| Foreign exchange losses | | | | | | (5.9) |
| Operating profit | | | | | | 34.2 |
| Investment income | | | | | | 0.2 |
| Interest expense | | | | | | (30.5) |
| Other finance gains | | | | | | 2.3 |
| Other finance losses | | | | | | (1.5) |
| Taxation | | | | | | 4.4 |
| Profit for the period | | | | | | 9.2 |

(a) See “—Non-IFRS financial information and reconciliations” below for the relevant reconciliations of each of the Group's and its business segments' non-IFRS measures to their nearest comparable IFRS measures.

(b) Operating expenses less foreign exchange losses.

Year ended 31 December 2016

| | Pioneer US\$ million | Pokrovskiy US\$ million | Malomir US\$ million | Albyn US\$ million | Corporate and other US\$ million | Consolidated US\$ million |
|---|-------------------------|----------------------------|-------------------------|-----------------------|--|------------------------------|
| Revenue | | | | | | |
| Gold | 163.5 | 46.7 | 67.1 | 211.2 | — | 488.5 |
| Silver | 1.0 | 0.3 | 0.1 | 0.2 | — | 1.5 |
| Other external revenue | — | — | — | — | 50.7 | 50.7 |
| Inter-segment revenue | — | — | 1.2 | 0.4 | 101.0 | 102.7 |
| Intra-group eliminations | — | — | (1.2) | (0.4) | (101.0) | (102.7) |
| Total Group revenue from external customers | 164.5 | 47.0 | 67.2 | 211.4 | 50.7 | 540.7 |
| Operating expenses and income | | | | | | |
| Operating cash costs ^(a) | (85.3) | (33.8) | (45.2) | (101.0) | (49.0) | (314.3) |
| Depreciation | (38.8) | (6.6) | (13.6) | (45.7) | (0.5) | (105.3) |
| Central administration expenses | — | — | — | — | (32.6) | (32.6) |
| Impairment of exploration and evaluation assets | — | — | — | (9.2) | — | (9.2) |
| (Impairment)/reversal of impairment of ore stockpiles | (6.1) | (1.0) | 5.8 | 0.1 | — | (1.2) |
| Gain on disposal of non-trading loans | — | — | — | — | 6.7 | 6.7 |
| Gain on disposal of subsidiaries | — | — | — | — | 0.8 | 0.8 |
| Total operating expenses ^(b) | (130.2) | (41.4) | (53.0) | (155.7) | (74.6) | (454.9) |
| Share of results of associates | — | — | — | — | (3.6) | (3.6) |
| Segment result | 34.3 | 5.6 | 14.2 | 55.6 | (27.5) | 82.2 |
| Foreign exchange losses | | | | | | (5.2) |
| Operating profit | | | | | | 77.0 |
| Investment income | | | | | | 0.6 |
| Interest expense | | | | | | (61.0) |
| Other finance gains | | | | | | 11.9 |
| Other finance losses | | | | | | (1.5) |
| Taxation | | | | | | 4.7 |
| Profit for the period from continuing operations | | | | | | 31.7 |

(a) See “—Non-IFRS financial information and reconciliations” below for the relevant reconciliations of each of the Group's and its business segments' non-IFRS measures to their nearest comparable IFRS measures.

(b) Operating expenses less foreign exchange losses.

Year ended 31 December 2015

| | Pioneer US\$ million | Pokrovskiy US\$ million | Malomir US\$ million | Albyn US\$ million | Alluvial operations US\$ million | Corporate and other US\$ million | Consolidated US\$ million |
|---|-------------------------|----------------------------|-------------------------|-----------------------|--|--|------------------------------|
| Revenue | | | | | | | |
| Gold | 253.9 | 61.0 | 71.0 | 181.7 | — | — | 567.6 |
| Silver | 0.6 | 0.2 | 0.1 | 0.1 | — | — | 1.0 |
| Other external revenue | — | — | — | — | — | 31.2 | 31.2 |
| Inter-segment revenue | — | — | 1.3 | 0.4 | — | 130.0 | 131.8 |
| Intra-group eliminations | — | — | (1.3) | (0.4) | — | (130.0) | (131.8) |
| Total Group revenue from external customers | 254.6 | 61.2 | 71.1 | 181.8 | — | 31.2 | 599.9 |
| Operating expenses and income | | | | | | | |
| Operating cash costs ^(a) | (135.9) | (45.1) | (65.4) | (115.3) | 1.0 | (32.2) | (392.9) |
| Depreciation | (45.9) | (12.3) | (18.2) | (50.8) | (1.4) | (0.5) | (129.1) |
| Central administration expenses | — | — | — | — | — | (30.4) | (30.4) |
| Impairment of exploration and evaluation assets | — | (2.3) | (0.1) | — | — | (35.0) | (37.4) |
| (Impairment)/reversal of impairment of ore stockpiles | (11.9) | 0.9 | (6.1) | (0.3) | — | — | (17.4) |
| Loss on disposal of subsidiaries | — | — | — | — | (0.4) | — | (0.4) |
| Total operating expenses ^(b) | (193.7) | (58.9) | (89.8) | (166.4) | (0.8) | (98.0) | (607.7) |
| Share of net profit of associates | — | — | — | — | — | (60.4) | (60.4) |
| Segment result | 60.8 | 2.3 | (18.7) | 15.4 | (0.8) | (127.2) | (68.2) |
| Foreign exchange losses | | | | | | | (12.0) |
| Operating loss | | | | | | | (80.1) |
| Investment income | | | | | | | 1.0 |
| Interest expense | | | | | | | (71.5) |
| Other finance gains | | | | | | | 9.1 |
| Taxation | | | | | | | (48.9) |
| Loss for the period from continuing operations | | | | | | | (190.5) |

(a) See “—Non-IFRS financial information and reconciliations” below for the relevant reconciliations of each of the Group’s and its business segments’ non-IFRS measures to their nearest comparable IFRS measures.

(b) Operating expenses less foreign exchange losses.

Year ended 31 December 2014

| | Pioneer US\$ million | Pokrovskiy US\$ million | Malomir US\$ million | Albyn US\$ million | Alluvial operations US\$ million | Corporate and other US\$ million | Consolidated US\$ million |
|--|-------------------------|----------------------------|-------------------------|-----------------------|--|--|------------------------------|
| Revenue | | | | | | | |
| Gold | 341.4 | 89.0 | 113.0 | 239.8 | 38.5 | — | 821.7 |
| Silver | 2.4 | 0.7 | 0.3 | 0.3 | 0.1 | — | 3.8 |
| Other external revenue | — | — | — | — | — | 39.5 | 39.5 |
| Inter-segment revenue | 0.7 | — | 4.1 | 1.0 | — | 196.6 | 202.4 |
| Intra-group eliminations | (0.7) | — | (4.1) | (1.0) | — | (196.6) | (202.4) |
| Total Group revenue from external customers | 343.8 | 89.7 | 113.3 | 240.1 | 38.6 | 39.5 | 865.0 |
| Operating expenses and income | | | | | | | |
| Operating cash costs ^(a) | (212.3) | (60.2) | (87.6) | (149.3) | (28.6) | (40.1) | (578.0) |
| Depreciation | (40.1) | (21.8) | (18.4) | (57.9) | (4.8) | (0.9) | (144.0) |
| Central administration expenses | — | — | — | — | — | (38.2) | (38.2) |
| Reversal of impairment of mining assets | — | — | — | 28.9 | — | — | 28.9 |
| Impairment of exploration and evaluation assets | — | (3.5) | (0.1) | — | (0.4) | (18.1) | (22.0) |
| (Impairment)/reversal of impairment of ore stockpiles | (7.1) | 3.4 | 3.2 | (9.6) | — | — | (10.1) |
| Impairment of investments in associates | — | — | — | — | — | (9.7) | (9.7) |
| Write-down to adjust the carrying value of Koboldo’s net assets to fair value less costs to sell | — | — | — | — | (11.9) | — | (11.9) |
| Total operating expenses ^(b) | (259.6) | (82.1) | (102.9) | (187.7) | (45.7) | (106.9) | (784.9) |
| Share of net profit of associates | — | — | — | — | — | 3.0 | 3.0 |
| Segment result | 84.3 | 7.6 | 10.4 | 52.3 | (7.1) | (64.5) | 83.0 |

| | Pioneer US\$ million | Pokrovskiy US\$ million | Malomir US\$ million | Albyn US\$ million | Alluvial operations US\$ million | Corporate and other US\$ million | Consolidated US\$ million |
|---|-------------------------|----------------------------|-------------------------|-----------------------|--|--|------------------------------|
| Foreign exchange losses | | | | | | | (31.3) |
| Operating profit | | | | | | | 51.7 |
| Investment income | | | | | | | 1.7 |
| Interest expense | | | | | | | (67.7) |
| Taxation | | | | | | | (167.9) |
| Loss for the period from continuing operations | | | | | | | (182.2) |

(a) See “—Non-IFRS financial information and reconciliations” below for the relevant reconciliations of each of the Group's and its business segments' non-IFRS measures to their nearest comparable IFRS measures.

(b) Operating expenses less foreign exchange losses.

Non-IFRS financial information and reconciliations

The tables below provide reconciliations of each of the Group's and its business segments' non-IFRS measures to their nearest comparable IFRS measures.

Underlying EBITDA

| | Six months ended 30 June | | Year ended 31 December | | |
|--|-----------------------------|----------------------|------------------------|----------------------|----------------------|
| | 2017 US\$ million | 2016 US\$ million | 2016 US\$ million | 2015 US\$ million | 2014 US\$ million |
| Profit/(loss) for the period from continuing operations | 24.5 | 9.2 | 31.7 | (190.5) | (182.2) |
| Add/(less): | | | | | |
| Investment income | (0.4) | (0.2) | (0.6) | (1.0) | (1.7) |
| Interest expense | 14.4 | 30.5 | 61.0 | 71.5 | 67.7 |
| Other finance gains | (2.0) | (2.3) | (11.9) | (9.1) | — |
| Other finance losses | 6.1 | 1.5 | 1.5 | — | — |
| Foreign exchange losses | 0.5 | 5.9 | 5.2 | 12.0 | 31.3 |
| Taxation | 22.3 | (4.4) | (4.7) | 48.9 | 167.9 |
| Depreciation | 48.0 | 59.3 | 105.3 | 129.1 | 144.0 |
| Reversal of impairment of mining assets | — | — | — | — | (28.9) |
| Impairment of exploration and evaluation assets | — | — | 9.2 | 37.4 | 22.0 |
| (Reversal of impairment)/ impairment of ore stockpiles | (6.3) | (12.3) | 1.2 | 17.4 | 10.1 |
| Impairment of gold in circuit | 1.4 | — | — | — | — |
| Impairment of non-trading loans | 0.5 | — | — | — | — |
| Impairment of investments in associates | — | — | — | — | 9.7 |
| Write-down to adjust the carrying value of Koboldo's net assets to fair value less cost to sell | — | — | — | — | 11.9 |
| Share of results of associates ^(a) | 5.1 | 0.9 | 2.4 | 57.0 | — |
| Underlying EBITDA | 114.1 | 88.0 | 200.1 | 172.8 | 251.8 |
| Group revenue from continuing operations | 304.0 | 254.0 | 540.7 | 599.9 | 865.0 |
| Underlying EBITDA margin | 37.5% | 34.6% | 37.0% | 28.8% | 29.1% |

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

Six months ended 30 June 2017

| | Pioneer US\$ million | Pokrovskiy US\$ million | Malomir US\$ million | Albyn US\$ million | Corporate and other US\$ million | Consolidated US\$ million |
|---|-------------------------|----------------------------|-------------------------|-----------------------|--|------------------------------|
| Operating profit | | | | | | 64.9 |
| Foreign exchange losses | | | | | | 0.5 |
| Segment result | 41.0 | (4.7) | (5.1) | 60.3 | (26.0) | 65.4 |
| Add/(less): | | | | | | |
| Depreciation | 14.9 | 3.4 | 7.5 | 22.2 | 0.0 | 48.0 |
| (Reversal of impairment)/ impairment of ore stockpiles | (3.1) | 0.1 | 0.3 | (3.6) | – | (6.3) |
| Impairment of gold in circuit | – | 0.8 | 0.6 | – | – | 1.4 |
| Impairment of non-trading loans | – | – | – | – | 0.5 | 0.5 |
| Share in results of associates ^(a) | | | | | 5.1 | 5.1 |
| Underlying EBITDA | 52.9 | (0.5) | 3.2 | 78.8 | (20.3) | 114.1 |

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

Six months ended 30 June 2016

| | Pioneer US\$ million | Pokrovskiy US\$ million | Malomir US\$ million | Albyn US\$ million | Corporate and other US\$ million | Consolidated US\$ million |
|---|-------------------------|----------------------------|-------------------------|-----------------------|--|------------------------------|
| Operating profit | | | | | | 34.2 |
| Foreign exchange losses | | | | | | 5.9 |
| Segment result | 26.3 | 4.1 | 4.5 | 22.1 | (16.9) | 40.1 |
| Add/(less): | | | | | | |
| Depreciation | 21.9 | 3.1 | 8.4 | 25.6 | 0.2 | 59.3 |
| Reversal of impairment of ore stockpiles | (4.7) | (0.6) | (5.9) | (1.0) | – | (12.3) |
| Share in results of associates ^(a) | – | – | – | – | 0.9 | 0.9 |
| Underlying EBITDA | 43.5 | 6.6 | 7.0 | 46.7 | (15.8) | 88.0 |

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

Year ended 31 December 2016

| | Pioneer US\$ million | Pokrovskiy US\$ million | Malomir US\$ million | Albyn US\$ million | Corporate and other US\$ million | Consolidated US\$ million |
|--|-------------------------|----------------------------|-------------------------|-----------------------|--|------------------------------|
| Operating profit | | | | | | 77.0 |
| Foreign exchange losses | | | | | | 5.2 |
| Segment result | 34.3 | 5.6 | 14.2 | 55.6 | (27.5) | 82.2 |
| Add/(less): | | | | | | |
| Depreciation | 38.8 | 6.6 | 13.6 | 45.7 | 0.5 | 105.3 |
| Impairment of exploration and evaluation assets | – | – | – | 9.2 | – | 9.2 |
| Impairment/(reversal of impairment) of ore stockpiles | 6.1 | 1.0 | (5.8) | (0.1) | – | 1.2 |
| Share in results of associates ^(a) | – | – | – | – | 2.4 | 2.4 |
| Underlying EBITDA | 79.2 | 13.2 | 22.0 | 110.4 | (24.6) | 200.1 |

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

Year ended 31 December 2015

| | Pioneer US\$ million | Pokrovskiy US\$ million | Malomir US\$ million | Albyn US\$ million | Corporate and other operations ^(a) US\$ million | Consolidated US\$ million |
|--|-------------------------|----------------------------|-------------------------|-----------------------|---|------------------------------|
| Operating loss | | | | | | (80.1) |
| Foreign exchange losses | | | | | | 12.0 |
| Segment result | 60.8 | 2.3 | (18.7) | 15.4 | (128.0) | (68.2) |
| Add/(less): | | | | | | |
| Depreciation | 45.9 | 12.3 | 18.2 | 50.8 | 1.9 | 129.1 |
| Impairment of exploration and evaluation assets | – | 2.3 | 0.1 | – | 35.0 | 37.4 |
| Impairment/(reversal of impairment) of ore stockpiles | 11.9 | (0.9) | 6.1 | 0.3 | – | 17.4 |
| Share in results of associates ^(b) | – | – | – | – | 57.0 | 57.0 |
| Underlying EBITDA | 118.6 | 16.1 | 5.7 | 66.5 | (34.1) | 172.8 |

(a) Including alluvial operations.

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

Year ended 31 December 2014

| | Pioneer US\$ million | Pokrovskiy US\$ million | Malomir US\$ million | Albyn US\$ million | Alluvial operations US\$ million | Corporate and other US\$ million | Consolidated US\$ million |
|---|-------------------------|----------------------------|-------------------------|-----------------------|--|--|------------------------------|
| Operating profit | | | | | | | 51.7 |
| Foreign exchange losses | | | | | | | 31.3 |
| Segment result | 84.3 | 7.6 | 10.4 | 52.3 | (7.1) | (64.5) | 83.0 |
| Add/(less): | | | | | | | |
| Depreciation | 40.1 | 21.8 | 18.4 | 57.9 | 4.8 | 0.9 | 144.0 |
| Reversal of impairment of mining assets | – | – | – | (28.9) | – | – | (28.9) |
| Impairment of exploration and evaluation assets | – | 3.5 | 0.1 | – | 0.4 | 18.1 | 22.0 |
| Impairment/(reversal of impairment) of ore stockpiles | 7.1 | (3.4) | (3.2) | 9.6 | – | – | 10.1 |
| Impairment of investments in associates | – | – | – | – | – | 9.7 | 9.7 |
| Write-down to adjust the carrying value of Koboldo's net assets to fair value less costs to sell | – | – | – | – | 11.9 | – | 11.9 |
| Underlying EBITDA | 131.5 | 29.5 | 25.7 | 90.8 | 10.0 | (35.7) | 251.8 |

Net debt and Net debt/Underlying EBITDA

| | As at 30 June and for the year then ended ^(e) | | As at 31 December and for the year then ended | | |
|---|---|----------------------|--|----------------------|----------------------|
| | 2017 US\$ million | 2016 US\$ million | 2016 US\$ million | 2015 US\$ million | 2014 US\$ million |
| Bank loans | 512.9 | 529.1 | 522.8 | 552.8 | 664.5 |
| Convertible bonds | 89.9 ^(a) | 86.9 ^(a) | 88.4 ^(a) | 85.5 ^(a) | 313.3 ^(b) |
| Total Borrowings (current and non-current) | 602.8 | 616.0 | 611.2 | 638.3 | 977.8 |
| Less: | | | | | |
| Cash and cash equivalents | 32.7 | 18.3 | 12.6 | 28.2 ^(c) | 48.1 |
| Net Debt | 570.1 | 597.6 | 598.6 | 610.0 | 929.7 |
| Underlying EBITDA^(d) | 226.2 | 170.8 | 200.1 | 172.8 | 251.8 |
| Net Debt/Underlying EBITDA | 2.5 | 3.5 | 3.0 | 3.5 | 3.7 |

(a) Existing Convertible Bonds at amortised cost.

(b) US\$310.5 million convertible bonds due on 18 March 2015 at amortised cost.

(c) Including US\$15.1 million received under investment agreement with the Russian Ministry of Far East Development.

(d) See the reconciliation of Underlying EBITDA to profit/(loss) for the period from continuing operations set out above.

(e) Underlying EBITDA shown in this table represents amounts for the last twelve months ended 30 June 2017 and 2016.

Net Finance Charges and Underlying EBITDA/Net Finance Charges

| | As at 30 June and for the year then ended ^(b) | | As at 31 December and for the year then ended | | |
|---|---|----------------------|--|----------------------|----------------------|
| | 2017 US\$ million | 2016 US\$ million | 2016 US\$ million | 2015 US\$ million | 2014 US\$ million |
| Interest expense | 45.0 | 64.6 | 61.0 | 71.5 | 67.7 |
| Add/ (less): | | | | | |
| Interest capitalised | 16.0 | — | — | — | 13.4 |
| Unwinding of discount on environmental obligation | (0.2) | (0.2) | (0.2) | (0.2) | (0.5) |
| Investment income | (0.7) | (0.6) | (0.6) | (1.0) | (1.7) |
| Financial guarantee fee | (4.3) | (4.5) | (4.5) | (2.2) | — |
| Net Finance Charges | 55.8 | 59.3 | 55.7 | 68.1 | 78.9 |
| Underlying EBITDA^(a) | 226.2 | 170.8 | 200.1 | 172.8 | 251.8 |
| Underlying EBITDA/Net Finance Charges | 4.1 | 2.9 | 3.6 | 2.5 | 3.2 |

(a) See the reconciliation of Underlying EBITDA to profit/(loss) for the period from continuing operations in “— Underlying EBITDA” above.

(b) The profit and loss line items, Net Finance Charges and Underlying EBITDA in this table represent amounts for the last twelve months ended 30 June 2017 and 2016.

TCC

Six months ended 30 June 2017

| | Pioneer US\$ million | Pokrovskiy US\$ million | Malomir US\$ million | Albyn US\$ million | Total hard- rock mines US\$ million |
|---|-------------------------|----------------------------|-------------------------|-----------------------|---|
| Revenue | | | | | |
| Gold | 119.0 | 19.3 | 35.9 | 116.6 | 290.8 |
| Silver | 0.5 | 0.1 | 0.0 | 0.1 | 0.8 |
| | 119.5 | 19.4 | 36.0 | 116.7 | 291.7 |
| <i>Physical volume of gold sold, oz</i> | <i>94,690</i> | <i>15,402</i> | <i>28,700</i> | <i>92,967</i> | <i>231,760</i> |
| Operating cash expenses ^(a) | 65.5 | 19.7 | 30.0 | 29.9 | 145.1 |
| Refinery and transportation | 0.2 | 0.0 | 0.0 | 0.2 | 0.4 |
| Other taxes | 1.0 | 0.2 | 0.9 | 1.0 | 3.1 |
| Mining tax | — | — | — | — | — |
| Deferred stripping costs | — | — | 1.8 | 6.8 | 8.6 |
| Operating cash costs | 66.6 | 19.9 | 32.8 | 37.9 | 157.2 |
| Deduct: co-product revenue | (0.5) | (0.1) | (0.0) | (0.1) | (0.8) |
| Total cash costs | 66.1 | 19.8 | 32.7 | 37.8 | 156.4 |
| TCC, US\$/oz | 698 | 1,286 | 1,140 | 406 | 675 |

(a) See “—Operating cash expenses” below for the reconciliation of operating cash expenses to operating expenses.

Six months ended 30 June 2016

| | Pioneer US\$ million | Pokrovskiy US\$ million | Malomir US\$ million | Albyn US\$ million | Total hard- rock mines US\$ million |
|---|-------------------------|----------------------------|-------------------------|-----------------------|---|
| Revenue | | | | | |
| Gold | 84.8 | 20.5 | 29.6 | 98.5 | 233.4 |
| Silver | 0.5 | 0.1 | 0.1 | 0.1 | 0.7 |
| | 85.3 | 20.6 | 29.7 | 98.6 | 234.2 |
| <i>Physical volume of gold sold, oz</i> | <i>71,095</i> | <i>17,200</i> | <i>24,693</i> | <i>82,447</i> | <i>195,434</i> |
| Operating cash expenses ^(a) | 35.5 | 12.5 | 20.0 | 35.6 | 103.6 |
| Refinery and transportation | 0.1 | 0.0 | 0.0 | 0.1 | 0.3 |
| Other taxes | 1.0 | 0.2 | 0.8 | 1.2 | 3.2 |
| Mining tax | 5.1 | 1.3 | 1.8 | 6.0 | 14.2 |
| Deferred stripping costs | — | — | — | 9.0 | 9.0 |
| Operating cash costs | 41.8 | 14.0 | 22.7 | 51.9 | 130.4 |
| Deduct: co-product revenue | (0.5) | (0.1) | (0.1) | (0.1) | (0.7) |
| Total cash costs | 41.3 | 13.9 | 22.6 | 51.8 | 129.7 |
| TCC, US\$/oz | 582 | 810 | 917 | 628 | 663 |

(a) See “—Operating cash expenses” below for the reconciliation of operating cash expenses to operating expenses.

Year ended 31 December 2016

| | Pioneer US\$ million | Pokrovskiy US\$ million | Malomir US\$ million | Albyn US\$ million | Total hard- rock mines US\$ million |
|---|-------------------------|----------------------------|-------------------------|-----------------------|---|
| Revenue | | | | | |
| Gold | 163.5 | 46.7 | 67.1 | 211.2 | 488.5 |
| Silver | 1.0 | 0.3 | 0.1 | 0.2 | 1.5 |
| | 164.5 | 47.0 | 67.2 | 211.4 | 490.0 |
| <i>Physical volume of gold sold, oz</i> | <i>133,605</i> | <i>38,151</i> | <i>54,760</i> | <i>173,342</i> | <i>399,858</i> |
| Operating cash expenses ^(a) | 77.9 | 31.9 | 41.6 | 74.2 | 225.6 |
| Refinery and transportation | 0.2 | 0.1 | 0.1 | 0.3 | 0.7 |
| Other taxes | 1.9 | 0.5 | 1.6 | 2.2 | 6.3 |
| Mining tax | 5.2 | 1.3 | 1.9 | 6.3 | 14.7 |
| Deferred stripping costs | — | — | — | 18.0 | 18.0 |
| Operating cash costs | 85.3 | 33.8 | 45.2 | 101.0 | 265.3 |
| Deduct: co-product revenue | (1.0) | (0.3) | (0.1) | (0.2) | (1.5) |
| Total cash costs | 84.3 | 33.5 | 45.1 | 100.8 | 263.7 |
| TCC, US\$/oz | 631 | 878 | 824 | 581 | 660 |

(a) See “—Operating cash expenses” below for the reconciliation of operating cash expenses to operating expenses.

Year ended 31 December 2015

| | Pioneer US\$ million | Pokrovskiy US\$ million | Malomir US\$ million | Albyn US\$ million | Total hard- rock mines US\$ million |
|---|-------------------------|----------------------------|-------------------------|-----------------------|---|
| Revenue | | | | | |
| Gold | 253.9 | 61.0 | 71.0 | 181.7 | 567.6 |
| Silver | 0.6 | 0.2 | 0.1 | 0.1 | 1.0 |
| | 254.6 | 61.2 | 71.1 | 181.8 | 568.7 |
| <i>Physical volume of gold sold, oz</i> | <i>216,319</i> | <i>51,573</i> | <i>59,831</i> | <i>154,160</i> | <i>481,884</i> |
| Operating cash expenses ^(a) | 118.3 | 40.8 | 59.0 | 93.3 | 311.4 |
| Refinery and transportation | 0.5 | 0.1 | 0.1 | 0.3 | 1.1 |
| Other taxes | 2.5 | 0.5 | 2.1 | 2.6 | 7.7 |
| Mining tax | 14.7 | 3.7 | 4.1 | 10.7 | 33.1 |
| Deferred stripping costs | — | — | — | 8.4 | 8.4 |
| Operating cash costs | 135.9 | 45.1 | 65.4 | 115.3 | 361.8 |
| Deduct: co-product revenue | (0.6) | (0.2) | (0.1) | (0.1) | (1.0) |
| Total cash costs | 135.3 | 44.9 | 65.3 | 115.2 | 360.7 |
| TCC, US\$/oz | 625 | 871 | 1,092 | 747 | 749 |

(a) See “—Operating cash expenses” below for the reconciliation of operating cash expenses to operating expenses.

Year ended 31 December 2014

| | Pioneer US\$ million | Pokrovskiy US\$ million | Malomir US\$ million | Albyn US\$ million | Total hard- rock mines US\$ million |
|---|-------------------------|----------------------------|-------------------------|-----------------------|---|
| Revenue | | | | | |
| Gold | 341.4 | 89.0 | 113.0 | 239.8 | 783.2 |
| Silver | 2.4 | 0.7 | 0.3 | 0.3 | 3.7 |
| | 343.8 | 89.7 | 113.3 | 240.1 | 786.9 |
| <i>Physical volume of gold sold, oz</i> | <i>256,816</i> | <i>67,264</i> | <i>84,707</i> | <i>179,444</i> | <i>588,231</i> |
| Operating cash expenses ^(a) | 176.2 | 53.6 | 76.2 | 121.4 | 427.4 |
| Refinery and transportation | 1.5 | 0.4 | 0.4 | 0.6 | 2.9 |
| Other taxes | 4.5 | 1.0 | 3.9 | 4.1 | 13.5 |
| Mining tax | 19.5 | 5.2 | 7.1 | 13.7 | 45.5 |
| Deferred stripping costs | 10.6 | — | — | 9.5 | 20.1 |
| Operating cash costs | 212.3 | 60.2 | 87.6 | 149.3 | 509.4 |
| Deduct: co-product revenue | (2.4) | (0.7) | (0.3) | (0.3) | (3.7) |
| Total cash costs | 209.9 | 59.5 | 87.3 | 149.0 | 505.7 |
| TCC, US\$/oz | 818 | 885 | 1,031 | 830 | 860 |

(a) See “—Operating cash expenses” below for the reconciliation of operating cash expenses to operating expenses.

Operating cash expenses

Six months ended 30 June 2017

| | Pioneer US\$ million | Pokrovskiy US\$ million | Malomir US\$ million | Albyn US\$ million | Corporate and other ^(a) US\$ million | Total consolidated/ hard-rock mines US\$ million |
|--|-------------------------|----------------------------|-------------------------|-----------------------|---|--|
| Operating expenses | 78.5 | 24.2 | 41.1 | 56.4 | 35.9 | 236.2 |
| Deduct: | | | | | | |
| Foreign exchange losses | — | — | — | — | (0.5) | (0.5) |
| Segment operating expenses | 78.5 | 24.2 | 41.1 | 56.4 | 35.4 | 235.7 |
| (Deduct)/add: | | | | | | |
| Depreciation | (14.9) | (3.4) | (7.5) | (22.2) | (0.0) | (48.0) |
| Reversal of impairment/(impairment) of ore stockpiles | 3.1 | (0.1) | (0.3) | 3.6 | — | 6.3 |
| Impairment of gold in circuit | — | (0.8) | (0.6) | — | — | (1.4) |
| Impairment of non-trading loans | — | — | — | — | (0.5) | (0.5) |
| Central administration expenses | — | — | — | — | (23.1) | (23.1) |
| Operating cash costs | 66.6 | 19.9 | 32.8 | 37.9 | 11.8 | 169.0 |
| Deduct: | | | | | | |
| Corporate and other segment | — | — | — | — | (11.8) | (11.8) |
| Deduct: silver revenue | (0.5) | (0.1) | (0.0) | (0.1) | — | (0.8) |
| Total cash costs | 66.1 | 19.8 | 32.7 | 37.8 | — | 156.4 |
| Total ounces sold | 94,690 | 15,402 | 28,700 | 92,967 | — | 231,760 |
| Total cash cost per ounce sold | 698 | 1,286 | 1,140 | 406 | — | 675 |
| Operating cash costs (as above) | 66.6 | 19.9 | 32.8 | 37.9 | — | 157.2 |
| Deduct: | | | | | | |
| Refinery and transportation | (0.2) | (0.0) | (0.0) | (0.2) | — | (0.4) |
| Other taxes | (1.0) | (0.2) | (0.9) | (1.0) | — | (3.1) |
| Mining tax | — | — | — | — | — | — |
| Deferred stripping costs | — | — | (1.8) | (6.8) | — | (8.6) |
| Operating cash expenses | 65.5 | 19.7 | 30.0 | 29.9 | — | 145.1 |

- (a) For the purposes of presenting a full reconciliation between operating cash costs, operating cash expenses and total cash costs at the Group and business segment level to their nearest comparable IFRS measure (operating expenses), foreign exchange losses has been included in "corporate and other".

Six months ended 30 June 2016

| | Pioneer US\$ million | Pokrovskiy US\$ million | Malomir US\$ million | Albyn US\$ million | Corporate and other ^(a) US\$ million | Total consolidated/ hard-rock mines US\$ million |
|---|-------------------------|----------------------------|-------------------------|-----------------------|---|--|
| Operating expenses | 59.0 | 16.5 | 25.2 | 76.5 | 39.0 | 216.2 |
| Deduct: | | | | | | |
| Foreign exchange losses | — | — | — | — | (5.9) | (5.9) |
| Segment operating expenses | 59.0 | 16.5 | 25.2 | 76.5 | 33.1 | 210.3 |
| (Deduct)/add: | | | | | | |
| Depreciation | (21.9) | (3.1) | (8.4) | (25.6) | (0.2) | (59.3) |
| Reversal of impairment of ore stockpiles | 4.7 | 0.6 | 5.9 | 1.0 | — | 12.3 |
| Loss on disposal of subsidiaries | — | — | — | — | (0.8) | (0.8) |
| Central administration expenses | — | — | — | — | (13.1) | (13.1) |
| Operating cash costs | 41.8 | 14.0 | 22.7 | 51.9 | 19.0 | 149.4 |
| Deduct: | | | | | | |
| Corporate and other segment | — | — | — | — | (19.0) | (19.0) |
| Deduct: silver revenue | (0.5) | (0.1) | (0.1) | (0.1) | — | (0.7) |
| Total cash costs | 41.3 | 13.9 | 22.6 | 51.8 | — | 129.7 |
| Total ounces sold | 71,095 | 17,200 | 24,693 | 82,447 | — | 195,434 |
| Total cash cost per ounce sold | 582 | 810 | 917 | 628 | — | 663 |
| Operating cash costs (as above) | 41.8 | 14.0 | 22.7 | 51.9 | — | 130.4 |
| Deduct: | | | | | | |
| Refinery and transportation | (0.1) | (0.0) | (0.0) | (0.1) | — | (0.3) |
| Other taxes | (1.0) | (0.2) | (0.8) | (1.2) | — | (3.2) |
| Mining tax | (5.1) | (1.3) | (1.8) | (6.0) | — | (14.2) |
| Deferred stripping costs | — | — | — | (9.0) | — | (9.0) |
| Operating cash expenses | 35.5 | 12.5 | 20.0 | 35.6 | — | 103.6 |

- (a) For the purposes of presenting a full reconciliation between operating cash costs, operating cash expenses and total cash costs at the Group and business segment level to their nearest comparable IFRS measure (operating expenses), foreign exchange losses has been included in "corporate and other".

Year ended 31 December 2016

| | Pioneer US\$ million | Pokrovskiy US\$ million | Malomir US\$ million | Albyn US\$ million | Corporate and other ^(a) US\$ million | Total consolidated/ hard-rock mines US\$ million |
|--|-------------------------|----------------------------|-------------------------|-----------------------|---|--|
| Operating expenses | 130.2 | 41.4 | 53.0 | 155.7 | 79.8 | 460.1 |
| Deduct: | | | | | | |
| Foreign exchange losses | — | — | — | — | (5.2) | (5.2) |
| Segment operating expenses | 130.2 | 41.4 | 53.0 | 155.7 | 74.6 | 454.9 |
| (Deduct)/add: | | | | | | |
| Depreciation | (38.8) | (6.6) | (13.6) | (45.7) | (0.5) | (105.3) |
| Impairment of exploration and evaluation assets | — | — | — | (9.2) | — | (9.2) |
| (Impairment)/reversal of impairment of ore stockpiles | (6.1) | (1.0) | 5.8 | 0.1 | — | (1.2) |
| Gain on disposal of non-trading loans | — | — | — | — | 6.7 | 6.7 |
| Gain on disposal of subsidiaries | — | — | — | — | 0.8 | 0.8 |
| Central administration expenses | — | — | — | — | (32.6) | (32.6) |
| Operating cash costs | 85.3 | 33.8 | 45.2 | 101.0 | 49.0 | 314.3 |
| Deduct: | | | | | | |
| Corporate and other segment | — | — | — | — | (49.0) | (49.0) |
| Deduct: silver revenue | (1.0) | (0.3) | (0.1) | (0.2) | — | (1.5) |
| Total cash costs | 84.3 | 33.5 | 45.1 | 100.8 | — | 263.7 |
| Total ounces sold | 133,605 | 38,151 | 54,760 | 173,342 | — | 399,858 |
| Total cash cost per ounce sold | 631 | 878 | 824 | 581 | — | 660 |
| Operating cash costs (as above) | 85.3 | 33.8 | 45.2 | 101.0 | — | 265.3 |
| Deduct: | | | | | | |
| Refinery and transportation | (0.2) | (0.1) | (0.1) | (0.3) | — | (0.7) |
| Other taxes | (1.9) | (0.5) | (1.6) | (2.2) | — | (6.3) |
| Mining tax | (5.2) | (1.3) | (1.9) | (6.3) | — | (14.7) |
| Deferred stripping costs | — | — | — | (18.0) | — | (18.0) |
| Operating cash expenses | 77.9 | 31.9 | 41.6 | 74.2 | — | 225.6 |

- (a) For the purposes of presenting a full reconciliation between operating cash costs, operating cash expenses and total cash costs at the Group and business segment level to their nearest comparable IFRS measure (operating expenses), foreign exchange losses has been included in "corporate and other".

Year ended 31 December 2015

| | Pioneer US\$ million | Pokrovskiy US\$ million | Malomir US\$ million | Albyn US\$ million | Corporate and other ^{(a)(b)} US\$ million | Total consolidated/ hard-rock mines US\$ million |
|--|-------------------------|----------------------------|-------------------------|-----------------------|--|--|
| Operating expenses | 193.7 | 58.9 | 89.8 | 166.4 | 110.8 | 619.6 |
| Deduct: | | | | | | |
| Foreign exchange losses | — | — | — | — | (12.0) | (12.0) |
| Segment operating expenses | 193.7 | 58.9 | 89.8 | 166.4 | 98.8 | 607.7 |
| (Deduct)/add: | | | | | | |
| Depreciation | (45.9) | (12.3) | (18.2) | (50.8) | (1.9) | (129.1) |
| Impairment of exploration and evaluation assets | — | (2.3) | (0.1) | (35.0) | (37.4) | |
| (Impairment)/reversal of impairment of ore stockpiles | (11.9) | 0.9 | (6.1) | (0.3) | — | (17.4) |
| Loss on disposal of subsidiaries | — | — | — | — | (0.4) | (0.4) |
| Central administration expenses | — | — | — | — | (30.4) | (30.4) |
| Operating cash costs | 135.9 | 45.1 | 65.4 | 115.3 | 31.2 | 392.9 |
| Deduct: | | | | | | |
| Corporate and other segment | — | — | — | — | (31.2) | (31.2) |
| Deduct: silver revenue | (0.6) | (0.2) | (0.1) | (0.1) | — | (1.0) |
| Total cash costs | 135.3 | 44.9 | 65.3 | 115.2 | — | 360.7 |
| Total ounces sold | 216,319 | 51,573 | 59,831 | 154,160 | — | 481,884 |
| Total cash cost per ounce sold | 625 | 871 | 1,092 | 747 | — | 749 |
| Operating cash costs (as above) | 135.9 | 45.1 | 65.4 | 115.3 | — | 361.8 |
| Deduct: | | | | | | |
| Refinery and transportation | (0.5) | (0.1) | (0.1) | (0.3) | — | (1.1) |
| Other taxes | (2.5) | (0.5) | (2.1) | (2.6) | — | (7.7) |
| Mining tax | (14.7) | (3.7) | (4.1) | (10.7) | — | (33.1) |
| Deferred stripping costs | — | — | — | (8.4) | — | (8.4) |
| Operating cash expenses | 118.3 | 40.8 | 59.0 | 93.3 | — | 311.4 |

(a) For the purposes of presenting a full reconciliation between operating cash costs, operating cash expenses and total cash costs at the Group and business segment level to their nearest comparable IFRS measure (operating expenses), foreign exchange losses has been included in "corporate and other".

(b) Including alluvial operations.

Year ended 31 December 2014

| | Pioneer US\$ million | Pokrovskiy US\$ million | Malomir US\$ million | Albyn US\$ million | Corporate and other ^{(a)(b)} US\$ million | Total consolidated/ hard-rock mines US\$ million |
|---|-------------------------|----------------------------|-------------------------|-----------------------|--|--|
| Operating expenses | 259.6 | 82.1 | 102.9 | 187.7 | 183.9 | 816.2 |
| Deduct: | | | | | | |
| Foreign exchange losses | — | — | — | — | (31.3) | (31.3) |
| Segment operating expenses | 259.6 | 82.1 | 102.9 | 187.7 | 152.6 | 784.9 |
| (Deduct)/add: | | | | | | |
| Depreciation | (40.1) | (21.8) | (18.4) | (57.9) | (5.7) | (144.0) |
| Reversal of impairment of mining assets | — | — | — | 28.9 | — | 28.9 |
| Impairment of exploration and evaluation assets | — | (3.5) | (0.1) | — | (18.5) | (22.0) |
| (Impairment)/reversal of impairment of ore stockpiles | (7.1) | 3.4 | 3.2 | (9.6) | — | (10.1) |
| Impairment of investments in associates | — | — | — | — | (9.7) | (9.7) |
| Write-down to adjust the carrying value of Kobooldo's net assets to fair value less costs to sell | — | — | — | — | (11.9) | (11.9) |
| Central administration expenses | — | — | — | — | (38.2) | (38.2) |
| Operating cash costs | 212.3 | 60.2 | 87.6 | 149.3 | 68.6 | 578.0 |
| Deduct: | | | | | | |
| Corporate and other segment | — | — | — | — | (68.6) | (68.7) |
| Deduct: silver revenue | (2.4) | (0.7) | (0.3) | (0.3) | — | (3.7) |
| Total cash costs | 209.9 | 59.5 | 87.3 | 149.0 | — | 505.7 |
| Total ounces sold | 256,816 | 67,264 | 84,707 | 179,444 | — | 588,231 |
| Total cash cost per ounce sold | 818 | 885 | 1,031 | 830 | — | 860 |
| Operating cash costs (as above) | 212.3 | 60.2 | 87.6 | 149.3 | — | 509.4 |
| Deduct: | | | | | | |
| Refinery and transportation | (1.5) | (0.4) | (0.4) | (0.6) | — | (2.9) |
| Other taxes | (4.5) | (1.0) | (3.9) | (4.1) | — | (13.5) |
| Mining tax | (19.5) | (5.2) | (7.1) | (13.7) | — | (45.5) |
| Deferred stripping costs | (10.6) | — | — | (9.5) | — | (20.1) |
| Operating cash expenses | 176.2 | 53.6 | 76.2 | 121.4 | — | 427.4 |

(a) For the purposes of presenting a full reconciliation between operating cash costs, operating cash expenses and total cash costs at the Group and business segment level to their nearest comparable IFRS measure (operating expenses), foreign exchange losses has been included in "corporate and other".

(b) Including alluvial operations.

AISC and AIC

Six months ended 30 June 2017

| | Pioneer US\$ million | Pokrovskiy US\$ million | Malomir US\$ million | Albyn US\$ million | Total hard- rock mines US\$ million |
|--|-------------------------|----------------------------|-------------------------|-----------------------|---|
| <i>Physical volume of gold sold, oz</i> | 94,690 | 15,402 | 28,700 | 92,967 | 231,760 |
| Total cash costs^(a) | 66.1 | 19.8 | 32.7 | 37.8 | 156.4 |
| (Reversal of impairment)/impairment of ore stockpiles | (0.8) | 0.1 | 0.3 | (3.6) | (4.1) |
| Impairment of gold in circuit | — | 0.8 | 0.6 | — | 1.4 |
| Adjusted operating costs | 65.3 | 20.7 | 33.6 | 34.1 | 153.7 |
| Central administration expenses | 9.4 | 1.5 | 2.9 | 9.3 | 23.1 |
| Capitalised stripping at end of the period | — | — | 6.8 | 44.1 | 50.9 |
| Capitalised stripping at beginning of the period | — | — | (3.6) | (22.6) | (26.2) |
| Close-down and site restoration | 0.1 | 0.1 | 0.2 | 0.4 | 0.7 |
| Sustaining exploration expenditures | 1.9 | — | 2.4 | 2.9 | 7.2 |
| Sustaining capital expenditure | 10.0 | 0.1 | 1.4 | 2.6 | 14.1 |
| All-in sustaining costs | 86.6 | 22.4 | 43.7 | 70.9 | 223.6 |
| AISC, US\$/oz | 915 | 1,454 | 1,523 | 762 | 965 |
| Exploration expenditure | 3.2 | — | 0.0 | 0.4 | 3.6 |
| Capital expenditure | 8.5 | — | 8.3 | — | 16.8 |
| Reversal of impairment of ore stockpiles | (2.2) | — | — | — | (2.2) |
| All-in costs | 96.1 | 22.4 | 52.1 | 71.3 | 241.8 |
| AIC, US\$/oz | 1,015 | 1,454 | 1,814 | 766 | 1,044 |

(a) See “—TCC” above for the reconciliation of total cash costs to operating cash costs.

Six months ended 30 June 2016

| | Pioneer US\$ million | Pokrovskiy US\$ million | Malomir US\$ million | Albyn US\$ million | Total hard- rock mines US\$ million |
|--|-------------------------|----------------------------|-------------------------|-----------------------|---|
| <i>Physical volume of gold sold, oz</i> | 71,095 | 17,200 | 24,693 | 82,447 | 195,434 |
| Total cash costs^(a) | 41.3 | 13.9 | 22.6 | 51.8 | 129.7 |
| (Reversal of impairment)/impairment of ore stockpiles | (2.3) | (0.6) | (0.1) | (1.0) | (4.1) |
| Adjusted operating costs | 39.0 | 13.3 | 22.5 | 50.8 | 125.6 |
| Central administration expenses | 4.8 | 1.2 | 1.7 | 5.5 | 13.1 |
| Capitalised stripping at end of the period | 5.2 | — | 1.2 | 17.8 | 24.2 |
| Capitalised stripping at beginning of the period | — | — | — | (18.0) | (18.0) |
| Close-down and site restoration | — | — | — | 0.1 | 0.1 |
| Sustaining capital expenditure | 1.2 | 0.1 | 0.6 | 2.0 | 3.9 |
| All-in sustaining costs | 50.2 | 14.5 | 26.0 | 58.2 | 148.9 |
| AISC, US\$/oz | 707 | 843 | 1,055 | 705 | 762 |
| Exploration expenditure | 3.3 | — | 1.2 | 3.0 | 7.6 |
| Capital expenditure | 0.2 | — | 0.2 | — | 0.4 |
| Reversal of impairment of ore stockpiles | (2.4) | — | (5.8) | — | (8.2) |
| All-in costs | 51.3 | 14.5 | 21.6 | 61.2 | 148.7 |
| AIC, US\$/oz | 722 | 845 | 876 | 742 | 761 |

(a) See “—TCC” above for the reconciliation of total cash costs to operating cash costs.

Year ended 31 December 2016

| | Pioneer US\$ million | Pokrovskiy US\$ million | Malomir US\$ million | Albyn US\$ million | Total hard- rock mines US\$ million |
|--|-------------------------|----------------------------|-------------------------|-----------------------|---|
| <i>Physical volume of gold sold, oz</i> | 133,605 | 38,151 | 54,760 | 173,342 | 399,858 |
| Total cash costs^(a) | 84.3 | 33.5 | 45.1 | 100.8 | 263.7 |
| Impairment/(reversal of impairment) of ore stockpiles | 6.3 | 1.0 | (0.0) | (0.1) | 7.2 |
| Adjusted operating costs | 90.6 | 34.5 | 45.1 | 100.6 | 270.9 |
| Central administration expenses | 10.9 | 3.1 | 4.5 | 14.1 | 32.6 |
| Capitalised stripping at end of the period | — | — | 3.6 | 22.6 | 26.2 |
| Capitalised stripping at beginning of the period | — | — | — | (18.0) | (18.0) |
| Close-down and site restoration | 0.1 | — | — | 0.1 | 0.2 |
| Sustaining capital expenditure | 3.9 | 0.1 | 1.7 | 5.2 | 10.9 |
| All-in sustaining costs | 105.5 | 37.7 | 55.0 | 124.7 | 322.8 |
| AISC, US\$/oz | 789 | 988 | 1,004 | 719 | 807 |
| Exploration expenditure | 8.5 | 0.1 | 1.9 | 6.2 | 16.6 |
| Capital expenditure | 1.0 | — | 0.8 | — | 1.9 |
| Reversal of impairment of ore stockpiles | (0.2) | — | (5.8) | — | (6.0) |
| All-in costs | 114.8 | 37.8 | 51.9 | 130.8 | 335.3 |
| AIC, US\$/oz | 859 | 990 | 948 | 755 | 838 |

(a) See “—TCC” above for the reconciliation of total cash costs to operating cash costs.

Year ended 31 December 2015

| | Pioneer US\$ million | Pokrovskiy US\$ million | Malomir US\$ million | Albyn US\$ million | Total hard- rock mines US\$ million |
|--|-------------------------|----------------------------|-------------------------|-----------------------|---|
| <i>Physical volume of gold sold, oz</i> | 216,319 | 51,573 | 59,831 | 154,160 | 481,884 |
| Total cash costs^(a) | 135.3 | 44.9 | 65.3 | 115.2 | 360.7 |
| Impairment/(reversal of impairment) of ore stockpiles | 9.5 | (0.9) | 0.3 | 0.3 | 9.2 |
| Adjusted operating costs | 144.8 | 44.0 | 65.6 | 115.5 | 369.9 |
| Central administration expenses | 13.7 | 3.3 | 3.8 | 9.7 | 30.4 |
| Capitalised stripping at end of the period | — | — | — | 18.0 | 18.0 |
| Capitalised stripping at beginning of the period | — | — | — | (8.4) | (8.4) |
| Close-down and site restoration | (0.5) | (0.1) | (0.1) | (1.1) | (1.7) |
| Sustaining capital expenditure | 4.7 | 0.1 | 1.2 | 6.7 | 12.7 |
| All-in sustaining costs | 162.7 | 47.3 | 70.6 | 140.3 | 420.9 |
| AISC, US\$/oz | 752 | 918 | 1,180 | 910 | 874 |
| Exploration expenditure | 7.1 | 1.0 | 4.2 | 6.6 | 18.9 |
| Capital expenditure | 0.4 | — | 0.6 | — | 1.0 |
| Impairment of ore stockpiles | 2.4 | — | 5.8 | — | 8.2 |
| All-in costs | 172.6 | 48.3 | 81.2 | 146.9 | 449.0 |
| AIC, US\$/oz | 798 | 937 | 1,357 | 953 | 932 |

(a) See “—TCC” above for the reconciliation of total cash costs to operating cash costs.

Year ended 31 December 2014

| | Pioneer US\$ million | Pokrovskiy US\$ million | Malomir US\$ million | Albyn US\$ million | Total hard- rock mines US\$ million |
|--|-------------------------|----------------------------|-------------------------|-----------------------|---|
| Physical volume of gold sold, oz | 256,816 | 67,264 | 84,707 | 179,444 | 588,231 |
| Total cash costs^(a) | 209.9 | 59.5 | 87.3 | 149.0 | 505.7 |
| Impairment/(reversal of impairment) of ore stockpiles | 8.3 | (3.4) | — | 9.6 | 14.5 |
| Adjusted operating costs | 218.2 | 56.1 | 87.3 | 158.6 | 520.2 |
| Central administration expenses | 15.9 | 4.2 | 5.2 | 11.1 | 36.4 |
| Capitalised stripping at end of the period | — | — | — | 8.4 | 8.4 |
| Capitalised stripping at beginning of the period | (10.6) | — | — | (9.5) | (20.1) |
| Close-down and site restoration | 0.3 | (1.6) | 1.9 | 3.3 | 3.9 |
| Sustaining capital expenditure | 5.4 | 0.3 | 0.7 | 16.8 | 23.2 |
| All-in sustaining costs | 229.2 | 59.0 | 95.1 | 188.7 | 572.0 |
| AISC, US\$/oz | 893 | 876 | 1,123 | 1,051 | 972 |
| Exploration expenditure | 14.6 | 0.7 | 8.1 | 9.8 | 33.2 |
| Capital expenditure | 14.6 | — | 23.7 | 0.1 | 38.4 |
| Reversal of impairment of ore stockpiles | (1.1) | — | (3.2) | — | (4.4) |
| All-in costs | 257.3 | 59.7 | 123.7 | 198.6 | 639.3 |
| AIC, US\$/oz | 1,002 | 887 | 1,461 | 1,107 | 1,087 |

(a) See “—TCC” above for the reconciliation of total cash costs to operating cash costs.

Other

As at and for the six months ended 30 June 2017

| | Company | | Issuer | | Guarantor Subsidiaries | | Non-guarantor Subsidiaries ^(a) | | Total |
|-------------------------------------|--------------|--------|--------------|---|---------------------------|-------|--|-------|--------------|
| | US\$ million | % | US\$ million | % | US\$ million | % | US\$ million | % | US\$ million |
| (unaudited) | | | | | | | | | |
| Underlying EBITDA ^(b) | (13.3) | (11.7) | 0 | 0 | 131.8 | 115.5 | (4.4) | (3.8) | 114.1 |
| Net Assets | (527.3) | (90.1) | 0 | 0 | 1,076.2 | 183.8 | 36.6 | 6.3 | 585.5 |

(a) Including share of results of and interest in associates.

(b) See “—Underlying EBITDA” above for the reconciliation of Underlying EBITDA to profit/(loss) for the period from continuing operations.

As at and for the year ended 31 December 2016 Restated

| | Company | | Issuer | | Guarantor Subsidiaries | | Non-guarantor Subsidiaries ^(a) | | Total |
|-------------------------------------|--------------|--------|--------------|---|---------------------------|-------|--|-------|--------------|
| | US\$ million | % | US\$ million | % | US\$ million | % | US\$ million | % | US\$ million |
| Underlying EBITDA ^(b) | (11.5) | (5.7) | 0 | 0 | 220.1 | 110.0 | (8.5) | (4.3) | 200.1 |
| Net Assets | (504.8) | (88.5) | 0 | 0 | 1,049.5 | 184.0 | 25.6 | 4.5 | 570.3 |

(a) Including share of results of and interest in associates.

(b) See “—Underlying EBITDA” above for the reconciliation of Underlying EBITDA to profit/(loss) for the period from continuing operations.

PART 10

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain information in the discussion and analysis set forth below and elsewhere in this Offering Memorandum includes forward-looking statements that involve risks and uncertainties. See "Forward-Looking Statements" and Part 3: "Risk Factors" for a discussion of important factors that could cause actual results to differ materially from the results described in the forward-looking statements contained in this Offering Memorandum. The financial information as at and for the six months ended 30 June 2017 and 2016 and as at and for the years ended 31 December 2016, 2015 and 2014 has been extracted from the Financial Statements appended to this Offering Memorandum. This discussion and analysis should also be read in conjunction with the Financial Statements described above and appended to this Offering Memorandum, including the notes thereto. Investors should not solely rely on the information contained in this section.

1. Overview

Petropavlovsk is one of Russia's major gold mining companies. As at 30 September 2017, the Group had produced approximately 6.7Moz of gold since its formation. This figure includes production from the four mining assets described below as well as production from alluvial operations and joint ventures which are no longer part of the Group. As at 31 December 2016, the Group had approximately 20.2Moz of Mineral Resources, including approximately 8.0Moz of Ore Reserves. Mineral Resources are concentrations or occurrences of solid material of economic interest in or on the Earth's crust in such form, grade (or quality) and quantity that there are reasonable prospects for eventual economic extraction. Ore Reserves are those parts of the Mineral Resources that have been evaluated by a feasibility study as being considered to be valuable and legally, economically and technically feasible to extract.

Petropavlovsk's key area of focus is the Amur region in the Russian Far East, where it has operated since 1994. The Company is, in the management's opinion, one of the leading employers and contributors to the development of the local economy in the region, which benefits from well-developed infrastructure, access to hydroelectric power and a strong mining tradition.

The Group's key mining assets are the Pioneer, Albyn, Malomir and Pokrovskiy mines and adjacent deposits (satellites) (**Key Mining Assets**), which are all located in the Amur region. The principal operations at all four mines are open pit but the Group also started production from high grade ore using underground mining at the Pioneer and Malomir mines in June 2017.

At present, gold is extracted on site at all four mines using cyanide based processing technologies, and resin in pulp (**RIP**) plants, which are operational throughout the year. In addition, there are seasonal heap leaching facilities, normally operating between April and November, at two of the mines. In 2016, the Group's four mines processed approximately 16Mtpa through their RIP plants and produced an aggregate of 416.3koz of gold.

The table below sets out an overview of the Group's four key gold producing assets in operation:

| | Pioneer | | Malomir | | Albyn | | Pokrovskiy ¹ | |
|--|------------------------------------|-----------------|----------------------------------|-----------------|------------------------------------|-----------------|---------------------------------|-----------------|
| Licence area | Approximately 1,280km ² | | Approximately 820km ² | | Approximately 1,053km ² | | Approximately 95km ² | |
| Production to 30 September 2017 | Approximately 2.4Moz Au | | Approximately 0.6Moz Au | | Approximately 0.9Moz Au | | Approximately 2.0Moz Au | |
| Plant (RIP) capacity | 6.7Mtpa | | 3.0Mtpa | | 4.7Mtpa | | 1.8Mtpa | |
| JORC R&R as of 31 December 2016 ^{2,3} | Resources | Reserves | Resources | Reserves | Resources | Reserves | Resources | Reserves |
| Total⁴ | 5.5Moz | 2.6Moz | 7.1Moz | 3.0Moz | 4.8Moz | 2.1Moz | 1.4Moz | 0.1Moz |
| Non-refractory | 2.4Moz | 1.2Moz | 0.9Moz | 0.4Moz | 4.8Moz | 2.1Moz | 1.4Moz | 0.1Moz |
| Refractory | 3.1Moz | 1.5Moz | 6.1Moz | 2.6Moz | — | — | — | — |

- (1) The licence area for Pokrovskiy does not include the approximately 94km² licence area on which the Burinda deposit is located, nor the 51km² licence area on which the Zheltunak deposit is located. Ore from Burinda and Zheltunak was previously processed at Pokrovskiy. The Burinda Mineral Resources (approximately 284koz) and the Zheltunak Mineral Resources (approximately 46koz) are included in the figure for the Pokrovskiy mine Mineral Resources (there are no Ore Reserves attributable to either the Burinda or the Zheltunak deposits).

- (2) In this Part, the resource and reserve data comes from independent reports produced by Wardell Armstrong International (WAI), whilst data regarding depletion and total gold mined was sourced internally.
- (3) Resource figures are inclusive of reserves.
- (4) Totals may not add up due to the effect of rounding.

On the basis of publicly available information, the Company's management consider *Pioneer* to be one of the largest gold mines in Russia in terms of its processing capacity. It accounted for approximately 34 per cent. of the Group's total gold production in 2016 (approximately 39 per cent. in the first nine months of 2017). *Pioneer* was acquired as a greenfield site in 2001 and was explored, developed and built principally using in-house expertise, as opposed to external contractors. Since commissioning in 2008, the RIP plant at the mine has been expanded in phases to reach its current processing capacity of approximately 6.7Mtpa. Up to 30 September 2017, *Pioneer* had produced approximately 2.4Moz of gold. As at 31 December 2016, *Pioneer* contained an estimated approximately 5.5Moz of Mineral Resources, of which approximately 2.6Moz were Ore Reserves. In late 2015, with the acquisition of a new exploration licence for the *Sosnovaya* asset, the *Pioneer* project area was more than doubled. Having six active pits, it is still being actively explored and exploration results to date indicate that there is potential for increases in ore reserves to be identified. Underground development at the *Pioneer* mine is progressing as planned for full scale high grade ore production by the end of 2017 with the first underground production having commenced in June 2017. In addition, in the first nine months of 2017 two new zones of non-refractory mineralisation suitable for open pit mining were discovered at *Pioneer*.

Pokrovskiy is the Group's oldest mine, accounting for approximately 9 per cent. of total gold production in 2016 (approximately 7 per cent. in the first nine months of 2017). Since commissioning in 1999, by 30 September 2017 *Pokrovskiy* had produced approximately 2.0Moz of gold. As at 31 December 2016, *Pokrovskiy* (including the *Burinda* deposit whose ore was processed at *Pokrovskiy*) had an estimated approximately 1.4Moz of Mineral Resources, of which approximately 0.1Moz were Ore Reserves.

It is intended that as *Pokrovskiy* nears the end of its mine life, the mine and its related infrastructure will transition into the site for the POX Hub, which is currently under construction. The POX Hub is an integral part of the Group's future plans in allowing for refractory gold production and *Pokrovskiy* provides an important strategic location, not only due to its on-site and regional infrastructure, but also its close proximity to *Pioneer*'s limestone deposit, limestone being a key ingredient for the pressure oxidation process to be used at the POX Hub. The POX project comprises the construction of the POX Hub, which is expected to be commissioned in the fourth quarter of 2018, the refractory ore flotation plant at the *Malomir* mine, the first stage of which is expected to be commissioned by the end of 2017 (with the second stage expected to be commissioned in 2019), and the refractory ore flotation plant at the *Pioneer* mine which is expected to be commissioned in 2023. These flotation plants are intended to produce concentrate to be delivered to the POX Hub for processing. The POX Hub may also process concentrate sourced from third parties.

Malomir was acquired by the Group as a greenfield site. On the basis of publicly available information, the Company's management consider that it is now one of the largest gold mines in Russia, in terms of its Mineral Resource size. *Malomir*'s production accounted for approximately 14 per cent. of the Group's total gold production in 2016 (approximately 13 per cent. in the first nine months of 2017). As at 31 December 2016, *Malomir*'s Mineral Resources stood at an estimated approximately 7.1Moz, of which 3.0Moz were Ore Reserves. As at 30 September 2017, *Malomir* had produced approximately 0.6Moz of gold since commissioning in mid-2010. Underground development at the *Malomir* mine is moving ahead for full scale high grade ore production by the end of 2017; the first ore was mined in June 2017. Over 85 per cent. of *Malomir*'s Mineral Resources and Ore Reserves are estimated to be refractory, requiring flotation and pressure oxidation for efficient gold recovery. Once the *Malomir* flotation plant and POX Hub have been commissioned, the mine is expected to become a major contributor to the Group's gold production.

Albyn is the Group's newest mine, commissioned in 2011 and accounting for approximately 43 per cent. of total gold production in 2016 (approximately 41.0 per cent. in the first nine months of 2017). The Group acquired its first licence for *Albyn* in 2005, when the project area was still a greenfield site. The project was subsequently explored, developed and built principally using in-house expertise. Subsequent exploration identified two substantial adjacent (satellite) deposits: *Elginskoye* and *Unglichikanskoye*. Up to 30 September 2017, *Albyn* had produced approximately 0.9Moz of gold. As at 31 December 2016, the *Albyn* project (including its satellites) had an estimated approximately 4.8Moz

of Mineral Resources, of which approximately 2.1Moz were Ore Reserves. Large areas adjacent to the mine remain under-explored and Group geologists consider Albyn to have the potential for further, considerable gold discoveries, with the recently identified continuation of the Unglichikan deposit confirming strong exploration potential near the Albyn mine.

Although Pokrovskiy is at the end of its mine life, the other three sites – Pioneer, Malomir and Albyn – each have, on the basis of the Group's current mining plan (including implementation of the POX project and the planned underground mining), an estimated mine life of at least 15 years assuming that the POX Hub is successfully commissioned.

Following a drop in the gold price in 2013, the Group carried out a review of its strategy and decided to shift away from absolute production levels, concentrating on the mining and production of ounces which the Group believed should generate higher profit margins. As a result of this, a number of high cost assets, such as the alluvial operations at Koboldo and Berelekh, were disposed of and production schedules were adjusted to increase profit margins. In 2014, the Group produced 624.5koz of gold, which included 29.1koz of production from alluvial assets. In 2015, gold production totalled 504.1koz, in line with this revised strategy and the asset disposals.

In 2016, the exceptionally high levels of rainfall experienced in the second half of the year intermittently impaired the mining of high grade ore at Andreevskaya (Pioneer), which resulted in total 2016 production being reduced to 416.3koz. Mining of the ore that the Group was unable to mine in 2016 due to the adverse weather was deferred to the 2017 mine plan.

During the first nine months of 2017, management remained focused on optimising production plans to ensure the most efficient use of the Group's existing asset base, whilst aiming to maximise profitability. Together with the continued work of the Group's experienced operational team, this strategy contributed to a 91 per cent. increase in operating profit to US\$65 million for the first six months of 2017, compared to an operating profit of US\$34 million for the first six months of 2016. A 150 per cent. increase (compared to the first six months of 2016) in net cash from operating activities to US\$74.6 million for the six months ended 30 June 2017 has enabled the Group to proceed with its capital expenditure programme to seek to ensure the timely delivery of its key development projects.

In the first six months of 2017, the Group achieved Total Cash Costs (**TCC**) of US\$675/oz, slightly up from US\$663/oz in the first six months of 2016 but within the original forecast range for 2017 of US\$600 – 700/oz. The increases in the Company's All-in-Sustaining Costs (**AISC**) to US\$965/oz and All-in Costs (**AIC**) to US\$1,044/oz primarily reflect the capital expenditure relating to underground developments and tailing dam expansion, exploration and stripping costs and greater central administration expenses. AIC was also affected by capital expenditure in relation to the POX project.

A table of the Group's gold production for the periods indicated is set out below:

| | 9 months ended 30 September 2017 koz | 9 months ended 30 September 2016 koz | Year ended 31 December 2016 koz | Year ended 31 December 2015 koz | Year ended 31 December 2014 koz |
|----------------------------------|--|--|--|--|--|
| Pioneer | 131.8 | 105.3 | 141.9 | 231.4 | 263.0 |
| Pokrovskiy | 22.8 | 27.7 | 37.6 | 56.0 | 64.2 |
| Malomir | 43.8 | 40.0 | 56.8 | 59.1 | 82.2 |
| Albyn | 138.0 | 125.1 | 180.0 | 157.6 | 186.0 |
| Alluvial operations ² | – | – | – | – | 29.1 |
| Total gold production | 336.4 | 298.1 | 416.3 | 504.1 | 624.5 |

Note:

- (1) Commencing 2017, the Company moved to using gold poured as the definition for production. The data for the nine months to 30 September 2016 has been restated to reflect this. However, it should be noted that the full year 2016, 2015 and 2014 numbers have not been restated.
- (2) Alluvial operations included that carried on by Koboldo, a former subsidiary which was sold in early 2015. Currently the Group has no alluvial operations.

Total gold production (being defined as gold poured) for the first nine months of 2017 was approximately 336koz. The Group's guidance for the full year production for 2017 is 420-460koz.

The Group's in-house exploration team has a strong track record of identifying new targets and adding to the Group's resource base. As at 30 September 2017, the Group's total gold production since formation was approximately 6.7Moz. Since 2002 and to the end of 2016 Petropavlovsk has established a total of 31.4Moz of JORC Resources (including 4.8Moz of JORC Resources which have been sold) through exploration. At present, the Group is working to identify and explore prospective areas in the vicinity of its four hard-rock gold mines with the aim of adding new Ore Reserves suitable for processing at the Group's existing facilities and those under construction, including ore mined using underground mining methods.

The Group is vertically-integrated with expertise and operations across the mining lifecycle. It has a laboratory network, research and development centres, engineering facilities, a construction company, and exploration, geological survey, mine planning and feasibility study capabilities. This operating structure has been instrumental to the Group's project development and processing capacity growth. All four of the Group's hard rock gold mines have been explored, designed and built principally using in-house expertise. Since 2008, the Group's RIP processing capacity has increased by more than 600 per cent. as the Group commissioned and expanded mines.

As at 30 September 2017, Petropavlovsk also held a 31.1 per cent. interest in IRC, a producer and developer of industrial commodities, principally iron ore. Based in the Russian Far East, IRC benefits from low production costs and proximity to the Chinese border, China being the world's largest consumer of IRC's main product, iron ore. IRC was Petropavlovsk's Non Precious Metals Division before it was listed on the Hong Kong Stock Exchange in late 2010. As part of its ongoing balance sheet optimisation, the Group also continues to assess the ways to realise the value of its current interest in IRC.

2 Significant factors affecting the results of operations

The key factors discussed below have affected the Group's results operations in the six months ended 30 June 2017 and 2016 and in the years ended 31 December 2016, 2015 and 2014 and can be expected to affect its future results of operations:

2.1 Production levels

Gold is the key commodity produced and sold by the Group. Accordingly, the key drivers affecting the results of the Group's operations are the amount of gold produced and the price at which it is sold. The Group's production levels, in turn, are affected by the production and development phase of each of its projects and future production levels will, in particular, depend upon the satisfactory continued operation of the Group's hard-rock mines (Pioneer, Albyn, Malomir and Pokrovskiy).

The table below sets forth the Group's gold production by operation for the periods indicated.

| | Six months ended 30 June | | Year ended 31 December | | |
|-----------------------|-----------------------------|-------------|------------------------|-------------|-------------|
| | 2017 koz | 2016 koz | 2016 koz | 2015 koz | 2014 koz |
| Pioneer | 96.4 | 71.0 | 141.9 | 231.4 | 263.0 |
| Pokrovskiy | 14.2 | 17.2 | 37.6 | 56.0 | 64.2 |
| Malomir | 28.7 | 24.8 | 56.8 | 59.1 | 82.2 |
| Albyn | 93.1 | 82.6 | 180.0 | 157.6 | 186.0 |
| Alluvial operations | — | — | — | — | 29.1 |
| Total gold production | 232.4 | 195.6 | 416.3 | 504.1 | 624.5 |

Production levels are dependent on access to the ore bodies, which, in turn, is dependent on the stripping necessary to be undertaken to gain such access and any restrictions that may be imposed by

weather conditions, the grades of ore mined, and recovery rates. Further details on production are set out in Part 11: *"Description of the Business of the Group"*.

2.2 Reserves and resources

The Group's reserves will decline as it produces gold and its reserves are depleted. The Group's future production growth, therefore, will be dependent upon it successfully discovering or acquiring and developing additional reserves. A summary of the Group's Reserves and Resources is shown in Section 5.2 of Part 11: *"Description of the Business of the Group"*.

2.3 Gold price

The majority of the Group's revenue is derived from the sale of gold. The price of gold can vary significantly and is affected by factors which are outside the control of the Group, including in particular, the demand for gold as an investment. The global gold price has declined significantly since April 2013 and has been subject to volatile movements.

The gold price increased by approximately 8 per cent. in the first half of 2017, starting the period at US\$1,151/oz and closing at US\$1,242/oz. In the first half of 2017, gold traded in a range between US\$1,151/oz and US\$1,294/oz, averaging US\$1,238/oz during such period. For further details, please refer to Part 12: *"Industry Overview"*.

The gold price increased by approximately 22 per cent. in the first half of 2016, starting the period at US\$1,082/oz and closing at US\$1,321/oz. In the first half of 2016, gold traded in a range between US\$1,077/oz and US\$1,325/oz, averaging US\$1,221/oz during such period.

The gold price increased by approximately 6 per cent. in 2016, starting the year at US\$1,082/oz and closing at US\$1,146/oz. In 2016, gold traded in a range between US\$1,077/oz and US\$1,366/oz, averaging US\$1,251/oz during the year.

The gold price decreased by approximately 10 per cent. in 2015, starting the year at US\$1,172/oz and closing at US\$1,060/oz. In 2015, gold traded in a range between US\$1,049/oz and US\$1,296/oz, averaging US\$1,160/oz during the year.

The gold price decreased by approximately 2 per cent. in 2014, starting the year at US\$1,225/oz and closing at US\$1,206/oz. In 2014, gold traded in a range between US\$1,142/oz and US\$1,385/oz, averaging US\$1,266/oz during the year.

The Group sells gold to two Russian banks, Sberbank and VTB, at prices linked to the LBMA fixing. In order to increase certainty of its cash flows, the Group constantly monitors gold price and historically has hedged some portion of production as considered necessary. The Group's hedging arrangements are primarily cash settled gold forward contracts with a maturity profile matching expected gold production and sales profile. The relevant gold forward contracts are designated as a cash flow hedge under IFRS. The Group had hedging arrangements through gold forward contracts with JPMC and affiliates of Sberbank and VTB in 2014, with affiliates of Sberbank and VTB in 2015 and with affiliates of Sberbank in 2016. In the first quarter of 2017, the Group entered into further hedges through gold forward contracts with affiliates of Sberbank to satisfy minimum hedge requirements of 200Koz for each of the years 2017, 2018 and 2019 under the Sberbank 2016 Facility (as detailed in Section 7 *"Liquidity and Capital Resources"* below). Further details of these hedge arrangements are set out in Section 3 *"Recent Developments"* below.

The table below sets forth the volumes of the Group's hedge arrangements through gold forward contracts for the periods indicated:

| | Six months ended 30 June | | Year ended 31 December | | |
|---|-----------------------------|-------------|------------------------|-------------|-------------|
| | 2017 Koz | 2016 Koz | 2016 Koz | 2015 Koz | 2014 Koz |
| Forward contracts matured during the period | 100.0 | 65.8 | 134.5 | 178.5 | 364.3 |
| Forward contract outstanding at the end of the period | 500.0 | 118.7 | 50.0 | 71.6 | 50.0 |

The table below sets forth the market gold price statistics and average gold price realised by the Group for the periods indicated:

| | Six months ended 30 June | | Year ended 31 December | | |
|---|-----------------------------|-----------------|------------------------|-----------------|-----------------|
| | 2017 US\$/oz | 2016 US\$/oz | 2016 US\$/oz | 2015 US\$/oz | 2014 US\$/oz |
| Average LBMA gold price afternoon fixing | 1,238 | 1,221 | 1,251 | 1,160 | 1,266 |
| High LBMA gold price afternoon fixing | 1,294 | 1,325 | 1,366 | 1,296 | 1,385 |
| Low LBMA gold price afternoon fixing | 1,151 | 1,077 | 1,077 | 1,049 | 1,142 |
| Average realised gold price achieved by the Group | 1,255 | 1,194 | 1,222 | 1,178 | 1,331 |
| Effect of hedge arrangements | 12 | (28) | (21) | 20 | 66 |

2.4 Production costs and efficiency

The long-term profitability of the Group is dependent upon its ability to maintain low-cost and efficient gold mining operations.

The key elements of total cash costs are operating cash expenses, refinery and transportation costs, mining tax and other taxes and amortisation of deferred stripping costs and silver revenue, which is a co-product of gold production and, therefore, is deducted when calculating total cash costs.

The key components of the operating cash expenses are detailed in Section 2.5 "Operating cash expenses" below. The key cost drivers affecting operating cash expenses are stripping ratios, production volumes of ore mined and processed, grades of ore processed, recovery rates, cost inflation and fluctuations in the Rouble to US Dollar exchange rate.

Refinery and transportation costs are variable costs dependent on the production volume. Mining tax is also a variable cost dependent on production volume and the gold price realised. The mining tax rate was 6 per cent. for the years ended 31 December 2014, 31 December 2015 and for the first half of 2016. Since July 2016, the Group has applied a mining tax concession for the full 6 per cent. tax rate in accordance with the Regional Investment Project and Federal Law 144-F3 dated 23 May 2016 (see Section 7.7 "Contingent Liabilities" in relation to an ongoing dispute with the Russian tax authorities with respect to the effective date of this concession). This mining tax concession is expected to be available for two years from July 2016.

In mining operations, removal of overburden and other waste materials, referred to as "stripping", is required to obtain access to the ore body. Deferred stripping costs are stripping costs incurred during the production phase of a mine that are deferred as part of cost of inventory and are written off to the income statement in the period over which economic benefits related to the stripping activity are realised. Deferred stripping costs are mine-specific and may vary from year to year depending on the mining plan.

Shortly after the significant drop in the gold price in April 2013, the Group adopted a new development strategy and implemented a series of steps to reduce operating cash costs. These steps included the optimisation of hauling distances, prolonging usage of truck tyres and increasing dump truck productivity through increasing the height of dump body extension. The Group also took steps to optimise the ore blending methodology at its processing plants. Optimisation of staff costs was achieved by way of both redundancies and increasing efficiencies through revision of the productivity targets and introduction of various incentive schemes.

The table below sets forth total cash costs (**TCC**), all-in sustaining costs (**AISC**) and all-in costs (**AIC**) achieved by the Group for the periods indicated.

| | Six months ended 30 June | | Year ended 31 December | | |
|---------------------|-----------------------------|-----------------|------------------------|-----------------|-----------------|
| | 2017 US\$/oz | 2016 US\$/oz | 2016 US\$/oz | 2015 US\$/oz | 2014 US\$/oz |
| TCC ^(a) | 675 | 663 | 660 | 749 | 860 |
| AISC ^(b) | 965 | 762 | 807 | 874 | 972 |
| AIC ^(b) | 1,044 | 761 | 838 | 932 | 1,087 |

(a) See Part 9: "Selected Consolidated Financial Information and Other Information—Other financial information—TCC" for the reconciliation of total cash costs to operating expenses.

(b) See Part 9: "Selected Consolidated Financial Information and Other Information—Other financial information—AISC and AIC" for the reconciliation of AISC and AIC to total cash costs.

2.5 Operating cash expenses

The Group's operating cash expenses have a significant effect on its results of operations. The key components of the operating cash expenses are staff costs, materials, fuel and electricity, other external services, as set out in the table below. Materials, fuel and electricity are variable cost components of the operating cash expenses, staff costs are the fixed cost component of the operating cash expenses. The key cost drivers affecting the operating cash expenses are stripping ratios, production volumes of ore mined and processed, grades of ore processed, recovery rates, inflation and fluctuations in the Rouble to US Dollar exchange rate.

| | Six months ended 30 June | | | | Year ended 31 December | | | | | |
|---|-----------------------------|-----|-------------------------|-----|-------------------------|-----|-------------------------|-----|-------------------------|-----|
| | 2017 US\$ million | | 2016 US\$ million | | 2016 US\$ million | | 2015 US\$ million | | 2014 US\$ million | |
| | | % | | % | | % | | % | | % |
| Staff costs | 34.4 | 23 | 25.6 | 21 | 54.7 | 21 | 61.8 | 19 | 88.6 | 22 |
| Materials | 50.7 | 33 | 44.1 | 35 | 97.4 | 37 | 129.9 | 39 | 148.6 | 37 |
| Fuel | 21.0 | 14 | 19.1 | 15 | 40.3 | 15 | 55.3 | 17 | 71.6 | 18 |
| Electricity | 15.0 | 10 | 10.6 | 9 | 23.3 | 9 | 25.0 | 8 | 35.1 | 9 |
| Other external services | 16.7 | 11 | 12.1 | 10 | 22.1 | 8 | 27.4 | 8 | 19.9 | 5 |
| Other operating expenses | 12.8 | 9 | 11.9 | 10 | 28.2 | 10 | 29.8 | 9 | 37.2 | 9 |
| | 150.6 | 100 | 123.4 | 100 | 266.0 | 100 | 329.2 | 100 | 401.0 | 100 |
| Movement in ore stockpiles, work in progress and bullion in process attributable to gold production ^(a) | (5.5) | | (19.8) | | (40.5) | | (17.8) | | 26.4 | |
| Total operating cash expenses | 145.1 | | 103.6 | | 225.6 | | 311.4 | | 427.4 | |

(a) Excluding deferred stripping

Note: The percentages which the key components of the operating cash expenses accounted for in the total operating cash expenses, set out in the table above have been calculated by dividing the relevant costs by the total operating cash expenses before movement in ore stockpiles, work in progress and bullion in process attributable to gold production.

(a) *Staff costs*

Staff costs are a significant component of the operating cash expenses and are comprised of the wages and salaries paid to both permanent employees of the Group and contractors employed on a temporary basis as required, and payroll taxes.

The average number of employees at the Group's gold mining operations was 5,160 and 4,994 for the six months ended 30 June 2017 and 2016, respectively. This increase in the average number of employees in the first half of 2017 reflected the Group's additional need for staff resources following the commencement of the POX Hub project. The average number of employees at the Group's gold mining operations was 4,998, 5,196, and 5,070 for the years 2016, 2015 and 2014, respectively.

(b) *Materials*

The cost of materials employed in the production process represents a significant portion of the Group's operating cash expenses. Materials used in the production process primarily include chemicals reagents, consumables and spare parts.

(c) *Fuel*

Diesel fuel, used in the operation of the mining fleet, is a significant variable cost element of production. The principal factors affecting the diesel fuel costs are the quantity of materials moved in mining operations and the price of diesel fuel, which is generally dependent on the global price of oil.

(d) *Electricity*

Electricity, used predominantly in processing operations, is also a significant component of the cash operating expenses. Electricity prices are fixed on a yearly basis, with tariffs set by a regional energy committee and approved by the Amur region administration for a period of 12 months.

(e) *Other external services*

Other external services primarily relate to some hauling outsourced to third parties when the volume of work required exceeds the existing capacity of the Group's mining fleet and workforce.

The following table shows year-on-year inflation of the following key components of the Group's operating cash expenses:

| | Six months ended 30 June | | Year ended 31 December | | |
|----------------------|-----------------------------|-----------|------------------------|-----------|-----------|
| | 2017/2016 | 2016/2015 | 2016/2015 | 2015/2014 | 2014/2013 |
| Wage inflation (RUB) | 10% | – | – | – | – |
| Fuel (RUB) | 9% | – | – | (1)% | 4% |
| Electricity (RUB) | 12% | (1)% | 3% | 1% | 4% |

2.6 Inflation

Since the majority of the Group's production costs are denominated in Roubles, inflation in the Russian Federation is a significant factor driving certain development and production costs.

The following table shows the inflation rates for the Russian Federation for the periods indicated.

| | Six months ended 30 June | | Year ended 31 December | | |
|--------------------------|-----------------------------|------|------------------------|-------|-------|
| | 2017 | 2016 | 2016 | 2015 | 2014 |
| Consumer price inflation | 2.3% | 3.3% | 5.4% | 12.9% | 11.4% |
| Producer price inflation | 1.4% | 5.9% | 7.4% | 10.7% | 5.9% |

Source: Russian Federal State Statistics Service

2.7 Foreign currency exchange rates

The majority of the Group's revenues are denominated in US Dollars, and to a lesser extent, in Roubles, whilst the majority of its operating expenses are denominated in Roubles. Accordingly, the Group's financial results are affected by fluctuations in exchange rates, in particular, the exchange rate between the Rouble and the US Dollar.

Depreciation of the US Dollar versus the Rouble will increase the Group's operating expenses in US Dollar terms, while appreciation of the US Dollar versus the Rouble will decrease operating expenses in US Dollar terms.

The table below sets forth average and closing rates of exchange of the Rouble against the US Dollar and the associated foreign exchange losses recognised by the Group for the periods indicated.

| | Six months ended 30 June | | Year ended 31 December | | |
|--|-----------------------------|-------|------------------------|-------|-------|
| | 2017 | 2016 | 2016 | 2015 | 2014 |
| Closing RUB: US\$ | 59.09 | 64.26 | 60.66 | 72.88 | 56.26 |
| Average RUB: US\$ | 57.93 | 70.54 | 67.18 | 61.30 | 38.44 |
| Foreign exchange losses, US\$ million | 0.5 | 5.9 | 5.2 | 12.0 | 31.3 |

Foreign exchanges gains and losses arise primarily on the Rouble denominated net monetary assets. At present, the Group does not undertake any foreign currency hedging.

2.8 Results of specialist service companies

The Group's specialist service companies primarily provide in-house specialist support to members of the Group and some of them also provide services to third parties. External revenue generated varies year on year depending on the services provided by these specialist companies to third parties and is mainly represented by the Group's engineering and research institute, Irgiredmet, primarily through engineering services and the procurement of materials, consumables and equipment for third parties.

During the six months ended 30 June 2017 and 2016, these entities generated external revenues of US\$12.4 million and US\$19.8 million, respectively. External revenue generated by these entities represented 4 per cent. and 8 per cent. of the Group's revenue for the first half of 2017 and the first half of 2016, respectively.

During the years 2016, 2015 and 2014, these entities generated external revenues of US\$50.7 million, US\$31.2 million and US\$39.5 million, respectively. External revenue generated by these entities represented 9 per cent., 5 per cent. and 5 per cent. of the Group's revenue for 2016, 2015 and 2014, respectively.

2.9 Results of IRC

IRC has been recognised as an associate of the Group since 7 August 2015 and the Group's share in IRC's results was accounted for in the Group's results under the equity method of accounting for periods thereafter. The Group's share in IRC was 31.1 per cent. and 35.83 per cent. as at 30 June 2017 and 30 June 2016, respectively. The Group's share in IRC was 31.1 per cent. and 35.83 per cent. as at 31 December 2016 and 31 December 2015, respectively.

Prior to 7 August 2015, IRC was a subsidiary of the Group classified as "held for sale" and presented as a discontinued operation in the income statement. Net assets of IRC were carried at fair value less costs to sell based on market share price per IRC share with relevant changes in fair value recorded in profit and loss account.

Details on the IRC disposal are set out below.

The table below sets forth the results of IRC as contributed to the Group's consolidated results for relevant periods:

| | Six months ended 30 June | | Year ended 31 December | | |
|-----------------------------------|-----------------------------|----------------------|------------------------|----------------------|----------------------|
| | 2017 US\$ million | 2016 US\$ million | 2016 US\$ million | 2015 US\$ million | 2014 US\$ million |
| Share of results of associate | (3.0) | (3.6) | (3.6) | (60.4) | – |
| Loss from discontinued operations | – | – | – | (107.0) | (165.5) |

Further details on factors affecting the financial performance of IRC and its results and prospects are set out in Part 3: "Risk Factors".

2.10 IRC disposal

As at 31 December 2014, the Group's interest in the share capital of IRC was 45.39 per cent. The Group retained a sufficiently dominant voting interest to exercise de facto control over IRC on the basis of the size of the Group's shareholding relative to the size and dispersion of the shareholding interests of other shareholders.

On 7 August 2015, IRC completed an open offer resulting in the issue of 1,295,976,080 shares in IRC. The Group did not subscribe for its entitlement to IRC Shares under the open offer and accordingly, the Group's interest in the share capital of IRC was diluted to 35.83 per cent. following completion of the open offer. With other significant shareholder blocks in place following the completion of the open offer and despite the Group's continuing guarantee of IRC's facility with ICBC, the Group is no longer considered to be exercising de facto control over IRC and, accordingly, IRC ceased being a subsidiary to the Group and has been recognised as an associate to the Group since 7 August 2015.

Prior to 7 August 2015, IRC was a subsidiary of the Group and was classified as "held for sale" and presented separately in the balance sheet as at 31 December 2014 as well as presented as a discontinued operation in the income statement to the date of disposal. With effect from 7 August 2015, the Group accounts for IRC as an associate under the equity accounting method as required by IAS 28 "Investments in Associates and Joint Ventures". Under this method, the fair value of the Group's interest in IRC on 7 August 2015 of US\$99.6 million became the deemed historical cost of the associate, which was recognised within the investments in the associate line as a single amount following de-recognition of the separate "asset held for sale", "liability held for sale" and "non-controlling interest" at that date.

2.11 Other disposals

LLC Ilijnskoye and CJSC Verkhnetisskaya Ore Mining Company

In 2016, the Group entered into agreements to sell its wholly owned subsidiary LLC Ilijnskoye and its associate CJSC Verkhnetisskaya Ore Mining Company for an aggregate cash consideration of an equivalent to US\$20 million, payable in tranches during 2016, out of which US\$19.8 million was attributed to the value of the Visokoye asset held by LLC Ilijnskoye and the remainder to CJSC Verkhnetisskaya Ore Mining Company. The disposal of LLC Ilijnskoye was completed on 11 May 2016. The disposal of a 49 per cent. interest in CJSC Verkhnetisskaya Ore Mining Company was completed on 27 May 2016.

Disposal of alluvial operations

On 16 April 2015, the Group entered into a conditional sales and purchase agreement relating to the sale of its 95.7 per cent. interest in Koboldo. The disposal was completed on 22 April 2015.

Omchak

On 7 April 2015, the Group entered into a share purchase agreement to sell its 25 per cent. interest in JSC ZRK Omchak for a total cash consideration of US\$1 million. The disposal was completed on 29 April 2015.

Disposal of assets in Guyana

In 2016, the Group disposed of its interests in Major Miners Inc. and Cuyuni River Ventures Inc., holders of prospecting licences in Guyana.

3. Recent developments

Cash flow hedge arrangements

In August 2017, the Group entered into forward contracts with Sberbank to sell a total of 12,501 ounces of gold over a period of three months from October to December 2017 at an average price of US\$1,302 per ounce. Forward contracts to sell an aggregate of 441,551 ounces of gold at an average price of US\$1,252.58 per ounce are outstanding as at 6 November 2017 (being the latest practicable date prior to the publication of this Offering Memorandum).

Production update

In the third quarter of 2017, the Group produced 104koz of gold, of which Pioneer produced 35.4koz, or 34 per cent. of total gold production of the Group, Pokrovskiy 8.6koz, or 8.3 per cent. of total gold production of the Group, Malomir 15.1koz, or 14.5 per cent. of total gold production of the Group and Albyn 44.9koz, or 43.2 per cent. of total gold production of the Group. In the third quarter of 2016, the Group produced 102.5koz of gold. The Group's gold production in the third quarter of 2017 was in line with the production schedule that varies quarter to quarter depending on grades, volumes and quality of ore treated.

4. Segments

The Group's segments under IFRS, which are aligned with its operating locations, consist of the Pokrovskiy, Pioneer, Malomir and Albyn mines that are engaged in gold and silver production as well as field exploration and mine development, and which are collectively referred to as hard-rock mines in this Offering Memorandum.

The Group's alluvial operations segment comprised an alluvial gold operation that was engaged in gold production and field exploration. This operation was disposed of on 22 April 2015 and, accordingly, alluvial operations are no longer a reportable segment.

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

The tables below set forth the Group's performance results by operating segments for the six months ended 30 June 2017 and 2016 and for the years ended 31 December 2016, 2015 and 2014.

| Six months ended 30 June 2017 | | | | | | | |
|-------------------------------|------------------------------|-------------------|------------------------|---|-------------------------------|--------------------------------|-------------------------------|
| | Gold revenue US\$ million | Gold sales koz | Gold production koz | Underlying EBITDA ^(a) US\$ million | TCC ^(a) US\$/oz | AISC ^(a) US\$/oz | AIC ^(a) US\$/oz |
| | | | | (unaudited) | | | |
| Pioneer | 119.0 | 94.7 | 96.4 | 52.9 | 698 | 915 | 1,015 |
| Pokrovskiy | 19.3 | 15.4 | 14.2 | (0.5) | 1,286 | 1,454 | 1,454 |
| Malomir | 35.9 | 28.7 | 28.7 | 3.2 | 1,140 | 1,523 | 1,814 |
| Albyn | 116.6 | 93.0 | 93.1 | 78.8 | 406 | 762 | 766 |
| Corporate and other | — | — | — | (20.3) | — | — | — |
| Total | 290.8 | 231.8 | 232.4 | 114.1 | 675 | 965 | 1,044 |

| Six months ended 30 June 2016 | | | | | | | |
|-------------------------------|------------------------------|-------------------|---------------------------|--|-------------------------------|--------------------------------|-------------------------------|
| | Gold revenue US\$ million | Gold sales koz | Gold production koz | Underlying EBITDA ^(a) US\$ million (unaudited) | TCC ^(a) US\$/oz | AISC ^(a) US\$/oz | AIC ^(a) US\$/oz |
| Pioneer | 84.8 | 71.1 | 71.0 | 43.5 | 582 | 707 | 722 |
| Pokrovskiy | 20.5 | 17.2 | 17.2 | 6.6 | 810 | 843 | 845 |
| Malomir | 29.6 | 24.7 | 24.8 | 7.0 | 917 | 1,055 | 876 |
| Albyn | 98.5 | 82.4 | 82.6 | 46.7 | 628 | 705 | 742 |
| Corporate and other | — | — | — | (15.8) | — | — | — |
| Total | 233.4 | 195.4 | 195.6 | 88.0 | 663 | 762 | 761 |

| Year ended 31 December 2016 | | | | | | | |
|-----------------------------|------------------------------|-------------------|---------------------------|---|-------------------------------|--------------------------------|-------------------------------|
| | Gold revenue US\$ million | Gold sales koz | Gold production koz | Underlying EBITDA ^(a) US\$ million | TCC ^(a) US\$/oz | AISC ^(a) US\$/oz | AIC ^(a) US\$/oz |
| Pioneer | 163.5 | 133.6 | 141.9 | 79.2 | 631 | 789 | 859 |
| Pokrovskiy | 46.7 | 38.2 | 37.6 | 13.2 | 878 | 988 | 990 |
| Malomir | 67.1 | 54.8 | 56.8 | 22.0 | 824 | 1,004 | 948 |
| Albyn | 211.2 | 173.3 | 180.0 | 110.4 | 581 | 719 | 755 |
| Corporate and other | — | — | — | (24.6) | — | — | — |
| Total | 488.5 | 399.9 | 416.3 | 200.1 | 660 | 807 | 838 |

| Year ended 31 December 2015 | | | | | | | |
|-----------------------------|------------------------------|-------------------|---------------------------|---|-------------------------------|--------------------------------|-------------------------------|
| | Gold revenue US\$ million | Gold sales koz | Gold production koz | Underlying EBITDA ^(a) US\$ million | TCC ^(a) US\$/oz | AISC ^(a) US\$/oz | AIC ^(a) US\$/oz |
| Pioneer | 253.9 | 216.3 | 231.4 | 118.6 | 625 | 752 | 798 |
| Pokrovskiy | 61.0 | 51.6 | 56.0 | 16.1 | 871 | 918 | 937 |
| Malomir | 71.0 | 59.8 | 59.1 | 5.7 | 1,092 | 1,180 | 1,357 |
| Albyn | 181.7 | 154.2 | 157.6 | 66.5 | 747 | 910 | 953 |
| Corporate and other | — | — | — | (34.1) | — | — | — |
| Total | 567.6 | 481.9 | 504.1 | 172.8 | 749 | 874 | 932 |

| Year ended 31 December 2014 | | | | | | | |
|-----------------------------|------------------------------|-------------------|---------------------------|---|----------------------------------|-----------------------------------|----------------------------------|
| | Gold revenue US\$ million | Gold sales koz | Gold production koz | Underlying EBITDA ^(a) US\$ million | TCC ^{(a)(b)} US\$/oz | AISC ^{(a)(b)} US\$/oz | AIC ^{(a)(b)} US\$/oz |
| Pioneer | 341.4 | 256.8 | 263.0 | 131.5 | 818 | 893 | 1,002 |
| Pokrovskiy | 89.0 | 67.3 | 64.2 | 29.5 | 885 | 876 | 887 |
| Malomir | 113.0 | 84.7 | 82.2 | 25.7 | 1,031 | 1,123 | 1,461 |
| Albyn | 239.8 | 179.4 | 186.0 | 90.8 | 830 | 1,051 | 1,107 |
| Alluvial operations | 38.5 | 29.0 | 29.1 | 10.0 | — | — | — |
| Corporate and other | — | — | — | (35.7) | — | — | — |
| Total | 821.7 | 617.2 | 624.5 | 251.8 | 860 | 972 | 1,087 |

- (a) See Part 9: "Selected Consolidated Financial and Other Information—Non-IFRS financial information and reconciliations" for the relevant reconciliations of each of the Group's and its business segments' non-IFRS measures to their nearest comparable IFRS measures.
- (b) The Group disposed its alluvial operations in April 2015. The data for 2014 was restated accordingly to ensure comparability with 2015.

5. Underlying EBITDA

The table below sets forth reconciliation of the Group's Underlying EBITDA for the six months ended 30 June 2017 and 2016 and for the years ended 31 December 2016, 2015 and 2014.

| | Six months ended 30 June | | Year ended 31 December | | |
|--|-----------------------------|----------------------|------------------------|----------------------|----------------------|
| | 2017 US\$ million | 2016 US\$ million | 2016 US\$ million | 2015 US\$ million | 2014 US\$ million |
| | (unaudited) | | | | |
| Profit/(loss) for the period from continuing operations | 24.5 | 9.2 | 31.7 | (190.5) | (182.2) |
| Add/(less): | | | | | |
| Interest expense | 14.4 | 30.5 | 61.0 | 71.5 | 67.7 |
| Investment income | (0.4) | (0.2) | (0.6) | (1.0) | (1.7) |
| Other finance gains | (2.0) | (2.3) | (11.9) | (9.1) | — |
| Other finance losses | 6.1 | 1.5 | 1.5 | — | — |
| Foreign exchange losses | 0.5 | 5.9 | 5.2 | 12.0 | 31.3 |
| Taxation | 22.3 | (4.4) | (4.7) | 48.9 | 167.9 |
| Depreciation | 48.0 | 59.3 | 105.3 | 129.1 | 144.0 |
| Reversal of impairment of mining assets | — | — | — | — | (28.9) |
| Impairment of exploration and evaluation assets | — | — | 9.2 | 37.4 | 22.0 |
| (Reversal of impairment)/ | | | | | |
| Impairment of ore stockpiles | (6.3) | (12.3) | 1.2 | 17.4 | 10.1 |
| Impairment of gold in circuit | 1.4 | — | — | — | — |
| Impairment of investments in associates | — | — | — | — | 9.7 |
| Impairment of non-trading loans | 0.5 | — | — | — | — |
| Write-down to adjust the carrying value of Kobo's net assets to fair value less cost to sell | — | — | — | — | 11.9 |
| Share of results of associates ^(a) | 5.1 | 0.9 | 2.4 | 57.0 | — |
| Underlying EBITDA | 114.1 | 88.0 | 200.1 | 172.8 | 251.8 |

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

Underlying EBITDA was US\$114.1 million in the first half of 2017, a US\$26.1 million, or 30 per cent., increase compared to US\$88.0 million Underlying EBITDA in the first half of 2016. Underlying EBITDA was US\$200.1 million in 2016, a US\$27.3 million, or 16 per cent., increase compared to US\$172.8 million Underlying EBITDA in 2015. Underlying EBITDA was US\$172.8 million in 2015, a US\$79.0 million, or 31 per cent., decrease compared to US\$251.8 million Underlying EBITDA in 2014.

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

| | Six months ended | | Year ended 31 December | | |
|--|------------------|--------------|------------------------|--------------|--------------|
| | 30 June | | | | |
| | 2017 | 2016 | 2016 | 2015 | 2014 |
| | US\$ million | US\$ million | US\$ million | US\$ million | US\$ million |
| | (unaudited) | | | | |
| Pioneer | 52.9 | 43.5 | 79.2 | 118.6 | 131.5 |
| Pokrovskiy | (0.5) | 6.6 | 13.2 | 16.1 | 29.5 |
| Malomir | 3.2 | 7.0 | 22.0 | 5.7 | 25.7 |
| Albyn | 78.8 | 46.7 | 110.4 | 66.5 | 90.8 |
| Total hard-rock mines | 134.5 | 103.8 | 224.7 | 206.9 | 277.5 |
| Alluvial operations | — | — | — | — | 10.0 |
| Corporate and other | (20.3) | (15.8) | (24.6) | (34.1) | (35.7) |
| Underlying EBITDA^(a) | 114.1 | 88.0 | 200.1 | 172.8 | 251.8 |

(a) See Part 9: “Selected Consolidated Financial and Other Information—Non-IFRS financial information and reconciliations—Underlying EBITDA” for the reconciliation of Underlying EBITDA presented on a segment basis and the reconciliation to segment result.

The Group’s hard-rock mines generated Underlying EBITDA of US\$134.5 million in the first half of 2017, a US\$30.7 million increase compared to US\$103.8 million in the first half of 2016. This increase was driven by an increase in the average realised gold price from US\$1,194/oz in the first half of 2016 to US\$1,255/oz in the first half of 2017 and the increase in physical volumes of sales and production levels (further details on production are set out in Part 11: “Description of the Business of the Group”). These factors had an aggregate US\$33.3 million positive contribution to Underlying EBITDA in the first half of 2017 and were offset by a US\$2.6 million decrease in Underlying EBITDA due to the increase in TCC from US\$663/oz in the first half of 2016 to US\$675/oz in the first half of 2017, which primarily reflected the effect of Rouble appreciation, inflation of certain Rouble-denominated costs and lower recoveries at Pioneer and Malomir, compensated by a mining tax concession, which the Group continued to apply in the first half of 2017.

Other operations contributed US\$(20.3) million to Underlying EBITDA in the first half of 2017 compared to US\$(15.8) million in the first half of 2016, consisting mainly of central administration expenses of US\$23.1 million in the first half of 2017, which increased by US\$10.0 million from US\$13.1 million in the first half of 2016.

The Group’s hard-rock mines generated Underlying EBITDA of US\$224.7 million in 2016, a US\$17.8 million increase compared to US\$206.9 million in 2015. This increase was driven by an increase in the average realised gold price from US\$1,178/oz in 2015 to US\$1,222/oz in 2016 and the improved TCC from US\$749/oz in 2015 to US\$660/oz in 2016, which primarily reflected the effect of cost optimisation measures undertaken by the Group in response to the lower gold price environment as well as the positive effect of Rouble depreciation. These factors had an aggregate US\$53.2 million positive contribution to Underlying EBITDA in 2016 and were offset by a US\$35.2 million decrease in Underlying EBITDA due to the decrease in physical volumes of sales and production levels (further details on production are set out in Part 11: “Description of the Business of the Group”).

Other operations contributed US\$(24.6) million to Underlying EBITDA in 2016 compared to US\$(34.1) million in 2015, consisting mainly of central administration expenses of US\$32.6 million in 2016, which increased by US\$2.2 million from US\$30.4 million in 2015.

The Group’s hard-rock mines generated Underlying EBITDA of US\$206.9 million in 2015, a US\$70.6 million decrease compared to US\$277.5 million in 2014. This decrease was due to a decrease in the average realised gold price from US\$1,331/oz in 2014 to US\$1,178/oz in 2015, which resulted in a US\$73.9 million decrease in the Underlying EBITDA, and a decrease in physical ounces sold, which resulted in a US\$50.2 million decrease in the Underlying EBITDA. This effect was partially mitigated by the reduction in TCC from US\$860/oz in 2014 to US\$749/oz in 2015, which primarily reflected the effect of cost optimisation measures undertaken by the Group in response to the declining gold price environment and scheduled decrease in grades processed as well as the positive effect of Rouble depreciation and had an aggregate US\$53.5 million positive contribution to the Underlying EBITDA in 2015.

Other operations contributed US\$(34.1) million to the Underlying EBITDA in 2015 compared to US\$(35.7) million in 2014, consisting mainly of central administration expenses of US\$30.4 million in 2015, which decreased by US\$7.8 million from US\$38.2 million in 2014, primarily reflecting depreciation of the Rouble against the US Dollar.

6. Discussion of results of operations

6.1 The table below sets forth the Group's consolidated income statement information for the six months ended 30 June 2017 and 2016 and for the years ended 31 December 2016, 2015 and 2014.

| | Six months ended 30 June | | Year ended 31 December | | |
|--|-----------------------------|----------------------|------------------------|----------------------|----------------------|
| | 2017 US\$ million | 2016 US\$ million | 2016 US\$ million | 2015 US\$ million | 2014 US\$ million |
| | (unaudited) | | | | |
| Continuing operations | | | | | |
| Group revenue | 304.0 | 254.0 | 540.7 | 599.9 | 865.0 |
| Operating expenses | (236.2) | (216.2) | (460.1) | (619.6) | (816.2) |
| | 67.9 | 37.8 | 80.6 | (19.7) | 48.7 |
| Share of results of associates | (3.0) | (3.6) | (3.6) | (60.4) | 3.0 |
| Operating profit/(loss) | 64.9 | 34.2 | 77.0 | (80.1) | 51.7 |
| Investment income | 0.4 | 0.2 | 0.6 | 1.0 | 1.7 |
| Interest expense | (14.4) | (30.5) | (61.0) | (71.5) | (67.7) |
| Other finance gains | 2.0 | 2.3 | 12.0 | 9.1 | – |
| Other finance losses | (6.1) | (1.5) | (1.5) | – | – |
| Profit/(loss) before taxation | 46.8 | 4.8 | 27.0 | (141.6) | (14.3) |
| Taxation | (22.3) | 4.4 | 4.7 | (48.9) | (167.9) |
| Profit/(loss) for the period from continuing operations | 24.5 | 9.2 | 31.7 | (190.5) | (182.2) |
| Discontinued operations^(a) | | | | | |
| Loss for the period from discontinued operations | – | – | – | (107.0) | (165.5) |
| Profit/(loss) for the period | 24.5 | 9.2 | 31.7 | (297.5) | (347.7) |

(a) IRC was presented as a discontinued operation in the income statement for the year ended 31 December 2014 and for the period from 1 January 2015 until 7 August 2015, when it ceased being a subsidiary and became an associate to the Group.

6.2 Discussion of results of operations for the six months ended 30 June 2016 and 2017

(a) Group revenue

The tables below set forth the Group's revenue for the six months ended 30 June 2017 and 2016.

| | Six months ended 30 June | |
|-------------------------------|--------------------------|----------------------|
| | 2017 US\$ million | 2016 US\$ million |
| | (unaudited) | |
| Revenue from hard-rock mines | 291.7 | 234.2 |
| Revenue from other operations | 12.4 | 19.8 |
| | 304.0 | 254.0 |

Group revenue in the first half of 2017 was US\$304.0 million, 20 per cent. higher than the US\$254.0 million achieved in the first half of 2016.

Revenue from hard-rock mines was US\$291.7 million in the first half of 2017, 25 per cent. higher than the US\$234.2 million achieved in the first half of 2016. Gold remains the key commodity produced and sold by the Group, comprising 96 per cent. of total revenue generated in the first half of 2017. The physical volume of gold sold from hard-rock mines increased by 19 per cent. from 195,434 ounces in the first half of 2016 to 231,760 ounces in the first half of 2017, reflecting the increase in production levels (further details on production are set out in Part 11: “Description of the Business of the Group”).

The average realised gold price increased by 5 per cent. from US\$1,194/oz in the first half of 2016 to US\$1,255/oz in the first half of 2017. Average realised gold price includes the US\$12/oz effect from hedge arrangements in the first half of 2017 and US\$(28)/oz in the first half of 2016.

The Group’s hard-rock mines also sold 48,182 ounces of silver in the first half of 2017 at an average price of US\$17/oz, compared to 48,124 ounces in the first half of 2016 at an average price of US\$15/oz.

Revenue from other operations was US\$12.4 million in the first half of 2017, a US\$7.4 million decrease compared to US\$19.8 million in the first half of 2016. This revenue is substantially attributable to sales generated by Group’s engineering and research institute, Irgiredmet, primarily through engineering services and the procurement of materials, consumables and equipment for third parties, which comprised US\$11.4 million in the first half of 2017 compared to US\$17.5 million in the first half of 2016.

Cash flow hedge arrangements

Forward contracts to sell an aggregate of 99,998 ounces of gold matured during the first half of 2017 and contributed US\$2.8 million to cash revenue, compared to US\$(5.5) million net cash settlement paid by the Group from forward contracts to sell an aggregate of 65,828 ounces of gold in the first half of 2016.

(b) Operating expenses

The table below sets forth the Group’s operating expenses for the six months ended 30 June 2017 and 2016.

| | Six months ended 30 June | |
|---|---------------------------------|---------------------|
| | 2017 | 2016 |
| | US\$ million | US\$ million |
| | (unaudited) | |
| Operating expenses – hard-rock mines | 200.2 | 177.2 |
| Operating expenses – corporate and other operations | 12.4 | 19.2 |
| Central administration expenses | 23.1 | 13.1 |
| Foreign exchange losses | 0.5 | 5.9 |
| Loss on disposal of subsidiaries | — | 0.8 |
| | 236.2 | 216.2 |

The Group’s operating expenses were US\$236.2 million in the first half of 2017, US\$20.0 million, or 9 per cent., higher than US\$216.2 million in the first half of 2016.

(i) *Operating expenses – hard-rock mines*

The table below sets forth an analysis of operating expenses and total cash costs for the Group's hard rock mines for the six months ended 30 June 2017 and 2016.

| | Six months ended 30 June | |
|---|--------------------------|----------------------|
| | 2017 US\$ million | 2016 US\$ million |
| Operating expenses | | |
| Operating cash expenses ^(a) | 145.1 | 103.6 |
| Refinery and transportation | 0.4 | 0.3 |
| Other taxes | 3.1 | 3.2 |
| Mining tax | — | 14.2 |
| Deferred stripping costs | 8.6 | 9.0 |
| Operating cash costs^(a) | 157.2 | 130.4 |
| Depreciation | 47.9 | 59.0 |
| Reversal of impairment of mining assets | (6.3) | (12.3) |
| Impairment of gold in circuit | 1.4 | — |
| Operating expenses – hard-rock mines | 200.2 | 177.2 |
| Total cash costs^(a) | | |
| Operating cash costs ^(a) | 157.2 | 130.4 |
| Deduct: co-product revenue | (0.8) | (0.7) |
| Total cash costs^(a) | 156.4 | 129.7 |
| Physical volume of gold sold, oz | 231,760 | 195,434 |
| Average TCC, US\$/oz | 675 | 663 |

(a) See Part 9: "Selected Consolidated Financial and Other Information—Non-IFRS financial information and reconciliations" for the relevant reconciliations of each of the Group's and its business segments' non-IFRS measures to their nearest comparable IFRS measures.

Operating cash costs and total cash costs

Operating cash costs and total cash costs, which are equal to operating cash costs with revenue from the sales of silver deducted, both increased in the first half of 2017 as compared to the first half of 2016. Operating cash costs were US\$157.2 million in the first half of 2017, a US\$26.8 million increase compared to US\$130.4 million in the first half of 2016. Total cash costs were US\$156.4 million in the first half of 2017, a US\$26.7 million, or 21 per cent., increase compared to US\$129.7 million in the first half of 2016, as explained below.

Average TCC increased from US\$663/oz in the first half of 2016 to US\$675/oz in the first half of 2017, primarily reflecting the effect of Rouble appreciation, inflation of certain Rouble denominated costs and lower recoveries at Pioneer and Malomir, which was compensated by the mining tax concession the Group continued to apply in the first half of 2017. The increased average TCC contributed US\$2.6 million to the increase in total cash costs and the increase in physical volume of ounces sold contributed US\$24.1 million to the increase in total cash costs.

The key components of the operating cash expenses are wages and costs of electricity, diesel and chemical reagents and consumables. The key cost drivers affecting the operating cash expenses are stripping ratios, production volumes of ore mined and processed, grades of ore processed, recovery rates, cost inflation and fluctuations in the Rouble to US Dollar exchange rate.

Compared with the first half of 2016, there was ongoing inflation of certain Rouble denominated costs, in particular, electricity costs increased by 12 per cent. in Rouble terms (increased by 37 per cent. in US Dollar terms) and the cost of diesel increased by 9 per cent. in Rouble terms (increased by 33 per cent. in US Dollar terms). An 18 per cent. appreciation of the Rouble against the US Dollar has occurred during the first half of 2017 compared to the first half of 2016, with the average exchange rate for the period going from 70.54 Roubles per US Dollar in the first half of 2016 to 57.93 Roubles per US Dollar in the first half of 2017.

Depreciation

Depreciation decreased by US\$11.1 million, or 19 per cent., from US\$59.0 million in the first half of 2016 to US\$47.9 million in the first half of 2017, primarily reflecting the increase in ore reserves estimates used in the calculation of depreciation of mining assets using a units of production method.

Impairment of mining assets and exploration and evaluation assets

The Group undertook an impairment review of the tangible assets attributable to its gold mining projects, exploration assets adjacent to the existing mines and the supporting in-house service companies and concluded no impairment was required as at 30 June 2017 and 2016.

Impairment of ore stockpiles

The Group assessed the recoverability of the carrying value of ore stockpiles and recorded pre-tax impairment charges/(reversals of impairment) for the periods indicated as set out below:

| | Six months ended 30 June | |
|------------|--------------------------|----------------------|
| | 2017 US\$ million | 2016 US\$ million |
| | (unaudited) | |
| Pokrovskiy | 0.1 | (0.6) |
| Pioneer | (3.1) | (4.7) |
| Malomir | 0.3 | (5.9) |
| Albyn | (3.6) | (1.0) |
| | (6.3) | (12.3) |

(ii) Operating expenses – corporate and other operations

Operating expenses of corporate and other operations were US\$11.8 million in the first half of 2017, a US\$7.4 million decrease compared to US\$19.2 million in the first half of 2016, attributable to the following factor:

- Operating cash costs of the Group's in-house service companies were US\$11.8 million in the first half of 2017, a US\$7.2 million decrease compared to US\$19.0 million in the first half of 2016, in line with changes in revenue generated by the Group's in-house service companies.

(iii) Central administration expenses

The Group has corporate offices in London, Moscow and Blagoveschensk, which together represent the central administration function. Central administration expenses increased by US\$10.0 million from US\$13.1 million in the first half of 2016 to US\$23.1 million in the first half of 2017. The increase in central administration expenses is primarily attributed to a US\$5.2 million increase in staff costs, mainly as a result of the proposed key management bonus accrual, an increase in Russian staff costs due to the appreciation of the Rouble against the US Dollar and general increase in Russian salaries, and US\$4 million professional fees incurred in relation to corporate projects.

(iv) Foreign exchange differences

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

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

| | 30 June 2017 | 30 June 2016 | 31 December 2016 |
|--------------------------------|-----------------|-----------------|---------------------|
| GB Pounds Sterling (GBP: US\$) | 0.77 | 0.75 | 0.81 |
| Russian Rouble (RUB: US\$) | 59.09 | 64.26 | 60.66 |

The Rouble recovered by 3 per cent. against the US Dollar during the first half of 2017, from RUB60.66: US\$1 as at 31 December 2016 to RUB59.09 : US\$1 as at 30 June 2017. The average period-on-period appreciation of the Rouble against the US Dollar was approximately 18 per cent., with the average exchange rate for the first half of 2017 being RUB57.93 : US\$1 compared to RUB70.54 : US\$1 for the first half of 2016.

The Group recognised foreign exchange losses of US\$0.5 million in the first half of 2017 arising primarily on Rouble denominated net monetary assets compared to US\$5.9 million foreign exchange losses in the first half of 2016.

(c) Share of results of associates

The Group recorded US\$3.0 million share of loss generated by associate attributable to IRC in the first half of 2017 compared to US\$3.6 million share of loss generated by associate in the first half of 2016.

(d) Operating profit

As a result of the factors discussed above, the Group had an operating profit of US\$64.9 million in the first half of 2017 and an operating profit of US\$34.2 million in the first half of 2016.

(e) Investment income

The Group's investment income in the first half of 2017 was US\$0.4 million compared to US\$0.2 million investment income in the first half of 2016. Investment income represents interest earned on the Group's cash deposits with banks.

(f) Interest expense

Interest expense in the first half of 2017 was US\$14.4 million, US\$16.1 million lower than US\$30.5 million interest expense in the first half of 2016.

Interest expense in the first half of 2017 included US\$6.0 million effective interest on the Existing Convertible Bonds and US\$24.3 million interest on bank facilities (the first half of 2016: US\$5.9 million and US\$24.5 million, respectively). Following the recommencement of active development of the POX project and the development of Pioneer and Malomir underground mining operations, the Group capitalised US\$16 million of interest expense (the first half of 2016: US\$ nil) incurred in relation to the Group's debt into the cost of the aforementioned assets.

(g) Other finance gains

Other finance gains in the first half of 2017 were US\$2.0 million compared to US\$2.3 million in the first half of 2016. Included in other finance gains is the ICBC Guarantee fee of US\$2.0 million (the first half of 2016: US\$2.3 million).

(h) Other finance losses

Other finance losses in the first half of 2017 were US\$6.1 million compared to US\$1.5 million in the first half of 2016. Included in other finance losses are US\$5.8 million (the first half of 2016: US\$1.5 million) fair value losses on the revaluation of the embedded option for the bondholders to convert into the equity of the Company and US\$0.4 million (the first half of 2016: US\$ nil) loss on bank debt refinancing.

(i) Taxation

The Group is subject to corporation tax under UK, Russian and Cypriot tax legislation. The average statutory tax rate for the first half of 2017 was 19.5 per cent. in the UK and 20 per cent. in the Russian Federation.

The tax charge in the first half of 2017 amounted to US\$22.3 million compared to a US\$4.4 million tax credit in the first half of 2016.

The tax charge in the first half of 2017 arises primarily in relation to the Group's gold mining operations and is represented by a current tax charge of US\$19.9 million (the first half of 2016: US\$15.0 million) and a deferred tax charge, which is a non-cash item, of US\$2.4 million (the first half of 2016: deferred tax credit of US\$19.5 million). Included in the deferred tax is a US\$4.5 million credit (the first half of 2016: US\$17.6 million credit) due to foreign exchange effect, which primarily arises because the tax base for a significant portion of the future taxable deductions in relation to the Group's property, plant and equipment is denominated in Russian Roubles, whilst the future depreciation charges associated with these assets will be based on their US Dollar carrying value.

The Group made corporation tax payments in aggregate of US\$14.4 million and US\$19.3 million in the Russian Federation in the first half of 2017 and the first half of 2016, respectively.

(j) Profit for the period

As a result of the factors discussed above, the Group had a profit for the period of US\$24.5 million in the first half of 2017 compared to a profit of US\$9.2 million in the first half of 2016.

6.3 Discussion of results of operations for the years ended 31 December 2016 and 2015

(a) Group revenue

The tables below set forth revenue and physical volumes of gold production and sales for the years ended 31 December 2016 and 2015.

| | Year ended 31 December | |
|--------------------------------|------------------------|----------------------|
| | 2016 US\$ million | 2015 US\$ million |
| Revenue from hard-rock mines | 490.0 | 568.7 |
| Revenue from other operations | 50.7 | 31.2 |
| | 540.7 | 599.9 |
| | Year ended 31 December | |
| | 2016 oz | 2015 oz |
| Gold sold from hard-rock mines | 399,858 | 481,884 |
| Total gold sold | 399,858 | 481,884 |

Group revenue in 2016 was US\$540.7 million, 10 per cent. lower than the US\$599.9 million achieved in 2015.

Revenue from hard-rock mines was US\$490.0 million in 2016, 14 per cent. lower than the US\$568.7 million achieved in 2015. Gold was the key commodity produced and sold by the Group in 2016, comprising 90 per cent. of total revenue generated in 2016. The physical volume of gold sold from hard-rock mines decreased by 17 per cent. from 481,884 ounces in 2015 to 399,858 ounces in 2016, reflecting the decrease in production levels (further details on production are set out in Part 11: "Description of the Business of the Group").

The average realised gold price increased by 4 per cent. from US\$1,178/oz in 2015 to US\$1,222/oz in 2016. Average realised gold price includes the US\$(21)/oz effect from hedge arrangements in 2016 and US\$20/oz in 2015.

The Group's hard-rock mines also sold 98,231 ounces of silver in 2016 at an average price of US\$16/oz, compared to 68,075 ounces in 2015 at an average price of US\$15/oz.

Revenue from other operations was US\$50.7 million in 2016, a US\$19.5 million increase compared to US\$31.2 million in 2015. This revenue is substantially attributable to sales generated by Group's engineering and research institute, Irgiredmet, primarily through engineering services and the procurement of materials, consumables and equipment for third parties, which comprised US\$44.8 million in 2016 compared to US\$28.6 million in 2015.

Cash flow hedge arrangements

Forward contracts to sell an aggregate of 134,545 ounces of gold matured during the year ended 31 December 2016 and resulted in US\$(8.5) million net cash settlement paid by the Group, compared to a US\$12.6 million contribution to cash revenue from forward contracts to sell an aggregate of 178,449 ounces of gold in 2015.

(b) Operating expenses

The table below sets forth the Group's operating expenses for 2016 and 2015.

| | Year ended 31 December | |
|---|-------------------------------|---------------------|
| | 2016 | 2015 |
| | US\$ million | US\$ million |
| Operating expenses – hard-rock mines | 380.3 | 508.9 |
| Operating expenses – corporate and other operations | 49.5 | 68.0 |
| Central administration expenses | 32.6 | 30.4 |
| Foreign exchange losses | 5.2 | 12.0 |
| Gain on disposal of non-trading loans | (6.7) | – |
| (Gain)/loss on disposal of subsidiaries | (0.8) | 0.4 |
| | 460.1 | 619.6 |

The Group's operating expenses were US\$460.1 million in 2016, US\$159.5 million, or 26 per cent., lower than US\$619.6 million in 2015.

(v) *Operating expenses – hard-rock mines*

The table below sets forth an analysis of operating expenses and total cash costs for the Group's hard rock mines for 2016 and 2015.

| | Year ended 31 December | |
|---|------------------------|----------------------|
| | 2016 US\$ million | 2015 US\$ million |
| Operating expenses | | |
| Operating cash expenses ^(a) | 225.6 | 311.4 |
| Refinery and transportation | 0.7 | 1.1 |
| Other taxes | 6.3 | 7.7 |
| Mining tax | 14.7 | 33.1 |
| Deferred stripping costs | 18.0 | 8.4 |
| Operating cash costs^(a) | 265.3 | 361.8 |
| Depreciation | 104.7 | 127.2 |
| Impairment of exploration and evaluation assets | 9.2 | 2.5 |
| Impairment of ore stockpiles | 1.2 | 17.4 |
| Operating expenses – hard-rock mines | 380.3 | 508.9 |
| Total cash costs^(a) | | |
| Operating cash costs ^(a) | 265.3 | 361.8 |
| Deduct: co-product revenue | (1.5) | (1.0) |
| Total cash costs^(a) | 263.7 | 360.7 |
| Physical volume of gold sold, oz | 399,858 | 481,884 |
| Average TCC, US\$/oz | 660 | 749 |

(a) See Part 9: "Selected Consolidated Financial and Other Information—Non-IFRS financial information and reconciliations" for the relevant reconciliations of each of the Group's and its business segments' non-IFRS measures to their nearest comparable IFRS measures.

Operating cash costs and total cash costs

Operating cash costs and total cash costs, which are equal to operating cash costs with revenue from the sales of silver deducted, both decreased in 2016 as compared to 2015. Operating cash costs were US\$265.3 million in 2016, a US\$96.5 million decrease compared to US\$361.8 million in 2015. Total cash costs were US\$263.7 million in 2016, a US\$97.0 million, or 27 per cent., decrease compared to US\$360.7 million in 2015, as explained below.

Average TCC decreased from US\$749/oz in 2015 to US\$660/oz in 2016, primarily reflecting the effect of cost optimisation measures undertaken by the Group in response to the lower gold price environment, as well as the positive effect of Rouble depreciation. The decreased average TCC contributed US\$35.6 million to the decrease in total cash costs and the decrease in physical volume of ounces sold contributed US\$61.4 million to the decrease in total cash costs.

The key components of the operating cash expenses are wages and costs of electricity, diesel and chemical reagents and consumables. The key cost drivers affecting the operating cash expenses are stripping ratios, production volumes of ore mined and processed, grades of ore processed, recovery rates, cost inflation and fluctuations in the Rouble to US Dollar exchange rate.

Compared with 2015, there was no significant inflation of Rouble denominated costs. Electricity costs increased by 3 per cent. in Rouble terms (decreased by 6 per cent. in US Dollar terms), while the cost of diesel remained at the same level (decreased by 9 per cent. in US Dollar terms). The impact of Rouble price inflation was mitigated by the 10 per cent. average depreciation of the Rouble against the US Dollar, with the average exchange rate for the period increasing from 61.30 Roubles per US Dollar in 2015 to 67.18 Roubles per US Dollar in 2016.

Depreciation

Depreciation decreased by US\$22.5 million, or 18 per cent., from US\$127.2 million in 2015 to US\$104.7 million in 2016, primarily reflecting the increase in ore reserves estimates used in the calculation of depreciation of mining assets using a units of production method.

Impairment of mining assets and exploration and evaluation assets

The Group undertook an impairment review of the tangible assets attributable to its gold mining projects, exploration assets adjacent to the existing mines and the supporting in-house service companies and concluded no impairment was required as at 31 December 2016 and 2015, with the exception of an individual licence impairment referred to below.

Following the decision to suspend exploration at, and to surrender the licence for, the Kharginskoye ore field, which is an immediate extension of the Albyn deposit, a US\$9.2 million impairment charge was recorded in 2016 against associated exploration and evaluation costs previously capitalised within exploration and evaluation assets.

Following the decision to suspend exploration at various licence areas adjacent to the hard-rock mines, a US\$2.5 million impairment charge was recorded in 2015 against associated exploration and evaluation costs previously capitalised within exploration and evaluation assets.

Impairment of ore stockpiles

The Group assessed the recoverability of the carrying value of ore stockpiles and recorded pre-tax impairment charges/(reversals of impairment) for the periods indicated as set out below:

| | Year ended 31 December | |
|------------|------------------------|----------------------|
| | 2016 US\$ million | 2015 US\$ million |
| Pokrovskiy | 1.0 | (0.9) |
| Pioneer | 6.1 | 11.9 |
| Malomir | (5.8) | 6.1 |
| Albyn | (0.1) | 0.3 |
| | 1.2 | 17.4 |

(vi) Operating expenses – corporate and other operations

Operating expenses of corporate and other operations were US\$49.5 million in 2016, a US\$18.5 million decrease compared to US\$68.0 million in 2015, attributable to the following factors:

- Operating cash costs of the Group's in-house service companies were US\$49.0 million in 2016, a US\$16.8 million increase compared to US\$32.2 million in 2015, in line with changes in revenue generated by the Group's in-house service companies.
- No impairment charges in 2016 compared to US\$35.0 million impairment charges recorded in 2015 as set out below:
 - taking into consideration the alternative means for realising value from the Visokoye asset through a sale (as referred to in Section 2.11 "Other disposals" above), and referring to the indicative aggregate consideration from the potential buyer of US\$20 million for Visokoye and equity investment in CJSC Verkhnetisskaya Ore Mining Company, a US\$32.5 million impairment charge was recorded against associated exploration and evaluation costs previously capitalised within exploration and evaluation assets;
 - US\$1.5 million impairment charges were recorded against associated exploration and evaluation costs previously capitalised within intangible assets following the decision to suspend exploration at various licence areas located in the Amur region; and

- a US\$0.9 million impairment charge recorded against exploration and evaluation assets in Guyana, which were disposed of in 2016 as detailed in Section 2.11 “*Other disposals*” above.

(vii) Central administration expenses

The Group has corporate offices in London, Moscow and Blagoveschensk, which together represent the central administration function. Central administration expenses increased by US\$2.2 million from US\$30.4 million in 2015 to US\$32.6 million in 2016.

(viii) Foreign exchange differences

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

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

| | 31 December 2016 | 31 December 2015 |
|--------------------------------|-----------------------------|-----------------------------|
| GB Pounds Sterling (GBP: US\$) | 0.81 | 0.68 |
| Russian Rouble (RUB: US\$) | 60.66 | 72.88 |

The Rouble recovered by 17 per cent. against the US Dollar during 2016, from RUB72.88: US\$1 as at 31 December 2015 to RUB60.66: US\$1 as at 31 December 2016. The average year-on-year depreciation of the Rouble against the US Dollar was approximately 10 per cent., with the average exchange rate for 2016 being RUB67.18: US\$1 compared to RUB61.30: US\$1 for 2015.

As a result of the significant volatility of the Russian Rouble, the Group recognised foreign exchange losses of US\$5.2 million during the year ended 31 December 2016 arising primarily on Rouble denominated net monetary assets compared to US\$12 million foreign exchange losses in 2015.

(c) Share of results of associates and loss for the period from discontinued operations

The Group recorded a US\$3.6 million share of “loss generated by associate” attributable to IRC in 2016, compared to US\$60.4 million share of “loss generated by associate” and US\$107.0 million loss from discontinued operations attributable to IRC in 2015. Results recorded by the Group that were attributable to IRC in 2015 are analysed in Section 6.4 “*Discussion of results of operations for the years ended 31 December 2015 and 2014*” below.

(d) Operating profit/(loss)

As a result of the factors discussed above, the Group had an operating profit of US\$77.0 million in 2016 and an operating loss of US\$80.1 million in 2015.

(e) Investment income

The Group’s investment income in 2016 was US\$0.6 million, in line with US\$1.0 million investment income in 2015. Investment income represents interest earned on the Group’s cash deposits with banks.

(f) Interest expense

Interest expense in 2016 was US\$61.0 million, US\$10.5 million lower than US\$71.5 million interest expense in 2015. Interest expense in 2016 included US\$11.9 million effective interest on the Existing Convertible Bonds and US\$48.9 million interest on bank facilities (2015: US\$13.6 million and US\$57.7 million, respectively). No interest expense was capitalised as part of mine development costs within property, plant and equipment.

(g) Other finance gains

Other finance gains in 2016 were US\$11.9 million compared to US\$9.1 million in 2015. Included in other finance gains is the ICBC Guarantee fee of US\$4.5 million (2015: US\$2.2 million) and US\$7.4 million (2015: US\$6.4 million) fair value gain on revaluation of the embedded option for the Convertible Bondholders to convert into the equity of the Company.

(h) Other finance losses

Other finance losses in 2016 were US\$1.5 million and represent a loss on the Debt Refinancing (as detailed in Section 7.4 “*Indebtedness*” below).

(i) Taxation

The Group is subject to corporation tax under UK, Russian and Cypriot tax legislation. The average statutory tax rate for the year ended 31 December 2016 was 20 per cent. in the UK and 20 per cent. in the Russian Federation.

The tax credit in 2016 amounted to US\$4.7 million compared to a US\$48.9 million tax charge in 2015.

The tax credit in 2016 arises primarily in relation to the Group’s gold mining operations and is represented by a current tax charge of US\$29.8 million (2015: US\$31.8 million) and a deferred tax credit, which is a non-cash item, of US\$34.5 million (2015: deferred tax charge of US\$17.1 million). Included in the deferred tax credit in 2016 is a US\$26.0 million foreign exchange effect which primarily arises because the tax base for a significant portion of the future taxable deductions in relation to the Group’s property, plant and equipment is denominated in Russian Rouble whilst the future depreciation charges associated with these assets will be based on their US Dollar carrying value.

The Group made corporation tax payments in aggregate of US\$35.3 million and US\$32.9 million in the Russian Federation in 2016 and 2015, respectively.

(j) Profit/(loss) for the period from continuing operations

As a result of the factors discussed above, the Group had a profit for the period from continuing operations in 2016 of US\$31.7 million compared to a loss for the period from continuing operations of US\$190.5 million in 2015.

(k) Profit/(loss) for the period

As a result of the factors discussed above, the Group had a profit for the period in 2016 of US\$31.7 million compared to a loss for the period of US\$297.5 million in 2015.

6.4 Discussion of results of operations for the years ended 31 December 2015 and 2014

(a) Revenue

The tables below set forth revenue and physical volumes of gold production and sales for the years ended 31 December 2015 and 2014.

| | Year ended 31 December | |
|----------------------------------|------------------------|----------------------|
| | 2015 US\$ million | 2014 US\$ million |
| Revenue from hard-rock mines | 568.7 | 786.9 |
| Revenue from alluvial operations | – | 38.6 |
| Revenue from other operations | 31.2 | 39.5 |
| | 599.9 | 865.0 |

| | Year ended 31 December | |
|------------------------------------|------------------------|------------|
| | 2015 oz | 2014 oz |
| Gold sold from hard-rock mines | 481,884 | 588,231 |
| Gold sold from alluvial operations | — | 28,982 |
| Total gold sold | 481,884 | 617,213 |

Group revenue in 2015 was US\$599.9 million, 31 per cent. lower than the US\$865.0 million achieved in 2014.

Revenue from hard-rock mines was US\$568.7 million in 2015, 28 per cent. lower than the US\$786.9 million achieved in 2014. Gold was the key commodity produced and sold by the Group, comprising 95 per cent. of total revenue generated in 2015. The physical volume of gold sold from hard-rock mines decreased by 18 per cent. from 588,231 ounces in 2014 to 481,884 ounces in 2015, reflecting the decrease in production levels for that period (further details on production are set out in Part 11: “Description of the Business of the Group”).

The average realised gold price decreased by 11 per cent. from US\$1,331/oz in 2014 to US\$1,178/oz in 2015. The average realised gold price included the US\$20/oz effect from hedge arrangements in 2015 and US\$66/oz in 2014.

The Group’s hard-rock mines also sold 68,075 ounces of silver in 2015 at an average price of US\$15/oz, compared to 190,573 ounces in 2014 at an average price of US\$19/oz.

Revenue from other operations was US\$31.2 million in 2015, a US\$8.3 million decrease compared to US\$39.5 million in 2014. This was primarily attributable to sales generated by the Group’s engineering and research institute, Irgiredmet, of US\$28.6 million in 2015, compared to US\$34.1 million in 2014, principally from engineering services and the procurement of materials, consumables and equipment for third parties.

Cash flow hedge arrangements

Forward contracts to sell an aggregate of 178,449 ounces of gold matured during the year 2015 and contributed US\$12.6 million to cash revenue and US\$20/oz to the average realised gold price, compared to US\$42.3 million contribution to cash revenue from forward contracts to sell an aggregate of 364,253 ounces of gold in 2014.

In October 2014, the Group also purchased a number of gold put options for an aggregate of 150,000 ounces of gold with a strike price of US\$1,150/oz as part of a downside protection strategy. The option contracts matured over the period from January 2015 to June 2015. The aggregate premium paid was US\$4.8 million. Gold put options were designated as a cash flow hedge.

(b) Operating expenses

The table below sets forth the Group’s operating expenses for 2015 and 2014.

| | Year ended 31 December | |
|--|------------------------|----------------------|
| | 2015 US\$ million | 2014 US\$ million |
| Operating expenses – hard-rock mines | 508.9 | 632.3 |
| Operating expenses – corporate and other operations | 68.0 | 92.9 |
| Central administration expenses | 30.4 | 38.2 |
| Foreign exchange losses | 12.0 | 31.3 |
| Impairment of investments of associates | — | 9.7 |
| Write-down to adjust the carrying value of Kobooldo’s net assets to fair value less cost to sell | — | 11.9 |
| Loss on disposal of subsidiaries | 0.4 | — |
| | 619.6 | 816.2 |

The Group's operating expenses were US\$619.6 million in 2015, US\$196.6 million, or 24 per cent., lower than US\$816.2 million in 2014.

(i) *Operating expenses – hard-rock mines*

The table below sets forth analysis of operating expenses and total cash costs for the Group's hard rock mines for 2015 and 2014.

| | Year ended 31 December | |
|---|------------------------|----------------------|
| | 2015 US\$ million | 2014 US\$ million |
| Operating expenses | | |
| Operating cash expenses ^(a) | 311.4 | 427.4 |
| Refinery and transportation | 1.1 | 2.9 |
| Other taxes | 7.7 | 13.5 |
| Mining tax | 33.1 | 45.5 |
| Deferred stripping costs | 8.4 | 20.1 |
| Operating cash costs^(a) | 361.8 | 509.4 |
| Depreciation | 127.2 | 138.2 |
| Reversal of impairment of mining assets | — | (28.9) |
| Impairment of exploration and evaluation assets | 2.5 | 3.6 |
| Impairment of ore stockpiles | 17.4 | 10.1 |
| Operating expenses – hard-rock mines | 508.9 | 632.3 |
| Total cash costs^(a) | | |
| Operating cash costs ^(a) | 361.8 | 509.4 |
| Deduct: co-product revenue | (1.0) | (3.7) |
| Total cash costs^(a) | 360.7 | 505.7 |
| Physical volume of gold sold, oz | 481,884 | 588,231 |
| Average TCC, US\$/oz | 749 | 860 |

(a) See Part 9: "Selected Consolidated Financial and Other Information—Non-IFRS financial information and reconciliations" for the relevant reconciliations of each of the Group's and its business segments' non-IFRS measures to their nearest comparable IFRS measures.

Operating cash costs and total cash costs

Operating cash costs and total cash costs, which are equal to operating cash costs with revenue from the sales of silver deducted, both decreased in 2015 as compared to 2014. Operating cash costs were US\$361.8 million in 2015, a US\$147.6 million decrease compared to US\$509.4 million in 2014. Total cash costs were US\$360.7 million in 2015, a US\$145.0 million, or 29 per cent., decrease compared to US\$505.7 million in 2014, as explained below.

Average TCC decreased from US\$860/oz in 2014 to US\$749/oz in 2015, primarily reflecting the effect of cost optimisation measures undertaken by the Group in response to the declining gold price environment and a scheduled decrease in grades processed as well as the positive effect of Rouble depreciation. The improved average TCC contributed US\$53.5 million to the decrease in total cash costs and the decrease in physical volume of ounces sold made a US\$91.5 million contribution to the decrease in total cash costs.

The key components of the operating cash expenses are wages and costs of electricity, diesel and chemical reagents and consumables. The key cost drivers affecting the operating cash expenses are stripping ratios, production volumes of ore mined and processed, grades of ore processed, recovery rates, cost inflation and fluctuations in the Rouble to US Dollar exchange rate.

Compared with 2014, there was no significant inflation of Rouble denominated costs, in particular, electricity costs increased by 1 per cent. in Rouble terms (decreased by 37 per cent. in US Dollar terms), the cost of chemical reagents increased by up to 6 per cent. in Rouble terms (decreased by up to 50 per cent. in US Dollar terms), consumables prices increased by up to 2 per cent. in Rouble terms

(decreased by up to 37 per cent. in US Dollar terms) and cost of diesel decreased by 1 per cent. in Rouble terms (decreased by 38 per cent. in US Dollar terms). The use of the words “up to” in the previous sentence indicates that there are several items within each such category (chemical reagents, consumables), the costs of which increased in Rouble terms or decreased in US Dollar terms at different rates, with the number after the words “up to” indicating the maximum increase or decrease, as applicable, in the costs of such items. The impact of low Rouble price inflation was reinforced by the 59 per cent. average depreciation of the Rouble against the US Dollar, with the average exchange rate for the period going from 38.4 Roubles per US Dollar in 2014 to 61.30 Roubles per US Dollar in 2015.

Depreciation

Depreciation decreased by US\$11.0 million, or 8 per cent., from US\$138.2 million in 2014 to US\$127.2 million in 2015, primarily reflecting the increase in ore reserves estimates used in the calculation of depreciation of mining assets using a units of production method.

Impairment of mining assets and exploration and evaluation assets

The Group undertook an impairment review of the tangible assets attributable to its gold mining projects, exploration assets adjacent to the existing mines and the supporting in-house service companies and concluded no impairment was required as at 31 December 2015 and 2014, with the exception of an individual licence impairment referred to below.

The Group performed a review of its exploration and evaluation assets and recorded US\$2.5 million and US\$3.6 million impairment charges in 2015 and 2014, respectively, against associated exploration and evaluation costs previously capitalised following the decision to suspend exploration at various licence areas, adjacent to the hard-rock mines.

Impairment of ore stockpiles

The Group assessed the recoverability of the carrying value of ore stockpiles and recorded pre-tax impairment charges/(reversals of impairment) for the periods indicated below:

| | Year ended 31 December | |
|------------|------------------------|----------------------|
| | 2015 US\$ million | 2014 US\$ million |
| Pokrovskiy | (0.9) | (3.4) |
| Pioneer | 11.9 | 7.1 |
| Malomir | 6.1 | (3.2) |
| Albyn | 0.3 | 9.6 |
| | 17.4 | 10.1 |

(ii) Operating expenses – corporate and other operations.

Operating expenses of corporate and other operations were US\$68.0 million in 2015, a US\$24.9 million decrease compared to US\$92.9 million in 2014, attributable to the following factors:

- Operating cash costs of the Group’s in-house service companies were US\$32.2 million in 2015, a US\$7.9 million decrease compared to US\$40.1 million in 2014, in line with changes in revenue generated by the Group’s in-house service companies;
- in 2015, the Group disposed of alluvial operations, which had operating cash costs of US\$28.6 million and US\$4.9 million depreciation in 2014; and
- US\$35.0 million impairment charges recorded in 2015 compared to US\$18.1 million impairment charges recorded in 2014.

(iii) *Central administration expenses*

The Group has corporate offices in London, Moscow and Blagoveschensk, which together represent the central administration function. Central administration expenses decreased by US\$7.8 million from US\$38.2 million in 2014 to US\$30.4 million in 2015, primarily reflecting depreciation of the Rouble against the US Dollar.

(iv) *Foreign exchange differences*

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

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

| | 31 December 2015 | 31 December 2014 |
|--------------------------------|---------------------|---------------------|
| GB Pounds Sterling (GBP: US\$) | 0.68 | 0.64 |
| Russian Rouble (RUB: US\$) | 72.88 | 56.26 |

The Rouble depreciated by 30 per cent. against the US Dollar during 2015, from RUB56.26: USD1 as at 31 December 2014 to RUB72.88: USD1 as at 31 December 2015. The average year-on-year depreciation of the Rouble against the US Dollar was approximately 59 per cent., with the average exchange rate for 2015 being RUB61.30: USD1 compared to RUB38.44: USD1 for 2014.

As a result of the significant volatility of the Russian Rouble, the Group recognised foreign exchange losses of US\$12.0 million in 2015 (2014: US\$31.3 million) arising primarily on Rouble denominated net monetary assets.

(c) Share of results of associates and loss for the period from discontinued operations

The Group recorded US\$60.4 million share of loss generated by associate and US\$107.0 million loss from discontinued operations attributable to IRC in 2015, compared to US\$165.5 million loss from discontinued operations attributable to IRC in 2014.

The key components of the aforementioned losses are set out below.

IRC was presented as a discontinued operation in the income statement for the period from 1 January 2015 until 7 August 2015, when it ceased being a subsidiary and became an associate to the Group.

The IRC Share price was HK\$0.35 as at 7 August 2015 and the gain from disposal of IRC was US\$0.7 million. During the period to 7 August 2015, IRC generated US\$10.7 million operating losses. The Group also recorded a further US\$96.6 million write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell, based on IRC's share price of HK\$0.35 as at 7 August 2015 to reflect the change in the market share price of IRC Shares.

During the period from 7 August 2015 to 31 December 2015, the Group recognised its 35.83 per cent. share of IRC loss for the period as a loss from an associate of US\$60.4 million, including US\$49.7 million attributed to a further impairment of IRC's K&S Project.

IRC generated US\$51.1 million operating losses and recognised US\$18.8 million impairment, in aggregate, against its Kuranakh mining assets in 2014. The Group recorded a further US\$89.6 million write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell based on IRC's share price of HK\$0.52 as at 31 December 2014 to reflect the change in the market share price of IRC Shares.

(d) Operating profit/(loss)

As a result of the factors discussed above, the Group had an operating loss of US\$80.1 million in 2015 and an operating profit of US\$51.7 million in 2014.

(e) Investment income

Investment income in 2015 was US\$1.0 million, compared with US\$1.7 million investment income in 2014. Investment income represents interest earned on the Group's cash deposits with banks.

(f) Interest expense

Interest expense in 2015 was US\$71.5 million, US\$3.8 million higher than US\$67.7 million interest expense in 2014. Interest expense in 2015 included US\$13.6 million effective interest on the Existing Convertible Bonds and US\$57.7 million interest on bank facilities (2014: US\$25.4 million and US\$55.2 million, respectively). No interest expense was capitalised as part of mine development costs within property, plant and equipment in 2015 compared to US\$13.4 million interest expense capitalised in 2014.

(g) Other finance gains

Other finance gains in 2015 were US\$9.1 million compared to US\$ nil million in 2014. Included in other finance gains is the ICBC Guarantee fee of US\$2.2 million and US\$6.4 million fair value gain on revaluation of the embedded option for the Convertible Bondholders to convert into the equity of the Company.

(h) Taxation

The Group is subject to corporation tax under UK, Russian and Cypriot tax legislation. The average statutory tax rate in 2015 was 20.25 per cent. in the UK and 20 per cent. in the Russian Federation.

The tax charge for in 2015 arises primarily in relation to the Group's gold mining operations and is represented by a current tax charge of US\$31.8 million (2014: US\$34.5 million) and a deferred tax charge, which is a non-cash item, of US\$17.1 million (2014: deferred tax charge of US\$133.4 million). Included in the deferred tax charge in 2015 is a US\$40.3 million foreign exchange effect which primarily arises because the tax base for a significant portion of the future taxable deductions in relation to the Group's property, plant and equipment is denominated in Russian Rouble whilst the future depreciation charges associated with these assets will be based on their US\$ carrying value.

The Group made corporation tax payments in aggregate of US\$32.9 million and US\$34.0 million in the Russian Federation in 2015 and 2014, respectively.

(i) Loss for the period from continuing operations

As a result of the factors discussed above, the Group had a loss for the period from continuing operations in 2015 of US\$190.5 million compared to a loss for the period from continuing operations of US\$182.2 million in 2014.

(j) Loss for the period

As a result of the factors discussed above, the Group had a loss for the period in 2015 of US\$297.5 million compared to a loss for the period of US\$347.7 million in 2014.

7. Liquidity and capital resources

7.1 Overview

The Group's principal sources of liquidity and capital resources are revenues from gold sales and other operations and debt and equity financing. The Group's principal uses of cash have historically been

operational costs, capital expenditures on the development of mining operations and the acquisition of new licences and repayment of existing debt.

7.2 Cash flow analysis

The table below sets forth the main components of the Group's consolidated cash flow statement for the six months ended 30 June 2017 and 2016 and for the years ended 31 December 2016, 2015 and 2014.

| | Six months ended 30 June | | Year ended 31 December | | |
|--|-----------------------------|-------------------------|---------------------------|-------------------------|-------------------------|
| | 2017 US\$ million | 2016 US\$ million | 2016 US\$ million | 2015 US\$ million | 2014 US\$ million |
| (unaudited) | | | | | |
| Net cash from operating activities | | | | | |
| Continuing operations: | | | | | |
| Cash generated from operations before working capital changes | 102.3 | 85.2 | 189.3 | 167.0 | 210.4 |
| Decrease/(increase) in working capital | 13.5 | (10.8) | (63.3) | 43.5 | 60.2 |
| Interest paid | (26.8) | (25.1) | (53.7) | (66.6) | (67.8) |
| Corporation tax paid | (14.4) | (19.3) | (35.3) | (32.9) | (34.0) |
| Net cash from operating activities of continuing operations | 74.6 | 29.9 | 37.0 | 111.0 | 168.8 |
| Net cash used in operating activities of discontinued operations | — | — | — | (7.6) | (35.6) |
| Total net cash from operating activities | 74.6 | 29.9 | 37.0 | 103.4 | 133.2 |
| Net cash used in investing activities | | | | | |
| Continuing operations: | | | | | |
| Proceeds from disposal of subsidiaries | — | 14.8 | 19.2 | 6.5 | — |
| Proceeds from disposal of interests in associates | — | 0.2 | 0.2 | 1.0 | — |
| Capital expenditure | (41.8) | (11.9) | (29.4) | (32.6) | (96.8) |
| Other | 0.5 | 0.8 | 1.3 | 1.9 | 5.4 |
| Net cash used in investing activities of continuing operations | (41.3) | 3.9 | (8.7) | (23.2) | (91.4) |
| Net cash used in investing activities of discontinued operations | — | — | — | (43.0) | (95.9) |
| Total net cash used in investing activities | (41.3) | 3.9 | (8.7) | (66.2) | (187.3) |

| | Six months ended 30 June | | Year ended 31 December | | |
|--|-----------------------------|-------------------------|---------------------------|-------------------------|-------------------------|
| | 2017 US\$ million | 2016 US\$ million | 2016 US\$ million | 2015 US\$ million | 2014 US\$ million |
| (unaudited) | | | | | |
| Net cash used in financing activities | | | | | |
| Continuing operations: | | | | | |
| Net repayments of bank debt | (11.6) | (27.0) | (27.0) | (114.0) | (154.0) |
| Debt transaction costs | (1.7) | (0.4) | (4.0) | — | — |
| Net proceeds from Rights Issue | — | — | — | 156.2 | — |
| Repayment of convertible bonds due 2015 | — | — | — | (135.5) | — |
| Debt Refinancing costs | — | — | — | (34.4) | (7.8) |
| Transaction costs | — | (2.7) | — | — | — |
| Funds advanced to the Group under investment agreement with the Russian Ministry of Far East Development | — | — | 30.8 | 15.1 | — |
| Funds transferred under investment agreement with the Russian Ministry of Far East Development | — | (16.9) | (47.7) | — | — |
| Guarantee fee in connection with ICBC Facility | — | 1.1 | 1.1 | 2.2 | — |
| Net cash used in financing activities of continuing operations | (13.3) | (45.9) | (46.8) | (110.6) | (161.8) |
| Net cash used in financing activities of discontinued operations | — | — | — | 74.2 | 89.8 |
| Total net cash used in financing activities | (13.3) | (45.9) | (46.8) | (36.4) | (72.0) |

(a) Net cash from operating activities – continuing operations

(i) *Discussion of cash flows from operating activities for the six months ended 30 June 2017 and 2016*

Net cash inflow from operating activities was US\$74.6 million in the first half of 2017, compared with US\$29.9 million in the first half of 2016 as explained below.

Net cash generated from operations before working capital changes was US\$102.3 million in the first half of 2017 compared to US\$85.2 million in the first half of 2016. Net cash generated from operations is in line with Underlying EBITDA, which was US\$114.1 million in the first half of 2017 compared to US\$88.0 million in the first half of 2016. For the explanation of changes in Underlying EBITDA between the two periods, see “— *Underlying EBITDA*”.

The US\$13.5 million decrease in working capital in the first half of 2017 reflects the US\$11.5 million decrease in trade and other receivables and the US\$1.6 million increase in trade and other payables. The US\$10.8 million increase in working capital in the first half of 2016 reflects the US\$16.7 million decrease in trade and other payables, the \$7.9 million decrease in inventories and the US\$2.1 million increase in trade and other receivables.

Interest payments of US\$26.8 million in the first half of 2017 increased by US\$1.7 million compared to US\$25.1 million in the first half of 2016.

Corporation tax payments comprised US\$14.4 million in the first half of 2017 compared to US\$19.3 million in the first half of 2016.

(ii) *Discussion of cash flows from operating activities for the years ended 31 December 2016 and 2015*

Net cash inflow from operating activities was US\$37.0 million in 2016, compared with net cash inflow from operating activities from continuing operations of US\$111.0 million in 2015, as explained below.

Net cash generated from operations before working capital changes was US\$189.3 million in 2016 compared to US\$167.0 million in 2015. Net cash generated from operations is in line with Underlying EBITDA, which was US\$200.1 million in 2016 compared to US\$172.8 million in 2015. For the explanation of changes in Underlying EBITDA between the two years, see “— *Underlying EBITDA*”.

The Group's working capital increased by US\$63.3 million in 2016, while working capital decreased by US\$43.5 million in 2015. The US\$63.3 million increase in working capital in 2016 reflects the US\$25.8 million increase in trade and other receivables and the US\$37.7 million reduction in trade and other payables. The Group increased the level of trade creditors in late 2015. During 2016, the level returned to a more normal level, which resulted in the increase in working capital (repayment of trade creditors). The increase in the trade and other receivables is a result of a temporary one off increase in other receivables at the end of 2016 when certain payments had been made in advance of the public holidays in the Russian Federation in January, with subsequent unwinding in January – February 2017.

Interest payments of US\$53.7 million in 2016 decreased by US\$12.9 million compared to US\$66.6 million in 2015. The decrease in interest payments reflects the reduction in Group's debt.

Corporation tax payments comprised US\$35.3 million in 2016 compared to US\$32.9 million in 2015.

(iii) *Discussion of cash flows from operating activities for the years ended 31 December 2015 and 2014*

Net cash from operating activities from continuing operations was US\$111.0 million in 2015, compared with US\$168.8 million in 2014, as explained below.

Net cash generated from operations before working capital changes was US\$167.0 million in 2015 compared to US\$210.4 million in 2014. Net cash generated from continuous operations is in line with Underlying EBITDA, which was US\$172.8 million in 2015 compared to US\$251.8 million in 2014. For the explanation of changes in Underlying EBITDA between the two years, see “— *Underlying EBITDA*”.

The decrease in working capital in 2015 was US\$43.5 million, compared to US\$60.2 million decrease in working capital in 2014. Decreases in working capital in 2015 and 2014 reflects the efforts undertaken by the Group to optimise the working capital structure and the effect of Rouble depreciation.

Interest payments were US\$66.6 million in 2015, in line with US\$67.8 million interest payments in 2014.

Corporation tax payments comprised US\$32.9 million in 2015 compared to US\$34.0 million in 2014.

(b) Net cash used in investing activities – continuing operations

Net cash used in investing activities was US\$41.3 million in the first half of 2017 compared to US\$3.9 million net cash from investing activities in the first half of 2016.

Net cash used in investing activities primarily relates to purchases of property, plant and equipment and exploration expenditure, which comprised US\$41.8 million and US\$11.9 million in the first half of 2017 and the first half of 2016, respectively. Details of capital development and exploration and evaluation expenditure are set out in Section 7.3 “*Capital, exploration and evaluation expenditures*” below.

In the first half of 2016, the impact of cash spent on purchases of property, plant and equipment and exploration expenditure in the total amount of US\$11.9 million was offset by US\$14.8 million in net cash proceeds received from the disposal of the Group's wholly-owned subsidiary LLC Ilijnskoye and its associate CJSC Verkhnetisskaya Ore Mining Company.

The Group's net cash used in investing activities was US\$8.7 million, US\$23.2 million and US\$91.4 million in 2016, 2015 and 2014, respectively.

Net cash used in investing activities primarily relates to purchases of property, plant and equipment and exploration expenditure, which comprised US\$29.4 million, US\$32.6 million and US\$96.8 million in 2016, 2015 and 2014, respectively. Details of capital development and exploration and evaluation expenditure are set out in section 7.3 "*Capital, exploration and evaluation expenditures*" below.

In 2016, cash spent on purchases of property, plant and equipment and exploration expenditure was offset by US\$20 million in cash proceeds received from the disposal of the Group's wholly-owned subsidiary LLC Ilijnskoye and its associate CJSC Verkhnetisskaya Ore Mining Company. In 2015, cash spent on purchases of property, plant and equipment and exploration expenditure was offset by US\$6.5 million in net cash proceeds from the disposal of Koboldo, the Group's alluvial operation, and US\$1.0 million in net cash proceeds from the disposal of the Group's 25 per cent. interest in its associate JSC ZRK Omchak.

(c) Net cash used in financing activities – continuing operations

The Group's net cash used in financing activities was US\$13.3 million and US\$45.9 million in the first half of 2017 and the first half of 2016, respectively.

In the first half of 2017, US\$13.3 million cash used in financing activities primarily comprised the following categories:

- US\$11.6 million net contractual repayment of bank loans; and
- US\$ 1.7 million debt transaction costs paid in connection with bank loans.

In the first half of 2016, US\$45.9 million cash used in financing activities primarily comprised the following categories:

- US\$27.0 million net contractual repayment of bank loans;
- US\$0.4 million debt transaction costs paid in connection with bank loans;
- US\$2.7 million transaction costs paid;
- US\$16.9 million funds transferred under an investment agreement with the Russian Ministry of Far East Development; and
- US\$1.1 million guarantee fee paid by IRC in connection with the ICBC Facility.

The Group's net cash used in financing activities was US\$46.8 million, US\$110.6 million and US\$161.8 million in 2016, 2015 and 2014, respectively.

In 2016, US\$46.8 million cash used in financing activities primarily comprised the following categories:

- US\$27.0 million net contractual repayment of bank loans;
- US\$4.0 million debt transaction costs paid in connection with bank loans;
- US\$16.9 million net funds transferred under an investment agreement with the Russian Ministry of Far East Development; and
- US\$1.1 million guarantee fee paid by IRC in connection with the ICBC Facility.

In 2015, US\$110.6 million cash used in financing activities primarily comprised the following categories:

- US\$114.0 million net contractual repayment of bank loans;
- US\$156.2 million net proceeds from the Rights Issue, out of which US\$135.5 million was used to partially repay outstanding 2015 Convertible Bonds;

- US\$34.4 million 2015 Refinancing costs;
- US\$15.1 million funds advanced to the Group under an investment agreement with the Russian Ministry of Far East Development; and
- US\$2.2 million guarantee fee paid by IRC in connection with the ICBC Facility.

In 2014, US\$161.8 million cash used in financing activities primarily comprised the following categories:

- US\$154.0 million contractual repayment of bank loans; and
- US\$7.8 million 2015 Refinancing costs.

(d) Cash flows – discontinued operations

IRC was considered as asset held for sale and presented as a discontinued operation in the income statement for the period from 1 January until 7 August 2015, when it ceased being a subsidiary and became an associate to the Group.

7.3 Capital, exploration and evaluation expenditures

The tables below set forth the total amounts of capital expenditure, exploration and evaluation expenditure incurred in connection with each of the Group's mining, development and exploration assets for the six months ended 30 June 2017 and 2016 and for the years ended 31 December 2016, 2015 and 2014.

| Six months ended 30 June 2017 | | | |
|---------------------------------------|---|---|-------------------------------|
| | Exploration expenditure US\$ million | Development expenditure and other capital expenditure US\$ million | Total US\$ million |
| | (unaudited) | | |
| POX | – | 15.5 | 15.5 |
| Pokrovskiy and Pioneer ^(a) | 5.1 | 9.5 | 14.5 |
| Malomir ^(b) | 2.5 | 2.6 | 5.1 |
| Albyn | 3.3 | 2.0 | 5.4 |
| Upgrade of in-house service companies | – | 1.3 | 1.3 |
| | 10.9 | 31.0 | 41.8 |

(a) Including US\$7.5 million of expenditure in relation to the underground mining project at Pioneer.

(b) Including US\$2.2 million of expenditure in relation to the underground mining project at Malomir and US\$1.3 million of expenditure in relation to Malomir flotation (including tailing dams).

| Six months ended 30 June 2016 | | | |
|---------------------------------------|---|---|-------------------------------|
| | Exploration expenditure US\$ million | Development expenditure and other capital expenditure US\$ million | Total US\$ million |
| | (unaudited) | | |
| POX | – | 0.4 | 0.4 |
| Pokrovskiy and Pioneer ^(a) | 3.3 | 1.1 | 4.4 |
| Malomir | 1.2 | 0.6 | 1.8 |
| Albyn | 3.0 | 1.9 | 4.8 |
| Upgrade of in-house service companies | – | 0.4 | 0.4 |
| Other | 0.1 | – | 0.1 |
| | 7.6 | 4.3 | 11.9 |

(a) Including US\$2.0 million of exploration expenditure in relation to the underground mining project at Pioneer.

| Year ended 31 December 2016 | | | |
|---------------------------------------|--|--|-----------------------|
| | Exploration expenditure US\$ million | Development expenditure and other capital expenditure US\$ million | Total US\$ million |
| POX | – | 1.9 | 1.9 |
| Pokrovskiy and Pioneer ^(a) | 8.6 | 3.7 | 12.3 |
| Malomir | 1.9 | 1.6 | 3.5 |
| Albyn | 6.1 | 4.9 | 11.0 |
| Upgrade of in-house service companies | – | 0.6 | 0.6 |
| | 16.6 | 12.8 | 29.4 |

(a) Including US\$5.5 million of exploration expenditure in relation to the underground mining project at Pioneer.

| Year ended 31 December 2015 | | | |
|---------------------------------------|--|--|-----------------------|
| | Exploration expenditure US\$ million | Development expenditure and other capital expenditure US\$ million | Total US\$ million |
| POX | – | 1.0 | 1.0 |
| Pokrovskiy and Pioneer | 7.8 | 4.2 | 12.0 |
| Malomir | 4.1 | 1.1 | 5.2 |
| Albyn | 6.4 | 6.3 | 12.7 |
| Upgrade of in-house service companies | – | 1.1 | 1.1 |
| Other | 0.6 | – | 0.6 |
| | 18.9 | 13.7 | 32.6 |

| Year ended 31 December 2014 | | | |
|---------------------------------------|--|---|-----------------------|
| | Exploration expenditure US\$ million | Development expenditure and other CAPEX US\$ million | Total US\$ million |
| POX | – | 36.9 | 36.9 |
| Pokrovskiy and Pioneer | 14.3 | 5.0 | 19.3 |
| Malomir | 7.8 | 1.6 | 9.4 |
| Albyn | 9.3 | 16.4 | 25.7 |
| Visokoye | 0.2 | 0.3 | 0.5 |
| Alluvial operations | 0.9 | 1.0 | 1.9 |
| Upgrade of in-house service companies | – | 1.4 | 1.4 |
| Other | 1.6 | 0.1 | 1.7 |
| | 34.1 | 62.7 | 96.8 |

The Group invested an aggregate of US\$41.8 million on its gold projects in the first half of 2017 compared to US\$11.9 million invested in the first half of 2016. The key areas of focus in the first half of 2017 were on the POX project, for which active development was recommenced ahead of scheduled commissioning in 2018, exploration and development to support the underground mining at Pioneer and Malomir, expansion of tailing dams at Pioneer and Albyn and ongoing exploration related to the areas adjacent to the ore bodies of the Group's main mining operations. Further information on POX Hub development is set out in Part 11: "Description of the Business of the Group".

The Group invested an aggregate of US\$29.4 million on its gold projects in 2016 compared to US\$32.6 million invested in 2015. The key areas of focus in 2016 were on exploration to support the underground mining at Pioneer, expansion of tailing dams at Pioneer and Albyn, ongoing exploration

related to the areas adjacent to the ore bodies of the Group's main mining operations and fulfilling existing contractual commitments in relation to the POX Hub project.

The Group invested an aggregate of US\$32.6 million in 2015 on its gold projects compared to US\$96.8 million invested in 2014. The key areas of focus in 2015 were on fulfilling existing contractual commitments in relation to the POX Hub project, expansion of tailing dams at Pioneer and Albyn and ongoing exploration related to the areas adjacent to the ore bodies of the Group's main mining operations.

The Group spent an aggregate of US\$96.8 million on its gold projects in 2014. The key areas of focus in 2014 were on fulfilling existing contractual commitments relating to POX, expansion of tailing dams at Pioneer and Albyn and ongoing exploration related to the areas adjacent to the ore bodies of the main mining operations.

7.4 Indebtedness

The table below sets forth the Group's borrowings as at 30 June 2017 and 2016 and as at 31 December 2016 and 2015.

| | 30 June 2017 | | 31 December 2016 | | 31 December 2015 | | 31 December 2014 | |
|---|--|--|--|--|--|--|--|--|
| | Liability ^(a) US\$ million | Principal amount outstanding US\$ million | Liability ^(a) US\$ million | Principal amount outstanding US\$ million | Liability ^(a) US\$ million | Principal amount outstanding US\$ million | Liability ^(a) US\$ million | Principal amount outstanding US\$ million |
| | (unaudited) | | | | | | | |
| Bank loans ^(b) | 512.9 | 518.2 | 522.8 | 529.8 | 552.8 | 556.9 | 664.5 | 669.0 |
| Existing Convertible Bonds ^(c) | 89.9 | 100.0 | 88.4 | 100.0 | 85.5 | 100.0 | — | — |
| 2015 Convertible Bonds ^(d) | — | — | — | — | — | — | 313.3 | 310.5 |
| Total borrowings | 602.8 | 618.2 | 611.2 | 629.8 | 638.3 | 656.9 | 977.8 | 979.5 |

(a) Amounts are stated at amortised cost.

(b) Effective average interest rate was 9.3 per cent. for the six months ended 30 June 2017 (year ended 31 December 2016: 9.0 per cent., year ended 31 December 2015: 9.1 per cent., year ended 31 December 2014: 7.9 per cent.)

(c) Effective weighted average interest rate was 13.89 per cent. for all relevant periods.

(d) Effective weighted average interest rate was 8.65 per cent.

The tables below set forth the contractual maturity of the Group's debt arrangements as at 30 June 2017 and 31 December 2016. The amounts disclosed are the contractual undiscounted cash flows.

| 30 June 2017 | Financial year ending 31 December | | | | | | |
|---|-----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | Total US\$ million | 2017 US\$ million | 2018 US\$ million | 2019 US\$ million | 2020 US\$ million | 2021 US\$ million | 2022 US\$ million |
| Existing Convertible Bonds | 100.0 | — | — | — | 100.0 | — | — |
| Bank loans | 518.2 | 29.0 | 55.5 | 122.0 | 93.5 | 124.7 | 93.5 |
| Future interest payments ^(a) | 174.9 | 25.7 | 48.2 | 41.6 | 31.4 | 20.1 | 7.9 |

(a) Future interest payments have been estimated using interest rates applicable at 30 June 2017.

| 31 December 2016 | Financial year ending 31 December | | | | | | |
|---|-----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | Total US\$ million | 2017 US\$ million | 2018 US\$ million | 2019 US\$ million | 2020 US\$ million | 2021 US\$ million | 2022 US\$ million |
| Existing Convertible Bonds | 100.0 | — | — | — | 100.0 | — | — |
| Bank loans | 529.8 | 85.3 ^(a) | 46.3 | 86.5 | 93.5 | 124.7 | 93.5 |
| Future interest payments ^(b) | 211.6 | 51.9 | 44.6 | 40.3 | 32.4 | 26.2 | 16.1 |

(a) Including US\$75 million due under the Sberbank 2012 Facility, which was subsequently amended on 26 May 2017 with quarterly principal repayment schedule extended over the period from 20 June 2017 to the final maturity date on 20 September 2019, as set out below.

(b) Future interest payments have been estimated using interest rates applicable at 31 December 2016.

(a) Principal terms and conditions of the Existing Convertible Bonds and debt financing arrangements

As at 30 June 2017, the Group had US\$100 million principal outstanding under the Existing Convertible Bonds and US\$518.2 million outstanding bank debt under the Sberbank 2016 Facility and Sberbank 2012 Facility (together referred to as **Sberbank Facilities**) and the VTB Bank Facility, the principal terms and conditions of which are set out below.

Existing Convertible Bonds

On 18 March 2015, the Group issued US\$100 million Existing Convertible Bonds due on 18 March 2020 as part of the 2015 Refinancing.

The Existing Convertible Bonds were issued by the Group's wholly owned subsidiary Petropavlovsk 2010 Limited and are guaranteed by the Company. The Existing Convertible Bonds carry a coupon of 9.00 per cent. payable quarterly in arrear and are convertible at the Convertible Bondholders' option into redeemable preference shares of Petropavlovsk 2010 Limited, which are exchangeable immediately upon issuance for Ordinary Shares in the Company. The conversion price was set at £0.0826 per Ordinary Share, subject to adjustment for certain events, and the conversion exchange rate was fixed at US\$1.5171: £1.

Sberbank facilities

Sberbank 2016 Facility

As at 30 June 2017, the Group owed US\$295.25 million pursuant to the Sberbank 2016 Facility. The facility was put in place as a part of the Debt Refinancing (as described under "*Restructuring of Financing Arrangements*" below) and the purpose of the facility was to repay amounts owed under various Sberbank loans.

The facility is split into two tranches. The maturity date for both the tranche A facility loan of US\$145.25 million and the tranche B facility loan of US\$150.0 million is 20 September 2022. The tranche A facility loan is repayable in instalments with the first repayment instalment due on 20 March 2018. Interest is payable at quarterly intervals in arrear. The interest rate attached to the tranche A facility loan is 7.95 per cent. per annum. The tranche B facility loan is repayable in ten equal quarterly instalments with the first repayment instalment due on 20 June 2020. Until 20 December 2019, the interest rate attached to the tranche B facility loan is 10.95 per cent. per annum including an interest of 2.7 per cent. per annum which capitalises quarterly and is paid as part of an outstanding amount in ten equal quarterly instalments with the first repayment instalment due on 20 June 2020. After 20 December 2019, interest rate attached to the tranche B facility loan is 8.25 per cent. per annum.

During the period from 1 January 2017 to 30 September 2019, the Group is also required to make mandatory prepayments to Sberbank and VTB Bank, allocated in the proportion of 74.6 per cent. to the Sberbank Facilities and 25.4 per cent. to the VTB Bank Facility. The requirement for such mandatory prepayments, if any, is evaluated on a quarterly basis.

This facility is guaranteed by Pokrovskiy Rudnik, Albynskiy Rudnik, Malomirskiy Rudnik, Peter Hambro (Cyprus) Limited, Temi, Tokurskiy Rudnik, Kapstroj, NPGF Regis, Eponymousco and certain other subsidiaries of Petropavlovsk. The financial covenants contained in the facility include covenants related to interest cover and leverage ratios and are tested semi-annually. The facility also includes general covenants, including a negative pledge and covenants that limit the ability of Petropavlovsk, Pokrovskiy Rudnik, Albynskiy Rudnik, Malomirskiy Rudnik and the Group to incur financial indebtedness, make acquisitions and disposals and make loans and give guarantees, subject in each case to certain permitted exceptions.

This facility is secured by some of the Group's shares in operating and some other Group companies and floating charges over assets of PHM Cyprus and Eponymousco. The Group is required to create security over production cycle property plant and equipment. On 30 June 2017, the Group amended and restated the Facility Agreement to align the covenants with those of the Sberbank 2012 Facility and

has provided additional guarantees and security as required by, and in accordance with, the terms of the current facility.

Sberbank 2012 Facility

As at 30 June 2017, the Group owed US\$91.3 million to Sberbank pursuant to a loan facility agreement with Sberbank dated 22 March 2012, as amended and restated on 30 January 2015, 17 June 2016, 28 October 2016 and 26 May 2017. The maturity date for the facility loan is 20 September 2019. The principal outstanding under the loan is repayable in quarterly instalments with the next repayment instalment due on 20 December 2017. The interest rate attached to the loan is 8.40 per cent. per annum until 31 July 2017. From 1 August 2017, interest rate attached to the loan is 7 per cent. per annum, subject to satisfying certain financial covenants.

During the period from 1 January 2017 to 30 September 2019, the Group is also required to make mandatory prepayments to Sberbank and VTB Bank, allocated in the proportion of 74.6 per cent. to the Sberbank Facilities and 25.4 per cent. to the VTB Bank Facility. The requirement for such mandatory prepayments, if any, is evaluated on a quarterly basis.

This facility is guaranteed by Pokrovskiy Rudnik, Albynskiy Rudnik, Malomirskiy Rudnik, Temi, Kapstroj, and NPGF Regis. The guarantees are required to be further extended to Tokurskiy Rudnik, Peter Hambro Mining (Cyprus) Limited, Eponymousco and certain other subsidiaries of the Group.

The financial covenants contained in the facility include covenants related to interest cover and leverage ratios and are tested semi-annually. The facility also includes general covenants, including a negative pledge and covenants that limit the ability of Petropavlovsk, Pokrovskiy Rudnik, Albynskiy Rudnik, Malomirskiy Rudnik and the Group to incur financial indebtedness, make acquisitions and disposals and make loans and give guarantees, subject in each case to certain permitted exceptions.

The facility is secured by some of the group's shares in operating and some other Group companies, floating charges over assets of PHM Cyprus and Eponymousco and property plant and equipment of Malomirskiy Rudnik, Pokrovskiy Rudnik, Albynskiy Rudnik and Kapstroj. The Group is further required to create additional security over production cycle property, plant and equipment. The facility agreement was amended and restated in May 2017 to incorporate modified covenants.

VTB Bank Facility

As at 30 June 2017, the Group owed US\$131.6 million to VTB Bank pursuant to a loan facility agreement with VTB Bank dated 7 October 2011, as amended and restated on 28 December 2012, 29 December 2014 and 19 December 2016. The facility was fully utilised on 27 October 2011. The facility was originally split in two tranches, the tranche A facility loan of US\$185 million and tranche B facility loan of US\$15 million. The tranche B facility loan was repaid in full on 6 October 2014. The maturity date for the tranche A facility loan is 20 September 2022. The principal outstanding under tranche A facility loan is repayable in quarterly instalments with the next repayment instalment due on 20 December 2017. The interest rate attached to the tranche A facility loan is 8.70 per cent. per annum.

This facility is guaranteed by Pokrovskiy Rudnik, Albynskiy Rudnik, Malomirskiy Rudnik, Peter Hambro (Cyprus) Limited, Temi, Tokurskiy Rudnik, Kapstroj, NPGF Regis, Eponymousco and certain other subsidiaries of Petropavlovsk.

The financial covenants contained in the facility include covenants related to interest cover and leverage ratios that are tested semi-annually. The financial covenants contained in the facility also include certain requirements to maintain positive net assets of Pokrovskiy Rudnik, Albynskiy Rudnik and Malomirskiy Rudnik and certain requirements to aggregate EBITDA of the Guarantors, aggregate production of gold by the Guarantors and aggregate reserves of refractory and non-refractory ore of the Guarantors.

The facility also includes general covenants, including a negative pledge, and covenants which limit the ability of Petropavlovsk, Pokrovskiy Rudnik, Albynskiy Rudnik and Malomirskiy Rudnik and the Group

to incur financial indebtedness, make acquisitions and disposals and make loans and give guarantees, subject in each case to certain permitted exceptions.

During the period from 1 January 2017 to 30 September 2019, the Group is also required to make mandatory prepayments to Sberbank and VTB Bank, allocated in the proportion of 74.6 per cent. to Sberbank loan facilities and 25.4 per cent. to VTB Bank loan facilities. Requirement for such mandatory prepayments, if any, is evaluated on a quarterly basis.

The facility is secured over certain shares in operating and other Group companies and floating charges over assets of PHM Cyprus and Eponymousco. The Group is further required to create additional security over production cycle property plant and equipment.

Effect of the issue of the Notes on Sberbank Facilities and the VTB Bank Facility

Subject to completion of the Offering described in this Offering Memorandum, the proceeds from the issue of the Notes will be used to substantially repay the aforementioned facilities allocated in the proportion of 74.6 per cent. to the Sberbank Facilities and 25.4 per cent. to the VTB Bank Facility. In relation to the Sberbank Facilities, the outstanding principal under the Sberbank 2012 Facility agreement is expected to be repaid in full and the remainder available proceeds will be allocated to repayment of the Sberbank 2016 Facility.

(b) Restructuring of financing arrangements

Debt Refinancing

In December 2016, the Group refinanced US\$430 million outstanding principal of the Group's US\$530 million bank debt, including a revised maturity profile and renegotiation of the financial and operational covenants.

Results of the bank debt refinancing are set out below.

| | December 2016 US\$ million |
|---|---------------------------------------|
| Carrying value of liabilities de-recognised | 428.2 |
| Fair value of new liabilities recognised: | |
| Bank debt | 426.7 |
| Call option over the Company's shares | 3.0 |
| Loss on bank debt refinancing | (1.5) |

A cash settled call option was issued to Sberbank as part of the Debt Refinancing in relation to 3.6 per cent. of the outstanding aggregate ordinary share capital in the Company and is exercisable between December 2019 and March 2023 at strike price of £0.068. Transaction costs of US\$4.9 million were further capitalised.

The terms and conditions of the Sberbank 2012 Facility, under which remaining US\$100 million principal was outstanding, were amended on 26 May 2017, with quarterly principal repayment schedule extended over the period from 20 June 2017 to the final maturity date on 20 September 2019.

2015 Refinancing

On 2 February 2015, the Group announced a proposed refinancing, which was completed on 18 March 2015. The 2015 Refinancing consisted of the following:

- The Rights Issue pursuant to which 3,102,923,272 new Ordinary Shares were issued at subscription price of £0.05 per Ordinary Share as set out below:
 - 2,114,460,594 Ordinary Shares were issued for cash consideration raising £105.7 million (equivalent to US\$156.2 million) gross cash proceeds; and

- 988,462,678 Ordinary Shares were issued in exchange for the 2015 Convertible Bonds as part of settlement of the 2015 Convertible Bonds (please refer to the details set out below).

Issue of the Existing Convertible Bonds:

- Settlement of the 2015 Convertible Bonds:

The 2015 Convertible Bonds with a par value of US\$310.5 million were settled as follows:

| | Par value US\$ million |
|--|---------------------------|
| Portion settled in cash from the net cash proceeds of the Rights Issue | 135.5 |
| Portion settled in equity through the debt-for-equity exchange commitments | 75.0 |
| Portion settled through the issuance of the Existing Convertible Bonds | 100.0 |
| Par value of the 2015 Convertible Bonds | 310.5 |

- Bank Waivers:

The Group obtained waivers and relaxation of certain financial covenants for the period until 31 December 2015, inclusive.

The aggregate transaction costs of US\$42.8 million, out of which US\$7.8 million were paid as at 31 December 2014, were primarily allocated to equity (US\$33.4 million) and to the Existing Convertible Bonds (US\$5.1 million).

The liability component of the Existing Convertible Bonds was arrived at as set out below.

| | 18 March 2015 US\$ million |
|---|-------------------------------|
| Par value of the Existing Convertible Bonds | 100.0 |
| Fair value uplift of the Existing Convertible Bonds | 9.4 |
| Less: Refinancing costs | (5.1) |
| Less: Conversion option of the Existing Convertible Bonds recognised separately | (21.1) |
| Liability component of the Existing Convertible Bonds | 83.2 |

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

7.5 Other financing arrangements

ICBC Guarantee

The Company has provided a guarantee to ICBC in respect of a US\$340 million project loan facility provided to K&S by ICBC to fund the construction of IRC's iron ore mining operation at K&S. The entire facility amount was originally repayable semi-annually in 16 instalments of US\$21.25 million each, starting from December 2014, repayable by June 2022; however, in the first quarter of 2017, ICBC agreed to restructure repayments under the facility as follows: (i) two repayment instalments originally due 20 June 2017 and 20 December 2017 and in an aggregate amount of US\$42.5 million were waived, and (ii) in respect of the five subsequent repayment instalments, each has been increased by US\$8.5 million to US\$29.75 million, with the aggregate amount of the increase equal to US\$42.5 million. Interest under the facility is charged at LIBOR + 2.8% per annum. The ICBC Facility is fully drawn and as at 30 June 2017 outstanding loan principal amounted to US\$233.75 million. If there were to be an event of default by K&S, the Company may become liable to repay all outstanding amounts under the ICBC Facility pursuant to the ICBC Guarantee and early repayment of other Group

indebtedness pursuant to cross default or other provisions thereof may become triggered. The ICBC Guarantee currently covers the entire amount outstanding under the ICBC Facility notwithstanding that the Company holds, as at the date of this Offering Memorandum, only 31.10 per cent. of the issued share capital of IRC. Since IRC ceased being a subsidiary to the Group on 7 August 2015, the Group charges IRC the guarantee fee of 1.75 per cent. per annum on the outstanding facility amount.

7.6 Contractual obligations and commercial commitments

Capital commitments

At 30 June 2017, the Group had entered into contractual commitments for the acquisition of property, plant and equipment and mine development costs in relation to POX Hub project amounting to US\$12.7 million.

Operating lease commitments

At 30 June 2017, the Group had outstanding commitments for future minimum lease payments under a non-cancellable operating lease for office premises of US\$0.7 million.

Other purchase obligations

At 30 June 2017, the Group's outstanding trade and other payables comprised US\$58.8 million and are payable within one year. As at 30 June 2017, the Group had outstanding contractual commitments for the purchase of production materials for the aggregate of US\$14.4 million (excluding any VAT and customs duties where relevant), which are due to be settled within one year.

Investment agreement with the Russian Ministry of Far East Development

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

The status of this project as of 6 November, being the latest practical date before the issue of this Offering Memorandum, is set out below:

- Necessary permits to construct the power line have been obtained and relevant contractors have been engaged by DRSK;
- The Group received an aggregate of RUB3.8 billion in funding and transferred these funds to DRSK; and
- The construction of the electricity power line and the supply of equipment for it are in line with the approved schedule.

7.7 Contingent liabilities

The Group applies a two years mining tax concession since 1 July 2016 in its capacity of a participant to the Regional investment project in accordance with the Russian Federal Law 144-FZ dated 25 May 2016. The position of the Russian tax authorities is that the effective date for the aforementioned concession should be 1 January 2017 and, accordingly, the Group should be liable for the mining tax

of approximately RUB1 billion (an equivalent of approximately US\$16.9 million as at 30 June 2017) for the six month period to 31 December 2016. The matter is currently being considered by the courts. To date, decisions made by the Tribunal, which took place in May 2017, and the Court of Appeal, which took place in August 2017, have not been in favour of the Group. The Group continues to consider its interpretation of relevant tax legislation and tax filing position are appropriate and has filed an appeal to the Court of Cassation (appellate court of the highest instance) accordingly.

8. Principal accounting policies, critical accounting judgments and key sources of estimation uncertainty.

The Group's Financial Statements have been prepared in accordance with International Financial Reporting Standards (**IFRS**) as adopted by the European Union, IFRIC Interpretations and the Companies Act 2006. The principal accounting policies applied in the preparation of the Financial Statements are set out in note 2 to the 2016 Financial Statements, 2015 Financial Statements and 2014 Financial Statements that are appended to this Offering Memorandum.

When preparing the Financial Statements, management necessarily makes judgments and estimates that can have a significant impact on the Financial Statements. These judgments and estimates are based on management's best knowledge of the relevant facts and circumstances and previous experience. Actual results may differ from these estimates under different assumptions and conditions. The following sets forth a discussion of critical accounting judgments and key sources of estimation uncertainty arising in connection with the preparation of the 2016 Financial Statements.

8.1 Critical accounting judgments

Taxation

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

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

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

8.2 Key sources of estimation uncertainty

Ore reserve estimates

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

Ore reserve estimates are used in the calculation of depreciation of mining assets using a units of production method, impairment charges and for forecasting the timing of the payment of close down

and restoration costs. Also, for the purposes of impairment reviews and the assessment of life of mine for forecasting the timing of the payment of close down and restoration costs, the Group may take into account mineral resources in addition to ore reserves where there is a high degree of confidence that such resources will be extracted.

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

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

Exploration and evaluation costs

The Group's accounting policy for exploration and evaluation expenditure results in exploration and evaluation expenditure being capitalised for those projects where such expenditure is considered likely to be recoverable through future extraction activity or sale or where the exploration activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether the Group will proceed with development based on existence of reserves or whether an economically viable extraction operation can be established. Such estimates and assumptions may change from period to period as new information becomes available. If, subsequent to the exploration and evaluation expenditure being capitalised, a judgment is made that recovery of the expenditure is unlikely or the project is to be abandoned, the relevant capitalised amount will be written off to the income statement.

Deferred stripping costs

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

Impairment and impairment reversals

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

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

Management necessarily apply their judgment in allocating assets to CGUs as well as in making assumptions to be applied within the value in use calculation.

Subsequent changes to CGU allocation or estimates and assumptions in the value in use calculation could impact the carrying value of the respective assets. The impairment assessments are sensitive to changes in commodity prices and discount rates. Changes to these assumptions would result in

changes to impairment and/or impairment reversal conclusions, which could have a significant effect on the Financial Statements.

Close down and restoration costs

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

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

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

9. Market, credit and liquidity risk management

9.1 Overview

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

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

9.2 Interest rate risk

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

9.3 Foreign exchange risk

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

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

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

| | Assets | | Liabilities | |
|---------------------------|----------------|----------------|--------------------|----------------|
| | 2016 | 2015 | 2016 | 2015 |
| | US\$ | US\$ | US\$ | US\$ |
| | million | million | million | million |
| Russian Roubles | 39.4 | 56.8 | 35.7 | 56.8 |
| US Dollars ^(a) | 5.4 | 2.9 | 4.7 | 7.3 |
| GB Pounds Sterling | 2.4 | 0.4 | 0.8 | 0.9 |

(a) US Dollar-denominated monetary assets and liabilities in Group companies with Rouble functional currency.

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

| | 2016 | 2015 |
|------------------------------------|----------------|----------------|
| | US\$ | US\$ |
| | million | million |
| Russian Rouble currency impact | 932 | 5 |
| US Dollar currency impact | 164 | 1,101 |
| GB Pounds Sterling currency impact | 408 | 146 |
| EUR currency impact | 9 | 10 |
| Other currencies | 60 | 32 |

9.4 Commodity price risk

The Group generates most of its revenue from the sale of gold. The Group's policy is to sell its products at the prevailing market price. The Group enters into gold forward contracts to protect cash flows from the volatility in the gold price.

9.5 Credit risk

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

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

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

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

| Counterparty | Credit rating | Carrying amount at 31 December 2016 US\$ million |
|---------------------|----------------------|---|
| Barclays | A | 4.1 |
| Sberbank | BBB- | 3.9 |
| VTB | BB+ | 1.1 |
| Alfa-Bank | BB+ | 0.8 |
| Asian-Pacific Bank | CCC | 0.6 |
| Bank of Cyprus | B- | 0.4 |
| UBS | A | 0.2 |

9.6 Liquidity risk

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

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

The details of the Group's principal remaining contractual commitments for its non-derivative financial liabilities with agreed repayment periods are set out in Section 7.4 "*Indebtedness*" above. The amounts disclosed are the contractual undiscounted cash flows and so these balances will not necessarily agree with the amounts disclosed in the balance sheet. The contractual maturity is based on the earliest date on which the Group may be required to pay.

PART 11

DESCRIPTION OF THE BUSINESS OF THE GROUP

1 Overview

Petropavlovsk is one of Russia's major gold mining companies. As at 30 September 2017, the Group had produced approximately 6.7Moz of gold since its formation. This figure includes production from the four mining assets described below as well as production from alluvial operations and joint ventures which are no longer part of the Group. As at 31 December 2016, the Group had approximately 20.2Moz of Mineral Resources, including approximately 8.0Moz of Ore Reserves. Mineral Resources are concentrations or occurrences of solid material of economic interest in or on the Earth's crust in such form, grade (or quality) and quantity that there are reasonable prospects for eventual economic extraction. Ore Reserves are those parts of the Mineral Resources that have been evaluated by a feasibility study as being considered to be valuable and legally, economically and technically feasible to extract.

Petropavlovsk's key area of focus is the Amur region in the Russian Far East, where it has operated since 1994. The Company is, in the management's opinion, one of the leading employers and contributors to the development of the local economy in the region, which benefits from well-developed infrastructure, access to hydroelectric power and a strong mining tradition.

The Group's key mining assets are the Pioneer, Albyn, Malomir and Pokrovskiy mines and adjacent deposits (satellites) (**Key Mining Assets**), which are all located in the Amur region. The principal operations at all four mines are open pit but the Group also started production from high grade ore using underground mining at the Pioneer and Malomir mines in June 2017.

At present, gold is extracted on site at all four mines using cyanide based processing technologies, and resin in pulp (RIP) plants, which are operational throughout the year. In addition, there are seasonal heap leaching facilities, normally operating between April and November, at two of the mines. In 2016, the Group's four mines processed approximately 16Mtpa through their RIP plants and produced an aggregate of 416.3koz of gold.

The table below sets out an overview of the Group's four key gold producing assets in operation:

| | Pioneer | | Malomir | | Albyn | | Pokrovskiy ¹ | |
|--|------------------------------------|----------|----------------------------------|----------|------------------------------------|----------|---------------------------------|----------|
| Licence area | Approximately 1,280km ² | | Approximately 820km ² | | Approximately 1,053km ² | | Approximately 95km ² | |
| Production to 30 September 2017 | Approximately 2.4Moz Au | | Approximately 0.6Moz Au | | Approximately 0.9Moz Au | | Approximately 2.0Moz Au | |
| Plant (RIP) capacity | 6.7Mtpa | | 3.0Mtpa | | 4.7Mtpa | | 1.8Mtpa | |
| JORC R&R as of 31 December 2016 ^{2,3} | Resources | Reserves | Resources | Reserves | Resources | Reserves | Resources | Reserves |
| Total ⁴ | 5.5Moz | 2.6Moz | 7.1Moz | 3.0Moz | 4.8Moz | 2.1Moz | 1.4Moz | 0.1Moz |
| Non-refractory | 2.4Moz | 1.2Moz | 0.9Moz | 0.4Moz | 4.8Moz | 2.1Moz | 1.4Moz | 0.1Moz |
| Refractory | 3.1Moz | 1.5Moz | 6.1Moz | 2.6Moz | — | — | — | — |

- (1) The licence area for Pokrovskiy does not include the approximately 94km² licence area on which the Burinda deposit is located, nor the 51km² licence area on which the Zheltunak deposit is located. Ore from Burinda and Zheltunak was previously processed at Pokrovsky. The Burinda Mineral Resources (approximately 284koz) and the Zheltunak Mineral Resources (approximately 46koz) are included in the figure for the Pokrovskiy mine Mineral Resources (there are no Ore Reserves attributable to either the Burinda or the Zheltunak deposits).
- (2) In this Part, the resource and reserve data comes from independent reports produced by Wardell Armstrong International (WAI), whilst data regarding depletion and total gold mined was sourced internally.
- (3) Resource figures are inclusive of reserves.
- (4) Totals may not add up due to the effect of rounding.

On the basis of publicly available information, the Company's management consider *Pioneer* to be one of the largest gold mines in Russia in terms of its processing capacity. It accounted for approximately 39 per cent. of the Group's total gold production in 2016 (approximately 39.2 per cent. in the first nine months of 2017). Pioneer was acquired as a greenfield site in 2001 and was explored, developed and built principally using in-house expertise, as opposed to external contractors. Since commissioning in

2008, the RIP plant at the mine has been expanded in phases to reach its current processing capacity of approximately 6.7Mtpa. Up to 30 September 2017, Pioneer had produced approximately 2.4Moz of gold. As at 31 December 2016, Pioneer contained an estimated approximately 5.5Moz of Mineral Resources, of which approximately 2.6Moz were Ore Reserves. In late 2015, with the acquisition of a new exploration licence for the Sosnovaya asset, the Pioneer project area was more than doubled. Having six active pits, it is still being actively explored and exploration results to date indicate that there is potential for increases in ore reserves to be identified. Underground development at the Pioneer mine is progressing as planned for full scale high grade ore production by the end of 2017 with the first underground production having commenced in June 2017. In addition, in the first nine months of 2017 two new zones of non-refractory mineralisation suitable for open pit mining were discovered at Pioneer.

Pokrovskiy is the Group's oldest mine, accounting for approximately 9 per cent. of total gold production in 2016 (approximately 7 per cent. in the first nine months of 2017). Since commissioning in 1999, by 30 September 2017 Pokrovskiy had produced approximately 2.0Moz of gold. As at 31 December 2016, Pokrovskiy (including the Burinda deposit whose ore was processed at Pokrovskiy) had an estimated approximately 1.4Moz of Mineral Resources, of which approximately 0.1Moz were Ore Reserves.

It is intended that as Pokrovskiy nears the end of its mine life, the mine and its related infrastructure will transition into the site for the POX Hub, which is currently under construction. The POX Hub is an integral part of the Group's future plans in allowing for refractory gold production and Pokrovskiy provides an important strategic location, not only due to its on-site and regional infrastructure, but also its close proximity to Pioneer's limestone deposit, limestone being a key ingredient for the pressure oxidation process to be used at the POX Hub. The POX project comprises the construction of the POX Hub, which is expected to be commissioned in the fourth quarter of 2018, the refractory ore flotation plant at the Malomir mine, the first stage of which is expected to be commissioned by the end of 2017 (with the second stage expected to be commissioned in 2019), and the refractory ore flotation plant at the Pioneer mine which is expected to be commissioned in 2023. These flotation plants are intended to produce concentrate to be delivered to the POX Hub for processing. The POX Hub may also process concentrate sourced from third parties.

Malomir was acquired by the Group as a greenfield site. On the basis of publicly available information, the Company's management consider that it is now one of the largest gold mines in Russia, in terms of its Mineral Resource size. Malomir's production accounted for approximately 14 per cent. of the Group's total gold production in 2016 (approximately 13 per cent. in the first nine months of 2017). As at 31 December 2016, Malomir's Mineral Resources stood at an estimated approximately 7.1Moz, of which 3.0Moz were Ore Reserves. As at 30 September 2017, Malomir had produced approximately 0.6Moz of gold since commissioning in mid-2010. Underground development at the Malomir mine is moving ahead for full scale high grade ore production by the end of 2017; the first ore was mined in June 2017. Over 85 per cent. of Malomir's Mineral Resources and Ore Reserves are estimated to be refractory, requiring flotation and pressure oxidation for efficient gold recovery. Once the Malomir flotation plant and POX Hub have been commissioned, the mine is expected to become a major contributor to the Group's gold production.

Albyn is the Group's newest mine, commissioned in 2011 and accounting for approximately 43 per cent. of total gold production in 2016 (approximately 41.0 per cent. in the first nine months of 2017). The Group acquired its first licence for Albyn in 2005, when the project area was still a greenfield site. The project was subsequently explored, developed and built principally using in-house expertise. Subsequent exploration identified two substantial adjacent (satellite) deposits: Elginskoye and Unglichikanskoye. Up to 30 September 2017, Albyn had produced approximately 0.9Moz of gold. As at 31 December 2016, the Albyn project (including its satellites) had an estimated approximately 4.8Moz of Mineral Resources, of which approximately 2.1Moz were Ore Reserves. Large areas adjacent to the mine remain under-explored and Group geologists consider Albyn to have the potential for further, considerable gold discoveries, with the recently identified continuation of the Unglichikan deposit confirming strong exploration potential near the Albyn mine.

Although Pokrovskiy is at the end of its mine life, the other three sites – Pioneer, Malomir and Albyn – each have, on the basis of the Group's current mining plan (including implementation of the POX project and the planned underground mining), an estimated mine life of at least 15 years assuming that the POX Hub is successfully commissioned.

Following a drop in the gold price in 2013, the Group carried out a review of its strategy and decided to shift away from absolute production levels, concentrating on the mining and production of ounces which the Group believed should generate higher profit margins. As a result of this, a number of high cost assets, such as the alluvial operations at Koboldo and Berelekh, were disposed of and production schedules were adjusted to increase profit margins. In 2014, the Group produced 624.5koz of gold, which included 29.1koz of production from alluvial assets. In 2015, gold production totalled 504.1koz, in line with this revised strategy and the asset disposals.

In 2016, the exceptionally high levels of rainfall experienced in the second half of the year intermittently impaired the mining of high grade ore at Andreevskaya (Pioneer), which resulted in total 2016 production being reduced to 416.3koz. Mining of the ore that the Group was unable to mine in 2016 due to the adverse weather was deferred to the 2017 mine plan.

During the first nine months of 2017, management remained focused on optimising production plans to ensure the most efficient use of the Group's existing asset base, whilst aiming to maximise profitability. Together with the continued work of the Group's experienced operational team, this strategy contributed to a 91 per cent. increase in operating profit to US\$65 million for the first six months of 2017, compared to an operating profit of US\$34 million for the first six months of 2016. A 150 per cent. increase (compared to the first six months of 2016) in net cash from operating activities to US\$74.6 million for the six months ended 30 June 2017 has enabled the Group to proceed with its capital expenditure programme to seek to ensure the timely delivery of its key development projects.

In the first six months of 2017, the Group achieved Total Cash Costs (**TCC**) of US\$675/oz, slightly up from US\$663/oz in the first six months of 2016 but within the original forecast range for 2017 of US\$600 – 700/oz. The increases in the Company's All-in-Sustaining Costs (**AISC**) to US\$965/oz and All-in Costs (**AIC**) to US\$1,044/oz primarily reflect the capital expenditure relating to underground developments and tailing dam expansion, exploration and stripping costs and greater central administration expenses. AIC was also affected by capital expenditure in relation to the POX project.

A table of the Group's gold production for the periods indicated is set out below:

| | 9 months ended 30 September 2017 koz | 9 months ended 30 September 2016 koz | Year ended 31 December 2016 koz | Year ended 31 December 2015 koz | Year ended 31 December 2014 koz |
|----------------------------------|--|--|--|--|--|
| Pioneer | 131.8 | 105.3 | 141.9 | 231.4 | 263.0 |
| Pokrovskiy | 22.8 | 27.7 | 37.6 | 56.0 | 64.2 |
| Malomir | 43.8 | 40.0 | 56.8 | 59.1 | 82.2 |
| Albyn | 138.0 | 125.1 | 180.0 | 157.6 | 186.0 |
| Alluvial operations ² | — | — | — | — | 29.1 |
| Total gold production | 336.4 | 298.1 | 416.3 | 504.1 | 624.5 |

Note:

(1) Commencing 2017, the Company moved to using gold poured as the definition for production. The data for the nine months to 30 September 2016 has been restated to reflect this. However, it should be noted that the full years 2016, 2015 and 2014 numbers have not been restated.

(2) Alluvial operations included that carried on by Koboldo, a former subsidiary which was sold in early 2015. Currently the Group has no alluvial operations.

Total gold production (being defined as gold poured) for the first nine months of 2017 was approximately 336koz. The Group's guidance for the full year production for 2017 is 420-460koz.

The Group's in-house exploration team has a strong track record of identifying new targets and adding to the Group's resource base. As at 30 September 2017, the Group's total gold production since formation was approximately 6.7Moz. Since 2002 and to the end of 2016 Petropavlovsk has established a total of 31.4Moz of JORC Resources (including 4.8Moz of JORC Resources which have been sold) through exploration. At present, the Group is working to identify and explore prospective areas in the vicinity of its four hard-rock gold mines with the aim of adding new Ore Reserves suitable for processing

at the Group's existing facilities and those under construction, including ore mined using underground mining methods.

The Group is vertically-integrated with expertise and operations across the mining lifecycle. It has a laboratory network, research and development centres, engineering facilities, a construction company, and exploration, geological survey, mine planning and feasibility study capabilities. This operating structure has been instrumental to the Group's project development and processing capacity growth. All four of the Group's hard rock gold mines have been explored, designed and built principally using in-house expertise. Since 2008, the Group's RIP processing capacity has increased by more than 600 per cent. as the Group commissioned and expanded mines.

As at 30 September 2017, Petropavlovsk also held a 31.1 per cent. interest in IRC, a producer and developer of industrial commodities, principally iron ore. Based in the Russian Far East, IRC benefits from low production costs and proximity to the Chinese border, China being the world's largest consumer of IRC's main product, iron ore. IRC was Petropavlovsk's Non Precious Metals Division before it was listed on the Hong Kong Stock Exchange in late 2010. As part of its ongoing balance sheet optimisation, the Group also continues to assess the ways to realise the value of its current interest in IRC.

2 Key Strengths

The Group believes that it benefits from a number of key strengths, including the following:

- **Exploitable and long life mineral resource base with expansion potential**

As at 31 December 2016, the Group's total Mineral Resources amounted to an estimated 727Mt, of which Ore Reserves amounted to an estimated 262Mt containing an estimated 20.2Moz of gold.

Based on a review of publicly available data, the Group believes that its gold mines are among the largest in Russia, in terms of the volume of gold produced (approximately 298.1koz in the first nine months of 2016 and 336.4koz in the first nine months of 2017, in each case on the restated basis of using gold poured as the definition of production), the capacity of its processing facilities (approximately 17.3Mt of ore processed in full year 2016 and 13.6Mt in the first nine months of 2017) and the size of its Mineral Resources (727Mt as at 31 December 2016) base.

The Group's current principal gold mining projects each have an estimated mine life, based on the Group's current mining plan (including implementation of the POX project and the planned underground mining), of at least 15 years, with the exception of the Pokrovskiy mine. Pokrovskiy is expected to cease to be mined in 2018 and is being converted into the site for the POX Hub as described below.

The Group currently has gold exploration and mining licences covering approximately 3,430km² within the Amur Region. Some of the Group's licence areas are considered by the Group's management to be under-explored, with exploration work to date suggesting the potential for the discovery of additional Mineral Resources.

- **Strong track record of mine development, expansion and asset optimisation**

From its inception in 1994, to 30 September 2017 the Group had produced approximately 6.7Moz of gold. During the period of rapid expansion between 2008 and 2016 the Group increased RIP processing volumes by over 600 per cent. from 2.2Mtpa in 2008 to 16.2Mtpa in 2016.

Most of the growth in the Group's reserves and resources has been achieved over time through in-house exploration of greenfield and brownfield sites, as opposed to the acquisition of mining assets from third parties. The Group has an established track record of organic growth and project execution from initial exploration to mining, flowsheet design and development, as demonstrated by the commissioning and subsequent expansion at the Pokrovskiy, Pioneer, Malomir and Albyn mines. The current management team has demonstrated its ability to

complete major projects, principally using in-house expertise rather than external contractors for the exploration, construction, development and maintenance of the Group's assets.

- **New Growth Opportunities – POX Hub and underground mining**

The Group's expertise in developing assets is being used to develop the POX project and underground mining project. Commissioning of the POX Hub, which is expected to be operational by the end of 2018, and of the Malomir flotation plant, the first stage of which is expected to be operational by the end of 2017, should allow the Group to exploit its substantial refractory gold reserves and resources that are currently not being mined. The POX Hub has been designed on a modular basis, to facilitate future expansion. Underground mining is expected to contribute between 10 and 20 per cent. of the Group's gold production between 2018 and 2022. The processing of non-refractory ore produced from the underground operations is expected to replace processing of lower grade ore from the open pit mines.

- **Strategic location and access to developed infrastructure**

The Group's assets are located in the Amur region of the Russian Far East, on and around a major belt of gold mineralisation, including the presence of large granite and granodiorite intrusions that host epithermal gold and black schist formations which is a favourable environment for large scale orogenic type refractory gold deposits. Gold mining has been one of the region's key industries for over 100 years and the Company benefits from this well-established gold mining tradition as a result of the skilled workforce and well established infrastructure present in the region.

Because of its operational foothold in the Far East of Russia, the Group believes that it is well positioned to capitalise on existing and future opportunities in the region and has a competitive advantage when it comes to bidding for new licences and assets locally because of its comprehensive knowledge of the area, deep understanding of the legislative framework and proven track record of successful exploration, development and operation.

The Company believes that the existing high quality regional infrastructure is sufficient to support the Group's current development plans. The Amur region is served by two major rail lines: the Russian Trans-Siberian and BAM railways. All of the Group's operating mines are connected to railway stations and to the regional capital, Blagoveschensk, via all seasonal roads, and have access to electrical power from the Russian national grid. The Amur region has a surplus of electrical power including cheap and reliable electricity from renewable hydro-electric power which provides approximately 85 per cent. of the region's electricity.

- **Highly efficient mining and processing operations**

The Group efficiently manages a portfolio of large-scale open pit mines, which the Group believes provides it with a sustainable cost advantage as a result of its established bulk tonnage operations, providing economies of scale. This enables the Group to process its relatively low grade gold reserves with substantial margins (a 37.5 per cent. Underlying EBITDA margin was achieved in the first six months of 2017).

In late 2013 the Group initiated and subsequently successfully implemented operational efficiency initiatives such as optimising schedules, cutting idle time and improving workforce distribution. The Group's cash cost advantage was further improved by the depreciation of the rouble in 2014 – 2016. As a result the Group was able to improve TCC significantly. The 2013 TCC for hard-rock mines was US\$976/oz whilst for the first six months of 2017 TCC for hard rock mines was US\$675/oz. The Group continues to identify further cost-cutting opportunities.

The Group believes that it is well positioned to convert its Ore Reserve base into gold production while maintaining its cost advantage and discipline.

- **Experienced management team and skilled workforce**

The Group has operated in Russia since 1994. Many of the Group's senior management team, including the Interim Chief Executive Officer and the Chief Operating Officer, as well as the majority of the middle level management, have been with the Group since inception and possess a range of relevant skills across the mining spectrum. The average industry experience for the members of Executive Committee is more than 30 years. This includes knowledge of the Russian gold mining industry, the legislative and regulatory environment and an understanding of local operating conditions.

The Amur region, where Petropavlovsk is based, is home to a large pool of highly qualified individuals with gold mining experience due to the historic presence of the industry. This significantly facilitates the Group's hiring programme and its close cooperation with regional colleges and universities assists it in attracting high quality personnel across its operations.

3 Strategy

The Group's current strategy focuses on the following aspects:

- **Maintain and expand reserve and resource base**

The Group aims, through its exploration and development programme, to identify and develop new reserves and resources to offset depletion and expand the reserve and resource base to support long term growth. The Group believes that its licence areas present potential for further development, with exploration work to date suggesting the potential for the discovery of additional Mineral Resources.

Starting in 2014, the Group initiated a comprehensive ongoing review of its assets with a view to optimising its development pipeline, and identifying additional prospective and capital efficient growth opportunities. The review identified a number of initiatives, including low risk and low cost development projects located near to current infrastructure or continuations of known ore bodies.

The Group's short-term reserve and resource strategy is to focus on:

- maintaining non-refractory production to continue efficient utilisation of the Group's current processing capacity, through exploration on or adjacent to the Group's current mining operations; and
- further exploration to expand the reserves and resources at the existing underground operations which have been carried out at Pioneer and Malomir.

The Group's longer-term reserve and resource strategy is to focus on:

- further exploration of the identified refractory targets at Pioneer and Malomir;
- further exploration to seek to establish underground reserves and resources at Albyn and its satellites and to identify further underground targets in the Pioneer and Malomir areas; and
- potential licence acquisitions adjacent to existing Group infrastructure to achieve growth with minimal capital expenditure.

- **Unlock existing refractory and underground gold reserves**

Over 50 per cent. of the Group's existing Reserve base consists of refractory ore, which requires processing via pressure oxidation or other methods, and higher grade underground ore located within the Group's existing open pit mines. The POX project and the Group's underground operations are designed to unlock these reserves. Successful commissioning of the POX Hub and Malomir and later Pioneer flotation plants is expected to ensure sustainable refractory production.

The POX project comprises the construction of the POX Hub, which is expected to be commissioned in the fourth quarter of 2018, the refractory ore flotation plant at the Malomir mine, the first stage of which is expected to be commissioned by the end of 2017, and the refractory ore flotation plant at the Pioneer mine which is expected to be commissioned in 2023. These flotation plants will produce concentrate to be delivered to the POX Hub for processing. The POX Hub may also process concentrate sourced from third parties. As of the end of September 2017, the construction of the POX Hub was approximately 80 per cent. complete.

In 2016, work commenced on the development of underground mines at Pioneer and Malomir and during the first half of 2017 the Group reached underground high grade ore at both mines, and commenced mining in June 2017. Full scale production is expected to be achieved at both mines before the end of 2017.

- **Continue optimising costs and strengthening profitability**

The Group's strategic plan for the identification and implementation of operational efficiencies and cost optimisation focuses on new projects and continued operations.

New project cost initiatives include:

- Developing full scale high grade underground operations.
- Optimisation of waste stripping when mining refractory ore bodies.
- Implementing efficient processing methods for our refractory reserves (through the POX project).

The Group is also committed to continuous operational improvements, aimed in part at increasing throughput and recovery rates and comprehensive cost control.

As a complementary measure, management constantly monitors the gold price and maintains a hedging position which aims to ensure that levels of cash generation will meet development budget needs.

- **Strengthen the balance sheet and liquidity position**

Management continues to look for ways to de-risk the Group's development plans, including focusing on improving cash flow generation and optimising its capital structure.

As part of this strategy, the Group expects (on the basis of the current gold price and exchange rates) to generate strong and sustainable net operating cash flows to enable the Group to meet its planned capital expenditure program of approximately US\$100 million in 2017, approximately US\$110 million in 2018, and approximately US\$50 million in 2019, and deleverage to achieve a target leverage ratio (Net Debt/EBITDA) of under 2.5x.

In addition, the Group currently intends to refinance all or a majority of its current loan facilities through the issue of the Notes described in this Offering Memorandum, in order to reduce the debt service requirements and improve its liquidity position by extending the maturity of its debt.

As part of its ongoing balance sheet optimisation, the Group also continues to assess the ways to realise the value of its current interest in IRC.

- **Maintain stringent environmental health and safety standards**

Petropavlovsk is committed to providing its employees with a safe working environment and complying with all applicable environmental regulations.

The Group complies with Russian labour legislation, the most significant of which is the Labour Code of the Russian Federation, and has health and safety systems in place that support the

Code. Petropavlovsk conducts regular reviews of labour protection in the workplace and regularly examines all internal policies and procedures to ensure they remain robust and effective.

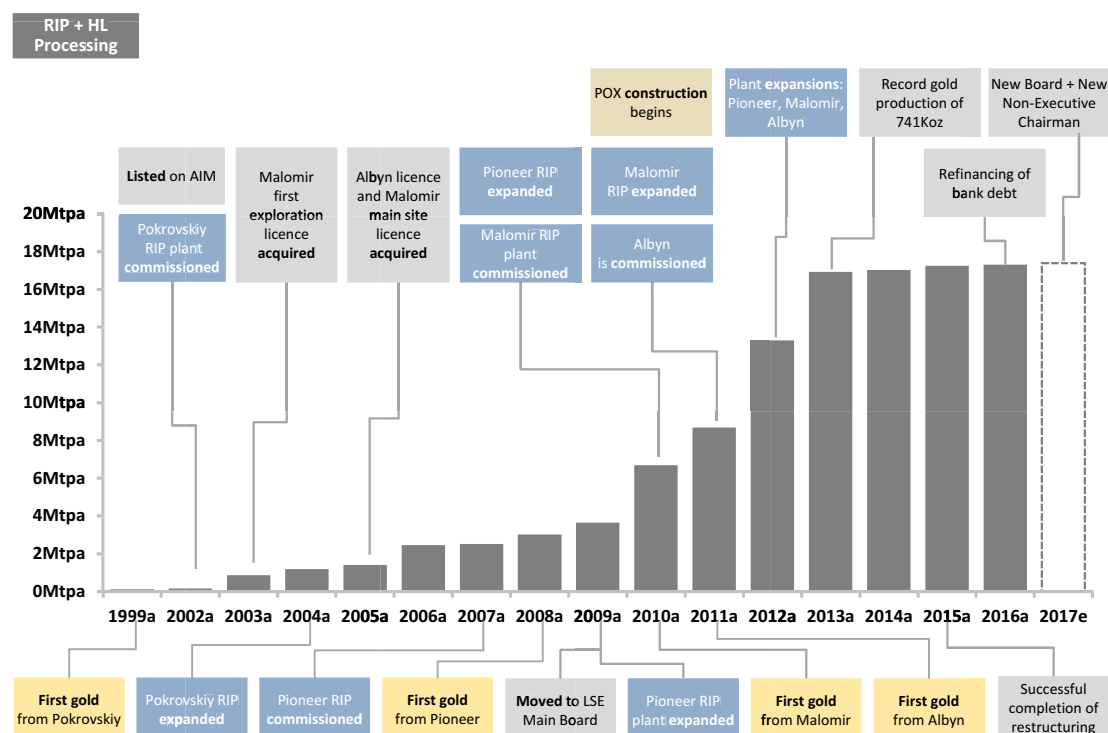
Occupational health and safety (**OHS**) risks are identified, reviewed and evaluated to mitigate their impact. All accidents are recorded and reported to the Executive Committee and the Board, which then provides an immediate response and action plan. The Board Health, Safety and Environmental Committee meets regularly and one of their duties is to assess and evaluate OHS management systems. Petropavlovsk also conducts regular on-site inspections to ensure all operations comply with regulations.

4 History of the Group

The Group was founded in 1994 to fund the development of Pokrovskiy, a known gold deposit in the Amur region in the Russian Far East. During the second half of the decade, the Group began to amass a team of experts and obtain project finance. The Group's first gold was subsequently produced from Pokrovskiy in 1999, using heap leach technology and the Merrill-Crowe process to recover gold from cyanide solution. A RIP plant was added in 2002 when the heap leach also started to use RIP technology.

Between 2001 and 2005, Petropavlovsk acquired licences relating to three greenfield sites – Pioneer, Malomir and Albyn, which have been explored, developed and constructed. Together with Pokrovskiy, they represent the Group's Key Mining Assets, all of which are located in the Amur region. Subsequent exploration success resulted in the acquisition of further licence areas adjacent to the main sites and close to existing processing facilities.

The chart below sets out significant events in the Group's history. In addition to the events described in the chart, in 2016, the Group entered into agreements to sell its wholly owned subsidiary LLC Ilijnskoye and its associate CJSC Verkhnetisskaya Ore Mining Company for an aggregate cash consideration equivalent to US\$20 million (of which US\$19.8 million was attributed to the value of the Visokoe asset held by LLC Ilijnskoye). Following the strategic disposal of non-core projects at Visokoe, Yamal and Nimanskaya in 2016, all the Group's remaining mining assets are located in the Amur Region.



Note: RIP = resin in pulp processing, HL = heap leach processing. Restructuring in 2015 consisted of a c.US\$235m rights issue and a 5 year US\$100m convertible bond, maturing 2020.

5 Group Assets

5.1 Overview

The Group holds substantial mining, exploration and development assets located in the Russian Far East and has extensive in-house exploration, research and development expertise as well as engineering and construction services.

In addition, the Group has been developing the POX project. The POX project is an integral part of the Group's future plans in allowing for refractory gold production. The POX project comprises the construction of the POX Hub, which is expected to be commissioned in the fourth quarter of 2018, the refractory ore flotation plant at the Malomir mine, the first stage of which is expected to be commissioned by the end of 2017 (with the second stage of which expected to be commissioned in 2019), and the refractory ore flotation plant at the Pioneer mine which is expected to be commissioned in 2023. It is intended that these flotation plants will produce concentrate to be delivered to the POX Hub for processing. The POX Hub will also be able to process concentrate sourced from third parties.

Further information on the POX project is set out in section 5.5.

The Group's assets can be classified into the following four categories, each of which is described in further detail in this Part:

- a. **Key Mining Assets.** These are the Group's hard-rock gold mines which are currently in production, being Pokrovskiy, Pioneer, Malomir and Albyn and their satellites. These assets generate the majority of the Group's gold production and contain the majority of the Group's Mineral Resources and Ore Reserves. These assets are wholly directly or indirectly owned by the Company save for minority interests owned, directly or indirectly, on behalf of the Amur Region represented by the Ministry for Property Relations of the Amur Region in the Pioneer, Pokrovskiy and Malomir projects (0.62 per cent., 0.62 per cent. and 0.06 per cent. respectively). The related production, Mineral Resources and Ore Reserves are 100 per cent. attributable to the Group.
- b. **Other Mining, Development and Exploration Assets,** being principally the Group's Tokur project, a "brownfield" non-refractory deposit which is potentially suitable for re-opening as an open-pit mine. The project has confirmed JORC Ore Reserves (last updated in 2011), but is not currently being developed. The Group maintains the Tokur licence in good standing and can start development work when and if it chooses to do so taking into account economic conditions.
- c. The **POX project**, a development project designed to use pressure oxidation to extract gold from flotation concentrate, thereby, on completion, enabling the Group to process its refractory Reserves.
- d. **In-house capabilities,** which provide explanation, engineering and other support for all stages of project development.

As indicated in the maps below, the Group's Key Mining Assets are located in the Amur region, in the Russian Far East.



5.2 Summary of Group Ore Reserves and Mineral Resources

(a) JORC Ore Reserves and Mineral Resources

- (i) Since 2008 and in accordance with best industry practices, Petropavlovsk has been reporting its Mineral Resources and Ore Reserves in accordance with the JORC Code.
- (ii) Public reports showing the status of the Group's Mineral Resources and Ore Reserves as of 31 December are prepared annually and published during the first six months of the following year.

- (iii) Following the strategic disposal of the non-core Visokoye, Yamal and Nimanskaya projects in 2016, all the Group's remaining mining assets are located in the Amur region.
- (iv) Total Mineral Resources as of 31 December 2016 amounted to 20.16Moz, compared to 23.28Moz in 2015, including total Ore Reserves of 7.95Moz compared to 8.41Moz as at 31 December 2015. The decrease principally resulted from the disposal of capital intensive non-core assets and to a lesser extent from mine depletion.

A total of 1.22Moz of Ore Reserves were disposed of through the Visokoye project disposal, and 3.55Moz of Mineral Resources (including those Ore Reserves) were disposed of through the Visokoye and Yamal project disposals.

- (v) During 2016, the Group made good progress developing reserves at Elginskoye, one of the significant satellite orebodies within the Albyn project area. Successful exploration and a feasibility study resulted in an increase in Ore Reserves at Elginskoye from 0.28 to 1.24Moz (a 340 per cent. increase), providing a solid foundation for Albyn's long term production.

During 2016, the Group also achieved a 76 per cent. increase in Mineral Resources for underground mining from 0.42 to 0.74Moz, and its first estimate of its underground Ore Reserves of 0.37Moz. This includes the new Pioneer NE Bakhmut underground Ore Reserves of 0.17Moz at 4.46g/t, and 0.21Moz at 5.85g/t at Malomir (Quartzitovoye 1). These new Ore Reserves should, on the basis of the Group's mining plan, support a six year life of mine for both mines with strong potential for increase in the related resource reserve figures and consequent life of mine expansion.

- (vi) Overall, the Group converted approximately 1.55Moz of Mineral Resources into Ore Reserves during 2016.

The tables below provide a summary of the Group's estimated Ore Reserves and Mineral Resources.

Total Ore Reserves for open pit and underground extraction

(as at 31 December 2016, and March 2011 (in relation to Tokur) in accordance with JORC Code¹)

| | Category | Tonnage (kt) | Grade (g/t Au) | Gold (Moz) |
|-------------------------|--------------------------|---------------------|-----------------------|-------------------|
| Total Reserves | <i>Proven</i> | 32,032 | 0.82 | 0.84 |
| | <i>Probable</i> | 229,667 | 0.96 | 7.11 |
| | <i>Proven + Probable</i> | 261,699 | 0.95 | 7.95 |
| Non-Refractory Reserves | <i>Proven</i> | 22,177 | 0.69 | 0.49 |
| | <i>Probable</i> | 95,632 | 1.10 | 3.39 |
| | <i>Proven + Probable</i> | 117,809 | 1.03 | 3.88 |
| Refractory Reserves | <i>Proven</i> | 9,854 | 1.11 | 0.35 |
| | <i>Probable</i> | 134,036 | 0.86 | 3.72 |
| | <i>Proven + Probable</i> | 143,890 | 0.88 | 4.07 |

Total Ore Reserves for open pit extraction

(as at 31 December 2016, and March 2011 (in relation to Tokur) in accordance with JORC Code)

| | Category | Tonnage (kt) | Grade (g/t Au) | Gold (Moz) |
|-------------------------|--------------------------|--------------|----------------|------------|
| Total Reserves | <i>Proven</i> | 32,032 | 0.82 | 0.84 |
| | <i>Probable</i> | 227,415 | 0.92 | 6.74 |
| | <i>Proven + Probable</i> | 259,446 | 0.91 | 7.58 |
| Non-Refractory Reserves | <i>Proven</i> | 22,177 | 0.69 | 0.49 |
| | <i>Probable</i> | 93,379 | 1.01 | 3.02 |
| | <i>Proven + Probable</i> | 115,557 | 0.94 | 3.51 |
| Refractory Reserves | <i>Proven</i> | 9,854 | 1.11 | 0.35 |
| | <i>Probable</i> | 134,036 | 0.86 | 3.72 |
| | <i>Proven + Probable</i> | 143,890 | 0.88 | 4.07 |

Total Ore Reserves for underground extraction

(as at 31 December 2016, in accordance with JORC Code 2012)

| | Category | Tonnage (kt) | Grade (g/t Au) | Gold (Moz) |
|-------------------------|--------------------------|--------------|----------------|------------|
| Total Reserves | <i>Proven</i> | — | — | — |
| | <i>Probable</i> | 2,253 | 5.14 | 0.37 |
| | <i>Proven + Probable</i> | 2,253 | 5.14 | 0.37 |
| Non-Refractory Reserves | <i>Proven</i> | — | — | — |
| | <i>Probable</i> | 2,253 | 5.14 | 0.37 |
| | <i>Proven + Probable</i> | 2,253 | 5.14 | 0.37 |
| Refractory Reserves | <i>Proven</i> | — | — | — |
| | <i>Probable</i> | — | — | — |
| | <i>Proven + Probable</i> | — | — | — |

Notes on Ore Reserves statements:

- 1 The Group Ore Reserves statements were prepared by WAI; Pokrovskiy, Pioneer, Malomir and Albyn Ore Reserves as at 31 December 2016 and were audited in April 2017 in accordance with JORC Code 2012; the Tokur Ore Reserves were prepared in 2010 in accordance with JORC Code 2004 and last reviewed by WAI in March 2011.
- 2 Pioneer, Malomir Albyn and Pokrovskiy Ore Reserves for open pit extraction are estimated within economical pit shells using a US\$1,200/oz gold price assumption and applying other modifying factors based on projected performance of these operating mines. Tokur Ore Reserves have been based on a US\$1,000/oz gold price assumption, together with the operating costs assumptions relevant at the time of the estimate.
- 3 Open Pit Ore Reserve cut-off grade for reporting varies from 0.3 to 0.5g/t Au, depending on the asset and processing method.
- 4 Underground Ore Reserves have been estimated at Pioneer and Malomir only. The estimates are based on mine designs that rely on decline access and trackless mining equipment. Various open stope systems are used, with predominantly uncemented back fill. Ore Reserve figures have been adjusted for anticipated dilution and mine recovery.
- 5 Underground Ore Reserve cut-off grade for reporting is 1.5g/t Au for Pioneer and 1.7g/t Au for Malomir.
- 6 Figures may not add up due to rounding.

Total Mineral Resource for potential open pit and underground extraction

(as at 31 December 2016, and March 2011 (in relation to Tokur) in accordance with JORC Code²)

| | Category | Tonnage (kt) | Grade (g/t Au) | Gold (Moz) |
|--------------------------|-----------------------------|--------------|----------------|------------|
| Total Resources | <i>Measured</i> | 51,859 | 0.94 | 1.57 |
| | <i>Indicated</i> | 418,167 | 0.89 | 11.96 |
| | <i>Measured + Indicated</i> | 470,026 | 0.90 | 13.53 |
| | <i>Inferred</i> | 257,409 | 0.80 | 6.63 |
| Non-Refractory Resources | <i>Measured</i> | 33,654 | 0.91 | 0.99 |
| | <i>Indicated</i> | 207,117 | 0.96 | 6.36 |
| | <i>Measured + Indicated</i> | 240,771 | 0.95 | 7.35 |
| | <i>Inferred</i> | 115,328 | 0.96 | 3.55 |
| Refractory Resources | <i>Measured</i> | 18,205 | 0.99 | 0.58 |
| | <i>Indicated</i> | 211,050 | 0.82 | 5.60 |
| | <i>Measured + Indicated</i> | 229,255 | 0.84 | 6.18 |
| | <i>Inferred</i> | 142,081 | 0.67 | 3.08 |

Total Mineral Resource for potential open pit extraction

(as at 31 December 2016, and March 2011 (in relation to Tokur) in accordance with JORC Code²)

| | Category | Tonnage (kt) | Grade (g/t Au) | Gold (Moz) |
|--------------------------|-----------------------------|--------------|----------------|------------|
| Total Resources | <i>Measured</i> | 51,859 | 0.94 | 1.57 |
| | <i>Indicated</i> | 415,393 | 0.85 | 11.37 |
| | <i>Measured + Indicated</i> | 467,252 | 0.86 | 12.94 |
| | <i>Inferred</i> | 256,155 | 0.79 | 6.48 |
| Non-Refractory Resources | <i>Measured</i> | 33,654 | 0.91 | 0.99 |
| | <i>Indicated</i> | 204,343 | 0.88 | 5.78 |
| | <i>Measured + Indicated</i> | 237,997 | 0.88 | 6.76 |
| | <i>Inferred</i> | 114,074 | 0.93 | 3.40 |
| Refractory Resources | <i>Measured</i> | 18,205 | 0.99 | 0.58 |
| | <i>Indicated</i> | 211,050 | 0.82 | 5.60 |
| | <i>Measured + Indicated</i> | 229,255 | 0.84 | 6.18 |
| | <i>Inferred</i> | 142,081 | 0.67 | 3.08 |

Total Mineral Resource for potential underground extraction
(as at 31 December 2016 in accordance with JORC Code 2012)

| | Category | Tonnage (kt) | Grade (g/t Au) | Gold (Moz) |
|--------------------------|-----------------------------|---------------------|-----------------------|-------------------|
| Total Resources | <i>Measured</i> | — | — | — |
| | <i>Indicated</i> | 2,774 | 6.56 | 0.59 |
| | <i>Measured + Indicated</i> | 2,774 | 6.56 | 0.59 |
| | <i>Inferred</i> | 1,254 | 3.92 | 0.16 |
| Non-Refractory Resources | <i>Measured</i> | — | — | — |
| | <i>Indicated</i> | 2,774 | 6.56 | 0.59 |
| | <i>Measured + Indicated</i> | 2,774 | 6.56 | 0.59 |
| | <i>Inferred</i> | 1,254 | 3.92 | 0.16 |
| Refractory Resources | <i>Measured</i> | — | — | — |
| | <i>Indicated</i> | — | — | — |
| | <i>Measured + Indicated</i> | — | — | — |
| | <i>Inferred</i> | — | — | — |

Notes to Mineral Resources Statements:

- 1 Mineral Resources include Ore Reserves.
- 2 Mineral Resources for Pokrovskiy, Pioneer, Malomir and Albyn were audited by WAI in accordance with JORC Code 2012 in April 2015 with a further review of changes in April 2016 and April 2017; Mineral Resources for Tokur were last reviewed by WAI in March 2011 in accordance with JORC Code 2004.
- 3 Open Pit Mineral Resources for Pokrovskiy, Pioneer, Malomir and Albyn are constrained by conceptual open-pit shells at a US\$1,500/oz long term gold price. The Tokur Mineral Resources have no open pit constraints.
- 4 The cut-off grade for the Mineral Resources for open pit mining varies from 0.3 to 0.4g/t depending on the type of mineralisation and proposed processing method.
- 5 Minimum mining widths dependant on reconciliation have been applied to the open pit Mineral Resources.
- 6 Mineral Resources for potential underground extraction estimated at Pioneer and Malomir only; the estimates were last audited by WAI in accordance with JORC Code 2012 in April 2017.
- 7 Cut-off grade of 1.5g/t is used to report Mineral Resources for potential underground mining.
- 8 Mineral Resources are not Ore Reserves until they have demonstrated economic viability based on a feasibility or pre-feasibility study.
- 9 Grade represents estimated contained metal in the ground and has not been adjusted for metallurgical recovery.
- 10 Figures may not add up due to rounding.

5.3 Key Mining Assets

Pioneer

Introduction

Pioneer accounted for 34 per cent. of the Group's total gold production in 2016 (approximately 39.2 per cent. for the first nine months of 2017). In the first nine months of 2017, Pioneer produced 131.8koz of gold. Underground non-refractory exploration and mine development at Pioneer is underway with underground production having commenced in June 2017. A total of approximately 21kt with an average gold content of approximately 2.0g/t was mined in the first nine months of 2017. In the longer term, development of the 6.0 Mtpa flotation plant to enable mining of Pioneer's refractory ore (currently scheduled for 2023 commissioning) and untapped greenfield exploration potential within its approximately 1,280km² total licence area may help to drive further growth.

Location and Infrastructure

Pioneer is located in the south of the Amur region, 490km from Blagoveshchensk, the China border trade city and regional business hub. It is situated between the BAM and Trans-Siberian Railways, with the nearest station approximately 40km away by all-weather road. The largest regional hydropower station (5GW) is 63km to the north-east and Pioneer obtains its electricity from the grid.

Geology

Gold mineralisation at Pioneer was formed near a contact between a multiphase granitoid massif and Jurassic country rocks as a result of hydrothermal activity associated with volcanism during the late Mesozoic Period. The mine is located on the south side of the Mongolo-Okhotskiy thrust line, within the belt of mineralisation associated with the collision of the Eurasian and Amur plates. The Pioneer deposit consists of multiple identified orebodies, most of which are steep dipping and remain open in a down dip direction. Pioneer orebodies comprise high grade shoots and lower grade halo mineralisation.

The high grade shoots are normally 1 to 8 metres in thickness with a strike length up to 400m. The high grade ore is planned to be mined predominantly underground from NE Bakhmut.

The more moderate grade halo mineralisation is up to 200m thick with a strike length of up to 2km. The Group's main sources of low grade non-refractory ore are the Vostochnaya and Alexandra zones. The Vostochnaya zone, a stockwork orebody, is relatively low grade and measures 360 by 230m at outcrop. It is located west of Yuzhnaya and within 2km of the Pioneer processing plant. The host rocks are Upper Jurassic sandstone and Lower Cretaceous diorite porphyries. The Vostochnaya zone's remaining non-refractory reserves are suitable for processing via the existing RIP plant. There was no material mining at Vostochnaya in 2017, where production is scheduled to recommence in 2018 and also to take place in 2020 and 2021.

The Alexandra zone is a linear stockwork located approximately 15km north of the Pioneer processing plant. Alexandra is hosted by the west-east striking Alkagan fault. The mineralisation is up to 113m in thickness and is non-refractory. Alexandra was a significant source of ore for the Pioneer RIP plant during the first nine months of 2017, and non-refractory production at Alexandra is expected to continue until 2021. Located within the Alexandra area, the Shirokaya zone hosts refractory resources and reserves, which are scheduled for mining from 2022.

The Group regularly reviews its production schedules to reflect the latest exploration results, resource and reserve additions and revaluations, and changes in operating costs, in order to maximise profitability. An independent consultant recently recommended that the Company conduct an optimisation review of the Vostochnaya and Alexandra pits at Pioneer, and the Company intends to do so.

Pioneer's Reserves and Resources

A summary of Pioneer's Ore Reserves and Mineral Resources estimated in accordance with the JORC Code (2012) as at 31 December 2016 and audited by WAI in April 2017 is set out below:

Pioneer Ore Reserves

(as at 31 December 2016, in accordance with JORC Code 2012)

| | Category | Tonnage (kt) | Grade (g/t Au) | Gold (Moz) |
|---|--------------------------|---------------------|-----------------------|-------------------|
| Total Reserves | <i>Proven</i> | 15,585 | 0.68 | 0.34 |
| | <i>Probable</i> | 86,876 | 0.82 | 2.29 |
| | <i>Proven + Probable</i> | 102,460 | 0.80 | 2.63 |
| Non-Refractory Open Pit Reserves | <i>Proven</i> | 14,122 | 0.65 | 0.30 |
| | <i>Probable</i> | 30,243 | 0.73 | 0.71 |
| | <i>Proven + Probable</i> | 44,366 | 0.70 | 1.00 |
| Non-Refractory Underground Reserves | <i>Proven</i> | — | — | — |
| | <i>Probable</i> | 1,154 | 4.46 | 0.17 |
| | <i>Proven + Probable</i> | 1,154 | 4.46 | 0.17 |
| Subtotal Non- Refractory Open Pit and Underground Reserves | <i>Proven</i> | 14,122 | 0.65 | 0.30 |
| | <i>Probable</i> | 31,398 | 0.86 | 0.87 |
| | <i>Proven + Probable</i> | 45,520 | 0.80 | 1.17 |
| Refractory Open Pit Reserves | <i>Proven</i> | 1,462 | 0.87 | 0.04 |
| | <i>Probable</i> | 55,478 | 0.80 | 1.42 |
| | <i>Proven + Probable</i> | 56,940 | 0.80 | 1.46 |
| Subtotal Non- Refractory and Refractory Open Pit Reserves | <i>Proven</i> | 15,585 | 0.68 | 0.34 |
| | <i>Probable</i> | 85,721 | 0.77 | 2.13 |
| | <i>Proven + Probable</i> | 101,306 | 0.76 | 2.46 |

Note: see Notes on Ore Reserves statement in section 5.2 above.

Pioneer Mineral Resources

(as at 31 December 2016, in accordance with JORC Code 2012)

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz) |
|---|-----------------------------|--------------|----------------|-------------|
| Total Resources | <i>Measured</i> | 19,520 | 0.68 | 0.43 |
| | <i>Indicated</i> | 160,670 | 0.75 | 3.89 |
| | <i>Measured + Indicated</i> | 180,190 | 0.74 | 4.32 |
| | <i>Inferred</i> | 57,058 | 0.66 | 1.20 |
| | | | | |
| Non-Refractory Open Pit Resources | <i>Measured</i> | 9,842 | 0.58 | 0.18 |
| | <i>Indicated</i> | 64,520 | 0.63 | 1.30 |
| | <i>Measured + Indicated</i> | 74,362 | 0.62 | 1.48 |
| | <i>Inferred</i> | 21,883 | 0.66 | 0.46 |
| | | | | |
| Non-Refractory Underground Resources | <i>Measured</i> | — | — | — |
| | <i>Indicated</i> | 1,924 | 5.82 | 0.36 |
| | <i>Measured + Indicated</i> | 1,924 | 5.82 | 0.36 |
| | <i>Inferred</i> | 765 | 4.05 | 0.10 |
| | | | | |
| Sub-total Non-Refractory (Open Pit and Underground) Resources | <i>Measured</i> | 9,842 | 0.58 | 0.18 |
| | <i>Indicated</i> | 66,444 | 0.78 | 1.66 |
| | <i>Measured + Indicated</i> | 76,286 | 0.75 | 1.84 |
| | <i>Inferred</i> | 22,648 | 0.77 | 0.56 |
| | | | | |
| Refractory Open Pit Resources | <i>Measured</i> | 9,678 | 0.79 | 0.25 |
| | <i>Indicated</i> | 94,226 | 0.74 | 2.23 |
| | <i>Measured + Indicated</i> | 103,904 | 0.74 | 2.48 |
| | <i>Inferred</i> | 34,410 | 0.58 | 0.64 |
| | | | | |
| Sub-total Open Pit (Refractory and Non-Refractory) Resources | <i>Measured</i> | 19,520 | 0.68 | 0.43 |
| | <i>Indicated</i> | 158,746 | 0.69 | 3.53 |
| | <i>Measured + Indicated</i> | 178,266 | 0.69 | 3.95 |
| | <i>Inferred</i> | 56,293 | 0.61 | 1.10 |
| | | | | |

Note: see *Notes to Mineral Resources statement* in paragraph 5.2 above. Mineral Resources are reported inclusive of Ore Reserves.

Pioneer Exploration Results for 2016 and the first nine months of 2017

Pioneer's approximately 1,280km² area offers a number of exploration opportunities for both non-refractory and refractory resources, including potentially high grade exploration targets. The Pioneer exploration programme for 2016 resulted in the expansion of Pioneer's non-refractory Mineral Resources and Ore Reserves and the identification of new exploration targets.

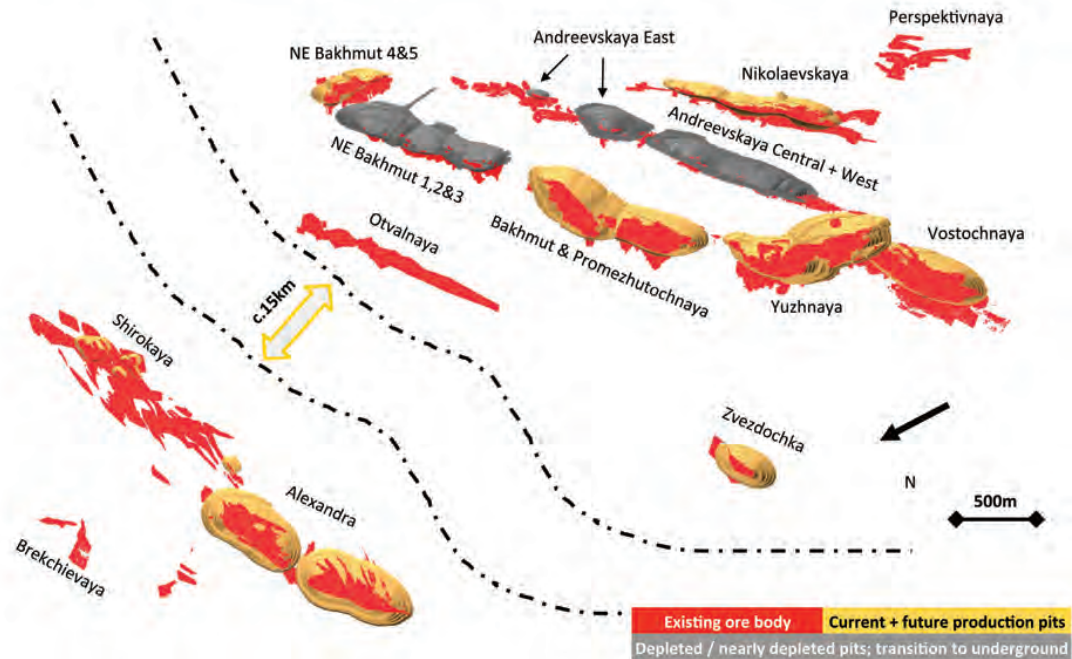
Significant 2016 results included:

- The first NE Bakhmut JORC Ore Reserves for underground mining being established.
- The first JORC Mineral Resources for potential underground mining at Bakhmut-Promezhutochnaya being established.
- A new high grade pay shoot being identified at Andreevskaya.
- The discovery of Katrin, a new satellite non-refractory deposit within the Sosnovaya licence area.
- The discovery of extensions at the Brekchievaya and Shirokaya zones in the Alexandra area, north of Pioneer.

All these deposits are located within 25km of the Pioneer plant and are accessible by all-weather roads.

Operations Overview

Pioneer Site Plan



In the first nine months of 2017 the Group continued exploration, focusing mainly on near mine mineral resources expansion. The most notable results of this work include:

- Discovery of two new zones of non-refractory mineralisation suitable for open pit mining, north of NE Bakmut No 2.
- Identification of further down dip extensions of the high grade pay shoot at NE Bakmut No 2, which remains open at depth offering further potential for underground mineral resources and ore reserve expansion.
- First JORC Mineral Resources and Ore Reserves (unaudited) identified for the Katrin satellite deposit, suggesting it offers an immediate opportunity to provide high grade open pit ore.

Drilling and trenching also confirmed the presence of large scale refractory gold mineralisation at the Sosnovaya anomaly, although the grade of the intersections is too low to represent an immediate interest.

The following assets were actively explored in 2016 and/or the first nine months of 2017.

Sosnovaya

The Sosnovaya licence covers an area of 754.81km² north-west, west, south-west and south from the Pioneer deposit and was acquired through a Government auction in December 2015. This licence covers a geological contact between Cretaceous granitoids and Jurassic host rocks, which the Group's management believe is favourable for the formation of gold deposits. The licence includes a number of promising exploration targets including the 9km long gold-arsenic anomaly immediately southwest of Pioneer and of a number of alluvial gold deposits exploited in the past. These alluvial deposits indicate the presence of hard rock gold mineralisation offering the possibility of discovery of new hard rock gold deposits through prospecting and exploration.

Extensive exploration work in 2016 at the south side of the licence resulted in the discovery of a new promising non-refractory deposit, Katrin, which is located 2.5km southwest from the Zheltunak Zapadnaya zone. Katrin is a high grade non-refractory satellite deposit situated south of Pioneer within the same geological setting as the Zheltunak deposit, which has been mined since 2011 and as at 30 September 2017 had produced 926kt of ore at an average grade of 1.91g/t Au (57koz of contained gold). To date, five individual ore bodies have been discovered and explored at Katrin. Three out of the five ore bodies have sufficient data to support a JORC resource estimate. These three have aggregate Mineral Resources of 32koz including approximately 26koz of Indicated Resource, at a grade of 2.53g/t and approximately 6koz of Inferred Resource at a grade of 1.29g/t. This estimate is yet to undergo an independent technical audit.

Katrin is hosted within a 1km long silification zone within Cretaceous volcanites. The zone is open in both strike directions as well as down-dip, offering the potential for further discoveries. Two ore bodies, which are yet to be explored and included in the Mineral Resource estimate, have already been identified. Furthermore, drilling in August 2017 discovered further extensions that are yet to be included in the estimate.

Trenching and drilling completed in late 2016 at a 9km long geochemical anomaly at Sosnovaya confirmed the presence of low grade gold mineralisation. Mineralisation discovered so far is too low grade to represent an immediate economic interest. However, since almost every drill hole completed intersected bulk gold grade halos indicating extensive hydrothermal processes, these results are still considered encouraging. Group geologists are analysing the results and updating their exploration model and intend to continue exploring this target in the future.

Geochemical surveys and geological traversing started at two other early stage exploration targets within the Sosnovaya licence area – Aprelskiy and Talali. Aprelskiy is located approximately 10km west from the Pioneer RIP plant within an area of extensive historical alluvial mining which is a strong indicator of the presence of hard rock mineralisation. Talali is located west from the Alexandra deposit and approximately 20km north west from the Pioneer plant on the same tectonic structure that hosts Alexandra, and also within an area of historical alluvial production. The results of this work are expected to be available in the first six months of 2018.

NE Bakhmut

Underground resource and reserve exploration at NE Bakhmut (surface and underground drilling and underground development) commenced in 2016. In 2017, two new zones of mineralisation potentially suitable for open pit mining were discovered north from the depleted pit at NE Bakhmut No 2. The Oblomochnaya zone, which has been extensively explored, is being prepared for open pit mining and should contribute to the 2017 and 2018 production profile. It is a shallow, sub-horizontal mineralised zone only 30-35m below the surface. The unaudited resource estimate suggests Oblomochnaya contains approximately 23koz of Mineral Resources, of which approximately 19koz at 0.98g/t is Indicated and approximately 4.5koz at 1.05g/t is Inferred. Metallurgical tests have confirmed that the material is suitable for RIP processing. It is expected that both the overburden and the ore will be amenable to free digging making it a low cost open pit mining target.

In the course of the exploration of the Oblomochnaya satellite deposit, a second new zone was identified directly below Oblomochnaya. To date it has been intersected by only three drill holes, with the best intersections including 5.3m at 1.64g/t and 5.2m at 7.56g/t. It remains open in a down dip direction and in both strike directions.

Surface drilling proved a high grade pay shoot mined from open pit at NE Bakhmut No 2 to a depth of 140m below the pit floor. The best deep intersection is 19.6m at 10.90g/t. The pay shoot is 145m long and remains open in a down dip direction. There are several further high grade intersections including 1.1m at 8.10g/t and 1.0m at 19.30g/t, which belong to smaller parallel zones and/or apophysis; these await follow up exploration and inclusion in the resource model.

In-fill underground drilling continued at an area between pay shoots at NE Bakhmut No 2 and 3. It did not result in changes to the overall Mineral Resources or Ore Reserves – the results are in line with earlier exploration.

Alexandra Area

In 2017, drilling discovered additional low grade mineralisation at the Shirokaya zone. The mineralisation appears to be a bulk stockwork potentially suitable for open pit mining. Mineralisation is expected to be refractory, which is typical for Shirokaya.

Nikolaevskaya

Exploration continued at south west extensions of the Nikolaevskaya zone with eight drill holes and seven trenches completed in first six months of 2017. A strike extension exceeding 1,200m in length has been proven. The gold mineralisation discovered is relatively narrow, not particularly high grade and refractory, which is typical for Nikolaevskaya. This mineralisation is yet to be modelled and included in JORC resource estimates.

Mining and Processing

Pioneer is a multiple open pit, bulk tonnage mine. It also has an underground mine developed at the NE Bakhmut zone. First underground production commenced in June 2017 with full scale production expected to begin before the end of 2017. Mining productivity and equipment utilisation are optimised by operating two daily shifts, throughout the year. The Pioneer orebodies include both non-refractory and refractory ore. Non-refractory ore is processed at the 6.7Mtpa RIP plant, which operates throughout the year. Some lower grade non-refractory ore is also processed via the Group's on-site heap leach operation. Refractory ore does not respond to standard RIP processing methods – specifically it is not suitable for direct cyanidation processing. Due to the very fine-grained gold locked in the sulphides, additional treatment is required to unlock gold particles from these structures. The Group is therefore currently developing a processing plant, the POX Hub, to treat its significant refractory ore reserve base. The POX Hub is due to be completed and commissioned by the end of 2018. Pioneer refractory ore is intended to be processed at the Pioneer flotation plant which is expected to be commissioned in 2023. The resultant concentrate will be delivered to the POX Hub for processing and gold recovery into doré.

Pioneer Operational Report

The table below sets out a summary of mining operations at Pioneer for the periods indicated.

Pioneer mining operations

| | | 9 months ended 30 Sep 2017 | 9 months ended 30 Sep 2016 | Year ended 31 Dec 2016 | Year ended 31 Dec 2015 |
|--------------------------------------|---------------------|----------------------------------|----------------------------------|---------------------------|---------------------------|
| | Units | | | | |
| Total material moved | m ³ '000 | 11,638 | 13,671 | 17,360 | 23,980 |
| Ore mined | kt | 7,096 | 2,258 | 3,266 | 6,016 |
| Average grade | g/t | 0.75 | 0.89 | 0.95 | 1.28 |
| Gold content | koz | 171.1 | 64.7 | 99.4 | 248.4 |
| Pioneer processing operations | | | | | |
| Resin-in-pulp (RIP) plant | | | | | |
| Total milled | kt | 5,091 | 5,031 | 6,700 | 6,582 |
| Average grade | g/t | 0.72 | 0.73 | 0.74 | 1.25 |
| Gold content | koz | 118.4 | 117.8 | 159.8 | 264.5 |
| Recovery rate | % | 76.1 | 82.7 | 85.5 | 85.0 |
| Gold recovered | koz | 90.1 | 97.4 | 136.6 | 224.7 |
| Heap leach operations | | | | | |
| Ore stacked | kt | 708 | 617 | 701 | 800 |
| Average grade | g/t | 0.49 | 0.53 | 0.53 | 0.56 |
| Gold content | koz | 11.1 | 10.5 | 12.0 | 14.5 |
| Recovery rate | % | 43.8 | 40.1 | 44.1 | 46.2 |
| Gold recovered | koz | 4.9 | 4.2 | 5.3 | 6.7 |
| Total gold production | koz | 131.8 | 105.3 | 141.9 | 231.4 |

Note: from the beginning of 2017, the Company moved to using gold poured as the definition for gold production. The figures for the nine months to 30 September 2016 have been restated on this basis.

Production

The main sources of low grade ore at Pioneer were pits of the Alexandra, Yuzhnaya and Promezhutachnaya zones. This ore was blended with lower grade material from stockpiles.

Heap leach operations commenced on schedule in April 2017.

The development of the North East Bakhmut underground mine progressed as planned. Underground work during the first nine months of 2017 totaled approximately 2,412m. The first ore was mined in June 2017, and ore production up to 30 September 2017 was 20.8kt with an average gold content of approximately 2.03 g/t. In accordance with the mine plan, production began at a low grade area between North East Bakhmut 2 and 3. Ore grades are expected to improve as mining moves into the higher grade North East Bakhmut 3 zone.

The significant increase in doré gold production in relation to gold recovered is mainly due to the successful implementation of measures for cleaning resin, and the resulting reduction in gold in circuit.

The gold production guidance for Pioneer is approximately 73,000-98,000oz for the second half of 2017.

Costs

TCC in 2016 were US\$631/oz, a 1 per cent. increase on 2015. AISC in 2016 were US\$789/oz, a 5 per cent. increase from 2015.

TCC for the first six months of 2017 were US\$698/oz, a 20 per cent. increase on the first six months of 2016 (US\$582/oz) AISC for the first six months of 2017 were US\$915/oz, a 29 per cent. increase on the first six months of 2016 (US\$707/oz). The increase in TCC primarily reflects the effect of Rouble appreciation, inflation of certain Rouble denominated costs and lower recoveries at Pioneer which were partly compensated for by the mining tax concession the Group continued to apply in the first six months of 2017. The increase in AISC reflects the sustaining capital expenditure, primarily in relation to the Pioneer underground project and the expansion of tailing dams at Pioneer.

Pokrovskiy

Introduction

The Group was developed from the original Pokrovskiy mine. Today, as Pokrovskiy nears the end of its mine life having produced 2.0Moz since 1999, the mine site is being transitioned into the location for the POX Hub. The POX Hub is an integral part of the Group's future plans and Pokrovskiy provides the ideal strategic location, not only due to its onsite and regional infrastructure, but also its close proximity to Pioneer's limestone deposit, limestone being a key ingredient for the pressure oxidation process. In 2016, Pokrovskiy produced 37.6koz of gold; in the first nine months of 2017 production was 22.8koz of gold.

Location and Infrastructure

Pokrovskiy is located in the south of the Amur region, 450km from Blagoveshchensk, the China border trade city and regional business hub. It is situated between the BAM and Trans-Siberian Railway, with the nearest station approximately 15km away by all-weather road. The largest regional hydropower station (5GW) is located 88km to the north-east and Pokrovskiy obtains its electricity from the grid.

Geology

Pokrovskiy is located on the south side of the Mongolo-Okhotskiy regional belt, approximately 40km south of Pioneer, which in addition to gold hosts a significant limestone deposit.

Pokrovskiy's Reserves and Resources

A summary of Pokrovskiy's Ore Reserves and Mineral Resources (including those of the Burinda deposit whose ore was processed at Pokrovskiy), estimated in accordance with the JORC Code 2012 as at 31 December 2016 and audited by WAI in April 2017, is set out below:

Pokrovskiy Ore Reserves

(as at 31 December 2016, in accordance with JORC Code 2012)

| | Category | Tonnage (kt) | Grade (g/t Au) | Gold (Moz) |
|----------------------------------|--------------------------|---------------------|-----------------------|-------------------|
| Total Reserves | <i>Proven</i> | 1,051 | 0.55 | 0.02 |
| | <i>Probable</i> | 1,540 | 0.74 | 0.04 |
| | <i>Proven + Probable</i> | 2,590 | 0.66 | 0.06 |
| Non-Refractory Open Pit Reserves | <i>Proven</i> | 1,051 | 0.55 | 0.02 |
| | <i>Probable</i> | 1,540 | 0.74 | 0.04 |
| | <i>Proven + Probable</i> | 2,590 | 0.66 | 0.06 |
| Refractory Open Pit Reserves | <i>Proven</i> | — | — | — |
| | <i>Probable</i> | — | — | — |
| | <i>Proven + Probable</i> | — | — | — |

Note:

All Pokrovskiy Reserves are for open pit extraction. There are no Ore Reserves at the Burinda deposit. See Notes to the Ore Reserves statement in section 5.2 above.

Pokrovskiy Mineral Resources

(as at 31 December 2016, in accordance with JORC Code 2012)

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz) |
|--------------------------|-----------------------------|---------------------|-----------------------|--------------------|
| Total Resources | <i>Measured</i> | 6,780 | 1.01 | 0.22 |
| | <i>Indicated</i> | 31,511 | 0.83 | 0.84 |
| | <i>Measured + Indicated</i> | 38,291 | 0.86 | 1.06 |
| | <i>Inferred</i> | 10,259 | 0.99 | 0.33 |
| | | | | |
| Non-Refractory Resources | <i>Measured</i> | 6,780 | 1.01 | 0.22 |
| | <i>Indicated</i> | 31,511 | 0.83 | 0.84 |
| | <i>Measured + Indicated</i> | 38,291 | 0.86 | 1.06 |
| | <i>Inferred</i> | 10,259 | 0.99 | 0.33 |
| | | | | |
| Refractory Resources | <i>Measured</i> | — | — | — |
| | <i>Indicated</i> | — | — | — |
| | <i>Measured + Indicated</i> | — | — | — |
| | <i>Inferred</i> | — | — | — |
| | | | | |

Note: All Pokrovskiy and Burinda Mineral Resources is for open pit extraction. Mineral Resources are reported inclusive of Ore Reserves. See Notes to Mineral Resources statement in section 5.2 above.

Mining and processing

Pokrovskiy is a multiple open pit mine. The Pokrovskiy licence includes several defined ore bodies. All are non-refractory and can be treated at the 1.8Mtpa RIP plant, which operates throughout the year. Low grade ore (<0.5g/t) is processed via on site heap leach operations. The Pokrovskiy mining and processing complex is approaching the end of its life as a stand-alone mine. The Pokrovskiy processing facilities are scheduled to be integrated into the POX Hub during 2018.

Pokrovskiy Operational Report

The table below sets out a summary of mining operations at Pokrovskiy for the periods indicated.

Pokrovskiy mining operations

| | Units | 9 months ended 30 Sep 2017 | 9 months ended 30 Sep 2016 | Year ended 31 Dec 2016 | Year ended 31 Dec 2015 |
|----------------------|---------------------------|----------------------------------|----------------------------------|---------------------------|---------------------------|
| Total material moved | <i>m³ '000</i> | 2,972 | 3,586 | 4,709 | 5,169 |
| Ore mined | <i>kt</i> | 996 | 770 | 1,027 | 933 |
| Average grade | <i>g/t</i> | 0.51 | 0.82 | 0.79 | 1.41 |
| Gold content | <i>koz</i> | 16.3 | 20.4 | 26.0 | 42.2 |

Pokrovskiy processing operations

Resin-in-pulp (RIP) plant

| | | | | | |
|----------------|------------|--------------|-------|--------------|-------|
| Total milled | <i>kt</i> | 1,352 | 1,339 | 1,791 | 1,791 |
| Average grade | <i>g/t</i> | 0.46 | 0.62 | 0.65 | 1.04 |
| Gold content | <i>koz</i> | 19.8 | 26.7 | 37.1 | 59.7 |
| Recovery rate | <i>%</i> | 81.9 | 91.3 | 90.1% | 84.3 |
| Gold recovered | <i>koz</i> | 16.2 | 24.4 | 33.5 | 50.4 |

Heap leach operations

| | | | | | |
|----------------|------------|-------------|------|--------------|------|
| Ore stacked | <i>kt</i> | 443 | 424 | 440 | 541 |
| Average grade | <i>g/t</i> | 0.39 | 0.45 | 0.45 | 0.53 |
| Gold content | <i>koz</i> | 5.6 | 6.1 | 6.3 | 9.2 |
| Recovery rate | <i>%</i> | 35.6 | 53.4 | 64.8% | 60.6 |
| Gold recovered | <i>koz</i> | 2 | 3.2 | 4.1 | 5.6 |

| | | | | | |
|-----------------------|------------|-------------|------|-------------|------|
| Total gold production | <i>koz</i> | 22.8 | 27.7 | 37.6 | 56.0 |
|-----------------------|------------|-------------|------|-------------|------|

Note: from the beginning of 2017, the Company moved to using gold poured as the definition for gold production. The figures for the nine months to 30 September 2016 have been restated on this basis.

Production

The Zeyskaya and Vodorazdelnaya zones were the main sources of low grade ore, which was blended with ore from stockpiles. This contributed to the decrease in processing recovery at the plant compared to the first six months of 2016, due to the technological qualities of ores from stockpiles (initially scheduled), which were worse than expected.

Heap leaching began in April 2017 in line with the mining plan.

In the second half of 2017, the main sources of low grade ore (estimated at 15,000oz) are Zeyskaya and Vodorazdelnaya.

Costs

2016 TCC of US\$878/oz were achieved, a 1 per cent. increase on 2015, with AISC of US\$988/oz, an 8 per cent. increase on 2015. In the first six months of 2017 TCC were US\$1,286/oz (first six months of 2016 US\$810/oz).

AISC for the first six months of 2017 were US\$1,454/oz, a 72 per cent. increase on the first six months of 2016 (US\$843/oz).

Outlook

As Pokrovskiy is coming to the end of its reserves, RIP production is scheduled to stop at the end of 2017. The heap leach is expected to remain operational throughout 2018 to process remaining stockpiles. The Group is actively developing the POX Hub, which is scheduled to commence producing refractory concentrate by the end of 2018. See section 5.5: "POX project" of this Part 11.

Malomir

Introduction

Malomir is currently the Group's largest asset by Ore Reserves and Mineral Resources with approximately 90 per cent. of its Mineral Reserve base categorised as refractory ore. Completion of the POX Hub, which is scheduled for the end of 2018, is expected to unlock value embedded within the approximately 820 km² licence area at Malomir and to support an expected life of mine of more than 15 years. In 2016, Malomir produced 56.8koz of gold; in the first 9 months of 2017, it produced 43.8koz. The lower figure is largely attributable to lower grade ore being processed.

Location and infrastructure

Malomir is located in the north-east of the Amur region, 550km from Blagoveshchensk, the China border trade city and regional business hub, and 670km from the POX Hub. The BAM railway is 130km away. It obtains electricity from the grid.

Malomir Reserves and Resources

A summary of Malomir's Ore Reserves and Mineral Resources for open pit mining, estimated in accordance with the JORC Code 2012 as at 31 December 2016 and audited by WAI in April 2017 is set out below:

Malomir Ore Reserves

(as at 31 December 2016, in accordance with JORC Code 2012)

| | Category | Tonnage (kt) | Grade (g/t Au) | Gold (Moz) |
|--------------------------|--------------------------|--------------|----------------|------------|
| Total Reserves | <i>Proven</i> | 8,416 | 1.15 | 0.31 |
| | <i>Probable</i> | 86,755 | 0.97 | 2.70 |
| | <i>Proven + Probable</i> | 95,171 | 0.98 | 3.01 |
| Non-Refractory Open | <i>Proven</i> | 24 | 1.16 | 0.001 |
| Pit Reserves | <i>Probable</i> | 7,100 | 0.83 | 0.19 |
| | <i>Proven + Probable</i> | 7,124 | 0.83 | 0.19 |
| Non-Refractory | <i>Proven</i> | — | — | — |
| Underground Reserves | <i>Probable</i> | 1,098 | 5.85 | 0.21 |
| | <i>Proven + Probable</i> | 1,098 | 5.85 | 0.21 |
| Subtotal Non-Refractory | <i>Proven</i> | 24 | 1.16 | 0.001 |
| Open Pit and Underground | <i>Probable</i> | 8,198 | 1.50 | 0.40 |
| Reserves | <i>Proven + Probable</i> | 8,222 | 1.50 | 0.40 |
| Refractory Open | <i>Proven</i> | 8,392 | 1.15 | 0.31 |
| Pit Reserves | <i>Probable</i> | 78,557 | 0.91 | 2.30 |
| | <i>Proven + Probable</i> | 86,949 | 0.93 | 2.61 |
| Subtotal Non-Refractory | <i>Proven</i> | 8,416 | 1.15 | 0.31 |
| and Refractory Open Pit | <i>Probable</i> | 85,657 | 0.90 | 2.49 |
| Reserves | <i>Proven + Probable</i> | 94,073 | 0.93 | 2.80 |

Note: see Notes to Ore Reserves statement in section 5.2 above.

Malomir Mineral Resources

(as at 31 December 2016, in accordance with JORC Code 2012)

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz) |
|---|-----------------------------|--------------|----------------|-------------|
| Total Resources | <i>Measured</i> | 8,558 | 1.21 | 0.33 |
| | <i>Indicated</i> | 135,865 | 0.91 | 3.99 |
| | <i>Measured + Indicated</i> | 144,423 | 0.93 | 4.33 |
| | <i>Inferred</i> | 118,944 | 0.71 | 2.73 |
| | | | | |
| Non-Refractory Open Pit Resources | <i>Measured</i> | 31 | 1.19 | 0.001 |
| | <i>Indicated</i> | 18,191 | 0.68 | 0.40 |
| | <i>Measured + Indicated</i> | 18,222 | 0.68 | 0.40 |
| | <i>Inferred</i> | 10,784 | 0.68 | 0.24 |
| | | | | |
| Non-Refractory Underground Resources | <i>Measured</i> | — | — | — |
| | <i>Indicated</i> | 850 | 8.23 | 0.23 |
| | <i>Measured + Indicated</i> | 850 | 8.23 | 0.23 |
| | <i>Inferred</i> | 489 | 3.72 | 0.06 |
| | | | | |
| Sub-total Non-Refractory (Open Pit and Underground) Resources | <i>Measured</i> | 31 | 1.19 | 0.001 |
| | <i>Indicated</i> | 19,041 | 1.02 | 0.62 |
| | <i>Measured + Indicated</i> | 19,072 | 1.02 | 0.63 |
| | <i>Inferred</i> | 11,273 | 0.81 | 0.29 |
| | | | | |
| Refractory Open Pit Resources | <i>Measured</i> | 8,527 | 1.21 | 0.33 |
| | <i>Indicated</i> | 116,824 | 0.90 | 3.37 |
| | <i>Measured + Indicated</i> | 125,351 | 0.92 | 3.70 |
| | <i>Inferred</i> | 107,671 | 0.70 | 2.44 |
| | | | | |
| Sub-total Open Pit (Refractory and Non-Refractory) Resources | <i>Measured</i> | 8,558 | 1.21 | 0.33 |
| | <i>Indicated</i> | 135,015 | 0.87 | 3.77 |
| | <i>Measured + Indicated</i> | 143,573 | 0.89 | 4.10 |
| | <i>Inferred</i> | 118,455 | 0.70 | 2.68 |
| | | | | |

Note: see Notes to Mineral Resources statement in section 5.2. Mineral Resources are reported inclusive of Ore Reserves.

Exploration Results for 2016 and first nine months of 2017

Following successful exploration drilling at Quartzitovoye in 2016, a maiden non-refractory reserve of 207koz at 5.85g/t was defined in 2017, underpinning an initial six year production plan for high grade underground mining. 2016 drilling confirmed that high grade mineralisation remains open at depth, with the deepest holes greater than 440m below the surface (245m below the open pit floor), intersecting what management consider to be attractive grades and thicknesses.

In May 2017, underground developments at Quartzitovoye led to the discovery of a previously unknown high grade pay shoot. The pay shoot is steep dipping and mined from the open pit, the flow of which is some 90 metres above the top of the ore body. The pay shoot remains open in both up and down directions. It is also considered possible that other similar pay shoots could be discovered along strike.

Mining and processing

Malomir is a combined open pit and underground operation. Mining productivity and equipment utilisation is optimised by operating two daily shifts throughout the year. Underground development commenced at the Quartzitovoye zone in January 2017, with the first ore produced in June 2017 (and ore production up to 30 September 2017 of 19.4kt with an average gold content approximately 6.97g/t). The Quartzitovoye underground mine is expected to be in full production by the end of 2017.

The Malomir licence includes multiple orebodies, which contain both refractory and non-refractory ore. The higher grade non-refractory ore at Quartzitovoye and Magnetitovoye is processed at the 3.0Mtpa RIP plant, operational throughout the year. The refractory ore from Malomir itself and also from Ozhidaemoye does not respond to standard RIP processing methods, specifically it is not suitable for direct cyanidation, and it is intended that it will be processed at the POX Hub once completed. The development of the Group refractory reserves into production involves construction of a 5.4Mtpa flotation plant at Malomir, which will be constructed in two stages. Stage 1 (3.6Mtpa) is nearly completed and is expected to be commissioned by the end of 2017. The flotation plant will convert the refractory reserves into higher grade flotation concentrate, which will be sent to the POX Hub for processing.

Commissioning of the POX Hub is scheduled to start by the end of 2018 with production ramping up through 2019.

Malomir Operational Report

The table below sets out a summary of mining operations at Malomir for the periods indicated.

Malomir mining operations

| | Units | 9 months ended 30 Sep 2017 | 9 months ended 30 Sep 2016 | Year ended 31 Dec 2016 | Year ended 31 Dec 2015 |
|----------------------|---------------------|----------------------------------|----------------------------------|---------------------------|---------------------------|
| Total material moved | m ³ '000 | 7,451 | 5,776 | 8,115 | 8,904 |
| Ore mined | kt | 2,191 | 845 | 1,535 | 2,105 |
| Average grade | g/t | 0.83 | 1.20 | 1.11 | 1.01 |
| Gold content | koz | 58.3 | 32.7 | 54.9 | 68.5 |

Malomir processing operations

Resin-in-pulp (RIP) plant

| | | | | | |
|-----------------------|-----|--------------|-------|--------------|-------|
| Total milled | kt | 2,503 | 2,255 | 3,000 | 2,937 |
| Average grade | g/t | 0.82 | 0.82 | 0.86 | 0.93 |
| Gold content | koz | 65.8 | 59.2 | 82.5 | 88.0 |
| Recovery rate | % | 61.3 | 67.9 | 68.9 | 67.2 |
| Gold recovered | koz | 40.3 | 40.2 | 56.8 | 59.1 |
| Total gold production | koz | 43.8 | 40.0 | 56.8 | 59.1 |

Note: from the beginning of 2017, the Company moved to using gold poured as the definition for production. The figures for the nine months to 30 September 2016 have been restated on this basis.

Production

The main sources of low grade ore were pits at the Quartzitovoye and Magnetitovoye zones. Ore from stockpiles also contributed to production.

Construction of an underground mine at Quartzitovoye 1 began in January 2017, after delays due to the late mobilization of equipment by the mining contractor. Since May, the contractor has worked in accordance with the mining plan. In the first nine months of 2017, approximately 1,848m of underground workings were completed. In spite of the delay, the first ore was mined in June 2017. A total of approximately 19kt of development ore with an average gold content of approximately 7.0 g/t. was mined in the first nine months of 2017.

The volumes of ore treated through the plant were in line with the mining plan. Recovery rates were lower than planned for the first six months of 2016 due to ore from the Quartzitovoye 2 pit being more refractory than expected. This pit was completed in the first six months of 2017.

In the second half of 2017, the main sources of low grade ore are Quartzitovoye 1 and Magnetitovoye. High grade ore is being mined from underground at Quartzitovoye 1.

The Malomir production guidance for the second half of 2017 is approximately 20,000-30,000oz.

Costs

TCC of US\$824/oz were achieved during 2016 a 25 per cent. improvement on 2015, with all-in sustaining costs of US\$1004/oz, a 15 per cent. improvement on 2015, primarily due to improved operational recoveries.

TCC for the first six months of 2017 were US\$1,140/oz (first six months of 2016 US\$917/oz). The increase in TCC primarily reflects the effect of Rouble appreciation, inflation of certain Rouble denominated costs and lower recoveries at Malomir which were compensated for by the mining tax concession which the Group continued to apply in the first six months of 2017.

Albyn

Introduction

Albyn is currently the Company's largest producing mine with a 100 per cent. non-refractory defined resource base. In 2016, Albyn produced 180.0koz (43 per cent. of the Group total); in the first 9 months of 2017, it produced 138.0koz (41 per cent. of the Group total). The approximately 1,053km² licence area is, in the opinion of the Group's management, largely under-explored, presenting the potential for possible further non refractory resources to be discovered. The main ore bodies at Albyn are open in a down dip direction beyond the feasible depth of open pit mining, offering longer term growth potential to establish resources and reserves for underground mining.

Location and infrastructure

Albyn is located in the north east of the Amur region, 720km from Blagoveshchensk, the China border trade city and regional business hub and 2km away from the town of Zlatoustovsk by all-weather road – a centre of local alluvial gold mining. The BAM railway is 280km away. Electricity is obtained from the grid.

Geology

The Albyn licence area covers multiple ore bodies within three key deposits: Albyn, Elginskoye and Unglichikan. All these orebodies are open in a down dip direction. Elginskoye and Unglichikan are also open along the strike. In addition to these proven deposits there are a number of known exploration targets of which Ulgen is the most significant. The majority of the licence area remains, in the opinion of the Group's management, under-explored, offering further exploration potential.

Albyn Reserves and Resources

A summary of Albyn's Ore Reserves and Mineral Resources, estimated as at 31 December 2016 in accordance with the JORC Code (2012) and audited by WAI in April 2017 is set out below:

Albyn Ore Reserves

(as at 31 December 2016, in accordance with JORC Code 2012)

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz) |
|-------------------------------------|--------------------------|--------------|----------------|-------------|
| Total Reserves | <i>Proven</i> | 4,952 | 0.51 | 0.08 |
| | <i>Probable</i> | 52,302 | 1.18 | 1.98 |
| | <i>Proven + Probable</i> | 57,254 | 1.12 | 2.06 |
| Non-Refractory Open Pit Reserves | <i>Proven</i> | 4,952 | 0.51 | 0.08 |
| | <i>Probable</i> | 52,302 | 1.18 | 1.98 |
| | <i>Proven + Probable</i> | 57,254 | 1.12 | 2.06 |
| Refractory Open Pit Reserves | <i>Proven</i> | — | — | — |
| | <i>Probable</i> | — | — | — |
| | <i>Proven + Probable</i> | — | — | — |

Note: All Albyn Ore Reserves are for open pit extraction. See Notes to Ore Reserves statement in section 5.2

Albyn Mineral Resources

(as at 31 December 2016, in accordance with JORC Code 2012)

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz) |
|--------------------------|-----------------------------|--------------|----------------|-------------|
| Total Resources | <i>Measured</i> | 5,049 | 0.52 | 0.09 |
| | <i>Indicated</i> | 74,025 | 1.13 | 2.69 |
| | <i>Measured + Indicated</i> | 79,074 | 1.09 | 2.78 |
| | <i>Inferred</i> | 60,442 | 1.02 | 1.99 |
| | | | | |
| Non-Refractory Resources | <i>Measured</i> | 5,049 | 0.52 | 0.09 |
| | <i>Indicated</i> | 74,025 | 1.13 | 2.69 |
| | <i>Measured + Indicated</i> | 79,074 | 1.09 | 2.78 |
| | <i>Inferred</i> | 60,442 | 1.02 | 1.99 |
| | | | | |
| Refractory Resources | <i>Measured</i> | — | — | — |
| | <i>Indicated</i> | — | — | — |
| | <i>Measured + Indicated</i> | — | — | — |
| | <i>Inferred</i> | — | — | — |
| | | | | |

Note:

All Albyn Mineral Resources are for open pit extraction. See Notes to Mineral Resources statement in section 5.2. Mineral Resources are reported inclusive of Ore Reserves.

Exploration Results for 2016 and first nine months of 2017

Elginskoye

In 2016, exploration and technical studies increased Ore Reserves at the Elginskoye deposit three-fold to 1.24Moz.

Ulgen

In 2017, exploration also continued at Ulgen, located approximately 30km south west from the Albyn plant in an area of extensive historical alluvial gold production. Exploration results at Ulgen are encouraging as there are many geological similarities with Elginskoye, where Mineral Resources currently stand at 2.81Moz containing 1.24Moz of Ore Reserves.

Unglichikan

In 2017, exploration at Unglichikan continued with drilling at the south group of the mineralised zones over a strike length of 1,200m. The 2017 drilling results confirmed known mineralisation and extended down dip to a depth of 90 to 130m from the surface. The 2017 drilling results are yet to be incorporated into the Group's JORC resource model.

Mining and Processing

Albyn is a large (2.2km in length), open pit, bulk tonnage mine. Mining productivity and equipment utilisation is optimised by operating two daily shifts throughout the year.

The Albyn licence covers multiple defined orebodies. All known reserves are non-refractory and can be treated at the 4.7Mtpa RIP plant, which operates throughout the year.

Albyn Operational Report

The table below sets out a summary of mining and processing operations at Albyn for the periods indicated.

Albyn mining operations

| | Units | 9 months ended 30 Sep 2017 | 9 months ended 30 Sep 2016 | Year ended 31 Dec 2016 | Year ended 31 Dec 2015 |
|----------------------|---------------------|----------------------------------|----------------------------------|---------------------------|---------------------------|
| Total material moved | m ³ '000 | 22,719 | 23,900 | 31,763 | 36,722 |
| Ore mined | kt | 3,677 | 3,514 | 4,970 | 4,906 |
| Average grade | g/t | 1.13 | 1.13 | 1.25 | 1.15 |
| Gold content | koz | 133.5 | 127.6 | 199.5 | 181.5 |

Albyn processing operations

Resin-in-pulp (RIP) plant

| | | | | | |
|-----------------------|-----|--------------|-------|--------------|-------|
| Total milled | kt | 3,464 | 3,502 | 4,675 | 4,600 |
| Average grade | g/t | 1.15 | 1.14 | 1.28 | 1.14 |
| Gold content | koz | 127.6 | 128.6 | 192.5 | 168.8 |
| Recovery rate | % | 93.1 | 92.7 | 93.5 | 93.3 |
| Gold recovered | koz | 118.8 | 119.2 | 180.0 | 157.6 |
| Total gold production | koz | 138.0 | 125.1 | 180.0 | 157.6 |

Note: from the beginning of 2017, the Company moved to using gold poured as the definition for gold production. The figures for the nine months to 30 September 2016 have been restated on this basis.

Production

The main sources of ore were the Central and Eastern zones of the Albyn main pit, with a small amount of ore supplied from stockpiles. The plant operated as normal throughout the year.

The Central zone of the Albyn main pit is expected to remain the main source of ore, with some ore from stockpiles, for the remainder of 2017. The gold production forecast for the second half of the year is approximately 80,000-85,000oz.

Costs

Albyn has been a key target for cost reduction. In 2016, TCC of US\$581/oz were achieved, a 22 per cent. improvement on 2015, with all-in sustaining costs of US\$719/oz, a 21 per cent. improvement on 2015. This was primarily due to higher processed grades and higher operational recoveries.

In the first six months of 2017 TCC were US\$406/oz, a 35 per cent. improvement on the first six months of 2016 (US\$628/oz). In the first six months of 2017 AISC were US\$762/oz a 8 per cent. increase compared to the first six months of 2016 (US\$705/oz).

5.4 Development and Exploration Assets

Tokur

Introduction

Tokur is a hard-rock, non-refractory gold deposit. Although Tokur was mined in the Soviet era using underground mining methods, the deposit still contains significant JORC Mineral Resources and Ore Reserves. Tokur contains an estimated 2.5 per cent. of the Group's Ore Reserves and 7 per cent. of the Group's Mineral Resources. The deposit is currently not in commercial production.

Tokur is located in the north-eastern part of the Amur region, approximately halfway between the Malomir and Albyn mines.

Infrastructure

Being a former Soviet-era mine and in an area of intensive, historical alluvial mining, Tokur benefits from developed infrastructure, including all-weather roads and grid electricity. This led it to become a base for the Group's expansion into the area. The chemical and fire analysis laboratory located at Tokur is fully employed by the Group's exploration division.

Outlook

Although Tokur was mined extensively during the Soviet era, the deposit still contains significant JORC-compliant Mineral Resources and Ore Reserves suitable for processing in an RIP plant. However, in line with the Group's plan to focus on its existing producing assets in the short-term, the Group has no plans to develop Tokur in the short-term. Tokur's assets have been fully impaired and the Group intends to review its development plans for Tokur in the mid-term and development can be commenced when the Group considers that economic conditions support this.

5.5 The POX Project

Background and Overview

In 2010, an extensive feasibility study into refractory ore processing solutions was carried out by PHM Engineering, one of the Company's 100 per cent. owned subsidiaries. This incorporated a base engineering study prepared by Outotec, a Finnish engineering firm, in cooperation with RDC Hydrometallurgy, another of the Company's 100 per cent. owned subsidiaries. The results demonstrated that pressure oxidation (**POX**), via autoclaves, was the most technically and economically viable and advantageous processing solution, in addition to being the most efficient, safe and environmentally friendly method.

Pressure oxidation is a globally recognised process for treating refractory ore and flotation concentrate, by applying high temperature and high pressure within an autoclave. This allows the gold bearing sulphides to break down, making the gold amenable to cyanide leaching.

In 2011, the Company decided to proceed with the POX project development. The final design required the construction of flotation plants at Malomir (5.4Mtpa) and Pioneer (6.0Mtpa) and a 500ktpa pressure oxidation facility (POX Hub) at Pokrovskiy, utilising four separate autoclave vessels (15m x 4m, each with a volume of 66m³). The plant design allows for the addition of two further autoclaves.

Following the downward trend in gold price in 2013, the Company put the POX Hub development on care and maintenance while exploring potential external funding solutions, namely with the Company's lenders and possible joint venture partners. Prior to this, significant design work, earth works, civil works and construction had been completed.

In 2016 the Group resolved to resume development of the POX Hub utilising internally-generated funding, and stage 1 of the Malomir flotation plant, and full scale development of the POX project, recommenced in January 2017, following the Debt Refinancing. Management believes that the POX Hub will be the second of its kind in Russia. The POX Hub is an integral part of the Group's future plans in allowing for refractory gold production and Pokrovskiy provides an important strategic location for the plant, not only due to its on-site and regional infrastructure, but also its close proximity to Pioneer's limestone deposit, limestone being a key ingredient for the pressure oxidation process to be used at the POX Hub. The POX project comprises the construction of the POX Hub, which is expected to be commissioned in the fourth quarter of 2018, the refractory ore flotation plant at the Malomir mine, the first stage of which is expected to be commissioned by the end of 2017 (the second stage of which is expected to be commissioned in 2019), and the refractory ore flotation plant at the Pioneer mine which is expected to be commissioned in 2023. It is expected that these flotation plants will produce concentrate to be delivered to the POX Hub for processing. The POX Hub may also process concentrate sourced from third parties.

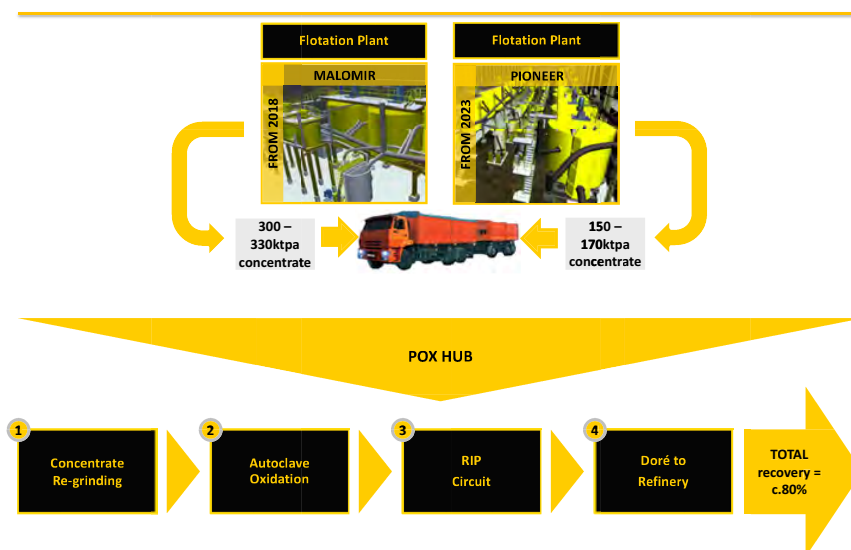
As at the end of September 2017, the construction of the POX Hub was approximately 80 per cent. complete and construction of the Malomir flotation plant (Stage 1) was nearly complete. Commissioning of POX is scheduled to start by the end of 2018 with production ramping up through 2019.

The completion of the POX project is expected to extend the life of mine for both Pioneer and Malomir. Under the Group's business plan the POX project is expected to add in excess of 200koz per annum to the production profile in the first five years following commissioning. The POX Hub has been designed to permit another two autoclaves to be added in due course.

Set out below is an overview of the intended operation of the POX Hub.

POX Hub Overview

Flowsheet



The figure for estimated total recovery reflects the data set out in the table below.

Feasibility analysis

Alongside an independent technical audit, in 2016 the Company conducted an internal review of the 2010 study. The Group's 2010 updated estimates for operating and metallurgical project parameters are set out below:

| | | Malomir | Pioneer |
|--|----------------|----------------|----------------|
| Flotation Plant | | | |
| Ore processed | kt | 5,400 | 6,000 |
| Ore grade | g/t | 1.04 | 0.91 |
| Flotation recovery | % | 86 | 82 |
| Sulphur content | % | 25 | 21 |
| Concentrate yield | mass % | 5.50 | 2.90 |
| Concentrate grade | g/t | 24 | 24 |
| POX Hub | | | |
| Concentrate processed | kt | 300-330 | 150-170 |
| Gold recovery | % | 93 | 98 |
| TOTAL POX refractory recovery | % | 80 | 80 |
| Total operating costs (incl. Flotation) | US\$/oz | 615-675 | 785-865 |

Source: Press Release (16 March 2017) 'POX Hub update'.

Extensive autoclave test work is regularly carried out at the Group's Blagoveshchensk metallurgical test plant (operating since 2011). This enables the Group to run permutations of the key operating parameters with which to better understand the optimal solutions for autoclave concentrate recovery.

Processing of Refractory Ore

The gold sector is increasingly unable to replace depleted oxide ounces. More than 50 per cent. of Russia's defined gold resources are refractory or partially refractory. The POX Hub is expected to enable Petropavlovsk to unlock the value embedded within the Group and in Russia more broadly. Defined within Petropavlovsk's estimated 20.2Moz JORC Mineral Resources (7.95Moz JORC Ore Reserves as at 31 December 2016) is a 9.3Moz refractory gold JORC Resource (4Moz refractory JORC Ore Reserves), with under-explored resource upside within the licence areas.

The Group's defined economic refractory ounces are located within the Malomir licence area (approximately 820km²) and Pioneer licence areas (approximately 1,280km²). Both licences sit along or above the Mongolo-Okhotskiy mineralised belt. Refractory mineralisation at both Malomir and Pioneer is hosted mainly within carbonaceous schists and meta alevrolites. This same belt also hosts a number of large deposits, including Sukhoi Log and Teseevskoe-Baley to the west of the Amur region. Malomir (whose JORC Ore Reserves are estimated to be 87 per cent. refractory) is the only large refractory deposit within the north east part of the Amur region and remains largely under explored. The area is highly prospective for further resource growth due to favourable geology and large neighbouring alluvial deposits, many of which have potential for unidentified hard rock sources. In addition to its significant non refractory reserves, further refractory resource potential exists within the Pioneer licence, particularly along the contact between granitoid and Jurassic host rocks, south and south west of the Pioneer RIP plant. 56 per cent. of the Pioneer JORC Ore Reserves are refractory.

Ore will first be mined, crushed, ground and put through a flotation circuit at Malomir (and at Pioneer from 2023). The resultant high grade flotation concentrate, equating to 5.5 per cent. mass of the original ore, will be dried and transported to the POX Hub for autoclave oxidation, neutralisation, filtration and then leached in the existing Pokrovskiy RIP circuit before doré smelting.

The establishment of the POX Hub will allow the Group's mining operations to be significantly more flexible, as flotation concentrates from Malomir and Pioneer with varying metallurgic properties can be separately processed simultaneously, without compromising productivity or gold recovery. The final design also allowed for a further 30 per cent. expansion in processing capacity from approximately 500ktpa to approximately 650ktpa, with the addition of two further autoclaves.

Pox Hub location

The Pokrovskiy mine, in the Amur region, was identified as the optimal strategic location for the POX Hub, due to the regional and on site infrastructure. The Malomir mine is 670km from site and the Pioneer mine 40km from site via all-weather federal roads. The Trans-Siberian Railway is 10km from the site and Blagoveshchensk, the Russia-China trading hub of the Far East, is 450km from site via federal motorway. Furthermore, the region benefits from access to low cost hydropower from four regional hydroelectric stations (approximately 5GW capacity) and the availability of highly skilled labour.

Pokrovskiy is a mature project with declining production but with on-site infrastructure (including a 2Mtpa RIP plant). Utilising and adapting this existing infrastructure has a beneficial impact on capital costs, with buildings and equipment with a gross book value of approximately US\$90 million being incorporated directly into the POX Hub facility. By utilising the existing mine site, it is expected that there will be no increase in the environmental footprint.

Project Economics

Capital Costs

As at 30 June 2017, the total project cash capital spent on the POX Hub was approximately US\$216 million. The total outstanding estimated capex as at 30 June 2017 was approximately US\$63 million for the POX Hub, including a contingency allowance. The total outstanding estimated capital expenditure as at 30 June 2017 was approximately US\$30 million for Stages 1 and 2 of the Malomir flotation plant and approximately US\$7 million for tailings related to Malomir flotation.

Operating Costs

The operating cost estimates are detailed in the table below. The Company believes that these are competitive with other global operating refractory gold producers and also comparable to the Company's non-refractory open pit total cash costs. This reflects lower mining costs resulting from a lower strip ratio and materially lower RIP processing costs due to only 3-5.5 per cent. of the volume of raw ore being treated. Actual operating costs may vary from these estimates due to various factors, including factors beyond the Group's control.

| | | Malomir | Pioneer |
|--|---------------------|----------------|----------------|
| Total operating costs (inc flotation) | US\$/oz | 615 – 675 | 785 – 865 |
| Mining costs | US\$/m ³ | 2.5 | 2.6 |
| Transport costs | US\$/t conc | 26 | 1.7 |
| Flotation costs | US\$/t treated ore | 4.6 | 4.6 |
| POX costs | US\$/t conc | 78.2 | 78.1 |

Updated Project Economics

The Group's current economics, set out in the table below, account for updated operating and capital costs, assuming a long term average gold price of US\$1,200/oz and a foreign exchange rate of US\$:RUR60.

| | Project NPV (10%) | Project IRR (%) | Project payback (yrs) | Revenue 2018-2032 (US\$m) | Avg production 2018-2032 (koz pa) |
|------------------|------------------------------|----------------------------|--------------------------------------|--|--|
| Base case | 603 | 65 | 3.25 | 3,965 | 220 |

Debt Refinancing

The Company's Debt Refinancing of the Group's bank debt totalling approximately US\$530 million required 100 per cent. self-funding of the POX Hub from internal cash flow generated by the Group's current non-refractory operations. This was modelled based on an average US\$1250/oz gold price throughout the construction and ramp up phase.

Construction

The POX Hub and Malomir flotation plant are fully permitted for construction.

Following the downward trend in the gold price in 2013, the Company put the POX Hub development on care and maintenance while exploring potential external funding solutions, namely with the Company's lenders and possible joint venture partners. Prior to this, significant design work, earth works, civil works and construction had been completed.

Malomir Flotation Plant (design capacity 5.4Mtpa)

The Malomir flotation plant is a staged build.

- Stage 1 capacity is 3.6Mtpa across two parallel 1.8Mtpa lines. As of end of September 2017 Stage 1 construction was nearly complete. Flotation concentrate production is scheduled for the first quarter of 2018. Initially the concentrate will be stockpiled before being transported to the POX Hub site ahead of the staged autoclave commissioning by the end of 2018.
- Stage 2 will expand the flotation plant to 5.4Mtpa by adding a third 1.8Mtpa line. This will fully calibrate the flotation plant capacity with the existing 6Mtpa crushing and grinding capacity. Stage 2 expansion is scheduled for completion and commissioning in 2019.

During Stage 1, the spare crushing and grinding capacity will be fully utilised for non-refractory feed from the open pit and underground ore into the RIP plant.

Pioneer Flotation Plant (design capacity 6.0Mtpa)

The Pioneer flotation plant is scheduled for construction in 2021, ahead of concentrate production from 2023.

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

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

Key Construction Milestones

The oxygen plant, supporting POX Hub infrastructure and all piping, welding and assembly works are scheduled for completion by the end of 2017. This leaves the construction of the autoclave plant, Pokrovskiy RIP refurbishment and POX Hub integration to be completed by the end of 2018.

The Malomir flotation plant (Stage 1) is scheduled for commissioning, whilst flotation concentrate production is due to commence from the first quarter of 2018. By the end of 2018, the POX Hub is scheduled to commence a staged dry and wet commissioning, one autoclave at a time.

The ramp up to commercial production is due to occur throughout 2019.

Upside Potential

Exploration

The Group continues to explore the potential for further mine life extension and production expansion.

As described above, exploration work has identified several prospective satellite refractory targets at Malomir and Pioneer for further exploration work, including Ozhidaemoe.

There is also known refractory mineralisation within the Albyn licence holding.

Expansion

The autoclave plant was designed and constructed to allow for an additional two autoclaves to be installed when required, increasing processing capacity by 30 per cent. to approximately 650ktpa.

Ability to process third party ore

Given the scale of the POX Hub and the large amount of undeveloped refractory gold mineralisation in the Russian Far East, the POX Hub provides opportunities for the future growth of the Group beyond its own existing reserves and potential reserves by processing third party ore for a fee.

- Selling Concentrate

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

- Third Party Tolling

The POX Hub will be able to treat third party refractory ore under a tolling arrangement. As part of running optimisation scenarios on the Group's production plan, upside opportunities exist for increasing the concentrate grade of the feed to the POX Hub organically within its own assets or in cooperation with third party high grade ore.

- Regional Licence Acquisition

The POX Hub also creates opportunities to treat ores from deposits available for acquisition in the Amur region, especially those with significant reserves and resources that were abandoned during the Soviet era due to a lack of processing technology.

5.6 Development of underground mines

Pioneer – NE Bakhmut Underground Mine Development

In 2016, deep level surface drilling, targeting high grade down dip extensions, confirmed that mineralisation continues at depth and resulted in a maiden Ore Reserve of 165koz. The Total Mineral Resource of 299koz represents a 300 per cent. increase from 2015, including a 340 per cent. increase in the Indicated Resource category.

In 2016, Petropavlovsk appointed an underground contractor, and mine construction started in the second quarter of 2016. A total of 675m of access and ventilation declines development was completed by the end of the year.

In the first nine months of 2017, development of Pioneer's underground mine declines advanced by 2,412.1m and the existing pumping and ventilation systems are being upgraded to support full scale operation. It is expected to be commissioned during the last quarter of 2017.

The first ore was mined from the sublevel development in June 2017. By 30 September 2017, a total of approximately 20.8kt of ore at approximately 2.0g/t of gold had been produced from the lower grade zone. Full scale production from the high grade NE Bakhmut No 3 zone is expected to start by the end of 2017.

Malomir – Quartzitovoye Underground Mine Development

Successful deep level surface drilling targeting high grade down dip extensions confirmed the continuation of mineralisation at depth and resulted in defined maiden Ore Reserves of 207koz at

5.85 g/t. This underpins a five year life of mine production plan. The total Mineral Resources are 283koz, including a 236 per cent. increase in the Indicated Resource category.

In the fourth quarter of 2016, the Group appointed an underground contractor and mine construction commenced in early 2017.

The underground developments advanced 1,848m in the first nine months of the year and in July 2017, developments reached the main Quartzitovoye ore body 55. The first development ore was produced in June 2017 with total production of 19.4kt of ore at 7.0g/t of gold up to 30 September 2017.

The first stope mining from ore body 55 will require the existing pumping station and a ventilation facility to be upgraded to support full scale operation. First stope mining is currently expected to commence towards the end of 2017.

5.7 Operational Optimisations

Following tests and research completed in 2015 and 2016, a dedicated resin treatment facility was established to improve the processing efficiency of the resin at the Group's RIP plants in a cost-effective manner.

The fundamental process involves:

- A staged acid-alkaline treatment to dissolve calcium and silica build up and cleanse the resin of other contaminants, including releasing gold trapped in the resin.
- A carbon sorption conditioning treatment of any recycled water has been introduced. This cleanses the recycled water of any contaminants accumulated over time.

Implementation of these upgrades resulted in a meaningful contribution towards gold production during the first six months of 2017. The positive results of this treatment facility were expected and conservatively budgeted for within the Company's production guidance for 2017.

From the beginning of 2017, the Company moved to using gold poured as the definition for production. This more closely aligned production reported with production sold, thereby reducing the impact of gold-in-circuit.

5.8 Principal in-house Service Companies and Capabilities

Various in-house companies which specialise in a specific area of mine development operate within the Group and will continue to offer support for the exploration, development and mining needs of the Group in addition to conducting some work for third-parties.

Exploration Services

The Group has a specialist exploration subsidiary, Regis.

Regis provides the Group with a range of exploration services including early-stage prospecting, trenching and detailed reserve definition drilling. In the first nine months of 2017 Regis completed 81,938m of drilling and 573,709m³ of trenching. They conducted approximately 113,000m of drilling and approximately 730,000m³ of trenching in 2016 and approximately 103,000m of drilling and approximately 1,500,000m³ of trenching in 2015, for other members of the Group and external clients.

In addition to this work, Regis uses computer modelling (Micromine®) to develop a clear understanding of the Group's exploration areas, define mineral resources and facilitate mine planning.

Laboratories

The Group, through one of its subsidiaries, operates a network of laboratories which support all of its analytical needs as well as conducting work for third parties. These laboratories have the capacity to conduct assaying, metallurgical testing and sample analysis to establish the gold grade, mineralogical composition and geotechnical properties of the ore and the most suitable method and parameters for cost-efficient extraction and processing. The Group's laboratories use a wide-range of analytical methods, including fire assaying, atomic absorption, spectroscopy and mineralogical analysis, x-ray crystallography and physical property determinations. The Group's laboratories also analyse samples to monitor discharge to water, air and soil, thus minimising the environmental impact of the Group's operation and ensuring each mine operates within Russian environmental legislation. On average, the Group's laboratories conduct 3,500 analysis tests a day and analyse approximately 1.2 million samples a year.

In-house engineering and R&D

PHM Engineering comprises a team of highly-qualified specialists undertaking technical studies which have supported the Group in the development of its projects. PHM Engineering is able to conduct strategic mine planning, detailed technical design, Feasibility Studies and facilitate technical permitting.

The Group also owns Irgiredmet, which the Group's Management considers to be one of the Russian Federation's leading R&D engineering and scientific consulting companies for mining projects. Irgiredmet typically works on more than 200 assignments annually for other members of the Group and external clients.

The research and development company Gidrometallurgiya has particular expertise with research into the processing of refractory ores. Gidrometallurgiya supports the development of the POX Hub, by providing scientific research and testing into high-pressure and temperature autoclave technologies to process refractory ores.

The Group operates a unique metallurgical test plant, which enables it to replicate entire processing operations on a smaller scale, including the processing of refractory ores using pressure oxidation technology. The pilot test plant has a capacity of 500kg of ore an hour.

Construction

The Group operates a specialist construction company, Kapstroj. Kapstroj was established by the Group in 2005 and has since undertaken the majority of the Group's mine construction work, including the construction and expansion of the Pioneer, Malomir and Albyn mines.

6 IRC

As at 30 September 2017, Petropavlovsk also held a 31.1 per cent. interest in IRC, a producer and developer of industrial commodities, principally iron ore. Based in the Russian Far East, IRC benefits from low production costs and proximity to the Chinese border, China being the world's largest consumer of IRC's main product, iron ore. IRC was Petropavlovsk's Non Precious Metals Division before it was listed on the Hong Kong Stock Exchange in late 2010. As part of the balance sheet optimisation, the Group also continues to assess ways to realise the value of its current interest in IRC.

IRC's assets

IRC's key mining assets are K&S, Kuranakh and Garinskoye:

- K&S. A producing iron ore mine which is located in the Jewish Autonomous Region (**EAO**) of the Russian Far East
- Kuranakh. An iron ore/ilmenite concentrate mine located in the Amur region, Russian Far East. The board of IRC has authorised a strategic assessment of the option to restart the operation.

- Garinskoye. This project is at an advanced stage of exploration with Probable Ore Reserves as well as Indicated and Inferred Mineral Resources. Like Kuranakh, it is located in the Amur region.

IRC's non-core mining assets – those that are not expected to contribute substantially to revenue in the short to medium term – are Bolshoi Seym, the Garinskoye flanks and Kostenginskoye.

- Bolshoi Seym. An ilmenite deposit with Indicated and Inferred Mineral Resources, located North of Kuranakh
- The Garinskoye flanks. An area surrounding Garinskoye at an early stage of exploration
- Kostenginskoye. An area 18km south of K&S at an early stage of exploration.

The Garinskoye Flanks and Kostenginskoye are yet to have JORC compliant Mineral Resources and Ore Reserves.

In addition to these assets, IRC also operates:

- Giproruda. 70 per cent. owned by IRC and based in St Petersburg, it is a technical mining and research consultancy.
- SRP. A steel slag reprocessing plant located in North East China. It is a joint venture between IRC, which owns 46 per cent., and one of its largest iron ore customers.

As at 30 September 2017, IRC's total debt outstanding was approximately US\$233.8 million and its unaudited cash balance was approximately US\$19.3 million.

Operational performance in 2016 and the first nine months of 2017

K&S

During 2016, Phase One of the K&S development commenced final hot commissioning and in the last six months of 2016 entered a trial production phase. This phase of the development is expected to be able to produce 3.2 million tonnes of iron ore concentrate with a 65 per cent. iron (Fe) content, once completed and at full capacity. At the end of 2016, it had produced over 160,000 tonnes of iron ore concentrate.

During the first nine months of 2017, K&S produced 1,167kt of concentrate (up 450% compared to the first nine months of 2016), with sales for the period of 1,152kt (up 376% compared to first nine months of 2016). The plant is currently operating at a steady capacity of around 80%. During the three months ended on 30 September 2017, IRC experienced some delays in the transportation of products from K&S to customers due to congestion of the Russian railway system in part due to the unusually heavy torrential rain in the region.

In relation to the K&S loan, ICBC has agreed to restructure the remaining repayments under the Project Finance Facility. Accordingly, as announced on 27 February and 21 March 2017, the two repayment instalments originally due in 2017, which amounted to a total of approximately US\$43 million, will be repayable at the same time as the five subsequent repayment instalments.

Kuranakh

Kuranakh was moved to care and maintenance in the beginning of 2016 in response to a difficult operating environment and remains on a care and maintenance basis. IRC considered the process to be satisfactory throughout 2016 with only minimal costs necessary to maintain security and equipment.

During 2016, the annual sales volume was 219,352 tonnes for the remaining iron ore concentrate, and the sales volume of ilmenite concentrate was 60,044 tonnes. The segmental revenue of the mine was US\$15.6 million.

Garinskoye

Garinskoye remains an attractive, low cost, large scale, DSO style greenfield project. IRC did not develop it in 2016 or in the first nine months of 2017 due to capital constraints, but continues to monitor market conditions for future opportunities.

7 Managing the Environment

Petropavlovsk is committed to effectively managing environmental issues, upholding the highest standards as required by Russian law, and operating in line with international best practice.

In 2016, all Group mines adopted the Declarations on the Technical Regulation TR TS 030/2012 concerning lubricants, oils and speciality fluids, based on the Customs Union agreement (the Russian Federation, Kazakhstan, Belarus), following ratification and introduction into Russian legislation. These declarations were adopted at all of the Group's sites and are aimed at minimising the potential negative effects of such materials. All Group mines currently have ISO 14001-2017 certification which will be valid until 2020.

The Group requires licences and permits from Russian authorities for some operational activities (mining and exploration, construction, handling hazardous waste and using local water supplies). These may detail limits and conditions to help protect the environment. The Group must also draw up environmental impact assessments for mining project permits to be considered, in line with Russian legislation.

The environment is monitored throughout the life of each mine to identify any impact its activities might have on the surrounding ecosystem. Data is collected according to state approved schedules and samples analysed in state accredited laboratories.

All Group operations hold licences with water usage quotas detailing where water may or may not be used from. Pit water is purified before it is discharged and local water is continuously monitored. The Group's RIP plants use recycled water, reducing demand from local sources.

Waste management programmes are agreed with regulatory authorities in compliance with Russian legislation. The programmes detail standards and limits on what can be produced or disposed of. Data on waste is collected, logged and sent to regulatory authorities for review.

The Group is governed by laws designed to limit industrial impact on ecosystems. Land may only be cleared within the limits of licences and permits, for instance, and in designated areas it is forbidden to fish, hunt, poach or drive vehicles.

Petropavlovsk uses purification systems, anti-dust equipment and other protective facilities to prevent harmful substances entering the atmosphere. Gas purification equipment is at all emission points and is monitored on a regular basis. Air quality monitoring includes carbon monoxide and dust emissions and is performed according to mining and environmental monitoring programmes, which are agreed in advance with federal authorities.

The Group has modern systems in place for the handling of cyanide.

Monitoring greenhouse gas (**GHG**) emissions enables the Group to look for opportunities to minimize its carbon footprint. The Group's emissions principally come from the following sources – diesel, kerosene, benzene and coal.

As shown in the following table, the Group achieved material reductions in emissions in 2016 compared to 2015.

| Emissions | 2016 | 2015 | 2016 vs. 2015 |
|--|-------------|-------------|----------------------|
| Combustion of fuel and operation of facilities (tonnes of CO ₂ e) | 182,408 | 260,195 | -30% |
| Electricity, heat, steam and cooling purchased for own use (tonnes of CO ₂ e) | 222,847 | 276,144 | -19% |
| Total emissions per ounce of gold produced | 0.97 | 1.07 | -9% |

8 Health and Safety

The Group's health and safety team aims to maintain a safe environment at all the Group's operations, enforcing compliance with local legislation and seeking to exceed these requirements by implementing global best practices. The Group maintains high standards of training and in raising awareness and introducing enhanced monitoring tools to ensure a safe environment for employees. One of the key indicators that the Group relies upon to identify trends and areas of focus is the Lost Time Injury Frequency Rate (**LTIFR**). This is an integral part of a complex system covering a database of statistics, training programmes and operating parameters used for regular analysis and control. These systems should ensure that the Group operates in compliance with Russian legislation and provides the Group with a basis for continuous improvement.

For the year ended 31 December 2014, Group operations (excluding IRC) recorded an LTIFR of 2.50 accidents per million man hours worked. For the year ended 31 December 2015, Group operations recorded an LTIFR of 2.63 accidents per million man hours worked. For the year ended 31 December 2016, Group operations recorded a LTIFR of 2.64 accidents per million man hours worked. There were three fatal accidents in 2014 and one in each of 2015 and 2016. In the six months ended 30 June 2017, Group operations recorded a LTIFR of 2.20 of accidents per million man hours worked. Two fatal accidents were recorded in this period.

The Group continues to develop its health and safety procedures, and is aiming for a low LTIFR and zero fatalities with enhanced reporting requirements and accountability, disciplinary procedures, general and specialist training and personnel safety meetings. The Group has successfully merged the Russian three stage reporting system with global best practices to reduce the probability of accidents by identifying and removing potential dangers.

There is rigorous control and monitoring of compliance with the Group's health and safety regulations to ensure a safe environment is promoted.

9 Group Employees

Petropavlovsk employed an average of 8,064 staff in 2016. As at 31 December 2016, 1,857 employees were female, representing c.23% of the Group's total workforce. As at 30 June 2017 the Group had approximately 8,400 employees. Petropavlovsk recognises the socioeconomic influence it has as a major employer and taxpayer in the Amur region. The Group understands that its employees are a key asset and invests in them accordingly, leveraging their expertise and providing continuous development. The Pokrovskiy Mining College, which aims to offer employment opportunities to graduates, was established in 2008 to provide future employees with specialised training, tailored to the needs of the Group. Since its inception, the college has trained more than 4,000 people and offers a broad range of different courses.

The Group provides equal opportunities and pay in all aspects of employment, regardless of gender or background, as required by both Russian and UK legislation, and women have the opportunity to reach the highest levels of senior management.

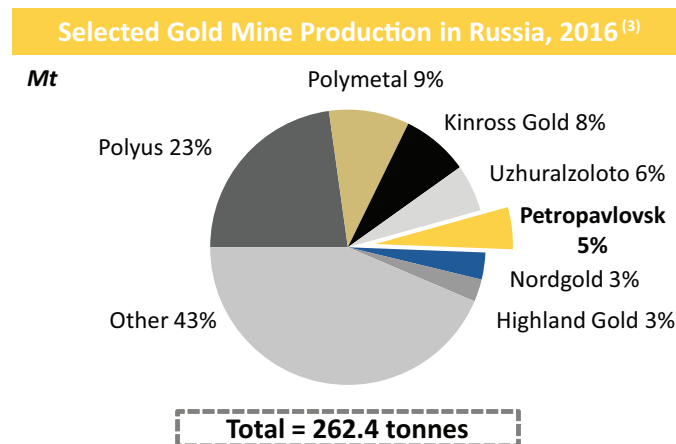
The Group complies with Russian and UK employment legislation (as applicable). In Russia, the Group operates in accordance with the Constitution of the Russian Federation, which details the rights and freedoms of citizens.

At the mines, shift patterns help employees to maintain their family commitments whilst ensuring operations can run throughout the year. Employees work to shift patterns of a fortnight, month, or 45 days. Once each shift is complete, employees have the same amount of time off work. Commuting is impractical due to the remote location of the mines. Employees stay in purpose built accommodation on site, with recreational facilities and modern conveniences.

10 Competitive Environment and Cost Profile

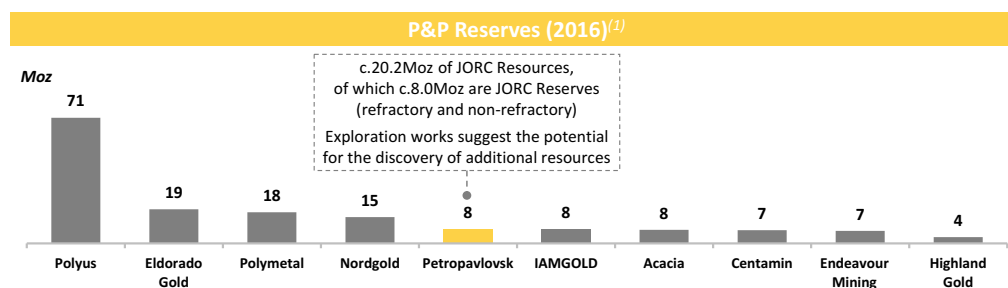
In 2016, Petropavlovsk was one of the largest producers of gold in Russia.

The chart below sets out the gold mining production in Russia in 2016:

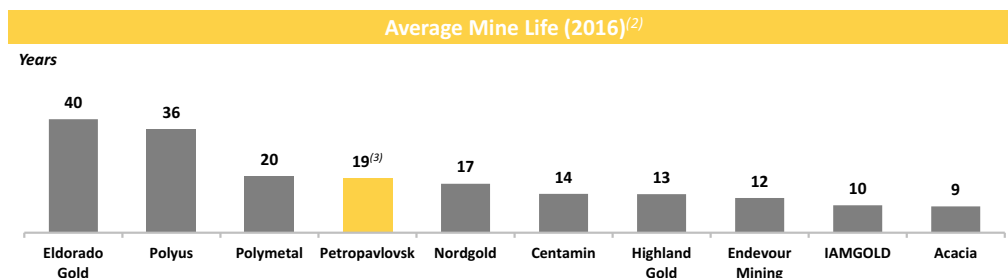


Source: the Russian Union of Gold Producers

The chart below sets out some of the largest gold producers by reserves:



The chart below sets out some of the largest gold producers by life of mine⁽³⁾

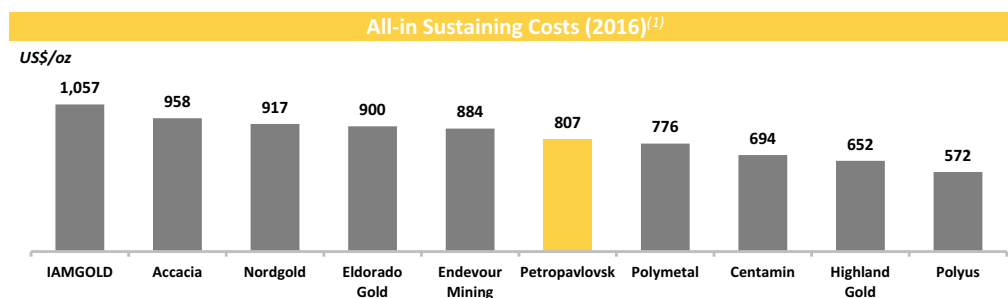
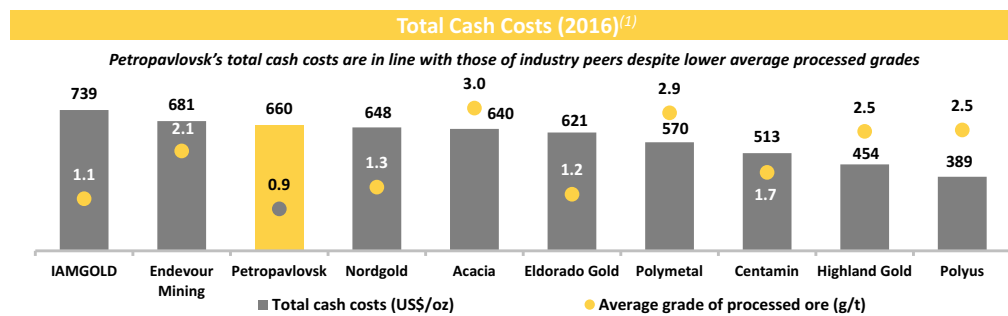


(1) Source: company data.

(2) Source: company data (calculated as proven and probable gold reserves as of year end 2016 divided by 2016 gold production; does not account for any potential future developments).

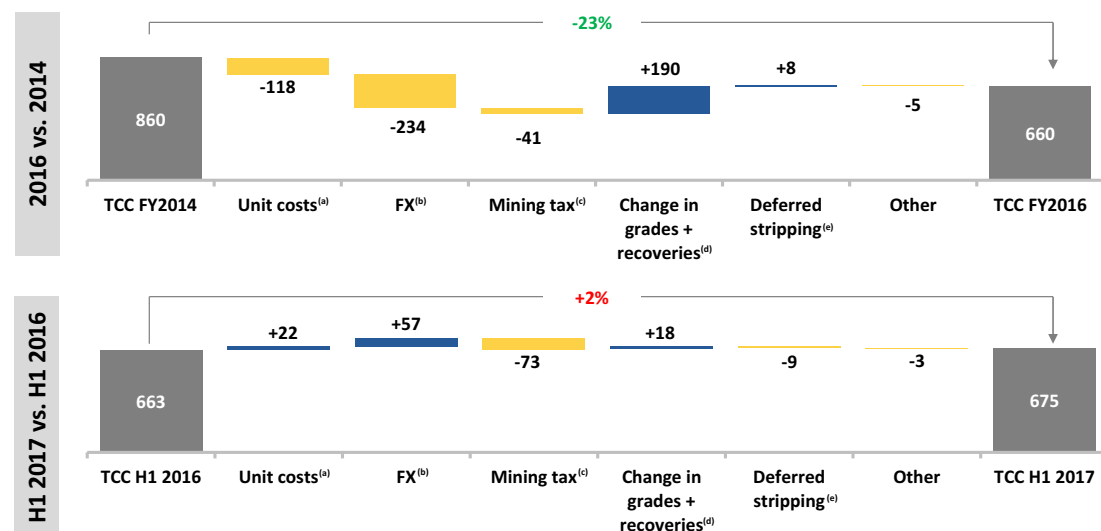
(3) Calculated as proven and probable gold reserves (including refractory reserves) as at year end 2016 divided by 2016 gold production. Based on the Group's current mining plan (including implementation of the POX project and planned underground mining), the Group's current gold mining projects each have an estimated mine life of at least 15 years (with the exception of the Pokrovskiy mine (which is expected to cease mining operations in 2018)).

The following charts show comparative cost information of certain gold producers



(1) Source: company data

TCC bridges based on analysis of TCC evolution



- (a) Effect of changes in unit costs (cost per tonne of ore mined and cost per tonne of ore processed), valuation of opening and closing balances of ore stockpiles, gold in circuit and bullion in process, as well as production overheads and other fixed and semi-fixed costs between the current period and the comparative reporting period, excluding the effect of foreign exchange referred to in (b) below.
- (b) Effect on TCC of applying current period average RUB : USD exchange rate to the prior comparative period Rouble denominated operating cash expenses provided all other key variables remain unchanged.
- (c) Change in mining tax per ounce sold between the current period and the prior comparative reporting period.
- (d) Effect on TCC of applying prior comparative period processed ore grades and gold recoveries to the volumes of ore processed in the current period provided all other key variables remain unchanged.
- (e) Change in deferred stripping costs per ounce sold between the current period and the comparative reporting period.

Petropavlovsk's main competitors in Russia are Polyus Gold, the largest gold mining company in Russia, and Polymetal International, a significant producer of gold in Russia. However, neither of these companies have significant operations in the Group's area of focus, the Amur region.

The Group considers its main competition to be for capital, a skilled workforce, assets and exploration and development opportunities.

The Group seeks to retain and, where appropriate, attract a skilled workforce. Succession planning is an important item on the agendas of both the Nomination Committee and the Board. Reviews of reward structures and incentive plans are carried out as appropriate in order to attract, retain and incentivise key employees.

11 Customers and Sales

Under Russian law, the Federal Ministry of Finance has a preferential right to purchase all refined gold and silver from each Russian producer. Regional authorities also have such preferential rights in relation to producers in their respective regions, but to date only a limited number of regional authorities have actually exercised their rights in this regard. In practice, unless waivers of these preferential rights are granted by such authorities annually, the producer may be required to sell up to all of its refined gold or silver to such authorities as and when demanded by them. Such sales are to be made at international prices for the refined gold or silver, as the case may be. Subject to the preferential rights of the Federal Ministry of Finance and the regional authorities, authorised Russian banks are also permitted to buy gold and silver bars from the producer. Alternatively, subject to such preferential rights, a producer of gold and silver may export its refined precious metals or it may engage an authorised Russian bank, acting as its agent, to do so on its behalf in return for a commission.

In recent years, producers have not been required to sell much if any of their gold and silver to the Russian State and such regional authorities under these preferential rights. The Company has submitted the required offers to the Federal Ministry of Finance and sold all of its gold production to Sberbank and VTB.

During the six months ended 30 June 2017 and during the years ended 31 December 2014, 2015 and 2016, the Group generated revenues primarily from sales of gold to Sberbank and VTB to which it is obligated to sell a certain amount of gold each year (subject to the above preferential rights) pursuant to the terms of the loan documentation.

Gold sales revenue for the year ended 31 December 2014 includes revenues of US\$815 million, which arose from sales of gold to two banks that individually accounted for more than 10 per cent. of the Group's revenue, namely US\$527 million to Sberbank and US\$288 million to VTB. Included in gold sales revenue for the year ended 31 December 2015 are revenues of US\$571 million, which arose from sales of gold to the two Russian banks, comprising US\$366 million to Sberbank and US\$205 million to VTB. In 2016, revenues of US\$488 million arose from sales of gold to the banks, namely US\$292 million to Sberbank and US\$197 million to VTB. During the six months ended 30 June 2017, revenues of US\$291 million arose from sales of gold to the banks, namely US\$216 million to Sberbank and US\$75 million to VTB.

The Group also sells silver to Russian banks (Sberbank and VTB), silver being a by-product of gold produced. Historically, the quantity of silver produced and sold by the Group has been immaterial relative to its gold sales. In the year ended 31 December 2016, 90 per cent. of revenue was generated from the sale of gold and less than 1 per cent. of revenue was generated from the sale of silver. During the six months ended 30 June 2017, 96 per cent. of total revenue was generated from sales of gold and less than 1 per cent. of revenue was generated from the sales of silver.

PART 12

INDUSTRY OVERVIEW

The following information relating to the gold market and industry overview has been provided for background purposes only. Unless specified otherwise, the information contained herein has been extracted from World Gold Council's industry reports (WGC).

Historically, gold played an important role in the international monetary system until the collapse of the Bretton Woods system of fixed exchange rates. Since 1971, its role has diminished but, it remained an important asset in the reserve holdings of several countries. Today, due to its characteristics, gold is sought after not only for investment purposes and by the jewellery market, but it is also used in the manufacturing of certain medical and electronic devices.

Consequently, gold prices fluctuate according with the following variables:

- (a) **Central Banks/US Dollar:** All other variables being stable, gold prices will be positively affected when US Dollar decreases in value, as gold provides a hedge against a lower US Dollar. The most popular currency held in reserves is the US Dollar. Reserves keep the banks secure by reducing the risk that they will default by ensuring that they maintain a minimum amount of physical funds. Having said that, when the US Dollar depreciates, and in order to spread their risk, central banks invest in other assets such as gold, pushing the metal's price up;
- (b) **Inflation Rates:** All other variables being stable, gold is an asset which rises with inflation;
- (c) **International Politics and Monetary System Risk:** With economic and political instability (e.g. "housing bubble" or "uncertain political elections"), asset prices may drop while demand for gold rises being a 'safe haven' of wealth;
- (d) **Demand:** All other variables being stable, gold prices will increase when demand is higher than the supply in the market. Gold demand is driven by the following markets:
 - Jewellery sector: Jewellery has been by far the most important market for gold, representing approximately 50 per cent. of gold demand in 2016. The demand is mostly supported by countries from the Middle East and Asia, especially during holiday seasons such as the Chinese New Year and Diwali (Dhanteras) in India;
 - Technology: Demand for gold gradually increased over the past century with advances in technology and expansion of its use. This market took approximately 7 per cent. of overall demand in 2016. Gold is currently used in chemical processes, nanotechnology, medical and electronic devices;
 - Investment: Investment demand was up 70 per cent. in 2016, reaching its highest level since 2012. This market has a higher demand for gold during economic and/or financial crisis periods. The growth is mainly driven by the ETF (Exchange-Traded Funds) market;
- (e) **Supply:** Gold supply is driven by gold mining volumes and sales of existing gold:
 - Mining: Mines produced approximately 70 per cent. of all gold supplied in 2016. With 5.52 Moz of gold produced in 2016, Canada's Barrick Gold Corp. was the world's largest producer, followed by Newmont Mining (4.90 Moz), AngloGold Ashanti (3.63 Moz), Goldcorp (2.87 Moz), Kinross Gold (2.79 Moz), Newcrest Mining (2.46 Moz), Gold Fields (2.15 Moz), Polyus Gold (1.97 Moz), Agnico Eagle (1.66 Moz) and Sibanye Gold (1.51 Moz);
 - Recycled Gold: Supply of recycled gold also plays a key role in the price of gold. Supply of recycled gold usually increases when the global economy is sluggish or when gold prices increase;

Gold Pricing

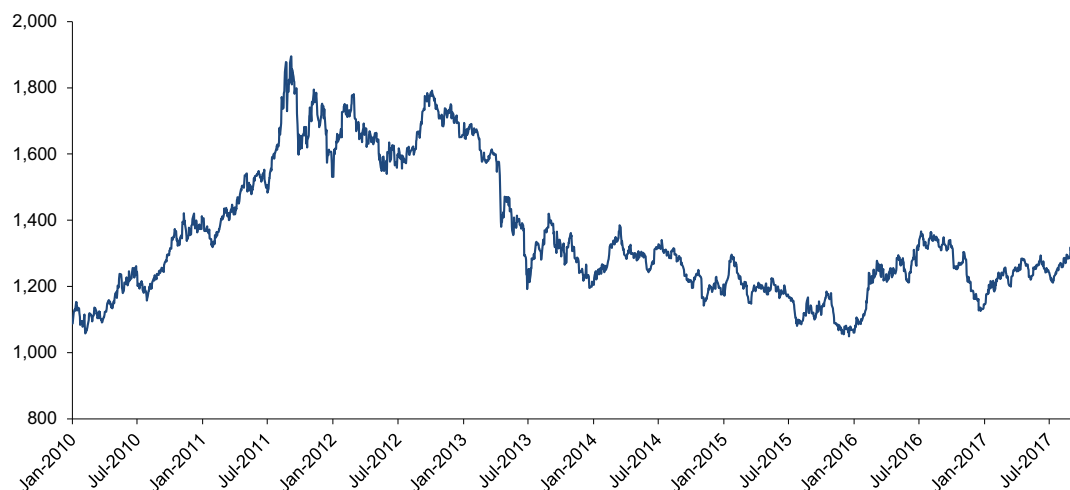
Gold is a precious metal which is highly ductile and malleable. As a result of its characteristics, gold is bought for sentimental reasons as well as being used as a store of value and used for industrial needs, making the gold price difficult to forecast.

In 2008, the U.S. economy entered a mortgage crisis that caused panic and financial turmoil around the world. As a result, the price of gold increased for a noticeable period of time and in August 2011, gold traded to a new historical and record high price of US\$1,920 per ounce.

From that point forward, gold prices have been in a multi-year decline. This has been influenced by the improving economic expectations in the United States and changes in the U.S. monetary policy. These forces put downward pressure on the price level and restrained investment demand.

However, 2016 was a pivotal year for gold since it contained a key reversal, with a change of price direction and market sentiment. The gold price had a strong performance in 2016, rising by 6 per cent. in US Dollar terms (higher in most other currencies) and amassed multi-year record inflows through physically-backed gold ETFs – making it one of the best performing assets last year. Having risen 22 per cent. by the end of September 2016, gold relinquished some of its gain in Q4 following Donald Trump's conciliatory acceptance speech and the FOMC's (Federal Open Market Committee) interest rate rise. In January-September 2017, gold price has shown positive dynamics rising to US\$1,283/oz as at the end of September 2017 (~11 per cent. increase since the beginning of the year).

Historical Gold Prices (US\$/oz)



Source: World Gold Council

Annual and Quarterly Average Prices

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Year-on-year % change | Q1'17 | Q2'17 | Year-on-year % change |
|---------|----------|----------|----------|----------|----------|----------|----------|-----------------------|----------|----------|-----------------------|
| US\$/oz | 1,224.5 | 1,571.5 | 1,669.0 | 1,411.2 | 1,266.4 | 1,160.1 | 1,250.8 | ▲ 8 | 1,219.5 | 1,256.6 | ▼ 0 |
| €/oz | 925.2 | 1,129.9 | 1,298.7 | 1,063.8 | 952.8 | 1,045.3 | 1,129.5 | ▲ 8 | 1,144.1 | 1,140.4 | ▲ 2 |
| £/oz | 792.4 | 980.8 | 1,053.0 | 903.8 | 768.1 | 759.0 | 927.3 | ▲ 22 | 984.0 | 981.4 | ▲ 12 |
| CHF/kg | 40,954.2 | 44,649.5 | 50,323.7 | 42,090.3 | 37,205.9 | 35,863.2 | 39,575.5 | ▲ 10 | 39,338.0 | 39,741.6 | ▲ 1 |
| ¥/g | 3,443.6 | 4,015.8 | 4,278.2 | 4,410.4 | 4,297.5 | 4,513.8 | 4,353.5 | ▼ -4 | 4,451.3 | 4,490.8 | ▲ 3 |
| Rs/10g | 17,997.3 | 23,624.1 | 28,639.4 | 26,440.2 | 24,835.1 | 23,903.2 | 27,013.5 | ▲ 13 | 26,249.4 | 26,048.1 | ▼ -4 |
| RMB/g | 266.3 | 326.3 | 338.5 | 279.2 | 250.8 | 234.2 | 267.0 | ▲ 14 | 270.1 | 277.1 | ▲ 5 |
| TL/g | 59.3 | 85.4 | 96.6 | 86.0 | 89.0 | 101.4 | 121.3 | ▲ 20 | 144.9 | 144.4 | ▲ 23 |

Source: ICE Benchmark Administration; Thomson Reuters Datastream; World Gold Council

Gold Demand Trends

According to WGC, gold demand gained 1.6 per cent. in 2016 to reach a 3-year high of 4,315 tonnes. Annual inflows into ETFs reached 532 tonnes, the second highest on record. Declines in jewellery and central bank purchases offset this growth. Annual bar and coin demand was broadly stable at 1,042 tonnes, helped by a surge late in the year.

Global gold demand in first six months of 2017 was 2,004 tonnes. This represents a 14 per cent. reduction in demand relative to first six months of 2016, which was the second strongest ever first half (after first six months of 2013) in terms of demand according to WGC. The reduction in overall demand can be attributed mainly to the reduced demand from ETFs.

Gold Demand by Sector (Tonnes)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Year-on-year % change | Q1'17 | Q2'17 | Year-on-year % change |
|--|---------|---------|---------|---------|---------|---------|---------|-----------------------|---------|---------|-----------------------|
| Jewellery | 2,053.8 | 2,094.4 | 2,134.9 | 2,695.4 | 2,492.0 | 2,404.4 | 2,046.7 | ▼ -15 | 486.7 | 480.8 | ▲ 8 |
| Technology | 460.5 | 428.6 | 381.3 | 355.9 | 348.7 | 332.0 | 323.4 | ▼ -3 | 78.7 | 81.3 | ▲ 2 |
| Electronics | 321.5 | 302.6 | 266.5 | 249.8 | 277.5 | 262.1 | 255.7 | ▼ -2 | 62.3 | 64.3 | ▲ 2 |
| Other Industrial | 93.4 | 89.8 | 86.4 | 83.1 | 51.2 | 51.0 | 49.7 | ▼ -2 | 12.1 | 12.7 | ▲ 1 |
| Dentistry | 45.6 | 36.2 | 28.4 | 23.0 | 19.9 | 18.9 | 18.0 | ▼ -5 | 4.3 | 4.3 | ▼ -5 |
| Investment | 1,624.0 | 1,734.8 | 1,610.1 | 801.4 | 862.3 | 938.4 | 1,577.5 | ▲ 68 | 402.8 | 296.9 | ▼ -34 |
| Total bar and coin demand | 1,203.6 | 1,497.9 | 1,303.5 | 1,715.7 | 1,045.2 | 1,066.7 | 1,043.2 | ▼ -2 | 290.9 | 240.8 | ▲ 13 |
| Physical Bar demand | 920.7 | 1,186.3 | 1,008.6 | 1,346.4 | 760.9 | 767.3 | 770.9 | ▲ 0 | 233.6 | 176.4 | ▲ 15 |
| Official Coin | 195.8 | 227.7 | 184.8 | 268.7 | 204.8 | 224.3 | 207.2 | ▼ -8 | 42.8 | 46.6 | ▲ 1 |
| Medals/Imitation Coin | 87.1 | 83.9 | 110.1 | 100.6 | 79.5 | 75.1 | 65.2 | ▼ -13 | 14.6 | 17.9 | ▲ 37 |
| ETFs & similar products* | 420.4 | 236.8 | 306.6 | -914.3 | -182.9 | -128.3 | 534.2 | - | 111.9 | 56.0 | ▼ -76 |
| Central banks & other inst. | 79.2 | 480.8 | 569.3 | 623.8 | 583.9 | 576.5 | 389.8 | ▼ -32 | 82.2 | 94.5 | ▲ 20 |
| Gold demand | 4,217.5 | 4,738.6 | 4,695.7 | 4,476.6 | 4,286.9 | 4,251.3 | 4,337.4 | ▲ 2 | 1,050.4 | 953.4 | ▼ -10 |
| LBMA Gold Price, US\$/oz | 1,224.5 | 1,571.5 | 1,669.0 | 1,411.2 | 1,266.4 | 1,160.1 | 1,250.8 | ▲ 8 | 1,219.5 | 1,256.6 | ▼ 0 |

*For a listing of the Exchange Traded Funds and similar products, please see the Notes and definitions section in the full report.

Source: Metals Focus; GFMS; Thomson Reuters; ICE Benchmark Administration; World Gold Council

Jewellery

The jewellery market demand for gold has decreased from 2,400 tonnes in 2015 to 2,040 tonnes in 2016, representing a 15.0 per cent. decline and a seven-year low demand point from the sector according to WGC. The decrease in demand was attributed primarily to the Indian and Chinese jewellery markets that in aggregate generated 1,134 tonnes of gold demand during 2016, down 282 tonnes or 19.9 per cent. from the 1,416 tonnes of gold demand from these two countries in 2015. Low demand from India was driven by demonitisation policy announced on 8 November 2016 when several rupee notes were declared out of circulation overnight. In China, a weakening economy was the main reason for weakness in the sector.

Indian and Chinese jewellery demand accounted for 55.6 per cent. of the total global jewellery demand in 2016, down from 59.0 per cent. in 2015. The jewellery market demand stabilised in first six months of 2017, in particular on the back of recovery in Indian demand driven by improved domestic market conditions and continued remonetisation of the economy (Indian demand increased by 33 per cent. in first six months of 2017 compared to first six months of 2016).

Technology

Technology market demand for gold has declined from 332 tonnes in 2015 to 323 tonnes in 2016. The main driver for decline according to WGC was the weakness in Q1 2016 overall demand, caused by global economic uncertainty, higher gold prices and substitution effect. The rest of 2016 and first six months of 2017 saw the recovery of the technology segment with new applications in electronics, smartphone technology and other areas remaining supportive of the overall gold demand.

Investment

The aggregate investment gold demand increased from 938 tonnes in 2015 to 1,574 tonnes in 2016, indicating a 67.8 per cent. growth rate. The investment demand growth was driven by the ETF market and substantial inflows into gold ETFs during the first three quarters of 2016, resulting in the second highest annual ETF demand on record with 532 tonnes and despite ETF outflows in Q4 2016. ETF

demand was primarily attributed to inflows from US and European investors in response to the volatile economic and political environment as well as gold price momentum. In Q1 2017, ETF gold demand increased, followed by volumes slowing down in Q2 2017.

Top 10 Physically-backed Gold ETFs by Assets Under Management (Tonnes)

| Fund | Country | Holdings as of end-Jun | Year-on-year % change |
|-------------------------------|----------------|------------------------|-----------------------|
| 1 SPDR Gold Shares | United States | 852.5 ▼ | -10 |
| 2 iShares Gold Trust | United States | 210.3 ▲ | 1 |
| 3 Xetra-Gold | Germany | 167.6 ▲ | 105 |
| 4 ZKB Gold ETF | Switzerland | 148.6 ▲ | 5 |
| 5 ETFS Physical Gold | United Kingdom | 144.5 ▲ | 14 |
| 6 Source Physical Gold P-ETC | United Kingdom | 111.7 ▲ | 32 |
| 7 Gold Bullion Securities Ltd | United Kingdom | 101.9 ▲ | 7 |
| 8 iShares Physical Gold ETC | United Kingdom | 68.2 ▲ | 65 |
| 9 Sprott Physical Gold Trust | United States | 54.6 ▼ | -1 |
| 10 Central Fund of Canada Ltd | Canada | 52.0 ► | 0 |
| Global total | | 2,312.7 ▲ | 6 |

Source: World Gold Council

Physical bar and coin demand remained relatively stable in 2016, while increased by 11 per cent. in first six months of 2017 compared with first six months of 2016.

Central Banks and Other Institutions

2016 saw the 7th consecutive year of central bank gold purchases, albeit with the lowest annual total since 2010 of 377 tonnes, a 34.5 per cent. reduction from 2015 level of 577 tonnes. Central bank buying in 2016 was led by the Russian Federation, China and Kazakhstan, which together accounted for approximately 80 per cent. of the full-year demand. The slowdown in central bank gold purchases can be partially attributed to the pressure on FX reserves for several countries. While the slowdown continued into Q1 2017, it reversed with the increase in demand in Q2 2017 according to WGC data.

Top 40 Reported Official Gold Holdings (as of June 2017)

| | Tonnes | % of reserves | | Tonnes | % of reserves |
|----------------------|---------|---------------|-----------------|--------|---------------|
| 1 United States | 8,133.5 | 75% | 21 Kazakhstan | 279.0 | 37% |
| 2 Germany | 3,374.1 | 69% | 22 Belgium | 227.4 | 36% |
| 3 IMF | 2,814.0 | - | 23 Philippines | 196.4 | 10% |
| 4 Italy | 2,451.8 | 67% | 24 Venezuela | 188.1 | 71% |
| 5 France | 2,435.9 | 64% | 25 Algeria | 173.6 | 6% |
| 6 China | 1,842.6 | 2% | 26 Thailand | 152.4 | 3% |
| 7 Russian Federation | 1,715.8 | 17% | 27 Singapore | 127.4 | 2% |
| 8 Switzerland | 1,040.0 | 5% | 28 Sweden | 125.7 | 8% |
| 9 Japan | 765.2 | 2% | 29 South Africa | 125.3 | 11% |
| 10 Netherlands | 612.5 | 66% | 30 Mexico | 120.1 | 3% |
| 11 India | 557.8 | 6% | 31 Libya | 116.6 | 6% |
| 12 ECB | 504.8 | 27% | 32 Greece | 112.9 | 63% |
| 13 Turkey | 456.1 | 17% | 33 Korea | 104.4 | 1% |
| 14 Taiwan | 423.6 | 4% | 34 Romania | 103.7 | 9% |
| 15 Portugal | 382.5 | 57% | 35 BIS | 103.0 | - |
| 16 Saudi Arabia | 322.9 | 3% | 36 Poland | 103.0 | 4% |
| 17 United Kingdom | 310.3 | 8% | 37 Iraq | 89.8 | 8% |
| 18 Lebanon | 286.8 | 22% | 38 Australia | 79.9 | 5% |
| 19 Spain | 281.6 | 17% | 39 Indonesia | 79.3 | 3% |
| 20 Austria | 280.0 | 51% | 40 Kuwait | 79.0 | 9% |

For information on the methodology behind this data, as well as footnotes for specific countries, please see our table of Latest World Official Gold Reserves, at http://www.gold.org/government_affairs/gold_reserves/

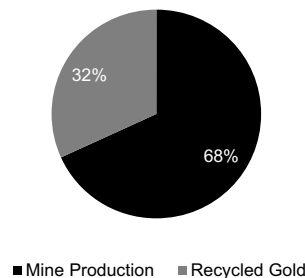
Source: IMF IFS, World Gold Council

Gold Supply Trends

The annual total supply of gold globally has averaged at 4,443 tonnes per annum for the seven year period between 2010 and 2016 according to WGC data. Approximately 68 per cent. of the total gold

supply in this period was attributed to total mine supply (which is the sum of mine production and net producer hedging). Recycled gold accounted for the remaining 32 per cent. of total gold supply globally.

Average Annual Total Gold Supply Between 2010 and 2016 (per cent.)



Source: Metals Focus; GFMS; Thomson Reuters; ICE Benchmark Administration; World Gold Council

Global Historic Gold Supply (Tonnes)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Year-on-year % change |
|----------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|--------------------------|
| Supply | | | | | | | | |
| Mine production | 2,744.1 | 2,845.6 | 2,911.5 | 3,072.8 | 3,149.7 | 3,221.0 | 3,260.1 | ▲ 1 |
| Net producer hedging | -108.8 | 22.5 | -45.3 | -28.0 | 104.9 | 13.4 | 31.1 | ▲ 132 |
| Recycled gold | 1,683.2 | 1,667.7 | 1,691.5 | 1,262.6 | 1,188.8 | 1,119.7 | 1,296.7 | ▲ 16 |
| Total supply | 4,318.5 | 4,535.9 | 4,557.6 | 4,307.4 | 4,443.4 | 4,354.1 | 4,587.9 | ▲ 5 |

Source: World Gold Council

Mine production and producer hedging

The sources of mine production have become as geographically diverse as gold demand. According to WGC, China was the largest producer in the world in 2016, accounting for around 14 per cent. of total production. Asia as a whole produced 23 per cent. of all newly-mined gold. Central and South America produced around 17 per cent. of the total, with North America supplying around 16 per cent. Around 19 per cent. of production came from Africa and 14 per cent. from the CIS region.

During 2016 the total mine production globally accounted for 3,260 tonnes, a 1 per cent. increase relative to 2015. Compared to 2010 data, mine production in 2016 increased by 18.6 per cent. (511.3 tonnes). According to WGC, the relative decline in the speed of growth in recent years can be attributed to the industry-wide cost-cutting focus since 2013 in response to the declining gold prices. As a result, and also given the long lead times associated with gold mine development it is unlikely that new discoveries or major project developments will significantly impact annual production for the foreseeable future according to WGC.

Gold producers also sometimes hedge production by locking in a future price for their gold – for example, so that they can ensure a return appropriate to their current production costs. The gold sold into the market adds to supply in the short-term and allows mining companies to sell metal ahead of their production schedules. During 2016, the total gold supply as a result of net producer hedging accounted for 31.1 tonnes compared with 13.4 tonnes in 2015.

Recycled gold

Because gold is virtually indestructible, all the gold ever mined still exists, apart from a small amount which has been lost. According to WGC, at the end of 2016, there were 187,200 tonnes of stocks in existence above ground.

Gold is typically recoverable from most of its uses and capable of being melted down, re-refined and reused. Recycled gold therefore plays an important part in the dynamics of the gold market. According to WGC, while gold mine production is relatively inelastic, the gold recycling industry provides an easily-traded supply of gold when it is needed, thereby helping to stabilise the gold price.

During 2016, the recycled gold supply amounted to 1,297 tonnes representing a 176 tonnes or 15.8 per cent. increase relative to 2015. The increase in recycled gold supply was attributed to higher gold prices relative to year end 2015 levels and was concentrated in the first three quarters of 2016 according to WGC.

Russian Gold Mining

According to the Russian Union of Gold Producers, total gold mine production in the Russian Federation in 2016 amounted to 262.4 tonnes, representing an increase of 2.8 per cent. compared to the 2015 mining output of 255.3 tonnes. Russian mine production accounted for approximately 8.1 per cent. of the total global gold mine output in 2016. The amount of gold produced by the Group represented approximately 5 per cent. of the total Russian gold mine production in 2016 and 6 per cent. of the total Russian gold mine production in 2015. The Group ranked number 5 in the Russian Federation among the gold producers in 2016 in terms of gold mine production. The top Russian gold producers in 2016 were PJSC Polyus with 23 per cent. of the total Russian mine production, Polymetal Int. plc with 9 per cent., CJSC Chukotskaya MGC (Kinross Gold) with 8 per cent., JSC Uzhuralzoloto Group with 6 per cent., Nord Gold SE with 3 per cent. and Highland Gold Mining Ltd. with 3 per cent. The main gold mining regions in the Russian Federation are the Krasnoyarsk region, the Chukotskiy district, the Magadan region, Yakutia and the Amur region. The Group operates in the Amur region exclusively and is the largest gold producer in the region.

PART 13

RUSSIAN REGULATIONS AND SUMMARY OF THE GROUP'S KEY SUBSOIL LICENCES

PART A – OVERVIEW OF BASIC RUSSIAN REGULATIONS AND THE RUSSIAN LICENSING REGIME

1 General

The Group's activities in the Russian Federation are subject to regulation in relation to matters such as use of subsoil; employee health and safety; trade controls; permit and licence requirements; environmental impact assessment; planning and development and environmental compliance. The Group is also subject to other laws and regulations.

The Group's principal activity is focused on the mining of precious and non-precious metals which requires the Group to hold licences that permit it to explore and mine in particular areas in the Russian Federation. The legal and regulatory grounds for obtaining and operating subsoil licences in the Russian Federation can be open to various interpretations and subject to change. In addition, it is possible that licences obtained from the relevant regulatory authorities could subsequently be challenged by governmental, prosecutorial or other authorities as being invalid or issued in breach of the required procedures.

The Group's activities and operations generate hazardous and non-hazardous wastes, effluent and emissions, require waste transportation and treatment, and have other environmental impacts which require various environment related permits and approvals to be held or received. Licences are also required for the activities performed by the Group. Such permits and licences are subject, in certain situations or on the occurrence of certain events, to modification (including monitoring, upgrading, decommissioning and aftercare requirements) or revocation by issuing authorities. Such activities and operations are also subject to various restrictions and other requirements under environmental, health and safety laws. Violations of health and safety laws or a failure to comply with the instructions of relevant health and safety authorities, may result in the temporary or permanent shutdown of the Group's operations in the jurisdiction where such a violation occurred, as well as the imposition of fines, penalties or corrective procedures.

The Group's businesses are also required in many cases to prepare and present information on the anticipated effects or impacts that its proposed activities may have upon the environment. The preparation and presentation of this information may require a substantial commitment of personnel and financial resources. The relevant authorities to whom such presentations are made may have the authority to determine that the Group's operations be suspended or restrained.

2 Foreign Investment Legislation

2.1 Contributions

In May 2008, the Strategic Asset Laws were introduced in the Russian Federation regulating foreign investments into strategic sectors of the Russian economy. These laws included the Federal Law No. 57-FZ and Federal Law No. 58-FZ both dated 29 April 2008, which, *inter alia*, amended the Subsoil Law and Federal Law No. 160-FZ dated 9 July 1999 "On foreign investments in the Russian Federation".

2.2 Strategic Deposits and Strategic Entities within the Group

A list of the Strategic Deposits is prepared, updated and maintained by Rosnedra and officially published. The Pioneer, Malomir and Elginskoye deposits are classified as Strategic Deposits and, therefore, Pokrovskiy Rudnik, the company that holds the key Pokrovskiy and Pioneer deposits subsoil licences, Malomirskiy Rudnik, the company that holds the Malomir deposit subsoil licence, and Temi that holds the Elginskoye deposit subsoil licence are deemed to be Strategic Entities.

In the event the Group discovers any other deposit with hard rock (vein) gold reserves of 50 tonnes (or more), or copper reserves of 500,000 tonnes (or more) or with reserves of any Precious Minerals irrespective of quantity in any of its assets, such assets would be classified as Strategic Deposits and the Russian Group companies holding subsoil licences in relation to such Strategic Deposits would become Strategic Entities.

- **Restrictions on transactions**

Since Pokrovskiy Rudnik, Malomirskiy Rudnik and Temi became Strategic Entities, the Group's freedom to dispose of interests in Group companies or to effect a group reorganisation or to raise equity finance or loan finance (with the provision of security) has to take account of the Strategic Asset Laws and the constraints contained in such legislation. It is not clear from the Strategic Asset Laws what stake in the Company may be viewed as enabling its holder to control the votes vested in the shares of Pokrovskiy Rudnik, Malomirskiy Rudnik and Temi or otherwise exercise Influence over Pokrovskiy Rudnik, Malomirskiy Rudnik and Temi. It is possible that in certain cases where the Strategic Approval to a proposed transaction has to be obtained either by the Group company or by a third party Foreign Investor (including a Sovereign Foreign Investor), the Group may be materially and adversely affected by the actions of the Russian authorities (including granting the Strategic Approval subject to the Foreign Investor assuming certain obligations under the agreement it will have to enter into with FAS or a refusal to grant the Strategic Approval) or by delays in procedures which have to be followed under the Strategic Asset Laws.

As the Federal Law No. 57-FZ is expressed to have effect both in the territory of the Russian Federation and extraterritorially, it is possible that transactions between Shareholders of the Company (or members of their groups of persons) and between Group companies might be affected if such transactions required or will require the Strategic Approval and such approval was not or will not be obtained in accordance with the Federal Law No. 57-FZ (for these purposes, "groups of persons" are determined by reference to Russian legislation.)

3 Competition Law

The anti-monopoly legislation of the Russian Federation is based on Federal Law No. 135-FZ dated 26 July 2006 "On Protection of Competition" (the **Competition Law**) and other federal laws and regulations governing anti-monopoly issues.

3.1 Control over the economic concentration

Under the Competition Law, before an investor enters into a transaction (including transactions entered into on a stock exchange) that will enable it to exercise control or influence over a Russian entity/asset, provided certain thresholds (e.g., total book value of assets, total amount of proceeds) established in the Competition Law are met, the investor must obtain the prior approval of FAS (**FAS Approval**). This is required in addition to the Strategic Approval (if applicable), discussed above. In particular, FAS Approval is required, amongst others, if an investor acquires:

- (a) more than 25 per cent. of the voting shares in a Russian joint-stock company;
- (b) more than one-third of the participation interests in the charter capital of a Russian limited liability company;
- (c) more than 50 per cent. of voting shares in a foreign entity or other rights providing the ability to direct the conduct of business of such entity or the ability to exercise powers of its executive body; and/or
- (d) the ability to direct the conduct of business of the Russian company or the ability to exercise powers of its executive body.

The Competition Law is applicable to transactions entered into both in the territory of the Russian Federation and extraterritorially, for example through a transaction on a non-Russian stock exchange.

There are potentially severe consequences for failing to comply with the requirements of the Competition Law. For example, any transaction that is executed without the required FAS Approval may be challenged in court if FAS can establish that the transaction illegally harms or may in the future illegally harm competition in the relevant market, including occurrence or increase of a dominant position in that market. As a result, such transactions are deemed voidable and may be challenged within one year of the date FAS became aware or should have become aware of such violation. In addition, failure of a foreign investor to comply with the requirements relating to FAS Approval may result, in particular, in civil and administrative liability of the foreign investor (such as fines). The law also contemplates criminal liability for responsible individuals (usually, the CEO of the breaching company) in the event of a violation that inflicts major damage to citizens, companies or state or have resulted in significant proceeds to the company.

The Group's ability to dispose of interests in the Group companies, to effect a group reorganisation, among other transactions, must take account of the Competition Law and the constraints contained in such legislation. Additionally, concerns relating to vaguely worded legislation and delays in transactions concerning approvals under the Strategic Asset Laws apply equally to the Competition Law. Further information on these concerns is set out in the risk factor entitled "*Russian foreign investment legislation may impact transactions by, and investments in, the Group*" in Part 3: "*Risk Factors*".

3.2 Prevention and termination of monopolistic activity

Anti-monopoly restrictions in the sphere of regulation of monopolistic activity include prohibitions of (i) conclusion of anticompetitive agreements, (ii) exercise of anticompetitive coordinated actions, (iii) unfair competition, and (iv) abuse of dominant position.

An entity or a group of entities is deemed to have a dominant position in a particular commodity market if: (a) the entity (or the group of entities) has a market share on a particular commodity market in excess of 50 per cent., unless it is specifically established by the FAS that the entity (or the group of entities) does not have a dominant position; or (b) the entity has a market share in a particular commodity market which is less than 50 per cent., but more than 35 per cent., and the dominant position of the entity (or the group of entities) is specifically established by FAS based on (i) the stability or near stability of such entity's (group of entities') share on the particular commodity market, and (ii) certain characteristics of the relevant commodity market (such as the accessibility of the commodity market for new competitors). The Competition Law additionally specifies circumstances in which an entity is classed as having a dominant position though its market share is less than 35 per cent.

The Competition Law also provides the possibility of several unrelated entities being considered to collectively have a dominant position. In particular, each of three business entities collectively having a market share exceeding 50 per cent., or each of five business entities collectively having a market share exceeding 70 per cent., provided that the market share of each entity in any case is not less than 8 per cent., may be considered as having the dominant position provided that (i) market shares of relevant entities have been stable or nearly stable during a significant period of time; (ii) the access of new competitors to a particular commodity market is hindered; (iii) the relevant commodity cannot be easily substituted; (iv) the demand for the commodity is price-inelastic; and (v) information on the price, on the terms of distribution or acquisition of the commodity on a particular commodity market is available for the general public.

Furthermore, pursuant to the Competition Law, any entity being a natural monopoly is deemed to enjoy a dominant position in the relevant commodity market which represents the natural monopoly (natural monopolies are regulated by specific legislation and, *inter alia*, include the gas and electricity markets).

The Competition Law establishes a regulatory framework for companies enjoying dominant positions in certain markets, aimed at protection of competition in the relevant markets. In particular, an entity enjoying a dominant position is prohibited from abusing such a position through; *inter alia*, the following activities: (i) fixing and/or maintaining a monopolistic high or low price of goods; (ii) withdrawing goods from circulation which results in price increase; (iii) dictating to a counterparty terms of agreement unfavourable to it or not relevant to the subject-matter of the agreement; (iv) economically or technologically unjustified reducing or terminating the production of certain goods; (v) economically or technologically unjustified refusing to enter into an agreement with certain buyers (customers) or avoiding such agreement; (vi) economically or technologically unjustified fixing various prices (tariffs) for the same goods; (vii) creating discriminatory conditions; (viii) creating impediments for other entities to either access or exit a particular commodity market; and (ix) violation of established pricing rules.

Russian law in respect of the protection of competition also includes a general prohibition for any entity, irrespective of whether it holds a dominant market position or not, to enter into an agreement (a cartel agreement, a prohibited "vertical" agreement or other agreement not permitted by the Competition Law) or perform concerted actions in the market that result or may result in the prevention, restriction or elimination of market competition, in the increase, decrease or maintenance of the prices at tender or infringement on interests of third parties. The sanctions for violation of these norms are generally similar to those for the abuse of a dominant market position, and include significant fines of up to 15 per cent. of the revenue of the offender in the market where the offence occurred, earned in the year preceding the year in which the offence occurred or the amount of goods and services expenditures of an offender in the market where the offence occurred, spent in the year preceding the year in which the offence occurred, but not more than four percent of the gross revenue. In addition, the administrative sanctions (such as fines or disqualification (i.e. prohibition on holding a management position) for up to three years) and/or criminal liability (including imprisonment for up to 7 years and a fine of up to 1 million Roubles or five years' salary or income of the relevant person) may also be imposed on the officers (including key managers) of the offender. The FAS may also direct the offender to terminate any agreement or other agreed actions which it has determined has or may lead to a limitation on competition.

4 Licensing of subsoil operations

4.1 Introduction

The principal law governing subsoil use in the Russian Federation is the Subsoil Law, which is regularly amended per applicable procedures and is supplemented by various regulations subordinate to the Subsoil Law such as the acts of the RF President, the Russian Federal Government, the Ministry of Natural Resources and Ecology and other state bodies and agencies. The Subsoil Law sets out the basic principles and features of the licensing and regulatory framework for the mining industry, and contains rules governing the issue, transfer, surrender and revocation of licences for exploration (search and assessment), detailed exploration and/or the production of minerals and other resources.

In general, a subsoil licence itself sets out only the basic terms of the licensing arrangement i.e. it identifies the licensee, the licence area and the term of the licence, and sets out the mineral rights granted thereunder.

A subsoil licence is terminated upon the expiry of its term, or sooner on grounds provided for by the Subsoil Law or in the licence itself. Some of these grounds are open to broad interpretation, providing a certain degree of discretion to the authorities in the exercise of their powers. Violation of the material terms of the licence (including a material breach in the process of its issuance or re-issuance) could lead to its early termination. There is no statutory definition of what is deemed to be a violation of the material terms which has allowed this provision to be interpreted broadly in the past in several highly publicised cases. It is necessary for licence holders to exercise extra care in their compliance with the appropriate licence terms and conditions.

Obtaining and maintaining in force a subsoil licence for a successful production operation in the Russian Federation typically involves a series of voluminous filings, and even minor errors or omissions in respect of any documents that must form part of such filings in theory may be viewed by the licensing authorities as a violation of the material terms of the subsoil licence. In practice, if a material violation of a subsoil licence comes to the attention of the authorities, the typical action taken is the issue of a written direction to the licensee to remedy the violation within the period specified in the notice. If the licensee fails to fulfil the terms of the remedial notice during the applicable cure period, the subsoil licence may be revoked, although this is viewed as a measure of last resort and is generally only used where the breach is severe, cannot be remedied or is complemented by other material violations. Usually, attempts are made to reach a compromise with the licensee as to methods or the periods of compliance with the terms of any remedial notice.

4.2 Development of newly discovered Strategic Deposits

The Group's ability to develop newly discovered Strategic Deposits may be prevented by the Russian Government under the Subsoil Law. According to the Subsoil Law, in relation to any Strategic Deposits which form part of the operations of the Group and in respect of which the detailed exploration and production stage has not commenced before May 2008, the Russian Government has the power, on the grounds of the protection of national security, to prevent the detailed exploration and production of such deposits being undertaken by the Group. In the case of a combined subsoil licence (which allows the holder to carry out both search and assessment and detailed exploration and production), the Russian Government has the power to terminate the licence where the search and assessment stage has been completed, discovery of the Strategic Deposit has been made and prior to the commencement of the detailed exploration and production stage. In the case of a prospecting subsoil licence (which allows the holder to carry out search and assessment only), the grant of a detailed exploration and production subsoil licence can be refused after a discovery of a Strategic Deposit has been made. These provisions of the Subsoil Law do not apply to Strategic Deposits where search and assessment was completed and detailed exploration and production of such deposits began before May 2008 (i.e. before the relevant amendments to the Subsoil Law were enacted).

According to the Russian Government's Regulations on the Reimbursement of Expenses on Prospecting and Evaluation of a Discovered Mineral Deposit No. 206 dated 10 March 2009, where the termination provisions are invoked (i.e. a combined licence is terminated or a production licence is not awarded following the discovery of a Strategic Deposit under an exploration licence), it is anticipated that a foreign investor affected by termination will be entitled to certain compensation. Such compensation is not based on market value of the property in question, but rather on limited costs and expenses which have been incurred by the subsoil user.

4.3 Concurrent exploration and production

The Group's ability to carry out detailed exploration and production on newly discovered Strategic Gold Deposits in parallel with continued search and assessment activity within the same field is restricted under the Subsoil Law.

The Subsoil Law suggests that in respect of Strategic Deposits and/or Strategic Gold Deposits the foreign investors or entities controlled by foreign investors can carry out the detailed exploration and production concurrently with the search and assessment stage subject to the subsoil user having obtained confirmation by the Russian Government of its right to undertake detailed exploration and production activities within the relevant licence area.

4.4 Actualisation of the subsoil licences

In February 2015 the President of the Russian Federation initiated the process of one-time "actualisation" of the subsoil use licences which according to the Presidential acts and subordinate legislation was to be completed by the end of 2016. The main purposes of such actualisation process were (i) to bring the licences to the unified standard format, to exclude an ambiguous interpretation of the licence terms, to rectify technical mistakes; and (ii) to make the transfer to the new system of control and management over the licences through the project

documentation. It was envisaged that the licensing authorities must carry out the actualisation of over 5,300 licences issued in respect of the solid minerals by the end of 2016.

The actualisation of the licence was possible subject to certain conditions. Practically as part of the actualisation process, all subsoil users were given an opportunity to extend the existing conditions in relation to work obligations and to have the other licence terms amended. Technically the actualisation was triggered by application of the subsoil user (including those related to amending the licence). For different reasons two of Group's key licences have not undergone actualisation. Non-actualisation of such licences should not affect their validity.

4.5 Licensing of other operations

The Federal Law No. 99-FZ dated 4 May 2011 "On Licensing of Certain Types of Activities", as amended, as well as other laws and regulations, set forth the activities subject to licensing and establish procedures for issuing licences. In particular, some of the Group's Russian companies may need to obtain licences, permits and approvals of executive authorities to carry out certain activities, including, *inter alia*:

- the collection, utilisation, deactivation, transportation and disposing of hazardous waste; and
- the operation of explosive, fire-hazardous and chemically-hazardous industrial facilities.

These licences generally are issued for an unlimited term. A licence can be suspended by a licensing authority or by the court if the licensee becomes subject to administrative liability or administrative suspension of activity for gross violation of conditions and requirements of a licence under the procedure stipulated by Russian law. If a licensee does not mitigate a gross breach of the licence granted to it within the period established by the court or a licensing authority, this licensing authority must apply to the court for cancellation of this licence.

As part of the Group's obligations under licensing regulations and the terms of its licences and permits, the Group must comply with numerous industrial standards, employ qualified personnel, maintain certain equipment and quality control systems, monitor operations, maintain and make appropriate filings and, upon request, submit specified information to the licensing authorities that control and inspect their activities.

- 4.6 The requirements imposed by regulatory authorities may be costly and time-consuming, and can cause a delay in the commencement or continuation of Group operations.

5 The Technical Regulation Law

The Federal Law No. 184-FZ dated 27 December 2002 "On Technical Regulation", as amended (the **Technical Regulation Law**), describes rules relating to the development, enactment, application and enforcement of obligatory technical requirements and application and enforcement of voluntary standards relating to manufacturing processes, operations, storage, transportation, selling and utilisation.

The Technical Regulation Law supersedes the Laws of Russia No. 5151-1 dated 10 June 1993 "On Certification of Goods and Services" and No. 5154-1 dated 10 June 1993 "On Standardisation" and will be followed by the revision of existing legislation and technical rules falling within the scope of its regulation. Under the Technical Regulation Law, technical rules and regulations relating to specific matters, including industrial safety and environmental protection, can be enacted.

In those cases where the mandatory confirmation of product conformity to the technical regulations (standards) is required, certain Group companies are obliged to obtain certificates of compliance evidencing that their products meet the requirements of technical regulations, standardisation documents or terms and conditions of contracts.

- 5.1 In those cases where Russian laws and regulations relating to industrial safety provide for mandatory issuance of permits to use technical equipment at hazardous production facilities, certain Group companies are obliged to obtain the required permits which prove that their products meet the relevant industrial safety requirements. Violation of the rules of mandatory certification, i.e. sale of goods subject to mandatory certification without required certificates, may lead to banning further sales, mandatory recall of sold products and imposition of administrative fines.

6 Land Use Rights

Land use rights are needed and granted for those areas actually being used, including the plot being used, access areas and areas where other related activity is occurring. Russian legislation prohibits the carrying out of any commercial activity on a land plot without appropriate land use rights.

Under the Land Code of Russia of 25 October 2001, as amended, legal entities may generally have the rights of ownership or lease with regard to land in the Russian Federation.

The majority of land in the Russian Federation is owned by federal, regional or municipal bodies, which can sell or lease land to private users.

7 Environmental Considerations

The Group is subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of substances into the air and water, the management and disposal of hazardous substances and waste, the clean-up of contaminated sites, and flora and fauna protection. Issues of environmental protection in the Russian Federation are regulated primarily by the Federal Law No. 7-FZ of 10 January 2002 “On Environmental Protection”, as amended (the **Environmental Protection Law**), as well as by a number of other federal and local legal acts.

Pay-to-pollute. The Environmental Protection Law establishes a “pay-to-pollute” regime administered by federal and local authorities. The Ministry of Natural Resources and Ecology, the Rostekhnadzor, the Federal Agency on Water Resources and other government agencies have established standards relating to the permissible impact on the environment and, in particular, limits for emissions and disposal of substances, waste disposal and resource extraction. A company may obtain approval to exceed these statutory limits from the federal or regional authorities, depending on the type and scale of the environmental impact. As a condition to such an approval, a plan to reduce the emissions or disposals must be developed by the company and approved by the appropriate governmental authority. Fees are assessed on a sliding scale for both the statutory or individually approved limits on emissions and effluents and for pollution in excess of these limits. The lowest fees are imposed for pollution within the statutory limits, intermediate fees are imposed for pollution within the individually approved limits, and the highest fees are imposed for pollution exceeding such limits. Payments of such fees do not relieve a company of its responsibility to take environmental protection measures and undertake restoration and clean-up activities.

Environmental approval. Activities that may affect the environment may be subject to state ecological approval by federal authorities in accordance with the Federal Law No. 174-FZ dated 23 November 1995 “On Ecological Expert Examination”, as amended. Conducting operations that may cause damage to the environment without state ecological approval may result in the negative consequences described in “—*Environmental liability*”.

Enforcement authorities. The Rosprirodnadzor, the Rostekhnadzor, the Federal Service for Hydrometrology and Environmental Monitoring, the Rosnedra, the Federal Agency on Forestry and the Federal Agency on Water Resources (along with their regional branches) are involved in environmental control, implementation and enforcement of relevant laws and regulations. The federal government and the Ministry of Natural Resources and Ecology are responsible for co-ordinating the activities of the regulatory authorities in this area. Such regulatory authorities,

along with other state authorities, individuals and public and non-governmental organisations, also have the right to initiate lawsuits for compensation as a result of damage caused to the environment. The statute of limitations for such lawsuits is 20 years.

Environmental liability. If the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, a court action may be brought to limit or ban these operations and require the company to remedy the effects of the violation. The effects of violation may also be remedied by a compensation of harm caused to the environment or by imposing clean-up obligations on violators aimed to rehabilitate the environment. Any company or employees that fail to comply with the requirements of applicable environmental laws and regulations may be subject to administrative and/or criminal liability.

8 Health and Safety

The principal law regulating industrial safety is the Federal Law No. 116-FZ dated 21 July 1997 "On Industrial Safety of Dangerous Industrial Facilities", as amended (the **Safety Law**). The Safety Law contains a comprehensive list of dangerous substances and extends to facilities and sites where these substances are used.

Any construction, reconstruction, liquidation or other activities in relation to regulated industrial sites are subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of industrial sites is prohibited unless reviewed by a licensed expert and approved by the Rostekhnadzor.

Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and the Labour Code of Russia dated 31 December 2001, as amended (the **Labour Code**). In particular, they must limit access to such sites to qualified specialists, maintain industrial safety controls and carry insurance for liability for injuries caused in the course of operating industrial sites. The Safety Law also requires these companies to enter into contracts with professional wrecking companies or create their own wrecking services in certain cases, conduct personnel training programmes, create systems to cope with and inform the Rostekhnadzor of accidents and maintain these systems in good working order. In addition, the Labour Code provides for state inspections of work safety to verify, in particular, the compliance of work conditions to state standards as well as compensations to employees due to hazardous work conditions. Companies engaged in manufacturing and/or production activities with more than 50 employees must also have a special work safety service or a work safety officer. Business entities are required to spend 0.2 per cent. of their production expenses on improvement of work safety.

In certain cases, companies operating industrial sites must also prepare declarations of industrial safety which summarise the risks associated with operating a particular industrial site and the measures the company has taken and will take to mitigate such risks and use the site in accordance with applicable industrial safety requirements. Such a declaration must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein. The industrial safety declaration, as well as a state industrial safety review, are required for the issuance of a licence permitting the operation of a dangerous industrial facility.

The Rostekhnadzor has broad authority in the field of industrial safety. In the case of an accident, a special commission led by a representative of the Rostekhnadzor conducts a technical investigation of the accident and its causes. The company operating the hazardous industrial facility where the accident took place bears all the costs of an investigation. The officials of the Rostekhnadzor have the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. The Rostekhnadzor may suspend operations or impose administrative fine upon a company.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a

way that negatively impacts the health of an individual may also be obligated to compensate the individual for lost earnings, as well as health related damages.

9 Employment and Labour

Labour matters in the Russian Federation are primarily governed by the Labour Code. In addition to this core legislation, relationships between employers and employees are regulated by various federal laws and other subordinating legislation.

9.1 Employment contracts

As a general rule, employment contracts are concluded with all employees for an indefinite term. Russian labour legislation expressly limits the possibility of entering into fixed term employment contracts.

Generally, an employment contract can be entered into for a fixed term of up to five years in cases where labour relations may not be established for an indefinite term due to the nature of the work or the conditions of the performance of work duties, as provided by the Labour Code and federal laws.

An employer may terminate an employment contract at its own initiative only on the basis of the specific grounds listed in the Labour Code, including, *inter alia*:

- (a) liquidation of the employer or reduction of personnel (downsizing);
- (b) unsuitability of the employee for the job due to insufficient skills as evidenced by the results of an evaluation;
- (c) systematic failure by the employee to fulfil his/her duties without due cause if the employee already has a disciplinary sanction imposed on him/her;
- (d) a single gross breach by the employee of his/her employment duties in the events expressly identified by the Labour Code (e.g., absence from the work place without justification for longer than four consecutive hours; being in a state of inebriation at the workplace, on the employer's premises or anywhere else when working on behalf of the employer; disclosing a state, commercial, or other secret protected by law, including disclosing of personal data of other employees);
- (e) provision by the employee of false documents when concluding the employment contract; and
- (f) other grounds provided in the Labour Code or other federal laws.

Regardless of the grounds for employment termination, on the employee's last day of work (which is the date of employment termination) the employer must pay the employee his/her salary, compensation for unused vacation and other outstanding payments (such as bonuses).

Depending on the grounds for employment termination and provisions of the employment contract, the employee may also be entitled to a severance payment. The severance payment amount depends on the grounds for employment termination. For example, as a general rule, an employee dismissed due to a reduction of personnel (downsizing) or liquidation is entitled to the following severance payments: (i) one month's average earning; plus (ii) an average month's earnings payable two months after the employment termination date; plus (iii) an additional average month's earning payable in exceptional cases if the employee applies for jobs with the local employment service within two weeks of the employment termination date and is not offered a new job within three months of the redundancy/liquidation.

The Labour Code also provides protection from dismissal for specified categories of employees. For example, except in cases of liquidation of a company, an employer cannot dismiss an

expectant mother. In addition, an employer may not dismiss a mother with a child under the age of three, a single mother with a child under the age of 14 (or a disabled child under the age of 18) or other persons caring for a child under the age of 14 (or a disabled child under the age of 18) without a mother, other than due to (i) liquidation of a company, (ii) repeat failure by the employee to fulfil or duly fulfil his/her job duties, (iii) a single gross violation of the employee's job functions (as described above), and (iv) certain other grounds specifically provided for by the Labour Code. The same restriction applies to both male and female employees who are the only wage earners (that is, the other parent is unemployed) (i) of a disabled child under eighteen years of age, or (ii) in families with three or more children under 14 years of age, provided that at least one of the children is under three years of age. Employment contracts with minors (that is, employees under the age of 18) can be terminated at the initiative of the employer only with the consent of the state labour inspection and the commission for protection of minors' rights (except in the case of liquidation of a company).

Any dismissal may be challenged by the dismissed employee in court. The statute of limitations for such claims is one month following dismissal. If a court finds a dismissal wrongful, the court will oblige the employer to pay the employee his/her average earning for the period of forced absence (which is for the period from the employment termination date until the court ruling date) and pay the state's fee for resolving the dispute. Also, depending on the scope of the employee's claims, the court may order the employer to:

- (a) reinstate the employee;
- (b) amend the record of employment termination in the employee's employment records book;
- (c) issue a duplicate of the employee's employment records book;
- (d) pay the employee damages for emotional distress; and
- (e) reimburse the employee's legal and other expenses incurred as a result of the litigation.

9.2 Work Time

The Labour Code generally sets the regular working week at 40 hours. Any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate or with additional days of paid vacation. As a general rule overtime work and work on weekends is not allowed.

The minimum duration of annual paid vacation under the Labour Code is 28 calendar days. The Labour Code contemplates additional paid vacation in a number of cases, including, *inter alia*, (i) work on an irregular hours basis (additional annual paid vacation provided to employee working under irregular hours regime cannot be less than three calendar days), (ii) work under harmful or dangerous conditions (the duration of additional annual paid vacation provided to such employees is determined based on provisions of an industrial agreement or a collective bargaining agreement and cannot be less than 7 calendar days), and (iii) work in the regions of the Russian Federation with abnormal climatic conditions (depending on a particular region where an employee performs his/her job duties, the employee may be entitled to 8, 16 or 24 calendar days of additional annual paid leave). Companies may establish additional paid vacations beyond the statutory minimums.

The retirement age in the Russian Federation is generally 60 years for men and 55 years for women.

9.3 Salary

The minimum salary in the Russian Federation is established by federal law and as at 1 July 2017 was RUB7,800 (approximately US\$130) per month. The minimum salary is regularly reconsidered/increased subject to economic changes. There is a draft law that provides for a gradual increase of the minimum salary to achieve in 2020 the cost of living. Employees working

in localities with abnormal climatic conditions are entitled to regional coefficients salary increase and percentage salary increase related to the duration of work in such conditions. Coefficients are generally aimed at compensating unfavourable climatic or other conditions in particular regions.

9.4 Strikes

The Labour Code defines a strike as the temporary and voluntary refusal of the employees to fulfil their employment duties with the intention of settling a collective labour dispute. Russian legislation contains several requirements for legal strikes. Participation in a legal strike may not be considered by an employer as grounds for terminating an employment contract, although employers are generally not required to pay wages to striking employees for the duration of the strike. Participation in an illegal strike may be considered an adequate ground for termination.

9.5 Trade Unions

The activities of trade unions are generally governed by the Federal Law No. 10-FZ dated 12 January 1996 "On Labour Unions, Their Rights and Guaranties of Their Activity" (as amended) (the **Trade Union Law**). The Trade Union Law defines a trade union as a voluntary union of individuals with common professional and production interests incorporated for the purposes of representing and protecting the social and labour rights and interests of its members. Where the trade union is formed a number of actions and decisions made by an employer require a consent of the trade union to be obtained or a view of the trade union to be expressed.

The employer must also ensure that if a trade union has been organised, the trade union is provided with conditions for performing its functions. Depending on the number of the company's employees, the company must provide the trade union with certain facilities.

If a trade union discovers any violation of work condition requirements, notification is sent to the employer with a request to cure the violation. Within one week from the date of reception of such notification the employer must inform the trade union about the results of reviewing of the notification and measures that have been taken. If the revealed violations create a threat to the life and health of employees, the trade union may demand the employer to immediately rectify such violations and, simultaneously, request the Federal Labour Inspectorate to take urgent measures.

If the employer fails to rectify violations revealed by the trade union (especially if the violations create a direct threat to life and health of employees), the trade union may demand the employer to suspend operations until a final decision is made by the Federal Labour Inspectorate.

The trade union may also apply to state authorities and labour inspectors and prosecutors to ensure that an employer does not violate Russian labour laws. Trade unions may also initiate collective labour disputes, which may lead to strikes.

To initiate a collective labour dispute, trade unions present their demands to the employer. The employer is then obliged to consider the demands and notify the trade union of its decision. If the dispute remains unresolved, a reconciliation commission attempts to end the dispute. If this proves unsuccessful, collective labour disputes are generally referred to mediation or labour arbitration.

- 9.6 The Trade Union Law provides that those who violate the rights and guarantees provided to trade unions and their officers may be subject to disciplinary, administrative and criminal liability.

10 Certain Russian Tax Laws

10.1 General

Generally, taxes payable by Russian companies are both substantial and numerous. These taxes include, among others, profit tax, value added tax (VAT), property tax and other taxes as well as

contributions to social security funds. Laws related to these taxes have been in force for a short period of time since 1991 collapse of Soviet Union compared to tax laws in more developed market economies. This short-lived system of tax collection has been relatively ineffective, resulting in the imposition of new taxes in an attempt to increase revenue and continual changes in the interpretation of the existing laws by various authorities. In late 90s the Russian Government implemented reforms of the tax system that have resulted in some improvement in the tax climate. The cornerstone of such reforms was a complete redrafting of the various tax laws and their codification into the new Russian Tax Code (introduced in 1998, with first chapters addressing specific taxes coming into effect since year 2001). As well as providing greater clarity, this has included the reduction of most "headline" tax rates and the reduction of a number of taxes applicable to businesses. Progressive rates of personal income taxation and companies' profit taxation were eliminated among other significant changes aimed at simplification of the tax regime.

10.2 CFC, beneficial ownership of income and entity tax residency

Current Russian tax legislation is, in general, based upon the formal way in which transactions are documented, looking to form rather than substance. However, the Russian tax authorities are increasingly taking a "substance over form" approach, which may cause additional tax exposures to arise in the future. The Russian Government has taken steps aimed at preventing tax evasion, imposing additional liabilities on taxpayers. On 24 November 2014, a new law was passed, effective 1 January 2015, which substantially amends the Russian Tax Code. The major changes envisaged by the new law include: (1) the introduction of the CFC regime, (2) the concept of there being a beneficial owner of income and (3) legal entities having a tax residency.

Under the new law, a foreign company is treated as a CFC if it is controlled by a Russian tax resident (which can be an individual or a corporate). The necessary level of control is 25 per cent. (held individually by a Russian resident or collectively with his/her spouse and under-aged children) or 10 per cent. (held in the same manner, provided other Russian persons control over 50 per cent. of the relevant company's share capital). The CFC regime extends not only to corporate entities but also to "pass-through" entities (partnerships, trusts, collective investment vehicles). The term "control" means not only control over a certain percentage of capital, but also, the right to control the distributions of income from a CFC. As a consequence of the CFC regime, a Russian controlling party is obliged to include in its taxable base income of a CFC in proportion to its share in its share capital. Certain exemptions preclude companies from CFC treatment (for example, companies actively engaged in trade or business or companies registered in countries with tax information exchange agreements with the Russian Federation and with a rate of corporate taxation of not less than 75 per cent. of the Russian weighted average corporate income tax rate are exempt as well as foreign non-commercial organisations are not treated as CFCs). The income of a CFC up to 10 million Roubles is exempt from taxation on the account of a Russian controlling party. Russian taxpayers are held responsible for filing information to tax authorities relating to their participation in foreign companies and pass-through entities. The main goal of this new law is to make it economically ineffective to keep income in the offshore accounts of Russian companies and to induce the distribution of dividends from foreign subsidiaries to Russian shareholders, and to have such dividends taxed in the Russian Federation.

This new law also introduces the concepts of beneficial owner of income and tax residency of corporate entities. Under the concept of beneficial owner of income, the non-Russian person may be viewed as not being beneficially entitled to income, if certain requirements are not met (mostly in cases where such foreign person performs conduit functions with respect to such income). In this case the income should be taxed as if directly received by the ultimate beneficial owner (whether non-resident or resident of the Russian Federation for tax purposes). Under the tax residency concept, the non-Russian corporate person may be viewed as a Russian tax resident, if its place of effective management is located in the Russian Federation. Several criteria are introduced to determine the place of effective management.

10.3 Unjustified tax benefit rulings

On 12 October 2006, the Plenum of the Russian Supreme Arbitration Court issued Ruling No. 53 concerning judicial practice with respect to unjustified tax benefits received by taxpayers. The ruling provides that a tax benefit means a reduction in the amount of a tax liability resulting, in particular, from a reduction of the tax basis, the receipt of a tax deduction (recovery) or tax concession, the application of a reduced tax rate, the receipt of a right to a refund (offset) or the reimbursement of tax from the budget. The court ruled that a tax benefit itself cannot be regarded as a business objective, and such tax benefit may be deemed unjustified if the true economic intent of transactions is inconsistent with the manner in which they have been accounted for tax purposes, or when a transaction lacks a reasonable economic or business purpose. On the other hand, the mere fact that the same economic result might have been obtained with a lesser tax benefit received by the taxpayer should not be treated as grounds for declaring a tax benefit to be unjustified.

There has been little further guidance on the interpretation of this concept by the Russian tax authorities or courts, but it is apparent that the Russian tax authorities actively seek to apply this concept when challenging tax positions taken by taxpayers. Although the intention of the ruling was to combat abuse of tax law, based on the available court practice relating to this ruling, the Russian tax authorities have started applying the “unjustified tax benefit” concept in a broader sense than may have been initially intended by the Supreme Arbitration Court.

10.4 Recent changes to withholding regime

Dividends paid by Russian subsidiaries to their foreign corporate shareholders are generally subject to Russian withholding income tax at a rate of 15 per cent., although this tax rate may be reduced under an applicable double tax treaty.

The new law outlining the concept of beneficial owner of income was enacted on 24 November 2014, effective 1 January 2015. Under the new law, a person participating in a company's capital or a person who has a right over the use and disposal of a company's income may be treated as beneficial owner of that income. If, however, a person serves as an intermediary and has an obligation to transfer part or all of the income received from the company to a third party (i.e. a person that is not able to act independently with respect to the use and disposition of the received income), such person may not be treated as beneficial owner of income. The result of the denial of beneficial owner's treatment with respect to a company's shareholders (or intermediary shareholders) would be the denial of double tax treaty benefits (zero rate taxation or reduced taxation of certain types of income distributed to such persons). The distribution of income to such shareholders would attract taxation which should have applied had the income been distributed directly to ultimate beneficial owners of such income (whether foreign or Russian).

PART B – SUMMARY OF THE GROUP'S KEY SUBSOIL LICENCES

The Group's policy is generally to apply to renew its prospective and/or producing licences by extension. Historically, applications for renewal have been submitted approximately six months prior to the expiry of the relevant licence.

The Subsoil Law does not provide for an automatic extension of a production mining licence to its current holder, but to date the members of the Group have, overall, been successful in obtaining extensions where they have applied for them. To apply to the licensing authority for the extension of an existing licence, the current holder must have complied with the terms and conditions of the licence. No assurances can be given that any of the Group's licences will be in a position to achieve renewal by way of extension.

This section sets out an overview of the Group's effective key subsoil licences and selected licence agreement terms:

| No | Name of deposit | End use | Area | Registration date | Valid until |
|--------------------------|--|--|------------------------|-------------------|-------------|
| Pokrovskiy Rudnik | | | | | |
| 1 | Sergeevskoye ore field (BLG 00900 BR) | Geological survey, including prospecting and evaluation, exploration and mining of minerals, including use of wastes associated with mining and mineral processing | 90.87 km ² | 06/05/1999 | 01/09/2020 |
| 2 | Pioneer ore occurrence and its flanks (BLG 01181 BR) | Geological survey, including prospecting and evaluation, exploration and mining of minerals, including use of wastes associated with mining and mineral processing | 52.0 km ² | 15/01/2001 | 31/12/2024 |
| 3 | Pokrovskoye gold ore deposit (BLG 10590 BE) | Exploration and mining of minerals | 4.13 km ² | 20/02/1998 | 31/12/2017 |
| 4 | Alkagan-Adamovskaya ore prospective area (BLG 02191 BR) | Geological survey, exploration and mining of hard rock gold | 472.8 km ² | 14/07/2010 | 31/12/2035 |
| 5 | Sosnovaya ore prospective area (BLG 02825 BR) | Geological survey, including prospecting and evaluation, exploration and mining of minerals, including use of wastes associated with mining and mineral processing | 754.81 km ² | 21/01/2016 | 31/12/2040 |

| No | Name of deposit | End use | Area | Registration date | Valid until |
|---------------------------|--|--|-----------------------|-------------------|-------------|
| Malomirskiy Rudnik | | | | | |
| 1 | Malomirskoye gold ore deposit (BLG 14902 BE) | Exploration and mining of minerals | 40.0 km ² | 19/04/2010 | 15/04/2030 |
| 2 | Malomirskiy ore cluster (BLG 02492 BR) | Geological survey, including prospecting and evaluation, exploration and mining of minerals, including use of wastes associated with mining and mineral processing | 578.3 km ² | 18/01/2013 | 31/12/2037 |
| 3 | Pogranichnaya ore prospective area (BLG 02489 BR) | Geological survey, including prospecting and evaluation, exploration and mining of minerals, including use of wastes associated with mining and mineral processing | 168.5 km ² | 17/01/2013 | 31/12/2037 |
| 4 | Magnetitoviy ore occurrence (BLG 02561 BR) | Geological survey, including prospecting and evaluation, exploration and mining of minerals, including use of wastes associated with mining and mineral processing | 34.5 km ² | 03/09/2013 | 31/12/2033 |
| Albynskiy Rudnik | | | | | |
| 1 | Albyn ore prospective area (BLG 02308 BR) | Geological survey, exploration and mining of minerals | 40.0 km ² | 25/07/2011 | 31/12/2030 |
| Temi | | | | | |
| 1 | Elginskoye ore field (BLG 02225 BR) | Geological survey, exploration and mining of hard rock gold | 325.0 km ² | 02/11/2010 | 31/12/2035 |
| 2 | Afanasievskaya prospective ore area (BLG 02491 BR) | Geological survey, exploration and mining of minerals | 688.1 km ² | 18/01/2013 | 31/12/2037 |

PART 14

DESCRIPTION OF THE ISSUER AND THE GUARANTORS

The Issuer

Introduction

The Issuer was incorporated and registered in Jersey, Channel Islands, as a private company limited by shares under the name Petropavlovsk 2016 Limited on 24 November 2016 and with registered number 122639. The principal legislation under which the Issuer operates is the Jersey Companies Law. The registered office and business address of the Issuer is located at 13-14 Esplanade, St Helier, Jersey JE1 1EE.

Business of the Issuer

The Issuer is a wholly owned subsidiary of the Parent and its sole purposes are the issue of the Notes and the loan of the proceeds to other entities in the Group. The Issuer is dependent on the other entities of the Group repaying their loans in order to repay any amounts due under the Notes.

Share Capital of the Issuer

The Issuer has no subsidiaries. The Issuer is authorised to issue 100 ordinary shares of no par value (the **Issuer Shares**) and an unlimited number of redeemable preference shares of no par value, the terms of which are as set out in the articles of association of the Issuer.

As of the date of this Offering Memorandum, the Issuer had issued two Issuer Shares at an agreed price of £1.00 each paid in full.

The Issuer is legally and beneficially owned directly by the Parent. The rights of the Parent as a shareholder in the Issuer are contained in the articles of association of the Issuer and the Issuer will be managed in accordance with those articles and with the provisions of Jersey law.

Corporate Administration

Estera Trust (Jersey) Limited, 13-14 Esplanade, St Helier, Jersey JE1 1EE Jersey will act, or procure that a subsidiary acts, as the corporate services provider for the Issuer (**Corporate Services Provider**) pursuant to the terms of a corporate services agreement which has been entered into between the Issuer and the Corporate Services Provider the purpose of which is to allow the Issuer to issue bonds and preference shares and provide intra-group loans. In consideration of the foregoing, the Corporate Services Provider will be entitled to receive various fees payable by the Issuer at rates agreed upon from time to time, plus expenses.

Management and Employees

The Issuer has no officers or employees other than those directors listed below in the section entitled “*Directors and Secretary*”.

Directors and Secretary

The board of directors of the Issuer is comprised of Mr Andrey Maruta, Dr Alfiya Samokhvalova and Mrs Anna-Karolina Subczynska. Details of their other principal activities are set out in Part 16: “*The Company’s Directors and Senior Management*”.

The business address of each of the directors of the Issuer is 11 Grosvenor Place, London SW1X 7HH.

The company secretary of the Issuer is Estera Secretaries (Jersey) Limited at 13-14 Esplanade, St Helier, Jersey JE1 1EE.

Directors' Interests

The Issuer's directors are also employees and/or directors of the Parent and/or its subsidiaries. The directors of the Issuer will not be remunerated by the Issuer for their role as directors. As a matter of Jersey law, each director of the Issuer is under a duty to act honestly and in good faith with a view to the best interests of the Issuer, regardless of any other directorships he may hold. Each director of the Issuer is responsible for advising the board of directors of any potential conflict of interest.

Financial Statements

The Issuer has not traded since its incorporation on 24 November 2016 other than in relation to the issue of the Notes offered hereby. The Issuer will publish financial information to the extent required by Jersey law. The first accounting period for the Issuer will conclude on 31 December 2017.

The Guarantors

Information about the Guarantors other than the Parent with more than 20 per cent. of Group EBITDA or net assets as at and for the six months ended 30 June 2017:

| | |
|---|--|
| Name: | Pokrovskiy Rudnik |
| EBITDA: | |
| – Monetary value | US\$49.7 million |
| – Per cent. of Group EBITDA | 44 per cent. |
| Net assets | |
| – Monetary value | US\$399.5 million |
| – Per cent. of Group net assets | 68 per cent. |
| Registered office | 17 Sovetskaya street, Tygda village, Magdagachinskiy district, Amur Region, 676150, Russian Federation |
| Registration number | 1022800928754 |
| Date of incorporation | 25 November 2002 |
| Business activities | Mining of ore and precious metals (gold, silver and platinum group metals) |
| Risks specific to the Guarantor which could impact on its guarantee | For information on risks relating to Guarantors, see Part 3: “ <i>Risk Factors—The Issuer’s ability to fulfil its obligations under the Notes is dependent on the Group</i> ” and “ <i>Risk Factors—Payments under the Guarantees made by Guarantors incorporated in the Russian Federation may be subject to Russian withholding tax</i> ”. |

| | |
|---|--|
| Name: | Malomirskiy Rudnik |
| EBITDA: | |
| – Monetary value | US\$3.2 million |
| – Per cent. of Group EBITDA | 3 per cent. |
| Net assets | |
| – Monetary value | US\$378.5 million |
| – Per cent. of Group net assets | 65 per cent. |
| Registered office | 140/1, Lenina street, Blagoveshensk, Amur Region, 675000, Russian Federation |
| Registration number | 1092801012281 |
| Date of incorporation | 14 December 2009 |
| Business activities | Mining of ore and precious metals (gold, silver and platinum group metals) |
| Risks specific to the Guarantor which could impact on its guarantee | For information on risks relating to Guarantors, see Part 3: “ <i>Risk Factors—The Issuer’s ability to fulfil its obligations under the Notes is dependent on the Group</i> ” and “ <i>Risk Factors—Payments under the Guarantees made by Guarantors incorporated in the Russian Federation may be subject to Russian withholding tax</i> ”. |

| | |
|---|--|
| Name: | Albynskiy Rudnik |
| EBITDA: | |
| – Monetary value | US\$78.9 million |
| – Per cent. of Group EBITDA | 69 per cent. |
| Net assets | |
| – Monetary value | US\$298.2 million |
| – Per cent. of Group net assets | 51 per cent. |
| Registered office | 140/1, Lenina street, Blagoveshensk, Amur Region, 675000, Russian Federation |
| Registration number | 1082801011380 |
| Date of incorporation | 29 December 2008 |
| Business activities | Mining of ore and precious metals (gold, silver and platinum group metals) |
| Risks specific to the Guarantor which could impact on its guarantee | For information on risks relating to Guarantors, see Part 3: “ <i>Risk Factors—The Issuer’s ability to fulfil its obligations under the Notes is dependent on the Group</i> ” and “ <i>Risk Factors—Payments under the Guarantees made by Guarantors incorporated in the Russian Federation may be subject to Russian withholding tax</i> ”. |

One of the Guarantors (the Parent) is the parent company of the Group. The Parent has a direct or indirect interest of more than 98 per cent. in the other Guarantors. The interests of the minority shareholders will not affect the effectiveness of the Guarantee to be given in respect of the Notes.

PART 15

PRINCIPAL SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Principal Shareholders

The Issuer is wholly owned by the Parent.

The table below sets forth certain information regarding ownership of the Parent as at 6 November 2017.

| Shareholder | No of Shares | % interest in voting rights ordinary shares |
|--|--|---|
| Renova Assets Ltd Renova Holding Ltd TZ Columbus Services Limited (as trustee for Columbus Trust) ^(a) | 483,992,987 | 14.65 |
| Sothic Capital European Opportunities Master Fund Limited Gertjan Koomen | 347,534,872 | 10.51 |
| Vailaski Holding Limited ^(b) | 316,200,954 (301,035,074 indirect) | 9.57 (9.11% indirect) |
| Public joint stock company Asian-Pacific Bank ^(b) | 301,035,074 | 9.11 |
| D.E. Shaw & Co., L.P. and D.E. Shaw & Co. (London), LLP DBMMA015 is the full name of the shareholder with respect to the indirect interest over 256,609,333 Ordinary Shares | 256,609,333 | 7.77 |
| Prudential plc, M&G Group Limited, M&G Limited, M&G Investment Management Limited | 224,905,854 | 6.80 |
| Public Joint-Stock Company Metcombank ^(a) | 145,075,249 | 4.39 |
| Lamesa Holding S.A. ^(a) Lamesa Group Holding S.A. ^(a) Lamesa Foundation ^(a) | 103,870,829 | 3.14 |

(a) These entities form part of the Renova group.

(b) Vailaski Holding Limited has entered into an option agreement with Asian-Pacific Bank in respect of a total of 301,035,074 shares.

(c) The issued share capital as at 6 November 2017 is 3,303,768,532 ordinary shares with 3,303,768,532 voting rights.

As at 6 November 2017, the Company has not received any notification that any other person holds 3 per cent. or more of the voting rights of the Company.

So far as the Parent is aware, no Shareholder or group of Shareholders acting in concert directly or indirectly control the Parent and the Parent is not aware of any arrangements the operation of which may at a subsequent date result in a change of control of the Parent.

Related Party Transactions

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

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

CJSC Verkhnetisskaya Ore Mining Company was an associate to the Group and hence was a related party until 27 May 2016 when the Group disposed its interest in CJSC Verkhnetisskaya Ore Mining Company.

CJSC ZRK Omchak and its wholly owned subsidiary LLC Kaurchak were associates to the Group and hence were related parties until 29 April 2015 when the Group disposed its interest in CJSC ZRK Omchak.

IRC and its subsidiaries are associates to the Group and hence are related parties since 7 August 2015.

Transactions with related parties which the Group entered into during the six months ended 30 June 2017 and 30 June 2016 and the years ended 31 December 2016, 2015 and 2014 and are set out below.

Trading Transactions

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

As at and for the six months ended 30 June 2017 and 2016

| | Sales to related parties | | Purchases from related parties | |
|--|-------------------------------|-------------------------------|--------------------------------|-------------------------------|
| | Six months ended 30 June 2017 | Six months ended 30 June 2016 | Six months ended 30 June 2017 | Six months ended 30 June 2016 |
| | US\$ million | US\$ million | US\$ million | US\$ million |
| Asian-Pacific Bank | | | | |
| Other | 0.0 | 0.0 | 0.0 | 0.0 |
| | 0.0 | 0.0 | 0.0 | 0.0 |
| Trading transactions with other related parties | | | | |
| Insurance arrangements with Helios, rent and other transactions with other entities in which key management have interest and exercises a significant influence or control | – | 0.1 | 0.8 | 1.8 |
| Associate | | | | |
| IRC Limited and its subsidiaries | 0.0 | 0.0 | 1.6 | 1.0 |
| | 0.0 | 0.1 | 2.4 | 2.7 |

During the six months ended 30 June 2017, the Group made US\$0.1 million charitable donations to the Petropavlovsk Foundation (six months ended 30 June 2016: US\$0.1 million).

| | Amounts owed by related parties | | Amounts owed to related parties | |
|---|------------------------------------|---------------------------------|------------------------------------|---------------------------------|
| | 30 June 2017 US\$ million | 30 June 2016 US\$ million | 30 June 2017 US\$ million | 30 June 2016 US\$ million |
| Helios and other entities in which key management have interest and exercises a significant influence or control ^(a) | 0.2 | 1.3 | — | — |
| Asian-Pacific Bank(a) | — | — | — | — |
| IRC Limited and its subsidiaries | 2.1 | 2.1 | 1.6 | 1.3 |
| | 2.3 | 3.4 | 1.6 | 1.3 |

(a) PJSC Asian-Pacific Bank ("Asian-Pacific Bank"), LLC Insurance Company Helios Reserve ("Helios") and Peter Hambro Limited ceased being related parties to the Group from 22 June 2017.

As at and for the year ended 31 December 2016

| | Sales to related parties 2016 US\$ million | Purchases from related parties 2016 US\$ million |
|--|---|---|
| Asian-Pacific Bank | | |
| Other | 0.0 | 0.1 |
| | 0.0 | 0.1 |
| Trading transactions with other related parties | | |
| Insurance arrangements with Helios, rent and other transactions with other entities in which key management have interest and exercises a significant influence or control | 0.1 | 3.5 |
| Associates | | |
| IRC Limited and its subsidiaries | 0.1 | 2.0 |
| | 0.1 | 5.5 |

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

| | Amounts owed by related parties at 31 December 2016 US\$ million | Amounts owed to related parties at 31 December 2016 US\$ million |
|--|---|---|
| Helios and other entities in which key management have interest and exercises a significant influence or control | 1.4 | 0.0 |
| Asian-Pacific Bank | 0.0 | — |
| IRC Limited and its subsidiaries | 14.5 ^(a) | 1.7 |
| | 15.9 | 1.7 |

(a) Including US\$12.5 million advanced to IRC in December 2016. This balance was fully repaid in January 2017.

As at and for the year ended 31 December 2015

| | Sales to related parties | Purchases from related parties |
|---|-----------------------------|-----------------------------------|
| | 2015 | 2015 |
| | US\$ million | US\$ million |
| Asian-Pacific Bank | | |
| Other | 0.6 | 0.1 |
| | 0.6 | 0.1 |
| Trading transactions with other related parties | | |
| Insurance arrangements with Helios, rent and other transactions with other entities in which key management have interest and exercises a significant influence or control | 1.2 | 5.7 |
| Associates | | |
| IRC Limited and its subsidiaries | 0.0 | 1.2 |
| CJSC ZRK Omchak and its wholly owned subsidiary LLC Kaurchak | 0.0 | — |
| | 1.2 | 6.9 |

During the year ended 31 December 2015, the Group made US\$0.4 million charitable donations to the Petropavlovsk Foundation.

| | Amounts owed by related parties at 31 December 2015 | Amounts owed to related parties at 31 December 2015 |
|--|---|---|
| | US\$ million | US\$ million |
| Helios and other entities in which key management have interest and exercises a significant influence or control | 1.3 | 0.5 |
| IRC Limited and its subsidiaries | 2.0 | 1.2 |
| | 3.4 | 1.7 |

As at and for the year ended 31 December 2014

| | Sales to related parties | Purchases from related parties |
|--|-----------------------------|-----------------------------------|
| | 2014 | 2014 |
| | US\$ million | US\$ million |
| Asian-Pacific Bank | | |
| Other | 0.5 | 0.2 |
| | 0.5 | 0.2 |
| Trading transactions with other related parties | | |
| Insurance arrangements with Helios, rent and other transactions with other entities in which key management have interest and exercises a significant influence or control | 0.3 | 10.3 |
| Associates | | |
| CJSC ZRK Omchak and its wholly owned subsidiary LLC Kaurchak | 0.1 | – |
| | 0.4 | 10.3 |

During the year ended 31 December 2014, the Group made US\$0.5 million charitable donations to the Petropavlovsk Foundation.

| | Amounts owed by related parties at 31 December 2014 | Amounts owed to related parties at 31 December 2014 |
|--|---|---|
| | US\$ million | US\$ million |
| Helios and other entities in which key management have interest and exercises a significant influence or control | 2.9 | 0.2 |
| Asian-Pacific Bank | 0.0 | – |
| Associates | | |
| CJSC ZRK Omchak and its wholly owned subsidiary LLC Kaurchak | 0.1 | – |
| | 3.0 | 0.2 |

PART 16

THE COMPANY'S DIRECTORS AND SENIOR MANAGEMENT

1 Directors

- 1.1 At the annual general meeting of the Company held on 22 June 2017, shareholders approved the appointment of four new directors to the Board, Messrs Ian Ashby, Bruce Buck, Vladislav Egorov and Garrett Soden. Mr Peter Hambro, Executive Chairman and the Company's three Independent Non-Executive Directors, Messrs Robert Jenkins, Alexander Green and Andrew Vickerman, were not re-elected at the annual general meeting and consequently retired as Directors of the Company on 22 June 2017. Dr Pavel Maslovskiy resigned as a Director and as Chief Executive Officer on 17 July 2017 and Mr Sergey Ermolenko was appointed as Interim Chief Executive Officer on 18 July 2017.
- 1.2 The Directors of the newly constituted Board are as set out in the table below.

| Name | Date of appointment | Position |
|---------------------|---------------------|---|
| Mr Ian Ashby | 22 June 2017 | Non-Executive Chairman |
| Mr Sergey Ermolenko | 18 July 2017 | Interim Chief Executive Officer |
| Mr Andrey Maruta | 4 January 2011 | Chief Financial Officer |
| Mr Bruce M. Buck | 22 June 2017 | Senior Independent Non-Executive Director |
| Mr Vladislav Egorov | 22 June 2017 | Non-Executive Director |
| Mr Garrett Soden | 22 June 2017 | Independent Non-Executive Director |

Mr Ian Ashby (*Independent Non-Executive Chairman*)

Mr Ashby was appointed as Independent Non-Executive Chairman of the Company on 22 June 2017. Mr Ashby has 35 years of international experience in the minerals industry across a range of commodities that include copper, iron ore, coal, silver, gold, lead and zinc. In his most recent executive role between 2006 and 2012, Mr Ashby was President of BHP Billiton's Iron Ore division, the largest and most profitable business within BHP Billiton, where he was responsible for global strategy development and execution, opportunity identification, project development and operations. Post his executive career, Mr Ashby has pursued Non-Executive Director roles at Genco Shipping & Trading and New World Resources. Mr Ashby currently holds NED positions on the board of Anglo American plc, Nevsun Resources and Alderon Iron Ore Corporation. Mr Ashby holds a Bachelor of Engineering in Mining from the University of Melbourne. Mr Ashby is Chairman of the Nomination Committee and a member of the Audit and Remuneration Committees.

Mr Sergey Ermolenko (*Interim Chief Executive Officer*)

Mr Ermolenko was appointed as a Director and as Interim Chief Executive Officer on 18 July 2017. Mr Ermolenko, who is also the General Director of Management Company Petropavlovsk, was CEO of Petropavlovsk PLC from December 2011 to November 2014 when Dr Pavel Maslovskiy was serving as a Russian senator. Mr Ermolenko is one of the original members of the Group's founding management team. He has held top managerial positions with the Group since its inception in 1994 and has been instrumental in the expansion of the Group into a multi-mine operation, overseeing the commissioning of Pokrovskiy, Pioneer, Malomir and Albyn.

He was appointed General Director of Management Company Petropavlovsk in 2004. In this capacity, he led the expansion of the Group into a multi mine operator. Mr Ermolenko is Chairman of the Executive Committee and the Group's Operations Committee.

Mr Andrey Maruta (*Chief Financial Officer*)

Mr Maruta was appointed to the Board as Finance Director – Russia in January 2011, and promoted to the position of Chief Financial Officer in 2012. Mr Maruta joined the Group in 2003 as Group Chief Accountant. He was promoted to the position of Deputy Finance Director in 2005 and the position of Finance Director in 2006. Mr Maruta is a fellow member of The Association of Chartered Certified Accountants having qualified at Moore Stephens in 2001.

Mr Bruce M. Buck (*Senior Independent Non-Executive Director*)

Mr Buck was appointed as Senior Independent Non-Executive Director of the Company on 22 June 2017. Mr Buck has been practicing law in Europe since 1983. His work at the law firm of Skadden, Arps, Slate, Meagher and Flom, where he was a partner and latterly Of Counsel retiring from this role in July 2017, included a broad range of mergers, acquisitions and capital markets transactions, including IPOs and high-yield transactions. Mr Buck has been involved in work in Central and Eastern Europe, and particularly in the Russian Federation, since 1990. Mr Buck is also the chairman and a director of Chelsea FC plc. Mr Buck is Chairman of the Remuneration Committee and a member of the Audit and HSE Committees.

Mr Vladislav Egorov (*Non-Executive Director*)

Mr Egorov was appointed as Non-Executive Director of the Company on 22 June 2017. Mr Egorov has been practicing law in the Russian Federation since 1998. His practice areas include mergers and acquisitions, dispute resolution, antitrust and antidumping regulations and general corporate work. He also has significant experience working as an in-house counsel at Russian natural resources companies. Mr Egorov is currently a Deputy M&A and Project Director at Renova Group, the Company's largest shareholder. Mr Egorov was previously a Vice President for Legal Affairs at TNK-BP Management, a senior legal counsel at Altime and the Head of Antidumping and International Arbitration Practice at UC RUSAL. Mr Egorov is Chairman of the HSE Committee and a member of the Nomination Committee.

Mr Garrett Soden (*Independent Non-Executive Director*)

Mr Soden was appointed as Independent Non-Executive Director of the Company on 22 June 2017. Mr Soden has extensive experience as a senior executive and board member of various public companies in the natural resources sector. He has worked with Lundin Group for the last decade. Mr Soden is currently President and CEO of Africa Energy Corp., a Canadian oil and gas exploration company focused on Africa. He is also a Non-Executive Director of Etrion Corporation, Gulf Keystone Petroleum Ltd., Panoro Energy ASA and Phoenix Global Resources PLC. Previously, Mr Soden was Chairman and CEO of RusForest AB, CFO of Etrion and PetroFalcon Corporation and a Non-Executive Director of PA Resources AB. Mr Soden holds a BSc honours degree from the London School of Economics and an MBA from Columbia Business School. Mr Soden is Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees.

- 1.3 As at 6 November 2017 (being the latest practicable date prior to the date of this Offering Memorandum) interests of the Directors, Senior Managers and their immediate families (which are beneficial unless otherwise stated) in the securities of the Company which:

- (a) have been notified by each Director (or, in the case of Senior Managers, would have been, had they been Directors) to the Company; or
- (b) are interests of a connected person (within the meaning of section 252 of the Act) of a Director or Senior Manager which would, if the connected person was a Director or Senior Manager, be required to be disclosed and the existence of which is known to or could with reasonable diligence be ascertained by the Director or Senior Manager are as follows:

| Director | No. of Shares | Percentage of issued Shares |
|---------------------|---------------|-----------------------------|
| Mr Ian Ashby | — | — |
| Mr Sergey Ermolenko | 318,247 | 0.009 |
| Mr Andrey Maruta | 33,925 | 0.001 |
| Mr Bruce Buck | — | — |
| Mr Vladislav Egorov | — | — |
| Mr Garrett Soden | — | — |

| Senior Manager | No. of Shares | Percentage of issued Shares |
|------------------------------|----------------------|------------------------------------|
| Mr Valery Alekseev | 782,134 | 0.023 |
| Mr Dmitry Chekashkin | — | — |
| Mr Alexei Maslovskiy | 18,629 | 0.001 |
| Dr Alfiya Samokhvalova | 311,121 | 0.009 |
| Mrs Anna-Karolina Subczynska | 53,797 | 0.001 |
| Mr Andrey Tarasov | 311,104 | 0.009 |
| Mr Nikolai Vlasov | — | — |

- 1.4 Other than their directorships of the Parent and (where applicable) other Group companies, the current directors' directorships and any directorships held by them in the five years preceding the date of this Offering Memorandum are as follows:

| Director | Current | Former |
|---------------------|---|--|
| Mr Ian Ashby | Alderon Iron Ore Corporation Anglo American plc Nevsun Resources Ltd. | New World Resource PLC Genco Shipping & Trading |
| Mr Andrey Maruta | Sarda House (Freehold) Limited Sarda House Management Company Limited | |
| Mr Bruce Buck | Orbis Charitable Trust Chelsea FC PLC Chelsea Football Club Limited Chelsea FC Foundation The Chelsea Past Players' Trust Chelsea Limited Chelsea Leisure Services Limited Stamford Bridge Securities Ltd. Chelsea Car Parks Limited Under the Bridge Ltd. Chelsea FC Merchandising Limited Chelsea T.V. Limited The Hotel at Chelsea Limited | Skadden, Arps, Slate, Meagher & Flom (Europe) LLP Skadden Arps Slate, Meagher & Flom Limited Skadden, Arps, Slate, Meagher & Flom (Corporate Services) Limited Skadden Legal Limited Polyus Gold International Limited Thurcom Limited Polyus Gold PLC Looklight Ltd Briskspring Limited Dugout Limited |
| Mr Vladislav Egorov | Avelar Energy Ltd (Switzerland) Avelar Management Ltd (Switzerland) | — |
| Mr Garrett Soden | Africa Energy Corp. Etrion Corporation Gulf Keystone Petroleum Ltd. Panoro Energy ASA Phoenix Global Resources PLC | RusForest AB PA Resources AB |

- 1.5 Within the period of five years preceding the date of this Offering Memorandum none of the Directors or Senior Managers has:

- any convictions in relation to fraudulent offences;
- been a director or senior manager of any company at the time of or within a 12 month period preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with such company's creditors generally or any class of creditors of such company;
- been subject to any official public incrimination and/or sanction by any statutory or regulatory authority or regulatory body (including designated professional bodies);
- been disqualified by a court from acting in the management or conduct of the affairs of any issuer; or

- (e) been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of any issuer.
- 1.6 As at the date of this Offering Memorandum, the Parent is not aware of any actual or potential conflict of interests between the duties of any of the members of the Board of the Parent and their respective private interests.
- 1.7 Remuneration of Directors and Senior Managers
- (a) The aggregate amount of compensation paid by the Group to its directors and senior managers for their services (excluding termination benefits) to the Group for the years ended 31 December 2016 (15 persons), 2015 (18 persons) and 2014 (21 persons) was US\$6,895,000, US\$7,868,000 and US\$12,385,000 respectively. There are no amounts set aside or accrued by the Parent or its subsidiaries to provide pension, retirement or similar benefits to such persons.
- (b) The Remuneration Committee approved a bonus of 20 per cent. of salary to its Executive Directors and Senior Managers for the year ended 31 December 2016, 50 per cent. of which was payable in the form of a Deferred Bonus Award to be granted under the Company's Long-Term Incentive Plan.

The Remuneration Committee made the Deferred Bonus Awards on 1 August 2017. The number of Ordinary Shares awarded was based on the mid-market closing share price of Petropavlovsk Ordinary Shares on 31 July 2017, being 7.355 pence.

The table below details the Awards which were made to Directors and Senior Managers on 1 August 2017.

| Name | Number of Shares | Vesting Date ⁽ⁱ⁾ |
|--------------------------|------------------|-----------------------------|
| Sergey Ermolenko | 441,876 | 1 August 2018 |
| Andrey Maruta | 537,049 | 1 August 2018 |
| Alya Samokhvalova | 516,655 | 1 August 2018 |
| Anna-Karolina Subczynska | 407,885 | 1 August 2018 |
| Dmitry Chekashkin | 407,885 | 1 August 2018 |
| Alexei Maslovskiy | 407,885 | 1 August 2018 |
| Andrey Tarasov | 387,491 | 1 August 2018 |
| Valery Alekseev | 251,529 | 1 August 2018 |

(i) The transfer of the shares subject to the above Awards is subject to the continued employment with the Company by the participant during a period of 12 months from the date of Award, subject to certain good leaver provisions.

2 Corporate Governance

2.1 UK Corporate Governance Code

As at the date of this Offering Memorandum, Petropavlovsk is in compliance with the provisions set out in the UK Corporate Governance Code.

2.2 Roles and Responsibilities of the Board

The Board is responsible to Shareholders for the long-term sustainable success of the Company. The long-term strategy, set by the Board, is to continue generating cash flows by producing gold from non-refractory material at existing mines and refractory material by using the POX Hub. The Board's role is to ensure that the Company follows this strategy and that a financial and operational structure is in place to enable the Group to meet its goals.

The Board is also responsible for the Group's system of corporate governance and is ultimately responsible for the Group's activities, strategy, risk management and financial performance.

The Company is led and controlled by the Board, chaired by Mr Ian Ashby, Independent Non-Executive Chairman. The Board consists of the Chairman, two Executive Directors and three Non-Executive Directors. The Chairman and two of the Non-Executive Directors are deemed to be independent by the Board. Mr Egorov is considered to be non-independent due to this employment with Renova, the Company's major shareholder. Certain responsibilities, including carrying on the day-to-day management of the Group, are delegated to the Executive Directors and the Senior Management.

2.3 Board Committees

The Board has established a number of Committees and provides sufficient resources to enable them to undertake their duties.

The principal Committees are the Audit and Remuneration Committee. The Audit Committee comprises Mr Soden, Independent Non-Executive Director as Committee Chair, Mr Ashby, Chairman and Mr Buck, Independent Non-Executive Director. The Remuneration Committee comprises Mr Buck as Committee Chair, and Messrs Ashby and Soden. The Nomination Committee comprises Mr Ashby as Committee Chair, Mr Soden and Mr Egorov, Non-Executive Director. The HSE Committee comprises Mr Egorov as Chairman, Mr Buck and the Chief Executive Officer.

3 Senior Management

The senior management of the Group comprises the Executive Directors Mr Sergey Ermolenko and Mr Andrey Maruta and the following Senior Managers.

| Name | Position |
|------------------------------|---|
| Mr Valery Alekseev | Group Head of Construction and Engineering |
| Mr Dmitry Chekashkin | Chief Operating Officer |
| Mr Alexei Maslovskiy | Group Head, Business Development |
| Dr Alya Samokhvalova | Deputy CEO, Strategic Development |
| Mrs Anna-Karolina Subczynska | Group Head of Legal Affairs |
| Mr Andrey Tarasov | Deputy General Director of 'MC' Petropavlovsk |
| Mr Nikolai Vlasov | Group Chief Geologist |

The management, expertise and experience of each of these individuals, all of whom are members of the Executive Committee, is set out below:

Mr Valery Alekseev (*Group Head of Construction and Engineering*)

Mr Alekseev is a qualified chemical engineer. He has worked in process engineering in the gold and heavy metals industry, participating in the design and construction of the Muruntau plant in Uzbekistan and various treatment plants in the Russian Federation. As Chief Engineer he brought the Pokrovskiy, Pioneer, Albyn and Malomir mines and plant into production. Previously General Director of Kapstroj, the Group's specialist construction company, Mr Alekseev was appointed as Head of Capital Design and Construction and a member of the Executive Committee in September 2013.

Mr Dmitry Chekashkin (*Chief Operating Officer*)

Mr Chekashkin has more than 24 years of experience in the gold mining industry. Mr Chekashkin is a qualified engineer and worked as Deputy General Director of Finance for two leading gold mining enterprises in the Russian Far East before joining the Group in 2003. He was appointed as Chief Operating Officer and as a Director of the Company in May 2013. Prior to his appointment as a Director, Mr Chekashkin held the position of Group Head of Precious Metals and was a member of the Group's Executive Committee. Mr Chekashkin resigned as a Director of the Company on 30 April 2015, as a result of the decision to reduce the size of the Board following the 2015 Refinancing.

Mr Alexei Maslovskiy (*Group Head, Business Development*)

Mr Maslovskiy joined the Group in 2001. He holds a Bachelor of Arts Degree in Economics from the University of Minnesota. He was previously employed as a trader for Worldco Financial Services in New York. Mr Alexei Maslovskiy is currently involved with the POX project. Mr Alexei Maslovskiy is the son of Dr Pavel Maslovskiy.

Dr Alfiya (Alya) Samokhvalova (*Deputy CEO, Strategic Development*)

Dr Samokhvalova joined the Company as Group Head of External Communications in 2002 and was appointed as Strategic Director and as a Director of the Company in January 2011. She is Chairman of the Strategic Committee. Dr Samokhvalova resigned as a Director of the Company on 30 April 2015, as a result of the decision to reduce the size of the Board following the 2015 Refinancing, however she retained her positions as Strategic Director and Group Head of External Communications. Dr Samokhvalova was promoted to the position of Deputy CEO Strategic Development in November 2016.

Dr Samokhvalova holds a Masters Degree in Investment Management from CASS Business School, London and a PhD in Economics from the Moscow International High Business School. She is a non-executive director of the Russo-British Chamber of Commerce.

Mrs Anna-Karolina Subczynska (*Group Head of Legal Affairs*)

Mrs Subczynska joined the Company in 2003 as Legal Counsel and was subsequently promoted to the position of Group Head of Legal Affairs. Mrs Subczynska holds an International Lawyer degree from the Moscow State Institute of International Relations and an LLM in Banking and Finance from the University of London. She is a solicitor qualified in England and Wales and a Russian qualified lawyer. She was previously employed in international law firms Debevoise Plimpton and Baker McKenzie.

Mr Andrey Tarasov (*Deputy General Director of Management Company Petropavlovsk*)

Mr Tarasov graduated from the Moscow Legal Academy in 1995 and in 1997 from the Legal and State Institute of the Russian Academy of Science. During his legal career he was a member of the Moscow Oblast Bar and held various positions including in mining, publishing and investment companies. Mr Tarasov worked for Petropavlovsk as a solicitor from 1998 and in 2004 became an employee of Petropavlovsk.

Mr Nikolai Vlasov (*Group Chief Geologist*)

Mr Vlasov has many years of experience of gold exploration and mining in the Amur region. One of the original members of founding management, Mr Vlasov previously headed a Soviet government department responsible for evaluating gold resources in the Russian Far East. Mr Vlasov also leads the exploration activities of the Group.

PART 17

TERMS AND CONDITIONS OF THE NOTES

The US\$500,000,000 8.125 per cent. guaranteed notes due 2022 of Petropavlovsk 2016 Ltd (the “**Issuer**”) (the “**Notes**”, which expression includes any further Notes issued pursuant to Condition 15 and forming a single series therewith) are guaranteed unconditionally and irrevocably, on a joint and several basis, by Petropavlovsk PLC (the “**Parent**”) and LLC “Albinskiy Rudnik”, LLC “Malomirskiy Rudnik” and JSC “Pokrovsky Mine” (together with the Parent, each a “**Guarantor**” and, together, the “**Guarantors**”). The Notes were authorised by meetings of the board of directors of the Issuer dated 23 October 2017 and 8 November 2017 and the Guarantee (as defined below) of the Notes by the Parent was authorised by the meeting of the board of directors of the Parent dated 22 October 2017. The other Guarantees (as defined below) of the Notes were authorised by resolutions of each of the Guarantors passed between 10 May 2017 and 31 May 2017.

The Notes are constituted by, are subject to and have the benefit of, a trust deed dated 14 November 2017 (as amended or supplemented from time to time, the “**Trust Deed**”) between the Issuer and Citibank, N.A., London Branch (the “**Trustee**”, which expression shall include all persons for the time being who are the trustee or trustees under the Trust Deed) as trustee for the Holders of the Notes. The Guarantors have entered into a deed of guarantee with the Trustee, dated on or about the date of the Trust Deed (the “**Deed of Guarantee**”).

These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Deed of Guarantee.

The Issuer and the Guarantors have entered into an agency agreement dated 14 November 2017 (as amended or supplemented from time to time, the “**Agency Agreement**”) with the Trustee, Citibank, N.A., London Branch at its specified office in London, as principal paying agent and transfer agent (the “**Principal Paying Agent**” and the “**Transfer Agent**” which expressions shall include any successors appointed from time to time in connection with the Notes) and Citigroup Global Markets Deutschland AG, at its specified office in Frankfurt, as the registrar (the “**Registrar**” which expression shall include any successor appointed from time to time in connection with the Notes) and the paying agents named in the Agency Agreement (and together with the Principal Paying Agent, the “**Paying Agents**” and each a “**Paying Agent**”, which expressions shall include any successors). References herein to the “**Agents**” are to the Registrar, the Paying Agents and the Transfer Agent, and any reference to an “**Agent**” is to any one of them.

Copies of the Trust Deed, the Deed of Guarantee and the Agency Agreement are available for inspection and collection during normal business hours at the specified office of the Trustee, being at the date hereof Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom, and at the specified offices of the Agents. The Noteholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Deed of Guarantee and are deemed to have notice of those provisions of the Agency Agreement applicable to them.

Capitalised terms used but not defined in these Conditions shall have the respective meanings given to them in the Trust Deed and the Deed of Guarantee.

1 Form and Denomination

The Notes are issued in fully registered form, without interest coupons attached, in denominations of US\$200,000 or integral multiples of US\$1,000 in excess thereof (each an “**Authorised Denomination**”). The Notes may be transferred only in amounts not less than an Authorised Denomination. Title to the Notes shall pass by and upon registration in the Register (as defined below) which the Issuer shall procure to be kept by the Registrar.

The Notes are initially issued in global, fully registered form, and will only be exchangeable for Notes in definitive, fully registered form (“**Definitive Notes**”) in the limited circumstances set forth in the Agency Agreement.

2 Guarantee and Status

2.1 Guarantee

The Guarantors have each separately, pursuant to the Deed of Guarantee, unconditionally and irrevocably, on a joint and several basis, guaranteed the payment when due of all sums expressed to be payable by the Issuer under the Trust Deed and the Notes (each a “**Guarantee**” and together the “**Guarantees**”).

2.2 Status

The Notes constitute direct, unsubordinated and (subject to Condition 4.6) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. Each Guarantee constitutes direct, unsubordinated and (subject to Condition 4.6) unsecured obligations of the relevant Guarantor. Each of the Issuer and the Guarantors shall ensure that at all times the claims of the Noteholders against them under the Notes and the Guarantees, respectively, rank at least *pari passu* with claims of all their other present and future unsecured and unsubordinated creditors (other than claims preferred under any bankruptcy, insolvency, liquidation or similar laws).

3 Register, Title and Transfers

3.1 Register

The Registrar shall maintain the register (the “**Register**”) at the specified office for the time being of the Registrar in respect of the Notes in accordance with the provisions of the Agency Agreement and shall record in the Register the names and addresses of the Holders of the Notes, particulars of the Notes and all transfers and redemptions thereof. In these Conditions, the “**Holder**” of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “**Noteholder**” shall be construed accordingly.

3.2 Title

Title to the Notes will pass by and upon registration in the Register. The Holder of each Note shall (except as otherwise required by a court of competent jurisdiction or applicable law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Definitive Note relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Definitive Note) and no person shall be liable for so treating such Holder.

3.3 Transfers of Definitive Notes

Subject to Conditions 3.6 and 3.7 below, a Note may be transferred in whole or in part in an Authorised Denomination upon surrender of the relevant Definitive Note representing that Note, together with the form of transfer (including any certification as to compliance with restrictions on transfer included in such form of transfer endorsed thereon) (the “**Transfer Form**”), duly completed and executed, at the specified office of the relevant Transfer Agent or Registrar, together with such evidence as such Transfer Agent or Registrar may reasonably require to prove the title of the transferor and the authority of the persons who have executed the Transfer Form. Where not all the Notes represented by the surrendered Definitive Note are the subject of the transfer, a new Definitive Note in respect of the balance not transferred will be delivered by the Registrar to the transferor in accordance with Condition 3.4. Neither the part transferred nor the balance not transferred may be less than US\$200,000.

3.4 Registration and delivery of Definitive Notes

Within five Business Days of the surrender of a Definitive Note in accordance with Condition 3.3 above, the Registrar shall register the transfer in question and deliver a new Definitive Note to

each relevant Holder at the specified office of the Registrar or (at the request of the relevant Noteholder) at the specified office of the Transfer Agent or (at the request and risk of such relevant Holder) send it by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder.

In this paragraph, “**business day**” means a day on which commercial banks are open for business (including dealings in foreign currencies) in cities where the Registrar or (if applicable) the relevant Transfer Agent has its specified offices.

3.5 No Charge

The registration of the transfer of a Note shall be effected without charge to the Holder or transferee thereof, but against such indemnity from the Holder or transferee thereof as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

3.6 Closed periods

Noteholders may not require the transfer of a Note to be registered (i) during the period of 15 days ending on the due date for any payment of principal or interest in respect of such Note and (ii) after any Note has been called for redemption.

3.7 Regulations concerning Transfer and Registration

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer and registration of Notes set out in the First Schedule to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee, the Transfer Agent and the Registrar. A copy of the current regulations will be sent by the Registrar free of charge to any person who so requests and who can confirm they are a Holder to the satisfaction of the Registrar and will also be available at the specified office of the Registrar.

4 Covenants

For so long as any amount remains outstanding under the Notes:

4.1 Limitation on Indebtedness

4.1.1 The Parent will not, and will not permit any Subsidiary of the Parent to, Incur, directly or indirectly, any Indebtedness; provided, however, that the Parent and any Subsidiary of the Parent will be entitled to Incur Indebtedness if:

- (i) after giving effect to such Incurrence and the application of the proceeds thereof, on a pro forma basis, no Default or Event of Default would occur or be continuing; and
- (ii) on the date of such Incurrence and after giving effect thereto on a pro forma basis the Consolidated Net Leverage Ratio does not exceed 3 to 1.

4.1.2 Notwithstanding the foregoing Condition 4.1.1, the Parent and its Subsidiaries will be entitled to Incur any or all of the following Indebtedness (each, “**Permitted Indebtedness**”):

- (i) intercompany Indebtedness owed to and held by the Parent or a Subsidiary of the Parent in respect of the Parent or a Subsidiary of the Parent; provided, however, that any subsequent issuance or transfer of any Capital Stock which results in any such Subsidiary ceasing to be a Subsidiary or any subsequent disposition, pledge or transfer of such intercompany Indebtedness (other than to the Parent or a Subsidiary of the Parent) shall be deemed, in each case, to constitute the Incurrence of such Indebtedness by the relevant obligor in respect of such Indebtedness;

- (ii) Indebtedness represented by the Notes and the Guarantees of the Notes;
- (iii) Indebtedness outstanding on the Issue Date (including, for the avoidance of doubt, the Senior Bank Debt and the Convertible Bonds);
- (iv) Indebtedness of the acquiring Parent or Subsidiary of the Parent or an acquired Subsidiary of the Parent Incurred and outstanding on or prior to the date on which such Subsidiary was acquired by a member of the Group (other than Indebtedness Incurred in connection with, or to provide all or any portion of the funds or credit support utilised to consummate, the transaction or series of related transactions pursuant to which such Subsidiary became a Subsidiary of the Parent or was acquired by the Parent); provided, however, that on the date of such acquisition and after giving pro forma effect thereto, the Parent would have been entitled to Incur at least US\$1.00 of additional Indebtedness pursuant to Condition 4.1.1;
- (v) Refinancing Indebtedness Incurred by the Issuer, the Parent or a Subsidiary of the Parent in respect of Indebtedness Incurred by the Issuer, the Parent or a Subsidiary of the Parent pursuant to Condition 4.1.1 or pursuant to sub-Conditions (ii), (iii), (iv), (v), (xv) or (xvi) of this Condition 4.1.2;
- (vi) Hedging Obligations Incurred in the ordinary course of business of the Parent or any Subsidiary of the Parent; provided that such Commodity Agreement, Interest Rate Agreements or Currency Agreements giving rise to such Hedging Obligations are entered into for the purpose of limiting interest rate, currency or commodity risk (including but not limited to gold price fluctuation risk), as the case may be, and are not entered into for speculative purposes;
- (vii) obligations in respect of performance, bid and surety bonds, completion guarantees, letters of credit, *veksels* or similar obligations provided by the Parent or any Subsidiary of the Parent in the ordinary course of business, provided that, upon demand being made under such obligations, such obligations are reimbursed or the Indebtedness thereunder repaid within 60 days following such payment or disbursement in respect of such demand;
- (viii) Indebtedness arising from the honouring by a bank or other financial institution of a cheque, draft or similar instrument inadvertently drawn against insufficient funds in the ordinary course of business; provided, however, that such Indebtedness is extinguished within five Business Days of its Incurrence;
- (ix) Indebtedness arising from agreements of the Parent or a Subsidiary of the Parent providing for indemnification, adjustment of purchase price or similar obligations, in each case, Incurred or assumed in connection with the acquisition or disposition of any business, assets or Capital Stock of the Parent or any Subsidiary of the Parent; provided that the maximum aggregate liability in respect of all such Indebtedness shall at no time exceed the relevant purchase price in connection with such acquisition or disposition;
- (x) Purchase Money Indebtedness Incurred to finance the repair, improvement, lease or acquisition by the Parent or a Subsidiary of the Parent of assets in the ordinary course of business, and any Refinancing Indebtedness Incurred to Refinance such Indebtedness in an aggregate principal amount which, when added together with the amount of all other Indebtedness Incurred pursuant to this sub-Condition (x) and then outstanding, does not exceed US\$25 million at any time outstanding;
- (xi) Indebtedness in respect of workers' compensation claims or claims arising under similar legislation, or pursuant to self-insurance obligations and not in connection with the borrowing of money or the obtaining of advances or credit;
- (xii) customer deposits and advance payments received from customers in the ordinary course of business;

- (xiii) any guarantee provided in connection with a VAT refund from the budget of the Russian Federation in the ordinary course of business;
 - (xiv) any guarantee extended to suppliers of goods or services to any member of the Group on an arm's length basis and on commercial terms and in the ordinary course of business;
 - (xv) Project Finance Indebtedness; and
 - (xvi) any other Indebtedness of the Parent or any Subsidiary of the Parent in the aggregate principal amount at any time outstanding not to exceed US\$25 million.
- 4.1.3 Notwithstanding the foregoing, neither the Parent nor any Guarantor will Incur any Indebtedness pursuant to Condition 4.1 if the proceeds thereof are used, directly or indirectly, to Refinance any Subordinated Obligations of the Parent or any Guarantor unless such Indebtedness shall be subordinated to the Notes or the applicable Guarantee to at least the same extent as such Subordinated Obligations.
- 4.1.4 For purposes of determining compliance with this Condition 4.1:
- (i) in the event that an item of Indebtedness (or any portion thereof) meets the criteria of more than one of the types of Indebtedness described in Conditions 4.1.1 or 4.1.2, the Parent, in its sole discretion, will classify such item of Indebtedness (or any portion thereof) at the time of Incurrence and will only be required to include the amount and type of such Indebtedness in one of the Conditions 4.1.1 or 4.1.2;
 - (ii) the Parent will be entitled to divide and classify an item of Indebtedness in more than one of the types of Indebtedness described in Conditions 4.1.1 or 4.1.2 and may change the classification of an item of Indebtedness (or any portion thereof) to any other type of Indebtedness described in Conditions 4.1.1 or 4.1.2 at any time. The outstanding principal amount of any particular Indebtedness shall be counted only once and any obligations arising under any guarantees, Lien, letters of credit or similar instrument supporting such Indebtedness shall not be double counted; and
 - (iii) any entity that is allowed to incur Indebtedness under Condition 4.1.1 or under any of the paragraphs in Condition 4.1.2 may provide a guarantee of any other entity's Incurrence of such Indebtedness, provided that such other entity Incurs such Indebtedness pursuant to Condition 4.1.1 or the same paragraph in Condition 4.1.2 under which the guaranteeing entity provides its guarantee of such Indebtedness.
- 4.1.5 For purposes of determining compliance with any US dollar denominated restriction on the Incurrence of Indebtedness where the Indebtedness Incurred is denominated in a different currency, the amount of such Indebtedness will be the US Dollar Equivalent determined on the date of the Incurrence of such Indebtedness; provided, however, that if any such Indebtedness denominated in a different currency is subject to a Currency Agreement with respect to US dollars covering all principal, premium, if any, and interest payable on such Indebtedness, the amount of such Indebtedness expressed in US dollars will be as provided in such Currency Agreement. The principal amount of any Refinancing Indebtedness Incurred in the same currency as the Indebtedness being Refinanced will be the US Dollar Equivalent, as appropriate, of the Indebtedness Refinanced, except to the extent that (A) such US Dollar Equivalent was determined based on a Currency Agreement, in which case the Refinancing Indebtedness will be determined in accordance with the preceding sentence, and (B) the principal amount of the Refinancing Indebtedness exceeds the principal amount of the Indebtedness being Refinanced, in which case the US Dollar Equivalent of such excess, as appropriate, will be determined on the date such Refinancing Indebtedness is Incurred. Notwithstanding any other provision of this Condition 4.1, the maximum amount that the Parent or a Subsidiary of the Parent may Incur pursuant to this Condition 4.1 shall not be deemed to be exceeded, with respect to outstanding Indebtedness, due solely as a result of fluctuations in the exchange rates of currencies.

4.2 Limitation on Restricted Payments

4.2.1 The Parent will not, and will not permit any Subsidiary of the Parent, directly or indirectly, to make a Restricted Payment if at the time the Parent or such Subsidiary makes such Restricted Payment:

- (i) a Default or Event of Default shall have occurred and be continuing (or would result therefrom);
- (ii) the Parent is not entitled to Incur an additional US\$1.00 of Indebtedness pursuant to Condition 4.1.1; or
- (iii) the aggregate amount of such Restricted Payment and all other Restricted Payments since the Issue Date would exceed the sum of (counting each amount or event in only one category below):
 - (a) 50 per cent. of the Consolidated Net Income accrued during the period (treated as one accounting period) from 1 January 2017 to the end of the most recent semi-annual financial period ending prior to the date of such Restricted Payment for which financial statements are available (or, in case such Consolidated Net Income shall be a deficit, minus 100 per cent. of such deficit); plus
 - (b) 100 per cent. of the aggregate Net Cash Proceeds received by the Parent from the issuance or sale of its Capital Stock (other than Disqualified Stock), or warrants, options or rights to purchase shares of its Capital Stock (other than Disqualified Stock) but solely upon the exercise of such options, warrants or rights, in each case, subsequent to the Issue Date (other than an issuance or sale to a Subsidiary of the Parent and other than an issuance or sale to an employee stock ownership plan or to a trust established by the Parent or any of its Subsidiaries for the benefit of their employees) and 100 per cent. of any cash capital contribution received by the Parent from its shareholders subsequent to the Issue Date; plus
 - (c) the amount by which Indebtedness of the Parent or any Subsidiary of the Parent is reduced on the Parent's balance sheet upon the conversion or exchange subsequent to the Issue Date of any Indebtedness of the Parent convertible or exchangeable for Capital Stock (other than Disqualified Stock) of the Parent (less the amount of any cash, or the fair value of any other property, distributed by the Parent upon such conversion or exchange); provided, however, that (i) subject to sub-Condition (ii) of this Condition 4.2.1 (iii)(c), the foregoing amount shall not exceed the Net Cash Proceeds received by the Parent or any Subsidiary of the Parent from the sale of such Indebtedness (excluding Net Cash Proceeds from sales to a Subsidiary of the Parent or to an employee stock ownership plan or a trust established by the Parent or any of its Subsidiaries for the benefit of their employees); and (ii) the foregoing amount, as limited by sub-Condition (i) of this Condition 4.2.1 (iii)(c), shall be increased by the aggregate Net Cash Proceeds, if any, received by the Parent or a Subsidiary of the Parent upon such conversion or exchange (excluding any such Net Cash Proceeds comprising funds borrowed from the Parent or any Subsidiary of the Parent until and to the extent such borrowing is repaid); plus
 - (d) an amount equal to the sum of (x) the net reduction in the Investments (other than Permitted Investments) made by the Parent or any Subsidiary of the Parent in any Person resulting from repurchases, repayments or redemptions of such Investments by such Person, (y) proceeds realised on the sale of such Investment and (z) proceeds representing the return of capital (excluding dividends and distributions), in each case received by the Parent or any Subsidiary of the Parent less the cost (including taxes payable in connection with such repurchase, repayment or redemption) of such repurchase, repayment or redemption, and in the case of an Investment (other than a Permitted Investment) that is a guarantee made by the

Parent or a Subsidiary of the Parent to any Person (other than the Parent or a Subsidiary of the Parent), an amount equal to the amount of such guarantee upon the full and unconditional release of such guarantee; provided, however, that the foregoing sum shall not exceed, in the case of any such Person, the amount of Investments (excluding Permitted Investments) previously made (and treated as a Restricted Payment) by the Parent or any Subsidiary of the Parent in such Person; plus

- (e) in the event that the Parent or any Subsidiary of the Parent makes any Investment in a Person that, as a result of or in connection with such Investment, becomes a Subsidiary of the Parent, an amount equal to the Parent's or such Subsidiary's existing Investment in such person that was previously treated as a Restricted Payment (provided that such existing Investment and/or Restricted Payment was made in accordance with, or permitted by, the Conditions).

4.2.2 Condition 4.2.1 shall not prohibit:

- (i) any Restricted Payment made out of the Net Cash Proceeds of the substantially concurrent sale of, or made by exchange for, Capital Stock of the Parent (other than Disqualified Stock and other than Capital Stock issued or sold to a Subsidiary of the Parent or an employee stock ownership plan or to a trust established by the Parent or any of its Subsidiaries for the benefit of their employees) or a substantially concurrent cash capital contribution received by the Parent from its direct or indirect shareholders; provided, however, that (A) such Restricted Payment shall be excluded from the calculation of the amount of Restricted Payments and (B) the Net Cash Proceeds from such sale or such cash capital contribution (to the extent so used for such Restricted Payment) shall be excluded from the calculation of amounts under sub-Condition (iii)(b) of Condition 4.2.1;
- (ii) so long as no Default or Event of Default has occurred and is continuing, any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Obligations of a Guarantor made by exchange for, or out of the proceeds of the substantially concurrent Incurrence of, Refinancing Indebtedness of such Person in respect of such Subordinated Obligations; provided, however, that such purchase, repurchase, redemption, defeasance or other acquisition or retirement for value shall be excluded from the calculation of the amount of Restricted Payments;
- (iii) dividends paid by the Parent within 60 days after the date of declaration thereof if at such date of declaration such dividend would have complied with this Condition 4.2; provided, however, that such payment (without duplication of the relevant dividend) shall be included in the calculation of the amount of Restricted Payments;
- (iv) so long as no Default or Event of Default has occurred and is continuing, the purchase, redemption or other acquisition of Capital Stock of the Parent or any of its Subsidiaries from employees, former employees, directors or former directors of the Parent or any of its Subsidiaries or any Affiliate of the Parent (or permitted transferees of such employees, former employees, directors or former directors), pursuant to the terms of the agreements (including employment agreements) or plans (or amendments thereto) approved by the Board of Directors under which such individuals purchase or sell or are granted the option to purchase or sell, shares of such Capital Stock; provided, however, that the aggregate amount of such Restricted Payments shall not exceed US\$10 million in the aggregate; provided further, however, that such Restricted Payments shall be excluded in the calculation of the amount of Restricted Payments;
- (v) repurchases of Capital Stock deemed to occur upon exercise of stock options or warrants if such Capital Stock represents a portion of the exercise price of such options; provided, however, that such Restricted Payments shall be excluded from the calculation of the amount of Restricted Payments;

- (vi) cash payments in lieu of the issuance of fractional shares in connection with stock dividends, splits or combinations, the exercise of warrants, options or other securities convertible into or exchangeable for Capital Stock of the Parent; provided, however, that any such cash payment shall not be for the purpose of evading the limitation of this Condition 4.2 (as determined in good faith by the Board of Directors); provided further, however, that such payments shall be excluded from the calculation of the amount of Restricted Payments;
- (vii) in the event of a Relevant Event, and so long as no Default or Event of Default has occurred and is continuing, the payment, purchase, redemption, defeasance or other acquisition or retirement of Subordinated Obligations of any Guarantor, in each case, at a purchase price not greater than 101 per cent. of the principal amount of such Subordinated Obligations, plus any accrued and unpaid interest thereon; provided, however, that prior to such payment, purchase, redemption, defeasance or other acquisition or retirement, the Issuer (or a third party to the extent permitted by the Conditions) has issued a Relevant Event Put Event Notice with respect to the Notes as a result of such Relevant Event and has repurchased or shall repurchase all Notes validly tendered and not withdrawn in connection with such Relevant Event; provided further, however, that such payments, purchases, redemptions, defeasances or other acquisitions or retirements shall be included in the calculation of the amount of Restricted Payments;
- (viii) payments of intercompany Indebtedness (in cash or otherwise), the Incurrence of which was permitted under sub-Condition (i) of Condition 4.1.2, provided, however, that no Default or Event of Default has occurred and is continuing or would otherwise result therefrom; provided further, however, that such payments shall be excluded from the calculation of the amount of Restricted Payments;
- (ix) payments or distributions to dissenting shareholders pursuant to applicable law in connection with or contemplation of a merger, consolidation or transfer of assets that complies with the provisions of the Notes relating to mergers, consolidations or transfers of substantially all of any Guarantor's assets; provided however, that such payments or distributions shall be excluded from the calculation of the amount of Restricted Payments; or
- (x) Restricted Payments in an amount which, when taken together with all Restricted Payments made pursuant to this sub-Condition (x), does not exceed US\$15 million; provided, however, that (A) at the time of each such Restricted Payment, no Default or Event of Default shall have occurred and be continuing (or result therefrom) and (B) such payments shall be included in the calculation of the amount of Restricted Payments.

4.3 Limitation on Restrictions on Distributions from Subsidiaries

4.3.1 The Parent will not, and will not permit any Subsidiary of the Parent to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Subsidiary of the Parent to (A) pay dividends (in cash or otherwise) or make any other distributions on its Capital Stock to the Parent or a Subsidiary of the Parent or pay any Indebtedness owed to the Parent or a Subsidiary of the Parent, (B) make any loans or advances to the Parent or a Subsidiary of the Parent or (C) transfer any of its property or assets to the Parent or a Subsidiary of the Parent, except:

- (i) any encumbrance or restriction pursuant to an agreement in effect at or entered into on the Issue Date;
- (ii) encumbrances and restrictions contained in any agreement or other instrument of any Person acquired by the Parent or any Subsidiary of the Parent in effect at the time of such acquisition (but not created in contemplation thereof) which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired;

- (iii) any encumbrance or restriction consisting of customary non-assignment provisions in leases governing leasehold interests to the extent such provisions restrict the subletting, assignment or transfer of the lease or the property leased thereunder;
- (iv) any encumbrance or restriction contained in security agreements, operating leases of real property or mortgages securing Indebtedness of the Parent or a Subsidiary of the Parent to the extent such encumbrance or restriction restricts the transfer of the property subject to such security agreements, operating leases during the continuation of a default in the payment of rent or mortgages;
- (v) customary encumbrances or restrictions in connection with Purchase Money Indebtedness for property acquired in the ordinary course of business;
- (vi) encumbrances or restrictions existing by reason of any Permitted Lien;
- (vii) any encumbrance or restriction pursuant to an agreement effecting a Refinancing of Indebtedness Incurred pursuant to an agreement referred to in sub-Condition (i), (ii) or this sub-Condition (vii) or contained in any amendment to an agreement referred to in sub-Condition (i), (ii) or this sub-Condition (vii); provided, however, that the encumbrances and restrictions with respect to such Subsidiary or the Parent contained in any such refinancing agreement or amendment, are not materially less favourable to the Noteholders than encumbrances and restrictions with respect to such Subsidiary or the Parent contained in such predecessor agreements;
- (viii) encumbrances or restrictions contained in contracts for sale of Capital Stock or assets permitted by Condition 4.4 with respect to the assets or Capital Stock to be sold pursuant to such contract or in customary merger or acquisition agreements (or any option to enter into such contracts) for the purchase or acquisition of Capital Stock assets or any of the Parent's Subsidiaries by another Person;
- (ix) customary limitations on the distribution or disposition of assets or property of a Subsidiary of the Parent in joint venture agreements entered into in the ordinary course of business and in good faith; provided that such encumbrance or restriction is applicable only to such Subsidiary and provided that:
 - (a) the encumbrance or restriction is not materially more disadvantageous to the Noteholders than is customary in comparable agreements (as determined in good faith by the Parent); and
 - (b) the Parent determines in good faith that any such encumbrance or restriction will not materially affect the ability of the Parent or any Guarantor to make any anticipated principal or interest payments on the Notes and any other Indebtedness for borrowed money that is an obligation of the Parent or a Guarantor;
- (x) encumbrances or restrictions imposed by applicable law or regulation or by governmental licence, concession or permit; and
- (xi) encumbrances or restrictions on cash or other deposits or net worth imposed by customers and suppliers under contracts entered into in the ordinary course of business.

4.4 Limitation on Sales of Assets and Subsidiary Stock

4.4.1 The Parent will not, and will not permit any Subsidiary of the Parent to, directly or indirectly, consummate any Asset Disposition unless:

- (i) the Parent or such Subsidiary receives consideration at the time of such Asset Disposition at least equal to the Fair Market Value (including as to the value of all non-cash consideration) of the Capital Stock and assets subject to such Asset Disposition;

- (ii) at least 75 per cent. of the consideration thereof received by the Parent or such Subsidiary is in the form of (A) cash, (B) Cash Equivalents (as defined below) or (C) Additional Assets; and
- (iii) an amount equal to 100 per cent. of the Net Available Cash from such Asset Disposition is applied by the Parent or such Subsidiary, as the case may be
 - (a) to the extent the Parent elects (or is required by the terms of any Indebtedness), to prepay, repay, redeem or purchase Senior Indebtedness of the Parent or any Subsidiary of the Parent (in each case other than Indebtedness owed to the Parent or an Affiliate of the Parent) within 360 days from the later of the date of such Asset Disposition or the receipt of such Net Available Cash;
 - (b) to the extent the Parent elects, to acquire or invest in Additional Assets within 360 days from the later of the date of such Asset Disposition or the receipt of such Net Available Cash;
 - (c) for working capital purposes within 360 days from the later of the date of such Asset Disposition or the receipt of such Net Available Cash; and
 - (d) to invest in Temporary Cash Investments within 360 days from the later of the date of such Asset Disposition or the receipt of such Net Available Cash,

or any combination thereof, provided, however, that in connection with any prepayment, repayment or purchase of Indebtedness pursuant to sub-Condition (iii)(a) above, the Parent or such Subsidiary shall permanently retire such Indebtedness and shall cause the related loan commitment (if any) to be permanently reduced in an amount equal to the principal amount so prepaid, repaid or purchased and provided further that if the use of Net Available Cash is applied under sub-Condition (iii)(d) above, such Net Available Cash must be applied pursuant to sub-Condition (iii)(a), (iii)(b) or (iii)(c) within 540 days from the date of such Asset Disposition or the receipt of such Net Available Cash.

4.4.2 Any Net Available Cash from Asset Dispositions that is not applied or invested as provided in Condition 4.4.1 within 540 days after receipt thereof will be deemed to constitute “**Excess Proceeds**” and:

- (i) when the aggregate amount of Excess Proceeds exceeds US\$20 million, the Issuer will be required to make an offer (an “**Asset Disposition Offer**”) to all Holders of Notes to purchase the maximum principal amount of Notes that may be purchased out of the Excess Proceeds (equal to US\$200,000 and any integral multiple of US\$1,000 in excess thereof and provided that any unpurchased portion of any Note surrendered is in a principal amount of at least US\$200,000), at an offer price in cash in an amount equal to 100 per cent. of the principal amount of the Notes plus accrued and unpaid interest and any additional amounts payable pursuant to Condition 8, to the date of purchase. If there is any Indebtedness outstanding that ranks *pari passu* with the Notes and contains similar provisions to this Condition 4.4 requiring the Parent to make an offer to purchase such Indebtedness following as Asset Disposition, the Parent (x) may make an offer to purchase such Indebtedness on similar terms (but at a price not exceeding 100 per cent. of the relevant principal amount) as, or on terms that are no better than the terms of, the Asset Disposition Offer and, (y) to the extent that the aggregate principal amount of Notes validly tendered and not withdrawn (the “**Tendered Notes**”) together with the amount of such *pari passu* Indebtedness validly tendered and not withdrawn (the “**Aggregate Tendered Amount**”) exceeds the Excess Proceeds, the proportion of the Excess Proceeds to be applied to the purchase of the Tendered Notes shall be the amount which bears the same proportion (rounded, as applicable) to the Excess Proceeds as the aggregate principal amount of the Tendered Notes bears to the Aggregate Tendered Amount, and any reference below to Excess Proceeds shall be taken to mean such proportional amount.

- (ii) If the aggregate principal amount of Notes surrendered by Holders thereof exceeds the amount of Excess Proceeds, the Issuer shall select the Notes (equal to US\$200,000 and any integral multiple of US\$1,000 in excess thereof and provided that any unpurchased portion of any Note surrendered is in a principal amount of at least US\$200,000) to be purchased on a pro rata basis subject to the aforementioned denomination, by lot or by such other method as the Issuer in its sole discretion deems fair and appropriate, provided that such method is in compliance with the rules of any stock exchange on which the Notes are listed and the requirements of any depository. Immediately following such selection, the Issuer shall notify the Principal Paying Agent and the Trustee in writing thereof. Upon completion of such Asset Disposition Offer, the amount of Excess Proceeds shall be reduced by the aggregate amount of such Asset Disposition Offer.

The Parent will determine the relevant procedures in respect of any Asset Disposition Offer, provided that such procedures are in compliance with the rules of any stock exchange on which the Notes are listed. Notice of the Asset Disposition Offer will be given to Noteholders. The Asset Disposition Offer will remain open for a period of 20 Business Days following its commencement, except to the extent that a longer period is required by applicable law (the “**Asset Disposition Offer Period**”). No later than five Business Days after the expiration of the Asset Disposition Offer Period (the “**Asset Disposition Purchase Date**”), the Parent will purchase and pay for the principal amount of Notes required to be purchased pursuant to this Condition 4.4.2 (the “**Asset Disposition Offer Amount**”).

Any Note tendered and not accepted for purchase will be promptly mailed or delivered by the Issuer to the Holder thereof. The Issuer will publicly announce the results of the Asset Disposition Offer on the Asset Disposition Purchase Date.

The Issuer will comply, to the extent applicable, with any securities laws or regulations in connection with the repurchase of Notes pursuant to the Trust Deed. To the extent that the provisions of any securities laws or regulations conflict with provisions of this Condition 4.4.2, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Trust Deed by virtue of any conflict.

To the extent that all or any portion of the Excess Proceeds remains after completion of an Asset Disposition Offer, the Parent or such Subsidiary may use any remaining Excess Proceeds for any corporate purposes permitted by the covenants contained in these Conditions.

4.4.3 For the purposes of this Condition 4.4, the following are deemed to be “**Cash Equivalents**”:

- (i) the assumption or discharge of (a) Senior Indebtedness of the Parent (other than obligations in respect of Disqualified Stock of the Parent) or any Subsidiary of the Parent (other than obligations in respect of Disqualified Stock or Preferred Stock of a Guarantor) and the release of the Parent or such Subsidiary from all liability on such Indebtedness in connection with such Asset Disposition or (b) Senior Indebtedness of a Subsidiary of the Parent that is no longer a Subsidiary of the Parent as a result of such Asset Disposition, if the Parent and each other Subsidiary of the Parent is released from any obligation under such Indebtedness as a result of such Asset Disposition;
- (ii) securities received by the Parent or any Subsidiary of the Parent from the transferee that are converted within 180 days by the Parent or such Subsidiary of the Parent into cash, to the extent of the cash received in that conversion; and
- (iii) Temporary Cash Investments.

4.5 Limitation on Affiliate Transactions

- 4.5.1 The Parent will not, and will not permit any Subsidiary of the Parent to, enter into or permit to exist any transaction or a series of related transactions (including, without limitation, the purchase, sale, lease or exchange of any assets or property, employee compensation

arrangements or the rendering of any service) with, or for the benefit of, any Affiliate of the Parent or any other Subsidiary of the Parent (an “**Affiliate Transaction**”) unless:

- (i) the terms of the Affiliate Transaction are no less favourable to the Parent or such Subsidiary than those that could be obtained at the time of the Affiliate Transaction in arm’s length dealings with a Person who is not an Affiliate;
- (ii) if such Affiliate Transaction involves an amount in excess of US\$15 million, the terms of the Affiliate Transaction are set forth in writing and a majority of the directors of the Parent disinterested with respect to such Affiliate Transaction (or, in the event that there is only one disinterested director, by the resolution of such disinterested director or, in the event that there are no disinterested directors, by unanimous resolution of the entire Board of Directors) have determined in good faith that the criteria set forth in sub-Condition (i) above are satisfied and have approved the relevant Affiliate Transaction as evidenced by a resolution of the Board of Directors; and
- (iii) if such Affiliate Transaction involves an amount in excess of US\$20 million, the Board of Directors shall also have received a written opinion from an Independent Qualified Party to the effect that such Affiliate Transaction is fair, from a financial standpoint, to the Parent and its Subsidiaries or is not less favourable to the Parent and its Subsidiaries than could reasonably be expected to be obtained at the time in an arm’s length transaction with a Person who was not an Affiliate.

4.5.2 The provisions of Condition 4.5.1 above will not prohibit:

- (i) any Investment (including a Permitted Investment) or other Restricted Payment, in each case permitted to be made pursuant to Condition 4.2;
- (ii) any transaction or series of related transactions in an aggregate amount not exceeding US\$5 million in any 12 month period;
- (iii) any issuance of securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, employment arrangements, insurance plans, deferred compensation plans, retirement and savings plans, stock options and stock ownership plans that are customary and are approved by the Board of Directors in good faith and it is deemed by the Board of Directors that the services theretofore or thereafter to be performed for such compensation or payments are fair consideration therefor;
- (iv) loans or advances or guarantees of third party loans (but not any forgiveness of such loans or advances or guarantees) to employees, directors, officers and consultants in the ordinary course of business in accordance with the past practices of the Parent or its Subsidiaries, but in any event not to exceed US\$5 million in the aggregate outstanding at any one time;
- (v) transactions between or among all or any of the Parent and a Subsidiary of the Parent;
- (vi) the issuance or sale of any Capital Stock (other than Disqualified Stock) of the Parent;
- (vii) agreements and arrangements existing on the Issue Date and any amendment, extension, renewal, refinancing, modification or supplement thereof, provided that following such amendment, extension, renewal, refinancing, modification or supplement, the terms of any such agreement or arrangement so amended, modified or supplemented are not materially more disadvantageous to the Noteholders and to the Parent and the Subsidiary of the Parent, as applicable, than the original agreement or arrangement as in effect on the Issue Date and provided, further, that such amendment or modification is (A) on a basis substantially similar to that which could reasonably have been obtained at such time in an arm’s length transaction with third parties who are not Affiliates and (B) in the case of any transaction having a Fair Market Value of greater than US\$15 million, approved by the Parent’s Board of Directors (including a majority of the disinterested directors or, in the

event that there is only one disinterested director, by the resolution of such disinterested director or, in the event that there are no disinterested directors, by unanimous resolution of the entire Board of Directors);

- (viii) transactions with customers, clients, suppliers or purchasers or sellers of goods or services (other than any sales of the Group's products to an Affiliate engaged in the business of leasing or renting the Group's products) consistent with past practice, in each case, in the ordinary course of business and otherwise in compliance with these Conditions, which are fair to the Parent or the relevant Subsidiary in the reasonable determination of the Board of Directors or the senior management of the Parent or the relevant Subsidiary, in each case, that are disinterested with respect to such Affiliate Transaction or are on terms no less favourable than those that could reasonably have been obtained at such time in an arm's length transaction with third parties that are not Affiliates; or
- (ix) transactions permitted by the proviso to Condition 4.8.2.

4.6 Limitation on Liens

The Parent will not, and will not permit any Subsidiary of the Parent to, directly or indirectly, create, incur or suffer to exist any Lien (the "**Initial Lien**") of any nature whatsoever on any of its properties or assets (including Capital Stock of a Subsidiary of the Parent), whether owned at the Issue Date or thereafter acquired, or on any income, revenue or profits therefrom, securing any Indebtedness, other than Permitted Liens, without at the same time or prior thereto effectively providing that the Issuer's obligations under the Notes and the Trust Deed or the relevant Guarantor's obligation under the Guarantee, as the case may be, shall be secured (i) if such Indebtedness is Senior Indebtedness, equally and rateably with the Indebtedness secured by such Lien or (ii) if such Indebtedness is subordinated Indebtedness, senior in priority to the Lien securing such obligations, in each case, for so long as such obligations are so secured.

4.7 Limitation on Lines of Business

The Parent will not, and will not permit any Subsidiary of the Parent, to engage in any business other than a Core Business.

4.8 Merger and Consolidation

4.8.1 The Issuer will not consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of transactions, directly or indirectly, all or substantially all its assets to, any Person, unless:

- (i) either (A) the Issuer will be the continuing entity or (B) the resulting, surviving or transferee Person, if not the Issuer (the "**Successor Issuer**"), shall be a Person which is organised and existing under the laws of an Approved Jurisdiction and the Successor Issuer (if not the Issuer) shall expressly assume, by a trust deed supplemental thereto, executed and delivered to the Trustee, in form and content satisfactory to the Trustee, all the obligations of the Issuer under the Notes and the Trust Deed;
- (ii) immediately after giving pro forma effect to such transaction (and treating any Indebtedness which becomes an obligation of the Successor Issuer or any Subsidiary of the Successor Issuer as a result of such transaction as having been Incurred by such Successor Issuer or such Subsidiary at the time of such transaction), no Default or Event of Default shall have occurred and be continuing;
- (iii) immediately after giving pro forma effect to such transaction, the Successor Issuer would be able to incur an additional US\$1.00 of Indebtedness pursuant to Condition 4.1.1 or the Consolidated Net Leverage Ratio would not be increased;

- (iv) the Issuer shall have delivered to the Trustee an Officers' Certificate (including in respect of Condition 4.8.1(ii) and (iii)) and an Opinion of Counsel, each stating that such consolidation, merger or transfer complies with these Conditions (provided that the Opinion of Counsel may rely on the Officers' Certificate as to compliance with the Conditions and as to matters of fact (without further investigation or enquiry and without liability) and may contain customary assumptions, qualifications and limitations), each in form and substance satisfactory to the Trustee and upon each of which the Trustee shall be entitled to rely without liability to any person; and
- (v) the Issuer shall have delivered to the Trustee an Opinion of Counsel, in form and substance satisfactory to the Trustee, upon which the Trustee shall be entitled to rely without liability to any person, to the effect that the Noteholders will not recognise income, gain or loss for Jersey income tax purposes as a result of such transaction and will be subject to Jersey income tax on the same amounts, in the same manner and at the same times as would have been the case if such transaction had not occurred.

provided, however, that this Condition 4.8.1 and Condition 4.4 will not apply to any substitution conducted in full compliance with Condition 12.3 and the relevant provisions of the Trust Deed and (i) (A) the disposition of the Issuer in its entirety to a Subsidiary of the Parent, whether through a merger, consolidation or sale of Capital Stock or (B) the sale of all or substantially all the assets of the Issuer to a Subsidiary of the Parent or (ii) the Issuer engaging in a transaction with an Affiliate of the Parent solely for the purpose and with the sole effect of reincorporating the Issuer in another jurisdiction that is an Approved Jurisdiction; and provided further, however, that Condition 4.8.1 shall not apply to any transaction in which any Subsidiary of the Guarantor consolidates with, or merges into, or transfers all or parts of its assets to the Issuer (with the Issuer as the continuing entity).

The Successor Issuer will be the successor to the Issuer and shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer under the Notes, and the predecessor company (except in the case of a lease of all or substantially all of its assets, in which case the predecessor company shall not be released from such obligations) shall be released from the obligation to pay the principal of and interest on the Notes.

4.8.2 The Parent will not, and will not permit any Guarantor to, consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of transactions, all or substantially all of its assets to any Person unless:

- (i) the resulting, surviving or transferee Person (if not the Parent or such Guarantor, the "**Successor Guarantor**") shall be a Person which is organised and existing under an Approved Jurisdiction, and such Person (if not the Parent) shall expressly assume, by executing a deed of guarantee in substantially the same form as the relevant Deed of Guarantee, in a form and content satisfactory to the Trustee, all the obligations of such Guarantor, if any, under its Guarantee;
- (ii) immediately after giving effect to such transaction or transactions on a pro forma basis (and treating any Indebtedness which becomes an obligation of the Successor Guarantor as a result of such transaction as having been issued by such Successor Guarantor at the time of such transaction), no Default or Event of Default shall have occurred and be continuing;
- (iii) immediately after giving pro forma effect to such transaction, the Successor Guarantor would be able to Incur an additional US\$1.00 of Indebtedness pursuant to Condition 4.1.1 or the Consolidated Net Leverage Ratio would not be increased; and
- (iv) the Parent delivers to the Trustee an Officers' Certificate (including in respect of Condition 4.8.2(ii) and (iii)) and an Opinion of Counsel, each stating that such consolidation, merger or transfer complies with these Conditions (provided that the Opinion of Counsel may rely on the Officers' Certificate as to compliance with the Conditions and as to matters of fact (without further investigation or enquiry and without

liability) and may contain customary assumptions, qualifications and limitations), each in form and substance satisfactory to the Trustee and upon each of which the Trustee shall be entitled to rely without liability to any person,

provided, however, that this Condition 4.8.2 and Condition 4.4 will not apply to any substitution conducted in full compliance with Condition 12.3 and the relevant provisions of the Trust Deed and (i) (A) the disposition of a Guarantor that is not the Parent in its entirety to another Guarantor, whether through a merger, consolidation or sale of Capital Stock, (B) the sale of all or substantially all the assets of a Guarantor that is not the Parent to another Guarantor or (C) the disposition of all or a portion of the Capital Stock of a Guarantor that is not the Parent which ceases to be a Subsidiary of the Parent, each of which is permitted, if in connection therewith the Parent provides an Officers' Certificate to the Trustee (in form and substance satisfactory to the Trustee and upon which the Trustee shall be entitled to rely without liability to any person) to the effect that the Parent will comply with its obligations under Condition 4.4 and 4.13 (treating the date of such disposition as a Guarantor Testing Date and making the calculations required in Condition 4.13 on a pro forma basis for such disposition by reference to the most recent annual or interim financial report referred to in Condition 4.9) in respect of such sale or disposition; or (ii) a Subsidiary of the Parent consolidating with, merging into or transferring all or part of its properties and assets to a Guarantor (so long as no Capital Stock of the Parent or a Guarantor is distributed to any Person), (iii) a merger between or among any Guarantors or (iv) a Guarantor engaging in a transaction with an Affiliate of the Parent solely for the purpose and with the sole effect of reincorporating such Guarantor in another jurisdiction that is an Approved Jurisdiction.

- 4.8.3 For purposes of this Condition 4.8, the sale, lease, conveyance, assignment, transfer or other disposition of all or substantially all of the properties and assets of one or more Subsidiaries of a Guarantor, which properties and assets, if held by such Guarantor instead of such Subsidiaries, would constitute all or substantially all of the properties and assets of such Guarantor on a consolidated basis, shall be deemed to be the transfer of all or substantially all of the properties and assets of such Guarantor.

The Successor Guarantor will be the successor to such Guarantor and shall succeed to, and be substituted for, and may exercise every right and power of the relevant Guarantor, as the case may be, under its Guarantee and the Notes, and the predecessor company (except in the case of a lease of all or substantially all of its assets, in which case the predecessor company shall not be released from such obligations) shall be released from the obligation to pay the principal of, premium, if any, and interest on the Notes.

4.9 Reports

- 4.9.1 The Parent will make available on its website and deliver to the Trustee:

- (i) within 120 days after the end of each financial year, annual reports containing the following information in English with a level of detail that is substantially comparable to those published by the Parent in respect of prior periods and in accordance with applicable regulatory requirements: (A) audited consolidated balance sheets of the Parent as of the end of the two most recent financial years and audited consolidated income statements and statements of cash flow of the Parent for the two most recent financial years, in each case prepared in accordance with IFRS, and including complete footnotes to such financial statements and the report of the independent auditors on the financial statements; (B) to the extent relating to annual periods, an operating and financial review of the audited financial statements, including a discussion of the results of operations, financial condition, and liquidity and capital resources, and a discussion of material commitments and contingencies and critical accounting policies as may be published by, and consistent with the past practice of, the Parent and in accordance with the listing rules applicable to the Parent;
- (ii) within 90 days after the end of the first six months of each financial year of the Parent semi-annual reports in English containing the following information: (A) an unaudited condensed consolidated balance sheet as of the end of such semi-annual period and unaudited

condensed statements of income and cash flow for the semi-annual period ending on the unaudited condensed balance sheet date, and the comparable prior year period, in each case prepared in accordance with IFRS, together with a review report thereon conducted in accordance with International Standards on Review Engagements No. 2400 (or such replacement standard in force at such time), and with condensed footnote disclosure; (B) an operating and financial review of the audited and unaudited financial statements, including a discussion of the results of operations, financial condition, and liquidity and capital resources, and a discussion of material commitments and contingencies and changes in critical accounting policies as may be published by, and consistent with the past practice of, the Parent and in accordance with the listing rules applicable to the Parent; and

- (iii) promptly after the occurrence of a material acquisition, disposition, restructuring or change in auditors or any other material event in respect of the Notes, an announcement of such event.
- 4.9.2 The Parent will deliver to the Trustee an Officers' Certificate of the Parent, annually and, in addition, within 14 days of request by the Trustee, with respect to compliance with the Conditions.
- 4.9.3 Substantially concurrently with the issuance to the Trustee and the Noteholders of the reports specified in Condition 4.9.1, the Parent shall also use its reasonable efforts to post copies of such reports in compliance with the guidelines published by the Stock Exchange or any agency or service customarily used by entities with debt securities listed on such Stock Exchange for the dissemination of information. All reports referred to in this Condition 4.9 will be available for inspection and collection at the respective offices of the Paying Agents and Transfer Agent. Any Noteholder may request that a copy of any such report be mailed to such Noteholder, at the expense of the Issuer, by written request to the Issuer.
- 4.9.4 In addition, so long as any of the Notes are restricted securities (as defined in Rule 144A of the Securities Act) and during any period during which the Parent is not subject to the reporting requirements of the Exchange Act or exempt therefrom pursuant to Rule 12g3-2(b), the Parent will furnish to any Noteholder or beneficial owner of the Notes initially offered and sold in the United States to Qualified Institutional Buyers (as defined in Rule 144 under the Securities Act) pursuant to Rule 144A under the Securities Act, and prospective purchasers in the United States designated by such Noteholder or beneficial owners, upon request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.
- 4.10 Payment of Taxes and Other Claims

The Parent shall, and shall cause its Subsidiaries to, pay or discharge or cause to be paid or discharged, before the same shall become overdue and without incurring penalties, (a) all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or assets of the Parent or any Subsidiary of the Parent (which, in the context of any entity incorporated in the Russian Federation, shall mean the earlier of either a ruling of the tax inspection based on an act of audit (*reshenie, vynesennoye po aktu proverki*) or a request to pay taxes (*trebovanie ob uplate naloga*)) and (b) all lawful claims for labour, materials and supplies which, if unpaid, might by law become a Lien (other than a Permitted Lien) upon the property of the Parent or any Subsidiary of the Parent; provided, however, that:

- (i) none of the Parent nor any Subsidiary of the Parent shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment or charge (which, in the context of any entity incorporated in the Russian Federation, shall mean the earlier of either a ruling of the tax inspection based on an act of audit (*reshenie, vynesennoye po aktu proverki*) or a request to pay taxes (*trebovanie ob uplate naloga*)) or any such claim (x) whose amount, applicability or validity is being contested in good faith by appropriate proceedings or (y) whose amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims, does not in the aggregate exceed US\$25 million; and

- (ii) any such failure to comply with provisions of (a) or (b) above is remedied within 60 days, this covenant will be deemed not to have been breached.

4.11 Maintenance of Authorisations

The Issuer (with respect to itself only) and each Guarantor (if not the Parent, with respect to itself only) shall obtain or make, and procure the continuance or maintenance of, all registrations, recordings, filings, consents, licences, approvals and authorisations, which may at any time be required to be obtained or made in the Russian Federation, Jersey and the United Kingdom or any other jurisdiction under the laws of which the Issuer or a Guarantor is organised, for the purposes of the execution, delivery or performance by the Issuer or any such Guarantor, as applicable, of the Notes, the Deed of Guarantee and the Trust Deed and for the validity and enforceability thereof.

4.12 Maintenance of Property and Insurance

The Parent shall, and shall cause each of its Subsidiaries to, cause all material property used in the conduct of its or their business to be insured in line with industry standards and maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements and improvements thereof, all as, in the judgment of the Parent or the relevant Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times; provided, however, (i) that nothing in this Condition 4.12 will prevent the Parent or any of its Subsidiaries from discontinuing or reducing the operation or maintenance of any such property if such discontinuance or reduction is determined by the Parent or any such Subsidiary having managerial responsibility for such property to be desirable in the conduct of its business or the business of any such Subsidiary or immaterial to the conduct of its business or the business of any such Subsidiary and (ii) that if any failure to maintain such insurance or make any such necessary repairs, renewals, replacements and improvements of property to comply with provisions above (x) relates to property with a value not exceeding US\$25 million or (y) is remedied within 60 days, this covenant will be deemed not to have been breached.

4.13 Additional Guarantors

4.13.1 The Parent shall ensure that on the date on which each annual or interim financial report referred to in Condition 4.9 is made available in accordance thereof (each a **"Guarantor Testing Date"**):

- (i) aggregate total assets, after intragroup eliminations, of the Guarantors (calculated in accordance with IFRS and the accounting policies of the Parent for inclusion into the consolidated financial statements of the Parent), comprise 80 per cent. or more of the consolidated total assets of the Group (calculated in accordance with IFRS), in each case with reference to the relevant financial information of the Guarantors prepared for inclusion into the consolidated financial statements of the Parent and the consolidated balance sheet of the Parent as at the end date of the relevant financial period immediately prior to the relevant Guarantor Testing Date; and
- (ii) aggregate EBITDA and aggregate revenue, after intragroup eliminations of the Guarantors (calculated in accordance with IFRS and the accounting policies of the Parent for inclusion into the consolidated financial statements of the Parent, comprises 80 per cent. or more of the consolidated EBITDA and consolidated revenues of the Group (calculated in accordance with IFRS) in each case for the last two semi-annual periods ending on the end date of the relevant financial period immediately prior to the relevant Guarantor Testing Date and by reference to the relevant financial information of the Guarantors prepared for inclusion into the consolidated financial statements of the Parent and the consolidated income statements of the Parent for such periods.

- 4.13.2 In the event that any of the tests in Condition 4.13.1 are not satisfied on any Guarantor Testing Date, the Issuer will cause additional Subsidiaries of the Parent to execute and deliver to the Trustee a deed of guarantee in the same form as the Deed of Guarantee, pursuant to which each such Subsidiary will unconditionally and irrevocably, on a joint and several basis with each other Guarantor, guarantee the payment of all moneys payable under the Trust Deed and the Notes and will become vested with all the duties and obligations of a Guarantor as if originally named a Guarantor under a Deed of Guarantee, as soon as practicable (but in any event no later than 90 days after the date on which reports referred to in Condition 4.9 are made available), such that, following such execution and delivery, if such additional Subsidiaries had been included as Guarantors prior to or as of such date, each of the tests in Condition 4.13.1 would have been satisfied.
- 4.13.3 A Guarantor or Guarantors shall be released from the Deed of Guarantee on request of the Issuer or the Parent if, after giving pro forma effect to such release, each of the tests in Condition 4.13.1 would have been satisfied on the relevant Guarantor Testing Date. When the Issuer or the Parent desires to procure such release, it shall provide to the Trustee an Officers' Certificate (in form and substance satisfactory to the Trustee) certifying compliance with such tests in Condition 4.13.1 on the relevant Guarantor Testing Date after giving pro forma effect to such release which the Trustee shall be entitled to rely on without liability to any person. Upon the Trustee's acceptance of such Officers' Certificate, the Trustee shall enter into such documents in form and substance satisfactory to the Trustee to effect such release. The Noteholders by purchasing the Notes hereby authorise and instruct the Trustee to enter into such release documentation upon acceptance of such Officers' Certificate.
- 4.13.4 The Trustee shall be entitled to rely on any Officers' Certificate provided to it pursuant to Condition 4.13.3 and shall have no liability to any person for any action or step taken in reliance on such certification.
- 4.13.5 The Issuer will give notice to the Trustee and to Holders in accordance with Condition 16 hereof forthwith upon any Guarantor ceasing to be a Guarantor, any additional Subsidiary of the Parent becoming a Guarantor and, so long as the Notes are listed on the Stock Exchange and/or any other stock exchange on which the Notes may be listed or quoted from time to time, shall comply with applicable rules of the Stock Exchange and/or such other exchange in relation to any Guarantor ceasing to be a Guarantor or any of the Subsidiaries of the Parent becoming Guarantors.
- 4.13.6 The Issuer shall also procure that the following opinions are delivered to the Trustee (at the expense of the Issuer) on the date of the execution of each deed of guarantee referred to in Condition 4.13.2:
- (i) an Opinion of Counsel or tax advisors of recognised standing acceptable to the Trustee, in form and substance satisfactory to the Trustee, to the effect that neither the Trustee nor any Noteholders will recognise any income, gain or loss for Tax purposes as a result of any additional Guarantor executing such deed of guarantee, subject to customary exceptions, qualifications and limitations; and
 - (ii) an Opinion of Counsel of recognised standing acceptable to the Trustee, in form and substance satisfactory to the Trustee, stating that the additional Guarantor has due capacity to enter into such deed of guarantee and that such deed of guarantee constitutes legal, valid and binding obligations of the respective additional Guarantor, enforceable in accordance with its terms, subject to customary exceptions, qualifications and limitations.
- 4.14 The Issuer
- The Issuer will not engage in any business activity or undertake any other activity, except (a) any activity relating to the Incurrence of Indebtedness to the extent permitted by these Conditions and the lending or otherwise advancing the proceeds thereof to the Parent or a Subsidiary of the Parent and any activities in connection therewith, (b) any activity undertaken with the purpose of fulfilling any obligations under the Notes, the Trust Deed, any Deed of

Guarantee or any document ancillary thereto or (c) any activity directly related to the establishment and maintenance of the Issuer's corporate existence.

4.15 Officers' Certificate

The Issuer and the Guarantors have each undertaken in the Trust Deed and/or the Deed of Guarantee, as the case may be, to deliver to the Trustee annually and otherwise within 14 days of a request by the Trustee, a certificate signed by two of their respective Authorised Signatories as to their respective compliance with the covenants contained in this Condition 4 and as to there not having occurred any Default or Event of Default since the date of the last such certificate, or if such event has occurred, as to the details of such event. The Trustee will be entitled to rely without liability to any person on such certificate (and any other certificates provided to it in accordance with this Condition 4) and shall not be obliged to independently monitor compliance by the Issuer or the Guarantors with the covenants contained in this Condition 4 or any of their other obligations under these Conditions or the Trust Deed, nor shall it be liable to any person for not so doing.

5 Interest

The Notes bear interest from and including the Issue Date at the rate of 8.125 per cent. per annum, payable semi-annually in arrear on 14 May and 14 November in each year (each an **"Interest Payment Date"**). Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to (but excluding) that day are received by or on behalf of the relevant Holder, and (b) the day seven days after the Trustee or the Principal Paying Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to (but excluding) that seventh day (except to the extent that there is failure in the subsequent payment to the relevant Holders under these Conditions). If interest is required to be calculated for a period of less than a complete Interest Period (as defined below), the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an **"Interest Period"**.

6 Redemption and Purchase

6.1 Final redemption

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 14 November 2022 (the **"Maturity Date"**). The Notes may not be redeemed at the option of the Issuer or any Guarantor other than in accordance with this Condition 6.

6.2 Redemption for tax reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders, Trustee and Principal Paying Agent (which notice shall be irrevocable) at the principal amount thereof, together with interest accrued to (but excluding) the date fixed for redemption, if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it (or if the Guarantees have been called, a Guarantor) has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws, treaties or regulations of any Relevant Jurisdiction, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date and (ii) such obligation cannot be avoided by the Issuer (or the relevant Guarantor, as the case may be) taking reasonable measures available to it; provided that no such notice of redemption shall be given earlier

than 90 days prior to the earliest date on which the Issuer (or the relevant Guarantor, as the case may be) would be obliged to pay such additional amounts were a payment in respect of the Notes (or the Guarantees, as the case may be) then due. Prior to the publication of any notice of redemption pursuant to this Condition 6.2, the Issuer (or the Parent on behalf of the relevant Guarantor, as the case may be) shall deliver to the Trustee (x) a certificate signed by two directors of the Issuer (or the Parent on behalf of the relevant Guarantor, as the case may be) stating that the obligation referred to in (i) above cannot be avoided by the Issuer (or the relevant Guarantor, as the case may be) taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (ii) above, in which event it shall be conclusive and binding on the Noteholders and (y) an opinion of independent legal advisers of recognised standing to the effect that the Issuer (or the relevant Guarantor, as the case may be) has or will become obliged to pay such additional amounts as a result of such change or amendment and the Trustee shall be entitled to accept such opinion as sufficient evidence of the satisfaction of the circumstances set out in (i) above in which event it shall be conclusive and binding on the Noteholders. All Notes in respect of which any such notice of redemption is given under and in accordance with this Condition 6.2 shall be redeemed on the date specified in such notice in accordance with this Condition 6.2.

6.3 Redemption upon a Relevant Event

6.3.1 Unless the Issuer has exercised its right to redeem all the Notes pursuant to Condition 6.2 or Condition 6.4, upon the occurrence of any of the following events (each a “**Relevant Event**”), the Holder of a Note will have the option (the “**Relevant Event Put Option**”) to require the Issuer to redeem all or any part (equal to US\$200,000 and any integral multiple of US\$1,000 in excess thereof and provided that any unpurchased portion of any Note surrendered is in a principal amount of at least US\$200,000) of such Note on the Relevant Event Put Settlement Date (as defined below) at 101 per cent. of its principal amount together with accrued and unpaid interest (if any) to (but excluding) the Relevant Event Put Settlement Date (as defined below) (subject to the right of Holders of record on the relevant Record Date to receive interest due on the relevant interest payment date).

- (i) (whether or not approved by the Board of Directors) any “**person**” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) or group of persons acting in concert (as such term is defined in the City Code on Takeovers and Mergers) or any persons acting on behalf of any such person(s), at any time is or becomes interested in (within the meaning of Part 22 of the Companies Act 2006) or becomes the “beneficial owners” (as defined in Rules 13d-3 and 13d-5 under the Exchange Act except that such person shall be deemed to have “beneficial ownership” of all shares that any such person has the right to acquire within 120 days), directly or indirectly, of more than 50 per cent. of the total voting power of the Voting Stock of the Parent;
- (ii) the adoption of a plan relating to the liquidation or dissolution of the Parent other than in a transaction which complies with the provisions described under Condition 4.8;
- (iii) the merger or consolidation of the Parent with or into another Person or the merger of another Person with or into the Parent, or the sale of all or substantially all the assets of the Parent (determined on a consolidated basis) to another Person other than a transaction following which (x) in the case of a merger or consolidation transaction, holders of securities that represented 100 per cent. of the Voting Stock of the Parent immediately prior to such transaction (or other securities into which such securities are converted as part of such merger or consolidation transaction) own directly or indirectly at least a majority of the voting power of the Voting Stock of the surviving Person in such merger or consolidation transaction immediately after such transaction and in substantially the same proportion (as between such holders) as before the transaction or (y) in the case of a sale of assets transaction, each transferee becomes an obligor in respect of the Notes and a Subsidiary of the Parent; or
- (iv) the Capital Stock of the Parent at any time ceases to be admitted to listing on the Official List of the UK Listing Authority and to trading on the Regulated Market of the London Stock

Exchange (or if the Capital Stock has been admitted to listing and trading on another Regulated Market in place of (and not in addition to) the London Stock Exchange, has ceased to be admitted to listing and trading on such Regulated Market), save that the movement of listing from the Official List of the UK Listing Authority and to trading on the Regulated Market of the London Stock Exchange to another Regulated Market shall not constitute a Relevant Event if completed within 120 calendar days, or trading of the Capital Stock on the Regulated Market of the London Stock Exchange (or any such other Regulated Market on which the Capital Stock are at the relevant time listed and admitted to trading in place of (and not in addition to) the London Stock Exchange) is suspended for a period of 10 consecutive dealing days or more or, in circumstances where such suspension is requested by the Parent in connection with a corporate reorganisation, a period of 60 consecutive dealing days.

- 6.3.2 Unless the Issuer has exercised its right to redeem all the Notes pursuant to Condition 6.2 or Condition 6.4, the Issuer shall promptly, and in any event within 14 calendar days, upon the Issuer becoming aware that a Relevant Event has occurred, give notice (a **"Relevant Event Put Event Notice"**) to the Trustee, Principal Paying Agent and the Noteholders in accordance with Condition 16, specifying the details relating to the occurrence of the Relevant Event and the procedure for exercising the Relevant Event Put Option.

In order to exercise the Relevant Event Put Option, the Holder of a Note must deliver within the period from and including the date that the Relevant Event Put Event Notice is given to and including the date that is 30 days after the Relevant Event Put Event Notice is given (the **"Relevant Event Put Period"**), to the specified office of the Principal Paying Agent, evidence satisfactory to the Principal Paying Agent of such Holder's entitlement to such Note and a duly completed put option notice (a **"Relevant Event Put Option Notice"**) specifying the principal amount of the Notes in respect of which the Relevant Event Put Option is exercised, in the form obtainable from the Principal Paying Agent. The Principal Paying Agent will provide such Noteholder with a non-transferable receipt. On the Business Day following the end of the Relevant Event Put Period, the Principal Paying Agent shall notify in writing the Issuer of the exercise of the Relevant Event Put Option specifying the aggregate principal amount of the Notes to be redeemed in accordance with the Relevant Event Put Option. Provided that the Notes that are the subject of any such Relevant Event Put Option Notice have been delivered to the Principal Paying Agent prior to the expiry of the Relevant Event Put Period, then the Issuer shall redeem all such Notes on the date falling ten Business Days after the expiration of the Relevant Event Put Period (the **"Relevant Event Put Settlement Date"**). No Relevant Event Put Option Notice, once delivered in accordance with this Condition 6.3, may be withdrawn.

- 6.3.3 The Issuer will not be required to issue a Relevant Event Put Event Notice following a Relevant Event if (i) a third party makes an offer in substantially similar terms to the provisions of this Condition 6.3 in the manner, at the times and otherwise in compliance with the requirements set forth in this Condition 6.3 and purchases all Notes validly tendered and not withdrawn thereunder or (ii) a notice of redemption has been given pursuant to the Trust Deed as described in Condition 6.4, unless and until there is a default in payment of the applicable redemption price.

In the event Holders of not less than 90 per cent. of the aggregate principal amount of the outstanding Notes exercises the Relevant Put Event Option and the Issuer redeems or purchases all the Notes held by such Holders, within 90 days of such purchase, the Issuer will have the right, upon not less than 10 days and not more than 60 days prior notice, to redeem all the Notes that remain outstanding following such redemption or purchase at 101 per cent. of their principal amount (subject to the right of Holders of record on the relevant Record Date to receive interest on the relevant interest payment date occurring on or prior to the redemption date).

- 6.3.4 To the extent that the provisions of any securities laws or regulations conflict with the provisions of this Condition 6.3, the Issuer will comply with the applicable securities laws and regulations and shall not be deemed to have breached the obligations contained in this Condition 6.3 by virtue of its compliance with such securities laws or regulations.

6.4 Optional Redemption at Make Whole and Maturity Par Call

6.4.1 At any time, upon not less than 30 nor more than 60 days' notice, the Issuer may redeem all, but not part, of the Notes at a redemption price equal to 100 per cent. of the principal amount thereof plus the Applicable Redemption Premium and accrued and unpaid interest to (but excluding) the redemption date specified in such notice.

6.4.2 At any time on or after three months prior to 14 November 2022, on giving not more than 60 nor fewer than 30 days' irrevocable notice to Noteholders, the Issuer may redeem all, but not part, of the Notes at a redemption price equal to 100 per cent. of the principal amount thereof plus accrued and unpaid interest to (but excluding) the redemption date specified in such notice.

6.5 Purchase

The Issuer, each Guarantor and any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise at any price.

6.6 Cancellation

All Notes redeemed or purchased pursuant to this Condition 6 (other than Condition 6.5) shall be cancelled forthwith, and may not be held or resold. Any Notes purchased pursuant to Condition 6.5 may be either cancelled forthwith or held or resold. Any Notes cancelled pursuant to this Condition 6.6 may not be reissued.

7 Payments

7.1 Principal and other amounts

Payment of principal and interest in respect of the Notes will be made to the persons shown in the Register at the close of business on the Record Date (as defined below). Payments of all amounts other than as provided in this Condition 7.1 will be made as provided in these Conditions.

7.2 Payments

Each payment in respect of the Notes pursuant to Condition 7.1 will be made by transfer to a US dollar account maintained by or on behalf of the payee with a bank in London. Payment instructions (for value on the due date or, if that is not a business day (as defined below), for value the first following day which is a business day) will be initiated on the business day preceding the due date for payment (for value the next business day).

7.3 Payments subject to laws

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment or other laws to which the Issuer or its Agents agree to be subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

7.4 Payments on business days

If the due date for any payment of principal or interest under this Condition 7 is not a business day, the Holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition 7 only, "**business day**" means any day on which banks are open for business in the place of the specified office of the relevant Paying Agent and, in the case of payment by transfer to a US Dollar account as referred to in Condition 7.2, on which dealings in foreign currencies may be carried on both in London and in such other place.

7.5 Record date

“Record Date” means the fifteenth business day, in the place of the specified office of the Registrar, before the due date for the relevant payment.

7.6 Agents

The initial Agents and their initial specified offices are listed below. The Issuer reserves the right to vary or terminate the appointment of all or any of the Paying Agents at any time and appoint additional or other payment or transfer agents, in each case, with the prior written approval of the Trustee (such approval not to be unreasonably withheld), provided that it will maintain (i) a Principal Paying Agent and a Registrar and (ii) a Paying Agent and a Transfer Agent having specified offices in London or at least one major European city. Notice of any such change will be provided to Noteholders as described in Condition 16.

8 Taxation

All payments of principal and interest in respect of the Notes by or on behalf of the Issuer or under the Guarantees by the Guarantors shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by Jersey or the Russian Federation or the United States or the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer or (as the case may be) the relevant Guarantor shall increase the relevant payment so as to result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note presented for payment:

- (a) held by or on behalf of a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or the Guarantees by reason of its having some connection with Jersey or (as the case may be) the Russian Federation or the United States or the United Kingdom other than the mere holding of such Note or the benefit of the Guarantees; or
- (b) where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts if it had surrendered the relevant Definitive Note on the last day of such period of 30 days; or
- (c) where such withholding or deduction is imposed pursuant to: (i) sections 1471-1474 of the United States Internal Revenue Code of 1986, as amended, or any associated regulations or other official guidance, (ii) any treaty, law, regulation or other official guidance enacted in any other jurisdiction, or relating to any intergovernmental agreement between the United States and any other jurisdiction, which (in either case) facilitates the implementation of (i) above; or
- (d) where such withholding or deduction is imposed by reason of failure by a Noteholder to comply with a request made by the Issuer and notified to the Noteholder in accordance with Condition 16 with reasonable notice (at least 30 days before any such withholding is payable) to make a declaration of non-residence or other claim for exemption to the relevant tax authority, which declaration or claim is required by law in the relevant jurisdiction; or
- (e) any combination of sub-Conditions (a) through (d) above.

In these Conditions, **“Relevant Date”** means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received by or for the account of the Principal Paying Agent or the Trustee on or prior to such due date,

the date on which (the full amount having been so received) notice to that effect has been given by the Issuer to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed.

If the Issuer or any Guarantor is or becomes subject at any time to any taxing jurisdiction other than (or in addition to) Jersey or the Russian Federation or the United States or the United Kingdom, respectively, references in these Conditions to Jersey or the Russian Federation or the United States or the United Kingdom shall be construed as references to Jersey or (as the case may be) the Russian Federation or the United Kingdom and/or such other jurisdiction.

9 Events of Default

The Trustee at its discretion may, and if so requested in writing by the Holders of not less than one-quarter of the principal amount of the Notes then outstanding shall (subject in each case to its being indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer that the Notes are immediately due and repayable at their principal amount together with accrued interest if any of the following events occurs and is continuing (each an “**Event of Default**”):

- (a) the Issuer or any of the Guarantors fails to pay the principal of or any interest on any of the Notes or under a Guarantee when due (whether at its stated maturity, on optional redemption, on required purchase, on declaration of acceleration or otherwise) and such failure continues for a period of 14 days in the case of interest and 7 days in the case of principal;
- (b) the Issuer or any of the Guarantors, as the case may be, defaults in the performance or observance of any of their respective other obligations under the Notes, the Trust Deed or the Deed of Guarantee, as the case may be, and except where such default is not, in the opinion of the Trustee, capable of remedy, such default, in the opinion of the Trustee, remains unremedied for 30 calendar days (or such longer period as the Trustee may permit) after written notice thereof, addressed to the Issuer or the relevant Guarantor, as the case may be, has been delivered by or on behalf of the Trustee to the Issuer or such Guarantor, as the case may be;
- (c) (i) any Indebtedness of the Issuer, any Guarantor or any Material Subsidiary is not paid when due or payable (as the case may be) within any applicable grace period; or (ii) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer, a Guarantor or (as the case may be) such Material Subsidiary or (provided that no event of default, howsoever described, has occurred) any Person entitled to such Indebtedness; provided that the amount of Indebtedness referred to in (i) and/or (ii) above individually or in the aggregate exceeds US\$25 million (or its US Dollar Equivalent);
- (d) the amount of final (non-interim) unsatisfied judgments, decrees or orders of courts or dispute resolution bodies of competent jurisdiction for the payment of money against the Issuer, any Guarantor or any Material Subsidiary in the aggregate at any given moment of time exceeds US\$25 million or its US Dollar Equivalent unless such judgment, decree or order is appealed, reversed, discharged or stayed within a period of 60 calendar days of the imposition thereof;
- (e) the Issuer, any Guarantor or any Material Subsidiary is unable or admits inability to pay its debts generally as they fall due, generally suspends making payments on its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with its creditors generally with a view to rescheduling its Indebtedness; and/or a moratorium is

declared in respect of the Indebtedness of the Issuer, any Guarantor or any Material Subsidiary;

- (f) the occurrence of any of the following events, other than in each case a transaction that complies with Condition 4.8:
- (i) the Issuer, any Guarantor or any Material Subsidiary ceases to have corporate existence or is seeking or consenting to (or an effective decision is made by any court of competent jurisdiction, any competent arbitration court or any competent governmental agency for) the introduction of proceedings for its winding up, liquidation or dissolution or the appointment of a liquidator or liquidation commission (*likvidatsionnaya komissiya*) or a similar officer of the Issuer, any Guarantor or any Material Subsidiary, as the case may be;
 - (ii) the presentation or filing of a petition in respect of any of the Issuer, any Guarantor or any Material Subsidiary in any court of competent jurisdiction, any competent arbitration court or before any competent agency alleging, or for, the bankruptcy, winding-up, insolvency, dissolution, administration, examination, reorganisation (other than any corporate reorganisation on a solvent basis) or liquidation (or any analogous proceedings) including in the case of any entity in the Russian Federation the institution of supervision (*nablyudeniye*), financial rehabilitation (*finansovoye ozdorovleniye*), external management (*vneshneye upravleniye*) or bankruptcy management (*konkursnoye proizvodstvo* as such terms are defined in the Federal Law of the Russian Federation No. 127-FZ "On Insolvency (Bankruptcy)" dated 26 October 2002 (as amended or replaced from time to time) (the "**Insolvency Law**")), of any of the Issuer, any Guarantor or any Material Subsidiary, other than any petition (presented or filed by a person that is not the Issuer, any Guarantor or any Material Subsidiary) which is not accepted by such competent court or competent agency for review on its merits or is accepted, but is otherwise discharged, stayed or dismissed within 14 days of commencement;
 - (iii) the institution, in respect of any of the Issuer, any Guarantor or any Material Subsidiary, of composition with creditors, reprieve from payment, compromise, assignment, arrangement, controlled management, fraudulent conveyance, general settlement with creditors, examination, reorganisation or similar process affecting the rights of creditors generally (other than any corporate reorganisation on a solvent basis) which, in the case of any entity in the Russian Federation and without limitation, shall include the implementation of measures for the prevention of its bankruptcy, including implementation of recovery (*sanatsiya*, as defined in the Insolvency Law) or entry into an amicable settlement (including *mirovoye soglasheniye*, as defined in the Insolvency Law) with its creditors generally; or
 - (iv) any extra-judicial liquidation or analogous act in respect of the Issuer, any Guarantor or any Material Subsidiary;
- (g) any Guarantee is finally held in any judicial proceeding to be unenforceable or invalid or ceases to be in full force and effect (other than in accordance with, the terms of such Guarantee) or any Guarantor denies, disaffirms, repudiates (or purports to repudiate) its obligations under its Guarantee, provided such judgment, decree or order is not appealed, reversed, discharged or stayed within a period of 60 calendar days of the imposition thereof;
- (h) it is or will become unlawful for the Issuer or any Guarantor to perform or comply with any one or more of its obligations under any of the Notes, the Guarantees or the Trust Deed provided, however, that the Issuer or relevant Guarantor has not rectified such non-performance or non-compliance within 60 calendar days of performance or compliance becoming unlawful;

- (i) any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer or a Guarantor lawfully to enter into, perform and comply with its obligations under and in respect of the Notes, the Trust Deed or the Deed of Guarantee, as the case may be, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Notes, the Trust Deed and the Deed of Guarantee admissible in evidence in an arbitration court in London, is not taken, fulfilled or done and such circumstance continues for a period of more than 60 calendar days;
- (j) any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation, condemnation, or nationalisation of all or substantially all of the property, undertaking, assets and revenues of the Issuer or any Guarantor; and the Issuer or any Guarantor is prevented by any such person from exercising normal control over the whole or substantially all of, its property, undertaking, assets and revenues;
- (k) if the Parent ceases to hold a direct or indirect participation of at least 51 per cent. in the share capital of any of the Guarantors from time to time; or
- (l) any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs,

provided that, with respect to any circumstance specified in Conditions 9(g), 9(h) and 9(i) in relation to the Guarantors and Guarantees (as applicable) only, there shall be no Event of Default if, on the date which is 60 days after the occurrence of such circumstance, the Parent otherwise would be in compliance with Condition 4.13 hereof, tested by reference to the circumstances existing on such date (and for the purpose of such test, excluding any assets or EBITDA attributable to each Guarantor which is the subject of such circumstance). For the avoidance of doubt, to the extent that the Parent is required to appoint any additional Subsidiary of the Parent as a Guarantor in order to be in compliance with Condition 4.13, it will comply with the conditions specified in Conditions 4.13.

10 Prescription

Claims for the payment of principal and interest in respect of any Note shall be prescribed unless made within 10 years (for claims for the payment of principal) or five years (for claims for the payment of interest) of the appropriate Relevant Date.

11 Replacement of Definitive Notes

If any Definitive Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Registrar may reasonably require. Mutilated or defaced Definitive Notes must be surrendered before replacements will be issued.

12 Meetings of Noteholders, Modification and Waiver

12.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such meetings shall be held in accordance with the provisions set out in the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (i) to modify the

maturity of the Notes or the dates on which interest is payable in respect of the Notes, (ii) to reduce or cancel the principal amount of, or interest on, the Notes, (iii) to alter the method of calculating the amount of any payment in respect of the Notes, (iv) to change the currency of payment of the Notes, (v) to modify the provisions in Schedule 3 of the Trust Deed concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, (vi) to modify or cancel the Guarantees, (vii) to sanction the exchange or substitution for the Notes of, or the conversion of the Notes into, shares, bonds or other obligations or securities of the Issuer, the Guarantors or any other entity, or (viii) amending the proviso to paragraph 2 to Schedule 4 of the Trust Deed, in which case the necessary quorum will be one or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed). A written resolution signed by or on behalf of the Holders of not less than 75 per cent. of the aggregate principal amount of Notes outstanding shall be as valid and effective as a duly passed Extraordinary Resolution.

12.2 Modification and Waiver

The Trustee may agree with the Issuer and the Guarantors, without the consent of the Noteholders, to (i) any modification of any of the provisions of the Trust Deed, the Deed of Guarantee or the Notes which is, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach of any of the provisions of the Notes or the Trust Deed or the Deed of Guarantee, which is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and, if the Trustee so requires, shall be notified to the Noteholders as soon as practicable.

12.3 Substitution

The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the substitution of certain other entities in place of the Issuer or a Guarantor, or of any previous substituted company, as principal debtor or guarantor under the Trust Deed and the Notes or the Deed of Guarantee. In the case of such a substitution the Trustee may agree, without the consent of the Noteholders, to a change of the law governing the Notes and/or the Trust Deed and/or the Deed of Guarantee provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

12.4 Entitlement of the Trustee

In connection with the exercise of its functions (including but not limited to those referred to in these Conditions) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Guarantors, the Trustee or any other Person, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders.

13 Enforcement

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such actions, steps or proceedings against the Issuer and/or any Guarantor as it may think fit to enforce the rights of the Noteholders and the terms of the Trust Deed, the Notes and/or the Deed of Guarantee, but it need not take any such proceedings and nor shall the Trustee be bound to take, or omit to take any step or action (including instituting such proceedings) unless (a) it shall have been so requested by an Extraordinary Resolution of Noteholders or in writing by Noteholders holding at least one-quarter in principal amount of the Notes outstanding and (b) it shall have been indemnified and/or secured and/or prefunded to its

satisfaction. No Noteholder may proceed directly against the Issuer or any Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

14 Indemnification and Removal of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer, each Guarantor and any entity related to the Issuer or each Guarantor without accounting for any profit. The Trustee may rely without liability to Noteholders on any certification, advice, opinion or report provided by the Auditors, legal counsel or any other legal, financial or other professional expert pursuant to the Trust Deed, whether or not addressed to the Trustee and whether or not the Auditors', legal counsel's or other legal, financial or professional expert's liability in respect thereof is limited by a monetary cap or otherwise. The Trust Deed provides that the Noteholders shall together have the power to remove the Trustee (or any successor trustee or additional trustees) in certain circumstances provided that the removal of the Trustee or any other trustee shall not become effective unless there remains a Trustee in office after such removal.

15 Further Issues

The Issuer may from time to time, without the consent of the Noteholders, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) and so that such further issue shall be consolidated and form a single series with the outstanding Notes. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any such other securities shall be constituted by a deed supplemental to the Trust Deed and will benefit from guarantees substantially in the form of the Deed of Guarantee given in respect of these Notes.

16 Notices

Notices to the Noteholders shall be valid if sent to them by first class mail (airmail if overseas) at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, so long as the Notes are listed on the Stock Exchange, notices to the Noteholders shall be valid if sent to them by any means permitted by the rules and guidelines of that exchange. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

17 Currency Indemnity

If any sum due from the Issuer in respect of the Notes or the Trust Deed or from the Guarantors under the Deed of Guarantee or any order or judgment given or made in relation thereto has to be converted from the currency (the **"first currency"**) in which the same is payable under these Conditions or the Deed of Guarantee or such order or judgment into another currency (the **"second currency"**) for the purpose of (a) making or filing a claim or proof against the Issuer or any Guarantor, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes or the Deed of Guarantee, the Issuer, failing whom the Guarantors jointly and severally, shall indemnify each recipient, on the written demand of such recipient addressed to the Issuer and the Guarantors and delivered to the Issuer and the Guarantors or to the specified office of the Registrar, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such recipient may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer or, as the case may be, the Guarantors and shall give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by any Noteholder or any other person and will

continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under the Trust Deed, the Deed of Guarantee and/or the Notes or any other judgment or order.

18 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

19 Governing Law

The Trust Deed, the Notes, the Deed of Guarantee and these Conditions and any non-contractual obligations arising out of or in connection therewith shall be governed by, and construed in accordance with, English law.

20 Definitions

In these Conditions the following terms have the meaning given to them in this Condition 20.

“Additional Assets” means:

- (a) any property, plant or equipment used in a Core Business;
- (b) the Capital Stock of a Person that becomes a Subsidiary of the Parent as a result of the acquisition of such Capital Stock by the Parent or another Subsidiary of the Parent; or
- (c) Capital Stock constituting a minority interest in any Person that at such time is a Subsidiary of the Parent;

provided, however, that any such Subsidiary of the Parent described in paragraph (b) or (c) above is primarily engaged in a Core Business.

“Affiliate” of any specified Person means (i) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person or (ii) any other Person who is a director or officer (a) of such specified Person, (b) of any Subsidiary of such specified Person or (c) of any Person described in (i) above. For the purposes of this definition, **“control”** when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms **“controlling”** and **“controlled”** have meanings correlative to the foregoing.

“Applicable Redemption Premium” means the sum of the present values of the principal amount outstanding of the Notes to be redeemed and the aggregate amount of scheduled payment(s) of interest on such Notes for the remaining term of such Notes determined on the basis of the rate of interest applicable to such Notes from and including the date on which such Notes are to be redeemed (exclusive of interest accrued to the date of redemption), calculated by discounting such amounts to the date of redemption on an annual basis (assuming a 360-day year consisting of twelve 30-day months or, in the case of an incomplete month, the number of days elapsed) at the rate per annum equal to the annual or semi-annual yield (as the case may be) to maturity or interpolated yield to maturity (on the relevant day count basis) of a US government security having an actual or interpolated maturity comparable with the remaining term of the Notes, that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities denominated in US dollars, assuming a price for such US government security (expressed as a percentage of its nominal amount) equal to the arithmetic average of the bid and offered prices for such US government security (expressed in each case as a percentage of its nominal amount) quoted by the two banks selected by the Issuer, or their affiliates, which are (A) primary government securities dealers or (B) market makers in pricing corporate bond issues for such date of redemption, plus 50 basis points.

“Approved Jurisdiction” means any state which was a member of the European Union as at 1 January 2004, Jersey, Hong Kong, the Russian Federation, the United Kingdom, any member country of the European Economic Area, Switzerland, Canada, the United States, any state thereof or the District of Columbia.

“Asset Disposition” means any sale, lease, transfer or other disposition (or series of related sales, leases, transfers or dispositions) by the Parent or any Subsidiary of the Parent, including any disposition by means of a merger, consolidation or similar transaction (each referred to for the purposes of this definition as a **“disposition”**), of:

- (a) any Capital Stock of a Subsidiary of the Parent (other than directors’ or employee qualifying shares or shares required by applicable law to be held by a Person other than the Parent or a Subsidiary of the Parent);
- (b) all or substantially all the assets of any division or line of business of the Parent or any Subsidiary of the Parent; or
- (c) any other assets of the Parent or any Subsidiary of the Parent outside of the ordinary course of business of the Parent or such Subsidiary of the Parent,

other than,

- A. a disposition by a Subsidiary of the Parent to the Parent or by the Parent or a Subsidiary of the Parent to a Subsidiary of the Parent;
- B. for the purposes of Condition 4.4 only, (i) a disposition that constitutes a Permitted Investment or a Restricted Payment (or would constitute a Restricted Payment but for the exclusions from the definition thereof) and that is not prohibited by Condition 4.2 and (ii) a disposition of all or substantially all of the Capital Stock or assets of a Guarantor in accordance with Condition 4.8;
- C. a disposition of assets in a single transaction or a series of related transactions with a Fair Market Value not exceeding US\$10 million in any 12 month period to any Person that is not a member of the Group;
- D. a disposition of cash or Temporary Cash Investments;
- E. the creation of a Lien (but not the sale or other disposition of the property subject to such Lien).
- F. the licensing or sublicensing of rights to intellectual property or other intangibles in the ordinary course of business;
- G. any disposition constituting or resulting from the enforcement of a Lien Incurred in compliance with Condition 4.6;
- H. the sale, lease or other disposition of obsolete, worn out, negligible, surplus or outdated equipment or machinery or inventory in the ordinary course of a Core Business;
- I. the lease, assignment or sublease of any real or personal property in the ordinary course of the business;
- J. sales or other dispositions of assets or property received by the Parent or any Subsidiary of the Parent upon the foreclosure on a Lien granted in favour of the Parent or any Subsidiary of the Parent or any other transfer of title with respect to any ordinary course secured investment in default; and

- K. the surrender or waiver of contract rights or the settlement, release, or surrender of contract, tort or other claims, in the ordinary course of the business.

“Authorised Signatory” means, (i) in relation to the Issuer, a director for the time being of the Issuer or any officer of the Issuer who is authorised to bind the Issuer by virtue of the Issuer’s constitutive documents or any person who is authorised under a power of attorney executed by such an officer on behalf of the Issuer and, (ii) in relation to the Parent, a member of the Board of Directors or any officer of the Parent who is authorised to bind the Parent by virtue of the Parent’s constitutive documents or any person who is authorised under a power of attorney executed by such an officer on behalf of the Parent and (iii) in relation to any other Guarantor, a director for the time being of such Guarantor or any officer of such Guarantor who is authorised to bind such Guarantor by virtue of such Guarantor’s constitutive documents or any person who is authorised under a power of attorney executed by such an officer on behalf of such Guarantor.

“Average Life” means, as of the date of determination, with respect to any Indebtedness, the quotient obtained by dividing (a) the sum of the products of the numbers of years from the date of determination to the dates of each successive scheduled principal payment of, or redemption or similar payment with respect to, such Indebtedness multiplied by the amount of such payment by (b) the sum of all such payments.

“Board of Directors” means the Board of Directors of the Parent or any committee thereof duly authorised to act on behalf of such Board of Directors.

“Business Day” means, other than for the purposes of Condition 7, a day on which, if on that day a payment is to be made hereunder, commercial banks generally are open for business in Jersey, London, New York and Moscow, and in the city where the specified office (as defined in the Agency Agreement) of the Principal Paying Agent is located.

“Capital Lease Obligation” means an obligation that is required to be classified and accounted for as a capital lease for financial reporting purposes in accordance with IFRS, and the amount of Indebtedness represented by such obligation shall be the capitalised amount of such obligation determined in accordance with IFRS; and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty. For purposes of Condition 4.6, a Capital Lease Obligation will be deemed to be secured by a Lien on the property being leased.

“Capital Stock” of any Person means any and all shares, interests (including partnership interests), rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity.

“Commodity Agreement” means any hedging contract, swap agreement or other similar agreement with respect to commodity values.

“Consolidated Indebtedness” means at any date of determination (and without duplication) all consolidated Indebtedness of the Parent and its consolidated Subsidiaries as calculated in accordance with the then most recently published consolidated financial statements of the Parent prepared in accordance with IFRS.

For the avoidance of doubt, for the financial year as at and for the year ended 31 December 2016 and as at and for the six months ended 30 June 2017 the guarantee given by the Group in favour of the Industrial and Commercial Bank of China Ltd pursuant to the ICBC Facility and guarantee in respect of Investment agreement with the Russian Ministry of Far East Development was not recorded in the published consolidated financial statements of the Parent prepared in accordance with IFRS as indebtedness and accordingly would not fall within this definition on the basis of such financial statements.

“Consolidated Net Indebtedness” of the Parent and its consolidated Subsidiaries means, at any date of determination, Consolidated Indebtedness less cash and Temporary Cash Investments of the Parent and its consolidated Subsidiaries, without giving effect on a pro forma basis to cash and Temporary Cash Investments representing the proceeds of any Indebtedness proposed to be Incurred pursuant to the Incurrence of Indebtedness giving rise to the need to calculate Consolidated Net Indebtedness.

“Consolidated Net Leverage Ratio” as of any date of determination, means the ratio of (x) the Consolidated Net Indebtedness outstanding on such date to (y) the aggregate amount of EBITDA for the most recent two consecutive semi-annual periods ending prior to the date of such determination for which financial statements are available (the **“Measurement Period”**), as determined in good faith by a responsible financial or accounting Officer of the Parent, whose determination will be conclusive (in the absence of manifest error); provided, however, that:

- (a) if the Parent or any Subsidiary of the Parent has Incurred any Indebtedness (which for the avoidance of doubt, excludes any intercompany Indebtedness within the Group) since the beginning of the relevant Measurement Period that remains outstanding on such date of determination or if the transaction giving rise to the need to calculate the Consolidated Net Leverage Ratio is an Incurrence of Indebtedness, or both, Consolidated Net Indebtedness at the end of such Measurement Period and EBITDA for such Measurement Period shall be calculated after giving effect on a pro forma basis to such Consolidated Net Indebtedness and the use of proceeds therefrom as if such Indebtedness had been Incurred on the first day of the relevant Measurement Period;
- (b) if the Parent or any Subsidiary of the Parent has repaid, repurchased, defeased or otherwise discharged any Indebtedness since the beginning of the relevant Measurement Period or if any Indebtedness is to be repaid, repurchased, defeased or otherwise discharged (in each case other than Indebtedness Incurred under any revolving credit facility unless such Indebtedness has been permanently repaid and has not been replaced) on the date of the transaction giving rise to the need to calculate the Consolidated Net Leverage Ratio, the Consolidated Net Leverage Ratio shall be calculated on a pro forma basis as if such discharge had occurred on the first day of the relevant Measurement Period and as if the Parent or such Subsidiary had not earned the interest income actually earned during such period in respect of cash or Temporary Cash Investments used to repay, repurchase, defease or otherwise discharge such Indebtedness;
- (c) if since the beginning of the relevant Measurement Period the Parent or any Subsidiary of the Parent shall have made any Asset Disposition, Consolidated Net Indebtedness at the end of such Measurement Period shall be reduced by an amount equal to the Indebtedness discharged, defeased or retired with the Net Cash Proceeds of such Asset Disposition and the assumption of Indebtedness by the transferee and EBITDA for such Measurement Period shall be reduced by an amount equal to EBITDA (if positive) directly attributable to the assets which are the subject of such Asset Disposition for such Measurement Period, or increased by an amount equal to EBITDA (if negative), directly attributable thereto for such Measurement Period, in each case as if such Asset Disposition had occurred on the first day of such Measurement Period;
- (d) if since the beginning of the relevant Measurement Period the Parent or any Subsidiary of the Parent (by merger or otherwise) shall have made an Investment in any Subsidiary of the Parent (or any Person which becomes a Subsidiary of the Parent) or an acquisition of assets, including any acquisition of assets occurring in connection with a transaction requiring a calculation to be made hereunder, which constitutes all or substantially all of an operating unit of a business, Consolidated Net Indebtedness at the end of such Measurement Period and EBITDA for such Measurement Period shall be calculated after giving pro forma effect thereto (including the Incurrence of any Indebtedness) as if such Investment or acquisition had occurred on the first day of such Measurement Period; and

- (e) if since the beginning of the relevant Measurement Period any Person (that subsequently became a Subsidiary of the Parent or was merged with or into the Parent or any Subsidiary of the Parent since the beginning of such period) shall have made any Asset Disposition, any Investment or acquisition of assets that would have required an adjustment pursuant to paragraphs (c) or (d) above if made by the Parent or a Subsidiary of the Parent during such period, the Consolidated Net Leverage Ratio at the end of such Measurement Period shall be calculated after giving pro forma effect thereto as if such Asset Disposition, Investment or acquisition had occurred on the first day of such Measurement Period.

For the purposes of this definition, whenever pro forma effect is to be given to an acquisition of assets and the amount of income or earnings relating thereto, the *pro forma* calculations shall be determined in good faith by a responsible financial or accounting officer of the Parent, whose determination will be conclusive (in the absence of manifest error).

“Consolidated Net Income” means, for any period, the Net Income of the Parent and its consolidated Subsidiaries; provided, however, that there shall not be included in such Consolidated Net Income:

- (a) any net after-tax effect of gains or losses relating to the fair value change of financial instruments carried at fair value through the profit or loss account pursuant to IFRS;
- (b) any net after-tax effect of gains or losses relating to deferred taxation;
- (c) any net after-tax effect of non-cash gains or losses relating to foreign exchange;
- (d) the cumulative effect of a change in accounting principles after the Issue Date;
- (e) any after-tax effect of extraordinary, non-recurring, non-operating or unusual gains, losses, income or expenses or charges (including all fees and expenses relating thereto), severance, relocation costs, consolidation and closing costs, integration costs, non-recurring and unusual expenses relating to opening, expansion, relocation, remodeling, or modernization of fixed assets, plant or facility costs or losses, business optimization costs, transition costs, restructuring costs, signing, retention or completion bonuses and curtailments;
- (f) any net after-tax effect of income or loss from disposed, abandoned, transferred, closed or discontinued operations or fixed assets and any net after-tax gains or losses on disposal of disposed, abandoned, transferred, closed or discontinued operations or fixed assets shall be excluded;
- (g) any net after-tax effect of gains or losses (including all fees and expenses relating thereto) attributable to business dispositions or asset dispositions or the sale or other disposition of any Capital Stock of any Person other than in the ordinary course of business, as determined in good faith by the Parent;
- (h) the Parent's or the Subsidiary of the Parent's share of the net income for such period of any Person that is not a Subsidiary of the Parent, or that is accounted for by the equity method of accounting (other than a Guarantor); provided that Consolidated Net Income shall be increased by the amount of dividends or distributions or other payments that are actually paid in cash (or to the extent converted into cash) to the referent Person or a Subsidiary thereof in respect of such period;
- (i) any net after-tax income (loss) from any acquisition, write-off, forgiveness or the early extinguishment of (i) Indebtedness, (ii) Hedging Obligations or (iii) other derivative instruments (including deferred financing costs written off and premiums paid);
- (j) any impairment charge or expense, asset write-off or write-down, including impairment charges or asset write-offs or write-downs related to intangible assets, long-lived assets or investments in debt and equity securities or as a result of a change in law or regulations,

in each case, pursuant to IFRS and the amortization of intangibles arising pursuant to IFRS;

- (k) any deductions attributable to minority interests (other than to the extent of dividends declared or paid during the relevant or prior period);
- (l) any net unrealized gain or loss (after any offset) resulting in such period from Hedging Obligations and the application of IFRS standards related thereto; and
- (m) any net unrealized gain or loss (after any offset) resulting in such period from currency translation or other non-cash gains or losses related to currency remeasurements of Indebtedness (including any net loss or gain resulting from hedge agreements for currency exchange risk);

in each case, for such period. Notwithstanding the foregoing, for the purposes of Condition 4.2 only, there shall be excluded from Consolidated Net Income any repurchases, repayments or redemptions of Investments, proceeds realised on the sale of Investments or return of capital to the Parent or a Subsidiary of the Parent to the extent such repurchases, repayments, redemptions, proceeds or returns increase the amount of Restricted Payments permitted under Condition 4.2.1(iii)(d).

“Consolidated Total Assets” means at any date of determination the total assets of the Parent and its consolidated Subsidiaries as shown in the most recently available balance sheet of the Parent prepared in accordance with IFRS.

“Convertible Bonds” means the U.S.\$100,000,000 9% guaranteed convertible bonds due 2020 issued by Petropavlovsk 2010 Limited.

“Core Business” means any business of the type in which the Parent or any Subsidiary of the Parent was engaged on the Issue Date and any business ancillary or complementary to such business.

“Currency Agreement” means any foreign exchange contract, currency swap agreement or other similar agreement with respect to currency values.

“Default” means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, could constitute an Event of Default.

“Disqualified Stock” means, with respect to any Person, any Capital Stock which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder) or upon the happening of any event:

- (a) matures or is mandatorily redeemable (other than redeemable only for Capital Stock of such Person which is not itself Disqualified Stock) pursuant to a sinking fund obligation or otherwise;
- (b) is convertible or exchangeable at the option of the holder for Indebtedness or Disqualified Stock; or
- (c) is mandatorily redeemable or must be purchased upon the occurrence of certain events or otherwise, in whole or in part;

in each case on or prior to the first anniversary of the Stated Maturity of the Notes; provided, however, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to purchase or redeem such

Capital Stock upon the occurrence of an Asset Disposition or Relevant Event occurring prior to the first anniversary of the Stated Maturity of the Notes shall not constitute Disqualified Stock if:

- A. the Asset Disposition or Relevant Event provisions applicable to such Capital Stock are not more favourable to the holders of such Capital Stock than the terms applicable to the Notes and described under Condition 4.4 and Condition 6.3; and
- B. any such requirement only becomes operative after compliance with such terms applicable to the Notes, including the purchase of any Notes tendered pursuant thereto.

The amount of any Disqualified Stock that does not have a fixed redemption, repayment or repurchase price will be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were redeemed, repaid or repurchased on any date on which the amount of such Disqualified Stock is to be determined pursuant to these Conditions; provided, however, that if such Disqualified Stock could not be required to be redeemed, repaid or repurchased at the time of such determination, the redemption, repayment or repurchase price will be the book value of such Disqualified Stock as reflected in the most recent financial statements of such Person.

“**EBITDA**” for any period means profit/loss before taxation, as adjusted by the following to the extent included or deducted, as the case may be, in calculating profit/loss before taxation:

- (a) adding back interest expense;
- (b) excluding investment income;
- (c) excluding any changes in the fair value of derivative financial instruments;
- (d) adding back other finance losses;
- (e) excluding other finance gains;
- (f) adding back foreign exchange losses;
- (g) excluding foreign exchange gains;
- (h) adding back depreciation, amortisation and impairment;
- (i) excluding impairment reversals;
- (j) excluding the Group’s share of the type referred in paragraphs (a) to (i) above of joint ventures or associates accounted for using the equity method; and
- (k) taking no account of any other non-monetary items,

in each case, as such amount is calculated as presented in the most recently published consolidated financial statements of the Parent prepared in accordance with IFRS.

“**Exchange Act**” means the US Securities Exchange Act of 1934, as amended.

“**Fair Market Value**” means, with respect to any asset or property, the price which could be negotiated in an arm’s length, free market transaction, between a willing seller and a willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction. Fair Market Value will, in relation to any transaction or series of related transactions with an aggregate value in excess of US\$10 million be determined in good faith by a majority of the Board of Directors of the Parent disinterested with respect to such transaction (or, in the event that there is only one disinterested director, by the resolution of such disinterested director or, in the event that there are no disinterested directors, by unanimous resolution of the entire Board

of Directors) of the Parent or the relevant Subsidiary, whose determination will be conclusive (evidenced by a resolution of the Board of Directors). If such transaction involves an amount in excess of US\$50 million, the Board of Directors shall also have received a written opinion from an Independent Qualified Party to the effect that such transaction is fair, from a financial standpoint, to the Parent and its Subsidiaries or is not less favourable to the Parent and its Subsidiaries than could reasonably be expected to be obtained at the time in an arm's length transaction with a Person who was not an Affiliate.

"Group" means the Parent and its consolidated Subsidiaries taken as a whole.

"guarantee" means any financial obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and any obligation, direct or indirect, contingent or otherwise, of such Person (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay or otherwise) or (b) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided, however, that the term **"guarantee"** will not include endorsements for collection or deposit in the ordinary course of business. The term **"guarantee"** used as a verb has a corresponding meaning.

"Hedging Obligations" of any Person means the obligations of such Person pursuant to any Commodity Agreement, Interest Rate Agreement or Currency Agreement.

"IFRS" means International Financial Reporting Standards (IFRS and IFRIC interpretation), which are in effect for the relevant accounting period.

"Incur" means issue, assume, guarantee, incur or otherwise become liable for; provided, however, that any Indebtedness of a Person existing at the time such Person becomes a Subsidiary of the Parent (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Person at the time it becomes a Subsidiary of the Parent. The term **"Incurrence"** when used as a noun shall have a correlative meaning. Solely for purposes of determining compliance with Condition 4.1:

- (a) amortisation of debt discount or the accretion of principal with respect to a non interest bearing or other discount security;
- (b) the payment of regularly scheduled interest in the form of additional Indebtedness of the same instrument or the payment of regularly scheduled dividends on Capital Stock in the form of additional Capital Stock of the same class and with the same terms; and
- (c) the obligation to pay a premium in respect of Indebtedness arising in connection with the issuance of a notice of redemption, the making of a mandatory offer to purchase such Indebtedness, any prepayment or repayment, or otherwise in accordance with the terms of such Indebtedness,

will not be deemed to be the Incurrence of Indebtedness.

"Indebtedness" means, with respect to any Person on any date of determination (without duplication):

- (a) indebtedness of such Person for money borrowed (the amount of which as determined in accordance with IFRS);
- (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments (the amount of which as determined in accordance with IFRS);

- (c) any principal amount raised under any other transaction having the economic or commercial effect of a borrowing (the amount of which as determined in accordance with IFRS); and
- (d) the amount of any liability in respect of the guarantee or indemnity for, or similar undertaking given in respect of, any of the items referred to above in relation to any Person.

Notwithstanding the foregoing, the term “**Indebtedness**” will exclude (i) trade payables and accrued liabilities incurred in the ordinary course of business and maturing in less than 150 days; (ii) advances received from customers; (iii) any tax liability, customs liability or tax payments; (iv) contingent obligations not relating to items of Indebtedness in sub-paragraphs (a) to (d) above; (iv) any amounts of liability in relation to derivative financial instruments embedded within the Senior Bank Debt or bonds existing on the Issue Date; (v) any intercompany Indebtedness within the Group; (vi) obligations with respect to letters of credit securing obligations entered into in the ordinary course of business of such Person to the extent such letters of credit are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than 45 days following receipt of a demand for reimbursement; and (vii) any counter-indemnity obligation in respect of a guarantee, indemnity, standby or documentary letter of credit or any other financial instrument issued by a bank or financial institution which arises in the ordinary course of business and that is discharged within three months after the relevant obligation crystallises.

“**Independent Qualified Party**” means an independent investment banking firm, accounting firm or appraisal firm of recognised international standing; provided, however, that such firm is not an Affiliate of the Parent.

“**Interest Rate Agreement**” means any interest rate swap agreement, interest rate cap agreement or other financial agreement or arrangement with respect to exposure to interest rates.

“**Investment**” in any Person means any direct or indirect advance, loan or other extensions of credit (including by way of guarantee or similar arrangement) (other than advances to customers, accounts receivable and trade creditors, all in the ordinary course of business that are recorded as accounts receivable on the balance sheet of the lender and travel and similar advances made to employees in the ordinary course of business) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by such Person. If the Parent or any Subsidiary of the Parent issues, sells or otherwise disposes of any Capital Stock of a Person that is a Subsidiary of the Parent such that, after giving effect thereto, such Person is no longer a Subsidiary of the Parent, any Investment by the Parent or any Subsidiary of the Parent in such Person remaining after giving effect thereto will be deemed to be a new Investment at such time. The acquisition by the Parent or any Subsidiary of the Parent of a Person that holds an Investment in a third Person will be deemed to be an Investment by the Parent or such Subsidiary in such third Person at such time. Except as otherwise provided for herein, the amount of an Investment shall be its Fair Market Value at the time the Investment is made and without giving effect to subsequent changes in value.

“**Issue Date**” means 14 November 2017.

“**Lien**” means any mortgage, pledge, encumbrance, lien, charge or other security interest (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction and any conditional sale or other title retention agreement in the nature thereof).

“**Material Subsidiary**” means any Subsidiary of the Parent which has total assets (if positive) or EBITDA (if positive) representing 10 per cent. or more of the Parent’s total assets or consolidated EBITDA, but, in each case, excluding IRC Limited and its subsidiaries. Compliance with the conditions set out in this definition shall be determined by reference to the latest financial information of that Subsidiary prepared in accordance with IFRS and the accounting policies of

the Parent for inclusion into the consolidated financial statements of the Parent and the latest audited IFRS consolidated financial statements of the Parent.

A certificate of two directors of the Parent that, in their opinion, a Subsidiary of the Parent, is or is not or was or was not at any particular time or throughout any specified period a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Issuer, the Guarantors, the Trustee and the Noteholders.

“Net Available Cash” from an Asset Disposition means cash payments received therefrom (including any cash payments received by way of deferred payment of principal pursuant to a note or instalment receivable or otherwise and proceeds from the sale or other disposition of any securities received as consideration, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring Person of Indebtedness or other obligations relating to such properties or assets or received in any other non-cash form), in each case net of:

- (a) all legal, title and recording tax expenses, commissions and other fees and expenses incurred, and all federal, state, provincial, foreign and local taxes paid or required to be accrued as a liability under IFRS, as a consequence of such Asset Disposition;
- (b) all payments made on any Indebtedness which is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon or other security agreement of any kind with respect to such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Disposition, or by applicable law, be repaid out of the proceeds from such Asset Disposition;
- (c) all distributions and other payments required to be made to minority interest holders in a Subsidiary of the Parent as a result of such Asset Disposition;
- (d) the deduction of appropriate amounts provided by the seller as a reserve, in accordance with IFRS, against any liabilities associated with the property or other assets disposed in such Asset Disposition and retained by the Parent or any Subsidiary of the Parent after such Asset Disposition; and
- (e) any portion of the purchase price from an Asset Disposition placed in escrow, whether as a reserve for adjustment of the purchase price, for satisfaction of indemnities in respect of such Asset Disposition or otherwise in connection with that Asset Disposition; provided, however, that upon the termination of that escrow, Net Available Cash will be increased by any portion of funds in the escrow that are released to the Parent or any Subsidiary of the Parent.

“Net Cash Proceeds” with respect to any issuance or sale of Capital Stock or Indebtedness, means the cash proceeds of such issuance or sale net of attorneys’ fees, accountants’ fees, underwriters’ or placement agents’ fees, discounts or commissions and brokerage, consultant and other fees actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

“Net Income” means net consolidated income (loss) of the Group determined in accordance with the consolidated financial statements of the Group prepared in accordance with IFRS.

“Officers’ Certificate” means, in the case of the Issuer, a certificate signed on behalf of the Issuer by two Authorised Signatories of the Issuer, in the case of the Parent, a certificate signed on behalf of the Parent by two Authorised Signatories of the Parent at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Parent or, in the case of any other Guarantor, a certificate signed by two Authorised Signatories of such Guarantor.

“Opinion of Counsel” means a written opinion from international legal counsel of recognised standing.

“Permitted Investment” means an Investment by the Parent or any Subsidiary of the Parent in:

- (a) the Parent, a Subsidiary of the Parent or a Person that will, upon the making of such Investment, become a Subsidiary of the Parent; provided, however, that the primary business of such Subsidiary of the Parent is the Core Business;
- (b) another Person if, as a result of such Investment, such other Person is merged or consolidated with or into, or transfers or conveys all or substantially all its assets to, the Parent or a Subsidiary of the Parent; provided, however, that such Person’s primary business is a Core Business;
- (c) cash and Temporary Cash Investments;
- (d) receivables owing to the Parent or any Subsidiary of the Parent if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; provided, however, that such trade terms may include such concessionary trade terms as the Parent or any such Subsidiary deems reasonable under the circumstances;
- (e) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;
- (f) loans, advances or guarantees of loans or advances to employees, directors and officers made in the ordinary course of business consistent with past practices of the Parent or such Subsidiary;
- (g) stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Parent or any Subsidiary of the Parent or in satisfaction of judgments or foreclosure of Liens;
- (h) any Person to the extent such Investment represents the non-cash portion of the consideration received for (i) an Asset Disposition as permitted pursuant to Condition 4.4 or (ii) a disposition of assets not constituting an Asset Disposition;
- (i) any Person where such Investment was acquired by the Parent or any of its Subsidiaries (i) in exchange for any other Investment or accounts receivable held by the Parent or any such Subsidiary in connection with or as a result of a bankruptcy, workout, reorganisation or recapitalisation of, or compromise with, the issuer of such other Investment or accounts receivable or (ii) as a result of a foreclosure by the Parent or any of its Subsidiaries with respect to any secured Investment or other transfer of title with respect to any secured Investment in default;
- (j) any Person to the extent such Investments consist of prepaid expenses, negotiable instruments held for collection and lease, utility and workers’ compensation, performance and other similar deposits (or guarantees in respect thereof) made in the ordinary course of business by the Parent or any Subsidiary of the Parent;
- (k) any Person to the extent such Investments consist of Hedging Obligations otherwise permitted under the covenant described under Condition 4.1;
- (l) any Person to the extent such Investment exists on the Issue Date, or is made pursuant to a binding commitment existing on the Issue Date, and any extension, modification, refinancing or renewal of any such Investments existing on the Issue Date, but only to the extent not involving additional advances, contributions or other Investments of cash or other assets or other increases thereof (other than as a result of the accrual or accretion of interest or original issue discount or the issuance of pay in kind securities, in each case, pursuant to the terms of such Investment as in effect on the Issue Date or required by the terms of such Investment as in effect on the Issue Date);

- (m) guarantees permitted to be Incurred under Condition 4.1;
- (n) any Person where such Investment was acquired by the Parent or any of its Subsidiaries solely in exchange for the Issuance of Capital Stock (other than Disqualified Stock) of the Parent;
- (o) any Investments in a Person which, when taken together with all other Investments made pursuant to this paragraph (o) and outstanding on the date such Investment is made, do not exceed 1.5 per cent. of consolidated total assets as derived from the latest consolidated IFRS accounts of the Parent;
- (p) the Convertible Bonds, the Notes or the Guarantees; and
- (q) Investments in an entity or joint venture engaged in the Core Business in an amount which, when taken together with all Investments made pursuant to this paragraph (q), does not exceed US\$25 million at any one time outstanding; provided, however, that at the time of each such Investment, no Default or Event of Default shall have occurred and be continuing (or result therefrom).

“Permitted Liens” means:

- (a) any Liens existing on the Issue Date or required to be provided as at the Issue Date, including in respect of the Senior Bank Debt;
- (b) any Lien granted by the Parent or any Subsidiary of the Parent in favour of the Parent or another Subsidiary of the Parent;
- (c) Liens incurred, or pledges and deposits in connection with workers’ compensation, unemployment insurance and other social security benefits, and leases, appeal bonds and other obligations of like nature in the ordinary course of business;
- (d) Liens for taxes or assessments and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which the Parent has set aside in its books of account reserves to the extent required by IFRS, as consistently applied;
- (e) with respect to any Person, survey exceptions, encumbrances, easement or reservations of, or rights of others, licences, rights of way, sewers, electrical lines, telegraph or telephone lines and other similar purposes, or zone or other restrictions as to the use of real property or Liens incidental to the conduct of the business of such Person or to the ownership of its properties which do not act in the aggregate materially adversely effect the value of the property or materially impair their use in the operation of the business of such person;
- (f) any bankers’ Liens in respect of deposit accounts, statutory landlords’ Liens and deposits to secure bids, contracts, leases, and other similar obligations (provided such Liens do not secure obligations constituting Indebtedness and are incurred in the ordinary course of business), any netting or set-off arrangement entered into by any member of the Group in the normal course of its banking arrangements for the purpose of netting debit and credit balances and judgment Liens not giving rise to a Default or an Event of Default so long as such Lien is adequately bonded and any appropriate legal proceedings that may have been duly initiated for the review of such judgment have not been finally terminated or the period within which such proceedings may be initiated has not expired;
- (g) any title transfer or retention of title arrangement entered into by any member of the Group in the ordinary course of its trading activities on the counterparty’s standard or usual terms or otherwise any Lien arising by operation of law and in the ordinary course of business;

- (h) any extension, renewal of or substitution for any Lien permitted by any of the paragraphs of this definition, provided, however, that such extension, renewal or replacement shall be no more restrictive in any material respect than the original Lien; with respect to Liens incurred pursuant to this paragraph (h) the principal amount secured has not increased (other than any increase representing costs, fees, expenses or commission associated with such extension, renewal or substitution) and the Liens have not been extended to any additional property or assets (other than proceeds of the property or assets in question);
- (i) Liens securing Hedging Obligations so long as such Hedging Obligations are permitted to be Incurred under these Conditions and (if applicable) the related Indebtedness is, and is permitted to be in accordance with these Conditions, secured by a Lien on the same property securing such Hedging Obligation;
- (j) Liens on property or Capital Stock of another Person at the time such other Person becomes a Subsidiary of the Parent; provided, however, that such Liens are not created, Incurred or assumed in connection with, or in contemplation of, such Person becoming a Subsidiary of the Parent and provided further that the Liens may not extend to any other property owned by the Parent or a Subsidiary of the Parent (other than assets and property affixed or appurtenant thereto);
- (k) Liens on property at the time such Person or any of its Subsidiaries acquires the property, including any acquisition by means of a merger or consolidation with or into the Parent or a Subsidiary of the Parent; provided, however, that such Liens are not created, Incurred or assumed in connection with, or in contemplation of, such acquisition and provided further, that the Liens may not extend to any other property owned by such Person or any of its Subsidiaries (other than assets and property affixed or appurtenant thereto);
- (l) any interest or title of a lessor or other Lien arising under any Capital Lease Obligations or operating lease;
- (m) Liens securing Indebtedness that comprises Permitted Indebtedness pursuant to Condition 4.1.2 or which is permitted to be Incurred pursuant to Condition 4.1.1; and
- (n) any Liens (other than those contemplated above in paragraphs (a) to (m)) where the aggregate value of the assets or revenues subject to such Liens at any one time outstanding do not exceed US\$10 million.

“Person” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality.

“Preferred Stock”, as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over Capital Stock of any other class of such Person.

“Project Finance Indebtedness” means any Indebtedness (other than Indebtedness Incurred by the Parent) Incurred to finance the ownership, acquisition, development and/or operation of any assets or projects relating to the Core Business, in respect of which the Person or Persons to whom any such Indebtedness is or may be owed by the relevant borrower (whether or not a member of the Group) has or have no recourse whatsoever to any member of the Group for the repayment thereof except for:

- (a) recourse to such borrower for amounts limited to the present and future cash flow or net cash flow from the relevant assets or projects; and/or
- (b) recourse to such borrower for the purpose only of enabling amounts to be claimed in respect of such Indebtedness in an enforcement of any security or encumbrance given by such borrower over any such assets or projects or the income, cash flow or proceeds

deriving therefrom provided that the extent of such recourse to such borrower is limited solely to the amount of any recoveries made on any such enforcement; and/or

- (c) recourse to any shareholder or the like in the borrower over its shares or the like (in each case, to the extent paid up) in the capital of or shareholder loans or the like (in each case, to the extent drawn) to secure such Indebtedness; and/or
- (d) recourse to a member of the Group, under any form of assurance, undertaking or support, which recourse is limited to a claim for damages (other than liquidated damages and damages required to be calculated in a specified way) for breach of an obligation (not being a payment obligation or an obligation to procure payment by another or an indemnity in respect thereof or an obligation to comply or to procure compliance by another with any financial ratios or other tests of financial condition) by the person against whom such recourse is available; and/or
- (e) recourse to the Parent under a guarantee provided in respect of such Indebtedness as an integral part of such Indebtedness and given when such Indebtedness was first incurred or issued.

“Purchase Money Indebtedness” means Indebtedness (including Capital Lease Obligations) (i) consisting of the deferred purchase price of property, the Capital Stock of a Person owning such property, to the extent permitted by these Conditions, conditional sale obligations, obligations under any title retention agreement, other purchase money obligations and obligations in respect of industrial revenue bonds or similar Indebtedness, in each case where the maturity of such Indebtedness does not exceed the anticipated useful life of the asset being financed, and (ii) Incurred to finance the acquisition by the Parent or a Subsidiary of the Parent of such asset or Capital Stock, including construction, additions and improvements, in the ordinary course of business (including the cost of design, development, construction, acquisition, transportation, installation, improvement and migration of assets); provided, however, that (A) any Lien arising in connection with any such Indebtedness shall be limited to the specific asset being financed or, in the case of real property or fixtures, including additions and improvements, the real property on which such asset is attached, (B) such Indebtedness is Incurred within 180 days after such acquisition of such assets and (C) the aggregate principal amount of Purchase Money Indebtedness at one time outstanding shall not exceed (x) the Fair Market Value of the acquired or constructed asset or improvement so financed or (y) in the case of an uncompleted constructed asset, the amount of the asset to be constructed, as determined on the date the contract for construction of such asset was entered into by the Parent or the relevant Subsidiary of the Parent (including, in each case, any reasonable related fees and expenses incurred in connection with such acquisition, construction or development).

“Refinance” means, in respect of any Indebtedness, to refinance, extend, renew, refund, repay, prepay, purchase, redeem, defease or retire, or to issue other Indebtedness in exchange or replacement for, such Indebtedness. **“Refinances”**, **“Refinanced”** and **“Refinancing”** shall have correlative meanings.

“Refinancing Indebtedness” means Indebtedness that Refinances any Indebtedness of the Parent or any Subsidiary of the Parent existing on the Issue Date or Incurred in compliance with the Notes, including Indebtedness that Refinances Refinancing Indebtedness; provided, however, that:

- (a) such Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness being Refinanced;
- (b) such Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is Incurred that is equal to or greater than the Average Life of the Indebtedness being Refinanced;
- (c) such Refinancing Indebtedness has an aggregate principal amount (or if Incurred with original issue discount, an aggregate issue price) that is equal to or less than the

aggregate principal amount (or if Incurred with original issue discount, the aggregate accreted value) then outstanding (plus all accrued interest and fees and expenses, including any premium and defeasance costs) under the Indebtedness being Refinanced; and

- (d) if the Indebtedness being Refinanced is subordinated in right of payment to the Notes, such Refinancing Indebtedness is subordinated in right of payment to the Notes at least to the same extent as the Indebtedness being Refinanced.

“Regulated Market” means a market as defined by Article 4(1)14 of the Markets in Financial Instruments Directive 2004/39/EC.

“Relevant Jurisdiction” means (in the case of payment by the Issuer) Jersey or the United Kingdom or (in each case) any political subdivision or any authority thereof or therein having power to tax or (in the case of payments by the Guarantors) the Russian Federation, the United States or the United Kingdom or (in each case) any political subdivision or any authority thereof or therein having power to tax or in any case any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer or any Guarantor is or becomes subject in respect of payments made by it of principal or interest on the Notes.

“Restricted Payment” with respect to any Person, means:

- (a) the declaration or payment of any dividends or any other distributions of any sort in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving such Person) or similar payment to the direct or indirect holders of its Capital Stock (other than (i) dividends or distributions payable solely in the form of its Capital Stock (other than Disqualified Stock) or in options, warrants or other rights to acquire shares of such Capital Stock (other than Disqualified Stock), (ii) dividends or distributions payable solely to the Parent or a Subsidiary of the Parent and (iii) pro rata dividends or other distributions made by a Subsidiary that is not a Wholly Owned Subsidiary to minority stockholders (or owners of an equivalent interest in the case of a Subsidiary of the Parent that is an entity other than a corporation) or such dividends or distributions on a basis that results in the Parent or a Subsidiary of the Parent receiving dividends or other distributions of greater value than would result on a pro rata basis);
- (b) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of any Capital Stock of the Parent held by any Person (other than by a Subsidiary of the Parent) or of any Capital Stock of a Subsidiary of the Parent held by any Affiliate of the Parent (other than by a Subsidiary of the Parent), including in connection with any merger or consolidation and including the exercise of any option, warrant or other rights to acquire any Capital Stock or to exchange any Capital Stock (other than into Capital Stock of the Parent that is not Disqualified Stock);
- (c) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment of any Subordinated Obligations of the Issuer or any Guarantor (other than (A) from the Parent or a Subsidiary of the Parent or (B) the purchase, repurchase, redemption, defeasance or other acquisition or retirement of Subordinated Obligations purchased in anticipation of satisfying a sinking fund obligation, principal instalment or final maturity, in each case due within one year of the date of such purchase, repurchase, redemption, defeasance or other acquisition or retirement); or
- (d) the making of any Investment (other than a Permitted Investment) in any Person.

“Securities Act” means the US Securities Act of 1933, as amended.

“Senior Bank Debt” means the following credit facilities:

- (a) US\$340,000,000 facility between the Parent, LLC “KS GOK” and the Industrial and Commercial Bank of China Ltd dated 13 December 2010, and the guarantee given by the Parent in relation thereto (as amended and restated);
- (b) US\$200,000,000 facility between the Parent, JSC VTB Bank and VTB (France) S.A. in various capacities dated 7 October 2011 (as amended and restated);
- (c) US\$295,250,000 facility between the Parent and, among others, Sberbank of Russia dated 16 December 2016 (as amended and restated); and
- (d) US\$200,000,000 facility between the Parent and, among others, Sberbank of Russia dated 22 March 2012 (as amended and restated).

“Senior Indebtedness” means, with respect to any Person:

- (a) Indebtedness of such Person, whether outstanding on the Issue Date or thereafter Incurred; and
- (b) all other obligations of such Person (including interest accruing on or after the filing of any petition in bankruptcy or for reorganisation relating to such Person whether or not post filing interest is allowed in such proceeding) in respect of Indebtedness described in paragraph (a) above,

unless, in the case of paragraphs (a) and (b), in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is provided that such Indebtedness or other obligations are subordinate in right of payment to the Notes or the Guarantees of such Person, as the case may be; provided, however, that Senior Indebtedness shall not include:

- (i) any obligation of such Person to the Parent or any Subsidiary of the Parent;
- (ii) any liability for federal, state, local or other taxes owed or owing by such Person;
- (iii) accounts payable or other liability to trade creditors arising in the ordinary course of business;
- (iv) any Indebtedness or other obligation of such Person which is subordinate or junior in any respect to any other Indebtedness or other obligation of such Person; or
- (v) that portion of any Indebtedness which at the time of Incurrence is Incurred in violation of these Conditions.

“Stated Maturity” means, with respect to any security, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

“Stock Exchange” means the Irish Stock Exchange plc.

“Subordinated Obligation” means, with respect to a Person, any Indebtedness of such Person (whether outstanding on the Issue Date or thereafter Incurred) which is subordinate or junior in right of payment to the Notes or a Guarantee of such Person, as the case may be.

“Subsidiary” of any specified person means any corporation, partnership, joint venture, association or other business or entity, whether now existing or hereafter organised or acquired, (a) in the case of a corporation, of which more than 50 per cent. of the total voting power of the Voting Stock is held by such first-named person and/or any of its Subsidiaries and such first-named person or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; or (b) in the case of a partnership, joint venture, association, or other business or

entity, with respect to which such first-named person or any of its Subsidiaries has the power to direct or cause the direction of the management and policies of such entity by contract or otherwise if (in each case) in accordance with IFRS, as consistently applied, such entity would be consolidated with the first-named person for financial statement purposes.

"Taxes" means any taxes (including interest or penalties thereon) which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by a Relevant Jurisdiction or any tax authority thereof or therein and the term **"Taxation"** shall be construed accordingly.

"Temporary Cash Investments" means any of the following:

- (a) any investment in direct obligations of a member of the European Union, the Russian Federation, the United Kingdom, the United States or any agency thereof or obligations guaranteed by a member of the European Union, the Russian Federation, the United Kingdom, or the United States or any agency thereof;
- (b) investments in demand and time deposit accounts, certificates of deposit and money market deposits with a maturity of one year or less from the date of acquisition thereof issued by a bank or trust company which is organised under the laws of the Russian Federation, a member of the European Union, the United Kingdom, or the United States or any state thereof, and has outstanding debt which is rated "BBB-" by Standard & Poor's Ratings Group or "Baa3" by Moody's Investors Service, Inc. (or such similar equivalent rating) or higher by at least one nationally recognised statistical rating organisation;
- (c) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in paragraph (a) entered into with a bank meeting the qualifications described in paragraph (b);
- (d) investments in commercial paper with a maturity of one year or less from the date of acquisition, issued by a corporation (other than an Affiliate of the Parent) organised and in existence under the laws of a member of the European Union, the United States, the United Kingdom, or the Russian Federation with a rating at the time as of which any investment therein is made of "P 1" (or higher) according to Moody's Investors Service, Inc. or "A1" (or higher) according to Standard & Poor's Ratings Group;
- (e) investments in securities with maturities of six months or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of a member of the European Union, the United States, the United Kingdom, or the Russian Federation or by any political subdivision or taxing authority thereof, and rated at least "BBB-" by Standard & Poor's Ratings Group or "Baa3" by Moody's Investors Service, Inc.; and
- (f) investments in money market funds that invest substantially all their assets in securities of the types described in paragraphs (a) to (e).

"US Dollar Equivalent" means with respect to any monetary amount in a currency other than US dollars, at any time for determination thereof, the amount of US dollars obtained by converting such foreign currency involved in such computation into US dollars at the spot rate for the purchase of US dollars with the applicable foreign currency as published in The Wall Street Journal in the "Exchange Rates" column under the heading "Currency Trading" on the date two Business Days prior to such determination.

"Voting Stock" of a Person means all classes of Capital Stock of such Person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of the board of directors, managers or trustees (or Persons performing similar functions) thereof.

"Wholly Owned Subsidiary" means a Subsidiary all the Capital Stock of which (other than directors' qualifying shares or shares of Subsidiaries required to be owned by third parties under applicable law) is owned by the Parent or one or more other Wholly Owned Subsidiaries.

PART 18

CLEARING AND SETTLEMENT

The Global Notes

The Notes will be evidenced on issue by (i) in the case of the Regulation S Notes, the Regulation S Global Note deposited with, and registered in the name of a nominee for, a common depository for Euroclear and Clearstream, Luxembourg and (ii) in the case of the Rule 144A Notes, the Rule 144A Global Note deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC.

Beneficial interests in the Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See “—*Exchange for Definitive Notes—Book-Entry Procedures for the Global Notes*”. By acquisition of a beneficial interest in the Regulation S Global Note, the purchaser thereof will be deemed to represent, among other things, that it will transfer such interest only (a) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (b) to a person who takes delivery in the form of an interest in the Rule 144A Global Note (if applicable). See Part 18: “*Clearing and Settlement—Transfer Restrictions*”. Beneficial interests in the Rule 144A Global Note may only be held through DTC at any time. See “—*Exchange for Definitive Notes—Book-Entry Procedures for the Global Notes*”. By acquisition of a beneficial interest in the Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Agency Agreement. See Part 18: “*Clearing and Settlement—Transfer Restrictions*”.

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the Agency Agreement and the Notes will bear the legends set forth thereon regarding such restrictions set forth under Part 18: “*Clearing and Settlement—Transfer Restrictions*”. A beneficial interest in the Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note, only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in the Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) from the transferor to the effect that the transfer is being made in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note, will, upon transfer, cease to be an interest in the Regulation S Global Note, and become an interest in a Rule 144A Global Note, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Note, for as long as it remains such an interest. Any beneficial interest in the Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, will, upon transfer, cease to be an interest in the Rule 144A Global Note, and become an interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note, for so long as it remains such an interest. Transfers of such beneficial interests shall be made in accordance with the rules and operating procedures of DTC, Euroclear and Clearstream, Luxembourg in a principal amount of not less than US\$200,000, provided that such transfer shall be in accordance with the provisions of the Agency Agreement. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in the Global Notes will not be entitled to receive physical delivery of certificated Notes in definitive form (the **Definitive Notes**). The Notes are not issuable in bearer form.

Amendments to Conditions

Each Global Note contains provisions that apply to the Notes that it represents, some of which modify the effect of the Terms and Conditions of the Notes. The following is a summary of those provisions:

Payments

Payments of principal and interest in respect of Notes evidenced by the Global Notes will be made to the person who appears at the relevant time on the register of Noteholders against presentation for endorsement by the Principal Paying Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the relevant Notes.

Notices

So long as any Notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of such Notes. Notices to Noteholders will be deemed delivered and given, for so long as the Notes are admitted to trading on the Irish Stock Exchange, when such notice is published on the website of the Irish Stock Exchange.

Trustee's Powers

In considering the interests of Noteholders while the relevant Global Note is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note and may consider such interests as if such accountholders were the holders of such Global Note.

Record Date

So long as any Notes are represented by a Global Note, **Record Date** shall mean close of business on the Clearing System Business Day before the relevant due date for payment where **Clearing System Business Day** means Monday to Friday inclusive except 25 December and 1 January.

Purchase and Cancellation

Cancellation of any Notes evidenced by any Global Note required by the Conditions to be cancelled following its redemption will be effected by reduction in the principal amount of the Notes in the Register and notation of the relevant Global Note.

Enforcement

For the purposes of enforcement of the provisions of the Trust Deed against the Trustee, the persons named in a certificate of the holder of the Notes in respect of which any Global Note is issued shall be recognised as the beneficiaries of the trusts set out in the Trust Deed to the extent of the principal amount of their interest in the Notes set out in the certificate of the holder as if they were themselves the holders of Notes in such principal amounts.

Exchange for Definitive Notes

Exchange

Each Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for Notes in definitive, registered form if: (i) a Global Note is held by or on behalf of (A) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to such Global Note or ceases to be a “clearing agency” registered under the Exchange Act or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or (B) Euroclear or Clearstream, Luxembourg, and Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent or (ii) principal in respect of any Notes is not paid when due and payable.

On or after the Exchange Date the holder of a Global Note may surrender the Global Note to or to the order of the Registrar or the Transfer Agent. In exchange for such Global Note, as provided in the Agency Agreement, the Registrar will deliver or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Notes in the definitive registered form.

Exchange Date means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note shall be exchanged in full for Definitive Notes and the Issuer will, at the cost of the Issuer or the Guarantors (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to such Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes and (b) in the case of a Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB. Definitive Notes issued in exchange for a beneficial interest in a Rule 144A Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under Part 18: “*Clearing and Settlement—Transfer Restrictions*”.

Legends

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Note bearing the legend referred to under Part 18: “*Clearing and Settlement—Transfer Restrictions*”, or upon specific request for removal of the legend on a Rule 144A Definitive Note, the Issuer will deliver only Rule 144A Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

Book-Entry Procedures for the Global Notes

For Notes evidenced by both a Regulation S Global Note and a Rule 144A Global Note, custodial and depository links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See “—*Settlement and Transfer of Notes*”.

Euroclear and Clearstream, Luxembourg

The Regulation S Global Note representing the Regulation S Notes will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depository for Euroclear and Clearstream, Luxembourg.

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in global notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders (**Direct Participants**) or indirectly (**Indirect Participants**) and together with Direct Participants, (**Participants**) through organisations which are accountholders therein.

DTC

The Rule 144A Global Note representing the Rule 144A Notes will have a CUSIP number and an ISIN number and will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC. The custodian and DTC will electronically record the principal amount of the Rule 144A Notes held within the DTC system.

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a “banking organization” under the laws of the State of New York, a member of the U.S. Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial code and a “clearing agency” registered pursuant to the provisions of Section 17A of the U.S. Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, which clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in the Rule 144A Global Note directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the relevant Rule 144A Global Note as to which such Participant or Participants has or have given such direction. However, in the limited circumstances described under Part 18: “*Clearing and Settlement—Exchange for Definitive Notes*”, DTC will surrender the Rule 144A Global Note for exchange for individual Rule 144A Definitive Notes (which will bear the legend applicable to transfers pursuant to Rule 144A).

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a note evidenced by a Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of the Global Note and in relation to all other rights arising under such Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depositary by whom such note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee.

The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such note (the **Beneficial Owner**) will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be effected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to U.S. corporate debt obligations in DTC's Same-Day Funds Settlement (**SDFS**) system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in the Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Regulation S Global Note, as the case may be (subject to the certification procedures provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Rule 144A Global Note will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by such Rule 144A Global Note and (ii) increase the amount of Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by the relevant Regulation S Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Rule 144A Global Note (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depository for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depository for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Note who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the Trustee nor any Agent will have the responsibility for the performance by Euroclear, Clearstream,

Luxembourg or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefor on the Closing Date expected to be 14 November 2017, which could be more than three business days following the date of pricing. Under Rule 15c6-I under the Exchange Act, trades in the United States secondary market generally are required to settle within two business days (**T+2**), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days will be required, by virtue of the fact the Notes initially will settle beyond T+2, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the date of pricing, being 7 November 2017, and the Closing Date should consult their own advisors.

TRANSFER RESTRICTIONS

The Securities have not been and will not be registered under the U.S. Securities Act, or any state securities laws, and, unless so registered, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of U.S. Securities Act. Accordingly, the Securities are being offered and sold only (i) to QIBs in compliance with Rule 144A; and (ii) outside the United States to non-U.S. persons in offshore transactions in accordance with Regulation S. The terms **offshore transaction**, **U.S. person** and **United States** have the meanings given to them in Regulation S.

In addition, until 40 days after the later of the commencement of the offering and the Closing Date, an offer or sale of the Securities within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A under the Securities Act. Each purchaser of Rule 144A Securities, by accepting delivery of this Offering Memorandum, will be deemed to have represented, agreed and acknowledged that it has received such information as it deems necessary to make an investment decision and that:

- (a) It is not an “affiliate” (as defined in Rule 144 under the Securities Act) of the Issuer or acting on behalf of the Issuer and it is either: (i) a QIB and is aware that any sale of the Securities to it will be made in reliance on Rule 144A, and the acquisition of Securities will be for its own account or for the account of another QIB; or (ii) a non-U.S. person purchasing the Securities outside the United States in an offshore transaction in accordance with Regulation S under the Securities Act.
- (b) It understands that such Securities have not been and will not be registered under the Securities Act or any other applicable securities law and may not be offered, sold, pledged or otherwise transferred except (i) to the Issuer, the Parent, or any subsidiary thereof; (ii) for so long as the Securities are eligible for resale pursuant to Rule 144A, in accordance with Rule 144A, to a person that the holder and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of one or more QIBs; (iii) in an offshore transaction in accordance with Rule 903 or Rule 904 (as applicable) of Regulation S; (iv) pursuant to any other exemption from registration under the Securities Act (if available); or (v) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States or other jurisdictions and in compliance with the conditions for transfer set forth in paragraph (e) below.
- (c) It acknowledges that the Rule 144A Securities offered and sold hereby are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, are being offered and sold in a transaction not involving any public offering in the United States within the meaning of the Securities Act and that no representation is made as to the availability of the exemption provided by Rule 144 for resales of such Securities.

- (d) It understands that any offer, sale, pledge or other transfer of the Securities made other than in compliance with the above-stated restrictions may not be recognised by the Issuer.
- (e) It understands that each Note, unless otherwise agreed between the Issuer, the Parent and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR ANY STATE SECURITIES LAWS AND, ACCORDINGLY, NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE U.S. SECURITIES ACT (**RULE 144A**)) OR (B) IT IS NOT A U.S. PERSON AND IS ACQUIRING THE SECURITY IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 UNDER THE SECURITIES ACT AND (2) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE WHICH IS [IN THE CASE OF RULE 144A NOTES: ONE YEAR] [IN THE CASE OF REGULATION S NOTES: 40 DAYS] AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY) (THE "RESALE RESTRICTION TERMINATION DATE") ONLY (A) TO THE ISSUER, THE COMPANY OR ANY SUBSIDIARY THEREOF, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE U.S. SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES TO NON-U.S. PERSONS IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT IN EACH OF THE FOREGOING CASES TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF ITS PROPERTY OR THE PROPERTY OF SUCH INVESTOR ACCOUNT OR ACCOUNTS BE AT ALL TIMES WITHIN ITS OR THEIR CONTROL AND TO COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS, AND ANY APPLICABLE LOCAL LAWS AND REGULATIONS AND FURTHER SUBJECT TO THE ISSUER'S AND THE TRUSTEE'S RIGHTS PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER (I) PURSUANT TO CLAUSE (D) PRIOR TO THE END OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD WITHIN THE MEANING OF REGULATION S UNDER THE U.S. SECURITIES ACT OR PURSUANT TO CLAUSE (E) PRIOR TO THE RESALE RESTRICTION TERMINATION DATE TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM, (II) IN EACH OF THE FOREGOING CASES, TO REQUIRE THAT A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE AND (III) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION," "UNITED STATES," AND "U.S. PERSON" HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

Each purchaser will also be deemed to acknowledge that the foregoing restrictions apply to holders of beneficial interests in these Notes as well as to holders of these Notes.

- (f) Each purchaser and transferee by its purchase of Notes or interest therein will also be deemed to have represented and warranted that either (a) it is not acquiring the Notes or interest therein for or on behalf of or with the assets of any employee benefit plan as defined in Section 3(3) of ERISA that is subject to Title I of ERISA or any other “plan” as defined in Section 4975(e)(1) of the U.S. Tax Code that is subject to Section 4975 of the U.S. Tax Code or any entity whose underlying assets include plan assets by reason of an employee benefit plan’s or plan’s investment in such entity (each a **Benefit Plan Investor**), or any “governmental plan” within the meaning of Section 3(32) of ERISA or “church plans” (as defined in Section 3(33) of ERISA or Section 4975(g)(3) of the U.S. Tax Code), or “non-U.S. plan” (as described in Section 4(b)(4) of ERISA), in each case, that is subject to any substantially similar provision of non-U.S., state or local law (**Similar Law**), or (b) if the purchaser or transferee is a Benefit Plan Investor or a governmental or non-U.S. or church plan subject to Similar Law, the purchaser and transferee and the fiduciary of such Benefit Plan Investor or governmental or non-U.S. or church plan by its purchase of the Notes or interest therein will be deemed to have represented and warranted that the purchase and holding of the Notes or interest therein will not result in a non-exempt prohibited transaction under ERISA or Section 4975 of the U.S. Tax Code or violation of Similar Law. In addition, to the extent that the DOL Final Fiduciary Rule remains in effect, investment by Benefit Plan Investors will be limited to Eligible Benefit Plan Investors as defined in Part 20: “*Consideration for ERISA and Other U.S. Employee Plans*” and each such Eligible Benefit Plan Investor will be deemed to make the representations and warranties set forth in such section.
- (g) If it is acquiring any Securities for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make (and does make) the foregoing acknowledgements, representations and agreements on behalf of each such account. The Issuer, the Parent, the Guarantors, the Registrar, the Joint Lead Managers and their respective affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.
- (h) It understands that the Securities offered in reliance on Rule 144A will be represented by the Rule 144A Global Note. Before any interest in the Rule 144A Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that the sellers of the Securities may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

PART 19

TAXATION

The following is a general description of certain Jersey, United Kingdom, United States and the Russian Federation tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes whether in Jersey, the United Kingdom, the United States, the Russian Federation or elsewhere and relates only to persons who are the absolute beneficial owners of their Notes and does not deal with special situations, such as those of dealers in securities or where the interest payable on the Notes is, for tax purposes, deemed to be income of any person other than the beneficial owners. Prospective purchasers of Notes should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Jersey, the United Kingdom, the United States and the Russian Federation of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes.

The following is based upon the law and the Issuer's and Guarantors' understanding of published revenue authority practice as in effect on the date of this Offering Memorandum and is subject to any change in law that may take effect after such date (possibly with retrospective effect). The information below is a summary only and may not apply to certain categories of Noteholder.

Jersey Taxation

Taxation of the Issuer

The Issuer is not regarded as resident for tax purposes in Jersey. Therefore, the Issuer will not be liable to Jersey income tax other than on Jersey source income (except where such income is exempted from income tax pursuant to the Income Tax (Jersey) Law 1961, as amended) and payments in respect of the Notes may be paid by the Issuer without withholding or deduction for or on account of Jersey income tax. The Noteholders (other than residents of Jersey) will not be subject to any tax in Jersey in respect of the holding, sale or other disposition of such Notes.

Stamp duty

In Jersey, no stamp duty is levied on the issue or transfer of the Notes except that stamp duty is payable on Jersey grants of probate and letters of administration, which will generally be required to transfer the Notes on the death of a Noteholder of such Notes. In the case of a grant of probate or letters of administration, stamp duty is levied according to the size of the estate (wherever situate in respect of a Noteholder domiciled in Jersey, or situate in Jersey in respect of a Noteholder domiciled outside Jersey) and is payable on a sliding scale at a rate of up to 0.75 per cent. of such estate.

Jersey does not otherwise levy taxes upon capital, inheritances, capital gains or gifts nor are there otherwise estate duties.

Russian Taxation

General

The following is an overview of certain Russia tax considerations relevant, among other things, to taxation of the Notes and payments under the Guarantee.

The overview is based on the laws of the Russian Federation in effect on the date of this Offering Memorandum (where these laws are subject to potential changes, which could occur frequently, at short notice and may have retroactive effect). The information and analysis contained within this section is limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes. The overview does not seek to address the applicability of, or procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of Russia or tax implications arising for the Noteholders applying special tax regimes available under Russian tax legislation, nor does it seek to

address the availability of double tax treaty relief in respect of income payable on the Notes, or practical difficulties involved in claiming and obtaining such double tax treaty relief. Prospective investors should consult their own advisors regarding the tax consequences of investing in the Notes. No representations with respect to the Russian tax consequences of investing, owning or disposing of the Notes to any particular Noteholder is made hereby.

The provisions of the Russian Tax Code applicable to the Noteholders and transactions involving the Notes are ambiguous and lack interpretive guidance. Both the substantive provisions of the Russian Tax Code applicable to financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be more inconsistent and subject to more rapid and unpredictable change (possibly with retroactive effect) than in jurisdictions with more developed capital markets or more developed taxation systems.

In practice, the interpretation and application of tax laws and regulations by different tax inspectorates may be inconsistent or contradictory, and may result in the imposition of conditions, requirements or restrictions that are not explicitly stated by the law. The interpretation and application of such provisions will in practice rest substantially with local tax inspectorates. Furthermore, in the absence of binding precedents, court rulings on tax or other related matters taken by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

For the purposes of this summary, a **Non-Resident Noteholder** means:

- an individual Noteholder actually present in the Russian Federation for an aggregate period of less than 183 calendar days (including days of arrival to the Russian Federation and including days of departure from Russia) in any period comprising 12 consecutive months. Presence in the Russian Federation for tax residency purposes is not considered interrupted for an individual's short term departure (less than six months) from the Russian Federation for medical treatment or education. The interpretation of this definition by the Ministry of Finance of the Russian Federation states that for withholding tax purposes an individual's tax residency status should be determined on the date of income payment (based on the number of Russian days in the 12-month period preceding the date of payment). The individual's final tax liability in Russia for the reporting calendar year should be determined based on the number of days spent in the Russian Federation in such calendar year; or
- a legal entity or organisation, in each case not organised under Russian law, which purchases, holds and/or disposes of the Notes otherwise than through a permanent establishment in the Russian Federation (as defined by Russian tax law) and which is not a Russian tax resident. Russian tax residence rules for legal entities or organisations were adopted by Federal Law N 376-FZ dated 24 November 2014 "On amending Parts I and II of the Tax code of the Russian Federation (in respect of taxation of profits of controlled foreign companies and income of foreign organisations)" (the **Federal Law**) and came into force from 1 January 2015. Generally, a foreign organisation should be recognised as Russian tax resident pursuant to an applicable double tax treaty or if the place of actual management of such organisation is in the Russian Federation (unless otherwise provided by an applicable double tax treaty).

A **Resident Noteholder** means any Noteholder (including any individual and any legal entity or organisation) who or which is not a Non-Resident Noteholder.

The terms "resident" and "non-resident" in the context of the Offering Memorandum relate to tax residency only.

For the purposes of this overview, the definitions of "Resident Noteholder" and "Non-Resident Noteholder" in respect of individuals are taken at face value based on the wording of Russian tax law as written as at the date of this Offering Memorandum. In practice, however, the application of the above formal residency definition may differ based on the position of the Russian tax authorities. As at the date of this Offering Memorandum, the law is worded in a way that implies the potential for individuals to be tax resident in the Russian Federation for part of the calendar year. However, both the Russian Ministry of Finance and the Russian tax authorities have expressed the view that an individual should be either tax resident or non-resident in the Russian Federation for the full calendar year and

consequently even where the travel pattern dictates differing tax residency status for a part of the tax year, the application of the Russian personal income residency tax rate may in practice be disallowed.

Although the Russian Tax Code states that tax residency for individuals depends exclusively on the number of days spent in the Russian Federation, in the beginning of 2015, the Federal Tax Service issued several private clarifications promulgating a view that, besides the number of days of physical presence, such factors as permanent home and centre of vital interest (country where family, business are located) must be taken into account for the purposes of determination of tax residency. Although these private clarifications of the Federal Tax Service were subsequently cancelled by the Russian Ministry of Finance in April 2016, the risk of challenge of non-resident status for individuals who do not meet the physical presence test for residents, but have ties (such as property, family, business) to Russia may not be excluded.

The Russian tax treatment of payments under the Guarantee made by the Guarantors to the Trustee, acting on behalf of the Noteholders, may affect the Noteholders. See *"Taxation of Payments under the Guarantee"* below.

Taxation of the Notes

Resident Noteholders

Resident Noteholders will be subject to all applicable Russian taxes in respect of income derived by them in connection with the acquisition, ownership and/or disposal of the Notes (including interest received on the Notes). Legal entities are subject to corporate income tax, while individuals are obligated to pay personal income tax on the respective income.

Resident Noteholders should consult their own tax advisors with respect to the effect that the acquisition, holding and disposal of the Notes may have on their tax position.

Taxation of Resident Noteholders – Individuals

Generally, a Resident Noteholder that is an individual (natural person) is subject to all applicable Russian taxes and responsible for complying with any documentation requirements that may be established by law or practice in respect of gain from the sale, redemption or other disposal of the Notes and interest income received on the Notes, unless otherwise is stipulated under the Russian tax legislation or applicable double tax treaty.

In respect of the Notes, a Resident Noteholder that is an individual will be subject to personal income tax in respect of the acquisition, holding and sale or other disposal of the Notes including interest (coupon) or other ancillary payments received on the Notes (as described in more detail below). Such personal income tax may be withheld by a tax agent or (in case the Russian personal income tax has not been withheld) Resident Noteholders – Individuals are required to submit annual personal income tax returns, assess and pay the tax. For these purposes, a tax agent is a licensed broker, an asset manager, a securities registrar or a depository organisation who carries out operations under an asset management agreement, a brokerage service agreement, an agency agreement, a commission agreement, a commercial mandate agreement or a depository agreement for the benefit of a Resident Noteholder – Individual in respect of relevant income.

Resident Noteholders should consult their own tax advisors with respect to the effect that the acquisition, holding and disposal of the Notes may have on their tax position.

Acquisition of the Notes

The acquisition of the Notes at market value in itself does not give rise to any Russian taxes. However, if the acquisition price is below fair market value (calculated under a specific procedure), this may constitute a taxable event pursuant to the provisions of the Russian Tax Code relating to deemed income received by individuals as a result of acquiring securities. In such a case deemed income will be subject to Russian personal income tax at a rate of 13 per cent.

Sale or other disposal of the Notes

The sale or other disposal of the Notes by an individual Resident Noteholder gives rise to Russian personal income tax at a rate of 13 per cent. The tax is levied on the gain from any such disposal (the gain generally being calculated as the gross proceeds from such disposal, calculated in Russian Roubles as prescribed under the Russian Tax Code, less any available cost deduction, including the original purchase price and deemed income taxed on acquisition and tax paid from such deemed income, calculated in Russian Roubles as prescribed under the Russian Tax Code), if any.

Interest payments

Interest and other ancillary payments derived from the Issuer and received by the Russian Resident Noteholder – individuals are subject to personal income tax at a rate of 13 per cent.

Taxation of the Resident Noteholders – Legal Entities

A Resident Noteholder that is a Legal Entity is subject to all applicable Russian taxes in respect of the income received by it in respect of the acquisition, holding and disposal of the Notes, including interest (coupon) and other ancillary payments. Generally, a 20 per cent. corporate income tax is levied on the respective taxable events.

Non-Resident Noteholders

A Non-Resident Noteholder should not be subject to any Russian taxes in respect of payments of interest and repayments of principal on the Notes received from the Issuer. A Non-Resident Noteholder also generally should not be subject to any Russian taxes in respect of any gains or other income realised on redemption, sale or other disposal of the Notes outside Russia, provided that the proceeds from such redemption, sale or other disposal of the Notes are not received from a source within the Russian Federation. However, in the absence of a clear definition of what constitutes income from sources within the Russian Federation in case of a sale of securities, there is a risk that the income from a disposal of the Notes (including any accrued and paid interest) may be considered as received from Russian sources for Non-Resident Noteholders.

Taxation of Non-Resident Noteholders – Legal entities

Acquisition of the Notes

The acquisition of the Notes by Non-Resident Noteholders–Legal Entities (whether upon their issue or in the secondary market) should not constitute a taxable event under Russian tax law. Consequently, the acquisition of the Notes should not trigger any Russian tax implications for the Non-Resident Noteholders–Legal Entities.

Interest on the Notes

Non-Resident Noteholders–Legal Entities generally should not be subject to any Russian taxes in respect of payment of interest on the Notes received from the Issuer. The taxation of interest on the Notes may, however, be affected by the taxation treatment of income from the sale of the Notes and payments under the Guarantee. See “*Sale or other Disposal of the Notes*” and “*Taxation of Payments under the Guarantee*” below.

Sale or disposal of the Notes

Generally, there should be no Russian tax on gains from sale or other disposition of the Notes imposed on Non-Resident Noteholder–Legal Entity. There is some uncertainty regarding the tax treatment of the portion of the sales or disposal proceeds, if any, attributable to accrued interest (coupon) on the bonds (i.e. debt obligations) where proceeds from sale or other disposition of the Notes are received from a source within the Russian Federation by a Non-Resident Noteholder–Legal Entity, which is caused by isolated precedents in which the Russian tax authorities challenged the non-application of the Russian tax to the amount of accrued interest (coupon) embedded into the sale price of the Notes. Although the

Russian Ministry of Finance in its most recent clarification letters opined that the amount of sale or other disposal proceeds attributable to the accrued interest paid to a non-Russian organisation should not be regarded as Russian source income and on this basis should not be subject to taxation in the Russian Federation, there remains a possibility that a Russian entity or a foreign entity having a registered tax presence in the Russian Federation which purchases the Notes or acts as an intermediary may seek to assess Russian withholding tax at a rate of 20 per cent. (or such other rate as could be effective at the time of such sale or other disposal) on the accrued interest portion of the disposal proceeds.

Redemption of the Notes

Non-Resident Noteholders that are legal entities generally should not be subject to any Russian taxes in respect of repayment of principal on the Notes received from the Issuer.

Taxation of Non-Resident Noteholders—Individuals

Acquisition of the Notes

Generally, the acquisition of the Notes at a fair market value by Non-Resident Noteholders—Individuals should not be considered as taxable income. However, it may constitute a taxable event for Russian personal income tax purposes pursuant to the provisions of the Russian Tax Code relating to the deemed income received by individuals as a result of acquisition of securities (in case the Notes are initially issued at par, these provisions are likely to be relevant for the acquisitions of the Notes in the secondary market only). In particular, if the transfer of legal title to the Notes takes place in the Russian Federation and the acquisition price of the Notes is below the lower margin of the fair market value of the Notes calculated under a specific procedure for the determination of market prices of securities for tax purposes, the difference may become subject to the Russian personal income tax at a rate of 30 per cent. (or such other tax rate as may be effective at the time of acquisition), subject to the available double tax treaty protection.

Under the Russian tax legislation, taxation of income derived by Non-Resident Noteholders—Individuals will depend on whether this income is qualified as received from Russian or non-Russian sources. Since the Russian Tax Code does not contain any provisions in relation to how the related deemed income should be sourced, in practice, the Russian tax authorities may infer that such income should be considered as Russian source income, if the Notes are purchased “in the Russian Federation”. In the absence of any additional guidance as to what should be considered as a purchase of securities “in the Russian Federation”, the Russian tax authorities may apply various criteria to determine the source of the related deemed income, including looking at the place of conclusion of the acquisition transaction, the location of the Issuer, or other similar criteria. There is no assurance, therefore, that as a result any deemed income received by the Non-Resident Noteholders—Individuals in connection with the acquisition of the Notes will not become taxed in the Russian Federation.

Interest on the Notes

The Non-Resident Noteholders—Individuals generally should not be subject to any Russian taxes in respect of payment of interest on the Notes received from the Issuer. Taxation of interest on the Notes may however be affected by the taxation treatment of income from sale of the Notes and payments under the Guarantee. See “*Sale or other Disposal of the Notes*” and “*Taxation of Payments under the Guarantee*” below.

Sale or other Disposal of the Notes

Non-Resident Noteholder—Individuals should not be subject to any Russian taxes in respect of gains or other income realised on a redemption, sale or other disposal of the Notes outside of the Russian Federation, provided that the proceeds of such sale, redemption, or disposal are not received from a source within the Russian Federation.

Subject to any available tax treaty relief, if the receipt of any proceeds from the disposal of the Notes by a Non-Resident Noteholder—Individual is classified as income from a source within the Russian Federation for Russian personal income tax purposes, it is subject to Russian personal income tax at

a rate of 30 per cent. (or such other tax rate as may be effective at the time of payment) on the gross amount of proceeds from disposal of the Notes (including accrued and paid interest on the Notes) less any available duly documented cost deductions.

Since the Russian Tax Code does not contain any additional guidance as to how the sales or disposal proceeds should be regarded as being received from Russian sources, in practice, the Russian tax authorities may assert that such income should be considered as Russian source income if the Notes are sold or disposed of "in the Russian Federation". In the absence of any additional guidance as to what should be considered as a sale or other disposal of securities "in the Russian Federation", the Russian tax authorities may apply various criteria in order to determine the source of the sale or other disposal, including looking at the place of conclusion of the transaction, the location of the purchaser, or other similar criteria. There is no assurance therefore that, as a result, sales or disposal proceeds received by the Non-Resident Noteholders–Individual will not become taxable in the Russian Federation.

If the disposal proceeds are considered as being derived from Russian sources, Russian personal income tax will apply to the gross amount of sales or disposal proceeds received upon the disposal of the Notes (including accrued and paid interest on the Notes), decreased by the amount of duly documented cost deductions (including the original acquisition costs and other documented expenses related to the acquisition, holding and sale or other disposal of the Notes), provided that such documentation is duly executed. However, there is a risk that, if the documentation supporting the cost deductions is deemed insufficient by the Russian tax authorities, the immediate deduction will be disallowed, and Russian personal income tax will apply to the gross amount of sales or disposal proceeds.

Furthermore, there is also some uncertainty regarding tax treatment of the portion of the sales or disposal proceeds derived by a Non-Resident Noteholder Individual from Russian sources in connection with the sale or disposal of the Notes, that is attributable to accrued interest on the Notes, if any. The Russian tax authorities could argue that such portion should be subject to Russian personal income tax at a rate of 30 per cent. (or such other tax rate as may be effective at the time of payment), even if the sale or other disposal of the Notes results in a loss.

In certain circumstances if sales or other disposal proceeds (including accrued and paid interest on the Notes) are paid to a Non-Resident Noteholder–Individual by a licensed broker or an asset manager that is a Russian legal entity or organisation, carrying out operations under an asset management agreement, a brokerage service agreement, an agency agreement, a commission agreement or a commercial mandate agreement for the benefit of the Non-Resident Noteholder–Individual, such payers will be considered tax agents and the applicable personal income tax at a rate of 30 per cent. (or such other tax rate as may be effective at the time of payment) should be withheld by them at source.

The amount of tax withheld will be calculated after taking into account the available documented deductions for the original acquisition costs and related expenses on the acquisition, holding and sale or other disposal of the Notes to the extent such deductions and expenses can be determined by the entity making the payment of income to a Non-Resident Noteholder–Individual. The tax agent would be required to report to the Russian tax authorities in respect of its inability to withhold personal income tax in full within one month upon termination of the agreement (see above) or by 1 April of the year following the calendar year in which the income was received (if applicable). Failure or the inability of the tax agent to timely withhold the applicable Russian personal income tax in full will place the onus of payment of such tax on the Non-Resident Noteholder–Individual.

If the costs were borne in connection with the acquisition of the Notes within the relationship with the party other than the tax agent who is obliged to calculate and withhold Russian personal income tax under this agreement, original duly documented acquisition costs may be taken into account by the tax agent upon written application of the Noteholder and presentation of the documents confirming the costs and expenses.

Where a sale of the Notes is made to other legal entities, organisations (other than licensed brokers or asset managers mentioned above) or individuals, generally no Russian personal income tax should be withheld at source by these persons. The Non-Resident Noteholder–Individual would be then required

to file a personal income tax return individually, report the amount of income realised to the Russian tax authorities and apply for a deduction in the amount of acquisition and other expenses related to the acquisition, holding and the sale or other disposal of the Notes confirmed by the supporting documentation. The applicable personal income tax would then have to be paid by the Non-Resident Noteholder–Individual on the basis of the filed personal income tax return.

In certain circumstances, gains received and losses incurred by a Non-Resident Noteholder–Individual as a result of the sale or other disposal of the Notes and other securities of the same category (i.e. securities qualified as traded or non-traded for Russian personal income tax purposes) occurring within the same tax year may be aggregated for Russian personal income tax purposes, which would affect the total amount of income of a Non-Resident Noteholder–Individual subject to taxation in Russia.

There is also a risk that any gain derived by a Non-Resident Noteholder–Individual from the sale or other disposal of the Notes may be affected by changes in the exchange rate between the currency of the acquisition of the Notes, the currency of the sale or other disposal of the Notes and Russian roubles. For personal income tax purposes, deductible costs and proceeds from a disposal of the Notes are converted into Russian roubles at the exchange rate of the Central Bank of Russia as of the date when the costs were incurred and proceeds were received. This may result in taxable income in Russian rouble terms due to revaluation of the Russian rouble (whereas, in foreign currency terms, there might be no gain or even capital loss).

Non-Resident Noteholders–Individuals should consult their own tax advisors with respect to tax consequences arising in connection with the disposal of the Notes, including the receipt of sales or other proceeds from a source within the Russian Federation upon the sale or other disposal of the Notes.

Taxation of payments under the Guarantee

Resident Noteholders will be subject to all applicable Russian taxes in respect of income realised by them in connection with payments received under the Guarantee. Resident Noteholders should consult their own tax advisors with respect to the tax consequences the receipt of payments under the Guarantees.

Withholding tax

Pursuant to the Russian Tax Code, payments made by a Russian entity to a Non-Resident – Legal Entity should be subject to Russian withholding tax to the extent such payments represent Russian source income. The Russian Tax Code provides an open list of Russian source income, referring to “other similar income” that could include any income similar to specific examples of types of Russian source income provided in the Russian Tax Code (for instance, dividends, interest, royalties, fines, penalties, etc.), including guarantee payments. The Russian Tax Code provides that the exemption established for the traded bonds (as discussed below) is applicable with regard to payments made under the guarantee.

Therefore, payments under the Guarantee made by the Guarantors to, or to the order of, the Trustee acting in favour of the Noteholders should be subject to the Russian withholding tax at a rate of 20 per cent., unless the criteria for application of the exemption established for the traded bonds are all met or the Russian withholding tax is reduced or eliminated based on the applicable double tax treaty. Should payments under the Guarantee be subject to Russian withholding tax, the Guarantors should act as tax agents in respect of such payments.

For the purpose of the above exemption, the term **traded bonds** means bonds and other debt obligations listed and/or traded on one or several foreign stock exchanges and/or rights to which are recorded by recognised depository clearing organisations, provided that such foreign stock exchanges and depository clearing organisations are specified in a list that was approved by the former Federal Financial Markets Service of the Russian Federation in its Order No. 12-91/pz-n dated 25 October 2012 (the **List**). Such list was further re-approved by the Central Bank of the Russian Federation on 30 May 2017. The fact that bonds are “traded” must be confirmed by the relevant Russian company based on

information provided by foreign stock exchanges, depository clearing organisations, offering memoranda or other documents relating to the issue of the bonds and publicly available information.

The abovementioned exemptions should apply to the payments under the Guarantees. The Russian Tax Code envisages that the Russian companies which make payments in favour of foreign legal entities upon the execution of a guarantee or suretyship, should be released from the obligation to withhold Russian income tax from guarantee payments provided that the following conditions are all met (i.e. exemption established for the **traded bonds**):

- (1) Payments under a guarantee or suretyship relate to traded bonds as defined above.

The Notes are to be admitted to the Official List of the Irish Stock Exchange and to be traded on the Global Exchange Market of the Irish Stock Exchange. The Notes will initially be represented by interests in the Global Note, without interest coupons, which will be deposited with a common depository for Euroclear and Clearstream, Luxembourg and registered in the name of a nominee, on or about the Issue Date.

The Irish Stock Exchange, Euroclear and Clearstream, Luxembourg are included in the Lists.

Although Clearstream, Luxembourg (as a legal entity) is not expressly mentioned in the Lists, "Clearstream", as well as "Clearstream International S.A." (which is the parent company of Clearstream, Luxembourg), are mentioned in the Lists. In this respect, it is unlikely that the draftsmen of the legislation intended to exclude Clearstream, Luxembourg from the Lists, since the Lists contain a general reference to "Clearstream", which can be interpreted to cover any entities of the Clearstream Group.

- (2) Payments under a guarantee or suretyship relate to traded bonds which were placed by a foreign entity in order to fund a debt to a Russian entity.

Debt obligations of a Russian legal entity towards a foreign legal entity should be recognised as arising in connection with the issuance by a foreign legal entity of traded bonds if reference to this fact is made in the agreement governing the debt obligation and/or in the terms and conditions of the issuance of the respective traded bonds and/or in the Offering Memorandum, or the connection is verified by the actual movement of funds.

As described in Part 7: "*Use of Proceeds*" of this Offering Memorandum, the Company intends to use the net proceeds from the issue of the Notes to substantially refinance the loans provided pursuant to the Banking Facilities provided by Sberbank and VTB Bank (further details of which are set out in Part 10: "*Management's Discussion and Analysis of Financial Condition and Results of Operations*").

Therefore, if any amounts of the net proceeds would not be used to fund debts to the Russian companies of the Group (including the Guarantors), this condition will not be satisfied, and the above-mentioned tax release could not be applied in practice with respect to corresponding amounts of Guarantee payments. In this case, there is a risk that respective payments under the Guarantee may be subject to Russian withholding tax, unless it is reduced or eliminated based on the applicable double tax treaty.

- (3) There is a double tax treaty between Russia and the jurisdiction of tax residence of the issuer of the traded bonds, the foreign entity authorised to receive interest income payable on the traded bonds, or the foreign entity to which rights and obligations under bonds issued by another foreign entity have been assigned which can be confirmed by a tax residency certificate.

Therefore, the Guarantors should not be required to deduct Russian withholding tax from Guarantee payments made to the Trustee (acting on behalf of the Noteholders), provided the Guarantors have received from the Trustee a tax residency confirmation and the Trustee is deemed to be a "foreign entity authorised to receive interest income payable on the traded bonds" for Russian taxation purposes. However, there is a risk that the Trustee could not be viewed as a "foreign entity authorised to receive interest income payable on the traded bonds"

for Russian taxation purposes. In this case, the payments made by the Guarantors under the Guarantee could be considered to be made to the Non-Resident Noteholders–Legal Entities; provided that the Guarantors have received from the Non-Resident Noteholders–Legal Entities tax residency certificates (confirming that they reside in the jurisdictions having double tax treaties with Russia), the above exemption on the traded bonds could be applicable with respect to payments under the Guarantee payable to such Non-Resident Noteholders–Legal Entities.

In case the above exemption on the traded bonds is not applicable with regard to payments under the Guarantee, there is a risk that respective payments under the Guarantee may be subject to Russian withholding tax unless the Russian withholding tax is reduced or eliminated based on an applicable double tax treaty.

Pursuant to the Russian Tax Code, the double tax treaty benefits could be applied only by a non-resident income recipient who has the actual right to receive income (i.e. who qualifies as a **beneficial owner of income**). A non-resident income recipient claiming double tax treaty benefits that has the actual right to receive income should provide the tax agents that pay Russian source income with a tax residency certificate before the date of the income payment. Starting from 1 January 2017, there is an obligation of a non-resident income recipient to provide a tax agent with the confirmation that it has an actual right to receive income in order to enjoy the double tax treaty benefits. There is no list of the particular documents which can be supplied by the non-resident income recipient for this purpose. Further, there is no explicit guidance on the list of the structures which can jeopardise the beneficial owner status of the non-resident income recipient. Beneficial ownership status is based on facts and circumstances and should be analysed on a case-by-case basis.

It is unlikely that the Trustee will be deemed to be the beneficial owner of payments under the Guarantee and, consequently, its tax residency certificate (if it is provided to the Guarantors) could arguably not be relied upon for the purpose of application of the double tax treaty benefits.

In this respect, if the Non-Resident Noteholder–Legal Entity is a beneficial owner of income payable under the Guarantee and provides the Guarantors with its tax residency certificate and a relevant confirmation that it is a beneficial owner of income, the Russian withholding tax on Guarantee payments payable to such Non-Resident Noteholder–Legal Entity could be reduced or eliminated based on the applicable double tax treaty. This certificate should be legalised through an apostil by a competent authority and be furnished with a notarised Russian translation. The certificate should be submitted each calendar year, in each case prior to the first applicable payment in such calendar year is made irrespective of the number and regularity of such payments. However, there can be no assurance that the double tax treaty relief (or a refund of any taxes withheld) will be available for the Non-Resident Noteholder–Legal Entity with respect to payments under the Guarantee in practice.

There can be no assurance that Russian withholding tax would not be imposed on the payments made under the Guarantee to Non-Resident Noteholders–Legal Entities not resident for tax purposes in countries which have concluded a double tax treaty with the Russian Federation. In such case there is a risk that Russian withholding tax would be imposed on the full amount of the payment under the Guarantee, including the principal amount of the Notes.

Importantly, the above-mentioned exemption established for traded bonds that envisages the release from the obligation to deduct Russian withholding tax from payments made upon the execution of the guarantee or suretyship (provided the above conditions are all simultaneously met) does not provide for the exemption of the foreign interest income recipients from Russian withholding tax, although currently there is no requirement and mechanism in the Russian tax legislation for foreign income recipients which are the legal entities to self-assess and pay the tax to the Russian tax authorities. There can be no assurance that such rules will not be introduced in the future or that the Russian tax authorities would not make attempts to collect the tax from the foreign income recipients, including the Non-Resident Noteholders–Legal Entities and/or the Trustee.

In case the payments under the Guarantee are deemed to be made to the Non-Resident Noteholder–Individual, a Non-Resident Noteholder–Individual may be subject to Russian personal income tax as such income may be treated as Russian source income. In this case, depending on how these payments would be effected, either the full amount of payments, or a part of such payments covering the interest on the Notes, could be subject to Russian personal income tax at a rate of 30 per cent., which may be withheld at source or payable on a self-assessed basis. The tax may be reduced or eliminated pursuant to the provisions of any applicable double tax treaty.

If payments under the Guarantee become subject to Russian withholding tax (as a result of which the Guarantors would have to reduce payments made under the Guarantee by the amount of tax withheld), the Guarantors will be obliged (subject to certain conditions) to pay an additional amount so as to result in the receipt by the Noteholders (or the Trustee acting on behalf of the Noteholders) of such amounts as would have been received by them if no such tax withholding or deduction had been required. See Part 17: “*Terms and Conditions of the Notes — Taxation*” and Part 3: “*Risk Factors — Risks Relating to Taxation — Risks factors relating to Russian taxation — Payments under the Guarantee made by Guarantors incorporated in Russia may be subject to Russian withholding tax*”.

Russian VAT

Income under Guarantees should not be subject to Russian VAT from 1 January 2017 (sub-item 15.3 of item 3 of Article 149 of the Russian Tax Code).

Payment of increased income due to taxes (gross-up)

Based on provisions of the Transaction Documents the Guarantors may be liable to make payments in respect of the Notes to the Trustee on behalf of the Noteholders as a result of enforcement of the Issuer’s obligations under the Trust Deed or the Notes.

As mentioned in clarifications issued by the Russian fiscal authorities, payments in compensation of taxes paid or to be paid by other taxpayers are in direct conflict with the Russian tax legislation. Moreover, Russian tax legislation provides that a tax agent is not able to pay withholding tax from its own funds. According to clarifications of the Russian fiscal authorities, where withholding tax is paid at the expense of the tax agent, additional amounts received by the foreign recipient should also be subject to Russian withholding tax. Therefore, should the tax authorities consider an increased amount of payment under guarantee as related to compensation of withholding taxes these amounts payable by each of the Russian Guarantors will likely be considered as non-deductible for profits tax purposes for each of the Russian Guarantors. Moreover, there can be no assurance that each of the Russian Guarantors’ obligation to pay the additional amounts associated with the withholding tax is enforceable under Russian law. Therefore, there is a risk that the increase of the amount payable for withholding tax will not take place and that payments made by the Russian Guarantors under the guarantee will be reduced by Russian withholding tax withheld by the Russian Guarantors at a rate of 20 per cent. (or, potentially, at a rate of 30 per cent. with respect to Noteholders that are individuals).

Other payments made by the Russian Guarantors under the Transaction Documents

For the purposes of this Offering Memorandum, the definition of “other payments” refers to payments made by the Russian Guarantors to the Trustee, the Joint Lead Managers and/or the beneficiaries other than the Noteholders in case of the Issuer’s default.

As mentioned above, according to Russian tax legislation expenses should be deductible for profits tax purposes if they are properly documented and justified from an economic and business standpoint and connected with income generating activity.

As long as other payments of the Russian Guarantors may be treated as compensation to third parties, there is a risk that such other payments to the other parties under the Transaction Documents may be non-deductible for Russian profits tax purposes.

It is noted that deductibility of some payments and compensations in a Eurobond issuance by the bank Petrocommerce were challenged in court by the tax authorities (case # A56-78678/2009); however, the court ruled in the favour of the taxpayer. Nevertheless, as this is only one case, the risks of non-deductibility of the considered expenses cannot be excluded.

Should the above reimbursement be treated as payment for services purchased by the Russian Guarantors and should the place of supply of such services be considered as the place of activity of the Russian Guarantors (for legal, consulting services, data processing, etc.), i.e. the Russian Federation, then the acquisition of the above services and payment of the respective amounts by the Russian Guarantors to the other Parties under the Transaction Documents will most likely trigger Russian withholding VAT obligations.

Tax treaty relief

The Russian Federation has concluded double tax treaties with a number of countries and honours some double tax treaties concluded by the former Union of Soviet Socialist Republics. These double tax treaties may contain provisions that allow for the reduction or elimination of Russian withholding taxes with respect to income received by Non-Resident Noteholders from Russian sources, including income from the sale, redemption or other disposal of the Notes. To the extent double tax treaty relief is available, a Non-Resident Noteholder must comply with the certification, information, documentation and reporting requirements which are in force in the Russian Federation in order to obtain such relief.

Application of the foreign tax credit in the Russian Federation

According to the general provisions of Russian tax law, the amounts of tax actually paid according to tax legislation of the foreign state by a taxpayer who is a Russian tax resident on the income received outside the Russian Federation could not be credited against Russian personal income tax liability of the taxpayer unless otherwise provided for by relevant double tax treaty between the Russian Federation and that foreign state. However, the taxpayer may have the right to make a foreign tax credit against its Russian personal income tax liabilities provided that all following conditions are met:

- a taxpayer is recognised as Russian tax resident in the tax period when the income taxable in the Russian Federation and in the foreign state was received;
- there is a valid double tax treaty between the Russian Federation and the foreign state, which provides for the foreign tax credit in the state of residence (i.e. the Russian Federation);
- the taxpayer could confirm the amount claimed for tax credit with the documents required by Russian tax law. Further, tax authorities may request confirmation of the residency status; however, current provisions of the Russian Tax Code do not oblige the taxpayer to provide such evidence along with supporting documents when claiming a foreign tax credit.

If the above-mentioned conditions are not met, the taxpayer will not be able to apply foreign tax credit and reduce its tax liability in the Russian Federation.

Exemption

Russian legislation also prescribes how tax treaty benefits can be obtained via tax agents, i.e. if tax on such income is subject to tax at source. Russian legislation requires the relevant claim and supporting documents to be filed to the tax agent or to the tax authorities (for refund of tax withheld).

At the same time the provisions of the law are not quite clear on how the exemption should be claimed in terms of income, which is not subject to tax at source. Conservatively, an individual should submit to the Russian tax authorities a certificate confirming his/her tax residency in the other country, amongst other documents, to substantiate the treaty exemption.

Non-Resident Noteholders should consult their own tax advisors regarding possible tax treaty relief and procedures required to be fulfilled for obtaining such relief with respect to any Russian taxes imposed

in respect of income received in connection with the acquisition, holding and the sale or other disposal of the Notes, as well as interest income and payments under the Guarantee.

Refund of tax withheld

If Russian withholding tax on income derived from Russian sources by a Non-Resident Noteholder–Legal Entity was withheld at source, a claim for a refund of the Russian income tax that was excessively withheld at source can be filed by that Non-Resident Noteholder–Legal Entity with the Russian tax authorities within three years following the year in which the tax was withheld, provided such Non-Resident Noteholder–Legal Entity is entitled to the benefits of the applicable double tax treaty allowing it not to pay the tax or allowing it to pay the tax at a reduced tax rate in relation to such income. There is no assurance that such refund will be possible in practice.

If Russian personal income tax applicable to income derived from Russian sources by a Non-Resident Noteholder–Individual, for whom double tax treaty relief is available, was withheld at source despite the right of this Non-Resident Noteholder–Individual to rely on benefits of the applicable double tax treaty allowing the individual not to pay the tax in the Russian Federation or allowing the individual to pay the tax at the reduced tax rate in relation to such income, a claim for a refund of Russian personal tax which was excessively withheld at source and an application of the benefits of the applicable double tax treaty, together with a passport of a foreign individual/tax residency certificate issued by the competent authorities in his/her country of residence may be filed by that Non-Resident Noteholder–Individual with the tax agent within three years following the tax year when the corresponding income was received. In the absence of a tax agent who withheld the Russian personal income tax under consideration (for instance, in case of a liquidation of the tax agent), such an application for a refund may be filed with the Russian tax authorities within the same period (three years from the date when the tax was paid) accompanied by the Russian tax return, a tax residency certificate and documents proving tax withholding to the Russian tax authorities. There can be no assurance that the tax agent and/or the Russian tax authorities will refund this tax in practice.

Although the Russian Tax Code arguably contains an exhaustive list of documents and information which has to be provided by a foreign person to the Russian tax authorities for tax refund purposes, the Russian tax authorities may, in practice, require a wide variety of documentation confirming a right of a Non-Resident Noteholder–Individual to obtain tax relief available under the applicable double tax treaty. Such documentation may not be explicitly required by the Russian Tax Code and may to a large extent depend on the position of local representatives of the tax inspectorates.

Obtaining a refund of Russian taxes withheld may be a time-consuming process and can involve considerable practical difficulties, including the possibility that a tax refund may be denied for various reasons.

Non-Resident Noteholders should consult their own tax advisors regarding possible tax treaty relief and procedures required to be fulfilled in order to obtain treaty relief in practice with respect to any Russian taxes imposed on income received by a Non-Resident Noteholder upon the acquisition, holding and sale or other disposal of the Notes as well as payments under the Guarantee.

United Kingdom Taxation

General

The following is a general description of certain UK tax considerations relating to the Notes based on current law and practice in the UK. It does not purport to be a complete analysis of all tax considerations relating to the Notes. It relates to the position of persons who are the absolute beneficial owners of Notes and some aspects do not apply to certain classes of taxpayer (such as dealers and Noteholders who are connected or associated with the Issuer for relevant tax purposes). Prospective Noteholders who may be subject to tax in a jurisdiction other than the UK or who may be unsure as to their tax position should seek their own professional advice.

Interest on the Notes

The Notes will constitute “quoted Eurobonds” within the meaning of section 987 of the Income Tax Act 2007 (the *Act*) as long as they are and continue to be listed on a “recognised stock exchange” within the meaning of section 1005 of the *Act*. In the case of Notes to be traded on the Irish Stock Exchange, which is a recognised stock exchange, this condition will be satisfied if the Notes are admitted to listing and to trading on the Global Exchange Market of the Irish Stock Exchange. Accordingly, payments of interest on the Notes may be made without withholding on account of UK income tax provided the Notes remain so listed at the time of payment.

In other cases, an amount might be withheld on account of income tax at the basic rate (currently 20 per cent.), subject to any direction to the contrary by HM Revenue and Customs under an applicable double taxation treaty, and except that the withholding obligation is disapplied in respect of payments to Noteholders who the Issuer reasonably believes are either a UK resident company or a non UK resident company carrying on a trade in the UK through a permanent establishment which brings into account the interest in computing its UK taxable profits, or fall within various categories enjoying a special tax status (including charities and pension funds), or are partnerships consisting of such persons (unless HM Revenue and Customs direct otherwise).

Interest on the Notes constituting UK source income for tax purposes may be subject to income tax by direct assessment even where paid without withholding. However, interest with a UK source received without deduction or withholding on account of UK tax will not be chargeable to UK tax in the hands of a Noteholder who is not resident for tax purposes in the UK unless that Noteholder: (i) carries on a trade, profession or vocation in the UK through a UK branch or agency or for holders who are companies through a UK permanent establishment, in connection with which the interest is received or to which the Notes are attributable; or (ii) is a trustee of a trust with a UK beneficiary. There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers).

The provisions relating to additional payments referred to in Condition 8 of the Notes would not apply if HM Revenue and Customs sought to assess the person entitled to the relevant interest or (where applicable) profit on any Note directly to UK income tax. However, exemption from or reduction of such UK tax liability might be available under an applicable double taxation treaty.

Depending on the correct legal analysis of payments made by the Guarantors as a matter of UK tax law, it is possible that payments by a Guarantor would be subject to withholding on account of UK tax, subject to any applicable exemptions or reliefs (and noting that not all of the exemptions and reliefs set out above would necessarily be applicable).

The reference to “interest” in this UK Taxation section means “interest” as understood in United Kingdom tax law, and in particular any premium element of the redemption amount of any Notes redeemable at a premium may constitute a payment of interest subject to the withholding tax provisions discussed above. In certain cases, the same could be true for amounts of discount where Notes are issued at a discount. The statements above do not take any account of any different definitions of “interest” or “principal” which may prevail under any other law or which may be created by the Terms and Conditions of the Notes or any related documentation.

Transfer of the Notes

UK corporation taxpayers

In general Noteholders which are within the charge to UK corporation tax (other than investment trusts, venture capital trusts, authorised unit trusts and open ended investment companies) will be treated for tax purposes as realising profits, gains or losses (including exchange gains and losses) in respect of the Notes on a basis which is broadly in accordance with their statutory accounting treatment so long as the accounting treatment is in accordance with generally accepted accounting practice as that term is defined for tax purposes. Such profits, gains and losses (or where the Noteholder’s functional currency is not sterling, then the sterling equivalent of such profits, gains and losses as computed in the Noteholder’s functional currency) will be taken into account in computing taxable income for corporation

tax purposes. Noteholders that are investment trusts, venture capital trusts, authorised unit trusts or open ended investment companies will be subject to the same taxation treatment in respect of the Notes as other Noteholders that are within the charge to UK corporation tax, other than with respect to capital profits, gains or losses as defined.

Other UK taxpayers

The disposal (including a redemption) of a Note by a Noteholder who is resident for tax purposes in the UK or who carries on a trade, profession or vocation in the UK through a branch or agency to which the Note is attributable and who is not subject to UK corporation tax in respect of the Note, may give rise to a chargeable gain or an allowable loss for the purposes of UK tax on capital gains (including currency exchange rate differences calculated by ascertaining the difference between the pound sterling equivalent at the date of acquisition of the consideration given for the Note and the pound sterling equivalent at the date of disposal of the proceeds received on disposal of the Note), depending on individual circumstances and subject to any taper relief which may be due.

Accrued Income Scheme

The provisions of the accrued income scheme (the **Scheme**) may apply to certain Noteholders who are not subject to corporation tax, in relation to a transfer of the Notes. On a transfer of securities with accrued interest the Scheme usually applies to deem the transferor to receive an amount of income equal to the accrued interest and to treat the deemed or actual interest subsequently received by the transferee as reduced by a corresponding amount. Generally, persons who are not resident in the UK and who do not carry on a trade in the UK through a branch or agency to which the Notes are attributable will not be subject to the provisions of these rules.

Stamp Duty and SDRT

No stamp duty or stamp duty reserve tax is payable on issue of the Notes or on a transfer of the Notes.

The Proposed Financial Transactions Tax (FTT)

On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (each, other than Estonia, a **participating Member State**). However, Estonia has ceased to participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

United States Federal Income Taxation

The following discussion is a summary based on present law of certain U.S. federal income tax considerations relevant to the purchase, ownership and disposition of Notes. This discussion addresses

only U.S. Holders (as defined below) that purchase Notes in the original offering at the original issue price, hold Notes as capital assets and use the US Dollar as their functional currency. This discussion is a general summary only; it is not a complete description of all U.S. tax considerations relating to the purchase, ownership and disposition of Notes. It does not address the tax treatment of U.S. Holders that will hold Notes in connection with a permanent establishment outside of the United States. It also does not address the tax treatment of U.S. Holders subject to special rules, such as banks and certain other financial institutions, insurance companies, regulated investment companies, real estate investment trusts, dealers in securities, securities traders that elect to mark-to-market, U.S. expatriates, individual retirement accounts and other tax-deferred accounts, tax-exempt entities, persons that will hold Notes as part of a hedge, straddle, conversion or other integrated financial transaction. This summary does not address U.S. federal taxes other than the income tax (such as estate or gift taxes or alternative minimum tax), state, local, non-U.S. or other tax laws or matters. The Issuer intends to take the position, to the extent relevant, that the Notes are treated as debt for U.S. federal income tax purposes and this discussion assumes that position is correct.

EACH PROSPECTIVE PURCHASER SHOULD SEEK ADVICE FROM ITS OWN TAX ADVISERS ABOUT THE TAX CONSEQUENCES UNDER ITS OWN PARTICULAR CIRCUMSTANCES OF INVESTING IN THE NOTES UNDER THE LAWS OF JERSEY, THE UNITED KINGDOM, THE RUSSIAN FEDERATION, THE UNITED STATES AND ITS CONSTITUENT JURISDICTIONS AND ANY OTHER JURISDICTION WHERE THE PURCHASER MAY BE SUBJECT TO TAXATION.

For purposes of this discussion, a “**U.S. Holder**” is a beneficial owner of Notes that is, for purposes of U.S. federal income taxation, a (i) citizen or resident of the United States, (ii) corporation created or organised under the laws of the United States, any state thereof, or the District of Columbia, (iii) trust subject to the control of a U.S. person and the primary supervision of a U.S. court or (iv) estate the income of which is subject to U.S. federal income taxation regardless of its source. This discussion assumes that each U.S. Holder is a resident of the United States for purposes of the tax treaty between the UK and the U.S. (the “**U.S.-UK Treaty**”) and the tax treaty between Russia and the U.S. (the “**U.S.-Russia Treaty**”) and is fully eligible for the benefits of both treaties pursuant to the “Limitation on Benefits” provision of each treaty.

The U.S. federal income tax treatment of a partner in an entity or arrangement treated as a partnership for U.S. federal income tax purposes that acquires, holds and disposes of Notes will depend on the status of the partner and the activities of the partnership. Partnerships are urged to consult their own tax advisers regarding the specific tax consequences to them and their partners of purchasing, owning and disposing of the Notes.

Interest on the Notes

It is anticipated, and this discussion assumes, that the Notes will be issued with no more than a de minimis amount of original issue discount (**OID**). Interest on the Notes, including the amount of any tax withheld therefrom and any additional amounts paid in respect of such withholding, will generally be includible in the gross income of a U.S. Holder in accordance with its regular method of tax accounting. The interest on the Notes will generally be ordinary income from sources outside the United States. Each U.S. Holder should consult its own tax advisor about its eligibility for, and the procedures for claiming, a reduced rate of UK or Russian withholding tax under either the U.S.-UK Treaty or U.S.-Russian Treaty, and should read the discussion above in “*Taxation—United Kingdom Provision of Information Requirements—United Kingdom Taxation—Interest on the Notes*”, or “*Taxation—Russian Taxation—Taxation of Non-Resident Noteholders—Legal entities*” and “*Taxation—Russian Taxation—Taxation of Non-Resident Noteholders—Individuals*”. Because both the U.S.-UK Treaty and the U.S.-Russia Treaty provide for an exemption from withholding tax on interest, a U.S. Holder will not be permitted to claim a deduction or foreign tax credit in respect of UK or Russian tax withheld from a payment of interest.

Interest will be included in net investment income for purposes of the Medicare tax applicable to certain non-corporate U.S. Holders.

Sale or Disposal of the Notes

A U.S. Holder will generally recognise gain or loss on the sale, redemption or other disposition of a Note in an amount equal to the difference between the US Dollar value of the amount realised, (but less any accrued but unpaid interest, which will be taxable as ordinary interest income as discussed above to the extent not previously included in income) and the U.S. Holder's adjusted tax basis in the Note. A U.S. Holder's adjusted tax basis in a Note will generally be its purchase price.

Gain or loss on disposition of a Note will generally be capital gain or loss. Any capital gain or loss will be long-term capital gain or loss if the U.S. Holder has held the Note for more than one year. The long-term capital gains of non-corporate U.S. Holders may be taxed at lower rates. Deductions for capital losses are subject to limitations.

As described in "*Taxation—Russian Taxation—Taxation of Non-Resident Noteholders—Legal entities*" and "*Taxation—Russian Taxation—Taxation of Non-Resident Noteholders—Individuals*", sales or other dispositions of a Note may be subject to Russian tax if any proceeds from a sale, redemption, or other disposal of the Notes are received from either a source within the Russian Federation or from a Russian tax resident which is a legal entity. Because capital gains realised by U.S. Holders will generally be treated as arising from U.S. sources, and because the U.S.-Russia Treaty provides for a zero rate on capital gains, the U.S. Holder will not be entitled to a foreign tax credit or deduction in respect of any Russian tax withheld. A U.S. Holder may be able to claim an exemption from or refund of Russian tax withheld. See "*Taxation—Russian Taxation—Tax treaty relief*" and "*Taxation—Russian Taxation—Refund of tax withheld*". Holders should consult their own tax advisers regarding their eligibility for the benefits of the U.S.-Russian tax treaty, whether any exemptions from Russian tax would be available, any necessary procedures for claiming any applicable exemption from Russian tax, and whether they would be able to credit any Russian taxes imposed on a sale or disposition of their Notes against their U.S. federal income tax liabilities in their particular circumstances.

Gain will be included in net investment income for purposes of the Medicare tax applicable to certain non-corporate U.S. Holders.

Substitution of the Issuer

If a successor Issuer replaces the Issuer or the trustee agrees to substitute another entity for the Issuer such substitution may, depending on the circumstances, be treated as an exchange of the Notes for deemed new notes of the successor. In such an event, unless a non-recognition provision applies, a U.S. Holder generally will recognise any gain or loss realised in the deemed exchange in an amount equal to the difference, if any, between (i) the issue price of the new notes (which would be their fair market value assuming the Notes are trading on an established market) and (ii) the U.S. Holder's adjusted tax basis in the Notes. If the stated principal amount of the new notes received in the deemed exchange exceeds their issue price by as much as 0.25 per cent. multiplied by the number of complete years to maturity, a U.S. Holder may be required to recognise OID as ordinary income on the new notes as a result of the substitution. The OID would be the amount by which the stated principal amount of the new notes exceeds their issue price. Regardless of its regular method of tax accounting, a U.S. Holder would be required to accrue any OID as ordinary income on a constant yield to maturity basis whether or not it received cash payments. U.S. Holders should consult their own advisors regarding the foregoing.

Further Notes

The Issuer may issue additional Notes in further offerings and these further Notes may not be fungible with the Notes for U.S. federal income tax purposes. Whether further Notes would be fungible depends on whether the issuance of additional Notes would be treated as a qualified reopening of the original offering. This determination will depend on the date when the further Notes are issued, the yield of the Notes at that time (based on their fair market value), and whether the Notes are publicly traded or quoted at the time of the further Notes issuance. Further Notes will be part of the same issue as the Notes if (i) they are issued within six months of the Notes when the yield on the Notes is no more than 110% of their original yield or (ii) they are issued at a premium, at par or at a *de minimis* discount from par. A discount is *de minimis* if it is less than 0.25% multiplied by the number of complete years

remaining to the maturity of the additional Notes. If issuance of the further Notes is not a qualified reopening, the further Notes may have OID (or a different amount of OID), which may adversely affect the market value of the Notes, unless the further Notes can be distinguished from the Notes.

Information and Backup Reporting

Payments of interest and proceeds from the sale, redemption or other disposition of a Note may be reported to the U.S. Internal Revenue Service (**IRS**) unless the holder is a corporation or otherwise establishes a basis for exemption. Backup withholding tax may apply to amounts subject to reporting if the holder fails to provide an accurate taxpayer identification number or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. A U.S. Holder can claim a credit against its U.S. federal income tax liability for the amount of any backup withholding tax and a refund of any excess. Prospective investors should consult their tax advisors as to their qualification for an exemption from backup withholding and the procedure for establishing an exemption.

Certain U.S. Holders are required to report information with respect to their investment in Notes not held through an account with a financial institution to the IRS. Investors who fail to report required information could become subject to substantial penalties. Potential investors are encouraged to consult with their own tax advisers regarding the possible implications of these reporting requirements on their investment in Notes.

U.S. Foreign Account Tax Compliance Withholding

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (**foreign passthru payments**) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions, including Jersey, have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019 and Notes issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered” for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the issuer). However, if additional notes (as described under Part 17: “*Terms and Conditions of the Notes—Further Issues*”) that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

PART 20

CONSIDERATION FOR ERISA AND OTHER U.S. EMPLOYEE PLANS

Subject to the following discussion, the Notes may be acquired by pension, profit-sharing or other employee benefit plans covered by Title I of the Employee Retirement Income Security Act of 1974, as amended (**ERISA**), as well as individual retirement accounts, Keogh plans and other plans covered by Section 4975 of the U.S. Tax Code, and certain entities that are deemed to hold the assets of such plans (each a **Benefit Plan Investor**). Section 406 of ERISA, and Section 4975 of the U.S. Tax Code prohibit a Benefit Plan Investor from engaging in certain transactions with persons that are “parties in interest” under ERISA or “disqualified persons” under the U.S. Tax Code with respect to such Benefit Plan Investor. A violation of these “prohibited transaction” rules may result in an excise tax or other penalties and liabilities under ERISA and the U.S. Tax Code for such persons or the fiduciaries of the Benefit Plan Investor. In addition, Title I of ERISA also requires fiduciaries of a Benefit Plan Investor subject to ERISA to make investments that are prudent, are part of a diversified portfolio and in accordance with the governing plan documents.

Certain transactions involving the Issuer might be deemed to constitute prohibited transactions under ERISA and the U.S. Tax Code with respect to a Benefit Plan Investor that purchased Notes if assets of the Issuer were deemed to be assets of the Benefit Plan Investor. Under regulations issued by the United States Department of Labor (**DOL Regulations**), the assets of the Issuer would be treated as plan assets of a Benefit Plan Investor for the purposes of ERISA and the U.S. Tax Code only if the Benefit Plan acquired an “equity interest” in the Issuer and none of the exceptions to plan assets contained in the DOL Regulations apply. An equity interest is defined generally under the DOL Regulations as an interest other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features. Although there is little guidance on the subject, the Issuer believes that, at the time of their issuance, the Notes should be treated as indebtedness of the Issuer without substantial equity features for purposes of the DOL Regulations. This determination is based in part upon the traditional debt features of the Notes, including the reasonable expectation of purchasers of Notes that the Notes will be repaid when due, as well as the absence of conversion rights, warrants and other typical equity features. The debt treatment of the Notes for ERISA purposes could change subsequent to the issuance if the Issuer incurs losses. The risk of recharacterisation is enhanced for Notes that are subordinated to other classes of securities.

However, without regard to whether the Notes are treated as equity interests for purposes of the DOL Regulations, the acquisition or holding of Notes by or on behalf of a Benefit Plan Investor could give rise to a prohibited transaction if the Issuer, any of the Guarantors, the Trustee, or any of the Joint Lead Managers is or becomes a party in interest or a disqualified person with respect to such Benefit Plan Investor. Certain exemptions from the prohibited transaction rules could apply to the purchase and holding of Notes by a Benefit Plan Investor depending on the type and circumstances of the plan fiduciary making the decision to acquire such Notes. Included among these exemptions are: Section 408(b)(17) of ERISA and Section 4975(d)(20) of the U.S. Tax Code for certain transactions between a Benefit Plan Investor and non-fiduciary service providers to the Benefit Plan Investor, Prohibited Transaction Class Exemption (**PTCE**) 96-23, regarding transactions effected by “in house asset managers”; PTCE 95-60, regarding investments by insurance company general accounts; PTCE 91-38, regarding investments by bank collective investment funds; PTCE 90-1, regarding investments by insurance company pooled separate accounts; and PTCE 84-14, regarding transactions effected by “qualified professional asset managers.” These exemptions do not, however, provide relief from the self-dealing prohibitions under ERISA and Section 4975 of the U.S. Tax Code. In addition, these administrative exemptions may not be available for each particular transaction involving the Notes. A plan fiduciary considering an investment in the Notes should consider whether the acquisition, the continued holding or the disposition of the Notes might be a non-exempt prohibited transaction. By acquiring a Note, each purchaser and transferee (and if the purchaser or transferee is a Benefit Plan Investor, its fiduciary) will be deemed to represent that either (i) it is not acquiring the Notes with the assets of a Benefit Plan Investor; or (ii) the acquisition and holding of the Notes will not give rise to a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the U.S. Tax Code. **Due to certain restrictions under ERISA**, Benefit Plan Investors may not purchase Notes at any time that the ratings on the Notes are below investment grade **unless such purchase and holding meets the requirements for an applicable prohibited transaction or other exemption under ERISA. To**

the extent that any Benefit Plan Investor invests in the Notes if the Notes are below investment grade, in addition to the other representations that are deemed to be made herein, such Benefit Plan Investor will be deemed to have represented that such purchase and holding meet the requirements of one or more exemptions under ERISA.

None of the Issuer, the Guarantors, the Joint Lead Managers or any of their respective partners, shareholders, directors, officers, employees, representatives or affiliates or the Trustee (**ERISA Transaction Parties**) is undertaking to provide impartial investment advice, or to give advice in a fiduciary capacity, in connection with the acquisition of any of the Notes by any Benefit Plan Investor. While the DOL Final Fiduciary Rule remains in effect, by acquiring the Notes, each Benefit Plan Investor and its fiduciary will be deemed to represent that (i) it has not received and is not receiving investment advice from the ERISA Transaction Parties with respect to the Benefit Plan Investor's investment in the Notes, (ii) none of the ERISA Transaction Parties has made or will make any recommendations as to the advisability of the acquiring, holding or continuing to hold, disposal of, or exchange of the Notes, or has provided or will provide investment advice, and (iii) that such purchaser or transferee meets the requirements of an Eligible Benefit Plan Investor. To qualify as an Eligible Benefit Plan Investor, the fiduciary of such plan (**Fiduciary**) must meet the following requirements:

- the Fiduciary is independent of the ERISA Transaction Parties;
- the Fiduciary is (a) a bank as defined in Section 202 of the Investment Advisers Act of 1940, as amended (the **Advisers Act**) or similar institution that is regulated and supervised and subject to periodic examination by a state or federal agency, (b) an insurance carrier that is qualified under the laws of more than one state to perform the services of managing, acquiring or disposing of assets of a plan, (c) an investment adviser registered under the Advisers Act or, if not registered as an investment adviser under the Advisers Act by reason of paragraph (1) of Section 203A of such Act, is registered as an investment adviser under the laws of the state (referred to in such paragraph (1)) in which it maintains its principal office and place of business, (d) a broker-dealer registered under the Securities Exchange Act of 1934, as amended (the **Exchange Act**), or (e) an independent fiduciary that holds and will hold, or has and will have under management or control, total assets of at least \$50,000,000 at all times that the Eligible Benefit Plan Investor is invested in the Notes (excluding the owner or relative of the owner of an investing IRA or the participant or beneficiary under an investing plan investing in the Notes in such capacity);
- the Fiduciary is capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies, including the acquisition, holding or continued holding, disposal, or exchange by the Eligible Benefit Plan Investor of the Notes;
- the Fiduciary acknowledges that it has been informed by Issuer (X) that none of the ERISA Transaction Parties has undertaken or is undertaking to provide impartial investment advice, or to give advice in a fiduciary capacity, and has not given investment advice or otherwise made a recommendation, in connection with the Eligible Benefit Plan Investor's acquisition, holding or continued holding, disposal, or exchange of Notes, and (Y) of the existence and nature of the financial interests of the ERISA Transaction Parties in the Eligible Benefit Plan Investor's acquisition, holding or continued holding, disposal, or exchange of any Notes;
- the Fiduciary is a "fiduciary" under ERISA or Section 4975 of the U.S. Tax Code, or both, with respect to the acquisition, holding, continued holding, disposal, or exchange of any Notes, and is responsible for exercising independent judgment in evaluating the Eligible Benefit Plan Investor's acquisition, holding, continued holding, disposition, or exchange of any Notes;
- none of the ERISA Transaction Parties receives a fee or other compensation from the Eligible Benefit Plan Investor, the Fiduciary or any other Eligible Benefit Plan Investor fiduciary, or any Eligible Benefit Plan Investor participant, or beneficiary for the provision of investment advice (rather than other services) to the Eligible Benefit Plan Investor, the Fiduciary, any other Eligible Benefit Plan Investor fiduciary, any Eligible Benefit Plan Investor participant or beneficiary, or any of their respective agents or employees (which advice is expressly not being provided) in connection with the acquisition, holding, continued holding, disposition, or exchange by the Eligible Benefit Plan Investor of any Notes; and

- none of the ERISA Transaction Parties has exercised any authority to cause the Eligible ERISA Plan Investor to invest in the Notes or to negotiate the terms of the Eligible Benefit Plan Investor's investment in the Notes.

The “**DOL Final Fiduciary Rule**” means 29 C.F.R. 2510.3-21, as promulgated on April 8, 2016 and as subsequently amended.

Employee benefit plans that are governmental plans (as defined in Section 3(32) of ERISA) (each, a **Government Plan**), non-U.S. plans (as described in Section 4(b)(4) of ERISA) (each, a **non-U.S. Plan**) and certain church plans (as defined in Section 3(33) of ERISA) are not subject to ERISA requirements. However, Government Plans, non-U.S. Plans and church plans may be subject to comparable State or local law restrictions (**Similar Law**). By acquiring the Notes, each Government Plan, non-U.S. Plan or church plan and its fiduciary is deemed to represent and warrant that the acquisition and holding of the Notes will not give rise to a violation of Similar Law.

ERISA also prohibits Benefit Plan Investors from maintaining the indicia of ownership of any ERISA plan assets outside the jurisdiction of the United States district courts except in certain cases. Before investing in the Notes, fiduciaries of Benefit Plan Investors subject to ERISA should consider whether the acquisition, holding, or disposition of the Notes would satisfy such indicia of ownership rules.

The foregoing discussion is general in nature and is not intended to be all-inclusive. This discussion is based on current law. As a result, changes in the law may change the ERISA considerations described in this Offering Memorandum. Any fiduciary of any Benefit Plan Investor, Governmental Plan, non-U.S. Plan or church plan considering an investment in the Notes should consult with its legal advisors regarding the consequences of such investment. The sale of any Notes offered hereby is in no respect a representation by the Issuer or any of its affiliates or representatives that such an investment meets all relevant legal requirements with respect to investments by Benefit Plan Investors or other plan investors or that such an investment is appropriate for Benefit Plan Investors or other plan investors generally or any specific Benefit Plan Investors or other plan investors.

PART 21

SUBSCRIPTION AND SALE

Citigroup Global Markets Limited, J.P. Morgan Securities plc, SIB (Cyprus) Limited and VTB Capital plc (together, the **Joint Lead Managers**) have, pursuant to a subscription agreement dated on or about 10 November 2017 (the **Subscription Agreement**), severally and not jointly, nor jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Notes at 100 per cent. of their principal amount in the following amounts:

| Joint Lead Manager | Principal Amount of Notes |
|----------------------------------|----------------------------------|
| Citigroup Global Markets Limited | US\$125,000,000 |
| J.P. Morgan Securities plc | US\$125,000,000 |
| SIB (Cyprus) Limited | US\$125,000,000 |
| VTB Capital plc | US\$125,000,000 |

The Issuer, failing whom the Guarantors, has agreed to pay to the Joint Lead Managers certain fees in connection with the issue of the Notes. In addition, the Issuer, failing whom the Guarantors, have agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the issue of the Notes. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer. The Issuer and the Guarantors have in the Subscription Agreement agreed to indemnify the Joint Lead Managers against certain liabilities incurred in connection with the issue of the Notes.

The Joint Lead Managers and their respective affiliates have performed or entered into and expect to perform or enter into various financial advisory, investment banking and commercial banking services for, and may arrange loans and other non-public market financing for, and have entered into or may enter into derivative transactions or trading agreements with, the Parent (including its shareholders) and/or the Issuer and/or the Guarantors and their respective affiliates in the ordinary course of their respective businesses. As such, the Joint Lead Managers may have interests independent of and separate to, and which may conflict with, their roles as Joint Lead Managers in respect of the issuance of the Notes.

Each of the Joint Lead Managers and their respective affiliates may, from time to time, engage in further transactions with, and perform services for, the Issuer and the Group in the ordinary course of their respective businesses.

In particular, as described further in Part 10: “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”, affiliates of Sberbank and VTB have (a) been lenders to the Group for several years, most recently providing the Banking Facilities, (b) entered into derivative transactions with the Group; and (c) are currently the sole purchasers of the gold produced by the Group. In addition, the proceeds of the offering will be used to substantially refinance the Banking Facilities (as described further in Part 7: “*Use of Proceeds*”). The Joint Lead Managers are acting exclusively for the Issuer and the Guarantors, and no one else in connection with the Offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the Offering.

As part of the allocation process of the Notes, a material portion of the Notes has been allocated to some of the Joint Lead Managers. These allocations may impact the secondary market performance of the Notes, and any such Notes may be held or sold into the market in due course at the discretion of the holders thereof from time to time.

No Securities Commission Approval

The Securities have not been approved or disapproved by the U.S. Securities and Exchange Commission (the **SEC**), any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Offering or the accuracy or adequacy of this Offering Memorandum. Any representation to the contrary is a criminal offence in the United States.

General

No action has been or will be taken in any jurisdiction by the Joint Lead Managers, the Issuer or any Guarantor that would permit a public offering of the Securities, or possession or distribution of this Offering Memorandum (in preliminary, proof or final form) or any amendment or supplement thereto or any other offering or publicity material relating to the Securities, in any country or jurisdiction where action for that purpose is required.

Selling Restrictions

United States

The Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except in certain transactions exempt from or in transactions not subject to the registration requirements of the Securities Act.

The Securities are being offered and sold by the Joint Lead Managers outside the United States in accordance with Regulation S. The Subscription Agreement provides that the Joint Lead Managers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of the Securities within the United States only to QIBs in reliance on Rule 144A. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the Offering of the Securities, an offer or sale of Securities within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

Each Joint Lead Manager has severally and not jointly nor jointly and severally represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantors; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

The Russian Federation

Each of the Joint Lead Managers has severally and not jointly nor jointly and severally acknowledged that no Russian prospectus has been registered or is intended to be registered with respect to the Notes and the Notes have not been and are not intended to be registered in the Russian Federation and are not intended for placement or circulation in the Russian Federation (each as defined under Russian securities law), and, consequently, severally and not jointly nor jointly and severally has represented, warranted and agreed that it and its affiliates have not advertised, offered or sold or otherwise transferred, and will not advertise offer or sell or otherwise transfer as part of their initial distribution or at any time thereafter, any Notes to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation, or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law.

Jersey

Each of the Joint Lead Managers has represented and agreed that it has not circulated, and will not circulate, in Jersey any offer for subscription, sale or exchange of Notes unless such offer is circulated

in Jersey by a person or persons authorised to conduct investment business under the Financial Services (Jersey) Law 1998, as amended and (a) such offer does not for the purposes of Article 8 of the Control of Borrowing (Jersey) Order 1958, as amended, constitute an offer to the public; or (b) an identical offer is for the time being circulated in the United Kingdom without contravening the Financial Services and Markets Act 2000 and is, *mutatis mutandis*, circulated in Jersey only to persons similar to those to whom, and in a manner similar to that in which, it is for the time being circulated in the United Kingdom.

PART 22

GENERAL INFORMATION

1 Authorisation and consent

The Issuer and Guarantors have each obtained all necessary consents, approvals and authorisations in connection with the issue of the Securities and performance of their obligations under the Securities. The issue of the Notes was authorised by resolutions passed on 23 October 2017 and 8 November 2017 by the board of directors of the Issuer. The Guarantee provided by the Parent was authorised by a resolution passed on 22 October 2017 by the Board of the Parent. The Guarantees provided by each of Pokrovskiy Rudnik, Albynskiy Rudnik and Malomirskiy Rudnik were authorised by a resolution of their respective corporate bodies passed on 10 May and 31 May 2017, 23 May 2017 and 24 May 2017, respectively.

2 Listing

- 2.1 Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and to trading on the Global Exchange Market. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to the Official List of the Irish Stock Exchange or to trading on the Global Exchange Market of the Irish Stock Exchange.
- 2.2 This Offering Memorandum has been approved by the Irish Stock Exchange. It is expected that the listing of the Notes on the Irish Stock Exchange and the admission of the Notes to trading on the Irish Stock Exchange's Global Exchange Market for listed securities will take place on or about 14 November 2017, subject to the issuance of the Global Notes. Prior to such listing and admission, however, the Irish Stock Exchange will permit dealings in the Notes in accordance with its guidelines. Transactions will normally be effected for delivery on the third business day after the transaction.

3 Yield

The yield of the Notes is 8.125 per cent. on an annual basis.

4 Clearing systems

The Notes have been accepted for clearance through the facilities of DTC, Euroclear and Clearstream, Luxembourg. For the Regulation S Notes, the ISIN is XS1711554102 and the Common Code is 171155410. The address of Euroclear is Euroclear Bank S.A./N.V., 1 Boulevard du Roi Albert II, B-1210, Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855, Luxembourg. For the Rule 144A Notes, the ISIN is US71675MAA45, the Common Code is 171181208 and the CUSIP is 71675M AA4. The address of DTC is 55 Water Street, New York, New York 10041-10099, United States of America.

5 No significant or material change

- 5.1 There has been no significant change in the financial or trading position of either the Parent or the Group since 30 June 2017, the end of the last financial period for which financial information has been published. There has been no significant change in the consolidated financial or trading position of the Issuer since 24 November 2016 (the date of its incorporation).
- 5.2 There has been no material adverse change in the prospects of either the Parent or the Group since 31 December 2016, the date of the most recent annual audited financial information for the Parent and the Group. There has been no material adverse change in the prospects of the Issuer since 24 November 2016 (the date of its incorporation).

6 Legal proceedings

None of the Issuer (since 24 November 2016 being the date of its incorporation), the Parent or any member of the Group is or has been engaged in nor, so far as the Issuer, the Parent or any member of the Group is aware, has pending or threatened, any governmental, legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this Offering Memorandum, a significant effect on the Issuer's, the Parent's or the Group's financial position or profitability.

7 Independent Auditor

- 7.1 The Annual Financial Statements appended to this Offering Memorandum have been audited by Deloitte LLP, independent auditors of the Group, as stated in their reports appearing herein. Deloitte LLP has reviewed the Interim Financial Statements appended to this Offering Memorandum, as stated in their report appearing herein. Deloitte LLP has registered offices at 2 New Street Square, London EC4A 3BZ, United Kingdom.
- 7.2 Deloitte LLP is the United Kingdom affiliate of Deloitte NWE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (**DTTL**).

8 Documents available for inspection

For so long as the Notes are listed on the Official List of the Irish Stock Exchange and are admitted to trading on the Global Exchange Market, copies of the following documents may be inspected free of charge in hardcopy at the offices of the Principal Paying Agent during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):

- (a) the constitution of the Issuer;
- (b) the constitution of each Guarantor;
- (c) this Offering Memorandum;
- (d) the Annual Financial Statements and the auditors' reports thereon;
- (e) the Interim Financial Statements;
- (f) the Trust Deed;
- (g) the Deed of Guarantee; and
- (h) the Agency Agreement.

PART 23

DEFINITIONS AND GLOSSARY

Definitions

The following definitions apply throughout this document (other than where terms are separately defined in Part 17: “*Terms and Conditions of the Notes*”) unless the context requires otherwise:

| | |
|--|---|
| 2014 Financial Statements | the financial statements for the Group for the year ended 31 December 2014 |
| 2015 Bonds | the Group's 4.00 per cent., guaranteed convertible bonds due 2015, none of which remain in issue |
| 2015 Financial Statements | the financial statements for the Group for the year ended 31 December 2015 |
| 2015 Refinancing | the Rights Issue, the Bond Restructuring and the Bank Waivers implemented by the Group in 2015 |
| 2016 Financial Statements | the financial statements for the Group for the year ended 31 December 2016 |
| 2017 Interim Financial Statements | the financial statements for the Group for the six months ended 30 June 2017 |
| Act | the Companies Act 2006, as amended |
| Agency Agreement | the agency agreement in respect of the Notes |
| AIM | a market operated by the London Stock Exchange |
| Albyskiy Rudnik | LLC Albyskiy Rudnik |
| Amur Region or Amur | the Amur region of the Russian Federation |
| AO or JSC | Russian joint stock company |
| Audit Committee | the audit committee of the Board |
| BAM | the Baikal-Amur Railway |
| Bank Waiver | any waiver or amendment to the Banking Facilities agreed between the relevant member(s) of the Group and the relevant Senior Lender(s) or ICBC being obtained in connection with the Debt Refinancing |
| Banking Facilities | the ICBC Facility, VTB Bank Facility, Sberbank 2016 Facility and Sberbank 2012 Facility |
| Berelekh | OAO GDK Berelekh, which was sold by the Group in 2013 |
| Board | the board of directors of the Company |
| CFC | controlled foreign corporation |
| CJSC | Russian closed joint stock company |

| | |
|-----------------------------------|--|
| CNEEC | China National Electric Equipment Corporation |
| Company or Petropavlovsk | Petropavlovsk PLC and/or where the context so requires any member of the Group |
| Consolidated Subsidiaries | the subsidiaries of the Group which are consolidated for the purposes of the Financial Statements (which for the avoidance of doubt excludes IRC) |
| Convertible Bondholders | holders at the relevant time of the 2015 Bonds or Existing Convertible Bonds (as applicable) |
| Debt Refinancing | the refinancing of the debt owed to VTB Bank and Sberbank completed in December 2016 |
| Definitive Notes | Regulation S Definitive Notes and Rule 144A Definitive Notes |
| Directors | the directors of the Company |
| DTC | The Depository Trust Company |
| Eponymousco | Eponymousco Limited (UK) |
| EU or European Union | the European Union, first established by the treaty made at Maastricht on 7 February 1992 |
| Euroclear | Euroclear Bank SA/NV |
| Executive Directors | the executive Directors of the Company at the date of this Offering Memorandum (save where the context otherwise requires) |
| Existing Convertible Bonds | the Group's US\$100,000,000 9 per cent. guaranteed convertible bonds due 2020 convertible bonds in issue at the date of this Offering Memorandum |
| FAS | The Federal Anti-Monopoly Service of Russia |
| Federal Law No. 57-FZ | Russian Federal Law No. 57-FZ of 29 April 2008 "On the manner of conducting foreign investments into companies having strategic significance for securing the defence of the country and the security of the state" (as amended) |
| Financial Statements | the 2017 Interim Financial Statements, 2016 Financial Statements, 2015 Financial Statements and 2014 Financial Statements |
| Financing Arrangements | the terms and conditions of the Group's Banking Facilities and Existing Convertible Bonds |
| Foreign Investor | non-Russian incorporated and non-incorporated entities, non-Russian citizens, stateless persons permanently residing outside Russia, Sovereign Foreign Investors, as well as any "group of persons" (as defined in Russian legislation) which includes any of them |
| FSMA | the Financial Services and Markets Act 2000, as amended |
| GDP | gross domestic product |

| | |
|---------------------------------|---|
| Global Exchange Market | the Global Exchange Market of the Irish Stock Exchange |
| Global Notes | the Regulation S Global Note and Rule 144A Global Note |
| GKZ | State Commission for Reserves and Resources of Russia or its territorial committees as the case may be |
| Group | the Company and its Consolidated Subsidiaries and subsidiary undertakings, excluding, unless otherwise stated, the IRC Group |
| Group Company | any company in the Group |
| Guarantor | each of the Parent, Pokrovskiy Rudnik, Albynskiy Rudnik and Malomirskiy Rudnik (together, the Guarantors) |
| Hong Kong Stock Exchange | the Stock Exchange of Hong Kong Limited |
| HSE Committee | the Board committee so designated |
| IFRS | International Financial Reporting Standards, as adopted by the European Union |
| Influence | the ability of a Foreign Investor to influence the decisions made by a Strategic Entity as detailed in Part 3: <i>“Risk Factors – Risks relating to the Russian Federation and operating in the Russian Federation”</i> |
| ICBC | the Industrial and Commercial Bank of China Ltd |
| ICBC Facility | US\$340,000,000 facility between the Parent, K&S and ICBC dated 13 December 2010, and the guarantee given by the Parent in relation thereto (as amended and restated) |
| ICBC Facility Agreement | the agreement dated 13 December 2010 between, amongst others, ICBC (as facility agent), K&S (as borrower) and Petropavlovsk (as guarantor) |
| ICBC Guarantee | the obligations of Petropavlovsk (as guarantor) under the ICBC Facility Agreement |
| IRC | IRC Limited, a Hong Kong company in which the Company at the date of this Offering Memorandum has a holding of 31.1 per cent of its issued shares |
| IRC Group | IRC and its consolidated subsidiaries and subsidiary undertakings |
| IRC Shares | ordinary shares of IRC |
| Irgiredmet | AO Irgiredmet |
| Irish Stock Exchange | Irish Stock Exchange PLC |
| Issuer | Petropavlovsk 2016 Limited |
| Issuer Shares | shares in the Issuer |
| Joint Lead Managers | Citigroup Global Markets Limited, J.P. Morgan Securities plc, SIB (Cyprus) Limited and VTB Capital plc |

| | |
|--------------------------------|--|
| K&S | LLC “KS GOK” |
| K&S Project | the project for the development of the K&S mine |
| Kapstroï | LLC Kapstroï, an indirect subsidiary of the Company |
| Key Mining Assets | Pokrovskiy, Pioneer, Malomir and Albyn and their satellites |
| Koboldo | JSC ZDP Koboldo, a former subsidiary of the Group |
| Land Rights | rights to access or to exploit mining projects |
| LTIP | the Company’s long term incentive plan |
| Malomirskiy Rudnik | LLC Malomirskiy Rudnik |
| New York Convention | the 1958 Convention on the Recognition and Enforcement of Foreign Arbitral Awards |
| Non-Executive Directors | the non-executive Directors of the Company at the date of this Offering Memorandum (save where the context otherwise requires) |
| Noteholders | the holders of Notes |
| Notes | the Group’s US\$500,000,000 8.125 per cent. Guaranteed Notes due 2022 |
| NPGF Regis | LLC NPGF Regis |
| OAO | Russian open joint stock company |
| Offering | the offering of the Notes |
| Offering Memorandum | this document |
| Official List | the Official List of the Irish Stock Exchange |
| OOO or LLC | Russian limited liability company |
| Parent | Petropavlovsk PLC |
| Part | references to a “Part” are to a part of this Offering Memorandum unless otherwise stated |
| Pokrovskiy Rudnik | JSC Pokrovskiy mine |
| POX | pressure oxidation |
| POX Hub | the Group’s pressure oxidation facility in the course of construction |
| POX project | the planned construction of the POX Hub and the flotation plant, at Malomir and Pioneer |
| Precious Minerals | hard rock (vein) reserves of platinum group metals or diamonds, as well as reserves of the following: uranium, especially pure raw quartz, rare earths of the yttrium group, nickel, cobalt, tantalum, niobium, beryllium or lithium |
| QIBs | qualified institutional buyers, as defined in Rule 144A under the Securities Act |
| Regulation S | Regulation S under the US Securities Act |

| | |
|--------------------------------------|---|
| Regulation S Notes | the Notes that are being offered and sold in accordance with Regulation S |
| Regulation S Global Note | a global note certificate in registered form, without interest coupon attached, initially representing the Notes sold outside the United States pursuant to Regulation S |
| Regulation S Definitive Notes | definitive notes in respect of beneficial interests in the Regulation S Global Note |
| Rights Issue | the offer of Shares by way of rights implemented by the Company in 2015 |
| Rosnedra | the Russian Federal Agency for Subsoil Use |
| Rosprirodnadzor | the Federal Service for the Supervision of Natural Resources Use |
| Rostekhnadzor | the Federal Ecological, Technological and Nuclear Supervision Service |
| Rudoperspectiva | LLC Rudoperspectiva |
| Rule 144A | Rule 144A under the Securities Act |
| Rule 144A Global Note | a global note certificate in registered form, without interest coupon attached, initially representing the Notes sold within the United States to QIBs pursuant to Rule 144A |
| Rule 144A Definitive Notes | definitive notes in respect of beneficial interests in the Rule 144A Global Note |
| Russia | the Russian Federation |
| Russian Tax Code | the Tax Code of the Russian Federation, as amended from time to time |
| Sberbank | Sberbank of Russia and/or any of its subsidiaries |
| Sberbank 2012 Facility | US\$200,000,000 facility between the Parent and, among others, Sberbank of Russia dated 22 March 2012 (as amended and restated) |
| Sberbank 2016 Facility | US\$295,250,000 facility between the Parent and, among others, Sberbank of Russia dated 16 December 2016 (as amended and restated) |
| SEC | the U.S. Securities and Exchange Commission |
| Securities | the Notes and Guarantees |
| Securities Act | United States Securities Act of 1933, as amended |
| Senior Managers | the senior managers of the Group (other than the Executive Directors) being Mr Dmitry Chekashkin, Dr Alya Samokhvalova, Mr Valery Alekseev, Mr Alexei Maslovskiy, Mrs Anna-Karolina Subczynska, Mr Nikolai Vlasov and Mr Andrei Tarasov |
| Shareholders | the holders of Shares |
| Shares or Ordinary Shares | the ordinary shares of the Company |
| Strategic Approval | a requirement to obtain the prior approval of the Russian government commission pursuant to Federal Law No. 57-FZ |

| | |
|-------------------------------------|---|
| Strategic Asset Laws | the Federal Law No. 57-FZ, Federal Law No. 58-FZ dated 29 April 2008 “On introducing amendments in certain legal acts of Russia and abolishing certain provisions of legal acts of the Russia in connection with the adoption of the federal law on the manner of conducting of foreign investments into companies having strategic significance for securing the defence of the country and the security of the state”, and the Subsoil Law (as amended, including by Federal Law No. 58-FZ) |
| Strategic Deposit | a deposit containing hard rock (vein) gold reserves of 50 tonnes (or more), copper reserves of 500,000 tonnes (or more) or any reserves of any Precious Minerals irrespective of the quantity |
| Strategic Entity | a Russian company which is the holder of the subsoil licence in respect of a Strategic Deposit |
| Strategic Gold Deposit | a deposit which contains reserves of hard rock (vein) gold of 50 or more tonnes as referred to in the Subsoil Law |
| Subsidiary | Any entity consolidated under IFRS. |
| Subsoil Law | the Law of the Russian Federation No. 2395-1, “On Subsoil”, dated 21 February 1992, as reissued and amended |
| Temі | LLC Temі |
| Tokurskiy Rudnik | LLC Tokurskiy Rudnik |
| Trustee | Citibank, N.A., London Branch |
| UK Corporate Governance Code | the UK Corporate Governance Code published by the Financial Reporting Council in April 2016 |
| Underlying EBITDA | (loss)/profit for the period from continuing operations before taxation, other finance (gains)/losses, interest expense, investment income, foreign exchange losses/(gains), impairment of ore stockpiles, impairment of mining assets and goodwill, impairment of exploration and evaluation assets, and depreciation |
| United Kingdom or UK | the United Kingdom of Great Britain, Northern Ireland, Guernsey, Jersey and the Isle of Man |
| United States or US | the United States of America, its territories and possessions, any State of the United States of America, and the District of Columbia |
| US Exchange Act | the US Exchange Act of 1934 |
| VTB | VTB Bank plc and/or any of its subsidiaries |
| VTB Bank Facility | US\$200,000,000 facility between the Parent, JSC VTB Bank and VTB (France) S.A. in various capacities dated 7 October 2011 (as amended and restated) |
| WAI | Wardell Armstrong LLP |

Glossary of Abbreviations and Technical Terms

| | |
|--------------------------------|---|
| acid igneous intrusions | a body of igneous rock with more than 66 per cent. free or combined silica which has made its way into pre-existing rock |
| Ag | chemical symbol for the element silver |
| albite | a mineral-sodic feldspar (Na(AlSi ₃ O ₈), a variety of plagioclase feldspars |
| alluvial | material deposited by a stream or river |
| arsenic | a chemical element with symbol As |
| assay | qualitative composition analysis of ore, rock or processing products to determine the components |
| Au | chemical symbol for the element gold |
| autoclave oxidation | a high temperature and pressure process in which gold bearing sulphides are oxidised to render gold amenable to cyanide leaching |
| balance | Russian Standard Classification System term defining commercially exploitable reserves but without mining dilution and recovery |
| barren | rock containing no minerals of value |
| bonanza | a descriptive term for a rich mine, vein or pocket of ore |
| Category A reserves | a reserves category, as defined in the Russian Standard Classification System, where the reserves are known in detail and the boundaries of the deposit have been outlined by very detailed sampling. Category A reserves can be estimated at geologically simple deposits/ore bodies. Category A reserves cannot normally be classified at a gold deposit due to the intrinsic uncertainty in grade and the structural continuity of the gold mineralisation |
| Category B reserves | the second highest reserves category, as defined in the Russian Standard Classification System. Category B reserves have a similar definition to Category A reserves but can be classified at more geologically complex deposits/ore bodies. Category B reserves may be classified at some gold deposits due to intrinsic uncertainty in grade and structural continuity of the gold mineralisation |
| Category C1 | Reserves category with average confidence level as defined in the Russian Standard Classification System. C1 reserves are estimated on the basis of sampling with limited use of extrapolation. Category C1 normally represents the bulk of the GKZ reserves for most of the deposits with the exception of the most geologically complex deposits/ore bodies |
| Category C2 | Reserves category with low confidence level as defined in the Russian Standard Classification System. C2 reserves are estimated on the basis of irregular or wide spaced sampling |

| | |
|--|---|
| | using extrapolation based on geochemical, geophysical or structural information |
| Category P1-3 | Soviet “Prognostic” resources extrapolated beyond more definable reserves and resources. This category is subdivided into three sub-categories, P1 to P3, with the level of confidence decreasing progressively from sub category 1 to 3 |
| chalcedonic | a translucent to transparent milky or grey quartz with distinctive microscopic crystals arranged in slender fibres in parallel bands |
| Cu | the chemical symbol for copper |
| cut-off-grade | the lowest grade of mineralised material considered economic, used to define mineral resources and ore reserves |
| Cyanidation or cyanide leaching | a metallurgical technique for extracting gold by leaching from low grade ore, converting the gold to water soluble aurocyanide metallic complex ions |
| dacite | fine-grained igneous rock with composition between rhyolite and trachyte |
| Datamine® | complex mining software used primarily for orebody modelling, resource estimation and mine planning |
| deposit | a coherent geological body such as a mineralised body |
| diorite | coarse grained igneous rock with composition of andesite (no quartz or orthoclase), composed of 75 per cent. plagioclase feldspars and balance ferromagnesian silicates |
| dip | the angle a plane makes with the horizontal plane |
| doré | a semi-pure alloy of gold and silver, usually created at the site of a mine. It is then transported to a refinery for further purification |
| EO | the Jewish Autonomous Region of Russia |
| epithermal | said of a hydrothermal mineral deposit formed within about 1km of the earth’s surface in temperatures of 50°C to 200°C |
| ESIA | an Environmental and Social Impact Assessment |
| extrusive | igneous rock that has erupted onto the surface of the Earth. Extrusive rocks include lava flows and pyroclastic material such as volcanic ash |
| fault | a surface of rock fracture along which there has been differential movement |
| Fe | the chemical symbol for iron |
| Feasibility Study/Studies | a feasibility study is a comprehensive technical and economic study of the selected development option for a mineral project that includes appropriately detailed assessments of applicable modifying factors together with any other relevant operational factors and detailed financial analysis that are necessary to demonstrate at the time of reporting that extraction is reasonably |

| | |
|--------------------------------------|---|
| | justified (economically mineable). The results of the study may reasonably serve as the basis for a final decision by a proponent or financial institution to proceed with, or finance, the development of the project |
| flotation | a mineral processing technique used to separate mineral particles in a slurry, by causing them to selectively adhere to a froth and float to the surface |
| fold | a structure of rocks or strata that have been bent into a dome (anticline), basin (syncline), terrace (monocline) or a roll |
| geochemical | prospecting techniques which measure the content of specified metals in soils and rocks; sampling defines anomalies for further testing |
| geophysical | prospecting techniques which measure the physical properties (magnetism, conductivity, density, etc.) of rocks and define anomalies |
| g/t | gram per metric tonne |
| grade | relative quantity or the percentage of ore mineral or metal content in an ore body |
| granite | coarse-grained igneous rock dominated by light-coloured minerals, consisting of about 50 per cent. orthoclase, 25 per cent. quartz, and the balance of plagioclase feldspars and ferromagnesian silicates |
| heap-leach | a process used for the recovery of metal ore from typically weathered low-grade ore. Crushed material is laid on a slightly sloping, impervious pad and uniformly leached by the percolation of the leach liquor trickling through the beds by gravity to ponds. The metals are recovered by conventional methods from the solution |
| hydrogeological | study of the occurrence and distribution of underground water |
| hydrothermal | refers in the broad sense to the process associated with the alteration and mineralisation by a hot mineralised fluid (water) |
| ilmenite | a black or dark brown mineral which is a major source of titanium and used as a feedstock for the production of titanium dioxide |
| Indicated Mineral Resource(s) | as defined in the JORC Code, that part of a Mineral Resource for which quantity, grade (or quality), densities, shape and physical characteristics are estimated with sufficient confidence to allow the application of modifying factors in sufficient detail to support mine planning and evaluation of the economic viability of the deposit. Geological evidence is derived from adequately detailed and reliable exploration, sampling and testing gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes, and is sufficient to assume geological and grade (or quality) continuity between points of observation where data and samples are gathered |

| | |
|-------------------------------------|---|
| | An <i>Indicated</i> Mineral Resource has a lower level of confidence than that applying to a Measured Mineral Resource and may only be converted to a Probable Ore Reserve |
| Inferred Mineral Resource(s) | as defined in the JORC Code, that part of a Mineral Resource for which quantity and grade (or quality) are estimated on the basis of limited geological evidence and sampling. Geological evidence is sufficient to imply but not verify geological and grade (or quality) continuity. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. An Inferred Mineral Resource has a lower level of confidence than that applying to an Indicated Mineral Resource and must not be converted to an Ore Reserve. It is reasonably expected that the majority of Inferred Mineral Resources could be upgraded to Indicated Mineral Resources with continued exploration |
| JORC | the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of Australia |
| JORC Code | The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code) is a professional code of practice that sets minimum standards for Public Reporting of minerals Exploration Results, Mineral Resources and Ore Reserves |
| km | kilometres |
| km² | square kilometres |
| koz | kilo ounces (1,000 ounces) |
| kt | kilo tonnes (1,000 tonnes) |
| <b(kv< b=""></b(kv<> | kilovolts |
| leached | a rock that is in the process of being broken down by the action of substances dissolved in water |
| leaching | see cyanidation |
| magnetite | an iron ore mineral, Fe ₃ O ₄ , being a ferromagnetic material formed of iron oxide which is a valuable source of iron ore |
| Measured | as defined in the JORC Code, that part of a Mineral Resource for which quantity, grade (or quality), densities, shape, and physical characteristics are estimated with confidence sufficient to allow the application of modifying factors to support detailed mine planning and final evaluation of the economic viability of the deposit. Geological evidence is derived from detailed and reliable exploration, sampling and testing gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes, and is sufficient to confirm geological and grade (or quality) continuity between points of observation where data and samples are gathered. A Measured Mineral Resource has a higher level of confidence than that applying to either an Indicated Mineral Resource or an |

| | |
|---|---|
| | Inferred Mineral Resource. It may be converted to a Proved Ore Reserve or under certain circumstances to a Probable Ore Reserve |
| Mesozoic Period | an era of geologic time, from the end of the Paleozoic to the beginning of the Cenozoic, or from about 225 million years to about 65 million years ago |
| metallurgical | describing the science concerned with the production, purification and properties of metals and their applications |
| metamorphism | a process whereby rocks undergo physical or chemical changes, or both, to achieve equilibrium with conditions other than those under which they were originally formed (excluding processes of weathering). Agents of metamorphism are heat, pressure, and chemically active fluids |
| metasomatism or metasomatic or metasomatites | a metamorphic change which involves the introduction of material from an external source |
| Micromine® | founded in Western Australia in 1986, MICROMINE is an independent Australian-owned provider of intuitive software solutions to the mining and exploration industry |
| mill | equipment used to grind crushed rocks to the desired size for mineral extraction |
| mineralisation | a process of formation and concentration of elements and their chemical compounds within a mass or body of rock |
| Mineral Resource | a 'Mineral Resource' is a concentration or occurrence of solid material of economic interest in or on the Earth's crust in such form, grade (or quality), and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade (or quality), continuity and other geological characteristics of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge, including sampling. Mineral Resources are sub-divided in order of increasing geological confidence into inferred, indicated and measured categories |
| m | metres |
| m² | square metres |
| mm | millimetres |
| Ma | million years ago |
| Moz | millions of troy ounces |
| mobile belt | a long, relatively narrow crustal region of tectonic activity |
| molybdenum | a hard and brittle silver/grey element used as an alloy with iron |
| Mt or mt | million tonnes |
| Mtpa | mt per annum |

| | |
|------------------------------|---|
| non-refractory | gold ore or mineralisation that is amenable for recovery by standard cyanidation process |
| open pit | a large scale hard rock surface mine |
| operating gold mine | a mine currently engaged in the extraction and processing of gold ore on a commercial scale |
| open-pit optimisation | a process to define an open-pit outline based on geotechnical and economic parameters |
| ore | a type of rock that contains minerals with important elements including metals that can be extracted from the rock at a profit |
| ore body | a mining term to define a solid mass of mineralised rock that can be mined profitably under current or immediately foreseeable economic conditions |
| Ore Reserve | the economically mineable part of a Measured or Indicated mineral resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could be reasonably justified. Ore reserves are sub-divided in order of increasing confidence into Probable and Proven |
| ounce or oz | troy ounce (= 31.1035 grams) |
| overburden | material that lies above the ore deposit |
| oxide | a mineral formed by the direct union of an element with oxygen e.g. corundum, hematite, magnetite and cassiterite |
| oxide ore | often known as secondary or supergene ore, which consists of alteration products of a primary ore as a result of weathering or other surficial processes resulting from descending surface waters |
| paleo | a prefix common in geological terminology, meaning ancient, of past times, and sometimes suggesting an early or primitive nature |
| Paleozoic Era | first of the three eras of the Phanerozoic, spanning 570 to 248 million years ago |
| PGM | platinum group metals. Characterised by high specific densities, unusual resistance to oxidising and acid attack and with high melting points. Includes platinum, ruthenium, rhodium, palladium, osmium and iridium |
| placer(s) | mineral deposit(s) formed by the winnowing action of either water or air to concentrate minerals of different mass by gravity separation |
| plunge | a fold is said to plunge if the axis is not horizontal |

| | |
|--|--|
| plutonic | pertaining to igneous rocks formed at great depths |
| porphyry | igneous rock containing conspicuous phenocrysts (crystals) in fine grained or glassy groundmass |
| primary ore | often known as hypogene ore, where ore minerals are deposited during the original period or periods of mineralisation. Ore that has remained practically unchanged from the time of original formation |
| precious metal(s) | gold, silver and platinum group minerals |
| pressure oxidation or POX | a high temperature and pressure process in which gold bearing sulphides are oxidised to render gold amenable to cyanide leaching |
| pre-stripping | the removal of overburden to access the ore deposit |
| propylitisation | plagioclase in an igneous rock is altered to epidote, sericite and secondary albite, and ferro-magnesian minerals are altered to chlorite-calcite-epidote-iron oxide assemblages |
| Proterozoic | is a geological eon representing the time just before the proliferation of complex life on Earth. The Proterozoic Eon extended from 2500 Ma to 542.0±1.0Ma, and is the most recent part of the Precambrian. It is subdivided into three geologic eras (from oldest to youngest): the Paleoproterozoic, Mesoproterozoic, and Neoproterozoic |
| quartz | a mineral composed of silicon dioxide |
| quartzite | hard, metamorphic rock which was originally sandstone |
| recovery | the proportion of valuable material obtained in the processing of an ore, stated as a percentage of the material recovered compared with the total material present |
| refractory ore(s) | ore material that is difficult to treat for recovery of the valuable element |
| reserves | part of the resources that are valuable and legally, economically and technically feasible to extract |
| RIP or resin in pulp | a processing technique by which a resin medium is used to absorb the desired element out of solution or pulp |
| Russian Standard Classification System or Russian GKZ Classification System | the Russian Standard Classification System is based principally on the technical ability to extract a mineral and takes into account the economic viability of extraction in the same way as internationally recognised mineral resource and reserve classification systems |
| sandstone | is a clastic sedimentary rock composed mainly of sand-sized minerals or rock grains |
| silicification or silicified | introduction of silica into a rock, either filling pore spaces or replacing pre-existing minerals |

| | |
|----------------------|---|
| sill | a tabular mass of igneous rock that has been intruded laterally between layers of older rock |
| skarn | are calcium-bearing silicate rocks of any age. Skarns are most often formed at the contact zone between intrusions of granitic magma bodies and carbonate sedimentary rocks such as limestone and dolostone. Hot waters derived from the granitic magma are rich in silica, iron, aluminium, and magnesium. These fluids mix in the contact zone, dissolve calcium-rich carbonate rocks, and convert the host carbonate rock to skarn deposits in a metamorphic process called metasomatism. The resulting metamorphic rock may consist of a very wide variety of minerals dependent largely on the original composition of the magmatic fluids and the purity of the carbonate sedimentary rocks |
| State Balance | the State Balance of reserves of useful mineral is a document prepared by Ministry of Natural Resources of Russia in accordance with the Subsoil Law to provide annual records of mineral reserves of Russia and its constituent entities for most important kinds of minerals as defined in the Appendix 1 to the Subsoil Law |
| stockwork | is a complex system of structurally controlled or randomly oriented veins |
| strike | the direction in which a horizontal line can be drawn on a plane determining the direction in which to measure the true dip |
| strike length | the longest horizontal dimension of an ore body or zone of mineralisation |
| strip ratio | the ratio of the volume of overburden (or waste material) required to be handled in order to extract some volume of ore. For example, a 3:1 stripping ratio means that mining one ton of ore will require mining three cubic metres of waste rock. In this Offering Memorandum strip ratio is expressed in m ³ of waste per ton of ore (m ³ /t) or in tons of waste per ton of ore (t/t) |
| sulphide | mineral containing sulphur in its non-oxidised form |
| t or tonne | metric tonne |
| Tailing(s) | the materials left over after the process of separating the valuable fraction from the uneconomic fraction (gangue) of an ore. Tailings are distinct from overburden, which is the waste rock or materials overlying an ore or mineral body that are displaced during mining without being processed. |
| tectonic | said of or pertaining to the forces involved in, or the resulting structures or features of, tectonics: branch of geology dealing with the broad architecture of the outer part of the Earth; i.e., the regional assembling of structural or deformational features |
| thrust | the overriding movement of one crustal unit over another, such as in thrust faulting |

| | |
|----------------------------|---|
| thrust fault | a type of break in the earth's crust across which there has been relative movement, in which rocks of lower stratigraphic position are pushed up and over higher strata |
| tpa | tonnes per annum |
| transition ore | a zone of an orebody where both oxide and sulphide/primary ore material exists |
| treatment plant | a plant where ore undergoes physical or chemical treatment to extract the valuable metals/minerals |
| trench sampling | sampling of a trench cut through the rock, generally in the form of a series of continuous channels (channel samples) |
| underground mining | the extraction of minerals from the Earth's crust using a system of underground mine workings |
| underground working | mine openings for evaluation for ore extraction excavated beneath the ground surface |
| vein | a tabular deposit of minerals occupying a fracture, in which particles may grow away from the walls towards the middle |
| veinlet | a narrow vein |

[INTENTIONALLY LEFT BLANK]

PART 24

INDEX TO FINANCIAL STATEMENTS

| | |
|---|-------|
| Unaudited reviewed interim condensed consolidated financial statements and independent auditor's review report of the Group for the six months ended 30 June 2017 | F-2 |
| Consolidated financial statements and independent auditor's report of the Group for the year ended 31 December 2016 | F-29 |
| Consolidated financial statements and independent auditor's report of the Group for the year ended 31 December 2015 | F-86 |
| Consolidated financial statements and independent auditor's report of the Group for the year ended 31 December 2014 | F-146 |



INDEPENDENT REVIEW REPORT TO PETROPAVLOVSK PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 which comprises the income statement, the balance sheet, the statement of changes in equity, the cash flow statement and related notes 1 to 24. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP

Statutory Auditor

London, United Kingdom

11 September 2017

Condensed Consolidated Income Statement
Six months ended 30 June 2017

| | | Six months ended 30 June 2017 (unaudited) US\$'000 | Six months ended 30 June 2016 (unaudited) US\$'000 | Year ended 31 December 2016 US\$'000 |
|--|------|---|---|---|
| | note | | | |
| Group revenue | | 304,049 | 253,953 | 540,684 |
| Operating expenses | 5 | (236,165) | (216,154) | (460,103) |
| | | 67,884 | 37,799 | 80,581 |
| Share of results of associates | 11 | (2,965) | (3,563) | (3,581) |
| Operating profit | | 64,919 | 34,236 | 77,000 |
| Investment income | 6 | 386 | 200 | 556 |
| Interest expense | 6 | (14,448) | (30,479) | (60,976) |
| Other finance gains | 6 | 2,045 | 2,334 | 11,976 |
| Other finance losses | 6 | (6,138) | (1,506) | (1,548) |
| Profit before taxation | | 46,764 | 4,785 | 27,008 |
| Taxation | 7 | (22,305) | 4,438 | 4,698 |
| Profit for the period | | 24,459 | 9,223 | 31,706 |
| Attributable to: | | | | |
| Equity shareholders of Petropavlovsk PLC | | 23,332 | 9,203 | 33,719 |
| Non-controlling interests | | 1,127 | 20 | (2,013) |
| Profit per share | | | | |
| Basic profit per share | 8 | US\$0.01 | US\$0.00 | US\$0.01 |
| Diluted profit per share | 8 | US\$0.01 | US\$0.00 | US\$0.01 |

Condensed Consolidated Statement of Comprehensive Income
Six months ended 30 June 2017

| | Six months ended 30 June 2017 (unaudited) US\$'000 | Six months ended 30 June 2016 (unaudited) US\$'000 | Year ended 31 December 2016 US\$'000 |
|---|---|---|---|
| Profit for the period | 24,459 | 9,223 | 31,706 |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Revaluation of available-for-sale investments | (294) | 307 | 834 |
| Exchange differences: | | | |
| Exchange differences on translating foreign operations | 2,597 | 1,781 | 2,577 |
| Share of other comprehensive income of associate | 110 | — | 560 |
| Cash flow hedges: | | | |
| Fair value losses | (11,909) | (16,313) | (4,940) |
| Tax thereon | 2,382 | 3,263 | 988 |
| Transfer to revenue | (2,781) | 5,504 | 8,494 |
| Tax thereon | 556 | (1,101) | (1,699) |
| Other comprehensive (loss)/profit for the period net of tax | (9,339) | (6,559) | 6,814 |
| Total comprehensive profit for the period | 15,120 | 2,664 | 38,520 |
| Attributable to: | | | |
| Equity shareholders of Petropavlovsk PLC | 14,117 | 2,764 | 40,494 |
| Non-controlling interests | 1,003 | (100) | (1,974) |
| | 15,120 | 2,664 | 38,520 |

Condensed Consolidated Balance Sheet
At 30 June 2017

| | | 30 June 2017 (unaudited) US\$'000 | 30 June 2016 (restated)^(a) (unaudited) US\$'000 | 31 December 2016 (restated)^(a) US\$'000 |
|--|------|--|---|---|
| | note | | | |
| Assets | | | | |
| Non-current assets | | | | |
| Exploration and evaluation assets | 9 | 52,889 | 56,163 | 49,270 |
| Property, plant and equipment | 10 | 952,133 | 982,953 | 953,794 |
| Prepayments for property, plant and equipment | | 10,979 | 187 | 694 |
| Investments in associates | 11 | 33,285 | 35,600 | 36,140 |
| Available-for-sale investments | | 812 | 578 | 1,105 |
| Inventories | 12 | 68,489 | 54,459 | 51,686 |
| Other non-current assets | | 10,938 | 10,437 | 11,383 |
| | | 1,129,525 | 1,140,377 | 1,104,072 |
| Current assets | | | | |
| Inventories | 12 | 180,769 | 186,959 | 183,266 |
| Trade and other receivables | 13 | 75,129 | 62,804 | 89,736 |
| Derivative financial instruments | 15 | 661 | — | 7,478 |
| Cash and cash equivalents | 14 | 32,671 | 18,311 | 12,642 |
| | | 289,230 | 268,074 | 293,122 |
| Total assets | | 1,418,755 | 1,408,451 | 1,397,194 |
| Liabilities | | | | |
| Current liabilities | | | | |
| Trade and other payables | 16 | (58,770) | (75,500) | (55,638) |
| Current income tax payable | | (4,478) | (794) | (2,288) |
| Borrowings | 17 | (53,713) | (344,159) | (85,306) |
| Derivative financial instruments | 15 | (397) | (6,885) | — |
| Provision for close down and restoration costs | | (3,563) | — | — |
| | | (120,921) | (427,338) | (143,232) |
| Net current assets/(liabilities) | | 168,309 | (159,264) | 149,890 |

| | | 30 June 2017 (unaudited) US\$'000 | 30 June 2016 (restated) ^(a) (unaudited) US\$'000 | 31 December 2016 (restated) ^(a) US\$'000 |
|---|------|--|---|--|
| | note | | | |
| Non-current liabilities | | | | |
| Borrowings | 17 | (549,072) | (271,783) | (525,906) |
| Derivative financial instruments | 15 | (23,541) | (16,190) | (10,314) |
| Deferred tax liabilities | | (116,289) | (131,186) | (119,028) |
| Provision for close down and restoration costs | | (15,863) | (17,271) | (19,152) |
| Financial liabilities | 20 | (7,616) | (10,206) | (9,229) |
| | | (712,381) | (446,636) | (683,629) |
| Total liabilities | | (833,302) | (873,974) | (826,861) |
| Net assets | | 585,453 | 534,477 | 570,333 |
| Equity | | | | |
| Share capital | 18 | 48,920 | 48,920 | 48,920 |
| Share premium | | 518,142 | 518,142 | 518,142 |
| Hedging reserve | | (5,728) | (5,431) | 5,900 |
| Other reserves | | (15,271) | (18,897) | (17,574) |
| Retained earnings/(losses) | | 21,940 | (26,578) | (1,502) |
| Equity attributable to the shareholders of Petropavlovsk PLC | | 568,003 | 516,156 | 553,886 |
| Non-controlling interests | | 17,450 | 18,321 | 16,447 |
| Total equity | | 585,453 | 534,477 | 570,333 |

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

This condensed consolidated interim financial information was approved by the Directors on 11 September 2017.

Ian Ashby
Director

Andrey Maruta
Director

Condensed Consolidated Statement of Changes in Equity
Six months ended 30 June 2017

| Total attributable to equity holders of Petropavlovsk PLC | | | | | | | | | | |
|---|---------------------------|---------------------------|---------------------------------------|--|--------------------------------|--|---|-------------------|--|-----------------------------|
| | Share capital US\$'000 | Share premium US\$'000 | Own shares ^(a) US\$'000 | Share based payments reserve US\$'000 | Hedging reserve US\$'000 | Other reserves ^(b) US\$'000 | Retained earnings/ (losses) US\$'000 | Total US\$'000 | Non- controlling interests US\$'000 | Total equity US\$'000 |
| Balance at 1 January 2016 | 48,874 | 518,142 | (8,933) | 280 | 3,096 | (20,985) | (47,922) | 492,552 | 18,421 | 510,973 |
| Correction of error in accounting for deferred tax liabilities ^(c) | – | – | – | – | – | – | 20,700 | 20,700 | – | 20,700 |
| Balance at 1 January 2016 (restated) | 48,874 | 518,142 | (8,933) | 280 | 3,096 | (20,985) | (27,222) | 513,252 | 18,421 | 531,673 |
| Total comprehensive (loss)/income | – | – | – | – | (8,527) | 2,088 | 9,203 | 2,764 | (100) | 2,664 |
| Profit for the period | – | – | – | – | – | – | 9,203 | 9,203 | 20 | 9,223 |
| Other comprehensive (loss)/income | – | – | – | – | (8,527) | 2,088 | – | (6,439) | (120) | (6,559) |
| Deferred share awards | 46 | – | 8,933 | (280) | – | – | (8,559) | 140 | – | 140 |
| Balance at 30 June 2016 (unaudited) | 48,920 | 518,142 | – | – | (5,431) | (18,897) | (26,578) | 516,156 | 18,321 | 534,477 |
| Total comprehensive income/(loss) | – | – | – | – | 11,331 | 1,323 | 25,076 | 37,730 | (1,874) | 35,856 |
| Profit/(loss) for the period | – | – | – | – | – | – | 24,516 | 24,516 | (2,033) | 22,483 |
| Other comprehensive income | – | – | – | – | 11,331 | 1,323 | 560 | 13,214 | 159 | 13,373 |
| Balance at 31 December 2016 (restated) | 48,920 | 518,142 | – | – | 5,900 | (17,574) | (1,502) | 553,886 | 16,447 | 570,333 |
| Total comprehensive (loss)/income | – | – | – | – | (11,628) | 2,303 | 23,442 | 14,117 | 1,003 | 15,120 |
| Profit for the period | – | – | – | – | – | – | 23,332 | 23,332 | 1,127 | 24,459 |
| Other comprehensive (loss)/income | – | – | – | – | (11,628) | 2,303 | 110 | (9,215) | (124) | (9,339) |
| Balance at 30 June 2017 (Unaudited) | 48,920 | 518,142 | – | – | (5,728) | (15,271) | 21,940 | 568,003 | 17,450 | 585,453 |

(a) Own shares represented 1,441,406 Ordinary Shares held by the Company's EBT until they were transferred upon vesting of the Deferred Share Award on 1 May 2016.

(b) Including translation reserve of US\$(13.0) million (30 June 2016: US\$(16.4) million, 31 December 2016: US\$(15.6) million).

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

Condensed Consolidated Cash Flow Statement
Six months ended 30 June 2017

| | | Six months ended 30 June 2017 (unaudited) US\$'000 | Six months ended 30 June 2016 (unaudited) US\$'000 | Year ended 31 December 2016 US\$'000 |
|--|-----------|---|---|---|
| | note | | | |
| Cash flows from operating activities | | | | |
| Cash generated from operations | 19 | 115,793 | 74,350 | 126,013 |
| Interest paid | | (26,771) | (25,136) | (53,708) |
| Income tax paid | | (14,420) | (19,295) | (35,305) |
| Net cash from operating activities | | 74,602 | 29,919 | 37,000 |
| Cash flows from investing activities | | | | |
| Proceeds from disposal of subsidiaries, net of cash disposed and liabilities settled | | – | 14,790 | 19,188 |
| Proceeds from disposal of the Group's interests in associates | | – | 231 | 231 |
| Purchase of property, plant and equipment | | (30,965) | (4,331) | (12,770) |
| Exploration expenditure | | (10,867) | (7,556) | (16,590) |
| Proceeds from disposal of property, plant and equipment | | 155 | 561 | 742 |
| Repayment of amounts loaned to other parties | | – | 1 | 1 |
| Interest received | | 383 | 193 | 540 |
| Net cash used in investing activities | | (41,294) | 3,889 | (8,658) |
| Cash flows from financing activities | | | | |
| Proceeds from borrowings | | – | – | 295,250 ^(a) |
| Repayments of borrowings | | (11,630) | (26,971) | (322,221) ^(a) |
| Debt transaction costs paid in connection with bank loans | | (1,674) | (447) | (4,031) |
| Transaction costs | | – | (2,695) | – |
| Funds advanced to the Group under investment agreement with the Russian Ministry of Far East Development | 22 | – | – | 30,771 |
| Funds transferred under investment agreement with the Russian Ministry of Far East Development | 22 | – | (16,894) | (47,665) |
| Guarantee fee in connection with ICBC facility | | – | 1,126 | 1,126 |
| Net cash used in financing activities | | (13,304) | (45,881) | (46,770) |
| Net increase/(decrease) in cash and cash equivalents in the period | | 20,004 | (12,073) | (18,428) |
| Effect of exchange rates on cash and cash equivalents | | 25 | 2,145 | 2,831 |
| Cash and cash equivalents at beginning of period | 14 | 12,642 | 28,239 | 28,239 |
| Cash and cash equivalents at end of period | 14 | 32,671 | 18,311 | 12,642 |

(a) Including US\$295.25 million in connection to bank debt refinancing.

Notes to the condensed consolidated interim financial statements

Six months ended 30 June 2017

1. General information

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

These condensed consolidated interim financial statements are for the six months ended 30 June 2017. The interim financial statements are unaudited.

The information for the year ended 31 December 2016 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. This information was derived from the statutory accounts for the year ended 31 December 2016, a copy of which has been delivered to the Registrar of Companies. The auditor’s report on those accounts was not qualified.

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

2. Basis of preparation and presentation

The annual financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2016 were prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union.

The condensed set of financial statements has been prepared using accounting policies consistent with those set out in the annual financial statements for the year ended 31 December 2016, with adoption of new and revised standards and interpretations as set out below, and in accordance with IAS 34 “Interim Financial Reporting”, as adopted by the European Union.

Going concern

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

The Group performed an assessment of the forecast cash flows and covenant compliance in relation to bank facilities for the period of 12 months from the date of approval of the Half Year Report for the period ended 30 June 2017. As at 30 June 2017, the Group had sufficient liquidity headroom and complied with related financial covenants. Following the successful completion of the Bank Debt Refinancing, the Group is also satisfied that it has sufficient headroom under a base case scenario for the period to September 2018 and expects to comply with related financial covenants. In the meantime, the Group’s projections under a layered stressed case that is based on US\$1,125/oz gold price, which is at the bottom end of market consensus forecasts, indicate that unless mitigating actions can be taken, there will be insufficient liquidity and non-compliance with certain covenants under a layered stressed case for the relevant period to September 2018. These mitigating actions include items within the control of the management, such as accessing deposits not currently in the Group’s mining plan, cost cutting and reduction of capital expenditure subject to receipt of necessary consents. These actions would account for approximately 50% of the forecast shortfall under the layered stressed case. Furthermore, management would also pursue raising additional equity, refinancing the existing debt and/or divesting the shares in IRC including an immediate settlement of any amounts of the guarantee fee outstanding to fully mitigate any shortfalls. Management is also reasonably confident that necessary

waivers or consents could be obtained from the senior lenders if necessary. If a missed debt repayment occurs or financial covenant requirements are not met, this would result in events of default which, through cross-defaults and cross-accelerations, could cause all other Group's debt arrangements to become repayable on demand.

The Group has guaranteed the outstanding amounts IRC owes to ICBC. The outstanding loan principal was US\$234 million as at 30 June 2017. The assessment of whether there is any material uncertainty that IRC will be able to repay this facility as it falls due is another key element of the Group's overall going concern assessment. IRC has agreed with ICBC to restructure and reschedule two repayment instalments under the ICBC Facility Agreement, which were originally due for payment on 20 June 2017 and 20 December 2017, with the next repayment instalment due on 20 June 2018. IRC also obtained waivers from ICBC in respect of obligations to maintain certain cash deposits with ICBC until 30 June 2018 and obligations to comply with certain financial covenants until 31 December 2017 (inclusive). Following the ramp up and commercial production at K&S, IRC management are forecasting that IRC will have sufficient capital through working capital to pay its financial obligations as and when they fall due in the foreseeable future and throughout the going concern period. However, if scheduled full commercial production of the K&S project is not achieved or the market conditions turn out to be significantly less favorable than predicted IRC's financial liquidity may be adversely impacted. IRC would then need to carry out contingency plans including entering into negotiations with banks or other investors for additional debt or equity financing.

Having taken into account the aforementioned factors and after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future, being at least the next 12 months from the date of approval of the Half Year Report for the period ended 30 June 2017. Accordingly, they continue to adopt the going concern basis of accounting in preparing these consolidated financial statements.

Adoption of new and revised standards and interpretations

During the period the Group adopted all standards, amendments and interpretations that were effective for annual periods beginning on or after 1 January 2017 (such standards, amendments and interpretations were disclosed in note 2 to the Group's consolidated financial statements for the year ended 31 December 2016). These standards, amendments, and interpretations have not had a significant impact on the presentation or disclosure in Group's condensed consolidated financial statements for the interim period ended 30 June 2017. No other changes have been made to the Group's accounting policies in the period ended 30 June 2017. Additional disclosures with respect to the annual period requirements will be included in the Group's consolidated financial statements for the year ending 31 December 2017.

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

When preparing the consolidated financial statements, management necessarily makes judgements and estimates that can have a significant impact on the financial statements. Areas of judgement in applying accounting policies and key sources of estimation uncertainty are consistent with those set out in the annual financial statements for the year ended 31 December 2016, with the addition of recognition of a contingent liability regarding mining tax concessions which is discussed further in note 23.

Correction of error in accounting for deferred tax liabilities

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

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

| | 30 June 2016 US\$' 000 | (Decrease)/ increase US\$' 000 | 30 June 2016 Restated US\$'000 | 1 January 2016 US\$'000 | (Decrease)/ increase US\$' 000 | 1 January 2016 Restated US\$'000 |
|--------------------------|------------------------------|--------------------------------------|---|-------------------------------|--------------------------------------|---|
| Deferred tax liabilities | 151,886 | (20,700) | 131,186 | 173,499 | (20,700) | 152,799 |
| Net assets | 513,777 | 20,700 | 534,477 | 510,973 | 20,700 | 531,673 |
| Retained losses | 47,278 | (20,700) | 26,578 | 47,922 | (20,700) | 27,222 |
| Total equity | 513,777 | 20,700 | 534,477 | 510,973 | 20,700 | 531,673 |

Presentation of the ICBC guarantee arrangements

As at 30 June 2017, the Group reviewed arrangements under the ICBC guarantee (note 20) and concluded it would be more appropriate to disclose associated receivable from IRC and financial liability under the ICBC guarantee contract on a gross basis. Assets and liabilities as at 31 December 2016 and 30 June 2016 have been re-presented accordingly as set out below. This re-presentation did not have any impact on the net assets, retained losses or total equity.

| | 31 December 2016 US\$'000 | Increase US\$'000 | 31 December 2016 Restated US\$'000 | 30 June 2016 US\$'000 | Increase US\$'000 | 30 June 2016 Restated US\$'000 |
|--------------------------|---------------------------------|----------------------|---|-----------------------------|----------------------|---|
| Other non-current assets | 2,154 | 9,229 | 11,383 | 231 | 10,206 | 10,437 |
| Financial liabilities | – | 9,229 | 9,229 | – | 10,206 | 10,206 |

3. Foreign currency translation

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

| | As at 30 June 2017 | Average six months ended 30 June 2017 | As at 30 June 2016 | Average six months ended 30 June 2016 | As at 31 December 2016 | Average year ended 31 December 2016 |
|--------------------------------|--------------------------|---|--------------------------|---|------------------------------|--|
| GB Pounds Sterling (GBP: US\$) | 0.77 | 0.79 | 0.75 | 0.70 | 0.81 | 0.74 |
| Russian Rouble (RUB: US\$) | 59.09 | 57.93 | 64.26 | 70.54 | 60.66 | 67.18 |

4. Segment information

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

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

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

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

Six months ended 30 June 2017

| | Pioneer US\$'000 | Pokrovskiy US\$'000 | Malomir US\$'000 | Albyn US\$'000 | Corporate and other US\$'000 | Consolidated US\$'000 |
|--|---------------------|------------------------|---------------------|-------------------|------------------------------------|--------------------------|
| Revenue | | | | | | |
| Gold ^{(a),(b)} | 118,956 | 19,350 | 35,937 | 116,603 | – | 290,846 |
| Silver | 548 | 89 | 35 | 134 | – | 806 |
| Other external revenue | – | – | – | – | 12,397 | 12,397 |
| Inter-segment revenue | – | – | 783 | 172 | 70,843 | 71,798 |
| Intra-group eliminations | – | – | (783) | (172) | (70,843) | (71,798) |
| Total Group revenue from external customers | 119,504 | 19,439 | 35,972 | 116,737 | 12,397 | 304,049 |
| Operating expenses and income | | | | | | |
| Operating cash costs | (66,632) | (19,897) | (32,762) | (37,897) | (11,780) | (168,968) |
| Depreciation | (14,933) | (3,394) | (7,450) | (22,158) | (32) | (47,967) |
| Central administration expenses | – | – | – | – | (23,095) | (23,095) |
| Reversal of impairment/ (impairment) of ore stockpiles | 3,069 | (63) | (275) | 3,616 | – | 6,347 |
| Impairment of gold in circuit | – | (807) | (633) | – | – | (1,440) |
| Impairment of non-trading loans | – | – | – | – | (538) | (538) |
| Total operating expenses^(c) | (78,496) | (24,161) | (41,120) | (56,439) | (35,445) | (235,661) |
| Share of results of associates | – | – | – | – | (2,965) | (2,965) |
| Segment result | 41,008 | (4,722) | (5,148) | 60,298 | (26,013) | 65,423 |
| Foreign exchange losses | | | | | | (504) |
| Operating profit | | | | | | 64,919 |
| Investment income | | | | | | 386 |
| Interest expense | | | | | | (14,448) |
| Other finance gains | | | | | | 2,045 |
| Other finance losses | | | | | | (6,138) |
| Taxation | | | | | | (22,305) |
| Profit for the period | | | | | | 24,459 |
| Segment assets | 457,427 | 18,961 | 410,625 | 406,028 | 116,636 | 1,409,677 |
| Unallocated cash | | | | | | 9,003 |
| Loans given | | | | | | 75 |
| Consolidated total assets | | | | | | 1,418,755 |

(a) Including US\$2.8 million contribution from the cash flow hedge.

(b) Heap leach operations at Pioneer and Pokrovskiy are seasonal with production skewed towards the second half of the year.

(c) Operating expenses less foreign exchange losses (note 5).

Six months ended 30 June 2016

| | Pioneer US\$'000 | Pokrovskiy US\$'000 | Malomir US\$'000 | Albyn US\$'000 | Corporate and other US\$'000 | Consolidated US\$'000 |
|---|---------------------|------------------------|---------------------|-------------------|------------------------------------|--------------------------|
| Revenue | | | | | | |
| Gold ^{(d),(e)} | 84,836 | 20,506 | 29,616 | 98,466 | – | 233,424 |
| Silver | 459 | 105 | 56 | 124 | – | 744 |
| Other external revenue | – | – | – | – | 19,785 | 19,785 |
| Inter-segment revenue | – | – | 572 | 181 | 44,788 | 45,541 |
| Intra-group eliminations | – | – | (572) | (181) | (44,788) | (45,541) |
| Total Group revenue from external customers | 85,295 | 20,611 | 29,672 | 98,590 | 19,785 | 253,953 |
| Operating expenses and income | | | | | | |
| Operating cash costs | (41,809) | (14,038) | (22,687) | (51,860) | (18,968) | (149,362) |
| Depreciation | (21,899) | (3,136) | (8,414) | (25,599) | (241) | (59,289) |
| Central administration expenses | – | – | – | – | (13,096) | (13,096) |
| Reversal of impairment of ore stockpiles | 4,730 | 631 | 5,903 | 1,003 | – | 12,267 |
| Loss on disposal of subsidiaries | – | – | – | – | (791) | (791) |
| Total operating expenses ^(f) | (58,978) | (16,543) | (25,198) | (76,456) | (33,096) | (210,271) |
| Share of results of associates | – | – | – | – | (3,563) | (3,563) |
| Segment result | 26,317 | 4,068 | 4,474 | 22,134 | (16,874) | 40,119 |
| Foreign exchange losses | | | | | | (5,883) |
| Operating profit | | | | | | 34,236 |
| Investment income | | | | | | 200 |
| Interest expense | | | | | | (30,479) |
| Other finance gains | | | | | | 2,334 |
| Other finance losses | | | | | | (1,506) |
| Taxation | | | | | | 4,438 |
| Profit for the period | | | | | | 9,223 |
| Segment assets | 435,925 | 45,600 | 386,592 | 409,662 | 122,128 | 1,399,907 |
| Unallocated cash | | | | | | 7,980 |
| Loans given | | | | | | 564 |
| Consolidated total assets | | | | | | 1,408,451 |

(d) Including US\$(5.5) million net cash settlement paid by the Group under the cash flow hedge.

(e) Heap leach operations at Pioneer and Pokrovskiy are seasonal with production skewed towards the second half of the year.

(f) Operating expenses less foreign exchange losses (note 5).

Year ended 31 December 2016

| | Pioneer US\$'000 | Pokrovskiy US\$'000 | Malomir US\$'000 | Albyn US\$'000 | Corporate and other US\$'000 | Consolidated US\$'000 |
|---|---------------------|------------------------|---------------------|-------------------|------------------------------------|--------------------------|
| Revenue | | | | | | |
| Gold ^(g) | 163,514 | 46,692 | 67,107 | 211,155 | – | 488,468 |
| Silver | 958 | 275 | 101 | 207 | – | 1,541 |
| Other external revenue | – | – | – | – | 50,675 | 50,675 |
| Inter-segment revenue | – | – | 1,233 | 390 | 101,032 | 102,655 |
| Intra-group eliminations | – | – | (1,233) | (390) | (101,032) | (102,655) |
| Total Group revenue from external customers | 164,472 | 46,967 | 67,208 | 211,362 | 50,675 | 540,684 |
| Operating expenses and income | | | | | | |
| Operating cash costs | (85,273) | (33,777) | (45,243) | (100,979) | (48,995) | (314,267) |
| Depreciation | (38,776) | (6,586) | (13,632) | (45,729) | (529) | (105,252) |
| Central administration expenses | – | – | – | – | (32,623) | (32,623) |
| Impairment of exploration and evaluation assets | – | – | – | (9,155) | – | (9,155) |
| (Impairment)/reversal of impairment of ore stockpiles | (6,110) | (1,002) | 5,826 | 123 | – | (1,163) |
| Gain on disposal of non-trading loans | – | – | – | – | 6,724 | 6,724 |
| Gain on disposal of subsidiaries | – | – | – | – | 791 | 791 |
| Total operating expenses ^(h) | (130,159) | (41,365) | (53,049) | (155,740) | (74,632) | (454,945) |
| Share of results of associates | – | – | – | – | (3,581) | (3,581) |
| Segment result | 34,313 | 5,602 | 14,159 | 55,622 | (27,538) | 82,158 |
| Foreign exchange losses | | | | | | (5,158) |
| Operating profit | | | | | | 77,000 |
| Investment income | | | | | | 556 |
| Interest expense | | | | | | (60,976) |
| Other finance gains | | | | | | 11,976 |
| Other finance losses | | | | | | (1,548) |
| Taxation | | | | | | 4,698 |
| Profit for the period | | | | | | 31,706 |
| Segment assets | 444,611 | 19,724 | 402,878 | 390,646 | 133,894 | 1,391,753 |
| Unallocated cash | | | | | | 4,843 |
| Loans given | | | | | | 598 |
| Consolidated total assets | | | | | | 1,397,194 |

(g) Including US\$(8.5) million net cash settlement paid by the Group under the cash flow hedge.

(h) Operating expenses less foreign exchange losses (note 5).

5. Operating expenses and income

| | Six months ended 30 June 2017 US\$'000 | Six months ended 30 June 2016 US\$'000 | Year ended 31 December 2016 US\$'000 |
|---|---|---|--|
| Net operating expenses ^(a) | 216,935 | 208,651 | 419,519 |
| Impairment of exploration and evaluation assets | — | — | 9,155 |
| (Reversal of impairment)/impairment of ore stockpiles ^(a) | (6,347) | (12,267) | 1,163 |
| Impairment of gold in circuit | 1,440 | — | — |
| Central administration expenses ^(a) | 23,095 | 13,096 | 32,623 |
| Foreign exchange losses | 504 | 5,883 | 5,158 |
| Impairment of non-trading loans | 538 | — | — |
| Gain on disposal of non-trading loans | — | — | (6,724) |
| Loss/(gain) on disposal of subsidiaries | — | 791 | (791) |
| | 236,165 | 216,154 | 460,103 |

(a) As set out below.

Net operating expenses

| | Six months ended 30 June 2017 US\$'000 | Six months ended 30 June 2016 US\$'000 | Year ended 31 December 2016 US\$'000 |
|--|---|---|--|
| Depreciation | 47,967 | 59,289 | 105,252 |
| Staff costs | 38,196 | 29,009 | 63,022 |
| Materials | 50,984 | 44,424 | 100,638 |
| Fuel | 20,950 | 19,224 | 40,621 |
| External services | 17,571 | 13,516 | 25,619 |
| Mining tax | — | 14,226 | 14,713 |
| Electricity | 14,958 | 10,651 | 23,305 |
| Smelting and transportation costs | 434 | 332 | 699 |
| Movement in ore stockpiles, deferred stripping, work in progress and bullion in process attributable to gold production | 3,098 | (10,808) | (22,475) |
| Taxes other than on income | 3,156 | 3,187 | 6,352 |
| Insurance | 4,309 | 2,937 | 6,409 |
| Professional fees | 855 | 456 | 877 |
| Office costs | 142 | 139 | 324 |
| Operating lease rentals | 1,933 | 477 | 3,173 |
| Business travel expenses | 540 | 617 | 1,434 |
| Provision for impairment of trade and other receivables | 348 | 141 | 282 |
| Bank charges | 122 | 87 | 205 |
| Goods for resale | 4,303 | 8,980 | 24,186 |
| Other operating expenses | 10,210 | 11,343 | 25,231 |
| Other (income)/ expenses | (3,141) | 424 | (348) |
| | 216,935 | 208,651 | 419,519 |

Central administration expenses

| | Six months ended 30 June 2017 US\$'000 | Six months ended 30 June 2016 US\$'000 | Year ended 31 December 2016 US\$'000 |
|--------------------------|---|---|--|
| Staff costs | 13,946 | 8,744 | 17,067 |
| Professional fees | 4,674 | 616 | 8,214 |
| Insurance | 393 | 412 | 789 |
| Operating lease rentals | 965 | 926 | 1,893 |
| Business travel expenses | 605 | 419 | 881 |
| Office costs | 268 | 246 | 489 |
| Other | 2,244 | 1,733 | 3,290 |
| | 23,095 | 13,096 | 32,623 |

Impairment charges

Impairment of mining assets

The Group undertook an impairment review of the tangible assets attributable to the gold mining projects and the supporting in-house service companies and concluded no impairment was required as at 30 June 2017.

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

| | Six months ended 30 June 2017 | Year ended 31 December 2016 |
|------------------------------|----------------------------------|--------------------------------|
| Long-term gold price | US\$1,265/oz | US\$1,200/oz |
| Discount rate ^(a) | 8% | 8% |
| RUB/US\$ exchange rate | RUB60.0/US\$ | RUB60.0/US\$ |

(a) Being the post-tax real weighted average cost of capital

Impairment of ore stockpiles

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

| | Six months ended 30 June 2017 | | | Six months ended 30 June 2016 | | |
|------------|---|----------------------|--|--|----------------------|---|
| | Pre-tax (reversal of impairment)/ charge US\$'000 | Taxation US\$'000 | Post-tax (reversal of impairment)/ charge US\$'000 | Pre-tax reversal of impairment US\$'000 | Taxation US\$'000 | Post-tax reversal of impairment US\$'000 |
| Pokrovskiy | 63 | (13) | 50 | (631) | 126 | (505) |
| Pioneer | (3,069) | 613 | (2,456) | (4,730) | 945 | (3,785) |
| Malomir | 275 | (55) | 220 | (5,903) | 1,181 | (4,722) |
| Albyn | (3,616) | 723 | (2,893) | (1,003) | 201 | (802) |
| | (6,347) | 1,268 | (5,079) | (12,267) | 2,453 | (9,814) |

6. Financial income and expenses

| | Six months ended 30 June 2017 US\$'000 | Six months ended 30 June 2016 US\$'000 | Year ended 31 December 2016 US\$'000 |
|--|--|--|---|
| Investment income | | | |
| Interest income | 386 | 200 | 556 |
| | 386 | 200 | 556 |
| Interest expense | | | |
| Interest on bank loans | (24,338) | (24,527) | (48,934) |
| Interest on convertible bonds | (6,015) | (5,865) | (11,867) |
| | (30,353) | (30,392) | (60,801) |
| Interest capitalised | 16,037 | — | — |
| Unwinding of discount on environmental obligation | (132) | (87) | (175) |
| | (14,448) | (30,479) | (60,976) |
| Other finance gains | | | |
| Fair value gain on derivative financial instruments ^(a) | — | — | 7,434 |
| Financial guarantee fee ^(b) | 2,045 | 2,334 | 4,542 |
| | 2,045 | 2,334 | 11,976 |
| Other finance losses | | | |
| Loss on bank debt refinancing | (388) | — | (1,548) |
| Fair value loss on derivative financial instruments ^(a) | (5,750) | (1,506) | — |
| | (6,138) | (1,506) | (1,548) |

(a) Result from re-measurement of the conversion option of the Convertible Bonds to fair value (note 17).

(b) Note 20.

7. Taxation

| | Six months ended 30 June 2017 US\$'000 | Six months ended 30 June 2016 US\$'000 | Year ended 31 December 2016 US\$'000 |
|---|--|--|---|
| Current tax | | | |
| Russian current tax | 19,918 | 15,021 | 29,788 |
| | 19,918 | 15,021 | 29,788 |
| Deferred tax | | | |
| Origination/(reversal) of timing differences ^(a) | 2,387 | (19,459) | (34,486) |
| Total tax charge/(credit) | 22,305 | (4,438) | (4,698) |

(a) Including effect of foreign exchange movements in respect of deductible temporary differences of US\$(4.5) million (six months ended 30 June 2016: US\$(17.6) million, year ended 31 December 2016: US\$(26.0) million) which primarily arises as the tax base for a significant portion of the future taxable deductions in relation to the Group's property, plant and equipment are denominated in Russian Rouble whilst the future depreciation charges associated with these assets will be based on their US Dollar carrying value and reflects the movements in the Russian Rouble to the US Dollar exchange rate.

8. Earnings per share

| | Six months ended 30 June 2017 US\$'000 | Six months ended 30 June 2016 US\$'000 | Year ended 31 December 2016 US\$'000 |
|---|--|--|---|
| Profit for the period attributable to equity holders of Petropavlovsk PLC | 23,332 | 9,203 | 33,719 |
| Interest expense on convertible bonds | 6,015 | — ^(a) | — ^(a) |
| Profit used to determine diluted earnings per share | 29,347 | 9,203 | 33,719 |
| | No of shares | No of shares | No of shares |
| Weighted average number of Ordinary Shares | 3,303,768,532 | 3,300,501,688 | 3,302,148,536 |
| Adjustments for dilutive potential Ordinary Shares | 798,005,000 | — ^(a) | — ^(a) |
| Weighted average number of Ordinary Shares for diluted earnings per share | 4,101,773,532 | 3,300,501,688 | 3,302,148,536 |
| | US\$ | US\$ | US\$ |
| Basic profit per share | 0.01 | 0.00 | 0.01 |
| Diluted profit per share | 0.01 | 0.00 | 0.01 |

(a) Convertible bonds which could potentially dilute basic profit per ordinary share in the future are not included in the calculation of diluted profit per share because they were anti-dilutive for the six months ended 30 June 2016 and the year ended 31 December 2016.

9. Exploration and evaluation assets

| | Flanks of Pokrovskiy US\$'000 | Flanks of Albyn US\$'000 | Malomir US\$'000 | Total US\$'000 |
|-------------------|-------------------------------------|--------------------------------|---------------------|-------------------|
| At 1 January 2017 | 3,173 | 33,949 | 12,148 | 49,270 |
| Additions | 3,196 | 388 | 35 | 3,619 |
| At 30 June 2017 | 6,369 | 34,337 | 12,183 | 52,889 |

10. Property, plant and equipment

| | Mining assets US\$'000 | Non-mining assets US\$'000 | Capital construction in progress ^(a) US\$'000 | Total US\$'000 |
|---|------------------------------|----------------------------------|---|-------------------|
| Cost | | | | |
| At 1 January 2017 | 1,875,341 | 193,554 | 332,962 | 2,401,857 |
| Additions | 18,972 | 750 | 10,436 | 30,158 |
| Interest capitalised | – | – | 16,037 | 16,037 |
| Close down and restoration cost capitalised | 143 | – | – | 143 |
| Transfers from capital construction in progress | 15,425 | 345 | (15,770) | – |
| Disposals | (3,641) | (1,854) | (39) | (5,534) |
| Reallocation and other transfers | 1,685 | (2,251) | 566 | – |
| Foreign exchange differences | – | 616 | – | 616 |
| At 30 June 2017 | 1,907,925 | 191,160 | 344,192 | 2,443,277 |
| Accumulated depreciation and impairment | | | | |
| At 1 January 2017 | 1,267,822 | 173,757 | 6,484 | 1,448,063 |
| Charge for the year | 46,582 | 1,751 | – | 48,333 |
| Disposals | (3,401) | (2,356) | (2) | (5,759) |
| Reallocation and other transfers | 150 | (150) | – | – |
| Foreign exchange differences | – | 507 | – | 507 |
| At 30 June 2017 | 1,311,153 | 173,509 | 6,482 | 1,491,144 |
| Net book value | | | | |
| At 1 January 2017 ^(b) | 607,519 | 19,797 | 326,478 | 953,794 |
| At 30 June 2017 ^(b) | 596,772 | 17,651 | 337,710 | 952,133 |

(a) Including US\$241.3 million costs associated with the POX Hub project (31 December 2016: US\$224.1 million).

(b) Property, plant and equipment with a net book value of US\$103.5 million (30 June 2016: US\$117.2 million, 31 December 2016: US\$110.0 million) have been pledged to secure borrowings of the Group.

11. Investments in associates

| | Six months ended 30 June 2017 US\$'000 | Six months ended 30 June 2016 US\$'000 | Year ended 31 December 2016 US\$'000 |
|---------------------|--|--|---|
| IRC Limited ('IRC') | 33,285 | 35,600 | 36,140 |
| | 33,285 | 35,600 | 36,140 |

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

| | IRC Six months ended 30 June 2017 US\$'000 | IRC Six months ended 30 June 2016 US\$'000 | IRC Year ended 31 December 2016 US\$'000 |
|---|---|---|--|
| Non-current assets | | | |
| Exploration and evaluation assets | 7,130 | 6,811 | 6,966 |
| Property, plant and equipment | 245,229 | 215,979 | 246,191 |
| Prepayments for property, plant and equipment | 87,879 | 88,377 | 87,499 |
| Other non-current assets | 4,872 | 2,117 | 4,773 |
| | 345,110 | 313,284 | 345,429 |
| Current assets | | | |
| Cash and cash equivalents | 15,612 | 24,578 | 31,342 |
| Other current assets | 41,864 | 35,631 | 44,184 |
| | 57,476 | 60,209 | 75,526 |
| Current liabilities | | | |
| Borrowings ^(a) | 31,689 | 42,790 | 66,147 |
| Other current liabilities | 32,163 | 18,211 | 21,414 |
| | 63,852 | 61,001 | 87,561 |
| Non-current liabilities | | | |
| Borrowings ^(a) | 191,496 | 196,434 | 177,239 |
| Other non-current liabilities | 31,854 | 13,098 | 34,431 |
| | 223,350 | 209,532 | 211,670 |
| Net assets | 115,384 | 102,960 | 121,724 |

- (a) On 6 December 2010, KS GOK LLC ('K&S'), a subsidiary of IRC, entered into a US\$400 million Engineering Procurement and Construction Contract with China National Electric Engineering Corporation for the construction of the Group's mining operations at K&S. On 13 December 2010, K&S entered into a project finance facility agreement with the Industrial and Commercial Bank of China Limited ('ICBC') (the 'ICBC Facility Agreement') pursuant to which ICBC would lend US\$340 million to K&S to be used to fund the construction of the Group's mining operations at K&S in time for the start of major construction works in early 2011. Interest under the facility was charged at 2.80 per cent. above London Interbank Offering rate ('LIBOR') per annum. The facility is guaranteed by the Company (notes 20) and is repayable semi-annually in 16 instalments US\$21.25 thousand each, starting from December 2014 and is fully repayable by June 2022. ICBC has agreed to restructure two repayment instalments originally due for payment on 20 June 2017 and 20 December 2017 in an aggregate amount of US\$42.5 million evenly into five subsequent semi-annual repayment instalments as such each of the repayment instalment due on 20 June 2018, 20 December 2018, 20 June 2019, 20 December 2019 and 20 June 2020 is increased by US\$8.5 million to an amount equal to US\$42.5 million. The outstanding loan principal was US\$233.75 million as at 30 June 2017 (30 June 2016: US\$255 million and 31 December 2016: US\$233.75 million). The loan is carried at amortised cost with effective interest rate at 6.3 per cent. per annum. In January 2016, IRC placed US\$28.3 million in order to replenish the DSRA level pursuant to the security deposit agreement. In accordance with the waiver and consent letter dated 19 April 2016, which conditions precedent were satisfied on 21 June 2016, ICBC waived the restriction on withdrawing from the DSRA for the repayment of the ICBC loan and related interest and the requirement of IRC to maintain the DSRA until 30 June 2018. Accordingly, balance of US\$1.98 million remained in the DSRA as at 30 June 2017 without replenishment. ICBC Facility Agreement contains certain financial covenants to which ICBC has agreed to grant a waiver until 31 December 2017, inclusive. As at 30 June 2017 and 31 December 2016, the Group's entire 31.1 per cent. ownership in the issued capital of IRC was pledged to ICBC as security for the obligations of the Company as guarantor and in consideration for the waiver of financial covenants under the ICBC facility.

| | IRC Six months ended 30 June 2017 US\$'000 | IRC Six months ended 30 June 2016 US\$'000 | IRC Year ended 31 December 2016 US\$'000 |
|---|---|---|--|
| Revenue | 51,253 | 16,147 | 16,467 |
| Net operating expenses | (51,048) | (26,734) | (34,503) |
| including | | | |
| Depreciation | (4,017) | (433) | (1,155) |
| Impairment of mining assets | (243) | — | — |
| Impairment of ore stockpiles | — | — | (841) |
| Impairment of investments in joint ventures | (4) | (147) | (47) |
| Foreign exchange losses | (306) | (2,300) | (3,440) |
| Investment income | 65 | 276 | 413 |
| Interest expense | (9,739) | (635) | (1,189) |
| Taxation | (64) | 1,002 | (315) |
| Loss for the period | (9,533) | (9,944) | (19,127) |
| Other comprehensive profit | 355 | 1,254 | 1,555 |
| Total comprehensive loss | (9,178) | (8,690) | (17,572) |

12. Inventories

| | 30 June 2017 US\$'000 | 30 June 2016 US\$'000 | 31 December 2016 US\$'000 |
|--|-----------------------------|-----------------------------|---------------------------------|
| Current | | | |
| Construction materials | 6,031 | 5,923 | 5,072 |
| Stores and spares | 59,303 | 51,984 | 57,699 |
| Ore in stockpiles ^{(a),(c)} | 33,175 | 22,475 | 17,104 |
| Gold in circuit | 40,887 | 66,583 | 70,996 |
| Deferred stripping costs | 34,250 | 24,177 | 26,187 |
| Bullion in process | 1,861 | 1,530 | 1,189 |
| Other | 5,262 | 14,287 | 5,019 |
| | 180,769 | 186,959 | 183,266 |
| Non-current | | | |
| Ore in stockpiles ^{(a),(b),(c)} | 51,857 | 54,459 | 51,686 |
| Deferred stripping costs | 16,632 | — | — |
| | 68,489 | 54,459 | 51,686 |

(a) Note 5.

(b) Ore in stockpiles that is not planned to be processed within twelve months after the reporting period.

(c) As at 30 June 2017, ore in stockpiles include balances in the aggregate of US\$17.8 million carried at net realisable value (31 December 2016: US\$45.5 million, 30 June 2016: US\$16.0 million).

13. Trade and other receivables

| | 30 June 2017 US\$'000 | 30 June 2016 US\$'000 | 31 December 2016 US\$'000 |
|-----------------------|-----------------------------|-----------------------------|---------------------------------|
| VAT recoverable | 32,596 | 30,812 | 30,265 |
| Advances to suppliers | 14,478 | 8,959 | 11,394 |
| Trade receivables | 5,109 | 5,942 | 6,160 |
| Other debtors | 22,946 | 17,091 | 41,917 |
| | 75,129 | 62,804 | 89,736 |

14. Cash and cash equivalents

| | 30 June 2017 US\$'000 | 30 June 2016 US\$'000 | 31 December 2016 US\$'000 |
|--------------------------|-----------------------------|-----------------------------|---------------------------------|
| Cash at bank and in hand | 32,512 | 18,155 | 10,284 |
| Short-term bank deposits | 159 | 156 | 2,358 |
| | 32,671 | 18,311 | 12,642 |

15. Derivative financial instruments

| | 30 June 2017 | | 30 June 2016 | | 31 December 2016 | |
|---|--------------------|-------------------------|--------------------|-------------------------|--------------------|-------------------------|
| | Assets US\$'000 | Liabilities US\$'000 | Assets US\$'000 | Liabilities US\$'000 | Assets US\$'000 | Liabilities US\$'000 |
| Forward gold contracts – cash flow hedge ^{(a),(b),(c)} | 661 | (7,873) | – | (6,885) | 7,478 | – |
| Call Option over the Company's shares ^(d) | – | (2,965) | – | – | – | (3,064) |
| Conversion option ^{(e),(f)} | – | (13,100) | – | (16,190) | – | (7,250) |
| | 661 | (23,938) | – | (23,075) | 7,478 | (10,314) |

(a) Forward contracts to sell an aggregate of 500,002 ounces of gold at an average price of US\$1,252 per ounce are outstanding as at 30 June 2017 (30 June 2016: 118,723 ounces at an average price of US\$1,269 per ounce, 31 December 2016: 50,006 ounces of gold at an average price of US\$1,303 per ounce).

(b) Measured at fair value and considered as Level 2 of the fair value hierarchy which valuation incorporates the following inputs:

- gold forward curves observable at quoted intervals; and
- observable credit spreads.

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

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

There was no ineffectiveness to be recorded from the cash flow hedge during the six months ended 30 June 2017 and 2016 and the year ended 31 December 2016.

(d) Cash settled call option issued in relation to 3.6 per cent. of the outstanding aggregate ordinary share capital in the Company exercisable between December 2019 and March 2023 at strike price of £0.068.

(e) Note 17.

(f) Measured at fair value and considered as Level 2 of the fair value hierarchy which valuation incorporates the following inputs:

- the Group's credit risk;
- historic share price volatility;
- the conversion price;
- time to maturity; and
- risk free rate.

16. Trade and other payables

| | 30 June 2017 US\$'000 | 30 June 2016 US\$'000 | 31 December 2016 US\$'000 |
|---|-----------------------------|-----------------------------|---------------------------------|
| Trade payables | 22,656 | 36,014 | 25,068 |
| Advances from customers | 511 | 1,847 | 2,148 |
| Advances received on resale and commission contracts ^(a) | 2,363 | 9,715 | 1,847 |
| Accruals and other payables | 33,240 | 27,924 | 26,575 |
| | 58,770 | 75,500 | 55,638 |

(a) Amounts included in advances received on resale and commission contracts at 30 June 2017, 30 June 2016 and 31 December 2016 relate to services performed by the Group's subsidiary, Irgiredmet, in its activity to procure materials such as reagents, consumables and equipment for third parties.

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

17. Borrowings

| | 30 June 2017 US\$'000 | 30 June 2016 US\$'000 | 31 December 2016 US\$'000 |
|--|-----------------------------|-----------------------------|---------------------------------|
| Borrowings at amortised cost | | | |
| Convertible Bonds ^{(a),(b)} | 89,885 | 86,867 | 88,369 |
| Bank loans ^(c) | 512,900 | 529,075 | 522,843 |
| | 602,785 | 615,942 | 611,212 |
| Amount due for settlement within 12 months | 53,713 | 344,159 | 85,306 ^(c) |
| Amount due for settlement after 12 months | 549,072 | 271,783 | 525,906 |
| | 602,785 | 615,942 | 611,212 |

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

The conversion option of the US\$100 million Convertible Bonds represents the fair value of the embedded option for the bondholders to convert into the equity of the Company ("the Conversion Right"). As the Company can elect to pay the cash value in lieu of delivering the Ordinary Shares following the exercise of the Conversion Right, the conversion option is a derivative liability. Accordingly, the conversion option is measured at fair value and is presented separately within derivative financial liabilities. [If the Company's share price exceeds 150 per cent. of the strike price then the Company will have the right to repay the Convertible Bonds early, therefore the fair value of the conversion option is capped.]

(b) As at 30 June 2017, the fair value of debt component of the convertible bonds, considered as Level 2 of the fair value hierarchy, amounted to US\$100.4 million (30 June 2016: US\$95.2 million, 31 December 2016: US\$97.3 million). Valuation incorporates the following inputs: the Group's credit risk, time to maturity and risk free rate.

As at 30 June 2017, the fair value of the Convertible Bonds, considered as Level 1 of the fair value hierarchy and calculated by applying the market traded price to the convertible bonds outstanding, amounted to US\$113.5 million (30 June 2016: US\$110.0 million, 31 December 2016: US\$103.9 million).

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

18. Share capital

| | 30 June 2017 | | 30 June 2016 | | 31 December 2016 | |
|------------------------------------|---------------|----------|---------------|----------|------------------|----------|
| | No of shares | US\$'000 | No of shares | US\$'000 | No of shares | US\$'000 |
| Allotted, called up and fully paid | | | | | | |
| At the beginning of the period | 3,303,768,532 | 48,920 | 3,300,561,697 | 48,874 | 3,300,561,697 | 48,874 |
| Issued during the period | – | – | 3,206,835 | 46 | 3,206,835 | 46 |
| At the end of the period | 3,303,768,532 | 48,920 | 3,303,768,532 | 48,920 | 3,303,768,532 | 48,920 |

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

19. Notes to the cash flow statement

Reconciliation of profit before tax to operating cash flow

| | Six months ended 30 June 2017 US\$'000 | Six months ended 30 June 2016 US\$'000 | Year ended 31 December 2016 US\$'000 |
|---|---|---|---|
| Profit before tax | 46,764 | 4,785 | 27,008 |
| Adjustments for: | | | |
| Share of results of associates | 2,965 | 3,563 | 3,581 |
| Investment income | (386) | (200) | (556) |
| Interest expense | 14,448 | 30,479 | 60,976 |
| Other finance gains | (2,045) | (2,334) | (11,976) |
| Other finance losses | 6,138 | 1,506 | 1,548 |
| Share based payments | – | 140 | 140 |
| Depreciation | 47,967 | 59,289 | 105,252 |
| Impairment of exploration and evaluation assets | – | – | 9,155 |
| (Reversal of impairment)/impairment of ore stockpiles | (6,347) | (12,267) | 1,163 |
| Impairment of gold in circuit | 1,440 | – | – |
| Effect of processing previously impaired stockpiles | (9,900) | (7,536) | (7,536) |
| Provision for impairment of trade and other receivables | 348 | 141 | 282 |
| (Gain)/loss on disposals of property, plant and equipment | (380) | 2,148 | 2,431 |
| Loss/(gain) on disposal of subsidiaries | – | 791 | (791) |
| Foreign exchange losses | 504 | 5,883 | 5,158 |
| Impairment of non-trading loans | 538 | – | – |
| Gain on disposal of non-trading loans | – | – | (6,724) |
| Other non-cash items | 246 | (1,223) | 177 |
| Changes in working capital: | | | |
| Decrease/(increase) in trade and other receivables | 11,493 | (2,066) | (25,828) |
| Decrease in inventories | 415 | 7,922 | 298 |
| Increase/(decrease) in trade and other payables | 1,585 | (16,671) | (37,745) |
| Net cash generated from operations | 115,793 | 74,350 | 126,013 |

Non-cash transactions

There were no significant non-cash transactions during the six months ended 30 June 2017 and 30 June 2016 and the year ended 31 December 2016.

20. Related parties

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

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

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

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

Transactions with related parties the Group entered into during the six months ended 30 June 2017 and 30 June 2016 and the year ended 31 December 2016 are set out below.

Trading Transactions

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

| | Sales to related parties | | | Purchases from related parties | | |
|--|---|---|---|---|---|---|
| | Six months ended 30 June 2017 US\$'000 | Six months ended 30 June 2016 US\$'000 | Year ended 31 December 2016 US\$'000 | Six months ended 30 June 2017 US\$'000 | Six months ended 30 June 2016 US\$'000 | Year ended 31 December 2016 US\$'000 |
| Asian-Pacific Bank | | | | | | |
| Other | 3 | 12 | 22 | 35 | 39 | 102 |
| | 3 | 12 | 22 | 35 | 39 | 102 |
| Trading transactions with other related parties | | | | | | |
| Insurance arrangements with Helios, rent and other transactions with other entities in which key management have interest and exercises a significant influence or control | – | 98 | 66 | 836 | 1,786 | 3,514 |
| Associates | | | | | | |
| IRC Limited and its subsidiaries | 43 | 24 | 69 | 1,559 | 950 | 1,996 |
| | 43 | 122 | 135 | 2,395 | 2,736 | 5,510 |

During the six months ended 30 June 2017, the Group made US\$0.1 million charitable donations to the Petropavlovsk Foundation (six months ended 30 June 2016: US\$0.1 million and year ended 31 December 2016: US\$0.2 million).

The outstanding balances with related parties at 30 June 2017, 30 June 2016 and 31 December 2016 are set out below.

| | Amounts owed by related parties | | | Amounts owed to related parties | | |
|---|---------------------------------|-----------------------------|---------------------------------|---------------------------------|-----------------------------|---------------------------------|
| | 30 June 2017 US\$'000 | 30 June 2016 US\$'000 | 31 December 2016 US\$'000 | 30 June 2017 US\$'000 | 30 June 2016 US\$'000 | 31 December 2016 US\$'000 |
| Helios and other entities in which key management have interest and exercises a significant influence or control ^(b) | 233 | 1,318 | 1,383 | — | — | 1 |
| Asian-Pacific Bank ^(b) | — | — | 1 | — | — | — |
| IRC Limited and its subsidiaries | 2,072 | 2,073 | 14,502 ^(a) | 1,626 | 1,320 | 1,704 |
| | 2,305 | 3,391 | 15,886 | 1,626 | 1,320 | 1,705 |

(a) Including US\$12.5 million advanced to IRC in December 2016. This balance was fully repaid in January 2017.

(b) PJSC Asian-Pacific Bank ("Asian-Pacific Bank"), LLC Insurance Company Helios Reserve ("Helios") and Peter Hambro Limited ceased being related parties to the Group from 22 June 2017.

Banking arrangements

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

The bank balances at 30 June 2017, 30 June 2016 and 31 December 2016 are set out below.

| | 30 June 2017 US\$'000 | 30 June 2016 US\$'000 | 31 December 2016 US\$'000 |
|--------------------|-----------------------------|-----------------------------|---------------------------------|
| Asian-Pacific Bank | — ^(c) | 2,739 | 629 |

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

Financing transactions

The Group has charged a fee for the provision of the guarantee to IRC (note 11), equal to 1.75 per cent. on the outstanding loan amount under the ICBC Facility Agreement and which amounted to US\$2.0 million during the six months ended 30 June 2017 (six months ended 30 June 2016: US\$2.3 million; year ended 31 December 2016: US\$4.5 million). The Guarantee fee outstanding amounted to US\$5.5 million (31 December 2016: US\$3.4 million).

Key management compensation

Key management personnel, comprising a group of 14 (30 June 2016: 15 and 31 December 2016: 15) individuals, including Executive and Non-Executive Directors of the Company and members of senior management, are those having authority and responsibility for planning, directing and controlling the activities of the Group.

| | Six months ended 30 June 2017 US\$'000 | Six months ended 30 June 2016 US\$'000 | Year ended 31 December 2016 US\$'000 |
|--------------------------|--|--|---|
| Wages and salaries | 4,872 | 2,744 | 6,103 |
| Pension costs | 86 | 96 | 182 |
| Share-based compensation | — | 140 | 610 |
| | 4,958 | 2,980 | 6,895 |

21. Analysis of net debt

| | At 1 January 2017 US\$'000 | Net cash movement US\$'000 | Exchange movement US\$'000 | Non-cash changes US\$'000 | At 30 June 2017 US\$'000 |
|---------------------------|----------------------------------|----------------------------------|----------------------------------|---------------------------------|--------------------------------|
| Cash and cash equivalents | 12,642 | 20,004 | 25 | – | 32,671 |
| Borrowings | (611,212) | 38,607 | – | (30,180) | (602,785) |
| Net debt | (598,570) | 58,611 | 25 | (30,180) ^(a) | (570,114) |

(a) Being amortisation of borrowings and the effect of the bank debt refinancing (note 17).

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

(a) Including US\$15.1 million received under investment agreement with the Russian Ministry of Far East Development (note 22).

(b) Being amortisation of borrowings and the effect of the bank debt refinancing (note 17).

22. Capital commitments

At 30 June 2017, the Group had entered into contractual commitments for the acquisition of property, plant and equipment and mine development costs in relation to POX Hub project amounting to US\$12.7 million (30 June 2016: US\$1.0 million, 31 December 2016: US\$3.8 million).

Investment agreement with the Russian Ministry of Far East Development

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

As at 31 December 2015, the Group received RUB1.1 billion (an equivalent to US\$15.1 million) funds under the Investment Agreement. During 2016, the Group received further RUB2.0 billion (an equivalent to US\$30.8 million) under the Investment Agreement and transferred an aggregate RUB3.1 billion (an equivalent to US\$47.7 million) to DRSK. During the six months ended 30 June 2017 the Group did not receive and made no transfers of funds under the Investment Agreement.

23. Contingent liabilities

The Group applies a two years mining tax concession since 1 July 2016 in its capacity of a participant to the Regional investment project in accordance with the Russian Federal Law 144-FZ dated 25 May 2016. The position of the Russian tax authorities is that the effective date for the aforementioned concession should be 1 January 2017 and, accordingly, the Group should be liable for the mining tax of approximately RUB1 billion (an equivalent of approximately US\$16.9 million as at 30 June 2017) for the six month period to 31 December 2016. The matter is currently being considered by the courts. To date decisions made by the Tribunal which took place in May 2017 and the Court of Appeal which took

place in August 2017 have not been in favour of the Group. The Group continues to consider its interpretation of relevant tax legislation and tax filing position are appropriate and has filed an appeal to the Cassation Court accordingly.

24. Reconciliation of non-GAAP measures (unaudited)

| | Six months ended 30 June 2017 US\$'000 | Six months ended 30 June 2016 US\$'000 | Year ended 31 December 2016 US\$'000 |
|---|--|--|---|
| Profit for the period | 24,459 | 9,223 | 31,706 |
| Add/(less): | | | |
| Investment income | (386) | (200) | (556) |
| Interest expense | 14,448 | 30,479 | 60,976 |
| Other finance gains | (2,045) | (2,334) | (11,976) |
| Other finance losses | 6,138 | 1,506 | 1,548 |
| Foreign exchange losses | 504 | 5,883 | 5,158 |
| Taxation | 22,305 | (4,438) | (4,698) |
| Depreciation | 47,967 | 59,289 | 105,252 |
| Impairment of exploration and evaluation assets | — | — | 9,155 |
| (Reversal of impairment)/ impairment of ore stockpiles | (6,347) | (12,267) | 1,163 |
| Impairment of gold in circuit | 1,440 | — | — |
| Impairment of non-trading loans | 538 | — | — |
| Share in results of associates ^(a) | 5,096 | 894 | 2,356 |
| Underlying EBITDA | 114,117 | 88,035 | 200,084 |

(a) Group's share of interest expense, investment income, other finance gains and losses, foreign exchange losses, taxation, depreciation and impairment recognised by an associate (note 11).

Independent Auditor's Report to the Members of Petropavlovsk PLC

For the year ended 31 December 2016

Opinion on financial statements of Petropavlovsk PLC

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements that we have audited comprise:

- the Group Income Statement;
- the Group Statement of Comprehensive Income;
- the Group and Parent Company Balance Sheets;
- the Group Cash Flow Statement;
- the Group and Parent Company Statements of Changes in Equity;
- the Group Statement of Accounting Policies;

- the related notes 1 to 36 to the Group financial statements;
- the Parent Company Statement of Accounting Policies; and
- the related notes 1 to 10 to the Parent Company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

Summary of our audit approach

| | |
|--|--|
| Key risks | <p>The key risks that we identified in the current year were:</p> <ul style="list-style-type: none"> – Going concern – Recoverability of gold in circuit inventory – Impairment of property, plant & equipment <p>In the prior year 'inventory' and 'impairment of exploration and evaluation assets' were also included as key risks in our audit opinion. In 2016 we have refined our inventory key risk area to focus on the recoverability of gold in circuit inventory. Whilst exploration and evaluation assets remain a judgemental area, following the disposal of the Vysokoye assets in April 2016, the Group's E&E portfolio has been rationalised and simplified. As a result, this was not an area of significant audit effort in 2016 and not included as a key risk within our audit report.</p> |
| Materiality | <p>In the current year we determined our materiality for the Group to be \$10 million (2015: \$12 million) which is less than 2% of net assets, the basis on which our materiality was determined.</p> |
| Scoping | <p>Our Group audit scope included a full audit of all operating mines and service entities. Our full scope procedures covered 99% of the Group's revenue (2015: 97%) and 91% of the Group's total assets (2015: 89%).</p> |
| Significant changes in our approach | <p>There have been no significant changes in our approach to the audit aside from the changes to the key risks discussed above.</p> |

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within note a to the financial statements and the directors' statement on the longer term viability of the Group on page 109.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the directors' confirmation on page 110 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 20 to 33 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in note 2.1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the directors' explanation on page 109 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with the Financial Reporting Council's Ethical Standards for Auditors. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Independent Auditor's Report to the Members of Petropavlovsk PLC continued

For the year ended 31 December 2016

| Risk description | How the scope of our audit responded to the risk | Key observations |
|--|--|--|
| <p>Going concern See note 2.1 and the Audit Committee Report on page 83 for further details</p> <p>We consider the application of the going concern basis of accounting and the related disclosures to be a key risk as the Group is dependent on generating sufficient cash flows to maintain sufficient liquidity to continue operating under the normal course of business, meet scheduled loan repayments and covenant requirements, and hence operate within the parameters of its debt facilities. Volatility in the gold price, the availability of accessible ore reserves and the Group's capital expenditure requirements, in particular with regards to the POX Hub, place increased pressure on these cash flows.</p> <p>Management has concluded that the going concern basis of accounting remains appropriate after performing a detailed forecast of liquidity and covenant compliance for a period of 12 months from the date of approval of the 2016 Annual Report.</p> <p>There is therefore a risk that the going concern basis of accounting will be adopted inappropriately or that the disclosures are not adequate.</p> | <p>We challenged the key assumptions in management's forecast cash flows for the next 12 months, both base case and downside scenarios, by:</p> <ul style="list-style-type: none"> – reviewing management's going concern paper which was approved by the Board, and the accompanying cash flow and covenant compliance forecasts for the going concern period. This paper included stress tests for a range of reasonably possible scenarios and also indemnified a number of mitigating actions to counter reasonable downside scenarios; – comparing cash flow forecasts for 2017 with the Board approved budget for that period, and obtained explanations for any significant differences; – comparing the forecast gold price assumption with the latest set of broker forecasts; – using our mining specialists, VenmynDeloitte, to challenge the reasonableness of the production profile and recovery rates and assess the extent to which further oxide ore reserves can add to production levels by interviewing the chief geologists at the mine sites and reviewing the State approved reserve submissions; – assessing the historical accuracy of budgeted production with the assistance of VenmynDeloitte; – agreeing the Group's committed debt facilities and hedging arrangements to supporting documentation; – testing the mechanical accuracy of the cash flow models and the related covenant forecasts; – assessing the impact of the Group's continuing guarantee of its associate IRC Ltd's debt with ICBC, through assessment of the likelihood of the guarantee being called during the going concern period; – reviewing the covenant waiver and repayment holiday documentation as provided to IRC by their lenders for the going concern period; and – assessing whether the disclosures relating to going concern included in the financial statements are balanced, proportionate and clear. <p>In addition we include above our conclusion on our review of the directors' statement in respect of the Group's ability to continue as a going concern.</p> | <p>Based on our procedures performed we are satisfied that the going concern assumption remains appropriate given the headroom available in management's base case. We are also satisfied that the mitigating actions management has identified in the event of a liquidity shortfall arise under a reasonable downside scenario are reasonable.</p> |

| Risk description | How the scope of our audit responded to the risk | Key observations |
|---|--|--|
| <p>Recoverability of gold in circuit inventory See note 2.14 and the Audit Committee Report on page 84 for further information.</p> <p>There is a risk that the value of the gold in circuit (GIC) inventory held on the Group's balance sheet as at 31 December 2016 is not recoverable.</p> <p>In recent years the amount of GIC has increased both in terms of volume (2016: 91koz; 2015: 75koz) and monetary value (2016: \$71 million; 2015: \$50 million). This is a result of management experiencing difficulty in extracting the gold from the resin in the processing cycle. Management is implementing countermeasures to resolve this issue as described on page 84 of the Annual Report</p> <p>Management considers its GIC inventory balance to be fully recoverable, subject to the successful implementation of certain countermeasures.</p> | <p>We challenged management's assumption that the GIC is fully recoverable by:</p> <ul style="list-style-type: none"> – using VenmynDeLoitte to assess management's proposed countermeasures and to challenge management to justify the reasonableness of the GIC levels; – meeting with key operational personnel at the POG mines; – analysing operational data to rationalise the movements in GIC at each mine; – inspecting management's GIC sampling procedures and conducting certain additional sample result verifications; – ensuring that the waste dumped into the tailings dams at the mines has a very low average grade to confirm that the GIC is not being lost from the circuit; and – assessing the cost allocation of the GIC and ensured that the inventory is held at the lower of cost and net realisable value in line with IAS 2 Inventories. | <p>Based on our procedures performed we are satisfied with the process for measuring GIC. Management's assessment of the difficulties in extracting the gold from the resin and the proposed countermeasures appear reasonable and we will continue to monitor the effectiveness of management's countermeasures during 2017. Considering the proposed actions by management to access the GIC and information provided to us with regards to the balance as at 31 December 2017 we are satisfied that the balance is recoverable and has been valued appropriately.</p> |

Independent Auditor's Report to the Members of Petropavlovsk PLC continued

For the year ended 31 December 2016

| Risk description | How the scope of our audit responded to the risk | Key observations |
|---|--|---|
| <p>Impairment of property, plant and equipment</p> <p>See note 3.2 and the Audit Committee Report on page 84 for further information.</p> <p>In line with IAS 36 <i>Impairment of Assets</i> management assessed at 31 December 2016 whether any internal or external indicators of impairment exist in relation to its property, plant and equipment. Management identified impairment indicators with regards to mining assets and therefore carried out an impairment test. These require significant judgement to be exercised, primarily in regards to the assumed gold price, FX rates, discount rates and Group's production and cost profiles at each of its mines.</p> <p>As referenced in note 3.2 of the financial statements the recoverable value of property, plant and equipment is considered by management to be a key source of estimate uncertainty.</p> <p>The carrying value of property, plant and equipment on the balance sheet as at 31 December 2016 was \$952 million, (FY15: \$1,038 million). No impairments were recognised during the year.</p> <p>Management has performed an impairment test on all of its cash generating units and concluded that no impairments should be recognised. Management has also concluded that it would not be appropriate to recognise any impairment reversals at this time, despite the headroom at the Pokrovka, Pioneer and Malomir mines, which have previously been impaired.</p> | <p>We challenged management's significant assumptions used in the impairment testing for property, plant and equipment, and specifically the cash flow projections, by:</p> <ul style="list-style-type: none"> – using VenmynDeloitte to analyse management's long term mining plans which form the basis of their recoverable value models; – considering the work of management's experts in producing the long term mining plans and considering their experience and qualifications; – comparing the discount rates used by management with Deloitte's independent, expert calculations and the long term gold prices assumed with external forecasts; – using our internal valuation specialists to perform an independent assessment of the discount rate used to facilitate benchmarking of management's rate; – assessing management's allocation of the capital costs of the POX project between the cash generating units, for the purposes of the impairment tests; – assessing whether headroom identified at the Group's cash generating units is indicative that a reversal of a previously recognised impairment is required; – reviewing management's accounting paper with consideration of all of the assumptions supporting their conclusion; and – testing capitalised expenditure during the year on a sample basis to assess whether the related costs qualify for capitalisation under the relevant accounting standards. <p>We reviewed the adequacy and accuracy of disclosures and we also evaluated the sensitivity analysis performed by management relating to the impairment review.</p> | <p>Based on our procedures performed, we are satisfied that the recoverability of the assets has been assessed in accordance with the requirements of IAS 36 <i>Impairment of Assets</i> and that no impairments or impairment reversals should be recognised at this time.</p> |

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

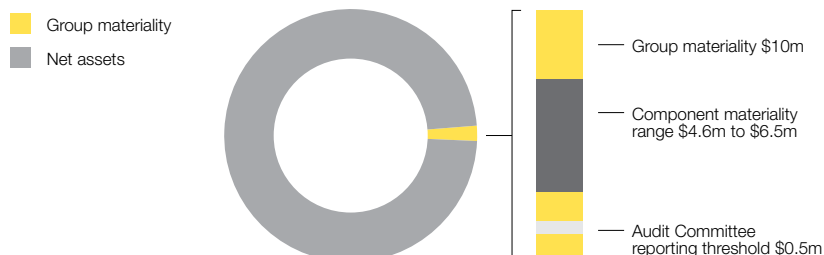
Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|--|--|
| Group materiality | \$10 million (2015: \$12 million) |
| Basis for determining materiality | Net assets has been used as the base for materiality, consistent with 2015. Our 2016 materiality represents less than 2% of Group net assets. |
| Rationale for the benchmark applied | The POG net asset value reflects the long term value of the Group in its portfolio of production and development assets and their associated reserves and resources. |

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of \$500,000 (2015: \$240,000) to align with market practice, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

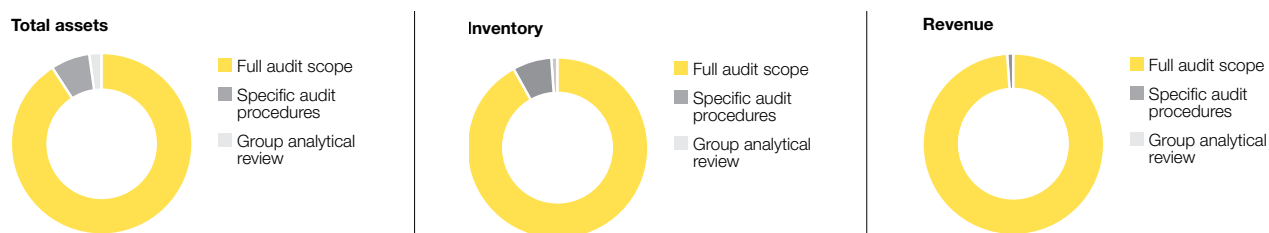


An overview of the scope of our audit

Our Group audit focused primarily on the operating locations, being the four operating mines, 12 service entities, six exploration assets and 19 finance and holding companies. All of the operating mines and service entities were subject to a full audit, whilst the exploration assets were subject to specified audit procedures, primarily testing of the capitalised spend on exploration activities and assessing for impairment. The extent of our audit procedures was based on our assessment of the risks of material misstatement and of the materiality of the Group's business operations at those locations.

Our audit work at the operating locations was executed at levels of materiality applicable to each individual entity which were lower than our Group materiality and were not more than \$6.5 million (2015: \$9 million).

These operating locations represent the principal business units within the Group's reportable segments and account for 91% (2015: 89%) of the Group's total assets, 92% (2015: 92%) of the Group's inventory and 99% (2015: 97%) of the Group's revenue. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.



Independent Auditor's Report to the Members of Petropavlovsk PLC continued

For the year ended 31 December 2016

During the audit the Senior Statutory Auditor and senior members of his Group audit team visited Moscow to review the work performed by the Russian component team and the Amur region of Russia to view the Group's assets and hold meetings with senior operational staff. In addition the Senior Statutory Auditor visited Hong Kong to review the work performed by Deloitte Hong Kong on IRC Ltd, an associate of the Group. This is in recognition of the continued importance of IRC Ltd to the POG audit as a result of POG's guarantee of IRC's ICBC debt.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code.

We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Timothy Biggs, FCA

(Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
26 April 2017

Consolidated Income Statement

For the year ended 31 December 2016

| | note | 2016 US\$'000 | 2015 US\$'000 |
|---|------|------------------|------------------|
| Continuing operations | | | |
| Group revenue | 5 | 540,684 | 599,914 |
| Operating expenses | 6 | (460,103) | (619,635) |
| | | 80,581 | (19,721) |
| Share of results of associates | 14 | (3,581) | (60,422) |
| Operating profit/(loss) | | 77,000 | (80,143) |
| Investment income | 9 | 556 | 1,018 |
| Interest expense | 9 | (60,976) | (71,514) |
| Other finance gains | 9 | 11,976 | 9,064 |
| Other finance losses | 9 | (1,548) | – |
| Profit/(loss) before taxation | | 27,008 | (141,575) |
| Taxation | 10 | 4,698 | (48,879) |
| Profit/(loss) for the period from continuing operations | | 31,706 | (190,454) |
| Discontinued operations ^(a) | | | |
| Loss for the period from discontinued operations | | – | (107,023) |
| Profit/(loss) for the period | | 31,706 | (297,477) |
| Attributable to: | | | |
| Equity shareholders of Petropavlovsk PLC | | 33,719 | (238,759) |
| Continuing operations | | 33,719 | (190,155) |
| Discontinued operations | | – | (48,604) |
| Non-controlling interests | | (2,013) | (58,718) |
| Continuing operations | | (2,013) | (299) |
| Discontinued operations | | – | (58,419) |
| Profit/(loss) per share | | | |
| Basic profit/(loss) per share | 11 | | |
| From continuing operations | | US\$0.01 | (US\$0.07) |
| From discontinued operations | | – | (US\$0.02) |
| | | US\$0.01 | (US\$0.09) |
| Diluted profit/(loss) per share | 11 | | |
| From continuing operations | | US\$0.01 | (US\$0.07) |
| From discontinued operations | | – | (US\$0.02) |
| | | US\$0.01 | (US\$0.09) |

(a) IRC was presented as a discontinued operation in the income statement for the period from 1 January until 7 August 2015, when it ceased being a subsidiary and became an associate to the Group.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

| | 2016 US\$'000 | 2015 US\$'000 |
|--|------------------|------------------|
| Profit/(loss) for the period | 31,706 | (297,477) |
| Items that may be reclassified subsequently to profit or loss: | | |
| Revaluation of available for sale investments | 834 | 161 |
| Exchange differences: | | |
| Exchange differences on translating foreign operations | 2,577 | (4,121) |
| Transfer of foreign currency translation reserve to profit or loss on disposal of a foreign operation | – | 2,601 |
| Share of other comprehensive income of associate | 560 | – |
| Cash flow hedges: | | |
| Fair value (losses)/gains | (4,940) | 7,090 |
| Tax thereon | 988 | (1,418) |
| Transfer to revenue | 8,494 | (9,436) |
| Tax thereon | (1,699) | 1,888 |
| Other comprehensive profit/(loss) for the period net of tax | 6,814 | (3,235) |
| Total comprehensive profit/(loss) for the period | 38,520 | (300,712) |
| Attributable to: | | |
| Equity shareholders of Petropavlovsk PLC | 40,494 | (241,916) |
| Non-controlling interests | (1,974) | (58,796) |
| | 38,520 | (300,712) |
| Total comprehensive profit/(loss) for the period attributable to equity shareholders of Petropavlovsk PLC arises from: | | |
| Continuing operations | 40,494 | (195,360) |
| Discontinued operations ^(a) | – | (46,556) |
| | 40,494 | (241,916) |

(a) IRC was presented as a discontinued operation in the income statement for the period from 1 January 2015 until 7 August 2015, when it ceased being a subsidiary and became an associate to the Group.

Strategic report

Governance

Financial statements

Consolidated Balance Sheet

At 31 December 2016

| | note | 2016 US\$'000 | 2015 US\$'000 |
|--|------|------------------|------------------|
| Assets | | | |
| Non-current assets | | | |
| Exploration and evaluation assets | 12 | 49,270 | 68,993 |
| Property, plant and equipment | 13 | 953,794 | 1,038,343 |
| Prepayments for property, plant and equipment | | 694 | 1,841 |
| Investments in associates | 14 | 36,140 | 39,394 |
| Available for sale investments | | 1,105 | 271 |
| Inventories | 15 | 51,686 | 51,434 |
| Other non-current assets | | 2,154 | 175 |
| | | 1,094,843 | 1,200,451 |
| Current assets | | | |
| Inventories | 15 | 183,266 | 175,222 |
| Trade and other receivables | 16 | 89,736 | 48,096 |
| Derivative financial instruments | 18 | 7,478 | 3,925 |
| Cash and cash equivalents | 17 | 12,642 | 28,239 |
| | | 293,122 | 255,482 |
| Total assets | | 1,387,965 | 1,455,933 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 19 | (55,638) | (96,567) |
| Current income tax payable | | (2,288) | (4,748) |
| Borrowings | 20 | (85,306) | (260,248) |
| | | (143,232) | (361,563) |
| Net current assets/(liabilities) | | 149,890 | (106,081) |
| Non-current liabilities | | | |
| Borrowings | 20 | (525,906) | (378,030) |
| Derivative financial instruments | 18 | (10,314) | (14,684) |
| Deferred tax liabilities | 21 | (139,728) | (173,499) |
| Provision for close down and restoration costs | 22 | (19,152) | (17,184) |
| | | (695,100) | (583,397) |
| Total liabilities | | (838,332) | (944,960) |
| Net assets | | 549,633 | 510,973 |
| Equity | | | |
| Share capital | 23 | 48,920 | 48,874 |
| Share premium | | 518,142 | 518,142 |
| Own shares | 24 | – | (8,933) |
| Hedging reserve | | 5,900 | 3,096 |
| Share based payments reserve | | – | 280 |
| Other reserves | | (17,574) | (20,985) |
| Retained losses | | (22,202) | (47,922) |
| Equity attributable to the shareholders of Petropavlovsk PLC | | 533,186 | 492,552 |
| Non-controlling interests | | 16,447 | 18,421 |
| Total equity | | 549,633 | 510,973 |

These consolidated financial statements for Petropavlovsk PLC, registered number 4343841, were approved by the Directors on 26 April 2017 and signed on their behalf by

Peter Hambro
Director

Andrey Maruta
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

| | Total attributable to equity holders of Petropavlovsk PLC | | | | | | | | | | Total equity US\$'000 |
|--|---|------------------------------|--|--|---|--------------------------------|--|---|-------------------|--|--------------------------|
| | Share capital US\$'000 | Share premium US\$'000 | Own shares ^(a) US\$'000 | Convertible bond Reserve US\$'000 | Share based payments reserve US\$'000 | Hedging reserve US\$'000 | Other reserves ^(b) US\$'000 | Retained earnings/ (losses) US\$'000 | Total US\$'000 | Non- controlling interests US\$'000 | |
| Balance at 1 January 2015 | 3,041 | 376,991 | (8,925) | 48,235 | 3,283 | 4,947 | (16,709) | 137,704 | 548,567 | 196,804 | 745,371 |
| Total comprehensive (loss)/income | - | - | - | - | - | (1,851) | (1,306) | (238,759) | (241,916) | (58,796) | (300,712) |
| Loss for the period | - | - | - | - | - | - | - | (238,759) | (238,759) | (58,718) | (297,477) |
| Other comprehensive (loss)/income | - | - | - | - | - | (1,851) | (1,306) | - | (3,157) | (78) | (3,235) |
| Share based payments | - | - | - | - | 17 | - | - | - | 17 | - | 17 |
| Deferred share awards | - | - | - | - | 280 | - | - | - | 280 | - | 280 |
| Right issue and settlement of the Existing Bonds | 45,833 | 141,151 | (8) | (48,235) | - | - | - | 48,235 | 186,976 | - | 186,976 |
| Issue of ordinary shares by subsidiary | - | - | - | - | - | - | - | (2,487) | (2,487) | 51,921 | 49,434 |
| Other transaction with non-controlling interests | - | - | - | - | - | - | 866 | 249 | 1,115 | 243 | 1,358 |
| Disposal of subsidiaries ^(c) | - | - | - | - | (3,300) | - | (866) | 4,166 | - | (171,751) | (171,751) |
| Transfer to retained earnings | - | - | - | - | - | - | (2,970) | 2,970 | - | - | - |
| Balance at 31 December 2015 | 48,874 | 518,142 | (8,933) | - | 280 | 3,096 | (20,985) | (47,922) | 492,552 | 18,421 ^(d) | 510,973 |
| Total comprehensive income/(loss) | - | - | - | - | - | 2,804 | 3,411 | 34,279 | 40,494 | (1,974) | 38,520 |
| Profit/(loss) for the period | - | - | - | - | - | - | - | 33,719 | 33,719 | (2,013) | 31,706 |
| Other comprehensive income/(loss) | - | - | - | - | - | 2,804 | 3,411 | 560 | 6,775 | 39 | 6,814 |
| Deferred share awards | 46 | - | 8,933 | - | (280) | - | - | (8,559) | 140 | - | 140 |
| Balance at 31 December 2016 | 48,920 | 518,142 | - | - | - | 5,900 | (17,574) | (22,202) | 533,186 | 16,447 | 549,633 |

(a) Own shares represented 1,441,406 Ordinary Shares held by the Company's EBT until they were transferred upon vesting of the Deferred Share Award on 1 May 2016.

(b) Including translation reserve of US\$(15.6) million, 31 December 2015: US\$(18.2) million).

(c) IRC Limited ("IRC") (note 14).

(d) IRC was the only non-wholly owned subsidiary of the Group that had a material non-controlling interest (note 14).

Strategic report

Governance

Financial statements

Consolidated Cash Flow Statement

For the year ended 31 December 2016

| | note | 2016 US\$'000 | 2015 ^(a) US\$'000 |
|--|------|--------------------------|---------------------------------|
| Cash flows from operating activities | | | |
| Cash generated from operations | 25 | 126,013 | 208,841 |
| Interest paid | | (53,708) | (72,174) |
| Income tax paid | | (35,305) | (33,287) |
| Net cash from operating activities | | 37,000 | 103,380 |
| Cash flows from investing activities | | | |
| Proceeds from disposal of subsidiaries, net of cash disposed and liabilities settled | 27 | 19,188 | 6,485 |
| Proceeds from disposal of the Group's interests in associates | 14 | 231 | 1,000 |
| Purchase of property, plant and equipment | | (12,770) | (58,804) ^(b) |
| Exploration expenditure | | (16,590) | (18,854) ^(b) |
| Proceeds from disposal of property, plant and equipment | | 742 | 847 |
| Loans granted | | – | (47) |
| Repayment of amounts loaned to other parties | | 1 | 42 |
| Interest received | | 540 | 2,183 |
| Dividends received from joint venture | | – | 917 |
| Net cash used in investing activities | | (8,658) | (66,231) |
| Cash flows from financing activities | | | |
| Proceeds from issue of ordinary shares capital, net of transaction costs | | – | 156,163 |
| Proceeds from issue of ordinary shares by IRC, net of transaction costs | | – | 49,434 |
| Proceeds from borrowings | | 295,250 ^(c) | 82,885 ^(d) |
| Repayments of borrowings | | (322,221) ^(c) | (304,178) ^(d) |
| Debt transaction costs paid in connection with bank loans | | (4,031) | (1,896) |
| Debt transaction costs paid in connection with ICBC facility | | – | (72) |
| Restricted bank deposit placed in connection with ICBC facility | | – | (1,000) |
| Refinancing costs | | – | (34,418) |
| Funds advanced to the Group under investment agreement with the Russian Ministry of Far East Development | 32 | 30,771 | 15,093 |
| Funds transferred under investment agreement with the Russian Ministry of Far East Development | 32 | (47,665) | – |
| Guarantee fee in connection with ICBC facility | | 1,126 | 2,169 |
| Dividends paid to non-controlling interests | | – | (536) |
| Purchase of own shares | | – | (8) |
| Net cash used in financing activities | | (46,770) | (36,364) |
| Net (decrease)/increase in cash and cash equivalents in the period | | (18,428) | 785 |
| Effect of exchange rates on cash and cash equivalents | | 2,831 | (5,270) |
| Cash and cash equivalents at beginning of period | 17 | 28,239 | 48,080 |
| Cash and cash equivalents re classified as assets held for sale at beginning of the period | | – | 55,459 |
| Cash and cash equivalents re classified as assets held for sale at disposal | | – | (70,815) |
| Cash and cash equivalents at end of period | 17 | 12,642 | 28,239 |

(a) IRC was presented as a discontinued operation in the income statement for the period from 1 January until 7 August 2015, when it ceased being a subsidiary and became an associate to the Group.

(b) Including US\$45.1 million related to discontinued operations for the year ended 31 December 2015.

(c) Including US\$295.25 million in connection to bank debt refinancing (note 20).

(d) Including US\$62.5 million proceeds from borrowings and US\$36.2 million repayments of borrowings for the year ended 31 December 2015 related to discontinued operations.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

1. General information

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

2. Significant accounting policies

2.1. Basis of preparation and presentation

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

Going concern

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

The Group performed an assessment of the forecast cash flows and covenant compliance in relation to bank facilities for the period of 12 months from the date of approval of the 2016 Annual Report and Accounts. As at 31 December 2016, the Group had sufficient

liquidity headroom and complied with related financial covenants. Following the successful completion of the Bank Debt Refinancing, the Group is also satisfied that it has sufficient headroom under a base case scenario for the period to May 2018 and expects to comply with related financial covenants. In the meantime, the Group's projections under a reasonable downside scenario indicate that, unless mitigating actions can be taken including accessing deposits not currently in the Group's mining plan, there will be insufficient liquidity and non-compliance with certain financial covenants under a reasonable downside scenario for the relevant period to May 2018. If a missed debt repayment occurs or financial covenant requirements are not met, this would result in events of default which, through cross defaults and cross accelerations, could cause all other Group's debt arrangements to become repayable on demand. The Directors are confident that, should it be required, relevant mitigating actions could be successfully implemented.

The Group has guaranteed the outstanding amounts IRC owes to ICBC. The outstanding loan principal was US\$234 million as at 31 December 2016. The assessment of whether there is any material uncertainty that IRC will be able to repay this facility as it falls due is another key element of the Group's overall going concern assessment. IRC has agreed with ICBC to restructure and reschedule two repayment instalments under the ICBC Facility Agreement, which are originally due for payment on 20 June 2017 and 20 December 2017, with next repayment instalment due on 20 June 2018. IRC also obtained waivers from ICBC in respect of obligations to maintain certain cash deposits with ICBC until 30 June 2018 and obligations to comply with certain financial covenants until 31 December 2017 (inclusive).

Having taken into account the aforementioned factors, and after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future, being at least the next 12 months from the date of approval of the 2016 Annual Report and Accounts. Accordingly, they continue to adopt the going concern basis of accounting in preparing these consolidated financial statements.

2.2. Adoption of new and revised standards and interpretations

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

The following new and revised Standards and Interpretations that were effective for annual periods beginning on or after 1 January 2016 and applicable to the Group have been adopted:

- Amendments to IAS 1 'Presentation of Financial Statements';
- Amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation';
- Amendments to IFRS 10 and IAS 28 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture';
- Annual improvements to IFRSs: 2012-2014 Cycle

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

New standards, amendments and interpretations that are applicable to the Group, issued but not yet effective for the reporting period beginning 1 January 2016 and not early adopted

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

- IFRS 9 'Financial instruments':

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

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

Impairment: The new impairment model requires the recognition of impairment provision based on expected credit losses rather than only incurred credit losses. While the Group has not yet undertaken a detailed assessment of how its impairment provision will be affected by the new model, it may result in an earlier recognition of credit losses.

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

– *IFRS 15 'Revenue from contracts with customers'*

The standard replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts' and related interpretations and is effective for annual periods beginning in or after 1 January 2018.

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

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

– *IFRS 16 'Leases'*

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

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

As at the reporting date, the Group has non-cancellable operating lease commitments (note 31). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short term and low value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16. Based on the volume of lease arrangements, the Group's assets and liabilities and profit are unlikely to be materially affected.

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

2.3. Basis of consolidation

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

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

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

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

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders
- potential voting rights held by the Group, other vote holders or other parties
- rights arising from other contractual arrangements

- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

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

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

2.4. Non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of

the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.5. Investments in associates

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

Investments in associates are accounted for using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the

Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of

acquisition, after reassessment, is recognised immediately in profit or loss.

When a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for the impairment.

2.6. Foreign currency translation

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

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

| | As at 31 December 2016 | Average year ended 31 December 2016 | As at 31 December 2015 | Average year ended 31 December 2015 |
|---------------------------------|------------------------------|--|------------------------------|--|
| GB Pounds Sterling (GBP : US\$) | 0.81 | 0.74 | 0.68 | 0.65 |
| Russian Rouble (RUB : US\$) | 60.66 | 67.18 | 72.88 | 61.30 |

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

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations which have a functional currency other than US Dollars are translated at exchange rates prevailing on the balance sheet date. Income and expense

items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during that year, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and expenses and accumulated in equity, with share attributed to non-controlling interests as appropriate. On the disposal of a foreign operation, all of the accumulated exchange differences in respect of that operation attributable to the shareholders of the Company are reclassified to profit or loss.

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

2.7. Intangible assets

Exploration and evaluation expenditure and mineral rights acquired

Exploration and evaluation expenditure incurred in relation to those projects where such expenditure is considered likely to be recoverable through future extraction activity

or sale, or where the exploration activities have not reached a stage which permits a reasonable assessment of the existence of reserves, are capitalised and recorded on the balance sheet within intangible assets for mining projects at the exploration stage.

Exploration and evaluation expenditure comprise costs directly attributable to:

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

Mineral rights acquired through a business combination or an asset acquisition are capitalised separately from goodwill if the asset is separable or arises from contractual or legal rights and the fair value can be measured reliably on initial recognition.

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

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

2.8. Property, plant and equipment

Mine development costs

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

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

Mining assets

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

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

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

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

Non-mining assets

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

Capital construction in progress

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

Depreciation

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

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

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

2.9. Impairment of non-financial assets

Property, plant and equipment and finite life intangible assets are reviewed by management for impairment if there is any indication that the carrying amount may not be recoverable. This applies to the Group's share of the assets held by the joint ventures as well as the assets held by the Group itself.

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

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

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

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

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

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

2.10. Deferred stripping costs

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

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

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

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

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

2.11. Provisions for close down and restoration costs

Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Close down and restoration costs are provided for in the accounting period when the legal or

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

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

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

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

2.12. Financial instruments

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

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

Financial assets

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

Financial assets at fair value through profit or loss

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

Available for sale financial assets

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

Loans and receivables

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

Effective interest method

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

Cash and cash equivalents

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

Trade receivables

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

Other investments

Listed investments and unlisted equity investments, other than investments in subsidiaries, joint ventures and associates, are classified as available for sale financial assets and subsequently measured at fair value. Fair values for unlisted equity investments are estimated using methods reflecting the economic circumstances of the investee. Equity investments for which fair value cannot be measured reliably are

recognised at cost less impairment. Changes in the carrying amount of available for sale financial assets are recognised in other comprehensive income and accumulated under within Other reserves in equity. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to the income statement as 'gains and losses from investment securities'.

Financial liabilities

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

Borrowings

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

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

Derivative financial instruments

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

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

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

Hedge accounting

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

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

Currently the Group only has cash flow hedge relationships.

To qualify for hedge accounting the hedging relationship must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, then the relationship does not qualify for hedge accounting. In this case the hedging instrument and the hedged item are reported independently as if there were no hedging relationship.

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The fair value gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

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

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is

reclassified to profit or loss when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Trade payables

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

Equity instruments

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

Impairment of financial assets

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

2.13. Provisions

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

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

2.14. Inventories

Inventories include the following major categories:

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

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

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

2.15. Leases

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

2.16. Revenue recognition

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

Sales of gold and silver

The majority of the Group's revenue is derived from the sale of refined gold and silver, the latter being a by product of gold production. Revenue from the sale of gold and silver is recognised when:

- the risks and rewards of ownership as specified in individual contracts are transferred to the buyer
- the Group retains neither a continuing involvement nor control over the goods sold
- the amount of revenue can be measured reliably
- it is probable that the economic benefits associated with the transaction will flow to the Group.

Other revenue

Other revenue is recognised as follows:

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

2.17. Borrowing costs

Borrowing costs are generally expensed as incurred except where they relate to the financing of acquisition, construction or development of qualifying assets, which are mining projects under development that necessarily take a substantial period of time to get prepared for their intended use. Such borrowing costs are capitalised and added to mine development costs of the mining project when the decision is made to proceed with

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

the development of the project and until such time when the project is substantially ready for its intended use (which is when commercial production is ready to commence) or if active development is suspended or ceases.

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

2.18. Taxation

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

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

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

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

- deferred tax assets are recognised only to the extent that it is more likely than not that they will be recovered.

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

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

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

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

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

3.1. Critical accounting judgements Taxation

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

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

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

Details of deferred tax disclosures out in note 21.

3.2. Key sources of estimation uncertainty

Ore reserve estimates

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

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

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

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

Exploration and evaluation costs

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

Deferred stripping costs

The calculation of deferred stripping costs requires the use of estimates to assess the improved access to the ore to be mined in future periods. Changes to the Group's mining plan and pit design may result in changes to the timing of realisation of the

stripping activity. As a result, there could be significant adjustments to the amounts of deferred stripping costs capitalised and their classification between current and non-current assets. Details of deferred stripping costs capitalised are set out in note 15.

Impairment and impairment reversals

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

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

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

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

Close down and restoration costs

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

The initial provision for close down and restoration costs together with other movements in the provision, including those resulting from updated cost estimates, changes to the estimated lives of the mines, and revisions to discount rates are capitalised within 'mine development costs' or 'mining

assets' of property, plant and equipment. Capitalised costs are depreciated over the life of the mine they relate to and the provision is increased each period via unwinding the discount on the provision. Changes to the estimated future costs are recognised in the balance sheet by adjusting both the asset and the provision.

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

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

4. Segment information

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

Alluvial operations segment comprised an alluvial gold operation which was engaged in gold production and field exploration. This operation was disposed of on 22 April 2015 and, accordingly, alluvial operations are no longer a reportable segment.

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

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

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

4. Segment information continued

| 2016 | Pioneer US\$'000 | Pokrovskiy US\$'000 | Malomir US\$'000 | Albyn US\$'000 | Corporate and other US\$'000 | Consolidated US\$'000 |
|---|---------------------|------------------------|---------------------|-------------------|------------------------------------|--------------------------|
| Revenue | | | | | | |
| Gold ^(a) | 163,514 | 46,692 | 67,107 | 211,155 | – | 488,468 |
| Silver | 958 | 275 | 101 | 207 | – | 1,541 |
| Other external revenue | – | – | – | – | 50,675 | 50,675 |
| Inter segment revenue | – | – | 1,233 | 390 | 101,032 | 102,655 |
| Intra group eliminations | – | – | (1,233) | (390) | (101,032) | (102,655) |
| Total Group revenue from external customers | 164,472 | 46,967 | 67,208 | 211,362 | 50,675 | 540,684 |
| Operating expenses and income | | | | | | |
| Operating cash costs | (85,273) | (33,777) | (45,243) | (100,979) | (48,995) | (314,267) |
| Depreciation | (38,776) | (6,586) | (13,632) | (45,729) | (529) | (105,252) |
| Central administration expenses | – | – | – | – | (32,623) | (32,623) |
| Impairment of exploration and evaluation assets | – | – | – | (9,155) | – | (9,155) |
| (Impairment)/reversal of impairment of ore stockpiles | (6,110) | (1,002) | 5,826 | 123 | – | (1,163) |
| Gain on disposal of non-trading loans | – | – | – | – | 6,724 | 6,724 |
| Gain on disposal of subsidiaries | – | – | – | – | 791 | 791 |
| Total operating expenses ^(b) | (130,159) | (41,365) | (53,049) | (155,740) | (74,632) | (454,945) |
| Share of results of associates | – | – | – | – | (3,581) | (3,581) |
| Segment result | 34,313 | 5,602 | 14,159 | 55,622 | (27,538) | 82,158 |
| Foreign exchange losses | | | | | | (5,158) |
| Operating profit | | | | | | 77,000 |
| Investment income | | | | | | 556 |
| Interest expense | | | | | | (60,976) |
| Other finance gains | | | | | | 11,976 |
| Other finance losses | | | | | | (1,548) |
| Taxation | | | | | | 4,698 |
| Profit for the period from continuing operations | | | | | | 31,706 |
| Segment assets | 444,611 | 19,724 | 402,878 | 390,646 | 124,665 | 1,382,524 |
| Segment liabilities | (13,387) | (4,034) | (8,963) | (15,975) | (45,033) | (87,392) |
| Deferred tax – net | | | | | | (139,728) |
| Unallocated cash | | | | | | 4,843 |
| Loans given | | | | | | 598 |
| Borrowings | | | | | | (611,212) |
| Net assets | | | | | | 549,633 |
| Other segment information | | | | | | |
| Additions to non-current assets: | | | | | | |
| Exploration and evaluation expenditure capitalised within intangible assets | 2,219 | – | 838 | 4,082 | 217 | 7,356 |
| Other additions to intangible assets | – | – | – | – | – | – |
| Capital expenditure | 14,052 | 96 | 2,765 | 7,488 | 1,380 | 25,781 |
| Other items capitalised ^(c) | 349 | 177 | 389 | 1,262 | – | 2,177 |
| Average number of employees | 1,658 | 964 | 926 | 1,450 | 3,066 | 8,064 |

(a) Including US\$(8.5) million net cash settlement paid by the Group under the cash flow hedge.

(b) Operating expenses less foreign exchange losses (note 6).

(c) Close down and restoration costs (note 13).

4. Segment information continued

| 2015 | Pioneer US\$'000 | Pokrovskiy US\$'000 | Malomir US\$'000 | Albyn US\$'000 | Alluvial operations US\$'000 | Corporate and other US\$'000 | Consolidated US\$'000 |
|---|---------------------|------------------------|---------------------|-------------------|------------------------------------|------------------------------------|--------------------------|
| Revenue | | | | | | | |
| Gold ^(d) | 253,914 | 61,002 | 71,044 | 181,687 | – | – | 567,647 |
| Silver | 641 | 168 | 84 | 149 | – | – | 1,042 |
| Other external revenue | – | – | – | – | – | 31,225 | 31,225 |
| Inter segment revenue | – | – | 1,284 | 433 | – | 130,042 | 131,759 |
| Intra group eliminations | – | – | (1,284) | (433) | – | (130,042) | (131,759) |
| Total Group revenue from external customers | 254,555 | 61,170 | 71,128 | 181,836 | – | 31,225 | 599,914 |
| Operating expenses and income | | | | | | | |
| Operating cash costs | (135,926) | (45,082) | (65,434) | (115,314) | 1,006 | (32,159) | (392,909) |
| Depreciation | (45,864) | (12,344) | (18,195) | (50,819) | (1,388) | (494) | (129,104) |
| Central administration expenses | – | – | – | – | – | (30,419) | (30,419) |
| Impairment of exploration and evaluation assets | – | (2,324) | (140) | – | – | (34,978) | (37,442) |
| Impairment of ore stockpiles | (11,945) | 884 | (6,065) | (299) | – | – | (17,425) |
| Loss on disposal of subsidiaries | – | – | – | – | (384) | – | (384) |
| Total operating expenses ^(e) | (193,735) | (58,866) | (89,834) | (166,432) | (766) | (98,050) | (607,683) |
| Share of net loss of associates | – | – | – | – | – | (60,422) | (60,422) |
| Segment result | 60,820 | 2,304 | (18,706) | 15,404 | (766) | (127,247) | (68,191) |
| Foreign exchange losses | | | | | | | (11,952) |
| Operating loss | | | | | | | (80,143) |
| Investment income | | | | | | | 1,018 |
| Interest expense | | | | | | | (71,514) |
| Other finance gains | | | | | | | 9,064 |
| Taxation | | | | | | | (48,879) |
| Loss for the period from continuing operations | | | | | | | (190,454) |
| Segment assets | 407,004 | 40,357 | 425,029 | 447,161 | – | 130,690 | 1,450,241 |
| Segment liabilities | (21,005) | (6,632) | (10,136) | (36,459) | – | (58,951) | (133,183) |
| Deferred tax – net | | | | | | | (173,499) |
| Unallocated cash | | | | | | | 5,193 |
| Loans given | | | | | | | 499 |
| Borrowings | | | | | | | (638,278) |
| Net assets | | | | | | | 510,973 |
| Other segment information | | | | | | | |
| Additions to non-current assets: | | | | | | | |
| Exploration and evaluation expenditure capitalised within intangible assets | 450 | 44 | 3,711 | 3,441 | – | 1,530 | 9,176 |
| Other additions to intangible assets | – | – | – | – | – | – | – |
| Capital expenditure | 15,171 | 816 | 4,520 | 9,611 | – | 962 | 31,080 |
| Other items capitalised ^(f) | (1,350) | (61) | (836) | (1,999) | – | – | (4,246) |
| Average number of employees | 1,760 | 989 | 937 | 1,510 | – | 3,273 | 8,469 |

(d) Including US\$9.4 million contribution from the cash flow hedge.

(e) Operating expenses less foreign exchange losses (note 6).

(f) Close down and restoration costs (note 13).

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

4. Segment information continued

Entity wide disclosures

Revenue by geographical location ^(a)

| | 2016 US\$'000 | 2015 US\$'000 |
|----------------|------------------|------------------|
| Russia and CIS | 540,606 | 599,686 |
| Other | 78 | 228 |
| | 540,684 | 599,914 |

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

Non-current assets by location of asset ^(b)

| | 2016 US\$'000 | 2015 US\$'000 |
|--------|------------------|------------------|
| Russia | 1,091,541 | 1,199,941 |
| Other | 43 | 64 |
| | 1,091,584 | 1,200,005 |

(b) Excluding financial instruments and deferred tax assets.

Information about major customers

During the years ended 31 December 2016 and 2015, the Group generated revenues from the sales of gold to Russian banks for Russian domestic sales of gold. Included in gold sales revenue for the year ended 31 December 2016 are revenues of US\$488 million which arose from sales of gold to two banks that individually accounted for more than 10% of the Group's revenue, namely US\$292 million to Sberbank of Russia and US\$197 million to VTB (2015: US\$571 million which arose from sales of gold to two banks that individually accounted for more than 10% of the Group's revenue, namely US\$366 million to Sberbank of Russia and US\$205 million to VTB). The proportion of Group revenue of each bank may vary from year to year depending on commercial terms agreed with each bank. Management considers there is no major customer concentration risk due to high liquidity inherent to gold as a commodity.

5. Revenue

Continuing operations

| | 2016 US\$'000 | 2015 US\$'000 |
|--|------------------|------------------|
| Sales of goods | 522,491 | 585,643 |
| Engineering and construction contracts | 17,531 | 13,515 |
| Rental income | 662 | 756 |
| | 540,684 | 599,914 |
| Investment income | 556 | 1,018 |
| | 541,240 | 600,932 |

Discontinued operations

| | 2016 US\$'000 | Period to 7 August 2015 US\$'000 |
|-----------------------|------------------|--|
| Sales of goods | — | 49,180 |
| Engineering contracts | — | 1,102 |
| | — | 50,282 |
| Investment income | — | 1,163 |
| | — | 51,445 |

6. Operating expenses and income

| | 2016 US\$'000 | 2015 US\$'000 |
|--|------------------|------------------|
| Net operating expenses ^(a) | 419,519 | 522,013 |
| Impairment of exploration and evaluation assets | 9,155 | 37,442 |
| Impairment of ore stockpiles ^(a) | 1,163 | 17,425 |
| Central administration expenses ^(a) | 32,623 | 30,419 |
| Foreign exchange losses | 5,158 | 11,952 |
| Gain on disposal of non-trading loans | (6,724) | – |
| (Gain)/loss on disposal of subsidiaries ^(b) | (791) | 384 |
| | 460,103 | 619,635 |

(a) As set out below.

(b) Note 27.

Net operating expenses

| | 2016 US\$'000 | 2015 US\$'000 |
|---|------------------|------------------|
| Depreciation | 105,252 | 129,104 |
| Staff costs | 63,022 | 70,632 |
| Materials | 100,638 | 131,914 |
| Fuel | 40,621 | 55,835 |
| External services | 25,619 | 29,004 |
| Mining tax | 14,713 | 33,138 |
| Electricity | 23,305 | 25,008 |
| Smelting and transportation costs | 699 | 1,079 |
| Movement in ore stockpiles, deferred stripping, work in progress and bullion in process attributable to gold production | (22,475) | (11,777) |
| Taxes other than income | 6,352 | 7,928 |
| Insurance | 6,409 | 7,244 |
| Professional fees | 877 | 554 |
| Office costs | 324 | 304 |
| Operating lease rentals | 3,173 | 645 |
| Business travel expenses | 1,434 | 1,541 |
| Provision for impairment of trade and other receivables | 282 | 1,261 |
| Bank charges | 205 | 855 |
| Goods for resale | 24,186 | 12,816 |
| Other operating expenses | 25,231 | 24,514 |
| Other (income)/expenses | (348) | 414 |
| | 419,519 | 522,013 |

Strategic report

Governance

Financial statements

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

6. Operating expenses and income continued

Central administration expenses

| | 2016 US\$'000 | 2015 US\$'000 |
|--------------------------|------------------|------------------|
| Staff costs | 17,067 | 18,908 |
| Professional fees | 8,214 | 2,040 |
| Insurance | 789 | 1,191 |
| Operating lease rentals | 1,893 | 1,900 |
| Business travel expenses | 881 | 1,611 |
| Office costs | 489 | 544 |
| Other | 3,290 | 4,225 |
| | 32,623 | 30,419 |

Impairment charges

Impairment of mining assets and exploration and evaluation assets

The Group undertook an impairment review of the tangible assets attributable to its gold mining projects, exploration assets adjacent to the existing mines and supporting in house service companies and concluded no impairment was required as at 31 December 2016, with exception of an individual licence impairment referred to below.

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

| | Year ended 31 December 2016 | Year ended 31 December 2015 |
|------------------------------|--------------------------------|--------------------------------|
| Long term gold price | US\$1,200/oz | US\$1,150/oz |
| Discount rate ^(a) | 8% | 8% |
| RUR/US\$ exchange rate | RUB60.0/US\$ | RUB65.0/US\$ |

(a) Being the post-tax real weighted average cost of capital, equivalent to a nominal pre-tax discount rate of 10.1% (2015: 10.1%)

Following the decision to suspend exploration on the Kharginskoye ore field, an immediate extension of the Albyn deposit, and to surrender the licence, a US\$9.2 million impairment charges were recorded against associated exploration and evaluation costs previously capitalised within exploration and evaluation assets.

As at 31 December 2016, all exploration and evaluation assets on the balance sheet related to the areas adjacent to the existing mines.

Impairment of ore stockpiles

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

| | Year ended 31 December 2016 | | | Year ended 31 December 2015 | | |
|------------|--|-------------------|---|--|-------------------|---|
| | Pre-tax impairment charge/ (reversal of impairment) US\$'000 | Taxation US\$'000 | Post-tax impairment charge/ (reversal of impairment) US\$'000 | Pre-tax impairment charge/ reversal of impairment US\$'000 | Taxation US\$'000 | Post-tax impairment charge/ reversal of impairment US\$'000 |
| Pokrovskiy | 1,002 | (200) | 802 | (884) | 177 | (707) |
| Pioneer | 6,110 | (1,223) | 4,887 | 11,945 | (2,390) | 9,555 |
| Malomir | (5,826) | 1,165 | (4,661) | 6,065 | (1,213) | 4,852 |
| Albyn | (123) | 25 | (98) | 299 | (60) | 239 |
| | 1,163 | (233) | 930 | 17,425 | (3,486) | 13,939 |

7. Auditor's remuneration

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

| | 2016 US\$'000 | 2015 US\$'000 |
|--|------------------|------------------|
| Audit fees and related fees | | |
| Fees payable to the Company's auditor for the annual audit of the parent company and consolidated financial statements | 577 | 611 |
| Fees payable to the Company's auditor and their associates for other services to the Group: | | |
| For the audit of the Company's subsidiaries as part of the audit of the consolidated financial statements | 285 | 269 |
| For the audit of subsidiary statutory accounts pursuant to legislation ^(a) | 55 | 77 |
| | 917 | 957 |
| Non-audit fees | | |
| Other services pursuant to legislation – interim review | 185 | 342 |
| Fees for reporting accountants services ^(b) | 1,153 | 231 |
| Tax services | – | 45 |
| | 1,338 | 618 |

(a) Including the statutory audit of subsidiaries in the UK and Cyprus.

(b) Fees payable in relation to the Proposed Acquisition announced on 28 April 2016 (2015: Fees payable in relation to the Refinancing).

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

8. Staff costs

Continuing operations

| | 2016 US\$'000 | 2015 US\$'000 |
|-----------------------------|------------------|------------------|
| Wages and salaries | 61,996 | 69,806 |
| Social security costs | 17,732 | 19,235 |
| Pension costs | 221 | 219 |
| Share based compensation | 140 | 280 |
| | 80,089 | 89,540 |
| Average number of employees | 8,064 | 8,469 |

Discontinued operations

| | 2016 US\$'000 | Period to 7 August 2015 US\$'000 |
|-----------------------------|------------------|--|
| Wages and salaries | – | 12,613 |
| Social security costs | – | 3,287 |
| Pension costs | – | 158 |
| Share based compensation | – | 17 |
| | – | 16,075 |
| Average number of employees | – | 1,752 |

9. Financial income and expenses

| | 2016 US\$'000 | 2015 US\$'000 |
|--|------------------|------------------|
| Investment income | | |
| Interest income | 556 | 1,018 |
| | 556 | 1,018 |
| Interest expense | | |
| Interest on bank loans | (48,934) | (57,731) |
| Interest on convertible bonds | (11,867) | (13,570) |
| | (60,801) | (71,301) |
| Unwinding of discount on environmental obligation | (175) | (213) |
| | (60,976) | (71,514) |
| Other finance gains | | |
| Gain on settlement of the Existing Bonds | – | 478 |
| Fair value gain on derivative financial instruments ^(a) | 7,434 | 6,417 |
| Financial guarantee fee ^(b) | 4,542 | 2,169 |
| | 11,976 | 9,064 |
| Other finance losses | | |
| Loss on bank debt refinancing ^(c) | (1,548) | – |
| | (1,548) | – |

(a) Result from re measurement of the conversion option of the Convertible Bonds to fair value (note 20).

(b) Note 26.

(c) Note 20.

10. Taxation

| | 2016 US\$'000 | 2015 US\$'000 |
|---|------------------|------------------|
| Current tax | | |
| Russian current tax | 29,788 | 31,752 |
| | 29,788 | 31,752 |
| Deferred tax | | |
| (Reversal)/origination of timing differences ^(a) | (34,486) | 17,127 |
| Total tax (credit)/charge | (4,698) | 48,879 |

(a) Including effect of foreign exchange movements in respect of deductible temporary differences of US\$26.0 million (year ended 31 December 2015: US\$40.3 million) which primarily arises as the tax base for a significant portion of the future taxable deductions in relation to the Group's property, plant and equipment are denominated in Russian Rouble whilst the future depreciation charges associated with these assets will be based on their US Dollar carrying value and reflects the movements in the Russian Rouble to the US Dollar exchange rate

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

| | 2016 US\$'000 | 2015 US\$'000 |
|---|------------------|------------------|
| Profit/(loss) before tax from continuing operations | 27,008 | (141,575) |
| Less: share of results of associates | 3,581 | 60,422 |
| Profit/(loss) before tax from continuing operations (excluding associates) | 30,589 | (81,153) |
| Tax on profit/loss from continuing operations (excluding associates) at the Russian corporation tax rate of 20% (2015: 20%) | 6,118 | (16,231) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | 36 | (1,446) |
| Tax effect of expenses that are not deductible for tax purposes | 1,765 | 9,674 |
| Tax effect of tax losses for which no deferred income tax asset was recognised ^(b) | 14,778 | 26,583 |
| Utilisation of previously unrecognised tax losses | (2,574) | (767) |
| Foreign exchange movements in respect of deductible temporary differences ^(c) | (26,025) | 40,305 |
| Other adjustments | 1,204 | (9,239) |
| Tax (credit)/charge for the period | (4,698) | 48,879 |

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

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

Tax legislation is subject to varying interpretations. In addition, there is a risk of tax authorities making arbitrary judgements of business activities. If a particular treatment, based on management's judgement of the Group's business activities, was to be challenged by the tax authorities, the Group may be subject to tax claims and exposures. The Directors do not anticipate that these exposures will have a material adverse effect upon the Group's financial position.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

11. Earnings per share

| | 2016 US\$'000 | 2015 US\$'000 |
|--|------------------|------------------|
| Profit/(loss) for the period attributable to equity holders of Petropavlovsk PLC | 33,719 | (238,759) |
| From continuing operations | 33,719 | (190,155) |
| From discontinued operations | — | (48,604) |
| Interest expense on convertible bonds, net of tax ^(a) | — | — |
| Profit/(loss) used to determine diluted earnings per share | 33,719 | (238,759) |
| From continuing operations | 33,719 | (190,155) |
| From discontinued operations | — | (48,604) |
| | No of shares | No of shares |
| Weighted average number of Ordinary Shares | 3,302,148,536 | 2,657,332,030 |
| Adjustments for dilutive potential Ordinary Shares ^(a) | — | — ^(b) |
| Weighted average number of Ordinary Shares for diluted earnings per share | 3,302,148,536 | 2,657,332,030 |
| | US\$ | US\$ |
| Basic profit/(loss) per share | 0.01 | (0.09) |
| From continuing operations | 0.01 | (0.07) |
| From discontinued operations | — | (0.02) |
| Diluted profit/(loss) per share | 0.01 | (0.09) |
| From continuing operations | 0.01 | (0.07) |
| From discontinued operations | — | (0.02) |

(a) Convertible bonds which could potentially dilute basic profit/(loss) per ordinary share in the future are not included in the calculation of diluted profit/(loss) per share because they were anti-dilutive for the year ended 31 December 2016 and 2015.

(b) The Group had a potentially dilutive option issued to International Finance Corporation ("IFC") to subscribe for 1,067,273 Ordinary Shares (note 23) which was anti-dilutive and therefore was not included in the calculation of diluted loss per share for the year ended 31 December 2015.

12. Exploration and evaluation assets

| | Visokoye US\$'000 | Flanks of Pokrovskiy US\$'000 | Flanks of Albyn US\$'000 | Other ^(a) US\$'000 | Total US\$'000 |
|---------------------------------------|----------------------|-------------------------------------|--------------------------------|----------------------------------|-------------------|
| At 1 January 2016 | 16,251 | 2,287 | 39,080 | 11,375 | 68,993 |
| Additions | 213 | 2,285 | 4,082 | 776 | 7,356 |
| Impairment ^(b) | — | — | (9,155) | — | (9,155) |
| Reallocation and other transfers | — | (269) | (58) | (3) | (330) |
| Disposal of subsidiary ^(c) | (16,464) | — | — | — | (16,464) |
| Disposal | — | (1,130) | — | — | (1,130) |
| At 31 December 2016 | — | 3,173 | 33,949 | 12,148 | 49,270 |

(a) Represent amounts capitalised in respect of a number of projects in the Amur Region.

(b) Note 6.

(c) Note 27.

| | Visokoye US\$'000 | Flanks of Pokrovskiy US\$'000 | Flanks of Albyn US\$'000 | Other ^(a) US\$'000 | Total US\$'000 |
|----------------------------------|----------------------|-------------------------------------|--------------------------------|----------------------------------|-------------------|
| At 1 January 2015 | 48,293 | 4,385 | 35,639 | 9,216 | 97,533 |
| Additions | 458 | 500 | 3,441 | 4,777 | 9,176 |
| Impairment ^(a) | (32,500) | (2,324) | — | (2,618) | (37,442) |
| Reallocation and other transfers | — | (274) | — | — | (274) |
| At 31 December 2015 | 16,251 | 2,287 | 39,080 | 11,375 | 68,993 |

(d) Represent amounts capitalised in respect of a number of projects in the Amur Region and Guyana.

(e) Note 6.

13. Property, plant and equipment

| | Mining assets US\$'000 | Non-mining assets US\$'000 | Capital construction in progress ^(b) (US\$'000) | Total US\$'000 |
|--|---------------------------|----------------------------------|---|-------------------|
| Cost | | | | |
| At 1 January 2015 | 1,846,753 | 206,171 | 338,564 | 2,391,488 |
| Additions | 20,203 | 1,012 | 9,865 | 31,080 |
| Close down and restoration cost capitalised ^(note 22) | (4,246) | – | – | (4,246) |
| Transfers from capital construction in progress ^(a) | 5,779 | 961 | (6,740) | – |
| Disposals | (7,091) | (4,633) | (56) | (11,780) |
| Reallocation and other transfers | 493 | (141) | (46) | 306 |
| Foreign exchange differences | – | (5,672) | – | (5,672) |
| At 31 December 2015 | 1,861,891 | 197,698 | 341,587 | 2,401,176 |
| Additions | 19,470 | 885 | 5,426 | 25,781 |
| Close down and restoration cost capitalised ^(note 22) | 2,177 | – | – | 2,177 |
| Transfers from capital construction in progress ^(a) | 2,523 | 159 | (2,682) | – |
| Disposals | (19,645) | (6,235) | (77) | (25,957) |
| Disposal of subsidiaries | (919) | (2,052) | (2,436) | (5,407) |
| Reallocation and other transfers | 9,844 | (808) | (8,856) | 180 |
| Foreign exchange differences | – | 3,907 | – | 3,907 |
| At 31 December 2016 | 1,875,341 | 193,554 | 332,962 | 2,401,857 |
| Accumulated depreciation and impairment | | | | |
| At 1 January 2015 | 1,066,050 | 175,923 | 6,483 | 1,248,456 |
| Charge for the year | 122,328 | 6,165 | – | 128,493 |
| Disposals | (5,680) | (4,183) | – | (9,863) |
| Reallocation and other transfers | 276 | 28 | 1 | 305 |
| Foreign exchange differences | – | (4,558) | – | (4,558) |
| At 31 December 2015 | 1,182,974 | 173,375 | 6,484 | 1,362,833 |
| Charge for the year | 100,934 | 5,034 | – | 105,968 |
| Disposals | (16,748) | (6,036) | – | (22,784) |
| Disposal of subsidiaries | – | (1,127) | – | (1,127) |
| Reallocation and other transfers | 662 | (662) | – | – |
| Foreign exchange differences | – | 3,173 | – | 3,173 |
| At 31 December 2016 | 1,267,822 | 173,757 | 6,484 | 1,448,063 |
| Net book value | | | | |
| At 31 December 2015 ^(c) | 678,917 | 24,323 | 335,103 | 1,038,343 |
| At 31 December 2016 ^(c) | 607,519 | 19,797 | 326,478 | 953,794 |

(a) Being costs primarily associated with continuous development of Malomir, Albryn and Pioneer projects.

(b) Including US\$200.3 million costs associated with the POX Hub project (31 December 2015: US\$197.4 million)

(c) Property, plant and equipment with a net book value of US\$110.0 million (31 December 2015: US\$125.6 million) have been pledged to secure borrowings of the Group.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

14. Investments in associates

| | 2016 US\$'000 | 2015 US\$'000 |
|---|------------------|------------------|
| IRC Limited ('IRC') | 36,140 | 39,163 |
| JSC Verkhnetisskaya Ore Mining Company ^(a) | – | 231 |
| | 36,140 | 39,394 |

(a) On 27 May 2016 the Group sold its 49% interest in JSC Verkhnetisskaya Ore Mining Company (note 27).

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

| | IRC Year ended 31 December 2016 US\$'000 | IRC Year ended 31 December 2015 US\$'000 |
|---|--|--|
| Non-current assets | | |
| Exploration and evaluation assets | 6,966 | 6,717 |
| Property, plant and equipment | 246,191 | 199,714 |
| Prepayments for property, plant and equipment | 87,499 | 88,859 |
| Other non-current assets | 4,773 | 2,277 |
| | 345,429 | 297,567 |
| Current assets | | |
| Cash and cash equivalents | 31,342 | 56,144 |
| Other current assets | 44,184 | 55,038 |
| | 75,526 | 111,182 |
| Current liabilities | | |
| Borrowings ^(a) | 66,147 | 53,050 |
| Other current liabilities | 21,414 | 18,398 |
| | 87,561 | 71,448 |
| Non-current liabilities | | |
| Borrowings ^(a) | 177,239 | 215,238 |
| Other non-current liabilities | 34,431 | 12,773 |
| | 211,670 | 228,011 |
| Net assets | 121,724 | 109,290 |

(a) On 6 December 2010, KS GOK LLC ('K&S'), a subsidiary of IRC, entered into a US\$400 million Engineering Procurement and Construction Contract with China National Electric Engineering Corporation for the construction of the Group's mining operations at K&S. On 13 December 2010, K&S entered into a project finance facility agreement with the Industrial and Commercial Bank of China Limited ('ICBC') (the 'ICBC Facility Agreement') pursuant to which ICBC would lend US\$340 million to K&S to be used to fund the construction of the Group's mining operations at K&S in time for the start of major construction works in early 2011. Interest under the facility was charged at 2.80% above London Interbank Offering rate ('LIBOR') per annum. The facility is guaranteed by the Company (note 26) and originally was repayable semi annually in 16 instalments US\$21.25 million each, starting from December 2014 and is fully repayable by June 2022. ICBC has agreed to restructure two repayment instalments originally due for payment on 20 June 2017 and 20 December 2017 in an aggregate amount of US\$42.5 million evenly into five subsequent semi annual repayment instalments as such each of the repayment instalment due on 20 June 2018, 20 December 2018, 20 June 2019, 20 December 2019 and 20 June 2020 is increased by US\$8.5 million to an amount equal to US\$42.5 million. The outstanding loan principal was US\$233.75 million as at 31 December 2016 (31 December 2015: US\$276.25 million). The loan is carried at amortised cost with effective interest rate at 6.13% per annum (2015: 5.91%). As at 31 December 2015, US\$2.1 million was deposited in a debt service reserve accounts ('DSRA') with ICBC under a security deposit agreement related to the ICBC Facility Agreement. In January 2016, IRC placed US\$28.3 million in order to replenish the DSRA level pursuant to the security deposit agreement. In accordance with the waiver and consent letter dated 19 April 2016, which conditions precedent were satisfied on 21 June 2016, ICBC waived the restriction on withdrawing from the DSRA for the repayment of the ICBC loan and related interest and the requirement of IRC to maintain the DSRA until 30 June 2018. Accordingly, balance of US\$1.98 million remained in the DSRA as at 31 December 2016 without replenishment. ICBC Facility Agreement contains certain financial covenants to which ICBC has agreed to grant a waiver until 31 December 2017, inclusive. As at 31 December 2016, The Group's entire 31.1% ownership in the issued capital of IRC was pledged to ICBC as security for the obligations of the Company as guarantor and in consideration for the waiver of financial covenants under the ICBC facility (31 December 2015: 521,376,470 ordinary shares (approximately 8.47%) in the issued capital of IRC were pledged to ICBC).

14. Investments in associates continued

| | IRC Year ended 31 December 2016 US\$'000 | IRC Period from 7 August to 31 December 2015 US\$'000 |
|---|--|--|
| Revenue | 16,467 | 31,627 |
| Net operating expenses | (34,503) | (199,081) |
| including | | |
| Depreciation | (1,155) | (371) |
| Impairment of mining assets | – | (138,623) |
| Impairment of exploration and evaluation assets | – | (4,475) |
| Impairment of ore stockpiles | (841) | (7,492) |
| Impairment of investments in joint ventures | (47) | (5,895) |
| Foreign exchange losses | (3,440) | (1,075) |
| Investment income | 413 | 295 |
| Interest expense | (1,189) | (683) |
| Taxation | (315) | (774) |
| Loss for the period | (19,127) | (168,616) |
| Other comprehensive profit/(loss) | 1,555 | (1,740) |
| Total comprehensive loss | (17,572) | (170,356) |

Following issue of shares by IRC in December 2016 and dilution of Group's interest in IRC (note 35), the Group recognised US\$3.3 million gain on deemed disposal on 4.73% interest in IRC.

15. Inventories

| | 2016 US\$'000 | 2015 US\$'000 |
|--|------------------|------------------|
| Current | | |
| Construction materials | 5,072 | 6,952 |
| Stores and spares | 57,699 | 66,534 |
| Ore in stockpiles ^{(a), (c)} | 17,104 | 17,249 |
| Work in progress | 72,782 | 53,579 |
| Deferred stripping costs | 26,187 | 17,981 |
| Bullion in process | 1,189 | 1,212 |
| Other | 3,233 | 11,715 |
| | 183,266 | 175,222 |
| Non-current | | |
| Ore in stockpiles ^{(a), (b), (c)} | 51,686 | 51,434 |
| | 51,686 | 51,434 |

(a) Note 6.

(b) Ore in stockpiles that is not planned to be processed within twelve months after the reporting period.

(c) As at 31 December 2016, ore in stockpiles include balances in the aggregate of US\$45.5 million carried at net realisable value (2015: US\$63.1 million).

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

16. Trade and other receivables

| | 2016 US\$'000 | 2015 US\$'000 |
|----------------------------------|------------------|------------------|
| Current | | |
| VAT recoverable | 30,265 | 31,489 |
| Advances to suppliers | 11,394 | 3,320 |
| Trade receivables ^(a) | 6,160 | 4,018 |
| Other debtors ^(b) | 41,917 | 9,269 |
| | 89,736 | 48,096 |

(a) Net of provision for impairment of US\$0.2 million (2015: US\$0.4 million). Trade receivables are generally due for settlement between three and twelve months.

(b) Net of provision for impairment of US\$1.3 million (2015: US\$1.2 million).

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

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

17. Cash and cash equivalents

| | 2016 US\$'000 | 2015 US\$'000 |
|--------------------------|------------------|-----------------------|
| Cash at bank and in hand | 10,284 | 22,144 ^(a) |
| Short term bank deposits | 2,358 | 6,095 |
| | 12,642 | 28,239 |

(a) Including US\$15.1 million received under investment agreement with the Russian Ministry of Far East Development (note 32).

18. Derivative financial instruments

| | 31 December 2016 | | 31 December 2015 | |
|---|--------------------|-------------------------|--------------------|-------------------------|
| | Assets US\$'000 | Liabilities US\$'000 | Assets US\$'000 | Liabilities US\$'000 |
| Forward gold contracts – cash flow hedge ^{(a), (b), (c)} | 7,478 | – | 3,925 | – |
| Call Option over the Company's shares | – | (3,064) | – | – |
| Conversion option ^{(d), (e)} | – | (7,250) | – | (14,684) |
| | 7,478 | (10,314) | 3,925 | (14,684) |

(a) Forward contracts to sell an aggregate of 50,006 ounces of gold at an average price of US\$1,303 per ounce are outstanding as at 31 December 2016 (31 December 2015: 71,551 ounces of gold at an average price of US\$1,116 per ounce).

(b) Measured at fair value and considered as Level 2 of the fair value hierarchy which valuation incorporates the following inputs:

- gold forward curves observable at quoted intervals; and
- observable credit spreads.

(c) The hedged forecast transactions are expected to occur at various dates during the next 12 months.

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

There was no ineffectiveness to be recorded from the cash flow hedge during the years ended 31 December 2016 and 2015.

(d) Note 20.

(e) Measured at fair value and considered as Level 2 of the fair value hierarchy which valuation incorporates the following inputs:

- the Group's credit risk;
- historic share price volatility;
- the conversion price;
- time to maturity; and
- risk free rate.

19. Trade and other payables

| | 2016 US\$'000 | 2015 US\$'000 |
|---|------------------|-----------------------|
| Trade payables | 25,068 | 44,263 |
| Advances from customers | 2,148 | 569 |
| Advances received on resale and commission contracts ^(a) | 1,847 | 12,770 |
| Accruals and other payables | 26,575 | 38,965 ^(b) |
| | 55,638 | 96,567 |

(a) Amounts included in advances received on resale and commission contracts at 31 December 2016 and 31 December 2015 relate to services performed by the Group's subsidiary, Irgiredmet, in its activity to procure materials such as reagents, consumables and equipment for third parties.

(b) Including US\$15.1 million liability under an investment agreement with the Russian Ministry of Far East Development (note 32).

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

20. Borrowings

| | 2016 US\$'000 | 2015 US\$'000 |
|--|-----------------------|------------------|
| Borrowings at amortised cost | | |
| Convertible bonds ^(a) | 88,369 | 85,503 |
| Bank loans ^{(b), (c)} | 522,843 | 552,775 |
| | 611,212 | 638,278 |
| Amount due for settlement within 12 months | 85,306 ^(c) | 260,248 |
| Amount due for settlement after 12 months | 525,906 | 378,030 |
| | 611,212 | 638,278 |

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

The liability component of the Convertible Bonds was arrived at as set out below.

| | 18 March 2015 US\$'000 |
|--|---------------------------|
| Par value of the Convertible Bonds | 100,000 |
| Fair value uplift of the Convertible Bonds | 9,400 |
| Less: Refinancing costs | (5,130) |
| Less: Conversion option of the Convertible Bonds recognised separately | (21,100) |
| Liability component of the Convertible Bonds | 83,170 |

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

As at 31 December 2016, the fair value of debt component of the convertible bonds, considered as Level 2 of the fair value hierarchy, amounted to US\$97.3 million (31 December 2015: US\$92.8 million). Valuation incorporates the following inputs: the Group's credit risk, time to maturity and risk free rate.

As at 31 December 2016, the fair value of the convertible bonds, considered as Level 1 of the fair value hierarchy and calculated by applying the market traded price to the convertible bonds outstanding, amounted to US\$103.9 million (31 December 2015: US\$106.3 million).

(b) In December 2016, the Group refinanced US\$430 million outstanding principal of the Group's US\$530 million bank debt, including a revised maturity profile and renegotiation of the financial and operational covenants:

| | December 2016 US\$'000 |
|---|---------------------------|
| Carrying value of liabilities recognised | 428,246 |
| Fair value of new liabilities recognised: | |
| Bank debt | 426,730 |
| Call option over the Company's shares | 3,064 |
| Loss on bank debt refinancing | (1,548) |

Cash settled call option was issued in relation to 3.6 per cent. of the outstanding aggregate ordinary share capital in the Company and is exercisable between December 2019 and March 2023 at strike price of £0.068.

Transaction costs of US\$4.9 million were further capitalised.

(c) As at 31 December 2016, US\$233.1 million (2015: US\$540.0 million) bank loans are secured against certain items of property, plant and equipment of the Group (note 13) and shares in subsidiaries held by Petropavlovsk PLC: 100% of LLC Albynskiy Rudnik; 89.73% of LLC Malomirskiy Rudnik; 100% of LLC Temi.

The weighted average interest rate paid during the year ended 31 December 2016 was 9.0% (2015: 9.1%).

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

As at 31 December 2016, bank loans with an aggregate carrying value of US\$522.8 million (2015: US\$552.8 million) contain certain financial covenants.

As at 31 December 2016, the amounts undrawn under the bank loans were US\$ nil (2015: US\$ nil).

The Group is currently completing the final documentation for the remaining US\$100 million bank debt. Included in the amounts due for settlement within 12 months are US\$75 million, based on facility terms that existed as at 31 December 2016.

21. Deferred taxation

| | 2016 US\$'000 | 2015 US\$'000 |
|--|------------------|------------------|
| At 1 January | 173,499 | 156,814 |
| Deferred tax (credited)/charged to income statement ^(a) | (34,486) | 17,127 |
| Deferred tax charged/(credited) to equity | 711 | (469) |
| Transfer to liabilities associated with assets classified as held for sale | – | 28 |
| Exchange differences | 4 | (1) |
| At 31 December | 139,728 | 173,499 |
| Deferred tax assets | – | – |
| Deferred tax liabilities | (139,728) | (173,499) |
| Net deferred tax liability | (139,728) | (173,499) |

(a) Note 10.

| | At 1 January 2016 US\$'000 | Charged/ (credited) to the income statement US\$'000 | Credited directly to equity US\$'000 | Exchange differences US\$'000 | At 31 December 2016 US\$'000 |
|-----------------------------------|----------------------------------|--|---|-------------------------------------|------------------------------------|
| Property, plant and equipment | 143,374 | (24,979) | – | 45 | 118,440 |
| Inventory | 16,451 | (6,477) | – | – | 9,974 |
| Exploration and evaluation assets | 2,996 | (215) | – | – | 2,781 |
| Fair value adjustments | 246 | (117) | – | 45 | 129 |
| Other temporary differences | 10,432 | (2,698) | 711 | (41) | 8,404 |
| | 173,499 | (34,486) | 711 | 4 | 139,728 |

| | At 1 January 2015 US\$'000 | Charged/ (credited) to the income statement US\$'000 | Credited directly to equity US\$'000 | Transfer to liabilities associated with assets classified as held for sale US\$'000 | Exchange differences US\$'000 | At 31 December 2015 US\$'000 |
|-----------------------------------|----------------------------------|--|---|--|-------------------------------------|------------------------------------|
| Property, plant and equipment | 123,344 | 19,957 | – | 147 | (74) | 143,374 |
| Inventory | 21,906 | (5,367) | – | (88) | – | 16,451 |
| Exploration and evaluation assets | 3,529 | (515) | – | (18) | – | 2,996 |
| Fair value adjustments | 409 | (120) | – | (43) | – | 246 |
| Other temporary differences | 7,626 | 3,172 | (469) | 30 | 73 | 10,432 |
| | 156,814 | 17,127 | (469) | 28 | (1) | 173,499 |

As at 31 December 2016, the Group did not recognise deferred tax assets in respect of the accumulated tax losses from continuing operations comprising US\$620.2 million that can be carried forward against future taxable income (2015: US\$528.9 million). Tax losses of US\$484.0 million arise primarily in the UK and can be carried forward indefinitely and tax losses of US\$136.2million arise in Russia and expire primarily between 2020 and 2026.

As at 31 December 2016, the Group did not recognise deferred tax assets of US\$0.01 million (2015: US\$3.1 million) in respect of temporary differences arising on certain capitalised development costs attributable to continuing operations.

The Group has not recorded a deferred tax liability in respect of withholding tax and other taxes that would be payable on the unremitted earnings associated with investments in its subsidiaries and associates and interests in joint ventures as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future. As at 31 December 2016, statutory unremitted earnings from continuing operations comprised in aggregate US\$839.4 million (2015: US\$597.0 million).

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

22. Provision for close down and restoration costs

| | 2016 US\$'000 | 2015 US\$'000 |
|------------------------------------|------------------|------------------|
| At 1 January | 17,184 | 21,217 |
| Unwinding of discount | 175 | 213 |
| Change in estimates ^(a) | 2,177 | (4,246) |
| Disposal of subsidiary | (384) | – |
| At 31 December | 19,152 | 17,184 |

(a) Primarily reflects the effect of change in the forecast the Russian Rouble to the US Dollar exchange rate following a significant depreciation of the Russian Rouble against the US Dollar during the year ended 31 December 2015 and subsequent appreciation the Russian Rouble during the year ended 31 December 2016.

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

| | 2016 US\$'000 | 2015 US\$'000 |
|------------|------------------|------------------|
| Pokrovskiy | 2,842 | 2,646 |
| Pioneer | 3,155 | 2,754 |
| Malomir | 6,049 | 5,610 |
| Albyn | 7,106 | 5,790 |
| Yamal | – | 384 |
| | 19,152 | 17,184 |

The provision recognised represents the present value of the estimated expenditure that will be incurred, which has been arrived at using the long term risk free pre-tax cost of borrowing. The expenditure arises at different times over the life of mine. The expected timing of significant cash outflows is between years 2018 and 2032, varying from mine site to mine site.

23. Share capital

| | 2016 | | 2015 | |
|------------------------------------|---------------|----------|---------------|----------|
| | No of shares | US\$'000 | No of shares | US\$'000 |
| Allotted, called up and fully paid | | | | |
| At 1 January | 3,300,561,697 | 48,874 | 197,638,425 | 3,041 |
| Issued during the period | 3,206,835 | 46 | 3,102,923,272 | 45,833 |
| At 31 December | 3,303,768,532 | 48,920 | 3,300,561,697 | 48,874 |

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

The Company had an option issued to the IFC on 20 April 2009 to subscribe for 1,067,273 Ordinary Shares at an exercise price of £11.84 per share, subject to adjustments. The option expired unexercised on 25 May 2015.

24. Own shares

| | 2016 US\$'000 | 2015 US\$'000 |
|-----------------------------------|------------------|----------------------|
| At 1 January | 8,933 | 8,925 |
| New shares transferred to the EBT | 46 | – |
| Vesting Deferred shares award | (8,979) | – |
| Rights issue | – | 8 |
| At 31 December | – | 8,933 ^(a) |

(a) 1,441,406 Ordinary Shares held by the Company's EBT.

25. Notes to the cash flow statement

Reconciliation of profit/(loss) before tax to operating cash flow

| | 2016 US\$'000 | 2015 US\$'000 |
|--|------------------|------------------|
| Profit/(loss) before tax including discontinued operations | 27,008 | (248,179) |
| Adjustments for: | | |
| Share of results of joint ventures | – | (588) |
| Share of results of associate | 3,581 | 60,422 |
| Investment income | (556) | (4,351) |
| Other finance gains | (11,976) | (6,894) |
| Other finance losses | 1,548 | – |
| Interest expense | 60,976 | 72,703 |
| Share based payments | 140 | 297 |
| Depreciation | 105,252 | 121,599 |
| Impairment of exploration and evaluation assets | 9,155 | 37,442 |
| Impairment of ore stockpiles | 1,163 | 17,425 |
| Effect of processing previously impaired stockpiles | (7,536) | (8,535) |
| Provision for impairment of trade and other receivables | 282 | 1,264 |
| Write down to adjust the carrying value of IRC's net assets to fair value less costs to sell | – | 96,639 |
| Loss on disposals of property, plant and equipment | 2,431 | 1,090 |
| (Gain)/loss on disposal of subsidiaries | (791) | 384 |
| Foreign exchange losses | 5,158 | 15,237 |
| Gain on disposal of non-trading loans | (6,724) | – |
| Other non-cash items | 177 | 5,337 |
| Changes in working capital: | | |
| (Increase)/ decrease in trade and other receivables | (25,828) | 3,621 |
| Decrease in inventories | 298 | 22,675 |
| (Increase)/ decrease in trade and other payables | (37,745) | 21,253 |
| Net cash generated from operations | 126,013 | 208,841 |

Non-cash transactions

Except for the issue of the Ordinary Shares in exchange for the Existing Bonds, there have been no significant non-cash transactions during the year ended 31 December 2015.

There were no significant non-cash transactions during the year ended 31 December 2016.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

26. Related parties

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

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

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

JSC Verkhnetisskaya Ore Mining Company ('Verkhnetisskaya') is an associate to the Group and hence was a related party until 27 May 2016 when the Group disposed its interest in Verkhnetisskaya.

CJSC ZRK Omchak and its wholly owned subsidiary LLC Kaurchak ('Omchak') are associates to the Group and hence were related parties until 29 April 2015 when the Group disposed its interest in Omchak.

IRC Limited and its subsidiaries (Note 35) are associates to the Group and hence are related parties since 7 August 2015.

Transactions with related parties the Group entered into during the years ended 31 December 2016 and 2015 are set out below.

Trading Transactions

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

| | Sales to related parties | | Purchases from related parties | |
|--|--------------------------|------------------|--------------------------------|------------------|
| | 2016 US\$'000 | 2015 US\$'000 | 2016 US\$'000 | 2015 US\$'000 |
| Asian-Pacific Bank | | | | |
| Other | 22 | 575 | 102 | 113 |
| | 22 | 575 | 102 | 113 |
| Trading transactions with other related parties | | | | |
| Insurance arrangements with Helios, rent and other transactions with other entities in which key management have interest and exercises a significant influence or control | 66 | 1,182 | 3,514 | 5,716 |
| Associates | | | | |
| IRC Limited and its subsidiaries | 69 | 49 | 1,996 | 1,152 |
| CJSC ZRK Omchak and its wholly owned subsidiary LLC Kaurchak | – | 2 | – | – |
| | 135 | 1,233 | 5,510 | 6,868 |

During the year ended 31 December 2016, the Group made US\$0.2 million charitable donations to the Petropavlovsk Foundation (2015: US\$0.4 million).

The outstanding balances with related parties at 31 December 2016 and 2015 are set out below.

| | Amounts owed by related parties | | Amounts owed to related parties | |
|--|---------------------------------|------------------|---------------------------------|------------------|
| | 2016 US\$'000 | 2015 US\$'000 | 2016 US\$'000 | 2015 US\$'000 |
| Helios and other entities in which key management have interest and exercises a significant influence or control | 1,383 | 1,328 | 1 | 450 |
| Asian-Pacific Bank | 1 | – | – | – |
| IRC Limited and its subsidiaries | 14,502 ^(a) | 2,023 | 1,704 | 1,233 |
| | 15,886 | 3,351 | 1,705 | 1,683 |

(a) Including US\$12.5 million advanced to IRC in December 2016. This balance was fully repaid in January 2017.

Banking arrangements

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

The bank balances at 31 December 2016 and 2015 are set out below.

| | 2016 US\$'000 | 2015 US\$'000 |
|--------------------|------------------|------------------|
| Asian-Pacific Bank | 629 | 3,208 |

Financing transactions

The Group has charged a fee for the provision of the guarantee to IRC (note 14), equal to 1.75% on the outstanding loan amount under the ICBC Facility Agreement and which amounted to US\$4.5 million during the year ended 31 December 2016 (31 December 2015: US\$2.2 million). The Guarantee fee principal outstanding amounted to an equivalent of US\$3.4 million (31 December 2015: US\$nil).

The Group had an interest free unsecured loan issued to Verkhnetisskaya. Loan principal outstanding amounted to an equivalent of US\$2.8 million as at 31 December 2015.

During the year ended 31 December 2015, the Group received a number of loans from Asian-Pacific Bank. Loan principal outstanding as at 31 December 2016 was US\$nil (31 December 2015: an equivalent of US\$2.7 million). During the year ended 31 December 2016, interest charged on loans received from Asian-Pacific Bank comprised US\$0.03 million (31 December 2015: US\$0.5 million).

Key management compensation

Key management personnel, comprising a group of 15 (2015: 18) individuals, including Executive and Non-Executive Directors of the Company and members of senior management, are those having authority and responsibility for planning, directing and controlling the activities of the Group.

| | 2016 US\$'000 | 2015 US\$'000 |
|--------------------------|------------------|------------------|
| Wages and salaries | 6,103 | 7,231 |
| Pension costs | 182 | 357 |
| Share based compensation | 610 | 280 |
| | 6,895 | 7,868 |

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

27. Disposal of subsidiaries

During the year ended 31 December 2016, the Group entered into agreements to sell its wholly owned subsidiary LLC Ilijnskoye and its associate JSC Verkhnetisskaya Ore Mining Company for an aggregate cash consideration of an equivalent to US\$20 million, payable in tranches during 2016, out of which US\$19.8 million were attributed to the value of Visokoye asset held by LLC Ilijnskoye and the remainder to JSC Verkhnetisskaya Ore Mining Company. The disposal of LLC Ilijnskoye was completed on 11 May 2016.

The net assets of LLC Ilijnskoye at the date of disposal are set out below.

| | 11 May 2016 US\$'000 |
|--|-------------------------|
| Exploration and evaluation assets | 16,464 |
| Property, plant and equipment | 3,361 |
| Inventories | 21 |
| Trade and other receivables | 80 |
| Cash and cash equivalents | 9 |
| Trade and other payables | (156) |
| Net assets disposed | 19,779 |
| Consideration ^(a) | 19,269 |
| Loss on disposal | 510 |
| Net cash inflow arising on disposal: | |
| Consideration received in cash and cash equivalents ^(a) | 19,269 |
| Less: cash and cash equivalents disposed of | (9) |
| | 19,260 |

(a) Net of transaction costs.

During the year ended 31 December 2016, the Group disposed its interests in a number of non-core investments. Aggregate cash outflows arising from the aforementioned disposals was US\$72 thousand and aggregate gain was US\$1.3 million representing net liabilities disposed of.

28. Share based payments

On 31 March 2015, the Remuneration Committee approved a bonus of £555,000 to the Chief Executive Officer, of which 50% is payable in cash and 50% in the form of a Deferred Share Award. The number of shares awarded will be based on the market share price at the date of award, being 1 May 2015. The vesting of this award will be subject to Chief Executive Officer's continued service for a 12 month period from the date of award unless he departs the Company as a 'good' leaver.

29. Analysis of net debt

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

(a) Including US\$15.1 million received under investment agreement with the Russian Ministry of Far East Development (note 32).

(b) Being amortisation of borrowings and the effect of the bank debt refinancing (note 20).

| | At 1 January 2015 US\$'000 | Net cash movement US\$'000 | Exchange movement US\$'000 | Non-cash changes US\$'000 | At 31 December 2015 US\$'000 |
|---------------------------|----------------------------------|----------------------------------|----------------------------------|---------------------------------|------------------------------------|
| Cash and cash equivalents | 48,080 | (15,173) | (4,668) | – | 28,239 ^(c) |
| Borrowings | (977,804) | 316,188 | (105) | 23,443 | (638,278) |
| Net debt | (929,724) | 301,015 | (4,773) | 23,443 ^(d) | (610,039) |

(c) Including US\$15.1 million received under investment agreement with the Russian Ministry of Far East Development (note 32).

(d) Being amortisation of borrowings and the effect of the Refinancing.

30. Financial instruments and financial risk management

Capital risk management

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

The capital structure of the Group consists of net debt (as detailed in note 29) and equity

(comprising issued capital, reserves and retained earnings). As at 31 December 2016, the capital comprised US\$1.2 billion (2015: US\$1.2 billion).

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

basis and maintains a five year forecast in order to identify medium term funding needs.

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

Significant accounting policies

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

Categories of financial instruments

| | 2016 US\$'000 | 2015 US\$'000 |
|--|------------------|------------------|
| Financial assets | | |
| Cash and cash equivalents | 12,642 | 28,239 |
| Derivative financial instruments | 7,478 | 3,925 |
| Loans and receivables | 41,102 | 12,473 |
| Available for sale investments | 1,105 | 271 |
| Financial liabilities | | |
| Trade and other payables – at amortised cost | 43,688 | 60,642 |
| Borrowings – at amortised cost | 611,212 | 638,278 |
| Derivative financial instruments | 10,314 | 14,684 |

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

Financial risk management

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

Risk management is carried out by a central finance department and all key risk management decisions are approved by the Board of Directors. The Group identifies and evaluates financial risks in close cooperation with the Group's operating units. The Board provides written principles for overall risk management, as well as guidance covering

specific areas, such as foreign exchange risk, interest rate risk, gold price risk, credit risk and investment of excess liquidity.

Interest rate risk

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

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from fluctuations in currencies the Group

transacts, primarily US Dollars, GB Pounds Sterling and Russian Roubles.

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

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

| | Assets | | Liabilities | |
|---------------------------|------------------|------------------|------------------|------------------|
| | 2016 US\$'000 | 2015 US\$'000 | 2016 US\$'000 | 2015 US\$'000 |
| Russian Roubles | 39,404 | 56,795 | 35,675 | 56,817 |
| US Dollars ^(a) | 5,355 | 2,875 | 4,700 | 7,278 |
| GB Pounds Sterling | 2,444 | 357 | 813 | 943 |
| EUR | 54 | 80 | 18 | 42 |
| Other currencies | 49 | 92 | 288 | 220 |

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

The table set out below illustrates the Group's profit sensitivity to changes in exchange rates by 25% (2015: 25%), representing management's assessment of a reasonably possible change in foreign exchange currency rates. The analysis was applied to monetary assets and liabilities at the reporting dates denominated in respective currencies.

| | 2016 US\$'000 | 2015 US\$'000 |
|------------------------------------|------------------|------------------|
| Russian Rouble currency impact | 932 | 5 |
| US Dollar currency impact | 164 | 1,101 |
| GB Pounds Sterling currency impact | 408 | 146 |
| EUR currency impact | 9 | 10 |
| Other currencies | 60 | 32 |

Credit risk

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

amounts guaranteed under the ICBC facility (note 14).

The credit risk on liquid funds held in current accounts and available on demand is limited because the main counterparties are banks with high credit ratings assigned by international credit rating agencies. Having performed a high level due diligence, management does not consider the credit risk associated with Asian-Pacific Bank and other banks without international credit rating

to be high. Asian-Pacific Bank has a wide network of branches in the Amur region and, therefore, is extensively used by the entities of the precious metals segment (note 26).

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

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

| Counterparty | Credit rating | Carrying amount at 31 December 2016 US\$'000 | Carrying amount at 31 December 2015 US\$'000 |
|---|---------------|--|--|
| Barclays | A | 4,056 | – |
| Sberbank | BBB- | 3,936 | 512 |
| VTB | BB+ | 1,067 | 3,760 |
| Alfa-Bank | BB+ | 846 | – |
| Asian-Pacific Bank | CCC | 629 | 3,208 |
| Bank of Cyprus | B- | 365 | – |
| UBS | A | 212 | 173 |
| Royal Bank of Scotland | BBB+ | 5 | 4,835 |
| Treasury of Russian Federation ^(a) | – | – | 15,093 |

(a) Funds received under investment agreement with the Russian Ministry of Far East Development (note 32).

Commodity price risk

The Group generates most of its revenue from the sale of gold and iron ore concentrate. The Group's policy is to sell its products at the prevailing market price. In 2016 and 2015, the Group has entered into gold forward contracts to protect cash flows from the volatility in the gold price (note 18).

Liquidity risk

Liquidity risk is the risk that suitable sources of funding for the Group's business activities may not be available. The Group constantly

monitors the level of funding required to meet its short, medium and long term obligations. The Group also monitors compliance with restrictive covenants set out in various loan agreements (note 20) to ensure there is no breach of covenants resulting in associated loans become payable immediately.

Effective management of liquidity risk has the objective of ensuring the availability of adequate funding to meet short term requirements and due obligations as well as the objective of ensuring a sufficient level of

flexibility in order to fund the development plans of the Group's businesses.

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

| | 0 - 3 months US\$'000 | 3 months - 1 year US\$'000 | 1 - 2 years US\$'000 | 2 - 3 years US\$'000 | 3 - 6 years US\$'000 |
|---|--------------------------|----------------------------------|-------------------------|-------------------------|-------------------------|
| 2016 | | | | | |
| Borrowings | | | | | |
| – Convertible bonds | – | – | – | – | 100,000 |
| – Loans | 1,524 | 83,782 ^(a) | 46,255 | 86,475 | 311,759 |
| Future interest payments ^(b) | 13,257 | 38,670 | 44,589 | 40,322 | 74,730 |
| Trade and other payables | 34,658 | 9,030 | – | – | – |
| | 49,439 | 131,482 | 90,844 | 126,797 | 486,489 |
| 2015 | | | | | |
| Borrowings | | | | | |
| – Convertible bonds | – | – | – | – | 100,000 |
| – Loans | 41,744 | 210,105 | 288,274 | 16,817 | – |
| Future interest payments ^(b) | 10,952 | 34,911 | 22,786 | 9,354 | 11,250 |
| Trade and other payables | 28,070 | 32,572 | – | – | – |
| | 80,766 | 277,588 | 311,060 | 26,171 | 111,250 |

(a) Including US\$75 million based on facility contractual terms existing as at 31 December 2016 (note 20).

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

31. Operating lease arrangements

The Group as a Lessee

| | 2016 US\$'000 | 2015 US\$'000 |
|--|------------------|------------------|
| Minimum lease payments under operating leases recognised as an expense in the year | 5,057 | 2,535 |

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

| | 2016 US\$'000 | 2015 US\$'000 |
|----------------------|------------------|------------------|
| Expiring: | | |
| Within one year | 319 | 383 |
| In two to five years | 531 | 1,148 |
| | 850 | 1,531 |

The Group as a Lessor

The Group earned property rental income from continuing operations during the year of US\$0.7 million (2015: US\$0.8 million) on buildings owned by its subsidiary Irgiredmet.

32. Capital commitments

At 31 December 2016, the Group had entered into contractual commitments in relation to its continuing operations for the acquisition of property, plant and equipment and mine development costs in relation to POX Hub project amounting to US\$3.8 million (31 December 2015: US\$1.0 million).

Investment agreement with the Russian Ministry of Far East Development

On 14 December 2015, the Group entered into an investment agreement with the Russian Ministry of Far East Development (the 'Investment Agreement'). The

Investment Agreement involves provision of RUB5.5 billion (an equivalent to c.US\$91 million as at 31 December 2016) funding towards the construction of the electricity power line in the North East of the Amur Region of Russia, where the Group's Albyn and Malomir mines and adjacent licence areas are operated, during the period 2015 – 2019. The funds are advanced to the Group and then should be transferred to the joint stock company Far East Grid Distribution Company ('DRSK'), who is to engage a contractor to build the relevant power supply infrastructure. The Group's responsibility under the Investment Agreement will be to monitor the progress and to report to the Russian Ministry of Far East Development. The Group will be taking ultimate responsibility for the construction of the power line. Upon completion, the Group will get access to the enhanced capacity of the power supply infrastructure in the region.

Under the terms of the Investment Agreement, the Group has certain capital commitments, including further development of Albyn and Malomir mines.

As at 31 December 2015, the Group received RUB1.1billion (an equivalent to US\$15.1 million) funds under the Investment Agreement. During 2016, the Group received further RUB2.0 billion (an equivalent to US\$30.8 million) under the Investment Agreement and transferred an aggregate RUB3.1 billion (an equivalent to US\$47.7 million) to DRSK.

33. Subsequent events

In February - March 2017, the Group has entered into forward contracts to sell an aggregate of 549,994oz of gold during the years 2017 - 2019 at an average price of US\$1,252/oz.

34. Reconciliation of non-GAAP measures (unaudited)

| | 2016 US\$'000 | 2015 US\$'000 |
|---|------------------|------------------|
| Profit/(loss) for the period from continuing operations | 31,706 | (190,454) |
| Add/(less): | | |
| Interest expense | 60,976 | 71,514 |
| Investment income | (556) | (1,018) |
| Other finance gains | (11,976) | (9,064) |
| Other finance losses | 1,548 | – |
| Foreign exchange losses | 5,158 | 11,952 |
| Taxation | (4,698) | 48,879 |
| Depreciation | 105,252 | 129,104 |
| Impairment of exploration and evaluation assets | 9,155 | 37,442 |
| Impairment of ore stockpiles | 1,163 | 17,425 |
| Share in results of associates ^(a) | 2,356 | 57,009 |
| Underlying EBITDA | 200,084 | 172,789 |

(a) Group's share of interest expense, investment income, other finance gains and losses, foreign exchange losses, taxation, depreciation and impairment recognised by an associate (note 14).

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

35. Principal subsidiaries and other significant investments

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

| Principal subsidiary, joint venture and associate undertakings | Country of incorporation | Principal activity | Proportion of shares held by Petropavlovsk PLC | | Proportion of shares held by the Group | |
|--|--------------------------|-----------------------------------|--|------------------|--|------------------|
| | | | 31 December 2016 | 31 December 2015 | 31 December 2016 | 31 December 2015 |
| Subsidiary | | | | | | |
| CJSC Management Company Petropavlovsk | Russia | Management company | 100% | 100% | 100% | 100% |
| Petropavlovsk 2010 Limited | Jersey | Finance company | 100% | 100% | 100% | 100% |
| JSC Pokrovskiy Rudnik | Russia | Gold exploration and production | 43.5% | 43.5% | 98.61% | 98.61% |
| LLC Malomirskiy Rudnik | Russia | Gold exploration and production | — | — | 99.86% | 99.86% |
| LLC Albynskiy Rudnik | Russia | Gold exploration and production | — | — | 100% | 100% |
| LLC Osipkan | Russia | Gold exploration and production | — | — | 100% | 100% |
| LLC Tokurskiy Rudnik | Russia | Gold exploration and production | — | — | 100% | 100% |
| LLC Rudoperspektiva | Russia | Gold exploration and production | — | — | 100% | 100% |
| JSC YamalZoloto | Russia | Gold exploration and production | — | — | — | 100% |
| LLC Iljinskoye | Russia | Gold exploration and production | — | — | — | 100% |
| LLC Potok | Russia | Gold exploration and production | — | — | — | 100% |
| LLC Temi | Russia | Gold exploration and production | — | — | 75% | 75% |
| LLC AGPK | Russia | Gold exploration and production | — | — | 98.61% | 98.61% |
| LLC PPOP | Russia | Gold exploration and production | — | — | 98.61% | — |
| Major Miners Inc. | Guyana | Gold exploration and production | — | — | — | 100% |
| Universal Mining Inc. | Guyana | Gold exploration and production | — | — | 100% | 100% |
| Cuyuni River Ventures Inc. | Guyana | Gold exploration and production | — | — | — | 100% |
| LLC Kapstroj | Russia | Construction services | — | — | 100% | 100% |
| LLC NPGF Regis | Russia | Exploration services | — | — | 100% | 100% |
| CJSC ZRK Dalgeologiya | Russia | Exploration services | — | — | 98.61% | 98.61% |
| JSC PHM Engineering | Russia | Project and engineering services | — | — | 94% | 94% |
| JSC Irgiredmet | Russia | Research services | — | — | 99.69% | 99.69% |
| LLC NIC Gydrometallurgiya | Russia | Research services | — | — | 100% | 100% |
| LLC BMRP | Russia | Repair and maintenance | — | — | 100% | 100% |
| LLC AVT-Amur | Russia | Production of explosive materials | — | — | 49% | 49% |
| LLC Transit | Russia | Transportation services | — | — | 100% | 100% |
| Pokrovskiy Mining College | Russia | Educational institute | — | — | 98.61% | 98.61% |
| Associate | | | | | | |
| JSC Verkhnetisskaya Ore Mining Company | Russia | Gold exploration and production | — | — | — | 49% |
| IRC Limited ^(a) | HK | Management and holding company | — | — | 31.10% | 35.83% |

(a) IRC Limited and its principal subsidiary and joint venture undertakings.

| Principal subsidiary, joint venture and associate undertakings | Country of incorporation | Principal activity | Proportion of shares held by Petropavlovsk PLC | | Proportion of shares held by the Group | |
|--|-----------------------------|-------------------------------------|---|---------------------|---|---------------------|
| | | | 31 December 2016 | 31 December 2015 | 31 December 2016 | 31 December 2015 |
| IRC and its principal subsidiary and joint venture undertakings ('IRC') | | | | | | |
| IRC Limited | HK | Management and holding company | – | – | 31.10% | 35.83% |
| <i>Principal subsidiaries of IRC</i> | | | | | | |
| LLC Petropavlovsk-Iron Ore | Russia | Management company | – | – | 31.10% | 35.83% |
| LLC Olekminsky Rudnik | Russia | Iron ore exploration and production | – | – | 31.10% | 35.83% |
| LLC KS GOK | Russia | Iron ore exploration and production | – | – | 31.10% | 35.83% |
| LLC Garinsky Mining & Metallurgical Complex | Russia | Iron ore exploration and production | – | – | 30.97% | 35.83% |
| LLC Kostenginskiy GOK | | Iron ore exploration and production | – | – | 31.10% | 35.83% |
| LLC Orlovo-Sokhatinsky Rudnik | Russia | Iron ore exploration and production | – | – | 31.10% | 35.83% |
| JSC Giproruda | Russia | Engineering services | – | – | 21.86% | 25.18% |
| LLC SHMTP | Russia | Infrastructure project | – | – | 31.10% | 35.83% |
| LLC Amursnab | Russia | Procurement services | – | – | 31.07% | 35.83% |
| Heilongjiang Jiatat Titanium Co., Limited | China | Titanium sponge project | – | – | 31.10% | 35.83% |
| LLC Uralmining | Russia | Iron ore exploration and production | – | – | 31.10% | 35.83% |
| LLC Gorniy Park | Russia | Molybdenym project | – | – | 18.75% | 17.95% |
| <i>Joint ventures of IRC</i> | | | | | | |
| Heilongjiang Jianlong Vanadium Industries Co., Limited | China | Vanadium project | – | – | 14.31% | 16.48% |

Strategic report

Governance

Financial statements

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

36. Related undertakings of the Group

The Group consists of the parent company, Petropavlovsk PLC, incorporated in the United Kingdom and its subsidiaries, associates and joint ventures. In accordance with Section 409 of the Companies Act 2006 a full list of related undertakings, the country of incorporation and the effective percentage of equity owned as at 31 December 2016 is disclosed below. The Group's principal subsidiaries and other significant investments are set out in note 35.

| Name of undertaking | Country of incorporation | Proportion of shares held by the Group | Registered address |
|---|--------------------------|--|--|
| Subsidiaries | | | |
| Aricom B Finance Plc | UK | 100% | 11 Grosvenor Place, London, SW1X 7HH |
| Aricom Finance UK Limited | UK | 100% | 11 Grosvenor Place, London, SW1X 7HH |
| Aricom Treasury UK Limited | UK | 100% | 11 Grosvenor Place, London, SW1X 7HH |
| Aricom Services Limited | UK | 100% | 11 Grosvenor Place, London, SW1X 7HH |
| Aricom Roubles Treasury UK Limited | UK | 100% | 11 Grosvenor Place, London, SW1X 7HH |
| Aricom B Limited | UK | 100% | 11 Grosvenor Place, London, SW1X 7HH |
| Aricom B Roubles Treasury Limited | UK | 100% | 11 Grosvenor Place, London, SW1X 7HH |
| Petropavlovsk Rouble UK Limited | UK | 98.61% | 11 Grosvenor Place, London, SW1X 7HH |
| Eponymousco Limited | UK | 100% | 11 Grosvenor Place, London, SW1X 7HH |
| Victoria Resources Limited | UK | 100% | 11 Grosvenor Place, London, SW1X 7HH |
| Peter Hambro Mining Treasury UK Limited | UK | 100% | 11 Grosvenor Place, London, SW1X 7HH |
| Peter Hambro Mining Rouble Treasury Limited | UK | 100% | 11 Grosvenor Place, London, SW1X 7HH |
| Petropavlovsk 2010 Limited | Jersey | 100% | 13-14 Esplanade, St. Helier, JE1 1EE |
| Petropavlovsk (Jersey) Limited | Jersey | 100% | 13-14 Esplanade, St. Helier, JE1 1EE |
| Peter Hambro Mining Group Finance Limited | Guernsey | 100% | PO Box 409, Elizabeth House, Ruelle Braye, St. Peter Port, GY1 3WA |
| CJSC Management Company Petropavlovsk | Russia | 100% | 675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1 |
| JSC Pokrovskiy Rudnik | Russia | 98.61% | 676150, Amur Region, Magdagachinskiy District, Tygda Village, Sovetskaya Street, 17 |
| LLC Malomirskiy Rudnik | Russia | 99.86% | 675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1 |
| LLC Albynskiy Rudnik | Russia | 100% | 675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1 |
| LLC Osipkan | Russia | 100% | 675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1 |
| LLC Tokurskiy Rudnik | Russia | 100% | 676581, Amur Region, Selezmdzhinskiy District, Tokur Village, Vorozhejkina Street, 16 |
| LLC Rudoperspektiva | Russia | 100% | 675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1 |
| LLC Temi | Russia | 75% | 675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1 |
| LLC AGPK | Russia | 98.61% | 675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1 |
| LLC PPOP | Russia | 98.61% | 675002, Amur Region, Blagoveshchensk, Amurskaya Street, 17 |
| LLC Kapstro | Russia | 100% | 675002, Amur Region, Blagoveshchensk, Amurskaya Street, 17 |
| LLC NPGF Regis | Russia | 100% | 675027, Amur Region, Blagoveshchensk, Western Industrial Hub |
| CJSC ZRK Dalgeologiya | Russia | 98.61% | 680041, Khabarovskiy Region, Khabarovsk, Balashovskaya Street, 15 |
| JSC PHM Engineering | Russia | 94% | 105082, Moscow, Rubtsov Pereulok, 13 |
| JSC Irgiredmet | Russia | 99.69% | 664025, Irkutsk, Gagarina Boulevard, 38 |
| LLC NIC Gydrometallurgiya | Russia | 100% | 196247, St. Petersburg, Leninskiy Prospekt, 151 |
| LLC BMRP | Russia | 100% | 675016, Amur Region, Blagoveshchensk, Kalina Street, 137 |
| LLC AVT-Amur | Russia | 49% | 675000, Amur Region, Blagoveshchensk, Lenina Street, 140/1 |
| LLC Transit | Russia | 100% | 676572, Amur Region, Selezmdzhinskiy District, Fevral'sk Urban Village, Vysotskogo Street, 1 |
| Pokrovskiy Mining College | Russia | 98.61% | 676244, Amur Region, Zeya, Zolotogorskoe Shosse, 6 |
| Universal Mining Inc. | Guyana | 100% | Lot 8 Pere Street, Kitty, Georgetown |
| Peter Hambro Mining (Cyprus) Limited | Cyprus | 100% | 14 Souliou Street, Aglantzia, Nicosia, 2102 |
| Malomyrskiy Rudnik (Cyprus) Ltd | Cyprus | 100% | 14 Souliou Street, Aglantzia, Nicosia, 2102 |
| Voltimand Limited | Cyprus | 100% | 14 Souliou Street, Aglantzia, Nicosia, 2102 |
| Horatio Limited | Cyprus | 100% | 14 Souliou Street, Aglantzia, Nicosia, 2102 |
| Sicinius Limited | Cyprus | 100% | 14 Souliou Street, Aglantzia, Nicosia, 2102 |
| Syncrom High Corporation Ltd | Cyprus | 100% | 14 Souliou Street, Aglantzia, Nicosia, 2102 |
| Cayron Limited | Cayman Islands | 100% | Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108 |

| Name of undertaking | Country of incorporation | Proportion of shares held by the Group | Registered address |
|--|--------------------------|--|--|
| Associates | | | |
| IRC Limited | HK | 31.10% | 6H, 9 Queen's Road Central, Central, Hong Kong |
| <i>Subsidiaries of IRC</i> | | | |
| LLC Petropavlovsk- Iron Ore | Russia | 31.10% | 127055, Moscow, Lesnaya Street, 43, Office 313 |
| LLC Olekminsky Rudnik | Russia | 31.10% | 676253, Amur Region, Tyndinskiy District, Village Olekma |
| LLC KS GOK | Russia | 31.10% | 679000, The Jewish Autonomous Region, Birobidzhan, 60-Letiya SSSR Street, Building 22B |
| LLC Garinsky Mining & Metallurgical Complex | Russia | 30.97% | 675027, Amur Region, Blagoveshchensk, Ignatievskaya Road, 19 |
| LLC Kostenginskiy GOK | Russia | 31.10% | 679000, The Jewish Autonomous Region, Birobidzhan, 60-Letiya SSSR Street, Building 22B. |
| LLC Orlovo-Sokhatinsky Rudnik | Russia | 31.10% | 675027, Amur Region, Blagoveshchensk, Ignatievskaya Road, 19 |
| JSC Giproruda | Russia | 21.86% | St. Petersburg, Leninskiy Avenue, 151 |
| LLC SHMTP | Russia | 31.10% | 682818, RF, Khabarovsk Territory, Town Sovetskaya Gavan, Pervomayskaya Street, 48A |
| LLC Amursnab | Russia | 31.07% | 127055, Moscow, Lesnaya Street, 43, Office 313 |
| LLC Uralmining | Russia | 31.10% | 105082, Moscow, Spartakovskaya Square, 14, Building 1 |
| LLC Gorniy Park | Russia | 18.75% | 101000, Moscow, Pokrovka Street, 1/13/6 Building 2, Office 35 |
| LLC Garinskaya Infrastructure | Russia | 31.10% | 675027, Amur Region, Blagoveshchensk, Ignatievskaya Road, 19 |
| LLC TOK | Russia | 31.10% | 676282, Amur Region, Tynda, Sovetskaya Street, 1A |
| Lucilius Investments Limited | Cyprus | 31.10% | Souliou 14, Aglantzia, 2102 Nicosia |
| Kapucius Services Limited | Cyprus | 31.10% | Souliou 14, Aglantzia, 2102 Nicosia |
| Lapwing Limited | Cyprus | 30.97% | Themistokli Dervi 12, Palais D' Ivoire, 2nd Floor, 1066 Nicosia |
| Russian Titan Company Limited | Cyprus | 31.10% | Souliou 14, Aglantzia, 2102 Nicosia |
| Brasenose Services Limited | Cyprus | 31.10% | Souliou 14, Aglantzia, 2102 Nicosia |
| Tenaviva Limited | Cyprus | 31.10% | Souliou 14, Aglantzia, 2102 Nicosia |
| Esimanor Limited | Cyprus | 31.10% | Souliou 14, Aglantzia, 2102 Nicosia |
| Metellus Limited | Cyprus | 31.10% | Souliou 14, Aglantzia, 2102 Nicosia |
| Dardanius Limited | Cyprus | 31.10% | Souliou 14, Aglantzia, 2102 Nicosia |
| Rumier Holdings Limited | Cyprus | 31.10% | Souliou 14, Aglantzia, 2102 Nicosia |
| Guiner Enterprises Limited | Cyprus | 31.10% | Souliou 14, Aglantzia, 2102 Nicosia |
| Expokom Limited | Cyprus | 31.10% | Souliou 14, Aglantzia, 2102 Nicosia |
| Arfin Limited | Cyprus | 31.10% | Souliou 14, Aglantzia, 2102 Nicosia |
| Caedmon Limited | Cyprus | 18.75% | Souliou 14, Aglantzia, 2102 Nicosia |
| Thorholdco (Cyprus) Limited | Cyprus | 31.10% | Souliou 14, Aglantzia, 2102 Nicosia |
| Heilongjiang Jiatat Titanium Co., Limited | China | 31.10% | 668, Songxing Street, Jiamusi, Heilongjiang Province |
| Ariti HK Limited | Hong Kong | 31.10% | 6H, 9 Queen's Road Central, Central, Hong Kong |
| Ariva HK Limited | Hong Kong | 31.10% | 6H, 9 Queen's Road Central, Central, Hong Kong |
| Thorrouble Limited | Cayman Islands | 31.10% | P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205 |
| Thordollar Limited | Cayman Islands | 31.10% | P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205 |
| Thorholdco Limited | Cayman Islands | 31.10% | P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205 |
| Aricom UK Limited | UK | 31.10% | 11 Grosvenor Place, London, SW1X 7HH |
| Aricom Limited | UK | 31.10% | 11 Grosvenor Place, London, SW1X 7HH |
| <i>Joint ventures of IRC</i> | | | |
| Heilongjiang Jianlong Vanadium Industries Co., Limited | China | 14.31% | Building 50, Block12, Advanced Business Park, No. 188.West Road, South Ring 4, Fengtai District, Beijing |

Company Balance Sheet

At 31 December 2016

| | note | 2016 US\$'000 | 2015 US\$'000 |
|---|------|------------------|------------------|
| Fixed assets | | | |
| Tangible assets | | 59 | 87 |
| Investments | 3 | 739,921 | 776,214 |
| | | 739,980 | 776,301 |
| Current assets | | | |
| Debtors: due within one year | 4 | 761,366 | 305,346 |
| Debtors: due after one year | 4 | 300,000 | 598,389 |
| Cash at bank and in hand | | 4,259 | 4,966 |
| | | 1,065,625 | 908,701 |
| Creditors: amounts falling due within one year | 5 | (704,768) | (493,562) |
| Net current assets | | 360,857 | 415,139 |
| Total assets less current liabilities | | 1,100,837 | 1,191,440 |
| Derivative financial liability | | (10,314) | (14,684) |
| Creditors: amounts falling due after more than one year | 5 | (531,949) | (566,631) |
| Net assets | | 558,574 | 610,125 |
| Capital and reserves | | | |
| Share capital | | 48,920 | 48,874 |
| Share premium | | 518,142 | 518,142 |
| Own shares | | – | (12,685) |
| Other reserves | | (1,946) | (2,500) |
| Profit and loss account | | (6,542) | 58,294 |
| Shareholders' funds | | 558,574 | 610,125 |

The loss after tax for the year of the Company was US\$52.5 million (2015: loss after tax of US\$175.8 million).

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

These financial statements for Petropavlovsk PLC, registered number 4343841, on pages 164 to 168 were approved by the Directors on 26 April 2017 and signed on their behalf by

Peter Hambro
Director

Andrey Maruta
Director

Company Statement of Changes in Equity

For the year ended 31 December 2016

| | Share capital ^(a) US\$'000 | Share premium US\$'000 | Convertible bond reserve US\$'000 | Own shares ^(b) US\$'000 | Other reserves US\$'000 | Retained earnings US\$'000 | Total US\$'000 |
|--|--|---------------------------|---|---------------------------------------|----------------------------|-------------------------------|-------------------|
| Balance at 1 January 2015 | 3,041 | 376,991 | 48,235 | (12,677) | 29 | 182,844 | 598,463 |
| Loss for the year | – | – | – | – | – | (175,755) | (175,755) |
| Rights issue and settlement of the Existing Bonds | 45,833 | 141,151 | (48,235) | (8) | – | 48,235 | 186,976 |
| Deferred share awards | – | – | – | – | 280 | – | 280 |
| Revaluation of available for sale investments | – | – | – | – | 161 | – | 161 |
| Transfer to retained earnings | – | – | – | – | (2,970) | 2,970 | – |
| Balance at 1 January 2016 | 48,874 | 518,142 | – | (12,685) | (2,500) | 58,294 | 610,125 |
| Loss for the year | – | – | – | – | – | (52,525) | (52,525) |
| Deferred share awards | 46 | – | – | 12,685 | (280) | (12,311) | 140 |
| Revaluation of available for sale investments | – | – | – | – | 834 | – | 834 |
| Balance at 31 December 2016 | 48,920 | 518,142 | – | – | (1,946) | (6,542) | 558,574 |

(a) Please see note 23 to the consolidated financial statements.

(b) The reserve for own shares arises in connection with the Employees Benefit Trust (EBT), a discretionary trust established and operated in conjunction with the Group's share awards. Details of the Group's own shares are set out in note 24 to the consolidated financial statements. Details of the Group's share based payments are set out in note 28 to the consolidated financial statements. The amount of the reserve represents the deduction in arriving at shareholders' funds for the consideration paid for the Company's shares purchased by the trust which have not vested unconditionally in employees at the balance sheet date.

Strategic report

Governance

Financial statements

Notes to the Company Financial Statements

For the year ended 31 December 2016

1. Basis of preparation

These financial statements were prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share based payments, financial instruments, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions.

Where required, equivalent disclosures are given in the consolidated financial statements.

The financial statements have been prepared on the historical cost basis except for the re measurement of certain financial instruments to fair value.

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the parent company is not presented as part of these financial statements.

2. Significant accounting policies

2.1. Foreign currencies

The functional and presentation currency of the Company is the US Dollar. Transactions denominated in other currencies, including the issue of shares, are translated at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities that are denominated in other currencies are retranslated at the rates prevailing on the balance sheet date. Exchange rates used are consistent with the rates used by the Group as disclosed in note 2.6 to the consolidated financial statements. Exchange differences are charged or credited to the profit and loss account in the year in which they arise.

2.2. Tangible fixed assets and depreciation

Tangible fixed assets are stated 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 as follows:

| | Average life Number of years |
|--------------------|---------------------------------|
| Office equipment | 4-7 |
| Computer equipment | 3 |

Useful lives and residual values are reviewed at the end of every reporting period.

2.3 Investments

Investments in subsidiary undertakings and joint ventures are initially measured at cost and subsequently carried at cost less provisions for impairment. Investments are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. An impairment loss is recognised if the carrying amount of the investment exceeds the higher of net realisable value and the discounted future earnings from the investment.

Other investments are those classified as available for sale. Available for sale investments are initially measured at cost and subsequently carried at fair value. Changes to the fair value of available for sale investments are recognised in equity.

2.4 Taxation including deferred taxation

Full provision is made for deferred taxation on taxable temporary differences that have arisen but not reversed at the balance sheet date, except that deferred tax assets are only recognised to the extent that it is more likely than not that they will be recovered. 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.

2.5 Financial assets and liabilities

Financial assets and liabilities are measured on initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss when there is objective evidence that the financial asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

2.6 Derivative financial instruments

Derivative financial instruments are initially accounted for and measured at fair value on the date a derivative contract is entered into and subsequently measured at fair value. The gain or loss on re measurement is taken to the income statement except where the derivative is a designated cash flow hedging instrument.

Derivative financial instruments embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value, with gains or losses reported in the income statement.

2.7 Dividends

Dividends payable are recognised when they have been approved and, therefore, meet the criteria for a present obligation.

2.8 Operating leases

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

3. Investments

| | Investments in Group companies US\$'000 | Other investments other than loans US\$'000 | Total US\$'000 |
|--------------------------|--|--|-------------------|
| Cost | | | |
| At 1 January 2016 | 2,133,224 | 267 | 2,133,491 |
| Fair value change | – | 834 | 834 |
| At 31 December 2016 | 2,133,224 | 1,101 | 2,134,325 |
| Provision for impairment | | | |
| At 1 January 2016 | (1,357,277) | – | (1,357,277) |
| Charge for the year | (37,127) ^(a) | – | (37,127) |
| At 31 December 2016 | (1,394,404) | – | (1,394,404) |
| Net book value | | | |
| At 1 January 2016 | 775,947 | 267 | 776,214 |
| At 31 December 2016 | 738,820 | 1,101 | 739,921 |

(a) Including a US\$3.0 million adjustment to reflect changes in the value of the underlying investment in IRC Limited (note 14 to the consolidated financial statements), US\$7.6 million adjustment to reflect changes following disposal of Visokoye exploration and evaluation asset (note 27 to the consolidated financial statements) and US\$26.5 million adjustment to align the value of the investment with the value of the assets held by a subsidiary undertaking.

4. Debtors

| | 2016 US\$'000 | 2015 US\$'000 |
|------------------------------|------------------|------------------|
| Owed by Group companies | 1,048,124 | 901,392 |
| VAT recoverable | 2,046 | 2,055 |
| Other debtors | 11,196 | 288 |
| | 1,061,366 | 903,735 |
| Due within one year | 761,366 | 305,346 |
| Due after more than one year | 300,000 | 598,389 |
| | 1,061,366 | 903,735 |

5. Creditors

| | 2016 US\$'000 | 2015 US\$'000 |
|------------------------------|------------------|------------------|
| Due to Group companies | 706,751 | 626,080 |
| Bank loans ^(a) | 525,132 | 430,256 |
| Trade creditors | 975 | 647 |
| Accruals and other creditors | 3,859 | 3,210 |
| | 1,236,717 | 1,060,193 |
| Due within one year | 704,768 | 493,562 |
| Due after more than one year | 531,949 | 566,631 |
| | 1,236,717 | 1,060,193 |

(a) Please see note 20 to the consolidated financial statements.

Notes to the Company Financial Statements continued

For the year ended 31 December 2016

6. Taxation

As at 31 December 2016, the Company has tax losses available to carry forward in the amount of US\$198.0 million (2015: US\$163.2 million).

7. Parent company guarantees

The Company provided a number of corporate guarantees on behalf of certain Group undertakings. Please also see note 14 to the consolidated financial statements.

8. Operating lease arrangements

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

| | 2016 US\$'000 | 2015 US\$'000 |
|--------------------------|------------------|------------------|
| Expiring: | | |
| Within one year | 319 | 383 |
| Within two to five years | 531 | 1,148 |
| | 850 | 1,531 |

9. Directors' remuneration

There were three Executive Directors who held office at the end of the year (2015: three Executive Directors who held office at the end of the year). Details of Directors' remuneration are provided in the Directors' Remuneration Report on pages 87 to 103 of this Annual Report.

Independent Auditor's Report to the Members of Petropavlovsk PLC

For the year ended 31 December 2015

Opinion on financial statements of Petropavlovsk PLC

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2015 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes 1 to 37 and the parent company Balance Sheet, parent company Statement of Changes in Equity and the related notes 1 to 10. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

Emphasis of matter – Going concern

As described in note 2 to the financial statements the Group is forecasting a breach of certain financial covenants relating to its borrowing facilities as at 30 June 2016 as well as a breach in the bank covenants of its associate, IRC Ltd, for which it has provided a guarantee. If a covenant breach arises and is not waived or amended by the debt holders, all of the Group's loan facilities would become repayable. The funds for this will not be available.

As disclosed in note 2 to the financial statements, in order to address this forecast covenant breach, the Group has commenced negotiations with its principal lenders to modify or temporarily waive the existing covenants.

Whilst we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate, these conditions together with the other matters set out in note 2 of the financial statements indicate the existence of a material uncertainty which may give rise to significant doubt over the Company's and the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group or parent company were unable to continue as a going concern.

We describe below how the scope of our audit has responded to this risk. Our opinion is not modified in respect of this matter.

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 2 to the financial statements and the directors' statement on the longer-term viability of the Group contained on page 118.

Aside from the matters disclosed in the emphasis of matter paragraph above, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation on page 28 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 30–41 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the Directors' explanation on page 118 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Strategic report

Governance

Financial statements

Independent Auditor's Report to the Members of Petropavlovsk PLC continued

For the year ended 31 December 2015

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

Our risk assessment process continues throughout the audit and, as a result, we have removed 'Accounting for IRC Limited' as a risk of material misstatement following its deconsolidation from the Group on 7 August 2015. The remaining risks from our audit of the previous year's financial statements were assessed as continuing risks.

The procedures described in our response to each risk are not exhaustive and we have focused on those procedures that we

consider address areas of judgement or subjectivity. As part of our audit of the group, in addition to substantive tests, we also test the design and implementation of internal controls over financial reporting in each of the risk areas.

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

| Risk | How the scope of our audit responded to the risk |
|--|--|
| <p>Going concern (note 2.1)</p> <p>We consider the application of the going concern basis of accounting and the related disclosures to be a key risk due to the material uncertainty regarding the Group's ability to comply with certain of its covenants as at 30 June 2016. In particular, we consider that there is a high degree of judgement around whether the necessary covenant waivers will be obtained throughout the going concern assessment period.</p> <p>There is therefore a risk that the going concern basis will be adopted inappropriately or that the disclosures are not adequate in the case of a material uncertainty.</p> <p>As referenced in note 2 of the financial statements, management has highlighted the material uncertainty regarding the Group's ability to comply with certain of the covenants throughout the going concern period.</p> <p>We have highlighted the level of uncertainty identified by the Directors in respect of going concern in the "emphasis of matter – going concern" paragraph above.</p> | <p>We challenged the key assumptions in management's forecast cash flows for the next 12 months (base case and downside scenarios) by:</p> <ul style="list-style-type: none"> – considering management's going concern paper which was presented to the Board, and the accompanying cash flow and covenant compliance forecasts for the going concern period. This paper included stress tests for a range of reasonably possible scenarios; – comparing the forecast gold price used to the latest set of broker forecasts; – using our mining specialists, VenmynDeloitte, to analyse the reasonableness of the production profile and recovery rates and assess the extent to which further oxide ore reserves have become available by interviewing the chief geologists at the mine sites and reviewing the State approved reserve submissions; – assessing the mining and processing costs by reviewing the historical accuracy of budgeted costs and the extent to which the cost cutting measures had been executed during the year; – agreeing the Group's committed debt facilities and hedging arrangements to supporting documentation; – assessing the impact of the Group's continuing guarantee of IRC Ltd's debt with ICBC, through assessment of likelihood of the guarantee being called during the going concern period; – reviewing the waiver as provided to IRC by their lenders; – considering the Group's planned activities to address the identified covenant breach, which includes the renegotiation of the covenants in its borrowing facilities; and – assessing whether the disclosures relating to going concern included in the financial statements are balanced, proportionate and clear. <p>We include above the conclusion of our review of the directors' statement in respect of the group's ability to continue as a going concern.</p> |

| Risk | How the scope of our audit responded to the risk |
|---|---|
| <p>Impairment of property, plant and equipment (notes 3.3 and 6)</p> <p>In line with IAS 36 management assessed at 31 December 2015 whether any internal or external indicators of impairment exist in relation to its property, plant and equipment. Management identified impairment indicators and therefore carried out an impairment test. These require significant judgement to be exercised.</p> <p>As referenced in note 3.3 of the financial statements the recoverable value of property, plant and equipment is considered by management to be a critical accounting judgement and key source of estimate uncertainty.</p> <p>The carrying value of property, plant and equipment on the balance sheet as at 31 December 2015 was \$1,038m, (FY14: \$1,143,m). No impairments were recognised during the year. Further details are provided in note 13 to the financial statements</p> | <p>We challenged management's significant assumptions used in the impairment testing for property, plant and equipment, and specifically the cash flow projections, by:</p> <ul style="list-style-type: none"> – using VenmynDeloitte to analyse management's long term mining plans which form the basis of their recoverable value models; – considering the work of management's experts in producing the long term mining plans and considered their experience and qualifications; – comparing the discount rates used by management with Deloitte's independent, expert calculations and the long term gold prices assumed with external forecasts; – using our internal valuation specialists to perform an independent assessment of the discount rate used to facilitate benchmarking of management's rate; – assessing management's allocation of the capital costs of the POX project between the cash generating units, for the purposes of the impairment tests; – assessing whether headroom identified at the Group's cash generating units is indicative that a reversal of a previously recognised impairment is required; – reviewing management's accounting paper with consideration of all of the assumptions supporting their conclusion; and – testing capitalised expenditure during the year on a sample basis to assess whether the related costs qualify for capitalisation under the relevant accounting standards. <p>We also evaluated the sensitivity analysis performed by management and the adequacy and accuracy of disclosures relating to the impairment review.</p> |

Independent Auditor's Report to the Members of Petropavlovsk PLC continued

For the year ended 31 December 2015

| Risk | How the scope of our audit responded to the risk |
|---|--|
| <p>Inventory (notes 2.15, 6 and 15)</p> <p>Inventory is required to be carried at the lower of its cost and net realisable value. The measurement and valuation of deferred stripping assets, gold in circuit and stockpiles included in inventory, together with their net realisable values are complex, involve judgement and are based on assumptions about future mining activities, gold prices and processing costs.</p> <p>As referenced on page 144 of the financial statements deferred stripping costs, which forms part of inventory, is considered by management as a critical accounting judgement and key source of estimation uncertainty.</p> <p>The Group held current and non-current inventories of \$175m and \$51m respectively on the balance sheet as at 31 December 2015 (FY14: \$206m and \$42m respectively). A \$17m impairment (FY14 \$10m) was recognised in order to reduce the value of ore stockpiles to their net realisable value.</p> <p>Further details are provided in notes 6 and 15 of the financial statements.</p> | <p>We challenged management's significant assumptions used in their assessment of the measurement and valuation of inventory as described below by:</p> <ul style="list-style-type: none"> – assessing the net realisable value of inventory by comparing the forecast gold price assumptions with external forecasts and using VenmynDeloitte to evaluate the processing cost assumptions; – considering the detailed mine plans to verify whether stripping was correctly deferred and amortisation appropriately calculated. Furthermore, together with VenmynDeloitte, we have visited each of the key mines and discussed with mine management their on-going stripping plans and reviewed the pit-by-pit cross sections to assess whether the stripping relates to ore bodies that are scheduled to be mined in the future; – attending inventory counts at key operating locations; and – reviewing management's measurement and control procedures on gold-in-circuit and assessing the reasonableness of gold-in-circuit by reconciling gold production, sales and recovery together with VenmynDeloitte. |
| <p>Impairment of exploration and evaluation assets (notes 3.2, 6, and 12)</p> <p>The assessment of the prospectivity of the Group's exploration and evaluation assets requires significant judgement. There is a risk that costs will be incorrectly capitalised or that as a result of gold price being lower than forecasted. The Group's exploration and evaluation assets will not be progressed to development.</p> <p>As referenced on page 143 of the financial statements recoverability of exploration and evaluation assets is considered by management as a critical accounting judgement and key source of estimation uncertainty.</p> <p>The carrying value of the Group's exploration and evaluation assets on the balance sheet as at 31 December 2015 was \$69m (2014: \$97m). A \$37m impairment was recognised during the year (2014:\$14m). Further details are provided in note 12 to the financial statements</p> | <p>We challenged the outcome of management's review of its exploration and evaluation assets by:</p> <ul style="list-style-type: none"> – holding discussions with members of the Strategic Committee, and with local management responsible for directing exploration activities to corroborate the current activities and future intentions for the significant exploration projects; – challenging management to justify the quantum of the impairment recognised, where applicable; – challenging the recoverable value of assets where a preliminary sales agreement has been reached which is below the carrying value; – discussing the Group's plans for specific projects with the Audit Committee; and – performing detailed testing on the exploration and evaluation expenditure capitalised during the period and reviewed the licence conditions for any potential breaches. <p>Where an asset has been impaired we have challenged management on the events that led to the impairment, specifically in relation to future gold prices and the judgements surrounding the recoverability of the carrying values.</p> |

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 94

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

In 2014 we chose underlying EBITDA as our basis of materiality. However, following management's decision to scale back production towards the end of 2015, EBITDA has reduced substantially. This reduction is not indicative of a reduction in the size or scale of the Group. Therefore we have concluded that EBITDA does not represent an appropriate basis for materiality in 2015. In the current economic environment the Group's value lies in its resource base rather than its profitability and we have therefore concluded that net assets is a more appropriate basis for materiality.

We determined materiality for the Group to be \$12 million (2014: \$13 million), which represents 2% of the Group's net assets. In 2014 materiality was based on 5% of the Group's adjusted EBITDA, which represented 2% of the Group's net assets.

Our audit work at the operating locations was executed at levels of materiality applicable to each individual entity which were lower than group materiality and were not more than \$9 million (2014: \$9 million).

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of US\$240,000 (2014: \$260,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

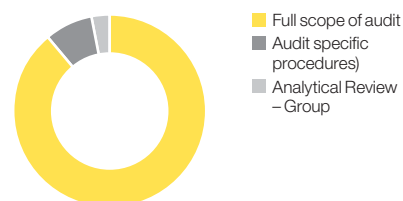
Similar to 2014, our Group audit scope focused primarily on the operating locations being the four operating mines, nine service entities, seven exploration assets and 17 finance or holding companies. All of the operating mines and service entities were subject to a full audit, whilst the exploration assets were subject to specified audit procedures, primarily testing of the capitalised spend on exploration activities and assessing for impairment. In addition, during 2015 IRC Limited was deemed no longer to be a subsidiary of the Group and instead was accounted for as an associate from 5 August onwards; as such we obtained limited scope reporting from Deloitte Hong Kong. The extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's business operations at those locations.

These operating locations represent the principal business units within the Group's reportable segments and account for 89% (2014: 90%) of the Group's total assets, 92% (2014: 92%) of the Group's inventory, 97% (2014: 99%) of the Group's revenue and 98% (2014: 97%) of the Group's underlying EBITDA. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

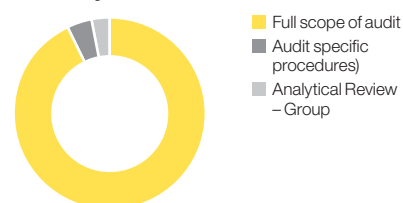
The Group audit team continued to follow a program of planned visits that was designed so that senior members of the Group team, including the Senior Statutory auditor, together with VenmynDeloitte, visited each of the operating gold mines and the Group's offices in Moscow and Blagoveschensk where the Group audit scope was focused.

The senior members of the group audit team, including the Senior Statutory auditor, met regularly throughout the year with senior members of the management team in London and the component auditors based in Moscow and Hong Kong.

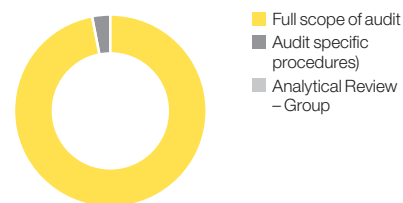
Total assets



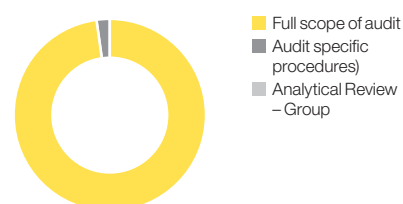
Inventory



Revenue



EBITDA



Independent Auditor's Report to the Members of Petropavlovsk PLC continued

For the year ended 31 December 2015

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. Under the Listing Rules we are required to review certain elements of the Directors' Remuneration Report. We have nothing to report arising from these matters or our review.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Timothy Biggs, FCA

(Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
28 April 2016

Consolidated Income Statement

For the year ended 31 December 2015

| | note | 2015 US\$'000 | 2014 US\$'000 |
|--|------|------------------|------------------|
| Continuing operations | | | |
| Group revenue | 5 | 599,914 | 864,960 |
| Operating expenses | 6 | (619,635) | (816,211) |
| | | (19,721) | 48,749 |
| Share of net (loss)/ profit of associates | 14 | (60,422) | 2,990 |
| Operating (loss)/profit | | (80,143) | 51,739 |
| Investment income | 9 | 1,018 | 1,680 |
| Interest expense | 9 | (71,514) | (67,705) |
| Other finance gains | 9 | 9,064 | – |
| Loss before taxation | | (141,575) | (14,286) |
| Taxation | 10 | (48,879) | (167,871) |
| Loss for the period from continuing operations | | (190,454) | (182,157) |
| Discontinued operations | | | |
| Loss for the period from discontinued operations | 27 | (107,023) | (165,535) |
| Loss for the period | | (297,477) | (347,692) |
| Attributable to: | | | |
| Equity shareholders of Petropavlovsk PLC | | (238,759) | (260,664) |
| Continuing operations | | (190,155) | (184,296) |
| Discontinued operations | | (48,604) | (76,368) |
| Non-controlling interests | | (58,718) | (87,028) |
| Continuing operations | | (299) | 2,139 |
| Discontinued operations | | (58,419) | (89,167) |
| Loss per share | | | |
| Basic loss per share | 11 | | |
| From continuing operations | | (US\$0.07) | (US\$0.94) |
| From discontinued operations | | (US\$0.02) | (US\$0.39) |
| | | (US\$0.09) | (US\$1.33) |
| Diluted loss per share | 11 | | |
| From continuing operations | | (US\$0.07) | (US\$0.94) |
| From discontinued operations | | (US\$0.02) | (US\$0.39) |
| | | (US\$0.09) | (US\$1.33) |

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015

| | 2015 US\$'000 | 2014 US\$'000 |
|---|------------------|------------------|
| Loss for the period | (297,477) | (347,692) |
| Items that may be reclassified subsequently to profit or loss: | | |
| Revaluation of available-for-sale investments | 161 | (10) |
| Exchange differences: | | |
| Exchange differences on translating foreign operations | (4,121) | (17,928) |
| Transfer of foreign currency translation reserve to profit or loss on disposal of a foreign operation | 2,601 | – |
| Cash flow hedges: | | |
| Fair value gains/(losses) | 7,090 | (14,239) |
| Tax thereon | (1,418) | 2,848 |
| Transfer to revenue | (9,436) | (42,328) |
| Tax thereon | 1,888 | 8,466 |
| Other comprehensive loss for the period net of tax | (3,235) | (63,191) |
| Total comprehensive loss for the period | (300,712) | (410,883) |
| Attributable to: | | |
| Equity shareholders of Petropavlovsk PLC | (241,916) | (318,146) |
| Non-controlling interests | (58,796) | (92,737) |
| | (300,712) | (410,883) |
| Total comprehensive loss for the period attributable to equity shareholders of Petropavlovsk PLC arises from: | | |
| Continuing operations | (195,360) | (239,120) |
| Discontinued operations | (46,556) | (79,026) |
| | (241,916) | (318,146) |

Strategic report

Governance

Financial statements

Consolidated Balance Sheet

At 31 December 2015

| | note | 2015 US\$'000 | 2014 US\$'000 |
|---|--------|------------------|--------------------|
| Assets | | | |
| Non-current assets | | | |
| Exploration and evaluation assets | 12 | 68,993 | 97,533 |
| Property, plant and equipment | 13 | 1,038,343 | 1,143,032 |
| Prepayments for property, plant and equipment | | 1,841 | 10,671 |
| Investments in associates | 14 | 39,394 | 1,231 |
| Available-for-sale investments | | 271 | 112 |
| Inventories | 15 | 51,434 | 42,436 |
| Other non-current assets | | 175 | 274 |
| Deferred tax assets | 21 | – | 40 |
| | | 1,200,451 | 1,295,329 |
| Current assets | | | |
| Inventories | 15 | 175,222 | 206,498 |
| Trade and other receivables | 16 | 48,096 | 74,892 |
| Derivative financial instruments | 18 | 3,925 | 9,430 |
| Cash and cash equivalents | 17 | 28,239 | 48,080 |
| | | 255,482 | 338,900 |
| Assets of disposal groups classified as held for sale | 27, 28 | – | 629,853 |
| | | 255,482 | 968,753 |
| Total assets | | 1,455,933 | 2,264,082 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 19 | (96,567) | (66,713) |
| Current income tax payable | | (4,748) | (6,277) |
| Borrowings | 20 | (260,248) | (415,161) |
| | | (361,563) | (488,151) |
| Liabilities of disposal groups associated with assets classified as held for sale | 27, 28 | – | (289,846) |
| | | (361,563) | (777,997) |
| Net current (liabilities)/ assets | | (106,081) | 190,756 |
| Non-current liabilities | | | |
| Borrowings | 20 | (378,030) | (562,643) |
| Derivative financial instruments | 18 | (14,684) | – |
| Deferred tax liabilities | 21 | (173,499) | (156,854) |
| Provision for close down and restoration costs | 22 | (17,184) | (21,217) |
| | | (583,397) | (740,714) |
| Total liabilities | | (944,960) | (1,518,711) |
| Net assets | | 510,973 | 745,371 |
| Equity | | | |
| Share capital | 23 | 48,874 | 3,041 |
| Share premium | | 518,142 | 376,991 |
| Own shares | 24 | (8,933) | (8,925) |
| Hedging reserve | | 3,096 | 4,947 |
| Convertible bond reserve | 20 | – | 48,235 |
| Share based payments reserve | | 280 | 3,283 |
| Other reserves | | (20,985) | (16,709) |
| Retained earnings | | (47,922) | 137,704 |
| Equity attributable to the shareholders of Petropavlovsk PLC | | 492,552 | 548,567 |
| Non-controlling interests | | 18,421 | 196,804 |
| Total equity | | 510,973 | 745,371 |

These consolidated financial statements for Petropavlovsk PLC, registered number 4343841, were approved by the Directors on 28 April 2016 and signed on their behalf by

Peter Hambro
Director

Andrey Maruta
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

| | Total attributable to equity holders of Petropavlovsk PLC | | | | | | | | | | | | |
|--|---|---------------------------|---------------------------|----------------------------|------------------------|--------------------------------------|--|-----------------------------|---|-------------------------------|-------------------|---------------------------------------|--------------------------|
| | note | Share capital US\$'000 | Share premium US\$'000 | Merger reserve US\$'000 | Own shares US\$'000 | Convertible bond Reserve US\$'000 | Share based payments reserve US\$'000 | Hedging reserve US\$'000 | Other reserves ^(a) US\$'000 | Retained earnings US\$'000 | Total US\$'000 | Non-controlling interests US\$'000 | Total equity US\$'000 |
| Balance at 1 January 2014 | | 3,041 | 376,991 | 19,265 | (8,925) | 48,235 | 11,096 | 49,807 | (89) | 360,999 | 860,420 | 251,917 | 1,112,337 |
| Total comprehensive loss | | – | – | – | – | – | – | (44,860) | (12,622) | (260,664) | (318,146) | (92,737) | (410,883) |
| Loss for the period | | – | – | – | – | – | – | – | – | (260,664) | (260,664) | (87,028) | (347,692) |
| Other comprehensive loss | | – | – | – | – | – | – | (44,860) | (12,622) | – | (57,482) | (5,709) | (63,191) |
| Share based payments | | – | – | – | – | – | (7,280) | – | – | 12,153 | 4,873 | – | 4,873 |
| Vesting of awards within IRC LTIP | | – | – | – | – | – | (533) | – | – | 533 | – | – | – |
| Issue of ordinary shares by subsidiary | | – | – | – | – | – | – | – | – | 1,314 | 1,314 | 38,076 | 39,390 |
| Other transaction with non-controlling interests | | – | – | – | – | – | – | – | – | 106 | 106 | (452) | (346) |
| Transfer to retained earnings | | – | – | (19,265) ^(b) | – | – | – | – | (3,998) | 23,263 | – | – | – |
| Balance at 1 January 2015 | | 3,041 | 376,991 | – | (8,925) | 48,235 | 3,283 | 4,947 | (16,709) | 137,704 | 548,567 | 196,804 | 745,371 |
| Total comprehensive loss | | – | – | – | – | – | – | (1,851) | (1,306) | (238,759) | (241,916) | (58,796) | (300,712) |
| Loss for the period | | – | – | – | – | – | – | – | – | (238,759) | (238,759) | (58,718) | (297,477) |
| Other comprehensive loss | | – | – | – | – | – | – | (1,851) | (1,306) | – | (3,157) | (78) | (3,235) |
| Share based payments | 29 | – | – | – | – | – | 17 | – | – | – | 17 | – | 17 |
| Deferred share awards | | – | – | – | – | – | 280 | – | – | – | 280 | – | 280 |
| Right issue and settlement of the Existing Bonds ^{(c), (d)} | | 45,833 | 141,151 | – | (8) | (48,235) | – | – | – | 48,235 | 186,976 | – | 186,976 |
| Issue of ordinary shares by subsidiary | | – | – | – | – | – | – | – | – | (2,487) | (2,487) | 51,921 | 49,434 |
| Other transaction with non-controlling interests | | – | – | – | – | – | – | – | 866 | 249 | 1,115 | 243 | 1,358 |
| Disposal of subsidiaries ^(e) | | – | – | – | – | – | (3,300) | – | (866) | 4,166 | – | (171,751) | (171,751) |
| Transfer to retained earnings | | – | – | – | – | – | – | – | (2,970) | 2,970 | – | – | – |
| Balance at 31 December 2015 | | 48,874 | 518,142 | – | (8,933) | – | 280 | 3,096 | (20,985) | (47,922) | 492,552 | 18,421 ^(f) | 510,973 |

(a) Including translation reserve of US\$(18.2) million (31 December 2014: US\$(16.7) million).

(b) Arises from an adjustment to the book value of the investment in the Company financial statements to reflect changes in the value of the Group's investment in IRC (note 27).

(c) Note 2.

(d) Upon settlement of the Existing Bonds, the associated US\$48 million convertible bond reserve was transferred to retained earnings.

(e) Notes 27, 28.

(f) IRC Limited ("IRC") was the only non-wholly owned subsidiary of the Group that had a material non-controlling interest (note 27).

Consolidated Cash Flow Statement

For the year ended 31 December 2015

| | note | 2015 US\$'000 | 2014 US\$'000 |
|---|-------|------------------|------------------|
| Cash flows from operating activities | | | |
| Cash generated from operations | 25 | 208,841 | 245,407 |
| Interest paid | | (72,174) | (77,615) |
| Income tax paid | | (33,287) | (34,641) |
| Net cash from operating activities | | 103,380 | 133,151 |
| Cash flows from investing activities | | | |
| Proceeds from disposal of subsidiaries, net of cash disposed and liabilities settled | 28 | 6,485 | 2,699 |
| Proceeds from disposal of the Group's interests in associates | 14 | 1,000 | – |
| Purchase of property, plant and equipment ^(a) | | (58,804) | (164,223) |
| Exploration expenditure ^(a) | | (18,854) | (34,726) |
| Proceeds from disposal of property, plant and equipment | | 847 | 5,141 |
| Loans granted | | (47) | (89) |
| Repayment of amounts loaned to other parties | | 42 | 586 |
| Interest received | | 2,183 | 3,351 |
| Dividends received from joint venture | | 917 | – |
| Net cash used in investing activities | | (66,231) | (187,261) |
| Cash flows from financing activities | | | |
| Proceeds from issue of ordinary shares capital, net of transaction costs | | 156,163 | – |
| Proceeds from issue of ordinary shares by IRC, net of transaction costs | | 49,434 | 38,870 |
| Proceeds from borrowings ^(b) | | 82,885 | 154,007 |
| Repayments of borrowings ^(b) | | (304,178) | (235,050) |
| Debt transaction costs paid in connection with ICBC facility | | (72) | (467) |
| Debt transaction costs paid in connection with bank loans | | (1,896) | – |
| Restricted bank deposit placed in connection with ICBC facility | | (1,000) | (21,250) |
| Refinancing costs | 2 | (34,418) | (7,760) |
| Funds received under investment agreement with the Russian Ministry of Far East Development | 33 | 15,093 | – |
| Guarantee fee in connection with ICBC facility | | 2,169 | – |
| Dividends paid to non-controlling interests | | (536) | (346) |
| Purchase of own shares | | (8) | – |
| Net cash used in financing activities | | (36,364) | (71,996) |
| Net increase/(decrease) in cash and cash equivalents in the period | | 785 | (126,106) |
| Effect of exchange rates on cash and cash equivalents | | (5,270) | (33,092) |
| Cash and cash equivalents at beginning of period | 17 | 48,080 | 170,595 |
| Cash and cash equivalents re-classified as assets held for sale at beginning of the period | 27,28 | 55,459 | 92,142 |
| Cash and cash equivalents re-classified as assets held for sale at disposal | 27 | (70,815) | – |
| Cash and cash equivalents re-classified as assets held for sale at end of the period | 27,28 | – | (55,459) |
| Cash and cash equivalents at end of period | 17 | 28,239 | 48,080 |

(a) Including US\$45.1 million related to discontinued operations (year ended 31 December 2014: US\$102.1 million) (note 27).

(b) Including US\$62.5 million proceeds from borrowings (year ended 31 December 2014: US\$154.0 million) and US\$36.2 million repayments of borrowings (year ended 31 December 2014: US\$81.1 million) related to discontinued operations (note 27).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

1. General information

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

2. Significant accounting policies

2.1. Basis of preparation and presentation

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

Going concern

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

The Group performed an assessment of the forecast cash flows and covenant compliance in relation to bank facilities for the period of 12 months from the date of approval of the 2015 Annual Report and Accounts. As at 31 December 2015, the Group had sufficient liquidity headroom and complied with related financial covenants. The Group's projections demonstrate that although the Group expects

to have sufficient working capital liquidity over the next 12 months, these projections indicate that, unless mitigating actions can be taken, there will be insufficient liquidity to meet its debt repayment schedule on 20 June 2016 and a breach of certain financial covenants, being leverage and interest service ratios, within the bank facilities as at the next measurement date, being 30 June 2016, is likely to arise.

In view of the above, the Group is in negotiations with its principal lenders with a view to obtaining satisfactory modifications and temporary waivers regarding the existing covenants ahead of the testing period and the current repayment schedule ("Debt Restructuring"). The Group has received written comfort from their principal lenders intending to support the Debt Restructuring. If an agreement with the Group's principal lenders in relation to the Debt Restructuring cannot be reached, and as a result a covenant breach and/or missed debt repayment occurs, this would result in events of default which, through cross-defaults and cross-accelerations, could cause all other Group's debt arrangements to become repayable on demand.

The Group has guaranteed the outstanding amounts IRC owes to ICBC. The outstanding loan principal was US\$276.25 million as at 31 December 2015. The assessment of whether there is any material uncertainty that IRC will be able to repay this facility as it falls due is another key element of the Group's overall going concern assessment. The Directors of IRC have forecast that certain financial covenants under the ICBC facility are likely to be breached at the next testing date of 30 June 2016 and IRC will not have sufficient liquidity to facilitate a debt repayment of US\$21.5 million due on 21 June 2016, which will cause the related facility to become immediately due and payable. However, IRC has obtained from ICBC approved waivers of the financial covenants until and inclusive of 31 December 2017, conditional, among others, on approval of the Debt Restructuring by the Group's principal lenders, a result of which is that approval of the Debt Restructuring must be completed and approved by 20 June 2016 to facilitate IRC's debt repayment schedule being met.

The risk that the Group will be unable to achieve appropriate mitigating actions prior to 20 June 2016 or secure an appropriate relaxation or amendment of its financial covenants in order to avoid a breach of covenants is a material uncertainty which may cast significant doubt upon the Company's ability to continue to apply the going concern basis of accounting.

Nevertheless, after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation, after taking into account the aforementioned factors, that the Group will have adequate resources to continue in operational existence for the foreseeable future, being at least the next 12 months from the date of approval of the 2015 Annual Report and Accounts. Accordingly, they continue to adopt the going concern basis of accounting in preparing these consolidated financial statements.

The Refinancing

On 2 February 2015, the Group announced a proposed Refinancing which was completed on 18 March 2015. The Refinancing consisted of the following:

- Rights issue pursuant to which 3,102,923,272 new Ordinary Shares were issued at subscription price of £0.05 per Ordinary Share as set out below:
- 2,114,460,594 Ordinary Shares were issued for cash consideration raising £105.7 million (equivalent to US\$156.2 million) gross cash proceeds; and
- 988,462,678 Ordinary Shares were issued in exchange for the Existing Bonds as part of settlement of the Existing Bonds (please refer to the details set out below).
- Issue of the new convertible bonds:

On 18 March 2015, the Group issued US\$100 million convertible bonds due on 18 March 2020 (the 'New Bonds'). The New Bonds were issued pursuant to the completion of the exchange offer of the Existing Bonds as set out below.

The New Bonds were issued by the Group's wholly owned subsidiary Petropavlovsk 2010 Limited and are guaranteed by the Company. The New Bonds carry a coupon of 9.00% payable quarterly in arrears and are convertible into redeemable preference shares of Petropavlovsk 2010 Limited which are guaranteed by the Company and will be exchangeable immediately upon issuance for Ordinary Shares in the Company.

The conversion price has been set at £0.0826 per Ordinary Share, subject to adjustment for certain events, and the conversion exchange rate has been fixed at US\$1.5171: £1. The New Bonds were admitted to listing on the Official List of the UK Listing Authority and admitted to trading on the Professional Securities Market of the London Stock Exchange on 18 March 2015.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

– Settlement of the Existing Bonds:

The Existing Bonds with a par value of US\$310.5 million as at 31 December 2014 (note 20) were settled as follows:

| | Par value US\$ million |
|--|---------------------------|
| Portion settled in cash from the net cash proceeds of the Rights Issue | 135.5 |
| Portion settled in equity through the debt-for-equity exchange commitments | 75.0 |
| Portion settled through the issuance of the New Bonds | 100.0 |
| Par value of the Existing Bonds | 310.5 |

– Bank Waivers:

The Group obtained waivers and relaxation of certain financial covenants for the period until 31 December 2015, inclusive.

The aggregate transaction costs of US\$42.8 million, out of which US\$7.8 million were paid as at 31 December 2014, were primarily allocated to equity (US\$33.4 million) and the New Bonds (US\$5.1 million).

2.2. Adoption of new and revised standards and interpretations

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

New and revised Standards and Interpretations that were effective for annual periods beginning on or after 1 January 2015 and are set out below have been adopted:

– Amendments to IAS 19 'Employee Benefits: Defined Benefit Plans – Employee Contributions'

– Annual improvements to IFRSs: 2010-2012

– Annual improvements to IFRSs: 2011-2013

These standards, amendments, and interpretations have not had a significant impact on amounts reported, presentation or disclosure in these consolidated financial statements but may impact the accounting for future transactions and arrangements.

New standards, amendments and interpretations that are applicable to the Group, issued but not yet effective for the reporting period beginning 1 January 2016 and not early adopted

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

| | Effective for annual periods beginning on or after |
|--|--|
| IFRS 9 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. | 1 January 2018 |
| IFRS 14 'Regulatory Deferral Accounts' ^(a) | 1 January 2016 |
| IFRS 15 'Revenue from contracts with customers' replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts' and related interpretations. | 1 January 2017 |
| IFRS 16 'Leases' replaces IAS 17 'Accounting for Leases' and related interpretations. | 1 January 2019 |
| Amendments to IAS 1 'Presentation of Financial Statements' | 1 January 2016 |
| Amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation' | 1 January 2016 |
| Amendments to IAS 16 and IAS 41 'Agriculture: Bearer Plants' | 1 January 2016 |
| Amendments to IAS 27 'Equity Method in Separate Financial Statements' | 1 January 2016 |
| Amendments to IFRS 10 and IAS 28 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' | 1 January 2016 |
| Amendments to IFRS 11 'Accounting for Acquisition of Interests in Joint Operations' | 1 January 2016 |
| Annual improvements to IFRSs: 2012-2014 Cycle | 1 July 2016 |

(a) IFRS 14 is not applicable to the Group as the Group is not a first-time adopter of IFRSs.

The Directors do not expect that the adoption of the standards, amendments and interpretations listed above will have a material impact on the Group's consolidated financial statements in future reporting periods, except that IFRS 9 will impact both measurement and disclosures of financial instruments and IFRS 15 may have an impact on revenue recognition and related disclosures. Beyond the information above, it is not practicable to provide a reasonable estimate of the impact of the aforementioned standards until a detailed review has been completed.

2.3. Basis of consolidation

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

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

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

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

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

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

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

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

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

2.4. Non-controlling interests

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

2.5. Investments in associates

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

Investments in associates are accounted for using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate

in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for the impairment.

2.6. Non-current assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

2.7. Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). For the purpose of the

consolidated financial statements, the results and financial position of each Group company are expressed in US Dollars, which is the Group's presentation currency. The functional currency of the Company is the US Dollar.

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

| | As at 31 December 2015 | Average year ended 31 December 2015 | As at 31 December 2014 | Average year ended 31 December 2014 |
|---------------------------------|---------------------------|---|---------------------------|---|
| GB Pounds Sterling (GBP : US\$) | 0.68 | 0.65 | 0.64 | 0.61 |
| Russian Rouble (RUB : US\$) | 72.88 | 61.30 | 56.26 | 38.44 |

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

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

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

2.8. Intangible assets

Exploration and evaluation expenditure and mineral rights acquired

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

Exploration and evaluation expenditure comprise costs directly attributable to:

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

Mineral rights acquired through a business combination or an asset acquisition are capitalised separately from goodwill if the asset is separable or arises from contractual or legal rights and the fair value can be measured reliably on initial recognition.

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

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

2.9. Property, plant and equipment Mine development costs

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

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

Mining assets

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

Mining assets, except for those related to alluvial gold operations, where economic benefits from the asset are consumed in a pattern which is linked to the production level, are depreciated using a units of production method based on the volume of ore reserves. This results in a depreciation charge proportional to the depletion of reserves. The basis for determining ore reserve estimates is set out in note 3.1. Where the mining plan anticipates future capital expenditure to support the mining activity over the life of the mine, the depreciable amount is adjusted for such estimated future expenditure.

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

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

Non-mining assets

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

Capital construction in progress

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

Depreciation

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

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

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

2.10. Impairment of non-financial assets

Property, plant and equipment and finite life intangible assets are reviewed by management for impairment if there is any indication that the carrying amount may not be recoverable. This applies to the Group's share of the assets held by the joint ventures as well as the assets held by the Group itself.

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

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

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

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

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

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

2.11. Deferred stripping costs

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

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

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

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

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

2.12. Provisions for close down and restoration costs

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

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

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

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

2.13. Financial instruments

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

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

Financial assets

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

Financial assets at fair value through profit or loss

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

Available-for-sale financial assets

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

reserve in equity. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in equity is reclassified to the income statement.

Loans and receivables

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

Effective interest method

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

Cash and cash equivalents

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

Trade receivables

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

Other investments

Listed investments and unlisted equity investments, other than investments in subsidiaries, joint ventures and associates, are classified as available-for-sale financial assets and subsequently measured at fair

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

Financial liabilities

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

Borrowings

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

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

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

Derivative financial instruments

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

recognition in the income statement depends on the nature of the hedge relationship.

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

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

Hedge accounting

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

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

Currently the Group only has cash flow hedge relationships.

To qualify for hedge accounting the hedging relationship must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, then the relationship does not qualify for hedge accounting. In this case the hedging instrument and the hedged item are reported independently as if there were no hedging relationship.

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The fair value gain or

loss relating to the ineffective portion is recognised immediately in profit or loss.

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

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

Trade payables

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

Equity instruments

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

Impairment of financial assets

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

2.14. Provisions

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

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

2.15. Inventories

Inventories include the following major categories:

- stores and spares represent raw materials consumed in the production process as well as spare parts and other maintenance supplies
- construction materials represent materials for use in capital construction and mine development
- ore in stockpiles represent material that, at the time of extraction, is expected to be processed into a saleable form and sold at a profit. Ore in stockpiles is valued at the average cost per tonne of mining and stockpiling the ore. Quantities of ore in stockpiles are assessed through surveys and assays. Ore in stockpiles is classified between current and non-current inventory based on the expected processing schedule in accordance with the Group's mining plan
- work in progress inventory primarily represents gold in processing circuit that has not completed the production process. Work in progress inventory is valued at the average production costs
- deferred stripping costs are included in inventories where appropriate, as set out in note 2.11.

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

Provisions are recorded to reduce ore in stockpiles, work in process and finished goods inventory to net realisable value where the net realisable value is lower than relevant inventory cost at the balance sheet date. Net

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

2.16. Leases

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

2.17. Revenue recognition

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

Sales of gold and silver

The majority of the Group's revenue is derived from the sale of refined gold and silver, the latter being a by-product of gold production. Revenue from the sale of gold and silver is recognised when:

- the risks and rewards of ownership are transferred to the buyer;
- the Group retains neither a continuing involvement nor control over the goods sold;
- the amount of revenue can be measured reliably; and
- it is probable that the economic benefits associated with the transaction will flow to the Group.

Other revenue

Other revenue is recognised as follows:

- revenue from service contracts is recognised when the services are rendered;
- revenue from sales of goods is recognised when the goods are delivered to the buyer and the risks and benefits associated with ownership are transferred to the buyer; and
- rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

2.18. Borrowing costs

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

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

2.19. Taxation

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

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

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

- tax payable on the future remittance of the past earnings of subsidiaries, associates and jointly controlled entities is provided for except where the Company is able to control the remittance of profits and it is probable that there will be no remittance in the foreseeable future;

- deferred tax is not provided on the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction that does not affect accounting profit or taxable profit and is not a business combination, such as on the recognition of a provision for close down and restoration costs and the related asset or on the inception of finance lease; and
- deferred tax assets are recognised only to the extent that it is more likely than not that they will be recovered.

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

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

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

2.20. Employee Benefit Trust

Certain Ordinary Shares underlying the share-based payment awards granted are held by the Employee Benefit Trust (the 'EBT'). Details of employee benefit trust arrangements are set out in note 29. The carrying value of shares held by the employee benefit trust are recorded as treasury shares, shown as a deduction to shareholders' equity.

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

When preparing the consolidated financial statements in accordance with the accounting policies as set out in note 2, management necessarily makes judgements and estimates that can have a significant impact on the financial statements. These judgements and estimates are based on management's best

knowledge of the relevant facts and circumstances and previous experience. Actual results may differ from these estimates under different assumptions and conditions.

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are set out below.

3.1. Ore reserve estimates

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

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

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

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

- carrying value of deferred tax assets and liabilities (note 21) where changes in estimated reserves affect the carrying value of the relevant assets and liabilities.

3.2. Exploration and evaluation costs

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

3.3. Impairment and impairment reversals

The Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets are impaired.

The recoverable amount of an asset, or CGU, is measured as the higher of fair value less costs to sell and value in use.

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

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

3.4. Deferred stripping costs

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

3.5. Close down and restoration costs

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

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

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

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

3.6. Tax provisions and tax legislation

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

3.7. Recognition of deferred tax assets

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

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

Details of tax charge for the year and deferred tax balances are set out in notes 10 and 21.

3.8. Determination of control of subsidiaries and consolidation of entities

Judgement is required to determine when the Group has control, which requires an assessment of the relevant activities (those relating to the operating and capital decisions of the arrangement, such as: the approval of the capital expenditure programme for each year, and appointing, remunerating and terminating the key management personnel or service providers of the operations) and when the decisions in relation to those activities are under the control of the Group or require unanimous consent.

Differing conclusions around these judgements, may materially impact how these businesses are presented in the consolidated financial statements – under the full consolidation method, equity method or proportionate consolidation method.

In determining whether the Group controlled IRC until it was disposed on 7 August 2015 (note 27), the Group has taken the following into specific consideration:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders; and
- the existence of a substantial guarantee of IRC's debt.

The Group's principal subsidiaries and other significant investments are set out in note 36.

4. Segment information

The Group's reportable segments under IFRS 8, which are aligned with its operating locations, were determined to be as set out below:

- Pokrovskiy, Pioneer, Malomir and Albyn hard-rock gold mines which are engaged in gold and silver production as well as field exploration and mine development; and
- Alluvial operations segment comprising various alluvial gold operations which are engaged in gold production and field exploration.

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

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

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

4. Segment information continued

| 2015 | Pioneer US\$'000 | Pokrovskiy US\$'000 | Malomir US\$'000 | Albyn US\$'000 | Alluvial operations US\$'000 | Corporate and other US\$'000 | Consolidated US\$'000 |
|---|---------------------|------------------------|---------------------|-------------------|------------------------------------|------------------------------------|--------------------------|
| Revenue | | | | | | | |
| Gold ^(a) | 253,914 | 61,002 | 71,044 | 181,687 | – | – | 567,647 |
| Silver | 641 | 168 | 84 | 149 | – | – | 1,042 |
| Other external revenue | – | – | – | – | – | 31,225 | 31,225 |
| Inter-segment revenue | – | – | 1,284 | 433 | – | 130,042 | 131,759 |
| Intra-group eliminations | – | – | (1,284) | (433) | – | (130,042) | (131,759) |
| Total Group revenue from external customers | 254,555 | 61,170 | 71,128 | 181,836 | – | 31,225 | 599,914 |
| Operating expenses and income | | | | | | | |
| Operating cash costs | (135,926) | (45,082) | (65,434) | (115,314) | 1,006 | (32,159) | (392,909) |
| Depreciation | (45,864) | (12,344) | (18,195) | (50,819) | (1,388) | (494) | (129,104) |
| Central administration expenses | – | – | – | – | – | (30,419) | (30,419) |
| Reversal of impairment of mining assets | – | – | – | – | – | – | – |
| Impairment of exploration and evaluation assets | – | (2,324) | (140) | – | – | (34,978) | (37,442) |
| Impairment of ore stockpiles | (11,945) | 884 | (6,065) | (299) | – | – | (17,425) |
| Impairment of investments in associates | – | – | – | – | – | – | – |
| Loss on disposal of subsidiaries | – | – | – | – | (384) | – | (384) |
| Total operating expenses ^(b) | (193,735) | (58,866) | (89,834) | (166,432) | (766) | (98,050) | (607,683) |
| Share of net loss of associates | – | – | – | – | – | (60,422) | (60,422) |
| Segment result | 60,820 | 2,304 | (18,706) | 15,404 | (766) | (127,247) | (68,191) |
| Foreign exchange losses | | | | | | | (11,952) |
| Operating loss | | | | | | | (80,143) |
| Investment income | | | | | | | 1,018 |
| Interest expense | | | | | | | (71,514) |
| Other finance gains | | | | | | | 9,064 |
| Taxation | | | | | | | (48,879) |
| Loss for the period from continuing operations | | | | | | | (190,454) |
| Segment assets | 407,004 | 40,357 | 425,029 | 447,161 | – | 130,690 | 1,450,241 |
| Segment liabilities | (21,005) | (6,632) | (10,136) | (36,459) | – | (58,951) | (133,183) |
| Deferred tax – net | | | | | | | (173,499) |
| Unallocated cash | | | | | | | 5,193 |
| Loans given | | | | | | | 499 |
| Borrowings | | | | | | | (638,278) |
| Net assets | | | | | | | 510,973 |
| Other segment information | | | | | | | |
| Additions to non-current assets: | | | | | | | |
| Exploration and evaluation expenditure capitalised within intangible assets | 450 | 44 | 3,711 | 3,441 | – | 1,530 | 9,176 |
| Other additions to intangible assets | | | | | | | |
| Capital expenditure | 15,171 | 816 | 4,520 | 9,611 | – | 962 | 31,080 |
| Other items capitalised ^(c) | (1,350) | (61) | (836) | (1,999) | – | – | (4,246) |
| Average number of employees | 1,760 | 989 | 937 | 1,510 | – | 3,273 | 8,469 |

(a) Including US\$9.4 million contribution from the cash flow hedge.

(b) Operating expenses less foreign exchange losses.

(c) Close down and restoration costs (note 13).

Strategic report

Governance

Financial statements

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

4. Segment information continued

| 2014 | Pioneer US\$'000 | Pokrovskiy US\$'000 | Malomir US\$'000 | Albyn US\$'000 | Alluvial operations US\$'000 | Corporate and other US\$'000 | Consolidated US\$'000 |
|--|---------------------|------------------------|---------------------|-------------------|------------------------------------|------------------------------------|--------------------------|
| Revenue | | | | | | | |
| Gold ^(d) | 341,445 | 89,059 | 112,988 | 239,750 | 38,500 | – | 821,742 |
| Silver | 2,438 | 680 | 255 | 277 | 105 | – | 3,755 |
| Other external revenue | – | – | – | – | – | 39,463 | 39,463 |
| Inter-segment revenue | 658 | – | 4,117 | 1,016 | – | 196,603 | 202,394 |
| Intra-group eliminations | (658) | – | (4,117) | (1,016) | – | (196,603) | (202,394) |
| Total Group revenue from external customers | 343,883 | 89,739 | 113,243 | 240,027 | 38,605 | 39,463 | 864,960 |
| Operating expenses and income | | | | | | | |
| Operating cash costs | (212,393) | (60,205) | (87,551) | (149,199) | (28,555) | (40,078) | (577,981) |
| Depreciation | (40,081) | (21,790) | (18,450) | (57,863) | (4,883) | (901) | (143,968) |
| Central administration expenses | – | – | – | – | – | (38,185) | (38,185) |
| Reversal of impairment of mining assets | – | – | – | 28,935 | – | – | 28,935 |
| Impairment of exploration and evaluation assets | – | (3,463) | (128) | – | (390) | (18,053) | (22,034) |
| Impairment of ore stockpiles | (7,144) | 3,401 | 3,186 | (9,587) | – | – | (10,144) |
| Impairment of investments in associates | – | – | – | – | – | (9,697) | (9,697) |
| Write-down to adjust the carrying value of Koboldo's net assets to fair value less costs to sell | – | – | – | – | (11,867) | – | (11,867) |
| Total operating expenses ^(e) | (259,618) | (82,057) | (102,943) | (187,714) | (45,695) | (106,914) | (784,941) |
| Share of net profit of associates | – | – | – | – | – | 2,990 | 2,990 |
| Segment result | 84,265 | 7,682 | 10,300 | 52,313 | (7,090) | (64,461) | 83,009 |
| Foreign exchange losses | | | | | | | (31,270) |
| Operating profit | | | | | | | 51,739 |
| Investment income | | | | | | | 1,680 |
| Interest expense | | | | | | | (67,705) |
| Taxation | | | | | | | (167,871) |
| Loss for the period from continuing operations | | | | | | | (182,157) |
| Segment assets | 484,141 | 62,564 | 450,545 | 462,947 | 14,652 | 154,868 | 1,629,717 |
| Segment liabilities | (16,403) | (5,851) | (9,311) | (16,669) | (757) | (45,973) | (94,964) |
| Deferred tax – net | | | | | | | (156,814) |
| Unallocated cash | | | | | | | 18,262 |
| Loans given | | | | | | | 862 |
| Borrowings | | | | | | | (977,804) |
| Net assets of disposal group classified as held for sale | | | | | | | 326,112 |
| Net assets | | | | | | | 745,371 |
| Other segment information | | | | | | | |
| Additions to non-current assets: | | | | | | | |
| Exploration and evaluation expenditure capitalised within intangible assets | 1,143 | 475 | 6,774 | 7,218 | 41 | 3,480 | 19,131 |
| Other additions to intangible assets | – | – | – | – | 789 | – | 789 |
| Capital expenditure | 43,327 | 815 | 30,509 | 20,708 | 1,721 | 2,214 | 99,294 |
| Other items capitalised ^(f) | 10,935 | (1,898) | (4,992) | (6,113) | – | – | (2,068) |
| Average number of employees | 1,737 | 1,006 | 916 | 1,411 | 464 | 3,998 | 9,532 |

(d) Including US\$42.3 million contribution from the cash flow hedge.

(e) Operating expenses less foreign exchange losses.

(f) Being net of interest capitalised and close down and restoration costs (note 13).

4. Segment information continued

Entity wide disclosures

Revenue by geographical location^(a)

| | 2015 US\$'000 | 2014 US\$'000 |
|----------------|------------------|------------------|
| Russia and CIS | 599,686 | 864,425 |
| Other | 228 | 535 |
| | 599,914 | 864,960 |

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

Non-current assets by location of asset^(b)

| | 2015 US\$'000 | 2014 US\$'000 |
|--------|------------------|------------------|
| Russia | 1,199,941 | 1,294,893 |
| Other | 64 | 10 |
| | 1,200,005 | 1,294,903 |

(b) Excluding financial instruments and deferred tax assets.

Information about major customers

During the years ended 31 December 2015 and 2014, the Group generated revenues from the sales of gold to Russian banks for Russian domestic sales of gold. Included in gold sales revenue for the year ended 31 December 2015 are revenues of US\$571 million which arose from sales of gold to two banks that individually accounted for more than 10% of the Group's revenue, namely US\$366 million to Sberbank of Russia and US\$205 million to VTB (2014: US\$815 million which arose from sales of gold to two banks that individually accounted for more than 10% of the Group's revenue, namely US\$527 million to Sberbank of Russia and US\$288 million to VTB). The proportion of Group revenue of each bank may vary from year to year depending on commercial terms agreed with each bank. Management consider there is no major customer concentration risk due to high liquidity inherent to gold as a commodity.

5. Revenue

Continuing operations

| | 2015 US\$'000 | 2014 US\$'000 |
|-----------------------|------------------|------------------|
| Sales of goods | 585,643 | 850,228 |
| Rendering of services | 13,515 | 13,489 |
| Rental income | 756 | 1,243 |
| | 599,914 | 864,960 |
| Investment income | 1,018 | 1,680 |
| | 600,932 | 866,640 |

Discontinued operations

| | Period to 7 August 2015 US\$'000 | 2014 US\$'000 |
|-----------------------|--|------------------|
| Sales of goods | 49,180 | 117,972 |
| Rendering of services | 1,102 | 4,442 |
| | 50,282 | 122,414 |
| Investment income | 1,163 | 1,667 |
| | 51,445 | 124,081 |

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

6. Operating expenses and income

| | 2015 US\$'000 | 2014 US\$'000 |
|--|------------------|-----------------------|
| Net operating expenses ^(a) | 522,013 | 721,949 |
| Impairment of exploration and evaluation assets | 37,442 | 22,034 |
| Reversal of impairment of mining assets | – | (28,935) |
| Impairment of ore stockpiles ^(a) | 17,425 | 10,144 |
| Impairment of investments in associates | – | 9,697 ^(b) |
| Write-down to adjust the carrying value of Kobre's net assets to fair value less costs to sell | – | 11,867 ^(c) |
| Central administration expenses ^(a) | 30,419 | 38,185 |
| Foreign exchange losses | 11,952 | 31,270 |
| Loss on disposal of subsidiaries ^(c) | 384 | – |
| | 619,635 | 816,211 |

(a) As set out below.

(b) Taking into consideration the alternatives sought to realise the value of investments in associates through sale and indicative purchase consideration from the potential buyers, respective impairment provision was recognised against the associated carrying values.

(c) Note 28.

Net operating expenses

| | 2015 US\$'000 | 2014 US\$'000 |
|---|------------------|------------------|
| Depreciation | 129,104 | 143,968 |
| Staff costs | 70,632 | 109,341 |
| Materials | 131,914 | 154,099 |
| Fuel | 55,835 | 78,798 |
| External services | 29,004 | 22,608 |
| Mining tax | 33,138 | 47,711 |
| Electricity | 25,008 | 35,839 |
| Smelting and transportation costs | 1,079 | 3,012 |
| Movement in ore stockpiles, deferred stripping, work in progress and bullion in process attributable to gold production | (11,777) | 46,223 |
| Taxes other than income | 7,928 | 14,113 |
| Insurance | 7,244 | 6,528 |
| Professional fees | 554 | 958 |
| Office costs | 304 | 674 |
| Operating lease rentals | 645 | 914 |
| Business travel expenses | 1,541 | 2,199 |
| Provision for impairment of trade and other receivables | 1,261 | (1,056) |
| Bank charges | 855 | 550 |
| Goods for resale | 12,816 | 17,300 |
| Other operating expenses | 24,514 | 40,134 |
| Other expenses/(income) | 414 | (1,964) |
| | 522,013 | 721,949 |

6. Operating expenses and income continued

Central administration expenses

| | 2015 US\$'000 | 2014 US\$'000 |
|--------------------------|------------------|------------------|
| Staff costs | 18,908 | 22,278 |
| Professional fees | 2,040 | 3,616 |
| Insurance | 1,191 | 1,048 |
| Operating lease rentals | 1,900 | 1,772 |
| Business travel expenses | 1,611 | 1,598 |
| Office costs | 544 | 838 |
| Other | 4,225 | 7,035 |
| | 30,419 | 38,185 |

Impairment charges

Impairment of mining assets

The Group undertook an impairment review of the tangible assets attributable to the gold mining projects and the supporting in-house service companies and concluded no impairment was required as at 31 December 2015.

The estimated recoverable amounts demonstrated improvements compared to the previous year as a result of cost optimization measures undertaken by the Group in response to the declining gold price environment, increase in the Group's non-refractory mineable reserves and effect of the Russian Rouble depreciation on operating cash costs.

Having considered the excess of estimated recoverable amounts over the carrying values of the associated assets on the balance sheet as at 31 December 2015, the Directors concluded that no impairment was required as at 31 December 2015.

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

| | Year ended 31 December 2015 | Year ended 31 December 2014 |
|------------------------------|--------------------------------|--------------------------------|
| Long-term gold price | US\$1,150/oz | US\$1,200/oz |
| Discount rate ^(a) | 8% | 9.5% |
| RUB/US\$ exchange rate | RUB65.0/US\$ | RUB60.0/US\$ |

(a) Being the post-tax real weighted average cost of capital, equivalent to a nominal pre-tax discount rate of 10.1% (2014: 11.8%)

Impairment of exploration and evaluation assets

The Group performed a review of its exploration and evaluation assets and recorded the following impairment charges:

- Taking into consideration the alternative means to realising value from the Visokoe asset (note 12) through a sale, and referring to the indicative aggregate consideration from the potential buyer of US\$20 million for Visokoe asset and equity investment in Verkhnetisskaya Ore Mining Company (note 14), a US\$32.5 million impairment charge has been recorded against associated exploration and evaluation costs previously capitalised within exploration and evaluation assets;
- US\$4.0 million impairment charges have been recorded against associated exploration and evaluation costs previously capitalised within intangible assets following the decision to suspend exploration at various license areas, located in the Amur region; and
- A further US\$0.9 million impairment charge has been recorded against exploration and evaluation assets in Guyana.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

Impairment of ore stockpiles

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

| | Year ended 31 December 2015 | | | Year ended 31 December 2014 | | |
|------------|--|-------------------|---|--|-------------------|---|
| | Pre-tax impairment charge/ (reversal of impairment) US\$'000 | Taxation US\$'000 | Post-tax impairment charge/ (reversal of impairment) US\$'000 | Pre-tax impairment charge/ reversal of impairment US\$'000 | Taxation US\$'000 | Post-tax impairment charge/ reversal of impairment US\$'000 |
| Pokrovskiy | (884) | 177 | (707) | (3,401) | 680 | (2,721) |
| Pioneer | 11,945 | (2,390) | 9,555 | 7,144 | (1,429) | 5,715 |
| Malomir | 6,065 | (1,213) | 4,852 | (3,186) | 637 | (2,549) |
| Albyn | 299 | (60) | 239 | 9,587 | (1,917) | 7,670 |
| | 17,425 | (3,486) | 13,939 | 10,144 | (2,029) | 8,115 |

7. Auditor's remuneration

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

| | 2015 US\$'000 | 2014 US\$'000 |
|--|------------------|------------------|
| Audit fees and related fees | | |
| Fees payable to the Company's auditor for the annual audit of the parent company and consolidated financial statements | 611 | 607 |
| Fees payable to the Company's auditor and their associates for other services to the Group: | | |
| For the audit of the Company's subsidiaries as part of the audit of the consolidated financial statements | 269 | 355 |
| For the audit of subsidiary statutory accounts pursuant to legislation ^(a) | 77 | 624 |
| | 957 | 1,586 |
| Non-audit fees | | |
| Other services pursuant to legislation – interim review ^(b) | 342 | 431 |
| Fees for reporting accountants services ^(c) | 231 | 2,313 |
| Tax services | 45 | 36 |
| | 618 | 2,780 |

(a) Including the statutory audit of subsidiaries in the UK and Cyprus as well as US\$541 thousand payable for the audit of the consolidated financial statements of IRC in 2014.

(b) Including US\$93 thousand (2014: US\$143 thousand) payable for the interim review of the consolidated financial statements of IRC.

(c) Fees payable in relation to the Refinancing (note 2) (2014: Fees payable in relation to the Refinancing).

8. Staff costs

Continuing operations

| | 2015 US\$'000 | 2014 US\$'000 |
|-----------------------------|------------------|------------------|
| Wages and salaries | 69,806 | 103,410 |
| Social security costs | 19,235 | 26,329 |
| Pension costs | 219 | 334 |
| Share-based compensation | 280 | 1,546 |
| | 89,540 | 131,619 |
| Average number of employees | 8,469 | 9,532 |

Discontinued operations

| | Period to 7 August 2015 US\$'000 | 2014 US\$'000 |
|-----------------------------|--|------------------|
| Wages and salaries | 12,613 | 35,703 |
| Social security costs | 3,287 | 9,258 |
| Pension costs | 158 | 332 |
| Share-based compensation | 17 | 3,327 |
| | 16,075 | 48,620 |
| Average number of employees | 1,752 | 2,261 |

9. Financial income and expenses

| | 2015 US\$'000 | 2014 US\$'000 |
|--|------------------|------------------|
| Investment income | | |
| Interest income | 1,018 | 1,680 |
| | 1,018 | 1,680 |
| Interest expense | | |
| Interest on bank loans | (57,731) | (55,165) |
| Interest on convertible bonds | (13,570) | (25,424) |
| | (71,301) | (80,589) |
| Interest capitalised | – | 13,372 |
| Unwinding of discount on environmental obligation | (213) | (488) |
| | (71,514) | (67,705) |
| Other finance gains | | |
| Gain on settlement of the Existing Bonds ^(a) | 478 | – |
| Fair value gain on derivative financial instruments ^(b) | 6,417 | – |
| Financial guarantee fee ^(c) | 2,169 | – |
| | 9,064 | – |

(a) Note 2.

(b) Result from re-measurement of the conversion option of the New Bonds to fair value (note 20).

(c) Note 26.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

10. Taxation

| | 2015 US\$'000 | 2014 US\$'000 |
|--|------------------|----------------------|
| Current tax | | |
| UK current tax | – | 1,601 ^(a) |
| Russian current tax | 31,752 | 32,849 |
| | 31,752 | 34,450 |
| Deferred tax | | |
| Origination of timing differences ^(b) | 17,127 | 133,421 |
| Total tax charge | 48,879 | 167,871 |

(a) Being adjustment in relation to prior years.

(b) Including effect of foreign exchange movements in respect of deductible temporary differences of US\$40.3 million (year ended 31 December 2014: US\$128.8 million) which primarily arises as the tax base for a significant portion of the future taxable deductions in relation to the Group's property, plant and equipment are denominated in Russian Rouble whilst the future depreciation charges associated with these assets will be based on their US\$ carrying value and reflects the movements in the Russian Rouble to the US Dollar exchange rate.

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

| | 2015 US\$'000 | 2014 US\$'000 |
|--|------------------|------------------|
| Loss before tax from continuing operations | (141,575) | (14,286) |
| Tax at the UK corporation tax rate of 20.25% ^(a) (2014: 21.5%) | (28,669) | (3,071) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | (1,243) | (4,516) |
| Tax effect of share of results of joint ventures and associates | 12,235 | (643) |
| Tax effect of expenses that are not deductible for tax purposes | 9,674 | 11,419 |
| Tax effect of tax losses for which no deferred income tax asset was recognised | 26,583 | 33,117 |
| Utilisation of previously unrecognised tax losses | (767) | (363) |
| Foreign exchange movements in respect of deductible temporary differences | 40,305 | 128,787 |
| Other adjustments | (9,239) | 3,141 |
| Tax charge for the period | 48,879 | 167,871 |

(a) On 20 March 2013, the UK Government announced a further reduction in the main rate of UK corporation tax from 21% to 20% effective from 1 April 2015.

Tax legislation is subject to varying interpretations. In addition, there is a risk of tax authorities making arbitrary judgements of business activities. If a particular treatment, based on management's judgement of the Group's business activities, was to be challenged by the tax authorities, the Group may be subject to tax claims and exposures. The Directors do not anticipate that these exposures will have a material adverse effect upon the Group's financial position.

11. Earnings per share

| | 2015 US\$'000 | 2014 US\$'000 |
|---|------------------|------------------|
| Loss for the period attributable to equity holders of Petropavlovsk PLC | (238,759) | (260,664) |
| From continuing operations | (190,155) | (184,296) |
| From discontinued operations | (48,604) | (76,368) |
| Interest expense on convertible bonds, net of tax ^(a) | — | — |
| Loss used to determine diluted earnings per share | (238,759) | (260,664) |
| From continuing operations | (190,155) | (184,296) |
| From discontinued operations | (48,604) | (76,368) |
| | No of shares | No of shares |
| Weighted average number of Ordinary Shares | 2,657,332,030 | 196,423,244 |
| Adjustments for dilutive potential Ordinary Shares ^{(a), (b)} | — | — |
| Weighted average number of Ordinary Shares for diluted earnings per share | 2,657,332,030 | 196,423,244 |
| | US\$ | US\$ |
| Basic loss per share | (0.09) | (1.33) |
| From continuing operations | (0.07) | (0.94) |
| From discontinued operations | (0.02) | (0.39) |
| | | |
| Diluted loss per share | (0.09) | (1.33) |
| From continuing operations | (0.07) | (0.94) |
| From discontinued operations | (0.02) | (0.39) |

(a) Convertible bonds which could potentially dilute basic loss per ordinary share in the future are not included in the calculation of diluted loss per share because they were anti-dilutive for the year ended 31 December 2015 and 2014.

(b) The Group had a potentially dilutive option issued to International Finance Corporation ('IFC') to subscribe for 1,067,273 Ordinary Shares (note 23) which was anti-dilutive and therefore was not included in the calculation of diluted loss per share for the year ended 31 December 2015 and 2014.

Strategic report

Governance

Financial statements

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

12. Exploration and evaluation assets

| | Visokoe US\$'000 | Flanks of Pokrovskiy US\$'000 | Flanks of Albyn US\$'000 | Other ^(a) US\$'000 | Total US\$'000 |
|----------------------------------|---------------------|-------------------------------------|--------------------------------|----------------------------------|-------------------|
| At 1 January 2015 | 48,293 | 4,385 | 35,639 | 9,216 | 97,533 |
| Additions | 458 | 500 | 3,441 | 4,777 | 9,176 |
| Impairment ^(b) | (32,500) | (2,324) | – | (2,618) | (37,442) |
| Reallocation and other transfers | – | (274) | – | – | (274) |
| At 31 December 2015 | 16,251 | 2,287 | 39,080 | 11,375 | 68,993 |

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

(b) Note 6.

| | Visokoe US\$'000 | Flanks of Pokrovskiy US\$'000 | Flanks of Albyn US\$'000 | Other ^(c) US\$'000 | Total US\$'000 |
|---|---------------------|-------------------------------------|--------------------------------|----------------------------------|-------------------|
| At 1 January 2014 | 47,334 | 10,343 | 40,822 | 17,509 | 116,008 |
| Additions | 959 | 2,455 | 7,218 | 9,288 | 19,920 |
| Disposal of subsidiary | – | – | – | (13) | (13) |
| Disposal | – | (800) | – | – | (800) |
| Impairment ^(d) | – | (3,463) | – | (10,921) | (14,384) |
| Transfer to mining assets | – | (73) | (12,401) ^(e) | (5,376) | (17,850) |
| Transfer to assets classified as held for sale ^(f) | – | – | – | (1,661) | (1,661) |
| Reallocation and other transfers | – | (4,077) | – | 390 | (3,687) |
| At 31 December 2014 | 48,293 | 4,385 | 35,639 | 9,216 | 97,533 |

(c) Represent amounts capitalised in respect of a number of projects in the Amur region and Guyana.

(d) Note 6.

(e) Following completion of exploration and commencement of the mining activity at the Flanks of Albyn, the associated amounts capitalised has been transferred to mining assets within property, plant and equipment.

(f) Note 28.

13. Property, plant and equipment

| | Mine development costs US\$'000 | Mining assets US\$'000 | Non-mining assets US\$'000 | Capital construction in progress ^(c) (US\$'000) | Total US\$'000 |
|---|---------------------------------------|---------------------------|----------------------------------|---|-------------------|
| Cost | | | | | |
| At 1 January 2014 | 6,725 | 1,849,026 | 226,303 | 258,480 | 2,340,534 |
| Additions | 42 | 29,884 | 1,960 | 67,408 | 99,294 |
| Interest capitalised ^{(note 9) (a)} | – | – | – | 13,372 | 13,372 |
| Close down and restoration cost capitalised ^(note 22) | – | (15,440) | – | – | (15,440) |
| Transfers from exploration and evaluation assets ^(note 12) | – | 17,850 | – | – | 17,850 |
| Transfers from capital construction in progress ^(b) | – | 17,596 | 1,329 | (18,925) | – |
| Disposals | – | (8,167) | (13,148) | (109) | (21,424) |
| Transfer to assets classified as held for sale ^(note 28) | (7) | (38,112) | (988) | – | (39,107) |
| Reallocation and other transfers | (1,077) | (11,567) | (2,121) | 18,338 | 3,573 |
| Foreign exchange differences | – | – | (7,164) | – | (7,164) |
| At 31 December 2014 | 5,683 | 1,841,070 | 206,171 | 338,564 | 2,391,488 |
| Additions | – | 20,203 | 1,012 | 9,865 | 31,080 |
| Close down and restoration cost capitalised ^(note 22) | – | (4,246) | – | – | (4,246) |
| Transfers from capital construction in progress ^(b) | – | 5,779 | 961 | (6,740) | – |
| Disposals | – | (7,091) | (4,633) | (56) | (11,780) |
| Reallocation and other transfers | – | 493 | (141) | (46) | 306 |
| Foreign exchange differences | – | – | (5,672) | – | (5,672) |
| At 31 December 2015 | 5,683 | 1,856,208 | 197,698 | 341,587 | 2,401,176 |
| Accumulated depreciation and impairment | | | | | |
| At 1 January 2014 | 5,711 | 974,065 | 181,908 | 6,888 | 1,168,572 |
| Charge for the year | 14 | 137,381 | 8,191 | – | 145,586 |
| Impairment ^(note 6) | – | 1,371 | 1,217 | – | 2,588 |
| Reversal of impairment of mining assets ^(note 6) | – | (28,530) | – | (405) | (28,935) |
| Disposals | – | (5,931) | (8,822) | – | (14,753) |
| Transfer to assets classified as held for sale ^(note 28) | (7) | (20,117) | (702) | – | (20,826) |
| Reallocation and other transfers | (35) | 2,128 | (2,207) | – | (114) |
| Foreign exchange differences | – | – | (3,662) | – | (3,662) |
| At 31 December 2014 | 5,683 | 1,060,367 | 175,923 | 6,483 | 1,248,456 |
| Charge for the year | – | 122,328 | 6,165 | – | 128,493 |
| Disposals | – | (5,680) | (4,183) | – | (9,863) |
| Reallocation and other transfers | – | 276 | 28 | 1 | 305 |
| Foreign exchange differences | – | – | (4,558) | – | (4,558) |
| At 31 December 2015 | 5,683 | 1,177,291 | 173,375 | 6,484 | 1,362,833 |
| Net book value | | | | | |
| At 31 December 2014 ^(d) | – | 780,703 | 30,248 | 332,081 | 1,143,032 |
| At 31 December 2015 ^(d) | – | 678,917 | 24,323 | 335,103 | 1,038,343 |

(a) Borrowing costs were capitalised at the weighted average rate of the Group's relevant borrowings being 7.8% during the year ended 31 December 2014.

(b) Being costs primarily associated with continuous development of Malomir, Albyn and Pioneer projects.

(c) Including US\$197.4 million costs associated with POX Hub project (31 December 2014: US\$191.6 million)

(d) Property, plant and equipment with a net book value of US\$125.6 million (31 December 2014: US\$143.0 million) have been pledged to secure borrowings of the Group.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

14. Investments in associates

| | 2015 US\$'000 | 2014 US\$'000 |
|--|------------------|------------------|
| IRC Limited ('IRC') ^(a) | 39,163 | — |
| JSC Verkhnetisskaya Ore Mining Company | 231 | 231 |
| JSC ZRK Omchak ^(b) | — | 1,000 |
| | 39,394 | 1,231 |

(a) Note 27.

(b) On 7 April 2015, the Group entered into an SPA to sell its 25% interest in CJSC ZRK Omchak for a total cash consideration of US\$1 million.

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

| | IRC 2015 US\$'000 |
|---|-------------------------|
| Non-current assets | |
| Exploration and evaluation assets | 6,717 |
| Property, plant and equipment | 199,714 |
| Prepayments for property, plant and equipment | 88,859 |
| Other non-current assets | 2,277 |
| | 297,567 |
| Current assets | |
| Cash and cash equivalents | 56,144 |
| Other current assets | 55,038 |
| | 111,182 |
| Current liabilities | |
| Borrowings ^(a) | 53,050 |
| Other current liabilities | 18,398 |
| | 71,448 |
| Non-current liabilities | |
| Borrowings ^(a) | 215,238 |
| Other non-current liabilities | 12,773 |
| | 228,011 |
| Net assets | 109,290 |

(a) On 6 December 2010, KS GOK LLC ('K&S'), a subsidiary of IRC, entered into a US\$400 million Engineering Procurement and Construction Contract with China National Electric Engineering Corporation for the construction of the Group's mining operations at K&S. On 13 December 2010, K&S entered into a project finance facility agreement with the Industrial and Commercial Bank of China Limited ('ICBC') (the 'ICBC Facility Agreement') pursuant to which ICBC would lend US\$340 million to K&S to be used to fund the construction of the Group's mining operations at K&S in time for the start of major construction works in early 2011. Interest under the facility was charged at 2.80% above London Interbank Offering rate ('LIBOR') per annum. The facility is guaranteed by the Company (notes 2.1 and 2.6) and is repayable semi-annually in 16 instalments US\$21,250 thousand each, starting from December 2014 and is fully repayable by June 2022. The outstanding loan principal was US\$276.3 million as at 31 December 2015 (31 December 2014: US\$266.7 million). The loan is carried at amortised cost with effective interest rate at 5.91% per annum. As at 31 December 2015 and 2014, US\$2.1 million and US\$27.3 million, respectively, were deposited with ICBC under a security deposit agreement related to the ICBC Facility Agreement. As at 31 December 2015, the amounts undrawn under the ICBC Facility Agreement were nil (31 December 2014: US\$52 million). ICBC Facility Agreement contains certain financial covenants to which ICBC has agreed to grant a waiver until 31 December 2015, inclusive. In consideration for the waiver of the covenants, the Group pledged 521,376,470 ordinary shares (approximately 8.47%) in the issued capital of IRC to ICBC as security for its obligations as guarantor under the ICBC project finance facility for so long as the waiver remains in place.

14. Investments in associates continued

| | IRC Period from 7 August to 31 December 2015 US\$'000 |
|---|---|
| Revenue | 31,627 |
| Net operating expenses | (199,081) |
| including | |
| Depreciation | (371) |
| Impairment of mining assets | (138,623) |
| Impairment of exploration and evaluation assets | (4,475) |
| Impairment of ore stockpiles | (7,492) |
| Impairment of investments in joint ventures | (5,895) |
| Foreign exchange losses | (1,075) |
| Investment income | 295 |
| Interest expense | (683) |
| Taxation | (774) |
| Loss for the period | (168,616) |
| Other comprehensive loss | (1,740) |
| Total comprehensive loss | (170,356) |

15. Inventories

| | 2015 US\$'000 | 2014 US\$'000 |
|--|------------------|------------------|
| Current | | |
| Construction materials | 6,952 | 9,746 |
| Stores and spares | 66,534 | 87,968 |
| Ore in stockpiles ^{(a), (c)} | 17,249 | 46,789 |
| Work in progress | 53,579 | 39,633 |
| Deferred stripping costs | 17,981 | 8,428 |
| Bullion in process | 1,212 | 1,529 |
| Other | 11,715 | 12,405 |
| | 175,222 | 206,498 |
| Non-current | | |
| Ore in stockpiles ^{(a), (b), (c)} | 51,434 | 42,436 |
| | 51,434 | 42,436 |

(a) Note 6.

(b) Ore in stockpiles that is not planned to be processed within twelve months after the reporting period.

(c) As at 31 December 2015, ore in stockpiles include balances in the aggregate of US\$63.1 million carried at net realisable value (2014: US\$11.5 million).

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

16. Trade and other receivables

| | 2015 US\$'000 | 2014 US\$'000 |
|----------------------------------|------------------|------------------|
| Current | | |
| VAT recoverable | 31,489 | 35,430 |
| Advances to suppliers | 3,320 | 10,492 |
| Trade receivables ^(a) | 4,018 | 12,314 |
| Other debtors ^(b) | 9,269 | 16,656 |
| | 48,096 | 74,892 |

(a) Net of provision for impairment of US\$0.4 million (2014: US\$0.6 million). Trade receivables are due for settlement between one and three months.

(b) Net of provision for impairment of US\$1.2 million (2014: US\$2.2 million). The movement in the provision arises primarily from the depreciation of the Russian Rouble against the US Dollar during the year ended 31 December 2015 as the underlying receivables are Rouble denominated.

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

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

17. Cash and cash equivalents

| | 2015 US\$'000 | 2014 US\$'000 |
|--------------------------|-----------------------|------------------|
| Cash at bank and in hand | 22,144 | 45,787 |
| Short-term bank deposits | 6,095 | 2,293 |
| | 28,239 ^(a) | 48,080 |

(a) Including US\$15.1 million received under investment agreement with the Russian Ministry of Far East Development (note 33).

18. Derivative financial instruments

| | 31 December 2015 | | 31 December 2014 | |
|---|--------------------|-------------------------|--------------------|-------------------------|
| | Assets US\$'000 | Liabilities US\$'000 | Assets US\$'000 | Liabilities US\$'000 |
| Forward gold contracts – cash flow hedge ^{(a), (b), (e)} | 3,925 | - | 6,272 | - |
| Gold put option contracts ^{(c), (d), (e)} | - | - | 3,158 | - |
| Conversion option of the New Bonds ^{(f), (g)} | - | (14,684) | - | - |
| | 3,925 | (14,684) | 9,430 | - |

(a) Forward contracts to sell an aggregate of 71,551 ounces of gold at an average price of US\$1,116 per ounce are outstanding as at 31 December 2015 (31 December 2014: 50,000 ounces of gold at an average price of US\$1,310 per ounce).

(b) Measured at fair value and considered as Level 2 of the fair value hierarchy which valuation incorporates the following inputs:

- gold forward curves observable at quoted intervals; and
- observable credit spreads.

(c) Option contracts to sell an aggregate of 150,000 ounces of gold with a strike price of US\$1,150 per ounce are outstanding as at 31 December 2014. The intrinsic value of the option contracts is designated as a cash flow hedge and the time value of the option contracts is designated at fair value through profit or loss.

(d) Measured at fair value and considered as Level 2 of the fair value hierarchy which valuation incorporates the following inputs:

- historic gold price volatility;
- the option strike price;
- time to maturity; and
- risk free rate.

(e) The hedged forecast transactions are expected to occur at various dates during the next 12 months.

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

There was no ineffectiveness to be recorded from the cash flow hedge during the years ended 31 December 2015 and 2014.

(f) Note 20.

(g) Measured at fair value and considered as Level 2 of the fair value hierarchy which valuation incorporates the following inputs:

- the Group's credit risk;
- historic share price volatility;
- the conversion price;
- time to maturity; and
- risk free rate.

19. Trade and other payables

| | 2015 US\$'000 | 2014 US\$'000 |
|---|------------------|------------------|
| Trade payables | 44,263 | 16,027 |
| Advances from customers | 569 | 6,146 |
| Advances received on resale and commission contracts ^(a) | 12,770 | 16,714 |
| Accruals and other payables ^(b) | 38,965 | 27,826 |
| | 96,567 | 66,713 |

(a) Amounts included in advances received on resale and commission contracts at 31 December 2015 and 31 December 2014 relate to services performed by the Group's subsidiary, Irgridmet, in its activity to procure materials such as reagents, consumables and equipment for third parties.

(b) Including US\$15.1 million liability under an investment agreement with the Russian Ministry of Far East Development (note 33).

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

20. Borrowings

| | 2015 US\$'000 | 2014 US\$'000 |
|--|------------------|------------------|
| Borrowings at amortised cost | | |
| Convertible bonds ^{(a),(b),(c)} | 85,503 | 313,257 |
| Bank loans ^(c) | 552,775 | 664,547 |
| | 638,278 | 977,804 |
| Amount due for settlement within 12 months | 260,248 | 415,161 |
| Amount due for settlement after 12 months | 378,030 | 562,643 |
| | 638,278 | 977,804 |

(a) Liability component of the US\$100 million convertible bonds due on 18 March 2020 (31 December 2014: outstanding \$310.5 million principal of US\$380 million convertible bonds issued in 2010 and due on 18 March 2015 (following the extension of the original maturity date of 18 February 2015)). Note 2.

(b) The liability component of the New Bonds was arrived at as set out below.

| | 18 March 2015 US\$'000 |
|--|---------------------------|
| Par value of the New Bonds | 100,000 |
| Fair value uplift of the New Bonds | 9,400 |
| Less: Refinancing costs (note 2) | (5,130) |
| Less: Conversion option of the New Bonds recognised separately | (21,100) |
| Liability component of the New Bonds | 83,170 |

The liability component of the New Bonds is measured at amortised cost. The interest charged was calculated by applying an effective interest rate of 13.89% to the liability component. The conversion option of the New Bonds represents the fair value of the embedded option for the bondholders to convert into the equity of the Company ("the Conversion Right"). As the Company can elect to pay the cash value in lieu of delivering the Ordinary Shares following the exercise of the Conversion Right, the conversion option is a derivative liability. Accordingly, the conversion option is measured at fair value and is presented separately within derivative financial liabilities.

(c) As at 31 December 2015, the fair value of the convertible bonds, considered as Level 1 of the fair value hierarchy and calculated by applying the market traded price to the convertible bonds outstanding, amounted to US\$106.3 million (31 December 2014: US\$271 million).

As at 31 December 2015, US\$540.0 million bank loans are secured against certain items of property, plant and equipment of the Group (note 13) and shares in the issued share capital of the certain Group subsidiaries, namely 100% of LLC Albynskiy Rudnik, 89.73% of LLC Malomirskiy Rudnik, 100% of LLC Temi and 100% of LLC Rudoperspektiva (2014: US\$111.1 million bank loans are secured against certain items of property, plant and equipment of the Group (note 13)).

The weighted average interest rate paid during the year ended 31 December 2015 was 9.1% (2014: 7.9%).

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

As at 31 December 2015, bank loans with an aggregate carrying value of US\$552.8 million (2014: US\$553.4 million) contain certain financial covenants.

As at 31 December 2015, the amounts undrawn under the bank loans were US\$ nil (2014: US\$ nil).

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

21. Deferred taxation

| | 2015 US\$'000 | 2014 US\$'000 |
|--|------------------|------------------|
| At 1 January | 156,814 | 37,550 |
| Deferred tax charged to income statement ^(a) | 17,127 | 133,421 |
| Deferred tax credited to equity | (469) | (11,314) |
| Transfer to liabilities associated with assets classified as held for sale | 28 | (3,005) |
| Exchange differences | (1) | 162 |
| At 31 December | 173,499 | 156,814 |
| Deferred tax assets | – | 40 |
| Deferred tax liabilities | (173,499) | (156,854) |
| Net deferred tax liability | (173,499) | (156,814) |

(a) Note 10.

| | At 1 January 2015 US\$'000 | Charged/ (credited) to the income statement US\$'000 | Credited directly to equity US\$'000 | Transfer to liabilities associated with assets classified as held for sale ^(a) US\$'000 | Exchange differences US\$'000 | At 31 December 2015 US\$'000 |
|-----------------------------------|----------------------------------|--|--|---|-------------------------------------|------------------------------------|
| Property, plant and equipment | 116,094 | 19,494 | – | 147 | – | 135,735 |
| Inventory | 21,906 | (5,367) | – | (88) | – | 16,451 |
| Exploration and evaluation assets | 3,529 | (515) | – | (18) | – | 2,996 |
| Fair value adjustments | 487 | 344 | – | (43) | (74) | 714 |
| Other temporary differences | 14,798 | 3,171 | (469) | 30 | 73 | 17,603 |
| | 156,814 | 17,127 | (469) | 28 | (1) | 173,499 |

| | At 1 January 2014 US\$'000 | Charged/ (credited) to the income statement US\$'000 | Credited directly to equity US\$'000 | Transfer to liabilities associated with assets classified as held for sale ^(a) US\$'000 | Exchange differences US\$'000 | At 31 December 2014 US\$'000 |
|-----------------------------------|----------------------------------|--|--|---|-------------------------------------|------------------------------------|
| Property, plant and equipment | 14,346 | 103,420 | – | (1,672) | – | 116,094 |
| Inventory | 13,180 | 8,718 | – | 8 | – | 21,906 |
| Exploration and evaluation assets | (4,575) | 8,190 | – | (86) | – | 3,529 |
| Fair value adjustments | 7,082 | (5,866) | – | (486) | (243) | 487 |
| Tax losses | (4,412) | 4,412 | – | – | – | – |
| Other temporary differences | 11,929 | 14,547 | (11,314) | (769) | 405 | 14,798 |
| | 37,550 | 133,421 | (11,314) | (3,005) | 162 | 156,814 |

(a) Note 28.

As at 31 December 2015, the Group did not recognise deferred tax assets in respect of the accumulated tax losses from continuing operations comprising US\$528.9 million that can be carried forward against future taxable income (2014: US\$499.2 million). Tax losses of US\$381.3 million can be carried forward indefinitely and tax losses of US\$147.6 million expire primarily between 2019 and 2025.

As at 31 December 2015, the Group did not recognise deferred tax assets of US\$3.1 million (2014: US\$4.0 million) in respect of temporary differences arising on certain capitalised development costs attributable to continuing operations.

The Group has not recorded a deferred tax liability in respect of withholding tax and other taxes that would be payable on the unremitted earnings associated with investments in its subsidiaries and associates and interests in joint ventures as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future. As at 31 December 2015, statutory unremitted earnings from continuing operations comprised in aggregate US\$597.0 million (2014: US\$676.5 million).

22. Provision for close down and restoration costs

| | 2015 US\$'000 | 2014 US\$'000 |
|------------------------------------|------------------|------------------|
| At 1 January | 21,217 | 36,169 |
| Unwinding of discount | 213 | 488 |
| Change in estimates ^(a) | (4,246) | (15,440) |
| At 31 December | 17,184 | 21,217 |

(a) Primarily reflects the effect of change in the forecast the Russian Rouble to the US Dollar exchange rate following a significant depreciation of the Russian Rouble against the US Dollar during the year ended 31 December 2015 and during the year ended 31 December 2014.

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

| | 2015 US\$'000 | 2014 US\$'000 |
|------------|------------------|------------------|
| Pokrovskiy | 2,646 | 2,703 |
| Pioneer | 2,754 | 4,028 |
| Malomir | 5,610 | 6,384 |
| Albyn | 5,790 | 7,718 |
| Yamal | 384 | 384 |
| | 17,184 | 21,217 |

The provision recognised represents the present value of the estimated expenditure that will be incurred, which has been arrived at using the long-term risk-free pre-tax cost of borrowing. The expenditure arises at different times over the life of mine. The expected timing of significant cash outflows is between years 2016 and 2028, varying from mine site to mine site.

23. Share capital

| | 2015 | | 2014 | |
|---|---------------|----------|--------------|----------|
| | No of shares | US\$'000 | No of shares | US\$'000 |
| Allotted, called up and fully paid ^(a) | | | | |
| At 1 January | 197,638,425 | 3,041 | 197,638,425 | 3,041 |
| Issued during the period ^(b) | 3,102,923,272 | 45,833 | — | — |
| At 31 December | 3,300,561,697 | 48,874 | 197,638,425 | 3,041 |

(a) Ordinary shares of 1p each.

(b) Note 2.

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

The Company had an option issued to the IFC on 20 April 2009 to subscribe for 1,067,273 Ordinary Shares at an exercise price of £11.84 per share, subject to adjustments. The option expired unexercised on 25 May 2015.

24. Own shares

| | 2015 US\$'000 | 2014 US\$'000 |
|----------------|------------------|------------------|
| At 1 January | 8,925 | 8,925 |
| Rights issue | 8 | — |
| At 31 December | 8,933 | 8,925 |

Own shares represent 1,441,406 Ordinary Shares held by the Company's EBT (2014: 1,215,181).

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

25. Notes to the cash flow statement

Reconciliation of loss before tax to operating cash flow

| | 2015 US\$'000 | 2014 US\$'000 |
|---|------------------|------------------|
| Loss before tax including discontinued operations | (248,179) | (173,801) |
| Adjustments for: | | |
| Share of results of joint ventures | (588) | (2,900) |
| Share of results of associate | 60,422 | (2,990) |
| Investment income | (4,351) | (3,347) |
| Other finance gains | (6,894) | – |
| Interest expense | 72,703 | 70,248 |
| Share based payments | 297 | 4,873 |
| Depreciation | 121,599 | 150,482 |
| Reversal of impairment of mining assets | – | (28,935) |
| Impairment of IRC assets | – | 18,810 |
| Impairment of exploration and evaluation assets | 37,442 | 22,034 |
| Impairment of ore stockpiles | 17,425 | 10,144 |
| Impairment of investments in associates | – | 9,697 |
| Effect of processing previously impaired stockpiles | (8,535) | (41,834) |
| Provision for impairment of trade and other receivables | 1,264 | (1,017) |
| Write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell | 96,639 | 89,570 |
| Write-down to adjust the carrying value of Koboaldo's net assets to fair value less costs to sell | – | 11,867 |
| Loss on disposals of property, plant and equipment | 1,090 | 1,917 |
| Loss/(gain) on disposal of subsidiaries | 384 | (3,127) |
| Foreign exchange losses | 15,237 | 44,677 |
| Other non-cash items | 5,337 | 4,093 |
| Changes in working capital: | | |
| Decrease/(increase) in trade and other receivables | 3,621 | (17,943) |
| Decrease in inventories | 22,675 | 67,628 |
| Increase in trade and other payables | 21,253 | 15,261 |
| Net cash generated from operations | 208,841 | 245,407 |

Non-cash transactions

During the year ended 31 December 2015, except for the issue of the Ordinary Shares in exchange for the Existing Bonds (note 2), there have been no significant non-cash transactions (2014: there have been no significant non-cash transactions).

26. Related parties

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

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

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

JSC Verkhnetisskaya Ore Mining Company ('Verkhnetisskaya') is an associate to the Group and hence qualifies as a related party since then.

JSC ZRK Omchak and its wholly owned subsidiary LLC Kaurchak ('Omchak') are associates to the Group and hence are related parties until 29 April 2015 when the Group disposed its interest in Omchak.

IRC Limited and its subsidiaries (note 36) are associates to the Group and hence are related parties since 7 August 2015.

Transactions with related parties the Group entered into during the years ended 31 December 2015 and 2014 are set out below.

Trading Transactions

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

| | Sales to related parties | | Purchases from related parties | |
|--|--------------------------|------------------|--------------------------------|------------------|
| | 2015 US\$'000 | 2014 US\$'000 | 2015 US\$'000 | 2014 US\$'000 |
| Asian-Pacific Bank | | | | |
| Other | 575 | 503 | 113 | 201 |
| | 575 | 503 | 113 | 201 |
| Trading transactions with other related parties | | | | |
| Insurance arrangements with Helios, rent and other transactions with other entities in which key management have interest and exercises a significant influence or control | 1,182 | 294 | 5,716 | 10,317 |
| Associates | | | | |
| IRC Limited and its subsidiaries | 49 | – | 1,152 | – |
| JSC ZRK Omchak and its wholly owned subsidiary LLC Kaurchak | 2 | 80 | – | – |
| | 1,233 | 374 | 6,868 | 10,317 |

During the year ended 31 December 2015, the Group made US\$0.4 million charitable donations to the Petropavlovsk Foundation (2014: US\$0.5 million).

The outstanding balances with related parties at 31 December 2015 and 2014 are set out below.

| | Amounts owed by related parties | | Amounts owed to related parties | |
|--|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| | at 31 December 2015 US\$'000 | at 31 December 2014 US\$'000 | at 31 December 2015 US\$'000 | at 31 December 2014 US\$'000 |
| Helios and other entities in which key management have interest and exercises a significant influence or control | 1,328 | 2,864 | 450 | 151 |
| Asian-Pacific Bank | – | 6 | – | – |
| Associates | | | | |
| IRC Limited and its subsidiaries | 2,023 | – | 1,233 | – |
| JSC ZRK Omchak and its wholly owned subsidiary LLC Kaurchak | – | 85 | – | – |
| | 3,351 | 2,955 | 1,683 | 151 |

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

Banking arrangements

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

The bank balances at 31 December 2015 and 2014 are set out below.

| | 2015 US\$'000 | 2014 ^(a) US\$'000 |
|--------------------|------------------|---------------------------------|
| Asian-Pacific Bank | 3,208 | 52,253 |

(a) Including US\$31.9 million presented within assets classified as held for sale as at 31 December 2014 (notes 27 and 28).

Financing transactions

The Group had an interest-free unsecured loan issued to Verkhnetisskaya. Loan principal outstanding as at 31 December 2015 amounted to US\$2.8 million (31 December 2014: US\$3.6 million).

As at 31 December 2014 the Group had an interest-free unsecured loan issued to LLC Kaurchak. Loan principal outstanding amounted to US\$0.6 million.

During the year ended 31 December 2015, the Group received a number of loans from Asian-Pacific Bank. Loan principal outstanding as at 31 December 2015 amounted to US\$2.7 million. Interest charged on loans received from Asian-Pacific Bank comprised US\$0.5 million (2014: US\$nil).

Financing transactions between IRC and Asian-Pacific Bank are disclosed in note 27.

The Group has charged a fee for the provision of the guarantee to IRC (note 27), equal to 1.75% on the outstanding loan amount under the ICBC Facility Agreement and which amounted to US\$2.2 million during the year ended 31 December 2015.

Key management compensation

Key management personnel, comprising a group of 18 (2014: 21) individuals, including Executive and Non-Executive Directors of the Company and members of senior management, are those having authority and responsibility for planning, directing and controlling the activities of the Group.

| | 2015 US\$'000 | 2014 US\$'000 |
|--------------------------|------------------|------------------|
| Wages and salaries | 7,231 | 9,453 |
| Pension costs | 357 | 586 |
| Share-based compensation | 280 | 2,346 |
| | 7,868 | 12,385 |

27. Asset held for sale, discontinued operation and disposal of subsidiaries – IRC

As at 31 December 2014, the Group's interest in the share capital of IRC was 45.39%. The Group retained sufficiently dominant voting interest to exercise de facto control over IRC on the basis of the size of the Group's shareholding relative to the size and dispersion of the shareholding interests of other shareholders.

On 7 August 2015, IRC completed the Open Offer resulting in the issue of 1,295,976,080 shares. The Group did not subscribe for the Offer Shares it was entitled to and the Group's interest in the share capital of IRC was diluted to 35.83%. With other significant shareholder blocks in place following the completion of the Open Offer and despite the Group's continuing guarantee of IRC's facility with ICBC, the Group is no longer considered to be exercising de facto control over IRC and, accordingly, IRC ceased being a subsidiary to

the Group and is recognised as an associate to the Group from 7 August 2015 (note 14).

IRC was classified as 'held for sale' and presented separately in the balance sheet as at 31 December 2014 as well as presented as a discontinued operation in the income statement to the date of disposal.

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

| | 7 August 2015 | | 31 December 2014 | |
|---|-----------------------------|--|-----------------------------|--|
| | Carrying amount US\$'000 | Fair value less costs to sell ^{(a),(b)} US\$'000 | Carrying amount US\$'000 | Fair value less costs to sell ^{(a),(b)} US\$'000 |
| Exploration and evaluation assets | 55,021 | 13,882 | 54,790 | 17,664 |
| Property, plant and equipment ^(c) | 781,196 | 226,397 | 702,050 | 239,975 |
| Prepayments for property, plant and equipment | 175,568 | 175,568 | 203,387 | 203,387 |
| Interests in joint ventures | 6,511 | 6,511 | 7,294 | 7,294 |
| Other non-current assets | 28,445 | 28,445 | 32,298 | 32,298 |
| Inventories | 43,487 | 43,487 | 51,181 | 51,181 |
| Trade and other receivables | 17,983 | 17,983 | 15,662 | 15,662 |
| Cash and cash equivalents | 70,815 | 70,815 | 47,740 | 47,740 |
| Total assets classified as held for sale | 1,179,026 | 583,088 | 1,114,402 | 615,201 |
| Trade and other payables | 13,346 | 13,346 | 11,683 | 11,683 |
| Current income tax payable | 270 | 270 | 478 | 478 |
| Borrowings ^{(d),(e)} | 293,835 | 293,835 | 268,891 | 268,891 |
| Deferred tax liabilities | 64,532 | 4,246 | 64,204 | 4,016 |
| Provision for close down and restoration costs | 4,122 | 4,122 | 4,021 | 4,021 |
| Total liabilities associated with assets classified as held for sale | 376,105 | 315,819 | 349,277 | 289,089 |
| Net assets of IRC | 802,921 | 267,269 | 765,125 | 326,112 |
| Write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell: | | | | |
| as at 31 December 2014 | (439,013) | | (439,013) | |
| as at 7 August 2015 | (96,639) | | | |
| Fair value less costs to sell ^{(a),(b)} | 267,269 | | 326,112 | |
| Attributable to: | | | | |
| Equity shareholders of Petropavlovsk PLC | 96,279 | | 148,814 | |
| Non-controlling interests | 170,990 | | 177,298 | |
| Total consideration ^(f) | | 99,585 | | |
| Gain on sale before reclassification of foreign currency translation reserve | | 3,306 | | |
| Transfer of foreign currency translation reserve | | (2,601) | | |
| Gain on disposal | | 705 | | |

(a) Based on market share price of HK\$0.35 per IRC share as at 7 August 2015 (31 December 2014: HK\$0.52) less transaction costs.

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

(c) At 31 December 2014, IRC had entered into contractual commitments for the acquisition of property, plant and equipment and mine development costs amounting to US\$68 million. These amounts are not included in the capital commitments stated in note 33, as such amounts therein represent commitments from continuing operations.

(d) Including US\$297.5 million outstanding principal under ICBC facility carried at amortised cost (note 14).

(e) Including borrowings from Asian-Pacific Bank of US\$16.6 million (31 December 2014: US\$21 million). As at 7 August 2015, the amounts undrawn under the facilities with Asian-Pacific Bank were US\$8.4 million (31 December 2014: US\$4 million). Interest charged on borrowings from Asian-Pacific Bank comprised US\$0.9 million (2014: US\$1.9 million).

(f) Fair value of equity interest in IRC based on number of IRC shares held by the Group and market share price of HK\$0.35 per IRC share as at 7 August 2015.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

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

| | Period to 7 August 2015 US\$'000 | 2014 US\$'000 |
|--|--|------------------|
| Revenue | 50,282 | 122,414 |
| Net expenses | (60,952) | (192,359) |
| Loss before tax from discontinued operations | (10,670) | (69,945) |
| Taxation | (419) | (6,020) |
| Loss after tax from discontinued operations | (11,089) | (75,965) |
| Write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell | (96,639) | (89,570) |
| Gain on disposal of IRC | 705 | – |
| Loss for the period from discontinued operations | (107,023) | (165,535) |
| Attributable to: | | |
| Equity shareholders of Petropavlovsk PLC | (48,604) | (76,368) |
| Non-controlling interests | (58,419) | (89,167) |

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

| | Period to 7 August 2015 US\$'000 | 2014 US\$'000 |
|----------------------|--|------------------|
| Operating cash flows | (7,550) | (35,610) |
| Investing cash flows | (42,973) | (95,936) |
| Financing cash flows | 74,200 | 89,764 |
| Total cash flows | 23,677 | (41,782) |

28. Disposal of subsidiaries – Koboldo

On 16 April 2015, the Group entered into a conditional SPA relating to the sale of its 95.7% interest in JSC ZDP Koboldo ('Koboldo'). The disposal was completed on 22 April 2015.

Koboldo is an alluvial operation located in the Amur region in the Far East of Russia and represents an alluvial operations segment (note 4). As at 31 December 2014, Koboldo was classified as 'held for sale'.

The main categories of assets and liabilities at the date of disposal and 31 December 2014 are set out below.

| | 22 April 2015 | 31 December 2014 | |
|---|--|--------------------------|--|
| | Fair value less costs to sell US\$'000 | Carrying amount US\$'000 | Fair value less costs to sell US\$'000 |
| Exploration and evaluation assets | 475 | 1,661 | 475 |
| Property, plant and equipment | 3,822 | 18,281 | 5,227 |
| Prepayments for property, plant and equipment | – | 35 | 35 |
| Inventories | 3,320 | 72 | 72 |
| Trade and other receivables | 1,708 | 1,124 | 1,124 |
| Cash and cash equivalents | 11,161 | 7,719 | 7,719 |
| Total assets classified as held for sale | 20,486 | 28,892 | 14,652 |
| Trade and other payables | 1,242 | 125 | 125 |
| Deferred tax liabilities | 603 | 3,005 | 632 |
| Total liabilities associated with assets classified as held for sale | 1,845 | 3,130 | 757 |
| Net assets of Koboldo | 18,641 | 25,762 | 13,895 |
| Write-down to adjust the carrying value of Koboldo's net assets to fair value less costs to sell as at 31 December 2014 | | (11,867) | |
| Fair value less costs to sell ^{(a), (b)} | 18,641 | 13,895 | |
| Attributable to: | | | |
| Equity shareholders of Petropavlovsk PLC | 17,880 | 13,297 | |
| Non-controlling interests | 761 | 598 | |
| Consideration ^(c) | 17,496 | | |
| Loss on disposal | 384 | | |
| Net cash outflow arising on disposal: | | | |
| Consideration received in cash and cash equivalents ^(c) | 17,646 | | |
| Less: cash and cash equivalents disposed of | (11,161) | | |
| | 6,485 | | |

(a) Based on the indicative cash consideration.

(b) Non-recurring fair value measurement treated as Level 3 of the fair value hierarchy.

(c) Net of transaction costs.

29. Share based payments

On 31 March 2015, the Remuneration Committee approved a bonus of £555,000 to the Chief Executive Officer, of which 50% is payable in cash and 50% in the form of a Deferred Share Award. The number of shares awarded will be based on the market share price at the date of award, being 1 May 2015. The vesting of this award will be subject to Chief Executive Officer's continued service for a 12-month period from the date of award unless he departs the Company as a 'good' leaver.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

30. Analysis of net debt

| | At 1 January 2015 US\$'000 | Net cash Movement US\$'000 | Exchange movement US\$'000 | Non-cash changes US\$'000 | At 31 December 2015 US\$'000 |
|---------------------------|----------------------------------|----------------------------------|----------------------------------|---------------------------------|------------------------------------|
| Cash and cash equivalents | 48,080 | (15,173) ^(a) | (4,668) | — | 28,239 ^(b) |
| Borrowings | (977,804) | 316,188 | (105) | 23,443 | (638,278) |
| Net debt | (929,724) | 301,015 | (4,773) | 23,443 ^(c) | (610,039) |

(a) Excluding operations classified as held-for-sale (notes 27 and 28).

(b) Including US\$15.1 million received under investment agreement with the Russian Ministry of Far East Development (note 33).

(c) Being amortisation of borrowings and the effect of the Refinancing

| | At 1 January 2014 US\$'000 | Net cash movement US\$'000 | Transferred to assets classified as held for sale US\$'000 | Exchange movement US\$'000 | Non-cash changes US\$'000 | At 31 December 2014 US\$'000 |
|---------------------------|-------------------------------|----------------------------------|--|----------------------------------|---------------------------------|------------------------------------|
| Cash and cash equivalents | 170,595 | (84,325) | (7,719) | (30,471) | - | 48,080 |
| Borrowings | (1,119,012) | 221,798 | - | - | (80,590) | (977,804) |
| Net debt | (948,417) | 137,473 | (7,719) | (30,471) | (80,590) ^(c) | (929,724) |

(c) Being amortisation of borrowings.

31. Financial instruments and financial risk management

Capital risk management

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

The capital structure of the Group consists of net debt (as detailed in note 30) and equity (comprising issued capital, reserves and retained earnings). As at 31 December 2015, the capital comprised US\$1.2 billion (2014: US\$1.7 billion).

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

The capital of IRC is managed separately by the Independent Board of IRC (notes 14 and 27)

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

Significant accounting policies

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

31. Financial instruments and financial risk management continued

Categories of financial instruments

| | 2015 US\$'000 | 2014 US\$'000 |
|---|------------------|------------------|
| Financial assets | | |
| Cash and cash equivalents | 28,239 | 48,080 |
| Derivative financial instruments – cash flow hedge | 3,925 | 6,272 |
| Derivative financial instruments – at fair value through profit or loss | – | 3,158 |
| Loans and receivables | 12,473 | 20,744 |
| Available-for-sale investments | 271 | 112 |
| Financial liabilities | | |
| Trade and other payables – at amortised cost | 60,642 | 33,575 |
| Borrowings – at amortised cost | 638,278 | 977,804 |

Financial risk management

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

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

Interest rate risk

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

Foreign exchange risk

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

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

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

| | Assets | | Liabilities | |
|---------------------------|------------------|------------------|------------------|------------------|
| | 2015 US\$'000 | 2014 US\$'000 | 2015 US\$'000 | 2014 US\$'000 |
| Russian Roubles | 56,795 | 75,390 | 56,817 | 40,364 |
| US Dollars ^(a) | 2,875 | 1,519 | 7,278 | – |
| GB Pounds Sterling | 357 | 5,709 | 943 | 3,140 |
| EUR | 80 | 165 | 42 | 690 |
| Other currencies | 92 | 413 | 220 | 88 |

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

The table set out below illustrates the Group's profit sensitivity to changes in exchange rates by 25% (2014: 25%), representing management's assessment of a reasonably possible change in foreign exchange currency rates. The analysis was applied to monetary assets and liabilities at the reporting dates denominated in respective currencies.

| | 2015 US\$'000 | 2014 US\$'000 |
|------------------------------------|------------------|------------------|
| Russian Rouble currency impact | 5 | 8,756 |
| US Dollar currency impact | 1,101 | 380 |
| GB Pounds Sterling currency impact | 146 | 642 |
| EUR currency impact | 10 | 131 |
| Other currencies | 32 | 81 |

Credit risk

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

The credit risk on liquid funds held in current accounts and available on demand is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies, with the exception of Asian-Pacific Bank, which does not have an officially assigned credit rating. Having performed a high level due diligence, management does not consider the credit risk associated with Asian-Pacific Bank to be high. Asian-Pacific Bank has a wide network of branches in the Amur region and, therefore, is extensively used by the entities of the precious metals segment (note 26).

The Group's maximum exposure to credit risk is limited to the carrying amounts of the financial assets recorded in the consolidated financial statements. The major financial assets at the balance sheet date are cash and cash equivalents held with the counterparties as set out below.

| Counterparty | Credit rating | Carrying amount at 31 December 2015 US\$'000 | Carrying amount at 31 December 2014 US\$'000 |
|---|---------------|--|--|
| Treasury of Russian Federation ^(a) | – | 15,093 | – |
| Royal Bank of Scotland | BBB+ | 4,835 | 2,560 |
| VTB | BB+ | 3,760 | 4,938 |
| Asian-Pacific Bank | B- | 3,208 | 20,310 |
| Sberbank | BBB- | 512 | 3,223 |
| UBS | A | 173 | 15,240 |
| Alfa-Bank | BB+ | – | 345 |

(a) Funds received under investment agreement with the Russian Ministry of Far East Development (note 33).

Commodity price risk

The Group generates most of its revenue from the sale of gold and iron ore concentrate. The Group's policy is to sell its products at the prevailing market price. In 2015 and 2014, the Group has entered into gold forward contracts to protect cash flows from the volatility in the gold price (note 18).

Equity price risk

The Group was exposed to equity price risk through the investment in IRC (notes 27).

Liquidity risk

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

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

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

| | 0 – 3 months US\$'000 | 3 months – 1 year US\$'000 | 1 – 2 years US\$'000 | 2 – 3 years US\$'000 | 3 – 5 years US\$'000 |
|--|--------------------------|----------------------------------|-------------------------|-------------------------|-------------------------|
| 2015 | | | | | |
| Borrowings | | | | | |
| – Convertible bonds | – | – | – | – | 100,000 |
| – Loans | 41,744 | 210,105 | 288,274 | 16,817 | |
| Expected future interest payments ^(a) | 10,952 | 34,911 | 22,786 | 9,354 | 11,250 |
| Trade and other payables | 28,070 | 32,572 | – | – | |
| | 80,766 | 277,588 | 311,060 | 26,171 | 111,250 |
| 2014 | | | | | |
| Borrowings | | | | | |
| – Convertible bonds | 310,500 | – | – | – | – |
| – Loans | 2,250 | 95,714 | 240,923 | 263,273 | 66,818 |
| Expected future interest payments ^(a) | 16,856 | 36,970 | 37,686 | 17,970 | 1,897 |
| Trade and other payables | 33,576 | – | – | – | – |
| | 363,182 | 132,684 | 278,609 | 281,243 | 68,715 |

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

32. Operating lease arrangements

The Group as a Lessee

| | 2015 US\$'000 | 2014 US\$'000 |
|--|------------------|------------------|
| Minimum lease payments under operating leases recognised as an expense in the year | 2,535 | 2,671 |

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

| | 2015 US\$'000 | 2014 US\$'000 |
|----------------------|------------------|------------------|
| Expiring: | | |
| Within one year | 383 | 313 |
| In two to five years | 1,148 | 94 |
| | 1,531 | 407 |

The Group as a Lessor

The Group earned property rental income from continuing operations during the year of US\$0.8 million (2014: US\$1.2 million) on buildings owned by its subsidiary Irgiredmet.

33. Capital commitments

At 31 December 2015, the Group had entered into contractual commitments in relation to its continuing operations for the acquisition of property, plant and equipment and mine development costs in relation to POX Hub project amounting to US\$1.0 million (31 December 2014: US\$1.2 million).

Investment agreement with the Russian Ministry of Far East Development

On 14 December 2015, the Group entered into an investment agreement with the Russian Ministry of Far East Development (the 'Investment Agreement'). The Investment Agreement involves provision of RUB5.5billion (an equivalent to c.US\$75 million as at 31 December 2015) funding towards the construction of the electricity power line in the North-East of the Amur Region of Russia, where the Group's Albyn and Malomir mines and adjacent licence areas are operated, during the period 2015 – 2019. The funds are advanced to the Group and then should be transferred to the joint-stock company Far East Grid Distribution Company ('DRSK'), who is to engage a contractor to build the relevant power supply infrastructure. The Group's responsibility under the Investment Agreement will be to monitor the progress and to report to the Russian Ministry of Far East Development. The Group will be taking ultimate responsibility for the construction of the power line. Upon completion, the Group will get access to the enhanced capacity of the power supply infrastructure in the region. Under the terms of the Investment Agreement, the Group has certain capital commitments, including further development of Albyn and Malomir mines.

As at 31 December 2015, the Group received RUB1.1billion (an equivalent to US\$15.1 million) funds under the Investment Agreement.

34. Subsequent events

On 27 April 2016, the Group entered into an agreement with LLC GMD Gold ('GMD Gold') to set up a new enterprise whereby the Group will contribute the existing POX Hub assets (note 13) and GMD Gold will provide US\$120 million finance towards completion of the POX Hub development. Upon completion of the POX Hub development, each party will have the right to use the 50% capacity of the POX Hub. This transaction will require shareholder approval.

On 28 April 2016, the Group entered into a contribution agreement to acquire 100% share in the LLC Amur Zoloto, a gold company with production and development assets in the Khabarovsk Region in the Far East of Russia. Upon completion, consideration for the transaction will be satisfied by the issue of new ordinary shares in the Company. This transaction will require shareholder approval.

35. Reconciliation of non-GAAP measures (unaudited)

| | 2015 US\$'000 | 2014 US\$'000 |
|---|------------------|------------------|
| Loss for the period from continuing operations | (190,454) | (182,157) |
| Add/(less): | | |
| Interest expense | 71,514 | 67,705 |
| Investment income | (1,018) | (1,680) |
| Other finance gains | (9,064) | – |
| Foreign exchange losses | 11,952 | 31,270 |
| Taxation | 48,879 | 167,871 |
| Depreciation | 129,104 | 143,968 |
| Reversal of impairment of mining assets | – | (28,935) |
| Impairment of exploration and evaluation assets | 37,442 | 22,034 |
| Impairment of ore stockpiles | 17,425 | 10,144 |
| Impairment of investments in associates | – | 9,697 |
| Write-down to adjust the carrying value of Kobre's net assets to fair value less cost to sell | – | 11,867 |
| Share in results of associates ^(a) | 57,009 | – |
| Underlying EBITDA | 172,789 | 251,784 |

(a) Group's share of interest expense, investment income, other finance gains and losses, foreign exchange losses, taxation, depreciation and impairment recognised by an associate (note 14).

Strategic report

Governance

Financial statements

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

36. Principal subsidiaries and other significant investments

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

| Principal subsidiary, joint venture and associate undertakings | Country of incorporation | Principal activity | Proportion of shares held by Petropavlovsk PLC | | Proportion of shares held by the Group | |
|---|-----------------------------|-----------------------------------|---|---------------------|---|---------------------|
| | | | 31 December 2015 | 31 December 2014 | 31 December 2015 | 31 December 2014 |
| Subsidiary | | | | | | |
| JSC Management Company Petropavlovsk | Russia | Management company | 100% | 100% | 100% | 100% |
| Petropavlovsk 2010 Limited | Jersey | Finance company | 100% | 100% | 100% | 100% |
| JSC Pokrovskiy Rudnik | Russia | Gold exploration and production | 43.50% | 43.50% | 98.61% | 98.61% |
| JSC ZDP Koboldo | Russia | Gold exploration and production | — | — | — | 95.70% |
| LLC Malomirskiy Rudnik | Russia | Gold exploration and production | — | — | 99.86% | 99.86% |
| LLC Albynskiy Rudnik | Russia | Gold exploration and production | — | — | 100% | 100% |
| LLC Osipkan | Russia | Gold exploration and production | — | — | 100% | 100% |
| LLC Tokurskiy Rudnik | Russia | Gold exploration and production | — | — | 100% | 100% |
| LLC Rudoperspektiva | Russia | Gold exploration and production | — | — | 100% | 100% |
| JSC YamalZoloto | Russia | Gold exploration and production | — | — | 100% | 100% |
| LLC Iljinskoye | Russia | Gold exploration and production | — | — | 100% | 100% |
| LLC Potok | Russia | Gold exploration and production | — | — | 100% | 100% |
| LLC Temi | Russia | Gold exploration and production | — | — | 75% | 75% |
| LLC Migelit | Russia | Gold exploration and production | — | — | 98.61% | — |
| Major Miners Inc. | Guyana | Gold exploration and production | — | — | 100% | 100% |
| Universal Mining Inc. | Guyana | Gold exploration and production | — | — | 100% | 100% |
| Cuyuni River Ventures Inc. | Guyana | Gold exploration and production | — | — | 100% | 100% |
| LLC Kapstroj | Russia | Construction services | — | — | 100% | 100% |
| LLC NPGF Regis | Russia | Exploration services | — | — | 100% | 100% |
| JSC ZRK Dalgeologiya | Russia | Exploration services | — | — | 98.61% | 98.61% |
| JSC PHM Engineering | Russia | Project and engineering services | — | — | 94% | 94% |
| JSC Irgiredmet | Russia | Research services | — | — | 99.69% | 99.69% |
| LLC NIC Gydrometallurgiya | Russia | Research services | — | — | 100% | 100% |
| LLC BMRP | Russia | Repair and maintenance | — | — | 100% | 100% |
| LLC AVT-Amur | Russia | Production of explosive materials | — | — | 49% | 49% |
| LLC Transit | Russia | Transportation services | — | — | 100% | 100% |
| Pokrovskiy Mining College | Russia | Educational institute | — | — | 98.61% | 98.61% |
| Associate | | | | | | |
| JSC Verkhnetisskaya Ore Mining Company | Russia | Gold exploration and production | — | — | 49% | 49% |
| JSC ZRK Omchak ^(a) | Russia | Gold exploration and production | — | 25% | — | 25% |
| IRC Limited ^(b) | HK | Management and holding company | — | — | 35.83% | 45.39% |

(a) Including subsidiary of JSC ZRK Omchak, being LLC Kaurchak.

(b) IRC Limited and its principal subsidiary and joint venture undertakings.

| Principal subsidiary, joint venture and associate undertakings | Country of incorporation | Principal activity | Proportion of shares held by Petropavlovsk PLC | | Proportion of shares held by the Group | |
|---|--------------------------|-------------------------------------|--|------------------|--|------------------|
| | | | 31 December 2015 | 31 December 2014 | 31 December 2015 | 31 December 2014 |
| IRC and its principal subsidiary and joint venture undertakings ('IRC')^{(c), (d)} | | | | | | |
| IRC Limited | HK | Management and holding company | – | – | 35.83% | 45.39% |
| <i>Principal subsidiaries of IRC</i> | | | | | | |
| LLC Petropavlovsk Iron Ore | Russia | Management company | – | – | 35.83% | 45.39% |
| LLC Olekminsky Rudnik | Russia | Iron ore exploration and production | – | – | 35.83% | 45.39% |
| LLC KS GOK | Russia | Iron ore exploration and production | – | – | 35.83% | 45.39% |
| LLC Garinsky Mining & Metallurgical Complex | Russia | Iron ore exploration and production | – | – | 35.83% | 45.20% |
| LLC Kostenginskiy GOK | | Iron ore exploration and production | – | – | 35.83% | 45.39% |
| LLC Orlovo-Sokhatinsky Rudnik | Russia | Iron ore exploration and production | – | – | 35.83% | 45.39% |
| JSC Giproruda | Russia | Engineering services | – | – | 25.18% | 31.90% |
| LLC SGMTP | Russia | Infrastructure project | – | – | 35.83% | 45.39% |
| LLC Amur Snab | Russia | Procurement services | – | – | 35.83% | 45.34% |
| Heilongjiang Jiatat Titanium Co., Limited | China | Titanium sponge project | – | – | 35.83% | 45.39% |
| LLC Uralmining | Russia | Iron ore exploration and production | – | – | 35.83% | 45.39% |
| LLC Gorniy Park | Russia | Molybdenym project | – | – | 17.95% | 22.74% |
| <i>Joint ventures of IRC</i> | | | | | | |
| Heilongjiang Jianlong Vanadium Industries Co., Limited | China | Vanadium project | – | – | 16.48% | 20.88% |

(c) 31 December 2014: After taking account of the 0.71% shares retained within the Employee Benefit Trust operated in conjunction with the long-term incentive schemes of IRC, the Group's effective interest in the equity of IRC is 45.72%.

(d) Factors considered in determining de facto control over IRC are set out in notes 3.8 and 27.

Strategic report

Governance

Financial statements

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2015

37. Related undertakings of the Group

The Group consists of the parent company, Petropavlovsk PLC, incorporated in the United Kingdom and its subsidiaries, associates and joint ventures. In accordance with Section 409 of the Companies Act 2006 a full list of related undertakings, the country of incorporation and the effective percentage of equity owned as at 31 December 2015 is disclosed below. The Group's principal subsidiaries and other significant investments are set out in note 36.

| Name of undertaking | Country of incorporation | Proportion of shares held by the Group |
|---|--------------------------|--|
| Subsidiaries | | |
| Aricom B Finance Plc | UK | 100% |
| Aricom Finance UK Limited | UK | 100% |
| Aricom Treasury UK Limited | UK | 100% |
| Aricom Services Limited | UK | 100% |
| Aricom Roubles Treasury UK Limited | UK | 100% |
| Aricom B Limited | UK | 100% |
| Aricom B Roubles Treasury Limited | UK | 100% |
| Petropavlovsk Rouble UK Limited | UK | 100% |
| Eponymousco Limited | UK | 100% |
| Victoria Resources Limited | UK | 100% |
| Peter Hambro Mining Treasury UK Limited | UK | 100% |
| Peter Hambro Mining Rouble Treasury Limited | UK | 100% |
| Petropavlovsk 2010 Limited | Jersey | 100% |
| Petropavlovsk (Jersey) Limited | Jersey | 100% |
| Peter Hambro Mining Group Finance Limited | Guernsey | 100% |
| JSC Management Company Petropavlovsk | Russia | 100% |
| JSC Pokrovskiy Rudnik | Russia | 98.61% |
| LLC Malomirskiy Rudnik | Russia | 99.86% |
| LLC Albynskiy Rudnik | Russia | 100% |
| LLC Osipkan | Russia | 100% |
| LLC Tokurskiy Rudnik | Russia | 100% |
| LLC Rudoperspektiva | Russia | 100% |
| JSC YamalZoloto | Russia | 100% |
| LLC Iljinskoye | Russia | 100% |
| LLC Potok | Russia | 100% |
| LLC Temi | Russia | 75% |
| LLC Migelit | Russia | 98.61% |
| LLC Kapstroj | Russia | 100% |
| LLC NPGF Regis | Russia | 100% |
| JSC ZRK Dalgeologiya | Russia | 98.61% |
| JSC PHM Engineering | Russia | 94% |
| JSC Irgiredmet | Russia | 99.69% |
| LLC NIC Gydrometallurgia | Russia | 100% |
| LLC BMRP | Russia | 100% |
| LLC AVT-Amur | Russia | 49% |
| LLC Transit | Russia | 100% |
| Pokrovskiy Mining College | Russia | 98.61% |
| Major Miners Inc. | Guyana | 100% |
| Universal Mining Inc. | Guyana | 100% |
| Cuyuni River Ventures Inc. | Guyana | 100% |
| Peter Hambro Mining (Cyprus) Limited | Cyprus | 100% |
| Malomyrskiy Rudnik (Cyprus) Ltd | Cyprus | 100% |
| Voltimand Limited | Cyprus | 100% |

| Name of undertaking | Country of incorporation | Proportion of shares held by the Group |
|--|--------------------------|--|
| Horatio Limited | Cyprus | 100% |
| Yamal Holdings Limited | Cyprus | 100% |
| Sicinius Limited | Cyprus | 100% |
| Syncrom High Corporation Ltd | Cyprus | 100% |
| Cayiron Limited | Cayman Islands | 100% |
| Associates | | |
| JSC Verkhnetisskaya Ore Mining Company | Russia | 49% |
| IRC Limited | HK | 35.83% |
| <i>Subsidiaries of IRC</i> | | |
| LLC Petropavlovsk Iron Ore | Russia | 35.83% |
| LLC Olekminsky Rudnik | Russia | 35.83% |
| LLC KS GOK | Russia | 35.83% |
| LLC Garinsky Mining & Metallurgical Complex | Russia | 35.68% |
| LLC Kostenginskiy GOK | Russia | 35.83% |
| LLC Orlovo-Sokhatinsky Rudnik | Russia | 35.83% |
| JSC Giproruda | Russia | 25.18% |
| LLC SGMTP | Russia | 35.83% |
| LLC Amur Snab | Russia | 35.89% |
| LLC Uralmining | Russia | 35.83% |
| LLC Gorniy Park | Russia | 17.95% |
| LLC Garinskaya Infrastructure | Russia | 35.83% |
| LLC TOK | Russia | 35.83% |
| Lucilius Investments Limited | Cyprus | 35.83% |
| Kapucius Services Limited | Cyprus | 35.83% |
| Lapwing Limited | Cyprus | 35.68% |
| Russian Titan Company Limited | Cyprus | 35.83% |
| Brasenose Services Limited | Cyprus | 35.83% |
| Tenaviva Limited | Cyprus | 35.83% |
| Esimanor Limited | Cyprus | 35.83% |
| Metellus Limited | Cyprus | 35.83% |
| Dardanius Limited | Cyprus | 35.83% |
| Rumier Holdings Limited | Cyprus | 35.83% |
| Guiner Enterprises Limited | Cyprus | 35.83% |
| Expokom Limited | Cyprus | 35.83% |
| Arfin Limited | Cyprus | 35.83% |
| Caedmon Limited | Cyprus | 17.95% |
| Thorholdco (Cyprus) Limited | Cyprus | 35.83% |
| Heilongjiang Jiatan Titanium Co., Limited | China | 35.83% |
| Ariti HK Limited | Hong Kong | 35.83% |
| Ariva HK Limited | Hong Kong | 35.83% |
| Thorrouble Limited | Cayman Islands | 35.83% |
| Thordollar Limited | Cayman Islands | 35.83% |
| Thorholdco Limited | Cayman Islands | 35.83% |
| Aricom UK Limited | UK | 35.83% |
| Aricom Limited | UK | 35.83% |
| <i>Joint ventures of IRC</i> | | |
| Heilongjiang Jianlong Vanadium Industries Co., Limited | China | 16.48% |

Company Balance Sheet

At 31 December 2015

| | note | 2015 US\$'000 | 2014 US\$'000 |
|---|------|------------------|------------------|
| Fixed assets | | | |
| Tangible assets | | 87 | 54 |
| Investments | 3 | 776,214 | 624,436 |
| | | 776,301 | 624,490 |
| Current assets | | | |
| Derivative financial assets | | – | 3,158 |
| Debtors: due within one year | 4 | 305,346 | 254,465 |
| Debtors: due after one year | 4 | 598,389 | 598,389 |
| Cash at bank and in hand | | 4,966 | 2,756 |
| | | 908,701 | 858,768 |
| Creditors: amounts falling due within one year | 5 | (493,562) | (319,119) |
| Net current assets | | 415,139 | 539,649 |
| Total assets less current liabilities | | 1,191,440 | 1,164,139 |
| Derivative financial liability | | (14,684) | – |
| Creditors: amounts falling due after more than one year | 5 | (566,631) | (565,676) |
| Net assets | | 610,125 | 598,463 |
| Capital and reserves | | | |
| Share capital | | 48,874 | 3,041 |
| Share premium | | 518,142 | 376,991 |
| Own shares | | (12,685) | (12,677) |
| Convertible bond reserve | | – | 48,235 |
| Other reserves | | (2,500) | 29 |
| Profit and loss account | | 58,294 | 182,844 |
| Shareholders' funds | | 610,125 | 598,463 |

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

These financial statements for Petropavlovsk PLC, registered number 4343841, on pages 176 to 180 were approved by the Directors on 28 April 2016 and signed on their behalf by

Peter Hambro
Director

Andrey Maruta
Director

Company Statement of Changes in Equity

For the year ended 31 December 2015

| | Share capital US\$'000 | Share premium US\$'000 | Merger reserve US\$'000 | Convertible bond reserve ^(a) US\$'000 | Own shares ^(c) US\$'000 | Other reserves US\$'000 | Retained earnings US\$'000 | Total US\$'000 |
|---|---------------------------|---------------------------|----------------------------|--|---------------------------------------|----------------------------|----------------------------------|-------------------|
| Balance at 1 January 2014 | 3,041 | 376,991 | 19,265 | 48,235 | (12,677) | 19,320 | 237,728 | 691,903 |
| Loss for the year, including transfer from merger reserve | – | – | (19,265) | – | – | – | (75,711) | (94,976) |
| Share based payments | – | – | – | – | – | 1,546 | – | 1,546 |
| Awards within Petropavlovsk PLC LTIP forfeited | – | – | – | – | – | (12,153) | 12,153 | – |
| Revaluation of available-for-sale investments | – | – | – | – | – | (10) | – | (10) |
| Transfer to retained earnings | – | – | – | – | – | (8,674) | 8,674 | – |
| Balance at 1 January 2015 | 3,041 | 376,991 | – | 48,235 | (12,677) | 29 | 182,844 | 598,463 |
| Loss for the year | – | – | – | – | – | – | (175,755) | (175,755) |
| Rights issue and settlement of the Existing Bonds ^(b) | 45,833 | 141,151 | – | (48,235) | (8) | – | 48,235 | 186,976 |
| Deferred share awards | – | – | – | – | – | 280 | – | 280 |
| Revaluation of available-for-sale investments | – | – | – | – | – | 161 | – | 161 |
| Transfer to retained earnings | – | – | – | – | – | (2,970) | 2,970 | – |
| Balance at 31 December 2015 | 48,874 | 518,142 | – | – | (12,685) | (2,500) | 58,294 | 610,125 |

(a) On 15 February 2010, Petropavlovsk 2010 Limited issued US\$380 million bonds ("Existing Bonds") which were convertible into redeemable preference shares in Petropavlovsk 2010 Limited and were guaranteed by, and were exchangeable immediately upon issuance, for ordinary shares in Petropavlovsk PLC. The Company recognised the exchange option in equity, and its value was determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This amount was not subsequently re-measured. The provision of the exchange option to Petropavlovsk 2010 Limited was recognised as a capital contribution to that entity. Upon settlement of the Existing Bonds, the associated US\$48 million convertible bond reserve was transferred to retained earnings.

(b) Note 2 to the consolidated financial statements.

(c) The reserve for own shares arises in connection with the Employees Benefit Trust (EBT), a discretionary trust established and operated in conjunction with the Group's share awards. Details of the Group's share based payments are set out in note 29 to the consolidated financial statements. The amount of the reserve represents the deduction in arriving at shareholders' funds for the consideration paid for the Company's shares purchased by the trust which have not vested unconditionally in employees at the balance sheet date.

Strategic report

Governance

Financial statements

Notes to the Company Financial Statements

For the year ended 31 December 2015

1. Basis of preparation

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, in the year ended 31 December 2015 the Company has changed its accounting framework from UK GAAP to FRS 101 as issued by the Financial Reporting Council and has, in doing so, applied the requirements of IFRS 1.6-33 and related appendices. These financial statements were prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council. This transition is not considered to have had a material effect on the financial statements; as such no material adjustments have been recognised to restate the prior year financial statements on adoption of FRS 101.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions.

Where required, equivalent disclosures are given in the consolidated financial statements.

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the parent company is not presented as part of these financial statements. The loss after tax for the year of the Company was US\$175.8 million (2014: loss after tax of US\$95.0 million).

2. Significant accounting policies

2.1. Foreign currencies

The functional and presentation currency of the Company is the US Dollar. Transactions denominated in other currencies, including the issue of shares, are translated at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities that are denominated in other currencies are retranslated at the rates prevailing on the balance sheet date. Exchange rates used are consistent with the rates used by the Group as disclosed in note 2.7 to the consolidated financial statements. Exchange differences are charged or credited to the profit and loss account in the year in which they arise.

2.2. Tangible fixed assets and depreciation

Tangible fixed assets are stated 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 as follows:

| | Average life Number of years |
|--------------------|---------------------------------|
| Office equipment | 4-7 |
| Computer equipment | 3 |

Useful lives and residual values are reviewed at the end of every reporting period.

2.3. Investments

Investments in subsidiary undertakings and joint ventures are initially measured at cost and subsequently carried at cost less provisions for impairment. Investments are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. An impairment loss is recognised if the carrying amount of the investment exceeds the higher of net realisable value and the discounted future earnings from the investment.

Other investments are those classified as available-for sale. Available-for-sale investments are initially measured at cost and subsequently carried at fair value. Changes to the fair value of available-for-sale investments are recognised in equity.

2.4. Taxation including deferred taxation

Full provision is made for deferred taxation on taxable temporary differences that have arisen but not reversed at the balance sheet date, except that deferred tax assets are only recognised to the extent that it is more likely than not that they will be recovered. 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.

2.5. Financial assets and liabilities

Financial assets and liabilities are measured on initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss when there is objective

evidence that the financial asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

2.6. Derivative financial instruments

Derivative financial instruments are initially accounted for and measured at fair value on the date a derivative contract is entered into and subsequently measured at fair value. The gain or loss on re-measurement is taken to the income statement except where the derivative is a designated cash flow hedging instrument.

Derivative financial instruments embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value, with gains or losses reported in the income statement.

2.7. Employee benefit trust

The provision of shares to share award schemes is facilitated by an employee benefit trust.

In accordance with UITF Abstract 38 'Accounting for ESOP trusts', the Company has been determined to be a sponsoring company of the employee benefit trust and therefore in preparing its accounts any own shares held by the employee benefit trust are recorded as own shares, and the carrying value is shown as a deduction in arriving at shareholders' funds until such time as those shares vest unconditionally in employees.

2.8. Dividends

Dividends payable are recognised when they have been approved and, therefore, meet the criteria for a present obligation.

2.9. Operating leases

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

3. Investments

| | Investments in Group companies US\$'000 | Investments in associates US\$'000 | Other investments other than loans US\$'000 | Total US\$'000 |
|---------------------------------|--|--|--|-------------------|
| Cost | | | | |
| At 1 January 2015 | 1,830,255 | 9,574 | 106 | 1,839,935 |
| Additions | 322,106 ^(a) | – | – | 322,106 |
| Disposals | – | (9,574) | – | (9,574) |
| Impact of intra-group transfers | (19,137) | – | – | (19,137) |
| Fair value change | – | – | 161 | 161 |
| At 31 December 2015 | 2,133,224 | – | 267 | 2,133,491 |
| Provision for impairment | | | | |
| At 1 January 2015 | (1,206,925) | (8,574) | – | (1,215,499) |
| Charge for the year | (150,352) ^(b) | – | – | (150,352) |
| Disposals | – | 8,574 | – | 8,574 |
| At 31 December 2015 | (1,357,277) | – | – | (1,357,277) |
| Net book value | | | | |
| At 1 January 2015 | 623,330 | 1,000 | 106 | 624,436 |
| At 31 December 2015 | 775,947 | – | 267 | 776,214 |

(a) Including a US\$309.2 million investment in Petropavlovsk 2010 Limited as part of the Refinancing (note 2 to the consolidated financial statements).

(b) Including a US\$108.1 million adjustment to reflect changes in the value of the underlying investment in IRC Limited (note 14 to the consolidated financial statements) and a US\$27.6 million adjustment to reflect changes in the value of the underlying investment in Visokoe exploration and evaluation asset (note 6 to the consolidated financial statements).

4. Debtors

| | 2015 US\$'000 | 2014 US\$'000 |
|------------------------------|------------------|------------------|
| Owed by Group companies | 901,392 | 843,592 |
| VAT recoverable | 2,055 | 560 |
| Other debtors | 288 | 8,702 |
| | 903,735 | 852,854 |
| Due within one year | 305,346 | 254,465 |
| Due after more than one year | 598,389 | 598,389 |
| | 903,735 | 852,854 |

5. Creditors

| | 2015 US\$'000 | 2014 US\$'000 |
|------------------------------|------------------|------------------|
| Due to Group companies | 626,080 | 399,149 |
| Bank loans | 430,256 | 481,662 |
| Trade creditors | 647 | 2,898 |
| Accruals and other creditors | 3,210 | 1,086 |
| | 1,060,193 | 884,795 |
| Due within one year | 493,562 | 319,119 |
| Due after more than one year | 566,631 | 565,676 |
| | 1,060,193 | 884,795 |

Notes to the Company Financial Statements continued

For the year ended 31 December 2015

6. Taxation

As at 31 December 2015, the Company has tax losses available to carry forward in the amount of US\$163.2 million (2014: US\$152.9 million).

7. Parent company guarantees

The Company provided a number of corporate guarantees on behalf of certain Group undertakings. Please also see notes 14 and 27 to the consolidated financial statements.

8. Operating lease arrangements

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

| | 2015 US\$'000 | 2014 US\$'000 |
|--------------------------|------------------|------------------|
| Expiring: | | |
| Within one year | 383 | 313 |
| Within two to five years | 1,148 | 94 |
| | 1,531 | 407 |

9. Directors' remuneration

There were three Executive Directors who held office at the end of the year (2014: six Executive Directors who held office at the end of the year). Details of Directors' remuneration are provided in the Directors' Remuneration Report on pages 95 to 110 of this Annual Report.

10. Subsequent Events

Please see note 34 to the consolidated financial statements.

Independent Auditor's Report to the Members of Petropavlovsk PLC

For the year ended 31 December 2014

Opinion on financial statements of Petropavlovsk PLC

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2014 and of the group's and the parent company's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes 1 to 36 and the parent company Balance Sheet and the related notes 1 to 11. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Going concern

As required by the Listing Rules we have reviewed the directors' statement on page 107 that the group is a going concern.

We confirm that:

- we have concluded that following the Refinancing completed on 18 March 2015 the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independent Auditor's Report to the Members of Petropavlovsk PLC continued

For the year ended 31 December 2014

Our assessment of risks of material misstatement

Our risk assessment process continues throughout the audit and, as a result, we have identified an additional risk of material misstatement in the current year that had a significant effect on our audit strategy. This related to the continued classification of IRC Limited as an asset held for sale. We no longer include the risk on

revenue. The remaining risks were assessed as continuing risks from our audit of the previous year's financial statements.

The procedures described in our response to each risk are not exhaustive and we have focused on those procedures that we consider address areas of judgement or subjectivity. As part of our audit of the Group, in addition to

substantive tests, we also test the design and implementation of internal controls over financial reporting in each of the risk areas.

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

| Risk | How the scope of our audit responded to the risk |
|---|---|
| <p>Going concern (note 2.1)</p> <p>Following the significant decline in the gold price in 2013 and notwithstanding subsequent revision of the group's plans, in the absence of refinancing the group forecast breaches of certain covenants in its banking facilities at 31 December 2014. In addition, the US\$310.5 million outstanding Convertible Bonds were due for repayment in March 2015 and the group did not have sufficient committed facilities or available funds to refinance this debt. Accordingly, going concern was identified as a significant audit risk.</p> <p>Subsequent to year end and after the commencement of our audit, the Directors successfully concluded a refinancing plan, under which the group received relaxation of covenants in its banking facilities and refinanced its Convertible Bonds before they fell due in March 2015.</p> <p>In March 2015, the directors of the group's separately listed subsidiary, IRC Limited, identified a material uncertainty in relation to IRC Limited's ability to continue as a going concern following the decline in the iron ore price, the volatility in the Russian Rouble/US Dollar exchange rate and delays in finalisation of full-scale operations at the K&S project. Petropavlovsk plc has guaranteed IRC Limited's facility with ICBC for the construction of the K&S project. At 31 December 2014, \$266.7million was outstanding in relation to this facility. Due to the uncertainty at IRC Limited, there is a risk that this guarantee may be called if the potential shortfall in IRC Limited's forecast cash flows could not be mitigated by available funds elsewhere in the group.</p> <p>Under the guidelines set out by the UK Financial Reporting Council, each UK company is required to consider whether the going concern basis is the appropriate basis of preparation of the financial statements and include appropriate disclosure as to any significant considerations or uncertainties relevant to this assumption.</p> | <p>We have challenged the key assumptions in management's forecast cash flows for the next 12 months (base case and downside scenarios) by:</p> <ul style="list-style-type: none"> – considering management's going concern paper which was presented to the Board, and the accompanying cash flow and covenant compliance forecasts for the going concern period. This paper included stress tests for a range of reasonably possible scenarios; – comparing the forecast gold and iron ore prices used to the latest set of broker forecasts; – using our mining specialists to analyse the production profile and recovery rates and assess the extent to which further oxide ore reserves have become available by interviewing the chief geologists at the mine sites and reviewing the reserve submissions; – comparing the mining and processing costs by reviewing the historical accuracy of budgeted costs and the extent to which the cost cutting measures had been executed during the year; – agreeing the group's committed debt facilities and hedging arrangements to supporting documentation; – discussing and reviewing management's executed refinancing plans, comparing to legal agreements and correspondence with lenders; – considering whether the material uncertainty identified by the directors of the group's separately listed subsidiary, IRC Limited, in relation to its going concern assumption could reasonably be mitigated by utilising headroom available from other group companies, subject to a mechanism for providing this funding being established, to avoid the guarantee given by Petropavlovsk plc to ICBC being called; and – considering whether the disclosures relating to going concern included in the financial statements are balanced, proportionate and clear. |

| Risk | How the scope of our audit responded to the risk |
|--|---|
| <p>Accounting for IRC (notes 3.8, 3.9 and 27)</p> <p>At 31 December 2012 management concluded that it was highly probable that the Group's ownership of IRC would be diluted below the subsidiary threshold to an associate within a year and so IRC was classified as an Asset Held for Sale. Following several delays in the completion of the original subscription agreement for IRC shares, only a portion of the shares were allotted to new investors and control was retained by the Group longer than expected, and remained classified as held for sale as at 31 December 2013.</p> <p>At the planning stage of the audit it was unclear whether the planned disposal would complete by year end.</p> <p>As the disposal did not complete, these delays, together with a decline in the IRC Limited share price and global iron ore prices meant significant judgement was required to evaluate whether it remains highly probable that the Group will dispose of its controlling interest in IRC within 12 months from 31 December 2014 and whether it should continue to be treated as held for sale as at that date. IRC represents 44% of the Group's net assets.</p> | <p>We:</p> <ul style="list-style-type: none"> – considered management's view that control has been retained despite the dilution of the Group's interest in IRC to 45% as the previous voting patterns and disparate nature of the other IRC shareholders indicate that the Group still has the power to direct the relevant activities of IRC. We examined documentary evidence including voting records and minutes of board and shareholder meetings of IRC; – challenged management's assessment that IRC continues to meet the criteria for classification as an asset held for sale and as a discontinued operation, in particular whether the appropriate level of management remain committed to the disposal, and that the Group had commercially reasonable plans to dispose of its controlling interest within 12 months that are sufficiently far advanced for their completion to be considered highly probable; and – reviewed the underlying impairment models for IRCs most significant asset, the K&S mine, to consider whether the carrying amounts disclosed in the notes are reasonable, and assessed whether assets and liabilities held for sale have been appropriately measured at their fair value less cost to sell. Our approach to testing this impairment was the same as for the Group's other property, plant and equipment as set out below. |
| <p>Impairment of property, plant and equipment (notes 3.3 and 6)</p> <p>In the previous year, management recorded a significant impairment of the carrying value of the group's property, plant and equipment. These assets are valued at \$1,143m (2013: \$1,172m).</p> <p>Management performed impairment tests as at 31 December 2014 and no further impairments were required, with a reversal of impairment identified at one mine. These tests require significant judgement to be exercised, including the long term mining plans, discount rate and long term gold price.</p> | <p>We challenged management's significant assumptions used in the impairment testing for property, plant and equipment, and specifically the cash flow projections, by:</p> <ul style="list-style-type: none"> – using our internal mining specialists who have extensive valuation experience to analyse management's long term mining plans which form the basis of their recoverable value models; – considered the work of management's experts in producing the long term mining plans and considered their experience and qualifications; – comparing the discount rates and the long term gold prices assumed to external forecasts; – assessing management's allocation of the capital costs of the POX project between the cash generating units, for the purposes of the impairment tests and whether there are any indicators that this project will not be completed; and – reviewing management's accounting paper with consideration of all of the assumptions supporting their conclusion. <p>We also evaluated the sensitivity analysis performed by management and the adequacy and accuracy of disclosures relating to the impairment review.</p> |

Independent Auditor's Report to the Members of Petropavlovsk PLC continued

For the year ended 31 December 2014

| Risk | How the scope of our audit responded to the risk |
|---|--|
| <p>Inventory (notes 2.19, 6 and 15)</p> <p>Inventory is required to be carried at the lower of its cost and net realisable value. The measurement and valuation of deferred stripping assets, gold in circuit and stockpiles included in inventory, together with their net realisable values are complex, involve judgement and are based on assumptions about future mining activities, gold prices and processing costs.</p> | <p>We challenged management's significant assumptions used in their assessment of the measurement and valuation of inventory as described below by:</p> <ul style="list-style-type: none"> – assessing the NRV of inventory by using our internal mining specialists to evaluate the processing cost assumptions and comparing the forecast gold price assumptions to external prices; – considering the detailed mine plans to verify whether stripping was correctly deferred and amortisation appropriately calculated. Furthermore, together with our mining specialists, we have visited each of the key mines and discussed with mine management their on-going stripping plans and reviewed the pit-by-pit cross sections to confirm that the stripping relates to ore bodies that are scheduled to be mined in the future; – attending inventory counts at each of the key operating locations; and – reviewing management's measurement and control procedures on gold-in-circuit and assessing the reasonableness of gold-in-circuit by reconciling gold production, sales and recovery together with our internal mining specialists. |
| <p>Impairment of exploration and evaluation assets (notes 3.2, 6, and 13)</p> <p>As a result of the consistently lower forecast gold price the carrying value of the group's remaining exploration and evaluation assets are at increased risk of impairment, as several of these may no longer be likely to be progressed to development. The assessment of each asset's future prospectivity requires significant judgement.</p> | <p>We:</p> <ul style="list-style-type: none"> – performed detailed testing on the exploration and evaluation expenditure capitalised during the period and reviewed the licence conditions for any potential breaches; – held discussions with members of the Strategic Committee, and with local management responsible for directing exploration activities to corroborate the current activities and future intentions for the significant exploration projects; – challenged management to justify the size of the impairment recognised, where applicable; and – discussed the group's plans for specific projects with the Audit Committee. <p>Where an asset has been impaired we have challenged management on the events that led to the impairment, specifically in relation to future gold prices and the judgements surrounding the recoverability of the carrying values.</p> |

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 83.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Following the Group's forecast decrease in underlying EBITDA and net assets we reduced our materiality for the current year.

We determined materiality for the Group to be \$13 million (2013: US\$15 million), which, as in 2013, is 5% of the Group's underlying EBITDA and below 2% of equity.

We use underlying EBITDA because it is used by investors in mining companies as a key performance measure of cash generation and hence the Group's ability to provide returns to the providers of capital.

Our audit work at the operating locations was executed at levels of materiality applicable to each individual entity which were lower than Group materiality, and were not more than \$9 million (2013: \$11 million).

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of \$260,000 (2013: \$300,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

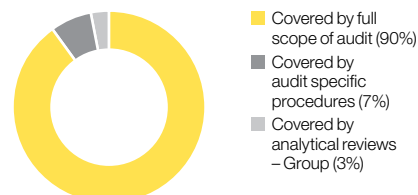
Similar to 2013, our Group audit scope focused primarily on the operating locations, being the four operating mines, the Koboldo alluvial operations, the Irgiredmet, Kapstroï, and AVT-Amur service entities, and twenty-six exploration assets. All of the operating mines, alluvial operations and service entities were subject to a full audit, whilst the exploration assets were subject to specified audit procedures, primarily testing of the capitalised spend on exploration activities and assessing for impairment. In addition, IRC Limited was subject to a full scope audit. The extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's business operations at those locations.

These operating locations represent the principal business units within the Group's reportable segments and account for 90% of the Group's total assets, 92% of the Group's inventory, 99% of the Group's revenue and 97% of the Group's underlying EBITDA. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

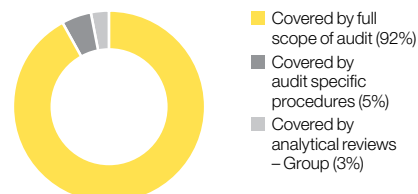
The Group audit team continued to follow a program of planned visits that was designed so that senior members of the Group team, including the Senior Statutory auditor, together with our independent Deloitte mining specialists, visited each of the operating gold mines and the Group's offices in Moscow and Blagoveshchensk where the Group audit scope was focused. Senior members of the Group team together with Deloitte mining specialists and members of the Deloitte Hong Kong component audit team visited the Group's iron ore development assets as part of their audit of IRC Limited, which is separately listed on the Hong Kong Exchange.

The senior members of the group audit team, including the Senior Statutory auditor, met regularly throughout the year with senior members of management in London, and the component auditors and local management teams based in Moscow and Hong Kong.

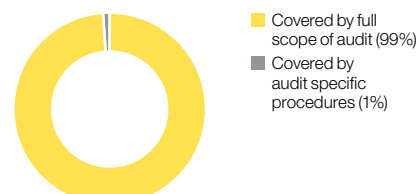
Total assets



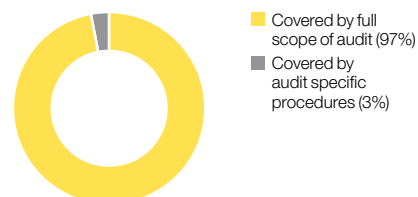
Inventory



Revenue



Underlying EBITDA



Independent Auditor's Report to the Members of Petropavlovsk PLC continued

For the year ended 31 December 2014

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. Under the Listing Rules we are required to review certain elements of the Directors' Remuneration Report. We have nothing to report arising from these matters or our review.

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial

statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Timothy Biggs, FCA
(Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
28 April 2015

Consolidated Income Statement

For the year ended 31 December 2014

| | note | 2014 US\$'000 | 2013 US\$'000 |
|--|------|------------------|------------------|
| Continuing operations | | | |
| Group revenue | 5 | 864,960 | 1,199,784 |
| Operating expenses | 6 | (816,211) | (1,666,773) |
| | | 48,749 | (466,989) |
| Share of results of associates | | 2,990 | (711) |
| Operating profit/(loss) | | 51,739 | (467,700) |
| Investment income | 9 | 1,680 | 888 |
| Interest expense | 9 | (67,705) | (75,268) |
| Other finance gains | 9 | – | 19,365 |
| Loss before taxation | | (14,286) | (522,715) |
| Taxation | 10 | (167,871) | 8,867 |
| Loss for the period from continuing operations | | (182,157) | (513,848) |
| Discontinued operations | | | |
| Loss for the period from discontinued operations | 27 | (165,535) | (199,375) |
| Loss for the period | | (347,692) | (713,223) |
| Attributable to: | | | |
| Equity shareholders of Petropavlovsk PLC | | (260,664) | (610,710) |
| Continuing operations | | (184,296) | (509,044) |
| Discontinued operations | | (76,368) | (101,666) |
| Non-controlling interests | | (87,028) | (102,513) |
| Continuing operations | | 2,139 | (4,804) |
| Discontinued operations | | (89,167) | (97,709) |
| Loss per share | | | |
| Basic loss per share | 11 | | |
| From continuing operations | | (US\$0.94) | (US\$2.59) |
| From discontinued operations | | (US\$0.39) | (US\$0.52) |
| | | (US\$1.33) | (US\$3.11) |
| Diluted loss per share | 11 | | |
| From continuing operations | | (US\$0.94) | (US\$2.59) |
| From discontinued operations | | (US\$0.39) | (US\$0.52) |
| | | (US\$1.33) | (US\$3.11) |

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014

| | 2014 US\$'000 | 2013 US\$'000 |
|---|------------------|------------------|
| Loss for the period | (347,692) | (713,223) |
| Items that may be reclassified subsequently to profit or loss: | | |
| Revaluation of available-for-sale investments | (10) | (130) |
| Exchange differences on translating foreign operations | (17,928) | (4,688) |
| Cash flow hedges: | | |
| Fair value (losses)/gains | (14,239) | 170,526 |
| Tax thereon | 2,848 | (34,106) |
| Transfer to revenue | (42,328) | (107,687) |
| Tax thereon | 8,466 | 21,537 |
| Other comprehensive (loss)/income for the period net of tax | (63,191) | 45,452 |
| Total comprehensive loss for the period | (410,883) | (667,771) |
| Attributable to: | | |
| Equity shareholders of Petropavlovsk PLC | (318,146) | (565,333) |
| Non-controlling interests | (92,737) | (102,438) |
| | (410,883) | (667,771) |
| Total comprehensive loss for the period attributable to equity shareholders of Petropavlovsk PLC arises from: | | |
| Continuing operations | (239,120) | (462,816) |
| Discontinued operations | (79,026) | (102,517) |
| | (318,146) | (565,333) |

Strategic report

Governance

Financial statements

Consolidated Balance Sheet

At 31 December 2014

| | note | 2014 US\$'000 | 2013 US\$'000 |
|---|--------|--------------------|--------------------|
| Assets | | | |
| Non-current assets | | | |
| Exploration and evaluation assets | 13 | 97,533 | 116,008 |
| Property, plant and equipment | 14 | 1,143,032 | 1,171,962 |
| Prepayments for property, plant and equipment | | 10,671 | 26,376 |
| Investments in associates | | 1,231 | 7,938 |
| Available-for-sale investments | | 112 | 124 |
| Inventories | 15 | 42,436 | 34,834 |
| Other non-current assets | | 274 | 412 |
| Deferred tax assets | 21 | 40 | 346 |
| | | 1,295,329 | 1,358,000 |
| Current assets | | | |
| Inventories | 15 | 206,498 | 259,915 |
| Trade and other receivables | 16 | 74,892 | 106,748 |
| Derivative financial instruments | 18 | 9,430 | 62,838 |
| Cash and cash equivalents | 17 | 48,080 | 170,595 |
| | | 338,900 | 600,096 |
| Assets of disposal groups classified as held for sale | 27, 28 | 629,853 | 684,987 |
| | | 968,753 | 1,285,083 |
| Total assets | | 2,264,082 | 2,643,083 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 19 | (66,713) | (98,893) |
| Current income tax payable | | (6,277) | (9,830) |
| Borrowings | 20 | (415,161) | (158,495) |
| | | (488,151) | (267,218) |
| Liabilities of disposal groups associated with assets classified as held for sale | 27, 28 | (289,846) | (228,946) |
| | | (777,997) | (496,164) |
| Net current assets | | 190,756 | 788,919 |
| Non-current liabilities | | | |
| Borrowings | 20 | (562,643) | (960,517) |
| Deferred tax liabilities | 21 | (156,854) | (37,896) |
| Provision for close down and restoration costs | 22 | (21,217) | (36,169) |
| | | (740,714) | (1,034,582) |
| Total liabilities | | (1,518,711) | (1,530,746) |
| Net assets | | 745,371 | 1,112,337 |
| Equity | | | |
| Share capital | 23 | 3,041 | 3,041 |
| Share premium | | 376,991 | 376,991 |
| Merger reserve | | – | 19,265 |
| Own shares | 24 | (8,925) | (8,925) |
| Hedging reserve | | 4,947 | 49,807 |
| Convertible bond reserve | 20 | 48,235 | 48,235 |
| Share based payments reserve | | 3,283 | 11,096 |
| Other reserves | | (16,709) | (89) |
| Retained earnings | | 137,704 | 360,999 |
| Equity attributable to the shareholders of Petropavlovsk PLC | | 548,567 | 860,420 |
| Non-controlling interests ^(a) | | 196,804 | 251,917 |
| Total equity | | 745,371 | 1,112,337 |

(a) IRC Limited ("IRC") is the only non-wholly owned subsidiary of the Group that has a material non-controlling interest (note 27).

These consolidated financial statements for Petropavlovsk PLC, registered number 4343841, were approved by the Directors on 28 April 2015 and signed on their behalf by:

Peter Hambro
Director

Andrey Maruta
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

| note | Total attributable to equity holders of Petropavlovsk PLC | | | | | | | | | | Non-controlling interests US\$'000 | Total equity US\$'000 |
|--|---|---------------------------|----------------------------|------------------------|--------------------------------------|--|-----------------------------|---|-------------------------------|-------------------|---------------------------------------|--------------------------|
| | Share capital US\$'000 | Share premium US\$'000 | Merger reserve US\$'000 | Own shares US\$'000 | Convertible bond reserve US\$'000 | Share based payments reserve US\$'000 | Hedging reserve US\$'000 | Other reserves ^(a) US\$'000 | Retained earnings US\$'000 | Total US\$'000 | | |
| Balance at 1 January 2013 | 2,891 | 377,140 | 130,011 | (10,196) | 59,032 | 24,015 | – | 4,341 | 853,619 | 1,440,853 | 215,260 | 1,656,113 |
| Total comprehensive income/(loss) | – | – | – | – | – | – | 49,807 | (4,430) | (610,710) | (565,333) | (102,438) | (667,771) |
| Loss for the period | – | – | – | – | – | – | – | – | (610,710) | (610,710) | (102,513) | (713,223) |
| Other comprehensive income/(loss) | – | – | – | – | – | – | 49,807 | (4,430) | – | 45,377 | 75 | 45,452 |
| Dividends 12 | – | – | – | – | – | – | – | – | (5,774) | (5,774) | – | (5,774) |
| Bonus share issue | 150 | (149) | – | (1) | – | – | – | – | – | – | – | – |
| Share based payments | – | – | – | – | – | 5,807 | – | – | 1,406 | 7,213 | – | 7,213 |
| Vesting of awards within Petropavlovsk PLC LTIP | – | – | – | 1,272 | – | (18,726) | – | – | 17,454 | – | – | – |
| Issue of ordinary shares by subsidiary | – | – | – | – | – | – | – | – | (16,533) | (16,533) | 142,619 | 126,086 |
| Buy-back of convertible bonds | – | – | – | – | (10,797) | – | – | – | 10,797 | – | – | – |
| Other transaction with non-controlling interests | – | – | – | – | – | – | – | – | (6) | (6) | (3,524) | (3,530) |
| Transfer to retained earnings ^(b) | – | – | (110,746) | – | – | – | – | – | 110,746 | – | – | – |
| Balance at 1 January 2014 | 3,041 | 376,991 | 19,265 | (8,925) | 48,235 | 11,096 | 49,807 | (89) | 360,999 | 860,420 | 251,917 | 1,112,337 |
| Total comprehensive loss | – | – | – | – | – | – | (44,860) | (12,622) | (260,664) | (318,146) | (92,737) | (410,883) |
| Loss for the period | – | – | – | – | – | – | – | – | (260,664) | (260,664) | (87,028) | (347,692) |
| Other comprehensive loss | – | – | – | – | – | – | (44,860) | (12,622) | – | (57,482) | (5,709) | (63,191) |
| Share based payments 29 | – | – | – | – | – | (7,280) | – | – | 12,153 | 4,873 | – | 4,873 |
| Vesting of awards within IRC LTIP | – | – | – | – | – | (533) | – | – | 533 | – | – | – |
| Issue of ordinary shares by subsidiary | – | – | – | – | – | – | – | – | 1,314 | 1,314 | 38,076 | 39,390 |
| Other transaction with non-controlling interests | – | – | – | – | – | – | – | – | 106 | 106 | (452) | (346) |
| Transfer to retained earnings | – | – | (19,265) ^(b) | – | – | – | – | (3,998) | 23,263 | – | – | – |
| Balance at 31 December 2014 | 3,041 | 376,991 | – | (8,925) | 48,235 | 3,283 | 4,947 | (16,709) | 137,704 | 548,567 | 196,804 | 745,371 |

(a) Including translation reserve of US\$(16.7) million (31 December 2013: US\$(4.1) million).

(b) Arises from an adjustment to the book value of the investment in the Company financial statements to reflect changes in the value of the Group's investment in IRC (note 27).

Strategic report

Governance

Financial statements

Consolidated Cash Flow Statement

For the year ended 31 December 2014

| | note | 2014 US\$'000 | 2013 US\$'000 |
|--|--------|------------------|------------------|
| Cash flows from operating activities | | | |
| Cash generated from operations | 25 | 245,407 | 407,369 |
| Interest paid | | (77,615) | (85,479) |
| Income tax paid | | (34,641) | (40,267) |
| Net cash from operating activities | | 133,151 | 281,623 |
| Cash flows from investing activities | | | |
| Proceeds from disposal of subsidiaries, net of liabilities settled | | 2,699 | 49,210 |
| Purchase of property, plant and equipment ^(a) | | (164,223) | (301,299) |
| Exploration expenditure ^(a) | | (34,726) | (47,281) |
| Proceeds from disposal of property, plant and equipment | | 5,141 | 2,588 |
| Loans granted | | (89) | (453) |
| Repayment of amounts loaned to other parties | | 586 | 2,746 |
| Interest received | | 3,351 | 1,910 |
| Net cash used in investing activities | | (187,261) | (292,579) |
| Cash flows from financing activities | | | |
| Proceeds from issue of ordinary shares by IRC, net of transaction costs ^(b) | | 38,870 | 126,887 |
| Proceeds from borrowings ^(c) | | 154,007 | 166,319 |
| Repayments of borrowings ^(c) | | (235,050) | (182,458) |
| Debt transaction costs paid in connection with ICBC facility | | (467) | (1,031) |
| Restricted bank deposit placed in connection with ICBC facility | | (21,250) | – |
| Refinancing costs | 34 | (7,760) | – |
| Dividends paid to shareholders of Petropavlovsk PLC | | – | (5,774) |
| Dividends paid to non-controlling interests | | (346) | (5) |
| Net cash (used in)/from financing activities | | (71,996) | 103,938 |
| Net (decrease)/increase in cash and cash equivalents in the period | | (126,106) | 92,982 |
| Effect of exchange rates on cash and cash equivalents | | (33,092) | (7,507) |
| Cash and cash equivalents at beginning of period | 17 | 170,595 | 159,226 |
| Cash and cash equivalents re-classified as assets held for sale at beginning of the period | 27 | 92,142 | 18,036 |
| Cash and cash equivalents re-classified as assets held for sale at end of the period | 27, 28 | (55,459) | (92,142) |
| Cash and cash equivalents at end of period | 17 | 48,080 | 170,595 |

(a) Including US\$102.1 million related to discontinued operations (year ended 31 December 2013: US\$111.7 million) (note 27).

(b) Note 27.

(c) Including US\$154.0 million proceeds from borrowings (year ended 31 December 2013: US\$131.8 million) and US\$81.1 million repayments of borrowings (year ended 31 December 2013: US\$51.5 million) related to discontinued operations (note 27).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

1. General information

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

2. Significant accounting policies

2.1. Basis of preparation and presentation

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

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 4 to 69 of this Annual Report. The financial position of the Group, its cash flows and liquidity position are described in the Chief Financial Officer's statement on pages 58 to 69 of this Annual Report. In addition, note 31 to these consolidated financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

As a separate listed group, IRC is required to perform an assessment of their going concern position. In their 31 December 2014 annual report they have identified a material uncertainty in relation to their ability to continue to operate as a going concern, and accordingly their auditor, Deloitte Hong Kong, referenced this in an emphasis of matter in their audit report published on 25 March 2015. The main uncertainties in relation to the ability of IRC to continue to operate as a going concern are the timing of the commissioning of the K&S project and the substantial drop in the iron ore price.

As the Group has guaranteed the outstanding amounts IRC owes to ICBC, which outstanding loan principal was US\$266.7 million as at 31 December 2014, the assessment of whether there is any material uncertainty that IRC will be able to repay this facility as it falls due is a key element of the Group's overall going concern assessment.

The Group performed an assessment of the forecast cash flows for its gold division. Following the successful completion of the Refinancing and receipt of covenant relaxation and waivers, the Group is satisfied that it has sufficient headroom under a reasonable downside scenario for the period to April 2016 to cover both its own cash flow requirements together with any potential deficit in IRC, subject to a mechanism for providing this funding being established. The Directors are confident that, should it be required, such a mechanism could be established.

Accordingly, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, being at least the next 12 months from the date of approval of the 2014 Annual Report and Accounts. Thus, they continue to adopt the going concern basis of accounting in preparing these consolidated financial statements.

Changes in accounting policies and estimates

Exceptional items

The Group is no longer disclosing exceptional items separately. Comparative information for the year ended 31 December 2013 has been represented accordingly. In making this decision the Group has considered the following:

- this presentation enhances the simplicity of the disclosures in the consolidated financial statements;
- due to significance, nature and the expected infrequency of occurrence, exceptional items are usually accompanied by relevant detailed disclosures within the notes to the consolidated financial statements; and
- the classification of exceptional items is a non-GAAP measure.

Refer to note 3 for other areas of judgement in applying accounting policies and key sources of estimation uncertainty.

Ore reserves estimates

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

In December 2013, a significant portion of the newly discovered reserves and resources was scheduled for processing in the Group's latest life of mine production plans as these resources are expected to be classified as Joint Ore Reserves Committee ('JORC') reserves or resources before they are processed. Following this inclusion, the Group amended its methodology for determining ore reserve estimates for calculating UOP depreciation to include, in addition to JORC reserves, resources estimated in accordance with both JORC and the internally used Russian Classification System, but only to the extent these are scheduled to be mined under the Group's life of mine plans. This amendment has been applied prospectively with effect from 1 January 2014. As a consequence of the above, depreciation charges for the year ended 31 December 2014 reduced by approximately US\$50.8 million.

2.2. Adoption of new and revised standards and interpretations

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

New and revised Standards and Interpretations that were effective for annual periods beginning on or after 1 January 2014 and are set out below have been adopted:

- IFRS 10 'Consolidated Financial Statements'
- IFRS 11 'Joint Arrangements'
- IFRS 12 'Disclosure of Interests in Other Entities'
- Amendments to IAS 36 'Impairment of Assets' – 'Recoverable Amount Disclosures for Non-Financial Assets'
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' – 'Novation of Derivatives and Continuation of Hedge Accounting'
- Amendments to IAS 32 'Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities'
- Amendments to IFRS 10, IFRS 12 and IAS 27 'Separate Financial Statements: Investment Entities'
- IFRIC 21 'Leases'

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

2. Significant accounting policies continued

Aside from further disclosures included in note 27 following the adoption of IFRS 12 'Disclosure of Interests in Other Entities', adoption of the aforementioned standards, amendments, and interpretations have not had a significant impact on amounts reported,

presentation or disclosure in these consolidated financial statements but may impact the accounting for future transactions and arrangements.

New standards, amendments and interpretations that are applicable to the Group, issued but not yet effective for the

reporting period beginning 1 January 2015 and not early adopted

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

| | Effective for annual periods beginning on or after |
|--|--|
| IFRS 9 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. | 1 January 2018 |
| IFRS 14 'Regulatory Deferral Accounts' ^(a) | 1 January 2016 |
| IFRS 15 'Revenue from contracts with customers' replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts' and related interpretations. | 1 January 2017 |
| Amendments to IFRS 11 'Accounting for Acquisition of Interests in Joint Operations' | 1 January 2016 |
| Amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation' | 1 January 2016 |
| Amendments to IAS 16 and IAS 41 'Agriculture: Bearer Plants' | 1 January 2016 |
| Amendments to IAS 19 'Employee Benefits: Defined Benefit Plans – Employee Contributions' | 1 July 2014 |
| Amendments to IAS 27 'Equity Method in Separate Financial Statements' | 1 January 2016 |
| Amendments to IFRS 10 and IAS 28 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture' | 1 January 2016 |
| Annual improvements to IFRSs: 2010-2012 | 1 July 2014 |
| Annual improvements to IFRSs: 2011-2013 | 1 July 2014 |
| Annual improvements to IFRSs: 2012-2014 Cycle | 1 July 2016 |

(a) IFRS 14 is not applicable to the Group as the Group is not a first-time adopter of IFRSs.

The Directors do not expect that the adoption of the standards, amendments and interpretations listed above will have a material impact on the Group's consolidated financial statements in future reporting periods, except that IFRS 9 will impact both measurement and disclosures of financial instruments and IFRS 15 may have an impact on revenue recognition and related disclosures. Beyond the information above, it is not practicable to provide a reasonable estimate of the impact of the aforementioned standards until a detailed review has been completed.

2.3. Basis of consolidation

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

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power

over the subsidiary. Specifically, the Group controls a subsidiary if, and only if, it has all of the following:

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

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

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and

- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

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

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

2.4. Business combinations

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for each acquisition is measured at the aggregate of the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. Where applicable, the consideration transferred includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition-related costs are recognised in profit or loss as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets, on an acquisition-by-acquisition basis.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value

of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired are recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of recognised income and expenses.

2.5. Non-controlling interests

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

2.6. Acquisition of assets

Frequently, the acquisition of mining licences is effected through a non-operating corporate structure. As these structures do not represent a business, it is considered that the transactions do not meet the definition of a business combination. Accordingly the transaction is accounted for as the acquisition of an asset. The net assets acquired are recognised at cost.

Where the Group has full control but does not own 100% of the assets, then non-controlling interests are recognised at an equivalent amount based on the Group's cost, the assets continue to be carried at cost and changes in those values are recognised in equity.

2.7. Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control). Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are accounted for by using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Interests in joint ventures are carried in the balance sheet at

cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The Group's share of its joint ventures' post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment in joint ventures.

2.8. Investments in associates

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

Investments in associates are accounted for using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

2. Significant accounting policies continued

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for the impairment.

2.9. Non-current assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria

described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

2.10. Foreign currency translation

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

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

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations which have a functional currency other than US Dollars are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during that year, in which case the exchange rates at the date of

transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and expenses and accumulated in equity, with share attributed to non-controlling interests as appropriate. On the disposal of a foreign operation, all of the accumulated exchange differences in respect of that operation attributable to the shareholders of the Company are reclassified to profit or loss.

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

2.11. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of a subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisition of a subsidiary is included in non-current assets as a separate line item. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill on acquisition of an associate or a joint venture is included in the carrying amount of investment and is tested for impairment as part of the overall balance.

Goodwill is allocated to those cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination in which the goodwill arose.

The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost is recognised immediately in the income statement.

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

| | As at 31 December 2014 | Average year ended 31 December 2014 | As at 31 December 2013 | Average year ended 31 December 2013 |
|---------------------------------|---------------------------|--|---------------------------|--|
| GB Pounds Sterling (GBP : US\$) | 0.64 | 0.61 | 0.60 | 0.64 |
| Russian Rouble (RUR : US\$) | 56.26 | 38.44 | 32.73 | 31.85 |

2.12. Intangible assets

Exploration and evaluation expenditure and mineral rights acquired

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

Exploration and evaluation expenditure comprise costs directly attributable to:

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

Mineral rights acquired through a business combination or an asset acquisition are capitalised separately from goodwill if the asset is separable or arises from contractual or legal rights and the fair value can be measured reliably on initial recognition.

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

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

2.13. Property, plant and equipment

Mine development costs

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

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

Mining assets

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

Mining assets, except for those related to alluvial gold operations, where economic benefits from the asset are consumed in a

pattern which is linked to the production level, are depreciated using a units of production method based on the volume of ore reserves. This results in a depreciation charge proportional to the depletion of reserves. The basis for determining ore reserve estimates is set out in note 3.1. Where the mining plan anticipates future capital expenditure to support the mining activity over the life of the mine, the depreciable amount is adjusted for such estimated future expenditure.

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

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

Non-mining assets

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

Capital construction in progress

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

Depreciation

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

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

Estimated useful lives normally vary as set out below.

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

2. Significant accounting policies continued

2.14. Impairment of non-financial assets

Property, plant and equipment and finite life intangible assets are reviewed by management for impairment if there is any indication that the carrying amount may not be recoverable. This applies to the Group's share of the assets held by the joint ventures as well as the assets held by the Group itself.

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

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

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

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

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

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

2.15. Deferred stripping costs

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

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

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

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

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

2.16. Provisions for close down and restoration costs

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

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

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

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

2.17. Financial instruments

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

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

Financial assets

Financial assets are classified into the following specified categories: 'financial assets at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale financial assets' and 'loans and receivables'.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Financial assets are recognised at trade-date, the date on which the Group commits to purchase the asset. The Group does not hold any financial assets which meet the definition of 'held-to-maturity investments'.

Financial assets at fair value through profit or loss

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

Available-for-sale financial assets

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

2. Significant accounting policies continued

Loans and receivables

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

Effective interest method

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

Cash and cash equivalents

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

Trade receivables

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

Other investments

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

Financial liabilities

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

Borrowings

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

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

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

Derivative financial instruments

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

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

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

Hedge accounting

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

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

Currently the Group only has cash flow hedge relationships.

To qualify for hedge accounting the hedging relationship must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, then the relationship does not qualify for hedge accounting. In this case the hedging instrument and the hedged item are reported independently as if there were no hedging relationship.

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The fair value gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

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

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

Trade payables

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

Equity instruments

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

Impairment of financial assets

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

2.18. Provisions

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

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

2.19. Inventories

Inventories include the following major categories:

- stores and spares represent raw materials consumed in the production process as well as spare parts and other maintenance supplies.
- construction materials represent materials for use in capital construction and mine development.

- ore in stockpiles represent material that, at the time of extraction, is expected to be processed into a saleable form and sold at a profit. Ore in stockpiles is valued at the average cost per tonne of mining and stockpiling the ore. Quantities of ore in stockpiles are assessed through surveys and assays. Ore in stockpiles is classified between current and non-current inventory based on the expected processing schedule in accordance with the Group's mining plan.
- work in progress inventory primarily represents gold in processing circuit that has not completed the production process. Work in progress inventory is valued at the average production costs.
- deferred stripping costs are included in inventories where appropriate, as set out in note 2.15.

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

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

2. Significant accounting policies continued

2.20. Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

2.21. Revenue recognition

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

Sales of gold and silver

The majority of the Group's revenue is derived from the sale of refined gold and silver, the latter being a by-product of gold production. Revenue from the sale of gold and silver is recognised when:

- the risks and rewards of ownership are transferred to the buyer;
- the Group retains neither a continuing involvement nor control over the goods sold;
- the amount of revenue can be measured reliably; and
- it is probable that the economic benefits associated with the transaction will flow to the Group.

Other revenue

Other revenue is recognised as follows:

- revenue from service contracts is recognised when the services are rendered;
- revenue from sales of goods is recognised when the goods are delivered to the buyer and the risks and benefits associated with ownership are transferred to the buyer; and
- rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

2.22. Borrowing costs

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

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

2.23. Taxation

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

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

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

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

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

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

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

2.24. Share-based payments

The Group has a number of equity-settled share-based payment arrangements in place, details of which are set out in note 29.

Equity-settled share-based payment awards are measured at fair value at the grant date. The fair values determined at the grant date are recognised as an expense on a straight-line basis over the expected vesting period with a corresponding adjustment to the share-based payments reserve within equity.

The fair values of equity-settled share-based payment awards are determined at the dates of grant using a Black Scholes model for those awards vesting based on operating performance conditions and a Monte Carlo model for those awards vesting based on market related performance conditions.

The estimate of the number of the awards likely to vest is reviewed at each balance sheet date up to the vesting date, at which point the estimate is adjusted to reflect the actual awards issued. The impact of the revision of the original estimates, if any, is recognised in the income statement so that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve within equity.

2.25. Employee Benefit Trust

Certain Ordinary Shares underlying the share-based payment awards granted are held by the Employee Benefit Trust (the 'EBT'). Details of employee benefit trust arrangements are set out in note 29. The carrying value of shares held by the employee benefit trust are recorded as treasury shares, shown as a deduction to shareholders' equity.

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

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

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are set out below.

3.1. Ore reserve estimates

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

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

Ore reserve estimates are used in the calculation of depreciation of mining assets using a units of production method (note 14), impairment charges (note 6) and for forecasting the timing of the payment of close down and restoration costs (note 22). Also, for the purposes of impairment reviews and the assessment of life of mine for forecasting the timing of the payment of close down and restoration costs, the Group may take into account mineral resources in addition to ore reserves where there is a high degree of confidence that such resources will be extracted.

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

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

3.2. Exploration and evaluation costs

The Group's accounting policy for exploration and evaluation expenditure results in exploration and evaluation expenditure being capitalised for those projects where such expenditure is considered likely to be recoverable through future extraction activity or sale or where the exploration activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether the Group will proceed with

development based on existence of reserves or whether an economically viable extraction operation can be established. Such estimates and assumptions may change from period to period as new information becomes available. If, subsequent to the exploration and evaluation expenditure being capitalised, a judgement is made that recovery of the expenditure is unlikely or the project is to be abandoned, the relevant capitalised amount will be written off to the income statement. Details of exploration and evaluation assets are set out in note 13.

3.3. Impairment and impairment reversals

The Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. The recoverable amount of an asset, or CGU, is measured as the higher of fair value less costs to sell and value in use.

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

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

3.4. Deferred stripping costs

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

3.5. Close down and restoration costs

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

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

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

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

3.6. Tax provisions and tax legislation

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

3.7. Recognition of deferred tax assets

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

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

Details of tax charge for the year and deferred tax balances are set out in notes 10 and 21.

3.8. Measurement and classification of assets held for sale

IRC has been classified as 'held for sale' and presented separately in the consolidated balance sheet as at 31 December 2014 and 2013 as well as a discontinued operation in the income statement (note 27). The carrying value of IRC's net assets has been adjusted to fair value less estimated transaction costs, based on IRC's share price of HK\$0.52 as at 31 December 2014 (31 December 2013: HK\$0.78) which the Directors consider to be the best measure of fair value.

If completion of total investment into IRC by General Nice and Minmetals as set out in note 27 occurs, the Group's interest in the share capital of IRC would be diluted from 45.39% held as at 31 December 2014 to 40.68% and, with another significant shareholder block in place and despite the Group's continuing guarantee of IRC's facility with ICBC, the Group would lose control over IRC and IRC would cease being a subsidiary of the Group and would become an associate to the Group. The carrying value of IRC will be adjusted based on its market share price on that date which will be the basis for valuation of the

Group's share in IRC. Subsequent to that, IRC will be accounted for using the equity method of accounting taking into consideration the Group's share in IRC's results and subject to any impairment.

The Directors continue to consider it is highly probable that IRC will cease to be a subsidiary of the Group within 12 months after the reporting date and, accordingly, IRC continues to be classified as 'held for sale' and presented separately in the balance sheet as well as presented as a discontinued operation in the income statement. In the event completion of the strategic investment by General Nice and Minmetals is further delayed, the Directors are confident that other avenues resulting in the Group losing control over IRC could be successfully pursued.

3.9. Determination of control of subsidiaries and consolidation of entities

Judgement is required to determine when the Group has control, which requires an assessment of the relevant activities (those relating to the operating and capital decisions of the arrangement, such as: the approval of the capital expenditure programme for each year, and appointing, remunerating and terminating the key management personnel or service providers of the operations) and when the decisions in relation to those activities are under the control of the Group or require unanimous consent.

Differing conclusions around these judgements, may materially impact how these businesses are presented in the consolidated financial statements – under the full consolidation method, equity method or proportionate consolidation method.

In determining whether the Group controls IRC, the Group has taken the following into specific consideration:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders; and
- the existence of a substantial guarantee of IRC's debt.

The Group's principal subsidiaries and other significant investments are set out in note 36.

4. Segment information

The Group's reportable segments under IFRS 8, which are aligned with its operating locations, were determined to be as set out below:

- Pokrovskiy, Pioneer, Malomir and Albyn hard-rock gold mines which are engaged in gold and silver production as well as field exploration and mine development; and
- Alluvial operations segment comprising various alluvial gold operations which are engaged in gold production and field exploration.

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

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

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

4. Segment information continued

| 2014 | Pioneer US\$'000 | Pokrovskiy US\$'000 | Malomir US\$'000 | Albyn US\$'000 | Alluvial operations US\$'000 | Corporate and other US\$'000 | Consolidated US\$'000 |
|--|---------------------|------------------------|---------------------|-------------------|------------------------------------|------------------------------------|--------------------------|
| Revenue | | | | | | | |
| Gold ^(a) | 341,445 | 89,059 | 112,988 | 239,750 | 38,500 | – | 821,742 |
| Silver | 2,438 | 680 | 255 | 277 | 105 | – | 3,755 |
| Other external revenue | – | – | – | – | – | 39,463 | 39,463 |
| Inter-segment revenue | 658 | – | 4,117 | 1,016 | – | 196,603 | 202,394 |
| Intra-group eliminations | (658) | – | (4,117) | (1,016) | – | (196,603) | (202,394) |
| Total Group revenue from external customers | 343,883 | 89,739 | 113,243 | 240,027 | 38,605 | 39,463 | 864,960 |
| Operating expenses and income | | | | | | | |
| Operating cash costs | (212,393) | (60,205) | (87,551) | (149,199) | (28,555) | (40,078) | (577,981) |
| Depreciation | (40,081) | (21,790) | (18,450) | (57,863) | (4,883) | (901) | (143,968) |
| Central administration expenses | – | – | – | – | – | (38,185) | (38,185) |
| Reversal of impairment of mining assets | – | – | – | 28,935 | – | – | 28,935 |
| Impairment of exploration and evaluation assets | – | (3,463) | (128) | – | (390) | (18,053) | (22,034) |
| Impairment of ore stockpiles | (7,144) | 3,401 | 3,186 | (9,587) | – | – | (10,144) |
| Impairment of investments in associates | – | – | – | – | – | (9,697) | (9,697) |
| Write-down to adjust the carrying value of Koboldo's net assets to fair value less costs to sell | – | – | – | – | (11,867) | – | (11,867) |
| Total operating expenses ^(b) | (259,618) | (82,057) | (102,943) | (187,714) | (45,695) | (106,914) | (784,941) |
| Share of results of associates | – | – | – | – | – | 2,990 | 2,990 |
| Segment result | 84,265 | 7,682 | 10,300 | 52,313 | (7,090) | (64,461) | 83,009 |
| Foreign exchange losses | | | | | | | (31,270) |
| Operating profit | | | | | | | 51,739 |
| Investment income | | | | | | | 1,680 |
| Interest expense | | | | | | | (67,705) |
| Taxation | | | | | | | (167,871) |
| Loss for the period from continuing operations | | | | | | | (182,157) |
| Segment assets | 484,141 | 62,564 | 450,545 | 462,947 | 14,652 | 154,868 | 1,629,717 |
| Segment liabilities | (16,403) | (5,851) | (9,311) | (16,669) | (757) | (45,973) | (94,964) |
| Deferred tax – net | | | | | | | (156,814) |
| Unallocated cash | | | | | | | 18,262 |
| Loans given | | | | | | | 862 |
| Borrowings | | | | | | | (977,804) |
| Net assets of disposal group classified as held for sale | | | | | | | 326,112 |
| Net assets | | | | | | | 745,371 |
| Other segment information | | | | | | | |
| Additions to non-current assets: | | | | | | | |
| Exploration and evaluation expenditure capitalised within intangible assets | 1,143 | 475 | 6,774 | 7,218 | 41 | 3,480 | 19,131 |
| Other additions to intangible assets | – | – | – | – | 789 | – | 789 |
| Capital expenditure | 43,327 | 815 | 30,509 | 20,708 | 1,721 | 2,214 | 99,294 |
| Other items capitalised ^(c) | 10,935 | (1,898) | (4,992) | (6,113) | – | – | (2,068) |
| Average number of employees | 1,737 | 1,006 | 916 | 1,411 | 464 | 3,998 | 9,532 |

(a) Including US\$42.3 million contribution from the cash flow hedge.

(b) Operating expenses less foreign exchange losses.

(c) Being net of interest capitalised and close down and restoration costs (note 14).

| 2013 | Pioneer US\$'000 | Pokrovskiy US\$'000 | Malomir US\$'000 | Albyn US\$'000 | Alluvial operations US\$'000 | Corporate and other US\$'000 | Consolidated US\$'000 |
|--|---------------------|------------------------|---------------------|-------------------|------------------------------------|------------------------------------|--------------------------|
| Revenue | | | | | | | |
| Gold ^(d) | 487,367 | 138,587 | 170,030 | 197,518 | 125,216 | – | 1,118,718 |
| Silver | 2,335 | 616 | 318 | 241 | 268 | – | 3,778 |
| Other external revenue | – | – | – | – | – | 77,288 | 77,288 |
| Inter-segment revenue | – | – | 4,326 | – | – | 302,126 | 306,452 |
| Intra-group eliminations | – | – | (4,326) | – | – | (302,126) | (306,452) |
| Total Group revenue from external customers | 489,702 | 139,203 | 170,348 | 197,759 | 125,484 | 77,288 | 1,199,784 |
| Operating expenses and income | | | | | | | |
| Operating cash costs | (283,459) | (108,067) | (116,351) | (131,554) | (112,179) | (73,259) | (824,869) |
| Depreciation | (74,543) | (22,800) | (38,054) | (76,571) | (10,928) | (1,908) | (224,804) |
| Central administration expenses | – | – | – | – | – | (45,819) | (45,819) |
| Impairment of mining assets and goodwill | (88,926) | (22,705) | (155,946) | (17,595) | – | (126,113) | (411,285) |
| Impairment of exploration and evaluation assets | – | – | – | – | (215) | (94,693) | (94,908) |
| Impairment of ore stockpiles | (36,260) | (7,712) | (9,171) | (2,430) | – | – | (55,573) |
| (Loss)/gain on disposal of subsidiaries | – | – | – | – | (4,205) | 459 | (3,746) |
| Total operating expenses ^(e) | (483,188) | (161,284) | (319,522) | (228,150) | (127,527) | (341,333) | (1,661,004) |
| Share of results of associates | – | – | – | – | – | (711) | (711) |
| Segment result | 6,514 | (22,081) | (149,174) | (30,391) | (2,043) | (264,756) | (461,931) |
| Foreign exchange losses | | | | | | | (5,769) |
| Operating loss | | | | | | | (467,700) |
| Investment income | | | | | | | 888 |
| Interest expense | | | | | | | (75,268) |
| Other finance gains | | | | | | | 19,365 |
| Taxation | | | | | | | 8,867 |
| Loss for the period from continuing operations | | | | | | | (513,848) |
| Segment assets | 616,504 | 122,290 | 464,344 | 471,302 | 31,184 | 204,432 | 1,910,056 |
| Segment liabilities | (30,904) | (10,415) | (17,200) | (20,853) | (1,306) | (64,214) | (144,892) |
| Deferred tax – net | | | | | | | (37,550) |
| Unallocated cash | | | | | | | 46,661 |
| Loans given | | | | | | | 1,033 |
| Borrowings | | | | | | | (1,119,012) |
| Net assets of disposal group classified as held for sale | | | | | | | 456,041 |
| Net assets | | | | | | | 1,112,337 |
| Other segment information | | | | | | | |
| Additions to non-current assets: | | | | | | | |
| Exploration and evaluation expenditure capitalised within intangible assets | 1,357 | 1,881 | 4,770 | 15,138 | 947 | 5,934 | 30,027 |
| Other additions to intangible assets | – | – | 404 | 1,273 | 1,231 | 63 | 2,971 |
| Capital expenditure | 61,177 | 10,583 | 47,928 | 38,907 | 5,438 | 18,546 | 182,579 |
| Other items capitalised ^(f) | 12,899 | (656) | 5,034 | 3,890 | – | – | 21,167 |
| Average number of employees | 1,943 | 1,260 | 1,225 | 1,252 | 998 | 4,837 | 11,515 |

(d) Including US\$107.7 million contribution from the cash flow hedge.

(e) Operating expenses less foreign exchange losses.

(f) Being net of interest capitalised and close down and restoration costs (note 14).

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

4. Segment information continued

Entity wide disclosures

Revenue by geographical location ^(a)

| | 2014 US\$'000 | 2013 US\$'000 |
|----------------|------------------|------------------|
| Russia and CIS | 864,425 | 1,199,035 |
| Other | 535 | 749 |
| | 864,960 | 1,199,784 |

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

Non-current assets by location of asset ^(b)

| | 2014 US\$'000 | 2013 US\$'000 |
|--------|------------------|------------------|
| Russia | 1,294,893 | 1,346,554 |
| Other | 10 | 10,564 |
| | 1,294,903 | 1,357,118 |

(b) Excluding financial instruments and deferred tax assets.

Information about major customers

During the years ended 31 December 2014 and 2013, the Group generated revenues from the sales of gold to Russian banks for Russian domestic sales of gold. Included in gold sales revenue for the year ended 31 December 2014 are revenues of US\$815 million which arose from sales of gold to two banks that individually accounted for more than 10% of the Group's revenue, namely US\$527 million to Sberbank of Russia and US\$288 million to VTB (2013: US\$1,084 million which arose from sales of gold to two banks that individually accounted for more than 10% of the Group's revenue, namely US\$625 million to Sberbank of Russia and US\$459 million to VTB). The proportion of Group revenue of each bank may vary from year to year depending on commercial terms agreed with each bank. Management consider there is no major customer concentration risk due to high liquidity inherent to gold as a commodity.

5. Revenue

Continuing operations

| | 2014 US\$'000 | 2013 US\$'000 |
|-----------------------|------------------|------------------|
| Sales of goods | 850,228 | 1,177,901 |
| Rendering of services | 13,489 | 20,410 |
| Rental income | 1,243 | 1,473 |
| | 864,960 | 1,199,784 |
| Investment income | 1,680 | 888 |
| | 866,640 | 1,200,672 |

Discontinued operations

| | 2014 US\$'000 | 2013 US\$'000 |
|-----------------------|------------------|------------------|
| Sales of goods | 117,972 | 151,939 |
| Rendering of services | 4,442 | 8,915 |
| | 122,414 | 160,854 |
| Investment income | 1,667 | 975 |
| | 124,081 | 161,829 |

6. Operating expenses and income

| | 2014 US\$'000 | 2013 US\$'000 |
|--|------------------|------------------|
| Net operating expenses ^(a) | 721,949 | 1,049,673 |
| Impairment of exploration and evaluation assets ^(a) | 22,034 | 94,908 |
| Impairment/(reversal of impairment) of mining assets and goodwill ^(a) | (28,935) | 411,285 |
| Impairment of ore stockpiles ^(a) | 10,144 | 55,573 |
| Impairment of investments in associates ^(b) | 9,697 | – |
| Write-down to adjust the carrying value of Kobooldo's net assets to fair value less costs to sell ^(c) | 11,867 | – |
| Central administration expenses ^(a) | 38,185 | 45,819 |
| Foreign exchange losses | 31,270 | 5,769 |
| Loss on disposal of subsidiaries | – | 3,746 |
| | 816,211 | 1,666,773 |

(a) As set out below.

(b) Taking into consideration the alternatives sought to realise the value of investments in associates through sale and indicative purchase consideration from the potential buyers, respective impairment provision was recognised against the associated carrying values.

(c) Note 28.

Net operating expenses

| | 2014 US\$'000 | 2013 US\$'000 |
|---|------------------|------------------|
| Depreciation | 143,968 | 224,804 |
| Staff costs | 109,341 | 160,577 |
| Materials | 154,099 | 196,225 |
| Fuel | 78,798 | 110,094 |
| External services | 22,608 | 67,551 |
| Mining tax | 47,711 | 61,602 |
| Electricity | 35,839 | 49,425 |
| Smelting and transportation costs | 3,012 | 5,732 |
| Movement in ore stockpiles, deferred stripping, work in progress and bullion in process attributable to gold production | 46,223 | 68,056 |
| Taxes other than income | 14,113 | 8,619 |
| Insurance | 6,528 | 9,340 |
| Professional fees | 958 | 1,090 |
| Office costs | 674 | 1,122 |
| Operating lease rentals | 914 | 1,316 |
| Business travel expenses | 2,199 | 2,985 |
| Provision for impairment of trade and other receivables | (1,056) | (425) |
| Bank charges | 550 | 1,444 |
| Goods for resale | 17,300 | 42,835 |
| Other operating expenses | 40,134 | 46,746 |
| Other income | (1,964) | (9,465) |
| | 721,949 | 1,049,673 |

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

6. Operating expenses and income continued

Central administration expenses

| | 2014 US\$'000 | 2013 US\$'000 |
|--------------------------|------------------|------------------|
| Staff costs | 22,278 | 26,127 |
| Professional fees | 3,616 | 3,363 |
| Insurance | 1,048 | 1,200 |
| Operating lease rentals | 1,772 | 2,208 |
| Business travel expenses | 1,598 | 2,137 |
| Office costs | 838 | 962 |
| Other | 7,035 | 9,822 |
| | 38,185 | 45,819 |

Impairment charges

Impairment of mining assets

The Group undertook an impairment review of the tangible assets attributable to the gold mining projects and the supporting in-house service companies and concluded no impairment was required as at 31 December 2014.

The estimated recoverable amounts demonstrated improvements compared to the previous year as a result of cost optimisation measures undertaken by the Group in response to the declining gold price environment, increase in the Group's non-refractory mineable reserves and effect of the Russian Rouble depreciation on operating cash costs.

Having considered the excess of estimated recoverable amounts over the carrying values of the associated assets on the balance sheet as at 31 December 2014, the Directors concluded on the following:

- A reversal of impairment previously recorded against the carrying value of the assets that are part of the Albyn reportable segment would be appropriate. Accordingly, a post-tax impairment reversal of US\$23.1 million (being US\$28.9 million gross impairment reversal net of associated deferred tax liabilities) has been recorded against the associated assets within property, plant and equipment. The aforementioned impairment reversal takes into consideration the effect of depreciation attributable to relevant mining assets and intra-group transfers of previously impaired assets to Albyn.
- Whilst there have been improvements in the recoverable amounts of assets that are part of Pioneer and Malomir reportable segments, there is still uncertainty connected with the timing of the final construction and performance of the POX Hub, and, accordingly, no impairment reversals have been recorded. When the aforementioned uncertainty is eliminated or substantially reduced, there is a potential for reversal of the impairment previously recorded against the carrying values of the aforementioned assets.

Impairment charges recognised against the tangible assets and goodwill attributable to the gold mining projects and the supporting in-house service companies during 2013 are set out below:

| | Impairment of goodwill US\$'000 | Impairment of property, plant and equipment US\$'000 | Pre-tax impairment charge US\$'000 | Taxation US\$'000 | Post-tax impairment charge US\$'000 |
|----------------------------|---------------------------------------|---|---|----------------------|--|
| Pokrovskiy | – | 22,705 | 22,705 | (4,541) | 18,164 |
| Pioneer | – | 88,926 | 88,926 | (17,785) | 71,141 |
| Malomir | – | 155,946 | 155,946 | (17,876) | 138,070 |
| Albyn | – | 17,595 | 17,595 | (3,519) | 14,076 |
| In-house service companies | 21,675 | 104,438 | 126,113 | (7,215) | 118,898 |
| | 21,675 | 389,610 | 411,285 | (50,936) | 360,349 |

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

| | Year ended 31 December 2014 | Year ended 31 December 2013 |
|------------------------------|--------------------------------|--------------------------------|
| Long-term gold price | US\$1,200/oz | US\$1,250/oz |
| Discount rate ^(a) | 9.5% | 9.5% |
| RUS/US\$ exchange rate | RUR60.0/US\$ | RUR33.0/US\$ |

(a) Being the post-tax real weighted average cost of capital, equivalent to a nominal pre-tax discount rate of 11.8% (2013: 12.5%).

Impairment of exploration and evaluation assets

The Group performed a review of its exploration and evaluation assets and recorded the following impairment charges:

- considering the anticipated timescale for the potential financial return from exploration and evaluation assets in Guyana, an impairment provision of US\$13.3 million was recognised against the carrying values of the associated assets included in exploration and evaluation costs previously capitalised within intangible assets (US\$10.4 million), property, plant and equipment (US\$1.2 million) and inventories (US\$1.7 million);
- considering the anticipated timescale for the potential financial return from the Tokur assets, which are awaiting development of a full-scale mining operation and which was put on hold in 2013, a further US\$4.8 million impairment provision was recognised against the carrying values of the associated assets previously capitalised within property, plant and equipment (US\$1.4 million) and inventories (US\$3.4 million); and
- US\$4.0 million impairment charges were recorded against associated exploration and evaluation costs previously capitalised within intangible assets following the decision to suspend exploration at various licence areas, primarily located in the Amur region.

Impairment of ore stockpiles

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

| | Year ended 31 December 2014 | | | Year ended 31 December 2013 | | |
|------------|--|-------------------|---|------------------------------------|-------------------|-------------------------------------|
| | Pre-tax impairment charge/ (reversal of impairment) US\$'000 | Taxation US\$'000 | Post-tax impairment charge/ (reversal of impairment) US\$'000 | Pre-tax impairment charge US\$'000 | Taxation US\$'000 | Post-tax impairment charge US\$'000 |
| Pokrovskiy | (3,401) | 680 | (2,721) | 7,712 | (1,543) | 6,169 |
| Pioneer | 7,144 | (1,429) | 5,715 | 36,260 | (7,252) | 29,008 |
| Malomir | (3,186) | 637 | (2,549) | 9,171 | (1,834) | 7,337 |
| Albyn | 9,587 | (1,917) | 7,670 | 2,430 | (486) | 1,944 |
| | 10,144 | (2,029) | 8,115 | 55,573 | (11,115) | 44,458 |

7. Auditor's remuneration

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

| | 2014 US\$'000 | 2013 US\$'000 |
|--|------------------|------------------|
| Audit fees and related fees | | |
| Fees payable to the Company's auditor for the annual audit of the parent company and consolidated financial statements | 607 | 572 |
| Fees payable to the Company's auditor and their associates for other services to the Group: | | |
| For the audit of the Company's subsidiaries as part of the audit of the consolidated financial statements | 355 | 393 |
| For the audit of subsidiary statutory accounts pursuant to legislation ^(a) | 624 | 632 |
| | 1,586 | 1,597 |
| Non-audit fees | | |
| Other services pursuant to legislation – interim review ^(b) | 431 | 410 |
| Fees for reporting accountants services ^(c) | 2,313 | 211 |
| Tax services | – | – |
| Other services | 36 | 22 |
| | 2,780 | 643 |

(a) Including the statutory audit of subsidiaries in the UK and Cyprus as well as US\$541 thousand (2013: US\$541 thousand) payable for the audit of the consolidated financial statements of IRC.

(b) Including US\$143 thousand (2013: US\$139 thousand) payable for the interim review of the consolidated financial statements of IRC.

(c) Fees payable in relation to the refinancing plan launched on 2 February 2015 (2013: Fees payable in relation to the circular issued on 18 February 2013 in connection with the proposed issue of shares by IRC (note 27)).

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

8. Staff costs

Continuing operations

| | 2014 US\$'000 | 2013 US\$'000 |
|-----------------------------|------------------|------------------|
| Wages and salaries | 103,410 | 146,168 |
| Social security costs | 26,329 | 36,331 |
| Pension costs | 334 | 327 |
| Share-based compensation | 1,546 | 3,878 |
| | 131,619 | 186,704 |
| Average number of employees | 9,532 | 11,515 |

Discontinued operations

| | 2014 US\$'000 | 2013 US\$'000 |
|-----------------------------|------------------|------------------|
| Wages and salaries | 35,703 | 42,613 |
| Social security costs | 9,258 | 10,297 |
| Pension costs | 332 | 219 |
| Share-based compensation | 3,327 | 3,335 |
| | 48,620 | 56,464 |
| Average number of employees | 2,261 | 2,248 |

9. Financial income and expenses

| | 2014 US\$'000 | 2013 US\$'000 |
|---|------------------|------------------|
| Investment income | | |
| Interest income | 1,680 | 888 |
| | 1,680 | 888 |
| Interest expense | | |
| Interest on bank loans | (55,165) | (64,840) |
| Interest on convertible bonds | (25,424) | (29,404) |
| | (80,589) | (94,244) |
| Interest capitalised | 13,372 | 19,346 |
| Unwinding of discount on environmental obligation | (488) | (370) |
| | (67,705) | (75,268) |
| Other finance gains | | |
| Gain on buy-back of convertible bonds | – | 19,365 |
| | – | 19,365 |

10. Taxation

| | 2014 US\$'000 | 2013 US\$'000 |
|---|------------------|------------------|
| Current tax | | |
| UK current tax ^(a) | 1,601 | – |
| Russian current tax | 32,849 | 39,665 |
| | 34,450 | 39,665 |
| Deferred tax | | |
| Origination/(reversal) of timing differences ^(b) | 133,421 | (48,532) |
| Total tax charge/(credit) | 167,871 | (8,867) |

(a) Being adjustment in relation to prior years.

(b) Including effect of foreign exchange movements in respect of deductible temporary differences of US\$128.8 million (year ended 31 December 2013: US\$23.8 million) which primarily arises as the tax base for a significant portion of the future taxable deductions in relation to the Group's property, plant and equipment are denominated in Russian Rouble whilst the future depreciation charges associated with these assets will be based on their US\$ carrying value and reflects the movements in the Russian Rouble to the US Dollar exchange rate.

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

| | 2014 US\$'000 | 2013 US\$'000 |
|--|------------------|------------------|
| Loss before tax from continuing operations | (14,286) | (522,715) |
| Tax at the UK corporation tax rate of 21.5% ^(a) (2013: 23.25%) | (3,071) | (121,531) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | (4,516) | 13,180 |
| Tax effect of share of results of joint ventures and associates | (643) | 165 |
| Tax effect of expenses that are not deductible for tax purposes | 11,419 | 6,954 |
| Tax effect of tax losses for which no deferred income tax asset was recognised | 33,117 | 69,925 |
| Income not subject to tax | – | (364) |
| Utilisation of previously unrecognised tax losses | (363) | (373) |
| Foreign exchange movements in respect of deductible temporary differences | 128,787 | 23,816 |
| Other adjustments | 3,141 | (639) |
| Tax charge/(credit) for the period | 167,871 | (8,867) |

(a) On 20 March 2013, the UK Government announced a reduction in the main rate of UK corporation tax from 23% to 21% effective from 1 April 2014.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

11. Earnings per share

| | 2014 US\$'000 | 2013 US\$'000 |
|---|------------------|------------------|
| Loss for the period attributable to equity holders of Petropavlovsk PLC | (260,664) | (610,710) |
| From continuing operations | (184,296) | (509,044) |
| From discontinued operations | (76,368) | (101,666) |
| Interest expense on convertible bonds, net of tax ^(a) | – | – |
| Loss used to determine diluted earnings per share | (260,664) | (610,710) |
| From continuing operations | (184,296) | (509,044) |
| From discontinued operations | (76,368) | (101,666) |
| | No of shares | No of shares |
| Weighted average number of Ordinary Shares | 196,423,244 | 196,415,932 |
| Adjustments for dilutive potential Ordinary Shares ^{(a), (b)} | – | – |
| Weighted average number of Ordinary Shares for diluted earnings per share | 196,423,244 | 196,415,932 |
| | US\$ | US\$ |
| Basic loss per share | (1.33) | (3.11) |
| From continuing operations | (0.94) | (2.59) |
| From discontinued operations | (0.39) | (0.52) |
| | | |
| Diluted loss per share | (1.33) | (3.11) |
| From continuing operations | (0.94) | (2.59) |
| From discontinued operations | (0.39) | (0.52) |

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

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

12. Dividends

| | 2014 US\$'000 | 2013 US\$'000 |
|--|------------------|------------------|
| Final dividend for the year ended 31 December 2012 ^{(a), (b)} | – | 5,774 |
| | – | 5,774 |

(a) Comprising a cash payment of £0.02 per Ordinary Share together with an entitlement to new Ordinary Shares with an attributable value of £0.05 (note 23).

(b) Approved on 11 June 2013 and paid on 26 July 2013.

13. Exploration and evaluation assets

| | Visokoe US\$'000 | Flanks of Pokrovskiy US\$'000 | Flanks of Albyn US\$'000 | Other ^(a) US\$'000 | Total US\$'000 |
|---|---------------------|-------------------------------------|--------------------------------|----------------------------------|-------------------|
| At 1 January 2014 | 47,334 | 10,343 | 40,822 | 17,509 | 116,008 |
| Additions | 959 | 2,455 | 7,218 | 9,288 | 19,920 |
| Disposal of subsidiary | – | – | – | (13) | (13) |
| Disposal | – | (800) | – | – | (800) |
| Impairment ^(b) | – | (3,463) | – | (10,921) | (14,384) |
| Transfer to mining assets | – | (73) | (12,401) ^(c) | (5,376) | (17,850) |
| Transfer to assets classified as held for sale ^(d) | – | – | – | (1,661) | (1,661) |
| Reallocation and other transfers | – | (4,077) | – | 390 | (3,687) |
| At 31 December 2014 | 48,293 | 4,385 | 35,639 | 9,216 | 97,533 |

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

(b) Note 6.

(c) Following completion of exploration and commencement of the mining activity at the Flanks of Albyn, the associated amounts capitalised has been transferred to mining assets within property, plant and equipment.

(d) Note 28.

| | Visokoe US\$'000 | Tokur US\$'000 | Flanks of Pokrovskiy US\$'000 | Flanks of Albyn US\$'000 | Other ^(a) US\$'000 | Total US\$'000 |
|--|---------------------|-------------------|-------------------------------------|--------------------------------|----------------------------------|-------------------|
| At 1 January 2013 | 45,876 | 63,556 | 6,516 | 24,411 | 49,196 | 189,555 |
| Additions | 1,458 | – | 3,827 | 16,411 | 11,302 | 32,998 |
| Disposal of subsidiary | – | – | – | – | (1,231) | (1,231) |
| Impairment | – | (63,556) | – | – | (31,352) | (94,908) |
| Transfer to mining assets ^(b) | – | – | – | – | (11,197) | (11,197) |
| Reallocation and other transfers | – | – | – | – | 791 | 791 |
| At 31 December 2013 | 47,334 | – | 10,343 | 40,822 | 17,509 | 116,008 |

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

(b) Including US\$7.1 million related to Burinda operations.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

14. Property, plant and equipment

| | Mine development costs US\$'000 | Mining assets US\$'000 | Non-mining assets US\$'000 | Capital construction in progress US\$'000 | Total US\$'000 |
|---|--|---------------------------|----------------------------------|--|-------------------|
| Cost | | | | | |
| At 1 January 2013 | 6,358 | 1,697,966 | 219,549 | 264,285 | 2,188,158 |
| Additions | 377 | 60,469 | 4,018 | 117,715 | 182,579 |
| Interest capitalised ^{(note 9) (a)} | – | – | – | 19,346 | 19,346 |
| Close down and restoration cost capitalised ^(note 22) | – | 1,821 | – | – | 1,821 |
| Transfers from exploration and evaluation assets ^(note 13) | – | 11,197 | – | – | 11,197 |
| Transfers from capital construction in progress ^(b) | – | 126,651 | 16,058 | (142,709) | – |
| Disposals | – | (5,050) | (6,206) | (113) | (11,369) |
| Disposal of subsidiaries | – | (44,291) | (2,881) | – | (47,172) |
| Reallocation and other transfers | (10) | 263 | (1,018) | (44) | (809) |
| Foreign exchange differences | – | – | (3,217) | – | (3,217) |
| At 31 December 2013 | 6,725 | 1,849,026 | 226,303 | 258,480 | 2,340,534 |
| Additions | 42 | 29,884 | 1,960 | 67,408 | 99,294 |
| Interest capitalised ^{(note 9) (a)} | – | – | – | 13,372 | 13,372 |
| Close down and restoration cost capitalised ^(note 22) | – | (15,440) | – | – | (15,440) |
| Transfers from exploration and evaluation assets ^(note 13) | – | 17,850 | – | – | 17,850 |
| Transfers from capital construction in progress ^(b) | – | 17,596 | 1,329 | (18,925) | – |
| Disposals | – | (8,167) | (13,148) | (109) | (21,424) |
| Transfer to assets classified as held for sale ^(note 28) | (7) | (38,112) | (988) | – | (39,107) |
| Reallocation and other transfers | (1,077) | (11,567) | (2,121) | 18,338 | 3,573 |
| Foreign exchange differences | – | – | (7,164) | – | (7,164) |
| At 31 December 2014 | 5,683 | 1,841,070 | 206,171 | 338,564 | 2,391,488 |
| Accumulated depreciation and impairment | | | | | |
| At 1 January 2013 | 5,678 | 497,299 | 76,147 | 2,568 | 581,692 |
| Charge for the year | 33 | 215,339 | 17,040 | – | 232,412 |
| Impairment ^(note 6) | – | 290,051 | 95,239 | 4,320 | 389,610 |
| Disposals | – | (3,540) | (4,330) | – | (7,870) |
| Disposal of subsidiaries | – | (24,976) | (1,722) | – | (26,698) |
| Reallocation and other transfers | – | (108) | 90 | – | (18) |
| Foreign exchange differences | – | – | (556) | – | (556) |
| At 31 December 2013 | 5,711 | 974,065 | 181,908 | 6,888 | 1,168,572 |
| Charge for the year | 14 | 137,381 | 8,191 | – | 145,586 |
| Impairment ^(note 6) | – | 1,371 | 1,217 | – | 2,588 |
| Reversal of impairment of mining assets ^(note 6) | – | (28,530) | – | (405) | (28,935) |
| Disposals | – | (5,931) | (8,822) | – | (14,753) |
| Transfer to assets classified as held for sale ^(note 28) | (7) | (20,117) | (702) | – | (20,826) |
| Reallocation and other transfers | (35) | 2,128 | (2,207) | – | (114) |
| Foreign exchange differences | – | – | (3,662) | – | (3,662) |
| At 31 December 2014 | 5,683 | 1,060,367 | 175,923 | 6,483 | 1,248,456 |
| Net book value | | | | | |
| At 31 December 2013 ^(c) | 1,014 | 874,961 | 44,395 | 251,592 | 1,171,962 |
| At 31 December 2014 ^(c) | – | 780,703 | 30,248 | 332,081 | 1,143,032 |

(a) Borrowing costs were capitalised at the weighted average rate of the Group's relevant borrowings being 7.8% (2013: 7.9%).

(b) Being costs primarily associated with continuous development of Malomir, Albyn and Pioneer projects.

(c) Property, plant and equipment with a net book value of US\$143.0 million (31 December 2013: US\$133.2 million) have been pledged to secure borrowings of the Group.

15. Inventories

| | 2014 US\$'000 | 2013 US\$'000 |
|--|------------------|------------------|
| Current | | |
| Construction materials | 9,746 | 16,089 |
| Stores and spares | 87,968 | 109,876 |
| Ore in stockpiles ^{(a), (c)} | 46,789 | 60,489 |
| Work in progress | 39,633 | 39,923 |
| Deferred stripping costs | 8,428 | 20,025 |
| Bullion in process | 1,529 | 1,979 |
| Other | 12,405 | 11,534 |
| | 206,498 | 259,915 |
| Non-current | | |
| Ore in stockpiles ^{(a), (b), (c)} | 42,436 | 34,834 |
| | 42,436 | 34,834 |

(a) Note 6.

(b) Ore in stockpiles that is not planned to be processed within twelve months after the reporting period.

(c) As at 31 December 2014, ore in stockpiles include balances in the aggregate of US\$11.5 million carried at net realisable value (2013: US\$90.8 million).

16. Trade and other receivables

| | 2014 US\$'000 | 2013 US\$'000 |
|----------------------------------|------------------|------------------|
| Current | | |
| VAT recoverable | 35,430 | 57,687 |
| Advances to suppliers | 10,492 | 16,011 |
| Trade receivables ^(a) | 12,314 | 20,100 |
| Other debtors ^(b) | 16,656 | 12,950 |
| | 74,892 | 106,748 |

(a) Net of provision for impairment of US\$0.6 million (2013: US\$0.9 million). Trade receivables are due for settlement between one and three months.

(b) Net of provision for impairment of US\$2.2 million (2013: US\$5.1 million). The movement in the provision arises primarily from the depreciation of the Russian Rouble against the US Dollar during the year ended 31 December 2014 as the underlying receivables are Rouble denominated.

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

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

17. Cash and cash equivalents

| | 2014 US\$'000 | 2013 US\$'000 |
|--------------------------|------------------|------------------|
| Cash at bank and in hand | 45,787 | 83,676 |
| Short-term bank deposits | 2,293 | 86,919 |
| | 48,080 | 170,595 |

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

18. Derivative financial instruments

| | 31 December 2014 | | 31 December 2013 | |
|---|--------------------|-------------------------|--------------------|-------------------------|
| | Assets US\$'000 | Liabilities US\$'000 | Assets US\$'000 | Liabilities US\$'000 |
| Forward gold contracts – cash flow hedge ^{(a), (b), (e)} | 6,272 | – | 62,838 | – |
| Gold put option contracts ^{(c), (d), (e)} | 3,158 | – | – | – |
| | 9,430 | – | 62,838 | – |

(a) Forward contracts to sell an aggregate of 50,000 ounces of gold at an average price of US\$1,310 per ounce are outstanding as at 31 December 2014 (31 December 2013: 279,138 ounces of gold at an average price of US\$1,429 per ounce).

(b) Measured at fair value and considered as Level 2 of the fair value hierarchy which valuation incorporates the following inputs:

- gold forward curves observable at quoted intervals; and
- observable credit spreads.

(c) Option contracts to sell an aggregate of 150,000 ounces of gold with a strike price of US\$1,150 per ounce are outstanding as at 31 December 2014 (31 December 2013: nil). The intrinsic value of the option contracts is designated as a cash flow hedge and the time value of the option contracts is designated at fair value through profit or loss.

(d) Measured at fair value and considered as Level 2 of the fair value hierarchy which valuation incorporates the following inputs:

- historic gold price volatility;
- the option strike price;
- time to maturity; and
- risk free rate.

(e) The hedged forecast transactions are expected to occur at various dates during the next 12 months.

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

There was no ineffectiveness to be recorded from the cash flow hedge during the years ended 31 December 2014 and 2013.

19. Trade and other payables

| | 2014 US\$'000 | 2013 US\$'000 |
|---|------------------|------------------|
| Trade payables | 16,027 | 24,579 |
| Advances from customers | 6,146 | 9,688 |
| Advances received on resale and commission contracts ^(a) | 16,714 | 13,561 |
| Accruals and other payables | 27,826 | 51,065 |
| | 66,713 | 98,893 |

(a) Amounts included in advances received on resale and commission contracts at 31 December 2014 and 31 December 2013 relate to services performed by the Group's subsidiary, Irgiredmet, in its activity to procure materials such as reagents, consumables and equipment for third parties.

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

20. Borrowings

| | 2014 US\$'000 | 2013 US\$'000 |
|--|------------------|------------------|
| Borrowings at amortised cost | | |
| Convertible bonds ^(a) | 313,257 | 300,254 |
| Bank loans ^(b) | 664,547 | 818,758 |
| | 977,804 | 1,119,012 |
| Amount due for settlement within 12 months | 415,161 | 158,495 |
| Amount due for settlement after 12 months | 562,643 | 960,517 |
| | 977,804 | 1,119,012 |

(a) Outstanding \$310.5 million principal of US\$380 million convertible bonds issued in 2010 and due on 18 March 2015 (following the extension of the original maturity date of 18 February 2015) (the 'Existing Bonds'). The Existing Bonds were issued at par by the Company's wholly owned subsidiary Petropavlovsk 2010 Limited and are guaranteed by the Company. The Existing Bonds carry a coupon of 4.00% payable semi-annually in arrears and are convertible into redeemable preference shares of Petropavlovsk 2010 Limited which are guaranteed by and will be exchangeable immediately upon issuance for Ordinary Shares in the Company. The initial conversion price has been set at £12.9345 per share, subject to adjustment for certain events, and adjusted to £11.56 with effect from 26 June 2013 for each US\$100,000 principal amount of a Bond, and the conversion exchange rate has been fixed at US\$1.6244 per £1. The Existing Bonds were admitted to listing on the Official List of the UK Listing Authority and admitted to trading on the Professional Securities Market of the London Stock Exchange on 19 February 2010.

The net proceeds received from the issue of the convertible bonds were split between the liability component and the equity component representing the fair value of the embedded option to convert the liability into equity of the Group. The liability component of the Bonds is measured at amortised cost. The interest charged was calculated by applying an effective interest rate of 8.65% to the liability component.

As at 31 December 2014, the fair value of the convertible bonds, considered as Level 1 of the fair value hierarchy and calculated by applying the market traded price to the convertible bonds outstanding, amounted US\$271 million (31 December 2013: US\$223 million).

Pursuant to the Refinancing plan launched on 2 February 2015, the Existing Bonds were settled as set out in note 34. Upon settlement of the Existing Bonds, the associated US\$48 million convertible bond reserve was transferred to retained earnings.

(b) As at 31 December 2014, US\$111.1 million (2013: US\$119.8 million) bank loans are secured against certain items of property, plant and equipment of the Group (note 14).

The weighted average interest rate paid during the year ended 31 December 2014 was 7.9% (2013: 7.7%).

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

As at 31 December 2014, bank loans with an aggregate carrying value of US\$553.4 million (2013: US\$693.4 million) contain certain financial covenants.

As at 31 December 2014, the amounts undrawn under the bank loans were US\$ nil (2013: US\$ nil).

21. Deferred taxation

| | 2014 US\$'000 | 2013 US\$'000 |
|--|------------------|------------------|
| At 1 January | 37,550 | 75,913 |
| Deferred tax charged/(credited) to income statement ^(a) | 133,421 | (48,532) |
| Disposal of subsidiaries | – | (2,024) |
| Deferred tax (credited)/charged to equity | (11,314) | 12,569 |
| Transfer to liabilities associated with assets classified as held for sale | (3,005) | – |
| Exchange differences | 162 | (376) |
| At 31 December | 156,814 | 37,550 |
| Deferred tax assets | 40 | 346 |
| Deferred tax liabilities | (156,854) | (37,896) |
| Net deferred tax liability | (156,814) | (37,550) |

(a) Note 10.

| | At 1 January 2014 US\$'000 | Charged/ (credited) to the income statement US\$'000 | Credited directly to equity US\$'000 | Transfer to liabilities associated with assets classified as held for sale ^(a) US\$'000 | Exchange differences US\$'000 | At 31 December 2014 US\$'000 |
|---|----------------------------------|--|--|--|-------------------------------------|------------------------------------|
| Property, plant and equipment | 14,346 | 103,420 | – | (1,672) | – | 116,094 |
| Inventory | 13,180 | 8,718 | – | 8 | – | 21,906 |
| Capitalised exploration and evaluation expenditure | (4,575) | 8,190 | – | (86) | – | 3,529 |
| Fair value adjustments | 7,082 | (5,866) | – | (486) | (243) | 487 |
| Tax losses | (4,412) | 4,412 | – | – | – | – |
| Other temporary differences | 11,929 | 14,547 | (11,314) | (769) | 405 | 14,798 |
| | 37,550 | 133,421 | (11,314) | (3,005) | 162 | 156,814 |

(a) Note 28.

| | At 1 January 2013 US\$'000 | Charged/ (credited) to the income statement US\$'000 | Charged directly to equity US\$'000 | Disposal of subsidiaries US\$'000 | Exchange differences US\$'000 | At 31 December 2013 US\$'000 |
|---|----------------------------------|--|---|---|-------------------------------------|------------------------------------|
| Property, plant and equipment | 60,149 | (44,350) | – | (1,453) | – | 14,346 |
| Inventory | 30,620 | (17,045) | – | (395) | – | 13,180 |
| Capitalised exploration and evaluation expenditure | (2,834) | (1,741) | – | – | – | (4,575) |
| Fair value adjustments | 8,465 | (811) | – | (197) | (375) | 7,082 |
| Tax losses | (4,412) | – | – | – | – | (4,412) |
| Other temporary differences | (16,075) | 15,415 | 12,568 | 21 | – | 11,929 |
| | 75,913 | (48,532) | 12,568 | (2,024) | (375) | 37,550 |

As at 31 December 2014, the Group did not recognise deferred tax assets in respect of the accumulated tax losses from continuing operations comprising US\$499.2 million that can be carried forward against future taxable income (2013: US\$450.5 million). Tax losses of US\$368.3 million can be carried forward indefinitely and tax losses of US\$130.9 million expire primarily between 2018 and 2024.

As at 31 December 2014, the Group did not recognise deferred tax assets of US\$4.0 million (2013: US\$10.5 million) in respect of temporary differences arising on certain capitalised development costs attributable to continuing operations.

The Group has not recorded a deferred tax liability in respect of withholding tax and other taxes that would be payable on the unremitted earnings associated with investments in its subsidiaries and associates and interests in joint ventures as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future. As at 31 December 2014, statutory unremitted earnings from continuing operations comprised in aggregate US\$676.5 million (2013: US\$1,078.9 million).

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

22. Provision for close down and restoration costs

| | 2014 US\$'000 | 2013 US\$'000 |
|-----------------------|-------------------------|------------------|
| At 1 January | 36,169 | 33,978 |
| Unwinding of discount | 488 | 370 |
| Change in estimates | (15,440) ^(a) | 1,821 |
| At 31 December | 21,217 | 36,169 |

a) Primarily reflects the effect of change in the forecast the Russian Rouble to the US Dollar exchange rate following a significant depreciation of the Russian Rouble against the US Dollar during the year ended 31 December 2014.

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

| | 2014 US\$'000 | 2013 US\$'000 |
|------------|------------------|------------------|
| Pokrovskiy | 2,703 | 4,597 |
| Pioneer | 4,028 | 5,796 |
| Malomir | 6,384 | 11,220 |
| Albyn | 7,718 | 14,172 |
| Yamal | 384 | 384 |
| | 21,217 | 36,169 |

The provision recognised represents the present value of the estimated expenditure that will be incurred, which has been arrived at using the long-term risk-free pre-tax cost of borrowing. The expenditure arises at different times over the life of mine. The expected timing of significant cash outflows is between years 2016 and 2030, varying from mine site to mine site.

23. Share capital

| | 2014 | | 2013 | |
|------------------------------------|--------------|----------|--------------------------|----------|
| | No of shares | US\$'000 | No of shares | US\$'000 |
| Allotted, called up and fully paid | | | | |
| At 1 January | 197,638,425 | 3,041 | 187,860,093 | 2,891 |
| Issued during the period | – | – | 9,778,332 ^(a) | 150 |
| At 31 December | 197,638,425 | 3,041 | 197,638,425 | 3,041 |

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

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

The Company has an option issued to the IFC on 20 April 2009 to subscribe for 1,067,273 Ordinary Shares at an exercise price of £11.84 per share, subject to adjustments. The option expires on 25 May 2015.

Pursuant to the Refinancing announced on 2 February 2015, 3,102,923,272 new Ordinary Shares were issued in March 2015 (note 34).

24. Own shares

| | 2014 US\$'000 | 2013 US\$'000 |
|---|------------------|------------------|
| At 1 January | 8,925 | 10,196 |
| Vesting of awards within Petropavlovsk PLC LTIP | – | (1,272) |
| Bonus share issue | – | 1 |
| At 31 December | 8,925 | 8,925 |

Own shares represent 1,215,181 Ordinary Shares held by the EBT (2013: 1,215,181) to provide benefits to employees under the Long Term Incentive Plan (note 29).

25. Notes to the cash flow statement

Reconciliation of loss before tax to operating cash flow

| | 2014 US\$'000 | 2013 US\$'000 |
|--|------------------|------------------|
| Loss before tax including discontinued operations | (173,801) | (721,413) |
| Adjustments for: | | |
| Share of results of joint ventures | (2,900) | 115 |
| Share of results of associate | (2,990) | 711 |
| Investment income | (3,347) | (1,864) |
| Gain on buy-back of convertible bonds | – | (19,365) |
| Interest expense | 70,248 | 78,181 |
| Share based payments | 4,873 | 7,213 |
| Depreciation | 150,482 | 245,915 |
| Impairment/(reversal of impairment) of mining assets and goodwill | (28,935) | 411,285 |
| Impairment of IRC assets | 18,810 | 28,850 |
| Impairment of exploration and evaluation assets | 22,034 | 94,908 |
| Impairment of ore stockpiles | 10,144 | 55,573 |
| Impairment of investments in associates | 9,697 | – |
| Effect of processing previously impaired stockpiles | (41,834) | (36,274) |
| Provision for impairment of trade and other receivables | (1,017) | (552) |
| Write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell | 89,570 | 151,589 |
| Write-down to adjust the carrying value of Koboldo's net assets to fair value less costs to sell | 11,867 | – |
| Loss on disposals of property, plant and equipment | 1,917 | 1,173 |
| (Gain)/loss on disposal of subsidiaries | (3,127) | 3,746 |
| Foreign exchange losses | 44,677 | 8,536 |
| Other non-cash items | 4,093 | (5,369) |
| Changes in working capital: | | |
| (Increase)/decrease in trade and other receivables | (17,943) | 54,124 |
| Decrease in inventories | 67,628 | 61,691 |
| Increase/(decrease) in trade and other payables | 15,261 | (11,404) |
| Net cash generated from operations | 245,407 | 407,369 |

Non-cash transactions

During the year ended 31 December 2014, there have been no significant non-cash transactions (2013: other than issue of ordinary shares (note 23), there have been no significant non-cash transactions).

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

26. Related parties

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

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

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

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

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

Transactions with related parties the Group entered into during the years ended 31 December 2014 and 2013 are set out below.

Trading transactions

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

| | Sales to related parties | | Purchases from related parties | |
|--|--------------------------|------------------|--------------------------------|------------------|
| | 2014 US\$'000 | 2013 US\$'000 | 2014 US\$'000 | 2013 US\$'000 |
| Asian-Pacific Bank | | | | |
| Other | 503 | 462 | 201 | 552 |
| | 503 | 462 | 201 | 552 |
| Trading transactions with other related parties | | | | |
| Insurance arrangements with Helios, rent and other transactions with other entities in which key management have interest and exercises a significant influence or control | 294 | 101 | 10,317 | 10,045 |
| Associates | 80 | 344 | – | – |
| | 374 | 445 | 10,317 | 10,045 |

During the year ended 31 December 2014, the Group made US\$0.5 million charitable donations to the Petropavlovsk Foundation (2013: US\$1.1 million).

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

| | Amounts owed by related parties at 31 December | | Amounts owed to related parties at 31 December | |
|--|---|------------------|---|------------------|
| | 2014 US\$'000 | 2013 US\$'000 | 2014 US\$'000 | 2013 US\$'000 |
| Helios and other entities in which key management have interest and exercises a significant influence or control | 2,864 | 1,955 | 151 | 2 |
| Associates | 85 | 132 | – | 144 |
| Asian-Pacific Bank | 6 | 9 | – | – |
| | 2,955 | 2,096 | 151 | 146 |

Banking arrangements

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

The bank balances at 31 December 2014 and 2013 are set out below.

| | 2014 ^(a) US\$'000 | 2013 ^(a) US\$'000 |
|--------------------|---------------------------------|---------------------------------|
| Asian-Pacific Bank | 52,253 | 46,505 |

(a) Including US\$31.9 million presented within assets classified as held for sale as at 31 December 2014 (2013: US\$24.4 million) (notes 27 and 28).

Financing transactions

The Group had an interest-free unsecured loan issued to Verkhnetisskaya. Loan principal outstanding as at 31 December 2014 amounted to US\$3.6 million (31 December 2013: US\$6.2 million).

As at 31 December 2014 and 31 December 2013, the Group had an interest-free unsecured loan issued to LLC Kaurchak. Loan principal outstanding amounted to US\$0.6 million (31 December 2013: US\$1.0 million).

Financing transactions between IRC and Asian-Pacific Bank are disclosed in note 27.

Key management compensation

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

| | 2014 US\$'000 | 2013 US\$'000 |
|--------------------------|------------------|------------------|
| Wages and salaries | 9,453 | 10,279 |
| Pension costs | 586 | 534 |
| Share based compensation | 2,346 | 5,472 |
| | 12,385 | 16,285 |

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

27. Asset held for sale and discontinued operation – IRC

As set out in note 27 of the Group's consolidated financial statements for the year ended 31 December 2013, on 17 January 2013, IRC entered into conditional subscription agreements with each of General Nice Development Limited ('General Nice') and Minmetals Cheerglory Limited ('Minmetals') for an investment by General Nice and Minmetals in new shares of IRC for up to approximately HK\$1,845 million (equivalent to approximately US\$238 million) in aggregate. The above transactions were approved at the Company's Extraordinary General Meeting on 7 March 2013 and the Extraordinary General Meeting of IRC on 11 March 2013.

As at 31 December 2013, a total of 1,035,876,000 new shares of IRC have been allotted and issued to General Nice, following the receipt of partial subscription monies of approximately HK\$1,005.7 million (equivalent to approximately US\$129.6 million).

The following transactions have occurred since 31 December 2013 until the date of approval of these consolidated financial statements:

- on 26 February 2014, IRC received subscription monies of HK\$155.1 million (equivalent to approximately US\$20 million) from General Nice and accordingly has allotted and issued 165,000,000 new shares of IRC to General Nice as a further partial subscription of General Nice Further Subscription Shares; and
- on 30 April 2014, IRC received subscription monies of HK\$155.1 million (equivalent to approximately US\$20 million) from General Nice and accordingly has allotted and issued 165,000,000 new shares of IRC to General Nice as a further partial subscription of General Nice Further Subscription Shares.

IRC agreed with General Nice to complete the remainder of the General Nice Further Subscription by payment to IRC of the remaining amount of HK\$296.4 million (equivalent to approximately US\$38.2 million) on or before 25 June 2014 ('General Nice Further Subscription Completion'). Upon IRC receiving full payment of HK\$296.4 million (equivalent to approximately US\$38.2 million) on or before 25 June 2014, IRC should have allotted and issued to General Nice 315,260,000 new Shares as General Nice

Further Subscription Shares and should also have allotted and issued 25,548,000 Shares to General Nice as Deferred Subscription Shares. IRC has also agreed with General Nice that, in the event full payment of HK\$296.4 million (equivalent to approximately US\$38.2 million) was not made on or before 25 June 2014, no General Nice Deferred Subscription Shares should be issued to General Nice.

On 25 June 2014, the General Nice Further Subscription Completion did not take place as planned. Accordingly, none of the 25,548,000 General Nice Deferred Subscription Shares was issued to General Nice.

On 17 November 2014, IRC agreed with General Nice that General Nice Further Subscription Completion would take place on or before 18 December 2014. As part of General Nice's commitment to the transaction and investment, in addition to the personal guarantee already received from Mr. Cai Sui Xin, IRC had also agreed with General Nice that, in the event that the full payment was not made on or before 18 December 2014 and General Nice sought, and IRC agreed to, a further deferral of General Nice Further Subscription Completion, General Nice would pay interest on a monthly basis on the outstanding balance to the Company, calculated on the following escalating interest schedule:

- 6% per annum from 19 December 2014 to 18 March 2015;
- 9% per annum from 19 March 2015 to 18 June 2015; and
- 12% per annum from 19 June 2015 and thereafter.

Further, in accordance with the original subscription agreements, the shares subscription of Minmetals ('Minmetals Subscription') would complete upon full completion of General Nice Further Subscription Shares taking place on or before 18 December 2014.

On 18 December 2014, the extension of the General Nice Further Subscription Completion as agreed on 17 November 2014 did not happen. IRC and General Nice had agreed that General Nice would commence paying interest in accordance with the above schedule while IRC considered to permit a further deferral of the General Nice Further

Subscription Completion. As General Nice Further Subscription did not occur on or before 18 December 2014, the completion of the Minmetals Subscription would be subject to further agreement between the parties.

At 31 December 2014, a cumulative total of 1,365,876,000 new shares of IRC had been allotted and issued to General Nice, following the receipt of aggregate subscription monies of approximately HK\$1,315.9 million (equivalent to approximately US\$169.6 million). IRC is in discussions with General Nice, Mr. Cai Sui Xin and Minmetals about a further deferred completion and other available options.

As at 31 December 2014, the Group's interest in the share capital of IRC was 45.39% (31 December 2013: 48.7%). The Group retains sufficiently dominant voting interest to exercise de facto control over IRC on the basis of the size of the Group's shareholding relative to the size and dispersion of the shareholding interests of other shareholders.

If total investment completion occurs, the Group's interest in the share capital of IRC would be diluted to 40.68% and, with another significant shareholder block in place and despite the Group's continuing guarantee of IRC's facility with ICBC, the Group would lose control over IRC and IRC would cease being a subsidiary of the Group.

The Directors continue to consider it is highly probable that IRC will cease to be a subsidiary of the Group within 12 months after the reporting date and, accordingly, IRC continues to be classified as 'held for sale' and presented separately in the balance sheet as well as presented as a discontinued operation in the income statement. In the event completion of the strategic investment by General Nice and Minmetals is further delayed, the Directors are confident that other avenues resulting in the Group losing control over IRC could be successfully pursued.

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

| | 31 December 2014 | | 31 December 2013 | |
|---|-----------------------------|--|-----------------------------|--|
| | Carrying amount US\$'000 | Fair value less costs to sell ^{(a),(b)} US\$'000 | Carrying amount US\$'000 | Fair value less costs to sell ^{(a),(b)} US\$'000 |
| Exploration and evaluation assets | 54,790 | 17,664 | 53,302 | 22,635 |
| Property, plant and equipment ^(c) | 702,050 | 239,975 | 609,061 | 231,803 |
| Prepayments for property, plant and equipment | 203,387 | 203,387 | 228,671 | 228,671 |
| Interests in joint ventures | 7,294 | 7,294 | 4,893 | 4,893 |
| Other non-current assets | 32,298 | 32,298 | 20,627 | 20,627 |
| Inventories | 51,181 | 51,181 | 57,682 | 57,682 |
| Trade and other receivables | 15,662 | 15,662 | 26,534 | 26,534 |
| Cash and cash equivalents | 47,740 | 47,740 | 92,142 | 92,142 |
| Total assets classified as held for sale | 1,114,402 | 615,201 | 1,092,912 | 684,987 |
| Trade and other payables | 11,683 | 11,683 | 18,593 | 18,593 |
| Current income tax payable | 478 | 478 | 274 | 274 |
| Borrowings ^{(d),(e)} | 268,891 | 268,891 | 200,226 | 200,226 |
| Deferred tax liabilities | 64,204 | 4,016 | 59,719 | 1,237 |
| Provision for close down and restoration costs | 4,021 | 4,021 | 8,616 | 8,616 |
| Total liabilities associated with assets classified as held for sale | 349,277 | 289,089 | 287,428 | 228,946 |
| Net assets of IRC | 765,125 | 326,112 | 805,484 | 456,041 |
| Write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell as at 31 December 2013 | (349,443) | | (349,443) | |
| Write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell as at 31 December 2014 | (89,570) | | | |
| Fair value less costs to sell ^{(a),(b)} | 326,112 | | 456,041 | |
| Attributable to: | | | | |
| Equity shareholders of Petropavlovsk PLC | 148,814 | | 222,379 | |
| Non-controlling interests | 177,298 | | 233,662 | |

(a) Based on market share price of HK\$0.52 per IRC share as at 31 December 2014 (31 December 2013: HK\$0.78) less transaction costs. A decrease/increase of 10% in IRC's share price would result in US\$32.6 million (31 December 2013: US\$45.6 million) additional write-down/reversal of write-down adjustment.

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

(c) At 31 December 2014, IRC had entered into contractual commitments for the acquisition of property, plant and equipment and mine development costs amounting to US\$68 million (31 December 2013: US\$179 million). These amounts are not included in the capital commitments stated in note 33, as such amounts therein represent commitments from continuing operations.

(d) On 6 December 2010, Kimkano-Sutarsky Mining and Beneficiation Plant LLC ("K&S"), a subsidiary of IRC, entered into a US\$400 million Engineering Procurement and Construction Contract with China National Electric Engineering Corporation for the construction of the Group's mining operations at K&S. On 13 December 2010, K&S entered into a project finance facility agreement with the Industrial and Commercial Bank of China Limited ("ICBC") (the "ICBC Facility Agreement") pursuant to which ICBC would lend US\$340 million to K&S to be used to fund the construction of the Group's mining operations at K&S in time for the start of major construction works in early 2011. Interest under the facility was charged at 2.80% above London Interbank Offering rate ("LIBOR") per annum. The facility is guaranteed by the Company and is repayable semi-annually in 16 instalments US\$21,250 thousand each, starting from December 2014 and is fully repayable by June 2022. The outstanding loan principal was US\$266.7 million as at 31 December 2014 (31 December 2013: US\$194.8 million). The loan is carried at amortised cost with effective interest rate at 5.63% per annum. As at 31 December 2014 and 2013, US\$27.3 million and US\$6 million, respectively, were deposited with ICBC under a security deposit agreement related to the ICBC Facility Agreement. ICBC Facility Agreement contains certain financial covenants to which ICBC has agreed to grant a waiver until 31 December 2015, inclusive. As at 31 December 2014, the amounts undrawn under the ICBC Facility Agreement were US\$52 million (31 December 2013: US\$145.2 million).

(e) IRC entered into the following financing transactions with Asian-Pacific Bank:

- In July 2013, IRC entered into US\$15 million loan facility, bearing an annual interest of 9.0% for the period from 22 July 2013 to 2 December 2013 and 10.60% for the period from 3 December 2013 to the repayment date. The principal of the loan was repayable by 21 July 2014. On 23 April 2014, the US\$15 million term-loan facility had been renewed for another 12-month period with an annual interest of 9.0%. As at 31 December 2014, the whole loan amount was drawn down under the loan facility.
- In November 2013, IRC entered into a US\$10 million loan facility, bearing an annual interest of 10.6% and repayable by 21 July 2014. The principal of the loan was repayable by 20 November 2014. On 23 October 2014, the US\$10 million term-loan facility had been renewed for another 12-month period with an annual interest of 10.6%. As at 31 December 2014, the Group had drawn down US\$6 million from the loan facility.
- In 2014, IRC drew down US\$60.8 million, in aggregate, from the aforementioned facilities in several tranches on a rolling basis and US\$59.8 million, in aggregate, were repaid. As at 31 December 2014, the amounts undrawn under the facilities with Asian-Pacific Bank were US\$4 million (31 December 2013: US\$5 million).

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

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

| | 2014 US\$'000 | 2013 US\$'000 |
|--|------------------|------------------|
| Revenue | 122,414 | 160,854 |
| Net expenses | (192,359) | (207,963) |
| Loss before tax from discontinued operations | (69,945) | (47,109) |
| Taxation | (6,020) | (677) |
| Loss after tax from discontinued operations | (75,965) | (47,786) |
| Write-down to adjust the carrying value of IRC's net assets to fair value less costs to sell | (89,570) | (151,589) |
| Loss for the period from discontinued operations | (165,535) | (199,375) |
| Attributable to: | | |
| Equity shareholders of Petropavlovsk PLC | (76,368) | (101,666) |
| Non-controlling interests | (89,167) | (97,709) |

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

| | 2014 US\$'000 | 2013 US\$'000 |
|----------------------|------------------|------------------|
| Operating cash flows | (35,610) | (10,481) |
| Investing cash flows | (95,936) | (110,373) |
| Financing cash flows | 89,764 | 196,188 |
| Total cash flows | (41,782) | 75,334 |

28. Asset held for sale – Koboldo

On 21 November 2014, the Group entered into a conditional Share Purchase Agreement ('SPA') relating to the sale of its 95.7% interest in OJSC ZDP Koboldo ('Koboldo'), however, due to the non-fulfilment of certain conditions precedent, the sale was not finalised at the time. Subsequently, the Group was approached by another purchaser, Global-Polymetall, with whom the Group entered into a SPA relating to the sale of its 95.7% interest in Koboldo on 16 April 2015 (note 34).

The disposal is expected to be completed within 12 months after the reporting date and accordingly Koboldo has been classified as 'held for sale' and presented separately on the balance sheet as at 31 December 2014.

Koboldo is an alluvial operation located in the Amur region in the Far East of Russia and represents an alluvial operations segment (note 4).

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

| | 31 December 2014 | |
|---|-----------------------------|---|
| | Carrying amount US\$'000 | Fair value less costs to sell US\$'000 |
| Exploration and evaluation assets | 1,661 | 475 |
| Property, plant and equipment | 18,281 | 5,227 |
| Prepayments for property, plant and equipment | 35 | 35 |
| Inventories | 72 | 72 |
| Trade and other receivables | 1,124 | 1,124 |
| Cash and cash equivalents | 7,719 | 7,719 |
| Total assets classified as held for sale | 28,892 | 14,652 |
| Trade and other payables | 125 | 125 |
| Deferred tax liabilities | 3,005 | 632 |
| Total liabilities associated with assets classified as held for sale | 3,130 | 757 |
| Net assets of Koboldo | 25,762 | 13,895 |
| Write-down to adjust the carrying value of Koboldo's net assets to fair value less costs to sell as at 31 December 2014 | (11,867) | |
| Fair value less costs to sell ^{(a), (b)} | 13,895 | |
| Attributable to: | | |
| Equity shareholders of Petropavlovsk PLC | 13,297 | |
| Non-controlling interests | 598 | |

a) Based on the indicative cash consideration.

(b) Non-recurring fair value measurement treated as Level 3 of the fair value hierarchy.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

29. Share based payments

The details of share awards operated within the Group's equity-settled share award schemes which were outstanding during the year ended 31 December 2014 are set out below.

| | Petropavlovsk PLC LTIP award granted on 12 May 2011 | |
|--|--|---|
| | Number of Ordinary Shares | Weighted average exercise price £ |
| Outstanding at 1 January 2014 | 1,236,354 | — |
| Granted during the year | — | — |
| Forfeited during the year ^(a) | (1,236,354) | — |
| Vested during the year | — | — |
| Outstanding at 31 December 2014 | — | — |

(a) The awards lapsed unvested on 12 May 2014 as none of the vesting conditions were met.

On 12 May 2011, the Group granted performance share awards under the Petropavlovsk PLC LTIP with 1,524,347 shares allocated to certain Executive Directors, members of senior management and certain other employees of the Group, out of which 1,098,904 shares were held by the EBT and the Company assumed the obligation to issue the remaining shares upon vesting of the LTIP.

Performance share awards would vest or become exercisable subject to the following provisions:

- 70% of the shares subject to the award may be acquired at nil cost based on a condition relating to the total shareholder return (the 'TSR') of the Company compared with the TSR of a selected comparator group (the 'First TSR Condition'); and
- 30% of the shares subject to the award may be acquired at nil cost based on a condition relating to growth in TSR of the Company compared to the FTSE 350 mining index (the 'Second TSR Condition').

The First TSR Condition related to growth in TSR over a three year period relative to the TSR growth of companies in a selected peer group of listed international mining companies (the 'Comparator Group') over the same period.

The First TSR Condition provided for the award to vest or become exercisable as follows:

| | % of the award vesting |
|-------------------|---------------------------|
| Within top decile | 70% |
| At median | 35% |
| Below median | — |

The Second TSR Condition related to growth in TSR over a three year period relative to the growth in TSR of companies in FTSE 350 mining index (the 'Index Comparator Group') over the same period.

The Second TSR Condition provided for the award to vest or become exercisable as follows:

| | % of the award vesting |
|-----------------------|---------------------------|
| At median +13.5% p.a. | 30% |
| At median | 15% |
| Below median | — |

The fair value of share awards was determined using the Monte Carlo model. The relevant assumptions are set out in the table below.

| | Petrovsk PLC LTIP performance share awards | |
|--|--|---|
| | Vesting based on the First TSR Condition | Vesting based on the Second TSR Condition |
| Date of grant | 12 May 2011 | 12 May 2011 |
| Number of performance share awards granted | 1,067,043 | 457,304 |
| Share price at the date of grant, £ | 8.15 | 8.15 |
| Exercise price, £ | – | – |
| Expected volatility, % | 73.32 | 73.32 |
| Expected life in years | 3 | 3 |
| Risk-free rate, % | 1.53 | 1.53 |
| Expected dividends yield, % | – | – |
| Expected annual forfeitures | – | – |
| Fair value per award, £ | 6.16 | 5.77 |

On 31 March 2015, the Remuneration Committee approved a bonus of £555,000 to the Chief Executive Officer, of which 50% is payable in cash and 50% in the form of a Deferred Share Award. The number of shares awarded will be based on the market share price at the date of award, being 1 May 2015. The vesting of this award will be subject to Chief Executive Officer's continued service for a 12 month period from the date of award unless he departs the Company as a 'good' leaver.

30. Analysis of net debt

| | At 1 January 2014 US\$'000 | Net cash movement US\$'000 | Transferred to assets classified as held for sale ^(a) US\$'000 | Exchange movement US\$'000 | Non-cash changes US\$'000 | At 31 December 2014 US\$'000 |
|---------------------------|-------------------------------|-------------------------------|--|-------------------------------|------------------------------|---------------------------------|
| Cash and cash equivalents | 170,595 | (84,325) | (7,719) | (30,471) | – | 48,080 |
| Debt due within one year | (158,495) | 209,377 | – | – | (466,043) | (415,161) |
| Debt due after one year | (960,517) | 12,421 | – | – | 385,453 | (562,643) |
| Net debt | (948,417) | 137,473 | (7,719) | (30,471) | (80,590) ^(b) | (929,724) |

(a) Note 28.

(b) Being amortisation of borrowings.

31. Financial instruments and financial risk management

Capital risk management

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

The capital structure of the Group consists of net debt (as detailed in note 30) and equity (comprising issued capital, reserves and retained earnings). As at 31 December 2014, the capital comprised US\$1.7 billion (2013: US\$2.1 billion).

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

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

Significant accounting policies

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

31. Financial instruments and financial risk management continued

Categories of financial instruments

| | 2014 US\$'000 | 2013 US\$'000 |
|---|------------------|------------------|
| Financial assets | | |
| Cash and cash equivalents | 48,080 | 170,595 |
| Derivative financial instruments – cash flow hedge | 6,272 | 62,838 |
| Derivative financial instruments – at fair value through profit or loss | 3,158 | – |
| Loans and receivables | 20,744 | 30,915 |
| Available-for-sale investments | 112 | 124 |
| Financial liabilities | | |
| Trade and other payables – at amortised cost | 33,575 | 58,939 |
| Borrowings – at amortised cost | 977,804 | 1,119,012 |

Financial risk management

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

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

Interest rate risk

The Group's interest rate risk arises primarily from borrowings. The Group is exposed to cash flow interest rate risk through borrowing at floating interest rates and to fair value interest rate risk through borrowing at fixed interest rates. At present, the Group does not undertake any interest rate hedging activities.

The sensitivity analysis below has been determined based on exposure to interest rates for the average balance of floating interest-bearing borrowings.

If interest rates had been 1% higher/lower and all other variables held constant, the Group's loss for the year ended 31 December 2014 would increase/decrease by US\$0.11 million (2013: increase/decrease by US\$1.91 million). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

Foreign exchange risk

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

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

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

| | Assets | | Liabilities | |
|---------------------------|------------------|------------------|------------------|------------------|
| | 2014 US\$'000 | 2013 US\$'000 | 2014 US\$'000 | 2013 US\$'000 |
| Russian Roubles | 75,390 | 172,831 | 40,364 | 68,450 |
| US Dollars ^(a) | 1,519 | 50 | – | 8,063 |
| GB Pounds Sterling | 5,709 | 1,851 | 3,140 | 2,197 |
| EUR | 165 | 2 | 690 | 577 |
| Other currencies | 413 | 389 | 88 | 51 |

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

The table set out below illustrates the Group's profit sensitivity to changes in exchange rates by 25% (2013: 10%), representing management's assessment of a reasonably possible change in foreign exchange currency rates. The analysis was applied to monetary assets and liabilities at the reporting dates denominated in respective currencies.

| | 2014 US\$'000 | 2013 US\$'000 |
|------------------------------------|------------------|------------------|
| Russian Rouble currency impact | 8,756 | 10,438 |
| US Dollar currency impact | 380 | 801 |
| GB Pounds Sterling currency impact | 642 | 35 |
| EUR currency impact | 131 | 57 |
| Other currencies | 81 | 34 |

Credit risk

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

The credit risk on liquid funds held in current accounts and available on demand is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies, with the exception of Asian-Pacific Bank, which does not have an officially assigned credit rating. Having performed a high level due diligence, management does not consider the credit risk associated with Asian-Pacific Bank to be high. Asian-Pacific Bank has a wide network of branches in the Amur region and, therefore, is extensively used by the entities of the precious metals segment (note 26).

The Group's maximum exposure to credit risk is limited to the carrying amounts of the financial assets recorded in the consolidated financial statements. The major financial assets at the balance sheet date are cash and cash equivalents held with the counterparties as set out below.

| Counterparty | Credit rating | Carrying amount at 31 December 2014 US\$'000 | Carrying amount at 31 December 2013 US\$'000 |
|--------------------|---------------|--|--|
| Asian-Pacific Bank | B+ | 20,310 | 22,082 |
| UBS | A | 15,240 | 29,980 |
| VTB | BB+ | 4,938 | 6,481 |
| Sberbank | BBB- | 3,223 | 69,400 |
| Alfa-Bank | BB+ | 345 | 37,641 |

Commodity price risk

The Group generates most of its revenue from the sale of gold and iron ore concentrate. The Group's policy is to sell its products at the prevailing market price. In 2014, the Group has entered into gold forward contracts to protect cash flows from the volatility in the gold price (note 18).

Equity price risk

The Group is exposed to equity price risk through the investment in IRC (note 27).

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

31. Financial instruments and financial risk management continued

Liquidity risk

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

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

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

| | 0-3 months US\$'000 | 3 months - 1 year US\$'000 | 1-2 years US\$'000 | 2-3 years US\$'000 | 3-5 years US\$'000 |
|--|------------------------|-------------------------------|-----------------------|-----------------------|-----------------------|
| 2014 | | | | | |
| Borrowings | | | | | |
| - Convertible bonds | 310,500 | - | - | - | - |
| - Loans | 2,250 | 95,714 | 240,923 | 263,273 | 66,818 |
| Expected future interest payments ^(a) | 16,856 | 36,970 | 37,686 | 17,970 | 1,897 |
| Trade and other payables | 33,576 | - | - | - | - |
| | 363,182 | 132,684 | 278,609 | 281,243 | 68,715 |
| 2013 | | | | | |
| Borrowings | | | | | |
| - Convertible bonds | - | - | 310,500 | - | - |
| - Loans | 18,523 | 134,443 | 97,110 | 240,793 | 322,361 |
| Expected future interest payments ^(a) | 20,299 | 40,741 | 42,434 | 27,910 | 14,979 |
| Trade and other payables | 58,939 | - | - | - | - |
| | 97,761 | 175,184 | 450,044 | 268,703 | 337,340 |

(a) Expected future interest payments have been estimated using interest rates applicable at 31 December. Loans outstanding at 31 December 2014 in the amount of US\$911 million (2013: US\$221 million) are subject to variable interest rates and, therefore, subject to change in line with the market rates.

32. Operating lease arrangements

The Group as a Lessee

| | 2014 US\$'000 | 2013 US\$'000 |
|--|------------------|------------------|
| Minimum lease payments under operating leases recognised as an expense in the year | 2,671 | 3,372 |

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

| | 2014 US\$'000 | 2013 US\$'000 |
|----------------------|------------------|------------------|
| Expiring: | | |
| Within one year | 313 | 354 |
| In two to five years | 94 | 524 |
| | 407 | 878 |

The Group as a Lessor

The Group earned property rental income from continuing operations during the year of US\$1.2 million (2013: US\$1.5 million) on buildings owned by its subsidiary Irgiredmet.

33. Capital commitments

At 31 December 2014, the Group had entered into contractual commitments in relation to its continuing operations for the acquisition of property, plant and equipment and mine development costs amounting to US\$1.2 million (31 December 2013: US\$30.4 million), including US\$1.2 million in relation to the POX Hub (31 December 2013: US\$25.6 million).

34. Subsequent events

The Refinancing

On 2 February 2015, the Group announced a proposed Refinancing which was completed on 18 March 2015. The Refinancing consisted of the following:

- Rights issue pursuant to which 3,102,923,272 new Ordinary Shares were issued at subscription price of £0.05 per Ordinary Share as set out below:
 - 2,114,460,594 Ordinary Shares were issued for cash consideration raising £105.7 million (equivalent to US\$156.2 million) gross cash proceeds; and
 - 988,462,678 Ordinary Shares were issued in exchange for the Existing Bonds as part of settlement of the Existing Bonds (please refer to the details set out below).

- Issue of the new convertible bonds:

On 18 March 2015, the Group issued US\$100 million convertible bonds due on 18 March 2020 (the 'New Bonds'). The New bonds were issued pursuant to the completion of the exchange offer of the Existing Bonds as set out below.

The New Bonds were issued by the Group's wholly owned subsidiary Petropavlovsk 2010 Limited and are guaranteed by the Company. The New Bonds carry a coupon of 9.00% payable quarterly in arrears and are convertible into redeemable preference shares of Petropavlovsk 2010 Limited which are guaranteed by and will be exchangeable immediately upon issuance for Ordinary Shares in the Company.

The conversion price has been set at £0.0826 per Ordinary Share, subject to adjustment for certain events, and the conversion exchange rate has been fixed at US\$1.5171: £1. The New Bonds were admitted to listing on the Official List of the UK Listing Authority and admitted to trading on the Professional Securities Market of the London Stock Exchange on 18 March 2015.

- Settlement of the Existing Bonds:

The Existing Bonds with a par value of US\$310.5 million (note 20) were settled as follows:

| | Par value US\$ million |
|--|---------------------------|
| Portion settled in cash from the net cash proceeds of the Rights Issue | 135.5 |
| Portion settled in equity through the debt-for-equity exchange commitments | 75.0 |
| Portion settled through the issuance of the New Bonds | 100.0 |
| Par value of the Existing Bonds | 310.5 |

- Bank Waivers:

The Group obtained waivers and relaxation of certain financial covenants for the period until 31 December 2015, inclusive.

The estimated aggregate transaction expenses comprise approximately US\$41 million, out of which US\$7.8 million were paid as at 31 December 2014. Included in the transaction costs paid as at 31 December 2014 are US\$0.4 million expensed during the year and US\$7.4 million deferred until transaction completion.

Disposal of Koboldo

On 16 April 2015, the Group entered into a conditional SPA relating to the sale of its 95.7% interest in OJSC ZDP Koboldo ('Koboldo') (note 28). The total cash consideration for the transaction is RUR942 million (an equivalent of c.US\$18.7 million) plus reimbursement of VAT for the fourth quarter 2014, payable within prescribed timeframes from the date of entering into the SPA.

Disposal of investments in associates

On 7 April 2015, the Group entered into an SPA to sell its 25% interest in CJSC ZRK Omchak for a total cash consideration of US\$1 million.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

35. Reconciliation of non-GAAP measures (unaudited)

| | 2014 US\$'000 | 2013 US\$'000 |
|---|------------------|------------------|
| Loss for the period from continuing operations | (182,157) | (513,848) |
| Add/(less): | | |
| Interest expense | 67,705 | 75,268 |
| Investment income | (1,680) | (888) |
| Other finance gains | – | (19,365) |
| Foreign exchange losses | 31,270 | 5,769 |
| Taxation | 167,871 | (8,867) |
| Depreciation | 143,968 | 224,804 |
| Impairment/(reversal of impairment) of mining assets and goodwill | (28,935) | 411,285 |
| Impairment of exploration and evaluation assets | 22,034 | 94,908 |
| Impairment of ore stockpiles | 10,144 | 55,573 |
| Impairment of investments in associates | 9,697 | – |
| Write-down to adjust the carrying value of Kobre's net assets to fair value less cost to sell | 11,867 | – |
| Underlying EBITDA | 251,784 | 324,639 |

36. Group companies

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

| Principal subsidiary, joint venture and associate undertakings | Country of incorporation | Principal activity | Proportion of shares held by Petropavlovsk PLC | | Proportion of shares held by the Group | |
|--|--------------------------|-----------------------------------|--|------------------|--|------------------|
| | | | 31 December 2014 | 31 December 2013 | 31 December 2014 | 31 December 2013 |
| Subsidiary | | | | | | |
| CJSC Management Company Petropavlovsk | Russia | Management company | 100% | 100% | 100% | 100% |
| Petropavlovsk 2010 Limited | Jersey | Finance company | 100% | 100% | 100% | 100% |
| OJSC Pokrovskiy Rudnik | Russia | Gold exploration and production | 43.5% | 43.5% | 98.61% | 98.61% |
| CJSC Amur Doré | Russia | Gold exploration and production | — | — | — | 100% |
| OJSC ZDP Koboldo | Russia | Gold exploration and production | — | — | 95.7% | 95.7% |
| LLC Malomirskiy Rudnik | Russia | Gold exploration and production | — | — | 99.86% | 99.86% |
| LLC Albynskiy Rudnik | Russia | Gold exploration and production | — | — | 100% | 100% |
| LLC Olga | Russia | Gold exploration and production | — | — | — | 100% |
| LLC Osipkan | Russia | Gold exploration and production | — | — | 100% | 100% |
| LLC Tokurskiy Rudnik | Russia | Gold exploration and production | — | — | 100% | 100% |
| LLC Rudoperspektiva | Russia | Gold exploration and production | — | — | 100% | 100% |
| OJSC YamalZoloto | Russia | Gold exploration and production | — | — | 100% | 100% |
| OJSC Yamalskaya Gornaya Kompania | Russia | Gold exploration and production | — | — | — | 74.87% |
| LLC Ilijnskoye | Russia | Gold exploration and production | — | — | 100% | 100% |
| LLC Potok | Russia | Gold exploration and production | — | — | 100% | 100% |
| LLC Temi | Russia | Gold exploration and production | — | — | 75% | 75% |
| LLC ZeyaZoloto | Russia | Gold exploration and production | — | — | — | 100% |
| Major Miners Inc. | Guyana | Gold exploration and production | — | — | 100% | 100% |
| Universal Mining Inc. | Guyana | Gold exploration and production | — | — | 100% | 100% |
| Cuyuni River Ventures Inc. | Guyana | Gold exploration and production | — | — | 100% | 100% |
| LLC Kapstroj | Russia | Construction services | — | — | 100% | 100% |
| LLC NPGF Regis | Russia | Exploration services | — | — | 100% | 100% |
| CJSC ZRK Dalgeologiya | Russia | Exploration services | — | — | 98.61% | 98.61% |
| CJSC PHM Engineering | Russia | Project and engineering services | — | — | 94% | 94% |
| OJSC Irgiredmet | Russia | Research services | — | — | 99.69% | 99.69% |
| LLC NIC Gydrometallurgiya | Russia | Research services | — | — | 100% | 100% |
| LLC BMRP | Russia | Repair and maintenance | — | — | 100% | 100% |
| LLC AVT-Amur | Russia | Production of explosive materials | — | — | 49% | 49% |
| LLC Transit | Russia | Transportation services | — | — | 100% | 100% |
| Pokrovskiy Mining College | Russia | Educational institute | — | — | 98.61% | 98.61% |
| Associate | | | | | | |
| CJSC Verkhnetisskaya Ore Mining Company ^(a) | Russia | Gold exploration and production | — | — | 49% | 49% |
| CJSC ZRK Omchak ^(b) | Russia | Gold exploration and production | 25% | 25% | 25% | 25% |

(a) CJSC Verkhnetisskaya Ore Mining Company was a subsidiary until July 2013.

(b) Including subsidiary of CJSC ZRK Omchak, being LLC Kaurchak.

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2014

| Principal subsidiary, joint venture and associate undertakings | Country of incorporation | Principal activity | Proportion of shares held by Petropavlovsk PLC | | Proportion of shares held by the Group | |
|--|--------------------------|-------------------------------------|--|------------------|--|------------------|
| | | | 31 December 2014 | 31 December 2013 | 31 December 2014 | 31 December 2013 |
| IRC and its principal subsidiary, joint venture and associate undertakings ('IRC')^{(c), (d)} | | | | | | |
| IRC Limited | HK | Management and holding company | – | – | 45.39% | 48.7% |
| <i>Principal subsidiaries of IRC</i> | | | | | | |
| LLC Petropavlovsk Iron Ore | Russia | Management company | – | – | 45.39% | 48.7% |
| LLC Olekminsky Rudnik | Russia | Iron ore exploration and production | – | – | 45.39% | 48.7% |
| LLC Kimkano-Sutarskiy Gorno-Obogatitelnyy Kombinat | Russia | Iron ore exploration and production | – | – | 45.39% | 48.7% |
| LLC Garinsky Mining & Metallurgical Complex | Russia | Iron ore exploration and production | – | – | 45.2% | 48.49% |
| LLC Kostenginskiy Gorno-Obogatitelnyy Kombinat | Russia | Iron ore exploration and production | – | – | 45.39% | 48.7% |
| LLC Orlovo-Sokhatinsky Gorno-Obogatitelnyy Kombinat | Russia | Iron ore exploration and production | – | – | 45.39% | 48.7% |
| LLC Karier Ushumunskiy | Russia | Iron ore exploration and production | – | – | – | 48.7% |
| OJSC Giproruda | Russia | Engineering services | – | – | 31.9% | 34.2% |
| LLC Rubicon | Russia | Infrastructure project | – | – | – | 48.7% |
| CJSC SGMTP | Russia | Infrastructure project | – | – | 45.39% | 48.7% |
| LLC Amur Snab | Russia | Procurement services | – | – | 45.34% | 48.7% |
| Heilongjiang Jiatai Titanium Co., Limited | China | Titanium sponge project | – | – | 45.39% | 48.7% |
| LLC Uralmining | Russia | Iron ore exploration and production | – | – | 45.39% | 48.7% |
| LLC Gorniy Park | Russia | Molybdenym project | – | – | 22.74% | 24.4% |
| <i>Joint ventures of IRC</i> | | | | | | |
| Heilongjiang Jianlong Vanadium Industries Co., Limited | China | Vanadium project | – | – | 20.88% | 22.4% |

(c) After taking account of the 0.71% (2013: 0.77%) shares retained within the Employee Benefit Trust operated in conjunction with the long-term incentive schemes of IRC, the Group's effective interest in the equity of IRC is 45.72% (2013: 49.07%).

(d) Factors considered in determining de facto control over IRC are set out in notes 3.9 and 27.

Company Balance Sheet

At 31 December 2014

| | note | 2014 US\$'000 | 2013 US\$'000 |
|---|------|------------------|------------------|
| Fixed assets | | | |
| Tangible assets | | 54 | 95 |
| Investments | 3 | 624,436 | 712,062 |
| | | 624,490 | 712,157 |
| Current assets | | | |
| Derivative financial assets | | 3,158 | – |
| Debtors: due within one year | 4 | 254,465 | 472,614 |
| Debtors: due after one year | 4 | 598,389 | 320,808 |
| Cash at bank and in hand | | 2,756 | 7,736 |
| | | 858,768 | 801,158 |
| Creditors: amounts falling due within one year | 5 | (319,119) | (286,467) |
| Net current assets | | 539,649 | 514,691 |
| Total assets less current liabilities | | 1,164,139 | 1,226,848 |
| Creditors: amounts falling due after more than one year | 5 | (565,676) | (534,945) |
| Net assets | | 598,463 | 691,903 |
| Capital and reserves | 7 | | |
| Share capital | | 3,041 | 3,041 |
| Share premium | | 376,991 | 376,991 |
| Merger reserve | | – | 19,265 |
| Own shares | | (12,677) | (12,677) |
| Convertible bond reserve | | 48,235 | 48,235 |
| Other reserves | | 29 | 19,320 |
| Profit and loss account | | 182,844 | 237,728 |
| Shareholders' funds | | 598,463 | 691,903 |

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

These financial statements for Petropavlovsk PLC, registered number 4343841, on pages 167 to 172 were approved by the Directors on 28 April 2015 and signed on their behalf by:

Peter Hambro
Director

Andrey Maruta
Director

Strategic report

Governance

Financial statements

Notes to the Company Financial Statements

For the year ended 31 December 2014

1. Basis of preparation

The Petropavlovsk PLC (the 'Company') balance sheet and related notes have been prepared on a historical cost basis, except for the revaluation of certain financial instruments at fair value in accordance with United Kingdom generally accepted accounting principles ('UK GAAP') and in accordance with UK Company law.

A summary of the principal accounting policies is set out below.

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the parent company is not presented as part of these financial statements. The loss after tax for the year of the Company was US\$95.0 million (2013: loss after tax of US\$20.2 million), (note 7).

The Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 'Cash Flow Statements' and presenting financial instruments disclosures under the terms of FRS 29 'Financial Instruments: Disclosures'.

The Company is also exempt from disclosing related party transactions under the terms of FRS 8 'Related Party Disclosures' which states that disclosure of related party transactions is not required in parent company financial statements when those statements are presented together with its consolidated financial statements.

2. Significant accounting policies

2.1. Foreign currencies

The functional and presentation currency of the Company is the US Dollar. Transactions denominated in other currencies, including the issue of shares, are translated at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities that are denominated in other currencies are retranslated at the rates prevailing on the balance sheet date. Exchange rates used are consistent with the rates used by the Group as disclosed in note 2.10 to the consolidated financial statements. Exchange differences are charged or credited to the profit and loss account in the year in which they arise.

2.2. Tangible fixed assets and depreciation

Tangible fixed assets are stated 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 as follows:

| | Average life Number of years |
|--------------------|---------------------------------|
| Office equipment | 4–7 |
| Computer equipment | 3 |

2.3. Investments

Investments in subsidiary undertakings and joint ventures are initially measured at cost and subsequently carried at cost less provisions for impairment. Investments are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. An impairment loss is recognised if the carrying amount of the investment exceeds the higher of net realisable value and the discounted future earnings from the investment.

Other investments are those classified as available-for sale. Available-for-sale investments are initially measured at cost and subsequently carried at fair value. Changes to the fair value of available-for-sale investments are recognised in equity.

2.4. Taxation including deferred taxation

Full provision is made for deferred taxation on all timing differences that have arisen but not reversed at the balance sheet date, except that deferred tax assets are only recognised to the extent that it is more likely than not that they will be recovered. 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.

2.5. Financial assets and liabilities

Financial assets and liabilities are measured on initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss when there is objective evidence that the financial asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

2.6. Derivative financial instruments

Derivative financial instruments are initially accounted for and measured at fair value on the date a derivative contract is entered into and subsequently measured at fair value. The gain or loss on re-measurement is taken to the income statement except where the derivative is a designated cash flow hedging instrument.

Derivative financial instruments embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value, with gains or losses reported in the income statement.

2.7. Share-based payments

The Company operates a number of equity-settled share award schemes, the details of which are provided in note 29 to the consolidated financial statements.

The share-based compensation is accounted for as equity-settled in the Company's financial statements and is measured at fair value of the awards at the date of grant. Fair value is determined using the Black Scholes model, Monte Carlo model or a binomial model as deemed most appropriate.

The fair value determined at the date of grant of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions where appropriate.

In accordance with UITF 44 and FRS 20 'Share-based Payment', where a parent company grants rights to its equity instruments to employees of a subsidiary, and such share-based compensation is accounted for as equity-settled, the subsidiary is required to record an expense for such compensation with a corresponding increase recognised in equity as a contribution from the parent.

2.8. Employee benefit trust

The provision of shares to share award schemes is facilitated by an employee benefit trust.

In accordance with UITF Abstract 38 'Accounting for ESOP trusts', the Company has been determined to be a sponsoring company of the employee benefit trust and therefore in preparing its accounts any own shares held by the employee benefit trust are recorded as own shares, and the carrying value is shown as a deduction in arriving at shareholders' funds until such time as those shares vest unconditionally in employees.

2.9. Dividends

Dividends payable are recognised when they have been approved and, therefore, meet the criteria for a present obligation.

2.10. Operating leases

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

Notes to the Company Financial Statements continued

For the year ended 31 December 2014

3. Investments

| | Investments in Group companies US\$'000 | Investments in associates US\$'000 | Other investments other than loans US\$'000 | Total US\$'000 |
|---------------------------------|--|--|---|-------------------|
| Cost | | | | |
| At 1 January 2014 | 1,836,612 | 9,574 | 116 | 1,846,302 |
| Additions | 17,798 | – | – | 17,798 |
| Impact of intra-group transfers | (24,155) | – | – | (24,155) |
| Fair value change | – | – | (10) | (10) |
| At 31 December 2014 | 1,830,255 | 9,574 | 106 | 1,839,935 |
| Provision for impairment | | | | |
| At 1 January 2014 | (1,132,993) | (1,247) | – | (1,134,240) |
| Charge for the year | (73,932) ^(a) | (7,327) | – | (81,259) |
| At 31 December 2014 | (1,206,925) | (8,574) | – | (1,215,499) |
| Net book value | | | | |
| At 1 January 2014 | 703,619 | 8,327 | 116 | 712,062 |
| At 31 December 2014 | 623,330 | 1,000 | 106 | 624,436 |

(a) Including US\$73,932 million adjustment to reflect changes in the value of the Group's investment in IRC Limited (note 7).

4. Debtors

| | 2014 US\$'000 | 2013 US\$'000 |
|------------------------------|------------------|------------------|
| Owed by Group companies | 843,592 | 791,891 |
| VAT recoverable | 560 | 288 |
| Other debtors | 8,702 | 1,243 |
| | 852,854 | 793,422 |
| Due within one year | 254,465 | 472,614 |
| Due after more than one year | 598,389 | 320,808 |
| | 852,854 | 793,422 |

5. Creditors

| | 2014 US\$'000 | 2013 US\$'000 |
|------------------------------|------------------|------------------|
| Due to Group companies | 399,149 | 296,382 |
| Bank loans | 481,662 | 522,142 |
| Trade creditors | 2,898 | 1,801 |
| Accruals and other creditors | 1,086 | 1,087 |
| | 884,795 | 821,412 |
| Due within one year | 319,119 | 286,467 |
| Due after more than one year | 565,676 | 534,945 |
| | 884,795 | 821,412 |

6. Taxation

As at 31 December 2014, the Company has tax losses available to carry forward in the amount of US\$152.9 million (2013: US\$139.3 million).

7. Statement of reserves and reconciliation of movement in shareholders' funds

| | Share capital US\$'000 | Share premium US\$'000 | Merger reserve US\$'000 | Convertible bond reserve US\$'000 ^(a) | Own shares ^(b) US\$'000 | Other reserves US\$'000 | Retained earnings US\$'000 | Total US\$'000 |
|---|---------------------------|---------------------------|----------------------------|---|---------------------------------------|----------------------------|-------------------------------|-------------------|
| Balance at 1 January 2013 | 2,891 | 377,140 | 130,011 | 59,032 | (14,483) | 17,180 | 142,326 | 714,097 |
| Loss for the year, including transfer from merger reserve | – | – | (110,746) ^(c) | – | – | – | 90,578 | (20,168) |
| Dividends | – | – | – | – | – | – | (5,774) | (5,774) |
| Bonus Share issue | 150 | (149) | – | – | (1) | – | – | – |
| Share based payments | – | – | – | – | – | 3,878 | – | 3,878 |
| Vesting of awards within Petropavlovsk PLC LTIP | – | – | – | – | 1,807 | (1,608) | (199) | – |
| Buy-back of Convertible Bonds | – | – | – | (10,797) | – | – | 10,797 | – |
| Revaluation of available-for-sale investments | – | – | – | – | – | (130) | – | (130) |
| Balance at 1 January 2014 | 3,041 | 376,991 | 19,265 | 48,235 | (12,677) | 19,320 | 237,728 | 691,903 |
| Loss for the year, including transfer from merger reserve | – | – | (19,265) ^(c) | – | – | – | (75,711) | (94,976) |
| Share based payments | – | – | – | – | – | 1,546 | – | 1,546 |
| Awards within Petropavlovsk PLC LTIP forfeited | – | – | – | – | – | (12,153) | 12,153 | – |
| Revaluation of available-for-sale investments | – | – | – | – | – | (10) | – | (10) |
| Transfer to retained earnings | – | – | – | – | – | (8,674) | 8,674 | – |
| Balance at 31 December 2014 | 3,041 | 376,991 | – | 48,235 | (12,677) | 29 | 182,844 | 598,463 |

(a) On 15 February 2010, Petropavlovsk 2010 Limited issued US\$380 million bonds which are convertible into redeemable preference shares in Petropavlovsk 2010 Limited and are guaranteed by, and will be exchangeable immediately upon issuance, for ordinary shares in Petropavlovsk PLC. The Company has recognised the exchange option in equity, and its value has been determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This amount is not subsequently re-measured. The provision of the exchange option to Petropavlovsk 2010 Limited has been recognised as a capital contribution to that entity. Details on Convertible Bonds are set out in note 20 to the consolidated financial statements.

(b) The reserve for own shares arises in connection with the Employees Benefit Trust (EBT), a discretionary trust established and operated in conjunction with the Group's long-term incentive plans (LTIPs). Details of the Group's LTIPs are set out in note 29 to consolidated financial statements. The amount of the reserve represents the deduction in arriving at shareholders' funds for the consideration paid for the Company's shares purchased by the trust which have not vested unconditionally in employees at the balance sheet date.

(c) Being adjustment to reflect changes in the value of the Group's investment in IRC Limited (note 3).

Notes to the Company Financial Statements continued

For the year ended 31 December 2014

8. Parent company guarantees

The Company provided a number of corporate guarantees on behalf of certain subsidiaries. Please also see note 27 to the consolidated financial statements.

9. Operating lease arrangements

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

| | 2014 US\$'000 | 2013 US\$'000 |
|--------------------------|------------------|------------------|
| Expiring: | | |
| Within one year | 313 | 354 |
| Within two to five years | 94 | 524 |
| | 407 | 878 |

10. Directors' remuneration

There were six Executive Directors who held office at the end of the year (2013: six Executive Directors who held office at the end of the year). Details of Directors' remuneration are provided in the Directors' Remuneration Report on pages 87 to 103 of this Annual Report.

11. Subsequent events

Please see note 34 to the consolidated financial statements.

[INTENTIONALLY LEFT BLANK]

REGISTERED OFFICE OF THE ISSUER**Petropavlovsk 2016 Limited**

13-14 Esplanade
St Helier
Jersey
JE1 1EE
United Kingdom

REGISTERED OFFICE OF THE PARENT**Petropavlovsk PLC**

11 Grosvenor Place
Belgravia
London
SW1X 7HH
United Kingdom

REGISTERED OFFICES OF THE GUARANTORS**JSC Pokrovskiy Rudnik**

17 Sovetskaya Street, Tygda Village
Magdagachinskiy District
Amur Region
676150
Russian Federation

LLC Albynskiy Rudnik

140/1, Lenina Street
Blagoveshensk
Amur Region
675000
Russian Federation

LLC Malomirskiy Rudnik

140/1, Lenina Street
Blagoveshensk
Amur Region
675000
Russian Federation

JOINT LEAD MANAGERS**Citigroup Global Markets Limited**

Citigroup Centre
Canada Square
Canary Wharf
London
E14 5LB
United Kingdom

J. P. Morgan Securities plc

25 Bank Street
Canary Wharf
London
E14 5JP
United Kingdom

SIB (Cyprus) Limited

27 Pindarou Street
Alpha Business Centre
1st Floor, Block B
CY-1060 Nicosia

VTB Capital plc

14 Cornhill
London
EC3V 3ND
United Kingdom
Cyprus

TRUSTEE**Citibank, N.A. London Branch**

Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

**PRINCIPAL PAYING AGENT
AND TRANSFER AGENT****Citibank, N.A., London Branch**

Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

REGISTRAR**Citigroup Global Markets Germany AG**

Reuterweg 16
60323 Frankfurt am Main
Germany

LEGAL ADVISERS

*To the Issuer and the
Guarantors as to English and
United States federal law*

Norton Rose Fulbright LLP

3 More London Riverside,
London
SE1 2AQ
United Kingdom

*To the Issuer and the
Guarantors as to Russian law*

**Norton Rose Fulbright
(Central Europe) LLP**
White Square Office Centre
Building A, Butyrsky Val Street 10
Moscow 125047
Russian Federation

To the Issuer as to Jersey law and United States federal law

Appleby

13-14 Esplanade,
St Helier
Jersey
JE1 1BD
United Kingdom

*To the Trustee
as to English law*

Linklaters LLP
1 Silk Street
London
EC2Y 8HQ
United Kingdom

*To the Joint Lead
Managers as to English
and United States federal law*

Freshfields Bruckhaus

Deringer LLP
65 Fleet Street
London
EC4Y 1HS
United Kingdom

*To the Joint Lead Managers
as to Russian law*

**Freshfields Bruckhaus
Deringer LLP**
Kadashevskaya nab 14/2,
119017 Moscow
Russia

AUDITORS

Deloitte LLP
2 New Street Square
London EC4A 3BZ
United Kingdom

IRISH LISTING AGENT

Arthur Cox Listing Services Limited
Ten Earlsfort Terrace
Dublin 2
Ireland

PETROPAVLOVSK 2016 LIMITED
the Issuer

**PETROPAVLOVSK PLC, JSC “POKROVSKIY MINE”, LLC “ALBYNSKIY
RUDNIK” and LLC “MALOMYRSKIY RUDNIK”**
the Guarantors

and

CITIBANK, N.A., LONDON BRANCH
the Trustee

Deed of Guarantee

relating to U.S.\$500,000,000 8.125 per cent.
Guaranteed Notes due 2022 issued by Petropavlovsk
2016 Limited and guaranteed by the Guarantors (as
defined herein)



Freshfields Bruckhaus Deringer

Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London EC4Y 1HS

CONTENTS

| CLAUSE | PAGE |
|---|------|
| 1. Definitions and Interpretation | 1 |
| 2. Guarantee | 2 |
| 3. No Set-Off, Counterclaim or Withholding; Gross-Up..... | 5 |
| 4. General | 6 |
| 5. Governing Law, Arbitration and Jurisdiction | 9 |
| 6. Process Agent..... | 11 |

THIS DEED is made on 14 November 2017

BETWEEN:

- (1) **PETROPAVLOVSK 2016 LIMITED** (the *Issuer*);
- (2) **PETROPAVLOVSK PLC** (the *Parent*), **JSC “POKROVSKIY MINE”**, **LLC “ALBYNSKIY RUDNIK”** and **LLC “MALOMYRSKIY RUDNIK”** (together with the Parent, each a *Guarantor* and, together, the *Guarantors*); and
- (3) **CITIBANK, N.A., LONDON BRANCH** (the *Trustee*).
(each a *Party* and together, the *Parties*)

WHEREAS:

- (A) Petropavlovsk 2016 Limited (the *Issuer*) has authorised the creation and issue of U.S.\$500,000,000 in aggregate principal amount of 8.125 per cent. guaranteed notes due 2022 (the *Notes*). The Notes will be constituted by a trust deed between the Issuer and the Trustee dated 14 November 2017 (the *Trust Deed*); and
- (B) The Guarantors have agreed hereunder to unconditionally and irrevocably and jointly and severally guarantee to the Trustee the performance of all payment and other obligations of the Issuer under the Notes and the Trust Deed.

NOW IT IS HEREBY AGREED AS FOLLOWS:

1. Definitions and Interpretation

1.1 Definitions

In this Deed (including the recitals), unless otherwise defined herein capitalised terms shall have the meanings indicated in the terms and conditions of the Notes (the *Conditions*) except where the context otherwise requires and except that, for the purposes of this Deed:

Guarantee shall have the meaning given to it in Clause 2.1;

Relevant Jurisdiction means Jersey, the Russian Federation, the United States of America, the United Kingdom or any political subdivision or any authority thereof or therein having power to tax or in any case any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which any Guarantor becomes subject in respect of payments made by it of principal or interest on the Notes.

Repayment Date means 14 November 2022; and

Taxes means any taxes (including interest or penalties thereon) which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld, deducted or claimed by a Relevant Jurisdiction or any tax authority thereof or therein and the term *Taxation* shall be construed accordingly.

1.2 Interpretation

Unless the context or the express provisions of this Deed otherwise require, the following shall govern the interpretation of this Deed.

- 1.2.1 All references to **Clause** or **sub-Clause** are, unless otherwise stated, references to a Clause or sub-Clause of this Deed.
- 1.2.2 The terms **hereof**, **herein** and **hereunder** and other words of similar import shall mean this Deed as a whole and not any particular part hereof.
- 1.2.3 Words importing the singular number include the plural and vice versa.
- 1.2.4 The table of contents and the headings are for convenience only and shall not affect the construction hereof.

2. Guarantee

2.1 Guarantee

- 2.1.1 **Guarantee:** The Guarantors hereby unconditionally, irrevocably, jointly and severally guarantee (each a **Guarantee** and together the **Guarantees**) to the Trustee the due and punctual payment by the Issuer of principal and/or interest and/or other amounts (if any) on the Notes or payable under the Trust Deed in full when and as the same shall become due and payable whether on the Repayment Date, on acceleration, in connection with a prepayment, or otherwise. In case of the failure of the Issuer punctually to make any such principal and/or interest payment and/or other amount (if any) on the Notes or payable under the Trust Deed, the Guarantors hereby agree to cause any such payment to be made punctually when and as the same shall become due and payable, whether on the Repayment Date, on acceleration, in connection with a prepayment, pursuant to the Trust Deed or otherwise. The Guarantors hereby further agree to pay any and all expenses (including counsel fees and expenses and any applicable value added tax, turnover or similar tax charged in respect thereof) incurred by the Trustee in enforcing any rights it has under the Guarantees given in this sub-Clause 2.1.1. For the avoidance of doubt, all payments under the Guarantees and under this Deed will be made subject to Condition 8 and any undertakings given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.
- 2.1.2 **Guarantor as Principal Debtor:** As between the Guarantors, the Trustee and the Noteholders, but without affecting the Issuer's obligations under the Notes or the Trust Deed, the Guarantors shall be liable under each Guarantee as if each Guarantor was the sole principal debtor and not merely a surety. Accordingly, each Guarantor shall not be discharged, nor shall its liability be affected, by anything that would not discharge it or affect its liability if it were the sole principal debtor (including (1) any time, indulgence, waiver or consent at any time given to the Issuer or any other person; (2) any amendment to any Condition or any other provisions of the Trust Deed or to any security or other guarantee or indemnity; (3) the making or absence of any demand on the Issuer or any other person for payment; (4) the enforcement or absence of enforcement of the Trust Deed, the Notes or of any security or

other guarantee or indemnity; (5) the taking, existence or release of any security, guarantee or indemnity; (6) the dissolution, amalgamation, reconstruction or reorganisation of the Issuer or any other person; or (7) the illegality, invalidity or unenforceability of or any defect in any provision of this Deed, the Notes or the Trust Deed or any of the Issuer's obligations under them).

2.1.3 Guarantor's Obligations Continuing: Each of the Guarantors' obligations under this Deed are continuing and shall remain in full force and effect by way of continuing security until no sum remains payable under the Notes, this Deed and the Trust Deed. Furthermore, those obligations of each Guarantor are additional to, and not instead of, any security or other guarantee or indemnity at any time existing in favour of any person, whether from any Guarantor or otherwise and may be enforced without first having recourse to the Issuer, any other person, any security or any other guarantee or indemnity. Each Guarantor irrevocably waives all notices and demands of any kind.

2.1.4 Deferral of Guarantor's rights: So long as any sum remains payable under the Notes or the Trust Deed:

- (a) any right of any Guarantor, by reason of the performance of any of its obligations under this Clause 2, to be indemnified by the Issuer or to take the benefit of or to enforce any security or other guarantee or indemnity shall be exercised and enforced by such Guarantor only in such manner and on such terms as the Trustee may require or approve; and
- (b) any amount received or recovered by any Guarantor (i) as a result of any exercise of any such right under (a) above; or (ii) in the dissolution, amalgamation, reconstruction, liquidation, bankruptcy, reorganisation or similar insolvency proceeding of the Issuer shall be held in trust for the Trustee and immediately paid to the Trustee and the Trustee will hold it on the trusts set out in clause 5.1 of the Trust Deed.

2.1.5 Subrogation: Each Guarantor shall be subrogated to all rights of the Trustee against the Issuer and the other Guarantors in respect of any amounts paid by such Guarantor pursuant hereto; provided that such Guarantor shall not without the consent of the Trustee be entitled to enforce, or to receive any payments arising out of or based upon or prove in any insolvency, winding-up or similar insolvency proceeding of the Issuer or any other Guarantor in respect of, such right of subrogation until such time as the principal or interest outstanding on the Notes and all other amounts due under this Deed and the Trust Deed have been paid in full. Furthermore, until such time as aforesaid any Guarantor shall not take any security or counter-indemnity from the Issuer in respect of such Guarantor's obligations under this Clause 2.

2.1.6 Reinstatement: If any payment received by the Trustee pursuant to the provisions of this Deed shall, on the subsequent bankruptcy, insolvency, corporate reorganisation or other similar event affecting the Issuer or any Guarantor, be avoided, reduced, invalidated or set aside under any laws

relating to bankruptcy, insolvency, corporate reorganisation or other similar events, such payment shall not be considered as discharging or diminishing the liability of any Guarantor or any other Guarantor (as the case may be) whether as guarantor, principal debtor or indemnifier and the guarantee and indemnity contained in this Clause 2 shall continue to apply as if such payment had at all times remained owing by the Issuer or the Guarantors and the Guarantors shall indemnify and keep indemnified the Trustee on the terms of the Guarantees and indemnity contained in this Clause 2.

- 2.1.7 **Suspense Account:** Any amount received or recovered by the Trustee (otherwise than as a result of a payment by the Issuer in accordance with the Conditions in respect of any sum payable by the Issuer under the Notes) may be placed in a suspense account and kept there for so long as the Trustee thinks fit, subject to its functions under, and the provisions of, the Trust Deed.
- 2.1.8 **Avoidance of Payments:** Each Guarantor shall on demand indemnify the Trustee and the Noteholders against any cost, loss, expense or liability sustained or incurred by it as a result of it being required for any reason (including any bankruptcy, insolvency, winding-up, examinership, dissolution, or similar law of any jurisdiction) to refund all or part of any amount received or recovered by it in respect of any sum payable by the Issuer under the Notes, the Trust Deed or by any other Guarantor under this Deed of Guarantee and shall in any event pay to it on demand the amount as refunded by it.
- 2.1.9 **Payments to the Issuer:** If any moneys become payable by any Guarantor under this Deed, the Guarantors shall not (except in the event of the liquidation of the Issuer) so long as any such moneys remain unpaid, pay any moneys for the time being due from the Guarantors to the Issuer.
- 2.1.10 **Indemnity:** As separate, independent and alternative stipulations, each Guarantor unconditionally and irrevocably agrees (1) that any sum that, although expressed to be payable by the Issuer pursuant to the Conditions and the Trust Deed, is for any reason (whether or not now existing and whether or not now known or becoming known to the Issuer, any Guarantor, the Trustee or any Noteholder) not recoverable from any Guarantor on the basis of the relevant Guarantee shall nevertheless be recoverable from any Guarantor as if it were the sole principal debtor and shall be paid by it on demand to the Trustee or to the Trustee's order; and (2) as a primary obligation to indemnify the Trustee or each Noteholder, as applicable, against any loss suffered by it as a result of any sum expressed to be payable by the Issuer pursuant to the Conditions and/or the Trust Deed not being paid on the date and otherwise in the manner specified in the Conditions and/or the Trust Deed or any payment obligation of the Issuer pursuant to the Conditions and or the Trust Deed being or becoming void, voidable or unenforceable for any reason (whether or not now existing and whether or not now known or becoming known to the Trustee or any Noteholder), the amount of that loss being the amount expressed to be payable by the Issuer in respect of the relevant sum.
- 2.1.11 **Further Assurances:** In the event that any Guarantor is required to make any payment or to satisfy any other obligation under or in respect of the relevant Guarantee, such Guarantor shall, at the time of making such payment or

satisfying such obligation, obtain any consents, approvals, authorisations or licences issued by the government of the country in which such Guarantor is incorporated or any political subdivision thereof or therein or any bank in such country necessary to make any such payment or to satisfy any such obligation.

- 2.1.12 **Pari Passu:** Each Guarantor undertakes that its obligations hereunder will constitute direct, unconditional and unsecured obligations of the Guarantor which rank and will at all times rank at least *pari passu* with all other present and future outstanding unsecured and unsubordinated obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

2.2 Guarantees Joint and Several

Each Guarantor acknowledges and agrees that all its obligations under or in relation to this Deed shall be joint and several with the obligations of each other Guarantor under this Deed.

2.3 Compliance with the Trust Deed and the Conditions

Each Guarantor undertakes that it shall comply with and perform and observe all the provisions of the Trust Deed and the Conditions which are applicable to it as if such Guarantor had been made an original party thereto. The Conditions shall be binding on the Guarantors. The Trustee shall be entitled to enforce the obligations of the Guarantors under the Notes and the Conditions and the Trust Deed as if the same were set out and contained in this Deed.

2.4 Trust

The Trustee shall hold the benefit of all the covenants in this Deed, and of any security created pursuant to this Deed, upon trust for the Noteholders and for itself according to their respective interests under the Trust Deed.

2.5 Filing of this Deed

Each Guarantor shall file this Deed with any authority in Jersey, the Russian Federation or the United Kingdom, if and as may be required by applicable law and shall pay and bear all costs, expenses, fees and stamp duty payable on or in connection with such filing.

3. No Set-Off, Counterclaim or Withholding; Gross-Up

All payments to be made by the Guarantors under this Deed shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any Taxes. If any Guarantor shall be required by applicable law to make any deduction or withholding from any payment under this Deed for or on account of any such Taxes, it shall (i) increase the payment due hereunder to such amount as may be necessary to ensure that the Trustee receives a net amount in U.S. Dollars or in any other relevant currency equal to the full amount which it would have received had payment not been made subject to such Taxes; (ii) promptly account to the relevant authorities for the relevant amount of such Taxes so withheld or deducted and (iii) deliver to the Trustee without undue delay

evidence satisfactory to the Trustee of such deduction or withholding and of the accounting therefore to the relevant taxing authority. If the Trustee pays any amount in respect of such Taxes, penalties or interest, the Guarantors shall reimburse the Trustee in U.S. Dollars or in any other relevant currency for such payment on demand.

4. General

4.1 Stamp Duties

Each Guarantor shall pay any stamp, registration and documentary taxes or similar charges (if any) imposed on, payable, or determined to be payable by such Guarantor in Jersey, the Russian Federation, the United States of America or the United Kingdom in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Deed and shall indemnify the Trustee against any and all costs and expenses which may be incurred or suffered by the Trustee with respect to, or resulting from, delay or failure to pay such taxes or similar charges.

4.2 Waivers

No failure to exercise and no delay in exercising, on the part of the Trustee or the Guarantors, any right, power or privilege hereunder and no course of dealing between the Guarantors and the Trustee shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and not exclusive of any rights, or remedies provided by applicable law.

4.3 Notices

4.3.1 Method

Each communication under this Deed shall be made by fax, electronic communication or otherwise in writing. Each communication or document to be delivered to any party under this Deed shall be sent to that party at the fax number, postal address or electronic address, and marked for the attention of the person (if any), from time to time designated by that party to each other party for the purpose of this Deed. The initial fax number, postal address, electronic address and person so designated by the parties under this Deed are set out below:

Issuer: if to the Issuer, to it at:

Petropavlovsk 2016 Limited
13-14 Esplanade
St. Helier
Jersey
JE1 1EE

Email: aks@petropavlovsk.net

Attention: Mrs Anna-Karolina Subczynska, Director of Petropavlovsk
2016 Limited

Guarantors: if to the Guarantors, to each of them at:

Petropavlovsk PLC

11 Grosvenor Place
Belgravia
London
SW1X 7HH
United Kingdom

Email: aks@petropavlovsk.net
Attention: Mrs Anna-Karolina Subczynska, Group Head of Legal Affairs

JSC “Pokrovskiy Mine”

17 Sovetskaya Street
Tygda Village
Magdagachinskiy District, Amur Region
676150
Russia

Fax: +7 495 380-28-10/11
Email: makhina-a@pokrmine.ru
Attention: Anna Makhina

LLC “Albynskiy Rudnik”

140/1 Lenina Street
Blagoveshensk, Amur Region
675000
Russia

Fax: +7 495 380-28-11
Email: makhina-a@pokrmine.ru
Attention: Anna Makhina

LLC “Malomyrskiy Rudnik”

140/1 Lenina Street
Blagoveshensk, Amur Region
675000
Russia

Fax: +7 495 380-28-11
Email: makhina-a@pokrmine.ru
Attention: Anna Makhina

Trustee: if to the Trustee, to it at:

Citibank, N.A., London Branch

Citigroup Centre Canada Square, Canary Wharf
London E14 5LB
United Kingdom

Fax no.: +44 (0)20 7500 5877
Attention: Agency and Trust

or to such other address or fax number as any party may hereafter specify in writing to the other.

4.3.2 Deemed Receipt

Any communication from any party to any other under this Deed shall be effective, (if by fax) when the relevant delivery receipt is received by the sender, (if in writing) when delivered and (if by electronic communication) when the relevant receipt of such communication being read is given, or where no read receipt is requested by the sender, at the time of sending, provided that no delivery failure notification is received by the sender within 24 hours of sending such communication; provided that any communication which is received (or deemed to take effect in accordance with the foregoing) after 4p.m. or on a non-business day in the place of receipt shall be deemed to take effect at the opening of business on the next following business day in such place. Any communication delivered to any party under this Deed which is to be sent by fax or electronic communication will be written legal evidence.

4.4 Assignment

- 4.4.1 This Deed shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under this Deed.
- 4.4.2 None of the Guarantors shall assign or transfer all or any part of its rights or obligations hereunder to any other party other than as is permitted by the Conditions.
- 4.4.3 The Trustee may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Deed, unless a successor to the Trustee is appointed pursuant to clause 13 of the Trust Deed.

4.5 Currency Indemnity

To the fullest extent permitted by law, the obligation of the Guarantors in respect of any amount due in U.S. Dollars under this Deed (or in relation to clause 7 of the Trust Deed, Euro or pounds sterling or as otherwise advised by the Trustee (the **Contractual Currency**)) shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the Contractual Currency that the party entitled to receive such payment may, in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any premium and costs of exchange) on the date on which such party receives such payment (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If the amount in the Contractual Currency that may be so purchased for any reason falls short of the amount originally due, the Guarantors hereby agree to indemnify and hold harmless the Trustee against any loss suffered as a result of any deficiency in the Contractual Currency and substantiated by it in accordance with applicable

law. Any obligation of the Guarantors not discharged by payment in the Contractual Currency shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided herein, shall continue in full force and effect.

4.6 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to this Deed has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Deed.

4.7 Severability

It is the desire and intent of the parties that the provisions of this Deed be enforced to the fullest extent permissible under the law and public policies applied in each jurisdiction in which enforcement is sought. Accordingly, in the event that any provision of this Deed would be held to be invalid, prohibited or unenforceable in any jurisdiction for any reason, such provision, as to such jurisdiction, shall be ineffective, without invalidating the remaining provisions of this Deed or affecting the validity or enforceability of such provision in any other jurisdiction.

4.8 Counterparts

This Deed may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties hereto. Delivery of a counterpart of this Deed by e-mail attachment or telecopy shall be an effective mode of delivery. In relation to each counterpart, upon confirmation by or on behalf of a party that such party authorises the attachment of its counterpart signature page to the final text of this Deed, such counterpart signature page shall take effect, together with such final text, as a complete authoritative counterpart. This Deed may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties hereto.

5. Governing Law, Arbitration and Jurisdiction

5.1 Governing Law: This Deed and any non-contractual obligations arising out of or in connection with it shall be governed by, and construed in accordance with, English law.

5.2 Arbitration

(a) Any dispute arising out of or in connection with this Deed (including a dispute regarding the existence, validity or termination of this Deed and a dispute relating to non-contractual obligations arising out of or in connection with this Deed) (a *Dispute*) shall be referred to and finally resolved by arbitration under the LCIA Arbitration Rules (the *Rules*),

which Rules are deemed incorporated by reference into this Deed, as amended herein;

- (b) The arbitral tribunal shall consist of three arbitrators. The claimant(s), irrespective of number, shall nominate jointly one arbitrator; the respondent(s), irrespective of number, shall nominate jointly the second arbitrator; and a third arbitrator, who shall serve as Chairman, shall be nominated by agreement of the two party-nominated arbitrators within 15 days of the confirmation of the appointment of the second arbitrator, or, in default of such agreement, shall be appointed by the LCIA Court as soon as possible;
- (c) In the event the claimant(s), irrespective of number, or a respondent (in circumstances in which it is the sole respondent) fail (or fails) to nominate an arbitrator within the time limits specified in the Rules, such arbitrator shall be appointed by the LCIA Court as soon as possible. In the event that multiple respondents or both claimant(s) and multiple respondents fail to nominate an arbitrator within the time limits specified in the Rules, all three arbitrators shall be appointed by the LCIA Court as soon as possible, and the LCIA Court shall designate one of them as chairman;
- (d) If all the parties to an arbitration so agree, there shall be a sole arbitrator appointed by the LCIA Court, as soon as possible;
- (e) The seat of arbitration shall be London, England and the language of the arbitration shall be English;
- (f) The parties hereby exclude the jurisdiction of the courts under Sections 45 and 69 of the Arbitration Act 1996;
- (g) Any provision in the Rules which is void, unenforceable or otherwise impermissible under English law shall not be deemed to be incorporated into this Deed;
- (h) The parties reserve the right of appeal from an award of the arbitral tribunal to any court having jurisdiction on any question of law. To the extent that it conflicts with this right, any provision of the Rules is hereby disapplied;
- (i) Without prejudice to the powers of the arbitrators provided by the Rules, statute or otherwise, the arbitrators shall have power at any time, on the basis of written evidence and the submissions of the parties alone, to make an award in favour of the claimant (or the respondent if a counterclaim) in respect of any claims (or counterclaims) to which there is no reasonably arguable defence, either at all or except as to the amount of any damages or other sum to be awarded; and
- (j) The parties agree that the arbitration and any facts, documents, awards or other information related to the arbitration or the dispute, controversy or claim to which it relates shall be kept strictly

confidential and shall not be disclosed to any third party without the express written consent of the other party, unless such disclosure is required to comply with any legal or regulatory requirement.

- 5.3 Consent:** Each of the Parties irrevocably and generally consents in respect of any proceedings brought pursuant to the terms of this Deed to the giving of any relief or the issue and service on it of any process in connection with those proceedings including, without limitation, the making, enforcement or execution against any assets whatsoever of any order or judgment which may be made or given in those proceedings.

5.4 Waiver of Immunity

- (a) For the avoidance of doubt, the Issuer and the Guarantors irrevocably waive and agree not to claim any immunity from suit and/or any immunity from any and all forms of execution, enforcement or attachment to which they or their property are now or may hereafter become entitled under the laws of any jurisdiction, including (but not limited to) pursuant to the State Immunity Act 1978, and the Issuer and the Guarantors declare that such waiver shall be effective to the fullest extent permitted by such laws.
- (b) This waiver extends to and constitutes consent to relief being given against the Issuer and the Guarantors in England and Wales or in any other jurisdiction by way of injunction or order for specific performance or for the recovery of any property whatsoever or other provisional or interim protective measures and to their property being subject to any process effected in the course or as a result of any action in rem. For the avoidance of doubt, the Issuer and the Guarantors irrevocably submit to the jurisdiction of any court where proceedings are brought by another Party for the purposes of this Clause 5.4 and undertake not to raise any objection on grounds of inconvenient forum or otherwise.

6. Process Agent

The Issuer and JSC “Pokrovskiy Mine”, LLC “Albyskiy Rudnik” and LLC “Malomyrskiy Rudnik” (the **Russian Guarantors**) irrevocably appoint Petropavlovsk PLC of 11 Grosvenor Place, Belgravia, London, SW1X 7HH, to receive, for and on their behalf, service of process in any Disputes in England. Such service shall be deemed completed on delivery to such process agent (whether or not it is forwarded to and received by the Issuer or the Russian Guarantors (as applicable)). If such person is not or ceases to be effectively appointed to accept service of process on the Issuer’s or a Russian Guarantor’s behalf, the Issuer or relevant Russian Guarantor shall notify the Trustee in writing, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Trustee shall be entitled to appoint such a person by written notice to the Issuer or the relevant Russian Guarantors (as applicable), at the Issuer or the relevant Russian Guarantor’s cost (as applicable). Nothing in this Clause shall affect the right of the Trustee to serve process in any other manner permitted by law.

The Issuer shall inform the Trustee in writing of any change in address of the process agent within 14 calendar days of such change.

IN WITNESS whereof this Deed has been executed as a deed by the Issuer and the Note Trustee and entered into the day and year first above written

SIGNATORIES

Issuer

Executed and delivered as a deed by
PETROPAVLOVSK 2016 LIMITED

)
)



ANNA-KAROLINA SUBCZYNSKA-SAMBERGER

Director:

Witness:

Name: AMANDA WHALLEY

Address: 1 MILL HOUSE
PORTSMOUTH ROAD
ESHER SURREY KT10 9LN

Guarantors

Executed and delivered as a deed by
PETROPAVLOVSK PLC

)
)



ANDREY MARUTA

Director:

Witness:

Name: AMANDA WHALLEY

Address: 1 MILL HOUSE
PORTSMOUTH ROAD, ESHER, SURREY KT10 9LN

Executed and delivered as a deed by
JSC "POKROVSKIY MINE"

)
)

Director:

Witness:

Name:

Address:

IN WITNESS whereof this Deed has been executed as a deed by the Issuer and the Note Trustee and entered into the day and year first above written

SIGNATORIES

Issuer

Executed and delivered as a deed by)
PETROPAVLOVSK 2016 LIMITED)

Director:

Witness:

Name:

Address:

Guarantors

Executed and delivered as a deed by)
PETROPAVLOVSK PLC)

Director:

Witness:

Name:

Address:

Executed and delivered as a deed by)
JSC "POKROVSKIY MINE")

General *Aleksey V. Biryukov*
Director:



Witness:

Name:

Address:

Aleksey N. Kopot
Blagovesheusk,
50 Let Oktyabrya Str.,
208/2, Flat 23

[Signature]
✓

Deed of Guarantee
EXECUTION VERSION

Executed and delivered as a deed by
LLC "ALBYNSKIY RUDNIK"

General Director: *Aleksey A. Papka*

)
)



Witness:

Name: *Aleksey N. Kopot*
Address: *Blagoveshensk,
50 Let Oktyabrya Str.,
208/2, Flat 23*

[Handwritten signature]

Executed and delivered as a deed by
LLC "MALOMYRSKIY RUDNIK"

)
)

General Director: *Anatoliy V. Kochubey*

[Handwritten signature]



Witness:

Name: *Aleksey N. Kopot*
Address: *Blagoveshensk,
50 Let Oktyabrya Str.,
208/2, Flat 23*

[Handwritten signature]

Trustee

Executed and delivered as a deed by
CITIBANK, N.A., LONDON BRANCH

)
)

Authorised signatory:

Authorised signatory:

Executed and delivered as a deed by)
LLC "ALBYNSKIY RUDNIK")

Director:

Witness:
Name:
Address:

Executed and delivered as a deed by)
LLC "MALOMYRSKIY RUDNIK")

Director:

Witness:
Name:
Address:

Trustee

Executed and delivered as a deed by)
CITIBANK, N.A., LONDON BRANCH)

Authorised signatory:



~~Authorised signatory:~~ Stuart Sullivan
Vice President

EXECUTION VERSION

Dated 3 July 2019

PETROPAVLOVSK 2010 LIMITED

and

PETROPAVLOVSK PLC

and

APEX CORPORATE TRUSTEES (UK) LIMITED

TRUST DEED

constituting Petropavlovsk 2010 Limited

U.S.\$125,000,000

8.25 per cent. Guaranteed Convertible Bonds due 2024

Linklaters

Ref: BJD/CD

Linklaters LLP

Table of Contents

| Contents | Page |
|---|------|
| 1 Interpretation | 1 |
| 2 Amount of the Original Bonds and Covenant to pay | 6 |
| 3 Guarantee and Indemnity | 7 |
| 4 Form of the Original Bonds | 9 |
| 5 Stamp Duties and Taxes | 10 |
| 6 Further Issues | 11 |
| 7 Application of Moneys received by the Trustee | 12 |
| 8 Covenant to Comply | 13 |
| 9 Covenants relating to Conversion | 13 |
| 10 Covenants | 14 |
| 11 Remuneration and Indemnification of the Trustee | 18 |
| 12 Provisions Supplemental to The Trustee Act 1925 and the Trustee Act 2000 | 19 |
| 13 Trustee Liable for Negligence | 26 |
| 14 Enforcement, Waiver and Proof of Default | 26 |
| 15 Trustee not precluded from entering into Contracts | 27 |
| 16 Modification and Substitution | 27 |
| 17 Appointment, Retirement and Removal of the Trustee | 29 |
| 18 Communications | 30 |
| 19 Governing Law and Jurisdiction | 31 |
| 20 Contracts (Rights of Third Parties) Act 1999 | 31 |
| 21 Counterparts | 31 |
| Schedule 1 Terms and Conditions | 32 |
| Schedule 2 Form of Original Definitive Registered Bond | 91 |

| | |
|--|-----|
| Schedule 3 Form of Original Global Bond..... | 97 |
| Schedule A Principal Amount of this Global Bond..... | 101 |
| Schedule B Interest Payments in respect of this Global Bond..... | 102 |
| Schedule 4 Provisions for Meetings of Bondholders..... | 103 |
| Schedule 5 Form of Directors' Certificate..... | 110 |

This Trust Deed is made on 3 July 2019 **between:**

- (1) **PETROPAVLOVSK 2010 LIMITED**, a company incorporated under the laws of Jersey with registered number 104830, whose registered office is at 13-14 Esplanade, St Helier, Jersey JE1 1EE (the “**Issuer**”);
- (2) **PETROPAVLOVSK PLC**, 11 Grosvenor Place, Belgravia, London SW1X 7HH, United Kingdom (the “**Guarantor**”); and
- (3) **APEX CORPORATE TRUSTEES (UK) LIMITED**, a limited liability company incorporated under the laws of England and Wales, whose principal office is at 6th Floor, 125 Wood Street, London EC2V 7AN, United Kingdom (the “**Trustee**”, which expression shall, where the context so admits, include all persons for the time being the trustee or trustees of this Trust Deed).

Whereas:

- (A) The Issuer, incorporated with limited liability in Jersey, has by resolutions of its board of directors passed on 18 June 2019 authorised the issue of U.S.\$125,000,000 8.25 per cent. Guaranteed Convertible Bonds due 2024 to be constituted by this Trust Deed.
- (B) The Guarantor, incorporated with limited liability in England and Wales, has by a resolution of its board of directors passed on 18 June 2019 resolved to give the guarantee of the Bonds (as defined in Clause 1.1 below) upon and subject to the terms and conditions set out below and the Deed Poll and has authorised the issue of the Ordinary Shares to be issued in consideration for the delivery of the Preference Shares.
- (C) The Trustee has agreed to act as trustee of this Trust Deed on the following terms and conditions.

This deed witnesses and it is declared as follows:

1 Interpretation

1.1 Definitions

The following expressions shall have the following meanings:

“**Agents**” means, in relation to the Original Bonds, the Principal Paying, Transfer, Conversion and Exchange Agent and the Registrar (and “**Agent**” means any one of them) and, in relation to any Further Bonds, means any agent or registrar appointed in relation to them including any Reference Banks;

“**Appointee**” has the meaning specified in Clause 12.21;

“**Articles of the Issuer**” means the Articles of Association adopted by the Issuer on 15 January 2010 as amended on 17 March 2015 and as the same may from time to time be modified in accordance with the provisions set out therein;

“**Auditors**” means the independent auditors for the time being of the Guarantor, or, if there shall be joint auditors, any one or more such auditors or, in the event of them being unable or unwilling to carry out any action required of them pursuant to the Conditions or this Trust Deed, such other independent accountants or independent firm of accountants as may be selected by the Guarantor and approved in writing by the Trustee (such approval not to be unreasonably withheld or delayed) or, in default of such selection and approval, selected by

the Trustee in good faith for the purpose, provided that the Issuer or the Guarantor, as the case may be, shall be responsible for the costs, fees and expenses of such accountants;

“Bondholder” and **“holder”** mean, in relation to a Bond, the person in whose name the Bond is registered in the Register;

“Bonds” means the Original Bonds and/or, as the context may require, any Further Bonds except that in Schedules 1 and 2, **“Bonds”** means the Original Bonds;

“Certification Date” has the meaning specified in Clause 10.5;

“Clearstream, Luxembourg” means Clearstream Banking S.A.;

“Conditions” means, in relation to the Original Bonds, the terms and conditions set out in Schedule 1 and, in relation to any Further Bonds, the terms and conditions relating to such Further Bonds as any of the same may from time to time be modified in accordance with this Trust Deed, and with respect to any Bonds represented by a Global Bond, as modified by the provisions of such Global Bond and references in this Trust Deed to a particular numbered Condition shall be construed accordingly and, in relation to any Further Bonds, as a reference to the provision (if any) in the Conditions thereof which corresponds to the particular Condition of the Original Bonds;

“Deed Poll” means the deed dated the date of this Trust Deed executed in favour of the Issuer and the holders of the Preference Shares by the Guarantor, as from time to time amended in accordance with the provisions thereof;

“Definitive Registered Bonds” means the Original Definitive Registered Bonds and/or as the context may require any other definitive registered bonds representing Further Bonds or any of them;

“Euroclear” means Euroclear Bank SA/NV;

“Event of Default” means any of the events described in Condition 12 which, if so required by that Condition, has been certified by the Trustee to be, in its opinion, materially prejudicial to the interests of Bondholders;

“Extraordinary Resolution” has the meaning set out in Schedule 4;

“FSMA” means the Financial Services and Markets Act 2000, as amended;

“Further Bonds” means any further Bonds issued in accordance with the provisions of Clause 6 and the Conditions and constituted by a deed supplemental to this Trust Deed;

“Global Bond” means the Original Global Bond and/or as the context may require any other global bond representing Further Bonds or any of them except that in Schedule 3 Global Bond means the Original Global Bonds;

“Guarantee” means the guarantee and indemnity of the Guarantor set out in Clause 3;

a **“holding company”** of a company or a corporation means any company or corporation of which the first mentioned company or corporation is a subsidiary;

“Original Bonds” means the bonds in or substantially in the respective forms set out in Schedule 1 comprising the U.S.\$125,000,000 8.25 per cent. Guaranteed Convertible Bonds due 2024 constituted by this Trust Deed and for the time being outstanding or, as the context may require, a specific number of them and includes any replacement Bonds issued

pursuant to the Conditions and (except for the purposes of Clauses 3.1 and 3.2) the Global Bond;

“Original Bondholders” means, in relation to an Original Bond, the person in whose name the Original Bond is registered in the Register;

“Original Definitive Registered Bonds” means those Original Bonds for the time being represented by definitive certificates in the form or substantially in the form set out in Schedule 2 and in accordance with Condition 1(a);

“Original Global Bond” means the global bond in registered form which will evidence the Original Bonds, substantially in the form set out in Schedule 3, and evidencing the registration of the person named therein in the Register;

“outstanding” means, in relation to the Bonds, all the Bonds issued except:

- (a) those which have been redeemed in accordance with the Conditions;
- (b) those in respect of which Conversion Rights have been exercised and all the obligations of the Issuer to deliver Preference Shares and procure the exchange of such Preference Shares for Ordinary Shares or a Cash Alternative Amount have been duly performed in relation thereto;
- (c) those in respect of which the date for redemption has occurred and the redemption moneys (including all interest accrued on such Bonds to the date for such redemption and any interest payable under the Conditions after such date) have been duly paid to the relevant Bondholder or on its behalf or to the Trustee or to the Principal Paying, Transfer, Conversion and Exchange Agent as provided in Clause 2 and remain available for payment against surrender of Bonds (if so required), as the case may be;
- (d) those which have become void or those in respect of which claims have become prescribed
- (e) those mutilated or defaced Bonds which have been surrendered in exchange for replacement Bonds;
- (f) (for the purpose only of determining how many Bonds are outstanding and without prejudice to their status for any other purpose) those Bonds alleged to have been lost, stolen or destroyed and in respect of which replacement Bonds have been issued;
- (g) those which have been purchased and cancelled as provided in the Conditions; and
- (h) the Global Bond to the extent that it shall have been exchanged for interests in another Global Bond and any Global Bond to the extent that it shall have been exchanged for Definitive Registered Bonds pursuant to its provisions; provided that for the purposes of:
 - (i) ascertaining the right to attend any meeting of the Bondholders, vote at any meeting of the Bondholders or to participate in any Written Resolution or Electronic Consent;
 - (ii) the determination of how many Bonds are outstanding for the purposes of Conditions 12, 16 and 17 and Schedule 4;

- (iii) the exercise of any discretion, power or authority which the Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the Bondholders; and
- (iv) the certification (where relevant) by the Trustee as to whether it has received instruction from the Bondholders that those Bonds (if any) which are beneficially held by or on behalf of the Issuer, the Guarantor or any of their respective Subsidiaries and not cancelled shall be deemed not to remain outstanding;

“Paying, Transfer, Conversion and Exchange Agency Agreement” means, in relation to the Original Bonds, the Paying, Transfer, Conversion and Exchange Agency Agreement dated on or about the date hereof, as altered from time to time, between the Issuer, the Guarantor, the Trustee, the Principal Paying, Transfer, Conversion and Exchange Agent, and the Registrar whereby the initial Principal Paying, Transfer, Conversion and Exchange Agent and the Registrar were appointed in relation to the Original Bonds and includes any other agreements approved in writing by the Trustee appointing Successor Agents or amending or modifying any such agreements;

“Potential Event of Default” means an event or circumstance which could, with the giving of notice and/or lapse of time and/or the fulfilment of any other requirement provided for in Condition 12, become an Event of Default;

“Preference Shares” has the meaning ascribed thereto in the Conditions and, where the context so admits, includes Preference Shares required by the Conditions to have been issued but which shall not have been so issued and references to any amounts payable in respect of Preference Shares shall include amounts required to be paid in respect of Preference Shares required to have been issued pursuant to the Conditions but not so issued;

“Principal Paying, Transfer, Conversion and Exchange Agent” means, in relation to the Original Bonds, Citibank N.A., London Branch at its specified office, in its capacity as Principal Paying, Transfer, Conversion and Exchange Agent (in respect of the Original Bonds) and, in relation to any Further Bonds, the Principal Paying, Transfer, Conversion and Exchange Agents appointed in respect of such Further Bonds and, in each case, any Successor Principal Paying, Transfer, Conversion and Exchange Agent;

“Proceedings” has the meaning specified in Clause 19.2;

“Reference Banks” means, in relation to any relevant Further Bonds, the several banks or other financial institutions as may from time to time be appointed by the Issuer with the prior approval of, and on terms previously approved by, the Trustee in writing and notice of whose appointment is given to the relevant Bondholders in accordance with Clause 10.13;

“Registrar” means Citigroup Global Markets Europe AG at its specified office, in its capacity as Registrar and, in each case, any Successor Registrar; **“specified office”** means, in relation to any Agent, either the office identified with its name at the end of the Conditions or any other office approved by the Trustee and notified to the Bondholders pursuant to Clause 10.11;

“Substituted Obligor” has the meaning specified in Clause 16.2(a);

“Successor” means, in relation to the Agents, such other or further person as may from time to time be appointed by the Issuer as an Agent with the written approval of, and on terms

approved in writing by, the Trustee and notice of whose appointment is given to Bondholders pursuant to Clause 10.13;

“this Trust Deed” means this Trust Deed, the Schedules (as from time to time altered in accordance with this Trust Deed) and any other document executed in accordance with this Trust Deed (as from time to time so altered) and expressed to be supplemental to this Trust Deed;

“trust corporation” means a trust corporation (as defined in the Law of Property Act 1925) or a corporation entitled to act as a Trustee pursuant to applicable foreign legislation relating to trustees; and

“Trustee Fee Letter” means the letter between the Trustee, the Issuer and the Guarantor dated 3 July 2019.

1.2 Construction of Certain References

References to:

- (a) costs, charges, remuneration or expenses shall include any value added tax, turnover tax or similar tax charged in respect thereof;
- (b) dollars, U.S. dollars, U.S.\$ and cents shall be construed as references to the lawful currency for the time being of the United States;
- (c) £ and pounds sterling shall be construed as references to the lawful currency for the time being of the United Kingdom;
- (d) any action, remedy or method of judicial proceedings for the enforcement of rights of creditors shall include, in respect of any jurisdiction other than England and Wales, references to such action, remedy or method of judicial proceedings for the enforcement of rights of creditors available or appropriate in such jurisdiction as shall most nearly approximate thereto;
- (e) any provision of any statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under such modification or re-enactment;
- (f) approval not to be unreasonably withheld or delayed or like references shall mean, when used in this Trust Deed, the Conditions or the Paying, Transfer, Conversion and Exchange Agency Agreement, in relation to the Trustee that, in determining whether to give such approval, the Trustee shall have regard to the interests of Bondholders only and any determination as to whether or not its approval is unreasonably withheld or delayed shall be made on that basis; and
- (g) references in this Trust Deed or the Conditions to reasonable or reasonably and similar expressions relating to the Trustee and any exercise of power, opinion, determination or other similar matter shall be construed as meaning reasonable or reasonably (as the case may be) having regard to, and taking into account the interests of, the Bondholders only.

1.3 Conditions

Words and expressions defined in the Conditions and not defined in the main body of this Trust Deed shall when used in this Trust Deed (including the recitals) have the same meanings as are given to them in the Conditions.

1.4 Headings

Headings shall be ignored in construing this Trust Deed.

1.5 Schedules

The Schedules are part of this Trust Deed and shall have effect accordingly.

2 Amount of the Original Bonds and Covenant to pay

2.1 Amount of the Original Bonds

The aggregate principal amount of the Original Bonds is limited to U.S.\$125,000,000. The Original Bonds are constituted by this Trust Deed.

2.2 Covenant to pay

The Issuer will, on any date when any Original Bonds become due to be redeemed unconditionally pay to or to the order of the Trustee in U.S. dollars in same day funds the principal amount of the Original Bonds becoming due for redemption on that date and will (subject to the Conditions) until such payment (both before and after judgment) unconditionally so pay to or to the order of the Trustee interest on the principal amount of the Original Bonds outstanding as set out in the Conditions provided that:

- (a) subject to Clause 2.4, payment of any sum due in respect of the Original Bonds made to the Principal Paying, Transfer, Conversion and Exchange Agent as provided in the Paying, Transfer, Conversion and Exchange Agency Agreement shall, to that extent, satisfy such obligation except to the extent that there is failure in its subsequent payment to the relevant Original Bondholders under the Conditions; and
- (b) a payment made after the due date or pursuant to Condition 12 will be deemed to have been made when the full amount due has been received by the Trustee or the Principal Paying, Transfer, Conversion and Exchange Agent or, if earlier, the seventh day after notice to that effect has been given to the Original Bondholders (if required under Clause 10.9) except, in the case of payment to the Principal Paying, Transfer, Conversion and Exchange Agent, to the extent that there is a failure in the subsequent payment to the relevant holders under the Conditions.

The Trustee will hold the benefit of this covenant and its proceeds on trust for the Original Bondholders.

2.3 Discharge

Subject to Clause 2.4, any payment to be made in respect of the Bonds by the Issuer, the Guarantor or the Trustee may be made as provided in the Conditions and any payment so made will (subject to Clause 2.4) to such extent be a good discharge to the Issuer, the Guarantor or the Trustee, as the case may be.

2.4 Payment after a Default

At any time after an Event of Default or a Potential Event of Default has occurred the Trustee may:

- (a) by notice in writing to the Issuer, the Guarantor and the Agents, require the Agents (or any of them), until notified by the Trustee to the contrary, so far as permitted by any applicable law:
 - (i) to act as Agents of the Trustee under this Trust Deed and the Bonds on the terms of the Paying, Transfer, Conversion and Exchange Agency Agreement (with consequential amendments as necessary and except that the Trustee's liability for the indemnification, remuneration and all other out-of-pocket expenses of the Agents will be limited to the amounts for the time being held by the Trustee in respect of the Bonds on the terms of this Trust Deed) and thereafter to hold all Bonds and all moneys, documents and records held by them in respect of Bonds to the order of the Trustee; or
 - (ii) to deliver all Bonds and all moneys, documents and records held by them in respect of the Bonds to the Trustee or as the Trustee directs in such notice; and
- (b) by notice in writing to the Issuer and/or the Guarantor require each, or the relevant one, of them to make all subsequent payments in respect of the Bonds to, or to the order of, the Trustee and not to the Principal Paying, Transfer, Conversion and Exchange Agent. With effect from the issue of any such notice to the Issuer and/or the Guarantor and from then until such time as the notice is withdrawn, proviso (a) to Clause 2.2 shall not apply.

3 Guarantee and Indemnity

3.1 Guarantee

The Guarantor unconditionally and irrevocably guarantees that (i) if the Issuer does not pay any sum payable by it under this Trust Deed or the Bonds by the time and on the date specified for such payment (whether on the normal due date, on acceleration or otherwise), or (ii) if the Issuer fails to carry out the due and punctual performance of all of the Issuer's other obligations in respect of the Bonds, the Guarantor will (a) pay the relevant sum to, or to the order of, the Trustee in the manner provided in Clause 2 (or, if in respect of sums due under Clause 11, in immediately available funds) before close of business on that date in the city to which payment is so to be made or (b) carry out such due and punctual performance of the relevant Issuer's obligation, as the case may be. Clause 2 will apply (with consequential amendments as necessary) to such payments other than those in respect of sums due under Clause 11. All payments under the Guarantee by the Guarantor will be subject to Clause 5.1 and Condition 11.

3.2 Guarantor as Principal Debtor

As between the Guarantor and the Trustee and the Bondholders but without affecting the Issuer's obligations, the Guarantor will be liable under this Clause as if it were the sole principal debtor and not merely a surety. Accordingly, it will not be discharged, nor will its

liability be affected, by anything which would not discharge it or affect its liability if it were the sole principal debtor (including:

- (a) any time, indulgence, waiver or consent at any time given to the Issuer or any other person;
- (b) any amendment to any other provisions of this Trust Deed or to the Conditions or to any security or other guarantee or indemnity;
- (c) the making or absence of any demand on the Issuer or any other person for payment;
- (d) the enforcement or absence of enforcement of this Trust Deed or the Bonds or of any security or other guarantee or indemnity;
- (e) the taking, existence or release of any security, guarantee or indemnity;
- (f) the dissolution, amalgamation, reconstruction or reorganisation of the Issuer or any other person; or
- (g) the illegality, invalidity or unenforceability of or any defect in any provision of this Trust Deed or the Bonds or any of the Issuer's obligations under any of them).

3.3 Guarantor's Obligations Continuing

The Guarantor's obligations under this Trust Deed are, and will remain, in full force and effect by way of continuing security until no sum remains payable under this Trust Deed or the Bonds. Furthermore, those obligations of the Guarantor are additional to, and not instead of, any security or other guarantee or indemnity at any time existing in favour of any person, whether from the Guarantor or otherwise and may be enforced without first having recourse to the Issuer, any other person, any security or any other guarantee or indemnity. The Guarantor irrevocably waives all notices and demands of any kind.

3.4 Exercise of Guarantor's Rights

So long as any sum remains payable under this Trust Deed or the Bonds:

- (a) any right of the Guarantor, by reason of the performance of any of its obligations under this Clause, to be indemnified by the Issuer or to take the benefit of or to enforce any security or other guarantee or indemnity will be exercised and enforced by the Guarantor only in such manner and on such terms as the Trustee may require or approve; and
- (b) any amount received or recovered by the Guarantor:
 - (i) as a result of any exercise of any such right; or
 - (ii) in the dissolution, amalgamation, reconstruction or reorganisation of the Issuer will be held on trust for the Trustee to the extent that the Trustee is entitled to such amounts and immediately paid to the Trustee and the Trustee (if due) will hold it on the trusts set out in Clause 7.1.

3.5 Suspense Accounts

Any amount received or recovered by the Trustee (otherwise than as a result of a payment by the Issuer to the Trustee in accordance with Clause 2) in respect of any sum payable by the Issuer under this Trust Deed or the Bonds may be placed in a suspense account and kept there for so long as the Trustee thinks fit.

3.6 Avoidance of Payments

The Guarantor shall on demand indemnify the Trustee and each Bondholder against any cost, loss, expense or liability sustained or incurred by it as a result of it being required for any reason (including any bankruptcy, insolvency, winding-up, dissolution, or similar law of any jurisdiction) to refund all or part of any amount received or recovered by it in respect of any sum payable by the Issuer under this Trust Deed or any Bond and shall in any event pay to it on demand the amount as refunded by it.

3.7 Debts of Issuer

If any moneys become due and payable by the Guarantor under this Guarantee, the Issuer will not (except in the event of the liquidation or bankruptcy (as that term is interpreted pursuant to Article 8 of the Interpretation (Jersey) Law 1954) of the Issuer) so long as any such moneys remain unpaid, pay any moneys for the time being due from the Issuer to the Guarantor.

3.8 Indemnity

As separate, independent and alternative stipulations, the Guarantor unconditionally and irrevocably agrees:

- (a) that any sum which, although expressed to be payable by the Issuer under this Trust Deed or the Bonds, is for any reason (whether or not now existing and whether or not now known or becoming known to the Issuer, the Guarantor, the Trustee or any Bondholder) not recoverable from the Guarantor on the basis of a guarantee will nevertheless be recoverable from it as if it were the sole principal debtor and will be paid by it to the Trustee on demand; and
- (b) as a primary obligation to indemnify the Trustee and each Bondholder against any loss suffered by it as a result of any sum expressed to be payable by the Issuer under this Trust Deed or the Bonds not being paid on the date and otherwise in the manner specified in this Trust Deed or any payment obligation of the Issuer under this Trust Deed or the Bonds being or becoming void, voidable or unenforceable for any reason (whether or not now existing and whether or not now known or becoming known to the Issuer, Guarantor, Trustee or any Bondholder), the amount of that loss being the amount expressed to be payable by the Issuer in respect of the relevant sum.

This indemnity shall survive the termination of this Trust Deed.

3.9 Preference Shares

The Guarantor's obligations in respect of the Preference Shares are set out in the Deed Poll.

4 Form of the Original Bonds

4.1 The Original Global Bond

The Original Bonds will be represented by the Original Global Bond initially in the principal amount of U.S.\$125,000,000 and the Issuer, failing whom the Guarantor, shall procure that appropriate entries be made in the register of Bondholders by the Registrar to reflect the issue of such Original Bonds. The Original Global Bond will be delivered to and registered in the name of a common depositary for Euroclear and Clearstream, Luxembourg or its

nominee. The Original Global Bond will be exchangeable for Original Definitive Registered Bonds as set out in the Original Global Bond.

4.2 The Original Definitive Registered Bonds

The Original Definitive Registered Bonds may be printed or typed and need not be security printed unless otherwise required by applicable stock exchange requirements. The Original Definitive Registered Bonds and Original Global Bond will be in or substantially in the respective forms set out in Schedules 2 and 3. The Original Definitive Registered Bonds will be endorsed with the Conditions.

4.3 Signature

The Original Global Bond and any Original Definitive Registered Bond (if issued) will be signed manually or in facsimile by a Director of the Issuer and will be authenticated by or on behalf of the Registrar. The Issuer may use the manual or facsimile signature of any person who is at the date of this Trust Deed a Director of the Issuer even if at the time of issue of any Original Bonds he no longer holds such office. The Original Bonds (including the Original Global Bond) so executed and authenticated will be valid and binding obligations of the Issuer.

5 Stamp Duties and Taxes

5.1 Stamp Duties

The Issuer (failing whom the Guarantor) will pay any:

- (a) stamp, issue, registration, documentary or other taxes and duties, including interest and penalties, payable in Belgium, Luxembourg, the United Kingdom or Jersey on or in connection with the creation, issue and offering of the Bonds and the execution or delivery of this Trust Deed; and
- (b) taxes and capital, stamp, issue and registration duties, stamp duty reserve tax or similar taxes or duties payable in Jersey, Belgium, Luxembourg or the United Kingdom in respect of the allotment and issue of any Preference Shares on conversion or on transfer of the Preference Shares to the Guarantor on exchange of the Preference Shares or in respect of the allotment, issue and delivery of any Ordinary Shares issued on exchange of the Preference Shares, including any stamp duty or stamp duty reserve tax payable under Sections 67, 70, 93 or 96 of the Finance Act 1986 (including any Additional Ordinary Shares).

The Issuer (failing whom the Guarantor) will also indemnify the Trustee and the Bondholders from and against all stamp, issue, registration, documentary or other taxes paid by any of them in any jurisdiction in relation to which the liability to pay arises directly as a result of any action taken by or on behalf of the Trustee or, as the case may be, the Bondholders to enforce the obligations of the Issuer or the Guarantor under this Trust Deed, the Deed Poll or the Bonds.

5.2 Change of Taxing Jurisdiction

If the Issuer or the Guarantor becomes subject generally to the taxing jurisdiction of any territory or any authority of or in that territory having power to tax other than, or in addition to, Jersey, in the case of the Issuer, and the United Kingdom, in the case of the Guarantor, or any such authority of or in such territory then the Issuer or, as the case may be, the Guarantor will (unless the Trustee otherwise agrees) give to the Trustee an undertaking

satisfactory to the Trustee in terms corresponding to the terms of Condition 11 with the substitution for, or (as the case may require) the addition to, the references in that Condition to Jersey or the United Kingdom of references to that other territory or authority or additional territory or authority to whose taxing jurisdiction the Issuer, or as the case may be, the Guarantor has become so subject and in such event this Trust Deed, the Bonds will be read accordingly.

6 Further Issues

6.1 Liberty to Create

The Issuer may, from time to time without the consent of the Bondholders, create and issue further bonds, notes or debentures either having the same terms and conditions in all respects (or in all respects except for the amount and due date for the first payment of interest thereon and the first date on which conversion rights may be exercised) as:

- (a) the Original Bonds; or
- (b) any previously issued Further Bonds so that the same shall be consolidated and form a single series with the Original Bonds or any Further Bonds, or (in any case) upon such terms as to interest, conversion, premium, redemption and otherwise as the Issuer may at the time of issue thereof determine.

6.2 Means of Constitution

Any Further Bonds created and issued pursuant to the provisions of Clause 6.1 so as to form a single series with the Original Bonds or the Further Bonds of any series shall be constituted by a deed supplemental to this Trust Deed and any other Further Bonds of any series created and issued pursuant to the provisions of Clause 6.1 may, with the consent of the Trustee, be so constituted. The Issuer and the Guarantor shall, prior to the issue of any Further Bonds to be so constituted, execute and deliver to the Trustee a deed supplemental to this Trust Deed and containing a guarantee and indemnity in the form *mutatis mutandis* of Clause 3 of this Trust Deed (if applicable duly stamped or denoted) and containing a covenant by the Issuer in the form *mutatis mutandis* of Clause 2 of this Trust Deed in relation to such Further Bonds and such other provisions (corresponding to any of the provisions contained in this Trust Deed) as the Trustee shall require.

6.3 Notice of Further Issues

Whenever it is proposed to create and issue any Further Bonds, the Issuer shall give to the Trustee not less than seven days' notice in writing of its intention to do so, stating the number of Further Bonds proposed to be created or issued.

6.4 Separate Series

Any Further Bonds not forming a single series with the Original Bonds or previously issued Further Bonds of any series shall form a separate series and accordingly, unless for any purpose the Trustee in its absolute discretion shall otherwise determine, the provisions of Clauses 3, 5, 6.2, 7.3 and Clauses 8 to 19 (inclusive) and Schedule 4 shall apply *mutatis mutandis* separately and independently to the Bonds of each such series and in such Clauses and Schedule the expressions Bonds and Bondholders shall be construed accordingly.

7 Application of Moneys received by the Trustee

7.1 Declaration of Trust

All moneys received by the Trustee in respect of the Original Bonds and any Further Bonds forming a single series with the Original Bonds or amounts payable under this Trust Deed will, regardless of any appropriation of all or part of them by the Issuer or the Guarantor, be held by the Trustee upon trust to apply them (subject to Clause 3.5 and Clause 7.2):

- (a) first, in payment of all costs, fees, charges, expenses and liabilities incurred by the Trustee and any Appointee (and any VAT payable thereon);
- (b) secondly, to the Agents (including remuneration payable to each of them in carrying out their functions under this Trust Deed);
- (c) thirdly, in payment of any amounts owing in respect of the Original Bonds and any Further Bonds forming a single series with the Original Bonds *pari passu* and rateably; and
- (d) fourthly, in payment of the balance (if any) to the Issuer for itself or, if moneys were received from the Guarantor and to the extent of such monies, to the Guarantor.

If the Trustee holds any moneys in respect of Original Bonds (and any Further Bonds forming a single series with the Original Bonds) which have become void or in respect of which claims have become prescribed under the Conditions, they will be held by the Trustee upon trust.

7.2 Accumulation

If the amount of the moneys at any time available for payment in respect of the Bonds under Clause 7.1 is less than 10 per cent. of the principal amount of the Bonds then outstanding, the Trustee may, at its discretion, invest such moneys. The Trustee may retain such investments and accumulate the resulting income until the investments and the accumulations, together with any other funds for the time being under the control of the Trustee and available for such payment, amount to at least 10 per cent. of the principal amount of the Bonds then outstanding whereupon such investments, accumulations and funds (after deduction of, or provision for, any applicable taxes) will be applied as specified in Clause 7.1.

7.3 Investment

Moneys held by the Trustee may be invested in the name, or under the control, of the Trustee in any investments or other assets anywhere, for the time being authorised by English law for the investment by trustees of trust monies whether or not they produce income, or placed on deposit in the name or under the control of the Trustee at such bank or other financial institution and in such currency as the Trustee may, in its absolute discretion, think fit.

If that bank or institution is the Trustee or a subsidiary, holding company or associated company of the Trustee, it need only account for an amount of interest equal to the standard amount of interest payable by it on such a deposit to an independent customer. The Trustee may at any time vary or transpose any such investments or assets for or into other such investments or assets or convert any moneys so deposited into any other currency, and will not be responsible for any loss occasioned thereby, whether by depreciation in value, fluctuation in exchange rates or otherwise.

8 Covenant to Comply

Each of the Issuer and the Guarantor hereby covenants with the Trustee that it will comply with, perform and observe all the provisions of this Trust Deed, the Conditions and the Paying, Transfer, Conversion and Exchange Agency Agreement which are expressed to be binding on it. The Conditions shall be binding on each of the Issuer, the Guarantor and the Bondholders. The Trustee shall be entitled to enforce the obligations of the Issuer and the Guarantor under the Bonds and the Conditions as if the same were set out and contained in this Trust Deed, which shall be read and construed as one document with the Bonds. The provisions contained in Schedule 4 shall have effect in the same manner as if set forth herein. The Trustee shall hold the benefit of this covenant upon trust for itself and the Bondholders according to its and their respective interests.

9 Covenants relating to Conversion

9.1 Covenants of the Issuer

The Issuer hereby undertakes to and covenants with the Trustee that so long as any Conversion Right remains exercisable, it will (and the Guarantor hereby undertakes and guarantees to and covenants with the Trustee to procure that the Issuer will so long as any Conversion Right remains exercisable), save with the approval of an Extraordinary Resolution, observe and perform all its obligations under the Conditions and this Trust Deed with respect to Conversion Rights and in addition it will:

(a) Notice of Exchange Price

As soon as practicable after the announcement of the terms of any event giving rise to an adjustment of the Exchange Price pursuant to the Conditions, give notice to the Bondholders in accordance with Condition 19 advising them of the date on which the relevant adjustment of the Exchange Price is likely to become effective and of the effect of exercising their Conversion Rights pending such date;

(b) Notice of the end of the Conversion Period

Six weeks prior to the final expiry of the Conversion Period (assuming no early redemption of the Bonds) give notice in writing to the Bondholders reminding Bondholders of the Conversion Right then arising or current and stating the then current Exchange Price; and

(c) Directors' Certificate

Upon the happening of an event as a result of which the Exchange Price will be adjusted pursuant to the Conditions, as soon as reasonably practicable deliver to the Trustee a certificate signed by two Directors of the Issuer on behalf of the Issuer (which the Trustee shall be entitled to accept without further enquiry as sufficient evidence of the correctness of the matters referred to therein) setting forth brief particulars of the event, and the adjusted Exchange Price and the date on which such adjustment takes effect and in any case setting forth such other particulars and information as the Trustee may require.

9.2 Covenants of the Guarantor

The Guarantor hereby undertakes and guarantees to and covenants with the Trustee that:

(a) Conversion Rights

In the event of the Issuer failing to comply with its obligations when due in respect of Conversion Rights, the Articles of the Issuer and the Conditions, it will procure that the Issuer complies with such obligations and/or enforces such rights; and

(b) **Deed Poll**

So long as any Bond remains outstanding, it will, save with the approval of an Extraordinary Resolution or with the prior written approval (such approval not to be unreasonably withheld or delayed) of the Trustee where, in the Trustee's opinion, it is not materially prejudicial to the interests of the Bondholders to give such approval, or, in the case of an amendment to the Deed Poll, unless such modification is agreed by the Trustee as provided in Clause 16, perform all its obligations under, and not make any amendment to, the Deed Poll.

10 Covenants

So long as any Bond is outstanding, each of the Issuer and the Guarantor will, and the Guarantor shall procure that the Issuer will:

10.1 Information

So far as permitted by applicable law, give to the Trustee such information and evidence as it shall reasonably require for the purpose of discharging the duties and discretions vested in it under this Trust Deed or by operation of law and performing its functions;

10.2 Books of Account

Keep, and procure that each Principal Subsidiary keeps, proper books of account and, at any time after the occurrence of an Event of Default or a Potential Event of Default, or if the Trustee has reasonable grounds to believe that any such event has occurred, so far as permitted by applicable law, allow, and procure that each Principal Subsidiary will allow, the Trustee and anyone appointed by it to whom the Guarantor and/or the relevant Principal Subsidiary has no reasonable objection, access to the books of account at all reasonable times during normal business hours;

10.3 Financial Statements, etc.

Send to the Trustee at the time of their issue, and in the case of annual financial statements in any event (in relation to the Guarantor) within 180 days of the end of each financial year and (in relation to the Issuer) within such period as the same are required to be provided to shareholders under Jersey law (or, in the case of a Substituted Obligor, its jurisdiction of incorporation) (or if no such period applies, within 180 days of the end of each financial year or such other period as the Trustee may agree), three copies of every balance sheet (consolidated in the case of the Guarantor) and profit and loss account, and promptly upon issue of the same, any such request, any report or other notice, statement or circular issued, or that legally or contractually should be issued, to the members (and if the Trustee so requests and within 14 days of any such request, creditors holding listed securities (or any class of them)) of the Issuer or the Guarantor in their capacity as such;

10.4 Notice of Events of Default and Relevant Event

Immediately notify the Trustee in writing upon becoming aware of the occurrence of any Event of Default or Potential Event of Default or Relevant Event;

10.5 Certificate of Directors

So far as is permitted by law, send to the Trustee, within 14 days (or such longer period as the Trustee may determine) after its annual audited financial statements being made available to its members and in any event no later than the time of delivery to the Trustee of the annual financial statements referred to in Clause 10.3, and also within 14 days (or such longer period as the Trustee may determine) after any request by the Trustee a certificate of each of the Issuer and the Guarantor in the form or substantially in the form set out in Schedule 5 signed respectively by any two of their Directors to the effect that, having made all reasonable enquiries, to the best of the knowledge, information and belief of such Directors as at a date (the “**Certification Date**”) being not more than five days before the date of the certificate, no Event of Default or Potential Event of Default or other breach of this Trust Deed or Relevant Event had occurred since the date of this Trust Deed or the Certification Date of the last certificate (if any) or, if such an event had occurred, giving details of it;

10.6 Further Acts

So far as is permitted by the law all times execute all such further documents and do all such further acts and things as may be necessary at any time or times in the opinion of the Trustee to give effect to this Trust Deed;

10.7 Agents

At all times maintain Agents in accordance with the Conditions;

10.8 Late Payment

Use reasonable endeavours to procure the Principal Paying, Transfer, Conversion and Exchange Agent to notify the Trustee forthwith in the event that it does not on or before the due date for any payment in respect of the Bonds or any of them receive unconditionally pursuant to the Paying, Transfer, Conversion and Exchange Agency Agreement payment or provision for the full amount required for such payment;

10.9 Notice of Late Payment

In the event of the unconditional payment to the Principal Paying, Transfer, Conversion and Exchange Agent of any sum due in respect of the Bonds or any of them being made after the due date for payment thereof forthwith give or procure to be given notice to the Bondholders in accordance with Condition 19 that such payment has been made;

10.10 Listing and Trading

Use its reasonable endeavours to obtain by not later than 3 October 2019 a listing of the Bonds on a recognised stock exchange (within the meaning of Section 1005 of the Income Tax Act 2007) or their admission to trading on a “multilateral trading facility” operated by an EEA-regulated recognised stock exchange (within the meaning of Sections 987 and 1005 of the Income Tax Act 2007) and thereafter maintain such listing or admission to trading, provided that if the Issuer or the Guarantor determines in good faith that it can no longer comply with its requirements for such listing, having used such endeavours, or if the maintenance of such listing or admission to trading is unduly onerous, the Issuer and the Guarantor will instead use its reasonable endeavours to obtain and maintain a listing on such other recognised stock exchange (as such term is defined in Section 1005 of the Income Tax Act 2007) or admission to trading on such other “multilateral trading facility” operated by an EEA-regulated recognised stock exchange (within the meaning of Sections

987 and 1005 of the Income Tax Act 2007) as the Issuer may decide, provided that the creation or issue of any class of share capital ranking junior to or pari passu with the Preference Shares as respects rights to dividends and to payment of the paid-up value thereof on a return of capital or otherwise shall be deemed not to be a variation, abrogation or modification of the rights appertaining to the Preference Shares;

10.11 Change in Agents

Give not less than 14 days' prior notice to the Trustee and the Bondholders in accordance with Condition 19 of the proposed resignation or removal of any Agent or of any change in such Agent's specified office and give notice to the Bondholders in accordance with Condition 19 of any proposed appointment of any Agent prior thereto or within 30 days thereafter, provided always that so long as any of the Bonds remains outstanding in the case of the termination of the appointment of the Principal Paying, Transfer Conversion and Exchange Agent, no such notice shall take effect until a new Agent has been appointed on terms approved in writing by the Trustee;

10.12 Principal Subsidiaries

Give to the Trustee the following:

- (a) at the same time as sending the certificate referred to in Clause 10.5 and, in any event, not later than 180 days after the end of the relevant financial year a certificate signed by two directors of the Guarantor as to which subsidiary undertakings of the Guarantor were as at the last day of the last financial year Principal Subsidiaries;
- (b) within 14 days of a request by the Trustee a certificate signed by two directors of the Guarantor as to which subsidiaries of the Guarantor were as at the date specified in such request Principal Subsidiaries; and
- (c) give to the Trustee, as soon as reasonably practicable, after the acquisition or disposal of any company which thereby becomes or ceases to be a Principal Subsidiary, a certificate to such effect signed by two directors of the Guarantor,

and any certificate delivered to the Trustee under (a), (b) and (c) above shall, in the absence of manifest error, be conclusive and binding on the Issuer, the Guarantor, the Trustee and the Bondholders;

10.13 Notice to Bondholders

Send or procure that the Principal Paying, Transfer, Conversion and Exchange Agent will send to the Trustee, at least three London business days before the date of publication, a copy of the form of each notice to be given to Bondholders and, once given, one copy of each such notice, such notice to be in a form approved by the Trustee (such approval, unless so expressed, not to constitute approval for the purposes of section 21 of the FSMA of any such notice which is a communication within the meaning of section 21 of the FSMA);

10.14 Bonds held by the Issuer etc.

Send to the Trustee, as soon as practicable after being so requested by the Trustee, a certificate of the Issuer signed by two of its directors stating the number of Bonds held at the date of such certificate by or on behalf of the Issuer, the Guarantor or any Subsidiary of the Issuer or the Guarantor;

10.15 Paying, Transfer, Conversion and Exchange Agency Agreement

- (a) Comply with and perform all its obligations under the Paying, Transfer, Conversion and Exchange Agency Agreement; and
- (b) Use reasonable endeavours to procure that the Principal Paying and Conversion Agent and the Agents observe and comply with all their respective obligations under the Paying, Transfer, Conversion and Exchange Agency Agreement;

10.16 Validity of Guarantee

Not do, or permit to be done, any act which would invalidate in whole or in part the liability of the Guarantor under this Trust Deed and the Deed Poll;

10.17 Early Redemption

Give prior notice to the Trustee and the Bondholders of any proposed redemption pursuant to Condition 9(b) or 9(c) in accordance therewith;

10.18 Authorised but Unissued Capital

In the case of the Guarantor, at all times (following the receipt of all necessary approvals at a meeting of shareholders) keep available for issue free from pre-emptive rights (where necessary) out of its authorised but unissued capital sufficient authorised but unissued Ordinary Shares to enable the obligation of the Issuer to procure that Preference Shares be exchanged for Ordinary Shares pursuant to the exercise of a Conversion Right, and all rights of exchange for Ordinary Shares, to be satisfied in full at the current exchange prices, disregarding for this purpose the Guarantor's option to make a Cash Alternative Election;

10.19 Deed Poll

In the case of the Guarantor, comply with the provisions of the Deed Poll as if there were, for the purposes of enforcement by the Trustee of its rights under the Trust Deed and the Bonds, Preference Shares in issue;

10.20 Register

Deliver or procure the delivery to the Trustee of an up-to-date copy of the register in respect of the Bonds, certified as being a true, accurate and complete copy, on the date hereof and at such other times as the Trustee may reasonably require;

10.21 Auditors

Instruct and use reasonable endeavours to procure that the Auditors furnish the Trustee with such certificates, reports or information as the Trustee may reasonably require in connection with any calculation, determination or matter arising under the Trust Deed;

10.22 Articles of Association

Comply with all the provisions of the Articles of the Issuer, and the Guarantor will comply with all the provisions of the Deed Poll, in each case which are expressed to provide for the approval or consent of the Trustee, to permit the Trustee to require certain matters or to confer entitlement on the Trustee; and

10.23 FATCA information

Provide the Trustee with sufficient information so as to enable it to determine whether or not it is obliged, in respect of any payments to be made by it pursuant to this Trust Deed, to

make any withholding or deduction pursuant to an agreement described in Section 1471(b) of the US Internal Revenue Code of 1986 (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations or agreement thereunder of official interpretations thereof) or any intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any law implementing such an intergovernmental agreement).

11 Remuneration and Indemnification of the Trustee

11.1 Normal Remuneration

So long as any Bond is outstanding the Issuer, failing whom the Guarantor, will pay the Trustee as remuneration for its services as Trustee such sum on such dates in each case as they may from time to time agree. The initial remuneration payable to the Trustee is set out in the Trustee Fee Letter. Such remuneration will accrue from day to day from the date of this Trust Deed. However, if any payment to a Bondholder of moneys due in respect of any Bond is improperly withheld or refused upon due surrender (if so required) of such Bond (other than by the Trustee), such remuneration will again accrue as from the date of such withholding or refusal until payment to such Bondholder is duly made.

11.2 Extra Remuneration

If an Event of Default or Potential Event of Default shall have occurred, the Issuer hereby agrees that the Trustee shall be entitled to be paid additional remuneration calculated at its normal hourly rates in force from time to time. In any other case, if the Trustee finds it expedient or necessary or is requested by the Issuer to undertake duties which they both agree to be of an exceptional nature or otherwise outside the scope of the Trustee’s normal duties under this Trust Deed, the Issuer will pay such additional remuneration as they may agree (and which may be calculated by reference to the Trustee’s normal hourly rates in force from time to time). For the avoidance of doubt, any duties in connection with investments, the granting of consents or waivers, the implementation of modifications, the substitution of the Issuer or enforcement, prior to or during the period post-enforcement shall be deemed to be of an exceptional nature. In the event of the Trustee and the Issuer failing to agree upon whether such duties are of an exceptional nature or otherwise outside the scope of the normal duties of the Trustee under this Trust Deed, or failing to agree upon the remuneration payable under Clause 11.1 above or upon such additional remuneration, such matters shall be determined by a financial institution (acting as an expert and not as an arbitrator) selected by the Issuer or the Guarantor and approved by the Trustee or, failing such approval, nominated at the request of the Trustee by the President for the time being of The Law Society of England and Wales (the expenses involved in such nomination and the fees of such financial institution being borne by the Issuer) and the decision of any such financial institution on any such matter shall be final and binding on the Issuer, the Guarantor, the Trustee and the Bondholders.

11.3 Expenses

The Issuer, failing whom the Guarantor, will also on demand by the Trustee pay or discharge all costs, fees, charges, liabilities and expenses properly incurred by the Trustee in the preparation and execution of this Trust Deed and the performance of its functions under this Trust Deed including, but not limited to, legal and travelling expenses and any stamp, documentary or other taxes or duties paid by the Trustee in connection with any legal proceedings reasonably brought or contemplated by the Trustee against the Issuer or the

Guarantor to enforce any provision of this Trust Deed or the Bonds. Such costs, charges, liabilities and expenses will:

- (a) in the case of payments made by the Trustee before such demand carry interest from the date of the demand at the rate of 2 per cent. per annum over the base rate of Barclays Bank PLC on the date on which the Trustee made such payments; and
- (b) in other cases carry interest at such rate from 30 days after the date of the demand or (where the demand specifies that payment is to be made on an earlier date) from such earlier date.

11.4 Indemnity

The Issuer, failing whom the Guarantor, will on demand by the Trustee indemnify it in respect of Amounts or Claims (as defined below) paid or incurred by it in acting as trustee under this Trust Deed, including:

- (a) any Agent/Delegate Liabilities (as defined below);
- (b) amounts in respect of value added tax properly incurred by it; and
- (c) in respect of disputing or defending any Amounts or Claims made against the Trustee or any Agent/Delegate Liabilities (the **"Liabilities"**).

The Issuer will on demand by such agent or delegate indemnify it against such Agent/Delegate Liabilities. The Trustee may in priority to any payment to the Bondholders retain and pay out of any moneys in its hands upon the trusts of this Trust Deed the amount of any such Liabilities.

For the purposes of this Clause 11.4, **"Amounts or Claims"** are losses, damages, costs, charges, awards, claims, demands, expenses, judgments, actions, proceedings or other liabilities whatsoever including properly incurred legal fees and any taxes and penalties incurred, together with any VAT charged or chargeable in respect of any of such sums and **"Agent/Delegate Liabilities"** are Amounts or Claims which the Trustee is or would be obliged to pay or reimburse to any of its agents or delegates appointed pursuant to this Trust Deed. The Contracts (Rights of Third Parties) Act 1999 applies to this Clause 11.4.

11.5 Continuing Effect

Unless otherwise specifically stated in any discharge of this Trust Deed the provisions of this Clause shall continue in full force and effect as regards the Trustee even if it is no longer the Trustee.

12 Provisions Supplemental to The Trustee Act 1925 and the Trustee Act 2000

12.1 Advice

The Trustee may act on the opinion or advice of, or information obtained from, any expert and will not be responsible to anyone for any loss occasioned by so acting whether such advice is obtained or addressed to the Issuer, the Guarantor, the Trustee or any other person. Any such opinion, advice or information may be sent or obtained by letter, email or facsimile transmission and the Trustee will not be liable to anyone for acting in good faith on any opinion, advice or information purporting to be conveyed by such means even if it contains some error or is not authentic.

12.2 Trustee to Assume Due Performance

The Trustee need not notify anyone of the execution of this Trust Deed or do anything to ascertain whether any Event of Default or Potential Event of Default or Relevant Event has occurred and, until it has actual knowledge or express notice to the contrary, the Trustee may assume that no such event has occurred and that the Issuer and the Guarantor are performing all their obligations under this Trust Deed, the Deed Poll, the Articles of the Issuer and the Bonds. If an Event of Default has occurred the Trustee shall be entitled to assume that such Event of Default is continuing unless it has actual knowledge or express notice to the contrary.

12.3 Resolutions of Bondholders

The Trustee will not be responsible for having acted in good faith upon a resolution purporting to have been passed at a meeting of Bondholders in respect of which minutes have been made and signed or any direction or request, including a written resolution or an electronic consent made in accordance with paragraph 19 of Schedule 4, even though it may later be found that there was a defect in the constitution of such meeting or the passing of such resolution or that such resolution was not valid or binding upon the Bondholders.

12.4 Certificate Signed by Directors

The Trustee may call for and may accept as sufficient evidence of any fact or matter or of the expediency of any act a certificate of the Issuer or the Guarantor signed by any two Directors of the Issuer or the Guarantor on behalf of the issuer or, as the case may be, the Guarantor as to any fact or matter upon which the Trustee may, in the exercise of any of its functions, require to be satisfied or to have information to the effect that, in the opinion of the person or persons so certifying, any particular act is expedient and the Trustee need not call for further evidence and will not be responsible for any loss that may be occasioned by acting on any such certificate.

12.5 Reports

The Trustee is entitled to accept and rely on any such report, confirmation or certificate where the Issuer or the Guarantor procures delivery of the same pursuant to its obligation to do so under the Conditions or a provision hereof and such report, confirmation or certificate shall, if so relied upon, be binding on the Issuer, the Guarantor, the Trustee and the Bondholders in the absence of manifest error.

12.6 Deposit of Documents

The Trustee may appoint as custodian, on any terms, any bank or entity whose business includes the safe custody of documents or any lawyer or firm of lawyers believed by it to be of good repute and may deposit this Trust Deed and any other documents with such custodian and pay all sums due in respect thereof. The Trustee is not obliged to appoint a custodian of securities payable to bearer.

12.7 Discretion of Trustee

The Trustee will have absolute and uncontrolled discretion as to the exercise of its functions and will not be responsible for any loss, liability, cost, claim, action, demand, expense or inconvenience which may result from their exercise or non-exercise.

12.8 Consent or Approval

Any consent or approval given by the Trustee for the purposes of this Trust Deed may be given on such terms and subject to such conditions (if any) as the Trustee may require.

12.9 Agents

Whenever it considers it expedient in the interests of the Bondholders, the Trustee may, in the conduct of its trust business, instead of acting personally, employ and pay an agent selected by it, whether or not a lawyer or other professional person, to transact or conduct, or concur in transacting or conducting, any business and to do or concur in doing all acts required to be done by the Trustee (including the receipt and payment of money).

12.10 Delegation

Whenever it considers it expedient in the Interests of the Bondholders, the Trustee may delegate to any person and on any terms (including power to sub-delegate) all or any of its functions.

12.11 Forged Bonds

The Trustee will not be liable to the Issuer, the Guarantor or any Bondholder by reason of having accepted as valid or not having rejected any Bond or entry on the Register purporting to be such and later found to be forged or not authentic.

12.12 Confidentiality

Unless ordered to do so by a court of competent jurisdiction, the Trustee shall not be required to disclose to any Bondholder any confidential financial, price-sensitive or other information made available to the Trustee by the Issuer or the Guarantor.

12.13 Determinations Conclusive

As between itself and the Bondholders, the Trustee may determine all questions and doubts arising in relation to any of the provisions of this Trust Deed. Every such determination, whether made upon such a question actually raised or implied in the acts or proceedings of the Trustee, will be conclusive in the absence of manifest error and shall bind the Trustee and the Bondholders.

12.14 Currency Conversion

Where it is necessary or desirable to convert any sum from one currency to another, it will (unless otherwise provided hereby or required by law) be converted at such rate or rates, in accordance with such method and as at such date as may reasonably be specified by the Trustee but having regard to current rates of exchange, if available. Any rate, method and date so specified will be binding on the Issuer, the Guarantor and the Bondholders.

12.15 Events of Default

The Trustee may determine whether or not an Event of Default or Potential Event of Default is in its opinion capable of remedy and/or whether or not any event is in its opinion materially prejudicial to the interests of the Bondholders. Any such determination will be conclusive and binding upon the Issuer, the Guarantor and the Bondholders.

12.16 Payment for and Delivery of Bonds

The Trustee will not be responsible for the receipt or application by the Issuer of the proceeds of the issue of the Bonds or the exchange of the Original Global Bond for Original Definitive

Registered Bonds or the delivery of the Original Global Bond or any Original Definitive Registered Bond to the person(s) entitled to it or them.

12.17 Bonds held by the Issuer, etc.

In the absence of actual knowledge or express notice to the contrary, the Trustee may assume without enquiry (other than requesting a certificate of the Issuer and the Guarantor under Clause 10.14) that no Bonds are for the time being held by or on behalf of the Issuer, the Guarantor or their respective Subsidiaries.

12.18 Interests of Bondholders

In connection with the exercise of its powers, trusts, authorities or discretions (including, but not limited to, those in relation to any proposed modification, waiver or authorisation of any breach or proposed breach of any of the Conditions or any of the provisions of this Trust Deed or any proposed substitution in accordance with Clause 16.2 or any determination to be made by it under this Trust Deed, the Trustee shall have regard to the general interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders nor to circumstances particular to individual Bondholders (whatever their number) and, in particular, but without prejudice to the generality of the foregoing, shall not have regard to the consequences of any such exercise for individual Bondholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or otherwise to the tax consequences thereof and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim from the Issuer, the Guarantor or the Trustee, any indemnification or payment of any tax arising in consequence of any such exercise upon individual Bondholders except to the extent provided for in Condition 11 and/or in any undertakings given in addition thereto or in substitution therefor pursuant to this Trust Deed. For the avoidance of doubt, the Trustee shall not at any time have regard to the interests of the holders of the Preference Shares or the holders of Ordinary Shares.

12.19 No Responsibility for Share Value

The Trustee shall not at any time be under any duty or responsibility to any Bondholder or to any other person to:

- (a) monitor or take any steps to ascertain whether any facts exist or may exist, which may require an adjustment to the Exchange Price; or
- (b) review either the nature or extent of any such adjustment when made or the method employed in making any such adjustment pursuant to the provisions of this Trust Deed, the Conditions or the Deed Poll; or
- (c) make or verify any calculations or determination made as to the number of Ordinary Shares, the Cash Alternative Amount or any other cash amounts to which a holder is entitled upon exercise of a Conversion Right or the methodology used therefor.

The Trustee shall not at any time be under any duty or responsibility in respect of the validity or value (or the kind or amount) of any Preference Shares, Ordinary Shares or other shares or any other Securities, property or cash, which may at any time be made available or delivered in the exercise of any Conversion Right and it makes no representation with respect thereto. The Trustee shall not be responsible for any failure of the Issuer to deliver Preference Shares, Ordinary Shares or other shares, any Cash Alternative Amount or any other amounts to become payable upon exercise of a Conversion Right or the Guarantor to

make available or deliver any Preference Shares, Ordinary Shares or other shares or share certificates or other securities in respect of any Bond or of the Issuer or the Guarantor to comply with any of the covenants contained in this Trust Deed or the Deed Poll.

12.20 Nominees

In relation to any asset held by it under this Trust Deed, the Trustee may appoint any person to act as its nominee on any terms.

12.21 Responsibility for agents, etc.

If the Trustee exercises reasonable care in selecting any custodian, agent, delegate or nominee which it believes to be of good repute appointed under this clause (an “**Appointee**”). It will not have any obligation to supervise the Appointee or to be responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of the Appointee’s misconduct or default or the misconduct or default of any substitute appointed by the Appointee.

12.22 Clearing Systems

The Trustee may call for any certificate or other document to be issued by Euroclear or Clearstream, Luxembourg as to the principal amount of Bonds represented by a Global Bond standing to the account of any person. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear’s EUCLID or Clearstream, Luxembourg’s Cedcom system) in accordance with its usual procedures and in which the holder of a particular principal amount of Bonds is clearly identified together with the amount of such holding. The Trustee shall not be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by Euroclear or Clearstream, Luxembourg and subsequently found to be forged or not authentic.

12.23 Responsibility for Statements etc.

The Trustee shall not be responsible for, or for investigating any matter which is the subject of, any recital, statement, representation, warranty or covenant of any person contained in this Trust Deed, or any other agreement or document relating to the transactions contemplated in this Trust Deed or under such other agreement or document.

12.24 Legal Opinions

The Trustee shall not be responsible to any person for failing to request, require or receive any legal opinion relating to the Bonds or for checking or commenting upon the content of any such legal opinion and shall not be responsible for any loss, damage, cost, charge, claim, demand, expense, judgment, action, proceeding or other liability whatsoever incurred thereby.

12.25 Expenses

The Trustee shall not be bound to take any action in connection with these presents or any obligations arising pursuant thereto, including, without prejudice to the generality of the foregoing, forming any opinion or employing any financial adviser, where it is not reasonably satisfied that the Issuer or the Guarantor will be able to indemnify it against any loss,

damage, cost, charge, claim, demand, expense, judgment, action, proceeding or other liability whatsoever which may be incurred in connection with such action.

12.26 Illegality

No provision of these presents shall require the Trustee to do anything which in its sole discretion it believes may:

- (a) be illegal or contrary to applicable law or regulation; or
- (b) cause it to expend or risk its own funds or otherwise incur any liability in the performance of any of its duties or in the exercise thereof any loss, damage, cost, charge, claim, demand, expense, judgment, action, proceeding or other liability whatsoever of its rights, powers or discretions.

12.27 Rating Agencies

The Trustee shall have no responsibility whatsoever to the Issuer, the Guarantor, any Bondholder or any other person for the obtaining or maintenance of or failure to maintain any rating of any of the Bonds by any rating agency.

12.28 Investigation

The Trustee shall not be responsible for, or for investigating any matter which is the subject of, any recital, statement, representation, warranty or covenant of any person contained in these presents, or any other agreement or document relating to the transactions contemplated in these presents or under such other agreement or document.

12.29 Indemnity

Notwithstanding anything else contained in this Trust Deed, the Trustee shall not be bound to take any action or step or exercise any right, power, authority or discretion vested in it under this Trust Deed or any other agreement relating to the transactions herein contemplated including, but not limited to, forming an opinion or employing a financial adviser until it has been Indemnified and/or secured and/or prefunded to its satisfaction (whether by payment in advance or otherwise) against any and all actions, charges, claims, costs, fees, damages, demands, expenses, liabilities, losses and proceedings (including properly incurred legal and other professional fees) which might properly be brought, made or conferred against or suffered, incurred or sustained by it as a result.

12.30 Refrain from action

The Trustee may refrain from taking any action in any jurisdiction if the taking of such action in that jurisdiction would, in its opinion based upon legal advice in the relevant jurisdiction, be contrary to any law of that jurisdiction or, to the extent applicable, of England. Furthermore, the Trustee may also refrain from taking such action if it would otherwise render it liable to any person in that jurisdiction or England or if, in its opinion based upon such legal advice, it would not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or in England or if it is determined by any court or other competent authority in that jurisdiction or in England that it does not have such power.

12.31 Experts and Auditors

Any confirmation, certificate or report of the Auditors or any accountants, financial advisers, financial institution or other experts called for by or provided to the Trustee (whether or not addressed to the Trustee) in accordance with or for the purposes of this Trust Deed may be

relied upon by the Trustee as sufficient evidence of the facts stated therein notwithstanding that such certificate or report and/or any engagement letter or other document entered into by the Trustee in connection therewith contains a monetary or other limit on the liability of such expert or such other person in respect thereof and notwithstanding that the scope and/or basis of such certificate or report may be limited by any engagement or similar letter or by the terms of the certificate or report itself.

12.32 Breach of Undertakings

The Trustee assumes no responsibility for ascertaining whether or not:

- (a) a breach of any of the undertakings in Condition 13 shall have occurred; or
- (b) any such breach shall have been rectified and shall have no liability to any person for not so doing.

Unless and until the Trustee has actual knowledge of any of the above events it shall be entitled to assume that no such event has occurred. The Trustee shall not be liable for any loss arising from any determination or calculation made pursuant to the Conditions or from any failure or delay in making any such determination or calculation.

12.33 Independent Adviser

If the Issuer or the Guarantor fails to select an Independent Adviser when required to do pursuant to the Conditions and such failure continues for a reasonable period (as determined by the Trustee), the Trustee may, following consultation with the Issuer and the Guarantor, do so but shall not be obliged to do so unless it is indemnified and/or secured and/or prefunded to its satisfaction against all costs, fees and expenses incurred in doing so, including those of the Independent Adviser itself. The Trustee has no responsibility for the accuracy or otherwise of any determination made by an Independent Adviser pursuant to the Conditions.

12.34 Deductions on account of Tax Liabilities

Notwithstanding anything contained in this Trust Deed, to the extent required by any applicable law, if the Trustee is required to make any deduction or withholding from any distribution or payment made by it under this Trust Deed or if the Trustee is otherwise charged to, or may become liable to, costs and/or tax as a consequence of performing its duties under this Trust Deed whether as principal, agent or otherwise, and whether by reason of any assessment, prospective assessment or other imposition of liability to taxation and/or costs of whatsoever nature and whenever made upon the Trustee, and whether in connection with or arising from any sums received or distributed by it or to which it may be entitled under this Trust Deed other than any tax generally payable by the Trustee on its income, then the Trustee shall be entitled to make such deduction or withholding or (as the case may be) to retain out of sums received by it in respect of this Trust Deed an amount sufficient to discharge any liability or prospective liability to tax.

12.35 Professional Fees

Any trustee being a banker, lawyer, broker or other person engaged in any profession or business shall be entitled to charge and be paid all usual professional and other charges for business transacted and acts done by him or his partner or firm on matters arising in connection with the trusts of this Trust Deed and also his charges in addition to disbursements for all other work and business done and all time spent by him or his partner or firm on matters arising in connection with this Trust Deed, including matters which might

or should have been attended to in person by a Trustee not being a banker, lawyer, broker or other professional person.

12.36 Execution and Enforceability

The Trustee shall not be responsible for the execution, delivery, legality, effectiveness, adequacy, genuineness, validity, performance, enforceability or admissibility in evidence of this Trust Deed or any other document relating or expressed to be supplemental thereto and shall not be liable for any failure to obtain any licence, consent or other authority for the execution, delivery, legality, effectiveness, adequacy, genuineness, validity, performance, enforceability or admissibility in evidence of this Trust Deed or any other document relating or expressed to be supplemental thereto.

12.37 Interests of Holders through Clearing Systems

In considering the interests of Bondholders while the Global Bond is held on behalf of, or registered in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Bond and may consider such interests as if such accountholders were the holders of the Bonds represented by the Global Bond.

13 Trustee Liable for Negligence

Section 1 of the Trustee Act 2000 shall not apply to any function of the Trustee, provided that if the Trustee fails to show the degree of care and diligence required of it as trustee, nothing in this Trust Deed shall relieve or indemnify it from or against any liability which would otherwise attach to it in respect of any fraud, gross negligence or wilful default of which it may be guilty.

14 Enforcement, Waiver and Proof of Default

14.1 Waiver

The Trustee may agree, without the consent of the Bondholders, to the waiver or authorisation of any breach or proposed breach of any of the provisions of this Trust Deed, any trust deed supplemental to this Trust Deed, the Paying, Transfer, Conversion and Exchange Agency Agreement and any agreement supplemental to the Paying, Transfer, Conversion and Exchange Agency Agreement, the Bonds, the Articles of the Issuer (which would vary, abrogate or modify the rights appertaining to the Preference Shares) or the Deed Poll or determine without any such consent as aforesaid that any Event of Default or Potential Event of Default shall not be treated as such, where, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders so to do or may agree, and without any such consent as aforesaid, to any modification which is, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law. Any such authorisation or waiver shall be binding on the Bondholders and, if the Trustee so requires, such authorisation or waiver shall be notified to the Bondholders promptly in accordance with Condition 19.

14.2 Proof of Default

If it is proved that as regards any specified Bond the Issuer or the Guarantor has defaulted in paying any sum due to the relevant Bondholder, such proof will (unless the contrary be

proved) be sufficient evidence that the same default has occurred as regards all other Bonds which are then payable.

14.3 Legal Proceedings

At any time, the Trustee may, at its discretion and without further notice, take such steps, actions or proceedings (including lodging an appeal in any proceedings) against the Issuer or the Guarantor as it may think fit to enforce the provisions of the Bonds, this Trust Deed or the Conditions, but it will not be bound to take any such steps, actions or proceeding unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by the holders of at least one quarter in principal amount of the Bonds then outstanding, and (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction. Notwithstanding the above:

- (a) the Trustee may refrain from taking any proceedings, actions or steps in any jurisdiction if the taking of such action in that jurisdiction would, in its opinion based upon legal advice in the relevant jurisdiction, be contrary to any law of that jurisdiction; and
- (b) the Trustee may refrain from taking any proceedings, actions or steps in any jurisdiction if in its opinion based upon legal advice in the relevant jurisdiction it would or may render it liable to any person in that jurisdiction or, it would or may not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or if it is determined by any court or other competent authority in that jurisdiction that it does not have such power.

No Bondholder shall be entitled to (i) take any proceedings, actions or steps against the Issuer or the Guarantor to enforce the performance of any of the provisions of this Trust Deed or the Bonds or (ii) take any other proceedings, actions and/or steps (including lodging an appeal in any proceedings) in respect of or concerning the Issuer or the Guarantor, in each case unless the Trustee, having become bound so to take any such proceedings, actions or fails so to do within a reasonable period and the failure shall be continuing.

15 Trustee not precluded from entering into Contracts

The Trustee and any other person, whether or not acting for itself may acquire, hold or dispose of, any Bond or any Ordinary Shares or other Securities (or any interest therein) of the Issuer or the Guarantor or any other person with the same rights as it would have had if the Trustee were not Trustee and may enter into or be interested in any contracts or transactions with the Issuer, the Guarantor or any such person and may act as depositary, trustee or agent or in any other capacity for, or on any committee or body of holders of, any Securities issued or guaranteed by, or related to the Issuer or the Guarantor or any such person and will not be liable to account for any profit.

16 Modification and Substitution

16.1 Modification

The Trustee may agree without the consent of the Bondholders to any modification to the provisions of this Trust Deed, any trust deed which supplements the Trust Deed, the Paying, Transfer, Conversion and Exchange Agency Agreement and any agreement which supplements the Paying, Transfer, Conversion and Exchange Agency Agreement, the Bonds, the Deed Poll or the Articles of the Issuer (in the case of the Articles of the Issuer,

which would vary, abrogate or modify the rights appertaining to the Preference Shares) which in its opinion is:

- (a) of a formal, minor or technical nature or which is made to correct a manifest error or to comply with a mandatory provision of law; or
- (b) not materially prejudicial to the interests of the Bondholders, but such power contained in this Clause 16.1 does not extend to any modification as mentioned in the proviso to paragraph 17(h) of Schedule 4. Any such modification shall be binding on the Bondholders and, if the Trustee so requires, such modification shall be notified promptly to the Bondholders in accordance with Condition 19.

16.2 Substitution

- (a) The Trustee may, without the consent of the Bondholders, agree to the substitution of any other Subsidiary of the Guarantor (the “**Substituted Obligor**”) in place of the Issuer (or of any previous substituted company) as principal debtor under this Trust Deed and the Bonds, subject to the Bonds continuing to be convertible, *mutatis mutandis* as provided in the Conditions, into preference shares in the capital of the Substituted Obligor with like rights, *mutatis mutandis*, to the Preference Shares and to such preference shares being immediately exchangeable for Ordinary Shares *mutatis mutandis* as provided in the Conditions and the Articles of the Issuer and the obligations of the Guarantor under the Deed Poll applying *mutatis mutandis* to such preference shares.
- (b) In the event of a Newco Scheme, the Guarantor shall take (or procure that there is taken) all necessary action to ensure that (to the satisfaction of the Trustee) immediately upon completion of the scheme of arrangement, at the Guarantor’s option, either:
 - (i) Newco is substituted under this Trust Deed, the Bonds and the Deed Poll as principal debtor in place of the Issuer and the Guarantor (with the Issuer and the Guarantor providing a joint and several guarantee) subject to and as provided below; or
 - (ii) Newco is added as a guarantor under this Trust Deed, the Bonds and the Deed Poll (jointly and severally with the Guarantor) and, in either case, ensuring that such other adjustments are made to this Trust Deed, the Bonds and the Deed Poll to ensure that the Bonds may be converted into or exchanged (whether by the exchange for preference shares or otherwise) for ordinary shares of Newco *mutatis mutandis* in accordance with and subject to this Trust Deed and the Bonds in a manner as the Trustee shall, in its opinion, think fit and the Trustee may, without the consent of the Bondholders agree to such substitution of Newco.
- (c) In the case of substitution made pursuant to this Clause, the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Deed and/or the Deed Poll, provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders.
- (d) Any substitution made pursuant to this Clause shall be binding on the Bondholders and must be notified promptly to the Bondholders in accordance with Condition 19.

16.3 Release of Substituted Issuer

Any such agreement by the Trustee pursuant to Clause 16.2 will, if so expressed, operate to release the Issuer (or any such previous substitute) from any or all of its obligations under this Trust Deed and the Bonds. Not later than 14 days after the execution of any such documents and after compliance with such requirements, notice of the substitution will be given to the Bondholders by the Substituted Obligor.

16.4 Completion of Substitution

Upon the execution of such documents and compliance with such requirements, the Substituted Obligor will be deemed to be named in this Trust Deed and on the Bonds as the principal debtor in place of the Issuer and/or, as the case may be, the Guarantor (or of any previous substitute under Clause 16.2) and this Trust Deed and the Bonds will be deemed to be modified in such manner as shall be necessary to give effect to the substitution.

17 Appointment, Retirement and Removal of the Trustee

17.1 Appointment

Subject as provided in Clause 17.2 below, the Issuer has the power of appointing a new trustee or trustees but no person will be so appointed unless previously approved by an Extraordinary Resolution. A trust corporation will at all times be a Trustee and may be the sole Trustee. Any appointment of a new Trustee will be notified by the Issuer, failing whom the Guarantor, to the Bondholders and the Principal Paying, Transfer, Conversion and Exchange Agent as soon as practicable.

17.2 Retirement and Removal

Any Trustee may retire at any time on giving not less than two months' notice in writing to the Issuer and the Guarantor without giving any reason and without being responsible for any costs occasioned by such retirement and the Bondholders may by Extraordinary Resolution remove any Trustee provided that the retirement or removal of any sole trustee or sole trust corporation will not become effective until a trust corporation is appointed as successor Trustee. If a sole trustee or sole trust corporation gives notice of retirement or an Extraordinary Resolution is passed for its removal under this Clause, the Issuer and/or the Guarantor will use all reasonable endeavours to procure that another trust corporation be appointed as Trustee but if it fails to do so before the expiry of such two month notice period, the Trustee shall have the power to appoint a new Trustee.

17.3 Co-Trustees

The Trustee may by notice in writing to the Issuer and the Guarantor appoint anyone to act as an additional Trustee jointly with the Trustee:

- (a) if the Trustee considers such appointment to be in the interests of the Bondholders; or
- (b) for the purpose of conforming with any legal requirement, restriction or condition in any jurisdiction in which any particular act is to be performed; or
- (c) for the purpose of obtaining a judgment in any jurisdiction or the enforcement in any jurisdiction against the Issuer or the Guarantor of either a judgment already obtained or any of the provisions of this Trust Deed.

Subject to the provisions of this Trust Deed, the Trustee may confer on any person so appointed such functions as it thinks fit. The Trustee may, by notice in writing to the Issuer and the Guarantor and such person, remove any person so appointed. At the request of the Trustee, the Issuer and the Guarantor will do all things as may be required to perfect such appointment or removal and it irrevocably appoints the Trustee to be its attorney in its name and on its behalf to do so.

17.4 Competence of a Majority of Trustees

If there are more than two Trustees, the majority of such Trustees will (provided such majority includes a trust corporation) be competent to carry out all or any of the Trustee's functions.

17.5 Merger

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Clause 17, without the execution or filing of any paper or any further act on the part of any of the parties hereto.

18 Communications

Any communication shall be by letter, electronic communication or facsimile transmission: in the case of the Issuer or the Guarantor, to the Guarantor at:

Address: Petropavlovsk PLC
11 Grosvenor Place
Belgravia
London SW1X7HH
United Kingdom

Tel No: +44 20 7201 8900

Fax No: +44 20 7201 8901

Attention: Ms Alya Samokhvalova, Deputy CEO of Petropavlovsk PLC

and in the case of the Trustee, to it at:

Address: Apex Corporate Trustees (UK) Limited
6th Floor, 125 Wood Street
London EC2V 7AN
United Kingdom

Email: corporatetrusts@linkgroup.co.uk

Attention: Manager, Corporate Trusts

or to such other address, electronic communication address, facsimile number or attention details as shall have been notified (in accordance with this Clause) to the other parties hereto. Communications will take effect, in the case of a letter, when delivered, in the case of a fax, when the relevant delivery receipt is received by the sender or, in the case of electronic communication, when the relevant receipt of such communication being read is given, or where no read receipt is requested by the sender, at the time of sending, provided

that no delivery failure notification is received by the sender within 24 hours of sending such communication; provided that any communication which is received (or deemed to take effect in accordance with the foregoing) after 5:00pm on a business day or on a non-business day in the place of receipt shall be deemed to take effect at the opening of business on the next following business day in such place. Any communication delivered to any party under this Trust Deed which is to be sent by fax or electronic communication will be written legal evidence.

19 Governing Law and Jurisdiction

19.1 Governing Law

This Trust Deed and any non-contractual obligations arising out of or in connection with it shall be governed by and construed in accordance with English law.

19.2 Jurisdiction

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with this Trust Deed, the Bonds and accordingly any legal action or proceedings arising out of or in connection with this Trust Deed or the Bonds ("**Proceedings**") may be brought in such courts. Each of the Issuer and the Guarantor irrevocably submits to the jurisdiction of such courts and waives any objections to Proceedings in such courts on the grounds of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This Clause is for the benefit of each of the Trustee and the Bondholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

19.3 Service of Process

The Issuer irrevocably appoints the Guarantor at its registered office for the time being, currently at 11 Grosvenor Place, Belgravia, London SW1X 7HH, United Kingdom, as its authorised agent for service of process in England in relation to Proceedings. Nothing in this Trust Deed shall affect the right to serve process in any other manner permitted by law.

20 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to this Trust Deed has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Trust Deed except as provided in Clause 11.4.

21 Counterparts

This Trust Deed may be executed in any number of counterparts, each of which shall be deemed an original.

Schedule 1

Terms and Conditions

The issue of the U.S.\$125,000,000 8.25 per cent. guaranteed convertible bonds due 2024 (the “**Bonds**”) which term shall, unless otherwise indicated, include any Further Bonds was (save in respect of any such Further Bonds) authorised by a resolution of the board of directors of Petropavlovsk 2010 Limited (the “**Issuer**”) passed on 18 June 2019. The guarantee given by Petropavlovsk PLC (the “**Guarantor**”) to unconditionally and irrevocably guarantee the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Bonds and the due and punctual performance by the Issuer of all of the Issuer’s other obligations in respect of the Bonds (the “**Guarantee**”) was authorised by resolutions of the board of directors of the Guarantor (the “**Board**”) passed on 18 June 2019.

The Bonds are constituted by a trust deed dated 3 July 2019 (the “**Trust Deed**”) between the Issuer, the Guarantor and Apex Corporate Trustees (UK) Limited (the “**Trustee**”, which expression shall include all persons for the time being appointed as the trustee or trustees under the Trust Deed) as trustee for the Bondholders (as defined below). The statements set out in these terms and conditions (the “**Conditions**”) are summaries of, and are subject to, the detailed provisions of the Trust Deed.

The Bondholders are entitled to the benefit of, and are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and those provisions applicable to them which are contained in the Paying, Transfer, Conversion and Exchange Agency Agreement dated 3 July 2019 (the “**Agency Agreement**”) relating to the Bonds between the Issuer, the Guarantor, the Trustee, Citibank, N.A., London Branch in its capacity as principal paying, transfer, conversion and exchange agent (the “**Principal Paying, Transfer, Conversion and Exchange Agent**”, which shall include any successor as principal paying, transfer, conversion and exchange agent under the Agency Agreement), the paying, transfer, conversion and exchange agents for the time being (such persons, together with the Principal Paying, Transfer, Conversion and Exchange Agent, being referred to below as the “**Paying, Transfer, Conversion and Exchange Agents**”, which expression shall include their successors as paying, transfer, conversion and exchange agents under, in any case, the Agency Agreement), any other paying, transfer, conversion and exchange agent appointed under these Conditions, and Citigroup Global Markets Europe AG in its capacity as registrar in respect of the Bonds (the “**Registrar**”, which expression shall include any successor registrar under the Agency Agreement), the articles of association of the Issuer (the “**Articles of the Issuer**”) and the deed poll executed and delivered by the Guarantor on 3 July 2019 (the “**Deed Poll**”).

The Issuer and the Guarantor have also entered into a calculation agency agreement (the “**Calculation Agency Agreement**”) dated 3 July 2019 with Conv-Ex Advisors Limited (the “**Calculation Agent**”, which expression shall include any successor as calculation agent under the Calculation Agency Agreement) whereby the Calculation Agent has been appointed to make certain calculations in relation to the Bonds. The Bondholders are deemed to have notice of those provisions applicable to them which are contained in the Calculation Agency Agreement.

Copies of each of the Trust Deed, the Agency Agreement, the Calculation Agency Agreement, the Articles of the Issuer and the Deed Poll are available for inspection during normal business hours at the specified offices of the Paying, Transfer, Conversion and Exchange Agents and the Registrar.

Capitalised terms used but not defined in these Conditions shall have the meanings ascribed to them in the Trust Deed or, as the case may be, the Articles of the Issuer, unless, in any case, the context otherwise requires or unless otherwise stated.

1 Form, Denomination and Title

(a) Form and Denomination

The Bonds are in registered form in principal amounts of U.S.\$200,000 each.

(b) Title

Title to the Bonds will pass by registration and transfer (as described in Conditions 5 and 6, respectively). The Issuer, the Guarantor, the Trustee, the Registrar and any Paying, Transfer, Conversion and Exchange Agent will (except as otherwise required by law or as ordered by a court of competent jurisdiction) deem and treat the holder of any Bond as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof or that of the related certificate as appropriate or anything written on it or on the certificate representing it (other than a duly executed transfer thereof)) for all purposes and no person will be liable for so treating the holder.

2 Status and Guarantee

(a) Status

The Bonds constitute senior, unsubordinated, direct, unconditional and (subject to Condition 3(a)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 3, at all times rank at least equally with all its other present and future unsecured, unconditional and unsubordinated obligations.

(b) Guarantee

The due and punctual payment of all sums from time to time payable by the Issuer in respect of the Bonds and the due and punctual performance by the Issuer of all of the Issuer's other obligations in respect of the Bonds have been unconditionally and irrevocably guaranteed by the Guarantor in the Trust Deed. The obligations of the Guarantor under the Guarantee constitute senior, unsubordinated, direct, unconditional, and (subject to Condition 3(a)) unsecured obligations of the Guarantor and shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 3, at all times rank at least equally with all its other present and future unsecured, unconditional and unsubordinated obligations.

3 Negative Pledge and Covenants

So long as any Bond remains outstanding (as defined in the Trust Deed):

(a) Negative Pledge

(i) Issuer and Guarantor

Neither the Issuer nor the Guarantor will create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest (including any fixed or floating security or any security over receivables) ("**Security**"), other than Permitted Security, upon the whole or any part of its undertaking, assets (including shares in Subsidiaries) or revenues, present or future, to secure any Relevant Debt or Financial Indebtedness or any guarantee of or indemnity in respect of any Relevant Debt or Financial Indebtedness, in each case other than in relation to any Refinancing Indebtedness and Project Finance Indebtedness, unless, at the same time or prior thereto, the obligations of the Issuer or, as the case may be, the Guarantor under the Bonds and the Trust Deed, (x) are secured equally and rateably therewith or benefit from a guarantee or

indemnity in substantially identical terms thereto, as the case may be, in each case to the satisfaction of the Trustee; or (y) have the benefit of such other security, guarantee, indemnity or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Bondholders or as shall be approved by an Extraordinary Resolution.

(ii) Principal Subsidiaries

The Guarantor will not permit any of its Principal Subsidiaries to create or permit to subsist any Security, other than Permitted Security, upon the whole or any part of their respective undertaking, assets (including shares in Subsidiaries) or revenues, present or future, to secure any Relevant Debt or Financial Indebtedness, or any guarantee of or indemnity in respect of any Relevant Debt or Financial Indebtedness, in each case, other than in relation to any Refinancing Indebtedness and Project Finance Indebtedness, unless, at the same time or prior thereto, the obligations of the Issuer or, as the case may be, the Guarantor under the Bonds and the Trust Deed, (x) are secured equally and rateably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, in each case to the satisfaction of the Trustee; or (y) have the benefit of such other security, guarantee, indemnity or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Bondholders or as shall be approved by an Extraordinary Resolution of the Bondholders.

(b) Limitation on Financial Indebtedness

- (i)** Neither the Issuer nor the Guarantor will, and the Guarantor will not permit any Subsidiary to, after the Issue Date, incur directly or indirectly any Financial Indebtedness except if on the date of the incurrence (and after giving effect thereto) of such additional Financial Indebtedness the Consolidated Leverage Ratio does not exceed 3 to 1.
- (ii)** Condition 3(b)(i) will not apply to, or prohibit the incurrence of Permitted Indebtedness. In the event that an item of proposed Financial Indebtedness meets the criteria of more than one of the categories described in the definition of Permitted Indebtedness, or is entitled to be incurred pursuant to Condition 3(b)(i), the Guarantor will be permitted to classify all or a portion of such item of Financial Indebtedness on the date of its incurrence, or later reclassify all or a portion of such item of Financial Indebtedness, in any manner that complies with this Condition 3(b)(ii).

For the purposes of determining compliance with any U.S. dollar-denominated restriction on the incurrence of Financial Indebtedness, the U.S. dollar equivalent of the principal amount of Financial Indebtedness denominated in another currency will be calculated based on the most recently published financial statements of the Guarantor to the extent shown therein or otherwise, based on the relevant currency exchange rate in effect on the date such Financial Indebtedness was incurred. Notwithstanding any other provision in this Condition 3(b), the maximum amount of Financial Indebtedness that the Issuer, the Guarantor or any Subsidiary may incur pursuant to this Condition shall not be deemed to be exceeded solely as a result of fluctuations in exchange rates or currency values.

(c) Restricted Payments

Neither the Issuer nor the Guarantor will, and the Guarantor will not permit any Principal Subsidiary to pay any dividend (other than dividend payments to a member of the Group) unless after giving *pro forma* effect to any such dividend, the Consolidated Leverage Ratio does not exceed 2.0 to 1.

(d) Affiliate Transactions

Neither the Issuer nor the Guarantor will, and the Guarantor will not permit any Principal Subsidiary to, directly or indirectly, enter into or conduct any transactions or series of related transactions (including the purchase, sale, lease or exchange of any property or

the rendering of service) with, or for the benefit of, any Affiliate of the Issuer or the Guarantor or any Principal Subsidiary (each, an “**Affiliate Transaction**”), unless the Affiliate Transaction is on terms that are no less favourable than those that could reasonably be expected to be obtained at the time in an arm’s length transaction with a Person which is not an Affiliate.

The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of the prior paragraph:

- (i) transactions involving aggregate payment of consideration of less than U.S.\$5,000,000 (or its equivalent in other currencies) in any single transaction or series of related transactions;
- (ii) any employment agreement, collective bargaining agreement, consultant, employee benefit arrangements with any employee, consultant, officer or director of the Issuer, the Guarantor or any Principal Subsidiary, including under any share award, share option, share appreciation rights, share incentive or similar plans, entered into in the ordinary course of business;
- (iii) payment of reasonable and customary fees and reimbursements of expenses (pursuant to indemnity arrangements or otherwise) of officers, directors, employees or consultants of the Issuer, the Guarantor or of any Principal Subsidiary in the ordinary course of business;
- (iv) loans or advances to employees for travel and relocation in the ordinary course of business not to exceed U.S.\$5,000,000 (or its equivalent in other currencies) in aggregate at any one time outstanding;
- (v) transactions between or among the Issuer, the Guarantor and/or its Subsidiaries;
- (vi) any issuance of Equity Interests of the Guarantor to Affiliates of the Guarantor;
- (vii) any transaction between or among the Guarantor and/or its Subsidiaries and any joint venture (a) pursuant to the terms of the respective joint venture or shareholder agreement or (b) in the ordinary course of business;
- (viii) transactions with customers, clients, suppliers, or purchasers or sellers of goods or services or providers of employees or other labour, in each case in the ordinary course of business and otherwise in compliance with the terms of these Conditions, that are fair to the Guarantor or the Subsidiaries, in the determination of the members of the Board or the senior management thereof, or are on terms at least as favourable as might reasonably have been obtained at such time from an unaffiliated Person; and
- (ix) transactions pursuant to, or contemplated by any agreement in effect on the Issue Date and transactions pursuant to any amendment, modification or extension to such agreement, so long as such amendment, modification or extension, taken as a whole, is not materially more disadvantageous to the Bondholders than the original agreement as in effect on the Issue Date.

If an Affiliate Transaction involves an aggregate consideration in excess of U.S.\$10,000,000 (or its equivalent in other currencies), the Guarantor shall deliver a Director’s certificate to the Trustee certifying that such Affiliate Transaction complies with this Condition 3(d) and if an Affiliate Transaction involves an aggregate consideration in excess of U.S.\$20,000,000 (or its equivalent in other currencies), the Guarantor shall procure that an Independent Appraiser delivers an opinion to the Trustee opining that such consideration is at Covenant Fair Market Value.

(e) Asset Sales

Neither the Issuer nor the Guarantor will, and the Guarantor will not permit any Principal Subsidiary to, consummate an Asset Sale unless the Issuer, the Guarantor or the Principal Subsidiary (as the case may be) receives consideration at least equal to the Covenant Fair Market Value of the assets or Equity Interests.

For the purposes of this Condition 3(e), if the book value of the assets or Equity Interests subject to such sale exceeds the greater of (i) 5 per cent. of the Consolidated Total Assets of the Guarantor and (ii) U.S.\$100,000,000, the Covenant Fair Market Value shall be determined by an Independent Appraiser and approved by the Board (as evidenced by a resolution of the Board), provided that any such Asset Sale by way of a public offering of securities in a domestic or international market or by way of a competitive tender, shall, in each case, be deemed to take place at Covenant Fair Market Value without requiring a valuation by an Independent Appraiser.

(f) Information

The Guarantor will make public, by way of announcement on a Regulatory Information Service, as soon as reasonably practicable following it becoming aware of any actual or anticipated new emphasis of matter or qualification in relation to its audited annual financial statements or the Group's audited annual financial statements, provided that in the opinion of the Board, the public disclosure of such information would, if generally available, be likely to have a significant effect on the price of the Ordinary Shares or the Bonds.

This Condition 3(f) shall be without prejudice to any legal or regulatory requirements applicable to the Guarantor and/or its Subsidiaries.

The Issuer or the Guarantor shall, as soon as reasonably practicable but in any event no later than two London business days after any public announcement referred to above, invite Bondholders to a meeting by notice sent in accordance with Condition 19, to be held no earlier than 5 and no later than 10 London business days following such notice to invite the Bondholders to establish a committee of Bondholders (the "**Bondholders Committee**") to consult with the Guarantor in relation to the relevant actual or anticipated default and any remedy in respect thereof. The costs and expenses of such meeting and consultation (including any financial, legal and other advisers' fees), reasonably incurred by the Bondholders Committee in relation to such meeting and consultation, shall be borne by the Guarantor. The notice period for the convening of meetings of the Bondholders set out in Condition 16 shall not apply for the purposes of this Condition 3(f).

4 Definitions

In these Conditions:

"**Additional Cash Alternative Amount**" has the meaning provided in Condition 8(n).

"**Additional Ordinary Shares**" has the meaning provided in Condition 8(e).

"**Affiliate**" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person.

"**Applicable RA Reference Date**" means (i) in the case of a Retroactive Adjustment pursuant to Conditions 8(b)(i), 8(b)(ii), 8(b)(iii), 8(b)(iv), 8(b)(v) or 8(b)(ix), the relevant Ex-Date and (ii) in the case of any other Retroactive Adjustment, the RA Reference Date in respect of such Retroactive Adjustment.

"**Asset Sale**" means:

- (a) the direct or indirect sale, transfer, lease, conveyance or other disposition of any assets by the Issuer, the Guarantor or any Principal Subsidiary; and
- (b) the issuance of Equity Interests by any Principal Subsidiary or the sale by the Issuer, the Guarantor or any Principal Subsidiary of Equity Interests in any Principal Subsidiary, in each case, other than directors' and employees' qualifying shares.

Notwithstanding the preceding paragraphs (a) and (b), none of the following items will be deemed to be an Asset Sale:

- (i) all direct or indirect sales, transfers, leases, conveyances or other dispositions of a revenue nature in the ordinary course of business of the Guarantor or any Principal Subsidiary;
- (ii) any single transaction or series of related transactions that involves assets having a Covenant Fair Market Value of less than U.S.\$5,000,000 (or its equivalent in other currencies);
- (iii) a transfer of assets or Equity Interests between or among a Principal Subsidiary to the Guarantor or by the Guarantor or a Principal Subsidiary to a Subsidiary;
- (iv) an issuance of Equity Interests by a Principal Subsidiary to the Issuer, the Guarantor or to a Subsidiary;
- (v) any direct or indirect sale, transfer, lease, conveyance or other disposition of damaged, worn-out, uneconomical, surplus or obsolete assets in the ordinary course of business;
- (vi) licences and sublicences by the Issuer, the Guarantor or any Principal Subsidiary in the ordinary course of business;
- (vii) any surrender or waiver of contract rights or settlement, release, recovery on or surrender of contract, tort or other claims in the ordinary course of business;
- (viii) the granting of any Permitted Security pursuant to Condition 3(a);
- (ix) the direct or indirect sale, transfer or other disposition of cash or Cash Equivalents;
- (x) the direct or indirect sale, transfer, lease, conveyance or other disposition of receivables in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings;
- (xi) the foreclosure, condemnation or any similar action with respect to any property or other assets or a surrender or waiver of contract rights or the settlement, release or surrender of contract, tort or other claims of any kind;
- (xii) the direct or indirect sale, transfer, lease, conveyance or other disposition of accounts receivable, inventory or other assets carried out in the ordinary course of business of the Issuer, the Guarantor or any Principal Subsidiary;
- (xiii) swaps of assets for other similar assets or assets whose value is at least equal in terms of type, Covenant Fair Market Value and quality, to the assets being swapped; and
- (xiv) the direct or indirect sale, transfer, lease, conveyance or other disposition of assets made as a result of any compulsory purchase order or decree by any governmental or other regulatory body or authority.

“Average Life” means, as of the date of determination, with respect to any Indebtedness, the quotient obtained by dividing (a) the sum of the products of the numbers of years from the date of determination to the dates of each successive scheduled principal payment of, or redemption or similar payment with respect to, such Indebtedness multiplied by the amount of such payment by (b) the sum of all such payments.

“Bondholders” means holders of the Bonds.

“**business day**” means, in relation to any place, a day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets are open for business.

“**Capital Lease Obligation**” means an obligation that is required to be classified and accounted for as a capital lease for financial reporting purposes in accordance with IFRS, and the amount of Indebtedness represented by such obligation shall be the capitalised amount of such obligation determined in accordance with IFRS; and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

“**Capital Stock**” means:

- (a) in the case of a corporation, share capital;
- (b) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;
- (c) in the case of a partnership or limited liability company, partnership interests (whether general or limited) or membership interests; and
- (d) any other interest or participation that confers on a person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing person, but excluding from all of the foregoing any debt securities convertible into Capital Stock, whether or not such debt securities include any right of participation with Capital Stock.

“**Cash Alternative Amount**” means, in respect of any exercise of Conversion Rights in respect of which the Guarantor shall have made a Cash Alternative Election, an amount calculated by the Calculation Agent in accordance with the following formula and which shall be payable by the Guarantor to a Bondholder in respect of the relevant Cash Settled Shares specified in the relevant Cash Alternative Election Notice:

$$CAA = \sum_{n=1}^N \frac{1}{N} \times CSS \times P_n$$

where:

CAA = the Cash Alternative Amount;

CSS = the Cash Settled Shares;

P_n = the Volume Weighted Average Price of an Ordinary Share on the nth dealing day of the Cash Alternative Calculation Period, translated into U.S. dollars at the Prevailing Rate on such dealing day; and

N = 60, being the number of dealing days in the Cash Alternative Calculation Period,

provided that:

- (a) if any Dividend or other entitlement in respect of the Ordinary Shares is announced, whether on or prior to or after the relevant Conversion Date in circumstances where the record date or other due date for the establishment of entitlement in respect of such Dividend or other entitlement shall be on or after the relevant Conversion Date (and such Dividend or other entitlement is neither (x) the subject of an adjustment to the Exchange Price which is in effect on the relevant Conversion Date nor (y) the subject of an Additional Cash Alternative Amount) and if on any dealing day in the Cash Alternative Calculation Period the Volume Weighted Average Price determined as provided above is based on a price ex-such Dividend or ex-such other entitlement, then such Volume Weighted Average Price shall be increased by an amount equal to the Fair Market Value of any such Dividend or other entitlement per Ordinary Share as at the Ex-Date in respect of such Dividend or entitlement, determined on a gross basis and disregarding any withholding or deduction required to be made for or on account of tax, and disregarding any associated tax credit, all as determined by the Calculation Agent;

- (b) if any Additional Cash Alternative Amount is due in respect of any exercise of Conversion Rights in respect of which a Cash Alternative Amount is being determined, any Volume Weighted Average Price on any dealing day falling in the relevant Cash Alternative Calculation Period but before the Applicable RA Reference Date shall be multiplied by the adjustment factor (as determined pursuant to these Conditions) applied to the Exchange Price in respect of the relevant Retroactive Adjustment, all as determined by the Calculation Agent, provided that where such adjustment factor as aforesaid cannot be determined in accordance with these Conditions before the second dealing day before the date on which payment of the Cash Alternative Amount is to be made, the relevant Volume Weighted Average Price as aforesaid shall be adjusted in such manner as determined in good faith to be appropriate by an Independent Adviser no later than such second dealing day before such payment date as aforesaid; and
- (c) if any doubt shall arise as to the calculation of the Cash Alternative Amount or if such amount cannot be determined as provided above, the Cash Alternative Amount shall be equal to such amount as is determined in such other manner as an Independent Adviser shall consider in good faith to be appropriate to give the intended result.

“Cash Alternative Calculation Period” means the period of 60 consecutive dealing days commencing on the third dealing day following the Cash Alternative Election Date.

“Cash Alternative Election” has the meaning provided in Condition 8(n).

“Cash Alternative Election Date” has the meaning provided in Condition 8(n).

“Cash Alternative Election Notice” has the meaning provided in Condition 8(n).

“Cash Equivalents” means:

- (a) direct obligations (or certificates representing an interest in such obligations) issued by, or unconditionally guaranteed by, the government of a member state of the Pre-Expansion European Union, the United States of America, Switzerland or Canada (including, in each case, any agency or instrumentality thereof), as the case may be, the payment of which is backed by the full faith and credit of the relevant member state of the Pre-Expansion European Union or the United States of America, Switzerland or Canada, as the case may be, and which are not callable or redeemable at the issuer's option;
- (b) certificates of deposit, banker's acceptances, money market deposits and commercial paper (and similar instruments) with maturities of 12 months or less from the date of acquisition issued by a bank or trust company which is organised under, or authorised to operate as a bank or trust company under, the laws of a member state of the Pre-Expansion European Union or of the United States of America or any state thereof, Switzerland or Canada;
- (c) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in paragraphs (a) and (b) above entered into with any financial institution meeting the qualification specified in paragraph (b) above; and
- (d) holdings in money market funds at least 95 per cent of the assets of which constitute Cash Equivalents of the kinds described in paragraphs (a) through (c) of this definition.

“Cash Settled Shares” means, in respect of an exercise of Conversion Rights by a Bondholder, such number of Ordinary Shares (which shall be a whole number of Ordinary Shares and shall not exceed the number of Reference Shares in respect of such exercise) as determined by the Guarantor and notified to the relevant Bondholder in the relevant Cash Alternative Election Notice in accordance with Condition 8(n).

“Cash Settlement Ratio” means, in respect of an exercise of Conversion Rights the subject of a Cash Alternative Election, such number as is equal to (x) the Cash Settled Shares in respect of such exercise of Conversion Rights divided by (y) the Reference Shares in respect of such exercise of Conversion Rights.

“Change of Control Exchange Price” has the meaning provided in Condition 8(b)(x).

A “**Change of Control Event**” shall occur if (i) any person or persons, acting together, acquire(s) or becomes entitled to control more than 50 per cent. of the votes that may ordinarily be cast on a poll at a general meeting of the Guarantor or to appoint and/or remove all or a majority of the members of the board of directors of the Guarantor (whether obtained directly or indirectly and whether obtained by ownership of share capital, contract or otherwise) (other than in any such case as a result of an Exempt Newco Scheme) or (ii) an offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) such Shareholders other than the offeror and/or any associate (as defined in Section 988(1) of the Companies Act) of the offeror), to acquire all or a majority of the issued ordinary share capital of the Guarantor or if any person proposes a scheme of arrangement or analogous proceeding with regard to such acquisition (other than an Exempt Newco Scheme) and (such offer or scheme of arrangement or analogous proceeding having become or been declared unconditional in all respects or having become effective) the right to cast more than 50 per cent. of the votes that may ordinarily be cast on a poll at a general meeting of the Guarantor has or will become unconditionally vested in the offeror(s) or such person and/or any associate (as defined in Section 988(1) of the Companies Act) of the offeror(s) or such person, as the case may be.

“**Closing Price**” means, in respect of an Ordinary Share or any Security, Spin-Off Security, option, warrant or other right or asset on any dealing day, the closing price on the Relevant Stock Exchange on such dealing day of an Ordinary Share or, as the case may be, such Security, Spin-Off Security, option, warrant or other right or asset published by or derived from Bloomberg page HP (or any successor ticker page) (setting Last Price, or any other successor setting and using values not adjusted for any event occurring after such dealing day; and for the avoidance of doubt, all values will be determined with all adjustment settings on the DPDF Page, or any successor or similar setting, switched off) in respect of such Ordinary Share, Security, Spin-Off Security, option, warrant or other right or asset (all as determined by the Calculation Agent) (and for the avoidance of doubt such Bloomberg page for the Ordinary Shares as at the Issue Date is POG LN Equity HP), if available or, in any other case, such other source (if any) as shall be determined in good faith to be appropriate by an Independent Adviser on such dealing day, provided that:

- (a) if on any such dealing day (for the purpose of this definition, the “**Original Date**”) such price is not available or cannot otherwise be determined as provided above, the Closing Price of an Ordinary Share, Security, option, warrant, or other right or asset, as the case may be, in respect of such dealing day shall be the Closing Price, determined by the Calculation Agent as provided above, on the immediately preceding dealing day on which the same can be so determined, provided however that if such immediately preceding dealing day falls prior to the fifth day before the Original Date, the Closing Price in respect of such dealing day shall be considered to be not capable of being determined pursuant to this proviso (a); and
- (b) if the Closing Price cannot be determined as aforesaid, the Closing Price of an Ordinary Share, Security, option, warrant, or other right or asset, as the case may be, shall be determined as at the Original Date by an Independent Adviser in such manner as it shall determine in good faith to be appropriate.

“**Commodity Agreement**” means any hedging contract, swap agreement or other similar agreement with respect to commodity values.

“**Companies Act**” means the Companies Act 2006.

“**Consolidated Total Assets**” means at any date of determination, the book value of the total assets of the Group on a consolidated basis as determined in accordance with IFRS.

“**Consolidated Leverage Ratio**” means at any date of determination, with respect to the Guarantor, the ratio of (a) net debt as presented in the immediately preceding audited annual or unaudited semi-annual consolidated financial statements of the Guarantor on such day (as the case may be) to (b) the EBITDA.

“**Conversion Date**” has the meaning provided in Condition 8(i).

“**Conversion Notice**” has the meaning provided in Condition 8(i).

“Conversion Period” has the meaning provided in Condition 8(a).

“Conversion Period Commencement Date” has the meaning provided in Condition 8(a).

“Conversion Right” has the meaning provided in Condition 8(a).

“Core Business” means any business of the type in which the Guarantor or any Subsidiary of the Guarantor was engaged on the Issue Date and any business ancillary or complementary to such business.

“Covenant Fair Market Value” means, with respect to any asset or property, the price (after taking into account any liabilities relating to such asset or property) that would be paid by a willing buyer to an unaffiliated willing seller, neither of which is under any compulsion to complete the transaction.

“Currency Agreement” means any foreign exchange contract, currency swap agreement or other similar agreement with respect to currency values.

“Current Market Price” means, in respect of an Ordinary Share at a particular date, the arithmetic average of the daily Volume Weighted Average Price of an Ordinary Share on each of the five consecutive dealing days ending on the dealing day immediately preceding such date, as determined by the Calculation Agent, provided that:

- (a) for the purposes of determining the Current Market Price pursuant to Condition 8(b)(iv) or (vi) in circumstances where the relevant event relates to an issue of Ordinary Shares, if at any time during the said five dealing-day period (which may be on each of such five dealing days) the Volume Weighted Average Price shall have been based on a price ex-Dividend (or ex- any other entitlement) and/or during some other part of that period (which may be on each of such five dealing days) the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum- any other entitlement), in any such case which has been declared or announced, then:
 - (i) if the Ordinary Shares to be so issued do not rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Ordinary Shares shall have been based on a price cum-Dividend (or cum- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the Ex-Date in respect of such Dividend or entitlement (or, where on each of the said five dealing days the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum-any other entitlement), as at the date of first public announcement of such Dividend or entitlement), in any such case, determined by the Calculation Agent on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit; or
 - (ii) if the Ordinary Shares to be so issued or transferred and delivered (if applicable) do rank for the Dividend or entitlement in question, the Volume Weighted Average Price on the dates on which the Ordinary Shares shall have been based on a price ex-Dividend (or ex- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof increased by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the Ex-Date in respect of such Dividend or entitlement, in any such case, determined by the Calculation Agent on a gross basis and disregarding any withholding or deduction required to be made for or on account of tax, and disregarding any associated tax credit;
- (b) for the purpose of determining the Current Market Price of any Ordinary Shares which may be comprised in a Scrip Dividend, if on any of the said five dealing days the Volume Weighted Average Price of the Ordinary Shares shall have been based on a price cum all or part of such Scrip Dividend, the Volume Weighted Average Price of an Ordinary Share on such dealing day or dealing days shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the value (as determined in accordance with paragraph (a) of the definition of “Dividend”) of such Scrip Dividend or part thereof; and

- (c) for any other purpose, if any day during the said five-dealing-day period was the Ex-Date in relation to any Dividend (or any other entitlement) the Volume Weighted Average Prices that shall have been based on a price cum- such Dividend (or cum- such entitlement) shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the Ex-Date in respect of such Dividend or entitlement.

“**dealing day**” means a day on which the Relevant Stock Exchange is open for business and on which Ordinary Shares, Securities, Spin-Off Securities, options, warrants or other rights or assets (as the case may be) may be dealt in (other than a day on which the Relevant Stock Exchange is scheduled to or does close prior to its regular weekday closing time).

A “**De-Listing Event**” shall occur if, for whatever reason: (i) the Ordinary Shares cease to be admitted to trading on the London Stock Exchange, or (ii) trading of the Ordinary Shares on the London Stock Exchange is suspended, providing that trading of the Ordinary Shares shall not be considered to be suspended on any dealing day on which a general suspension of trading on the relevant stock exchange has occurred, for a period of 10 or more consecutive dealing days or, in circumstances where such suspension is requested by the Guarantor in connection with a corporate reorganisation, such trading is suspended for a period of 60 consecutive dealing days.

“**Dividend**” means any dividend or distribution to Shareholders (including a Spin-Off) whether of cash, assets or other property and however described and whether payable out of share premium account, profits, retained earnings or any other capital or revenue reserve or account, and including a distribution or payment to Shareholders upon or in connection with a reduction of capital (and for these purposes a distribution of assets includes without limitation an issue of Ordinary Shares or other Securities credited as fully or partly paid up by way of capitalisation of profits or reserves), provided that:

- (a) where a Scrip Dividend is announced, then the Scrip Dividend in question shall be treated as a cash Dividend of an amount equal to the sum of:
 - (i) in respect of the portion (if any) of the Scrip Dividend (which may be the whole of the Scrip Dividend) for which a Shareholder or Shareholders may take an election, the value of the option with the highest value, with the value of each option being equal to the value of the relevant property comprising such option as at the Scrip Dividend Valuation Date provided that, in the case of an option comprising more than one type of property, the value of such option shall be equal to the sum of the values of each individual type of property comprising such option, determined as provided below; and
 - (ii) in respect of the portion (if any) of the Scrip Dividend (which may be the whole of the Scrip Dividend) which is not subject to such election, the value of such portion as determined as provided below, and where the “**value**” of any property in or comprising of a Scrip Dividend shall be determined as follows:
 - (x) in the case of Ordinary Shares comprised in such Scrip Dividend, the Current Market Price of such Ordinary Shares as at the Scrip Dividend Valuation Date;
 - (y) in the case of cash comprising in such Scrip Dividend, the Fair Market Value of such cash as at the Scrip Dividend Valuation Date; and
 - (z) in the case of any other property or assets comprised in such Scrip Dividend, the Fair Market Value of such other property or assets as at the Scrip Dividend Valuation Date;
- (b) any issue of Ordinary Shares falling within Condition 8(b)(i) or 8(b)(ii) shall be disregarded;
- (c) a purchase or redemption or buy back of share capital of the Guarantor by or on behalf of the Guarantor or any of its Subsidiaries shall not constitute a Dividend unless, in the case of a purchase or redemption or buy back of Ordinary Shares by or on behalf of the Guarantor or any of its Subsidiaries, the weighted average price per Ordinary Share (before expenses) on any one day (a “**Specified Share Day**”) in respect

of such purchases or redemptions or buy backs (translated, if not in the Relevant Currency, into the Relevant Currency at the Prevailing Rate on such day) exceeds by more than 5 per cent. the Current Market Price of an Ordinary Share:

- (1) on the Specified Share Day; or
- (2) where an announcement (excluding, for the avoidance of doubt for these purposes, any general authority for such purchases, redemptions or buy backs approved by a general meeting of Shareholders or any notice convening such a meeting of Shareholders) has been made of the intention to purchase, redeem or buy back Ordinary Shares at some future date at a specified price or where a tender offer is made, on the date of such announcement or, as the case may be, on the date of first public announcement of such tender offer (and regardless of whether or not a price per Ordinary Share, a minimum price per Ordinary Share or a price range or a formula for the determination thereof is or is not announced at such time),

in which case such purchase, redemption or buy back shall be deemed to constitute a Dividend in the Relevant Currency in an amount equal to the amount by which the aggregate price paid (before expenses) in respect of such Ordinary Shares purchased, redeemed or bought back by or on behalf of the Guarantor or, as the case may be, any of its Subsidiaries (translated where appropriate into the Relevant Currency as provided above) exceeds the product of (i) 105 per cent. of such Current Market Price and (ii) the number of Ordinary Shares so purchased, redeemed or bought back;

- (d) if the Guarantor or any of its Subsidiaries (or any person on its or their behalf) shall purchase, redeem or buy back any depositary or other receipts or certificates representing Ordinary Shares, the provisions of paragraph (c) above shall be applied in respect thereof in such manner and with such modifications (if any) as shall be determined in good faith by an Independent Adviser;
- (e) where a dividend or distribution is paid or made to Shareholders pursuant to any plan implemented by the Guarantor for the purpose of enabling Shareholders to elect, or which may require Shareholders, to receive dividends or distributions in respect of the Ordinary Shares held by them from a person other than (or in addition to) the Guarantor, such dividend or distribution shall for the purposes of these Conditions be treated as a dividend or distribution made or paid to Shareholders by the Guarantor, and the foregoing provisions of this definition and the provisions of these Conditions shall be construed accordingly;
- (f) where a Dividend in cash is declared which provides for payment by the Guarantor in the Relevant Currency (or, in the case of a Scrip Dividend, an amount in cash is or may be paid in the Relevant Currency, whether at the option of Shareholders or otherwise), it shall be treated as a Dividend in cash (or, in the case of a Scrip Dividend, an amount in cash) in such Relevant Currency, and in any other case it shall be treated as a Dividend in cash (or, in the case of a Scrip Dividend an amount in cash) in the currency in which it is payable by the Guarantor; and
- (g) a dividend or distribution that is a Spin-Off shall be deemed to be a Dividend paid or made by the Guarantor,

and any such determination shall be made in good faith by the Calculation Agent or, where specifically provided, an Independent Adviser and, in either such case, on a gross basis and disregarding any withholding or deduction required to be made for or on account of tax, and disregarding any associated tax credit.

“**EBITDA**” means the EBITDA for the most recently ended two semi-annual periods as provided and calculated using the immediately preceding audited annual or unaudited semi-annual consolidated financial statements of the Guarantor.

“**Equity Interests**” means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

“**Event of Default**” has the meaning provided in the Trust Deed.

“Ex-Date” means, in relation to any Dividend (including without limitation any Spin-Off), capitalisation, redesignation, reclassification, sub-division, consolidation, issue, grant, offer or other entitlement, unless otherwise defined herein, the first dealing day on which the Ordinary Shares are traded ex- the relevant Dividend, capitalisation, redesignation, reclassification, sub-division, consolidation, issue, grant, offer or other entitlement on the Relevant Stock Exchange (or, for the purpose of Condition 8(b)(iii), in the case of a Dividend which is a purchase, redemption or buy back of Ordinary Shares (or, as the case may be, any depositary or other receipts or certificates representing Ordinary Shares) pursuant to paragraph (c) (or, as the case may be, paragraph (d)) of the definition of “Dividend”, the date on which such purchase, redemption or buy back is made).

“Exchange Price” has the meaning provided in Condition 8(a).

“Exempt Newco Scheme” means a Newco Scheme where, immediately after completion of the relevant Scheme of Arrangement, the ordinary shares or units or equivalent of Newco (or depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco) are (1) admitted to trading on the Relevant Stock Exchange or an EEA Regulated Market or (2) admitted to listing on such other regulated, regularly operating, recognised stock exchange as the Guarantor or Newco may determine.

“Extraordinary Resolution” has the meaning provided in the Trust Deed.

“Fair Market Value” means, on any date (the **“FMV Date”**):

- (a) in the case of a cash Dividend, the amount of such cash Dividend, as determined in good faith by the Calculation Agent;
- (b) in the case of any other cash amount, the amount of such cash, as determined in good faith by the Calculation Agent;
- (c) in the case of Securities (including Ordinary Shares), Spin-Off Securities, options, warrants or other rights or assets that are publicly traded on a Relevant Stock Exchange of adequate liquidity (as determined in good faith by the Calculation Agent or an Independent Adviser), the arithmetic mean of:
 - (i) in the case of Ordinary Shares or (to the extent constituting equity share capital) other Securities or Spin-Off Securities, for which a daily Volume Weighted Average Price (disregarding for this purpose proviso (b) to the definition thereof) can be determined, such daily Volume Weighted Average Price of the Ordinary Shares or such other Securities or Spin-Off Securities; and
 - (ii) in any other case, the Closing Price of such Securities, Spin-Off Securities, options, warrants or other rights or assets,

in the case of both (i) and (ii) during the period of five dealing days on the Relevant Stock Exchange for such Securities, Spin-Off Securities, options, warrants or other rights or assets commencing on such FMV Date (or, if later, the date (the **“Adjusted FMV Date”**) which falls on the first such dealing day on which such Securities, Spin-Off Securities, options, warrants or other rights or assets are publicly traded, provided that where such Adjusted FMV Date falls after the fifth day following the FMV Date, the Fair Market Value of such Securities, Spin-Off Securities, options, warrants or other rights or assets shall instead be determined pursuant to paragraph (d) below, and no such Adjusted FMV Date shall be deemed to apply) or such shorter period as such Securities, Spin-Off Securities, options, warrants or other rights or assets are publicly traded, all as determined in good faith by the Calculation Agent; and

- (d) in the case of Securities, Spin-Off Securities, options, warrants or other rights or assets that are not publicly traded on a Relevant Stock Exchange of adequate liquidity (as aforesaid) or where otherwise provided in paragraph (c) above to be determined pursuant to this (d), an amount equal to the fair market value of such Securities, Spin-Off Securities, options, warrants or other rights or assets as determined in good faith by an Independent Adviser, on the basis of a commonly accepted market valuation method and taking account of such factors as it considers appropriate, including the market price per Ordinary Share, the dividend yield of an Ordinary Share, the volatility of such market price, prevailing interest

rates and the terms of such Securities, Spin-Off Securities, options, warrants or other rights or assets, and including as to the expiry date and exercise price or the like (if any) thereof.

Such amounts shall (if not expressed in the Relevant Currency on the FMV Date (or, as the case may be, the Adjusted FMV Date)) be translated into the Relevant Currency at the Prevailing Rate on the FMV Date (or, as the case may be, the Adjusted FMV Date), all as determined in good faith by the Calculation Agent.

In addition, in the case of (a) and (b) above, the Fair Market Value shall be determined on a gross basis and disregarding any withholding or deduction required to be made for or on account of tax, and disregarding any associated tax credit.

“**FATCA**” has the meaning provided in Condition 10(b).

“**Final Maturity Date**” means 3 July 2024.

“**Financial Indebtedness**” means (without double counting) any indebtedness (other than trade credit) for or in respect of:

- (a) moneys borrowed;
- (b) any amount raised by acceptance under any acceptance credit trade finance facility or dematerialised equivalent;
- (c) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution;
- (d) (the principal component obligations in respect of letters of credit, bankers’ acceptances and similar instruments; and
- (e) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) to (d) above.

“**Further Bonds**” means any further Bonds issued pursuant to Condition 20 and consolidated and forming a single series with the then outstanding Bonds.

“**Group**” means the Guarantor and its Subsidiaries.

“**Hedging Obligations**” of any Person means the obligations of such Person pursuant to any Commodity Agreement, Interest Rate Agreement or Currency Agreement.

“**IFRS**” means International Financial Reporting Standards issued by the International Accounting Standards Board as adopted by the European Union as in effect from time to time in the United Kingdom.

“**Incur**” means issue, assume, guarantee, incur or otherwise become liable for; provided, however, that any Indebtedness of a Person existing at the time such Person becomes a Subsidiary of the Guarantor (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Person at the time it becomes a Subsidiary of the Guarantor. The term “**Incurrence**” when used as a noun shall have a correlative meaning. Solely for purposes of determining compliance with Condition 3(b):

- (a) amortisation of debt discount or the accretion of principal with respect to a non interest bearing or other discount security;
- (b) the payment of regularly scheduled interest in the form of additional Indebtedness of the same instrument or the payment of regularly scheduled dividends on Capital Stock in the form of additional Capital Stock of the same class and with the same terms; and
- (c) the obligation to pay a premium in respect of Indebtedness arising in connection with the issuance of a notice of redemption, the making of a mandatory offer to purchase such Indebtedness, any prepayment or repayment, or otherwise in accordance with the terms of such Indebtedness,

will not be deemed to be the Incurrence of Indebtedness.

“**Indebtedness**” means, with respect to any Person on any date of determination (without duplication):

- (a) indebtedness of such Person for money borrowed (the amount of which as determined in accordance with IFRS);
- (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments (the amount of which as determined in accordance with IFRS);
- (c) any principal amount raised under any other transaction having the economic or commercial effect of a borrowing (the amount of which as determined in accordance with IFRS); and
- (d) the amount of any liability in respect of the guarantee or indemnity for, or similar undertaking given in respect of, any of the items referred to above in relation to any Person.

Notwithstanding the foregoing, the term “**Indebtedness**” will exclude (i) trade payables and accrued liabilities incurred in the ordinary course of business and maturing in less than 150 days; (ii) advances received from customers; (iii) any tax liability, customs liability or tax payments; (iv) contingent obligations not relating to items of Indebtedness in sub-paragraphs (a) to (d) above; (v) any intercompany Indebtedness within the Group; (vi) obligations with respect to letters of credit securing obligations entered into in the ordinary course of business of such Person to the extent such letters of credit are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than 45 days following receipt of a demand for reimbursement; and (vii) any counter-indemnity obligation in respect of a guarantee, indemnity, standby or documentary letter of credit or any other financial instrument issued by a bank or financial institution which arises in the ordinary course of business and that is discharged within three months after the relevant obligation crystallises.

“**Independent Adviser**” means an independent adviser with appropriate expertise, which may be the Calculation Agent, appointed by the Issuer or the Guarantor at its own expense and (other than where the initial Calculation Agent is appointed) approved in writing by the Trustee or, if the Issuer and the Guarantor fail to make such appointment and such failure continues for a reasonable period (as determined by the Trustee in its sole discretion) and the Trustee is indemnified and/or secured and/or prefunded to its satisfaction against the liabilities, costs, fees and expenses of such adviser and otherwise in connection with such appointment, as may be appointed by the Trustee (without liability for so doing) following notification thereof to the Issuer, which appointment shall be deemed to be made by the Issuer.

“**Independent Appraiser**” means an independent investment banking, accountancy or appraisal firm appointed by the Issuer or the Guarantor to determine Covenant Fair Market Value pursuant to these Conditions.

“**Interest Payment Date**” has the meaning provided in Condition 7(a).

“**Interest Period**” has the meaning provided in Condition 7(a).

“**Interest Rate Agreement**” means any interest rate swap agreement, interest rate cap agreement or other financial agreement or arrangement with respect to exposure to interest rates.

“**Issue Date**” has the meaning provided in Condition 7(a).

“**London Stock Exchange**” means the London Stock Exchange plc.

“**Market Price**” means the Volume Weighted Average Price of an Ordinary Share on the relevant Reference Date (translated, if not in U.S. dollars, into U.S. dollars at the Prevailing Rate on the Reference Date), provided that if any Dividend or other entitlement in respect of the Ordinary Shares is announced, whether on or prior to or after the relevant Conversion Date, in circumstances where the record date or other due date for the establishment of entitlement in respect of such Dividend or other entitlement shall be on or after the Conversion Date and if, on the relevant Reference Date, the Volume Weighted Average Price of an Ordinary Share is based on a price ex-Dividend or ex- any other entitlement, then such Volume Weighted Average Price shall be increased by an amount equal to the Fair Market Value (translated, if not in U.S. dollars, into U.S. dollars at the Prevailing Rate on the Reference Date) of such Dividend or entitlement per Ordinary Share as at the date of first public announcement of such Dividend or entitlement (or if that is not a dealing day, the immediately

preceding dealing day), as determined in good faith by the Calculation Agent on a gross basis and disregarding any withholding or deduction required to be made for or on account of tax, and disregarding any associated tax credit) and provided that, for the avoidance of doubt, converting in respect of any Dividend or entitlement.

“**Merger**” has the meaning provided in Condition 13(d).

“**Newco Scheme**” means a Scheme of Arrangement which effects the interposition of a limited liability company (“**Newco**”) between the Shareholders immediately prior to completion of the Scheme of Arrangement (the “**Existing Shareholders**”) and the Guarantor, provided that (i) only ordinary shares or units or equivalent of Newco or depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco are issued to Existing Shareholders (except for a nominal holding by initial subscribers); (ii) immediately after completion of the Scheme of Arrangement, the only holders of ordinary shares, units or equivalent of Newco or, as the case may be, the only holders of depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco (other than a nominal holding by initial subscribers) are Existing Shareholders holding in or substantially in the same proportions as such Existing Shareholders held Ordinary Shares immediately prior to completion of the Scheme of Arrangement; (iii) immediately after completion of the Scheme of Arrangement, Newco is (or one or more wholly-owned Subsidiaries of Newco are) the only shareholder (or shareholders) of the Guarantor; (iv) all Subsidiaries of the Guarantor immediately prior to the Scheme of Arrangement (other than Newco, if Newco is then a Subsidiary of the Guarantor) are Subsidiaries of the Guarantor (or of Newco) immediately after completion of the Scheme of Arrangement; and (v) immediately after completion of the Scheme of Arrangement the Guarantor (or Newco) holds, directly or indirectly, the same percentage of the ordinary share capital and equity share capital of those Subsidiaries as was held by the Guarantor immediately prior to the Scheme of Arrangement.

“**Optional Redemption Notice**” has the meaning provided in Condition 9(b).

“**Optional Redemption Date**” has the meaning provided in Condition 9(b).

“**Ordinary Shares**” means the ordinary shares of the Guarantor having a nominal value at the Issue Date of £0.01 each.

“**Parity Value**” means, in respect of any dealing day, the amount determined in good faith by the Calculation Agent and calculated as follows:

$$PV = N \times VWAP$$

where

$$PV = \text{the Parity Value}$$

$$N = \text{U.S. \$200,000 divided by the Exchange Price in effect on such dealing day (or, if the Change of Control Exchange Price would apply in respect of any exercise of Conversion Rights in respect of which the Conversion Date would fall on such dealing day, such Change of Control Exchange Price), provided that if (A) such dealing day falls on or after (i) the Ex-Date in relation to any entitlement in respect of which an adjustment is required to be made to the Exchange Price pursuant to Conditions 8(b)(i), 8(b)(ii), 8(b)(iii), 8(b)(iv), 8(b)(v) or 8(b)(ix) or (ii) the relevant date of first public announcement (as applicable pursuant to Conditions 8(b)(vi), 8(b)(vii) or 8(b)(viii)) in respect of which an adjustment is required to be made to the Exchange Price pursuant to Conditions 8(b)(vi), 8(b)(vii) or 8(b)(viii), and (B) such adjustment is not yet in effect on such dealing day, the Exchange Price in effect on such dealing day shall for the purpose of this definition only be multiplied by the adjustment factor subsequently determined by the Calculation Agent to be applicable in respect of the relevant Exchange Price adjustment}$$

$$VWAP = \text{the Volume Weighted Average Price of an Ordinary Share on such dealing day (translated if not in U.S. dollars into U.S. dollars at the Prevailing Rate on such dealing day).}$$

“Permitted Indebtedness” means:

- (a) intercompany Financial Indebtedness owed to and held by the Guarantor or a Subsidiary of the Guarantor in respect of the Guarantor or a Subsidiary of the Guarantor; provided, however, that any subsequent issuance or transfer of any Capital Stock which results in any such Subsidiary ceasing to be a Subsidiary or any subsequent disposition, pledge or transfer of such intercompany Financial Indebtedness (other than to the Guarantor or a Subsidiary of the Guarantor) shall be deemed, in each case, to constitute the Incurrence of such Financial Indebtedness by the relevant obligor in respect of such Financial Indebtedness;
- (b) Financial Indebtedness represented by the Bonds and the Guarantee;
- (c) Financial Indebtedness outstanding on 14 November 2017;
- (d) Financial Indebtedness of the acquiring Guarantor or Subsidiary of the Guarantor or an acquired Subsidiary of the Guarantor Incurred and outstanding on or prior to the date on which such Subsidiary was acquired by a member of the Group (other than Financial Indebtedness Incurred in connection with, or to provide all or any portion of the funds or credit support utilised to consummate, the transaction or series of related transactions pursuant to which such Subsidiary became a Subsidiary of the Guarantor or was acquired by the Guarantor); provided, however, that on the date of such acquisition and after giving pro forma effect thereto, the Guarantor would have been entitled to Incur at least U.S.\$1.00 of additional Financial Indebtedness pursuant to Condition 3(b);
- (e) Refinancing Indebtedness incurred by the Issuer, the Guarantor or a Subsidiary of the Guarantor in respect of Financial Indebtedness Incurred by the Issuer, the Guarantor or a Subsidiary of the Guarantor pursuant to Condition 3(b) or pursuant to paragraphs (b), (c), (d), (e), (o) or (p) of this definition of Permitted Indebtedness;
- (f) Hedging Obligations Incurred in the ordinary course of business of the Guarantor or any Subsidiary of the Guarantor; provided that such Commodity Agreement, Interest Rate Agreements or Currency Agreements giving rise to such Hedging Obligations are entered into for the purpose of limiting interest rate, currency or commodity risk (including but not limited to gold price fluctuation risk), as the case may be, and are not entered into for speculative purposes;
- (g) obligations in respect of performance, bid and surety bonds, completion guarantees, letters of credit, *veksels* or similar obligations provided by the Guarantor or any Subsidiary of the Guarantor in the ordinary course of business, provided that, upon demand being made under such obligations, such obligations are reimbursed or the Financial Indebtedness thereunder repaid within 60 days following such payment or disbursement in respect of such demand;
- (h) Financial Indebtedness arising from the honouring by a bank or other financial institution of a cheque, draft or similar instrument inadvertently drawn against insufficient funds in the ordinary course of business; provided, however, that such Financial Indebtedness is extinguished within five Jersey, London, New York and Moscow Business Days of its Incurrence;
- (i) Financial Indebtedness arising from agreements of the Guarantor or a Subsidiary of the Guarantor providing for indemnification, adjustment of purchase price or similar obligations, in each case, Incurred or assumed in connection with the acquisition or disposition of any business, assets or Capital Stock of the Guarantor or any Subsidiary of the Guarantor; provide that the maximum aggregate liability in respect of all such Financial Indebtedness shall at no time exceed the relevant purchase price in connection with such acquisition or disposition;
- (j) Purchase Money Indebtedness Incurred to finance the repair, improvement, lease or acquisition by the Guarantor or a Subsidiary of the Guarantor of assets in the ordinary course of business, and any Refinancing Indebtedness Incurred to Refinance such Financial Indebtedness in an aggregate principal amount which, when added together with the amount of all other Financial Indebtedness Incurred

pursuant to this paragraph (j) and then outstanding, does not exceed U.S.\$25 million at any time outstanding;

- (k) Financial Indebtedness in respect of workers' compensation claims or claims arising under similar legislation, or pursuant to self-insurance obligations and not in connection with the borrowing of money or the obtaining of advances or credit;
- (l) customer deposits and advance payments received from customers in the ordinary course of business;
- (m) any guarantee provided in connection with a value added tax refund from the budget of the Russian Federation in the ordinary course of business;
- (n) any guarantee extended to suppliers of goods or services to any member of the Group on an arm's length basis and on commercial terms and in the ordinary course of business;
- (o) Project Finance Indebtedness; and
- (p) and other Financial Indebtedness of the Guarantor or any Subsidiary of the Guarantor in the aggregate principal amount at any time outstanding not to exceed U.S.\$25 million.

"Permitted Security" means, collectively, the following items:

- (a) any Security existing on 14 November 2017;
- (b) any netting or set-off arrangement entered into by any member of the Group in the ordinary course of its financing or banking arrangements for the purposes of netting debit and credit balances or any such arrangements entered into pursuant to any hedging permitted by paragraph (f) of the definition of Permitted Indebtedness;
- (c) any direct debit arrangements entered into in respect of its bank accounts;
- (d) any lien arising by operation of law, regulation or regulatory requirement and in the ordinary course of business;
- (e) any Security over or affecting any asset acquired by a member of the Group after the Issue Date, where the Security is created prior to the date on which the asset is acquired by a member of the Group, if:
 - (i) the Security was not created in contemplation of the acquisition of that asset by a member of the Group; and
 - (ii) the principal amount secured has not been increased in contemplation of or since the acquisition of that asset by a member of the Group;
- (f) any Security over or affecting any asset of any company which becomes a member of the Group after the Issue Date, where the Security is created prior to the date on which that company becomes a member of the Group, if:
 - (i) the Security was not created in contemplation of the acquisition of that company; and
 - (ii) the principal amount secured has not been increased in contemplation of or since the acquisition of that company;
- (g) any title transfer, hire purchase, conditional sale or retention of title arrangement or arrangements having similar effect and any Security arising under such arrangements entered into by any member of the Group at arm's length and in the ordinary course of business on that member's or a counterparty's standard or usual terms;
- (h) any Security securing Financial Indebtedness under hedging obligations, which obligations are permitted by paragraph (f) of the definition of Permitted Indebtedness;
- (i) leases (including operating leases), licences, subleases and sublicences of assets in the ordinary course of business;
- (j) pledges of goods, the related documents of title and/or other related documents arising or created in the ordinary course of business as security for indebtedness to a bank or financial institution directly relating to the goods or documents over which that pledge exists;

- (k) the discounting of bills or notes on arm's length commercial terms and in the ordinary course of business;
- (l) any Security over or affecting assets acquired by a member of the Group or rights relating thereto to secure any rights granted with respect to such assets in connection with the provision of all or part of the purchase price or cost of construction or improvement of such assets created contemporaneously with, or within 120 days after, such acquisition or the completion of such construction or improvement; provided that the aggregate principal amount of Financial Indebtedness secured shall not exceed the Covenant Fair Market Value of such assets or rights and no such Security shall extend to or cover any other assets or rights;
- (m) any Security created by or resulting from any litigation or legal proceeding which is effectively stayed while the underlying claims are being contested in good faith by appropriate proceedings and to which the Issuer, the Guarantor or such Subsidiary has established adequate reserves in accordance with IFRS;
- (n) any Security created for the benefit of (or to secure) the Bonds or the Guarantee;
- (o) any Security incidental to the normal conduct of the business of the Group and its Subsidiaries or the ownership of their respective properties which is not created in connection with the incurrence of Financial Indebtedness for borrowed money and which does not in the aggregate materially impair the use of such property in the operation of the business of the Group and its Subsidiaries taken as a whole, or the value of such property for the purposes of such business;
- (p) any Security for tax being contested diligently, taking into account applicable time periods, and in good faith for which adequate reserves are being maintained in accordance with IFRS;
- (q) any guarantee or indemnity in respect of any Permitted Indebtedness;
- (r) any Security (a "**Substitute Security**") which replaces any other Security permitted under paragraphs (a) to (r) above inclusive; provided that the maximum principal amount secured by such Permitted Security is not increased (plus all accrued interest and the amount of all fees and expenses, including premiums, incurred in connection therewith) and the existing Security to be replaced is released and all amounts secured thereunder are paid or otherwise discharged in full at or prior to the time of such Substitute Security being created or arising; or
- (s) any Security securing indebtedness the principal amount of which (when aggregated with the principal amount of any other indebtedness which has the benefit of a Security given by any member of the Group other than any permitted under paragraphs (a) to (q) above inclusive) does not exceed U.S.\$5,000,000 (or its equivalent in other currencies).

"Person" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organisation, limited liability company or government or other entity.

"Physically Settled Shares" means, in respect of any exercise of Conversion Rights, (i) the Reference Shares or (ii) where such exercise is the subject of a Cash Alternative Election, such number of Ordinary Shares (which may be equal to zero) as is equal to the Reference Shares minus the Cash Settled Shares.

"Potential Event of Default" has the meaning provided in the Trust Deed.

"Pre-Expansion European Union" means the European Union as of 1 January 2004, including the countries of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom, but not including any country which became or becomes a member of the European Union after 1 January 2004.

"Preference Shares" means exchangeable redeemable preference shares of the Issuer of nominal value U.S.\$0.01 each and which will be issued on conversion of each U.S.\$200,000 in principal amount of the Bonds at a paid-up value (the "**Paid-up Value**") of U.S.\$200,000 each.

"Prevailing Rate" means, in respect of any pair of currencies on any day, the spot mid-rate of exchange between the relevant currencies prevailing as at 12 noon (London time) on that date (for the purpose of this definition, the "**Original Date**") as appearing on or derived from Bloomberg page BFIX (or any successor

page) in respect of such pair of currencies, or, if such a rate cannot be so determined, the rate prevailing as at 12 noon (London time) on the immediately preceding day on which such rate can be so determined, provided that if such immediately preceding day falls earlier than the fifth day prior to the Original Date or if such rate cannot be so determined (all as determined in good faith by the Calculation Agent), the Prevailing Rate in respect of the Original Date shall be the rate determined in such other manner as an Independent Adviser shall consider appropriate.

“Principal Subsidiary” means any Subsidiary of the Guarantor which has earnings before investment income, financial interest, tax, depreciation and amortisation calculated on the same basis as EBITDA (if positive) (as defined in the audited consolidated financial statements of the Group) representing 10 per cent. or more of EBITDA, but excluding IRC Limited and its subsidiaries. Compliance with the conditions set out in this definition shall be determined by reference to the latest financial statements of that Subsidiary (consolidated in the case of a Subsidiary which itself has subsidiaries) and the latest audited consolidated financial statements of the Guarantor.

A certificate of two directors of the Guarantor that, in their opinion, a Subsidiary of the Guarantor, is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Issuer, the Guarantor, the Trustee and the Bondholders.

“Project Finance Indebtedness” means any Indebtedness (other than Indebtedness Incurred by the Guarantor) Incurred to finance the ownership, acquisition, development and/or operation of any assets or projects relating to the Core Business, in respect of which the Person or Persons to whom any such Indebtedness is or may be owed by the relevant borrower (whether or not a member of the Group) has or have no recourse whatsoever to any member of the Group for the repayment thereof except for:

- (a) recourse to such borrower for amounts limited to the present and future cash flow or net cash flow from the relevant assets or projects; and/or
- (b) recourse to such borrower for the purpose only of enabling amounts to be claimed in respect of such Indebtedness in an enforcement of any security or encumbrance given by such borrower over any such assets or projects or the income, cash flow or proceeds deriving therefrom provided that the extent of such recourse to such borrower is limited solely to the amount of any recoveries made on any such enforcement; and/or
- (c) recourse to any shareholder or the like in the borrower over its shares or the like (in each case, to the extent drawn) to secure such Indebtedness; and/or
- (d) recourse to a member of the Group, under any form of assurance, undertaking or support, which recourse is limited to a claim for damages (other than liquidated damages and damages required to be calculated in a specified way) for breach of an obligation (not being a payment obligation or an obligation to comply or to procure payment by another or an indemnity in respect thereof or an obligation to comply or to procure compliance by another with any financial ratios or other tests of financial condition) by the person against whom such recourse is available; and/or
- (e) recourse to the Guarantor under a guarantee provided in respect of such Indebtedness as an integral part of such Indebtedness and given when such Indebtedness was first incurred or issued.

“Purchase Money Indebtedness” means Indebtedness (including Capital Lease Obligations) (i) consisting of the deferred purchase price of property, the Capital Stock of a Person owning such property, to the extent permitted by these Conditions, conditional sale obligations, obligations under any title retention agreement, other purchase money obligations and obligations in respect of industrial revenue bonds or similar Indebtedness, in each case where the maturity of such Indebtedness does not exceed the anticipated useful life of the asset being financed, and (ii) Incurred to finance the acquisition by the Guarantor or a Subsidiary of the Guarantor of such asset or Capital Stock, including construction, additions and improvements, in the ordinary

course of business (including the cost of design, development, construction, acquisition, transportation, installation, improvement and migration of assets); provided, however, that (A) any lien arising in connection with any such Indebtedness shall be limited to the specific asset being financed, or, in the case of real property or fixtures, including additions and improvements, the real property on which such asset is attached, (B) such Indebtedness is Incurred within 180 days after such acquisition of such assets and (C) the aggregate principal amount of Purchase Money Indebtedness at one time outstanding shall not exceed (x) the Covenant Fair Market Value of the acquired or constructed assets, the amount of the asset was entered into by the Guarantor or the relevant Subsidiary of the Guarantor (including, in each case, any reasonable related fees and expenses incurred in connection with such acquisition, construction or development).

“RA Reference Date” has the meaning provided in the definition “Retroactive Adjustment”.

“Record Date” means, in respect of a payment, the fifth London business day before the due date for the relevant payment.

“Reference Date” has the meaning provided in Condition 8(i).

“Reference Shares” means, in respect of the exercise of Conversion Rights by a Bondholder, the number of Ordinary Shares (rounded down, if necessary, to the nearest whole number) determined in good faith by the Calculation Agent by dividing the Paid-Up Value of such Preference Shares by the Exchange Price in effect on the relevant Conversion Date, except that where the Conversion Date falls on or after the date an adjustment to the Exchange Price takes effect pursuant to Conditions 8(b)(i), 8(b)(ii), 8(b)(iii), 8(b)(iv), 8(b)(v) or 8(b)(ix) but on or prior to the record date or other due date for establishment of entitlement in respect of the relevant event giving rise to such adjustment, then provided the Issuer is able to confer the benefit of the relevant consolidation, reclassification, redesignation or subdivision, Dividend, issue or grant (as the case may be) on the relevant Bondholder in respect of the relevant Ordinary Shares to be issued (assuming for these purposes that a Cash Alternative Election is not made in respect of the relevant exercise of Conversion Right) to such Bondholder in respect of the relevant exercise of Conversion Rights, the Exchange Price in respect of such exercise shall be such Exchange Price as would have been applicable to such exercise had no such adjustment been made.

“Refinance” means, in respect of any Indebtedness, to refinance, extend, renew, refund, repay, prepay, purchase, redeem, defease or retire, or to issue other Indebtedness in exchange or replacement for, such Indebtedness. **“Refinances”**, **“Refinanced”** and **“Refinancing”** shall have correlative meanings.

“Refinancing Indebtedness” means Indebtedness that Refinances any Indebtedness of the Guarantor or any Subsidiary of the Guarantor existing on the Issue Date or Incurred in compliance with the Bonds, including Indebtedness that Refinances Refinancing Indebtedness; provided, however, that:

- (a) such Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness being Refinanced;
- (b) such Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is Incurred that is equal to or greater than the Average Life of the Indebtedness being Refinanced;
- (c) such Refinancing Indebtedness has an aggregate principal amount (or if Incurred with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if Incurred with original issue discount, the aggregate accreted value) then outstanding (plus all accrued interest and fees and expenses, including any premium and defeasance costs) under the Indebtedness being Refinanced; and
- (d) if the Indebtedness being Refinanced is subordinated in right of payment to the Bonds, such Refinancing Indebtedness is subordinated in right of payment to the Bonds at least to the same extent as the Indebtedness being Refinanced.

“Register” has the meaning provided in Condition 5.

“Regulatory Information Service” means a regulated information service for the purposes of giving information relating to the Bonds and/or the rules of the Relevant Stock Exchange chosen by the Issuer from time to time, including but not limited to the Regulatory News Service of the London Stock Exchange.

“Relevant Currency” means at any time, the currency in which the Ordinary Shares are quoted or dealt in at such time on the Relevant Stock Exchange.

“Relevant Date” means, in respect of any Bond the date on which said payment first becomes due except that, if the full amount of the moneys payable has not been duly received by the Principal Paying, Transfer, Conversion and Exchange Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Bondholders in accordance with Condition 19.

“Relevant Debt” means any present or future indebtedness of the Issuer, the Guarantor or any other person in the form of, or represented by, bonds, notes, debentures, loan stock or other securities which are for the time being, or are capable of being, quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market.

“Relevant Event” means a Change of Control Event or a De-Listing Event.

“Relevant Event Notice” has the meaning provided in Condition 8(o).

“Relevant Event Period” means the period commencing on the occurrence of a Relevant Event and ending 60 calendar days following such Relevant Event or, if later, 60 calendar days following the date on which a Relevant Event Notice is given to Bondholders as required by Condition 8(o).

“Relevant Event Put Date” has the meaning provided in Condition 9(e).

“Relevant Event Put Exercise Notice” has the meaning provided in Condition 9(e).

“Relevant Stock Exchange” means:

- (a) in respect of the Ordinary Shares, the London Stock Exchange or, if at the relevant time the Ordinary Shares are not at that time listed and admitted to trading on the London Stock Exchange, the principal stock exchange or securities market on which the Ordinary Shares are then listed, admitted to trading or quoted or dealt in; and
- (b) in respect of any Securities (other than Ordinary Shares), Spin-Off Securities, options, warrants or other rights or assets, the principal stock exchange or securities market on which such Securities, Spin-Off Securities, options, warrants or other rights or assets are then listed, admitted to trading or quoted or dealt in,

where **“principal stock exchange or securities market”** shall mean the stock exchange or securities market on which such Ordinary Shares, Securities, Spin-Off Securities, options, warrants or other rights or assets are listed, admitted to trading or quoted or dealt in, provided that if such Ordinary Shares, Securities, Spin-Off Securities, options, warrants or other rights or assets are listed, admitted to trading or quoted or dealt in (as the case may be) on more than one stock exchange or securities market at the relevant time, then **“principal stock exchange or securities market”** shall mean that stock exchange or securities market on which such Ordinary Shares, Securities, Spin-Off Securities, options, warrants or other rights or assets are then traded as determined by the Calculation Agent (if the Calculation Agent determines that it is able to make such determination) or (in any other case) by an Independent Adviser by reference to the stock exchange or securities market with the highest average daily trading volume in respect of such Ordinary Shares, Securities, Spin-Off Securities, options, warrants or other rights or assets.

A **“Retroactive Adjustment”** shall occur if the Conversion Date in relation to the conversion of any Bond shall be (i) after the date (the **“RA Reference Date”**) which is the record date in respect of any consolidation, reclassification, redesignation or sub-division as is mentioned in Condition 8(b)(i), or which is the record date or other due date for the establishment of entitlement for any such issue, distribution, grant or offer (as the case

may be) as is mentioned in Condition 8(b)(ii), 8(b)(iii), 8(b)(iv), 8(b)(v) or 8(b)(ix), or which is the date of the first public announcement of the terms of any such issue or grant as is mentioned in Condition 8(b)(vi) and 8(b)(vii) or of the terms of any such modification as is mentioned in Condition 8(b)(viii); and (ii) before the relevant adjustment to the Exchange Price becomes effective under Condition 8(b).

“Scheme of Arrangement” means a scheme of arrangement, share for share exchange or analogous procedure.

“Scrip Dividend” means:

- (a) a Dividend which is to be satisfied, or a Dividend in cash which may at the election of a Shareholder or Shareholders be satisfied, in whole or in part, by the issue of Ordinary Shares and/or other property or assets; or
- (b) an issue of Ordinary Shares or other property or assets by way of a capitalisation of profits or reserves (including any share premium account or capital redemption reserve, and whether described as a scrip or share dividend or distribution or otherwise) which is to be satisfied, or which may at the election of a Shareholder or Shareholders be satisfied, in whole or in part, by the payment of cash.

“Scrip Dividend Valuation Date” means:

- (a) in respect of any portion of a Scrip Dividend for which a Shareholder or Shareholders may make an election, the later of (i) the Ex-Date in relation to the relevant dividend or capitalisation, (ii) the last day on which the relevant election can be made by such Shareholder or Shareholders, and (iii) the date on which the number of Ordinary Shares, amount of cash, or amount of other property or assets, as the case may be, which may be issued is publicly announced; or
- (b) in respect of any portion of a Scrip Dividend which is not subject to such election, the later of (i) the Ex-Date in relation to the relevant dividend or capitalisation and (ii) the date on which the number of Ordinary Shares, amount of cash or amount of such other property or assets, as the case may be, to be issued is publicly announced.

“Securities” includes, without limitation, Ordinary Shares and any other shares in the share capital of the Guarantor and options, warrants or other rights to subscribe for or purchase or acquire Ordinary Shares or any other shares in the capital of the Guarantor.

“Settlement Date” has the meaning provided in Condition 8(i).

“Shareholders” means the holders of Ordinary Shares.

“Spin-Off” means:

- (a) a distribution of Spin-Off Securities by the Guarantor to Shareholders as a class; or
- (b) any issue, transfer or delivery of any property or assets (including cash or shares or other securities of or in or issued or allotted by any entity) by any entity (other than the Guarantor) to Shareholders as a class or, in the case of or in connection with a Scheme of Arrangement, Existing Shareholders, as a class (but excluding the issue and allotment of ordinary shares (or depository or other receipts or certificates representing such ordinary shares) by Newco to Existing Shareholders as a class), pursuant in each case to any arrangements with the Guarantor or any of its Subsidiaries.

“Spin-Off Securities” means equity share capital of an entity other than the Guarantor or options, warrants or other rights to subscribe for or purchase equity share capital of an entity other than the Guarantor.

“Stated Maturity” means, with respect to any security or obligation, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

“Subsidiary” means any company or other business entity of which the Guarantor owns or controls (either directly or through one or more other Subsidiaries) more than 50 per cent. of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity or any company or other business entity which at any time has its accounts consolidated with those of the Guarantor or which, under English or other applicable law or regulations and under generally accepted accounting principles in the United Kingdom, or IFRS, as the case may be, from time to time, should have its accounts consolidated with those of the Guarantor.

“Tax Redemption Date” has the meaning provided in Condition 9(c).

“Tax Redemption Notice” has the meaning provided in Condition 9(c).

“Volume Weighted Average Price” means, in respect of an Ordinary Share, Security or, as the case may be, a Spin-Off Security, on any dealing day, the volume weighted average price on such dealing day on the Relevant Stock Exchange of an Ordinary Share, Security or, as the case may be, a Spin-Off Security, as published by or derived from Bloomberg page HP (or any successor page) (setting Weighted Average Line or any other successor setting and using values not adjusted for any event occurring after such dealing day; and for the avoidance of doubt, all values will be determined with all adjustment settings on the DPDF Page, or any successor or similar setting, switched off) in respect of such Ordinary Share, Security, or, as the case may be, Spin-Off Security (and for the avoidance of doubt such Bloomberg page for the Ordinary Shares as at the Issue Date is POG LN Equity HP) if any or, in any such case, such other source (if any) as shall be determined in good faith to be appropriate by an Independent Adviser on such dealing day provided that:

- (a) if on any such dealing day (for the purposes of this definition, the **“Original Date”**) such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of an Ordinary Share, Security or Spin-Off Security, as the case may be, in respect of such dealing day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding dealing day on which the same can be so determined, provided however that if such immediately preceding dealing day falls prior to the fifth day before the Original Date, the Volume Weighted Average Price in respect of such dealing day shall be considered to be not capable of being determined pursuant to this proviso (i); and
- (b) if the Volume Weighted Average Price cannot be determined as aforesaid, the Volume Weighted Average Price of an Ordinary Share, Security or Spin-Off Security, as the case may be, shall be determined as at the Original Date by an Independent Adviser in such manner as it shall determine in good faith to be appropriate,

and the Volume Weighted Average Price determined as aforesaid on or as at any dealing day shall, if not in the Relevant Currency, be translated into the Relevant Currency at the Prevailing Rate on such dealing day.

“U.S.\$” and **“U.S. dollar”** means the lawful currency for the time being of the United States of America.

References to **“ordinary share capital”** have the meaning provided in Section 1119 of the Corporation Tax Act 2010 and to **“equity share capital”** have the meaning provided in Section 548 of the Companies Act.

References to any act or statute or any provision of any act or statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under such modification or re-enactment.

References to any issue or offer or grant to Shareholders or Existing Shareholders **“as a class”** or **“by way of rights”** shall be taken to be references to an issue or offer or grant to all or substantially all Shareholders or Existing Shareholders, as the case may be, other than Shareholders or Existing Shareholders, as the case may be, to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange or securities market in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant.

In making any calculation or determination of Current Market Price, Volume Weighted Average Price or Closing Price such adjustments (if any) shall be made in good faith and as the Calculation Agent or an Independent Adviser considers appropriate to reflect any consolidation or sub-division of the Ordinary Shares or any issue of Ordinary Shares by way of capitalisation of profits or reserves, or any like or similar event.

For the purposes of the definition of “Current Market Price”, “Dividend”, “Newco Scheme”, “Reference Shares”, Scrip Dividend” and “Scrip Dividend Valuation Date” and Conditions 8 and 13, (a) references to the “**issue**” of Ordinary Shares, Securities, or other property or assets or Ordinary Shares, Securities, or other property or assets being “**issued**” shall include the issue or transfer and delivery of Ordinary Shares (or, as the case may be, Securities or other property or assets) by the Guarantor or any of its Subsidiaries, whether newly issued and allotted or previously existing or held by or on behalf of the Guarantor or any of its Subsidiaries, and (b) Ordinary Shares held by or on behalf of the Guarantor or any of its Subsidiaries (and which, in the case of Conditions 8(b)(iii) and 8(b)(iv), do not rank for the relevant Dividend, right or other entitlement) shall not be considered as or treated as “**in issue**” or entitled to receive the relevant Dividend, right or other entitlement.

5 Registration

The Issuer will cause a register (the “**Register**”) to be kept at the specified office of the Registrar outside the United Kingdom on which will be entered the names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers, redemptions and conversions of Bonds. Bondholders will be entitled to receive only one Bond in respect of their respective holdings.

6 Transfer of Bonds

(a) Transfer

Bonds may, subject to Conditions 6(b) and 6(c), be transferred by lodging the relevant Bond (with the form of application for transfer in respect thereof duly executed and duly stamped where applicable) at the specified office of the Registrar or any Paying, Transfer, Conversion and Exchange Agent.

No transfer of a Bond will be valid unless and until entered on the Register. A Bond may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number). No transfer in part only of a Bond shall be permitted.

The Registrar will, within seven Business Days (as defined below) of any duly made application for the transfer of a Bond, deliver a new Bond to the transferee, at the specified office of the Registrar, or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary uninsured mail, at the expense of the transferee or, as the case may be, the transferor) mail the Bond by ordinary uninsured mail to such address as the transferee or, as the case may be, the transferor may request.

(b) Formalities Free of Charge

Such transfer will be effected without charge subject to (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar and the Trustee.

(c) Closed Periods

Neither the Issuer nor the Registrar will be required to register the transfer of any Bond (or part thereof) (i) during the period of 15 calendar days immediately prior to the Final Maturity Date or any earlier date fixed for redemption of the Bonds pursuant to Condition 9(b) or 9(c), (ii) in respect of which a Conversion Notice has been delivered in accordance with Condition 8(i), (iii) in respect of which a

holder has exercised its right to require the Issuer to redeem pursuant to Condition 9(e) or (iv) during the period of 15 days ending on (and including) any Record Date in respect of any payment of interest on the Bonds.

(d) Regulations

All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfers of Bonds scheduled to the Agency Agreement. The regulations may be changed by agreement between the Issuer, the Trustee, the Paying, Transfer, Conversion and Exchange Agents and the Registrar. A copy of the current regulations will be made available by the Registrar to any Bondholder upon request.

(e) Business Day

In this Condition 6, “**Business Day**” means a day (other than a Saturday, Sunday or public holiday) on which commercial banks are open for business in London, Jersey and in the place of the specified office of the Registrar.

7 Interest

(a) Interest Rate

The Bonds bear interest from (and including) 3 July 2019 (the “**Issue Date**”) at the rate of 8.25 per cent. per annum calculated by reference to the principal amount thereof and payable quarterly in equal instalments in arrear on 3 January, 3 April, 3 July and 3 October in each year (each an “**Interest Payment Date**”), commencing with the Interest Payment Date falling on 3 October 2019.

Where interest is required to be calculated for any period which is not an Interest Period it will be calculated on the basis of a 360 day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

“**Interest Period**” means the payment period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

(b) Accrual of Interest

Each Bond will cease to bear interest (i) where the Conversion Right shall have been exercised by a Bondholder, from the Interest Payment Date immediately preceding the relevant Conversion Date or, if none, the Issue Date (subject in any such case as provided in Condition 8(l)) or (ii) in the case of a redemption of the Bonds, from the due date for redemption thereof unless, upon due presentation thereof, payment of the principal amount of the Bonds is improperly withheld or refused, and in such event interest will continue to accrue at the rate specified in Condition 7(a) (both before and after judgement) until whichever is the earlier of (A) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder, and (B) the day seven days after the Trustee or the Principal Paying, Transfer, Conversion and Exchange Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

8 Conversion and Exchange

(a) Conversion Right

Subject as provided in these Conditions, each Bond shall entitle the holder to convert each U.S.\$200,000 principal amount of a Bond into one fully paid Preference Share, allotted at a price equal to the Paid-Up Value (a “**Conversion Right**”).

A Bondholder may exercise the Conversion Right in respect of a Bond by delivering such Bond, together with a duly completed Conversion Notice, to the specified office of any Paying, Transfer, Conversion and Exchange Agent in accordance with Condition 8(i), whereupon the Issuer shall issue to the relevant Bondholder or his nominee one Preference Share in respect of each U.S.\$200,000 principal amount of a Bond being converted on and as at the relevant Conversion Date.

Subject to and as provided in these Conditions, the Conversion Right in respect of a Bond may be exercised, at the option of the holder thereof, at any time subject to any applicable fiscal or other laws or regulations and as hereinafter provided) from 1 October 2019 (the “**Conversion Period Commencement Date**”) to (and including) the date falling 66 days prior to the Final Maturity Date (both days inclusive) or, if such Bond is to be redeemed pursuant to Condition 9(b) or 9(c) prior to the Final Maturity Date, then up to (and including) the date falling 66 days before the date fixed for redemption thereof pursuant to Condition 9(b) or 9(c), unless there shall be a default in making payment in respect of such Bond on any such date fixed for redemption, in which event the Conversion Right shall extend up to (and including) the date on which the full amount of such payment becomes available for payment and notice of such availability has been given to Bondholders or, if earlier, the Final Maturity Date; provided that, in each case, if such final date for the exercise of Conversion Rights is not a London business day, then the period for exercise of Conversion Rights by Bondholders shall end on (and including) the immediately preceding London business day.

Notwithstanding the foregoing, if a Change of Control Event occurs, the Conversion Right may also be exercised at any time during the Relevant Event Period, notwithstanding that all or part of such period falls prior to the Conversion Period Commencement Date, in which case a Bondholder exercising the Conversion Right prior to the Conversion Period Commencement Date shall, as a pre-condition to receiving Ordinary Shares, be required to certify in the Conversion Notice, among other things, that it or, if it is a broker-dealer acting on behalf of a customer, such customer:

- (i) will, on conversion, become the beneficial owner of the Ordinary Shares; and
- (ii) is located outside the United States (within the meaning of Regulation S under the U.S. Securities Act of 1933, as amended).

Conversion Rights may not be exercised (i) following the giving of notice by the Trustee pursuant to Condition 12 that the Bonds are due and payable or (ii) in respect of a Bond in respect of which the relevant Bondholder has exercised its right to require the Issuer to redeem that Bond pursuant to Condition 9(e).

Save where a notice of redemption is given by the Issuer in the circumstances provided in Condition 9(b), Conversion Rights may not be exercised by a Bondholder in circumstances where the relevant Conversion Date would fall during the period commencing on the Record Date in respect of any payment of interest on the Bonds and ending on the relevant Interest Payment Date (both days inclusive).

The period during which Conversion Rights may (subject as provided below) be exercised by a Bondholder is referred to as the “**Conversion Period**”.

Conversion Rights may only be exercised in respect of the whole of the principal amount of a Bond.

All Preference Shares issued on conversion of any Bonds shall (without any further action being required to be taken by, and without any cost or expense to, the relevant Bondholder, the Principal Paying,

Transfer, Conversion and Exchange Agent or the Trustee) automatically be transferred on and as at the relevant Conversion Date by the relevant Bondholder to the Guarantor and in consideration therefor the Guarantor shall, subject to the right of the Guarantor to make a Cash Alternative Election, issue to the relevant Bondholder the relevant number of Reference Shares in respect of such exercise.

The initial exchange price (the “**Exchange Price**”) is U.S.\$0.1350. The Exchange Price is subject to adjustment in the circumstances described in Condition 8(b).

Each of the Issuer and the Guarantor shall (at its own expense) do all such things and make all such entries in the Issuer’s and the Guarantor’s respective registers of members and execute all such documents, whether at the request of the Trustee, on behalf of the relevant Bondholders or otherwise (including the execution of such instruments of transfer on behalf of the relevant Bondholders) as may be necessary to effect such exchange of Preference Shares for Ordinary Shares.

Upon the issue of the Preference Shares on conversion of any Bonds and the registration and transfer of such Preference Shares to the Guarantor as provided in these Conditions and, where applicable, the payment of any interest pursuant to Condition 8(l), the Issuer shall (provided that all interest which has fallen due prior to such date has been paid) be released from and shall have no further liability in respect of such Bonds, including in respect of the delivery of Ordinary Shares in respect of such Preference Shares.

Conversion Rights are not exercisable in respect of any specific Preference Shares or Ordinary Shares and no Preference Shares or Ordinary Shares have been or will be charged, placed in custody or otherwise set aside to secure or satisfy the obligations of the Issuer and the Guarantor in respect of the delivery of Preference Shares or Ordinary Shares.

Fractions of Ordinary Shares will not be issued and no cash payment or other adjustment will be made in lieu thereof. If a Conversion Right in respect of more than one Bond is exercised at any one time such that Ordinary Shares to be issued in respect of such exercise are to be registered in the same name, the number of Ordinary Shares to be issued in respect thereof shall be calculated by the Calculation Agent on the basis of the aggregate Paid-up Value of the Preference Shares issued on such conversion and which are to be exchanged for Ordinary Shares, and rounded down to the nearest whole number of Ordinary Shares.

(b) Adjustment of Exchange Price

Upon the occurrence of any of the events described below, the Exchange Price shall be adjusted by the Calculation Agent as follows:

- (i) If and whenever there shall be a consolidation, reclassification, redesignation or subdivision affecting the number of Ordinary Shares in issue, the Exchange Price shall be adjusted by multiplying the Exchange Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Ordinary Shares in issue immediately before such consolidation, reclassification, redesignation or subdivision, as the case may be; and

B is the aggregate number of Ordinary Shares in issue immediately after, and as a result of, such consolidation, reclassification, redesignation or subdivision, as the case may be.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this paragraph (b)(i), the date on which the consolidation, reclassification, redesignation or sub-division, as the case may be, takes effect.

- (ii) If and whenever the Guarantor shall issue any Ordinary Shares credited as fully paid to Shareholders by way of capitalisation of profits or reserves, including any share premium account or capital redemption reserve (other than an issue of Ordinary Shares constituting a Scrip Dividend), the Exchange Price shall be adjusted by multiplying the Exchange Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A}{B}$$

where:

- A is the aggregate number of Ordinary Shares in issue immediately before such issue;
and
B is the aggregate number of Ordinary Shares in issue immediately after such issue.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this paragraph (b)(ii), the date of issue of such Ordinary Shares.

- (iii)
(A) If and whenever the Issuer shall declare, announce, make or pay any Dividend to Shareholders, the Exchange Price shall be adjusted by multiplying the Exchange Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Ordinary Share on the Ex-Date in respect of such Dividend; and
B is the portion of the Fair Market Value of the aggregate Dividend attributable to one Ordinary Share, with such portion being determined by dividing the Fair Market Value of the aggregate Dividend by the number of Ordinary Shares entitled to receive the relevant Dividend (or, in the case of a purchase, redemption or buy back of Ordinary Shares or any depositary or other receipts or certificates representing Ordinary Shares by or on behalf of the Guarantor or any Subsidiary of the Guarantor, by the number of Ordinary Shares in issue immediately following such purchase, redemption or buy back, and treating as not being in issue any Ordinary Shares, or any Ordinary Shares represented by depositary or other receipts or certificates, purchased, redeemed or bought back).

Such adjustment shall become effective on the Effective Date.

“Effective Date” means, in respect of this paragraph (b)(iii)(A), the date which is the later of (i) the Ex-Date in respect of such Dividend and (ii) the first date upon which the Fair Market Value of the relevant Dividend is capable of being determined as provided herein.

- (B) For the purposes of the above, Fair Market Value shall (subject as provided in paragraph (a) of the definition of “Dividend” and in the definition of “Fair Market Value”) be determined as at the Ex-Date in respect of the relevant Dividend.
- (iv) If and whenever the Guarantor or any Subsidiary of the Guarantor or (at the direction or request or pursuant to any arrangements with the Guarantor or any Subsidiary of the Guarantor) any other company, person or entity shall issue Ordinary Shares to Shareholders as a class by way of rights, or shall issue or grant to Shareholders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase or otherwise acquire any Ordinary Shares, or any Securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or right to otherwise acquire, any Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued), in each case at a consideration receivable per Ordinary Share (based, where appropriate, on such number of Ordinary Shares as is determined pursuant to the definition of “C” and the proviso below) which is less than 95 per cent. of the Current Market Price per Ordinary Share on the Ex-Date in respect of the relevant issue or grant, the Exchange Price shall be adjusted by multiplying the Exchange Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Ordinary Shares in issue on the Ex-Date;
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares issued by way of rights, or for the Securities issued by way of rights and upon exercise of rights of conversion into, or exchange or subscription for, or the right to otherwise acquire, Ordinary Shares, or for the options or warrants or other rights issued by way of rights and for the total number of Ordinary Shares deliverable on the exercise thereof, would purchase at such Current Market Price per Ordinary Share; and
- C is the number of Ordinary Shares to be issued or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase or other rights of acquisition in respect thereof at the initial conversion, exchange, subscription, purchase or acquisition price or rate;

provided that if on such Ex-Date such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of paragraph (b)(iv), “C” shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at such Ex-Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on such Ex-Date.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this paragraph (b)(iv), the later of (i) the Ex-Date in respect of the relevant issue or grant and (ii) the first date upon which the adjusted Exchange Price is capable of being determined in accordance with this paragraph (b)(iv).

- (v) If and whenever the Guarantor or any Subsidiary of the Guarantor or (at the direction or request or pursuant to any arrangements with the Issuer or any Subsidiary of the Guarantor) any other company, person or entity shall (other than in the circumstances the subject of paragraph (b)(iv) and other than where such issue is determined to constitute a cash Dividend pursuant to paragraph (a) of the definition “Dividend”) issue any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase or otherwise acquire any Ordinary Shares or Securities which by their terms carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or rights to otherwise acquire, Ordinary Shares) to Shareholders as a class by way of rights or grant to Shareholders as a class by way of rights any options, warrants or other rights to subscribe for or purchase or otherwise acquire any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase or otherwise acquire any Ordinary Shares or any Securities which by their terms carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or rights to otherwise acquire, Ordinary Shares), the Exchange Price shall be adjusted by multiplying the Exchange Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Ordinary Share on the Ex-Date in respect of the relevant issue or grant; and
- B is the Fair Market Value on such Ex-Date of the portion of the rights attributable to one Ordinary Share.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this paragraph (b)(v), later of (i) the Ex-Date in respect of the relevant issue or grant and (ii) the first date upon which the adjusted Exchange Price is capable of being determined in accordance with this paragraph (b)(v).

- (vi) If and whenever the Guarantor shall issue (otherwise than as mentioned in paragraph (b)(iv) above) wholly for cash or for no consideration any Ordinary Shares (other than Ordinary Shares issued on exchange for the Preference Shares in respect of a conversion of the Bonds (which term shall for this purpose include any Further Bonds)) or on the exercise of any rights of conversion into, or exchange or subscription for or purchase of, or rights to otherwise acquire, Ordinary Shares (other than constituting a Scrip Dividend) or if and whenever the Guarantor or any Subsidiary of the Guarantor or (at the direction or request or pursuant to any arrangements with the Guarantor or any Subsidiary of the Guarantor) any other company, person or entity shall issue or grant (otherwise than as mentioned in paragraph (b)(iv) above) wholly for cash or for no consideration any options, warrants or other rights to subscribe for or purchase or otherwise acquire any Ordinary Shares (other than the Bonds, which term shall for this purpose include any Further Bonds), in each case at a consideration receivable per Ordinary Share (based, where appropriate, on such number of Ordinary Shares as is determined pursuant to the definition of “C” and the proviso below) which is less than 95 per cent. of the Current Market Price per

Ordinary Share on the date of first public announcement of the terms of such issue of grant, the Exchange Price shall be adjusted by multiplying the Exchange Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Ordinary Shares in issue immediately before the date of first public announcement of the terms of such issue of Ordinary Shares or issue or grant of options, warrants or other rights as provided above;
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the issue of such Ordinary Shares or, as the case may be, for the Ordinary Shares to be issued or otherwise made available upon the exercise of any such options, warrants or rights, would purchase at such Current Market Price per Ordinary Share; and
- C is the number of Ordinary Shares to be issued pursuant to such issue of such Ordinary Shares or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights;

provided that if on the date of first public announcement of the terms of such issue or grant (as used in this paragraph (b)(vi), the “**Specified Date**”) such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of this sub-paragraph (b)(vi), “C” shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase, acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this paragraph (b)(vi), the date which is later of (i) the date of issue of such Ordinary Shares or, as the case may be, the issue or grant of such options, warrants or rights and (ii) the first date upon which the adjusted Exchange Price is capable of being determined in accordance with this paragraph (b)(vi).

- (vii) If and whenever the Guarantor or any Subsidiary of the Guarantor or (at the direction or request of or pursuant to any arrangements with the Guarantor or any Subsidiary of the Guarantor) any other company, person or entity shall (otherwise than as mentioned in paragraphs (b)(iv), (b)(v) or (b)(vi) above) issue wholly for cash or for no consideration any Securities (other than the Bonds, which term shall for this purpose exclude any Further Bonds and other than where such issue of Securities is determined to constitute a cash Dividend pursuant to paragraph (a) of the definition of “Dividend”) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, purchase of, or rights to otherwise acquire, Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued) or Securities which by their terms might be reclassified or redesignated as Ordinary Shares, and the consideration per Ordinary Share (based, where appropriate, on such number of Ordinary Shares as is determined pursuant to the definition of “C” and the proviso below) receivable upon conversion, exchange, subscription, purchase, acquisition, reclassification or redesignation is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of first public

announcement of the terms of the issue of such Securities (or the terms of such grant), the Exchange Price shall be adjusted by multiplying the Exchange Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Ordinary Shares in issue immediately before the date of first public announcement of the terms of the issue of such Securities (or the terms of such grant);
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to such Securities or, as the case may be, for the Ordinary Shares to be issued or to arise from any such reclassification or redesignation would purchase at such Current Market Price per Ordinary Share; and
- C is the maximum number of Ordinary Shares to be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such right of subscription, purchase or acquisition attached thereto at the initial conversion, exchange, subscription, purchase or acquisition price or rate or, as the case may be, the maximum number of Ordinary Shares which may be issued or arise from any such reclassification or redesignation,

provided that if on the date of first public announcement of the terms of the issue of such Securities (or the terms of such grant) (as used in this paragraph, the “**Specified Date**”) such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or, as the case may be, such Securities are reclassified or redesignated or at such other time as may be provided), then for the purposes of this paragraph (b)(vii), “C” shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition, reclassification or, as the case may be, redesignation had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this paragraph (b)(vii), the date which is later of (i) the date of issue of such Securities or, as the case may be, the grant of such rights and (ii) the first date upon which the adjusted Exchange Price is capable of being determined in accordance with this paragraph (b)(vii).

- (viii) If and whenever there shall be any modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to any Securities (other than the Bonds, which term shall for this purpose include any Further Bonds) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or the right to otherwise acquire, any Ordinary Shares (other than in accordance with the terms (including terms as to adjustment) applicable to such Securities upon issue) so that following such modification the consideration per Ordinary Share (based, where appropriate, on such number of Ordinary Shares as is determined pursuant to the definition of “C” and the proviso below) receivable upon

conversion, exchange, subscription, purchase or acquisition has been reduced and is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of first public announcement of the terms for such modification, the Exchange Price shall be adjusted by multiplying the Exchange Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Ordinary Shares in issue immediately before the date of first public announcement of the terms for such modification;
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to the Securities so modified would purchase at such Current Market Price per Ordinary Share or, if lower, the existing conversion, exchange, subscription, purchase or acquisition price or rate of such Securities; and
- C is the maximum number of Ordinary Shares which may be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such rights of subscription, purchase or acquisition attached thereto at the modified conversion, exchange, subscription, purchase or acquisition price or rate but giving credit in such manner as the Calculation Agent shall consider appropriate for any previous adjustment under this paragraph (b)(viii) or paragraph (b)(vii) above,

provided that if on the date of first public announcement of the terms of such modification (as used in this paragraph (b)(viii), the “**Specified Date**”) such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or at such other time as may be provided), then for the purposes of this paragraph (b)(viii), “C” shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this paragraph (b)(viii), the later of (i) the date of modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to such Securities and (ii) the first date upon which the adjusted Exchange Price is capable of being determined in accordance with this paragraph (b)(viii).

- (ix) If and whenever the Guarantor or any Subsidiary of the Guarantor or (at the direction or request of or pursuant to any arrangements with the Guarantor or any Subsidiary of the Guarantor) any other company, person or entity shall offer any Securities in connection with which Shareholders as a class are entitled to participate in arrangements whereby such Securities may be acquired by them (except where the Exchange Price falls to be adjusted under paragraphs (b)(ii), (b)(iii), (b)(iv), (b)(v), (b)(vi) or (b)(vii) above or (b)(x) below (or, where applicable, would fall to be so adjusted if the relevant issue or grant was at less than 95 per cent. of the Current Market Price per Ordinary Share on the relevant day)), the Exchange Price shall be adjusted by multiplying the Exchange Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Ordinary Share on the Ex-Date in respect of the relevant offer; and

B is the Fair Market Value on such Ex-Date of the portion of the relevant offer attributable to one Ordinary Share.

Such adjustment shall become effective on the Effective Date.

“Effective Date” means, in respect of this paragraph (b)(ix), the later of (i) the Ex-Date in respect of the relevant offer and (ii) the first date upon which the adjusted Exchange Price is capable of being determined in accordance with this paragraph (b)(ix).

- (x) If a Change of Control Event shall occur, then upon any exercise of Conversion Rights where the Conversion Date falls during the Relevant Event Period the Exchange Price (the “**Change of Control Exchange Price**”) shall be determined as set out below:

$$\text{COCEP} = \text{OEP} / (1 + (\text{EP} \times c/t))$$

where:

COCEP = means the Change of Control Exchange Price

OEP = means the Exchange Price in effect on the relevant Conversion Date

EP = means 22.5 per cent. (expressed as fraction)

c = means the number of days from and including the date the Change of Control occurs to but excluding the Final Maturity Date

t = means the number of days from and including the Issue Date to but excluding the Final Maturity Date.

- (xi) If the Guarantor (following consultation with the Calculation Agent) determines that an adjustment should be made to the Exchange Price (or that a determination should be made as to whether an adjustment should be made) as a result of one or more circumstances not referred to above in this Condition 8(b) (even if the relevant circumstance is specifically excluded from the operation of paragraphs (b)(i) to (x) above), the Guarantor shall, at its own expense and acting reasonably, request an Independent Adviser to determine, in consultation with the Calculation Agent, if different as soon as practicable what adjustment (if any) to the Exchange Price is fair and reasonable to take account thereof and the date on which such adjustment (if any) should take effect and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this paragraph (b)(xi) if such Independent Adviser is so requested to make such a determination not more than 21 days after the date on which the relevant circumstance arises and if the adjustment would result in a reduction to the Exchange Price.

(c) **Modifications**

Notwithstanding the foregoing provisions:

- (i) where the events or circumstances giving rise to any adjustment pursuant to this Condition 8 have already resulted or will result in an adjustment to the Exchange Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances

which have already given or will give rise to an adjustment to the Exchange Price or where more than one event which gives rise to an adjustment to the Exchange Price occurs within such a short period of time that, following consultation with the Calculation Agent in the opinion of the Guarantor, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall be made to the operation of the adjustment provisions as may be determined in good faith by an Independent Adviser to be in its opinion appropriate to give the intended result.

- (ii) such modification shall be made to the operation of these Conditions as may be determined in good faith by an Independent Adviser, in consultation with the Calculation Agent (if different) to be in its opinion appropriate (i) to ensure that an adjustment to the Exchange Price or the economic effect thereof shall not be taken into account more than once and (ii) to ensure that the economic effect of a Dividend is not taken into account more than once; and
- (iii) other than pursuant to Condition 8(b)(i), no adjustment shall be made that would result in an increase to the Exchange Price.

(d) Determination of Consideration

For the purpose of any calculation of the consideration receivable or price pursuant to paragraphs (b)(iv), (b)(vi), (b)(vii) and (b)(viii) the following provisions shall apply:

- (1) the aggregate consideration receivable or price for Ordinary Shares issued for cash shall be the amount of such cash;
- (2) (x) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the conversion or exchange of any Securities (whether on one or more occasion) shall be deemed to be the aggregate consideration or price received or receivable for any such Securities and (y) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any Securities or upon the exercise of any options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration or price received or receivable for such Securities or, as the case may be, for such options, warrants or rights which are attributed by the Guarantor to such rights of subscription or, as the case may be, such options, warrants or rights or, if no part of such consideration or price is so attributed, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the relevant Ex-Date, referred to in paragraph (b)(iv) or as at the relevant date of first public announcement referred to in (b)(vi), (b)(vii) or (b)(viii), as the case may be plus in the case of each of (x) and (y) above, the additional minimum consideration receivable or price (if any) upon the conversion or exchange of such Securities, or upon the exercise of such rights of subscription attached thereto or, as the case may be, upon exercise of such options, warrants or rights and (z) the consideration receivable or price per Ordinary Share upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such Securities or, as the case may be, upon the exercise of such options, warrants or rights shall be the aggregate consideration or price referred to in (x) or (y) above (as the case may be) divided by the number of Ordinary Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate all as determined in good faith by the Calculation Agent;
- (3) if the consideration or price determined pursuant to (1) or (2) above (or any component thereof) shall be expressed in a currency other than the Relevant Currency (other than in circumstances where such consideration is also expressed in the Relevant Currency, in which case such consideration shall be treated as expressed in the Relevant Currency in an amount equal to the

amount of such consideration when so expressed in the Relevant Currency), it shall be converted by the Calculation Agent into the Relevant Currency at the Prevailing Rate on the relevant Ex-Date (for the purposes of paragraph (b)(iv)) or the relevant date of first public announcement (for the purposes of paragraph (b)(vi), (vii) or (viii), as the case may be);

- (4) in determining the consideration or price pursuant to the above, no deduction shall be made for any commissions or fees (howsoever described) or any expenses paid or incurred for any underwriting, placing or management of the issue of the relevant Ordinary Shares or Securities or otherwise in connection therewith;
- (5) the consideration or price shall be determined as provided above on the basis of the consideration or price received, receivable, paid or payable, regardless of whether all or part thereof is received, receivable, paid or payable by or to the Issuer or another entity;
- (6) if as part of the same transaction, Ordinary Shares shall be issued or issuable for a consideration receivable in more than one or in different currencies then the consideration receivable per Ordinary Share shall be determined by dividing the aggregate consideration (determined as aforesaid and converted, if and to the extent not in the Relevant Currency, into the Relevant Currency as aforesaid) by the aggregate number of Ordinary Shares so issued; and
- (7) references in these Conditions to “cash” shall be construed as cash consideration within the meaning of Section 583(3) of the Companies Act.

(e) Retroactive Adjustments

If a Retroactive Adjustment occurs in relation to any exercise of Conversion Rights, the Guarantor shall (solely in respect of the Physically Settled Shares) procure that there shall be issued to the relevant Bondholder upon exchange of the relevant Preference Shares, in accordance with the instructions contained in the relevant Conversion Notice, such additional number of Ordinary Shares (if any) (the “**Additional Ordinary Shares**”) as, together with the Physically Settled Shares issued on the relevant exercise of Conversion Rights, is equal to the number of Physically Settled Shares which would have been required to be issued on such exercise if the relevant adjustment to the Exchange Price had been made and become effective immediately prior to the relevant Conversion Date (such number of Physically Settled Shares as aforesaid being for this purpose calculated as (i) where such exercise of Conversion Rights is not the subject of a Cash Alternative Election, the Reference Shares in respect of such exercise of Conversion Rights determined for this purpose by reference to such deemed Exchange Price as aforesaid, and (ii) where such exercise of Conversion Rights is the subject of a Cash Alternative Election, the difference between (A) such number of Reference Shares as is determined pursuant to (i) and (B) the product of (x) such number of Reference Shares determined as aforesaid and (y) the Cash Settlement Ratio in respect of such exercise of Conversion Rights) all as determined in good faith by the Calculation Agent or an Independent Adviser, provided that if in the case of paragraph (b)(ii), (b)(iii), (b)(iv), (b)(v) or (b)(ix) the relevant Bondholder shall be entitled to receive the relevant Ordinary Shares, Dividends or Securities in respect of the Reference Shares to be issued to it, then (solely in respect of such Reference Shares) no such Retroactive Adjustment shall be made in relation to the relevant event and the relevant Bondholder shall not be entitled to receive Additional Ordinary Shares in relation thereto.

(f) Decision and Determination of the Calculation Agent or an Independent Adviser

Adjustments to the Exchange Price shall be determined and calculated by the Calculation Agent upon request from the Issuer or the Guarantor, and/or, to the extent so specified in the Conditions and upon request from the Issuer or the Guarantor, by an Independent Adviser.

Adjustments to the Exchange Price calculated by the Calculation Agent or, where applicable, an Independent Adviser and any other determinations made by the Calculation Agent or, where applicable, an Independent Adviser, or an opinion of an Independent Adviser, pursuant to these Conditions shall in each case be made in good faith and shall be final and binding (in the absence of manifest error) on the Issuer, the Guarantor, the Trustee, the Bondholders, the Calculation Agent (in the case of a determination by an Independent Agent) and the Paying, Transfer, Conversion and Exchange Agents.

The Calculation Agent may consult, at the expense of the Issuer, failing whom the Guarantor, on any matter (including, but not limited to, any legal matter), any legal or other professional adviser and it shall be able to rely upon, and it shall not be liable and shall incur no liability as against the Trustee, the Bondholders or the Paying, Transfer, Conversion and Exchange Agents in respect of anything done, or omitted to be done, relating to that matter in good faith, in accordance with that adviser's opinion.

The Calculation Agent shall act solely upon the request from, and exclusively as agent of, the Issuer and the Guarantor and in accordance with these Conditions. Neither the Calculation Agent (acting in such capacity) nor any Independent Adviser appointed in connection with the Bonds (acting in such capacity) will thereby assume any obligations towards or relationship of agency or trust and shall not be liable and shall incur no liability in respect of anything done, or omitted to be done in good faith, in its capacity as Calculation Agent as against the Trustee, the Bondholders or the Paying, Transfer, Conversion and Exchange Agents.

(g) Share or Option Schemes, Dividend Reinvestment Plans

No adjustment will be made to the Exchange Price where Ordinary Shares or other Securities (including, but not limited to, rights, warrants and options) are issued, offered, exercised, allotted, purchased, appropriated, modified or granted (i) to, or for the benefit of, employees or former employees (including directors holding or formerly holding executive office or non-executive office, consultants or former consultants, or the personal service company of any such person) or their spouses or relatives, in each case, of the Guarantor or any of its Subsidiaries or any associated company or to a trustee or trustees nominee to be held for the benefit of any such person, in any such case pursuant to any share or option or incentive scheme or (ii) pursuant to any dividend reinvestment plan or similar plan or scheme that does not constitute a Dividend or a Scrip Dividend.

(h) Rounding Down and Notice of Adjustment to the Exchange Price

On any adjustment, the resultant Exchange Price, if not an integral multiple of U.S.\$0.0001, shall be rounded down to the nearest whole multiple of U.S.\$0.0001. No adjustment shall be made to the Exchange Price where such adjustment (rounded down if applicable) would be less than one per cent. of the Exchange Price then in effect. Any adjustment not required to be made, and/or any amount by which the Exchange Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time and/or, as the case may be, that the relevant rounding down had not been made.

Notice of any adjustments to the Exchange Price shall be given by the Issuer to Bondholders in accordance with Condition 19 promptly after the determination thereof.

The Exchange Price shall not in any event be reduced to below the nominal or par value of the Ordinary Shares or be reduced so that on conversion of the Bonds and transfer of Preference Shares, Ordinary Shares would fall to be issued in circumstances not permitted by applicable laws or regulations. The Guarantor undertakes that it shall not take any action, and shall procure that no action is taken, that would otherwise result in an adjustment to the Exchange Price to below such nominal or par value or

any minimum level permitted by applicable laws or regulations or that would otherwise result in Ordinary Shares being required to be issued in circumstances not permitted by applicable laws or regulations.

(i) Procedure for Conversion and Exchange

A Conversion Right may be exercised by a Bondholder during the Conversion Period by delivering the relevant Bond to the specified office of any Paying, Transfer, Conversion and Exchange Agent at its own expense, during its normal business hours, accompanied by a duly completed and signed notice of conversion (a “**Conversion Notice**”) in the form (for the time being current) obtainable from the Registrar or any Paying, Transfer, Conversion and Exchange Agent.

If the delivery of the relevant Bond and Conversion Notice as aforesaid is made after the end of normal business hours or on a day which is not a business day in the place of the specified office of the relevant Paying, Transfer, Conversion and Exchange Agent, such delivery shall be deemed for all purposes of these Conditions to have been made on the next following such business day.

Conversion Rights shall be exercised subject in each case to any fiscal or other laws or regulations applicable in the jurisdiction in which the specified office of the Registrar or the Paying, Transfer, Conversion and Exchange Agent to whom the relevant Conversion Notice is delivered is located.

A Conversion Right may be exercised only in respect of the whole of a Bond. A Conversion Notice, once delivered, shall be irrevocable.

The conversion date in respect of a Bond (the “**Conversion Date**”) shall be the London business day immediately following the date of such delivery and, if applicable, the making of any payment to be made by the Bondholder as provided below.

A Bondholder exercising a Conversion Right must pay any taxes and capital, stamp, issue and registration duties, stamp duty reserve tax or similar taxes or duties arising on conversion (other than any taxes or capital, stamp, issue and registration duties, stamp duty reserve tax or similar duties or taxes payable in Jersey, Belgium, Luxembourg or the United Kingdom or in any other jurisdiction in which the Issuer and/or the Guarantor may be domiciled or resident or to whose taxing jurisdiction it may generally be subject, in respect of the allotment and issue of any Preference Shares on such conversion or on transfer of the Preference Shares to the Guarantor on exchange of the Preference Shares or in respect of the allotment, issue of any Ordinary Shares issued on exchange of the Preference Shares, including any stamp duty or stamp duty reserve tax payable under Sections 67, 70, 93 or 96 of the Finance Act 1986 (including any Additional Ordinary Shares), which shall be paid by the Issuer or the Guarantor) and such Bondholder must pay all, if any, other taxes arising by reference to any disposal or deemed disposal of a Bond, any interest therein or any Preference Share in connection with such conversion and exchange.

Ordinary Shares to be issued on exchange of the Preference Shares (including any Additional Ordinary Shares) will be issued in uncertificated form through the dematerialised securities trading system operated by Euroclear UK and Ireland Limited, known as CREST, unless at the time of issue, the Ordinary Shares are not a participating security in CREST, in which case they will be issued in certificated registered form.

Where Ordinary Shares are to be issued through CREST, they will be delivered to the account specified by the relevant Bondholder in the relevant Conversion Notice by not later than seven London business days following the relevant Conversion Date (or, in the case of any Additional Ordinary Shares, not later than seven London business days following the date (the “**Reference Date**”) the relevant Retroactive Adjustment takes effect) (the “**Settlement Date**”). Where Ordinary Shares are to be issued in certificated

form, a certificate in respect thereof will be dispatched by ordinary mail free of charge (but uninsured and at the risk of the recipient) to the relevant Bondholder or as it may direct in the relevant Conversion Notice) within 14 days following the relevant Conversion Date or, as the case may be, the Reference Date.

The Ordinary Shares to be issued on exercise of Conversion Rights will not be available for issue (i) to, or to a nominee or agent for, Euroclear Bank SA/NV as operator of the Euroclear System or Clearstream Banking, *société anonyme* or any other person providing a clearance service within the meaning of Section 96 of the Finance Act 1986 of the United Kingdom or (ii) to a person, or nominee or agent for a person, whose business is or includes issuing depositary receipts within the meaning of Section 93 of the Finance Act 1986 of the United Kingdom, in each case at any time prior to the abolition day as defined in Section 111(1) of the Finance Act 1990 of the United Kingdom.

(j) Purchase or Redemption by the Guarantor of its Own Shares

The Guarantor or any Subsidiary of the Guarantor may exercise such rights as it may from time to time enjoy to purchase or redeem any shares of the Guarantor (including Ordinary Shares) or any receipts or certificates representing any such shares (including Ordinary Shares) without the consent of the Bondholders.

(k) Ranking and entitlement in respect of Ordinary Shares

Ordinary Shares (including any Additional Ordinary Shares) issued upon exchange of Preference Shares on exercise of Conversion Rights will be fully paid and will in all respects rank *pari passu* with the fully paid Ordinary Shares in issue on the relevant Conversion Date or, in the case of Additional Ordinary Shares, on the relevant Reference Date, and the relevant holder shall be entitled to all rights, distribution or payments the record date or other due date for the establishment of entitlement for which falls on or after the relevant Conversion Date, or as the case may be, the relevant Reference Date, except in any such case for any right excluded by mandatory provisions of applicable law or as otherwise may be provided in these Conditions. Such Ordinary Shares or, as the case may be, Additional Ordinary Shares will not rank for (or, as the case may be, the relevant holder shall not be entitled to receive) any rights, distributions or payments where the record date or other due date for the establishment of entitlement for which falls prior to the relevant Conversion Date or, as the case may be, the relevant Reference Date.

Save as provided in Condition 8(i), no payment or adjustment shall be made on exercise of Conversion Rights for any interest which otherwise would have accrued on the relevant Bonds since the last Interest Payment Date preceding the Conversion Date relating to such Bonds (or, if such Conversion Date falls before the first Interest Payment Date, since the Issue Date).

(l) Interest on Conversion

If an Optional Redemption Notice is given on or after the fifteenth London business day prior to a record date or other due date for establishment of entitlement in respect of any Dividend or distribution payable in respect of the Ordinary Shares, which record date or other due date for establishment of entitlement has occurred since the last Interest Payment Date (or in the case of the first Interest Period, since the Issue Date) (whether such notice is given before, on or after such record date or other due date for establishment of entitlement) and where such notice specifies an Optional Redemption Date falling on or prior to the date which is 14 days after the Interest Payment Date next following such record date or other due date for establishment of entitlement, interest shall accrue on Bonds in respect of which Conversion Rights shall have been exercised and in any such case in respect of which the Conversion Date falls after such record date or other due date for establishment of entitlement and on or prior to the Interest Payment Date next following such record date or other due date for establishment of entitlement,

in each case from and including the preceding Interest Payment Date (or, if such Conversion Date falls before the first Interest Payment Date, from the Issue Date) to but excluding such Conversion Date. The Issuer shall pay any such interest or procure that any such interest is paid by not later than 14 days after the relevant Conversion Date by transfer to a U.S. dollar account maintained with a branch of a bank in New York City, in accordance with instructions given by the relevant Bondholder in the relevant Conversion Notice.

(m) Preference Shares

- (i)** Preference Shares allotted pursuant to these Conditions will be fully paid and will rank *pari passu* with all (if any) fully paid Preference Shares then in issue except that the Preference Shares so allotted will not rank for any dividend or other distribution declared, paid or made by reference to a record date prior to such Conversion Date.
- (ii)** Preference Shares will be allotted as of the relevant Conversion Date and will be allotted in the name of the holder of the Bond completing the relevant Conversion Notice or of his nominee.

(n) Cash Alternative Election

- (i)** Upon exercise of Conversion Rights by a Bondholder, the Guarantor may make an election (a “**Cash Alternative Election**”) by giving notice (a “**Cash Alternative Election Notice**”) to the relevant Bondholder by not later than the date (the “**Cash Alternative Election Date**”) falling three dealing days following the relevant Conversion Date. A Cash Alternative Election Notice shall be sent to the address (or, if a fax number or email address is provided in the relevant Conversion Notice for such purpose, that fax number or email address) specified for that purpose in the relevant Conversion Notice (with a copy to the Trustee, the Principal Paying, Transfer, Conversion and Exchange Agent and the Calculation Agent).

A Cash Alternative Election Notice shall be irrevocable and shall specify:

- (1)** the Exchange Price in effect on the relevant Conversion Date and the number of Reference Shares in respect of such exercise of Conversion Rights;
- (2)** the aggregate number of Cash Settled Shares in respect of the relevant exercise of Conversion Rights and by reference to which the Cash Alternative Amount is to be calculated; and
- (3)** if the aggregate number of Cash Settled Shares is less than the aggregate number of Reference Shares in respect of the relevant exercise of Conversion Rights, the aggregate number of Physically Settled Shares to be issued by the Guarantor to the relevant Bondholder in consideration for the Preference Shares issued in respect of such exercise of Conversion Rights.

Where a Cash Alternative Election is made in respect of an exercise of Conversion Rights, the Guarantor shall satisfy its obligations in respect of the relevant exercise of Conversion Rights by (i) issuing or transferring and delivering the relevant number of Physically Settled Shares (if any) as provided in these Conditions and (ii) making payment or procuring that payment is made, to the relevant Bondholder of the Cash Alternative Amount in respect of the relevant Cash Settled Shares, and the Issuer shall pay any other amount payable by the Issuer to such Bondholder pursuant to these Conditions in respect of or relating to the relevant exercise of Conversion Rights, including any interest payable pursuant to Condition 8(l).

The Guarantor will pay the relevant Cash Alternative Amount and the Issuer will pay any other amount as aforesaid, by not later than 5 New York business days following the last day of the

Cash Alternative Calculation Period by transfer to a U.S. dollar account in accordance with instructions contained in the relevant Conversion Notice.

None of the Trustee, the Calculation Agent nor any Paying, Transfer, Conversion and Exchange Agent shall be under any duty to monitor whether any event or circumstance has happened or exists or may happen or exist and which requires or may require an adjustment to be made to the Exchange Price or be responsible or liable to any person for any loss arising from any failure by any of them to do so, nor shall the Trustee, the Calculation Agent, or any Paying, Transfer, Conversion and Exchange Agent be responsible or liable to any person (other than in the case of the Calculation Agent, to the Issuer and the Guarantor strictly in accordance with the relevant provisions of the Calculation Agency Agreement) for any determination of whether or not an adjustment to the Exchange Price is required or should be made nor as to the determination or calculation of any such adjustment. Neither the Trustee, the Calculation Agent nor any Paying, Transfer, Conversion and Exchange Agent shall be under any duty to monitor whether any event or circumstance has occurred or exists or may occur or exist which would entitle the Bondholders to exercise Conversion Rights pursuant to Condition 8(a).

- (ii) If there is a Retroactive Adjustment to the Exchange Price following the exercise of Conversion Rights by a Bondholder, in circumstances where (i) a Cash Alternative Election is or was made in respect of such exercise and (ii) any dealing day comprised in the Cash Alternative Calculation Period in respect of such exercise of Conversion Rights falls on or after the Applicable RA Reference Date, the Guarantor shall pay to the relevant Bondholder an additional amount (the “**Additional Cash Alternative Amount**”) calculated in good faith by the Calculation Agent and equal to the Market Price of such number of Ordinary Shares (rounded down if necessary to the nearest whole number of Ordinary Shares) (if any) as is equal to that by which the number of Cash Settled Shares would have been increased if the relevant adjustment to the Conversion Price had been made and become effective immediately prior to the relevant Conversion Date (such number of Cash Settled Shares as aforesaid being for this purpose calculated as the product of (x) the Reference Shares determined for this purpose by reference to such deemed Conversion Price as aforesaid and (y) the Cash Settlement Ratio, in the case of (x) and (y) in respect of such exercise of Conversion Rights), all as determined in good faith by the Calculation Agent.

The Guarantor will pay the Additional Cash Alternative Amount not later than 5 New York business days following the relevant Reference Date by transfer to a U.S. dollar account in accordance with instructions contained in the relevant Conversion Notice.

(o) Relevant Event Notice

Within 14 days following the occurrence of a Relevant Event, the Issuer or the Guarantor shall give notice thereof to the Bondholders in accordance with Condition 19 and to the Trustee (a “**Relevant Event Notice**”). Such notice shall contain a statement informing Bondholders of their entitlement to exercise their rights to require redemption of their Bonds pursuant to Condition 9(e) and, in the case of a Change of Control Event, a statement informing Bondholders of their entitlement to exercise their Conversion Rights as provided in these Conditions. The Relevant Event Notice shall also specify:

- (i) all information material to Bondholders concerning the Relevant Event;
- (ii) in the case of a Change of Control Event, the Exchange Price immediately prior to the occurrence of the Relevant Event and the Change of Control Exchange Price applicable pursuant to Condition 8(b)(x) during the Relevant Event Period;

- (iii) the closing price of the Ordinary Shares as derived from the Relevant Stock Exchange as at the latest practicable date prior to the publication of such notice;
- (iv) the last day of the Relevant Event Period;
- (v) the Relevant Event Put Date; and
- (vi) such other information relating to the Relevant Event as the Trustee may require.

The Trustee shall not be under any duty to monitor or to take any steps to ascertain whether a Relevant Event or any event or circumstance which could lead to a Relevant Event or give rise to an adjustment to the Exchange Price has occurred or may occur and the Trustee will not be responsible to any person for any loss arising from any failure by it to do so.

9 Redemption and Purchase

(a) *Final Redemption*

Unless previously purchased and cancelled, redeemed or converted as herein provided, the Bonds will be redeemed at their principal amount on the Final Maturity Date. The Bonds may only be redeemed at the option of the Issuer prior to the Final Maturity Date in accordance with Condition 9(b) or 9(c), and may only be redeemed at the option of the Bondholders prior to the Final Maturity Date in accordance with Condition 9(e).

(b) *Redemption at the Option of the Issuer*

Subject as provided in Condition 9(d), on giving not less than 30 nor more than 60 days' notice (an "**Optional Redemption Notice**") to the Trustee and to the Bondholders in accordance with Condition 19, the Issuer may redeem all but not some only of the Bonds on the date (the "**Optional Redemption Date**") specified in the Optional Redemption Notice at their principal amount, together with accrued interest to such date if, at any time prior to the date the relevant Optional Redemption Notice is given, Conversion Rights shall have been exercised and/or purchases (and corresponding cancellations) and/or redemptions effected in respect of 80 per cent. or more in principal amount of the Bonds originally issued (which shall for this purpose include any Further Bonds issued prior to the date the Optional Redemption Notice is given).

On the Optional Redemption Date, the Issuer shall redeem the Bonds at their principal amount, together with accrued interest up to (but excluding) the Optional Redemption Date.

(c) *Redemption for Taxation Reasons*

Provided the Bonds have been (even if they no longer remain) listed on a recognised stock exchange (within the meaning of Section 1005 of the Income Tax Act 2007) or admitted to trading on a "multilateral trading facility" operated by an EEA-regulated recognised stock exchange (within the meaning of Sections 987 and 1005 of the Income Tax Act 2007) the Issuer may, at any time, having given not less than 30 nor more than 60 days' notice (a "**Tax Redemption Notice**") to the Bondholders redeem (subject to the second following paragraph) all but not some only of the Bonds for the time being outstanding on the date (the "**Tax Redemption Date**") specified in the Tax Redemption Notice at their principal amount, together with accrued but unpaid interest to (but excluding) such date, if (i) the Issuer provides evidence to the Trustee that immediately prior to the giving of such notice that the Issuer (or, if the guarantee were called, the Guarantor) has or will become obliged to pay additional amounts pursuant to Condition 11 as a result of any change in, or amendment to, the laws or regulations of Jersey or the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which

change or amendment becomes effective on or after 19 June 2019, and (ii) such obligation cannot be avoided by the Issuer or the Guarantor, as the case may be, taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor, as the case may be, would be obliged to pay such additional amounts were a payment in respect of the Bonds or, as the case may be, the Guarantee then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (a) a certificate signed by two directors of the Issuer or the Guarantor, as the case may be, stating that the obligation referred to in (i) above cannot be avoided by the Issuer or the Guarantor, as the case may be, taking reasonable measures available to it and (b) an opinion (that may be subject to reasonable qualifications) of independent legal or tax advisers of recognised international standing to the effect that such change or amendment has occurred and that the Issuer or the Guarantor, as the case may be, has or will be obliged to pay such additional amounts as a result thereof (irrespective of whether such amendment or change is then effective) and the Trustee shall accept without any liability for so doing such certificate and opinion as sufficient evidence of the matters set out in (i) and (ii) above in which event it shall be conclusive and binding on the Bondholders.

On the Tax Redemption Date the Issuer shall (subject to the next following paragraph) redeem the Bonds at their principal amount, together with accrued interest to such date.

If the Issuer gives a Tax Redemption Notice, each Bondholder will have the right to elect that its Bonds shall not be redeemed and that the provisions of Condition 11 shall not apply in respect of any payment of interest to be made on such Bonds which falls due after the relevant Tax Redemption Date, whereupon no additional amounts shall be payable in respect thereof pursuant to Condition 11 and payment of all amounts of such interest on such Bonds shall be made subject to the deduction or withholding of any Jersey or United Kingdom, as the case may be, taxation required to be withheld or deducted. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying, Transfer, Conversion and Exchange Agent a duly completed and signed notice of election, in the form for the time being current, obtainable from the specified office of any Paying, Transfer, Conversion and Exchange Agent together with the relevant Bonds on or before the day falling 10 days prior to the Tax Redemption Date.

(d) Redemption Notices

Any Optional Redemption Notice or Tax Redemption Notice shall be irrevocable. Any such notice shall specify (i) the Optional Redemption Date or, as the case may be, the Tax Redemption Date, (ii) the Exchange Price, (iii) the aggregate principal amount of the Bonds outstanding and the closing price of the Ordinary Shares as derived from the Relevant Stock Exchange, in each case as at the latest practicable date prior to the publication of the Optional Redemption Notice or, as the case may be, the Tax Redemption Date, and (iv) the last day on which Conversion Rights may be exercised by Bondholders.

(e) Redemption at the Option of Bondholders

Following the occurrence of a Relevant Event, the holder of each Bond will have the right to require the Issuer to redeem that Bond on the Relevant Event Put Date at 101 per cent. of its principal amount, together with accrued and unpaid interest to such date. To exercise such right, the holder of the relevant Bond must present such Bond at the specified office of any Paying, Transfer, Conversion and Exchange Agent together with a duly completed and signed notice of exercise (a “**Relevant Event Put Exercise Notice**”), in the form for the time being current, obtainable from the specified office of any Paying, Transfer, Conversion and Exchange Agent at any time during the Relevant Event Period. The “**Relevant Event Put Date**” shall be the fourteenth day after the expiry of the Relevant Event Period.

Payment in respect of any such Bond shall be made by transfer to a U.S. dollar account with a bank in New York City specified by the relevant Bondholder in the Relevant Event Put Exercise Notice.

A Relevant Event Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem all Bonds the subject of Relevant Event Put Exercise Notices delivered as aforesaid on the Relevant Event Put Date.

(f) Purchase

Subject to the requirements (if any) of the stock exchange on which the Bonds may be listed at the relevant time, the Issuer or the Guarantor or any Subsidiary of the Guarantor may at any time purchase Bonds in the open market or otherwise at any price. Such Bonds may be held, resold or reissued, or, at the option of the Issuer or the Guarantor, surrendered to any Paying, Transfer, Conversion and Exchange Agent for cancellation.

(g) Cancellation

All Bonds in respect of which Conversion Rights are exercised or which are otherwise redeemed pursuant to this Condition 9 will be cancelled and may not be reissued or resold. Bonds purchased by the Issuer or the Guarantor or any Subsidiary of the Guarantor may be surrendered for cancellation or may be held, reissued or resold.

(h) Multiple Notices

If more than one notice of redemption is given pursuant to this Condition 9, the first of such notices to be given shall prevail, save that a notice given pursuant to Condition 9(e) shall prevail over a notice given pursuant to Condition 9(b) or (c) in circumstances where the Relevant Event Put Date falls prior to the Optional Redemption Date or Tax Redemption Date, as the case may be.

10 Payments

(a) Method of Payment

Payment of the principal amount of the Bonds and of interest due other than on an Interest Payment Date will be made to the persons shown in the Register at the close of business on the Record Date and subject to surrender of the Bonds, at the specified office of the Registrar or any Paying, Transfer, Conversion and Exchange Agent by transfer to a U.S. dollar account. Payments of interest due in respect of Bonds on an Interest Payment Date shall be made to the persons shown in the Register at the close of business on the Record Date.

Payments of all other amounts will be made as provided in these Conditions.

(b) Payments Subject to Fiscal Laws

All payments in respect of the Bonds are subject in all cases (i) to any applicable fiscal or other laws and regulations applicable thereto in the place of payment but without prejudice to Condition 11 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code and any regulations or agreements thereunder or official interpretations thereof (“**FATCA**”) or any law implementing an intergovernmental approach to FATCA.

(c) Non-Business Days

A Bond may only be presented for payment on a day which is a business day in the place of presentation and surrender and a business day in Frankfurt, London and New York City and if payment is due on any

other day, a Bond may not be presented for payment prior to the next following day which is a business day in the place of presentation and surrender and a business day in Frankfurt, London and New York City. No further interest or other payment will be made as a consequence of the day on which the relevant Bond may be presented for payment under this Condition 10(c) falling after the due date.

(d) *Paying, Transfer, Conversion and Exchange Agents, etc.*

The initial Paying, Transfer, Conversion and Exchange Agents and their initial specified offices are listed below. The Issuer and the Guarantor reserve the right under the Agency Agreement at any time, with the prior written approval of the Trustee (which approval shall not be unreasonably withheld or delayed), to vary or terminate the appointment of any Paying, Transfer, Conversion and Exchange Agent or the Registrar and appoint additional or other Paying, Transfer, Conversion and Exchange Agents or another Registrar, provided that they will maintain (i) a Principal Paying, Transfer, Conversion and Exchange Agent and (ii) a Registrar with a specified office outside the United Kingdom. Notice of any change in the Paying, Transfer, Conversion and Exchange Agents or their specified offices will promptly be given to the Bondholders in accordance with Condition 19.

(e) *Fractions*

Each payment by the Issuer or the Guarantor to a Bondholder will be rounded down to the nearest unit of the relevant currency.

11 Taxation

All payments made by or on behalf of the Issuer or the Guarantor in respect of the Bonds will be made free and clear of, and without deduction or withholding for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Jersey or the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, unless deduction or withholding of such taxes, duties, assessments or governmental charges is required to be made by law. In the event that any such withholding or deduction is required to be made, the Issuer or, as the case may be, the Guarantor will pay such additional amounts as will result in the receipt by the Bondholders of the amounts which would otherwise have been receivable had no such withholding or deduction been required, except that no such additional amount shall be payable in respect of interest on any Bond:

- (a) to a holder (or to a third party on behalf of a holder) who is subject to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with Jersey or, as the case may be, the United Kingdom, otherwise than merely by holding the Bond or by the receipt of amounts in respect of the Bond; or
- (b) pursuant to or in connection with FATCA.

References in these Conditions to principal and/or interest and/or any other amounts payable in respect of the Bonds shall be deemed also to refer to any additional amounts which may be payable under this Condition or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

The provisions of this Condition 11 shall not apply in respect of any payments of interest which fall due after the relevant Tax Redemption Date specified in that Tax Redemption Notice in respect of any Bonds which are the subject of a Bondholder election pursuant to Condition 9(c).

Where a withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature is imposed or levied by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, the exclusion in paragraph (a) of this Condition 11 will only apply for so long as the Bonds are listed on a recognised stock exchange (within the

meaning of Section 1005 of the Income Tax Act 2007) or admitted to trading on a “multilateral trading facility” operated by an EEA-regulated recognised stock exchange (within the meaning of Sections 987 and 1005 of the Income Tax Act 2007).

12 Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders shall (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction), (but in the case of the happening of any of the events mentioned in sub-paragraphs (b), (e), (h), (i) or (m) below and, in relation to Principal Subsidiaries only (f) and (g) below, only if the Trustee shall have certified in writing to the Issuer and the Guarantor that such event is, in its opinion, materially prejudicial to the Bondholders), give notice to the Issuer and the Guarantor that the Bonds are, and they shall accordingly thereby immediately become, due and repayable at their principal amount together with accrued interest if any of the following events (each, an “**Event of Default**”) shall have occurred and is continuing:

- (a) **Non Payment:** if default is made for a period of 7 days in the case of principal or 14 days in the case of interest in the payment of any sum due in respect of the Bonds or any of them; or
- (b) **Breach of Other Obligations:** if the Issuer or the Guarantor fails to perform or observe any of its other obligations (or any provision expressed as an obligation whether or not enforceable as such) under the Bonds or the Trust Deed and (except where the Trustee shall have certified to the Issuer in writing that it considers such failure to be incapable of remedy in which case no such notice or continuation as is hereinafter mentioned will be required) such failure continues for the period of 30 days next following the service by the Trustee of notice on the Issuer or the Guarantor requiring the same to be remedied; or
- (c) **Cross-Default:** if (i) any other indebtedness for borrowed money of the Issuer or the Guarantor or any Principal Subsidiary becomes (or becomes capable of being declared) due and repayable prior to its stated maturity by reason of an event of default howsoever described or (ii) any such indebtedness for borrowed money is not paid when due or, as the case may be, within any applicable grace period (whenever agreed) or (iii) the Issuer or the Guarantor or any Principal Subsidiary fails to pay when due (or, as the case may be, within any applicable grace period) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any indebtedness for borrowed money of any person or (iv) any security given by the Issuer or the Guarantor or any Principal Subsidiary for any indebtedness for borrowed money of any person or for any guarantee or indemnity of indebtedness for borrowed money of any person becomes enforceable by reason of default in relation thereto and steps are taken to enforce such security, save in any such case where there is a *bona fide* dispute as to whether the relevant indebtedness for borrowed money or any such guarantee or indemnity as aforesaid shall be (or shall become capable of being declared) due and payable, provided that (in relation to each of (i) to (iv) above) the aggregate amount of the relevant indebtedness for borrowed money in respect of which any one or more of the events mentioned above in this sub-paragraph (c) has or have occurred exceeds U.S.\$25,000,000 (or its equivalent in other currencies); or
- (d) **Winding-up:** if an order shall be made by any competent court or any resolution shall be passed for the winding-up or dissolution of the Issuer or the Guarantor, save, in the case of the Guarantor, for the purposes of or pursuant to a Newco Scheme (in circumstances where, in accordance with these Conditions and the Trust Deed, Newco is substituted under the Bonds and the Trust Deed as obligor under the Guarantee in place of the Guarantor and such adjustments are made to these Conditions and the Trust Deed to ensure that the Bonds may be converted into ordinary shares in Newco *mutatis mutandis* in accordance with and subject to these Conditions and the Trust Deed) or for the purposes of any other amalgamation, merger, consolidation, reorganisation, reconstruction or other similar

arrangement on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders; or

- (e) **Winding-up of a Principal Subsidiary:** if any order shall be made by any competent court or any resolution shall be passed for the winding-up or dissolution of a Principal Subsidiary, save for the purposes of any amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (A) not involving or arising out of the insolvency of such Principal Subsidiary and under which all the surplus assets of such Principal Subsidiary (which are attributable to the shares in such Principal Subsidiary which are held by the Guarantor or any of its other Subsidiaries) are transferred to the Guarantor or any of its other Subsidiaries or (B) the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders; or
- (f) **Cessation of Business:** if the Issuer or the Guarantor or any Principal Subsidiary shall cease to carry on the whole or substantially the whole of its business, save in each case for the purposes of or pursuant to a Spin-Off or a Newco Scheme (in circumstances where, in accordance with these Conditions and the Trust Deed, Newco is substituted under the Bonds and the Trust Deed as obligor under the Guarantee in place of the Guarantor and such adjustments are made to these Conditions and the Trust Deed to ensure that the Bonds may be converted into ordinary shares or units or equivalent in Newco *mutatis mutandis* in accordance with and subject to these Conditions and the Trust Deed) or for the purposes of any amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (i) not involving or arising out of the insolvency of the Issuer, the Guarantor or such Principal Subsidiary and under which all or substantially all of its assets are transferred to the Guarantor or another Subsidiary of the Guarantor or to a transferee or transferees which is or are, or immediately upon such transfer become(s), a Principal Subsidiary or Principal Subsidiaries or (ii) under which all or substantially all of its assets are transferred to a third party or parties (whether associates or not) for full consideration by the Guarantor or a Principal Subsidiary on an arm's length basis or (iii) the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders; or
- (g) **Insolvency:** if the Issuer or the Guarantor or any Principal Subsidiary shall suspend or announce its intention to suspend payment of its debts generally or shall be declared or adjudicated by a competent court to be unable, or shall admit in writing its inability, to pay its debts generally (within the meaning of Section 123(1) or (2) of the Insolvency Act 1986) as they fall due, or shall be adjudicated or found insolvent by a competent court or shall enter into any composition or other similar arrangement with its creditors generally under Part I of the Insolvency Act 1986; or
- (h) **Security Enforced:** if any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer, the Guarantor or any Principal Subsidiary over, in the opinion of the Trustee, a material part of its assets becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, administrator or other similar official in relation to the Issuer or the Guarantor or any Principal Subsidiary or in relation to the whole or, in the opinion of the Trustee, a substantial part of the undertaking or assets of any of them) and such enforcement is not stopped within 60 days; or
- (i) **Enforcement Proceedings:** a distress, attachment, execution or other process shall be levied or enforced upon or sued out against, or any encumbrance shall take possession of, the whole or in the opinion of the Trustee, a substantial part of the assets of the Issuer, the Guarantor or any Principal Subsidiary and in any of the foregoing cases it or he shall not be paid out or discharged within 60 days; or
- (j) **Ownership:** if the Issuer ceases to be wholly-owned by the Guarantor or any Principal Subsidiary; or
- (k) **Guarantee:** if the Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect; or

- (l) **Nationalisation:** any governmental authority or agency or any person acting on behalf of any governmental authority or agency seizes, compulsorily acquires, expropriates or nationalises all or a substantial part of the assets of the Issuer, the Guarantor or any Principal Subsidiary; or
- (m) **Analogous Events:** any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to under any of the foregoing paragraphs.

13 Undertakings

(a) *Deed Poll*

Whilst any Conversion Right remains exercisable, the Guarantor will, save with the approval of an Extraordinary Resolution or the prior written approval of the Trustee where, in the Trustee's opinion, it is not materially prejudicial to the interests of the Bondholders to give such approval or, in the case of a modification to the Deed Poll, unless the modification is approved by an Extraordinary Resolution or approved by the Trustee as provided in Condition 16(b), perform all of its obligations under, and not make any amendment to, the Deed Poll.

(b) *Undertakings of the Guarantor*

Whilst any Conversion Right remains exercisable, the Guarantor will, save with the approval of an Extraordinary Resolution or with the prior written approval of the Trustee where, in its opinion, it is not materially prejudicial to the interests of the Bondholders to give such approval:

- (i) other than in connection with a Newco Scheme, not issue or pay up any Securities, in either case by way of capitalisation of profits or reserves, other than:
 - (A) by the issue of fully paid Ordinary Shares or other Securities to Shareholders and other holders of shares in the capital of the Guarantor which by their terms entitle the holders thereof to receive Ordinary Shares or other Securities on a capitalisation of profits or reserves; or
 - (B) by the issue of fully paid Ordinary Shares, issued wholly, ignoring fractional entitlements, in lieu of the whole or part of a Dividend in cash; or
 - (C) by the issue of Ordinary Shares or any equity share capital to, or for the benefit of, any employee or former employee, director or executive holding or formerly holding executive office (including directors holding or formerly holding executive office or non-executive office, consultants or former consultants or the personal service company of any such person) or their spouses or relatives, in each case of the Guarantor or any of its Subsidiaries or any associated company or to trustees or nominees to be held for the benefit of any such person, in any such case pursuant to an employee, director or executive share, incentive or option scheme whether for all employees, directors, or executives or any one or more of them (a "**Permitted Issue**"),

unless, in any such case, the same gives rise (or would, but for the provisions of these Conditions relating to roundings and minimum adjustments or the carry forward of adjustments, give rise) to an adjustment to the Exchange Price;
- (ii) not modify the rights attaching to the Ordinary Shares with respect to voting, dividends or liquidation nor issue any other class of equity share capital carrying any rights which are more favourable than the rights attaching to the Ordinary Shares but so that nothing in this Condition 13(b)(ii) shall prevent:

- (A) the issue of any equity share capital to employees (including directors holding or formerly holding executive or non-executive office or the personal service company of any such person) whether of the Guarantor or any of the Guarantor's Subsidiaries or associated companies by virtue of their office or employment pursuant to any scheme or plan approved by the Guarantor or which is established pursuant to such a scheme or plan which is or has been so approved; or
- (B) any consolidation, reclassification or subdivision of the Ordinary Shares; or
- (C) any modification of such rights which is not, in the opinion of an Independent Adviser acting in good faith, materially prejudicial to the interests of the holders of the Bonds; or
- (D) any issue of equity share capital where the issue of such equity share capital results, or would, but for the provisions of these Conditions relating to roundings and minimum adjustments or the carry forward of adjustments or, where comprising Ordinary Shares, the fact that the consideration per Ordinary Share receivable therefor is at least 95 per cent. of the Current Market Price per Ordinary Share, otherwise result, in an adjustment to the Exchange Price; or
- (E) without prejudice to any rule of law or legislation (including regulations made under Sections 783, 784(3), 785 and 788 of the Companies Act or any other provision of that or any other legislation), the conversion of Ordinary Shares into, or the issue of any Ordinary Shares in, uncertificated form (or the conversion of Ordinary Shares in uncertificated form to certificated form) or the amendment of the Articles of Association of the Guarantor to enable title to Securities (including Ordinary Shares) to be evidenced and transferred without a written instrument or any other alteration to the Articles of Association of the Guarantor made in connection with the matters described in this Condition 13(b)(ii) or which is supplemental or incidental to any of the foregoing (including any amendment made to enable or facilitate procedures relating to such matters and any amendment dealing with the rights and obligations of holders of Securities, including Ordinary Shares, dealt with under such procedures); or
- (F) any issue of equity share capital or modification of rights attaching to the Ordinary Shares, where prior thereto the Issuer shall have instructed an Independent Adviser to determine what (if any) adjustments should be made to the Exchange Price as being fair and reasonable to take account thereof and such Independent Adviser shall have determined in good faith either that no adjustment is required or that an adjustment resulting in a decrease in the Exchange Price is required and, if so, the new Exchange Price as a result thereof and the basis upon which such adjustment is to be made and, in any such case, the date on which the adjustment shall take effect (and so that the adjustment shall be made and shall take effect accordingly); or
- (G) any alteration to the articles of association of the Guarantor made in connection with the matters described in this Condition 13 or which is supplemental or incidental to any of the foregoing (including any amendment made to enable or facilitate procedures relating to such matters and any amendment dealing with the rights and obligations of holders of Securities, including Ordinary Shares, dealt with under such procedures); or
- (H) without prejudice to Condition 9(e), the amendment of the articles of association of the Guarantor following a Change of Control Event to ensure that any Bondholder exercising its Conversion Right after the occurrence of a Change of Control Event will receive the same consideration for the Ordinary Shares arising on conversion as it would have

received had it exercised its Conversion Right at the time of the occurrence of the Change of Control Event; or

- (I) a Permitted Issue;
- (iii) except as part of any employee, director or executive share or option or incentive scheme, procure that no Securities (whether issued by the Guarantor or any Subsidiary of the Guarantor or procured by the Guarantor or any Subsidiary of the Guarantor to be issued or issued by any other person pursuant to any arrangement with the Guarantor or any Subsidiary of the Guarantor) issued without rights to convert into, or exchange or subscribe for, Ordinary Shares shall subsequently be granted such rights exercisable at a consideration per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share at the date of the first public announcement of the proposed inclusion of such rights unless the same gives rise (or would, but for the provisions of these Conditions relating to roundings and minimum adjustments or the carry forward of adjustments, give rise) to an adjustment to the Exchange Price and that at no time shall there be in issue Ordinary Shares of differing nominal values, save where such Ordinary Shares have the same economic rights;
- (iv) not make any issue, grant or distribution or take or omit to take any other action if the effect thereof would be that Ordinary Shares could not, under any applicable law then in effect, be legally issued as fully paid in exchange for the Preference Shares;
- (v) not reduce its issued share capital, share premium account, or any uncalled liability in respect thereof, or any non-distributable reserves, except:
 - (A) pursuant to the terms of issue of the relevant share capital; or
 - (B) by means of a purchase or redemption of share capital of the Guarantor to the extent permitted by applicable law; or
 - (C) as permitted by Section 610 (2) and (3) of the Companies Act; or
 - (D) where the reduction does not involve any distribution of assets to Shareholders; or
 - (E) solely in relation to a change in the currency in which the nominal value of the Ordinary Shares is expressed; or
 - (F) a reduction of its share premium account to facilitate the writing off of goodwill arising on consolidation which requires the confirmation of the High Court and which does not involve the return, either directly or indirectly, of an amount standing to the credit of the share premium account of the Guarantor and in respect of which the Guarantor shall have tendered to the High Court such undertaking as it may require prohibiting, so long as any of the Bonds remains outstanding, the distribution (except by way of capitalisation issue) of any reserve which may arise in the books of the Guarantor as a result of such reduction; or
 - (G) to create distributable reserves (to which, in respect of any such creation of distributable reserves by the Guarantor, the Trustee will be deemed to have irrevocably given its consent (without any liability for so doing) prior to such creation of distributable reserves occurring and, to the extent that express consent is required, the Bondholders authorise and direct the Trustee to give its consent (without any liability for so doing) to such creation of distributable reserves); or
 - (H) pursuant to a Newco Scheme; or

- (I) by way of transfer to reserves as permitted under applicable law; or
- (J) where the reduction is permitted by applicable law and the Trustee is advised by an Independent Adviser, acting as an expert and in good faith, that in its opinion the interests of the Bondholders will not be materially prejudiced by such reduction; or
- (K) where the reduction is permitted by applicable law and results (or, in the case of a reduction in connection with a Change of Control Event, will result) in (or would, but for the provisions of these Conditions relating to roundings or the carry forward of adjustments, result in) an adjustment to the Exchange Price or is otherwise taken into account for the purposes of determining whether such an adjustment should be made; or
- (L) pursuant to a Scheme of Arrangement involving a reduction and cancellation of Ordinary Shares and the issue to Shareholders of an equal number of Ordinary Shares by way of capitalisation of profits or reserves,

provided that, without prejudice to the other provisions of these Conditions, the Guarantor may exercise such rights as it may from time to time be entitled pursuant to applicable law to purchase, redeem or buy back its Ordinary Shares and any depositary or other receipts or certificates representing Ordinary Shares without the consent of Bondholders;

- (vi) if any offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) Shareholders other than the offeror and/or any associates (as defined in Section 988(1) of the Companies Act or any modification or re-enactment thereof) of the offeror) to acquire the whole or any part of the issued Ordinary Shares, or if any person proposes a scheme with regard to such acquisition (other than a Newco Scheme), give notice of such offer or scheme to the Bondholders at the same time as any notice thereof is sent to the Shareholders (or as soon as practicable thereafter) that details concerning such offer or scheme may be obtained from the specified offices of the Paying, Transfer and Conversion Agents and, where such an offer or scheme has been recommended by the board of directors of the Guarantor, or where such an offer has become or been declared unconditional in all respects or such scheme has become effective, use its reasonable endeavours to procure that a like offer or scheme is extended to the holders of any Ordinary Shares issued during the period of the offer or scheme arising out of the exercise of Conversion Rights and/or to the holders of the Bonds (which like offer or scheme to Bondholders shall entitle Bondholders to receive the same type and amount of consideration they would have received had they held the number of Ordinary Shares to which such Bondholders would be entitled assuming Bondholders were to exercise Conversion Rights in the relevant Relevant Event Period);
- (vii) in the event of a Newco Scheme, take (or shall procure that there is taken) all necessary action to ensure that (to the satisfaction of the Trustee) immediately after completion of the Scheme of Arrangement, at its option, either (a) Newco is substituted under the Bonds and the Trust Deed and the Deed Poll as principal obligor in place of the Issuer (with the Guarantor providing a guarantee) subject to and as provided in the Trust Deed; or (b) Newco becomes a guarantor under the Bonds and the Trust Deed and the Deed Poll (jointly and severally with the Guarantor) and, in either case, that (i) such amendments are made to these Conditions, the Trust Deed and the Deed Poll as are necessary, in the opinion of the Trustee, to ensure that the Bonds may be converted into or exchanged (whether by the exchange for preference shares or otherwise) for ordinary shares or units or the equivalent in Newco *mutatis mutandis* in accordance with and subject to these Conditions, and the Trust Deed and (ii) the ordinary shares or units or the equivalent of Newco are:

- (A) admitted to the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange's EEA Regulated Market; or
- (B) admitted to listing on another regulated, regularly operating, recognised stock exchange or securities market,

(and the Trustee shall (at the expense of the Issuer of the Guarantor), subject to the satisfaction of the conditions set out above in this paragraph (ix), be obliged to concur in effecting such substitution or grant of such guarantee and in either case making any such amendments, provided that the Trustee shall not be obliged so to concur if, in the opinion of the Trustee, doing so would impose more onerous or additional obligations, responsibilities or duties upon it or expose it to further liabilities or reduce or amend the protective provisions afforded to the Trustee in these Conditions, the Trust Deed, the Deed Poll or the Agency Agreement (including any supplemental trust deed or supplemental agency agreement));

- (viii) use all reasonable endeavours to ensure that the Ordinary Shares issued upon exchange of the Preference Shares will, as soon as is practicable, be admitted to listing and to trading on the Relevant Stock Exchange and will be listed, quoted or dealt in, as soon as is practicable, on any other stock exchange or securities market on which the Ordinary Shares may then be listed or quoted or dealt in;
- (ix) by no later than the Issue Date (i) publish a copy of these Conditions (including a legend regarding the intended target market for the Bonds) on its website and (ii) thereafter (and for so long as any of the Bonds remain outstanding) maintain the availability of these Conditions (as the same may be amended in accordance with their terms) on such website;
- (x) for so long as any Bond remains outstanding, use all reasonable endeavours to ensure that its issued and outstanding Ordinary Shares shall be admitted to listing on the Relevant Stock Exchange; and
- (xi) be the beneficial owner of all of the ordinary share capital of the Issuer.

(c) *Undertakings of the Issuer and the Guarantor*

Whilst any Bond remains outstanding, the Issuer will, and the Guarantor will procure that the Issuer will, save with the approval of an Extraordinary Resolution or with the prior written approval of the Trustee where, in the Trustee's opinion, it is not materially prejudicial to the interests of the Bondholders to give such approval:

- (i) not become domiciled or resident in or subject generally to the taxing authority of any jurisdiction (other than the United Kingdom or Jersey) unless it would not thereafter be required pursuant to then current laws and regulations to withhold or deduct for or on account of any taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of such jurisdiction or any applicable sub-division thereof or therein having power to tax in respect of any payment on or in respect of the Bonds;
- (ii) comply with the obligations assumed by it under the Articles of the Issuer and not make any amendment to the Articles of the Issuer which would vary, abrogate or modify the rights appertaining to the Preference Shares;
- (iii) at all times, keep available for issue, free from pre-emptive rights out of its authorised but unissued capital, such number of Preference Shares as would enable all the unexercised

Conversion Rights and any other rights of conversion into, subscription for and exchange into Preference Shares to be satisfied in full;

- (iv) not issue any other share capital with rights which are more favourable than the rights attaching to the Preference Shares in respect of dividends or payment of the Paid-up Value thereof or on a return of capital or otherwise;
- (v) not cause the Paid-up Value of the Preference Shares to be altered (whether by consolidation or sub-division of the Preference Shares or otherwise);
- (vi) except with the prior written consent of the Trustee pursuant to the Trust Deed, not alter those provisions of the Trust Deed which are expressed to be binding only as between the Issuer and the Guarantor and not directly enforceable by Bondholders; and
- (vii) use its reasonable endeavours to obtain by not later than 3 October 2019 a listing of the Bonds on a recognised stock exchange (within the meaning of Section 1005 of the Income Tax Act 2007) or their admission to trading on a “multilateral trading facility” operated by an EEA-regulated recognised stock exchange (within the meaning of Sections 987 and 1005 of the Income Tax Act 2007) and thereafter maintain such listing or admission to trading, provided that if the Issuer or the Guarantor determines in good faith that it can no longer comply with its requirements for such listing, having used such endeavours, or if the maintenance of such listing or admission to trading is unduly onerous, the Issuer and the Guarantor will instead use its reasonable endeavours to obtain and maintain a listing on such other recognised stock exchange (as such term is defined in Section 1005 of the Income Tax Act 2007) or admission to trading on such other “multilateral trading facility” operated by an EEA-regulated recognised stock exchange (within the meaning of Sections 987 and 1005 of the Income Tax Act 2007) as the Issuer may decide, provided that the creation or issue of any class of share capital ranking junior to or *pari passu* with the Preference Shares as respects rights to dividends and to payment of the paid-up value thereof on a return of capital or otherwise shall be deemed not to be a variation, abrogation or modification of the rights appertaining to the Preference Shares.

(d) Consolidation, Amalgamation or Merger

The Guarantor will not consolidate with, merge or amalgamate into or transfer its properties and assets substantially as an entirety to any corporation or convey or transfer its properties and assets substantially as an entirety to any person (the consummation of any such event, a “**Merger**”), unless:

- (i) the surviving entity of such Merger (if not the Guarantor) or the person that acquired such properties and assets shall expressly assume, by a supplemental trust deed and a deed supplemental to the Deed Poll in form and substance satisfactory to the Trustee, all obligations of the Guarantor under the Trust Deed, the Deed Poll and the Bonds and the performance of every covenant and agreement applicable to it contained therein and shall take such action and provide such undertakings, covenants and indemnities as may be required by the Trustee to ensure that the holder of each Bond then outstanding will have the right (during the period when such Bond shall be convertible) to convert such Bond into the class and amount of shares, cash and other Securities and property receivable upon such consolidation, amalgamation, merger, sale or transfer by a holder of the number of Ordinary Shares which would have become liable to be issued upon conversion of such Bond immediately prior to such consolidation, amalgamation, merger, sale or transfer; and
- (ii) immediately after giving effect to any such Merger, no Event of Default or Potential Event of Default (as defined in the Trust Deed) shall have occurred or be continuing or would result

therefrom as confirmed to the Trustee by (A) a certificate of two directors of the Guarantor and (B) a certificate of two directors of the corporation that would result from such Merger or, as the case may be, a certificate from any such person referred to above.

Such supplemental trust deed shall provide for adjustments which will be as nearly equivalent as may be practicable to the adjustments provided for in these Conditions. The Trustee shall be entitled to require from the Guarantor such opinions, consents, documents and other matters at the expense of the Issuer or the Guarantor in connection with the foregoing as it may consider appropriate and may rely on such opinions, consents and documents without liability to any person. The provisions of this Condition 13(d) shall apply in the same way to any subsequent consolidations, amalgamations, mergers, sales or transfers.

(e) Certificate of Directors

The Issuer and the Guarantor have undertaken in the Trust Deed to deliver to the Trustee annually a certificate of two directors of the Issuer or the Guarantor, as the case may be, as to there not having occurred an Event of Default or a Potential Event of Default or a Relevant Event since the date of the last such certificate, or if such event has occurred, as to the details of such event. The Trustee will be entitled to rely on such certificate and shall not be obliged to independently monitor compliance by the Issuer or the Guarantor with the undertaking set forth in this Condition 13, and shall not be liable to any person for not so doing.

14 Prescription

Claims against the Issuer or the Guarantor in respect of the principal amount, interest or any other amount payable in respect of the Bonds shall become void unless presentation for payment is made as required by Condition 10 within a period of 10 years in the case of principal and five years in the case of interest or any other amounts from the appropriate Relevant Date.

15 Replacement of Bonds

If any Bond is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying, Transfer, Conversion and Exchange Agent or the Registrar for the time being subject to all applicable laws and stock exchange requirements, upon payment by the claimant of such costs and expenses incurred in connection with such replacement and on such terms as to evidence and indemnity as the Issuer, the Guarantor, the Principal Paying, Transfer, Conversion and Exchange Agent and the Registrar may require. Mutilated or defaced Bonds must be surrendered before replacements will be issued.

16 Meetings of Bondholders, Modification and Waiver

(a) Meetings of Bondholders

The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed or the Deed Poll or the Articles of the Issuer (in the case of the Articles of the Issuer, which would vary, abrogate or modify the rights appertaining to the Preference Shares). Such a meeting may be convened by the Issuer, the Guarantor or the Trustee and shall be convened by the Trustee at the request of Bondholders holding not less than 10 per cent. in principal amount of the Bonds for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented, except that at any meeting the business of which includes (i) modifying the Final

Maturity Date, or any date for payment of interest on the Bonds, (ii) reducing or cancelling the principal amount or the rate of interest payable in respect of, or altering the currency of payment of, the Bonds, (iii) increasing the Exchange Price other than in accordance with the Conditions, (iv) modifying or varying the Conversion Rights in respect of the Bonds or the rights of Bondholders to receive Ordinary Shares and/or the Cash Alternative Amount on exercise of Conversion Rights pursuant to these Conditions, (v) modifying the rights appertaining to the Preference Shares, (vi) modifying the governing law of the Bonds, the Trust Deed or the Agency Agreement (other than in the case of a substitution of the Issuer or the Guarantor (or any previous substitute or substitutes) under Condition 16(c)) or (vii) modifying the provisions in Schedule 3 to the Trust Deed concerning the quorum required at a meeting or the majority required to pass an Extraordinary Resolution, the quorum shall be one or more persons holding or representing not less than two-thirds in principal amount of the Bonds for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-quarter in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Bondholders shall be binding on all the Bondholders, whether or not they are present at the meeting.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. of the aggregate principal amount of Bonds outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

The Trust Deed also provides that a consent given by way of electronic consent through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of the holders of not less than 75 per cent. of the aggregate principal amount of the Bonds outstanding, shall, in any such case, be effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held.

(b) *Modification and Waiver*

The Trustee may agree, without the consent of the Bondholders, to any modification of (except as mentioned in the Trust Deed) or to the waiver or authorisation of any breach or proposed breach of any of the provisions of the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Bonds, the Deed Poll or the Articles of the Issuer (in the case of the Articles of the Issuer, which would vary, abrogate or modify the rights appertaining to the Preference Shares) or determine without any such consent as aforesaid that any Event of Default or Potential Event of Default shall not be treated as such, where, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders so to do or may agree, and without any such consent as aforesaid, to any modification which is, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law. Any such modification, authorisation, determination or waiver shall be binding on the Bondholders and, if the Trustee so requires, such modification shall be notified to the Bondholders promptly in accordance with Condition 19.

(c) *Substitution*

The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Bondholders, to the substitution of any other Subsidiary of the Guarantor or of Newco (as provided in Condition 13(b)(vii)) in place of the Issuer, or, in the case of a Newco Scheme, in place of the Issuer and the Guarantor, or of any previous substituted company, as principal debtor under the Trust Deed and the Bonds, subject to the Bonds continuing to be convertible, *mutatis mutandis* as provided in these

Conditions and the Articles of the Issuer, into preference shares in the capital of the substituted company with like rights, *mutatis mutandis*, to the Preference Shares and to such preference shares being immediately exchangeable for Ordinary Shares *mutatis mutandis* as provided in the Articles of the Issuer or, in the case of a Newco Scheme, subject to the Bonds being convertible or exchangeable (whether by the exchange for preference shares or otherwise) for ordinary shares of Newco *mutatis mutandis*, and, other than in the case of a Newco Scheme, the obligations of the Guarantor under the Deed Poll applying *mutatis mutandis* to such preference shares. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Deed and/or the Deed Poll, provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders. Any such substitution shall be binding on the Bondholders and shall be notified promptly to the Bondholders in accordance with Condition 19.

(d) Entitlement of the Trustee

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the general interests of the Bondholders as a class but shall not have regard to any interests arising from circumstances particular to individual Bondholders (whatever their number) and, in particular, but without limitation shall not have regard to the consequences of any such exercise for individual Bondholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory, or any political subdivision thereof and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer, the Guarantor or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders save to the extent already provided for in the Conditions or the Trust Deed.

17 Enforcement

The Trustee may at any time, at its discretion and without notice, take such proceedings, actions and/or steps (including lodging an appeal in any proceedings) against the Issuer or the Guarantor as it may think fit to enforce the provisions of the Trust Deed and the Bonds, but it shall not be bound to take any such proceedings, actions and/or steps unless (i) it shall have been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding, and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. Notwithstanding the above:

- (i) the Trustee may refrain from taking any proceedings, actions or steps in any jurisdiction if the taking of such action in that jurisdiction would, in its opinion based upon legal advice in the relevant jurisdiction, be contrary to any law of that jurisdiction; and
- (ii) the Trustee may refrain from taking any proceedings, actions or steps in any jurisdiction if in its opinion based upon legal advice in the relevant jurisdiction it would or may render it liable to any person in that jurisdiction or, it would or may not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or if it is determined by any court or other competent authority in that jurisdiction that it does not have such power.

No Bondholder shall be entitled to (i) take any proceedings, actions or steps against the Issuer or the Guarantor to enforce the performance of any of the provisions of the Trust Deed or the Bonds or (ii) take any other proceedings, actions and/or steps (including lodging an appeal in any proceedings) in respect of or concerning the Issuer or the Guarantor, in each case unless the Trustee, having become bound so to take any such proceedings, actions or fails so to do within a reasonable period and the failure shall be continuing.

18 The Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including relieving it from taking action unless indemnified and/or secured and/or prefunded to its satisfaction.

The Trustee is entitled, *inter alia*:

- (a) to enter into business transactions with the Issuer or the Guarantor, and/or the Subsidiaries of the Guarantor and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to the Issuer or the Guarantor and/or the Subsidiaries of the Guarantor and any entity related to the Issuer or the Guarantor without accounting for any profit;
- (b) to rely without liability to Bondholders on a report, confirmation or certificate of any accountants, financial advisers or financial institution or other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise;
- (c) to accept and rely on any such report, confirmation or certificate where the Issuer or the Guarantor procures delivery of the same pursuant to its obligation to do so under a condition hereof and such report, confirmation or certificate shall, if so relied upon, be binding on the Issuer, the Guarantor, the Trustee and the Bondholders in the absence of manifest error;
- (d) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of or consequences for individual Bondholders;
- (e) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith; and
- (f) to call for and be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing a certificate signed on behalf of the Issuer or the Guarantor by two directors of the Issuer or, as the case may be, the Guarantor as to any fact or matter upon which the Trustee may, in the exercise of any of its trusts, duties, powers, authorities, rights and discretions under the Trust Deed, require to be satisfied or have information, or to the effect that in the opinion of the person so certifying any particular transaction or thing is expedient, and the Trustee shall not be bound in any such case to call for further evidence or be responsible for any loss that may be occasioned by the Trustee acting on such certificate.

19 Notices

All notices required to be given to Bondholders pursuant to the Conditions will (unless otherwise provided in these Conditions) be given by publication through the electronic communication system of Bloomberg. The Issuer shall also ensure that all notices are duly published (if such publication is required) in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Bonds are for the time being listed and/or admitted to trading. Any such notice shall be deemed to have been given on the date of such publication or if required to be published in more than one manner or at different times, then such notice shall be deemed to have been given on the date of the publication in each required manner and time. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve.

The Issuer shall send a copy of all notices given by it to the Bondholders (or a Bondholder) or the Trustee pursuant to these Conditions simultaneously to the Calculation Agent.

20 Further Issues

The Issuer may from time to time without the consent of the Bondholders create and issue further notes, bonds or debentures either having the same terms and conditions in all respects as the outstanding notes, bonds or debentures of any series (including the Bonds) or in all respects except for the first payment of interest on them and so that such further issue shall be consolidated and form a single series with the outstanding notes, bonds or debentures of any series (including the Bonds) or upon such terms as to interest, conversion, premium, redemption and otherwise as the Issuer may determine at the time of their issue. Any further notes, bonds or debentures forming a single series with the outstanding notes, bonds or debentures of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other notes, bonds or debentures may, with the prior written consent of the Trustee, be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of notes, bonds or debentures of other series in certain circumstances where the Trustee so decides.

21 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

22 Governing Law and Jurisdiction

(a) Governing Law

The Trust Deed, the Agency Agreement, the Deed Poll and the Bonds and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) Jurisdiction

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed or the Bonds and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed or the Bonds ("**Proceedings**") may be brought in such courts. The Issuer and the Guarantor have in the Trust Deed irrevocably submitted to the jurisdiction of such courts and have waived any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of the Trustee and each of the Bondholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) Agent for Service of Process

The Issuer has irrevocably appointed the Guarantor at its registered office for the time being, currently at Grosvenor Place, Belgravia, London SW1X 7HH, United Kingdom as its agent in England to receive service of process in any Proceedings in England. Nothing herein or in the Trust Deed shall affect the right to serve process in any other manner permitted by law.

Schedule 2

Form of Original Definitive Registered Bond

On the front:

ISIN: XS1843433555

THE BONDS REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE US SECURITIES ACT OF 1933 (THE “**SECURITIES ACT**”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED UNDER THE SECURITIES ACT EXCEPT IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATIONS UNDER THE SECURITIES ACT.

PETROPAVLOVSK 2010 LIMITED

(incorporated with limited liability in Jersey with registered number 104830)

PETROPAVLOVSK PLC

(incorporated with limited liability in England and Wales with registered number 04343841)

U.S.\$125,000,000 8.25 per cent. Guaranteed Convertible Bonds due 2024

This Bond is a Definitive Registered Bond and forms part of a series designated as specified in the title (the “**Bonds**”) of Petropavlovsk 2010 Limited (the “**Issuer**”) and constituted by the Trust Deed referred to on the reverse hereof. The Bonds are subject to, and have the benefit of, that Trust Deed and the terms and conditions (the “**Conditions**”) set out on the reverse hereof.

The Issuer hereby certifies that [●] is/are, at the date hereof, entered in the Register as the holder(s) of Bonds in the principal amount of U.S.\$[●].

The Bonds represented by this certificate are convertible into preference shares in the Issuer which will, following their issue, be immediately delivered to Petropavlovsk PLC (the “**Guarantor**”) in consideration for which the Guarantor will deliver to the converting holder of such redeemable preference shares, ordinary shares of £0.01 each of the Guarantor subject to and in accordance with the Conditions and the Trust Deed.

This Definitive Registered Bond is evidence of entitlement only. Title to Registered Bonds passes only on due registration on the Register and only the duly registered holder is entitled to payments in respect of this Bond.

This Definitive Registered Bond shall not be valid or become obligatory for any purpose until authenticated by or on behalf of the Registrar.

This Definitive Registered Bond and any non-contractual obligations arising out of or in connection with it are governed by and shall be construed in accordance with English law.

In witness whereof the Issuer has caused this Bond to be signed manually or in facsimile on its behalf.

Dated [●]

Director

For and on behalf of

PETROPAVLOVSK 2010 LIMITED

This Registered Bond is authenticated by or on behalf of the Registrar

By:

Authorised Signatory

On the back:

Terms and Conditions to be appended.

Principal Paying, Transfer, Conversion and Exchange Agent

Citibank N.A., London Branch
21st Floor Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB

Registrar

Citigroup Global Markets Europe AG
Reuterweg 1660323
Frankfurt am Main
Germany

Form of Transfer

FOR VALUE RECEIVED the undersigned hereby transfers to

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS OF TRANSFEREE)

(not more than four names may appear as joint holders)

U.S.\$[●] in principal amount of this Bond, and all rights under it, and irrevocably requests the Registrar to transfer this Bond on the books kept for registration thereof.

Dated

Signed

Notes:

1. The signature to this transfer must correspond with the name as it appears on the face of this Bond. A representative of the Bondholder should state the capacity in which he signs e.g. executor.
2. The signature of the person effecting a transfer shall conform to any list of duly authorised specimen signatures supplied by the registered holder or be certified by a recognised bank, notary public or in such other manner as the Registrar may require.
3. Any transfer of Bonds shall be in the minimum amount of U.S.\$200,000.

Schedule 3

Form of Original Global Bond

THE BONDS REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE US SECURITIES ACT OF 1933 (THE “**SECURITIES ACT**”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED UNDER THE SECURITIES ACT EXCEPT IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATIONS UNDER THE SECURITIES ACT.

ISIN: XS1843433555

PETROPAVLOVSK 2010 LIMITED

(incorporated with limited liability in Jersey with registered number 104830)

PETROPAVLOVSK PLC

(incorporated with limited liability in England and Wales with registered number 04343841)

U.S.\$125,000,000 8.25 per cent. Guaranteed Convertible Bonds due 2024

Global Bond

The Bonds in respect of which this Global Bond is issued form part of the series designated as specified in the title (the “**Bonds**”) of Petropavlovsk 2010 Limited (the “**Issuer**”).

The Issuer hereby certifies that BT Globenet Nominees Limited acting as common depository for Euroclear Bank SA/NV (Euroclear) and Clearstream Banking, S.A. (Clearstream, Luxembourg) is, at the date hereof, entered in the register of Bondholders as the holder of Bonds in the principal amount of

U.S.\$125,000,000

(ONE HUNDRED AND TWENTY FIVE MILLION U.S. DOLLARS)

or such other amount as is shown on the register of Bondholders as being represented by this Global Bond and is duly endorsed (for information purposes only) in the third column of the Schedule to this Global Bond. For value received, the Issuer promises to pay the person who appears at the relevant time on the register of Bondholders as holder of the Bonds in respect of which this Global Bond is issued, such amount or amounts as shall become due and payable from time to time in respect of such Bonds and otherwise to comply with the Conditions referred to below.

The Bonds are constituted by a trust deed dated 3 July 2019 (the “**Trust Deed**”) between the Issuer, Petropavlovsk PLC as guarantor and Apex Corporate Trustees (UK) Limited as trustee (the “**Trustee**”) and are subject to the Trust Deed and the terms and conditions (the “**Conditions**”) set out in Schedule 1 to the Trust Deed, as modified by the provisions of this Global Bond. Terms defined in the Trust Deed have the same meaning when used herein.

This Global Bond is evidence of entitlement only.

Title to the Bonds passes only on due registration on the register of Bondholders and only the duly registered holder is entitled to payments on Bonds in respect of which this Global Bond is issued.

Exchange for Definitive Registered Bonds

This Global Bond is exchangeable in whole but not in part (free of charge to the holder) for Definitive Registered Bonds if this Global Bond is held on behalf of Euroclear or Clearstream, Luxembourg or such other clearing system as shall have been approved by the Trustee (the “**Alternative Clearing**”).

System") and any such clearing system is closed for business for a continuous period of 14 days or more (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so by such holder giving notice to the Principal Paying, Transfer, Conversion and Exchange Agent. On or after the Exchange Date the holder of this Global Bond may surrender this Global Bond to or to the order of the Registrar. In exchange for this Global Bond, the Issuer shall deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Registered Bonds.

"Exchange Date" means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar is located and in the cities in which Euroclear and Clearstream, Luxembourg or, if relevant, the Alternative Clearing System are located.

Except as otherwise described herein, this Global Bond is subject to the Conditions and the Trust Deed and, until it is exchanged for Definitive Registered Bonds, its holder shall be entitled to the same benefits as if it were the holder of the Definitive Registered Bonds for which it may be exchanged and as if such Definitive Registered Bonds had been issued on the date of this Global Bond.

The Conditions shall be modified with respect to Bonds represented by this Global Bond by the following provisions:

Notices

So long as this Global Bond is held on behalf of Euroclear or Clearstream, Luxembourg or the Alternative Clearing System, notices required to be given to Bondholders may be given by their being delivered to Euroclear and Clearstream, Luxembourg or, as the case may be, the Alternative Clearing System, rather than by notification as required by the Conditions in which case such notices shall be deemed to have been given to Bondholders on the date of delivery to Euroclear and Clearstream, Luxembourg or, as the case may be, the Alternative Clearing System.

Prescription

Any claim in respect of principal, interest and other amounts payable in respect of this Global Bond will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest or any other amounts) from the appropriate Relevant Date (as defined in Condition 4).

Meetings

The holder hereof shall (unless this Global Bond represents only one Bond) be treated as one person for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, as having one vote in respect of each U.S.\$200,000 principal amount of Bonds for which this Global Bond may be exchanged.

Purchase and Cancellation

Cancellation of any Bond represented by this Global Bond which is required by the Conditions to be cancelled will be effected by reduction in the principal amount of this Global Bond on its presentation to or to the order of the Principal Paying, Transfer, Conversion and Exchange Agent for notation in Schedule A.

Conversion

For so long as this Global Bond is held on behalf of any one or more of Euroclear, Clearstream, Luxembourg or the Alternative Clearing System, Conversion Rights (as defined in the Conditions)

may be exercised as against the Issuer at any time during the Conversion Period by the presentation to or to the order of the Principal Paying, Transfer, Conversion and Exchange Agent of this Global Bond for appropriate notation, together with one or more Conversion Notices duly completed by or on behalf of a holder of a book-entry interest.

Redemption at the Option of Bondholders

The option of the Bondholders provided for in Condition 9(d) may be exercised by the holder of this Global Bond giving notice to the Principal Paying, Transfer, Conversion and Exchange Agent within the time limits relating to the deposit of Bonds as set out in Condition 9(d), substantially in the form of the Relevant Event Put Exercise Notice available from the Principal Paying, Transfer, Conversion and Exchange Agent and stating the principal amount of the Bonds in respect of which the option is exercised and at the same time presenting this Global Bond to the Principal Paying, Transfer, Conversion and Exchange Agent for annotation accordingly in Schedule A hereto.

This Global Bond shall not be valid or become obligatory for any purpose until authenticated by or on behalf of the Registrar

This Global Bond and any non-contractual obligations arising out of or in connection with it are governed by and shall be construed in accordance with English law.

In witness whereof the Issuer has caused this Global Bond to be signed manually or in facsimile on its behalf.

Dated 3 July 2019

PETROPAVLOVSK 2010 LIMITED

By:

This Global Bond is authenticated by or on behalf of the Registrar, **CITIGROUP GLOBAL MARKETS EUROPE AG**:

By:

Authorised Signatory

Schedule A

Principal Amount of this Global Bond

The aggregate principal amount of this Global Bond is as shown by the latest entry made by or on behalf of the Principal Paying, Transfer, Conversion and Exchange Agent in the fourth column below. Increases in the principal amount of this Global Bond or reductions in the principal amount of this Global Bond following redemption or the purchase and cancellation of, or exercise of Conversion Rights in respect of, Bonds are entered in the second and third columns below.

| Date | Reason for change in the principal amount of this Global Bond ¹ | Amount of such change | Initial principal amount and principal amount of this Global Bond following such change | Notation made by or on behalf of the Principal Paying, Transfer, Conversion and Exchange Agent (other than in respect of the initial principal amount) |
|-------------|--|-----------------------|---|--|
| 3 July 2019 | Not applicable | Not applicable | U.S.\$125,000,000 | Not applicable |

¹ State whether increase/reduction following (1) redemption or Bonds,(2) purchase and cancellation or Bonds or (3) exercise of Conversion Rights.

Schedule B
Interest Payments in respect of this Global Bond

The following payments of interest in respect of this Global Bond and the Bonds represented by this Global Bond have been made:

| Date made | Amount of interest due and payable | Amount of interest paid | Notation made by or on behalf of the Principal Paying, Transfer, Conversion and Exchange Agent |
|-----------|---------------------------------------|----------------------------|---|
|-----------|---------------------------------------|----------------------------|---|

Schedule 4

Provisions for Meetings of Bondholders

Interpretation

- 1** In this Schedule the following expressions have the following meanings:
- (a) **"24 hours"** means a period of 24 hours including all or part of a day on which banks are open for business both in the place where the meeting is to be held and in each of the places where the Agents have their specified offices (disregarding for this purpose the day on which the meeting is to be held) and that period shall be extended by one period or, to the extent necessary, more periods of 24 hours until there is included all or part of a day on which banks are open for business in all of the place where the Agents have their specified offices; and
 - (b) **"48 hours"** means a period of 48 hours including all or part of two days on which banks are open for business both in the place where the meeting is to be held and in each of the places where the Agents have their specified offices (disregarding for this purpose the day on which the meeting is to be held) and that period shall be extended by one or, to the extent necessary, more periods of 24 hours until there is included all or part of two days on which banks are open for business in all of the places where the Agents have their specified offices.
- 2**
- (a) A holder of a Bond in registered form may by an instrument in writing in the form available from any Agent in English (a **"form of proxy"**) signed by the holder or, in the case of a corporation, executed under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation and delivered to any Paying, Transfer, Conversion and Exchange Agent not later than 48 hours before the time fixed for any meeting, appoint any person (a **"proxy"**) to act on his or its behalf in connection with any meeting or proposed meeting of Bondholders.
 - (b) A holder of a Bond in registered form which is a corporation may, by delivering to any Paying, Transfer, Conversion and Exchange Agent not later than 48 hours before the time fixed for any meeting a resolution in English of its directors or other governing body, authorise any person to act as its representative (a **"representative"**) in connection with any meeting or proposed meeting of Bondholders.
 - (c) A proxy or representative so appointed shall so long as such appointment remains in force be deemed, for all purposes in connection with any meeting or proposed meeting of Bondholders specified in such appointment, to be the holder of the Bonds to which such appointment relates and the holder of the Bonds shall be deemed for such purposes not to be the holder.
- 3** Each of the Issuer, the Guarantor and the Trustee at any time may, and the Trustee (subject to its being indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses thereby occasioned) upon a request in writing of Bondholders holding not less than 10 per cent. in principal amount of the Bonds for the time being outstanding shall, convene a meeting of Bondholders. Whenever any such party is about to convene any such meeting, it shall forthwith give notice in writing to each other party of the day, time and place of the meeting and of the nature of the business to be transacted at it. Every such meeting shall be held at such time and place as the Trustee may approve.

- 4 At least 21 days' notice (exclusive of the day on which the notice is given and of the day on which the meeting is held) specifying the day, time and place of meeting shall be given to the Bondholders. A copy of the notice shall in all cases be given by the party convening the meeting to each of the other parties. Such notice shall also specify, unless in any particular case the Trustee otherwise agrees, the nature of the resolutions to be proposed.
- 5 A person (who may, but need not, be a Bondholder) nominated in writing by the Trustee may take the chair at every such meeting but if no such nomination is made or if at any meeting the person nominated shall not be present within 15 minutes after the time fixed for the meeting, the Bondholders present shall choose one of their number to be chairman, failing which the Issuer may appoint a chairman. The chairman of an adjourned meeting need not be the same person as was chairman of the original meeting.
- 6 At any such meeting any one or more persons present in person holding Bonds or being proxies or representatives and holding or representing in the aggregate not less than 10 per cent. in principal amount of the Bonds for the time being outstanding shall (except for the purpose of passing an Extraordinary Resolution) form a quorum for the transaction of business and no business (other than the choosing of a chairman) shall be transacted at any meeting unless the requisite quorum be present at the commencement of business. The quorum at any such meeting for passing an Extraordinary Resolution shall (subject as provided below) be one or more persons present in person holding Bonds or being proxies or representatives and holding or representing in the aggregate a clear majority in principal amount of the Bonds for the time being outstanding; provided that at any meeting the business of which includes any of the matters specified in the proviso to paragraph 17, the quorum shall be one or more persons present in person holding Bonds or being proxies or representatives and holding or representing in the aggregate not less than two-thirds in principal amount of the Bonds for the time being outstanding.
- 7 If within 15 minutes from the time fixed for any such meeting a quorum is not present, the meeting shall, if convened upon the requisition of Bondholders, be dissolved. In any other case it shall stand adjourned (unless the Issuer, the Guarantor and the Trustee agree that it be dissolved) for such period, not being less than 14 days nor more than 42 days, and to such place, as may be decided by the chairman. At such adjourned meeting one or more persons present in person holding Bonds or being proxies or representatives (whatever the principal amount of the Bonds so held or represented) shall form a quorum and may pass any resolution and decide upon all matters which could properly have been dealt with at the meeting from which the adjournment took place had a quorum been present at such meeting; provided that at any adjourned meeting at which is to be proposed an Extraordinary Resolution for the purpose of effecting any of the modifications specified in the proviso to paragraph 17, the quorum shall be one or more persons so present holding Bonds or being proxies or representatives and holding or representing in the aggregate not less than one-quarter in principal amount of the Bonds for the time being outstanding.
- 8 The chairman may with the consent of (and shall if directed by) any meeting adjourn such meeting from time to time and from place to place but no business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting from which the adjournment took place.
- 9 At least 10 days' notice of any meeting adjourned through want of a quorum shall be given in the same manner as for an original meeting and such notice shall state the quorum required at such adjourned meeting. It shall not, however, otherwise be necessary to give any notice of an adjourned meeting.

- 10** Every question submitted to a meeting shall be decided in the first instance by a show of hands and in case of equality of votes the chairman shall both on a show of hands and on a poll have a casting vote in addition to the vote or votes (if any) which he may have as a Bondholder or as a proxy or representative.
- 11** At any meeting, unless a poll is (before or on the declaration of the result of the show of hands) demanded by the chairman, the Issuer, the Guarantor, the Trustee or by one or more persons holding one or more Bonds or being proxies or representatives and holding or representing in the aggregate not less than one-fiftieth in principal amount of the Bonds for the time being outstanding, a declaration by the chairman that a resolution has been carried or carried by a particular majority or lost or not carried by any particular majority shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.
- 12** If at any meeting a poll is so demanded, it shall be taken in such manner and (subject as provided below) either at once or after such an adjournment as the chairman directs and the result of such poll shall be deemed to be the resolution of the meeting at which the poll was demanded as at the date of the taking of the poll. The demand for a poll shall not prevent the continuation of the meeting for the transaction of any business other than the question on which the poll has been demanded.
- 13** Any poll demanded at any meeting on the election of a chairman or on any question of adjournment shall be taken at the meeting without adjournment.
- 14** The Issuer, the Guarantor, the Trustee and the Registrar (through their respective representatives) and their respective financial and legal advisers may attend and speak at any meeting of Bondholders. No one else may attend at any meeting of Bondholders or join with others in requesting the convening of such a meeting unless he is the holder of a Bond or is a proxy or a representative.
- 15** At any meeting on a show of hands every person who is present in person and who produces a Bond or voting certificate or is a proxy or a representative shall have one vote and on a poll every person who is so present shall have one vote in respect of each U.S.\$1,000 (or, in the case of meetings of holders of Bonds denominated in another currency, as the Trustee in its absolute discretion may decide) in principal amount of the Bonds so produced or in respect of which he is a proxy or a representative. Without prejudice to the obligations of proxies named in any form of proxy, any person entitled to more than one vote need not use all his votes or cast all the votes to which he is entitled in the same way.
- 16** The proxy named in any form of proxy need not be a Bondholder.
- 17** A meeting of Bondholders shall, subject to the Conditions, in addition to the powers given above, but without prejudice to any powers conferred on other persons by this Trust Deed, have power exercisable by Extraordinary Resolution:

 - (a) to sanction any proposal by the Issuer, the Guarantor or the Trustee for any modification, abrogation, variation or compromise of, or arrangement in respect of, the rights of the Bondholders against the Issuer or the Guarantor or against any of its property whether such rights shall arise under this Trust Deed, the Deed Poll, the Conditions, the Articles of the Issuer or otherwise;
 - (b) to sanction any scheme or proposal for the exchange, substitution or sale of the Bonds for, or the conversion of the Bonds into, or the cancellation of the Bonds in

consideration of, shares, stock, notes, bonds, debentures, debenture stock and/or other obligations and/or securities of the Issuer or the Guarantor or any other body corporate formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, notes, bonds, debentures, debenture stock and/or other obligations and/or securities as aforesaid and partly for or into or in consideration of cash;

- (c) to assent to any modification of this Trust Deed, the Conditions, the Deed Poll, the Articles of the Issuer that relate to the rights appertaining to the Bonds which shall be proposed by the Issuer, the Guarantor or the Trustee;
- (d) to authorise anyone to concur in and do all such things as may be necessary to carry out and to give any authority, direction or sanction which under this Trust Deed or the Bonds is required to be given by Extraordinary Resolution;
- (e) to appoint any persons (whether Bondholders or not) as a committee or committees to represent the interests of the Bondholders and to confer upon such committee or committees any powers or discretions which the Bondholders could themselves exercise by Extraordinary Resolution;
- (f) to approve a person proposed to be appointed as a new Trustee and to remove any Trustee;
- (g) to approve the substitution of any entity for the Issuer or the Guarantor (or any previous substitute) as principal debtor or guarantor under this Trust Deed (for the avoidance of doubt, nothing in this paragraph shall be interpreted to mean that the consent of Bondholders is required in relation to any substitution that the Trustee may otherwise agree to under Clause 16.2 of this Trust Deed); and
- (h) to discharge or exonerate the Trustee from any liability in respect of any act or omission for which it may become responsible under this Trust Deed or the Bonds;

provided that the special quorum provisions contained in the proviso to paragraph 6 and, in the case of an adjourned meeting, in the proviso to paragraph 7 shall apply in relation to any Extraordinary Resolution for the purpose of paragraph 17(b) or 17(g) or for the purpose of paragraph 17(c) and making any modification to the provisions contained in this Trust Deed, the Conditions, the Deed Poll, the Articles of the Issuer (same as provided above) or the Bonds which would have the effect of:

- (i) modifying the Final Maturity Date or any date for payment of interest on the Bonds; or
- (ii) reducing or cancelling the principal amount, rate of interest payable in respect of, or altering the currency of payment of, the Bonds; or
- (iii) increasing the Exchange Price other than in accordance with the Conditions; or
- (iv) modifying or varying the Conversion Rights in respect of the Bonds or the rights of Bondholders to receive Ordinary Shares and/or the Cash Alternative Amount on exercise of Conversion Rights pursuant to the Conditions; or
- (v) modifying the rights appertaining to the Preference Shares; or

- (vi) modifying the governing law of the Bonds, the Trust Deed or the Agency Agreement (other than in the case of a substitution of the Issuer or the Guarantor (or any previous substitute or substitutes); or
- (vii) modifying the provisions in this Schedule concerning the quorum required at a meeting or the majority required to pass an Extraordinary Resolution; or
- (viii) amending this proviso.

18 An Extraordinary Resolution passed at a meeting of Bondholders duly convened and held in accordance with this Trust Deed shall be binding upon all the Bondholders, whether or not present at such meeting and whether or not they vote in favour, and each of the Bondholders shall be bound to give effect to it accordingly. The passing of any such resolution shall be conclusive evidence that the circumstances of such resolution justify the passing of it.

19 The expression “**Extraordinary Resolution**” means a resolution passed at a meeting of Bondholders duly convened and held in accordance with these provisions by a majority consisting of not less than three-quarters of the votes cast. A resolution in writing signed by or on behalf of Bondholders representing in aggregate not less than 75 per cent. of the aggregate principal amount outstanding of the Bonds shall be effective as an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form each signed by or on behalf of one or more Bondholders.

For so long as the Bonds are in the form of a Global Bond registered in the name of a common depositary for Euroclear, Clearstream, Luxembourg or another clearing system, or a nominee of any of the above then, in respect of any resolution proposed by the Issuer, the Guarantor or the Trustee:

- (i) where the terms of the proposed resolution have been notified to the Bondholders through the relevant clearing system(s) as provided in sub-paragraphs (a) and (b) below, each of the Issuer, the Guarantor and the Trustee shall be entitled to rely upon approval of such resolution proposed by the Issuer, the Guarantor or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the Bondholder(s) of not less than 75 per cent. in principal amount of the Bonds for the time being outstanding (the “**Required Proportion**”) (“**Electronic Consent**”) by close of business on the Relevant Date (as defined below). Any resolution passed in such manner shall be binding on all Bondholders, even if the relevant consent or instruction proves to be defective. Neither the Issuer, the Guarantor nor the Trustee shall be liable or responsible to anyone for such reliance;
- (a) When a proposal for a resolution to be passed as an Electronic Consent has been made, at least 10 days’ notice (exclusive of the day on which the notice is given and of the day on which affirmative consents will be counted) shall be given to the Bondholders through the relevant clearing system(s). The notice shall specify, in sufficient detail to enable Bondholders to give their consents in relation to the proposed resolution, the method by which their consents may be given (including, where applicable, blocking of their accounts in the relevant clearing system(s)) and the time and date (the “**Relevant Date**”) by which they must be received in order for such consents to be validly given, in each case subject to and in accordance with the operating rules and procedures of the relevant clearing system(s).

- (b) If, on the Relevant Date on which the consents in respect of an Electronic Consent are first counted, such consents do not represent the Required Proportion, the resolution shall, if the party proposing such resolution (the “Proposer”) so determines, be deemed to be defeated. Such determination shall be notified in writing to the other party or parties to this Trust Deed. Alternatively, the Proposer may give a further notice to Bondholders that the resolution will be proposed again on such date and for such period as shall be agreed with the Trustee (unless the Trustee is the Proposer). Such notice must inform Bondholders that insufficient consents were received in relation to the original resolution and the information specified in sub-paragraph (a) above. For the purpose of such further notice, references to “Relevant Date” shall be construed accordingly.
- 20 For the avoidance of doubt, an Electronic Consent may only be used in relation to a resolution proposed by the Issuer, the Guarantor or the Trustee which is not then the subject of a meeting that has been validly convened in accordance with this Schedule 4, unless that meeting is or shall be cancelled or dissolved. A resolution in writing and/or Electronic Consent shall take effect as an Extraordinary Resolution. A resolution in writing and/or Electronic Consent will be binding on all Bondholders, whether or not they participated in such resolution in writing and/or Electronic Consent.
- 21 Minutes of all resolutions and proceedings at every such meeting shall be made and entered in the books to be from time to time provided for that purpose by the Issuer or the Trustee and any such minutes, if purporting to be signed by the chairman of the meeting at which such resolutions were passed or proceedings transacted or by the chairman of the next succeeding meeting of Bondholders, shall be conclusive evidence of the matters contained in them and until the contrary is proved every such meeting in respect of the proceedings of which minutes have been so made and signed shall be deemed to have been duly convened and held and all resolutions passed or proceedings transacted at it to have been duly passed and transacted.
- 22 Subject to all other provisions contained in this Trust Deed the Trustee may without the consent of the Bondholders prescribe such further regulations regarding the holding of meetings of Bondholders and attendance and voting at them as the Trustee may in its sole discretion determine including particularly (but without prejudice to the generality of the foregoing) such regulations and requirements as the Trustee thinks reasonable:
 - (a) so as to satisfy itself that persons who purport to requisition a meeting in accordance with paragraph 3 or who purport to make any requisition to the Trustee in accordance with this Trust Deed are in fact Bondholders; and
 - (b) as to the form of proxy to be issued pursuant to paragraph 2 so as to satisfy itself that persons who purport to attend or vote at any meeting of Bondholders are entitled to do so in accordance with this Trust Deed.
- 23 If and whenever the Issuer shall have issued and have outstanding any Bonds which are not identical and do not form one single series then those Bonds which are in all respects identical shall be deemed to constitute a separate series of the Bonds and the foregoing provisions of this Schedule shall have effect subject to the following modifications:
 - (a) a resolution which in the opinion of the Trustee affects one series only of the Bonds shall be deemed to have been duly passed if passed at a separate meeting of the holders of the Bonds of that series;

- (b) a resolution which in the opinion of the Trustee affects more than one series of the Bonds but does not give rise to a conflict of interest between the holders of Bonds of any of the series so affected shall be deemed to have been duly passed if passed at a single meeting of the holders of the Bonds of all the series so affected;
 - (c) a resolution which in the opinion of the Trustee affects more than one series of the Bonds and gives or may give rise to a conflict of interest between the holders of the Bonds of any of the series so affected shall be deemed to have been duly passed only if it shall be duly passed at separate meetings of the holders of the Bonds of each series so affected; and
 - (d) to all such meetings as aforesaid all the preceding provisions of this Schedule shall *mutatis mutandis* apply as though references therein to Bonds and holders were references to the Bonds of the series or group of series in question and to the holders of such Bonds respectively.
- 24** Nothing in this Trust Deed shall prevent any of the proxies named in any form of proxy from being a director, managing director, officer or representative of, *or* otherwise connected with, the Trustee, the Issuer, the Guarantor or any of its other Subsidiaries.
- 25** References in this Schedule to Agents shall, where the context requires, be taken to be references to the Principal Paying, Transfer, Conversion and Exchange Agent.
- 26** A resolution in writing signed by or on behalf of the holders of not less than 75 per cent. of the aggregate principal amount of Bonds outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

Schedule 5
Form of Directors' Certificate

[ON THE HEADED PAPER OF THE ISSUER/GUARANTOR]

To: **[•]**

Attn: **[•]**

[Date]

Dear Sirs

PETROPAVLOVSK 2010 LIMITED
U.S.\$125,000,000 8.25 per cent. Guaranteed Convertible Bonds due 2024
guaranteed by Petropavlovsk PLC

This certificate is delivered to you in accordance with Clause 10.5 of the Trust Deed dated 3 July 2019 (the “**Trust Deed**”) and made between Petropavlovsk 2010 Limited (the “**Issuer**”), Petropavlovsk PLC (the “**Guarantor**”) and yourselves. All words and expressions defined in the Trust Deed shall (save as otherwise provided herein or unless the context otherwise requires) have the same meanings herein. The undersigned, having made all reasonable enquiries to the best of their knowledge, information and belief:

As at **[•]**¹, no Event of Default or Potential Event of Default existed [other than **[•]**² and no Event of Default or Potential Event of Default had existed at any time since **[•]**³ (the “**Certification Date**”, as defined in the Trust Deed) of the last certificate delivered under Clause 10.5⁴ [other than **[•]**⁵ and

From and including **[•]**⁴ (the Certification Date of the last certificate delivered under Clause 10.5)⁵ and including **[•]**² the Issuer/Guarantor confirm that there has been no breach in respect of its obligations under the Trust Deed [other than **[•]**⁶ and that no Relevant Event [other than **[•]**⁷ has occurred.

For and on behalf of

Director

Director

¹ Specify a date not more than five days before the date of delivery of the certificate.

² If any Event of Default or Potential Event of Default did exist, give details, otherwise delete.

³ Insert date of Trust Deed in respect of the first certificate delivered under Clause 10.5, otherwise delete.

⁴ Include unless the certificate is the first certificate delivered under Clause 10.5, in which case delete.

⁵ If any Event of Default or Potential Event of Default did exist, give details, otherwise delete.

⁶ If the Issuer/Guarantor has failed to comply with any obligation(s), give details, otherwise delete.


⁷ If a Relevant Event has occurred, give details, otherwise delete.

This deed is delivered on the day and year first before written.

Executed as a deed by


PETROPAVLOVSK 2010 LIMITED

By:



Authorised signatory *DR ALFIYA SAMOKHVALOVA, DIRECTOR*

By:



Authorised signatory *ANNA-KAROLINA SUBC ZIVSKA-SAMBRISKER,
DIRECTOR*

PETROPAVLOVSK PLC

By:

x Rm/Lyne

Authorised signatory S.R. RODERICK LYNE, CHAIRMAN/DIRECTOR

By:

Amanda Wmally

Authorised signatory AMANDA WMALLY, COMPANY SECRETARY

Executed as a deed by

APEX CORPORATE TRUSTEES (UK) LIMITED

acting through its duly authorised attorney in the
presence of:

Name:  **Samuel Denereaz**

Address: 6th Floor, 125 Wood Street
London EC2V 7AN
United Kingdom



Peter David Malcolm
Authorised Attorney

EXECUTION VERSION

DATED: 28 July 2021

Committed Term Facility Agreement

between

Petropavlovsk Plc
as Borrower

Bank GPB (JSC)
as Arranger

Bank GPB (JSC)
as Original Lender

and

Bank GPB (JSC)
as Agent

relating to

Committed USD 200,000,000 term loan facility

Simmons & Simmons LLP
Citypoint, 1 Ropemaker Street
London, EC2Y 9SS
United Kingdom

T +44 207 628 2020
F +44 207 628 2070

**simmons
+simmons**

CONTENTS

| | | |
|-----|---|----|
| 1. | Definitions and Interpretation | 1 |
| 2. | The Facility | 13 |
| 3. | Purpose | 13 |
| 4. | Conditions of Utilisation | 14 |
| 5. | Utilisation | 15 |
| 6. | Repayment | 16 |
| 7. | Prepayment and Cancellation | 16 |
| 8. | Interest | 18 |
| 9. | Interest Periods | 19 |
| 10. | Changes to the Calculation of Interest | 20 |
| 11. | Fees | 20 |
| 12. | Tax Gross-Up and Indemnities | 20 |
| 13. | Increased Costs..... | 29 |
| 14. | Other Indemnities | 31 |
| 15. | Mitigation by the Lenders..... | 32 |
| 16. | Costs and Expenses..... | 33 |
| 17. | Representations | 33 |
| 18. | Information Undertakings..... | 37 |
| 19. | Financial Covenants | 41 |
| 20. | General Undertakings..... | 44 |
| 21. | Events of Default | 50 |
| 22. | Changes to the Lenders..... | 54 |
| 23. | Assignment and Transfer by the Borrower..... | 58 |
| 24. | Role of the Agent and the Arranger | 58 |
| 25. | Conduct of Business by the Finance Parties..... | 66 |
| 26. | Sharing Among the Finance Parties | 66 |

| | | |
|-----|---|----|
| 27. | Payment Mechanics | 67 |
| 28. | Set-Off | 71 |
| 29. | Notices | 71 |
| 30. | Calculations and Certificates..... | 73 |
| 31. | Partial Invalidity | 73 |
| 32. | Remedies and Waivers..... | 73 |
| 33. | Amendments and Waivers..... | 74 |
| 34. | Confidential Information | 74 |
| 35. | Confidentiality of Funding Rates | 77 |
| 36. | Counterparts..... | 79 |
| 37. | Governing Law | 79 |
| 38. | Enforcement | 79 |
| | Schedule 1 THE ORIGINAL PARTIES | 80 |
| | Part 1 THE ORIGINAL LENDERS..... | 80 |
| | Schedule 2 CONDITIONS PRECEDENT TO INITIAL UTILISATION..... | 81 |
| | Schedule 3 UTILISATION REQUESTS..... | 83 |
| | Schedule 4 FORM OF TRANSFER CERTIFICATE..... | 84 |
| | Schedule 5 FORM OF ASSIGNMENT AGREEMENT | 87 |
| | Schedule 6 FORM OF COMPLIANCE CERTIFICATE | 90 |
| | Schedule 7 EXISTING SECURITY..... | 91 |

THIS AGREEMENT is dated

28 July 2021

and made

BETWEEN:

- (1) **PETROPAVLOVSK PLC**, a company incorporated in England and Wales (registration number 4343841) (the "Borrower");
- (2) **BANK GPB (JSC)** (the "Arranger");
- (3) **THE FINANCIAL INSTITUTION** listed in Part 1 of Schedule 1 as lender (the "Original Lender"); and
- (4) **BANK GPB (JSC)** as agent of the other Finance Parties (the "Agent").

IT IS AGREED as follows:

1. Definitions and Interpretation

1.1 Definitions

In this Agreement:

"Accounting Principles" means IFRS.

"Affiliate" means, in relation to any person, a Subsidiary of that person or a Holding Company of that person or any other Subsidiary of that Holding Company.

"Assignment Agreement" means an agreement substantially in the form set out in Schedule 5 (*Form of Assignment Agreement*) or any other form agreed between the relevant assignor and assignee.

"Authorisation" means an authorisation, consent, approval, resolution, licence, exemption, filing, notarisation or registration.

"Authorised Bank" means an authorised bank for the purposes of Instruction No. 181-I.

"Availability Period" means the period from and including the date of this Agreement to and including 31 December 2021.

"Available Commitment" means a Lender's Commitment minus:

- (A) the amount of its participation in any outstanding Loans; and
- (B) in relation to any proposed Utilisation, the amount of its participation in any Loans that are due to be made on or before the proposed Utilisation Date.

"Available Facility" means the aggregate for the time being of each Lender's Available Commitment.

"Bankruptcy Law" means the Federal Law of the Russian Federation No.127-FZ dated 26 October 2002 "On insolvency (bankruptcy)" (as amended).

"Borrower Sanctions Event" means any event as a result of which:

- (A) the Borrower becomes a Sanctions Restricted Person, except if the Borrower solely becomes a Sectoral Sanctions Target;
- (B) the maintenance or performance of any obligations under any Finance Document (including receiving payments or maintaining participation in Loan) constitutes grounds for imposition of sanctions or penalties on any Finance Party or any of its Affiliates as a result of the introduction of new Sanctions Laws and Regulations or changes to existing Sanctions Laws and Regulations or any guidance issued by any Sanctions Authority, in each case after the signing date of this Agreement.

“Business Day” means a day (other than a Saturday or Sunday) on which banks are open for general business in London and Moscow.

“CBR” means the Central Bank of the Russian Federation.

“Code” means the US Internal Revenue Code of 1986.

“Commitment” means (subject to Clause 4.4 (*Changes to Total Commitments*)):

- (A) in relation to an Original Lender, the amount set opposite its name under the heading “Commitment” in Part 1 or Schedule 1 (*The Original Parties*) and the amount of any other Commitment transferred to it under this Agreement; and
- (B) in relation to any other Lender, the amount of any Commitment transferred to it under this Agreement or assumed by it,

to the extent not cancelled, reduced or transferred by it under this Agreement.

“Compliance Certificate” means a certificate substantially in the form set out in Schedule 6 (*Form of Compliance Certificate*).

“Confidential Information” means all information relating to the Borrower, any other member of the Group, any Obligor, the Finance Documents or the Facility of which a Finance Party becomes aware in its capacity as, or for the purpose of becoming, a Finance Party or which is received by a Finance Party in relation to, or for the purpose of becoming a Finance Party under, the Finance Documents or the Facility from either:

- (A) the Borrower, any Obligor or any of their respective advisers; or
- (B) another Finance Party, if the information was obtained by that Finance Party directly or indirectly from the Borrower, any Obligor or any of their respective advisers,

in whatever form, and includes information given orally and any document, electronic file or any other way of representing or recording information which contains or is derived or copied from such information but excludes information that:

- (1) information that:
 - (a) is or becomes public information other than as a direct or indirect result of any breach by that Finance Party of Clause 34 (*Confidentiality*); or
 - (b) is identified in writing at the time of delivery as non-confidential by the Borrower, any Obligor or any of their respective advisers; or

- (c) is known by that Finance Party before the date the information is disclosed to it in accordance with paragraphs (A) or (B) above or is lawfully obtained by that Finance Party after that date, from a source which is, as far as that Finance Party is aware, unconnected with the Borrower or any other member of its Group (or an Obligor) and which, in either case, as far as that Finance Party is aware, has not been obtained in breach of, and is not otherwise subject to, any obligation of confidentiality.

- (2) any Funding Rate.

“Confidentiality Undertaking” means a confidentiality undertaking substantially in the form most recently recommended by the LMA or in any other form agreed between the Borrower and the Agent.

“CTA” means the Corporation Tax Act 2009.

“Default” means an Event of Default or any event or circumstance specified in Clause 21 (*Events of Default*) which would (with the expiry of a grace period, the giving of notice, the making of any determination under the Finance Documents or any combination of any of the foregoing) be an Event of Default.

“Disruption Event” means either or both of:

- (A) a material disruption to those payment or communications systems or to those financial markets which are, in each case, required to operate in order for payments to be made in connection with the Facility (or otherwise in order for the transactions contemplated by the Finance Documents to be carried out) which disruption is not caused by, and is beyond the control of, any of the Parties; or
- (B) the occurrence of any other event which results in a disruption (of a technical or systems-related nature) to the treasury or payments operations of a Party preventing that, or any other Party:
 - (1) from performing its payment obligations under the Finance Documents; or
 - (2) from communicating with other Parties in accordance with the terms of the Finance Documents,

and which (in either such case) is not caused by, and is beyond the control of, the Party whose operations are disrupted.

“Environmental Claim” means any claim, proceeding or investigation by any person in respect of any Environmental Law.

“Environmental Law” means any applicable law in any jurisdiction in which any member of the Group conducts business which relates to the pollution or protection of the environment or harm to or the protection of human health or the health of animals or plants.

Environmental Permits means any permit, licence, consent, approval and other authorisation and the filing of any notification, report or assessment required under any Environmental Law for the operation of the business of any member of the Group conducted on or from the properties owned or used by the relevant member of the Group.

"Event of Default" means any event or circumstance specified as such in Clause 21 (*Events of Default*).

"Existing Bonds" means the existing USD500 million guaranteed notes due for repayment on 14 November 2022, issued by Petropavlovsk 2016 Limited (a wholly-owned subsidiary of the Borrower) and guaranteed by the Guarantors other than Temi LLC.

"Facility" means the term loan facility made available under this Agreement as described in Clause 2 (*The Facility*).

"Facility Office" means the office or offices notified by a Lender to the Agent in writing on or before the date it becomes a Lender (or, following that date, by not less than five Business Days' written notice) as the office or offices through which it will perform its obligations under this Agreement.

"FATCA" means:

- (A) sections 1471 to 1474 of the Code or any associated regulations;
- (B) any treaty, law or regulation of any other jurisdiction, or relating to an intergovernmental agreement between the US and any other jurisdiction, which (in either case) facilitates the implementation of any law or regulation referred to in paragraph (A) above; or
- (C) any agreement pursuant to the implementation of any treaty, law or regulation referred to in paragraphs (A) or (B) above with the US Internal Revenue Service, the US government or any governmental or taxation authority in any other jurisdiction.

"FATCA Deduction" means a deduction or withholding from a payment under a Finance Document required by FATCA.

"FATCA Exempt Party" means a Party that is entitled to receive payments free from any FATCA Deduction.

"Fee Letter" means any letter or letters dated on or about the date of this Agreement between the Arranger and the Borrower (or the Agent and the Borrower) setting out any of the fees referred to in Clause 11 (*Fees*).

"Finance Document" means this Agreement, any Guarantee, any Fee Letter and any other document designated as such by the Agent and the Borrower.

"Finance Lease" means any lease or hire purchase contract, a liability under which would, in accordance with the Accounting Principles (including IFRS 16 and on the basis that IFRS 16 applied at the relevant time irrespective of when IFRS 16 was adopted), be treated as a balance sheet liability.

"Finance Party" means the Agent, the Arranger or a Lender.

"Financial Indebtedness" means any indebtedness for or in respect of:

- (A) moneys borrowed;
- (B) any amount raised by acceptance under any acceptance credit facility or dematerialised equivalent;

- (C) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;
- (D) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with GAAP, be treated as a balance sheet liability;
- (E) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);
- (F) any amount raised under any other transaction (including any forward sale or purchase agreement) of a type not referred to in any other paragraph of this definition having the commercial effect of a borrowing;
- (G) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value (or, if any actual amount is due as a result of the termination or close-out of that derivative transaction, that amount) shall be taken into account);
- (H) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution;
- (I) any amount raised by the issue of shares which are redeemable (other than at the option of the issuer) before the Termination Date of the Facility or are otherwise classified as borrowings under the Accounting Principles; and
- (J) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (A) to (I) above.

"Fixed Rate" means 3.6 per cent. per annum, subject to any increase in the interest rate made pursuant to Clause 21.2(B) (*Financial covenants*) or Clause 21.3(C) (*Other obligations*) (for such period as such increase continues).

"Funding Rate" means any individual rate notified by a Lender to the Agent pursuant to Clause 10.1 (*Cost of funds*).

"GAAP" means generally accepted accounting principles in the United Kingdom including without limitation IFRS.

"Group" means the Borrower and its Subsidiaries for the time being

"Guarantee" means each guarantee and/or suretyship agreement entered into between the Agent and a Guarantor.

"Guarantor" means each of:

- (A) JSC "Pokrovskiy mine";
- (B) LLC Albynskiy Rudnik;
- (C) LLC Malomirskiy Rudnik; and
- (D) Temi LLC.

"Holding Company" means, in relation to a person, any other person in respect of which it is a Subsidiary.

"IFRS" means UK-adopted accounting standards within the meaning of section 474(1) of the Companies Act 2006 to the extent applicable to the relevant financial statements.

"Instruction No. 181-I" means the Instruction No. 181-I of the CBR dated 16 August 2017, as amended (and any replacement law or regulation).

"Interest Payment Date" means, subject to clause 9.2 (*Non-Business Days*), the 25th day of each Month in each year starting from 25 August 2021 until the Termination Date of the Facility (or, if earlier, the date on which the Facility is repaid and cancelled in full pursuant to the terms of this Agreement).

"Interest Period" means, in relation to a Loan, each period determined in accordance with Clause 9 (*Interest Periods*) and, in relation to an Unpaid Sum, each period determined in accordance with Clause 8.3 (*Default interest*).

"ITA" means the Income Tax Act 2007.

"Lender" means:

- (A) any Original Lender; and
- (B) any bank, financial institution, trust, fund or other entity which has become a Party as a "Lender" in accordance with Clause 22 (*Changes to the Lenders*),

which in each case has not ceased to be a Party as such in accordance with the terms of this Agreement.

"Lender Sanctions Event" means:

- (A) any Finance Party becoming listed on the Sanctions List which will require the Borrower to pay any payment to be made under the Finance Documents to any Finance Party into a blocked or frozen account; or
- (B) the introduction of new Sanctions Laws and Regulations or changes to existing Sanctions Laws and Regulations or any guidance issued by any Sanctions Authority, in each case after the signing date of this Agreement, which prohibit the Borrower from dealing or otherwise engaging in any transaction with any Finance Party.

"LMA" means the Loan Market Association.

"Loan" means a loan made or to be made under the Facility or the principal amount outstanding for the time being of that loan.

"Majority Lenders" means a Lender or Lenders whose Commitments aggregate more than 66 $\frac{2}{3}$ % of the Total Commitments (or, if the Total Commitments have been reduced to zero, aggregated more than 66 $\frac{2}{3}$ % of the Total Commitments immediately prior to the reduction).

"Material Adverse Effect" means in the reasonable opinion of the Majority Lenders a material adverse effect on:

- (A) the business, operations, property, condition (financial or otherwise) or prospects of the Borrower or the Group taken as a whole;
- (B) the ability of any Obligor to perform its payment obligations under the Finance Documents to which it is a party and/or its obligations under Clause 19 (*Financial Covenants*); or
- (C) the validity or enforceability of, or the rights or remedies or any Finance Party under, any of the Finance Documents.

“Material Operating Subsidiary” means a Subsidiary of the Borrower whose book value of total assets exceeds 10% of the book value of the total assets of the Borrower as calculated based on the Borrower’s most recent consolidated IFRS financial statements.

“Month” means a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month, except that:

- (A) (subject to paragraph (C) below) if the numerically corresponding day is not a Business Day, that period shall end on the next Business Day in that calendar month in which that period is to end if there is one, or if there is not, on the immediately preceding Business Day;
- (B) if there is no numerically corresponding day in the calendar month in which that period is to end, that period shall end on the last Business Day in that calendar month; and
- (C) if an Interest Period begins on the last Business Day of a calendar month, that Interest Period shall end on the last Business Day in the calendar month in which that Interest Period is to end.

The above rules will only apply to the last Month of any period.

“New Lender” has the meaning given to that term in Clause 22 (*Changes to the Lenders*).

“Obligor” means the Borrower or any Guarantor.

“Original Financial Statements” means the audited financial statements of the Borrower for the financial year ended 29 March 2021.

“Participating Member State” means any member state of the European Union that has the euro as its lawful currency in accordance with legislation of the European Union relating to Economic and Monetary Union.

“Party” means a party to this Agreement.

“Qualifying Lender” has the meaning given to it in Clause 12 (*Tax gross-up and indemnities*).

“Related Fund” in relation to a fund (the “first fund”), means a fund which is managed or advised by the same investment manager or investment adviser as the first fund or, if it is managed by a different investment manager or investment adviser, a fund whose investment manager or investment adviser is an Affiliate of the investment manager or investment adviser of the first fund.

“Relevant Tax Jurisdiction” means, in relation to the Borrower:

- (A) its jurisdiction of incorporation;
- (B) any jurisdiction in which any asset is situated which is subject to, or is intended to be subject to, any Security to be created by it pursuant to, or in connection with, the Finance Documents in favour of any Finance Party; and
- (C) any jurisdiction in which it conducts its business.

"Repayment Date" means 30 June 2023.

"Repeating Representations" means each of the representations set out in Clause 17 (*Representations*).

"Representative" means any delegate, agent, manager, administrator, nominee, attorney, trustee or custodian.

"Resolution Authority" means any body which has authority to exercise any Write-down and Conversion Powers.

"Russian Insolvency Event" means, in relation to any of the Guarantors:

- (A) it meets the criteria of "failure to make payments" (*неплатежеспособность*) in accordance with the Bankruptcy Law;
- (B) it meets the criteria of "insufficiency of assets" (*недостаточность имущества*) in accordance with the Bankruptcy Law;
- (C) its financial condition gives grounds for taking the measures for insolvency prevention in accordance with the Bankruptcy Law;
- (D) publication in the Unified Federal Register of the Bankruptcy Information (<https://bankrot.fedresurs.ru>), or other source replacing it, information about the occurrence of grounds for taking measures of bankruptcy prevention in accordance with the Bankruptcy Law;
- (E) a court or public authority has declared a moratorium on any debt owed by it;
- (F) it begins negotiations with one or more of its creditors to review the repayment terms for any of its debts due to actual or expected financial difficulties;
- (G) the occurrence of grounds established by the Bankruptcy Law for a person to file with a commercial court an application for declaring it bankrupt;
- (H) it meets any other bankruptcy criteria established by the Bankruptcy Law or other laws on issues of bankruptcy and insolvency then in force and effect and applicable to it; or
- (I) its competent corporate body or officer adopts a resolution to file a petition with an arbitrazh court for its liquidation or bankruptcy.

"Russian Insolvency Proceedings" means, in respect of any Guarantor, any of the following formal acts taken in accordance with the Bankruptcy Law:

- (A) the implementation of measures to prevent its bankruptcy, including but not limited to the implementation of recovery (*sanatsiya*) in accordance with the Bankruptcy Law in respect of it;
- (B) its liquidation or bankruptcy, or the appointment of a liquidation commission (*likvidatsionnaya komissiya*) or the granting of other similar relief with respect to its debts in accordance with the Bankruptcy Law;
- (C) the institution of the supervision (*nablyudenie*), financial recovery (*finansovoe ozdorovlenie*), external management (*vneshneye upravleniye*) or bankruptcy management (*konkursnoye proizvodstvo*) of it, and/or the appointment of a temporary manager (*vremenniy upravlyaushchiy*), administrative manager (*administrativniy upravlyaushchiy*), external manager (*vneshniy upravlyaushchiy*), bankruptcy manager (*konkursniy upravlyaushchiy*) or similar officer of it; or
- (D) the convening of a meeting of its creditors for the purposes of considering an amicable settlement, or its entry into a voluntary arrangement (*mirovoye soglasheniye*).

“Sanctions Authority” means:

- (A) the government of the United States of America;
- (B) the United Nations Security Council;
- (C) the Government of the United Kingdom;
- (D) the European Union (and the governments of any of its member states); or
- (E) the respective governmental institutions and agencies of any of the foregoing including the Office of Foreign Assets Control (“OFAC”) of the United States Department of the Treasury, the United States Department of State, the United States Department of Commerce and Her Majesty’s Treasury.

“Sanctions Laws and Regulations” means:

- (A) any economic, sectoral financial or trade sanctions laws, regulations, embargoes or other restrictive measures adopted, administered, enacted or enforced by any Sanctions Authority; or
- (B) any other law, enabling legislation, executive order or regulation in relation to paragraph (A) above.

“Sanctions List” means the ‘Specially Designated Nationals and Blocked Persons’ list issued by OFAC, the Consolidated List of Financial Sanctions Targets and Investment Ban List issued by HM Treasury, or any similar blocking sanctions list issued or maintained or made public by any of the Sanctions Authorities each as amended, supplemented or substituted from time to time.

“Sanctions Restricted Country” means any country or other territory which is subject to an export, import, financial or investment embargo under Sanctions Laws and Regulations which is imposed in respect of that entire country or territory rather than in respect of particular sectors of the economy or persons of that country or territory.

“Sanctions Restricted Person” means a person:

- (A) currently listed on any Sanctions List;
- (B) that is a Sectoral Sanctions Target;
- (C) that is, or that is owned or controlled by (as such terms are interpreted in the relevant Sanctions Laws and Regulations or any guidance in relation to such Sanctions Laws and Regulations), any person or entity on any Sanctions List (as amended, supplemented or substituted from time to time) in effect at the relevant time;
- (D) that is organised under the laws of, or that is the government of, any Sanctions Restricted Country;
- (E) that is otherwise the target or subject of Sanctions Laws and Regulations; or
- (F) with which any Finance Party is prohibited from dealing or otherwise engaging in any transaction pursuant to any Sanctions Laws and Regulations.

“Sectoral Sanctions Target” means any person that is:

- (A) named on the Sectoral Sanctions Identifications list maintained by OFAC;
- (B) listed in Schedule 2 (*Persons named in relation to financial restrictions*) to the UK Russia (Sanctions) (EU Exit) Regulations 2019;
- (C) expressly designated pursuant to Article 5 of EU Council Regulation 833/2014;
- (D) expressly designated pursuant to “sectoral” Sanctions Laws and Regulations which are substantially equivalent to those described in paragraphs (A) and (B) above that have the effect of only blocking or restricting transactions of a specific type (and not all or substantially all transactions) with such person; or
- (E) directly or indirectly owned or controlled (as such terms, including any applicable ownership and control requirements, are defined and construed in the applicable Sanctions Laws and Regulations or in any official guidance in relation to such Sanctions Laws and Regulations) by any person referred to in paragraphs (A) to (C) above.

“Security” means a mortgage, charge, pledge, lien or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect.

“Subsidiary” means a subsidiary undertaking within the meaning of section 1162 of the Companies Act 2006.

“Tax” means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same).

“Tax Deduction” has the meaning given to it in Clause 12 (*Tax Gross Up and Indemnities*)

“Termination Date” means 30 June 2023.

“Total Commitments” means (subject to Clause 4.4 (*Changes to Total Commitments*)) the aggregate of the Commitments being USD200,000,000 at the date of this Agreement.

“Trading Agreement” means any agreements entered into pursuant to clause 20.10(A) (*Trading Agreements*), including any supplements, amendments and/or replacements thereof.

“Transfer Certificate” means a certificate substantially in the form set out in Schedule 4 (*Form of Transfer Certificate*) or any other form agreed between the Agent and the Borrower.

“Transfer Date” means, in relation to an assignment or a transfer which has been executed by all parties to it including the Agent, the Transfer Date specified in the relevant Assignment Agreement or Transfer Certificate.

“Unpaid Sum” means any sum due and payable but unpaid by any Obligor under the Finance Documents.

“US” means the United States of America.

“Utilisation” means a utilisation of the Facility.

“Utilisation Date” means the date of a Utilisation, being the date on which the relevant Loan is to be made.

“Utilisation Request” means a notice substantially in the form set out in Schedule 3 (*Utilisation Requests*).

“VAT” means:

- (A) any tax imposed in compliance with the Council Directive of 28 November 2006 on the common system of value added tax (EC Directive 2006/112);
- (B) in relation to the United Kingdom, value added tax imposed by virtue of the Value Added Tax Act 1994 and legislation and regulations supplemental thereto; and
- (C) any other tax of a similar nature, whether imposed in the United Kingdom, or in a member state of the European Union in substitution for, or levied in addition to, such tax referred to in paragraph (A) or (B) above, or imposed elsewhere.

1.2 Construction

- (A) Unless a contrary indication appears, any reference in this Agreement to:
 - (1) the “Agent”, the “Arranger”, the “Borrower”, any “Guarantor”, any “Obligor”, any “Finance Party”, any “Lender” or any “Party” shall be construed so as to include its successors in title, permitted assigns and permitted transferees to, or of, its rights and/or obligations under the Finance Documents;
 - (2) “assets” includes present and future properties, revenues and rights of every description;
 - (3) This Agreement, any “Guarantee”, any “Finance Document” or any other agreement or instrument is a reference to that Finance Document or other agreement or instrument as amended, novated, supplemented, extended or restated;
 - (4) a “group of Lenders” includes all the Lenders

- (5) “indebtedness” includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent;
 - (6) a “person” includes any individual, firm, company, corporation, government, state or agency of a state or any association, trust, joint venture, consortium, partnership or other entity (whether or not having separate legal personality);
 - (7) a “regulation” includes any regulation, rule, official directive, request or guideline (whether or not having the force of law) of any governmental, intergovernmental or supranational body, agency, department or of any regulatory, self-regulatory or other authority or organisation;
 - (8) a provision of law is a reference to that provision as amended or re-enacted;
 - (9) any matter “including” specific instances or examples of such matter shall be construed without limitation to the generality of that matter (and references to “includes” and “including” shall be construed accordingly); and
 - (10) a time of day is a reference to Moscow time.
- (B) The determination of the extent to which a rate is “for a period equal in length” to an Interest Period shall disregard any inconsistency arising from the last day of that Interest Period being determined pursuant to the terms of this Agreement.
 - (C) Clause and schedule headings are for ease of reference only.
 - (D) Unless a contrary indication appears, a term used in any other Finance Document or in any notice given under or in connection with any Finance Document has the same meaning in that Finance Document or notice as in this Agreement.
 - (E) A reference to the singular includes the plural and vice versa.
 - (F) A Default (other than an Event of Default) is “continuing” if it has not been remedied or waived and an Event of Default is “continuing” if it has not been remedied (if remediable) or waived prior to the Agent exercising any of its rights under Clause 21.13 (*Acceleration*).
 - (G) Unless otherwise specifically stated herein, reference to any “equivalent” amount of a stated currency should denote an equivalent calculated at the exchange rate of Bank GPB (JSC) at the relevant calculation date and time, in each case as specified in the relevant provision of this Agreement (or, if not specified, then calculated at the spot rate of exchange for the relevant pair of currencies specified by the Agent at the relevant date on which the calculation is to be determined).
 - (H) In determining whether there has been a Material Adverse Effect for the purposes of any determination as to whether any misrepresentation, breach of undertaking or Event of Default has occurred, the opinion of the Majority Lenders shall be deemed conclusive in the absence of manifest error if such opinion is reasonable

1.3 Currency symbols and definitions

“Euros” and “euro” denote the single currency of the Participating Member States.

“Roubles” and “Rub” means the lawful currency of Russia.

“USD”, “\$” and “US dollars” denote the lawful currency of the United States of America.

1.4 **Third party rights**

A person who is not a Party has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce or to enjoy the benefit of any term of this Agreement.

2. **The Facility**

2.1 **The Facility**

Subject to the terms of this Agreement, the Lenders make available to the Borrower a US dollar committed term loan facility in an aggregate amount equal to the Total Commitments (to be advanced in US dollars).

2.2 **Finance Parties' rights and obligations**

- (A) The obligations of each Finance Party under the Finance Documents are several. Failure by a Finance Party to perform its obligations under the Finance Documents does not affect the obligations of any other Party under the Finance Documents. No Finance Party is responsible for the obligations of any other Finance Party under the Finance Documents.
- (B) The rights of each Finance Party under or in connection with the Finance Documents are separate and independent rights and any debt arising under the Finance Documents to a Finance Party from the Borrower is a separate and independent debt in respect of which a Finance Party shall be entitled to enforce its rights in accordance with Clause 2.2(C). The rights of each Finance Party include any debt owing to that Finance Party under the Finance Documents and, for the avoidance of doubt, any part of a Loan or any other amount owed by an Obligor which relates to a Finance Party's participation in a Facility or its role under a Finance Document (including any such amount payable to the Agent on its behalf) is a debt owing to that Finance Party by the Borrower.
- (C) A Finance Party may, except as specifically provided in the Finance Documents, separately enforce its rights under or in connection with the Finance Documents.

3. **Purpose**

3.1 **Purpose**

The Borrower shall apply all amounts borrowed by it under the Facility solely towards the purchase of the Existing Bonds by the Borrower or by Petropavlovsk 2016 Limited, including payment of any premiums and accrued, but unpaid interest to holders of the Existing Bonds being purchased. The Existing Bonds so purchased shall be cancelled and may not be held or resold.

3.2 **Monitoring**

No Finance Party is bound to monitor or verify the application of any amount borrowed pursuant to this Agreement.

4. Conditions of Utilisation

4.1 Initial conditions precedent

- (A) The Borrower may not deliver a Utilisation Request unless the Agent has received all of the documents and other evidence listed Schedule 2 (*Conditions precedent to Initial Utilisation*) in form and substance satisfactory to the Agent. The Agent shall notify the Borrower and the Lenders promptly upon being so satisfied.
- (B) Other than to the extent that the Majority Lenders notify the Agent in writing to the contrary before the Agent gives the notification described in Clause 4.1(A), the Lenders authorise (but do not require) the Agent to give that notification. The Agent shall not be liable for any damages, costs or losses whatsoever as a result of giving any such notification.

4.2 Further conditions precedent

The Lenders will only be obliged to comply with Clause 5.4 (*Lenders' participation*) if on the date of the Utilisation Request and on the proposed Utilisation Date:

- (A) no Default is continuing or would result from the proposed Loan; and
- (B) the Repeating Representations to be made by the Borrower are true in all material respects.

4.3 Maximum number of Loans

- (A) The Borrower may not deliver a Utilisation Request if as a result of the proposed Utilisation five (5) or more Loans would be outstanding.
- (B) The Borrower may not request that a Loan be divided.
- (C) Notwithstanding paragraph (A) above, the Lenders may (in their complete discretion) decide to accept a Utilisation Request delivered by the Borrower at a time when five or more Loans would be outstanding, provided that the Lenders have no obligation to advance a Loan in such circumstances.

4.4 Changes to Total Commitments

- (A) If any Obligor breaches any provision of Clauses 18 (*Information undertakings*), 20.3(C) (*Negative pledge*) or 20.4(B) (*Disposals*), the Majority Lenders shall have the right to cancel all or part of the Total Commitments at their discretion (including a reduction to zero). The Majority Lenders' decision to cancel all or part of the Total Commitments shall operate as a waiver of the applicable breach of the Borrower's obligations (without prejudice to any other Event of Default which may exist or occur at such time).
- (B) The Agent shall promptly notify the Borrower of any reduction made pursuant to paragraph (B) above, and the reduced Total Commitments.

5. Utilisation

5.1 Delivery of a Utilisation Request

The Borrower may utilise the Facility by delivery to the Agent of a duly completed Utilisation Request not later than 12.00 p.m. (Moscow time) one Business Day prior to the proposed Utilisation Date.

5.2 Completion of a Utilisation Request

- (A) Each Utilisation Request is irrevocable and will not be regarded as having been duly completed unless:
 - (1) the proposed Utilisation Date is a Business Day within the Availability Period;
 - (2) the currency and amount of the Utilisation comply with Clause 5.3 (*Currency and amount*); and
 - (3) the proposed Interest Period complies with Clause 9 (*Interest Periods*).
- (B) Only one Loan may be requested in each Utilisation Request.

5.3 Currency and amount

- (A) The currency specified in a Utilisation Request must be US dollars.
- (B) The amount of the proposed Loan must be an amount which:
 - (1) is a minimum of USD1,000,000 or, if less, the Available Facility; and
 - (2) when aggregated to all Loans then existing, would not exceed the Total Commitments.

5.4 Lenders' participation

- (A) If the conditions set out in this Agreement have been met, each Lender shall make its participation in each Loan available by the Utilisation Date through its Facility Office.
- (B) The amount of each Lender's participation in each Loan will be equal to the proportion borne by its Available Commitment to the Available Facility immediately prior to making the Loan.
- (C) The Agent shall notify each Lender of the amount of each Loan and the amount of its participation in that Loan by 15.00 hours (Moscow time) one Business Day prior to the proposed Utilisation Date.

5.5 Cancellation of Commitment

The Commitments which, at that time, are unutilised shall be immediately cancelled at the end of the Availability Period.

6. **Repayment**

6.1 **Repayment of Loans**

The Borrower shall repay the aggregate Loans in full by repaying the amount in US dollars set out below opposite each Repayment Date, in each case on the applicable Repayment Date, provided that:

- (A) if at any time the Commitments are not utilised in full the amount payable by the Borrower on each Repayment Date falling before the Termination Date will be reduced on a pro-rata basis; and
- (B) if at any time a prepayment is made pursuant to Clause 7.2 (*Change in control*) and/or 7.5 (*Voluntary prepayment of Loans*), the amount payable by the Borrower on a Repayment Date falling before the Termination Date shall be reduced by the amount prepaid (if any) in relation to such Repayment Date.

| Repayment Date | Amount |
|-----------------------|---------------|
| 31 December 2022 | USD66,000,000 |
| 31 March 2023 | USD66,000,000 |
| 30 June 2023 | USD68,000,000 |

6.2 **Reborrowing**

The Borrower may not reborrow any part of the Facility which is repaid.

7. **Prepayment and Cancellation**

7.1 **Illegality**

If, in any applicable jurisdiction, it becomes unlawful for any Lender to perform any of its obligations as contemplated by this Agreement or to fund or maintain its participation in any Loan:

- (A) that Lender shall promptly notify the Agent upon becoming aware of that event; and
- (B) upon the Agent notifying the Borrower, each Available Commitment of that Lender will be immediately cancelled; and
- (C) the Borrower shall repay that Lender's participation in the Loans made to the Borrower on the last day of the Interest Period for each Loan occurring after the Agent has notified the Borrower or, if earlier, the date specified by the relevant Lender in the notice delivered to the Agent (being no earlier than the last day of any applicable grace period permitted by law) and that Lender's corresponding Commitment shall be cancelled in the amount of the participations repaid.

7.2 **Borrower Sanctions Event**

In case a Borrower Sanctions Event occurs:

- (A) the Borrower shall promptly notify the Agent upon becoming aware of that event;

- (B) a Lender shall not be obliged to fund a Utilisation;
- (C) the Total Commitments are cancelled in full; and
- (D) all outstanding Loans, together with accrued interest, and all other amounts accrued under the Finance Documents immediately become due and payable.

7.3 **Mandatory prepayment at election of Majority Lenders**

- (A) Without prejudice to Clause 21.13 (*Acceleration*), while any Event of Default has occurred and is continuing due to any breach by an Obligor of any provision of Clauses 18 (*Information undertakings*), 20.3(C) (*Negative pledge*) or 20.4(B) (*Disposals*), the Majority Lenders shall have the right (at their sole discretion) to:
 - (1) require a prepayment of all or part of the Loans then outstanding; and/or
 - (2) cancel all or part of the Total Commitments pursuant to Clause 4.4 (*Changes to Total Commitments*).
- (B) Upon the Agent notifying the Borrower, by not less than 5 Business Days' notice of the required prepayment amount, of any prepayment required pursuant to paragraph (A) above, such outstanding Loans and amounts will become immediately due and payable.
- (C) Any prepayment under this Clause 7.3 shall satisfy the obligations under Clause 6.1 (*Repayment of Loans*) in consecutive order of the instalments specified thereunder, by the amount prepaid.

7.4 **Voluntary cancellation**

The Borrower may, if it gives the Agent not less than 2 Business Days' (or such shorter period as the Majority Lenders may agree) prior notice, cancel the whole or any part (being a minimum amount of USD1,000,000) of the Available Facility. Any cancellation under this Clause 7.4 shall reduce the Commitments of the Lenders rateably.

7.5 **Voluntary prepayment of Loans**

- (A) The Borrower may, if it gives the Agent not less than 5 Business Days' (or such shorter period as the Majority Lenders may agree) prior notice, prepay the whole or a part of a Loan (but, if in part, being an amount that reduces the amount of the Loan by a minimum amount of USD1,000,000).
- (B) A Loan may only be prepaid after the last day of the Availability Period for the Facility (or, if earlier, the day on which the Available Facility is zero).
- (C) Any prepayment under this Clause 7.5 shall satisfy the obligations under Clause 6.1 (*Repayment of Loans*) in consecutive order of the instalments specified thereunder, by the amount prepaid.

7.6 **Right of replacement or repayment and cancellation in relation to a single Lender**

- (A) If:
 - (1) any sum payable to any Lender by the Borrower is required to be increased under Clause 12.2(C); or

- (2) any Lender claims indemnification from the Borrower under Clause 12.3 (*Tax indemnity*) or Clause 13.1 (*Increased costs*),

the Borrower may, whilst the circumstance giving rise to the requirement for that increase or indemnification continues, give the Agent notice of cancellation of the Commitment(s) of that Lender and its intention to procure the repayment of that Lender's participation in the Loans.

- (B) On receipt of a notice of cancellation referred to in Clause 7.6(A), the Commitment of that Lender shall immediately be reduced to zero.
- (C) On the last day of each Interest Period which ends after the Borrower has given notice of cancellation under Clause 7.6(A) (or, if earlier, the date specified by the Borrower in that notice), the Borrower shall repay that Lender's participation in that Loan.

7.7 Restrictions

- (A) Any notice of cancellation or prepayment given by any Party under this Clause 7 shall be irrevocable and, unless a contrary indication appears in this Agreement, shall specify the date or dates upon which the relevant cancellation or prepayment is to be made and the amount of that cancellation or prepayment.
- (B) Any prepayment under this Agreement shall be made together with accrued interest on the amount prepaid.
- (C) The Borrower may not reborrow any part of the Facility which is prepaid.
- (D) The Borrower shall not repay or prepay all or any part of the Loans or cancel all or any part of the Commitments except at the times and in the manner expressly provided for in this Agreement.
- (E) No amount of the Total Commitments cancelled under this Agreement may be subsequently reinstated.
- (F) If the Agent receives a notice under this Clause 7 it shall promptly forward a copy of that notice to either the Borrower or the affected Lender, as appropriate.
- (G) If all or part of any Lender's participation in a Loan is repaid or prepaid an amount of that Lender's Commitment (equal to the amount of the participation which is repaid or prepaid) will be deemed to be cancelled on the date of repayment or prepayment.

7.8 Application of prepayments

Any prepayment of a Loan pursuant to Clause 7.5 (*Voluntary prepayment of Loans*) shall be applied *pro rata* to each Lender's participation in that Loan.

8. Interest

8.1 Calculation of interest

The rate of interest on each Loan for each Interest Period is the percentage rate per annum which is the Fixed Rate.

8.2 Payment of interest

The Borrower shall pay accrued interest on each Loan on the last day of each Interest Period.

8.3 Default interest

If the Borrower fails to pay any amount payable by it under a Finance Document on its due date, interest shall accrue on the overdue amount from the due date up to the date of actual payment (both before and after judgment) at a rate which is:

- (A) (for the period starting on the relevant due date and ending on (and including) the fifth calendar following such date) 7.20 per cent. per annum; or
- (B) (for the period starting on the sixth calendar day following the due date until the date of payment) 6.60 per cent. per annum,

And any interest accruing under this Clause 8.3 shall be immediately payable by the Borrower on demand by the Agent.

8.4 Notification of rates of interest

- (A) The Agent shall promptly notify the relevant Lenders and the Borrower of the determination of a rate of interest under this Agreement.
- (B) The Agent shall promptly notify the relevant Borrower of each Funding Rate relating to a Loan.

9. Interest Periods

9.1 Interest Periods

- (A) An Interest Period for a Loan shall not extend beyond the Termination Date.
- (B) Subject to this Clause 9, each Interest Period for a Loan shall begin on (and include) its Utilisation Date or (if already made) the relevant Interest Payment Date and end on (but exclude) the earlier of the next Interest Payment Date and the Termination Date.

9.2 Non-Business Days

If an Interest Period would otherwise end on a day which is not a Business Day, that Interest Period will instead end on the next Business Day in that calendar month (if there is one) or the preceding Business Day (if there is not).

9.3 Consolidation of Loans

If two or more Interest Periods relate to Loans and end on the same date, those Loans will be consolidated into, and treated as, a single Loan on the last day of the Interest Period.

10. Changes to the Calculation of Interest

10.1 **Cost of funds**

The Fixed Rate may be unilaterally changed upon decision by the Majority of Lenders (such changed rate, the "Funding Rate"):

(A) by no more than [REDACTED]

(B) by no more than [REDACTED]

[REDACTED]

[REDACTED]

10.2 **Notification to Borrower**

If Clause 10.1 (*Cost of funds*) applies the Agent shall, as soon as is practicable, notify the Borrower.

11. Fees

11.1 **Arrangement fee**

The Borrower shall pay to the Arranger on the date of this Agreement an arrangement fee in the amount of USD500,000 (such arrangement fee being the product of 0.25 per cent. of the Total Commitments).

11.2 **Agency fee**

The Borrower shall pay to the Agent (for its own account) an agency fee in the amount and at the times agreed in a Fee Letter.

12. Tax Gross-Up and Indemnities

12.1 **Definitions**

(A) In this Agreement:

'Borrower DTTP Filing' means an H.M. Revenue & Customs' Form DTTP2 duly completed and filed by the relevant Borrower, which where it relates to a Treaty Lender that is not an Original Lender, contains the scheme reference number and jurisdiction of tax residence stated in respect of that Lender in the documentation which it executes upon becoming a Party as a Lender, and is filed with HM

Revenue & Customs within 30 days of the date on which that Treaty Lender becomes a Party as a Lender.

Form DTTP2” means HM Revenue & Customs Form DTTP2 or such other prescribed form of notification as HM Revenue & Customs specifies from time to time shall be used pursuant to the HMRC DT Treaty Passport scheme.

“Protected Party” means a Finance Party which is or will be subject to any liability, or required to make any payment, for or on account of Tax in relation to a sum received or receivable (or any sum deemed for the purposes of Tax to be received or receivable) under a Finance Document.

“Qualifying Financial Institution” means any of the following persons: (i) any Lender or an Affiliate of any Lender; (ii) Russian banks with a long-term unsecured credit rating of “BB” or higher assigned by S&P or Fitch, or “Ba2” or higher assigned by Moody’s; (iii) mutual funds managed by a management company registered in Russia; and (iv) the Central Bank of Russian Federation; provided that such person is not subject to sanctions imposed by the Russian Federation or Sanctions Authority.

Qualifying Lender” means a Lender which is beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document and is:

- (a) a Lender:
 - (i) which is a bank (as defined for the purpose of section 879 of the ITA) making an advance under a Finance Document and is within the charge to United Kingdom corporation tax as respects any payments of interest made in respect of that advance or would be within such charge as respects such payments apart from section 18A of the CTA; or
 - (ii) in respect of an advance made under a Finance Document by a person that was a bank (as defined for the purpose of section 879 of the ITA) at the time that that advance was made and within the charge to United Kingdom corporation tax as respects any payments of interest made in respect of that advance; or
- (b) a Lender which is:
 - (i) a company resident in the United Kingdom for United Kingdom tax purposes;
 - (ii) a partnership each member of which is:
 - (A) a company so resident in the United Kingdom; or
 - (B) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA;

- (iii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company; or

(c) a Treaty Lender.

“Tax Confirmation” means a confirmation by a Lender that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:

- (1) a company resident in the United Kingdom for United Kingdom tax purposes;
- (2) a partnership each member of which is:
 - (a) a company so resident in the United Kingdom; or
 - (b) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or
- (3) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.

“Tax Credit” means a credit against, relief or remission for, or repayment of any Tax.

“Tax Deduction” means a deduction or withholding for or on account of Tax from a payment under a Finance Document, other than a FATCA Deduction.

“Tax Payment” means either the increase in a payment made by the Borrower to a Finance Party under Clause 12.2 (*Tax gross-up*) or a payment under Clause 12.3 (*Tax indemnity*).

“Treaty Lender” means a Lender which:

- (1) is treated as a resident of a Treaty State for the purposes of the Treaty;
- (2) does not carry on a business in the United Kingdom through a permanent establishment with which that Lender’s participation in the Loan is effectively connected; and
- (3) fulfils any other conditions which must be fulfilled under the Treaty by residents of that Treaty State in order for such residents to obtain full exemption from taxation on interest imposed by the United Kingdom in relation to payments of interest by the Borrower at the time of the relevant interest payment.

“Treaty State” means a jurisdiction having a double taxation agreement (a “Treaty”) with the United Kingdom which makes provision for full exemption from tax imposed by the United Kingdom on interest.

“UK Non-Bank Lender” means a Lender which is not an Original Lender and which gives a Tax Confirmation in the documentation which it executes on becoming a Party as a Lender.

- (B) Unless a contrary indication appears, in this Clause 12 a reference to “determines” or “determined” means a determination made in the absolute discretion of the person making the determination.

12.2 Tax gross-up

- (A) The Borrower shall make all payments to be made by it in accordance with this Agreement without any Tax Deduction, unless a Tax Deduction is required by law.
- (B) The Borrower shall promptly upon becoming aware that it must make a Tax Deduction (or that there is any change in the rate or the basis of a Tax Deduction) notify the Agent accordingly. Similarly, a Lender shall notify the Agent on becoming so aware in respect of a payment payable to that Lender. If the Agent receives such notification from a Lender it shall notify the Borrower.
- (C) If a Tax Deduction is required by law to be made by the Borrower, the amount of the payment due from the Borrower to a Lender shall be increased to an amount which (after making any Tax Deduction) leaves an amount equal to the payment which would have been due if no Tax Deduction had been required. This paragraph (C) shall apply at all times in respect of any Tax Deduction required by law to be made by the Borrower on a payment due from the Borrower to the Original Lender in accordance with this Agreement but is without prejudice to the Original Lender's obligations under paragraph 12.2(G) and 12.2(L).
- (D) A payment shall not be increased under Clause 12.2(C) by reason of a Tax Deduction on account of Tax imposed by the United Kingdom, if on the date on which the payment falls due any of the following apply:
 - (1) the payment could have been made to the relevant Lender without a Tax Deduction if the Lender had been a Qualifying Lender, but on that date that Lender is not or has ceased to be a Qualifying Lender other than as a result of any change after the date it became a Lender under this Agreement in (or in the interpretation, administration, or application of) any law or Treaty or any published practice or published concession of any relevant taxing authority; or
 - (2) the relevant Lender is a Qualifying Lender solely by virtue of paragraph (1)(b) of the definition of Qualifying Lender; and:
 - (a) an officer of HM Revenue & Customs has given (and not revoked) a direction (a “Direction”) under section 931 of the ITA which relates to the payment and that Lender has received from the Borrower a certified copy of that Direction; and
 - (b) the payment could have been made to the Lender without any Tax Deduction if that Direction had not been made; or

- (3) the relevant Lender is a Qualifying Lender solely by virtue of paragraph (1)(b) of the definition of Qualifying Lender and:
 - (a) the relevant Lender has not given a Tax Confirmation to the Borrower; and
 - (b) the payment could have been made to the Lender without any Tax Deduction if the Lender had given a Tax Confirmation to the Borrower, on the basis that the Tax Confirmation would have enabled the Borrower to have formed a reasonable belief that the payment was an "excepted payment" for the purpose of section 930 of the ITA; or
- (4) the relevant Lender is a Treaty Lender and the Borrower is able to demonstrate that the payment could have been made to the Lender without the Tax Deduction had that Lender complied with its obligations under Clause 12.2(G) or Clause 12.2(H),

provided that this paragraph (D) shall not apply to any Tax Deduction required by law to be made by the Borrower in respect of any payment owing to the Original Lender in accordance with this Agreement.

- (E) If the Borrower is required to make a Tax Deduction, the Borrower shall make that Tax Deduction and any payment required in connection with that Tax Deduction within the time allowed and in the minimum amount required by law.
- (F) Within thirty days of making either a Tax Deduction or any payment required in connection with that Tax Deduction, the Borrower shall deliver to the Agent for the Finance Party entitled to the payment a statement under section 975 of the ITA or other evidence reasonably satisfactory to that Finance Party that the Tax Deduction has been made or (as applicable) any appropriate payment paid to the relevant taxing authority.

(G)

- (1) Subject to Clause 12.2(G)(2):

- (a) a Treaty Lender; and
- (b) the Original Lender,

and the Borrower shall co-operate in completing any procedural formalities necessary for the Borrower to obtain authorisation to make that payment without a Tax Deduction and a Treaty Lender and the Original Lender shall use its best efforts to complete all formalities and filings necessary to obtain, as soon as possible following execution of the Finance Documents, authorisation to ensure that any payments under the Finance Documents can be made without a Tax Deduction, either by way of the HMRC DT Treaty Passport scheme or otherwise. This paragraph (G) is without prejudice to the Borrower's obligation to make any payment under this Agreement to the Original Lender without a Tax Deduction.

- (2) A Treaty Lender which is not an Original Lender and that holds a passport under the HMRC DT Treaty Passport scheme, and which wishes that scheme to apply to this Agreement, shall confirm its scheme reference number and its jurisdiction of tax residence in the documentation which it

executes on becoming a Party as a Lender, and, having done so, that Lender shall automatically be deemed to have discharged all its obligations and responsibilities pursuant to Clause 12.2(G)(1), subject to Clause 12.2(H)

- (H) If a Lender has confirmed its scheme reference number and its jurisdiction of tax residence in accordance with Clause 12.2(G)(2):
 - (1) such confirmation shall constitute notification by such Lender to the Borrower that the Lender wishes the HMRC DT Treaty Passport scheme to apply to this Agreement and that pursuant to such scheme the Borrower must comply with its obligations under Clause 12.2(H)(2); and
 - (2) the Borrower shall, to the extent that such a Lender is a Lender under a Facility made available to the Borrower pursuant to Clause 2.1 (*The Facility*), file a duly completed Form DTTP2 in respect of such Lender with HM Revenue & Customs within 30 days of the date on which such Lender became a Party as a Lender.
- (I) If a Lender has not confirmed its scheme reference number and jurisdiction of tax residence in accordance with Clause 12.2(G)(2), the Borrower shall not make a Borrower DTTP Filing or file any other form relating to the HMRC DT Treaty Passport scheme in respect of that Lender's Commitment or its participation in any Loan unless the Lender otherwise agrees in writing.
- (J) The Borrower shall, promptly on making a Borrower DTTP Filing, deliver a copy of that Borrower DTTP Filing to the Agent for delivery to the relevant Lender.
- (K) A UK Non-Bank Lender shall promptly notify the Borrower and the Agent if there is any change in the position from that set out in the Tax Confirmation.
- (L) In the event that the Borrower is required to gross-up any payment in accordance with clause 12.2(C) as a result of any Interest Period occurring prior to receipt of authorisation to make any payments under the Finance Documents without a Tax Deduction, a Treaty Lender and the Original Lender which is entitled to such payment shall use its best efforts to obtain a refund in respect of the Tax Deduction from the relevant taxing authority and will pay for the account of the Borrower an amount of such refund within ten (10) Business Days of receipt from the relevant taxing authority.

12.3 Tax indemnity

- (A) The Borrower shall (within three Business Days of demand by the Agent) pay to a Protected Party an amount equal to the loss, liability or cost which that Protected Party determines will be or has been (directly or indirectly) suffered for or on account of Tax by that Protected Party in respect of a Finance Document.
- (B) Clause 12.3(A) shall not apply:
 - (1) with respect to any Tax assessed on a Finance Party:
 - (a) under the law of the jurisdiction in which that Finance Party is incorporated or, if different, the jurisdiction (or jurisdictions) in which that Finance Party is treated as resident for tax purposes; or

- (b) under the law of the jurisdiction in which that Finance Party's Facility Office is located in respect of amounts received or receivable in that jurisdiction,

if that Tax is imposed on or calculated by reference to the net income received or receivable (but not any sum deemed to be received or receivable) by that Finance Party; or

- (2) to the extent a loss, liability or cost:
 - (a) is compensated for by an increased payment under Clause 12.2 (*Tax gross-up*);
 - (b) would have been compensated for by an increased payment under Clause 12.2 (*Tax gross-up*) but was not so compensated solely because one of the exclusions in Clause 12.2(D) (*Tax gross-up*) applied; or
 - (c) relates to a FATCA Deduction required to be made by a Party.
- (3) A Protected Party making, or intending to make a claim under Clause 12.3(A) shall promptly notify the Agent of the event which will give, or has given, rise to the claim, following which the Agent shall notify the Borrower.
- (4) A Protected Party shall, on receiving a payment from the Borrower under this Clause 12.3, notify the Agent.

12.4 Tax Credit

If the Borrower makes a Tax Payment and the relevant Finance Party determines that:

- (A) a Tax Credit is attributable to an increased payment of which that Tax Payment forms part, to that Tax Payment or to a Tax Deduction in consequence of which that Tax Payment was required; and
- (B) that Finance Party has obtained and utilised that Tax Credit,

the Finance Party shall pay an amount to the Borrower which that Finance Party determines will leave it (after that payment) in the same after-Tax position as it would have been in had the Tax Payment not been required to be made by the Borrower.

12.5 Lender status confirmation

Each Lender which is not an Original Lender shall indicate, in the documentation which it executes on becoming a Party as a Lender, and for the benefit of the Agent and without liability to the Borrower, which of the following categories it falls in:

- (A) not a Qualifying Lender;
- (B) a Qualifying Lender (other than a Treaty Lender); or
- (C) a Treaty Lender.

If such a Lender fails to indicate its status in accordance with this Clause 12.5 then that Lender shall be treated for the purposes of this Agreement (including by the Borrower) as

if it is not a Qualifying Lender until such time as it notifies the Agent which category applies (and the Agent, upon receipt of such notification, shall inform the Borrower). For the avoidance of doubt, the documentation which a Lender executes on becoming a Party as a Lender shall not be invalidated by any failure of a Lender to comply with this Clause 12.5.

12.6 Stamp taxes

The Borrower shall pay and, within three Business Days of demand, indemnify each Finance Party against any cost, loss or liability that Finance Party incurs in relation to all stamp duty, registration and other similar Taxes payable in respect of any Finance Document.

12.7 VAT

- (A) All amounts expressed to be payable under a Finance Document by any Party to a Finance Party which (in whole or in part) constitute the consideration for any supply for VAT purposes are deemed to be exclusive of any VAT which is chargeable on that supply, and accordingly, subject to Clause 12.7(B), if VAT is or becomes chargeable on any supply made by any Finance Party to any Party under a Finance Document and such Finance Party is required to account to the relevant tax authority for the VAT, that Party must pay to such Finance Party (in addition to and at the same time as paying any other consideration for such supply) an amount equal to the amount of the VAT (and such Finance Party must promptly provide an appropriate VAT invoice to that Party).
- (B) If VAT is or becomes chargeable on any supply made by any Finance Party (the “Supplier”) to any other Finance Party (the “Recipient”) under a Finance Document, and any Party other than the Recipient (the “Relevant Party”) is required by the terms of any Finance Document to pay an amount equal to the consideration for that supply to the Supplier (rather than being required to reimburse or indemnify the Recipient in respect of that consideration):
 - (1) (where the Supplier is the person required to account to the relevant tax authority for the VAT) the Relevant Party must also pay to the Supplier (at the same time as paying that amount) an additional amount equal to the amount of the VAT. The Recipient must (where this Clause 12.7(B)(1) applies) promptly pay to the Relevant Party an amount equal to any credit or repayment the Recipient receives from the relevant tax authority which the Recipient reasonably determines relates to the VAT chargeable on that supply; and
 - (2) (where the Recipient is the person required to account to the relevant tax authority for the VAT) the Relevant Party must promptly, following demand from the Recipient, pay to the Recipient an amount equal to the VAT chargeable on that supply but only to the extent that the Recipient reasonably determines that it is not entitled to credit or repayment from the relevant tax authority in respect of that VAT.
- (C) Where a Finance Document requires any Party to reimburse or indemnify a Finance Party for any cost or expense, that Party shall reimburse or indemnify (as the case may be) such Finance Party for the full amount of such cost or expense, including such part thereof as represents VAT, save to the extent that such Finance Party reasonably determines that it is entitled to credit or repayment in respect of such VAT from the relevant tax authority.

- (D) Any reference in this Clause 12.7 to any Party shall, at any time when such Party is treated as a member of a group for VAT purposes, include (where appropriate and unless the context otherwise requires) a reference to any member of such group which is responsible for accounting for, or paying, VAT on behalf of such group, or on behalf of any or all of the members thereof.
- (E) In relation to any supply made by a Finance Party to any Party under a Finance Document, if reasonably requested by such Finance Party, that Party must promptly provide such Finance Party with details of that Party's VAT registration and such other information as is reasonably requested in connection with such Finance Party's VAT reporting requirements in relation to such supply.

12.8 FATCA information

- (A) Subject to Clause 12.8(C), each Party shall, within ten Business Days of a reasonable request by another Party:
 - (1) confirm to that other Party whether it is:
 - (a) a FATCA Exempt Party; or
 - (b) not a FATCA Exempt Party;
 - (2) supply to that other Party such forms, documentation and other information relating to its status under FATCA as that other Party reasonably requests for the purposes of that other Party's compliance with FATCA; and
 - (3) supply to that other Party such forms, documentation and other information relating to its status as that other Party reasonably requests for the purposes of that other Party's compliance with any other law, regulation, or exchange of information regime.
- (B) If a Party confirms to another Party pursuant to Clause 12.8(A)(1) that it is a FATCA Exempt Party and it subsequently becomes aware that it is not or has ceased to be a FATCA Exempt Party, that Party shall notify that other Party reasonably promptly.
- (C) Clause 12.8(A) shall not oblige any Finance Party to do anything, and Clause 12.8(A)(3) shall not oblige any other Party to do anything, which would or might in its reasonable opinion constitute a breach of:
 - (1) any law or regulation;
 - (2) any fiduciary duty; or
 - (3) any duty of confidentiality.
- (D) If a Party fails to confirm whether or not it is a FATCA Exempt Party or to supply forms, documentation or other information requested in accordance with Clause 12.8(A)(1) or Clause 12.8(A)(2) (including, for the avoidance of doubt, where Clause 12.8(C) applies), then such Party shall be treated for the purposes of the Finance Documents (and payments under them) as if it is not a FATCA Exempt Party until such time as the Party in question provides the requested confirmation, forms, documentation or other information.

12.9 FATCA Deduction

- (A) Each Party may make any FATCA Deduction it is required to make by FATCA, and any payment required in connection with that FATCA Deduction, and no Party shall be required to increase any payment in respect of which it makes such a FATCA Deduction or otherwise compensate the recipient of the payment for that FATCA Deduction.
- (B) Each Party shall promptly, upon becoming aware that it must make a FATCA Deduction (or that there is any change in the rate or the basis of such FATCA Deduction), notify the Party to whom it is making the payment and, in addition, shall notify the Borrower and the Agent and the Agent shall notify the other Finance Parties.

13. Increased Costs

13.1 Increased costs

- (A) Subject to Clause 13.3 (*Exceptions*) the Borrower shall, within three Business Days of a demand by the Agent, pay for the account of a Finance Party the amount of any Increased Costs incurred by that Finance Party or any of its Affiliates as a result of:
 - (1) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation;
 - (2) compliance with any law or regulation made after the date of this Agreement; or
 - (3) the implementation or application of, or compliance with, Basel III or any law or regulation which implements Basel III (including for the avoidance of doubt, CRD IV to the extent that it applies to Basel III) (whether such implementation, application or compliance is by a government, regulator, Finance Party or any of its Affiliates).
- (B) In this Agreement:
 - (1) "Basel III" means:
 - (a) the agreements on capital requirements, a leverage ratio and liquidity standards contained in "Basel III: A global regulatory framework for more resilient banks and banking systems", "Basel III: International framework for liquidity risk measurement, standards and monitoring" and "Guidance for national authorities operating the countercyclical capital buffer" published by the Basel Committee on Banking Supervision in December 2010, each as amended, supplemented or restated;
 - (b) the rules for global systemically important banks contained in "Global systemically important banks: assessment methodology and the additional loss absorbency requirement – Rules text" published by the Basel Committee on Banking Supervision in November 2011, as amended, supplemented or restated; and

- (c) any further guidance or standards published by the Basel Committee on Banking Supervision relating to “Basel III”.
- (2) “CRD IV” means EU CRD IV and UK CRD IV.
- (3) “EU CRD IV” means:
 - (a) Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012; and
 - (b) Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC.
- (4) “UK CRD IV” means:
 - (a) Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 as it forms part of domestic law of the United Kingdom by virtue of the European Union (Withdrawal) Act 2018 (the “Withdrawal Act”);
 - (b) the law of the United Kingdom or any part of it, which immediately before IP completion day (as defined in the European Union (Withdrawal Agreement) Act 2020) implemented Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC and its implementing measures; and
 - (c) direct EU legislation (as defined in the Withdrawal Act), which immediately before IP completion day (as defined in the European Union (Withdrawal Agreement) Act 2020) implemented EU CRD IV as it forms part of domestic law of the United Kingdom by virtue of the Withdrawal Act.
- (5) “Increased Costs” means:
 - (a) a reduction in the rate of return from a Facility or on a Finance Party’s (or its Affiliate’s) overall capital;
 - (b) an additional or increased cost; or
 - (c) a reduction of any amount due and payable under any Finance Document,

which is incurred or suffered by a Finance Party or any of its Affiliates to the extent that it is attributable to that Finance Party having entered into its Commitment or funding or performing its obligations under any Finance Document.

13.2 Increased cost claims

- (A) A Finance Party intending to make a claim pursuant to Clause 13.1 (*Increased costs*) shall notify the Agent of the event giving rise to the claim, following which the Agent shall promptly notify the Borrower.
- (B) Each Finance Party shall, as soon as practicable after a demand by the Agent, provide a certificate confirming the amount of its Increased Costs.

13.3 Exceptions

- (A) Clause 13.1 (*Increased costs*) does not apply to the extent any Increased Cost is:
 - (1) attributable to a Tax Deduction required by law to be made by the Borrower;
 - (2) attributable to a FATCA Deduction required to be made by a Party;
 - (3) compensated for by Clause 12.3 (*Tax indemnity*) (or would have been compensated for under Clause 12.3 (*Tax indemnity*) but was not so compensated solely because any of the exclusions in Clause 12.3(B) applied);
 - (4) attributable to the wilful breach by the relevant Finance Party or its Affiliates of any law or regulation.
- (B) In this Clause 13.3, a reference to a “Tax Deduction” has the same meaning given to that term in Clause 12.1 (*Definitions*).

14. Other Indemnities

14.1 Currency indemnity

- (A) If any sum due from the Borrower under the Finance Documents (a “Sum”), or any order, judgment or award given or made in relation to a Sum, has to be converted from the currency (the “First Currency”) in which that Sum is payable into another currency (the “Second Currency”) for the purpose of:
 - (1) making or filing a claim or proof against the Borrower;
 - (2) obtaining or enforcing an order, judgment or award in relation to any litigation or arbitration proceedings,

the Borrower shall as an independent obligation, within three Business Days of demand, indemnify each Finance Party to whom that Sum is due against any cost, loss or liability arising out of or as a result of the conversion including any discrepancy between (i) the rate of exchange used to convert that Sum from the First Currency into the Second Currency and (ii) the rate or rates of exchange available to that person at the time of its receipt of that Sum.
- (B) The Borrower waives any right it may have in any jurisdiction to pay any amount under the Finance Documents in a currency or currency unit other than that in which it is expressed to be payable.

14.2 Other indemnities

The Borrower shall, within three Business Days of demand, indemnify each Finance Party against any cost, loss or liability incurred by that Finance Party as a result of:

- (A) the occurrence of any Event of Default;
- (B) a failure by an Obligor to pay any amount due under a Finance Document on its due date, including without limitation, any cost, loss or liability arising as a result of Clause 26 (*Sharing among the Finance Parties*);
- (C) funding, or making arrangements to fund, its participation in a Loan requested by the Borrower in a Utilisation Request but not made by reason of the operation of any one or more of the provisions of this Agreement (other than by reason of default or negligence by that Finance Party alone);
- (D) a Loan (or part of a Loan) not being prepaid in accordance with a notice of prepayment given by the Borrower; or
- (E) in respect of the Original Lender, in respect of any documented cost, loss or liability incurred in cooperating with the Borrower and performing its obligations under Clause 12.2(G)(1) (*Tax gross-up*) that the Original Lender has incurred acting in good faith (excluding for the avoidance of doubt, the amount of any refund in respect of a Tax Deduction from the relevant taxing authority payable to the Borrower pursuant to Clause 12.2(L)).

14.3 Indemnity to the Agent

The Borrower shall promptly indemnify the Agent against any cost, loss or liability incurred by the Agent (acting reasonably) as a result of:

- (A) investigating any event which it reasonably believes is a Default;
- (B) acting or relying on any notice, request or instruction which it reasonably believes to be genuine, correct and appropriately authorised; or
- (C) instructing lawyers, accountants, tax advisers, surveyors or other professional advisers or experts as permitted under this Agreement.

14.4 Nature of the costs and expenses

Any costs and expenses, and other amounts that the Borrower must reimburse a Finance Party for, or indemnify a Finance Party against pursuant to this Agreement (including, without limitation, pursuant to Clause 14 (*Other indemnities*) and Clause 16 (*Costs and expenses*)), are deemed to be incurred by such Finance Party on behalf of the Borrower (or, if applicable, on its own behalf), in each case on the instructions and for the account of the Borrower.

15. Mitigation by the Lenders

15.1 Mitigation

- (A) Each Finance Party shall, in consultation with the Borrower, take all reasonable steps to mitigate any circumstances which arise and which would result in any amount becoming payable under or pursuant to, or cancelled pursuant to, any of

Clause 7.1 (*Illegality*), Clause 12 (*Tax gross-up and indemnities*) or Clause 13 (*Increased costs*) including (but not limited to) transferring its rights and obligations under the Finance Documents to another Affiliate or Facility Office.

- (B) Clause 15.1(A) does not in any way limit the obligations of the Borrower or any other Obligor under the Finance Documents.

15.2 **Limitation of liability**

- (A) The Borrower shall promptly indemnify each Finance Party for all costs and expenses reasonably incurred by that Finance Party as a result of steps taken by it under Clause 15.1 (*Mitigation*).
- (B) A Finance Party is not obliged to take any steps under Clause 15.1 (*Mitigation*) if, in the opinion of that Finance Party (acting reasonably), to do so might be prejudicial to it.

16. **Costs and Expenses**

16.1 **Transaction expenses**

The Borrower shall promptly on demand indemnify the Agent and the Arranger the amount of all costs and expenses (including legal fees) reasonably incurred by any of them in connection with the negotiation, preparation, printing, execution and/or syndication of:

- (A) this Agreement and any other documents referred to in this Agreement; and
- (B) any other Finance Documents executed after the date of this Agreement.

16.2 **Amendment costs**

If:

- (A) the Borrower or any other Obligor requests an amendment, waiver or consent; or
- (B) an amendment is required pursuant to Clause 27.9 (*Change of currency*),

the Borrower shall, within three Business Days of demand, reimburse the Agent for the amount of all costs and expenses (including legal fees) reasonably incurred by the Agent in responding to, evaluating, negotiating or complying with that request or requirement.

16.3 **Enforcement costs**

The Borrower shall, within three Business Days of demand, indemnify to each Finance Party the amount of all costs and expenses (including legal fees) incurred by that Finance Party in connection with the enforcement of, or the preservation of any rights under, any Finance Document and any proceedings instituted by or against the any Finance Party and/or any of its Affiliates as a consequence of taking or holding any Guarantee or enforcing these rights.

17. **Representations**

The Borrower makes the representations and warranties set out in this Clause 17 to each Finance Party on the date of this Agreement.

17.1 Status

- (A) It is a corporation, duly incorporated and validly existing under the law of its jurisdiction of incorporation.
- (B) It has the power to own its assets and carry on its business as it is being conducted.

17.2 Binding obligations

The obligations expressed to be assumed by it in each Finance Document are, subject to any general principles of law limiting its obligations which are specifically referred to in any legal opinion delivered pursuant to Clause 4 (*Conditions of Utilisation*) or Clause 23 (*Assignment and Transfer by the Borrower*), legal, valid, binding and enforceable obligations.

17.3 Non-conflict with other obligations

The entry into and performance by it of, and the transactions contemplated by, the Finance Documents do not and will not conflict with:

- (A) any law or regulation applicable to it;
- (B) its constitutional documents; or
- (C) any agreement or instrument binding upon it or any of its assets.

17.4 Power and authority

It has the power to enter into, perform and deliver, and has taken all necessary action to authorise its entry into, performance and delivery of, the Finance Documents to which it is a party and the transactions contemplated by those Finance Documents.

17.5 Validity and admissibility in evidence

All Authorisations required or desirable:

- (A) to enable it lawfully to enter into, exercise its rights and comply with its obligations in the Finance Documents to which it is a party; and
- (B) to make the Finance Documents to which it is a party admissible in evidence in its jurisdiction of incorporation,

have been obtained or effected and are in full force and effect.

17.6 Governing law and enforcement

- (A) The choice of:
 - (1) English law as the governing law of the Finance Documents (excluding the Guarantees); and
 - (2) Russian law as the governing law of the Guarantees,

will be recognised and enforced in its jurisdiction of incorporation.

- (B) Any judgment obtained in England in relation to a Finance Document will be recognised and enforced in its jurisdiction of incorporation.

17.7 Deduction of Tax

It is not required to make any Tax Deduction (as defined in Clause 12.1 (*Definitions*)) from any payment it may make under any Finance Document to a Lender which is:

- (A) a Qualifying Lender:
 - (1) falling within paragraph (1)(a) of the definition of “Qualifying Lender”; or
 - (2) except where a Direction has been given under section 931 of the ITA in relation to the payment concerned, falling within paragraph (1)(b) of the definition of “Qualifying Lender”; or
 - (3) falling within paragraph (2) of the definition of “Qualifying Lender” or;
- (B) a Treaty Lender and the payment is one specified in a direction given by the Commissioners of Revenue & Customs under Regulation 2 of the Double Taxation Relief (Taxes on Income) (General) Regulations 1970 (SI 1970/488).

17.8 No filing or stamp taxes

Under the law of its Relevant Tax Jurisdiction it is not necessary that the Finance Documents be filed, recorded or enrolled with any court or other authority in that jurisdiction or that any stamp, registration or similar tax be paid on or in relation to the Finance Documents or the transactions contemplated by the Finance Documents.

17.9 No default

- (A) No Event of Default is continuing or might reasonably be expected to result from the making of any Utilisation.
- (B) No other event or circumstance is outstanding which constitutes a default under any other agreement or instrument which is binding on it or to which its assets are subject which might have a Material Adverse Effect.

17.10 No misleading information

- (A) Any factual information provided by any member of the Group in connection with any Finance Document was true and accurate in all material respects as at the date it was provided or as at the date (if any) at which it is stated.
- (B) The Borrower will not be considered in breach of any representation under this Clause 17.10 (*No misleading information*) if any information provided by any member of the Group in connection with any Finance Document (including, but not limited to, the Original Financial Statements) is adjusted, amended or supplemented pursuant to a result of an investigation or based on an independent expert opinion, any report by accountants or specialists (including, any report by KPMG in respect of related party transactions, in particular, interim report announced by the Borrower on 24 June 2021).

17.11 Financial statements

- (A) Its Original Financial Statements were prepared in accordance with GAAP consistently applied unless expressly disclosed to the Agent in writing to the contrary before the date of this Agreement.
- (B) Its Original Financial Statements fairly present the consolidated financial condition of the Group as at the end of the relevant financial year and the results of operations of the Group during the relevant financial year.

17.12 Pari passu ranking

Its payment obligations under the Finance Documents rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

17.13 No proceedings

- (A) No litigation, arbitration or administrative proceedings of or before any court, arbitral body or agency which, if adversely determined, might reasonably be expected to have a Material Adverse Effect has or have (to the best of its knowledge and belief) been started or threatened against it.
- (B) No judgment or order of a court, arbitral body or agency which might reasonably be expected to have a Material Adverse Effect has (to the best of its knowledge and belief) been made against any Obligor.

17.14 Environmental compliance

Each member of the Group has performed and observed in all material respects all Environmental Law, Environmental Permits and all other material covenants, conditions, restrictions or agreements directly or indirectly concerned with any contamination, pollution or waste or the release or discharge of any toxic or hazardous substance in connection with any real property which is or was at any time owned, leased or occupied by any member of the Group or on which any member of the Group has conducted any activity where failure to do so might reasonably be expected to have a Material Adverse Effect.

17.15 Environmental Claims

No Environmental Claim has been commenced or (to the best of its knowledge and belief) is threatened against any member of the Group where that claim would be reasonably likely, if determined against that member of the Group, to have a Material Adverse Effect.

17.16 Taxation

- (A) It has duly and punctually paid and discharged all Taxes imposed upon it or its assets within the time period allowed without incurring penalties (except to the extent that (i) payment is being contested in good faith, (ii) it has maintained adequate reserves for those Taxes and (iii) payment can be lawfully withheld).
- (B) No claims or investigations are being, or are reasonably likely to be, made or conducted against it with respect to Taxes.
- (C) It is resident for Tax purposes only in the jurisdiction of its incorporation.

17.17 No immunity

In any proceedings taken in its jurisdiction of incorporation in relation to this Agreement, it will not be entitled to claim for itself or any of its assets immunity from suit, execution, attachment or other legal process.

17.18 Sanctions

- (A) The Borrower and each other member of the Group has taken reasonable measures to ensure compliance with Sanctions Laws and Regulations that are applicable to it.
- (B) Neither the Borrower nor any other member of the Group nor, to the best of its knowledge, any member of their board of directors nor any of their managing directors, nor any of their other directors or officers having registered authority to sign documents with binding effect on behalf of a member of the Group is currently a designated target on any Sanctions List or is owned (meaning 25 per cent. or greater ownership) or otherwise controlled by any person listed on any Sanctions List, or otherwise a subject of Sanctions Laws and Regulations.
- (C) It is acknowledged and agreed that the representations in paragraphs (A) and (B) above are only sought and given to the extent that to do so does not result in any violation of, conflict with or liability under Council Regulation (EC) No 2271/96, as amended (or any implementing law or regulation in any member state of the European Union), or any similar applicable blocking or anti-boycott law or regulation in the United Kingdom.

17.19 DAC6

No transaction contemplated by the Finance Documents nor any transaction to be carried out in connection with any transaction contemplated by the Finance Documents meets any hallmark set out in Annex IV of the Council Directive of 25 May 2018 (2018/822/EU) amending Directive 2011/16/EU.

17.20 Repetition

The Repeating Representations are deemed to be made by the Borrower by reference to the facts and circumstances then existing on the date of each Utilisation Request and the first day of the first Interest Period and the first day of every fourth Interest Period afterwards.

18. Information Undertakings

The undertakings in this Clause 18 remain in force from the date of this Agreement for so long as any amount is outstanding under the Finance Documents or any Commitment is in force.

18.1 Financial statements

The Borrower shall supply to the Agent in sufficient copies for all the Lenders:

- (A) as soon as the same become available, but in any event within 180 days after the end of each of its financial years, its audited financial statements for that financial year; and

- (B) as soon as the same become available, but in any event within 90 days after the end of each half of each of its financial years, its financial statements for that financial half year.

18.2 Compliance Certificate

- (A) The Borrower shall supply to the Agent, with each set of financial statements delivered pursuant to Clause 18.1(A) or Clause 18.1(B), a Compliance Certificate setting out (in reasonable detail) computations as to compliance with Clause 19 (*Financial Covenants*) as at the date as at which those financial statements were drawn up.
- (B) Each Compliance Certificate shall be signed by two directors of the Borrower.

18.3 Requirements as to financial statements

- (A) Each set of financial statements delivered by the Borrower pursuant to Clause 18.1 (*Financial statements*) shall be certified by a director as fairly presenting its financial condition as at the date as at which those financial statements were drawn up.
- (B) The Borrower shall procure that each set of financial statements delivered pursuant to Clause 18.1 (*Financial statements*) is prepared using GAAP.
- (C) The Borrower shall procure that each set of financial statements of the Borrower delivered pursuant to Clause 18.1 (*Financial statements*) is prepared using GAAP, accounting practices and financial reference periods consistent with those applied in the preparation of the Original Financial Statements for the Borrower unless, in relation to any set of financial statements, it notifies the Agent that there has been a change in GAAP, the accounting practices or reference periods and its auditors deliver to the Agent:
 - (1) a description of any change necessary for those financial statements to reflect the GAAP, accounting practices and reference periods upon which Original Financial Statements were prepared; and
 - (2) sufficient information, in form and substance as may be reasonably required by the Agent, to enable the Lenders to determine whether Clause 19 (*Financial Covenants*) has been complied with and make an accurate comparison between the financial position indicated in those financial statements and its Original Financial Statements.

Any reference in this Agreement to those financial statements shall be construed as a reference to those financial statements as adjusted to reflect the basis upon which the Original Financial Statements were prepared.

18.4 Information: miscellaneous

The Borrower shall supply to the Agent (in sufficient copies for all the Lenders, if the Agent so requests):

- (A) all documents dispatched by the Borrower to its shareholders (or any class of them) or its creditors generally at the same time as they are dispatched;

- (B) promptly upon becoming aware of them, the details of any litigation, arbitration or administrative proceedings which are current, threatened or pending against the borrower, and which might, if adversely determined, have a Material Adverse Effect;
- (C) promptly upon becoming aware of them, the details of any judgment or order of a court, arbitral body or agency which is made against any member of the Group, and which might have a Material Adverse Effect;
- (D) promptly upon becoming aware of them, details of any enquiry, claim, action, suit, proceeding or investigation by any Sanctions Authority against it or any member of the Group, or any of its or their respective directors, officers or employees, as well as information on what steps are being taken to respond to or oppose such enquiry, claim, action, suit, proceeding or investigation;
- (E) promptly upon becoming aware of it or any member of the Group or any of its or their respective directors, officers or employees becoming a designated target of or otherwise subject to Sanctions;
- (F) promptly, such further information regarding the financial condition, business and operations of the Borrower as any Finance Party (through the Agent) may reasonably request; and
- (G) within 30 days after the end of the Availability Period, documents confirming the application of the Loans according to clause 3 (*Purpose*).

18.5 Notification of default

- (A) The Borrower shall notify the Agent of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence.
- (B) Promptly upon a request by the Agent, the Borrower shall supply to the Agent a certificate signed by two of its directors or senior officers on its behalf certifying that no Default is continuing (or if a Default is continuing, specifying the Default and the steps, if any, being taken to remedy it).

18.6 Use of websites

- (A) The Borrower may satisfy its obligation under this Agreement to deliver any information in relation to those Lenders (the "Website Lenders") who accept this method of communication by posting this information onto an electronic website designated by the Borrower and the Agent (the "Designated Website") if:
 - (1) the Agent expressly agrees (after consultation with each of the Lenders) that it will accept communication of the information by this method;
 - (2) both the Borrower and the Agent are aware of the address of and any relevant password specifications for the Designated Website; and
 - (3) the information is in a format previously agreed between the Borrower and the Agent.

If any Lender (a "Paper Form Lender") does not agree to the delivery of information electronically then the Agent shall notify the Borrower accordingly and the Borrower shall supply the information to the Agent (in sufficient copies for each

Paper Form Lender) in paper form. In any event the Borrower shall supply the Agent with at least one copy in paper form of any information required to be provided by it.

- (B) The Agent shall supply each Website Lender with the address of and any relevant password specifications for the Designated Website following designation of that website by the Borrower and the Agent.
- (C) The Borrower shall promptly upon becoming aware of its occurrence notify the Agent if:
 - (1) the Designated Website cannot be accessed due to technical failure;
 - (2) the password specifications for the Designated Website change;
 - (3) any new information which is required to be provided under this Agreement is posted onto the Designated Website;
 - (4) any existing information which has been provided under this Agreement and posted onto the Designated Website is amended; or
 - (5) the Borrower becomes aware that the Designated Website or any information posted onto the Designated Website is or has been infected by any electronic virus or similar software.

If the Borrower notifies the Agent under Clause 18.6(C)(1) or Clause 18.6(C)(5), all information to be provided by the Borrower under this Agreement after the date of that notice shall be supplied in paper form unless and until the Agent and each Website Lender is satisfied that the circumstances giving rise to the notification are no longer continuing.

- (D) Any Website Lender may request, through the Agent, one paper copy of any information required to be provided under this Agreement which is posted onto the Designated Website. The Borrower shall comply with any such request within ten Business Days.

18.7 “Know your customer” checks

- (A) If:
 - (1) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation made after the date of this Agreement;
 - (2) any change in the status of any Obligor after the date of this Agreement; or
 - (3) a proposed assignment or transfer by a Lender of any of its rights and obligations under this Agreement to a party that is not a Lender prior to such assignment or transfer,

obliges the Agent or any Lender (or, in the case of Clause 18.7(A)(3), any prospective new Lender) to comply with “know your customer” or similar identification procedures in circumstances where the necessary information is not already available to it, the Borrower shall promptly upon the request of the Agent or any Lender supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Agent (for itself or on behalf of any

Lender) or any Lender (for itself or, in the case of the event described in Clause 18.7(A)(3), on behalf of any prospective new Lender) in order for the Agent, such Lender or, in the case of the event described in Clause 18.7(A)(3), any prospective new Lender to carry out and be satisfied it has complied with all necessary “know your customer” or other similar checks under all applicable laws and regulations pursuant to the transactions contemplated in the Finance Documents.

- (B) Each Lender shall promptly upon the request of the Agent supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Agent (for itself) in order for the Agent to carry out and be satisfied it has complied with all necessary “know your customer” or other similar checks under all applicable laws and regulations pursuant to the transactions contemplated in the Finance Documents.

18.8 **CBR Access**

The Borrower shall, if so requested by a Lender incorporated in the Russian Federation due to receipt by that Lender of a request from the CBR, grant (or procure that the relevant Obligor grants) to that Lender or, if so requested by the CBR, the CBR and/or its representatives, free access to the premises, documents (in hard copies or electronic form) of, and information relating to any Obligor, to allow for the CBR and/or its representatives to familiarise themselves with the Obligor’s activities.

19. **Financial Covenants**

19.1 **Financial definitions**

In this Clause 19:

“Adjusted EBITDA” means, in relation to a Relevant Period, Consolidated EBITDA for that Relevant Period adjusted by:

- (A) deducting any IFRS16 Adjustments for the Relevant Period;
- (B) including the operating profit before interest, tax, depreciation, amortisation and impairment charges (calculated on the same basis as EBITDA) of a member of the Group (or attributable to a business or assets) acquired during the Relevant Period for that part of the Relevant Period prior to its becoming a member of the Group or (as the case may be) prior to the acquisition of the business or assets; and
- (C) excluding the operating profit before interest, tax, depreciation, amortisation and impairment charges (calculated on the same basis as EBITDA) attributable to any member of the Group (or to any business or assets) disposed of during the Relevant Period for that part of the Relevant Period.

“Borrowings” means, at any time, the aggregate outstanding principal, capital or nominal amount (and any fixed or minimum premium payable on prepayment or redemption) of any indebtedness of members of the Group for or in respect of:

- (A) monies borrowed and debit balances at banks or other financial institutions;
- (B) any acceptances under any acceptance credit or bill discount facility (or dematerialised equivalent);

- (C) any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;
- (D) any Finance Lease;
- (E) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis and meet any requirements for de-recognition under the Accounting Principles);
- (F) any counter-indemnity obligation in respect of a guarantee, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution in respect of (i) an underlying liability of an entity which is not a member of the Group which liability would fall within one of the other paragraphs of this definition or (ii) any liabilities of any member of the Group relating to any post-retirement benefit scheme;
- (G) any amount raised by the issue of shares which are redeemable (other than at the option of the issuer) before the Termination Date or are otherwise classified as borrowings under the Accounting Principles;
- (H) any amount of any liability under an advance or deferred purchase agreement if (i) one of the primary reasons behind the entry into the agreement is to raise finance or to finance the acquisition or construction of the asset or service in question or (ii) the agreement is in respect of the supply of assets or services and payment is due more than 180 days after the date of supply;
- (I) any amount raised under any other transaction (including any forward sale or purchase agreement, sale and sale back or sale and leaseback agreement) having the commercial effect of a borrowing or otherwise classified as borrowings under the Accounting Principles;
- (J) any amount of any liability to cash pay contractual non-contingent deferred consideration or earn-out payments under any acquisition agreement, where the value of any earn-out cash payments on any given date shall be the amount of future contingent payments that would be due and payable if the financial thresholds in each relevant acquisition agreement were tested on that date; and
- (K) (without double counting) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (A) to (J) above.

“Consolidated Cash and Cash Equivalents” means, at any time all of the Group’s consolidated cash and cash equivalents and short-term (with maturities less than twelve (12) months) marketable money market instruments issued by (i) an issuer having external short-term credit rating of at least P-3 from Moody’s Investor Service Inc. and/or A-3 from Standard & Poor’s Ratings Group, or equivalent long-term credit rating, and (ii) a non-rated issuer having equivalent risk profile with issuers with investment grade credit rating.

“Consolidated EBITDA” means for any Relevant Period, consolidated earnings before interest, tax, depreciations and amortisation of the Group for the period calculated in accordance with Accounting Principles and excluding impairment losses based on the latest published consolidated income statement of the Group reflecting operating profit before depreciation and impairment losses.

“Finance Charges” means, for any Relevant Period, the aggregate amount of the accrued interest, commission, fees, discounts, prepayment fees, premiums or charges and other

finance payments in respect of Borrowings paid by any member of the Group (calculated on a consolidated basis) in cash in respect of that Relevant Period:

- (A) including any upfront fees or costs which are included as part of the effective interest rate adjustments;
- (B) including the interest (but not the capital) element of payments in respect of Finance Leases;
- (C) including any commission, fees, discounts and other finance payments payable by (and deducting any such amounts payable to) any member of the Group under any interest rate hedging arrangement;
- (D) if a Joint Venture is accounted for on a proportionate consolidation basis, after adding the Group's share of the finance costs or interest receivable of the Joint Venture;
- (E) taking no account of any unrealised gains or losses on any derivative instruments other than any derivative instruments which are accounted for on a hedge accounting basis;
- (F) excluding any upfront fees or costs payable in connection with the Finance Documents (which includes, for the avoidance of doubt, any arrangement fee payable in accordance with Clause 11.1 (*Arrangement fee*)); and
- (G) excluding any fair value movements in respect of contingent consideration that are recorded through interest in the profit and loss statement for the Group,

together with the amount of any cash dividends or distributions paid or made by the Company in respect of that Relevant Period and so that no amount shall be added (or deducted) more than once.

"IFRS16 Adjustments" means, in relation to any Relevant Period, any depreciation and finance charges recognised as a result of the application of IFRS 16 to the Company's consolidated financial statements for such Relevant Period.

"Interest Cover" means the ratio of Adjusted EBITDA to Finance Charges in respect of any Relevant Period.

"IRC Guarantee" means the guarantee or suretyship entered into by the Borrower in relation to amounts outstanding in connection with the US\$225m debt facility agreement entered into by, among others, IRC Limited as borrower.

"Joint Venture" means any joint venture entity, whether a company, unincorporated firm, undertaking, association, joint venture or partnership or any other entity.

"Leverage" means, in respect of any Relevant Period, the ratio of Total Net Debt on the last day of that Relevant Period to Adjusted EBITDA in respect of that Relevant Period.

"Relevant Period" means each period of 12 months ending on the last day of each annual accounting period of the Group.

"Total Net Debt" means, at any time, the aggregate amount of all obligations of members of the Group for or in respect of Borrowings at that time but:

- (A) excluding any such obligations to any other member of the Group;
- (B) including, in the case of Finance Leases only, their capitalised value;
- (C) including all obligations of members of the Group pursuant to the IRC Guarantee; and
- (D) deducting the aggregate amount of Consolidated Cash and Cash Equivalents held by any member of the Group at that time,

and so that no amount shall be included or excluded more than once.

19.2 Interpretation

Except as provided to the contrary in this Agreement, an accounting term used in this Clause 19 is to be construed in accordance with the Accounting Principles.

19.3 Financial condition

The Borrower must ensure that:

(A) Interest Cover:

Interest Cover in respect of any Relevant Period shall not be less than 2.00:1.00; and

(B) Leverage:

Leverage in respect of any Relevant Period shall not exceed 3.50:1.00.

19.4 Financial testing

(A) The financial covenants set out in Clauses 19.3 (*Financial condition*) shall be:

- (1) tested by reference to each of the annual financial statements of the Borrower;
- (2) subject to paragraph (3) below, calculated and interpreted on a consolidated basis in accordance with the Accounting Principles on which the Original Financial Statements were based; and
- (3) calculations of Interest Cover and Leverage shall be made on the basis of IFRS 16 (and as if IFRS 16 applied throughout the Relevant Period).

20. General Undertakings

The undertakings in this Clause 20 remain in force from the date of this Agreement for so long as any amount is outstanding under the Finance Documents or any Commitment is in force.

20.1 Authorisations

The Borrower shall promptly:

(A) obtain, comply with and do all that is necessary to maintain in full force and effect; and

(B) supply certified copies to the Agent of,

any Authorisation required under any law or regulation of its jurisdiction of incorporation to enable it to perform its obligations under the Finance Documents and to ensure the legality, validity, enforceability or admissibility in evidence in its jurisdiction of incorporation of any Finance Document.

20.2 **Compliance with laws**

The Borrower shall comply in all respects with all laws to which it may be subject, if failure so to comply would materially impair its ability to perform its obligations under the Finance Documents.

20.3 **Negative pledge**

In this Clause 20.3, "Quasi-Security" means an arrangement or transaction described in Clause 20.3(B).

(A) The Borrower shall not create or permit to subsist any Security over any of its assets.

(B) The Borrower shall not:

- (1) sell, transfer or otherwise dispose of any of its assets on terms whereby they are or may be leased to or re-acquired by it;
- (2) sell, transfer or otherwise dispose of any of its receivables on recourse terms;
- (3) enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or
- (4) enter into any other preferential arrangement having a similar effect,

in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset.

(C) The Borrower shall not (and shall procure that no other member of the Group shall) create or permit to subsist any Security over:

- (1) any shares in (i) any Obligor or (ii) other Material Operating Subsidiary; and/or
- (2) all or substantially all of the assets of any such member of the Group.

(D) Clause 20.3(A) and Clause 20.3(B) do not apply to any Security or (as the case may be) Quasi-Security, listed below:

- (1) any Security or Quasi-Security listed in Schedule 7 (*Existing Security*) except to the extent the principal amount secured by that Security or Quasi-Security exceeds the amount stated in that schedule;

- (2) any netting or set-off arrangement entered into by the Borrower in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances;
- (3) any payment or close out netting or set-off arrangement pursuant to any hedging transaction entered into by the Borrower for the purpose of:
 - (a) hedging any risk to which the Borrower is exposed in its ordinary course of trading; or
 - (b) its interest rate or currency management operations which are carried out in the ordinary course of business and for non-speculative purposes only,

excluding, in each case, any Security or Quasi-Security under a credit support arrangement in relation to a hedging transaction;
- (4) any lien arising by operation of law and in the ordinary course of trading;
- (5) any Security or Quasi-Security over or affecting any asset acquired by the Borrower after the date of this Agreement if:
 - (a) the Security or Quasi-Security was not created in contemplation of the acquisition of that asset by the Borrower;
 - (b) the principal amount secured has not been increased in contemplation of or since the acquisition of that asset by the Borrower; and
 - (c) the Security or Quasi-Security is removed or discharged within three (3) months of the date of acquisition of such asset;
- (6) any Security or Quasi-Security entered into pursuant to any Finance Document;
- (7) any Security or Quasi-Security arising under any retention of title, hire purchase or conditional sale arrangement or arrangements having similar effect in respect of goods supplied to the Borrower in the ordinary course of trading and on the supplier's standard or usual terms and not arising as a result of any default or omission by the Borrower; or
- (8) any Security or Quasi-Security securing indebtedness the principal amount of which (when aggregated with the principal amount of any other indebtedness which has the benefit of Security or Quasi-Security given by the Borrower other than any permitted under Clauses 20.3(D)(1) to 20.3(D)(7)) does not exceed USD50,000,000 (or its equivalent in another currency or currencies).

20.4 Disposals

- (A) The Borrower shall not enter into a single transaction or a series of transactions (whether related or not) and whether voluntary or involuntary to sell, lease, transfer or otherwise dispose of any asset.
- (B) The Borrower shall not (and shall procure that no other member of the Group shall) enter into a single transaction or a series of transactions (whether related or not) and whether voluntary or involuntary to sell, lease, transfer or otherwise dispose of:

- (1) any shares in any Obligor or other Material Operating Subsidiary; and/or
 - (2) all or substantially all of the assets of any such member of the Group.
- (C) Clause 20.4(A) does not apply to any sale, lease, transfer or other disposal (excluding any disposal of shares in any Obligor or other operational Subsidiary or a disposal of all or substantially all of the assets of any such member of the Group):
- (1) made in the ordinary course of trading of the disposing entity;
 - (2) of assets in exchange for other assets comparable or superior as to type, value and quality (other than an exchange of a non-cash asset for cash); or
 - (3) any disposal of IRC Limited; or
 - (4) where the higher of the market value or consideration receivable (when aggregated with the higher of the market value or consideration receivable for any other sale, lease, transfer or other disposal, other than any permitted under Clauses 20.4(C)(1) to 20.4(C)(2)) does not exceed USD50,000,000 (or its equivalent in another currency or currencies) in any financial year.

20.5 Taxation

- (A) The Borrower shall pay and discharge all Taxes imposed upon it or its assets within the time period allowed without incurring penalties unless and only to the extent that:
- (1) such payment is being contested in good faith;
 - (2) adequate reserves are being maintained for those Taxes and the costs required to contest them which have been disclosed in its latest financial statements delivered to the Agent under Clause 18.1 (*Financial statements*); and
 - (3) such payment can be lawfully withheld and failure to pay those Taxes does not have or is not reasonably likely to have a Material Adverse Effect.
- (B) The Borrower shall not change its residence for Tax purposes.

20.6 Merger

- (A) The Borrower shall not (and shall procure that no Obligor shall) enter into any amalgamation, demerger, merger or corporate reconstruction.
- (B) Clause 20.6(A) does not apply to any sale, lease, transfer or other disposal permitted pursuant to Clause 20.4 (*Disposals*).

20.7 Change of business

The Borrower shall procure that no substantial change is made to the general nature of the business of the Borrower from that carried on at the date of this Agreement.

20.8 Environmental matters

- (A) The Borrower shall (and shall procure that each Obligor shall) ensure that it is, and has been, in compliance with all Environmental Law and Environmental Permits applicable to it, where failure to do so is reasonably likely to have a Material Adverse Effect.
- (B) The Borrower shall (and shall procure that each Obligor shall) promptly, upon becoming aware of any one of the following, notify the Agent of:
 - (1) any material Environmental Claim current, or to its knowledge, pending or threatened; or
 - (2) any circumstances reasonably likely to result in an Environmental Claim,which, if substantiated, would be reasonably likely either to have a Material Adverse Effect or result in any material liability being incurred by a Finance Party.

20.9 New capital markets issuance

The Borrower shall not, without the prior written consent of the Majority Lenders, permit the issuance by any member of the Group of any bond, note, debt security, hybrid capital markets instrument or other debt capital markets instrument or security in the international or domestic syndicated loan, debt, bank or capital markets to any person outside the Group, unless such issuance is not detrimental to the interests of the Original Lender.

20.10 Trading Agreements

- (A) The Borrower shall enter into:
 - (1) one or more agreements for the sale and purchase of precious metals entered into from time to time between amongst others the Borrower (as seller) and the Original Lender (as purchaser) (or their respective Affiliates) in respect of the period from the date of this Agreement (or such late date as the Original Lender may agree in writing) to the Termination Date; and
 - (2) one or more precious metal export commission agreements, to be entered into between amongst others the Borrower and the Original Lender (or their respective Affiliates) in respect of the period from 1st January 2022 (or such late date as the Original Lender may agree in writing) to the Termination Date, each in form and substance satisfactory to the Original Lender, as the same may be amended from time to time.
- (B) The Borrower shall not (and shall procure that members of the Group which are Obligors or Material Operating Subsidiaries shall not), without the prior written consent of the Majority Lenders, enter into any binding precious metal export commission agreements (other than the Trading Agreements) from 1st January 2022 to the Termination Date.

20.11 Insurance

- (A) The Borrower shall (and shall procure that each Obligor shall) insure its assets and business to such an extent and against such risks as companies engaged in a similar business in the jurisdiction in which the Borrower or Obligor carries on business normally insure.

- (B) Without prejudice to paragraph (A) above, any insurance of the Borrower and each Obligor must cover the replacement value of the relevant asset or business. This means the total cost of entirely rebuilding, reinstating or replacing the asset or business if it is completely destroyed.
- (C) All insurance of the Group must be with reputable independent insurance companies or underwriters.
- (D) The Borrower will be deemed to comply with the undertaking provided in this Clause 20.11, if a lack of insurance is temporary and is caused by a tender process, negotiations with insurers or similar procedures conducted in the normal course of business.

20.12 Anti-corruption law

- (A) The Borrower shall not (and shall ensure that no other member of the Group will) directly use the proceeds of the Facility for any purpose which would breach any applicable anti-corruption, anti-bribery or anti-money laundering laws, regulations or rules in any jurisdiction applicable to the Group.
- (B) The Borrower shall (and shall ensure that each other member of the Group will) maintain policies and procedures designed to promote and achieve compliance with anti-corruption, anti-bribery and anti-money laundering laws in any jurisdiction applicable to the Group.

20.13 Sanctions

- (A) The Borrower shall not (and shall procure no member of the Group will) directly or to the best of its knowledge and belief (having made all due and reasonable enquiries) indirectly use, contribute or otherwise make available (directly or indirectly) the proceeds of the Loan for the purpose of financing:
 - (1) any Sanctions Restricted Person or any person who is currently resident in a Sanctions Restricted Country (excluding a Sectoral Sanctions Target, except in circumstances where this could reasonably be expected to result in a violation of Sanctions Laws and Regulations by it or any Finance Party); or
 - (2) any agreement, transaction or dealing with any Sanctions Restricted Person or (but excluding a Sectoral Sanctions Target), involving any Sanctions Restricted Country, to the extent such action or status is prohibited by, or would cause any Obligor or any member of the Group to be in breach of, any Sanctions Laws and Regulations.
- (B) The Borrower shall not (and shall procure no member of the Group will) ensure that no equipment, plant or machinery or other asset shall be financed or purchased directly or indirectly by it or any of its agents or representatives using the proceeds of the Loans, where such purchase or financing would result in any breach by any Finance Party or an Obligor of any Sanctions Laws and Regulations applicable to that person, or would require a Finance Party to obtain any authorisation or licence from any Sanctions Authority or under any Sanctions Laws and Regulations and such licence or authorisation has not been obtained.

20.14 **DAC6 disclosure permission**

Nothing in any Finance Document shall prevent disclosure of any (confidential) information or other matter to the extent that preventing that disclosure would otherwise cause any transaction contemplated by the Finance Documents or any transaction carried out in connection with any transaction contemplated by the Finance Documents to become an arrangement described in Part II A 1 of Annex IV of Directive 2011/16/EU.

20.15 **Compliance with currency control laws**

The Borrower shall (and shall procure that each Obligor will):

- (A) comply in all respects with applicable currency control laws and regulations to which it may be subject in connection with its entry into, and performance of its obligations under, the Finance Documents; and
- (B) (where relevant), submit to any Russian authorised bank through which payments to and from it under any Finance Document are to be made, such documents and other information in form and substance satisfactory to the relevant Russian authorised bank as may be required from time to time under Instruction No. 181-I and applicable currency control laws and regulations for such payments, in accordance with the procedure and time limits described therein.

20.16 **Condition subsequent**

The Borrower shall procure the delivery, in form and substance satisfactory to the Original Lender, by not later than 15 October 2021, of a copy of:

- (A) a resolution of the relevant management body of LLC Albynskiy Rudnik:
 - (1) approving the terms of, and the transactions contemplated by, the Finance Documents to which it is party and resolving that it execute the Finance Documents to which it is party;
 - (2) authorising a specified person or persons to execute the Finance Documents to which it is party on its behalf; and
 - (3) authorising a specified person or persons, on its behalf, to sign and/or despatch all documents and notices to be signed and/or despatched by it under or in connection with the Finance Documents to which it is party; and
- (B) a specimen of the signature of each person authorised by the resolution referred to in paragraph (A) above.

21. **Events of Default**

Each of the events or circumstances set out in this Clause 21 is an Event of Default (save for Clause 21.13 (*Acceleration*)).

21.1 **Non-payment**

An Obligor does not pay on the due date any amount payable pursuant to a Finance Document at the place and in the currency in which it is expressed to be payable unless:

- (A) its failure to pay is caused by:

- (1) administrative or technical error; or
 - (2) a Disruption Event; and
- (B) payment is made within five (5) Business Days of its due date.

21.2 Financial covenants

- (A) Any requirement of Clause 19 (*Financial Covenants*) is not satisfied.
- (B) While any Event of Default under Clause (A) above has occurred and is continuing, the Fixed Rate shall increase by 1 per cent. per annum above the rate which applied immediately prior to the occurrence of such Event of Default, such increase in the Fixed Rate to commence on the 10th day of the calendar month following the month in which such Event of Default occurred, and to end on the 10th day of the calendar month following the month in which such Event of Default ceased to be continuing.
- (C) The Agent shall promptly notify the Borrower of any increase in the interest rate made pursuant to a decision by the Majority Lenders pursuant to Clause (B) above.

21.3 Other obligations

- (A) An Obligor does not comply with any provision of the Finance Documents (other than those referred to in Clause 21.1 (*Non-payment*) and Clause 21.2 (*Financial covenants*)).
- (B) No Event of Default under Clause 21.3(A) above will occur if the failure to comply, except for failure to comply with Clause 3 (*Purpose*), is capable of remedy and is remedied within 5 Business Days of the Lender giving notice to the Borrower of the failure to comply.
- (C) While any Event of Default under Clause (A) has occurred and is continuing due to any breach by an Obligor of any provision of 20.3(C) (*Negative pledge*) or 20.4(B) (*Disposals*), the Fixed Rate shall increase by 1 per cent. per annum above the rate which applied immediately prior to the occurrence of such Event of Default, such increase in the Fixed Rate to commence on the 10th day of the calendar month following the month in which such Event of Default occurred, and to end on the 10th day of the calendar month following the month in which such Event of Default ceased to be continuing

21.4 Misrepresentation

Any representation or statement made or deemed to be made by an Obligor in the Finance Documents or any other document delivered by or on behalf of an Obligor under or in connection with any Finance Document is or proves to have been incorrect or misleading in any material respect when made or deemed to be made.

21.5 Cross default

- (A) Any Financial Indebtedness of the Borrower is not paid when due nor within any originally applicable grace period.

- (B) Any Financial Indebtedness of the Borrower is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described).
- (C) Any Commitment for any Financial Indebtedness of the Borrower is cancelled or suspended by a creditor of the Borrower as a result of an event of default (however described).
- (D) Any creditor of the Borrower becomes entitled to declare any Financial Indebtedness of the Borrower due and payable prior to its specified maturity as a result of an event of default (however described).
- (E) No Event of Default will occur under this Clause 21.5 if the aggregate amount of Financial Indebtedness or Commitment for Financial Indebtedness falling within Clauses 21.5(A) to 21.5(D) is less than USD30,000,000 (or its equivalent in any other currency or currencies).

21.6 **Insolvency**

- (A) An Obligor:
 - (1) is unable or admits inability to pay its debts as they fall due;
 - (2) suspends making payments on any of its debts; or
 - (3) by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors (excluding any Finance Party in its capacity as such) with a view to rescheduling any of its indebtedness.
- (B) The book value of the assets of the Borrower is less than its liabilities as calculated based on the Borrower's most recent consolidated IFRS financial statements.
- (C) A moratorium is declared in respect of any indebtedness of an Obligor.
- (D) Any Russian Insolvency Event occurs with respect to any Guarantor, other than and except Temi LLC.

21.7 **Insolvency proceedings**

- (A) Any corporate action, legal proceedings or other procedure or step is taken in relation to:
 - (1) the suspension of payments, a moratorium of any indebtedness, winding-up, dissolution, administration or reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise) of the Borrower other than a solvent liquidation or reorganisation of the Borrower;
 - (2) a composition, compromise, assignment or arrangement with any creditor of the Borrower;
 - (3) the appointment of a liquidator (other than in respect of a solvent liquidation of the Borrower), receiver, administrative receiver, administrator, compulsory manager or other similar officer in respect of the Borrower or any of its assets; or

- (4) enforcement of any Security over any assets of the Borrower, or any analogous procedure or step is taken in any jurisdiction.
- (B) Any Russian Insolvency Proceedings are taken with respect to any Guarantor, other than and except Temi LLC.
- (C) This Clause 21.7 shall not apply to any winding-up petition which is frivolous or vexatious and is discharged, stayed or dismissed within 45 days of commencement.

21.8 Creditors' process

Any expropriation, attachment, sequestration, distress or execution affects any asset or assets of an Obligor having an aggregate value equal to 10% of the book value of the assets of the Borrower as calculated based on the Borrower's most recent consolidated IFRS financial statements and is not discharged within 30 days.

21.9 Unlawfulness

It is or becomes unlawful for an Obligor to perform any of its obligations under any Finance Document.

21.10 Repudiation

Any Obligor repudiates a Finance Document or evidences an intention to repudiate a Finance Document.

21.11 Trading Agreements

- (A) A member of the Group does not comply with any provision of any Trading Agreement, where such non-compliance has, or is reasonably likely to have, a Material Adverse Effect.
- (B) Any Authorisation that is required for the parties to implement any of the Trading Agreements is withdrawn, cancelled or terminated and such event has or is reasonably likely to have a Material Adverse Effect.
- (C) Any member of the Group exercises any discretion under a Trading Agreement (whether through action or inaction) and the exercise of such discretion has or is reasonably likely to have a Material Adverse Effect.
- (D) Any member of the Group repudiates a Trading Agreement or evidences an intention to repudiate a Trading Agreement.

21.12 Material adverse change

Any event or circumstance occurs which the Majority Lenders reasonably believe has, or is reasonably likely to have, a Material Adverse Effect.

21.13 Acceleration

On and at any time after the occurrence of an Event of Default which is continuing the Agent may, and shall if so directed by the Majority Lenders, by notice to the Borrower:

- (A) cancel the Total Commitments whereupon they shall immediately be cancelled;
- (B) declare that all or part of the Loans, together with accrued interest, and all other amounts accrued or outstanding under the Finance Documents be immediately due and payable, whereupon they shall become immediately due and payable; and/or
- (C) declare that all or part of the Loans be payable on demand, whereupon they shall immediately become payable on demand by the Agent on the instructions of the Majority Lenders.

22. **Changes to the Lenders**

22.1 **Assignments and transfers by the Lenders**

Subject to this Clause 22, a Lender (the “Existing Lender”) may:

- (A) assign any of its rights; or
- (B) transfer by novation any of its rights and obligations,

to another bank or financial institution or to a trust, fund or other entity which is regularly engaged in or established for the purpose of making, purchasing or investing in loans, securities or other financial assets (the “New Lender”).

22.2 **Borrower Consent**

- (A) The consent of the Borrower is required for an assignment or transfer by an Existing Lender, unless the assignment or transfer is:
 - (1) to another Lender or an Affiliate of any Lender;
 - (2) to CBR or any other person if expressly directed by CBR; or
 - (3) made at a time when an Event of Default, a Lender Sanctions Event or a Borrower Sanctions Event has occurred and is continuing.
- (B) The consent of the Borrower to an assignment or transfer must not be unreasonably withheld or delayed. The Borrower will be deemed to have given its consent five Business Days after the Existing Lender has requested it unless consent is expressly refused by the Borrower within that time.
- (C) The consent of the Borrower to an assignment or transfer must not be withheld solely because the assignment or transfer may result in an increase to the Mandatory Cost.

22.3 **Other conditions of assignment or transfer**

- (A) An assignment will only be effective on:
 - (1) receipt by the Agent (whether in the Assignment Agreement or otherwise) of written confirmation from the New Lender (in form and substance satisfactory to the Agent) that the New Lender will assume the same obligations to the other Finance Parties as it would have been under if it had been an Original Lender; and

- (2) performance by the Agent of all necessary “know your customer” or other similar checks under all applicable laws and regulations in relation to such assignment to a New Lender, the completion of which the Agent shall promptly notify to the Existing Lender and the New Lender.
- (B) A transfer will only be effective if the procedure set out in Clause 22.5 (*Procedure for transfer*) is complied with.
- (C) If:
 - (1) a Lender assigns or transfers any of its rights or obligations under the Finance Documents or changes its Facility Office; and
 - (2) as a result of circumstances existing at the date the assignment, transfer or change occurs, the Borrower would be obliged to make a payment to the New Lender or Lender acting through its new Facility Office under Clause 12 (*Tax gross-up and indemnities*) or Clause 13 (*Increased Costs*),

then the New Lender or Lender acting through its new Facility Office is only entitled to receive payment under that Clause to the same extent as the Existing Lender or Lender acting through its previous Facility Office would have been if the assignment, transfer or change had not occurred. This Clause 22.3(C) shall not apply in respect of an assignment or transfer made in the ordinary course of the primary syndication of the Facility.
- (D) Each New Lender, by executing the relevant Transfer Certificate or Assignment Agreement, confirms, for the avoidance of doubt, that the Agent has authority to execute on its behalf any amendment or waiver that has been approved by or on behalf of the requisite Lender or Lenders in accordance with this Agreement on or prior to the date on which the transfer or assignment becomes effective in accordance with this Agreement and that it is bound by that decision to the same extent as the Existing Lender would have been had it remained a Lender.

22.4 Limitation of responsibility of Existing Lenders

- (A) Unless expressly agreed to the contrary, an Existing Lender makes no representation or warranty and assumes no responsibility to a New Lender for:
 - (1) the legality, validity, effectiveness, adequacy or enforceability of the Finance Documents or any other documents;
 - (2) the financial condition of the Borrower;
 - (3) the performance and observance by the Borrower of its obligations under the Finance Documents or any other documents; or
 - (4) the accuracy of any statements (whether written or oral) made in or in connection with any Finance Document or any other document,

and any representations or warranties implied by law are excluded.
- (B) Each New Lender confirms to the Existing Lender and the other Finance Parties that it:

- (1) has made (and shall continue to make) its own independent investigation and assessment of the financial condition and affairs of the Borrower in connection with its participation in this Agreement and has not relied exclusively on any information provided to it by the Existing Lender in connection with any Finance Document; and
 - (2) will continue to make its own independent appraisal of the creditworthiness of the Borrower whilst any amount is or may be outstanding under the Finance Documents or any Commitment is in force.
- (C) Nothing in any Finance Document obliges an Existing Lender to:
- (1) accept a re-transfer or re-assignment from a New Lender of any of the rights and obligations assigned or transferred under this Clause 22; or
 - (2) support any losses directly or indirectly incurred by the New Lender by reason of the non-performance by the Borrower of its obligations under the Finance Documents or otherwise.

22.5 Procedure for transfer

- (A) Subject to the conditions set out in Clause 22.2 (*Company Consent*) and Clause 22.3 (*Other conditions of assignment or transfer*), a transfer is effected in accordance with Clause 22.5(C) when the Agent executes an otherwise duly completed Transfer Certificate delivered to it by the Existing Lender and the New Lender. The Agent shall, subject to Clause 22.5(B), as soon as reasonably practicable after receipt by it of a duly completed Transfer Certificate appearing on its face to comply with the terms of this Agreement and delivered in accordance with the terms of this Agreement, execute that Transfer Certificate.
- (B) The Agent shall only be obliged to execute a Transfer Certificate delivered to it by the Existing Lender and the New Lender once it is satisfied it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations in relation to the transfer to such New Lender.
- (C) On the Transfer Date:
 - (1) to the extent that in the Transfer Certificate the Existing Lender seeks to transfer by novation its rights and obligations under the Finance Documents the Borrower and the Existing Lender shall be released from further obligations towards one another under the Finance Documents and their respective rights against one another under the Finance Documents shall be cancelled (being the "Discharged Rights and Obligations");
 - (2) the Borrower and the New Lender shall assume obligations towards one another and/or acquire rights against one another which differ from the Discharged Rights and Obligations only insofar as the Borrower and the New Lender have assumed and/or acquired the same in place of the Borrower and the Existing Lender;
 - (3) the Agent, the Arranger[s], the New Lender and other Lenders shall acquire the same rights and assume the same obligations between themselves as they would have acquired and assumed had the New Lender been an Original Lender with the rights and/or obligations acquired or assumed by it as a result of the transfer and to that extent the Agent, the Arranger[s] and

the Existing Lender shall each be released from further obligations to each other under the Finance Documents; and

- (4) the New Lender shall become a Party as a “Lender”.

22.6 Procedure for assignment

- (A) Subject to the conditions set out in Clause 22.2 (*Company Consent*) and Clause 22.3 (*Other conditions of assignment or transfer*), an assignment may be effected in accordance with Clause 22.6(C) when the Agent executes an otherwise duly completed Assignment Agreement delivered to it by the Existing Lender and the New Lender. The Agent shall, subject to Clause 22.6(B), as soon as reasonably practicable after receipt by it of a duly completed Assignment Agreement appearing on its face to comply with the terms of this Agreement and delivered in accordance with the terms of this Agreement, execute that Assignment Agreement.
- (B) The Agent shall only be obliged to execute an Assignment Agreement delivered to it by the Existing Lender and the New Lender once it is satisfied it has complied with all necessary “know your customer” or other similar checks under all applicable laws and regulations in relation to the assignment to such New Lender.
- (C) On the Transfer Date:
- (1) the Existing Lender will assign absolutely to the New Lender the rights under the Finance Documents expressed to be the subject of the assignment in the Assignment Agreement;
 - (2) the Existing Lender will be released by the Borrower and the other Finance Parties from the obligations owed by it (the “Relevant Obligations”) and expressed to be the subject of the release in the Assignment Agreement; and
 - (3) the New Lender shall become a Party as a “Lender” and will be bound by obligations equivalent to the Relevant Obligations.
- (D) Lenders may utilise procedures other than those set out in this Clause 22.6 to assign their rights under the Finance Documents (but not, without the consent of the Borrower or unless in accordance with Clause 22.5 (*Procedure for transfer*), to obtain a release by the Borrower from the obligations owed to the Borrower by the Lenders nor the assumption of equivalent obligations by a New Lender) provided that they comply with the conditions set out in Clause 22.2 (*Company Consent*) and Clause 22.3 (*Other conditions of assignment or transfer*).

22.7 Copy of Transfer Certificate or Assignment Agreement to the Borrower

The Agent shall, as soon as reasonably practicable after it has executed a Transfer Certificate or Assignment Agreement send to the Borrower a copy of that Transfer Certificate or Assignment Agreement.

22.8 Security over Lenders’ rights

In addition to the other rights provided to Lenders under this Clause 22, each Lender may without consulting with or obtaining consent from the Borrower, at any time charge, assign or otherwise create Security in or over (whether by way of collateral or otherwise) all or any of its rights under any Finance Document to secure obligations of that Lender including, without limitation:

- (A) any charge, assignment or other Security to secure obligations to a federal reserve or central bank (including, without limitation, the CBR) or other person, specified in Clause 22.2(A)(2) and any transferee or assignee thereto; and
- (B) any charge, assignment or other Security granted to any holders (or trustee or representatives of holders) of obligations owed, or securities issued, by that Lender as security for those obligations or securities,

except that no such charge, assignment or Security shall:

- (1) release a Lender from any of its obligations under the Finance Documents or substitute the beneficiary of the relevant charge, assignment or Security for the Lender as a party to any of the Finance Documents; or
- (2) require any payments to be made by the Borrower other than or in excess of, or grant to any person any more extensive rights than, those required to be made or granted to the relevant Lender under the Finance Documents.

23. **Assignment and Transfer by the Borrower**

The Borrower may not assign any of its rights or transfer any of its rights or obligations under the Finance Documents.

24. **Role of the Agent and the Arranger**

24.1 **Appointment of the Agent**

- (A) Each of the Arranger[s] and the Lenders appoints the Agent to act as its agent under and in connection with the Finance Documents.
- (B) Each of the Arranger[s] and the Lenders authorises the Agent to perform the duties, obligations and responsibilities and to exercise the rights, powers, authorities and discretions specifically given to the Agent under or in connection with the Finance Documents together with any other incidental rights, powers, authorities and discretions.

24.2 **Instructions**

- (A) The Agent shall:
 - (1) unless a contrary indication appears in a Finance Document, exercise or refrain from exercising any right, power, authority or discretion vested in it as Agent in accordance with any instructions given to it by:
 - (a) all Lenders if the relevant Finance Document stipulates the matter is an all Lender decision; and
 - (b) in all other cases, the Majority Lenders; and
 - (2) not be liable for any act (or omission) if it acts (or refrains from acting) in accordance with Clause 24.2(A)(1).
- (B) The Agent shall be entitled to request instructions, or clarification of any instruction, from the Majority Lenders (or, if the relevant Finance Document stipulates the matter is a decision for any other Lender or group of Lenders, from that Lender or

group of Lenders) as to whether, and in what manner, it should exercise or refrain from exercising any right, power, authority or discretion. The Agent may refrain from acting unless and until it receives any such instructions or clarification that it has requested.

- (C) Save in the case of decisions stipulated to be a matter for any other Lender or group of Lenders under the relevant Finance Document and unless a contrary indication appears in a Finance Document, any instructions given to the Agent by the Majority Lenders shall override any conflicting instructions given by any other Parties and will be binding on all Finance Parties.
- (D) The Agent may refrain from acting in accordance with any instructions of any Lender or group of Lenders until it has received any indemnification and/or security that it may in its discretion require (which may be greater in extent than that contained in the Finance Documents and which may include payment in advance) for any cost, loss or liability which it may incur in complying with those instructions.
- (E) In the absence of instructions, the Agent may act (or refrain from acting) as it considers to be in the best interest of the Lenders.
- (F) The Agent is not authorised to act on behalf of a Lender (without first obtaining that Lender's consent) in any legal or arbitration proceedings relating to any Finance Document.

24.3 Duties of the Agent

- (A) The Agent's duties under the Finance Documents are solely mechanical and administrative in nature.
- (B) Subject to Clause 24.3(C), the Agent shall promptly forward to a Party the original or a copy of any document which is delivered to the Agent for that Party by any other Party.
- (C) Without prejudice to Clause 22.7 (*Copy of Transfer Certificate or Assignment Agreement to Borrower*), Clause 24.3(B) shall not apply to any Transfer Certificate or Assignment Agreement.
- (D) Except where a Finance Document specifically provides otherwise, the Agent is not obliged to review or check the adequacy, accuracy or completeness of any document it forwards to another Party.
- (E) If the Agent receives notice from a Party referring to this Agreement, describing a Default and stating that the circumstance described is a Default, it shall promptly notify the other Finance Parties.
- (F) If the Agent is aware of the non-payment of any principal, interest, arrangement fee or other fee payable to a Finance Party (other than the Agent or the Arranger) under this Agreement it shall promptly notify the other Finance Parties.
- (G) The Agent shall have only those duties, obligations and responsibilities expressly specified in the Finance Documents to which it is expressed to be a party (and no others shall be implied).

24.4 **Role of the Arranger**

Except as specifically provided in the Finance Documents, the Arranger has no obligations of any kind to any other Party under or in connection with any Finance Document.

24.5 **No fiduciary duties**

- (A) Nothing in any Finance Document constitutes the Agent or the Arranger as a trustee or fiduciary of any other person.
- (B) Neither the Agent nor the Arranger shall be bound to account to any Lender for any sum or the profit element of any sum received by it for its own account.

24.6 **Business with the Borrower**

The Agent and the Arranger may accept deposits from, lend money to and generally engage in any kind of banking or other business with the Borrower.

24.7 **Rights and discretions**

- (A) The Agent may:
 - (1) rely on any representation, communication, notice or document believed by it to be genuine, correct and appropriately authorised;
 - (2) assume that:
 - (a) any instructions received by it from the Majority Lenders, any Lenders or any group of Lenders are duly given in accordance with the terms of the Finance Documents; and
 - (b) unless it has received notice of revocation, that those instructions have not been revoked; and
 - (3) rely on a certificate from any person:
 - (a) as to any matter of fact or circumstance which might reasonably be expected to be within the knowledge of that person; or
 - (b) to the effect that such person approves of any particular dealing, transaction, step, action or thing,as sufficient evidence that that is the case and, in the case of Clause 24.7(A), may assume the truth and accuracy of that certificate.
- (B) The Agent may assume (unless it has received notice to the contrary in its capacity as agent for the Lenders) that:
 - (1) no Default has occurred (unless it has actual knowledge of a Default arising under Clause 21.1 (*Non-payment*)); and
 - (2) any right, power, authority or discretion vested in any Party or any group of Lenders has not been exercised.

- (C) The Agent may engage, and pay for the advice or services of any lawyers, accountants, tax advisers, surveyors or other professional advisers or experts.
- (D) Without prejudice to the generality of Clause 24.7(C) or Clause 24.7(E), the Agent may at any time engage and pay for the services of any lawyers to act as independent counsel to the Agent (and so separate from any lawyers instructed by the Lenders) if the Agent in its reasonable opinion deems this to be necessary.
- (E) The Agent may rely on the advice or services of any lawyers, accountants, tax advisers, surveyors or other professional advisers or experts (whether obtained by the Agent or by any other Party) and shall not be liable for any damages, costs or losses to any person, any diminution in value or any liability whatsoever arising as a result of its so relying.
- (F) The Agent may act in relation to the Finance Documents through its officers, employees and agents.
- (G) Unless a Finance Document expressly provides otherwise the Agent may disclose to any other Party any information it reasonably believes it has received as agent under this Agreement.
- (H) Notwithstanding any other provision of any Finance Document to the contrary, neither the Agent nor the Arranger is obliged to do or omit to do anything if it would, or might in its reasonable opinion, constitute a breach of any law or regulation or a breach of a fiduciary duty or duty of confidentiality.
- (I) Notwithstanding any provision of any Finance Document to the contrary, the Agent is not obliged to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties, obligations or responsibilities or the exercise of any right, power, authority or discretion if it has grounds for believing the repayment of such funds or adequate indemnity against, or security for, such risk or liability is not reasonably assured to it.

24.8 Responsibility for documentation

Neither the Agent nor the Arranger is responsible or liable for:

- (A) the adequacy, accuracy or completeness of any information (whether oral or written) supplied by the Agent, [the][any] Arranger, the Borrower or any other person in or in connection with any Finance Document or the transactions contemplated in the Finance Documents or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document; or
- (B) the legality, validity, effectiveness, adequacy or enforceability of any Finance Document or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document; or
- (C) any determination as to whether any information provided or to be provided to any Finance Party is non-public information the use of which may be regulated or prohibited by applicable law or regulation relating to insider dealing or otherwise.

24.9 No duty to monitor

The Agent shall not be bound to enquire:

- (A) whether or not any Default has occurred;
- (B) as to the performance, default or any breach by any Party of its obligations under any Finance Document; or
- (C) whether any other event specified in any Finance Document has occurred.

24.10 Exclusion of liability

- (A) Without limiting Clause 24.10(B) (and without prejudice to any other provision of any Finance Document excluding or limiting the liability of the Agent), the Agent will not be liable for:

- (1) any damages, costs or losses to any person, any diminution in value, or any liability whatsoever arising as a result of taking or not taking for any action under or in connection with any Finance Document, unless directly caused by its gross negligence or wilful misconduct;
- (2) exercising, or not exercising, any right, power, authority or discretion given to it by, or in connection with, any Finance Document or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with, any Finance Document, other than by reason of its gross negligence or wilful misconduct; or
- (3) without prejudice to the generality of Clause (1) and (2), any damages, costs or losses to any person, any diminution in value or any liability whatsoever (including, without limitation, for negligence or any other category of liability whatsoever but not including any claim based on the fraud of the Agent) arising as a result of:
 - (a) any act, event or circumstance not reasonably within its control; or
 - (b) the general risks of investment in, or the holding of assets in, any jurisdiction,

including (in each case and without limitation) such damages, costs, losses, diminution in value or liability arising as a result of: nationalisation, expropriation or other governmental actions; any regulation, currency restriction, devaluation or fluctuation; market conditions affecting the execution or settlement of transactions or the value of assets (including any Disruption Event); breakdown, failure or malfunction of any third party transport, telecommunications, computer services or systems; natural disasters or acts of God; war, terrorism, insurrection or revolution; or strikes or industrial action.

- (B) No Party (other than the Agent) may take any proceedings against any officer, employee or agent of the Agent in respect of any claim it might have against the Agent or in respect of any act or omission of any kind by that officer, employee or agent in relation to any Finance Document and any officer, employee or agent of the Agent may rely on this Clause subject to Clause 1.4 (*Third party rights*) and the provisions of the Third Parties Act.

- (C) The Agent will not be liable for any delay (or any related consequences) in crediting an account with an amount required under the Finance Documents to be paid by the Agent if the Agent has taken all necessary steps as soon as reasonably practicable to comply with the regulations or operating procedures of any recognised clearing or settlement system used by the Agent for that purpose.
- (D) Nothing in this Agreement shall oblige the Agent or the Arranger[s] to carry out:
 - (1) any “know your customer” or other checks in relation to any person; or
 - (2) any check on the extent to which any transaction contemplated by this Agreement might be unlawful for any Lender or for any Affiliate of any Lender,

on behalf of any Lender and each Lender confirms to the Agent and the Arranger[s] that it is solely responsible for any such checks it is required to carry out and that it may not rely on any statement in relation to such checks made by the Agent or the Arranger[s].
- (E) Without prejudice to any provision of any Finance Document excluding or limiting the Agent's liability, any liability of the Agent arising under or in connection with any Finance Document shall be limited to the amount of actual loss which has been suffered (as determined by reference to the date of default of the Agent or, if later, the date on which the loss arises as a result of such default) but without reference to any special conditions or circumstances known to the Agent at any time which increase the amount of that loss. In no event shall the Agent be liable for any loss of profits, goodwill, reputation, business opportunity or anticipated saving, or for special, punitive, indirect or consequential damages, whether or not the Agent has been advised of the possibility of such loss or damages.

24.11 Lenders' indemnity to the Agent

Each Lender shall (in proportion to its share of the Total Commitments or, if the Total Commitments are then zero, to its share of the Total Commitments immediately prior to their reduction to zero) indemnify the Agent, within three Business Days of demand, against any cost, loss or liability (including, without limitation, for negligence or any other category of liability whatsoever) incurred by the Agent (otherwise than by reason of the Agent's gross negligence or wilful misconduct) (or, in the case of any cost, loss or liability pursuant to Clause 27.10 (*Disruption to payment systems etc.*), notwithstanding the Agent's negligence, gross negligence or any other category of liability whatsoever but not including any claim based on the fraud of the Agent) in acting as Agent under the Finance Documents (unless the Agent has been reimbursed by the Borrower pursuant to a Finance Document).

24.12 Resignation of the Agent

- (A) The Agent may resign and appoint one of its Affiliates as successor by giving notice to the Lenders and the Borrower.
- (B) Alternatively the Agent may resign by giving 30 days' notice to the Lenders and the Borrower, in which case the Majority Lenders (after consultation with the Borrower) may appoint a successor Agent.

- (C) If the Majority Lenders have not appointed a successor Agent in accordance with Clause 24.12(B) within 20 days after notice of resignation was given, the retiring Agent (after consultation with the Borrower) may appoint a successor Agent.
- (D) If the Agent wishes to resign because (acting reasonably) it has concluded that it is no longer appropriate for it to remain as agent and the Agent is entitled to appoint a successor Agent under Clause 24.12(C), the Agent may (if it concludes (acting reasonably) that it is necessary to do so in order to persuade the proposed successor Agent to become a party to this Agreement as Agent) agree with the proposed successor Agent amendments to this Clause 24.12 and any other term of this Agreement dealing with the rights or obligations of the Agent consistent with then current market practice for the appointment and protection of corporate trustees together with any reasonable amendments to the agency fee payable under this Agreement which are consistent with the successor Agent's normal fee rates and those amendments will bind the Parties.
- (E) The retiring Agent shall, at its own cost, make available to the successor Agent such documents and records and provide such assistance as the successor Agent may reasonably request for the purposes of performing its functions as Agent under the Finance Documents. The Borrower shall, within three Business Days of demand, reimburse the retiring Agent for the amount of all costs and expenses (including legal fees) properly incurred by it in making available such documents and records and providing such assistance.
- (F) The Agent's resignation notice shall only take effect upon the appointment of a successor.
- (G) Upon the appointment of a successor, the retiring Agent shall be discharged from any further obligation in respect of the Finance Documents (other than its obligations under Clause 24.12(E)) but shall remain entitled to the benefit of Clause 14.3 (*Indemnity to the Agent*) and this Clause 24.12 (and any agency fees for the account of the retiring Agent shall cease to accrue from (and shall be payable on) that date). Any successor and each of the other Parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original Party.
- (H) After consultation with the Borrower, the Majority Lenders may, by notice to the Agent, require it to resign in accordance with Clause 24.12(B). In this event, the Agent shall resign in accordance with Clause 24.12(B).

24.13 Confidentiality

- (A) In acting as agent for the Finance Parties, the Agent shall be regarded as acting through its agency division which shall be treated as a separate entity from any other of its divisions or departments.
- (B) If information is received by another division or department of the Agent, it may be treated as confidential to that division or department and the Agent shall not be deemed to have notice of it.

24.14 Relationship with the Lenders

- (A) The Agent may treat the person shown in its records as Lender at the opening of business (in the place of the Agent's principal office as notified to the Finance Parties from time to time) as the Lender acting through its Facility Office:

- (1) entitled to or liable for any payment due under any Finance Document on that day; and
- (2) entitled to receive and act upon any notice, request, document or communication or make any decision or determination under any Finance Document made or delivered on that day,

unless it has received not less than five Business Days' prior notice from that Lender to the contrary in accordance with the terms of this Agreement.

- (B) Any Lender may by notice to the Agent appoint a person to receive on its behalf all notices, communications, information and documents to be made or despatched to that Lender under the Finance Documents. Such notice shall contain the address, fax number and (where communication by electronic mail or other electronic means is permitted under Clause 29.5 (*Electronic communication*)) electronic mail address and/or any other information required to enable the transmission of information by that means (and, in each case, the department or officer, if any, for whose attention communication is to be made) and be treated as a notification of a substitute address, fax number, electronic mail address (or such other information), department and officer by that Lender for the purposes of Clause 29.2 (*Addresses*) and Clause 29.5(A)(2) and the Agent shall be entitled to treat such person as the person entitled to receive all such notices, communications, information and documents as though that person were that Lender.

24.15 Credit appraisal by the Lenders

Without affecting the responsibility of the Borrower for information supplied by it or on its behalf in connection with any Finance Document, each Lender confirms to the Agent and the Arranger[s] that it has been, and will continue to be, solely responsible for making its own independent appraisal and investigation of all risks arising under or in connection with any Finance Document including but not limited to:

- (A) the financial condition, status and nature of the Borrower;
- (B) the legality, validity, effectiveness, adequacy or enforceability of any Finance Document and any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document;
- (C) whether that Lender has recourse, and the nature and extent of that recourse, against any Party or any of its respective assets under or in connection with any Finance Document, the transactions contemplated by the Finance Documents or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document; and
- (D) the adequacy, accuracy or completeness of any information provided by the Agent, any Party or by any other person under or in connection with any Finance Document, the transactions contemplated by any Finance Document or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document.

24.16 Deduction from amounts payable by the Agent

If any Party owes an amount to the Agent under the Finance Documents the Agent may, after giving notice to that Party, deduct an amount not exceeding that amount from any payment to that Party which the Agent would otherwise be obliged to make under the

Finance Documents and apply the amount deducted in or towards satisfaction of the amount owed. For the purposes of the Finance Documents that Party shall be regarded as having received any amount so deducted.

25. **Conduct of Business by the Finance Parties**

No provision of this Agreement will:

- (A) interfere with the right of any Finance Party to arrange its affairs (tax or otherwise) in whatever manner it thinks fit;
- (B) oblige any Finance Party to investigate or claim any credit, relief, remission or repayment available to it or the extent, order and manner of any claim; or
- (C) oblige any Finance Party to disclose any information relating to its affairs (tax or otherwise) or any computations in respect of Tax.

26. **Sharing Among the Finance Parties**

26.1 **Payments to Finance Parties**

If a Finance Party (a "Recovering Finance Party") receives or recovers any amount from the Borrower other than in accordance with Clause 27 (*Payment mechanics*) (a "Recovered Amount") and applies that amount to a payment due under the Finance Documents then:

- (A) the Recovering Finance Party shall, within three Business Days, notify details of the receipt or recovery to the Agent;
- (B) the Agent shall determine whether the receipt or recovery is in excess of the amount the Recovering Finance Party would have been paid had the receipt or recovery been received or made by the Agent and distributed in accordance with Clause 27 (*Payment mechanics*), without taking account of any Tax which would be imposed on the Agent in relation to the receipt, recovery or distribution; and
- (C) the Recovering Finance Party shall, within three Business Days of demand by the Agent, pay to the Agent an amount (the "Sharing Payment") equal to such receipt or recovery less any amount which the Agent determines may be retained by the Recovering Finance Party as its share of any payment to be made, in accordance with Clause 27.5 (*Partial payments*).

26.2 **Redistribution of payments**

The Agent shall treat the Sharing Payment as if it had been paid by the Borrower and distribute it between the Finance Parties (other than the Recovering Finance Party) (the "Sharing Finance Parties") in accordance with Clause 27.5 (*Partial payments*) towards the obligations of the Borrower to the Sharing Finance Parties.

26.3 **Recovering Finance Party's rights**

On a distribution by the Agent under Clause 26.2 (*Redistribution of payments*) of a payment received by a Recovering Finance Party from the Borrower, as between the Borrower and the Recovering Finance Party, an amount of the Recovered Amount equal to the Sharing Payment will be treated as not having been paid by the Borrower.

26.4 Reversal of redistribution

If any part of the Sharing Payment received or recovered by a Recovering Finance Party becomes repayable and is repaid by that Recovering Finance Party, then:

- (A) each Sharing Finance Party shall, upon request of the Agent, pay to the Agent for the account of that Recovering Finance Party an amount equal to the appropriate part of its share of the Sharing Payment (together with an amount as is necessary to reimburse that Recovering Finance Party for its proportion of any interest on the Sharing Payment which that Recovering Finance Party is required to pay) (the "Redistributed Amount"); and
- (B) as between the Borrower and each relevant Sharing Finance Party, an amount equal to the relevant Redistributed Amount will be treated as not having been paid by the Borrower.

26.5 Exceptions

- (A) This Clause 26 shall not apply to the extent that the Recovering Finance Party would not, after making any payment pursuant to this Clause, have a valid and enforceable claim against the Borrower.
- (B) A Recovering Finance Party is not obliged to share with any other Finance Party any amount which the Recovering Finance Party has received or recovered as a result of taking legal or arbitration proceedings, if:
 - (1) it notified that other Finance Party of the legal or arbitration proceedings; and
 - (2) that other Finance Party had an opportunity to participate in those legal or arbitration proceedings but did not do so as soon as reasonably practicable having received notice and did not take separate legal or arbitration proceedings.

27. Payment Mechanics

27.1 Payments to the Agent

- (A) On each date on which the Borrower or a Lender is required to make a payment under a Finance Document, the Borrower or Lender shall make the same available to the Agent (unless a contrary indication appears in a Finance Document) for value on the due date at the time and in such funds specified by the Agent as being customary at the time for settlement of transactions in the relevant currency in the place of payment.
- (B) Payment shall be made to such account in the principal financial centre of the country of that currency with such bank as the Agent, in each case, specifies.

27.2 Distributions by the Agent

Each payment received by the Agent under the Finance Documents for another Party shall, subject to Clause 27.3 (*Distributions to the Borrower*) and Clause 27.4 (*Clawback and pre-funding*) be made available by the Agent as soon as practicable after receipt to the Party entitled to receive payment in accordance with this Agreement (in the case of a Lender, for the account of its Facility Office), to such account as that Party may notify to

the Agent by not less than five Business Days' notice with a bank specified by that Party in the principal financial centre of the country of that currency.

27.3 Distributions to the Borrower

The Agent may (with the consent of the Borrower or in accordance with Clause 28 (*Set-off*)) apply any amount received by it for the Borrower in or towards payment (on the date and in the currency and funds of receipt) of any amount due from the Borrower under the Finance Documents or in or towards purchase of any amount of any currency to be so applied.

27.4 Clawback and pre-funding

- (A) Where a sum is to be paid to the Agent under the Finance Documents for another Party, the Agent is not obliged to pay that sum to that other Party (or to enter into or perform any related exchange contract) until it has been able to establish to its satisfaction that it has actually received that sum.
- (B) Unless Clause 27.4(C) applies, if the Agent pays an amount to another Party and it proves to be the case that the Agent had not actually received that amount, then the Party to whom that amount (or the proceeds of any related exchange contract) was paid by the Agent shall on demand refund the same to the Agent together with interest on that amount from the date of payment to the date of receipt by the Agent, calculated by the Agent to reflect its cost of funds.
- (C) If the Agent has notified the Lenders that it is willing to make available amounts for the account of the Borrower before receiving funds from the Lenders then if and to the extent that the Agent does so but it proves to be the case that it does not then receive funds from a Lender in respect of a sum which it paid to the Borrower:
 - (1) the Agent shall notify the Borrower of that Lender's identity and the Borrower to whom that sum was made available shall on demand refund it to the Agent; and
 - (2) the Lender by whom those funds should have been made available or, if that Lender fails to do so, the Borrower to whom that sum was made available, shall on demand pay to the Agent the amount (as certified by the Agent) which will indemnify the Agent against any funding cost incurred by it as a result of paying out that sum before receiving those funds from that Lender.

27.5 Partial payments

- (A) If the Agent receives a payment that is insufficient to discharge all the amounts then due and payable by the Borrower under the Finance Documents, the Agent shall apply that payment towards the obligations of the Borrower under the Finance Documents in the following order:
 - (1) first, in or towards payment pro rata of any unpaid amount owing to the Agent under the Finance Documents;
 - (2) secondly, in or towards payment pro rata of any accrued interest, fee or commission due but unpaid under this Agreement;
 - (3) thirdly, in or towards payment pro rata of any principal due but unpaid under this Agreement; and

- (4) fourthly, in or towards payment pro rata of any other sum due but unpaid under the Finance Documents.
- (B) The Agent shall, if so directed by the Majority Lenders, vary the order set out in Clauses 27.5(A)(2) to 27.5(A)(4).
- (C) Clause 27.5(A) and Clause 27.5(B) will override any appropriation made by the Borrower.

27.6 No set-off by Borrower

All payments to be made by the Borrower under the Finance Documents shall be calculated and be made without (and free and clear of any deduction for) set-off or counterclaim.

27.7 Business Days

- (A) Any payment under the Finance Documents which is due to be made on a day that is not a Business Day shall be made on the next Business Day in the same calendar month (if there is one) or the preceding Business Day (if there is not).
- (B) During any extension of the due date for payment of any principal or Unpaid Sum under this Agreement interest is payable on the principal or Unpaid Sum at the rate payable on the original due date.

27.8 Currency of account

- (A) Subject to Clause 27.8(B) and Clause 27.8(C), US dollars is the currency of account under any Finance Document.
- (B) Each payment in respect of costs, expenses or Taxes shall be made in the currency in which the costs, expenses or Taxes are incurred.
- (C) Any amount expressed to be payable in a currency other than US dollars shall be paid in that other currency.

27.9 Change of currency

- (A) Unless otherwise prohibited by law, if more than one currency or currency unit are at the same time recognised by the central bank of any country as the lawful currency of that country, then:
 - (1) any reference in the Finance Documents to, and any obligations arising under the Finance Documents in, the currency of that country shall be translated into, or paid in, the currency or currency unit of that country designated by the Agent (after consultation with the Borrower); and
 - (2) any translation from one currency or currency unit to another shall be at the official rate of exchange recognised by the central bank for the conversion of that currency or currency unit into the other, rounded up or down by the Agent (acting reasonably).
- (B) If a change in any currency of a country occurs, this Agreement will, to the extent the Agent (acting reasonably and after consultation with the Borrower) specifies to be necessary, be amended to comply with any generally accepted conventions and

market practice in the relevant interbank market and otherwise to reflect the change in currency.

(C) Notwithstanding anything to the contrary in this Clause 27 if a payment (a Relevant Payment) is required to be made by any Party under a Finance Document:

- (1) would be illegal under any applicable law or regulation (including Sanctions Laws and Regulations) for the Party required to make that payment or any Party that is the recipient of such payment (and any relevant correspondent bank or account bank) to receive, process or remit that payment in currency defined in accordance with Clause 27.8, but it would be legal for that Party (and any relevant correspondent bank or account bank) to make or, as the case may be, receive, process and remit such Relevant Payment in an alternative Currency; or
- (2) would constitute grounds for imposition of restrictive measures in accordance with Sanctions Laws and Regulations to the Party required to make that payment or Party that is the recipient of such payment or any relevant correspondent bank or account bank,

the Party making the payment shall deliver a notice to the Agent stating that it wishes to discuss with the other Parties an alternative currency to be used and the basis for determining the rate of exchange at which the payment will be converted into that alternative currency. The relevant Parties shall conduct such discussions in good faith and a commercially reasonable manner with a view to agreeing such alternative currency and the basis for its rate of exchange, provided that should the Parties fail to reach agreement within 10 Business Days, the alternative currency shall be Roubles or Euros and the basis for its rate of exchange shall be determined pursuant to Clause 1.2(G) (*Construction*).

27.10 Disruption to payment systems etc.

If either the Agent determines (in its discretion) that a Disruption Event has occurred or the Agent is notified by the Borrower that a Disruption Event has occurred:

- (A) the Agent may, and shall if requested to do so by the Borrower, consult with the Borrower with a view to agreeing with the Borrower such changes to the operation or administration of the Facility as the Agent may deem necessary in the circumstances;
- (B) the Agent shall not be obliged to consult with the Borrower in relation to any changes mentioned in Clause 27.10(A) if, in its opinion, it is not practicable to do so in the circumstances and, in any event, shall have no obligation to agree to such changes;
- (C) the Agent may consult with the Finance Parties in relation to any changes mentioned in Clause 27.10(A) but shall not be obliged to do so if, in its opinion, it is not practicable to do so in the circumstances;
- (D) any such changes agreed upon by the Agent and the Borrower shall (whether or not it is finally determined that a Disruption Event has occurred) be binding upon the Parties as an amendment to (or, as the case may be, waiver of) the terms of the Finance Documents notwithstanding the provisions of Clause 33 (*Amendments and Waivers*);

- (E) the Agent shall not be liable for any damages, costs or losses to any person, any diminution in value or any liability whatsoever (including, without limitation for negligence, gross negligence or any other category of liability whatsoever but not including any claim based on the fraud of the Agent) arising as a result of its taking, or failing to take, any actions pursuant to or in connection with this Clause 27.10; and
- (F) the Agent shall notify the Finance Parties of all changes agreed pursuant to Clause 27.10(D).

28. **Set-Off**

A Finance Party may set off any matured obligation due from the Borrower under the Finance Documents (to the extent beneficially owned by that Finance Party) against any matured obligation owed by that Finance Party to the Borrower, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Finance Party may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.

29. **Notices**

29.1 **Communications in writing**

Any communication to be made under or in connection with the Finance Documents shall be made in writing and, unless otherwise stated, may be made by fax or letter.

29.2 **Addresses**

The address and fax number (and the department or officer, if any, for whose attention the communication is to be made) of each Party for any communication or document to be made or delivered under or in connection with the Finance Documents is:

- (A) in the case of the Borrower, that identified with its name below;
- (B) in the case of each Lender, that notified in writing to the Agent on or prior to the date on which it becomes a Party; and
- (C) in the case of the Agent, that identified with its name below,

or any substitute address or fax number or department or officer as the Party may notify to the Agent (or the Agent may notify to the other Parties, if a change is made by the Agent) by not less than five Business Days' notice.

29.3 **Delivery**

- (A) Any communication or document made or delivered by one person to another under or in connection with the Finance Documents will only be effective:
 - (1) if by way of fax, when received in legible form; or
 - (2) if by way of letter, when it has been left at the relevant address or five Business Days after being deposited in the post postage prepaid in an envelope addressed to it at that address;

and, if a particular department or officer is specified as part of its address details provided under Clause 29.2 (*Addresses*), if addressed to that department or officer.

- (B) Any communication or document to be made or delivered to the Agent will be effective only when actually received by the Agent and then only if it is expressly marked for the attention of the department or officer identified with the Agent's signature below (or any substitute department or officer as the Agent shall specify for this purpose).
- (C) All notices from or to the Borrower shall be sent through the Agent.
- (D) Any communication or document which becomes effective, in accordance with Clauses 29.3(A) to 29.3(C), after 5.00 p.m. in the place of receipt shall be deemed only to become effective on the following day.

29.4 Notification of address and fax number

Promptly upon changing its address or fax number, the Agent shall notify the other Parties.

29.5 Electronic communication

- (A) Any communication to be made between any two Parties under or in connection with the Finance Documents may be made by electronic mail or other electronic means (including, without limitation, by way of posting to a secure website) if those two Parties:
 - (1) notify each other in writing of their electronic mail address and/or any other information required to enable the transmission of information by that means; and
 - (2) notify each other of any change to their address or any other such information supplied by them by not less than five Business Days' notice.
- (B) Any such electronic communication as specified in Clause 29.5(A) to be made between an Obligor and a Finance Party may only be made in that way to the extent that those two Parties agree that, unless and until notified to the contrary, this is to be an accepted form of communication.
- (C) Any such electronic communication as specified in Clause 29.5(A) made between any two Parties will be effective only when actually received (or made available) in readable form and in the case of any electronic communication made by a Party to the Agent only if it is addressed in such a manner as the Agent shall specify for this purpose.
- (D) Any electronic communication which becomes effective, in accordance with Clause 29.5(C) above, after 5:00 p.m. in the place in which the Party to whom the relevant communication is sent or made available has its address for the purpose of this Agreement shall be deemed only to become effective on the following day.
- (E) Any reference in a Finance Document to a communication being sent or received shall be construed to include that communication being made available in accordance with this Clause 29.5.

29.6 **English and Russian language**

- (A) Any notice given under or in connection with any Finance Document must be either in English or Russian.
- (B) All other documents provided under or in connection with any Finance Document must be:
 - (1) in English or Russian; and
 - (2) if not in English, and if so required by the Agent, accompanied by a certified English translation and, in this case, the English translation will prevail unless the document is a constitutional, statutory or other official document.

30. **Calculations and Certificates**

30.1 **Accounts**

In any litigation or arbitration proceedings arising out of or in connection with a Finance Document, the entries made in the accounts maintained by a Finance Party are *prima facie* evidence of the matters to which they relate.

30.2 **Certificates and Determinations**

Any certification or determination by a Finance Party of a rate or amount under any Finance Document is, in the absence of manifest error, conclusive evidence of the matters to which it relates.

30.3 **Day count convention**

Any interest, commission or fee accruing under a Finance Document will accrue from day to day and is calculated on the basis of the actual number of days elapsed and a year of 360 days or, in any case where the practice in accordance with the Bank of Russia Regulation No. 446-P dated December 22, 2014 "On the Procedure for Determining Income, Expenses and Other Gross Income of Credit Institutions" differs, in accordance with that market practice.

31. **Partial Invalidity**

If, at any time, any provision of a Finance Document is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of such provision under the law of any other jurisdiction will in any way be affected or impaired.

32. **Remedies and Waivers**

No failure to exercise, nor any delay in exercising, on the part of any Finance Party, any right or remedy under a Finance Document shall operate as a waiver of any such right or remedy or constitute an election to affirm any Finance Document. No election to affirm any Finance Document on the part of any Finance Party shall be effective unless it is in writing. No single or partial exercise of any right or remedy shall prevent any further or other exercise or the exercise of any other right or remedy. The rights and remedies provided in each Finance Document are cumulative and not exclusive of any rights or remedies provided by law.

33. **Amendments and Waivers**

33.1 **Required consents**

- (A) Subject to Clause 33.2 (*All Lender matters*) and Clause 33.3 (*Other exceptions*) any term of the Finance Documents may be amended or waived only with the consent of the Majority Lenders and the Borrower and any such amendment or waiver will be binding on all Parties.
- (B) The Agent may effect, on behalf of any Finance Party, any amendment or waiver permitted by this Clause 33.

33.2 **All Lender matters**

An amendment or waiver of any term of any Finance Document that has the effect of changing or which relates to:

- (A) the definition of "Majority Lenders" in Clause 1.1 (*Definitions*);
- (B) an extension to the date of payment of any amount under the Finance Documents;
- (C) a reduction in the Fixed Rate or a reduction in the amount of any payment of principal, interest, fees or commission payable;
- (D) a change in currency of payment of any amount under the Finance Documents;
- (E) an increase in any Commitment, an extension of the Availability Period or any requirement that a cancellation of Commitments reduces the Commitments of the Lenders rateably under the Facility;
- (F) any provision which expressly requires the consent of all the Lenders;
- (G) Clause 2.2 (*Finance Parties' rights and obligations*), Clause 5.1 (*Delivery of a Utilisation Request*), Clause 7.1 (*Illegality*), Clause 7.2 (*Change of control*), Clause 7.8 (*Application of prepayments*), Clause 22 (*Changes to the Lenders*), Clause 23 (*Changes to the Obligors*), Clause 26 (*Sharing among the Finance Parties*), this Clause 33, Clause 37 (*Governing law*) or Clause 38 (*Jurisdiction*),

shall not be made without the prior consent of all the Lenders.

33.3 **Other exceptions**

An amendment or waiver which relates to the rights or obligations of the Agent, or [the][any] Arranger or (each in their capacity as such) may not be effected without the consent of the Agent, or [the][any] Arranger or, as the case may be.

34. **Confidential Information**

34.1 **Confidentiality**

Each Finance Party agrees to keep all Confidential Information confidential and not to disclose it to anyone, save to the extent permitted by Clause 34.2 (*Disclosure of Confidential Information*), and to ensure that all Confidential Information is protected with security measures and a degree of care that would apply to its own confidential information.

34.2 Disclosure of Confidential Information

Any Finance Party may disclose:

- (A) to any of its Affiliates and Related Funds and any of its or their officers, directors, employees, professional advisers, auditors, partners and Representatives such Confidential Information as that Finance Party shall consider appropriate if any person to whom the Confidential Information is to be given pursuant to this Clause 34.2(A) is informed in writing of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no such requirement to so inform if the recipient is subject to professional obligations to maintain the confidentiality of the information or is otherwise bound by requirements of confidentiality in relation to the Confidential Information;
- (B) to any person:
 - (1) to (or through) whom it assigns or transfers (or may potentially assign or transfer) all or any of its rights and/or obligations under one or more Finance Documents (including the CBR and any transferee or assignee thereof) or which succeeds (or which may potentially succeed) it as Agent and, in each case, to any of that person's Affiliates, Related Funds, Representatives and professional advisers;
 - (2) with (or through) whom it enters into (or may potentially enter into), whether directly or indirectly, any sub-participation in relation to, or any other transaction under which payments are to be made or may be made by reference to, one or more Finance Documents or any Obligor and to any of that person's Affiliates, Related Funds, Representatives and professional advisers;
 - (3) appointed by any Finance Party or by a person to whom Clause 34.2(B)(1) or Clause 34.2(B)(2) applies to receive communications, notices, information or documents delivered pursuant to the Finance Documents on its behalf (including, without limitation, any person appointed under Clause 24.14(B) (*Relationship with the Lenders*));
 - (4) who invests in or otherwise finances (or may potentially invest in or otherwise finance), directly or indirectly, any transaction referred to in Clause 34.2(B)(1) or Clause 34.2(B)(2);
 - (5) to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority or similar body (including the CBR or any other person or authority specified in the CBR request), the rules of any relevant stock exchange or pursuant to any applicable law or regulation;
 - (6) to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes;
 - (7) to whom or for whose benefit that Finance Party charges, assigns or otherwise creates Security (or may do so) pursuant to Clause 22.8 (*Security over Lenders' rights*);
 - (8) who is a Party; or

(9) with the consent of the Borrower,

in each case, such Confidential Information as that Finance Party shall consider appropriate if:

- (a) in relation to Clause 34.2(B)(1), Clause 34.2(B)(2) and Clause 34.2(B)(3), the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking except that there shall be no requirement for a Confidentiality Undertaking if the recipient is a professional adviser and is subject to professional obligations to maintain the confidentiality of the Confidential Information;
 - (b) in relation to Clause 34.2(B)(4), the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking or is otherwise bound by requirements of confidentiality in relation to the Confidential Information they receive and is informed that some or all of such Confidential Information may be price-sensitive information;
 - (c) in relation to Clause 34.2(B)(5), Clause 34.2(B)(6) and Clause 34.2(B)(7), the person to whom the Confidential Information is to be given is informed of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of that Finance Party, it is not practicable so to do in the circumstances; and
- (C) to any person appointed by that Finance Party or by a person to whom Clause 34.2(B)(1) or Clause 34.2(B)(2) applies to provide administration or settlement services in respect of one or more of the Finance Documents including without limitation, in relation to the trading of participations in respect of the Finance Documents, such Confidential Information as may be required to be disclosed to enable such service provider to provide any of the services referred to in this Clause 34.2(C) if the service provider to whom the Confidential Information is to be given has entered into a confidentiality agreement substantially in the form of the LMA Master Confidentiality Undertaking for Use With Administration/Settlement Service Providers or such other form of confidentiality undertaking agreed between the Borrower and the relevant Finance Party; and
- (D) to any rating agency (including its professional advisers) such Confidential Information as may be required to be disclosed to enable such rating agency to carry out its normal rating activities in relation to the Finance Documents and/or the Obligors if the rating agency to whom the Confidential Information is to be given is informed of its confidential nature and that some or all of such Confidential Information may be price-sensitive information.
- (E) to the Central Bank of Russian Federation such Confidential Information as that Finance Party shall consider appropriate.

34.3 Entire agreement

This Clause 34 constitutes the entire agreement between the Parties in relation to the obligations of the Finance Parties under the Finance Documents regarding Confidential Information and supersedes any previous agreement, whether express or implied, regarding Confidential Information.

34.4 **Inside information**

Each of the Finance Parties acknowledges that some or all of the Confidential Information is or may be price-sensitive information and that the use of such information may be regulated or prohibited by applicable legislation including securities law relating to insider dealing and market abuse and each of the Finance Parties undertakes not to use any Confidential Information for any unlawful purpose.

34.5 **Notification of disclosure**

Each of the Finance Parties agrees (to the extent permitted by law and regulation) to inform the Borrower:

- (A) of the circumstances of any disclosure of Confidential Information made pursuant to Clause 34.2(B)(5) except where such disclosure is made to any of the persons referred to in that Clause during the ordinary course of its supervisory or regulatory function; and
- (B) upon becoming aware that Confidential Information has been disclosed in breach of this Clause 34.

34.6 **Continuing obligations**

The obligations in this Clause 34 are continuing and, in particular, shall survive and remain binding on each Finance Party for a period of twelve months from the earlier of:

- (A) the date on which all amounts payable by the Borrower under or in connection with this Agreement have been paid in full and all Commitments have been cancelled or otherwise cease to be available; and
- (B) the date on which such Finance Party otherwise ceases to be a Finance Party.

35. **Confidentiality of Funding Rates**

35.1 **Confidentiality and disclosure**

- (A) The Agent and each Obligor agree to keep each Funding Rate confidential and not to disclose it to anyone, save to the extent permitted by Clause 35.1(B) and Clause 35.1(C), and, for the avoidance of doubt, the Parties acknowledge and agree that the Borrower is a company with a listing on the premium segment of the London Stock Exchange and as such may disclose any information to the public, its advisers and regulatory authorities that it determines should be disclosed in accordance with the relevant listing rules and disclosure obligations without delay and without informing any Finance Party in advance.
- (B) The Agent may disclose:
 - (1) any Funding Rate to the relevant Borrower pursuant to Clause 8.4 (*Notification of rates of interest*); and
 - (2) any Funding Rate to any person appointed by it to provide administration services in respect of one or more of the Finance Documents to the extent necessary to enable such service provider to provide those services if the service provider to whom that information is to be given has entered into a confidentiality agreement substantially in the form of the LMA Master

Confidentiality Undertaking for Use With Administration/Settlement Service Providers or such other form of confidentiality undertaking agreed between the Agent and the relevant Lender.

- (C) The Agent may disclose any Funding Rate, and each Obligor may disclose any Funding Rate, to:
- (1) any of its Affiliates and any of its or their officers, directors, employees, professional advisers, auditors, partners and Representatives if any person to whom that Funding Rate is to be given pursuant to this Clause 35.1(C)(1) is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no such requirement to so inform if the recipient is subject to professional obligations to maintain the confidentiality of that Funding Rate or is otherwise bound by requirements of confidentiality in relation to it;
 - (2) any person to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority or similar body (including the CBR or any other person or authority specified in the CBR request), the rules of any relevant stock exchange or pursuant to any applicable law or regulation if the person to whom that Funding Rate is to be given is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of the Agent or the relevant Obligor, as the case may be, it is not practicable to do so in the circumstances;
 - (3) any person to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes if the person to whom that Funding Rate is to be given is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of the Agent or the relevant Obligor, as the case may be, it is not practicable to do so in the circumstances; and
 - (4) any person with the consent of the relevant Lender.

35.2 Related obligations

- (A) The Agent and each Obligor acknowledge that each Funding Rate is or may be price-sensitive information and that its use may be regulated or prohibited by applicable legislation including securities law relating to insider dealing and market abuse and the Agent and each Obligor undertake not to use any Funding Rate for any unlawful purpose.
- (B) The Agent and each Obligor agree (to the extent permitted by law and regulation) to inform the relevant Lender:
- (1) of the circumstances of any disclosure made pursuant to Clause 35.1(C)(1) except where such disclosure is made to any of the persons referred to in that paragraph during the ordinary course of its supervisory or regulatory function; and
 - (2) upon becoming aware that any information has been disclosed in breach of this Clause 35.

35.3 No Event of Default

No Event of Default will occur under Clause 21.3 (*Other obligations*) by reason only of an Obligor's failure to comply with this Clause 35.

36. Counterparts

Each Finance Document may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy of the Finance Document.

37. Governing Law

This Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

38. Enforcement

38.1 Disputes to be referred to Arbitration

- (A) Any claim, dispute or difference of whatever nature arising under, out of or in connection with this Agreement and the legal relationship established thereby (including a claim, dispute or difference regarding the existence, termination or validity of this Agreement or any non-contractual obligations arising out of or in connection with this Agreement) ("Proceedings"), shall be referred to, and finally resolved by, binding arbitration administered by the Hong Kong International Arbitration Centre (HKIAC) under the HKIAC Administered Arbitration Rules in force when the Notice of Arbitration is submitted.
- (B) Each of the Borrower and any Lender agrees not to challenge the terms and enforceability of this arbitration clause, including, but not limited to, any challenge based on lack of mutuality, and each such party hereby irrevocably waives any such challenge.
- (C) The arbitration proceedings shall be conducted in English.
- (D) The arbitrators' award shall be final and binding upon the parties and their respective successors, heirs, executors and assigns.

38.2 Number of arbitrators

The number of arbitrators shall be three.

38.3 Seat of arbitration

The seat, or legal place, of the arbitration shall be Hong Kong.

38.4 Law of the arbitration clause

This law of the arbitration clause shall be English law.

This Agreement has been entered into on the date stated at the beginning of this Agreement.

**SCHEDULE 1
THE ORIGINAL PARTIES**

**PART 1
THE ORIGINAL LENDERS**

| Name of Original Lender | Commitment (USD) | Treaty Passport scheme reference number and jurisdiction of tax residence |
|--------------------------------|-------------------------|---|
| Bank GPB (JSC) | 200,000,000 | a joint-stock company incorporated under the laws of the Russian Federation with the main state registration number (OGRN) 1027700167110 and registered office at 16 Nametkina Street, 117420, Moscow, Russian Federation |

SCHEDULE 2
CONDITIONS PRECEDENT TO INITIAL UTILISATION

1. Borrower

- 1.1 A copy of the constitutional documents of the Borrower.
- 1.2 A copy of a resolution of the board of directors of the Borrower:
 - (A) approving the terms of, and the transactions contemplated by, the Finance Documents and resolving that it execute the Finance Documents;
 - (B) authorising a specified person or persons to execute the Finance Documents on its behalf; and
 - (C) authorising a specified person or persons, on its behalf, to sign and/or despatch all documents and notices (including, if relevant, any Utilisation Request) to be signed and/or despatched by it under or in connection with the Finance Documents.
- 1.3 A specimen of the signature of each person authorised by the resolution referred to in paragraph 1.2.
- 1.4 A certificate of the Borrower (signed by a director) confirming that borrowing the Total Commitments would not cause any borrowing or similar limit binding on the Borrower to be exceeded.
- 1.5 A certificate of an authorised signatory of the Borrower certifying that each copy document relating to it specified in this schedule 2 is correct, complete and in full force and effect as at a date no earlier than the date of this Agreement.

2. Guarantors

- 2.1 A copy of a resolution of the relevant management body of each Guarantor (excluding LLC Albynskiy Rudnik):
 - (A) approving the terms of, and the transactions contemplated by, the Finance Documents to which it is party and resolving that it execute the Finance Documents to which it is party;
 - (B) authorising a specified person or persons to execute the Finance Documents to which it is party on its behalf; and
 - (C) authorising a specified person or persons, on its behalf, to sign and/or despatch all documents and notices to be signed and/or despatched by it under or in connection with the Finance Documents to which it is party.

3. Finance Documents

- 3.1 Five original copies of this Agreement signed by the Borrower.
- 3.2 Four original copies of the respective Guarantee signed by each Guarantor.
- 3.3 Two original copies of the arrangement fee letter signed by the Borrower.

4. **Legal Opinions**

- 4.1 A legal opinion of Simmons & Simmons LLP, legal advisers to the Arranger and the Agent in England, substantially in the form distributed to the Original Lenders prior to signing this Agreement.

5. **Other Documents and Evidence**

- 5.1 The Original Financial Statements of the Borrower.
- 5.2 The most recently audited financial statements of each Guarantor for its financial year ended 31 December 2020, prepared in accordance with the Russian Accounting Standards and certified by its chief accountant.
- 5.3 A certified ownership structure of the Group.
- 5.4 Evidence that the fees, costs and expenses then due from the Borrower pursuant to Clause 12 (*Fees*) and Clause 16 (*Costs and expenses*) have been paid or will be paid by the first Utilisation Date.

**SCHEDULE 3
UTILISATION REQUESTS**

From: [Borrower]

To: [Agent]

Dated:

Dear Sirs

[Borrower] – [•] Facility Agreement dated [•] (the “Agreement”)

1. We refer to the Agreement. This is a Utilisation Request. Terms defined in the Agreement have the same meaning in this Utilisation Request unless given a different meaning in this Utilisation Request.
2. We wish to borrow a Loan on the following terms:

Proposed Utilisation Date: [•] (or, if that is not a Business Day, the next Business Day)

Currency of Loan: [•]

Amount: [•] or, if less, the Available Facility

Interest Period: [•]
3. We confirm that each condition specified in Clause 4.2 (*Further conditions precedent*) of the Agreement is satisfied on the date of this Utilisation Request.
4. The proceeds of this Loan should be credited to [account].
5. This Utilisation Request is irrevocable.

Yours faithfully

.....

authorised signatory for
[name of Borrower]

SCHEDULE 4
FORM OF TRANSFER CERTIFICATE

To: [•] as Agent

From: [The Existing Lender] (the “Existing Lender”) and [The New Lender] (the “New Lender”)

Dated:

[Borrower] – [•] Facility Agreement dated [•] (the “Agreement”)

1. We refer to the Agreement. This is a Transfer Certificate. Terms defined in the Agreement have the same meaning in this Transfer Certificate unless given a different meaning in this Transfer Certificate.
2. We refer to Clause 22.5 (*Procedure for transfer*) of the Agreement:
 - (A) The Existing Lender and the New Lender agree to the Existing Lender transferring to the New Lender by novation, and in accordance with Clause 22.5 (*Procedure for transfer*) of the Agreement, all of the Existing Lender's rights and obligations under the Agreement and the other Finance Documents which relate to that portion of the Existing Lender's Commitment and participations in Loans under the Agreement as specified in the Schedule.
 - (B) The proposed Transfer Date is [•].
 - (C) The Facility Office and address, fax number and attention details for notices of the New Lender for the purposes of Clause 29.2 (*Addresses*) of the Agreement are set out in the schedule.
3. The New Lender expressly acknowledges the limitations on the Existing Lender's obligations set out in Clause 22.4(C) of the Agreement.
4. The New Lender confirms, for the benefit of the Agent and without liability to the Borrower, that it is:
 - (A) [a Qualifying Lender (other than a Treaty Lender);]
 - (B) [a Treaty Lender;]
 - (C) [not a Qualifying Lender].
5. [The New Lender confirms, for the benefit of the Agent and without liability to the Borrower that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:
 - (A) a company resident in the United Kingdom for United Kingdom tax purposes;
 - (B) a partnership each member of which is:
 - (1) a company so resident in the United Kingdom; or

- (2) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or
 - (C) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.]
- 6. [The New Lender confirms (for the benefit of the Agent and without liability to the Borrower) that it holds a passport under the HMRC DT Treaty Passport scheme (reference number [●]), is tax resident in [●] and wishes such passport to apply in respect of the Agreement so that interest payable to it by borrowers is generally subject to full exemption from UK withholding tax, and notifies the Borrower that the Borrower must, to the extent that the New Lender becomes a Lender under a Facility which is made available to the Borrower pursuant to Clause 2.1 (*The Facility*) of the Agreement, make an application to HM Revenue & Customs on Form DTTP2 within 30 days of the Transfer Date.]¹
- 7. This Transfer Certificate may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of this Transfer Certificate.
- 8. This Transfer Certificate [and any non-contractual obligations arising out of or in connection with it] [is/are] governed by English law.
- 9. This Transfer Certificate has been entered into on the date stated at the beginning of this Transfer Certificate.

¹ This confirmation must be included if the New Lender holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to the Facility Agreement.

THE SCHEDULE

Commitment/rights and obligations to be transferred

[insert relevant details]

[Facility Office address, fax number and attention details for notices and account details for payments,]

[Existing Lender]

[New Lender]

By:

By:

This Transfer Certificate is accepted by the Agent and the Transfer Date is confirmed as *[•]*.

[Agent]

By:

SCHEDULE 5
FORM OF ASSIGNMENT AGREEMENT

To: [•] as Agent and [•] as Borrower

From: [The Existing Lender] (the “Existing Lender”) and [The New Lender] (the “New Lender”)

Dated:

[Borrower] – [•] Facility Agreement dated [•] (the “Agreement”)

1. We refer to the Agreement. This is an Assignment Agreement. Terms defined in the Agreement have the same meaning in this Assignment Agreement unless given a different meaning in this Assignment Agreement.
2. We refer to Clause 22.6 (*Procedure for assignment*) of the Agreement:
 - (A) The Existing Lender assigns absolutely to the New Lender all the rights of the Existing Lender under the Agreement and the other Finance Documents which relate to that portion of the Existing Lender's Commitment and participations in Loans under the Agreement as specified in the Schedule.
 - (B) The Existing Lender is released from all the obligations of the Existing Lender which correspond to that portion of the Existing Lender's Commitment and participations in Loans under the Agreement specified in the Schedule.
 - (C) The New Lender becomes a Party as a Lender and is bound by obligations equivalent to those from which the Existing Lender is released under paragraph 2(B) above.
3. The proposed Transfer Date is [•].
4. On the Transfer Date the New Lender becomes Party to the Finance Documents as a Lender.
5. The Facility Office and address, fax number and attention details for notices of the New Lender for the purposes of Clause 29.2 (*Addresses*) of the Agreement are set out in the Schedule.
6. The New Lender expressly acknowledges the limitations on the Existing Lender's obligations set out in Clause 22.4(C) of the Agreement.
7. The New Lender confirms, for the benefit of the Agent and without liability to the Borrower, that it is:
 - (A) [a Qualifying Lender (other than a Treaty Lender);]
 - (B) [a Treaty Lender;]
 - (C) [not a Qualifying Lender].

8. [The New Lender confirms, for the benefit of the Agent and without liability to the Borrower that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:
- (A) a company resident in the United Kingdom for United Kingdom tax purposes;
 - (B) a partnership each member of which is:
 - (1) a company so resident in the United Kingdom; or
 - (2) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or
 - (C) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.]
9. [The New Lender confirms (for the benefit of the Agent and without liability to the Borrower) that it holds a passport under the HMRC DT Treaty Passport scheme (reference number [●]), is tax resident in [●] and wishes such passport to apply in respect of the Agreement so that interest payable to it by borrowers is generally subject to full exemption from UK withholding tax, and notifies the Borrower that the Borrower must, to the extent that the New Lender becomes a Lender under a Facility which is made available to the Borrower pursuant to Clause 2.1 (*The Facility*) of the Agreement, make an application to HM Revenue & Customs on Form DTTP2 within 30 days of the Transfer Date.]
10. This Assignment Agreement acts as notice to the Agent (on behalf of each Finance Party) and, upon delivery in accordance with Clause 22.7 (*Copy of Transfer Certificate or Assignment Agreement to the Borrower*) of the Agreement, to the Borrower of the assignment referred to in this Assignment Agreement.
11. This Assignment Agreement may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of this Assignment Agreement.
12. This Assignment Agreement [and any non-contractual obligations arising out of or in connection with it] [is/are] governed by English law.
13. This Assignment Agreement has been entered into on the date stated at the beginning of this Assignment Agreement.

THE SCHEDULE

Rights to be assigned and obligations to be released and undertaken

[insert relevant details]

[Facility Office address, fax number and attention details for notices and account details for payments]

[Existing Lender]

[New Lender]

By:

By:

This Assignment Agreement is accepted by the Agent and the Transfer Date is confirmed as **[•]**.

Signature of this Assignment Agreement by the Agent constitutes confirmation by the Agent of receipt of notice of the assignment referred to herein, which notice the Agent receives on behalf of each Finance Party.

[Agent]

By:

**SCHEDULE 6
FORM OF COMPLIANCE CERTIFICATE**

To: [•] as Agent

From: [Borrower]

Dated:

Dear Sirs

[Borrower] – [•] Facility Agreement dated [•] (the “Agreement”)

1. We refer to the Agreement. This is a Compliance Certificate. Terms defined in the Agreement have the same meaning when used in this Compliance Certificate unless given a different meaning in this Compliance Certificate.
2. We confirm that: [Insert details of covenants to be certified]
3. [We confirm that no Default is continuing.]

Signed:
Director
of
[Borrower]

.....
Director
of
[Borrower]

[insert applicable certification language]**

.....

for and on behalf of
[name of auditors of the Borrower]***

* If this statement cannot be made, the certificate should identify any Default that is continuing and the steps, if any, being taken to remedy it.

** To be agreed with the Borrower's auditors and the Lenders before signing the Agreement

*** Only applicable if the Compliance Certificate accompanies the audited financial statements and is to be signed by the auditors. To be agreed with the Borrower's auditors before signing the Agreement

**SCHEDULE 7
EXISTING SECURITY**

| Security | Total | Principal | Amount | of |
|------------------|--------------|-----------|--------|----|
| | Indebtedness | Secured | | |
| None applicable. | | | | |

EXECUTION PAGES

The Borrower

SIGNED by James.W.Cameron Jr.)
Please print name of signatory)
for and on behalf of)
Petrovavlovsk Plc)



.....

Signature

Address:

11 Grosvenor Place
London
SW1X 7HH

Fax:

Attention: The Company Secretary

The Arranger *Deputy Chairman of the
Management Board Bank GPB (JSC)*

SIGNED by *A. Yu. Muranov*)

Please print name of signatory)

for and on behalf of)

Bank GPB (JSC)

Signature

[Handwritten Signature]

The Original Lender *Deputy Chairman of the
Management Board Bank GPB (JSC)*

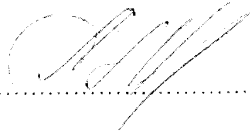
SIGNED by ..*A. Yu. Muranov*)

Please print name of signatory)

for and on behalf of)

Bank GPB (JSC)

Signature

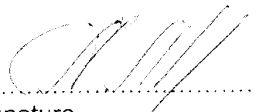


The Agent *Deputy Chairman of the
Management Board Bank GPB (JSC)*

SIGNED by *A. Yu. Muranov*)

Please print name of signatory)

for and on behalf of)
Bank GPB (JSC)


Signature

Address:

Fax:

Attention:

Dated 26 September 2019

Prospective investors should read this Prospectus in its entirety. See Part 1 Risk Factors for a discussion of certain risks and other factors that should be considered prior to any investment in the Bonds.



Petropavlovsk 2010 Limited

(Registered number 104830, incorporated with limited liability under the laws of Jersey)

as issuer of

US\$125,000,000 8.25 per cent. Convertible Bonds due 2024

Guaranteed by

Petropavlovsk PLC

(Registered number 04343841, incorporated as a public limited company under the laws of England)

The US\$125,000,000 8.25 per cent. Convertible Bonds due 2024 (the “**Bonds**”) of Petropavlovsk 2010 Limited (the “**Issuer**”) will be unconditionally and irrevocably guaranteed by Petropavlovsk PLC (the “**Guarantor**” or the “**Company**” and together with its subsidiaries as the context requires, the “**Group**”). Application is expected to be made for the Bonds to be (i) listed on the Official List of the London Stock Exchange (the “**LSE**”) and (ii) admitted to trading on the Main Market of the LSE, in each case prior to 3 October 2019. The Bonds will be convertible into fully paid ordinary shares (the “**Ordinary Shares**”) of the Guarantor.

An investment in the Bonds involves certain risks. For a discussion of these risks see “*Risk Factors*”.

The Guarantor has unconditionally and irrevocably guaranteed the due and punctual payment of all amounts at any time becoming due and payable in respect of the Bonds and the due and punctual performance by the Issuer of all of the Issuer’s other obligations in respect of the Bonds (the “**Guarantee**”).

Each of the Issuer and the Guarantor accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer and the Guarantor, the information contained in this Prospectus is in accordance with the facts and the Prospectus makes no omission likely to affect its import.

This Prospectus has been approved by the Financial Conduct Authority (the “**FCA**”) as competent authority under Regulation (EU) 2017/1129, on 26 September 2019. The FCA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistence imposed by Regulation (EU) 2017/1129 and such approval should not be considered as an endorsement of the Issuer or the Company, or the quality of the securities that are the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the securities.

None of the Issuer, the Guarantor, or Apex Corporate Trustees (UK) Limited (the “**Trustee**”) has authorised the making or provision of any representation or information regarding the Issuer, the Guarantor, the Bonds or the Ordinary Shares other than as contained in this Prospectus or as approved for such purpose by the Issuer and the Guarantor. Any such representation or information should not be relied upon as having been authorised by or on behalf of the Issuer or the Guarantor.

This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer or the Trustee that any recipient of this Prospectus should purchase any of the Bonds. Each investor contemplating purchasing Bonds should make its own independent investigation of the financial condition and affairs of, and its own appraisal of the creditworthiness of, the Issuer and the Guarantor.

Neither the delivery of this Prospectus nor the sale or delivery of the Bonds shall in any circumstances constitute a representation or create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the affairs or condition (financial or otherwise) of the Issuer or the Guarantor since the date of this Prospectus or that the information contained in this Prospectus is correct as at any time subsequent to its date.

In making an investment decision, each investor must rely on its own examination, analysis and enquiry of the Issuer, the Guarantor, the terms and conditions of the Bonds and the Ordinary Shares, including the merits and risks involved.

This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, or an invitation by or on behalf of the Issuer or the Guarantor to subscribe or purchase, any Bonds or Ordinary Shares. This Prospectus may be used only for the purposes for which it has been published.

The Bonds are represented by a global bond in registered form (the “**Global Bond**”), without interest coupons, which is deposited with a common depositary on behalf of Clearstream Banking, S.A. (“**Clearstream, Luxembourg**”) and Euroclear Bank SA/NV (“**Euroclear**”). The Global Bond is exchangeable for definitive Bonds in registered form in the limited circumstances set out in it. See “*Summary of Provisions relating to the Bonds while in Global Form*”.

The Bonds, the Guarantee and the Ordinary Shares have not been, and will not be, registered under the U.S. Securities Act of 1933 as amended (the “**Securities Act**”) and are subject to U.S. tax law requirements. Subject to certain exceptions, Bonds may not be offered, sold or delivered within the United States.

A copy of this document has been delivered to the Jersey registrar of companies (the “**Jersey Registrar**”) in accordance with Article 5 of the Companies (General Provisions) (Jersey) Order 2002, and the Jersey Registrar has given, and has not withdrawn, consent to its circulation. The Jersey Financial Services Commission (the “**Jersey Commission**”) has given, and has not withdrawn, its consent under Article 4 of the Control of Borrowing (Jersey) Order 1958 to the issue of the Bonds by the Issuer. The Jersey Commission is protected by the Control of Borrowing (Jersey) Law 1947, as amended, against liability arising from the discharge of its functions under that Law. It must be distinctly understood that, in giving these consents, neither the Jersey Registrar nor the Jersey Commission takes any responsibility for the financial soundness of the Issuer or for the correctness of any statements made, or opinions expressed, with regard to it.

For a description of certain further restrictions on the offering and sale of the Bonds and on the distribution of this document see “*Subscription and Sale*”.

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- i. have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- ii. have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact such investment will have on its overall investment portfolio;
- iii. understand thoroughly the terms of the Bonds and be familiar with the behaviour of financial markets in which they participate; and
- iv. be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Any individual intending to invest in any investment described in this Prospectus should consult his or her broker, bank manager, solicitor, accountant or other independent financial, tax or legal adviser, and ensure that he or she fully understands all the risks associated with making such an investment and has sufficient financial resources to sustain any loss that may arise from it. It should be noted that the price of securities and the income from them can go down as well as up.

Any forward looking statements in this Prospectus are made subject to the reservations specified under “*Presentation of Financial and Other Information – Information regarding forward-looking statements*”.

Prospective investors should read the entire document and, in particular, the section headed “*Risk Factors*”, when considering an investment in the Bonds.

TABLE OF CONTENTS

| | |
|---|-----|
| Summary | 1 |
| Part 1 Risk Factors..... | 8 |
| Part 2 Documents Incorporated by Reference..... | 36 |
| Part 3 Presentation of Financial and other Information..... | 38 |
| Part 4 Terms and Conditions of the Bonds..... | 42 |
| Part 5 Summary of Provisions relating to the Bonds while in Global Form | 102 |
| Part 6 Description of the Ordinary Shares..... | 105 |
| Part 7 Use of Proceeds..... | 111 |
| Part 8 Industry Overview..... | 112 |
| Part 9 Description of the Bond Issuer..... | 116 |
| Part 10 Description of the Group..... | 118 |
| Part 11 Operating and Financial Review | 186 |
| Part 12 Capitalisation and Indebtedness..... | 226 |
| Part 13 Taxation | 227 |
| Part 14 Subscription and Sale..... | 230 |
| Part 15 Material Contracts..... | 232 |
| Part 16 Additional Information | 234 |
| Part 17 Definitions and Glossary..... | 241 |

SUMMARY

Summaries are made up of disclosure requirements known as “**Elements**”. These elements are numbered, where applicable, in accordance with Sections 3-10 of Prospectus Rules Article 7 as set out in the Summary Annex provided by the FCA. This summary contains all the Elements required to be included in a summary for this type of securities, issuer and guarantors. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the summary because of the type of securities, issuer and guarantors, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of ‘not applicable’.

Section 1—Introduction and Warnings

This Prospectus relates to an admission to listing and to trading of the US\$125,000,000 8.25 per cent. convertible bonds due 2024 (the “**Bonds**”) of Petropavlovsk 2010 Limited (the “**Issuer**”) which are unconditionally and irrevocably guaranteed by Petropavlovsk PLC (the “**Guarantor**” or the “**Company**” and together with its subsidiaries the “**Group**”) (the “**Listing**”).

Annex Ref.

Point (a) of Paragraph 4: Introduction

| | | |
|------|--|---|
| 5(a) | ISIN | XS1843433555 |
| 5(b) | Identity and contact details of the Issuer | The legal and commercial name of the Issuer is Petropavlovsk 2010 Limited. The Issuer’s registered address is 13-14 Esplanade, St Helier, Jersey JE1 1EE and its telephone number is +44 (0) 1534 844844. |
| 5(c) | Issuer LEI | The Issuer has the legal entity identifier 213800IJHR39Z98KEW82. |
| 5(d) | Details of Competent Authority | The FCA may be contacted at 12 Endeavour Square, London, E20 1JN. |
| 5(e) | Date of approval | This prospectus was approved by the FCA on 26 September 2019. |

Point (a) of Paragraph 4: Warnings

| | | |
|------|--------------------------|--|
| 5(a) | Summary as introduction | This summary should be read as an introduction to this Prospectus. |
| 5(b) | Consideration as a whole | Any decision to invest in the securities should be based on a consideration of this Prospectus as a whole by the investor. |
| 5(c) | Loss of capital | Any decision to invest in the securities may result in an investor losing all or a part of its invested capital. |
| 5(d) | Costs of translation | Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might, under national law, have to bear the costs of translating this Prospectus before legal proceedings are initiated. |
| 5(e) | Civil liability | Civil liability attaches to those persons who have tabled the summary, including any translation thereof, but only where the summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus or where it does not provide, when read together with the other parts of this Prospectus, key information in order to aid investors when considering whether to invest in the Bonds. |

Section 2 — Key Information on the Issuer

Subsection 6(a) – Who is the issuer of the securities?

- 6(a)(i) Details** The legal and commercial name of the Issuer of the Bonds is Petropavlovsk 2010 Limited, which has the legal entity identifier 213800IJHR39Z98KEW82.
- The Issuer was incorporated and registered in Jersey, Channel Islands, as a public company limited by shares under the name Petropavlovsk 2010 Limited on 18 January 2010, with registered number 104830. The principal legislation under which the Issuer operates is the Jersey Companies Law. The Issuer is unrated.
- 6(a)(ii) Principal activities** The Issuer is a wholly owned subsidiary of the Company and its sole purposes are the issue of the Bonds and the preference shares, and the loan of the proceeds to other entities in the Group. The Issuer is dependent on the other entities of the Group repaying their loans in order to repay any amounts due under the Bonds.
- 6(a)(iii) Major shareholders** In so far as is known to the Directors, the following are the interests (within the meaning of Part VI of the Act) which represent, or will represent, directly or indirectly, 3% or more of the issued share capital of the Company:

| Shareholder | Number of Shares | Percentage of interest in voting rights ordinary shares (%) |
|--|------------------|---|
| Aeon Mining Limited (formerly Fincraft Holdings Ltd) ¹ | 440,565,485 | 13.30 |
| Sothic Capital European Opportunities Master Fund Limited & Gertjan Koomen | 309,757,863 | 9.36 |
| VTB Bank (Deutschland) AG | 300,000,000 | 9.06 |
| D.E. Shaw & Co., L.P. and D.E. Shaw & Co. (London), LLP ² | 256,609,333 | 7.75 |
| Prosperity Capital Management Limited | 165,519,276 | 5.00 |
| Slevin Ltd | 150,517,537 | 4.55 |
| Everest Alliance Limited (formerly known as CABS Platform Limited) | 150,517,537 | 4.55 |

Notes

¹ Aeon Mining Limited is the holder of the voting rights in Petropavlovsk PLC as set out above. Aeon Mining Limited is a wholly owned subsidiary of Limited Liability Company Research and Production Association Altair, a company ultimately controlled by Mr Roman Trotsenko.

² Each in their capacity as discretionary investment manager.

- 6(a)(iv) Key Managing Directors**
- | Name | Position | Age |
|---------------------|------------------------------------|-----|
| Sir Roderic Lyne | Non-Executive Chairman | 71 |
| Dr Pavel Maslovskiy | Chief Executive Officer | 62 |
| Harry Kenyon-Slaney | Senior Independent Director | 58 |
| James W. Cameron Jr | Independent Non-Executive Director | 71 |
| Damien Hackett | Independent Non-Executive Director | 71 |
| Robert Jenkins | Independent Non-Executive Director | 65 |
- 6(a)(v) Independent auditors** The Company's auditor is Deloitte LLP, which is a member firm of the Institute of Chartered Accountants in England and Wales and has its registered office at 1 New Street Square, London EC4A 3HQ, United Kingdom.

Subsection 6(b) - what is the key financial information regarding the issuer?

The Issuer's Statement of Profit or Loss

| | Year ended 31 December | | |
|-----------------------------|------------------------|--------------|--------|
| | 2018 | 2017 | 2016 |
| | | (U.S.\$'000) | |
| Revenue | — | — | — |
| Operating Profit | (14,330) | 1 | 6 |
| Profit for the period | 380 | 14,772 | 14,970 |

The Issuer's Statement of Financial Position

| | Year ended 31 December | | |
|-------------------------|------------------------|--------------|-----------|
| | 2018 | 2017 | 2016 |
| | | (U.S.\$'000) | |
| Total assets | 163,129 | 474,413 | 456,421 |
| Total liabilities | (411,142) | (407,563) | (404,343) |
| Total equity | (248,013) | 66,850 | 52,078 |

There are no qualifications in the relevant reports on the Financial Statements.

Subsection 6(c) - what are the key risks specific to the Issuer?

The Issuer is a financing entity and so does not carry out business of its own. Refer to part 7(c)(iv) of this Summary for a list of the key risks specific to the Group.

Section 3— Key information on the Securities

Sub-section 7(a) – what are the main features of the securities?

| | |
|------------------------------|--|
| 7(a)(i) Type | The Bonds are guaranteed convertible bonds, convertible into fully paid preference shares of the Issuer which will (subject as provided below) be immediately and mandatorily exchanged into Ordinary Shares with an initial exchange price of U.S.\$0.1350 (subject to adjustment in the circumstances described in Condition 8(b) (the “ Exchange Price ”), set at a premium of 22.5% above the volume weighted average price of an Ordinary Share on the London Stock Exchange from launch to the close of trading on 19 June 2019, converted to U.S.\$ at the prevailing U.S.\$:GBP spot rate of 1:0.7916. The Bonds are unrated. |
| 7(a)(i) ISIN | XS1843433555 |
| 7(a)(ii) Currency | U.S. Dollars |
| 7(a)(ii) Denomination | The Bonds were issued in principal amounts of U.S.\$200,000 each |
| 7(a)(ii) Par value | The Bonds were issued at par and carry a coupon of 8.25% per annum payable quarterly in arrear in equal instalments. |
| 7(a)(ii) Term | The Bonds will be redeemed at par (if not converted, redeemed or purchased and cancelled) at the stated maturity date of 3 July 2024 (the “ Final Maturity Date ”). |
| 7(a)(iii) Rights | <p>The Bonds will be convertible during the Conversion Period (as defined below) (subject as provided below) into redeemable preference shares of the Issuer (the “Preference Shares”) with a par value of U.S.\$ 0.01 each and a paid-up value of U.S.\$ 200,000 each (the “Paid-Up Value”). Each Bond will entitle a Bondholder to convert each U.S.\$ 200,000 in principal amount of a Bond into one fully paid Preference Share, each such Preference Share being allotted to such Bondholders at a price equal to the Paid-Up Value (a “Conversion Right”).</p> <p>The Preference Shares, unless a Cash Alternative Election (as defined below) is made by the Guarantor, will be automatically transferred to the Guarantor and in consideration therefore the Guarantor shall issue or transfer and deliver to the relevant Bondholder such number of Ordinary Shares as is determined by dividing the aggregate paid-up value in respect of such Preference Shares by the Conversion Price in effect on the relevant conversion date in respect of a Bond (the “Conversion Date”).</p> <p>In case of an exercise of Conversion Rights by a Bondholder, the Guarantor has the option to (i) deliver the relevant number of Ordinary Shares, (ii) pay the Cash Alternative Amount (as defined in the Conditions) or (iii) deliver/pay a combination thereof.</p> <p>The Guarantor may exercise its option (the “Cash Alternative Election”) to pay the Cash Alternative Amount by giving notice of its election to the relevant</p> |

Bondholder by no later than three dealing days following the relevant Conversion Date (the “Cash Alternative Election Date”).

“Conversion Period” means the period during which Conversion Rights may be exercised by a Bondholder, being from 1 October 2019 to (and including) the date falling 66 days prior to the Final Maturity Date (both days inclusive) or, if such Bond is to be redeemed pursuant to Condition 9(b) or 9(c) prior to the Final Maturity Date, then up to (and including) the date falling 66 days before the date fixed for redemption thereof pursuant to Condition 9(b) or 9(c), unless there shall be a default in making payment in respect of such Bond on any such date fixed for redemption, in which event the Conversion Right shall extend up to (and including) the date on which the full amount of such payment becomes available for payment and notice of such availability has been given to Bondholders or, if earlier, the Final Maturity Date; provided that, in each case, if such final date for the exercise of Conversion Rights is not a London business day, then the period for exercise of Conversion Rights by Bondholders shall end on (and including) the immediately preceding London business day.

7(a)(iv) Seniority

The Bonds constitute senior, unsubordinated, direct, unconditional and (subject to the Negative Pledge set out in Condition 3(a)) unsecured obligations of the Issuer, which shall at all times rank *pari passu* and without any preference amongst themselves. The obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 3, at all times rank at least equally with all its other present and future unsecured, unconditional and unsubordinated obligations.

The obligations of the Guarantor under the Guarantee constitute senior, unsubordinated, direct, unconditional and (subject to the Negative Pledge set out in Condition 3(a)) unsecured obligations of the Guarantor and shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 3, at all times rank at least equally with all the Guarantor’s other present and future unsecured, unconditional and unsubordinated obligations.

7(a)(v) Restrictions

There are no restrictions on the free transferability of the Bonds

Sub-section 7(b) – where will the securities be traded?

7(b) Listing

Application is expected to be made for the Bonds to be listed on the Official List of the FCA and to be admitted to trading on the London Stock Exchange’s Main Market for listed securities.

Sub-section 7(c) – is there a guarantee attached to the securities?

7(c)(i) Nature and scope

The Bonds are fully and unconditionally guaranteed by Petropavlovsk PLC.

7(c)(ii) Description of the Guarantor

The legal and commercial name of the Guarantor is Petropavlovsk PLC. The Company is a UK-incorporated public limited company with LEI 213800ZZOU5P76L8XB92, its registered address is 11 Grosvenor Place, London SW1X 7HH and its telephone number is +44 (0) 20 7201 8900. The Guarantor is rated B- (Outlook Negative) by S&P and B- (Outlook Positive) by Fitch.

7(c)(iii) Key financial information relating to the Guarantor

The Group’s Consolidated Statement of Profit or Loss

| | Year ended 31 December | | | Six months ended | |
|---------------------|------------------------|------------------|-------|------------------|-------|
| | 2018 | 2017 | 2016 | 2019 | 2018 |
| | | (U.S.\$ million) | | (U.S.\$ million) | |
| Group revenue | 499.8 | 587.4 | 540.7 | 305.3 | 270.5 |

| | | | | | |
|-----------------------------------|-------|-------|------|------|--------|
| Operating Profit/(loss) | 126.6 | 100.4 | 77.0 | 2.5 | (23.7) |
| Profit/(loss) for the period..... | 25.9 | 37.1 | 31.7 | 13.5 | (39.9) |

The Group's Consolidated Statement of Financial Position

| | Year ended 31 December | | | Six months ended 30 June | |
|-------------------------|------------------------|---------|---------|--------------------------|---------|
| | 2018 | 2017 | 2016 | 2019 | 2018 |
| | (U.S.\$ million) | | | (U.S.\$ million) | |
| Total assets | 1,635.2 | 1,403.9 | 1,397.2 | 1,627.3 | 1,431.5 |
| Total liabilities | (1,033.9) | (837.4) | (826.9) | (1,024.9) | (892.7) |
| Total equity | 601.3 | 566.4 | 570.3 | 602.5 | 538.8 |

The Group's Consolidated Statement of Cash Flow

| | Year ended 31 December | | | Six months ended 30 June | |
|---|------------------------|--------|--------|--------------------------|--------|
| | 2018 | 2017 | 2016 | 2019 | 2018 |
| | (U.S.\$ million) | | | (U.S.\$ million) | |
| Net cash from operating activities . | 217.2 | 124.0 | 37.0 | 1.1 | 127.8 |
| Net cash from/(used in) investing activities..... | (186.5) | (87.0) | (8.7) | 6.4 | (95.1) |
| Net cash from/(used in) financing activities..... | (13.0) | (38.6) | (46.8) | 3.2 | (9.0) |

There are no qualifications in the relevant reports on the Financial Statements.

- 7(c)(iv) Material Risk Factors**
- Part of the Group's future development is dependent on the successful ramp up and operation of the Pressure Oxidation Hub (the "POX Hub")
 - The Group has exposure risk to IRC's operations, share price and product pricing due to the Group's position as guarantor to certain of IRC's facility agreements and its shareholding in IRC Limited ("IRC"), negative trends in either of which could adversely impact the Group's financial condition.
 - The cost efficiency of the POX Hub is dependent on its full utilisation and delivery of third-party concentrate to fill its capacity in the short term and in the medium term on the construction of the Pioneer flotation plant and expansion of the Malomir flotation plant. Failure to secure sufficient quantities of suitable concentrate may result in deterioration in the profitability of exploiting the Group's own refractory reserves.
 - The Group may not be able to finance its capital expenditure requirements in order to sustain and expand its operations or future planned capital expenditure, which could negatively impact the Group's financial condition.
 - The Group's financial position is materially dependent on the price at which it can sell its gold, a decline in which could cause losses and necessitate curtailing or suspension of economically unviable mining operations.
 - The Group is dependent on production from its Key Mining Assets in order to generate revenue and cash flow. Any failure to meet production targets would affect the Group's ability to hit operational targets.

- Production may be materially and adversely affected by grades of ore, stripping costs and other costs, all of which could have a material adverse effect on production and therefore the Group's profitability.
- The Group's mineral reserves and resources are estimates based on a range of assumptions and actual mineral resources could be less than current estimates. The Group's estimates of mine life may prove to be inaccurate which could affect the Group's future production and financial condition.
- The Group is subject to risks associated with operating in Russia and in particular the possibility of sanctions being extended by the United States and/or the European Union, which could affect the Group's access to European markets and therefore its financial condition.
- The Group may be subject to risks that may arise from the current political instability between the Russian Federation and the West concerning Ukraine, any of which could affect its business and operations.
- The Group may experience risks relating to the Russian legal system and Russian legislation, which could affect its business and financial condition.

Sub-section 7(d) – what are the key risks that are specific to the securities?

| | | |
|-------------|--|--|
| 7(d) | Key risks relating to the Bonds | The Bonds have the following key risks: <ul style="list-style-type: none"> • Risk of fluctuation in the price of the Ordinary Shares, which in turn could affect the market price of the securities. • The Guarantor conducts its business through its operating subsidiaries so Bondholders will be effectively subordinated to the claims of creditors of such subsidiaries which may adversely impact the recovery of the Bondholders in a liquidation or winding-up. • Bondholders have limited anti-dilution protection. |
|-------------|--|--|

Section 4 — Key Information on the Offer of Securities to the Public and/or the Admission to Trading on A Regulated Market

Sub-section 8(a) – under which conditions and timetable can I invest in this security?

| | | |
|-------------|------------------|--|
| 8(a) | Key terms | The Bonds have been issued pursuant to the Conditions. Application has been made for the Bonds to be listed on the Official List and to be admitted to trading on the Main Market of the London Stock Exchange. The Bonds can be acquired as of the date of this Prospectus in accordance with the Conditions. |
|-------------|------------------|--|

Sub-section 8(c) – why is this prospectus being produced?

| | | |
|-------------|-----------------------------------|--|
| 8(c) | Reasons for the prospectus | As the issuance of the Bonds is convertible into Ordinary Shares of the Company, and such additional Ordinary Shares to be issued, should full conversion of the total amount of the Bonds take place, would exceed 20% of the Company's issued share capital (calculated over a 12 month period), a prospectus is required to be produced by the Issuer in accordance with the Prospectus Rules and be approved by the FCA upon such 20% threshold for conversion being reached. Although the Issuer does not expect that full conversion will take place before the 2024 Maturity Date of the Bonds, nevertheless this Prospectus has been prepared and approved in advance of the |
|-------------|-----------------------------------|--|

date on which the Bondholders are able to convert their Bonds pursuant to the Conditions (such date being the 90th day following the Closing Date).

**8(c)(i) Use and
estimated net
amount of
proceeds**

The Issuer (A) has used the estimated net proceeds from the issue of the Bonds (i) to fund the Repurchase Price for the outstanding U.S.\$100,000,000 Guaranteed Convertible Bonds due 2020 issued by the Issuer (the “**Existing Bonds**”) purchased and redeemed by the Issuer pursuant to the Repurchase; (ii) to redeem any outstanding Existing Bonds following completion of the Repurchase described in (i); and (B) shall use the estimated net proceeds from the issue of the Bonds for the general corporate purposes of the the Group.

The Issuer received aggregate proceeds of approximately US\$121,000,000 from the initial offering of the Bonds, net of estimated fees and expenses of approximately US\$4,000,000. The Issuer will receive no proceeds from the conversion of the Bonds.

**8(c)(iii) Conflicts of
interest**

There are no material conflicts of interest pertaining to the Listing or the admission to trading.

PART 1

RISK FACTORS

Any investment in the Bonds is subject to a number of risks. Prior to investing in the Bonds, prospective investors should carefully consider risk factors associated with any investment in the Bonds, the Group's business and the industry in which it operates, together with all other information contained in this Prospectus including, in particular, the risk factors described below.

Prospective investors should note that the risks relating to the Group, its industry and the Bonds summarised in the section of this Prospectus headed "Summary" are the risks that the Directors and the Company believe to be the most essential to an assessment by a prospective investor of whether to consider an investment in the Bonds. However, as the risks which the Group faces relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in the section of this Prospectus headed "Summary" but also, among other things, the risks and uncertainties described below.

The risk factors described below are not an exhaustive list or explanation of all risks which investors may face when making an investment in the Bonds and should be used as guidance only. Additional risks and uncertainties relating to the Group that are not currently known to the Group, or that the Group currently deems immaterial, may individually or cumulatively also have a material adverse effect on the Group's business, results of operations, financial condition and/or prospects and, consequently, the Company's ability to satisfy its obligations under the Guarantee. If any such risk should occur; the price of the Bonds may decline and investors could lose all or part of their investment. Prospective investors should consider carefully whether an investment in the Bonds is suitable for them in the light of the information in this Prospectus and their personal circumstances.

The risks below have been classified into the following categories:

- (i) Risks relating to the Group's Business and Industry;*
- (ii) Risks relating to the Russian Federation and operating in the Russian Federation;*
- (iii) Risks relating to the Listing and the Bonds; and*
- (iv) Risks relating to the Issuer.*

Risks relating to the Group's Business and Industry

Part of the Group's future development is dependent on the successful ramp up and operation of the Pressure Oxidation Hub (the "POX Hub").

As of 31 December 2018, 60 per cent. of the Group's Mineral Resources are refractory in nature and require special treatment, such as pressure oxidation, in order to recover the gold contained within. The Group completed construction and commenced gold production from the POX Hub in the last quarter of 2018 using two of the four autoclave vessels installed. All four autoclaves have now been tested and confirmed to be fully functional. The Group will continue to use two out of the four autoclaves in rotation until a sufficient quantity of third-party concentrate is delivered to the site. There are a number of risks associated with the POX Hub project which include:

- a) operating issues at the POX Hub, which could lead to lower production and/or higher costs;
- b) possible health and safety and/or environmental impact in the event of an accident at the POX Hub (i.e. the monitoring equipment used at the POX Hub uses radioactive isotopes to monitor the processing. A failure to use the equipment correctly could result in contamination);
- c) an inability to reach stable designed parameters, which could result in higher than scheduled costs of production; and
- d) inability to secure sufficient third party materials to enable the POX Hub to operate at its designed rate.

Any of these risks will impact planned production, which will affect the Group's cash flow and profitability and in turn have a negative impact on the Group's business, results of operations and financial condition. Such adverse effects could also impact the Company's ability to satisfy its debt obligations, including the Guarantee.

The Group has exposure risk to IRC's operations, share price and product pricing due to the Group's position as guarantor to certain of IRC's facility agreements and its shareholding in IRC Limited ("IRC").

As at September 2019, the Company has a 31.1 per cent. interest in the issued share capital of IRC which is the ultimate parent company of Kimkano-Sutarsky Mining and Beneficiation Plant LLC ("**K&S**").

The Company has provided Guarantees to Gazprombank to secure the obligations of K&S to repay a US\$240 million loan facility ("**Gazprombank Facility**") in accordance with two broadly identical facility agreements between K&S as a borrower and Gazprombank as a lender, dated 18 December 2018 (the "**Facility Agreements**"). The principal purpose of the Gazprombank Facility was to repay in full the outstanding facility K&S had with Industrial Commercial Bank of China Ltd ("**ICBC**") and to repay bridge loans provided by the Company to IRC in June 2018 and December 2018.

In 2018 K&S Mine was unable to generate sufficient cash flow to make the repayments under the ICBC Facility due to a four-year delay in the commissioning of K&S Mine and depreciation of the market iron ore price. IRC attempted to secure a revised repayment schedule with ICBC but was unsuccessful. This led to the Company to provide two bridge loans to IRC, including approximately US\$30 million in June 2018 and US\$27 million in December 2018 during this period of financial instability for the purposes of making the June 2018 and December 2018 payments to ICBC under the ICBC Facility.

Following the refinancing of the ICBC Facility, in September 2019, approximately US\$10.35 million has been paid to Gazprombank as principal repayment and interest in accordance with the repayment schedule. If K&S are not able to meet the next repayment instalment under the Gazprombank Facility of approximately US\$10.5 million in December 2019 as principal and interest, such default, in the absence of an alternative solution such as granting of waivers by Gazprombank or further bridge financing, is likely to trigger the existing guarantee obligations of the Company to Gazprombank.

If Gazprombank demands immediate repayment of the full amount outstanding under the Gazprombank Facility, neither K&S nor the Company will be able to make such payment. In the absence of securing alternative funding and/or substantial proceeds from the realisation of assets, there is a risk that this could cause an insolvency of K&S resulting the Company as a major shareholder losing its investment in IRC. In addition, there is a risk that this could negatively affect the trading value of the Shares and Bonds of the Company.

In addition:

- (a) the Company does not have a controlling interest in either IRC or K&S; and
- (b) whilst the Company has the right to appoint two directors to the board of IRC, the Company does not currently have any representation on the board of either IRC or K&S.

Accordingly, IRC and/or K&S may make decisions that could conflict with the interests of the Company and in particular IRC and/or K&S could make decisions which could trigger an event of default under the Facility Agreements, such as non-repayment, breach of financial covenants or warranties or representations. The Company may then be liable to make a payment under the terms of the Guarantees. This could have a material adverse effect on the Company's business, results of operations, financial conditions and prospects.

The following factors could adversely impact on the operational performance and financial conditions of IRC which, in turn, could affect the ability to make repayments under the Facility Agreements.

Price of IRC products

A significant proportion of IRC's sales of its products, principally 65% iron ore concentrate, is made to the Chinese market. The financial performance of IRC, and therefore the value of the Group's investment in IRC, is dependent on, *inter alia*, the global prices of, and demand for, iron ore, steel making composites, steel and steel products, the prices of which have been, and may continue to be, volatile. It should be noted that, although

the Chinese ports had recorded below average stockpiles in the first half of 2019, there is no certainty of sustained demand. A decline in the price of IRC's products, principally iron ore, a decline in Chinese demand, and/or an increase in Chinese domestic production or other competition, could adversely affect IRC's business, results of operations, financial condition and prospects. For example, assuming the K&S Mine is operating at its full capacity, a decrease in its achieved selling price of US\$1 per tonne of iron ore would translate to a reduction in IRC's revenue of about US\$3 million per year.

IRC provides high grade iron ore concentrate products to its customers which attract a premium. Although iron ore prices are currently forecast to rise, given the historic volatility of the iron ore prices, there is no certainty that the products produced by IRC will continue to attract a premium and any decline in the price of iron ore could have a material adverse effect on IRC's business, results of operations, financial condition and prospects. At present, IRC's policy is to protect itself from adverse changes to iron ore prices by using hedging instruments, mostly in the form of protective collars, to fix the price of approximately 50 per cent. of anticipated production from the K&S Mine. However, such protection would only provide short-term relief and it remains a risk that sustained weakness in iron ore prices could adversely affect IRC's business, results of operations, financial condition and prospects.

Operational performance – care and maintenance

In the past, IRC has decided to put its operations on care and maintenance mainly as a result of the volatility in the iron ore industry and steel sector. Depending on the circumstances, IRC may consider doing so again in the future and this would mean production would stop and revenue would not be generated at those projects which are put on care and maintenance.

A further delay in increase of activities at K&S Mine

The commissioning of IRC's iron ore mining operation at the K&S Mine was delayed by four years and therefore meeting full operational capacity has been later than initially envisaged. The average capacity utilisation of the K&S Mine in the second quarter of 2019 was approximately 88 per cent., reaching more than 97 per cent. of the full capacity in the first half of May 2019. However, there can be no guarantee that this level of capacity utilisation will be maintained or that full production capacity will be reached at the K&S Mine, and this could have a material adverse effect on IRC's, and therefore the Group's business, results of operations, financial condition and prospects.

Volatile environment in the different jurisdictions in which IRC operates or conducts business

IRC is also exposed to the state of diplomatic relations between the Russian Federation and China. For example, the imposition of export controls by the Russian Federation or import controls by China could limit the quantity of, or prices at which, iron ore could be exported to China or imported from the Russian Federation, which could have a material adverse effect on IRC's business, financial condition and prospects although this risk is mitigated by the established relationships with Russian counterparties.

IRC Shares

The IRC Shares are listed on the Hong Kong Stock Exchange. The market price of the IRC Shares is subject to fluctuations due to changes in sentiment in the market or in response to various facts and events, whether occurring in Hong Kong, China, the Russian Federation or in other jurisdictions. Factors such as changes in interest rates, exchange rates and the rate of inflation, changes in fiscal, monetary or regulatory policies or international hostilities may also negatively affect the market price of the IRC Shares. Additionally, IRC's results and prospects may from time to time be below the expectations of market analysts and investors.

The occurrence of any of the above items would have a material adverse effect on IRC's business, results of operations, financial condition, prospects and the value of the IRC Shares. Such adverse impact on IRC's business and the IRC Shares, would create a risk that neither K&S nor IRC (by providing bridge funding to K&S) would be able to meet repayments under the Facility Agreements and in turn poses the risk that the Company is called upon under the Guarantees. This risk of being called upon under the Guarantees would have a material adverse effect on the Company's business, results of operations, financial condition and prospects, and consequently the Company's ability to service its obligations under the Guarantee.

The cost efficiency of the POX Hub is dependent on its full utilisation and delivery of third-party concentrate to fill its capacity in the short term and in the medium term on the construction of the Pioneer flotation plant and expansion of the Malomir flotation plant. In its longer term development strategy, the Group relies on discovering or acquiring further refractory gold mining assets to expand its own sources of concentrates. Failure to secure sufficient quantities of suitable concentrate may result in deterioration in the profitability of exploiting the Group's own refractory reserves.

The Group's POX Hub processing capacity currently exceeds the Group's ability to produce sufficient quantity of its own flotation concentrate. Currently the Group uses refractory concentrate produced at its Malomir flotation plant. This concentrate is transported from Malomir to the POX Hub a distance in excess of 1,300km, by road and rail. However, the quantity produced is insufficient to utilise 100 per cent. of the POX Hub's capacity when all four autoclaves are in operation and consequently the Company will need to rely on purchases of third-party refractory concentrate in order to reach full utilisation of the POX Hub.

In the short term, the Group will not be able to expand its own flotation plants production capacity and produce enough refractory concentrate to utilise 100 per cent. of the existing POX Hub capacity. The POX Hub cost efficiency is highly dependent on full utilisation, and until the Group expands its own flotation capacity is likely to need to continue relying on purchasing third party concentrate from Russian and CIS mining companies. The refractory gold bearing concentrate market in Russia and the CIS has a limited capacity and is highly competitive. The Group faces competition from other mining and metallurgical companies, including those located in China, who purchase concentrates and/or offer toll processing. The expansion of the Amursk refractory concentrate processing facility announced by Polymetal International (scheduled for completion in 2023) is likely to further increase competition in the concentrate processing market. Failure to secure sufficient quantities of suitable concentrate may result in a deterioration in profitability of the Group's refractory reserves exploitation business and lower than expected cash flow in relation to the POX Hub.

To utilise the additional capacity at the POX Hub, the Company has recently commenced the construction of a new flotation facility at Pioneer which is expected to add up to 110,000 tonnes per annum of additional concentrate to help fill the POX Hub from the fourth quarter of 2020. However, additional capacity is required to be constructed at the Malomir flotation plant and the Group may not be in a position to fund the capital amount required.

The Group competes with other mining companies in connection with the acquisition of properties producing or having potential to produce refractory concentrates in the long-term. Some of these companies may have significantly greater resources than those of the Group. Other companies may have a competitive advantage as a result of legislation which regulates foreign investment in the Russian Federation, if (for example) their ownership structure meets regulatory requirements which reduce the consents required for certain transactions.

Failure to secure sufficient quantities of suitable third-party concentrate, delays in the construction of the planned flotation facility at Pioneer or disruption of the transportation of concentrate from Malomir to Pokrovskiy due to adverse weather conditions or faults with the railway may affect the POX Hub's production rate and cash flow which could have a material adverse effect on the Group's business, results of operations and financial condition.

In addition, existing or future levels of competition in the mining industry could materially and adversely affect the Group's prospects for the acquisition of mining rights over potentially high-grade refractory reserves which could materially and adversely affect the Group's future growth.

The Group may not be able to finance its capital expenditure requirements in order to sustain and expand its operations or future planned capital expenditure in case of adverse changes of macroeconomic factors like gold price and Russian Rouble exchange rate.

Additional capital expenditure and ongoing infrastructure work is required at Pioneer, Malomir and Albyn in the short- and medium-term and delays or cost overruns in relation to this work could adversely affect the Group's business, results of operations, financial condition and prospects.

The Group's long-term strategy relies on the successful completion of the new flotation facility at Pioneer, expansion of the Malomir flotation plant and sustainable production from existing or future mining projects. The new Pioneer flotation facility requires an estimated US\$30 million over 12-14 months period starting in

June 2019. Once approved, the expansion of Malomir is expected to require a not less amount of funding, given the need to add milling facilities to support increased flotation throughput. The operational underground mines at Pioneer and Malomir required approximately US\$15.5 million of capital expenditure in 2017 and US\$14 million in 2018.

If the Group, through insufficient funding or otherwise, is unable to commission the flotation facilities and/or complete the development of the underground mining projects within the projected budget and timeframes, this may have an adverse impact on the Group's growth plans and its future profitability. This may result in postponing production related flotation.

To be in a position to make these capital expenditures, the Group will need to generate sufficient operating cash flow internally or to access the necessary funding externally, which it may seek to do through equity financing and/or from external borrowings (subject to any negative pledge, conversion price adjustment provisions and restrictions on indebtedness as may be applicable in the Bonds and the Existing Guaranteed Notes (as defined below) and in the Guarantees). However, no assurances can be given that the Group will be able to raise the funding required for such capital expenditure, on a secured basis or otherwise, on acceptable terms or at all. If the Group is unable to raise the necessary funding, it will have to reduce its capital expenditure. Any such reduction could materially and adversely affect the Group's ability to carry out future mineral exploration programmes and/or to appraise or develop any of its mineral resources. If the reductions are severe enough, the Group may not be able to commence or continue operations at one or more of its licensed territories.

The Group's ability to obtain outside funding will depend, in addition to the Group's financial position, in part upon the price of minerals (including gold, iron ore and related products) and the industry's perception of future minerals prices and other factors outside the Group's control. If the Group is unable to obtain any required funding in a timely manner, at a reasonable cost or on reasonable terms, it could be required to scale back, defer, curtail or abandon its operational plans, which could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group's financial position is materially dependent on the price at which it can sell its gold.

The Group's financial position is materially dependent on the price at which it sells its gold. Following the substantial drop in the gold price since 2011, the Group has been materially and adversely affected. The Gold PM Fix peaked at US\$1,895 per ounce in September 2011, but thereafter trended down to a low of US\$1,049 per ounce (a decrease of 45 per cent.) in December 2015. One explanation for the marked decrease is that as the impact of the 2007 financial crisis began to ease, some investors began to position themselves to take advantage of the impending economic recovery and thus rotated out of gold and into other assets.

Although current trends in gold price market are favourable for the Group, as the gold price has broken above a six-year high in June 2019 exceeding US\$ 1,400 per ounce, there can be no guarantee that the gold price will remain at these levels and any sustained period of low gold prices, or any sustained downward movement in the price for gold, would negatively affect the Group's profitability and cash flow as the majority of the Group's revenues and cash flows are derived from the sale of gold. Traditionally, the market price for gold has experienced volatility and has been affected by factors over which the Group has no control. These factors include, but are not limited to:

- a) global supply, both mine production and recycled supply;
- b) global demand levels, including industrial, jewellery and investment demand;
- c) speculative trading activity in gold and gold derived instruments;
- d) international or regional political, economic or military events / action and the expectations thereof;
- e) actual or expected purchases and sales of gold holdings by central banks or other large gold holders or dealers;
- f) the strength of the US Dollar (the currency in which gold prices are generally quoted) and of other currencies;
- g) inflation (and financial market expectations regarding the rate of inflation);

- h) interest rates (and financial market expectations of future interest rates);
- i) local and foreign government regulations, including tariffs and quotas;
- j) hedging activity by gold producers; and
- k) production and cost levels for gold in major gold-producing nations.

Should gold prices fall below and remain below the Group's cost of production for a sustained period, the Group may experience losses and may be forced to curtail or suspend some or all of its mining operations. In addition, the Group would also have to assess the economic impact of low gold prices on its ability to recover any losses it may incur during that period and on its ability to maintain adequate reserves.

In line with the Group's hedging policy, the Group has entered into forward sales contracts with Sberbank of Russia to implement a partial hedge against adverse changes in the gold price. Forward contracts to sell an aggregate of 130,000oz of gold at an average price of US\$1,281/oz were outstanding as at 30 June 2019. If the gold price is higher than the price at which the Group has contracted to sell under such contracts, the Group will not be able to obtain the benefit of such higher price in relation to the gold contracted to be sold under such contracts.

There is no certainty that the Group will in the future be able to enter into such contracts to the extent it wishes to do so, and in such event it would not have the benefit of the protection which it would get were such contracts to be entered into. The Group is subject to credit and performance risk in relation to the counterparties to these contracts.

The Group is dependent on production from its Key Mining Assets (as defined in Part 10 of this Prospectus) in order to generate revenue and cash flow.

The Group is dependent on production from its Key Mining Assets in order to generate revenue and cash flow. In 2018 and the first six months of 2019, a substantial portion of the Group's revenues and cash flows were derived from sales of gold mined from Pioneer, Malomir and Albyn with these mines providing all of the Group's revenues from mining operations in 2018 and the first six months of 2019. The Group expects that Pioneer, Malomir and Albyn will continue to provide a substantial portion of the Group's operating revenues and cash flows in at least the short to medium-term. Since March 2018, Pokrovskiy ceased to contribute to the Group's gold ore production and has been converted for use at the POX Hub.

The achievement of the Group's operational targets and ability to produce the expected amounts of gold will be subject to the completion of planned operational goals on time and according to budget and will be dependent on the effective support of the Group's personnel, systems, procedures and controls. Any failure of these or any adverse mining conditions at the mines may result in delays in the achievement of operational targets with a consequent material adverse effect on the business, results of operations, financial condition and prospects of the Group. Such material adverse effect could also impact the Company's ability to satisfy its debt obligations, including the Guarantee.

Production may be materially and adversely affected by grades of ore, stripping costs and other costs.

The Group's levels of production may also be materially and adversely affected by:

- a) the grades of ore which can be processed – unless gold prices are high, the mining of low grade ore may be uneconomical;
- b) stripping costs – in open-pit mining operations, removal of overburden and other waste materials is required to obtain access to the ore body. In the event that a large amount of overburden removal is required, this may result in production being uneconomical; and
- c) costs of production – the key drivers of production costs are labour, energy, fuel and consumables.

Any adverse changes in any of these drivers (or a combination of them) could have a material adverse effect on production. If costs of production increase, profitability and production capacity could be negatively affected, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. Such material adverse effects could also impact the Company's ability to satisfy its debt

obligations, including the Guarantee. In the past the Group has experienced issues with lower than expected grades in the ore mined from some of the satellite Malomir pits. As a result, the decision was taken to withdraw from the Malomirskiy Rudniy Uzel and Pogranichnaya licences which had a negative effect on mid-term non-refractory production at the Malomir mine.

The Group's mineral reserves and resources are estimates based on a range of assumptions and actual mineral resources could be less than current estimates. The Group's estimates of mine life may prove to be inaccurate.

The Group's mineral reserves and resources are estimates based on a range of assumptions, including the results of exploratory drilling, ongoing sampling of ore bodies, past experience with mining properties and the experience of the expert engaged to carry out the reserve estimates. Other uncertainties inherent in estimating reserves include subjective judgments and determinations based on available geological, technical, contractual and economic information. Some assumptions may be valid at the time of estimation but may change significantly when new information becomes available.

Because the ore reserve and resource estimates are calculated based on current estimates of production costs and product prices, they should not be interpreted as assurances of the economic life of deposits or the profitability of the Group's future operations. Descriptions of mineral resources in this Prospectus constitute estimates of the Group that comply with standard evaluation methods generally approved in the international mining industry and, where specified, are stated in conformity with the JORC Code. In respect of these estimates, there can be no assurance that the anticipated tonnages and grades will be achieved, that the indicated level of recovery will be realised or that mining and processing will be economically profitable. The actual mineral resources may not conform to geological, metallurgical or other expectations. A sustained decline in relevant market prices could render ore reserves and resources containing lower grades and/or mineralisation uneconomic to recover and ultimately require a restatement of reserves and resources. Increased production costs, reduced recovery rates and other factors, may also render exploitation of the Group's mineral resources uneconomical. These and other factors could mean that the Group's estimates of a mine life could be inaccurate.

The information provided in this Prospectus on the Group's mineral resources is not indicative of the Group's future production levels or results of operations. Furthermore, the estimates of different geologists and mining engineers may vary, and the results of the Group's mining and production subsequent to the date of an estimate may lead to revision of estimates.

Changes to any of the assumptions on which the Group's reserve and resource estimates are based could lead to the reported resources and reserves being restated. Changes in the reserves and resources could adversely impact the economic life of deposits and the profitability of the Group's operations. Further, mineral resources are based on limited sampling and, consequently, are uncertain as the samples may not be representative of the entire deposit and mineral resource. As a better understanding of the deposit is obtained, the estimates may change significantly. If the Group's actual mineral resources are less than current estimates or there is a failure of the reserves and resources to meet recovery expectations, it could have a material adverse effect on the Group's business, results of operations, financial condition and prospects, and consequently on the Company's ability to satisfy its debt obligations, including the Guarantee.

Exploration is highly speculative and involves commercial risks and if the Group fails to acquire or find and develop additional reserves, its reserves and production will decline, potentially materially from their current levels.

Exploration is highly speculative and involves numerous risks, including the risk that the Group will encounter no commercially exploitable reserves. These activities often require substantial expenditure to establish reserves through drilling and metallurgical and other testing, determine appropriate recovery processes to extract gold from the ore and construct or expand mining and processing facilities.

The Group's future growth and profitability will depend, in part, on its ability to identify and acquire additional mineral rights and/or properties containing reserves, and on the costs and results of its continued exploration and development programmes. In the absence of new discoveries the Group's reserves and production will decline as gold is produced. If the Group's total reserves and production decline, that would have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

If management determines that capitalised costs associated with any of the Group's mineral interests are not likely to be recovered, the Group would incur a write-down on its investment in that interest. All of these factors may result in losses in relation to amounts spent which are not recoverable. The Company carries out a regular review of its exploration assets.

In 2013, impairment of exploration and development assets contributed significantly to an overall loss of US\$713.2 million. An exceptional US\$62.2 million post tax impairment charge (a US\$63.6 million gross impairment charge net of reversal of associated deferred tax liabilities) was recorded against the Tokur asset. Further non-exceptional impairment charges of US\$31.4 million were recorded against associated exploration and evaluation costs previously capitalised within intangible assets, following the decision to suspend exploration at various licence areas, primarily located in the Amur region.

The impact of weather conditions including flooding events and severe cold may have a material adverse effect on the Group.

The Group's assets are located in the Russian Far East, which is an area that can be subject to severe climatic conditions. Severe weather conditions, such as cold temperatures in winter and torrential rain, which can cause flooding in the region, could have a material adverse effect on operations, including on the delivery of supplies, equipment and fuel, and exploration and production levels. For example, in July 2019, heavy rainfall caused controlled partial flooding on the lower sections of the Malomir underground mine. Water inflow was well managed with the excess water, which could not be pumped to surface, diverted for temporary storage away from the production areas of the mine. As a result, the lower section of the access and haulage decline was flooded for the period of approximately two weeks. At the time of the flooding this section of the mine was not at an active operation and therefore there were no material delays affecting current or future production. Should the mine plan require an active development in the flooded area, flooding could cause production delays of up to two weeks. In November 2016, severe cold weather (-40°C) followed a period of heavy rainfall leading to the swelling of ice and the fracturing of porous rocks. This interrupted operations at one of the Company's open pit mines while safety checks were conducted on the stability of the open pit, leading to delays in production but no loss of gold.

Liquidity risk.

The Group may need ongoing access to liquidity and funding in case of a sharp decrease in gold price or Russian Rouble depreciation in order to:

- a) substantially refinance or repay the Group's debts, including the coupon under the Bonds and Existing Guaranteed Notes as they fall due;
- b) support its existing operations and extend their life and capacity, requiring significant amounts of working capital;
- c) invest to develop its refractory ore concentrate production and underground mining projects and exploration; and
- d) Complete the construction of the POX Hub and the flotation plants at Malomir and Pioneer.

There is a risk that the Group may be unable to obtain necessary funding when required, or that such funding will only be available on unfavourable terms. The Group may therefore be unable to meet its business development objectives or financial commitments, which in turn could have a material adverse effect on the Group's business results of operations, financial conditions and prospects, and consequently the Company's ability to satisfy its debt obligations, including the Guarantee. For example, part of the proceeds from the issue of the Bonds will be used to commence the construction of the Pioneer flotation plant. The Pioneer flotation facility is expected to double the Group's refractory ore processing capacity and enable the Company to fully utilise the capacity of the POX Hub more, reducing reliance on the purchase of third party concentrate. If these funds had not been available from the Bond issue the Group may not have been able to accelerate the construction of the Pioneer flotation plant and the Group may have been unable to meet its business development objectives.

The Group operates potentially hazardous sites such as open-pits, underground mines, the POX Hub plant, exploration sites processing facilities and explosive storage facilities. The operation of these sites exposes its personnel to a variety of health and safety risks.

The Group's employees are one of its most valuable assets. The Group recognises that it has an obligation to protect the health of its employees and that they have the right to operate in a safe working environment. Certain of the Group's operations are carried out under potentially hazardous conditions. Group employees may become exposed to health and safety risks which may lead to the occurrence of work-related accidents and harm to the Group's employees. These could also result in production delays and financial loss.

Underground mining poses potential danger to those involved in the process if the underlying risks are not well managed. There are a number of hazards associated with underground mining activity, which may potentially result in accidents and possible fatalities. Possible risks include:

- a) cave-ins – gradual sinking of land, unsecured underground mineshaft walls and ceilings or appearance of cracks in the shaft floor and walls due to excessive excavation can all contribute to the risk of collapse in the mine structure;
- b) floods – ground water ingress or uncontrolled surface runoff followed by heavy rains can compromise the stability of pit walls, which can result in fatalities and damage to equipment;
- c) chemical leakage – if chemicals used for ore processing are not properly stored or safety procedures are not followed in full, hazardous dust and fumes can cause long-term damage to employee health;
- d) electrocution – the use of heavy electrical machinery in damp conditions can pose a threat of electrocution, whilst worn plugs and cables can potentially trigger explosions and fires; and
- e) fire – an underground fire outbreak can be particularly dangerous due to the confined nature of excavations, the potential volumes of smoke and noxious fumes produced and the restricted ability to evacuate quickly from the mine.

The failure to keep these risks under control may lead to the occurrence of work-related accidents and harm to the Group's employees and the employees of the Group's subcontractors, and, therefore, affect the Group's operations. If there are any delays in the development of the underground operations, this could affect production going forward and could have a material adverse effect on the financial performance of those operations.

Interruptions to supply of services and equipment may have a material adverse effect on operations.

The Group relies on the supply and availability of various services and equipment in order to successfully run its operations. For example, timely delivery of mining equipment and jaw crushers and their availability is essential to the Group's ability to extract ore from its assets and to crush the mined ore prior to production. Unscheduled interruptions in the Group's operations due to mechanical or other failures, or problems or issues with the supply of goods or services may occur, resulting in significant delays to production and could have a material adverse effect on the financial performance of those operations.

In 2010 at Pioneer, mining capacity suffered due to a delay in the delivery of key 15m³ excavator equipment and adverse weather. The three delayed excavators translated into a lower volume of stripping work, temporarily delaying the Group's ability to access higher grade ore. The consequent processing of lower grade ore resulted in a production shortfall against the initial gold production target for 2010.

Maintenance and repair works can have a material impact on financial results.

The Group's assets are subject to ongoing maintenance and repair costs which are allocated to results during the period in which they are incurred. The need for maintenance and repair, particularly on older assets, can have a material impact on financial results both because maintenance and repairs can be costly and because the work can interrupt mining and production processes and cause losses and delays. If this occurs, it could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

With successful commissioning of the POX Hub, the Group now operates a highly complex state-of-the-art processing facility. Maintenance of such a facility requires services from highly trained and skilled contractors which may be time consuming and costly. As a result this may affect Group production and financial position.

The Group's tailings dams are aging and may require unscheduled repair and maintenance work to ensure their stability. This may be a costly exercise which could negatively affect the Group's financial results, and consequently the Company's ability to satisfy its debt obligations, including the Guarantee.

The Group is subject to environmental risks and issues arising from compliance with environmental regulations and permitting requirements.

The Group's operations are subject to the extensive environmental risks inherent in the mining and processing industry. Although the Group believes that the Company and its relevant subsidiaries are in compliance in all material respects with applicable environmental laws and regulations and hold all necessary approvals, licences and permits under those laws and regulations, there are certain risks inherent in their activities, such as risks of accidental spills, leakages or other unforeseen circumstances, that could subject the Group to considerable liability or the loss of necessary approvals, licences or permits. In addition, the Group is subject to checks, including spot checks, regular inspections and reporting requirements by various regulators including the Russian environmental regulator, the Federal Service for Supervision of Use of Natural Resources ("Rosprirodnadzor"). During the conduct of its operations, the Group must comply with the maximum acceptable concentrations, determined by state authorities, for air quality, water quality, soils and sediments. Rosprirodnadzor may make announcements relating to such investigations when they are at a preliminary stage and in advance of any findings. The activity of the Group is also subject to regular inspections in respect of industrial safety, including with respect to the exploitation of various hazardous industrial objects which are required for extraction of minerals, processing and production of gold. During the exploitation of hazardous industrial objects, the Group is required to comply with a significant number of established technical and regulatory requirements relating to mining operations. In the event that any issues are identified during such inspections conducted by state authorities, this could have a material adverse effect on the Group's business, results of operations, financial condition and prospects from penalties up to suspensions of operations.

Environmental legislation and permitting requirements and the manner in which these are enforced are likely to evolve in a manner which will require higher and more demanding standards and stricter enforcement, as well as increased fines and penalties for non-compliance. However, the Group is unable to predict the extent and effect of additional environmental laws and regulations which may be adopted in the future, including whether any such laws or regulations would materially increase the Group's cost of doing business or affect its operations in any area.

Some obligations relating to industrial safety are fulfilled by the Group's contractors who perform some operations envisaged by the Group's subsoil licences. Any breaches of these requirements by such contractors, over which the Group may have limited control, or by the Group's own personnel, may negatively affect the licence holders and the status of their respective licences.

The Group may incur costs related to environmental compliance and rehabilitation above and beyond expectations.

The Group accrues estimated rehabilitation costs over the operating life of a mine with an aggregate provision for close down and restoration costs for its Key Mining Assets of US\$21.4 million as at 31 December 2018. Estimates of rehabilitation costs are subject to revision as a result of future changes in regulations and cost estimates. The costs associated with complying with laws and government regulations may ultimately have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Mine construction work can involve considerable cost and raises a range of environmental issues. Costs associated with rehabilitating areas which have been mined or disturbed and addressing environmental, health and community issues upon closure of operations are estimated and provided for based on the most current information available. Estimates may, however, be insufficient and/or further issues may be identified. Any underestimated or unidentified costs associated with the construction and operation of the Group's mines, including unforeseen closing costs, may reduce earnings and could have a material adverse

effect on the Group's business, results of operations, financial condition and prospects, and consequently on the Company's ability to satisfy its debt obligations, including the Guarantee.

The Group requires various licences and permits in order to operate.

The Group's principal activity is the mining of precious metals which requires the Group to hold licences that permit it to explore and mine in particular areas in the Russian Federation. The licensing regime in the Russian Federation for the exploration and production of minerals is governed primarily by the Subsoil Law and regulations promulgated thereunder and the Federal Law No.41-FZ dated 26 March 1998 "Precious Metals and Precious Stones" (as amended), and the Group's licences are regulated by the Federal Agency on the Use of Natural Resources ("**Rosnedra**") and its territorial departments.

In order to obtain and maintain its required licences and permits, the Group must satisfy a variety of obligations. For example, Russian law and the licences held by the Group generally provide that they may be revoked if the relevant licence holder: (i) fails to comply with any material terms of the licences and/or the project documentation, such as minimum work commitments or completing work to be carried out by specified milestones; (ii) systematically breaches the established rules of subsoil use; (iii) does not make timely payments of levies and taxes for the use of the subsoil; (iv) fails to provide geological data and information on the results of geological-exploration works; (v) goes bankrupt or is liquidated; or (vi) fails to fulfil or is unable to fulfil annual output levels.

Additionally, regulatory authorities in the Russian Federation exercise considerable discretion in the monitoring of a holder's compliance with the terms of a licence or permit, which may result in additional requirements being imposed. Consequently, the Group may from time to time not be able to comply with all of the requirements of one or more of its licences or permits. If the Group fails to fulfil the terms of any of its licences or permits or to make timely payments or if the Group operates in the licence areas in a manner that violates Russian law, regulators may impose fines on the Group or suspend or withdraw or fail to renew its licences, any of which could have a material adverse effect on the business, results of operations and financial condition of the Group.

The Group's licences are granted for a defined period as specified in the terms of the relevant licence. Currently, the Subsoil Law does not provide for an automatic extension of a mining licence to its current holder, but allows the current holder to apply to the licensing authority for the extension of an existing licence, provided that it has complied with the terms and conditions of that licence. The subsoil user's application for the extension of a licence must be supported by the applicable technical information and documentation. In the event that a subsoil user breaches the terms and conditions of a licence or is unable to provide the licensing authorities with the required technical documentation, there is a risk that the licences will not be extended.

In addition, various government regulations require the Group to obtain permits to implement new projects, to commence certain operations, to renew existing permits or to have existing permits reviewed in order to continue existing projects. Certain of the Group's activities are also subject to other requirements, such as the approval of an environmental and social impact assessment by the relevant state environmental experts or consultation with local communities and other indigenous population associations.

The failure to obtain, delay in obtaining, breach of the terms or non-renewal of a key licence or material permit may cause the Group to discontinue certain operations and the imposition of additional conditions may cause the Group to incur additional compliance costs, either of which could have a material adverse effect on the business, results of operations, financial condition and prospects of the Group.

The Group must obtain access rights to mining tenements, Land Rights and third-party rights.

In addition, there may be cases where the Group requires rights in addition to its mining licences to access or to exploit future mining projects, such as permits to use water objects or linear objects (for example, electricity lines), servitude rights and construction permissions.

In accordance with Russian legislation and terms commonly included in licence terms and conditions, a licence holder is obliged to obtain Land Rights (i.e. the rights to access or to exploit mining projects) to the part of the licences areas where certain subsoil operations are carried out and is obliged to enter into lease agreements in respect of those areas. Depending on the purpose of use of the land, the terms of lease agreements may vary.

Land plot lease agreements concluded for more than one year must also be registered with the authorised Russian state authority to be enforceable. If Land Rights are not obtained, fines can be imposed on licence holders. Furthermore, failure to have Land Rights means an absence of sufficient legal grounds for the use and mining of the licence area. This may constitute a breach of terms and in a worst-case scenario may result in the early termination of the relevant subsoil licence.

Obtaining the required Land Rights can be a long and bureaucratic process for licence holders for reasons beyond their control. The Group may not always have the required Land Rights at the time of commencing the mining operations or for periods of time where agreements in relation to Land Rights expire. A failure to obtain Land Rights and any resulting blocking access to the surface within respective licence areas or fines could have a material adverse effect on the Group's business operations or results of operations. Such material adverse effects could also impact the Company's ability to satisfy its debt obligations, including the Guarantee.

Exchange rate fluctuations

The Company reports its results in US Dollars, which is the currency in which gold is principally traded and therefore in which most of the Group's revenues are generated. Significant costs are incurred in and/or influenced by the local currencies in which the Group operates, principally Russian Roubles. An appreciation of the Russian Rouble against the US Dollar tends to result in an increase in the Group's costs whereas the depreciation of the Russian Rouble against the US Dollar tends to have the opposite effect.

In addition:

- a) A portion of the Group corporate overhead is denominated in pounds sterling. Therefore, adverse exchange rate movements may materially affect the Group's financial condition and results of operations.
- b) If inflation in Russia were to increase without a corresponding devaluation of the Russian Rouble relative to the US Dollar, the Group's business, results of operations and financial condition may be adversely affected.

The Group may be party to litigation in relation to its business and operations.

Legal proceedings may arise from time to time in the course of the Group's business. The Group cannot prevent proceedings being brought against the Group. There have been occasions in the Russian Federation where litigation has been used as a means of creating difficulties for companies operating in the natural resources sector, including by environmental activists and persons with competing business interests. In the event that the Group becomes involved in any significant litigation proceedings, this could have a material adverse effect on the Group's business, results of operations, financial condition and prospects, and consequently on the Company's ability to satisfy its debt obligations, including the Guarantee.

Labour disputes and disruptions could affect the Group.

The Group is at risk of having its mining and exploration operations stopped for indefinite periods due to strikes and other labour disputes. Should any labour disruptions occur, the Group's business, results of operations, financial condition and prospects could be materially and adversely affected.

A substantial number of employees of the Group's subsidiary, Pokrovskiy Rudnik, are members of trade unions. Employees of Irgiredmet are members of an initial trade union organisation of the Mining and Metallurgical Trade Union of Russia. Employees of other Group's subsidiaries are not unionised. There are collective bargaining agreements between some of the Group's subsidiaries and their employees: between Pokrovsky Rudnik and its employees, Albynskiy Rudnik and its employees, Malomirskiy Rudnik and its employees (all valid from November 2016 until November 2019) and Irgiredmet and its employees (valid from January 2017 until December 2019). The collective bargaining agreements at Pokrovskiy Rudnik and Irgiredmet have been recently extended until 2021 and submitted to the employees. It is expected that the collective bargaining agreements at Albynskiy Rudnik and Maromirskiy Rudnik will also be extended later this year.

Any potential work stoppages, strikes, disputes with employee unions or other labour-related developments or disputes, including any such stoppages in connection with the renegotiations of collective bargaining agreements, could result in a decrease of the Group's production levels and adverse publicity and/or increase in

costs, which could have a material adverse effect on the business, results of operations, financial condition and future prospects of the Group.

The Group relies on subcontractors who may not complete their operations.

Some operations are undertaken by the Group's contractors. The Group may not be able to monitor adequately whether its contractors are in full compliance with all applicable environmental, industrial, health and safety and licensing requirements, or obtain complete information about such contractors' actual operations. If any of the Group's key contractors terminates or is unable to perform its obligations, the Group may find it difficult or time-consuming to replace that contractor with an equally qualified contractor. As a result, the Group's operations may be materially adversely affected.

The Group's insurance may be inadequate.

The Group's insurance coverage may prove inadequate to satisfy future claims against the Group or to protect the Group against natural disasters or operational catastrophes.

The exploration for and production of metals and minerals including gold is hazardous. Natural disasters, operator error or other occurrences can result in spills of hazardous chemicals, explosions, leakage, leaching, cratering, fires and equipment failure, which can injure or kill people, damage or destroy pits, mines or equipment and production facilities, and damage property and the environment. Operations are subject to governmental regulations as well as interruptions or termination by governmental authorities based on environmental and other considerations.

The Group, as a participant in exploration and mining programmes, may become subject to liability for hazards that cannot be insured against, which could exceed policy limits or against which it may elect not to be so insured because of high premium costs. The Group may incur a liability to third parties in excess of any insurance cover arising from pollution or other damage or injury.

The insurance industry in the Russian Federation is in a relatively early stage of development and, accordingly, the available cover is relatively limited. Many forms of insurance designed to protect against hazards, common in other parts of the world, may not be available in respect of some of the risks faced by the Group.

The Group does not have full coverage for all of its plants and facilities, for business interruption, for third-party liability in respect of property, and for environmental damage arising from accidents on its property or relating to its operations. The Group also does not hold any title insurance for its properties. Until the Group is able, or decides, to obtain more comprehensive insurance coverage, there is a risk that losses and liabilities arising from adverse events such as losses arising from an environmental incident or an incident which prevents production at one of the Group's mines, e.g. a fire, a flood or an explosion at the POX Hub, the commercial loss of which is either not covered at all or otherwise not adequately covered by the Group's insurance arrangements, could significantly increase its costs and have a material adverse effect on (i) the Group's ability to continue its operations at one or more of its mines and/or at the POX Hub, or (ii) on the Group's business, results of operations, financial condition and prospects, and consequently on the Company's ability to satisfy its debt obligations, including the Guarantee.

The interests of Shareholders and Bondholders may not be aligned.

The interests of the existing holders of Ordinary Shares ("Shareholders") may not in all cases be aligned with the interests of Bondholders, particularly if the Group is in financial difficulties. Shareholders may have an interest in causing the Board to declare dividends, incur additional indebtedness or pursue acquisitions, divestitures, financings or other transactions that, in their judgement, could enhance their equity investment, even though such transactions might involve risks to Bondholders.

Shareholders may sell their shares and different Shareholders may perceive their interests differently. Accordingly, Shareholders may change their approach to the same set of circumstances over time in a way detrimental to Bondholders.

Shareholder votes can result in changes to the Board.

The Company has applied a policy requiring Directors to resign and re-submit themselves for re-election at each Annual General Meeting - this is now a requirement of the UK Corporate Governance Code published in July 2018. Shareholder votes, whether exercised at an Annual General Meeting or on any other resolution relating to the appointment or removal of a Director, could result in changes to the Board. This occurred at both the Company's June 2017 and June 2018 Annual General Meeting. In 2017 this resulted in a majority of the Board changing with the re-election of the Executive Chairman, three non-executive directors being opposed, and four new directors being appointed to the Board after having been proposed by the Company's largest Shareholders. In 2018, this resulted in a complete change of the Board, with the re-election of all of the directors being opposed and the appointment of three new directors proposed by two of the Company's major Shareholders. This included the appointment of Dr Pavel Maslovskiy, the Chief Executive Officer and one of the Company's founders. Any such future changes could in turn result in changes to the way in which the Group is managed and its strategy, which could affect its ability to generate returns to Shareholders and to make payments to the Bondholders and holders of the Group's Existing Guaranteed Notes, which could have a material adverse impact on the Group, its financial conditions and its prospects. Although there was no particular change in strategy, the change of the Board in 2017 resulted in a delay in the commissioning of the POX Hub and the failure of the Board to secure a repayment schedule with IRC and ICBC, deeming it appropriate for the Company to provide a bridge loan to IRC during a period of financial difficulty in H1 2018. These matters were rectified following the change of Board at the 2018 AGM.

Adverse publicity from consumer and environmental groups may damage the Group's business or reputation.

There is an increasing level of public awareness relating to the effect of mining production on communities and the environment. Consumer groups exist to encourage participants in the mining industry to employ practices which minimise any adverse impact that mining may have on communities, workers and the environment. Whilst the Group seeks to operate in a socially responsible manner, adverse publicity generated by such consumer groups which relates either to the gold mining industry as a whole, or to the Group in particular, could have a material adverse effect on the reputation and financial position of the Group and/or its treatment by the State and regional authorities.

The Group maintains an ongoing dialogue with local communities to ensure they are actively engaged in the Group's development plans. Local issues are addressed through public consultation. The Group continues to monitor circumstances in line with the commitment to maintain good relationships with local authorities and communities.

The Group takes a responsible approach to operations in areas inhabited by the Evenki people, an indigenous community of the Amur region, actively seeking their support for operations, continually assessing potential risks and contributing to community development. The Company notes the accusations in relation to Mr Sergey Nikiforov, former head of the Evenki village, in particular the accusation that he was sentenced to 4 years in prison in connection with a protest movement he led against the Group and its developments. This case was in no way linked to the Group and the Company has responded publicly to media accusations that suggested otherwise. The Company continues to manage its relationship with the Evenki community for the benefit of all parties involved.

In June 2017, independent consultants travelled to the Amur region to further assess current relations and ways these might be improved. As part of their conclusions, they recommended that the Group should enhance its stakeholder engagement efforts, and suggested corrective steps the Company should take. The Company is developing a detailed plan as to how it will implement this guidance to better facilitate a positive relationship with local communities and non-governmental organisations ("NGOs"). However, whilst these actions might mitigate impacts to the community and risks to the project to an extent, it does not mean risks are eliminated fully. The Company continues to monitor the situation and will adopt community engagement policies and procedures in line with international best practice, such as the International Finance Corporations Performance Standards, including Performance Standard 7 on the rights of indigenous peoples.

Risks relating to the Russian Federation and operating in the Russian Federation

The Group is subject to risks associated with operating in Russia and in particular the possibility of sanctions being extended by the United States and/or the European Union.

Both the United States and the European Union have imposed sanctions on a number of Russian individuals and companies. Whilst such sanctions have not had a direct impact on the Company or the Group's business, if political tensions between Russia and the United States and/or the European Union escalate, further sanctions could be imposed that affect the Group's ability to deal with certain persons or the Russian economy.

Whilst no entity within the Group has been designated by either the U.S. or the EU as a specific target of their respective sanctions imposed to date, no assurance can be given that any of those persons or entities will not be so designated in the future, or broader sanctions against the Russian Federation that affect the Group, may not be imposed. Moreover, although no entity within the Group is a U.S. person, some Group entities, as well as the Company, are currently EU persons and are therefore required to currently comply with EU sanctions, including not conducting business with any persons subject to EU sanctions. In the ordinary course of business, the Group, like many companies with operations in Russia, has commercial operations with Russian persons and entities (such as Gazprombank) that are currently under "sectoral" sanctions. The Directors have been advised that such operations do not currently breach any existing EU sanctions and although the Group's transactions and commercial relations with these entities are not currently prohibited or otherwise negatively affected by the sanctions, should the sanctions regime in respect of these entities be widened or should new sanctions be introduced to which major suppliers or counterparties of the Group are subject, the Group's business could be materially adversely affected.

The Company's Shares and Existing Guaranteed Notes are publicly traded. Consequently, the ultimate beneficial owner of the Group's financial securities could be a legal entity or private wealth client who is or may be on a U.S. or EU sanctions list. If such an individual were to acquire a large Shareholding in the Company or own a significant amount of the Existing Guaranteed Notes this could potentially impact on the Company's ability to enter into new arrangements with third parties, including with advisers and it could potentially impact on existing third party arrangements, or on the Group's ability to refinance, or the Company's ability to raise additional equity if it should decide to do so. This could have a detrimental effect on the Group, its operations and its financial condition. If such Shareholder(s) were forced to sell their Shares or Existing Guaranteed Notes as a result of sanctions this could result in downward pressure on the price of the Company's Shares or Existing Guaranteed Notes.

If sanctions are expanded to a broader segment of the Russian economy such that the Company becomes subject to U.S. or EU sanctions, this will have a material adverse impact on the Group's business as it could restrict it from accessing Western capital markets and/or acquiring certain U.S. or EU manufactured equipment, which could cause difficulties in the implementation of investment projects and securing supplies of imported equipment. For example, the Group might become unable to deal with persons or entities bound by the relevant sanctions, including international financial institutions and rating agencies, transact in U.S. Dollars, raise funds from international capital markets or acquire equipment from international suppliers.

In particular, if, as a result of such sanctions being imposed on the Company or K&S, it becomes illegal for the Company or K&S (as appropriate) to maintain or perform their obligations opposite their counterparts under the Finance Documents (as defined in the Facility Agreements) or it becomes reasonably likely that Gazprombank will itself become a target of sanctions if it maintains its relationship with the Company or K&S (as appropriate), then this would trigger a Springing Recourse Event (as defined in Material Contracts section) and bring forward the commencement date of Fixed Term Guarantee B, Fixed Term Guarantee C and Fixed Term Guarantee D. (as defined in the Material Contracts section). The acceleration of the commencement date of these Fixed Term Guarantees would increase the liability of the Company and could cause a breach of the terms of the Existing Notes and the Bonds. In this instance the noteholders and bondholders would, subject to certain conditions, have the right to call on the Existing Notes and the Bonds and demand immediate repayment from the Company. Accordingly, sanctions placed against the Company and/or K&S which trigger the Springing Recourse Events would have a material adverse effect on the Company's business, results of operations, financial condition and prospects.

The Group is adopting measures designed to ensure compliance with the extraterritorial effect of the U.S. and EU sanctions regime in respect of Russia. The Facility Agreements and Guarantees contain mechanisms for ‘alternative currencies’ and ‘alternative payees’ to help avoid the potential effect of sanctions in preventing parties from being able to make payments under the respective agreements. The Group would consider including similar provisions in their future commercial agreements, however, would need to assess the risk of sanctions being relevant on a case by case basis to determine if such provisions would be appropriate.

The Group may be subject to risks that may arise from the current political instability between the Russian Federation and the West concerning Ukraine.

The political and economic turmoil witnessed in the region, including the developments in Ukraine have had and may continue to have a negative impact on the Russian economy. The Group has no assets or operations in Ukraine, however, the European Union and the United States have imposed targeted sanctions on a number of Russian individuals and companies. This has included sectoral sanctions on a number of large Russian state-owned banks (including Gazprombank and Sberbank, affiliates of which, have entered into derivative transactions and prepay contracts with the Group and are currently the main purchasers of the gold produced by the Group). The U.S. executive order implementing sectoral sanctions also permits sanctions to be applied against companies in the metals and mining sectors, although such sanctions are not currently in effect against any Russian metals and mining companies. As the Group’s production assets are located in the Russian Federation, if the sectoral sanctions were to be expanded to the companies in the metals and mining sector, this could cause difficulties for the Group in the implementation of investment projects, securing supplies of imported equipment and raising funds on EU and U.S. markets.

The current sanctions regime is a result of multiple extensions by the United States and the EU in the term and scope of sanctions, the most recent of which were taken in December 2017 (in the case of EU sanctions) and August 2017 (in the case of U.S. sanctions). As a countermeasure to the Western sanctions, Russia imposed its own sanctions banning the importation of a range of agricultural products and foods originating from the United States, the EU, Canada, Australia, Norway, Ukraine, Albania, Montenegro, Iceland and Liechtenstein and significantly reduced the U.S. diplomatic presence in Russia.

On 18 April 2019 a Report on the investigation into Russian interference in the 2016 President election prepared by the Special Counsel Robert S. Mueller (the “Mueller Report”) was released by the U.S. Department of Justice. The Mueller Report established multiple links between members of the Trump campaign and individuals tied to the Russian government. However, the Mueller Report concluded that there was insufficient evidence to substantiate the allegation that the campaign “coordinated or conspired with the Russian government in its election”. Despite the fact, that the Mueller Report did not result in the imposition of further sanctions on the Russian Federation, there is a risk, although assessed as low, that in the future the U.S. House of Representatives may decide to impose further sanctions which potentially could negatively affect the business of the Group. No individual or entity within the Group has been designated by either the U.S. or the EU as a specific target of their respective sanctions imposed in connection with the Ukrainian crisis. However, no assurance can be given that any of those persons or entities will not be so designated in the future, or broader sanctions against the Russian Federation that affect the Group, may not be imposed. In the ordinary course of business, the Group, like many major Russian companies, has commercial operations with Russian persons and entities (such as, Sberbank and Gazprombank) that are currently either under “sectoral” sanctions or included in the Specially Designated Nationals and Blocked Persons List. Such operations are permissible pursuant to applicable law. Although the Group’s transactions and commercial relations with these entities are not prohibited or otherwise negatively affected by the sanctions, should the sanctions regime in respect of these entities be widened or should new sanctions be introduced the Group’s business could be adversely affected.

The sanctions imposed by the U.S. and the EU in connection with the Ukraine crisis so far have had an adverse effect on the Russian economy, to which the Group is exposed significantly, prompting revisions to the credit ratings of the Russian Federation and a number of major Russian companies that are ultimately controlled by the Russian Federation, causing extensive capital outflows from the Russian Federation and impairing the ability of Russian issuers to access international capital markets.

The situation is volatile, with further sanctions and actions being considered by all parties. Were full-fledged hostilities to break out between Ukraine and the Russian Federation, it would likely cause significant economic

disruption. Even the current level of ongoing civil insurrection in eastern Ukraine, if no resolution is forthcoming and the Russian Federation is continued to be perceived as acting inimically, may lead to further strengthening and broadening of sanctions by the West against Russian persons and business enterprises.

Although the Group has no reason to believe that it may be specifically targeted by the U.S. or EU sanctions, if the Group becomes subject to U.S. or EU sanctions, either as a result of the above or through the targeting of a broader segment of the Russian economy, such sanctions will likely have a material adverse impact on the Group's business. In these circumstances, the Company may be unable to effect payments to discharge any of its obligations under the Bonds. Moreover, investors in the Bonds may be restricted in their ability to sell, transfer or otherwise deal in or receive interest payments with respect to the Bonds because the investor is subject to the jurisdiction of an applicable sanctions regime, which could make such Bonds partially or completely illiquid and have a material adverse effect on their market value.

Potential holders of the Bonds may be deterred from buying the Bonds for the same reason. All of the above could have a material adverse impact on the Group's business, financial condition, results of operations or prospects, and consequently on the Company's ability to satisfy its debt obligations, including the Guarantee.

The Group may experience risks relating to the Russian legal system and Russian legislation.

The Group's assets are located in the Russian Federation. The country is still developing the legal framework typically required by a market economy. Several fundamental Russian laws have only recently become effective. The implementation of much of the Russian Federation's legislation and the rapid evolution of the Russian legal system place the enforceability and underlying constitutionality of some laws in doubt and result in ambiguities, inconsistencies and anomalies and many new laws remain untested.

In addition, Russian legislation often leaves substantial gaps in the regulatory infrastructure and delays may occur in the production of necessary ancillary or subordinate legislation.

The risks of the current Russian legal system include:

- a) certain legislation at times overlapping and contradicting one another;
- b) lack of independence in the judicial system;
- c) limited judicial and administrative guidance on interpreting Russian legislation;
- d) difficulties in enforcing court judgments and arbitral awards under the 1958 Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**") (arbitral awards under this convention, while enforceable in the Russian Federation, can be subjected to procedural delays and re-examination of the subject matter);
- e) substantial gaps in the regulatory structure due to delay or absence of implementing legislation;
- f) corruption laws and bankruptcy procedures that are insufficiently developed and subject to abuse;
- g) limited public availability of many court decisions;
- h) the relative inexperience of judges in interpreting new Russian business legislation, particularly relating to capital markets, companies, corporate governance and investor protection; and
- i) a high degree of discretion on the part of governmental authorities.

All of these weaknesses could affect the Group's ability to enforce its rights under licences, contracts or statutes, or to defend itself against claims by others which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Facility Agreements are governed by Russian law and are subject to the risks of the Russian legal system.

The following weaknesses in the Russian judicial legal system and Russian legislation could create uncertainty as to how the Facility Agreements will be interpreted in the courts:

- (a) lack of independence in the judicial system;
- (b) limited judicial and administrative guidance on interpreting Russian legislation;
- (c) conflicting views and judgments as regards the interpretation of and the effect of Russian law in a number of key areas which affect investment in the Russian Federation;
- (d) the relative inexperience of judges in interpreting new Russian business legislation, particularly relating to capital markets, companies, corporate governance and investor protection; and
- (e) the difficulty in enforcing court judgments in practice.

All of these weaknesses could affect how the Facility Agreements are interpreted in the Russian courts in the event of a dispute. If the Russian courts consider that K&S has breached the terms of the Facility Agreements, Gazprombank is entitled to demand (subject to any applicable grace periods) the full amount under the Facility Agreements. If K&S or IRC are unable to make the relevant payment, the Guarantees may be called upon by Gazprombank.

An event of default under the Facility Agreements and call under the Guarantees could result in cross-defaults and/or cross-accelerations under the Bonds and Existing Guaranteed Notes, which could result in the bondholders demanding immediate repayment. An event of default under the Facility Agreements could also result in the termination and close out of the Group's hedging arrangements. This could therefore result in a significant proportion of the Group's borrowings becoming repayable immediately. If this were to happen the Company could, in the absence of securing alternative funding and/or substantial proceeds from the realisation of assets, become unable to repay its debts and/or maintain its investment programme and licences.

In addition, the weaknesses in the Russian legal system could affect the ability of the Company to defend itself against claims by Gazprombank in the event that the Company is called as a guarantor under the Guarantees.

These events may therefore have a material adverse effect on the Company's business, results of operations, financial condition and prospects, and consequently on the Company's ability to satisfy its debt obligations, including the Guarantee.

Russian foreign investment legislation may affect transactions by, and investments in, the Group.

In May 2008, the Strategic Asset Laws were introduced in the Russian Federation regulating foreign investments into strategic sectors of the Russian economy, including the Federal Law No. 57-FZ.

Federal Law No. 57-FZ imposes on a foreign investor a requirement to obtain Strategic Approval before entering into a transaction (including transactions entered into on a stock exchange) as a result of which such investor acquires "control" (as defined in the Federal Law No. 57-FZ) over the Russian companies that have strategic importance for securing the national defence and security in Russia ("**Strategic Entity**"). Such approvals are issued by a special commission – the Foreign Investments Supervision Commission and are subject to determination by the Ministry of Defence of Russia and the Federal Security Service of Russia that the acquisition of control does not threaten the national defence and security of the Russian Federation.

Additionally, the approval may be subject to the fulfilment of certain conditions by the foreign investor, including, among others, implementing the Strategic Entity's business plan, ensuring the employment of certain number of personnel. If "control" is acquired without the pre- or post-, as applicable, approval of the Foreign Investments Supervision Commission, the regulator may attempt through a Russian court to block voting of that interest in the subsidiary that has been designated as a Strategic Entity.

At present, three of the Group's assets, Pioneer, Malomir and Elginskoye are classified as Strategic Deposits. Pokrovskiy Rudnik, Malomirskiy Rudnik and Temi, as the companies holding the respective subsoil licences in relation to the Pioneer, Malomir and Elginskoye ore fields, are therefore considered to be Strategic

Entities. Pioneer produced approximately 32 per cent. of the Group's total annual gold production in 2018 and Malomir produced approximately 18 per cent. of the Group's total annual gold production in 2018. In addition, if the requirements of the Strategic Asset Laws are met in relation to other Group assets, through new discoveries or otherwise, the Russian Group companies holding subsoil licences in relation to such assets would also become Strategic Entities.

As three of the Group's assets are currently designated as Strategic Deposits, the Group's ability to dispose of interests in certain Group companies, to effect a group reorganisation or to raise equity or debt finance (with the provision of security) must take account of the Strategic Asset Laws and the constraints contained in such legislation.

Furthermore, the Group may be materially and adversely affected by the actions of the Russian authorities (including granting the Strategic Approval or a refusal to grant the Strategic Approval or inconsistencies between the Strategic Approvals sought and the Strategic Approvals granted) or by delays in procedures which have to be followed under the Strategic Asset Laws.

In view of the aforesaid, there is a risk that transactions between Shareholders of the Company (or members of their groups of persons) with respect to the affairs of the Group and/or between Group companies might be affected if such transactions required or will require Strategic Approval and such approval was not or will not have been obtained in accordance with the Federal Law No. 57-FZ, which, in turn, could, depending on the transaction concerned, have a material adverse effect on the Group's business, results of operations and financial condition, and consequently on the Company's ability to satisfy its debt obligations, including the Guarantee.

Russian foreign investment legislation may also impact the exploration and development of new or existing projects of the Group.

The Subsoil Law permits the Russian Government to prevent the detailed exploration and production of a Strategic Deposit on the grounds that such detailed exploration and production is a threat to state security. Under the Subsoil Law, the Russian Government has the following powers in respect of licences granted in relation to Strategic Deposits:

- (a) the power to terminate a mineral licence which is classified as a "combined licence" after a discovery of a strategic deposit has been made; and
- (b) the power to refuse to issue a "production" or "detailed exploration and production" licence to the holder of an exploration (prospecting) only licence.

The Subsoil Law also envisages that the detailed exploration and production stage within the Strategic Deposit can be carried out by a subsoil user controlled by foreign investors concurrently with the search and assessment stage on the basis of a decision of the Russian Government confirming the right of such subsoil user to carry out detailed exploration and production on the relevant deposit.

The provisions of the Subsoil Law outlined above in respect of Strategic Deposits only apply to such deposits discovered after 7 May 2008, when the relevant amendment to the Subsoil Law was enacted. They do not apply to Strategic Deposits where exploration was completed and detailed exploration and development of such deposits began before that date.

The way in which the restrictions envisaged by the Subsoil Law could be applied to other licences of the Group depends on (i) the specific stage of development of works under the licences; and (ii) whether it is expected that a deposit will be discovered. If a deposit contains 50 tonnes (or more) of hard rock (vein) gold reserves, copper reserves of 500,000 tonnes (or more) or deposits of any Strategic Commodities (as defined in Part 17 "*Definitions and Glossary*" of this Prospectus) with approved reserves irrespective of the quantity, the above mentioned provisions would apply. If the Russian Government exercises its powers under the Subsoil Law which are described above, the subsoil user would have no right to carry out further work at the relevant deposit and the subsoil user could seek limited compensation, which would typically be calculated by reference to the costs incurred by the licence holder at the deposit.

If a licence of the Group was granted in violation of the Russian law, there is a risk that such licence may be terminated and possibly without any compensation. If any of the Group's mineral licences were to be

terminated, this could have a material adverse effect on the Group's business, results of operations, financial condition and prospects, and consequently on the Company's ability to satisfy its debt obligations, including the Guarantee.

Potential political or social conflict could create an uncertain operating environment hindering the Group's long-term planning ability and could have a material adverse effect on the value of investments in the Russian Federation, including the trading price of the Bonds.

The Russian political system remains vulnerable to popular dissatisfaction, including demands for autonomy for particular regional and ethnic groups.

The Russian Federation is a federation of sub-federal units (territorial sub-divisions), consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts, some of which have the right to manage their internal affairs pursuant to agreements with the federal government and in accordance with applicable laws. The delineation of authority and jurisdiction among the territorial sub-divisions of the Russian Federation and the federal government is, in some instances, unclear. In practice, the division of authority and uncertainty could hinder the Group's long-term planning efforts and may create uncertainties in the Group's operating environment, which may prevent it from effectively carrying out its business strategy.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, acts of terrorism and military conflict. If new disturbances or hostilities arise, the Group may be unable to access capital, or access capital on terms reasonably acceptable to it, which may have a material adverse effect on the Group's business, results of operations, financial condition, its ability to make payments under the Bonds or the trading price of the Bonds.

Since Vladimir Putin was first elected President in March 2000, the Russian Federation has generally experienced a higher degree of governmental stability. Mr Putin was again elected as President in March 2018 and this may in the future lead to increased, or more disruptive, protest activity, popular dissatisfaction and political instability, and possibly a cycle of civil protest followed by increased authoritarianism.

Future shifts in governmental policy and regulation in the Russian Federation could also lead to political instability and disrupt or reverse political, economic and regulatory reforms, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

External perceptions of the Russian Federation with respect to the treatment of non-Russian businesses, and media coverage of matters of foreign policy and of crime and corruption could also affect the Group's ability to raise finance and otherwise affect its business.

In addition, there is a growing polarisation of wealth in Russian society which could lead to labour and social unrest and may have adverse political, social and economic consequences. Any of these could restrict the Group's operations and lead to loss of revenue and/or a decrease in the value of the Group's securities.

External perceptions of the Russian Federation with respect to the treatment of non-Russian businesses, and media coverage of matters of foreign policy and of crime and corruption could also affect the Group's ability to raise finance and otherwise affect its business.

From time to time some of the Russian Group companies may have net assets lower than the amount of their respective charter capitals or negative net assets (as defined under Russian accounting standards).

There are certain requirements under the Civil Code of the Russian Federation as well as under both the Federal Law "On Limited Liability Companies" and the Federal Law "On Joint Stock Companies" that require limited liability or joint stock companies to have net assets that are equal to, or more than, their charter capital at the end of the second or each subsequent financial year. In common with a number of other groups in the Russian mining and exploration sector, a number of the subsidiaries of the Company from time to time have negative net assets or net assets lower than their charter capital, especially those in the early stages of exploration, and which are prior to the development, mining and/or production stage and those subsidiaries may voluntarily decide not to rectify the situation. In particular, Transit's net assets were lower than its charter capital as at the end of 2018 and as of 1 July 2019. Osipkan, Vostok Geologiya, Perspektiva DV and Temi, which holds Elginskoye (which is classified as a Strategic Deposit), had negative assets as at the end of 2018 and as of 1 July 2019. If a company has negative net assets or net assets lower than the company's charter

capital, there is a risk that the Russian tax authorities and other interested parties may bring a claim to liquidate such a company, but there are a number of examples where Russian courts have not upheld such claims on the grounds that the relevant company has paid its debts and taxes as they fell due, and/or has subsequently become profitable and/or has received a capital contribution to remedy that company's net assets position (under Russian Law). However, there is no guarantee that Russian courts will continue to decide in this way, and Russian courts have on occasion not decided this way, in which event one or more of the members of the Group could be the subject of a court order to be liquidated which would, among other matters, result in the loss of any mineral licence held by such company which could have a material adverse effect on the business results of operations and the financial condition of the Group. Even if the Group does take any necessary steps available to it to remedy this situation to the extent permissible under Russian Law, there can be no certainty that the Russian tax authorities will not seek to bring a claim in any event.

An additional risk exists in respect of any joint venture participations of the Group, or any other investment that is less than a 100 per cent. subsidiary, which has negative net assets or net assets lower than the company's charter capital, since there can be no assurance that the partner(s) or the other shareholder(s) in such joint ventures will take the same steps as the Group to remedy a deficiency in such joint venture entity's negative net assets, in which case their share might have to be funded by the Group.

The Group's title to the assets obtained as a result of acquisition of the Group's subsidiaries that were formed through a privatisation can be challenged.

Some subsidiaries of the Group have been established through the privatisation that started in the Russian Federation in 1992 with the adoption of the Federal Law No. 1531-1 dated 3 July 1991 "On Privatisation of State and Municipal Enterprises in the Russian Federation".

Russian legal regulations in the 1990s, and, in particular, those relating to privatisation, were very unclearly drafted, internally inconsistent and contained many ambiguities and contradictions. There was no practice as to how the law should be applied at that time. Many commentators of law and court practice show that almost no instance of privatisation in the Russian Federation during that period was conducted in full compliance with the law and applicable procedures. Although the statute of limitations for challenging transactions entered into in the course of privatisations has likely expired, privatisations may still be vulnerable to challenge, including through selective action by governmental authorities motivated by political or other extra-legal considerations. If any of the Group's acquisitions are challenged as having been improperly conducted, the Group should be able to successfully defend itself, otherwise such challenges may have an adverse effect on the Group's business, financial standing, reputation and operations.

Fluctuations in the global economy may adversely affect Russia's economy.

The Russian Federation's economy is increasingly dependent on global economic trends and, as an emerging economy, is vulnerable to market downturns and economic slowdowns elsewhere in the world, as well as to reductions and fluctuations in the prices of hydrocarbons and minerals. Events occurring in one geographic or financial market may result in an entire region or class of investments being disfavoured by international investors – the so-called "contagion effect". Russian has been adversely affected by the effect of contagion in the past, and it is possible that the market for Russian investments, including the Bonds, will be similarly affected in the future by negative economic or financial developments in other countries. Economic volatility, or a future economic crisis, may undermine the confidence of investors in the Russian economy and the ability of Russian businesses to raise capital in international markets or procure supplies, which, in turn, could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Oil price volatility coupled with the imposition of sanctions has served to increase the perceived risks associated with investing into the Russian Federation, particularly foreign investment. This has adversely impacted the Russian economy and the perceived risk of investing into the Group's business.

In June 2016, a majority of voters in the United Kingdom elected to withdraw from the EU in a national referendum. The British Government triggered the exit process on 29 March 2017. It is expected that the United Kingdom will officially leave the EU on 31 October 2019. There is a possibility of trade barriers resulting from the UK leaving the EU, which may affect the macroeconomic environment in Europe. The referendum has also given rise to calls for the governments of other EU member states to consider withdrawal.

In addition, the worsening of trade relations between the United States and some of its largest partners, in particular the current trade war between the United States and China, which had led to increased levy tariffs on import of goods from China to the United States and vice versa, has already resulted in some negative repercussions in these countries and have a knock-on effect on global trade and the economic environment, particularly on financial markets. These developments and possibility of further action by either the United States or China or the perception that the trade tensions between these countries could worsen, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to fund their capital and liquidity requirements and operate in certain financial markets. Any of these factors could depress economic activity, commodities markets and restrict access to capital. Although, currently the uncertainty of the trade relationships between the United States and China has not negatively impacted the Group's business or operations, if global economic conditions deteriorate, the resulting contraction in demand for many of the Group's products and the tightening of the credit markets could have a material adverse effect on the Group.

General tax risks resulting from contradictions between the Russian Tax Code and tax policy of Russian tax authorities

Generally, Russian taxes that Russian companies of the Group are subject to are imposed on the federal, regional and local levels and include, among others: income tax, value added tax ("VAT"), property tax, payroll related insurance payments, mineral extraction tax and other taxes. The Russian companies of the Group as well are subject to duties and corresponding liabilities of a tax agent with respect to taxes due from some of their counterparties.

Russian tax laws, regulations and court practice are complex and subject to frequent change, varying interpretations and, in some cases, inconsistent and selective enforcement. Generally, the Russian tax climate and the quality of tax legislation have improved with the introduction of the Tax Code of the Russian Federation (the "**Russian Tax Code**") in 1998. At the same time, in practice Russian tax authorities often rely on the tax policy developed by the Russian Ministry of Finance manifesting itself in issuance of clarification letters by the Russian Ministry of Finance and the Russian Federal Tax Service. Such clarification letters are frequently inconsistent with the regulations set out in the Russian Tax Code and, in some cases, may even contradict or overrule respective provisions of the Russian Tax Code. As a result, a significant body of tax regulation exists not in the statutory field, but in the policy domain comprised of clarification letters of the Russian Ministry of Finance and the Russian Federal Tax Service. This duality increases the amount of uncertainty and tax risks for taxpayers and leads to the inconsistent enforcement of the relevant Russian Tax Code regulations and, accordingly, may in practice make it difficult for taxpayers to distinguish between lawful tax planning and tax evasion.

These uncertainties may complicate tax planning and related business decisions and could possibly expose the Group to significant fines and penalties and potentially severe enforcement measures despite its efforts at compliance, and could result in a greater than expected tax burden, and could have a material adverse effect on the Group's business, results of operations and financial condition, the Group's ability to service its payment obligations under the Bonds and the Notes, the Company's ability to service its obligations under the Guarantee, or the trading price of the Bonds.

Tax risks resulting from introduction of new anti-avoidance regulation

In 2017 anti-avoidance rules were introduced by Article 54.1 of the Russian Tax Code. A similar "unjustified tax benefit" concept was introduced by the Plenum of the Russian Supreme Arbitration Court in its Ruling No. 53. The more than 10 years' existence of rules regulating unjustified tax benefits received by taxpayers has demonstrated a gradual shift from a liberal paradigm of interpreting taxpayers' decisions in their favour to a pro-budget punitive approach under which taxpayers are more and more suspected in tax-avoidance premeditation.

According to the new anti-avoidance rules, any wilful misconduct resulting in a non-payment or underpayment of taxes by misrepresenting information on commercial events and objects of taxation is prohibited. In practice it may mean that discrepancies between legal form or specific transaction terms and the underlying economic facts might be interpreted by Russian tax authorities as constituting a tax law abuse aimed at tax avoidance.

Similarly, a taxpayer's inability to provide sufficient information about its transaction counterparty to Russian tax authorities might result in such counterparty being recognised as a "shell" company and a relevant transaction being considered as allegedly entered into for no real economic reason which may be considered as an indication of potential tax avoidance.

The new anti-avoidance rules of Article 54.1 of the Russian Tax Code and related clarification letters of the Russian Federal Tax Service and the Russian Ministry of Finance explaining the applicability of these rules, substantially limit the ability of taxpayers to demonstrate the legitimacy of their tax planning decisions. In particular, intra-group financings may in some cases be viewed as a disguised form of investing into the capital of subsidiaries, and the interest paid under such intra-group financings may be denied deduction for corporate income tax purposes or qualified as distribution of dividends to a parent company.

In case of cross-border financings involving a special purpose vehicle (an "SPV") with a group of companies, another tax risk may arise. The SPV acting as lender may be viewed as a conduit company protecting the identity of original lender with the only purpose to obtain double tax treaty benefits. In this case the Russian tax authorities may decline application of the double tax treaty between Russia (as a relevant borrower's country of registration) and the SPV's country of incorporation and, as a result, the exemption from Russian withholding tax under such double tax treaty will not be available for the SPV. According to the Russian Tax Code, in such situations (that is, where an intermediary is involved and such intermediary is considered by the Russian tax authorities as not being entitled to the double tax treaty benefits) Russian tax authorities have to apply the double tax treaty between Russia (as a relevant borrower's country of registration) and the country of incorporation of the ultimate beneficial owner of interest. Such double tax treaty with the country of incorporation of the ultimate beneficial owner of interest, if applied, would have provided the parties with similar tax benefits (such as the reduced tax rate or a complete exemption from withholding tax on interest). In practice, however, the Russian tax authorities rarely follow the above requirement of the Russian Tax Code to apply the double tax treaty with the country of incorporation of the ultimate beneficial owner of interest. Instead, in such situations the Russian tax authorities apply Russian withholding tax to relevant interest payments (at the current rate of 20 per cent.).

As a result of these rules, it is possible that despite the best efforts of the Group to comply with Russian tax laws and regulations, certain cross-border financing transactions and activities of the Group that have not been challenged in the past may be challenged in the future, resulting in a greater than expected tax burden, exposure to significant fines and penalties and potentially severe enforcement measures for the Group.

Tax risks related to "deoffshorisation" changes to the Russian Tax Code

As part of the Russian Government's action plan to counteract the "offshorisation" of the Russian economy, the Russian Tax Code was amended by Federal Law No. 376-FZ dated 24 November 2014 "On amending Parts I and II of the Tax code of the Russian Federation (in respect of taxation of profits of controlled foreign companies and income of foreign organizations)" and follow up amendments to this law. The major changes implemented by the new law include: (1) the introduction of the "controlled foreign corporation" ("CFC") regime, (2) the concept of there being a beneficial owner of income and (3) the concept that foreign legal entities may have Russian tax residency if they are effectively managed from the Russian Federation.

It is clear that non-Russian companies of the Group are not managed from Russia, and it is therefore unlikely that such non-Russian companies of the Group would be viewed as Russian tax residents. But if certain ultimate beneficial owners or shareholders of the Group would become Russian tax residents in any taxable year, it cannot be excluded that non-Russian companies of the Group may be treated as controlled foreign companies (CFCs) vis-à-vis such resident-shareholders. In this case the undistributed income of such CFCs may be imputed to these shareholders taxable income and taxed in Russia. Although this risk does not directly relate to operating companies and holding companies of the Group, the exposure of shareholder may potentially have an indirect adverse effect on the business of the Company.

Tax risks related to international anti-avoidance measures and increased international fiscal transparency

Starting from 2018 a new Chapter 14.4-1 of the Russian Tax Code has introduced mandatory filing of a three-tier documentation (country documentation corresponding to "CbCR" under OECD principles, national documentation corresponding to "master file" under OECD principles and local documentation corresponding to "local file" under OECD principle). The new provisions are, in general, in line with the Organisation for

Economic Co-operation and Development (“OECD”) recommendations within the Base Erosion and Profit Shifting (“BEPS”) initiative. These provisions provide effective tools to the Russian tax authorities to review pricing arrangements of Russian taxpayers, including the intra-group pricing arrangements of the Group.

In May 2019, the Russian Federation ratified the OECD Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting pursuant to the Federal Law No. 79-FZ dated 1 May 2019. This convention allows signatories to engage in changing the respective bilateral double tax treaties with the aim of introducing simplified procedures to enable the denial of double tax treaty benefits to companies which use the treaties for tax avoidance purposes.

In addition, the Russian Federation joined the Convention on Mutual Administrative Assistance in Tax Matters developed by the Council of Europe and the OECD. Ratification of this Convention enables the Russian tax authorities to obtain certain information relating to tax matters from a number of countries, including certain offshore jurisdictions. This convention effectively provides the Russian tax authorities an effective mechanism to obtain financial and tax information about non-Russian companies of the Group.

In the context of these new legal developments, the risk that passive distributions, for example the paying of dividends by Russian companies within the Group to foreign shareholders of the Group, will become subject to Russian tax scrutiny may be lessened. At the same time the transactions related to active trade in commodities or financing transactions may be closely examined from the standpoint of adequacy of the pricing of these transactions and tested on account of not being aimed at tax avoidance through an abusive receipt of double tax treaty benefits. In practice it may mean more targeted inquiries from the Russian Federal Tax Service with respect to specific cross-border transactions, although without any additional risks, provided pricing and other terms of respective transactions do not result in underpayment of taxes in Russia.

Tax risks related to the scope of tax audits by the Russian tax authorities

Russian subsidiaries of the Company are subject to random tax inspections that may result in tax assessments, penalties and interest being claimed for the past three tax periods prior to the year in which the tax audit takes place.

The same preceding three years, which were already audited once, may again be reviewed by the Russian tax authorities, either by a superior tax authority, or in a case of a repeated field tax audits in connection with the restructuring or liquidation of a particular taxpayer, or if a taxpayer resubmits an adjusted tax return based on which the amount of tax is reduced.

The Russian Tax Code provides for the extension of the three-year statute of limitations if the actions of the taxpayer created insurmountable obstacles for the tax audit. As none of the relevant terms are defined, tax authorities may have broad discretion to argue that a taxpayer has “obstructed”, “hindered” or “created insurmountable obstacles” in respect of an inspection and may ultimately seek to review and possibly to apply penalties beyond the three-year term, and there is no guarantee that the tax authorities will not review compliance with applicable tax laws beyond the three-year limitation period.

The Group believes that it has provided adequately for tax liabilities based on its interpretation of applicable Russian tax legislation, official pronouncements and court decisions. There can be no assurance, however, that the interpretations of the relevant tax authorities will not differ from the Company’s interpretation.

Russian transfer pricing rules may adversely affect business of Russian companies of the Group, financial condition and results of operations

Russian transfer pricing legislation has been effective from 1 January 2012. The rules are technically elaborate, detailed and, to a certain extent, aligned with the international transfer pricing principles developed by the OECD.

The rules allow the Russian tax authorities to review the transactions between affiliated parties for conformance with the “arm’s-length principle” and make transfer pricing adjustments to the pricing by imposing of additional tax liabilities in respect of transactions which are considered “controlled” for Russian transfer pricing purposes. The list of “controlled” transactions includes transactions performed with related parties and certain types of cross-border transactions.

Although the Group does not conduct any intragroup cross-border trades, for the Russian companies of the Group, the pricing of cross-border trades in commodities (precious and non-precious metals, ores, concentrates, etc.) may become subject to Russian transfer pricing rules. Due to uncertainties in the interpretation of Russian transfer pricing rules, no assurance can be given that the Russian tax authorities will not challenge the prices of the Group and make adjustments that could adversely affect the Group's position.

Russian thin capitalisation rules allow different interpretations which may create additional withholding taxation for the Russian companies of the Group

Russian regulations on thin capitalisation rules expressly restrict the ability to deduct interest charged on foreign controlled debt, which includes loans and other debt received by a Russian organisation (i) from a foreign person (legal entity or individual) acknowledged as a related party for Russian transfer pricing purposes, if this foreign person directly or indirectly holds shares in the Russian organisation's charter capital; (ii) from another person that is a related party of the aforementioned foreign person; or (iii) which are guaranteed or otherwise secured by any of the above mentioned persons.

The ability to deduct interest is restricted to the extent that foreign controlled debt exceeds net assets by more than 3 times (12.5 for banks and leasing companies). Interest on excess debt is non-deductible and treated as a dividend subject to withholding tax. In the event the taxpayer has negative net assets, the whole amount of interest accrued on the controlled debt will be non-deductible and treated as a dividend.

For the Russian companies of the Group the thin capitalisation rules affect primarily the flexibility of intra-group financing. The Russian companies attracting funds from non-Russian companies of the Group would have to make a quarterly-based study determining the correlation of accumulated interest and net assets. In those quarters in which interest exceeds net assets over the allowable threshold (i.e. 3 times for intra-group loans) part of the interest is converted into dividends. The qualification of the part of the interest as dividends triggers further analysis regarding the applicability of the double tax treaty to such dividends reducing the rate of the withholding tax payable at source in Russia. The treaty benefits with respect to dividends apply if the recipient may be treated as ultimate beneficial owner of those dividends. In this regard a particular risk represent the back-to-back loans, because the financial intermediary may not be qualified as ultimate beneficial owner neither with respect to interest, nor with respect to the portion of the interest converted into dividends under the thin capitalisation rules. The risk outlined above may potentially create additional withholding tax liability at the level of the Russian companies of the Group upon interest distributions from a relevant Russian company of the Group to an intermediary holding company engaged in intra-group financings (if any such arrangements are put in place). Therefore, although this risk does not directly affect the Company, it may generally create an unfavourable tax regime for potential intra-group financing arrangements within the Group (if any) and, as a result, it may indirectly increase the aggregate tax exposure of the Group as a whole.

Risks related to the Listing and the Bonds

Risk of fluctuation in the price of the Ordinary Shares.

In recent years, the securities markets have experienced a high level of price and volume volatility and the market price of securities of many companies have experienced wide fluctuations which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. The market price of the Bonds is expected to be affected by fluctuations in the market price of the Ordinary Shares and it is impossible to predict whether the price of the Ordinary Shares will rise or fall. Trading prices of the Ordinary Shares will be influenced by, among other things, the financial position of the Guarantor and the Group, the results of operations and political, economic, financial and other factors. Any decline in the market price of the Ordinary Shares may have an adverse effect on the market price of the Bonds.

Any future issue of Ordinary Shares by the Guarantor or the disposal of Ordinary Shares by substantial shareholders or the perception that such issues or sales may occur may significantly affect the trading price of the Bonds or the Ordinary Shares. There can be no assurance that the Guarantor will not issue Ordinary Shares or that any substantial shareholder will not dispose of, encumber, or pledge its Ordinary Shares or related securities.

The Guarantor conducts its business through its operating subsidiaries so Bondholders will be effectively subordinated to the claims of creditors of such subsidiaries.

The Guarantor conducts its business through its operating subsidiaries. The operating subsidiaries have obligations to creditors under their respective operations and/or borrowings. Any right that the Issuer or the Guarantor may have to receive assets of any of their respective subsidiaries upon any such subsidiary's liquidation, and the consequent right of Bondholders to benefit from the distribution of proceeds from those assets to the Issuer or the Guarantor, will be effectively subordinated to the claims of creditors of such subsidiaries (including tax authorities, employees, trade creditors and lenders to such subsidiaries) and accordingly impact the recovery of the Bondholders in a liquidation. This, amongst other scenarios, may adversely impact the recovery of the Bondholders in a liquidation or winding-up.

Bondholders have limited anti-dilution protection.

Upon exercise of Conversion Rights by a Bondholder, the Issuer will issue the relevant number of Preference Shares to the relevant Bondholder on and as at the relevant Conversion Date. The Exchange Price at which the Preference Shares will effectively be converted into Ordinary Shares will be adjusted, inter alia, in the event that there is a consolidation, reclassification, redesignation or subdivision in relation to the Ordinary Shares, capitalisation of profits or reserves, the payment of any dividend or the making of a distribution by the Guarantor, rights issue or grant of other subscription rights or other adjustment which affects the Ordinary Shares, but only in the situations and only to the extent provided under the Conditions. There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Ordinary Shares. Events in respect of which no adjustment is made may adversely affect the value of the Ordinary Shares and, therefore, adversely affect the value of the Bonds.

The Bonds may be redeemed prior to maturity.

The Conditions provide that the Bonds are redeemable at the Issuer's option in certain limited circumstances, which is likely to limit their market value. During any period when the Issuer may elect to redeem the Bonds, the market value of the Bonds generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

Subject to the redemption conditions, the Issuer may be expected to redeem the Bonds when its cost of borrowing is lower than the interest rate on the Bonds. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Bonds being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Meetings of Bondholders, Modification and Waiver and Substitution.

The Conditions of the Bonds (as supplemented, amended or restated from time to time) contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

The Conditions of the Bonds also provide, among other things, that the Trustee may, without the consent of the Bondholders: (i) agree to any modification of any of the provisions of the Trust Deed, any trust deed supplemental to the Trust Deeds, each Agency Agreement (as defined in the Conditions), any agreement supplemental to each Agency Agreement, the Bonds or the Conditions, the Deed Poll or the Articles of the Issuer, which in the Trustee's opinion is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law; (ii) agree to any modification, or any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Bonds or their Conditions, the Deed Poll or the Articles of the Issuer which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Bondholders; (iii) determine that any Event of Default or Potential Event of Default (each as defined in the Trust Deed) should not be treated as such, provided that in the opinion of the Trustee, the interests of Bondholders will not be materially prejudiced thereby; or (iv) agree to the substitution of any Subsidiary of the Guarantor as principal debtor under the Bonds in place of the Issuer, in the circumstances described in the Conditions. There is no guarantee that in any of these scenarios a

Bondholder will agree with the decision of either (i) the majority or (ii) the Trustee, as applicable, and therefore actions may be taken on that Bondholder's behalf that such Bondholder may view as prejudicial to its own interests or that may affect the value of the Bonds.

Risks attached to the exercise of Conversion Rights.

At any point when the Bonds are outstanding, depending on the performance of the Ordinary Shares, the value of the Ordinary Shares may be substantially lower than when the Bonds were initially purchased. In addition, because there will be a delay between when Conversion Rights are exercised and when Ordinary Shares are delivered, the value of the Ordinary Shares to be delivered may vary substantially between the date on which Conversion Rights are exercised and the date on which such Ordinary Shares are delivered. There may therefore be a significant difference between the initial value of the Ordinary Shares at the time of the issuance of the Bonds, and the value of the Ordinary Shares actually delivered to Bondholders pursuant to the Conditions, thereby impacting the value realised by the Bondholders at the time of exercise of the Conversion Rights.

There is a limited period for, and there are costs associated with, the exercise of Conversion Rights.

A Bondholder will, subject to and as provided in the Conditions, have the right to convert his or her Bonds into Preference Shares. All Preference Shares issued on conversion of the Bonds will be automatically transferred to the Guarantor and the Guarantor will issue the relevant number of Ordinary Shares to the relevant Bondholders. Conversion Rights may be exercised (subject to the Conditions and to any applicable fiscal or other laws or regulations) at any time on or after the Closing Date up to, and including: (a) the close of business (at the place where the Bonds are delivered for conversion) on the date falling 10 calendar days prior to the Final Maturity Date; or (b) if the Bonds have been called for redemption by the Issuer before the Final Maturity Date, the close of business (at the place aforesaid) on the 10th calendar day before the date fixed for redemption thereof. If the Conversion Rights are not exercised by Bondholders during this period, the Bonds will be redeemed at 100 per cent. of their principal amount on the Final Maturity Date unless they are previously purchased and cancelled, redeemed or converted in accordance with the Conditions.

Bondholders have no shareholder rights before conversion.

Holders of the Bonds will not be holders of the Ordinary Shares. Holders of the Bonds will not have any voting rights, any right to receive dividends or other distributions or any other rights with respect to the Ordinary Shares until such time, if any, as Conversion Rights are exercised and (to the extent applicable) such holder becomes registered as the holder of the Ordinary Shares. Therefore, until such time as the Conversion Rights are exercised, actions may be taken on behalf of the holders of Ordinary Shares in which Bondholders have no say and such actions may be prejudicial to the interests of the Bondholders and/or the value of the Bonds.

Exchange rate risks and exchange controls.

The Issuer will pay principal and interest on the Bonds in U.S. dollars. In addition, the Ordinary Shares are denominated in pounds sterling. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. dollars or pounds sterling. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. dollars or pounds sterling or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. In particular, an appreciation in the value of the Investor's Currency relative to U.S. dollars would decrease: (i) the Investor's Currency equivalent yield in the Bonds; (ii) the Investor's Currency equivalent value of the principal payable on the Bonds; and (iii) the Investor's Currency equivalent market value of the Bonds. Government and monetary authorities may impose (as some have done in the past) exchange controls that adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or, in certain limited circumstances, no interest or principal.

Interest rate risks.

Investment in the Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds and, therefore, the amount payable to Bondholders under the Conditions.

The value of the Bonds could be adversely affected by a change in English law or administrative practice.

The conditions of the Bonds are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus and any such change could materially adversely impact the value of any Bonds affected by it.

Global Bonds held by or on behalf of Euroclear and Clearstream, Luxembourg.

The Bonds are represented by the Global Bonds. The Global Bonds have been deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Global Bonds, investors will not be entitled to receive Bonds in definitive form. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Bonds. While the Bonds are represented by the Global Bonds, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Bonds by making payments to the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their accountholders or the sterling account of the payee with a bank in London, in each case in accordance with the terms and conditions of the Bonds (the Conditions). A holder of a beneficial interest in the Global Bonds must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Bonds. Neither the Issuer nor the Guarantor has any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Bonds.

Risks relating to the Issuer

The Issuer is a special purpose finance subsidiary with no revenue generating operations of its own and its ability to fulfil its obligations under the Bonds is dependent on the Group.

The Issuer is a wholly owned subsidiary of the Company. The Issuer is a special purpose finance subsidiary that has no revenue generating operations of its own. The Issuer conducts no business or operations and, after giving effect to this offering and the use of proceeds therefrom, will have no assets other than the loan or loans to the Company or other members of the Group to be made with the proceeds of the Offering. The Issuer's ability to service the Bonds (or other future indebtedness it may incur under limited circumstances), is entirely dependent upon the receipt of funds from the Group under the terms of the loans to the Company or other members of the Group. Accordingly, in meeting its payment obligations under the Bonds, the Issuer is wholly dependent on the profitability and cash flow of the Group. Any delay or failure by the Company or the relevant Group companies to make payments of principal and interest to the Issuer under an intercompany loan will affect the Issuer's ability to make payments of interest and principal under the Bonds as those payments fall due. The Company's ability to make payments to the Issuer will depend on the Company's cash flows and earnings which, in turn, may be affected by all of the factors discussed in this Part 1 (*Risk Factors*).

PART 2

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, which have previously been published or are published simultaneously with this Prospectus and have been filed with the London Stock Exchange, shall be incorporated in, and form part of, this Prospectus:

A1.10.1
A1.10.2

- (1) the section titled “Reserves and Resources” on pages 54 – 64 from the Company’s Annual Report for the year ended 31 December 2018, which can be viewed online at <https://www.petropavlovsk.net/wp-content/uploads/2019/04/POG-Report-and-Accounts-2018.pdf>:
- (2) the Company’s unaudited interim consolidated financial results for the six months ended 30 June 2019, which can be viewed online at <https://www.petropavlovsk.net/wp-content/uploads/2019/09/H1-2019-Financials-v20FINAL-with-IRC-fee-announcement-GHG.pdf>.
- (3) the following pages from the Company’s Annual Consolidated Financial Statements for the year ended 31 December 2018 and independent auditor’s report, which can be viewed online at <https://www.petropavlovsk.net/wp-content/uploads/2019/04/POG-Report-and-Accounts-2018.pdf>:

A1.18.3.1
A1.18.3.3
A1.18.5.2
A7.11.1
A7.11.1.1
A7.11.1.3
A7.11.1.4
A7.11.1.5
A7.11.1.6
A1.18.1.1
A1.18.1.3
A1.18.1.6
A1.18.1.7
A1.18.2.1

| | |
|--|---------|
| Auditor’s Report..... | 146-156 |
| Consolidated Statement of Profit and Loss | 158 |
| Consolidated Statement of Comprehensive Income | 159 |
| Consolidated Statement of Financial Position..... | 160 |
| Consolidated Statement of Changes in Equity | 161 |
| Consolidated Statement of Cash Flows | 162 |
| Notes to the Consolidated Financial Statements | 163-204 |
| Company Balance Sheet..... | 205 |
| Glossary | 218-220 |

- (4) the Company’s unaudited interim consolidated financial results for the six months ended 30 June 2018 which can be viewed online at <https://www.petropavlovsk.net/wp-content/uploads/2018/12/2018-Interim-Results-Announcement-27-September-2018.pdf>
- (5) the following pages from the Company’s Annual Consolidated Financial Statements for the year ended 31 December 2017 and independent auditor’s report, which can be viewed online at <https://www.petropavlovsk.net/wp-content/uploads/2018/05/POG-Report-and-Accounts-2017.pdf>:

| | |
|--|---------|
| Auditor's Report | 142-148 |
| Consolidated Income Statement | 149 |
| Consolidated Statement of Comprehensive Income | 150 |
| Consolidated Balance Sheet | 151 |
| Consolidated Statement of Changes in Equity | 152 |
| Consolidated Cash Flow Statement..... | 153 |
| Notes to the Consolidated Financial Statements | 154-191 |
| Company Balance Sheet..... | 192 |
| Glossary..... | 205-207 |

- (6) the following pages from the Company’s Annual Consolidated Financial Statements for the year ended 31 December 2016 and independent auditor’s report, which can be viewed online at https://www.petropavlovsk.net/wp-content/uploads/2018/05/PETROPAVLOVSK_AR_2016-1.pdf:

| | |
|--|---------|
| Auditor's Report | 112-119 |
| Consolidated Income Statement | 120 |
| Consolidated Statement of Comprehensive Income | 121 |
| Consolidated Balance Sheet | 122 |
| Consolidated Statement of Changes in Equity | 123 |
| Consolidated Cash Flow Statement..... | 124 |
| Notes to the Consolidated Financial Statements | 125-163 |
| Company Balance Sheet..... | 164 |

| | |
|---------------|---------|
| Glossary..... | 169-172 |
|---------------|---------|

- (7) the following pages from the Issuer's Annual Financial Statements for the year ended 31 December 2018 and independent auditor's report, which can be viewed online at <https://www.petropavlovsk.net/investors/petropavlovsk-2010-limited/latest-annual-reports/>:

| | |
|--------------------------------------|----|
| Auditor's Report | 5 |
| Profit and Loss Account | 12 |
| Balance Sheet | 13 |
| Statement of Changes in Equity | 14 |

- (8) the following pages from the Issuer's Annual Financial Statements for the year ended 31 December 2017 and independent auditor's report, which can be viewed online at <https://www.petropavlovsk.net/investors/petropavlovsk-2010-limited/latest-annual-reports/>:

| | |
|--------------------------------------|----|
| Auditor's Report..... | 5 |
| Profit and Loss Account | 10 |
| Balance Sheet | 11 |
| Statement of Changes in Equity | 12 |

- (9) the following pages from the Issuer's Annual Financial Statements for the year ended 31 December 2016 and independent auditor's report, which can be viewed online at <https://www.petropavlovsk.net/investors/petropavlovsk-2010-limited/latest-annual-reports/>:

| | |
|--------------------------------------|---|
| Auditor's Report..... | 5 |
| Profit and Loss Account | 7 |
| Balance Sheet | 8 |
| Statement of Changes in Equity | 9 |

Any statement contained in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Prospectus.

Copies of documents deemed to be incorporated by reference in this Prospectus may be obtained, free of charge, from the registered office of the Issuer and viewed on the website of the Company or the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/rns and are available for inspection and viewing at the National Storage Mechanism of the FCA at <http://www.morningstar.co.uk/uk/NSM/>.

PART 3

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

General

Investors should only rely on the information in this Prospectus. No person has been authorised to give any information or to make any representations in connection with the Listing, other than those contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Issuer, the Company or the Directors. Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to the FSMA, neither the delivery of this Prospectus nor any subscription or sale of Bonds pursuant to the Listing shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Group since the date of this Prospectus or that the information contained herein is correct as of any time subsequent to its date.

The Company will update the information provided in this Prospectus by means of a supplement hereto if a significant new factor that may affect the evaluation by prospective investors of the Listing occurs after the publication of the Prospectus or if this Prospectus contains any mistake or substantial inaccuracy. The Prospectus and any supplement thereto will be subject to approval by the FCA and will be made public in accordance with the Prospectus Rules.

The contents of this Prospectus are not to be construed as legal, business or tax advice. Each prospective investor should consult his or her own lawyer, financial adviser or tax adviser for legal, financial or tax advice. In making an investment decision, each investor must rely on their own examination, analysis and enquiry of the Company, including the merits and risks involved.

This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Company, the Directors or any of their representatives that any recipient of this Prospectus should purchase the Bonds. Prior to making any decision as to whether to purchase the Bonds, prospective investors should read this Prospectus. Investors should ensure that they read the whole of this Prospectus carefully and not just rely on key information or information summarised within it. In making an investment decision, prospective investors must rely upon their own examination of the Company and the terms of this Prospectus, including the risks involved.

None of the Issuer, the Company, the Directors or any of their representatives is making any representation to any purchaser of the Bonds regarding the legality of an investment by such purchaser.

Presentation of financial information

The financial information in this Prospectus has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“**IFRS**”). The significant IFRS accounting policies applied in the financial information of the Company are applied consistently in the financial information in this Prospectus.

Financial information

The Company’s financial year runs from 1 January to 31 December.

The Group prepares its financial statements on the basis of IFRS, which differs in certain significant respects from U.S. GAAP. The Group has not presented a reconciliation of its consolidated financial statements to U.S. GAAP in this Prospectus. As there are significant differences between IFRS and U.S. GAAP, there may be substantial differences in the Group’s results of operations, cash flows and financial condition if the Group were to prepare its financial statements in accordance with U.S. GAAP.

Independent Auditors

Deloitte LLP has been the external auditor of the Company since 2009.

Non-IFRS financial information

Certain information incorporated by reference includes “Alternative Performance Measures”, as defined in the guidelines published by the European Securities and Markets Authority (“**Alternative Performance Measures**”). The information regarding Alternative Performance Measures is included on pages 55-61 of the Company’s unaudited financial information for the six months ended 30 June 2019, pages 210-216 of the Company’s annual report in respect of the financial year ended 31st December, 2018, pages 59-65 of the Company’s unaudited financial information for the six months ended 30 June 2018 and on pages 197-203 of the Company’s annual report in respect of the financial year ended 31st December, 2017.

Currency presentation

Unless otherwise indicated, all references to “sterling”, “pounds sterling”, “GBP”, “£”, or “pence” are to the lawful currency of the United Kingdom. All references to “roubles” or “Russian Roubles” are to the lawful currency of the Russian Federation. The Company prepares its financial statements in U.S. dollar.

The following tables set out, for the periods set forth below, the high, low, average and period-end Bloomberg Composite Rate expressed as U.S. dollar per £1.00. The Bloomberg Composite Rate is a “best market” calculation, in which, at any point in time, the composite bid rate is equal to the highest bid rate of all currently active, contributed, bank indications, and the composite ask rate is equal to the lowest ask rate offered by these same bank indications. The Bloomberg Composite Rate is a mid-value rate between the composite bid rate and the composite ask rate. The rates may differ from the actual rates used in the preparation of the combined financial statements and other financial information appearing in this Prospectus.

The average rate for a year, a month, or for any shorter period, means the average of the daily Bloomberg Composite Rates during that year, month, or shorter period, as the case may be.

| Period (year/month) | Period end | Average | High | Low |
|--|-------------------|-------------------------|--------|--------|
| | | (U.S. dollar per £1.00) | | |
| 2014 | 31 December 2014 | 1.6475 | 1.7166 | 1.5516 |
| 2015 | 31 December 2015 | 1.5284 | 1.5881 | 1.4632 |
| 2016 | 30 December 2016 | 1.3549 | 1.4880 | 1.2123 |
| 2017 | 29 December 2017 | 1.2891 | 1.3594 | 1.2049 |
| 2018 | 31 December 2018 | 1.3350 | 1.4338 | 1.2489 |
| January 2019 | 31 January 2019 | 1.2905 | 1.3200 | 1.2607 |
| February 2019 | 28 February 2019 | 1.3012 | 1.3309 | 1.2806 |
| March 2019 | 29 March 2019 | 1.3173 | 1.3339 | 1.3014 |
| April 2019 | 30 April 2019 | 1.3028 | 1.3162 | 1.2898 |
| May 2019 | 31 May 2019 | 1.2841 | 1.3174 | 1.2608 |
| June 2019 | 28 June 2019 | 1.2675 | 1.2749 | 1.2534 |
| July 2019 | 31 July 2019 | 1.2463 | 1.2639 | 1.2151 |
| August 2019 | 30 August 2019 | 1.2152 | 1.2290 | 1.2028 |
| September 2019 (through 17 September 2019) | 17 September 2019 | 1.2299 | 1.2504 | 1.2066 |

Source: Bloomberg

Unless otherwise noted, the exchange rates presented in this Prospectus have been sourced from the website of the Central Bank of the Russian Federation (www.cbr.ru).

Roundings

Certain data in this Prospectus, including financial, statistical, and operating information has been rounded. As a result of the rounding, the totals of data presented in this Prospectus may vary slightly from the actual arithmetic totals of such data. Percentages in tables have been rounded and accordingly may not add up to 100%.

Market, economic and industry data

This document contains historical market data and forecasts which have been obtained from industry publications, market research and other publicly available information. Certain information regarding market size, market share, market position, growth rates and other industry data pertaining to the Group and its business

contained in this document consist of Directors' estimates based on data compiled by professional organisations and on data from other external sources, including Bloomberg, World Gold Council and UBS.

The Company confirms that all information that has been sourced from third parties contained in this Prospectus has been accurately reproduced and, so far as the Company and the Issuer are aware and able to ascertain from information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading.

Where third party information has been used in this Prospectus, the source of such information has been identified.

Service of process and enforcement of civil liabilities

The Company has been incorporated under English law. Service of process upon Directors and officers of the Company may be difficult to obtain within the United States. Furthermore, since most directly owned assets of the Company are outside the United States, any judgment obtained in the United States against it may not be collectible within the United States. There is doubt as to the enforceability of certain civil liabilities under US federal securities laws in original actions in English courts, and, subject to certain exceptions and time limitations, English courts will treat a final and conclusive judgment of a U.S. court for a liquidated amount as a debt enforceable by fresh proceedings in the English courts.

No incorporation of website information

The contents of the Company's website do not form part of this Prospectus.

Definitions and glossary

Certain terms used in this Prospectus, including all capitalised terms and certain technical and other items, are defined and explained in Part 17 "*Definitions and Glossary*".

Information not contained in this Prospectus

No person has been authorised to give any information or make any representation other than those contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been so authorised. Neither the delivery of this Prospectus nor any subscription or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date of this Prospectus or that the information in this Prospectus is correct as of any time subsequent to the date hereof.

Information regarding forward-looking statements

This Prospectus includes forward-looking statements. These forward-looking statements involve known and unknown risks and uncertainties, many of which are beyond the Group's control and all of which are based on the Directors' current beliefs and expectations about future events. Forward-looking statements are sometimes identified by the use of forward-looking terminology such as "believe", "expects", "may", "will", "could", "should", "shall", "risk", "intends", "estimates", "aims", "plans", "predicts", "continues", "assumes", "positioned" or "anticipates" or the negative thereof, other variations thereon or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Prospectus and include statements regarding the intentions, beliefs or current expectations of the Directors or the Group concerning, among other things, the results of operations, financial condition, prospects, growth, strategies, and dividend policy of the Group and the industry in which it operates. In particular, the statements under the headings "*Summary*", "*Risk Factors*" and "*Description of the Group*" regarding the Company's strategy and other future events or prospects are forward-looking statements.

These forward-looking statements and other statements contained in this Prospectus regarding matters that are not historical facts involve predictions. No assurance can be given that such future results will be achieved; actual events or results may differ materially as a result of risks and uncertainties facing the Group. Such risks, uncertainties and other important factors include, but are not limited to, those listed under the heading "*Risk Factors*".

The following include some but not all of the factors that could cause actual results or events to differ materially from the anticipated results or events:

- Demand for and pricing of the Group's commodities, in particular Gold;
- Changes in production levels at the Group's mines;
- Failure to comply with obligations under contracts, licenses, permits and relevant legislation;
- Technical issues with the operation of the POX Hub;
- Provision of the bridging financing to IRC;
- Failure to successfully commission of the Pioneer floatation plant.

Should one or more of these risks or uncertainties materialise or should any of the assumptions underlying the above or other factors prove to be incorrect, the Group's actual future business, results of operations and/or financial condition, performance, prospects, anticipated growth, strategies or opportunities could differ materially from those described herein as currently anticipated, believed, estimated or expected.

Investors or potential investors should not place undue reliance on the forward looking statements in this Prospectus. Investors should read the sections of this Prospectus titled "*Risk Factors*", "*Industry Overview*" and "*Description of the Group*" for a more complete discussion of the factors that could affect the Group's future performance and the markets in which it operates. In light of the possible changes to the Group's beliefs, assumptions and expectations, the forward looking events described in this Prospectus may not occur. Additional risks currently not known to the Group or that the Group has not considered material as of the date of this Prospectus could also cause the forward looking events discussed in this Prospectus not to occur.

Forward looking statements involve inherent risks and uncertainties and speak only as of the date they are made. Such forward-looking statements contained in this Prospectus speak only as of the date of this Prospectus. The Issuer, the Company and the Directors expressly disclaim any obligation or undertaking to update these forward-looking statements contained in the Prospectus to reflect any change in their expectations or any change in events, conditions, or circumstances on which such statements are based unless required to do so by applicable law, the Prospectus Rules, the Listing Rules, or the Disclosure Guidance and Transparency Rules of the FCA.

PART 4
TERMS AND CONDITIONS OF THE BONDS

THIS DOCUMENT IS NOT AN OFFER TO SELL SECURITIES OR THE SOLICITATION OF ANY OFFER TO BUY SECURITIES.

SOLELY FOR THE PURPOSES OF THE PRODUCT GOVERNANCE REQUIREMENTS CONTAINED WITHIN: (A) EU DIRECTIVE 2014/65/EU ON MARKETS IN FINANCIAL INSTRUMENTS, AS AMENDED (“MIFID II”); (B) ARTICLES 9 AND 10 OF COMMISSION DELEGATED DIRECTIVE (EU) 2017/593 SUPPLEMENTING MIFID II; AND (C) LOCAL IMPLEMENTING MEASURES (TOGETHER, THE “MIFID II PRODUCT GOVERNANCE REQUIREMENTS”), AND DISCLAIMING ALL AND ANY LIABILITY, WHETHER ARISING IN TORT, CONTRACT OR OTHERWISE, WHICH ANY “MANUFACTURER” (FOR THE PURPOSES OF THE MIFID II PRODUCT GOVERNANCE REQUIREMENTS) MAY OTHERWISE HAVE WITH RESPECT THERETO, THE BONDS HAVE BEEN SUBJECT TO A PRODUCT APPROVAL PROCESS, WHICH HAS DETERMINED THAT: (I) THE TARGET MARKET FOR THE BONDS IS ELIGIBLE COUNTERPARTIES AND PROFESSIONAL CLIENTS ONLY, EACH AS DEFINED IN MIFID II; AND (II) ALL CHANNELS FOR DISTRIBUTION OF THE BONDS TO ELIGIBLE COUNTERPARTIES AND PROFESSIONAL CLIENTS ARE APPROPRIATE. ANY PERSON SUBSEQUENTLY OFFERING, SELLING OR RECOMMENDING THE BONDS (A “DISTRIBUTOR”) SHOULD TAKE INTO CONSIDERATION THE MANUFACTURERS’ TARGET MARKET ASSESSMENT; HOWEVER, A DISTRIBUTOR SUBJECT TO MIFID II IS RESPONSIBLE FOR UNDERTAKING ITS OWN TARGET MARKET ASSESSMENT IN RESPECT OF THE BONDS (BY EITHER ADOPTING OR REFINING THE MANUFACTURERS’ TARGET MARKET ASSESSMENT) AND DETERMINING APPROPRIATE DISTRIBUTION CHANNELS.

THE TARGET MARKET ASSESSMENT IS WITHOUT PREJUDICE TO THE REQUIREMENTS OF ANY CONTRACTUAL OR LEGAL SELLING RESTRICTIONS IN RELATION TO THE BONDS.

FOR THE AVOIDANCE OF DOUBT, THE TARGET MARKET ASSESSMENT DOES NOT CONSTITUTE: (A) AN ASSESSMENT OF SUITABILITY OR APPROPRIATENESS FOR THE PURPOSES OF MIFID II; OR (B) A RECOMMENDATION TO ANY INVESTOR OR GROUP OF INVESTORS TO INVEST IN, OR PURCHASE, OR TAKE ANY OTHER ACTION WHATSOEVER WITH RESPECT TO THE BONDS.

THE BONDS ARE NOT INTENDED TO BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO AND SHOULD NOT BE OFFERED, SOLD OR OTHERWISE MADE AVAILABLE TO ANY RETAIL INVESTOR IN THE EUROPEAN ECONOMIC AREA (“EEA”). FOR THESE PURPOSES, A RETAIL INVESTOR MEANS A PERSON WHO IS ONE (OR MORE) OF: (I) A RETAIL CLIENT AS DEFINED IN POINT (11) OF ARTICLE 4(1) OF MIFID II; OR (II) A CUSTOMER WITHIN THE MEANING OF DIRECTIVE 2002/92/EC, WHERE THAT CUSTOMER WOULD NOT QUALIFY AS A PROFESSIONAL CLIENT AS DEFINED IN POINT (10) OF ARTICLE 4(1) OF MIFID II. CONSEQUENTLY, NO KEY INFORMATION DOCUMENT REQUIRED BY REGULATION (EU) NO 1286/2014, AS AMENDED (THE “PRIIPS REGULATION”) FOR OFFERING OR SELLING THE BONDS OR OTHERWISE MAKING THEM AVAILABLE TO RETAIL INVESTORS IN THE EEA HAS BEEN PREPARED AND THEREFORE OFFERING OR SELLING THE BONDS OR OTHERWISE MAKING THEM AVAILABLE TO ANY RETAIL INVESTOR IN THE EEA MAY BE UNLAWFUL UNDER THE PRIIPS REGULATION.

The following, subject to completion and amendment, and save for the paragraphs in italics, is the text of the terms and conditions of the Bonds which will be incorporated by reference into the Global Bond (as defined below) and endorsed on the Bonds in definitive form (if issued).

The issue of the U.S.\$125,000,000 8.25 per cent. guaranteed convertible bonds due 2024 (the “**Bonds**”) which term shall, unless otherwise indicated, include any Further Bonds was (save in respect of any such Further Bonds) authorised by a resolution of the board of directors of Petropavlovsk 2010 Limited (the “**Issuer**”) passed on 18 June 2019. The guarantee given by Petropavlovsk PLC (the “**Guarantor**”) to unconditionally and irrevocably guarantee the due and punctual payment of all sums from time to time payable by the Issuer in

respect of the Bonds and the due and punctual performance by the Issuer of all of the Issuer's other obligations in respect of the Bonds (the **"Guarantee"**) was authorised by resolutions of the board of directors of the Guarantor (the **"Board"**) passed on 18 June 2019.

The Bonds are constituted by a trust deed dated 3 July 2019 (the **"Trust Deed"**) between the Issuer, the Guarantor and Apex Corporate Trustees (UK) Limited (the **"Trustee"**, which expression shall include all persons for the time being appointed as the trustee or trustees under the Trust Deed) as trustee for the Bondholders (as defined below). The statements set out in these terms and conditions (the **"Conditions"**) are summaries of, and are subject to, the detailed provisions of the Trust Deed.

The Bondholders are entitled to the benefit of, and are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and those provisions applicable to them which are contained in the Paying, Transfer, Conversion and Exchange Agency Agreement dated 3 July 2019 (the **"Agency Agreement"**) relating to the Bonds between the Issuer, the Guarantor, the Trustee, Citibank, N.A., London Branch in its capacity as principal paying, transfer, conversion and exchange agent (the **"Principal Paying, Transfer, Conversion and Exchange Agent"**, which shall include any successor as principal paying, transfer, conversion and exchange agent under the Agency Agreement), the paying, transfer, conversion and exchange agents for the time being (such persons, together with the Principal Paying, Transfer, Conversion and Exchange Agent, being referred to below as the **"Paying, Transfer, Conversion and Exchange Agents"**, which expression shall include their successors as paying, transfer, conversion and exchange agents under, in any case, the Agency Agreement), any other paying, transfer, conversion and exchange agent appointed under these Conditions, and Citigroup Global Markets Europe AG in its capacity as registrar in respect of the Bonds (the **"Registrar"**, which expression shall include any successor registrar under the Agency Agreement), the articles of association of the Issuer (the **"Articles of the Issuer"**) and the deed poll executed and delivered by the Guarantor on 3 July 2019 (the **"Deed Poll"**).

The Issuer and the Guarantor have also entered into a calculation agency agreement (the **"Calculation Agency Agreement"**) dated 3 July 2019 with Conv-Ex Advisors Limited (the **"Calculation Agent"**, which expression shall include any successor as calculation agent under the Calculation Agency Agreement) whereby the Calculation Agent has been appointed to make certain calculations in relation to the Bonds. The Bondholders are deemed to have notice of those provisions applicable to them which are contained in the Calculation Agency Agreement.

Copies of each of the Trust Deed, the Agency Agreement, the Calculation Agency Agreement, the Articles of the Issuer and the Deed Poll are available for inspection during normal business hours at the specified offices of the Paying, Transfer, Conversion and Exchange Agents and the Registrar.

Capitalised terms used but not defined in these Conditions shall have the meanings ascribed to them in the Trust Deed or, as the case may be, the Articles of the Issuer, unless, in any case, the context otherwise requires or unless otherwise stated.

1. Form, Denomination and Title

(a) Form and Denomination

The Bonds are in registered form in principal amounts of U.S.\$200,000 each.

*The Bonds will initially be represented by a global bond in registered form (the **"Global Bond"**). The Global Bond will be exchangeable in limited circumstances into definitive registered Bonds only upon exchange of interests in the Global Bond in the limited circumstances described in the Global Bond.*

(b) Title

Title to the Bonds will pass by registration and transfer (as described in Conditions 5 and 6, respectively). The Issuer, the Guarantor, the Trustee, the Registrar and any Paying, Transfer, Conversion and Exchange Agent will (except as otherwise required by law or as ordered by a court of competent jurisdiction) deem and treat the holder of any Bond as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon

or notice of any previous loss or theft thereof or that of the related certificate as appropriate or anything written on it or on the certificate representing it (other than a duly executed transfer thereof)) for all purposes and no person will be liable for so treating the holder.

2. Status and Guarantee

(a) Status

The Bonds constitute senior, unsubordinated, direct, unconditional and (subject to Condition 3(a)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 3, at all times rank at least equally with all its other present and future unsecured, unconditional and unsubordinated obligations.

(b) Guarantee

The due and punctual payment of all sums from time to time payable by the Issuer in respect of the Bonds and the due and punctual performance by the Issuer of all of the Issuer's other obligations in respect of the Bonds have been unconditionally and irrevocably guaranteed by the Guarantor in the Trust Deed. The obligations of the Guarantor under the Guarantee constitute senior, unsubordinated, direct, unconditional, and (subject to Condition 3(a)) unsecured obligations of the Guarantor and shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 3, at all times rank at least equally with all its other present and future unsecured, unconditional and unsubordinated obligations.

3. Negative Pledge and Covenants

So long as any Bond remains outstanding (as defined in the Trust Deed):

(a) Negative Pledge

(i) Issuer and Guarantor

Neither the Issuer nor the Guarantor will create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest (including any fixed or floating security or any security over receivables) ("**Security**"), other than Permitted Security, upon the whole or any part of its undertaking, assets (including shares in Subsidiaries) or revenues, present or future, to secure any Relevant Debt or Financial Indebtedness or any guarantee of or indemnity in respect of any Relevant Debt or Financial Indebtedness, in each case other than in relation to any Refinancing Indebtedness and Project Finance Indebtedness, unless, at the same time or prior thereto, the obligations of the Issuer or, as the case may be, the Guarantor under the Bonds and the Trust Deed, (x) are secured equally and rateably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, in each case to the satisfaction of the Trustee; or (y) have the benefit of such other security, guarantee, indemnity or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Bondholders or as shall be approved by an Extraordinary Resolution.

(ii) Principal Subsidiaries

The Guarantor will not permit any of its Principal Subsidiaries to create or permit to subsist any Security, other than Permitted Security, upon the whole or any part of their respective undertaking, assets (including shares in Subsidiaries) or revenues, present or future, to secure any Relevant Debt or Financial Indebtedness, or any guarantee of or indemnity in respect of any Relevant Debt or Financial Indebtedness, in each case, other than in relation to any Refinancing Indebtedness and Project Finance

Indebtedness, unless, at the same time or prior thereto, the obligations of the Issuer or, as the case may be, the Guarantor under the Bonds and the Trust Deed, (x) are secured equally and rateably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, in each case to the satisfaction of the Trustee; or (y) have the benefit of such other security, guarantee, indemnity or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Bondholders or as shall be approved by an Extraordinary Resolution of the Bondholders.

(b) **Limitation on Financial Indebtedness**

- (i) Neither the Issuer nor the Guarantor will, and the Guarantor will not permit any Subsidiary to, after the Issue Date, incur directly or indirectly any Financial Indebtedness except if on the date of the incurrence (and after giving effect thereto) of such additional Financial Indebtedness the Consolidated Leverage Ratio does not exceed 3 to 1.
- (ii) Condition 3(b)(i) will not apply to, or prohibit the incurrence of Permitted Indebtedness. In the event that an item of proposed Financial Indebtedness meets the criteria of more than one of the categories described in the definition of Permitted Indebtedness, or is entitled to be incurred pursuant to Condition 3(b)(i), the Guarantor will be permitted to classify all or a portion of such item of Financial Indebtedness on the date of its incurrence, or later reclassify all or a portion of such item of Financial Indebtedness, in any manner that complies with this Condition 3(b)(ii).

For the purposes of determining compliance with any U.S. dollar-denominated restriction on the incurrence of Financial Indebtedness, the U.S. dollar equivalent of the principal amount of Financial Indebtedness denominated in another currency will be calculated based on the most recently published financial statements of the Guarantor to the extent shown therein or otherwise, based on the relevant currency exchange rate in effect on the date such Financial Indebtedness was incurred. Notwithstanding any other provision in this Condition 3(b), the maximum amount of Financial Indebtedness that the Issuer, the Guarantor or any Subsidiary may incur pursuant to this Condition shall not be deemed to be exceeded solely as a result of fluctuations in exchange rates or currency values.

(c) **Restricted Payments**

Neither the Issuer nor the Guarantor will, and the Guarantor will not permit any Principal Subsidiary to pay any dividend (other than dividend payments to a member of the Group) unless after giving *pro forma* effect to any such dividend, the Consolidated Leverage Ratio does not exceed 2.0 to 1.

(d) **Affiliate Transactions**

Neither the Issuer nor the Guarantor will, and the Guarantor will not permit any Principal Subsidiary to, directly or indirectly, enter into or conduct any transactions or series of related transactions (including the purchase, sale, lease or exchange of any property or the rendering of service) with, or for the benefit of, any Affiliate of the Issuer or the Guarantor or any Principal Subsidiary (each, an “**Affiliate Transaction**”), unless the Affiliate Transaction is on terms that are no less favourable than those that could reasonably be expected to be obtained at the time in an arm’s length transaction with a Person which is not an Affiliate.

The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of the prior paragraph:

- (i) transactions involving aggregate payment of consideration of less than U.S.\$5,000,000 (or its equivalent in other currencies) in any single transaction or series of related transactions;

- (ii) any employment agreement, collective bargaining agreement, consultant, employee benefit arrangements with any employee, consultant, officer or director of the Issuer, the Guarantor or any Principal Subsidiary, including under any share award, share option, share appreciation rights, share incentive or similar plans, entered into in the ordinary course of business;
- (iii) payment of reasonable and customary fees and reimbursements of expenses (pursuant to indemnity arrangements or otherwise) of officers, directors, employees or consultants of the Issuer, the Guarantor or of any Principal Subsidiary in the ordinary course of business;
- (iv) loans or advances to employees for travel and relocation in the ordinary course of business not to exceed U.S.\$5,000,000 (or its equivalent in other currencies) in aggregate at any one time outstanding;
- (v) transactions between or among the Issuer, the Guarantor and/or its Subsidiaries;
- (vi) any issuance of Equity Interests of the Guarantor to Affiliates of the Guarantor;
- (vii) any transaction between or among the Guarantor and/or its Subsidiaries and any joint venture (a) pursuant to the terms of the respective joint venture or shareholder agreement or (b) in the ordinary course of business;
- (viii) transactions with customers, clients, suppliers, or purchasers or sellers of goods or services or providers of employees or other labour, in each case in the ordinary course of business and otherwise in compliance with the terms of these Conditions, that are fair to the Guarantor or the Subsidiaries, in the determination of the members of the Board or the senior management thereof, or are on terms at least as favourable as might reasonably have been obtained at such time from an unaffiliated Person; and
- (ix) transactions pursuant to, or contemplated by any agreement in effect on the Issue Date and transactions pursuant to any amendment, modification or extension to such agreement, so long as such amendment, modification or extension, taken as a whole, is not materially more disadvantageous to the Bondholders than the original agreement as in effect on the Issue Date.

If an Affiliate Transaction involves an aggregate consideration in excess of U.S.\$10,000,000 (or its equivalent in other currencies), the Guarantor shall deliver a Director's certificate to the Trustee certifying that such Affiliate Transaction complies with this Condition 3(d) and if an Affiliate Transaction involves an aggregate consideration in excess of U.S.\$20,000,000 (or its equivalent in other currencies), the Guarantor shall procure that an Independent Appraiser delivers an opinion to the Trustee opining that such consideration is at Covenant Fair Market Value.

(e) **Asset Sales**

Neither the Issuer nor the Guarantor will, and the Guarantor will not permit any Principal Subsidiary to, consummate an Asset Sale unless the Issuer, the Guarantor or the Principal Subsidiary (as the case may be) receives consideration at least equal to the Covenant Fair Market Value of the assets or Equity Interests.

For the purposes of this Condition 3(e), if the book value of the assets or Equity Interests subject to such sale exceeds the greater of (i) 5 per cent. of the Consolidated Total Assets of the Guarantor and (ii) U.S.\$100,000,000, the Covenant Fair Market Value shall be determined by an Independent Appraiser and approved by the Board (as evidenced by a resolution of the Board), *provided that* any such Asset Sale by way of a public offering of securities in a domestic or international market or by way of a competitive tender, shall, in each case, be deemed to take place at Covenant Fair Market Value without requiring a valuation by an Independent Appraiser.

(f) **Information**

The Guarantor will make public, by way of announcement on a Regulatory Information Service, as soon as reasonably practicable following it becoming aware of any actual or anticipated new emphasis of matter or qualification in relation to its audited annual financial statements or the Group's audited annual financial statements, *provided that* in the opinion of the Board, the public disclosure of such information would, if generally available, be likely to have a significant effect on the price of the Ordinary Shares or the Bonds.

This Condition 3(f) shall be without prejudice to any legal or regulatory requirements applicable to the Guarantor and/or its Subsidiaries.

The Issuer or the Guarantor shall, as soon as reasonably practicable but in any event no later than two London business days after any public announcement referred to above, invite Bondholders to a meeting by notice sent in accordance with Condition 19, to be held no earlier than 5 and no later than 10 London business days following such notice to invite the Bondholders to establish a committee of Bondholders (the **"Bondholders Committee"**) to consult with the Guarantor in relation to the relevant actual or anticipated default and any remedy in respect thereof. The costs and expenses of such meeting and consultation (including any financial, legal and other advisers' fees), reasonably incurred by the Bondholders Committee in relation to such meeting and consultation, shall be borne by the Guarantor. The notice period for the convening of meetings of the Bondholders set out in Condition 16 shall not apply for the purposes of this Condition 3(f).

4. **Definitions**

In these Conditions:

"Additional Cash Alternative Amount" has the meaning provided in Condition 8(n).

"Additional Ordinary Shares" has the meaning provided in Condition 8(e).

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person.

"Applicable RA Reference Date" means (i) in the case of a Retroactive Adjustment pursuant to Conditions 8(b)(i), 8(b)(ii), 8(b)(iii), 8(b)(iv), 8(b)(v) or 8(b)(ix), the relevant Ex-Date and (ii) in the case of any other Retroactive Adjustment, the RA Reference Date in respect of such Retroactive Adjustment.

"Asset Sale" means:

- (a) the direct or indirect sale, transfer, lease, conveyance or other disposition of any assets by the Issuer, the Guarantor or any Principal Subsidiary; and
- (b) the issuance of Equity Interests by any Principal Subsidiary or the sale by the Issuer, the Guarantor or any Principal Subsidiary of Equity Interests in any Principal Subsidiary, in each case, other than directors' and employees' qualifying shares.

Notwithstanding the preceding paragraphs (a) and (b), none of the following items will be deemed to be an Asset Sale:

- (i) all direct or indirect sales, transfers, leases, conveyances or other dispositions of a revenue nature in the ordinary course of business of the Guarantor or any Principal Subsidiary;
- (ii) any single transaction or series of related transactions that involves assets having a Covenant Fair Market Value of less than U.S.\$5,000,000 (or its equivalent in other currencies);

- (iii) a transfer of assets or Equity Interests between or among a Principal Subsidiary to the Guarantor or by the Guarantor or a Principal Subsidiary to a Subsidiary;
- (iv) an issuance of Equity Interests by a Principal Subsidiary to the Issuer, the Guarantor or to a Subsidiary;
- (v) any direct or indirect sale, transfer, lease, conveyance or other disposition of damaged, worn-out, uneconomical, surplus or obsolete assets in the ordinary course of business;
- (vi) licences and sublicences by the Issuer, the Guarantor or any Principal Subsidiary in the ordinary course of business;
- (vii) any surrender or waiver of contract rights or settlement, release, recovery on or surrender of contract, tort or other claims in the ordinary course of business;
- (viii) the granting of any Permitted Security pursuant to Condition 3(a);
- (ix) the direct or indirect sale, transfer or other disposition of cash or Cash Equivalents;
- (x) the direct or indirect sale, transfer, lease, conveyance or other disposition of receivables in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings;
- (xi) the foreclosure, condemnation or any similar action with respect to any property or other assets or a surrender or waiver of contract rights or the settlement, release or surrender of contract, tort or other claims of any kind;
- (xii) the direct or indirect sale, transfer, lease, conveyance or other disposition of accounts receivable, inventory or other assets carried out in the ordinary course of business of the Issuer, the Guarantor or any Principal Subsidiary;
- (xiii) swaps of assets for other similar assets or assets whose value is at least equal in terms of type, Covenant Fair Market Value and quality, to the assets being swapped; and
- (xiv) the direct or indirect sale, transfer, lease, conveyance or other disposition of assets made as a result of any compulsory purchase order or decree by any governmental or other regulatory body or authority.

“Average Life” means, as of the date of determination, with respect to any Indebtedness, the quotient obtained by dividing (a) the sum of the products of the numbers of years from the date of determination to the dates of each successive scheduled principal payment of, or redemption or similar payment with respect to, such Indebtedness multiplied by the amount of such payment by (b) the sum of all such payments.

“Bondholders” means holders of the Bonds.

“business day” means, in relation to any place, a day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets are open for business.

“Capital Lease Obligation” means an obligation that is required to be classified and accounted for as a capital lease for financial reporting purposes in accordance with IFRS, and the amount of Indebtedness represented by such obligation shall be the capitalised amount of such obligation determined in accordance with IFRS; and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

“Capital Stock” means:

- (a) in the case of a corporation, share capital;
- (b) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;

- (c) in the case of a partnership or limited liability company, partnership interests (whether general or limited) or membership interests; and
- (d) any other interest or participation that confers on a person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing person, but excluding from all of the foregoing any debt securities convertible into Capital Stock, whether or not such debt securities include any right of participation with Capital Stock.

“**Cash Alternative Amount**” means, in respect of any exercise of Conversion Rights in respect of which the Guarantor shall have made a Cash Alternative Election, an amount calculated by the Calculation Agent in accordance with the following formula and which shall be payable by the Guarantor to a Bondholder in respect of the relevant Cash Settled Shares specified in the relevant Cash Alternative Election Notice:

$$CAA = \sum_{n=1}^N \frac{1}{N} \times CSS \times P_n$$

where:

CAA = the Cash Alternative Amount;

CSS = the Cash Settled Shares;

P_n = the Volume Weighted Average Price of an Ordinary Share on the nth dealing day of the Cash Alternative Calculation Period, translated into U.S. dollars at the Prevailing Rate on such dealing day; and

N = 60, being the number of dealing days in the Cash Alternative Calculation Period,

provided that:

- (a) if any Dividend or other entitlement in respect of the Ordinary Shares is announced, whether on or prior to or after the relevant Conversion Date in circumstances where the record date or other due date for the establishment of entitlement in respect of such Dividend or other entitlement shall be on or after the relevant Conversion Date (and such Dividend or other entitlement is neither (x) the subject of an adjustment to the Exchange Price which is in effect on the relevant Conversion Date nor (y) the subject of an Additional Cash Alternative Amount) and if on any dealing day in the Cash Alternative Calculation Period the Volume Weighted Average Price determined as provided above is based on a price ex-such Dividend or ex-such other entitlement, then such Volume Weighted Average Price shall be increased by an amount equal to the Fair Market Value of any such Dividend or other entitlement per Ordinary Share as at the Ex-Date in respect of such Dividend or entitlement, determined on a gross basis and disregarding any withholding or deduction required to be made for or on account of tax, and disregarding any associated tax credit, all as determined by the Calculation Agent;
- (b) if any Additional Cash Alternative Amount is due in respect of any exercise of Conversion Rights in respect of which a Cash Alternative Amount is being determined, any Volume Weighted Average Price on any dealing day falling in the relevant Cash Alternative Calculation Period but before the Applicable RA Reference Date shall be multiplied by the adjustment factor (as determined pursuant to these Conditions) applied to the Exchange Price in respect of the relevant Retroactive Adjustment, all as determined by the Calculation Agent, *provided that* where such adjustment factor as aforesaid cannot be determined in accordance with these Conditions before the second dealing day before the date on which payment of the Cash Alternative Amount is to be made, the relevant Volume Weighted Average Price as aforesaid shall be adjusted in such manner as determined in good faith to be appropriate by an Independent Adviser no later than such second dealing day before such payment date as aforesaid; and

- (c) if any doubt shall arise as to the calculation of the Cash Alternative Amount or if such amount cannot be determined as provided above, the Cash Alternative Amount shall be equal to such amount as is determined in such other manner as an Independent Adviser shall consider in good faith to be appropriate to give the intended result.

“Cash Alternative Calculation Period” means the period of 60 consecutive dealing days commencing on the third dealing day following the Cash Alternative Election Date.

“Cash Alternative Election” has the meaning provided in Condition 8(n).

“Cash Alternative Election Date” has the meaning provided in Condition 8(n).

“Cash Alternative Election Notice” has the meaning provided in Condition 8(n).

“Cash Equivalents” means:

- (a) direct obligations (or certificates representing an interest in such obligations) issued by, or unconditionally guaranteed by, the government of a member state of the Pre-Expansion European Union, the United States of America, Switzerland or Canada (including, in each case, any agency or instrumentality thereof), as the case may be, the payment of which is backed by the full faith and credit of the relevant member state of the Pre-Expansion European Union or the United States of America, Switzerland or Canada, as the case may be, and which are not callable or redeemable at the issuer’s option;
- (b) certificates of deposit, banker’s acceptances, money market deposits and commercial paper (and similar instruments) with maturities of 12 months or less from the date of acquisition issued by a bank or trust company which is organised under, or authorised to operate as a bank or trust company under, the laws of a member state of the Pre-Expansion European Union or of the United States of America or any state thereof, Switzerland or Canada;
- (c) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in paragraphs (a) and (b) above entered into with any financial institution meeting the qualification specified in paragraph (b) above; and
- (d) holdings in money market funds at least 95 per cent of the assets of which constitute Cash Equivalents of the kinds described in paragraphs (a) through (c) of this definition.

“Cash Settled Shares” means, in respect of an exercise of Conversion Rights by a Bondholder, such number of Ordinary Shares (which shall be a whole number of Ordinary Shares and shall not exceed the number of Reference Shares in respect of such exercise) as determined by the Guarantor and notified to the relevant Bondholder in the relevant Cash Alternative Election Notice in accordance with Condition 8(n).

“Cash Settlement Ratio” means, in respect of an exercise of Conversion Rights the subject of a Cash Alternative Election, such number as is equal to (x) the Cash Settled Shares in respect of such exercise of Conversion Rights divided by (y) the Reference Shares in respect of such exercise of Conversion Rights.

“Change of Control Exchange Price” has the meaning provided in Condition 8(b)(x).

A **“Change of Control Event”** shall occur if (i) any person or persons, acting together, acquire(s) or becomes entitled to control more than 50 per cent. of the votes that may ordinarily be cast on a poll at a general meeting of the Guarantor or to appoint and/or remove all or a majority of the members of the board of directors of the Guarantor (whether obtained directly or indirectly and whether obtained by ownership of share capital, contract or otherwise) (other than in any such case as a result of an Exempt Newco Scheme) or (ii) an offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) such Shareholders other than the offeror and/or any associate (as defined in Section 988(1) of the Companies Act) of the offeror), to acquire all or a majority of the issued ordinary share capital of the Guarantor or if any person proposes a scheme of arrangement or analogous proceeding with regard to such acquisition (other than an Exempt Newco Scheme) and (such

offer or scheme of arrangement or analogous proceeding having become or been declared unconditional in all respects or having become effective) the right to cast more than 50 per cent. of the votes that may ordinarily be cast on a poll at a general meeting of the Guarantor has or will become unconditionally vested in the offeror(s) or such person and/or any associate (as defined in Section 988(1) of the Companies Act) of the offeror(s) or such person, as the case may be.

“Closing Price” means, in respect of an Ordinary Share or any Security, Spin-Off Security, option, warrant or other right or asset on any dealing day, the closing price on the Relevant Stock Exchange on such dealing day of an Ordinary Share or, as the case may be, such Security, Spin-Off Security, option, warrant or other right or asset published by or derived from Bloomberg page HP (or any successor ticker page) (setting Last Price, or any other successor setting and using values not adjusted for any event occurring after such dealing day; and for the avoidance of doubt, all values will be determined with all adjustment settings on the DPDF Page, or any successor or similar setting, switched off) in respect of such Ordinary Share, Security, Spin-Off Security, option, warrant or other right or asset (all as determined by the Calculation Agent) (and for the avoidance of doubt such Bloomberg page for the Ordinary Shares as at the Issue Date is POG LN Equity HP), if available or, in any other case, such other source (if any) as shall be determined in good faith to be appropriate by an Independent Adviser on such dealing day, *provided that*:

- (a) if on any such dealing day (for the purpose of this definition, the **“Original Date”**) such price is not available or cannot otherwise be determined as provided above, the Closing Price of an Ordinary Share, Security, option, warrant, or other right or asset, as the case may be, in respect of such dealing day shall be the Closing Price, determined by the Calculation Agent as provided above, on the immediately preceding dealing day on which the same can be so determined, *provided however that* if such immediately preceding dealing day falls prior to the fifth day before the Original Date, the Closing Price in respect of such dealing day shall be considered to be not capable of being determined pursuant to this proviso (a); and
- (b) if the Closing Price cannot be determined as aforesaid, the Closing Price of an Ordinary Share, Security, option, warrant, or other right or asset, as the case may be, shall be determined as at the Original Date by an Independent Adviser in such manner as it shall determine in good faith to be appropriate.

“Commodity Agreement” means any hedging contract, swap agreement or other similar agreement with respect to commodity values.

“Companies Act” means the Companies Act 2006.

“Consolidated Total Assets” means at any date of determination, the book value of the total assets of the Group on a consolidated basis as determined in accordance with IFRS.

“Consolidated Leverage Ratio” means at any date of determination, with respect to the Guarantor, the ratio of (a) net debt as presented in the immediately preceding audited annual or unaudited semi-annual consolidated financial statements of the Guarantor on such day (as the case may be) to (b) the EBITDA.

“Conversion Date” has the meaning provided in Condition 8(i).

“Conversion Notice” has the meaning provided in Condition 8(i).

“Conversion Period” has the meaning provided in Condition 8(a).

“Conversion Period Commencement Date” has the meaning provided in Condition 8(a).

“Conversion Right” has the meaning provided in Condition 8(a).

“Core Business” means any business of the type in which the Guarantor or any Subsidiary of the Guarantor was engaged on the Issue Date and any business ancillary or complementary to such business.

“**Covenant Fair Market Value**” means, with respect to any asset or property, the price (after taking into account any liabilities relating to such asset or property) that would be paid by a willing buyer to an unaffiliated willing seller, neither of which is under any compulsion to complete the transaction.

“**Currency Agreement**” means any foreign exchange contract, currency swap agreement or other similar agreement with respect to currency values.

“**Current Market Price**” means, in respect of an Ordinary Share at a particular date, the arithmetic average of the daily Volume Weighted Average Price of an Ordinary Share on each of the five consecutive dealing days ending on the dealing day immediately preceding such date, as determined by the Calculation Agent, *provided that*:

- (a) for the purposes of determining the Current Market Price pursuant to Condition 8(b)(iv) or (vi) in circumstances where the relevant event relates to an issue of Ordinary Shares, if at any time during the said five dealing-day period (which may be on each of such five dealing days) the Volume Weighted Average Price shall have been based on a price ex-Dividend (or ex- any other entitlement) and/or during some other part of that period (which may be on each of such five dealing days) the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum- any other entitlement), in any such case which has been declared or announced, then:
 - (i) if the Ordinary Shares to be so issued do not rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Ordinary Shares shall have been based on a price cum-Dividend (or cum- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the Ex-Date in respect of such Dividend or entitlement (or, where on each of the said five dealing days the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum-any other entitlement), as at the date of first public announcement of such Dividend or entitlement), in any such case, determined by the Calculation Agent on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit; or
 - (ii) if the Ordinary Shares to be so issued or transferred and delivered (if applicable) do rank for the Dividend or entitlement in question, the Volume Weighted Average Price on the dates on which the Ordinary Shares shall have been based on a price ex-Dividend (or ex- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof increased by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the Ex-Date in respect of such Dividend or entitlement, in any such case, determined by the Calculation Agent on a gross basis and disregarding any withholding or deduction required to be made for or on account of tax, and disregarding any associated tax credit;
- (b) for the purpose of determining the Current Market Price of any Ordinary Shares which may be comprised in a Scrip Dividend, if on any of the said five dealing days the Volume Weighted Average Price of the Ordinary Shares shall have been based on a price cum all or part of such Scrip Dividend, the Volume Weighted Average Price of an Ordinary Share on such dealing day or dealing days shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the value (as determined in accordance with paragraph (a) of the definition of “**Dividend**”) of such Scrip Dividend or part thereof; and
- (c) for any other purpose, if any day during the said five-dealing-day period was the Ex-Date in relation to any Dividend (or any other entitlement) the Volume Weighted Average Prices that shall have been based on a price cum- such Dividend (or cum- such entitlement) shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the Ex-Date in respect of such Dividend or entitlement.

“**dealing day**” means a day on which the Relevant Stock Exchange is open for business and on which Ordinary Shares, Securities, Spin-Off Securities, options, warrants or other rights or assets (as the case may be) may be dealt in (other than a day on which the Relevant Stock Exchange is scheduled to or does close prior to its regular weekday closing time).

A “**De-Listing Event**” shall occur if, for whatever reason: (i) the Ordinary Shares cease to be admitted to trading on the London Stock Exchange, or (ii) trading of the Ordinary Shares on the London Stock Exchange is suspended, providing that trading of the Ordinary Shares shall not be considered to be suspended on any dealing day on which a general suspension of trading on the relevant stock exchange has occurred, for a period of 10 or more consecutive dealing days or, in circumstances where such suspension is requested by the Guarantor in connection with a corporate reorganisation, such trading is suspended for a period of 60 consecutive dealing days.

“**Dividend**” means any dividend or distribution to Shareholders (including a Spin-Off) whether of cash, assets or other property and however described and whether payable out of share premium account, profits, retained earnings or any other capital or revenue reserve or account, and including a distribution or payment to Shareholders upon or in connection with a reduction of capital (and for these purposes a distribution of assets includes without limitation an issue of Ordinary Shares or other Securities credited as fully or partly paid up by way of capitalisation of profits or reserves), *provided that*:

- (a) where a Scrip Dividend is announced, then the Scrip Dividend in question shall be treated as a cash Dividend of an amount equal to the sum of:
 - (i) in respect of the portion (if any) of the Scrip Dividend (which may be the whole of the Scrip Dividend) for which a Shareholder or Shareholders may take an election, the value of the option with the highest value, with the value of each option being equal to the value of the relevant property comprising such option as at the Scrip Dividend Valuation Date *provided that*, in the case of an option comprising more than one type of property, the value of such option shall be equal to the sum of the values of each individual type of property comprising such option, determined as provided below; and
 - (ii) in respect of the portion (if any) of the Scrip Dividend (which may be the whole of the Scrip Dividend) which is not subject to such election, the value of such portion as determined as provided below,

and where the “**value**” of any property in or comprising of a Scrip Dividend shall be determined as follows:

- (x) in the case of Ordinary Shares comprised in such Scrip Dividend, the Current Market Price of such Ordinary Shares as at the Scrip Dividend Valuation Date;
 - (y) in the case of cash comprising in such Scrip Dividend, the Fair Market Value of such cash as at the Scrip Dividend Valuation Date; and
 - (z) in the case of any other property or assets comprised in such Scrip Dividend, the Fair Market Value of such other property or assets as at the Scrip Dividend Valuation Date;
- (b) any issue of Ordinary Shares falling within Condition 8(b)(i) or 8(b)(ii) shall be disregarded;
- (c) a purchase or redemption or buy back of share capital of the Guarantor by or on behalf of the Guarantor or any of its Subsidiaries shall not constitute a Dividend unless, in the case of a purchase or redemption or buy back of Ordinary Shares by or on behalf of the Guarantor or any of its Subsidiaries, the weighted average price per Ordinary Share (before expenses) on any one day (a “**Specified Share Day**”) in respect of such purchases or redemptions or buy backs (translated, if not in the Relevant Currency, into the Relevant Currency at the Prevailing Rate on such day) exceeds by more than 5 per cent. the Current Market Price of an Ordinary Share:
 - (i) on the Specified Share Day; or

- (ii) where an announcement (excluding, for the avoidance of doubt for these purposes, any general authority for such purchases, redemptions or buy backs approved by a general meeting of Shareholders or any notice convening such a meeting of Shareholders) has been made of the intention to purchase, redeem or buy back Ordinary Shares at some future date at a specified price or where a tender offer is made, on the date of such announcement or, as the case may be, on the date of first public announcement of such tender offer (and regardless of whether or not a price per Ordinary Share, a minimum price per Ordinary Share or a price range or a formula for the determination thereof is or is not announced at such time),

in which case such purchase, redemption or buy back shall be deemed to constitute a Dividend in the Relevant Currency in an amount equal to the amount by which the aggregate price paid (before expenses) in respect of such Ordinary Shares purchased, redeemed or bought back by or on behalf of the Guarantor or, as the case may be, any of its Subsidiaries (translated where appropriate into the Relevant Currency as provided above) exceeds the product of (i) 105 per cent. of such Current Market Price and (ii) the number of Ordinary Shares so purchased, redeemed or bought back;

- (d) if the Guarantor or any of its Subsidiaries (or any person on its or their behalf) shall purchase, redeem or buy back any depositary or other receipts or certificates representing Ordinary Shares, the provisions of paragraph (c) above shall be applied in respect thereof in such manner and with such modifications (if any) as shall be determined in good faith by an Independent Adviser;
- (e) where a dividend or distribution is paid or made to Shareholders pursuant to any plan implemented by the Guarantor for the purpose of enabling Shareholders to elect, or which may require Shareholders, to receive dividends or distributions in respect of the Ordinary Shares held by them from a person other than (or in addition to) the Guarantor, such dividend or distribution shall for the purposes of these Conditions be treated as a dividend or distribution made or paid to Shareholders by the Guarantor, and the foregoing provisions of this definition and the provisions of these Conditions shall be construed accordingly;
- (f) where a Dividend in cash is declared which provides for payment by the Guarantor in the Relevant Currency (or, in the case of a Scrip Dividend, an amount in cash is or may be paid in the Relevant Currency, whether at the option of Shareholders or otherwise), it shall be treated as a Dividend in cash (or, in the case of a Scrip Dividend, an amount in cash) in such Relevant Currency, and in any other case it shall be treated as a Dividend in cash (or, in the case of a Scrip Dividend an amount in cash) in the currency in which it is payable by the Guarantor; and
- (g) a dividend or distribution that is a Spin-Off shall be deemed to be a Dividend paid or made by the Guarantor,

and any such determination shall be made in good faith by the Calculation Agent or, where specifically provided, an Independent Adviser and, in either such case, on a gross basis and disregarding any withholding or deduction required to be made for or on account of tax, and disregarding any associated tax credit.

“EBITDA” means the EBITDA for the most recently ended two semi-annual periods as provided and calculated using the immediately preceding audited annual or unaudited semi-annual consolidated financial statements of the Guarantor.

“Equity Interests” means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

“Event of Default” has the meaning provided in the Trust Deed.

“Ex-Date” means, in relation to any Dividend (including without limitation any Spin-Off), capitalisation, redesignation, reclassification, sub-division, consolidation, issue, grant, offer or other entitlement, unless otherwise defined herein, the first dealing day on which the Ordinary Shares are

traded ex- the relevant Dividend, capitalisation, redesignation, reclassification, sub-division, consolidation, issue, grant, offer or other entitlement on the Relevant Stock Exchange (or, for the purpose of Condition 8(b)(iii), in the case of a Dividend which is a purchase, redemption or buy back of Ordinary Shares (or, as the case may be, any depositary or other receipts or certificates representing Ordinary Shares) pursuant to paragraph (c) (or, as the case may be, paragraph (d)) of the definition of “Dividend”, the date on which such purchase, redemption or buy back is made).

“**Exchange Price**” has the meaning provided in Condition 8(a).

“**Exempt Newco Scheme**” means a Newco Scheme where, immediately after completion of the relevant Scheme of Arrangement, the ordinary shares or units or equivalent of Newco (or depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco) are (1) admitted to trading on the Relevant Stock Exchange or an EEA Regulated Market or (2) admitted to listing on such other regulated, regularly operating, recognised stock exchange as the Guarantor or Newco may determine.

“**Extraordinary Resolution**” has the meaning provided in the Trust Deed.

“**Fair Market Value**” means, on any date (the “**FMV Date**”):

- (a) in the case of a cash Dividend, the amount of such cash Dividend, as determined in good faith by the Calculation Agent;
- (b) in the case of any other cash amount, the amount of such cash, as determined in good faith by the Calculation Agent;
- (c) in the case of Securities (including Ordinary Shares), Spin-Off Securities, options, warrants or other rights or assets that are publicly traded on a Relevant Stock Exchange of adequate liquidity (as determined in good faith by the Calculation Agent or an Independent Adviser), the arithmetic mean of:
 - (i) in the case of Ordinary Shares or (to the extent constituting equity share capital) other Securities or Spin-Off Securities, for which a daily Volume Weighted Average Price (disregarding for this purpose proviso (b) to the definition thereof) can be determined, such daily Volume Weighted Average Price of the Ordinary Shares or such other Securities or Spin-Off Securities; and
 - (ii) in any other case, the Closing Price of such Securities, Spin-Off Securities, options, warrants or other rights or assets,

in the case of both (i) and (ii) during the period of five dealing days on the Relevant Stock Exchange for such Securities, Spin-Off Securities, options, warrants or other rights or assets commencing on such FMV Date (or, if later, the date (the “**Adjusted FMV Date**”) which falls on the first such dealing day on which such Securities, Spin-Off Securities, options, warrants or other rights or assets are publicly traded, *provided that* where such Adjusted FMV Date falls after the fifth day following the FMV Date, the Fair Market Value of such Securities, Spin-Off Securities, options, warrants or other rights or assets shall instead be determined pursuant to paragraph (d) below, and no such Adjusted FMV Date shall be deemed to apply) or such shorter period as such Securities, Spin-Off Securities, options, warrants or other rights or assets are publicly traded, all as determined in good faith by the Calculation Agent; and

- (d) in the case of Securities, Spin-Off Securities, options, warrants or other rights or assets that are not publicly traded on a Relevant Stock Exchange of adequate liquidity (as aforesaid) or where otherwise provided in paragraph (c) above to be determined pursuant to this (d), an amount equal to the fair market value of such Securities, Spin-Off Securities, options, warrants or other rights or assets as determined in good faith by an Independent Adviser, on the basis of a commonly accepted market valuation method and taking account of such factors as it considers appropriate, including the market price per Ordinary Share, the dividend yield of an Ordinary Share, the volatility of such market price, prevailing interest rates and the terms of such

Securities, Spin-Off Securities, options, warrants or other rights or assets, and including as to the expiry date and exercise price or the like (if any) thereof.

Such amounts shall (if not expressed in the Relevant Currency on the FMV Date (or, as the case may be, the Adjusted FMV Date)) be translated into the Relevant Currency at the Prevailing Rate on the FMV Date (or, as the case may be, the Adjusted FMV Date), all as determined in good faith by the Calculation Agent.

In addition, in the case of (a) and (b) above, the Fair Market Value shall be determined on a gross basis and disregarding any withholding or deduction required to be made for or on account of tax, and disregarding any associated tax credit.

“**FATCA**” has the meaning provided in Condition 10(b).

“**Final Maturity Date**” means 3 July 2024.

“**Financial Indebtedness**” means (without double counting) any indebtedness (other than trade credit) for or in respect of:

- (a) moneys borrowed;
- (b) any amount raised by acceptance under any acceptance credit trade finance facility or dematerialised equivalent;
- (c) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution;
- (d) (the principal component obligations in respect of letters of credit, bankers’ acceptances and similar instruments; and
- (e) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) to (d) above.

“**Further Bonds**” means any further Bonds issued pursuant to Condition 20 and consolidated and forming a single series with the then outstanding Bonds.

“**Group**” means the Guarantor and its Subsidiaries.

“**Hedging Obligations**” of any Person means the obligations of such Person pursuant to any Commodity Agreement, Interest Rate Agreement or Currency Agreement.

“**IFRS**” means International Financial Reporting Standards issued by the International Accounting Standards Board as adopted by the European Union as in effect from time to time in the United Kingdom.

“**Incur**” means issue, assume, guarantee, incur or otherwise become liable for; *provided, however, that* any Indebtedness of a Person existing at the time such Person becomes a Subsidiary of the Guarantor (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Person at the time it becomes a Subsidiary of the Guarantor. The term “**Incurrence**” when used as a noun shall have a correlative meaning. Solely for purposes of determining compliance with Condition 3(b):

- (a) amortisation of debt discount or the accretion of principal with respect to a non interest bearing or other discount security;
- (b) the payment of regularly scheduled interest in the form of additional Indebtedness of the same instrument or the payment of regularly scheduled dividends on Capital Stock in the form of additional Capital Stock of the same class and with the same terms; and
- (c) the obligation to pay a premium in respect of Indebtedness arising in connection with the issuance of a notice of redemption, the making of a mandatory offer to purchase such

Indebtedness, any prepayment or repayment, or otherwise in accordance with the terms of such Indebtedness,

will not be deemed to be the Incurrence of Indebtedness.

“Indebtedness” means, with respect to any Person on any date of determination (without duplication):

- (a) indebtedness of such Person for money borrowed (the amount of which as determined in accordance with IFRS);
- (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments (the amount of which as determined in accordance with IFRS);
- (c) any principal amount raised under any other transaction having the economic or commercial effect of a borrowing (the amount of which as determined in accordance with IFRS); and
- (d) the amount of any liability in respect of the guarantee or indemnity for, or similar undertaking given in respect of, any of the items referred to above in relation to any Person.

Notwithstanding the foregoing, the term **“Indebtedness”** will exclude (i) trade payables and accrued liabilities incurred in the ordinary course of business and maturing in less than 150 days; (ii) advances received from customers; (iii) any tax liability, customs liability or tax payments; (iv) contingent obligations not relating to items of Indebtedness in sub-paragraphs (a) to (d) above; (v) any intercompany Indebtedness within the Group; (vi) obligations with respect to letters of credit securing obligations entered into in the ordinary course of business of such Person to the extent such letters of credit are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than 45 days following receipt of a demand for reimbursement; and (vii) any counter-indemnity obligation in respect of a guarantee, indemnity, standby or documentary letter of credit or any other financial instrument issued by a bank or financial institution which arises in the ordinary course of business and that is discharged within three months after the relevant obligation crystallises.

“Independent Adviser” means an independent adviser with appropriate expertise, which may be the Calculation Agent, appointed by the Issuer or the Guarantor at its own expense and (other than where the initial Calculation Agent is appointed) approved in writing by the Trustee or, if the Issuer and the Guarantor fail to make such appointment and such failure continues for a reasonable period (as determined by the Trustee in its sole discretion) and the Trustee is indemnified and/or secured and/or prefunded to its satisfaction against the liabilities, costs, fees and expenses of such adviser and otherwise in connection with such appointment, as may be appointed by the Trustee (without liability for so doing) following notification thereof to the Issuer, which appointment shall be deemed to be made by the Issuer.

“Independent Appraiser” means an independent investment banking, accountancy or appraisal firm appointed by the Issuer or the Guarantor to determine Covenant Fair Market Value pursuant to these Conditions.

“Interest Payment Date” has the meaning provided in Condition 7(a).

“Interest Period” has the meaning provided in Condition 7(a).

“Interest Rate Agreement” means any interest rate swap agreement, interest rate cap agreement or other financial agreement or arrangement with respect to exposure to interest rates.

“Issue Date” has the meaning provided in Condition 7(a).

“London Stock Exchange” means the London Stock Exchange plc.

“Market Price” means the Volume Weighted Average Price of an Ordinary Share on the relevant Reference Date (translated, if not in U.S. dollars, into U.S. dollars at the Prevailing Rate on the Reference Date), *provided that* if any Dividend or other entitlement in respect of the Ordinary Shares is announced, whether on or prior to or after the relevant Conversion Date, in circumstances where the record date or other due date for the establishment of entitlement in respect of such Dividend or other

entitlement shall be on or after the Conversion Date and if, on the relevant Reference Date, the Volume Weighted Average Price of an Ordinary Share is based on a price ex-Dividend or ex- any other entitlement, then such Volume Weighted Average Price shall be increased by an amount equal to the Fair Market Value (translated, if not in U.S. dollars, into U.S. dollars at the Prevailing Rate on the Reference Date) of such Dividend or entitlement per Ordinary Share as at the date of first public announcement of such Dividend or entitlement (or if that is not a dealing day, the immediately preceding dealing day), as determined in good faith by the Calculation Agent on a gross basis and disregarding any withholding or deduction required to be made for or on account of tax, and disregarding any associated tax credit) and *provided that*, for the avoidance of doubt, converting in respect of any Dividend or entitlement.

“**Merger**” has the meaning provided in Condition 13(d).

“**Newco Scheme**” means a Scheme of Arrangement which effects the interposition of a limited liability company (“**Newco**”) between the Shareholders immediately prior to completion of the Scheme of Arrangement (the “**Existing Shareholders**”) and the Guarantor, *provided that* (i) only ordinary shares or units or equivalent of Newco or depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco are issued to Existing Shareholders (except for a nominal holding by initial subscribers); (ii) immediately after completion of the Scheme of Arrangement, the only holders of ordinary shares, units or equivalent of Newco or, as the case may be, the only holders of depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco (other than a nominal holding by initial subscribers) are Existing Shareholders holding in or substantially in the same proportions as such Existing Shareholders held Ordinary Shares immediately prior to completion of the Scheme of Arrangement; (iii) immediately after completion of the Scheme of Arrangement, Newco is (or one or more wholly-owned Subsidiaries of Newco are) the only shareholder (or shareholders) of the Guarantor; (iv) all Subsidiaries of the Guarantor immediately prior to the Scheme of Arrangement (other than Newco, if Newco is then a Subsidiary of the Guarantor) are Subsidiaries of the Guarantor (or of Newco) immediately after completion of the Scheme of Arrangement; and (v) immediately after completion of the Scheme of Arrangement the Guarantor (or Newco) holds, directly or indirectly, the same percentage of the ordinary share capital and equity share capital of those Subsidiaries as was held by the Guarantor immediately prior to the Scheme of Arrangement.

“**Optional Redemption Notice**” has the meaning provided in Condition 9(b).

“**Optional Redemption Date**” has the meaning provided in Condition 9(b).

“**Ordinary Shares**” means the ordinary shares of the Guarantor having a nominal value at the Issue Date of £0.01 each.

“**Parity Value**” means, in respect of any dealing day, the amount determined in good faith by the Calculation Agent and calculated as follows:

$$PV = N \times VWAP$$

where

$$PV = \text{the Parity Value}$$

$$N = \text{U.S. \$200,000 divided by the Exchange Price in effect on such dealing day (or, if the Change of Control Exchange Price would apply in respect of any exercise of Conversion Rights in respect of which the Conversion Date would fall on such dealing day, such Change of Control Exchange Price), provided that if (A) such dealing day falls on or after (i) the Ex-Date in relation to any entitlement in respect of which an adjustment is required to be made to the Exchange Price pursuant to Conditions 8(b)(i), 8(b)(ii), 8(b)(iii), 8(b)(iv), 8(b)(v) or 8(b)(ix) or (ii) the relevant date of first public announcement (as applicable pursuant to Conditions 8(b)(vi), 8(b)(vii) or 8(b)(viii)) in respect of which an adjustment is required to be made to the Exchange Price pursuant to Conditions 8(b)(vi), 8(b)(vii) or 8(b)(viii), and (B) such adjustment is not yet in}$$

effect on such dealing day, the Exchange Price in effect on such dealing day shall for the purpose of this definition only be multiplied by the adjustment factor subsequently determined by the Calculation Agent to be applicable in respect of the relevant Exchange Price adjustment

VWAP = the Volume Weighted Average Price of an Ordinary Share on such dealing day (translated if not in U.S. dollars into U.S. dollars at the Prevailing Rate on such dealing day).

“Permitted Indebtedness” means:

- (a) intercompany Financial Indebtedness owed to and held by the Guarantor or a Subsidiary of the Guarantor in respect of the Guarantor or a Subsidiary of the Guarantor; *provided, however, that* any subsequent issuance or transfer of any Capital Stock which results in any such Subsidiary ceasing to be a Subsidiary or any subsequent disposition, pledge or transfer of such intercompany Financial Indebtedness (other than to the Guarantor or a Subsidiary of the Guarantor) shall be deemed, in each case, to constitute the Incurrence of such Financial Indebtedness by the relevant obligor in respect of such Financial Indebtedness;
- (b) Financial Indebtedness represented by the Bonds and the Guarantee;
- (c) Financial Indebtedness outstanding on 14 November 2017;
- (d) Financial Indebtedness of the acquiring Guarantor or Subsidiary of the Guarantor or an acquired Subsidiary of the Guarantor Incurred and outstanding on or prior to the date on which such Subsidiary was acquired by a member of the Group (other than Financial Indebtedness Incurred in connection with, or to provide all or any portion of the funds or credit support utilised to consummate, the transaction or series of related transactions pursuant to which such Subsidiary became a Subsidiary of the Guarantor or was acquired by the Guarantor); *provided, however, that* on the date of such acquisition and after giving *pro forma* effect thereto, the Guarantor would have been entitled to Incur at least U.S.\$1.00 of additional Financial Indebtedness pursuant to Condition 3(b);
- (e) Refinancing Indebtedness incurred by the Issuer, the Guarantor or a Subsidiary of the Guarantor in respect of Financial Indebtedness Incurred by the Issuer, the Guarantor or a Subsidiary of the Guarantor pursuant to Condition 3(b) or pursuant to paragraphs (b), (c), (d), (e), (o) or (p) of this definition of Permitted Indebtedness;
- (f) Hedging Obligations Incurred in the ordinary course of business of the Guarantor or any Subsidiary of the Guarantor; *provided that* such Commodity Agreement, Interest Rate Agreements or Currency Agreements giving rise to such Hedging Obligations are entered into for the purpose of limiting interest rate, currency or commodity risk (including but not limited to gold price fluctuation risk), as the case may be, and are not entered into for speculative purposes;
- (g) obligations in respect of performance, bid and surety bonds, completion guarantees, letters of credit, *veksels* or similar obligations provided by the Guarantor or any Subsidiary of the Guarantor in the ordinary course of business, *provided that*, upon demand being made under such obligations, such obligations are reimbursed or the Financial Indebtedness thereunder repaid within 60 days following such payment or disbursement in respect of such demand;
- (h) Financial Indebtedness arising from the honouring by a bank or other financial institution of a cheque, draft or similar instrument inadvertently drawn against insufficient funds in the ordinary course of business; *provided, however, that* such Financial Indebtedness is extinguished within five Jersey, London, New York and Moscow Business Days of its Incurrence;
- (i) Financial Indebtedness arising from agreements of the Guarantor or a Subsidiary of the Guarantor providing for indemnification, adjustment of purchase price or similar obligations, in each case, Incurred or assumed in connection with the acquisition or disposition of any

- business, assets or Capital Stock of the Guarantor or any Subsidiary of the Guarantor; provide that the maximum aggregate liability in respect of all such Financial Indebtedness shall at no time exceed the relevant purchase price in connection with such acquisition or disposition;
- (j) Purchase Money Indebtedness Incurred to finance the repair, improvement, lease or acquisition by the Guarantor or a Subsidiary of the Guarantor of assets in the ordinary course of business, and any Refinancing Indebtedness Incurred to Refinance such Financial Indebtedness in an aggregate principal amount which, when added together with the amount of all other Financial Indebtedness Incurred pursuant to this paragraph (j) and then outstanding, does not exceed U.S.\$25 million at any time outstanding;
 - (k) Financial Indebtedness in respect of workers' compensation claims or claims arising under similar legislation, or pursuant to self-insurance obligations and not in connection with the borrowing of money or the obtaining of advances or credit;
 - (l) customer deposits and advance payments received from customers in the ordinary course of business;
 - (m) any guarantee provided in connection with a value added tax refund from the budget of the Russian Federation in the ordinary course of business;
 - (n) any guarantee extended to suppliers of goods or services to any member of the Group on an arm's length basis and on commercial terms and in the ordinary course of business;
 - (o) Project Finance Indebtedness; and
 - (p) and other Financial Indebtedness of the Guarantor or any Subsidiary of the Guarantor in the aggregate principal amount at any time outstanding not to exceed U.S.\$25 million.

“Permitted Security” means, collectively, the following items:

- (a) any Security existing on 14 November 2017;
- (b) any netting or set-off arrangement entered into by any member of the Group in the ordinary course of its financing or banking arrangements for the purposes of netting debit and credit balances or any such arrangements entered into pursuant to any hedging permitted by paragraph (f) of the definition of Permitted Indebtedness;
- (c) any direct debit arrangements entered into in respect of its bank accounts;
- (d) any lien arising by operation of law, regulation or regulatory requirement and in the ordinary course of business;
- (e) any Security over or affecting any asset acquired by a member of the Group after the Issue Date, where the Security is created prior to the date on which the asset is acquired by a member of the Group, if:
 - (i) the Security was not created in contemplation of the acquisition of that asset by a member of the Group; and
 - (ii) the principal amount secured has not been increased in contemplation of or since the acquisition of that asset by a member of the Group;
- (f) any Security over or affecting any asset of any company which becomes a member of the Group after the Issue Date, where the Security is created prior to the date on which that company becomes a member of the Group, if:
 - (i) the Security was not created in contemplation of the acquisition of that company; and
 - (ii) the principal amount secured has not been increased in contemplation of or since the acquisition of that company;

- (g) any title transfer, hire purchase, conditional sale or retention of title arrangement or arrangements having similar effect and any Security arising under such arrangements entered into by any member of the Group at arm's length and in the ordinary course of business on that member's or a counterparty's standard or usual terms;
- (h) any Security securing Financial Indebtedness under hedging obligations, which obligations are permitted by paragraph (f) of the definition of Permitted Indebtedness;
- (i) leases (including operating leases), licences, subleases and sublicences of assets in the ordinary course of business;
- (j) pledges of goods, the related documents of title and/or other related documents arising or created in the ordinary course of business as security for indebtedness to a bank or financial institution directly relating to the goods or documents over which that pledge exists;
- (k) the discounting of bills or notes on arm's length commercial terms and in the ordinary course of business;
- (l) any Security over or affecting assets acquired by a member of the Group or rights relating thereto to secure any rights granted with respect to such assets in connection with the provision of all or part of the purchase price or cost of construction or improvement of such assets created contemporaneously with, or within 120 days after, such acquisition or the completion of such construction or improvement; *provided that* the aggregate principal amount of Financial Indebtedness secured shall not exceed the Covenant Fair Market Value of such assets or rights and no such Security shall extend to or cover any other assets or rights;
- (m) any Security created by or resulting from any litigation or legal proceeding which is effectively stayed while the underlying claims are being contested in good faith by appropriate proceedings and to which the Issuer, the Guarantor or such Subsidiary has established adequate reserves in accordance with IFRS;
- (n) any Security created for the benefit of (or to secure) the Bonds or the Guarantee;
- (o) any Security incidental to the normal conduct of the business of the Group and its Subsidiaries or the ownership of their respective properties which is not created in connection with the incurrence of Financial Indebtedness for borrowed money and which does not in the aggregate materially impair the use of such property in the operation of the business of the Group and its Subsidiaries taken as a whole, or the value of such property for the purposes of such business;
- (p) any Security for tax being contested diligently, taking into account applicable time periods, and in good faith for which adequate reserves are being maintained in accordance with IFRS;
- (q) any guarantee or indemnity in respect of any Permitted Indebtedness;
- (r) any Security (a "**Substitute Security**") which replaces any other Security permitted under paragraphs (a) to (r) above inclusive; *provided that* the maximum principal amount secured by such Permitted Security is not increased (plus all accrued interest and the amount of all fees and expenses, including premiums, incurred in connection therewith) and the existing Security to be replaced is released and all amounts secured thereunder are paid or otherwise discharged in full at or prior to the time of such Substitute Security being created or arising; or
- (s) any Security securing indebtedness the principal amount of which (when aggregated with the principal amount of any other indebtedness which has the benefit of a Security given by any member of the Group other than any permitted under paragraphs (a) to (q) above inclusive) does not exceed U.S.\$5,000,000 (or its equivalent in other currencies).

"Person" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organisation, limited liability company or government or other entity.

“Physically Settled Shares” means, in respect of any exercise of Conversion Rights, (i) the Reference Shares or (ii) where such exercise is the subject of a Cash Alternative Election, such number of Ordinary Shares (which may be equal to zero) as is equal to the Reference Shares minus the Cash Settled Shares.

“Potential Event of Default” has the meaning provided in the Trust Deed.

“Pre-Expansion European Union” means the European Union as of 1 January 2004, including the countries of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom, but not including any country which became or becomes a member of the European Union after 1 January 2004.

“Preference Shares” means exchangeable redeemable preference shares of the Issuer of nominal value U.S.\$0.01 each and which will be issued on conversion of each U.S.\$200,000 in principal amount of the Bonds at a paid-up value (the **“Paid-up Value”**) of U.S.\$200,000 each.

“Prevailing Rate” means, in respect of any pair of currencies on any day, the spot mid-rate of exchange between the relevant currencies prevailing as at 12 noon (London time) on that date (for the purpose of this definition, the **“Original Date”**) as appearing on or derived from Bloomberg page BFIX (or any successor page) in respect of such pair of currencies, or, if such a rate cannot be so determined, the rate prevailing as at 12 noon (London time) on the immediately preceding day on which such rate can be so determined, *provided that* if such immediately preceding day falls earlier than the fifth day prior to the Original Date or if such rate cannot be so determined (all as determined in good faith by the Calculation Agent), the Prevailing Rate in respect of the Original Date shall be the rate determined in such other manner as an Independent Adviser shall consider appropriate.

“Principal Subsidiary” means any Subsidiary of the Guarantor which has earnings before investment income, financial interest, tax, depreciation and amortisation calculated on the same basis as EBITDA (if positive) (as defined in the audited consolidated financial statements of the Group) representing 10 per cent. or more of EBITDA, but excluding IRC and its subsidiaries. Compliance with the conditions set out in this definition shall be determined by reference to the latest financial statements of that Subsidiary (consolidated in the case of a Subsidiary which itself has subsidiaries) and the latest audited consolidated financial statements of the Guarantor.

A certificate of two directors of the Guarantor that, in their opinion, a Subsidiary of the Guarantor, is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Issuer, the Guarantor, the Trustee and the Bondholders.

“Project Finance Indebtedness” means any Indebtedness (other than Indebtedness Incurred by the Guarantor) Incurred to finance the ownership, acquisition, development and/or operation of any assets or projects relating to the Core Business, in respect of which the Person or Persons to whom any such Indebtedness is or may be owed by the relevant borrower (whether or not a member of the Group) has or have no recourse whatsoever to any member of the Group for the repayment thereof except for:

- (a) recourse to such borrower for amounts limited to the present and future cash flow or net cash flow from the relevant assets or projects; and/or
- (b) recourse to such borrower for the purpose only of enabling amounts to be claimed in respect of such Indebtedness in an enforcement of any security or encumbrance given by such borrower over any such assets or projects or the income, cash flow or proceeds deriving therefrom *provided that* the extent of such recourse to such borrower is limited solely to the amount of any recoveries made on any such enforcement; and/or
- (c) recourse to any shareholder or the like in the borrower over its shares or the like (in each case, to the extent drawn) to secure such Indebtedness; and/or
- (d) recourse to a member of the Group, under any form of assurance, undertaking or support, which recourse is limited to a claim for damages (other than liquidated damages and damages required to be calculated in a specified way) for breach of an obligation (not being a payment obligation or an obligation to comply or to procure payment by another or an indemnity in respect thereof

or an obligation to comply or to procure compliance by another with any financial ratios or other tests of financial condition) by the person against whom such recourse is available; and/or

- (e) recourse to the Guarantor under a guarantee provided in respect of such Indebtedness as an integral part of such Indebtedness and given when such Indebtedness was first incurred or issued.

“Purchase Money Indebtedness” means Indebtedness (including Capital Lease Obligations) (i) consisting of the deferred purchase price of property, the Capital Stock of a Person owning such property, to the extent permitted by these Conditions, conditional sale obligations, obligations under any title retention agreement, other purchase money obligations and obligations in respect of industrial revenue bonds or similar Indebtedness, in each case where the maturity of such Indebtedness does not exceed the anticipated useful life of the asset being financed, and (ii) Incurred to finance the acquisition by the Guarantor or a Subsidiary of the Guarantor of such asset or Capital Stock, including construction, additions and improvements, in the ordinary course of business (including the cost of design, development, construction, acquisition, transportation, installation, improvement and migration of assets); *provided, however, that* (A) any lien arising in connection with any such Indebtedness shall be limited to the specific asset being financed, or, in the case of real property or fixtures, including additions and improvements, the real property on which such asset is attached, (B) such Indebtedness is Incurred within 180 days after such acquisition of such assets and (C) the aggregate principal amount of Purchase Money Indebtedness at one time outstanding shall not exceed (x) the Covenant Fair Market Value of the acquired or constructed assets, the amount of the asset was entered into by the Guarantor or the relevant Subsidiary of the Guarantor (including, in each case, any reasonable related fees and expenses incurred in connection with such acquisition, construction or development).

“RA Reference Date” has the meaning provided in the definition “Retroactive Adjustment”.

“Record Date” means, in respect of a payment, the fifth London business day before the due date for the relevant payment.

“Reference Date” has the meaning provided in Condition 8(i).

“Reference Shares” means, in respect of the exercise of Conversion Rights by a Bondholder, the number of Ordinary Shares (rounded down, if necessary, to the nearest whole number) determined in good faith by the Calculation Agent by dividing the Paid-Up Value of such Preference Shares by the Exchange Price in effect on the relevant Conversion Date, except that where the Conversion Date falls on or after the date an adjustment to the Exchange Price takes effect pursuant to Conditions 8(b)(i), 8(b)(ii), 8(b)(iii), 8(b)(iv), 8(b)(v) or 8(b)(ix) but on or prior to the record date or other due date for establishment of entitlement in respect of the relevant event giving rise to such adjustment, then provided the Issuer is able to confer the benefit of the relevant consolidation, reclassification, redesignation or subdivision, Dividend, issue or grant (as the case may be) on the relevant Bondholder in respect of the relevant Ordinary Shares to be issued (assuming for these purposes that a Cash Alternative Election is not made in respect of the relevant exercise of Conversion Right) to such Bondholder in respect of the relevant exercise of Conversion Rights, the Exchange Price in respect of such exercise shall be such Exchange Price as would have been applicable to such exercise had no such adjustment been made.

“Refinance” means, in respect of any Indebtedness, to refinance, extend, renew, refund, repay, prepay, purchase, redeem, defease or retire, or to issue other Indebtedness in exchange or replacement for, such Indebtedness. **“Refinances”**, **“Refinanced”** and **“Refinancing”** shall have correlative meanings.

“Refinancing Indebtedness” means Indebtedness that Refinances any Indebtedness of the Guarantor or any Subsidiary of the Guarantor existing on the Issue Date or Incurred in compliance with the Bonds, including Indebtedness that Refinances Refinancing Indebtedness; *provided, however, that:*

- (a) such Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness being Refinanced;

- (b) such Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is Incurred that is equal to or greater than the Average Life of the Indebtedness being Refinanced;
- (c) such Refinancing Indebtedness has an aggregate principal amount (or if Incurred with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if Incurred with original issue discount, the aggregate accreted value) then outstanding (plus all accrued interest and fees and expenses, including any premium and defeasance costs) under the Indebtedness being Refinanced; and
- (d) if the Indebtedness being Refinanced is subordinated in right of payment to the Bonds, such Refinancing Indebtedness is subordinated in right of payment to the Bonds at least to the same extent as the Indebtedness being Refinanced.

“Register” has the meaning provided in Condition 5.

“Regulatory Information Service” means a regulated information service for the purposes of giving information relating to the Bonds and/or the rules of the Relevant Stock Exchange chosen by the Issuer from time to time, including but not limited to the Regulatory News Service of the London Stock Exchange.

“Relevant Currency” means at any time, the currency in which the Ordinary Shares are quoted or dealt in at such time on the Relevant Stock Exchange.

“Relevant Date” means, in respect of any Bond the date on which said payment first becomes due except that, if the full amount of the moneys payable has not been duly received by the Principal Paying, Transfer, Conversion and Exchange Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Bondholders in accordance with Condition 19.

“Relevant Debt” means any present or future indebtedness of the Issuer, the Guarantor or any other person in the form of, or represented by, bonds, notes, debentures, loan stock or other securities which are for the time being, or are capable of being, quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market.

“Relevant Event” means a Change of Control Event or a De-Listing Event.

“Relevant Event Notice” has the meaning provided in Condition 8(o).

“Relevant Event Period” means the period commencing on the occurrence of a Relevant Event and ending 60 calendar days following such Relevant Event or, if later, 60 calendar days following the date on which a Relevant Event Notice is given to Bondholders as required by Condition 8(o).

“Relevant Event Put Date” has the meaning provided in Condition 9(e).

“Relevant Event Put Exercise Notice” has the meaning provided in Condition 9(e).

“Relevant Stock Exchange” means:

- (a) in respect of the Ordinary Shares, the London Stock Exchange or, if at the relevant time the Ordinary Shares are not at that time listed and admitted to trading on the London Stock Exchange, the principal stock exchange or securities market on which the Ordinary Shares are then listed, admitted to trading or quoted or dealt in; and
- (b) in respect of any Securities (other than Ordinary Shares), Spin-Off Securities, options, warrants or other rights or assets, the principal stock exchange or securities market on which such Securities, Spin-Off Securities, options, warrants or other rights or assets are then listed, admitted to trading or quoted or dealt in,

where **“principal stock exchange or securities market”** shall mean the stock exchange or securities market on which such Ordinary Shares, Securities, Spin-Off Securities, options, warrants or other rights

or assets are listed, admitted to trading or quoted or dealt in, *provided that* if such Ordinary Shares, Securities, Spin-Off Securities, options, warrants or other rights or assets are listed, admitted to trading or quoted or dealt in (as the case may be) on more than one stock exchange or securities market at the relevant time, then “principal stock exchange or securities market” shall mean that stock exchange or securities market on which such Ordinary Shares, Securities, Spin-Off Securities, options, warrants or other rights or assets are then traded as determined by the Calculation Agent (if the Calculation Agent determines that it is able to make such determination) or (in any other case) by an Independent Adviser by reference to the stock exchange or securities market with the highest average daily trading volume in respect of such Ordinary Shares, Securities, Spin-Off Securities, options, warrants or other rights or assets.

A “**Retroactive Adjustment**” shall occur if the Conversion Date in relation to the conversion of any Bond shall be (i) after the date (the “**RA Reference Date**”) which is the record date in respect of any consolidation, reclassification, redesignation or sub-division as is mentioned in Condition 8(b)(i), or which is the record date or other due date for the establishment of entitlement for any such issue, distribution, grant or offer (as the case may be) as is mentioned in Condition 8(b)(ii), 8(b)(iii), 8(b)(iv), 8(b)(v) or 8(b)(ix), or which is the date of the first public announcement of the terms of any such issue or grant as is mentioned in Condition 8(b)(vi) and 8(b)(vii) or of the terms of any such modification as is mentioned in Condition 8(b)(viii); and (ii) before the relevant adjustment to the Exchange Price becomes effective under Condition 8(b).

“**Scheme of Arrangement**” means a scheme of arrangement, share for share exchange or analogous procedure.

“**Scrip Dividend**” means:

- (a) a Dividend which is to be satisfied, or a Dividend in cash which may at the election of a Shareholder or Shareholders be satisfied, in whole or in part, by the issue of Ordinary Shares and/or other property or assets; or
- (b) an issue of Ordinary Shares or other property or assets by way of a capitalisation of profits or reserves (including any share premium account or capital redemption reserve, and whether described as a scrip or share dividend or distribution or otherwise) which is to be satisfied, or which may at the election of a Shareholder or Shareholders be satisfied, in whole or in part, by the payment of cash.

“**Scrip Dividend Valuation Date**” means:

- (a) in respect of any portion of a Scrip Dividend for which a Shareholder or Shareholders may make an election, the later of (i) the Ex-Date in relation to the relevant dividend or capitalisation, (ii) the last day on which the relevant election can be made by such Shareholder or Shareholders, and (iii) the date on which the number of Ordinary Shares, amount of cash, or amount of other property or assets, as the case may be, which may be issued is publicly announced; or
- (b) in respect of any portion of a Scrip Dividend which is not subject to such election, the later of (i) the Ex-Date in relation to the relevant dividend or capitalisation and (ii) the date on which the number of Ordinary Shares, amount of cash or amount of such other property or assets, as the case may be, to be issued is publicly announced.

“**Securities**” includes, without limitation, Ordinary Shares and any other shares in the share capital of the Guarantor and options, warrants or other rights to subscribe for or purchase or acquire Ordinary Shares or any other shares in the capital of the Guarantor.

“**Settlement Date**” has the meaning provided in Condition 8(i).

“**Shareholders**” means the holders of Ordinary Shares.

“Spin-Off” means:

- (a) a distribution of Spin-Off Securities by the Guarantor to Shareholders as a class; or
- (b) any issue, transfer or delivery of any property or assets (including cash or shares or other securities of or in or issued or allotted by any entity) by any entity (other than the Guarantor) to Shareholders as a class or, in the case of or in connection with a Scheme of Arrangement, Existing Shareholders, as a class (but excluding the issue and allotment of ordinary shares (or depository or other receipts or certificates representing such ordinary shares) by Newco to Existing Shareholders as a class), pursuant in each case to any arrangements with the Guarantor or any of its Subsidiaries.

“Spin-Off Securities” means equity share capital of an entity other than the Guarantor or options, warrants or other rights to subscribe for or purchase equity share capital of an entity other than the Guarantor.

“Stated Maturity” means, with respect to any security or obligation, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

“Subsidiary” means any company or other business entity of which the Guarantor owns or controls (either directly or through one or more other Subsidiaries) more than 50 per cent. of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity or any company or other business entity which at any time has its accounts consolidated with those of the Guarantor or which, under English or other applicable law or regulations and under generally accepted accounting principles in the United Kingdom, or IFRS, as the case may be, from time to time, should have its accounts consolidated with those of the Guarantor.

“Tax Redemption Date” has the meaning provided in Condition 9(c).

“Tax Redemption Notice” has the meaning provided in Condition 9(c).

“Volume Weighted Average Price” means, in respect of an Ordinary Share, Security or, as the case may be, a Spin-Off Security, on any dealing day, the volume weighted average price on such dealing day on the Relevant Stock Exchange of an Ordinary Share, Security or, as the case may be, a Spin-Off Security, as published by or derived from Bloomberg page HP (or any successor page) (setting Weighted Average Line or any other successor setting and using values not adjusted for any event occurring after such dealing day; and for the avoidance of doubt, all values will be determined with all adjustment settings on the DPDF Page, or any successor or similar setting, switched off) in respect of such Ordinary Share, Security, or, as the case may be, Spin-Off Security (and for the avoidance of doubt such Bloomberg page for the Ordinary Shares as at the Issue Date is POG LN Equity HP) if any or, in any such case, such other source (if any) as shall be determined in good faith to be appropriate by an Independent Adviser on such dealing day *provided that*:

- (a) if on any such dealing day (for the purposes of this definition, the **“Original Date”**) such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of an Ordinary Share, Security or Spin-Off Security, as the case may be, in respect of such dealing day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding dealing day on which the same can be so determined, *provided however that* if such immediately preceding dealing day falls prior to the fifth day before the Original Date, the Volume Weighted Average Price in respect of such dealing day shall be considered to be not capable of being determined pursuant to this proviso (i); and
- (b) if the Volume Weighted Average Price cannot be determined as aforesaid, the Volume Weighted Average Price of an Ordinary Share, Security or Spin-Off Security, as the case may

be, shall be determined as at the Original Date by an Independent Adviser in such manner as it shall determine in good faith to be appropriate,

and the Volume Weighted Average Price determined as aforesaid on or as at any dealing day shall, if not in the Relevant Currency, be translated into the Relevant Currency at the Prevailing Rate on such dealing day.

“U.S.\$” and “U.S. dollar” means the lawful currency for the time being of the United States of America.

References to “**ordinary share capital**” have the meaning provided in Section 1119 of the Corporation Tax Act 2010 and to “**equity share capital**” have the meaning provided in Section 548 of the Companies Act.

References to any act or statute or any provision of any act or statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under such modification or re-enactment.

References to any issue or offer or grant to Shareholders or Existing Shareholders “**as a class**” or “**by way of rights**” shall be taken to be references to an issue or offer or grant to all or substantially all Shareholders or Existing Shareholders, as the case may be, other than Shareholders or Existing Shareholders, as the case may be, to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange or securities market in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant.

In making any calculation or determination of Current Market Price, Volume Weighted Average Price or Closing Price such adjustments (if any) shall be made in good faith and as the Calculation Agent or an Independent Adviser considers appropriate to reflect any consolidation or sub-division of the Ordinary Shares or any issue of Ordinary Shares by way of capitalisation of profits or reserves, or any like or similar event.

For the purposes of the definition of “Current Market Price”, “Dividend”, “Newco Scheme”, “Reference Shares”, “Scrip Dividend” and “Scrip Dividend Valuation Date” and Conditions 8 and 13, (a) references to the “**issue**” of Ordinary Shares, Securities, or other property or assets or Ordinary Shares, Securities, or other property or assets being “**issued**” shall include the issue or transfer and delivery of Ordinary Shares (or, as the case may be, Securities or other property or assets) by the Guarantor or any of its Subsidiaries, whether newly issued and allotted or previously existing or held by or on behalf of the Guarantor or any of its Subsidiaries, and (b) Ordinary Shares held by or on behalf of the Guarantor or any of its Subsidiaries (and which, in the case of Conditions 8(b)(iii) and 8(b)(iv), do not rank for the relevant Dividend, right or other entitlement) shall not be considered as or treated as “**in issue**” or entitled to receive the relevant Dividend, right or other entitlement.

5. Registration

The Issuer will cause a register (the “**Register**”) to be kept at the specified office of the Registrar outside the United Kingdom on which will be entered the names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers, redemptions and conversions of Bonds. Bondholders will be entitled to receive only one Bond in respect of their respective holdings.

6. Transfer of Bonds

(a) Transfer

Bonds may, subject to Conditions 6(b) and 6(c), be transferred by lodging the relevant Bond (with the form of application for transfer in respect thereof duly executed and duly stamped where applicable) at the specified office of the Registrar or any Paying, Transfer, Conversion and Exchange Agent.

No transfer of a Bond will be valid unless and until entered on the Register. A Bond may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number). No transfer in part only of a Bond shall be permitted.

The Registrar will, within seven Business Days (as defined below) of any duly made application for the transfer of a Bond, deliver a new Bond to the transferee, at the specified office of the Registrar, or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary uninsured mail, at the expense of the transferee or, as the case may be, the transferor) mail the Bond by ordinary uninsured mail to such address as the transferee or, as the case may be, the transferor may request.

(b) **Formalities Free of Charge**

Such transfer will be effected without charge subject to (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar and the Trustee.

(c) **Closed Periods**

Neither the Issuer nor the Registrar will be required to register the transfer of any Bond (or part thereof) (i) during the period of 15 calendar days immediately prior to the Final Maturity Date or any earlier date fixed for redemption of the Bonds pursuant to Condition 9(b) or 9(c), (ii) in respect of which a Conversion Notice has been delivered in accordance with Condition 8(i), (iii) in respect of which a holder has exercised its right to require the Issuer to redeem pursuant to Condition 9(e) or (iv) during the period of 15 days ending on (and including) any Record Date in respect of any payment of interest on the Bonds.

(d) **Regulations**

All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfers of Bonds scheduled to the Agency Agreement. The regulations may be changed by agreement between the Issuer, the Trustee, the Paying, Transfer, Conversion and Exchange Agents and the Registrar. A copy of the current regulations will be made available by the Registrar to any Bondholder upon request.

(e) **Business Day**

In this Condition 6, “**Business Day**” means a day (other than a Saturday, Sunday or public holiday) on which commercial banks are open for business in London, Jersey and in the place of the specified office of the Registrar.

7. **Interest**

(a) **Interest Rate**

The Bonds bear interest from (and including) 3 July 2019 (the “**Issue Date**”) at the rate of 8.25 per cent. per annum calculated by reference to the principal amount thereof and payable quarterly in equal instalments in arrears on 3 January, 3 April, 3 July and 3 October in each year (each an “**Interest Payment Date**”), commencing with the Interest Payment Date falling on 3 October 2019.

Where interest is required to be calculated for any period which is not an Interest Period it will be calculated on the basis of a 360 day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

“**Interest Period**” means the payment period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning

on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

(b) **Accrual of Interest**

Each Bond will cease to bear interest (i) where the Conversion Right shall have been exercised by a Bondholder, from the Interest Payment Date immediately preceding the relevant Conversion Date or, if none, the Issue Date (subject in any such case as provided in Condition 8(l)) or (ii) in the case of a redemption of the Bonds, from the due date for redemption thereof unless, upon due presentation thereof, payment of the principal amount of the Bonds is improperly withheld or refused, and in such event interest will continue to accrue at the rate specified in Condition 7(a) (both before and after judgement) until whichever is the earlier of (A) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder, and (B) the day seven days after the Trustee or the Principal Paying, Transfer, Conversion and Exchange Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

8. Conversion and Exchange

(a) **Conversion Right**

Subject as provided in these Conditions, each Bond shall entitle the holder to convert each U.S.\$200,000 principal amount of a Bond into one fully paid Preference Share, allotted at a price equal to the Paid-Up Value (a “**Conversion Right**”).

A Bondholder may exercise the Conversion Right in respect of a Bond by delivering such Bond, together with a duly completed Conversion Notice, to the specified office of any Paying, Transfer, Conversion and Exchange Agent in accordance with Condition 8(i), whereupon the Issuer shall issue to the relevant Bondholder or his nominee one Preference Share in respect of each U.S.\$200,000 principal amount of a Bond being converted on and as at the relevant Conversion Date.

Subject to and as provided in these Conditions, the Conversion Right in respect of a Bond may be exercised, at the option of the holder thereof, at any time subject to any applicable fiscal or other laws or regulations and as hereinafter provided) from 1 October 2019 (the “**Conversion Period Commencement Date**”) to (and including) the date falling 66 days prior to the Final Maturity Date (both days inclusive) or, if such Bond is to be redeemed pursuant to Condition 9(b) or 9(c) prior to the Final Maturity Date, then up to (and including) the date falling 66 days before the date fixed for redemption thereof pursuant to Condition 9(b) or 9(c), unless there shall be a default in making payment in respect of such Bond on any such date fixed for redemption, in which event the Conversion Right shall extend up to (and including) the date on which the full amount of such payment becomes available for payment and notice of such availability has been given to Bondholders or, if earlier, the Final Maturity Date; *provided that*, in each case, if such final date for the exercise of Conversion Rights is not a London business day, then the period for exercise of Conversion Rights by Bondholders shall end on (and including) the immediately preceding London business day.

Notwithstanding the foregoing, if a Change of Control Event occurs, the Conversion Right may also be exercised at any time during the Relevant Event Period, notwithstanding that all or part of such period falls prior to the Conversion Period Commencement Date, in which case a Bondholder exercising the Conversion Right prior to the Conversion Period Commencement Date shall, as a pre-condition to receiving Ordinary Shares, be required to certify in the Conversion Notice, among other things, that it or, if it is a broker-dealer acting on behalf of a customer, such customer:

- (i) will, on conversion, become the beneficial owner of the Ordinary Shares; and

- (ii) is located outside the United States (within the meaning of Regulation S under the U.S. Securities Act of 1933, as amended).

Conversion Rights may not be exercised (i) following the giving of notice by the Trustee pursuant to Condition 12 that the Bonds are due and payable or (ii) in respect of a Bond in respect of which the relevant Bondholder has exercised its right to require the Issuer to redeem that Bond pursuant to Condition 9(e).

Save where a notice of redemption is given by the Issuer in the circumstances provided in Condition 9(b), Conversion Rights may not be exercised by a Bondholder in circumstances where the relevant Conversion Date would fall during the period commencing on the Record Date in respect of any payment of interest on the Bonds and ending on the relevant Interest Payment Date (both days inclusive).

The period during which Conversion Rights may (subject as provided below) be exercised by a Bondholder is referred to as the “**Conversion Period**”.

Conversion Rights may only be exercised in respect of the whole of the principal amount of a Bond.

All Preference Shares issued on conversion of any Bonds shall (without any further action being required to be taken by, and without any cost or expense to, the relevant Bondholder, the Principal Paying, Transfer, Conversion and Exchange Agent or the Trustee) automatically be transferred on and as at the relevant Conversion Date by the relevant Bondholder to the Guarantor and in consideration therefor the Guarantor shall, subject to the right of the Guarantor to make a Cash Alternative Election, issue to the relevant Bondholder the relevant number of Reference Shares in respect of such exercise.

The initial exchange price (the “**Exchange Price**”) is U.S.\$0.1350. The Exchange Price is subject to adjustment in the circumstances described in Condition 8(b).

Each of the Issuer and the Guarantor shall (at its own expense) do all such things and make all such entries in the Issuer’s and the Guarantor’s respective registers of members and execute all such documents, whether at the request of the Trustee, on behalf of the relevant Bondholders or otherwise (including the execution of such instruments of transfer on behalf of the relevant Bondholders) as may be necessary to effect such exchange of Preference Shares for Ordinary Shares.

Upon the issue of the Preference Shares on conversion of any Bonds and the registration and transfer of such Preference Shares to the Guarantor as provided in these Conditions and, where applicable, the payment of any interest pursuant to Condition 8(l), the Issuer shall (*provided that* all interest which has fallen due prior to such date has been paid) be released from and shall have no further liability in respect of such Bonds, including in respect of the delivery of Ordinary Shares in respect of such Preference Shares.

Conversion Rights are not exercisable in respect of any specific Preference Shares or Ordinary Shares and no Preference Shares or Ordinary Shares have been or will be charged, placed in custody or otherwise set aside to secure or satisfy the obligations of the Issuer and the Guarantor in respect of the delivery of Preference Shares or Ordinary Shares.

Fractions of Ordinary Shares will not be issued and no cash payment or other adjustment will be made in lieu thereof. If a Conversion Right in respect of more than one Bond is exercised at any one time such that Ordinary Shares to be issued in respect of such exercise are to be registered in the same name, the number of Ordinary Shares to be issued in respect thereof shall be calculated by the Calculation Agent on the basis of the aggregate Paid-up Value of the Preference Shares issued on such conversion and which are to be exchanged for Ordinary Shares, and rounded down to the nearest whole number of Ordinary Shares.

(b) **Adjustment of Exchange Price**

Upon the occurrence of any of the events described below, the Exchange Price shall be adjusted by the Calculation Agent as follows:

- (i) If and whenever there shall be a consolidation, reclassification, redesignation or subdivision affecting the number of Ordinary Shares in issue, the Exchange Price shall be adjusted by multiplying the Exchange Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Ordinary Shares in issue immediately before such consolidation, reclassification, redesignation or subdivision, as the case may be; and

B is the aggregate number of Ordinary Shares in issue immediately after, and as a result of, such consolidation, reclassification, redesignation or subdivision, as the case may be.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this paragraph (b)(i), the date on which the consolidation, reclassification, redesignation or sub-division, as the case may be, takes effect.

- (ii) If and whenever the Guarantor shall issue any Ordinary Shares credited as fully paid to Shareholders by way of capitalisation of profits or reserves, including any share premium account or capital redemption reserve (other than an issue of Ordinary Shares constituting a Scrip Dividend), the Exchange Price shall be adjusted by multiplying the Exchange Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Ordinary Shares in issue immediately before such issue; and

B is the aggregate number of Ordinary Shares in issue immediately after such issue.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this paragraph (b)(ii), the date of issue of such Ordinary Shares.

- (iii)

- (A) If and whenever the Issuer shall declare, announce, make or pay any Dividend to Shareholders, the Exchange Price shall be adjusted by multiplying the Exchange Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Ordinary Share on the Ex-Date in respect of such Dividend; and
- B is the portion of the Fair Market Value of the aggregate Dividend attributable to one Ordinary Share, with such portion being determined by dividing the Fair Market Value of the aggregate Dividend by the number of Ordinary Shares entitled to receive the relevant Dividend (or, in the case of a purchase, redemption or buy back of Ordinary Shares or any depositary or other receipts or certificates representing Ordinary Shares by or on behalf of the Guarantor or any Subsidiary of the Guarantor, by the number of Ordinary Shares in issue immediately following such purchase, redemption or buy back, and treating as not being in issue any Ordinary Shares, or any Ordinary Shares represented by depositary or other receipts or certificates, purchased, redeemed or bought back).

Such adjustment shall become effective on the Effective Date.

“Effective Date” means, in respect of this paragraph (b)(iii), the date which is the later of (i) the Ex-Date in respect of such Dividend and (ii) the first date upon which the Fair Market Value of the relevant Dividend is capable of being determined as provided herein.

- (B) For the purposes of the above, Fair Market Value shall (subject as provided in paragraph (a) of the definition of “Dividend” and in the definition of “Fair Market Value”) be determined as at the Ex-Date in respect of the relevant Dividend.
- (iv) If and whenever the Guarantor or any Subsidiary of the Guarantor or (at the direction or request or pursuant to any arrangements with the Guarantor or any Subsidiary of the Guarantor) any other company, person or entity shall issue Ordinary Shares to Shareholders as a class by way of rights, or shall issue or grant to Shareholders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase or otherwise acquire any Ordinary Shares, or any Securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or right to otherwise acquire, any Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued), in each case at a consideration receivable per Ordinary Share (based, where appropriate, on such number of Ordinary Shares as is determined pursuant to the definition of “C” and the proviso below) which is less than 95 per cent. of the Current Market Price per Ordinary Share on the Ex-Date in respect of the relevant issue or grant, the Exchange Price shall be adjusted by multiplying the Exchange Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Ordinary Shares in issue on the Ex-Date;
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares issued by way of rights, or for the Securities issued by way of rights and upon exercise of rights of conversion into, or exchange or subscription for, or the right to otherwise acquire, Ordinary Shares, or for the options or warrants or other rights issued by way of rights

and for the total number of Ordinary Shares deliverable on the exercise thereof, would purchase at such Current Market Price per Ordinary Share; and

- C is the number of Ordinary Shares to be issued or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase or other rights of acquisition in respect thereof at the initial conversion, exchange, subscription, purchase or acquisition price or rate;

provided that if on such Ex-Date such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of paragraph (b)(iv), “C” shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at such Ex-Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on such Ex-Date.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this paragraph (b)(iv), the later of (i) the Ex-Date in respect of the relevant issue or grant and (ii) the first date upon which the adjusted Exchange Price is capable of being determined in accordance with this paragraph (b)(iv).

- (v) If and whenever the Guarantor or any Subsidiary of the Guarantor or (at the direction or request or pursuant to any arrangements with the Issuer or any Subsidiary of the Guarantor) any other company, person or entity shall (other than in the circumstances the subject of paragraph (b)(iv) and other than where such issue is determined to constitute a cash Dividend pursuant to paragraph (a) of the definition “Dividend”) issue any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase or otherwise acquire any Ordinary Shares or Securities which by their terms carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or rights to otherwise acquire, Ordinary Shares) to Shareholders as a class by way of rights or grant to Shareholders as a class by way of rights any options, warrants or other rights to subscribe for or purchase or otherwise acquire any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase or otherwise acquire any Ordinary Shares or any Securities which by their terms carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or rights to otherwise acquire, Ordinary Shares), the Exchange Price shall be adjusted by multiplying the Exchange Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Ordinary Share on the Ex-Date in respect of the relevant issue or grant; and
- B is the Fair Market Value on such Ex-Date of the portion of the rights attributable to one Ordinary Share.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this paragraph (b)(v), later of (i) the Ex-Date in respect of the relevant issue or grant and (ii) the first date upon which the adjusted Exchange Price is capable of being determined in accordance with this paragraph (b)(v).

- (vi) If and whenever the Guarantor shall issue (otherwise than as mentioned in paragraph (b)(iv) above) wholly for cash or for no consideration any Ordinary Shares (other than Ordinary Shares issued on exchange for the Preference Shares in respect of a conversion of the Bonds (which term shall for this purpose include any Further Bonds)) or on the exercise of any rights of conversion into, or exchange or subscription for or purchase of, or rights to otherwise acquire, Ordinary Shares (other than constituting a Scrip Dividend) or if and whenever the Guarantor or any Subsidiary of the Guarantor or (at the direction or request or pursuant to any arrangements with the Guarantor or any Subsidiary of the Guarantor) any other company, person or entity shall issue or grant (otherwise than as mentioned in paragraph (b)(iv) above) wholly for cash or for no consideration any options, warrants or other rights to subscribe for or purchase or otherwise acquire any Ordinary Shares (other than the Bonds, which term shall for this purpose include any Further Bonds), in each case at a consideration receivable per Ordinary Share (based, where appropriate, on such number of Ordinary Shares as is determined pursuant to the definition of “C” and the proviso below) which is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of first public announcement of the terms of such issue or grant, the Exchange Price shall be adjusted by multiplying the Exchange Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Ordinary Shares in issue immediately before the date of first public announcement of the terms of such issue of Ordinary Shares or issue or grant of options, warrants or other rights as provided above;
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the issue of such Ordinary Shares or, as the case may be, for the Ordinary Shares to be issued or otherwise made available upon the exercise of any such options, warrants or rights, would purchase at such Current Market Price per Ordinary Share; and
- C is the number of Ordinary Shares to be issued pursuant to such issue of such Ordinary Shares or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights;

provided that if on the date of first public announcement of the terms of such issue or grant (as used in this paragraph (b)(vi), the “**Specified Date**”) such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of this sub-paragraph (b)(vi), “C” shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase, acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this paragraph (b)(vi), the date which is later of (i) the date of issue of such Ordinary Shares or, as the case may be, the issue or grant of such options, warrants or rights and (ii) the first date upon which the adjusted Exchange Price is capable of being determined in accordance with this paragraph (b)(vi).

- (vii) If and whenever the Guarantor or any Subsidiary of the Guarantor or (at the direction or request of or pursuant to any arrangements with the Guarantor or any Subsidiary of

the Guarantor) any other company, person or entity shall (otherwise than as mentioned in paragraphs (b)(iv), (b)(v) or (b)(vi) above) issue wholly for cash or for no consideration any Securities (other than the Bonds, which term shall for this purpose exclude any Further Bonds and other than where such issue of Securities is determined to constitute a cash Dividend pursuant to paragraph (a) of the definition of “Dividend”) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, purchase of, or rights to otherwise acquire, Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued) or Securities which by their terms might be reclassified or redesignated as Ordinary Shares, and the consideration per Ordinary Share (based, where appropriate, on such number of Ordinary Shares as is determined pursuant to the definition of “C” and the proviso below) receivable upon conversion, exchange, subscription, purchase, acquisition, reclassification or redesignation is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of first public announcement of the terms of the issue of such Securities (or the terms of such grant), the Exchange Price shall be adjusted by multiplying the Exchange Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Ordinary Shares in issue immediately before the date of first public announcement of the terms of the issue of such Securities (or the terms of such grant);
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to such Securities or, as the case may be, for the Ordinary Shares to be issued or to arise from any such reclassification or redesignation would purchase at such Current Market Price per Ordinary Share; and
- C is the maximum number of Ordinary Shares to be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such right of subscription, purchase or acquisition attached thereto at the initial conversion, exchange, subscription, purchase or acquisition price or rate or, as the case may be, the maximum number of Ordinary Shares which may be issued or arise from any such reclassification or redesignation,

provided that if on the date of first public announcement of the terms of the issue of such Securities (or the terms of such grant) (as used in this paragraph, the “**Specified Date**”) such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or, as the case may be, such Securities are reclassified or redesignated or at such other time as may be provided), then for the purposes of this paragraph (b)(vii), “C” shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition, reclassification or, as the case may be, redesignation had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this paragraph (b)(vii), the date which is later of (i) the date of issue of such Securities or, as the case may be, the grant of such rights

and (ii) the first date upon which the adjusted Exchange Price is capable of being determined in accordance with this paragraph (b)(vii).

- (viii) If and whenever there shall be any modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to any Securities (other than the Bonds, which term shall for this purpose include any Further Bonds) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or the right to otherwise acquire, any Ordinary Shares (other than in accordance with the terms (including terms as to adjustment) applicable to such Securities upon issue) so that following such modification the consideration per Ordinary Share (based, where appropriate, on such number of Ordinary Shares as is determined pursuant to the definition of “C” and the proviso below) receivable upon conversion, exchange, subscription, purchase or acquisition has been reduced and is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of first public announcement of the terms for such modification, the Exchange Price shall be adjusted by multiplying the Exchange Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Ordinary Shares in issue immediately before the date of first public announcement of the terms for such modification;
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to the Securities so modified would purchase at such Current Market Price per Ordinary Share or, if lower, the existing conversion, exchange, subscription, purchase or acquisition price or rate of such Securities; and
- C is the maximum number of Ordinary Shares which may be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such rights of subscription, purchase or acquisition attached thereto at the modified conversion, exchange, subscription, purchase or acquisition price or rate but giving credit in such manner as the Calculation Agent shall consider appropriate for any previous adjustment under this paragraph (b)(viii) or paragraph (b)(vii) above,

provided that if on the date of first public announcement of the terms of such modification (as used in this paragraph (b)(viii), the “**Specified Date**”) such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or at such other time as may be provided), then for the purposes of this paragraph (b)(viii), “C” shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this paragraph (b)(viii), the later of (i) the date of modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to such Securities and (ii) the first date upon which the adjusted

Exchange Price is capable of being determined in accordance with this paragraph (b)(viii).

- (ix) If and whenever the Guarantor or any Subsidiary of the Guarantor or (at the direction or request of or pursuant to any arrangements with the Guarantor or any Subsidiary of the Guarantor) any other company, person or entity shall offer any Securities in connection with which Shareholders as a class are entitled to participate in arrangements whereby such Securities may be acquired by them (except where the Exchange Price falls to be adjusted under paragraphs (b)(ii), (b)(iii), (b)(iv), (b)(v), (b)(vi) or (b)(vii) above or (b)(x) below (or, where applicable, would fall to be so adjusted if the relevant issue or grant was at less than 95 per cent. of the Current Market Price per Ordinary Share on the relevant day)), the Exchange Price shall be adjusted by multiplying the Exchange Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Ordinary Share on the Ex-Date in respect of the relevant offer; and
- B is the Fair Market Value on such Ex-Date of the portion of the relevant offer attributable to one Ordinary Share.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this paragraph (b)(ix), the later of (i) the Ex-Date in respect of the relevant offer and (ii) the first date upon which the adjusted Exchange Price is capable of being determined in accordance with this paragraph (b)(ix).

- (x) If a Change of Control Event shall occur, then upon any exercise of Conversion Rights where the Conversion Date falls during the Relevant Event Period the Exchange Price (the “**Change of Control Exchange Price**”) shall be determined as set out below:

$$\text{COCEP} = \text{OEP} / (1 + (\text{EP} \times c/t))$$

where:

- COCEP = means the Change of Control Exchange Price
- OEP = means the Exchange Price in effect on the relevant Conversion Date
- EP = means 22.5 per cent. (expressed as fraction)
- c = means the number of days from and including the date the Change of Control occurs to but excluding the Final Maturity Date
- t = means the number of days from and including the Issue Date to but excluding the Final Maturity Date.

- (xi) If the Guarantor (following consultation with the Calculation Agent) determines that an adjustment should be made to the Exchange Price (or that a determination should be made as to whether an adjustment should be made) as a result of one or more circumstances not referred to above in this Condition 8(b) (even if the relevant circumstance is specifically excluded from the operation of paragraphs (b)(i) to (x) above), the Guarantor shall, at its own expense and acting reasonably, request an Independent Adviser to determine, in consultation with the Calculation Agent, if different as soon as practicable what adjustment (if any) to the Exchange Price is fair and reasonable to take account thereof and the date on which such adjustment (if any)

should take effect and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination, *provided that* an adjustment shall only be made pursuant to this paragraph (b)(xi) if such Independent Adviser is so requested to make such a determination not more than 21 days after the date on which the relevant circumstance arises and if the adjustment would result in a reduction to the Exchange Price.

(c) **Modifications**

Notwithstanding the foregoing provisions:

- (i) where the events or circumstances giving rise to any adjustment pursuant to this Condition 8 have already resulted or will result in an adjustment to the Exchange Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances which have already given or will give rise to an adjustment to the Exchange Price or where more than one event which gives rise to an adjustment to the Exchange Price occurs within such a short period of time that, following consultation with the Calculation Agent in the opinion of the Guarantor, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall be made to the operation of the adjustment provisions as may be determined in good faith by an Independent Adviser to be in its opinion appropriate to give the intended result.
- (ii) such modification shall be made to the operation of these Conditions as may be determined in good faith by an Independent Adviser, in consultation with the Calculation Agent (if different) to be in its opinion appropriate (i) to ensure that an adjustment to the Exchange Price or the economic effect thereof shall not be taken into account more than once and (ii) to ensure that the economic effect of a Dividend is not taken into account more than once; and
- (iii) other than pursuant to Condition 8(b)(i), no adjustment shall be made that would result in an increase to the Exchange Price.

(d) **Determination of Consideration**

For the purpose of any calculation of the consideration receivable or price pursuant to paragraphs (b)(iv), (b)(vi), (b)(vii) and (b)(viii) the following provisions shall apply:

- (i) the aggregate consideration receivable or price for Ordinary Shares issued for cash shall be the amount of such cash;
- (ii) (x) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the conversion or exchange of any Securities (whether on one or more occasion) shall be deemed to be the aggregate consideration or price received or receivable for any such Securities and (y) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any Securities or upon the exercise of any options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration or price received or receivable for such Securities or, as the case may be, for such options, warrants or rights which are attributed by the Guarantor to such rights of subscription or, as the case may be, such options, warrants or rights or, if no part of such consideration or price is so attributed, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the relevant Ex-Date, referred to in paragraph (b)(iv) or as at the relevant date of first public announcement referred to in (b)(vi), (b)(vii) or (b)(viii), as the case may be plus in the case of each of (x) and (y) above, the additional minimum consideration receivable or price (if any) upon the conversion or exchange of such Securities, or upon the exercise of such rights of subscription attached thereto or, as the case may be, upon exercise of such options, warrants or rights and (z) the consideration receivable or price per

Ordinary Share upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such Securities or, as the case may be, upon the exercise of such options, warrants or rights shall be the aggregate consideration or price referred to in (x) or (y) above (as the case may be) divided by the number of Ordinary Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate all as determined in good faith by the Calculation Agent;

- (iii) if the consideration or price determined pursuant to (i) or (ii) above (or any component thereof) shall be expressed in a currency other than the Relevant Currency (other than in circumstances where such consideration is also expressed in the Relevant Currency, in which case such consideration shall be treated as expressed in the Relevant Currency in an amount equal to the amount of such consideration when so expressed in the Relevant Currency), it shall be converted by the Calculation Agent into the Relevant Currency at the Prevailing Rate on the relevant Ex-Date (for the purposes of paragraph (b)(iv)) or the relevant date of first public announcement (for the purposes of paragraph (b)(vi), (vii) or (viii), as the case may be);
- (iv) in determining the consideration or price pursuant to the above, no deduction shall be made for any commissions or fees (howsoever described) or any expenses paid or incurred for any underwriting, placing or management of the issue of the relevant Ordinary Shares or Securities or otherwise in connection therewith;
- (v) the consideration or price shall be determined as provided above on the basis of the consideration or price received, receivable, paid or payable, regardless of whether all or part thereof is received, receivable, paid or payable by or to the Issuer or another entity;
- (vi) if as part of the same transaction, Ordinary Shares shall be issued or issuable for a consideration receivable in more than one or in different currencies then the consideration receivable per Ordinary Share shall be determined by dividing the aggregate consideration (determined as aforesaid and converted, if and to the extent not in the Relevant Currency, into the Relevant Currency as aforesaid) by the aggregate number of Ordinary Shares so issued; and
- (vii) references in these Conditions to “cash” shall be construed as cash consideration within the meaning of Section 583(3) of the Companies Act.

(e) **Retroactive Adjustments**

If a Retroactive Adjustment occurs in relation to any exercise of Conversion Rights, the Guarantor shall (solely in respect of the Physically Settled Shares) procure that there shall be issued to the relevant Bondholder upon exchange of the relevant Preference Shares, in accordance with the instructions contained in the relevant Conversion Notice, such additional number of Ordinary Shares (if any) (the “**Additional Ordinary Shares**”) as, together with the Physically Settled Shares issued on the relevant exercise of Conversion Rights, is equal to the number of Physically Settled Shares which would have been required to be issued on such exercise if the relevant adjustment to the Exchange Price had been made and become effective immediately prior to the relevant Conversion Date (such number of Physically Settled Shares as aforesaid being for this purpose calculated as (i) where such exercise of Conversion Rights is not the subject of a Cash Alternative Election, the Reference Shares in respect of such exercise of Conversion Rights determined for this purpose by reference to such deemed Exchange Price as aforesaid, and (ii) where such exercise of Conversion Rights is the subject of a Cash Alternative Election, the difference between (A) such number of Reference Shares as is determined pursuant to (i) and (B) the product of (x) such number of Reference Shares determined as aforesaid and (y) the Cash Settlement Ratio in respect of such exercise of Conversion Rights) all as determined in good faith by the Calculation Agent or an Independent Adviser, *provided that* if in the case of paragraph (b)(ii), (b)(iii), (b)(iv), (b)(v) or (b)(ix) the

relevant Bondholder shall be entitled to receive the relevant Ordinary Shares, Dividends or Securities in respect of the Reference Shares to be issued to it, then (solely in respect of such Reference Shares) no such Retroactive Adjustment shall be made in relation to the relevant event and the relevant Bondholder shall not be entitled to receive Additional Ordinary Shares in relation thereto.

(f) **Decision and Determination of the Calculation Agent or an Independent Adviser**

Adjustments to the Exchange Price shall be determined and calculated by the Calculation Agent upon request from the Issuer or the Guarantor, and/or, to the extent so specified in the Conditions and upon request from the Issuer or the Guarantor, by an Independent Adviser.

Adjustments to the Exchange Price calculated by the Calculation Agent or, where applicable, an Independent Adviser and any other determinations made by the Calculation Agent or, where applicable, an Independent Adviser, or an opinion of an Independent Adviser, pursuant to these Conditions shall in each case be made in good faith and shall be final and binding (in the absence of manifest error) on the Issuer, the Guarantor, the Trustee, the Bondholders, the Calculation Agent (in the case of a determination by an Independent Agent) and the Paying, Transfer, Conversion and Exchange Agents.

The Calculation Agent may consult, at the expense of the Issuer, failing whom the Guarantor, on any matter (including, but not limited to, any legal matter), any legal or other professional adviser and it shall be able to rely upon, and it shall not be liable and shall incur no liability as against the Trustee, the Bondholders or the Paying, Transfer, Conversion and Exchange Agents in respect of anything done, or omitted to be done, relating to that matter in good faith, in accordance with that adviser's opinion.

The Calculation Agent shall act solely upon the request from, and exclusively as agent of, the Issuer and the Guarantor and in accordance with these Conditions. Neither the Calculation Agent (acting in such capacity) nor any Independent Adviser appointed in connection with the Bonds (acting in such capacity) will thereby assume any obligations towards or relationship of agency or trust and shall not be liable and shall incur no liability in respect of anything done, or omitted to be done in good faith, in its capacity as Calculation Agent as against the Trustee, the Bondholders or the Paying, Transfer, Conversion and Exchange Agents.

(g) **Share or Option Schemes, Dividend Reinvestment Plans**

No adjustment will be made to the Exchange Price where Ordinary Shares or other Securities (including, but not limited to, rights, warrants and options) are issued, offered, exercised, allotted, purchased, appropriated, modified or granted (i) to, or for the benefit of, employees or former employees (including directors holding or formerly holding executive office or non-executive office, consultants or former consultants, or the personal service company of any such person) or their spouses or relatives, in each case, of the Guarantor or any of its Subsidiaries or any associated company or to a trustee or trustees nominee to be held for the benefit of any such person, in any such case pursuant to any share or option or incentive scheme or (ii) pursuant to any dividend reinvestment plan or similar plan or scheme that does not constitute a Dividend or a Scrip Dividend.

(h) **Rounding Down and Notice of Adjustment to the Exchange Price**

On any adjustment, the resultant Exchange Price, if not an integral multiple of U.S.\$0.0001, shall be rounded down to the nearest whole multiple of U.S.\$0.0001. No adjustment shall be made to the Exchange Price where such adjustment (rounded down if applicable) would be less than one per cent. of the Exchange Price then in effect. Any adjustment not required to be made, and/or any amount by which the Exchange Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time and/or, as the case may be, that the relevant rounding down had not been made.

Notice of any adjustments to the Exchange Price shall be given by the Issuer to Bondholders in accordance with Condition 19 promptly after the determination thereof.

The Exchange Price shall not in any event be reduced to below the nominal or par value of the Ordinary Shares or be reduced so that on conversion of the Bonds and transfer of Preference Shares, Ordinary Shares would fall to be issued in circumstances not permitted by applicable laws or regulations. The Guarantor undertakes that it shall not take any action, and shall procure that no action is taken, that would otherwise result in an adjustment to the Exchange Price to below such nominal or par value or any minimum level permitted by applicable laws or regulations or that would otherwise result in Ordinary Shares being required to be issued in circumstances not permitted by applicable laws or regulations.

(i) **Procedure for Conversion and Exchange**

A Conversion Right may be exercised by a Bondholder during the Conversion Period by delivering the relevant Bond to the specified office of any Paying, Transfer, Conversion and Exchange Agent at its own expense, during its normal business hours, accompanied by a duly completed and signed notice of conversion (a “**Conversion Notice**”) in the form (for the time being current) obtainable from the Registrar or any Paying, Transfer, Conversion and Exchange Agent.

If the delivery of the relevant Bond and Conversion Notice as aforesaid is made after the end of normal business hours or on a day which is not a business day in the place of the specified office of the relevant Paying, Transfer, Conversion and Exchange Agent, such delivery shall be deemed for all purposes of these Conditions to have been made on the next following such business day.

Conversion Rights shall be exercised subject in each case to any fiscal or other laws or regulations applicable in the jurisdiction in which the specified office of the Registrar or the Paying, Transfer, Conversion and Exchange Agent to whom the relevant Conversion Notice is delivered is located.

A Conversion Right may be exercised only in respect of the whole of a Bond. A Conversion Notice, once delivered, shall be irrevocable.

The conversion date in respect of a Bond (the “**Conversion Date**”) shall be the London business day immediately following the date of such delivery and, if applicable, the making of any payment to be made by the Bondholder as provided below.

A Bondholder exercising a Conversion Right must pay any taxes and capital, stamp, issue and registration duties, stamp duty reserve tax or similar taxes or duties arising on conversion (other than any taxes or capital, stamp, issue and registration duties, stamp duty reserve tax or similar duties or taxes payable in Jersey, Belgium, Luxembourg or the United Kingdom or in any other jurisdiction in which the Issuer and/or the Guarantor may be domiciled or resident or to whose taxing jurisdiction it may generally be subject, in respect of the allotment and issue of any Preference Shares on such conversion or on transfer of the Preference Shares to the Guarantor on exchange of the Preference Shares or in respect of the allotment, issue of any Ordinary Shares issued on exchange of the Preference Shares, including any stamp duty or stamp duty reserve tax payable under Sections 67, 70, 93 or 96 of the Finance Act 1986 (including any Additional Ordinary Shares), which shall be paid by the Issuer or the Guarantor) and such Bondholder must pay all, if any, other taxes arising by reference to any disposal or deemed disposal of a Bond, any interest therein or any Preference Share in connection with such conversion and exchange.

Ordinary Shares to be issued on exchange of the Preference Shares (including any Additional Ordinary Shares) will be issued in uncertificated form through the dematerialised securities trading system operated by Euroclear UK and Ireland Limited, known as CREST, unless at the time of issue, the Ordinary Shares are not a participating security in CREST, in which case they will be issued in certificated registered form.

Where Ordinary Shares are to be issued through CREST, they will be delivered to the account specified by the relevant Bondholder in the relevant Conversion Notice by not later than seven London business days following the relevant Conversion Date (or, in the case of any Additional Ordinary Shares, not later than seven London business days following the date (the “**Reference Date**”) the relevant Retroactive Adjustment takes effect) (the “**Settlement Date**”). Where Ordinary Shares are to be issued in certificated form, a certificate in respect thereof will be dispatched by ordinary mail free of charge (but uninsured and at the risk of the recipient) to the relevant Bondholder or as it may direct in the relevant Conversion Notice) within 14 days following the relevant Conversion Date or, as the case may be, the Reference Date.

The Ordinary Shares to be issued on exercise of Conversion Rights will not be available for issue (i) to, or to a nominee or agent for, Euroclear Bank SA/NV as operator of the Euroclear System or Clearstream Banking, *société anonyme* or any other person providing a clearance service within the meaning of Section 96 of the Finance Act 1986 of the United Kingdom or (ii) to a person, or nominee or agent for a person, whose business is or includes issuing depositary receipts within the meaning of Section 93 of the Finance Act 1986 of the United Kingdom, in each case at any time prior to the abolition day as defined in Section 111(1) of the Finance Act 1990 of the United Kingdom.

(j) **Purchase or Redemption by the Guarantor of its Own Shares**

The Guarantor or any Subsidiary of the Guarantor may exercise such rights as it may from time to time enjoy to purchase or redeem any shares of the Guarantor (including Ordinary Shares) or any receipts or certificates representing any such shares (including Ordinary Shares) without the consent of the Bondholders.

(k) **Ranking and entitlement in respect of Ordinary Shares**

Ordinary Shares (including any Additional Ordinary Shares) issued upon exchange of Preference Shares on exercise of Conversion Rights will be fully paid and will in all respects rank *pari passu* with the fully paid Ordinary Shares in issue on the relevant Conversion Date or, in the case of Additional Ordinary Shares, on the relevant Reference Date, and the relevant holder shall be entitled to all rights, distribution or payments the record date or other due date for the establishment of entitlement for which falls on or after the relevant Conversion Date, or as the case may be, the relevant Reference Date, except in any such case for any right excluded by mandatory provisions of applicable law or as otherwise may be provided in these Conditions. Such Ordinary Shares or, as the case may be, Additional Ordinary Shares will not rank for (or, as the case may be, the relevant holder shall not be entitled to receive) any rights, distributions or payments where the record date or other due date for the establishment of entitlement for which falls prior to the relevant Conversion Date or, as the case may be, the relevant Reference Date.

Save as provided in Condition 8(i), no payment or adjustment shall be made on exercise of Conversion Rights for any interest which otherwise would have accrued on the relevant Bonds since the last Interest Payment Date preceding the Conversion Date relating to such Bonds (or, if such Conversion Date falls before the first Interest Payment Date, since the Issue Date).

(l) **Interest on Conversion**

If an Optional Redemption Notice is given on or after the fifteenth London business day prior to a record date or other due date for establishment of entitlement in respect of any Dividend or distribution payable in respect of the Ordinary Shares, which record date or other due date for establishment of entitlement has occurred since the last Interest Payment Date (or in the case of the first Interest Period, since the Issue Date) (whether such notice is given before, on or after such record date or other due date for establishment of entitlement) and where such notice specifies an Optional Redemption Date falling on or prior to the date which is 14 days after the Interest Payment Date next following such record date or other due date for establishment of entitlement, interest shall accrue on Bonds in respect of which Conversion Rights shall have been exercised and in any such case in respect of which the Conversion Date falls after such

record date or other due date for establishment of entitlement and on or prior to the Interest Payment Date next following such record date or other due date for establishment of entitlement, in each case from and including the preceding Interest Payment Date (or, if such Conversion Date falls before the first Interest Payment Date, from the Issue Date) to but excluding such Conversion Date. The Issuer shall pay any such interest or procure that any such interest is paid by not later than 14 days after the relevant Conversion Date by transfer to a U.S. dollar account maintained with a branch of a bank in New York City, in accordance with instructions given by the relevant Bondholder in the relevant Conversion Notice.

(m) **Preference Shares**

- (i) Preference Shares allotted pursuant to these Conditions will be fully paid and will rank *pari passu* with all (if any) fully paid Preference Shares then in issue except that the Preference Shares so allotted will not rank for any dividend or other distribution declared, paid or made by reference to a record date prior to such Conversion Date.
- (ii) Preference Shares will be allotted as of the relevant Conversion Date and will be allotted in the name of the holder of the Bond completing the relevant Conversion Notice or of his nominee.

(n) **Cash Alternative Election**

- (i) Upon exercise of Conversion Rights by a Bondholder, the Guarantor may make an election (a “**Cash Alternative Election**”) by giving notice (a “**Cash Alternative Election Notice**”) to the relevant Bondholder by not later than the date (the “**Cash Alternative Election Date**”) falling three dealing days following the relevant Conversion Date. A Cash Alternative Election Notice shall be sent to the address (or, if a fax number or email address is provided in the relevant Conversion Notice for such purpose, that fax number or email address) specified for that purpose in the relevant Conversion Notice (with a copy to the Trustee, the Principal Paying, Transfer, Conversion and Exchange Agent and the Calculation Agent).

A Cash Alternative Election Notice shall be irrevocable and shall specify:

- (A) the Exchange Price in effect on the relevant Conversion Date and the number of Reference Shares in respect of such exercise of Conversion Rights;
- (B) the aggregate number of Cash Settled Shares in respect of the relevant exercise of Conversion Rights and by reference to which the Cash Alternative Amount is to be calculated; and
- (C) if the aggregate number of Cash Settled Shares is less than the aggregate number of Reference Shares in respect of the relevant exercise of Conversion Rights, the aggregate number of Physically Settled Shares to be issued by the Guarantor to the relevant Bondholder in consideration for the Preference Shares issued in respect of such exercise of Conversion Rights.

Where a Cash Alternative Election is made in respect of an exercise of Conversion Rights, the Guarantor shall satisfy its obligations in respect of the relevant exercise of Conversion Rights by (i) issuing or transferring and delivering the relevant number of Physically Settled Shares (if any) as provided in these Conditions and (ii) making payment or procuring that payment is made, to the relevant Bondholder of the Cash Alternative Amount in respect of the relevant Cash Settled Shares, and the Issuer shall pay any other amount payable by the Issuer to such Bondholder pursuant to these Conditions in respect of or relating to the relevant exercise of Conversion Rights, including any interest payable pursuant to Condition 8(1).

The Guarantor will pay the relevant Cash Alternative Amount and the Issuer will pay any other amount as aforesaid, by not later than 5 New York business days following

the last day of the Cash Alternative Calculation Period by transfer to a U.S. dollar account in accordance with instructions contained in the relevant Conversion Notice.

None of the Trustee, the Calculation Agent nor any Paying, Transfer, Conversion and Exchange Agent shall be under any duty to monitor whether any event or circumstance has happened or exists or may happen or exist and which requires or may require an adjustment to be made to the Exchange Price or be responsible or liable to any person for any loss arising from any failure by any of them to do so, nor shall the Trustee, the Calculation Agent, or any Paying, Transfer, Conversion and Exchange Agent be responsible or liable to any person (other than in the case of the Calculation Agent, to the Issuer and the Guarantor strictly in accordance with the relevant provisions of the Calculation Agency Agreement) for any determination of whether or not an adjustment to the Exchange Price is required or should be made nor as to the determination or calculation of any such adjustment. Neither the Trustee, the Calculation Agent nor any Paying, Transfer, Conversion and Exchange Agent shall be under any duty to monitor whether any event or circumstance has occurred or exists or may occur or exist which would entitle the Bondholders to exercise Conversion Rights pursuant to Condition 8(a).

- (ii) If there is a Retroactive Adjustment to the Exchange Price following the exercise of Conversion Rights by a Bondholder, in circumstances where (i) a Cash Alternative Election is or was made in respect of such exercise and (ii) any dealing day comprised in the Cash Alternative Calculation Period in respect of such exercise of Conversion Rights falls on or after the Applicable RA Reference Date, the Guarantor shall pay to the relevant Bondholder an additional amount (the “**Additional Cash Alternative Amount**”) calculated in good faith by the Calculation Agent and equal to the Market Price of such number of Ordinary Shares (rounded down if necessary to the nearest whole number of Ordinary Shares) (if any) as is equal to that by which the number of Cash Settled Shares would have been increased if the relevant adjustment to the Conversion Price had been made and become effective immediately prior to the relevant Conversion Date (such number of Cash Settled Shares as aforesaid being for this purpose calculated as the product of (x) the Reference Shares determined for this purpose by reference to such deemed Conversion Price as aforesaid and (y) the Cash Settlement Ratio, in the case of (x) and (y) in respect of such exercise of Conversion Rights), all as determined in good faith by the Calculation Agent.

The Guarantor will pay the Additional Cash Alternative Amount not later than 5 New York business days following the relevant Reference Date by transfer to a U.S. dollar account in accordance with instructions contained in the relevant Conversion Notice.

(o) **Relevant Event Notice**

Within 14 days following the occurrence of a Relevant Event, the Issuer or the Guarantor shall give notice thereof to the Bondholders in accordance with Condition 19 and to the Trustee (a “**Relevant Event Notice**”). Such notice shall contain a statement informing Bondholders of their entitlement to exercise their rights to require redemption of their Bonds pursuant to Condition 9(e) and, in the case of a Change of Control Event, a statement informing Bondholders of their entitlement to exercise their Conversion Rights as provided in these Conditions. The Relevant Event Notice shall also specify:

- (i) all information material to Bondholders concerning the Relevant Event;
- (ii) in the case of a Change of Control Event, the Exchange Price immediately prior to the occurrence of the Relevant Event and the Change of Control Exchange Price applicable pursuant to Condition 8(b)(x) during the Relevant Event Period;
- (iii) the closing price of the Ordinary Shares as derived from the Relevant Stock Exchange as at the latest practicable date prior to the publication of such notice;

- (iv) the last day of the Relevant Event Period;
- (v) the Relevant Event Put Date; and
- (vi) such other information relating to the Relevant Event as the Trustee may require.

The Trustee shall not be under any duty to monitor or to take any steps to ascertain whether a Relevant Event or any event or circumstance which could lead to a Relevant Event or give rise to an adjustment to the Exchange Price has occurred or may occur and the Trustee will not be responsible to any person for any loss arising from any failure by it to do so.

9. Redemption and Purchase

(a) Final Redemption

Unless previously purchased and cancelled, redeemed or converted as herein provided, the Bonds will be redeemed at their principal amount on the Final Maturity Date. The Bonds may only be redeemed at the option of the Issuer prior to the Final Maturity Date in accordance with Condition 9(b) or 9(c), and may only be redeemed at the option of the Bondholders prior to the Final Maturity Date in accordance with Condition 9(e).

(b) Redemption at the Option of the Issuer

Subject as provided in Condition 9(d), on giving not less than 30 nor more than 60 days' notice (an "**Optional Redemption Notice**") to the Trustee and to the Bondholders in accordance with Condition 19, the Issuer may redeem all but not some only of the Bonds on the date (the "**Optional Redemption Date**") specified in the Optional Redemption Notice at their principal amount, together with accrued interest to such date if, at any time prior to the date the relevant Optional Redemption Notice is given, Conversion Rights shall have been exercised and/or purchases (and corresponding cancellations) and/or redemptions effected in respect of 80 per cent. or more in principal amount of the Bonds originally issued (which shall for this purpose include any Further Bonds issued prior to the date the Optional Redemption Notice is given).

On the Optional Redemption Date, the Issuer shall redeem the Bonds at their principal amount, together with accrued interest up to (but excluding) the Optional Redemption Date.

(c) Redemption for Taxation Reasons

Provided the Bonds have been (even if they no longer remain) listed on a recognised stock exchange (within the meaning of Section 1005 of the Income Tax Act 2007) or admitted to trading on a "multilateral trading facility" operated by an EEA-regulated recognised stock exchange (within the meaning of Sections 987 and 1005 of the Income Tax Act 2007) the Issuer may, at any time, having given not less than 30 nor more than 60 days' notice (a "**Tax Redemption Notice**") to the Bondholders redeem (subject to the second following paragraph) all but not some only of the Bonds for the time being outstanding on the date (the "**Tax Redemption Date**") specified in the Tax Redemption Notice at their principal amount, together with accrued but unpaid interest to (but excluding) such date, if (i) the Issuer provides evidence to the Trustee that immediately prior to the giving of such notice that the Issuer (or, if the guarantee were called, the Guarantor) has or will become obliged to pay additional amounts pursuant to Condition 11 as a result of any change in, or amendment to, the laws or regulations of Jersey or the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 19 June 2019, and (ii) such obligation cannot be avoided by the Issuer or the Guarantor, as the case may be, taking reasonable measures available to it, *provided that* no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor, as the case may be, would be obliged to pay such additional amounts were a payment in respect of the Bonds or, as the case may be, the Guarantee then due. Prior to the publication of any notice of

redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (a) a certificate signed by two directors of the Issuer or the Guarantor, as the case may be, stating that the obligation referred to in (i) above cannot be avoided by the Issuer or the Guarantor, as the case may be, taking reasonable measures available to it and (b) an opinion (that may be subject to reasonable qualifications) of independent legal or tax advisers of recognised international standing to the effect that such change or amendment has occurred and that the Issuer or the Guarantor, as the case may be, has or will be obliged to pay such additional amounts as a result thereof (irrespective of whether such amendment or change is then effective) and the Trustee shall accept without any liability for so doing such certificate and opinion as sufficient evidence of the matters set out in (i) and (ii) above in which event it shall be conclusive and binding on the Bondholders.

On the Tax Redemption Date the Issuer shall (subject to the next following paragraph) redeem the Bonds at their principal amount, together with accrued interest to such date.

If the Issuer gives a Tax Redemption Notice, each Bondholder will have the right to elect that its Bonds shall not be redeemed and that the provisions of Condition 11 shall not apply in respect of any payment of interest to be made on such Bonds which falls due after the relevant Tax Redemption Date, whereupon no additional amounts shall be payable in respect thereof pursuant to Condition 11 and payment of all amounts of such interest on such Bonds shall be made subject to the deduction or withholding of any Jersey or United Kingdom, as the case may be, taxation required to be withheld or deducted. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying, Transfer, Conversion and Exchange Agent a duly completed and signed notice of election, in the form for the time being current, obtainable from the specified office of any Paying, Transfer, Conversion and Exchange Agent together with the relevant Bonds on or before the day falling 10 days prior to the Tax Redemption Date.

(d) **Redemption Notices**

Any Optional Redemption Notice or Tax Redemption Notice shall be irrevocable. Any such notice shall specify (i) the Optional Redemption Date or, as the case may be, the Tax Redemption Date, (ii) the Exchange Price, (iii) the aggregate principal amount of the Bonds outstanding and the closing price of the Ordinary Shares as derived from the Relevant Stock Exchange, in each case as at the latest practicable date prior to the publication of the Optional Redemption Notice or, as the case may be, the Tax Redemption Date, and (iv) the last day on which Conversion Rights may be exercised by Bondholders.

(e) **Redemption at the Option of Bondholders**

Following the occurrence of a Relevant Event, the holder of each Bond will have the right to require the Issuer to redeem that Bond on the Relevant Event Put Date at 101 per cent. of its principal amount, together with accrued and unpaid interest to such date. To exercise such right, the holder of the relevant Bond must present such Bond at the specified office of any Paying, Transfer, Conversion and Exchange Agent together with a duly completed and signed notice of exercise (a “**Relevant Event Put Exercise Notice**”), in the form for the time being current, obtainable from the specified office of any Paying, Transfer, Conversion and Exchange Agent at any time during the Relevant Event Period. The “**Relevant Event Put Date**” shall be the fourteenth day after the expiry of the Relevant Event Period.

Payment in respect of any such Bond shall be made by transfer to a U.S. dollar account with a bank in New York City specified by the relevant Bondholder in the Relevant Event Put Exercise Notice.

A Relevant Event Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem all Bonds the subject of Relevant Event Put Exercise Notices delivered as aforesaid on the Relevant Event Put Date.

(f) **Purchase**

Subject to the requirements (if any) of the stock exchange on which the Bonds may be listed at the relevant time, the Issuer or the Guarantor or any Subsidiary of the Guarantor may at any time purchase Bonds in the open market or otherwise at any price. Such Bonds may be held, resold or reissued, or, at the option of the Issuer or the Guarantor, surrendered to any Paying, Transfer, Conversion and Exchange Agent for cancellation.

(g) **Cancellation**

All Bonds in respect of which Conversion Rights are exercised or which are otherwise redeemed pursuant to this Condition 9 will be cancelled and may not be reissued or resold. Bonds purchased by the Issuer or the Guarantor or any Subsidiary of the Guarantor may be surrendered for cancellation or may be held, reissued or resold.

(h) **Multiple Notices**

If more than one notice of redemption is given pursuant to this Condition 9, the first of such notices to be given shall prevail, save that a notice given pursuant to Condition 9(e) shall prevail over a notice given pursuant to Condition 9(b) or (c) in circumstances where the Relevant Event Put Date falls prior to the Optional Redemption Date or Tax Redemption Date, as the case may be.

10. Payments

(a) **Method of Payment**

Payment of the principal amount of the Bonds and of interest due other than on an Interest Payment Date will be made to the persons shown in the Register at the close of business on the Record Date and subject to surrender of the Bonds, at the specified office of the Registrar or any Paying, Transfer, Conversion and Exchange Agent by transfer to a U.S. dollar account. Payments of interest due in respect of Bonds on an Interest Payment Date shall be made to the persons shown in the Register at the close of business on the Record Date.

Payments of all other amounts will be made as provided in these Conditions.

(b) **Payments Subject to Fiscal Laws**

All payments in respect of the Bonds are subject in all cases (i) to any applicable fiscal or other laws and regulations applicable thereto in the place of payment but without prejudice to Condition 11 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code and any regulations or agreements thereunder or official interpretations thereof (“**FATCA**”) or any law implementing an intergovernmental approach to FATCA.

(c) **Non-Business Days**

A Bond may only be presented for payment on a day which is a business day in the place of presentation and surrender and a business day in Frankfurt, London and New York City and if payment is due on any other day, a Bond may not be presented for payment prior to the next following day which is a business day in the place of presentation and surrender and a business day in Frankfurt, London and New York City. No further interest or other payment will be made as a consequence of the day on which the relevant Bond may be presented for payment under this Condition 10(c) falling after the due date.

(d) **Paying, Transfer, Conversion and Exchange Agents, etc.**

The initial Paying, Transfer, Conversion and Exchange Agents and their initial specified offices are listed below. The Issuer and the Guarantor reserve the right under the Agency Agreement

at any time, with the prior written approval of the Trustee (which approval shall not be unreasonably withheld or delayed), to vary or terminate the appointment of any Paying, Transfer, Conversion and Exchange Agent or the Registrar and appoint additional or other Paying, Transfer, Conversion and Exchange Agents or another Registrar, *provided that* they will maintain (i) a Principal Paying, Transfer, Conversion and Exchange Agent and (ii) a Registrar with a specified office outside the United Kingdom. Notice of any change in the Paying, Transfer, Conversion and Exchange Agents or their specified offices will promptly be given to the Bondholders in accordance with Condition 19.

(e) **Fractions**

Each payment by the Issuer or the Guarantor to a Bondholder will be rounded down to the nearest unit of the relevant currency.

11. Taxation

All payments made by or on behalf of the Issuer or the Guarantor in respect of the Bonds will be made free and clear of, and without deduction or withholding for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Jersey or the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, unless deduction or withholding of such taxes, duties, assessments or governmental charges is required to be made by law. In the event that any such withholding or deduction is required to be made, the Issuer or, as the case may be, the Guarantor will pay such additional amounts as will result in the receipt by the Bondholders of the amounts which would otherwise have been receivable had no such withholding or deduction been required, except that no such additional amount shall be payable in respect of interest on any Bond:

- (a) to a holder (or to a third party on behalf of a holder) who is subject to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with Jersey or, as the case may be, the United Kingdom, otherwise than merely by holding the Bond or by the receipt of amounts in respect of the Bond; or
- (b) pursuant to or in connection with FATCA.

References in these Conditions to principal and/or interest and/or any other amounts payable in respect of the Bonds shall be deemed also to refer to any additional amounts which may be payable under this Condition or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

The provisions of this Condition 11 shall not apply in respect of any payments of interest which fall due after the relevant Tax Redemption Date specified in that Tax Redemption Notice in respect of any Bonds which are the subject of a Bondholder election pursuant to Condition 9(c).

Where a withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature is imposed or levied by or on behalf of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, the exclusion in paragraph (a) of this Condition 11 will only apply for so long as the Bonds are listed on a recognised stock exchange (within the meaning of Section 1005 of the Income Tax Act 2007) or admitted to trading on a “multilateral trading facility” operated by an EEA-regulated recognised stock exchange (within the meaning of Sections 987 and 1005 of the Income Tax Act 2007).

12. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders shall (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction), (but in the case of the happening of any of the events mentioned in sub-paragraphs (b), (e), (h), (i) or (m) below and, in relation to Principal Subsidiaries only (f) and (g) below, only if the

Trustee shall have certified in writing to the Issuer and the Guarantor that such event is, in its opinion, materially prejudicial to the Bondholders), give notice to the Issuer and the Guarantor that the Bonds are, and they shall accordingly thereby immediately become, due and repayable at their principal amount together with accrued interest if any of the following events (each, an “**Event of Default**”) shall have occurred and is continuing:

(a) **Non Payment**

if default is made for a period of 7 days in the case of principal or 14 days in the case of interest in the payment of any sum due in respect of the Bonds or any of them; or

(b) **Breach of other Obligations**

if the Issuer or the Guarantor fails to perform or observe any of its other obligations (or any provision expressed as an obligation whether or not enforceable as such) under the Bonds or the Trust Deed and (except where the Trustee shall have certified to the Issuer in writing that it considers such failure to be incapable of remedy in which case no such notice or continuation as is hereinafter mentioned will be required) such failure continues for the period of 30 days next following the service by the Trustee of notice on the Issuer or the Guarantor requiring the same to be remedied; or

(c) **Cross-Default**

if (i) any other indebtedness for borrowed money of the Issuer or the Guarantor or any Principal Subsidiary becomes (or becomes capable of being declared) due and repayable prior to its stated maturity by reason of an event of default howsoever described or (ii) any such indebtedness for borrowed money is not paid when due or, as the case may be, within any applicable grace period (whenever agreed) or (iii) the Issuer or the Guarantor or any Principal Subsidiary fails to pay when due (or, as the case may be, within any applicable grace period) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any indebtedness for borrowed money of any person or (iv) any security given by the Issuer or the Guarantor or any Principal Subsidiary for any indebtedness for borrowed money of any person or for any guarantee or indemnity of indebtedness for borrowed money of any person becomes enforceable by reason of default in relation thereto and steps are taken to enforce such security, save in any such case where there is a bona fide dispute as to whether the relevant indebtedness for borrowed money or any such guarantee or indemnity as aforesaid shall be (or shall become capable of being declared) due and payable, *provided that* (in relation to each of (i) to (iv) above) the aggregate amount of the relevant indebtedness for borrowed money in respect of which any one or more of the events mentioned above in this sub-paragraph (c) has or have occurred exceeds U.S.\$25,000,000 (or its equivalent in other currencies); or

(d) **Winding-Up**

if an order shall be made by any competent court or any resolution shall be passed for the winding-up or dissolution of the Issuer or the Guarantor, save, in the case of the Guarantor, for the purposes of or pursuant to a Newco Scheme (in circumstances where, in accordance with these Conditions and the Trust Deed, Newco is substituted under the Bonds and the Trust Deed as obligor under the Guarantee in place of the Guarantor and such adjustments are made to these Conditions and the Trust Deed to ensure that the Bonds may be converted into ordinary shares in Newco *mutatis mutandis* in accordance with and subject to these Conditions and the Trust Deed) or for the purposes of any other amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement on terms previously approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders; or

(e) **Winding-Up of a Principal Subsidiary**

if any order shall be made by any competent court or any resolution shall be passed for the winding-up or dissolution of a Principal Subsidiary, save for the purposes of any amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (A) not

involving or arising out of the insolvency of such Principal Subsidiary and under which all the surplus assets of such Principal Subsidiary (which are attributable to the shares in such Principal Subsidiary which are held by the Guarantor or any of its other Subsidiaries) are transferred to the Guarantor or any of its other Subsidiaries or (B) the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders; or

(f) **Cessation of Business**

if the Issuer or the Guarantor or any Principal Subsidiary shall cease to carry on the whole or substantially the whole of its business, save in each case for the purposes of or pursuant to a Spin-Off or a Newco Scheme (in circumstances where, in accordance with these Conditions and the Trust Deed, Newco is substituted under the Bonds and the Trust Deed as obligor under the Guarantee in place of the Guarantor and such adjustments are made to these Conditions and the Trust Deed to ensure that the Bonds may be converted into ordinary shares or units or equivalent in Newco *mutatis mutandis* in accordance with and subject to these Conditions and the Trust Deed) or for the purposes of any amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (i) not involving or arising out of the insolvency of the Issuer, the Guarantor or such Principal Subsidiary and under which all or substantially all of its assets are transferred to the Guarantor or another Subsidiary of the Guarantor or to a transferee or transferees which is or are, or immediately upon such transfer become(s), a Principal Subsidiary or Principal Subsidiaries or (ii) under which all or substantially all of its assets are transferred to a third party or parties (whether associates or not) for full consideration by the Guarantor or a Principal Subsidiary on an arm's length basis or (iii) the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of the Bondholders; or

(g) **Insolvency**

if the Issuer or the Guarantor or any Principal Subsidiary shall suspend or announce its intention to suspend payment of its debts generally or shall be declared or adjudicated by a competent court to be unable, or shall admit in writing its inability, to pay its debts generally (within the meaning of Section 123(1) or (2) of the Insolvency Act 1986) as they fall due, or shall be adjudicated or found insolvent by a competent court or shall enter into any composition or other similar arrangement with its creditors generally under Part I of the Insolvency Act 1986; or

(h) **Security Enforced**

if any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer, the Guarantor or any Principal Subsidiary over, in the opinion of the Trustee, a material part of its assets becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, administrator or other similar official in relation to the Issuer or the Guarantor or any Principal Subsidiary or in relation to the whole or, in the opinion of the Trustee, a substantial part of the undertaking or assets of any of them) and such enforcement is not stopped within 60 days; or

(i) **Enforcement Proceedings**

a distress, attachment, execution or other process shall be levied or enforced upon or sued out against, or any encumbrance shall take possession of, the whole or in the opinion of the Trustee, a substantial part of the assets of the Issuer, the Guarantor or any Principal Subsidiary and in any of the foregoing cases it or he shall not be paid out or discharged within 60 days; or

(j) **Ownership**

if the Issuer ceases to be wholly-owned by the Guarantor or any Principal Subsidiary; or

(k) **Guarantee**

if the Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect; or

(l) **Nationalisation**

any governmental authority or agency or any person acting on behalf of any governmental authority or agency seizes, compulsorily acquires, expropriates or nationalises all or a substantial part of the assets of the Issuer, the Guarantor or any Principal Subsidiary; or

(m) **Analogous Events**

any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to under any of the foregoing paragraphs.

13. **Undertakings**

(a) **Deed Poll**

Whilst any Conversion Right remains exercisable, the Guarantor will, save with the approval of an Extraordinary Resolution or the prior written approval of the Trustee where, in the Trustee's opinion, it is not materially prejudicial to the interests of the Bondholders to give such approval or, in the case of a modification to the Deed Poll, unless the modification is approved by an Extraordinary Resolution or approved by the Trustee as provided in Condition 16(b), perform all of its obligations under, and not make any amendment to, the Deed Poll.

(b) **Undertakings of the Guarantor**

Whilst any Conversion Right remains exercisable, the Guarantor will, save with the approval of an Extraordinary Resolution or with the prior written approval of the Trustee where, in its opinion, it is not materially prejudicial to the interests of the Bondholders to give such approval:

(i) other than in connection with a Newco Scheme, not issue or pay up any Securities, in either case by way of capitalisation of profits or reserves, other than:

(A) by the issue of fully paid Ordinary Shares or other Securities to Shareholders and other holders of shares in the capital of the Guarantor which by their terms entitle the holders thereof to receive Ordinary Shares or other Securities on a capitalisation of profits or reserves; or

(B) by the issue of fully paid Ordinary Shares, issued wholly, ignoring fractional entitlements, in lieu of the whole or part of a Dividend in cash; or

(C) by the issue of Ordinary Shares or any equity share capital to, or for the benefit of, any employee or former employee, director or executive holding or formerly holding executive office (including directors holding or formerly holding executive office or non-executive office, consultants or former consultants or the personal service company of any such person) or their spouses or relatives, in each case of the Guarantor or any of its Subsidiaries or any associated company or to trustees or nominees to be held for the benefit of any such person, in any such case pursuant to an employee, director or executive share, incentive or option scheme whether for all employees, directors, or executives or any one or more of them (a "**Permitted Issue**"),

unless, in any such case, the same gives rise (or would, but for the provisions of these Conditions relating to roundings and minimum adjustments or the carry forward of adjustments, give rise) to an adjustment to the Exchange Price;

(ii) not modify the rights attaching to the Ordinary Shares with respect to voting, dividends or liquidation nor issue any other class of equity share capital carrying any rights which

are more favourable than the rights attaching to the Ordinary Shares but so that nothing in this Condition 13(b)(ii) shall prevent:

- (A) the issue of any equity share capital to employees (including directors holding or formerly holding executive or non-executive office or the personal service company of any such person) whether of the Guarantor or any of the Guarantor's Subsidiaries or associated companies by virtue of their office or employment pursuant to any scheme or plan approved by the Guarantor or which is established pursuant to such a scheme or plan which is or has been so approved; or
- (B) any consolidation, reclassification or subdivision of the Ordinary Shares; or
- (C) any modification of such rights which is not, in the opinion of an Independent Adviser acting in good faith, materially prejudicial to the interests of the holders of the Bonds; or
- (D) any issue of equity share capital where the issue of such equity share capital results, or would, but for the provisions of these Conditions relating to roundings and minimum adjustments or the carry forward of adjustments or, where comprising Ordinary Shares, the fact that the consideration per Ordinary Share receivable therefor is at least 95 per cent. of the Current Market Price per Ordinary Share, otherwise result, in an adjustment to the Exchange Price; or
- (E) without prejudice to any rule of law or legislation (including regulations made under Sections 783, 784(3), 785 and 788 of the Companies Act or any other provision of that or any other legislation), the conversion of Ordinary Shares into, or the issue of any Ordinary Shares in, uncertificated form (or the conversion of Ordinary Shares in uncertificated form to certificated form) or the amendment of the Articles of Association of the Guarantor to enable title to Securities (including Ordinary Shares) to be evidenced and transferred without a written instrument or any other alteration to the Articles of Association of the Guarantor made in connection with the matters described in this Condition 13(b)(ii) or which is supplemental or incidental to any of the foregoing (including any amendment made to enable or facilitate procedures relating to such matters and any amendment dealing with the rights and obligations of holders of Securities, including Ordinary Shares, dealt with under such procedures); or
- (F) any issue of equity share capital or modification of rights attaching to the Ordinary Shares, where prior thereto the Issuer shall have instructed an Independent Adviser to determine what (if any) adjustments should be made to the Exchange Price as being fair and reasonable to take account thereof and such Independent Adviser shall have determined in good faith either that no adjustment is required or that an adjustment resulting in a decrease in the Exchange Price is required and, if so, the new Exchange Price as a result thereof and the basis upon which such adjustment is to be made and, in any such case, the date on which the adjustment shall take effect (and so that the adjustment shall be made and shall take effect accordingly); or
- (G) any alteration to the articles of association of the Guarantor made in connection with the matters described in this Condition 13 or which is supplemental or incidental to any of the foregoing (including any amendment made to enable or facilitate procedures relating to such matters and any amendment dealing with the rights and obligations of holders of Securities, including Ordinary Shares, dealt with under such procedures); or

- (H) without prejudice to Condition 9(e), the amendment of the articles of association of the Guarantor following a Change of Control Event to ensure that any Bondholder exercising its Conversion Right after the occurrence of a Change of Control Event will receive the same consideration for the Ordinary Shares arising on conversion as it would have received had it exercised its Conversion Right at the time of the occurrence of the Change of Control Event; or
 - (I) a Permitted Issue;
- (iii) except as part of any employee, director or executive share or option or incentive scheme, procure that no Securities (whether issued by the Guarantor or any Subsidiary of the Guarantor or procured by the Guarantor or any Subsidiary of the Guarantor to be issued or issued by any other person pursuant to any arrangement with the Guarantor or any Subsidiary of the Guarantor) issued without rights to convert into, or exchange or subscribe for, Ordinary Shares shall subsequently be granted such rights exercisable at a consideration per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share at the date of the first public announcement of the proposed inclusion of such rights unless the same gives rise (or would, but for the provisions of these Conditions relating to roundings and minimum adjustments or the carry forward of adjustments, give rise) to an adjustment to the Exchange Price and that at no time shall there be in issue Ordinary Shares of differing nominal values, save where such Ordinary Shares have the same economic rights;
 - (iv) not make any issue, grant or distribution or take or omit to take any other action if the effect thereof would be that Ordinary Shares could not, under any applicable law then in effect, be legally issued as fully paid in exchange for the Preference Shares;
 - (v) not reduce its issued share capital, share premium account, or any uncalled liability in respect thereof, or any non-distributable reserves, except:
 - (A) pursuant to the terms of issue of the relevant share capital; or
 - (B) by means of a purchase or redemption of share capital of the Guarantor to the extent permitted by applicable law; or
 - (C) as permitted by Section 610 (2) and (3) of the Companies Act; or
 - (D) where the reduction does not involve any distribution of assets to Shareholders; or
 - (E) solely in relation to a change in the currency in which the nominal value of the Ordinary Shares is expressed; or
 - (F) a reduction of its share premium account to facilitate the writing off of goodwill arising on consolidation which requires the confirmation of the High Court and which does not involve the return, either directly or indirectly, of an amount standing to the credit of the share premium account of the Guarantor and in respect of which the Guarantor shall have tendered to the High Court such undertaking as it may require prohibiting, so long as any of the Bonds remains outstanding, the distribution (except by way of capitalisation issue) of any reserve which may arise in the books of the Guarantor as a result of such reduction; or
 - (G) to create distributable reserves (to which, in respect of any such creation of distributable reserves by the Guarantor, the Trustee will be deemed to have irrevocably given its consent (without any liability for so doing) prior to such creation of distributable reserves occurring and, to the extent that express consent is required, the Bondholders authorise and direct the Trustee to give

its consent (without any liability for so doing) to such creation of distributable reserves); or

- (H) pursuant to a Newco Scheme; or
- (I) by way of transfer to reserves as permitted under applicable law; or
- (J) where the reduction is permitted by applicable law and the Trustee is advised by an Independent Adviser, acting as an expert and in good faith, that in its opinion the interests of the Bondholders will not be materially prejudiced by such reduction; or
- (K) where the reduction is permitted by applicable law and results (or, in the case of a reduction in connection with a Change of Control Event, will result) in (or would, but for the provisions of these Conditions relating to roundings or the carry forward of adjustments, result in) an adjustment to the Exchange Price or is otherwise taken into account for the purposes of determining whether such an adjustment should be made; or
- (L) pursuant to a Scheme of Arrangement involving a reduction and cancellation of Ordinary Shares and the issue to Shareholders of an equal number of Ordinary Shares by way of capitalisation of profits or reserves,

provided that, without prejudice to the other provisions of these Conditions, the Guarantor may exercise such rights as it may from time to time be entitled pursuant to applicable law to purchase, redeem or buy back its Ordinary Shares and any depositary or other receipts or certificates representing Ordinary Shares without the consent of Bondholders;

- (vi) if any offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) Shareholders other than the offeror and/or any associates (as defined in Section 988(1) of the Companies Act or any modification or re-enactment thereof) of the offeror) to acquire the whole or any part of the issued Ordinary Shares, or if any person proposes a scheme with regard to such acquisition (other than a Newco Scheme), give notice of such offer or scheme to the Bondholders at the same time as any notice thereof is sent to the Shareholders (or as soon as practicable thereafter) that details concerning such offer or scheme may be obtained from the specified offices of the Paying, Transfer and Conversion Agents and, where such an offer or scheme has been recommended by the board of directors of the Guarantor, or where such an offer has become or been declared unconditional in all respects or such scheme has become effective, use its reasonable endeavours to procure that a like offer or scheme is extended to the holders of any Ordinary Shares issued during the period of the offer or scheme arising out of the exercise of Conversion Rights and/or to the holders of the Bonds (which like offer or scheme to Bondholders shall entitle Bondholders to receive the same type and amount of consideration they would have received had they held the number of Ordinary Shares to which such Bondholders would be entitled assuming Bondholders were to exercise Conversion Rights in the relevant Event Period);
- (vii) in the event of a Newco Scheme, take (or shall procure that there is taken) all necessary action to ensure that (to the satisfaction of the Trustee) immediately after completion of the Scheme of Arrangement, at its option, either (a) Newco is substituted under the Bonds and the Trust Deed and the Deed Poll as principal obligor in place of the Issuer (with the Guarantor providing a guarantee) subject to and as provided in the Trust Deed; or (b) Newco becomes a guarantor under the Bonds and the Trust Deed and the Deed Poll (jointly and severally with the Guarantor) and, in either case, that (i) such amendments are made to these Conditions, the Trust Deed and the Deed Poll as are necessary, in the opinion of the Trustee, to ensure that the Bonds may be converted into or exchanged (whether by the exchange for preference shares or otherwise) for ordinary

shares or units or the equivalent in Newco *mutatis mutandis* in accordance with and subject to these Conditions, and the Trust Deed and (ii) the ordinary shares or units or the equivalent of Newco are:

- (A) admitted to the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange's EEA Regulated Market; or
- (B) admitted to listing on another regulated, regularly operating, recognised stock exchange or securities market,

(and the Trustee shall (at the expense of the Issuer of the Guarantor), subject to the satisfaction of the conditions set out above in this paragraph (ix), be obliged to concur in effecting such substitution or grant of such guarantee and in either case making any such amendments, *provided that* the Trustee shall not be obliged so to concur if, in the opinion of the Trustee, doing so would impose more onerous or additional obligations, responsibilities or duties upon it or expose it to further liabilities or reduce or amend the protective provisions afforded to the Trustee in these Conditions, the Trust Deed, the Deed Poll or the Agency Agreement (including any supplemental trust deed or supplemental agency agreement));

- (viii) use all reasonable endeavours to ensure that the Ordinary Shares issued upon exchange of the Preference Shares will, as soon as is practicable, be admitted to listing and to trading on the Relevant Stock Exchange and will be listed, quoted or dealt in, as soon as is practicable, on any other stock exchange or securities market on which the Ordinary Shares may then be listed or quoted or dealt in;
- (ix) by no later than the Issue Date (i) publish a copy of these Conditions (including a legend regarding the intended target market for the Bonds) on its website and (ii) thereafter (and for so long as any of the Bonds remain outstanding) maintain the availability of these Conditions (as the same may be amended in accordance with their terms) on such website;
- (x) for so long as any Bond remains outstanding, use all reasonable endeavours to ensure that its issued and outstanding Ordinary Shares shall be admitted to listing on the Relevant Stock Exchange; and
- (xi) be the beneficial owner of all of the ordinary share capital of the Issuer.

(c) Undertakings of the Issuer and the Guarantor

Whilst any Bond remains outstanding, the Issuer will, and the Guarantor will procure that the Issuer will, save with the approval of an Extraordinary Resolution or with the prior written approval of the Trustee where, in the Trustee's opinion, it is not materially prejudicial to the interests of the Bondholders to give such approval:

- (i) not become domiciled or resident in or subject generally to the taxing authority of any jurisdiction (other than the United Kingdom or Jersey) unless it would not thereafter be required pursuant to then current laws and regulations to withhold or deduct for or on account of any taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of such jurisdiction or any applicable subdivision thereof or therein having power to tax in respect of any payment on or in respect of the Bonds;
- (ii) comply with the obligations assumed by it under the Articles of the Issuer and not make any amendment to the Articles of the Issuer which would vary, abrogate or modify the rights appertaining to the Preference Shares;
- (iii) at all times, keep available for issue, free from pre-emptive rights out of its authorised but unissued capital, such number of Preference Shares as would enable all the

unexercised Conversion Rights and any other rights of conversion into, subscription for and exchange into Preference Shares to be satisfied in full;

- (iv) not issue any other share capital with rights which are more favourable than the rights attaching to the Preference Shares in respect of dividends or payment of the Paid-up Value thereof or on a return of capital or otherwise;
- (v) not cause the Paid-up Value of the Preference Shares to be altered (whether by consolidation or sub-division of the Preference Shares or otherwise);
- (vi) except with the prior written consent of the Trustee pursuant to the Trust Deed, not alter those provisions of the Trust Deed which are expressed to be binding only as between the Issuer and the Guarantor and not directly enforceable by Bondholders; and
- (vii) use its reasonable endeavours to obtain by not later than 3 October 2019 a listing of the Bonds on a recognised stock exchange (within the meaning of Section 1005 of the Income Tax Act 2007) or their admission to trading on a “multilateral trading facility” operated by an EEA-regulated recognised stock exchange (within the meaning of Sections 987 and 1005 of the Income Tax Act 2007) and thereafter maintain such listing or admission to trading, *provided that* if the Issuer or the Guarantor determines in good faith that it can no longer comply with its requirements for such listing, having used such endeavours, or if the maintenance of such listing or admission to trading is unduly onerous, the Issuer and the Guarantor will instead use its reasonable endeavours to obtain and maintain a listing on such other recognised stock exchange (as such term is defined in Section 1005 of the Income Tax Act 2007) or admission to trading on such other “multilateral trading facility” operated by an EEA-regulated recognised stock exchange (within the meaning of Sections 987 and 1005 of the Income Tax Act 2007) as the Issuer may decide, *provided that* the creation or issue of any class of share capital ranking junior to or *pari passu* with the Preference Shares as respects rights to dividends and to payment of the paid-up value thereof on a return of capital or otherwise shall be deemed not to be a variation, abrogation or modification of the rights appertaining to the Preference Shares.

(d) **Consolidation, Amalgamation or Merger**

The Guarantor will not consolidate with, merge or amalgamate into or transfer its properties and assets substantially as an entirety to any corporation or convey or transfer its properties and assets substantially as an entirety to any person (the consummation of any such event, a “**Merger**”), unless:

- (i) the surviving entity of such Merger (if not the Guarantor) or the person that acquired such properties and assets shall expressly assume, by a supplemental trust deed and a deed supplemental to the Deed Poll in form and substance satisfactory to the Trustee, all obligations of the Guarantor under the Trust Deed, the Deed Poll and the Bonds and the performance of every covenant and agreement applicable to it contained therein and shall take such action and provide such undertakings, covenants and indemnities as may be required by the Trustee to ensure that the holder of each Bond then outstanding will have the right (during the period when such Bond shall be convertible) to convert such Bond into the class and amount of shares, cash and other Securities and property receivable upon such consolidation, amalgamation, merger, sale or transfer by a holder of the number of Ordinary Shares which would have become liable to be issued upon conversion of such Bond immediately prior to such consolidation, amalgamation, merger, sale or transfer; and
- (ii) immediately after giving effect to any such Merger, no Event of Default or Potential Event of Default (as defined in the Trust Deed) shall have occurred or be continuing or would result therefrom as confirmed to the Trustee by (A) a certificate of two directors of the Guarantor and (B) a certificate of two directors of the corporation that would

result from such Merger or, as the case may be, a certificate from any such person referred to above.

Such supplemental trust deed shall provide for adjustments which will be as nearly equivalent as may be practicable to the adjustments provided for in these Conditions. The Trustee shall be entitled to require from the Guarantor such opinions, consents, documents and other matters at the expense of the Issuer or the Guarantor in connection with the foregoing as it may consider appropriate and may rely on such opinions, consents and documents without liability to any person. The provisions of this Condition 13(d) shall apply in the same way to any subsequent consolidations, amalgamations, mergers, sales or transfers.

(e) **Certificate of Directors**

The Issuer and the Guarantor have undertaken in the Trust Deed to deliver to the Trustee annually a certificate of two directors of the Issuer or the Guarantor, as the case may be, as to there not having occurred an Event of Default or a Potential Event of Default or a Relevant Event since the date of the last such certificate, or if such event has occurred, as to the details of such event. The Trustee will be entitled to rely on such certificate and shall not be obliged to independently monitor compliance by the Issuer or the Guarantor with the undertaking set forth in this Condition 13, and shall not be liable to any person for not so doing.

14. Prescription

Claims against the Issuer or the Guarantor in respect of the principal amount, interest or any other amount payable in respect of the Bonds shall become void unless presentation for payment is made as required by Condition 10 within a period of 10 years in the case of principal and five years in the case of interest or any other amounts from the appropriate Relevant Date.

15. Replacement of Bonds

If any Bond is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying, Transfer, Conversion and Exchange Agent or the Registrar for the time being subject to all applicable laws and stock exchange requirements, upon payment by the claimant of such costs and expenses incurred in connection with such replacement and on such terms as to evidence and indemnity as the Issuer, the Guarantor, the Principal Paying, Transfer, Conversion and Exchange Agent and the Registrar may require. Mutilated or defaced Bonds must be surrendered before replacements will be issued.

16. Meetings of Bondholders, Modification and Waiver

(a) **Meetings of Bondholders**

The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed or the Deed Poll or the Articles of the Issuer (in the case of the Articles of the Issuer, which would vary, abrogate or modify the rights appertaining to the Preference Shares). Such a meeting may be convened by the Issuer, the Guarantor or the Trustee and shall be convened by the Trustee at the request of Bondholders holding not less than 10 per cent. in principal amount of the Bonds for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented, except that at any meeting the business of which includes (i) modifying the Final Maturity Date, or any date for payment of interest on the Bonds, (ii) reducing or cancelling the principal amount or the rate of interest payable in respect of, or altering the currency of payment of, the Bonds, (iii) increasing the Exchange Price other than in accordance with the Conditions,

(iv) modifying or varying the Conversion Rights in respect of the Bonds or the rights of Bondholders to receive Ordinary Shares and/or the Cash Alternative Amount on exercise of Conversion Rights pursuant to these Conditions, (v) modifying the rights appertaining to the Preference Shares, (vi) modifying the governing law of the Bonds, the Trust Deed or the Agency Agreement (other than in the case of a substitution of the Issuer or the Guarantor (or any previous substitute or substitutes) under Condition 16(c)) or (vii) modifying the provisions in Schedule 3 to the Trust Deed concerning the quorum required at a meeting or the majority required to pass an Extraordinary Resolution, the quorum shall be one or more persons holding or representing not less than two-thirds in principal amount of the Bonds for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-quarter in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Bondholders shall be binding on all the Bondholders, whether or not they are present at the meeting.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. of the aggregate principal amount of Bonds outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

The Trust Deed also provides that a consent given by way of electronic consent through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of the holders of not less than 75 per cent. of the aggregate principal amount of the Bonds outstanding, shall, in any such case, be effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held.

(b) Modification and Waiver

The Trustee may agree, without the consent of the Bondholders, to any modification of (except as mentioned in the Trust Deed) or to the waiver or authorisation of any breach or proposed breach of any of the provisions of the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Bonds, the Deed Poll or the Articles of the Issuer (in the case of the Articles of the Issuer, which would vary, abrogate or modify the rights appertaining to the Preference Shares) or determine without any such consent as aforesaid that any Event of Default or Potential Event of Default shall not be treated as such, where, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders so to do or may agree, and without any such consent as aforesaid, to any modification which is, in the opinion of the Trustee, of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law. Any such modification, authorisation, determination or waiver shall be binding on the Bondholders and, if the Trustee so requires, such modification shall be notified to the Bondholders promptly in accordance with Condition 19.

(c) Substitution

The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Bondholders, to the substitution of any other Subsidiary of the Guarantor or of Newco (as provided in Condition 13(b)(vii)) in place of the Issuer, or, in the case of a Newco Scheme, in place of the Issuer and the Guarantor, or of any previous substituted company, as principal debtor under the Trust Deed and the Bonds, subject to the Bonds continuing to be convertible, *mutatis mutandis* as provided in these Conditions and the Articles of the Issuer, into preference shares in the capital of the substituted company with like rights, *mutatis mutandis*, to the Preference Shares and to such preference shares being immediately exchangeable for Ordinary Shares *mutatis mutandis* as provided in the Articles of the Issuer or, in the case of a Newco Scheme, subject to the Bonds being convertible or exchangeable (whether by the exchange for preference shares or otherwise) for ordinary shares of Newco *mutatis mutandis*, and, other than

in the case of a Newco Scheme, the obligations of the Guarantor under the Deed Poll applying *mutatis mutandis* to such preference shares. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Deed and/or the Deed Poll, *provided that* such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders. Any such substitution shall be binding on the Bondholders and shall be notified promptly to the Bondholders in accordance with Condition 19.

(d) **Entitlement of the Trustee**

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the general interests of the Bondholders as a class but shall not have regard to any interests arising from circumstances particular to individual Bondholders (whatever their number) and, in particular, but without limitation shall not have regard to the consequences of any such exercise for individual Bondholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory, or any political subdivision thereof and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer, the Guarantor or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders save to the extent already provided for in the Conditions or the Trust Deed.

17. Enforcement

The Trustee may at any time, at its discretion and without notice, take such proceedings, actions and/or steps (including lodging an appeal in any proceedings) against the Issuer or the Guarantor as it may think fit to enforce the provisions of the Trust Deed and the Bonds, but it shall not be bound to take any such proceedings, actions and/or steps unless (i) it shall have been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding, and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. Notwithstanding the above:

- (a) the Trustee may refrain from taking any proceedings, actions or steps in any jurisdiction if the taking of such action in that jurisdiction would, in its opinion based upon legal advice in the relevant jurisdiction, be contrary to any law of that jurisdiction; and
- (b) the Trustee may refrain from taking any proceedings, actions or steps in any jurisdiction if in its opinion based upon legal advice in the relevant jurisdiction it would or may render it liable to any person in that jurisdiction or, it would or may not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or if it is determined by any court or other competent authority in that jurisdiction that it does not have such power.

No Bondholder shall be entitled to (i) take any proceedings, actions or steps against the Issuer or the Guarantor to enforce the performance of any of the provisions of the Trust Deed or the Bonds or (ii) take any other proceedings, actions and/or steps (including lodging an appeal in any proceedings) in respect of or concerning the Issuer or the Guarantor, in each case unless the Trustee, having become bound so to take any such proceedings, actions or fails so to do within a reasonable period and the failure shall be continuing.

18. The Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including relieving it from taking action unless indemnified and/or secured and/or prefunded to its satisfaction.

The Trustee is entitled, *inter alia*:

- (a) to enter into business transactions with the Issuer or the Guarantor, and/or the Subsidiaries of the Guarantor and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to the Issuer or the Guarantor and/or the Subsidiaries of the Guarantor and any entity related to the Issuer or the Guarantor without accounting for any profit;
- (b) to rely without liability to Bondholders on a report, confirmation or certificate of any accountants, financial advisers or financial institution or other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise;
- (c) to accept and rely on any such report, confirmation or certificate where the Issuer or the Guarantor procures delivery of the same pursuant to its obligation to do so under a condition hereof and such report, confirmation or certificate shall, if so relied upon, be binding on the Issuer, the Guarantor, the Trustee and the Bondholders in the absence of manifest error;
- (d) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of or consequences for individual Bondholders;
- (e) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith; and
- (f) to call for and be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing a certificate signed on behalf of the Issuer or the Guarantor by two directors of the Issuer or, as the case may be, the Guarantor as to any fact or matter upon which the Trustee may, in the exercise of any of its trusts, duties, powers, authorities, rights and discretions under the Trust Deed, require to be satisfied or have information, or to the effect that in the opinion of the person so certifying any particular transaction or thing is expedient, and the Trustee shall not be bound in any such case to call for further evidence or be responsible for any loss that may be occasioned by the Trustee acting on such certificate.

19. Notices

All notices required to be given to Bondholders pursuant to the Conditions will (unless otherwise provided in these Conditions) be given by publication through the electronic communication system of Bloomberg. The Issuer shall also ensure that all notices are duly published (if such publication is required) in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Bonds are for the time being listed and/or admitted to trading. Any such notice shall be deemed to have been given on the date of such publication or if required to be published in more than one manner or at different times, then such notice shall be deemed to have been given on the date of the publication in each required manner and time. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve.

The Issuer shall send a copy of all notices given by it to the Bondholders (or a Bondholder) or the Trustee pursuant to these Conditions simultaneously to the Calculation Agent.

For so long as the Bonds are represented by the Global Bond held by, and registered in the name of a nominee on behalf of, a common depository for Euroclear or Clearstream, Luxembourg notices to Bondholders shall also be given by the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg as the case may be. Any such notice shall be deemed to have been given on the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg.

20. Further Issues

The Issuer may from time to time without the consent of the Bondholders create and issue further notes, bonds or debentures either having the same terms and conditions in all respects as the outstanding notes, bonds or debentures of any series (including the Bonds) or in all respects except for the first payment of interest on them and so that such further issue shall be consolidated and form a single series with the outstanding notes, bonds or debentures of any series (including the Bonds) or upon such terms as to interest, conversion, premium, redemption and otherwise as the Issuer may determine at the time of their issue. Any further notes, bonds or debentures forming a single series with the outstanding notes, bonds or debentures of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other notes, bonds or debentures may, with the prior written consent of the Trustee, be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of notes, bonds or debentures of other series in certain circumstances where the Trustee so decides.

21. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

22. Governing Law and Jurisdiction

(a) Governing Law

The Trust Deed, the Agency Agreement, the Deed Poll and the Bonds and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) Jurisdiction

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed or the Bonds and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed or the Bonds (“**Proceedings**”) may be brought in such courts. The Issuer and the Guarantor have in the Trust Deed irrevocably submitted to the jurisdiction of such courts and have waived any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of the Trustee and each of the Bondholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) Agent for Service of Process

The Issuer has irrevocably appointed the Guarantor at its registered office for the time being, currently at Grosvenor Place, Belgravia, London SW1X 7HH, United Kingdom as its agent in England to receive service of process in any Proceedings in England. Nothing herein or in the Trust Deed shall affect the right to serve process in any other manner permitted by law.

PART 5
SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

1. Global Bond

The Bonds are represented by a Global Bond (deposited with, and registered in the name of, a nominee for a common depositary for Euroclear and Clearstream, Luxembourg).

Interests in the Global Bond may be held only through Euroclear or Clearstream, Luxembourg at any time. See “- *Book-Entry Procedures*”.

2. Amendments to the Conditions

The Global Bond contains provisions that apply to the Bonds that it represents, some of which modify the effect of the above Conditions of the Bonds. The following is a summary of those provisions:

Notices. So long as any Bonds are represented by Global Bond and the Global Bond is held on behalf of one or more clearing systems, notices to Bondholders required to be published through the electronic communication system of Bloomberg may be given by delivery of the relevant notice to such clearing systems for communication by it to entitled accountholders in substitution for delivery thereof as required by the Conditions of such Bonds.

Meetings. The holder of the Global Bond will be treated as being one person for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, as having one vote in respect of each U.S.\$200,000 in principal amount of Bonds for which the Global Bond may be exchangeable.

Prescription. Claims against the Issuer in respect of principal and interest on the Bonds while the Bonds are represented by the Global Bond will become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 4 (*Definitions*) of the Bonds).

Put Option. The Bondholders’ put option in Condition 9(e) (*Redemption at the option of the Bondholders*) of the Bonds may be exercised by the holder of the Global Bond giving notice to the Principal Paying, Transfer, Conversion and Exchange Agent of the principal amount of Bonds in respect of which the option is exercised and presenting the Global Bond for endorsement of exercise within the time limits specified in such Condition.

Purchase and Cancellation. Cancellation of any Bond required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the Global Bond.

3. Exchange for and Transfers of Definitive Bonds

The Global Bond will become exchangeable, free of charge to the holder, in whole but not in part, for Definitive Bonds if Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so. On or after the Exchange Date the holder of this Global Bond may surrender this Global Bond to or to the order of the Registrar. “**Exchange Date**” means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar is located and in the cities in which Euroclear and Clearstream, Luxembourg are located.

In such circumstances, the Global Bond shall be exchanged in full for Definitive Registered Bonds and the Issuer will cause sufficient Definitive Registered Bonds to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Bondholders. A person having an interest in the Global Bond must provide the Registrar with a written order containing instructions and such other information as the Issuer, the Guarantor and the Registrar may require to complete, execute and deliver such Bonds.

4. **Book-Entry Procedures**

Custodial and depository links are expected to be established between Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Bonds and cross-market transfers of the Bonds associated with secondary market trading. See “Book-Entry Ownership” and “Settlement and Transfer of Interests in Bonds held in the Clearing Systems” below.

Investors may hold their interests in the Global Bond directly through Euroclear or Clearstream, Luxembourg if they are accountholders (“**Direct Participants**”) or indirectly (“**Indirect Participants**”) and together with Direct Participants, “**Participants**”) through organisations which are accountholders therein.

5. **Euroclear and Clearstream, Luxembourg**

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

6. **Book-Entry Ownership**

Euroclear and Clearstream, Luxembourg

A Global Bond will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depository on behalf of, Euroclear and Clearstream, Luxembourg.

The address of Euroclear is 1 Boulevard du Roi Albert 11, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855 Luxembourg.

7. **Relationship of Participants with Clearing Systems**

Each of the persons shown in the records of Euroclear and Clearstream, Luxembourg as the holder of a Bond evidenced by the Global Bond must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer, or the Guarantor, as the case may be, to the holder of the Global Bond and in relation to all other rights arising under the Global Bond, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Bonds evidenced by the Global Bond, the common depository by whom such Bond is held, or nominee in whose name it is registered, will immediately credit the relevant Participants’ or accountholders’ accounts in the relevant clearing system with payments in amounts proportionate to their respective interests in the principal amount of the Global Bond as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of interests in the Global Bond held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer, or the Guarantor, as the case may be, in respect of payments due on the Bonds for so long as the Bonds are evidenced by the Global Bond and the obligations of the Issuer, or the Guarantor, as the case may be, will be discharged by payment to the registered holder, as the case may be, of the Global Bond in respect of each amount so paid. None of the Issuer, the Guarantor, the Trustee or any Paying and Transfer Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in

the Global Bond or for maintaining, supervising or reviewing any records relating to such ownership interests.

8. Settlement and Transfer of Interests in Bonds held in the Clearing Systems

Subject to the rules and procedures of the applicable clearing system, purchases of Bonds held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Bonds on the clearing system's records. The ownership interest of each actual purchaser of each such Bond (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records.

Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Bonds held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Bonds, unless and until interests in the Global Bond are exchanged for Definitive Bonds.

No clearing system has knowledge of the actual Beneficial Owners of the Bonds held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Bond to such persons may be limited.

Secondary market sales of book-entry interests in the Bonds held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Bonds held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional eurobonds.

PART 6

DESCRIPTION OF THE ORDINARY SHARES

The following summarises certain provisions of the Articles of the Guarantor. This summary does not purport to be complete and is subject to and is qualified in its entirety by reference to the Articles of the Guarantor (the “Articles”).

Share rights

Subject to the provisions of the Articles, provisions of the Companies Acts (as defined in section 2 of the Companies Act 2006) and to any rights for the time being attached to any existing shares, any shares in the Guarantor may be allotted or issued with, or have attached to them, such preferred, deferred or other rights or such restrictions, whether in regard to dividend, voting, transfer, return of capital or otherwise, as the Guarantor may from time to time by ordinary resolution determine or, if no such resolution has been passed or so far as the resolution does not make specific provision, as the Board of Directors (the “**Board**”) may determine.

Voting rights

Subject to the provisions of the Companies Acts, to any special terms as to voting on which any shares may have been issued or may for the time being be held and to any suspension or abrogation of voting rights pursuant to the Articles, at any general meeting, every member who is present in person shall, on a show of hands, have one vote and every member present in person shall, on a poll, have one vote for each Ordinary Share of which he is the holder.

Authority to allot shares and grant rights and disapplication of pre-emption rights

The Company may from time to time pass an ordinary resolution authorising, in accordance with Section 551 of the Companies Act, the Board to exercise all the powers of the Company to allot shares or to grant rights to subscribe for or to convert any security into shares in the Company up to the maximum nominal amount specified in the resolution. The authority shall expire on the day specified in the resolution (not being more than five years from the date on which the resolution is passed).

Subject (other than in relation to the sale of treasury shares) to the Board being generally authorised to allot shares and grant rights to subscribe for or to convert any security into shares in the Company in accordance with Section 551 of the Companies Act, the Company may from time to time resolve, by special resolution, that the Board be given power to allot equity securities for cash as if Section 561(1) of the Act did not apply to the allotment but that power shall be limited to (A) the allotment of equity securities in connection with a rights issue; and (B) the allotment (other than in connection with a rights issue) of equity securities having a nominal amount not exceeding in aggregate the sum specified in the special resolution.

The Board does not currently have any authority to allot equity securities for cash as if Section 561(1) does not apply.

Dividends and other payments

Subject to the provisions of the Companies Acts and the provisions of the Articles, the Guarantor may by ordinary resolution declare dividends to be paid to the members according to their respective rights and interests in the profits of the Guarantor. However, no dividend shall exceed the amount recommended by the Board.

Except as otherwise provided by the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up (otherwise than in advance of calls) on the shares on which the dividend is paid. Subject as aforesaid, all dividends shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid, but if any share is issued on terms providing that it shall rank for dividend as from a particular date, it shall rank for dividend accordingly.

Subject to the provisions of the Companies Acts, the Board may declare and pay such interim dividends (including any dividend payable at a fixed rate) as appears to the Board to be justified by the profits of the Guarantor available for distribution. If at any time the share capital of the Guarantor is divided into different classes, the Board may pay such interim dividends on shares which rank after shares conferring preferential rights with regard to dividend as well as on shares conferring preferential rights, unless at the time of payment

any preferential dividend is in arrears. Provided that the Board acts in good faith, it shall not incur any liability to the holders of shares conferring preferential rights for any loss that they may suffer by the lawful payment of any interim dividend on any shares ranking after those with preferential rights.

No dividend shall be paid otherwise than out of profits available for distribution in accordance with the Companies Acts.

The Board may deduct from any dividend or other money payable to any person by the Guarantor on or in respect of any shares all sums as may be due from him to the Guarantor on account of calls or otherwise in relation to the shares of the Guarantor.

The Board may, with the authority of an ordinary resolution of the Guarantor, direct that payment of any dividend declared may be satisfied wholly or partly by the distribution of assets, and in particular of paid up shares or debentures of any other company, or in any one or more of such ways. Where any difficulty arises in regard to such distribution, the Board may settle it as it thinks fit. In particular, the Board may:

- (a) issue fractional certificates (or ignore fractions);
- (b) fix the value for distribution of such assets or any part thereof and determine that cash payments may be made to any members on the footing of the value so fixed, in order to adjust the rights of members; and
- (c) vest any such assets in trustees on trust for the persons entitled to the dividend.

Unless otherwise provided by the rights attached to the share, no dividend or other moneys payable by the Guarantor on or in respect of any share shall bear interest against the Guarantor.

Except as provided by the rights attached to the Guarantor's shares, the holders of the Guarantor's shares will under general law be entitled to participate in any surplus assets in a winding up in proportion to their shareholdings. A liquidator may, with the sanction of a special resolution and any other sanction required by the Insolvency Act 1986, divide among the members in specie the whole or any part of the assets of the Guarantor and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members.

The rights attached to the Guarantor's shares do not contain any specific reference to share in any surplus assets in the event of a winding-up.

The payment of dividends is restricted by covenants in the Petropavlovsk 2016 Limited 8.125% Guaranteed Notes due 2022 and in the Bonds.

Variation of rights

Subject to the Companies Acts and the terms of their issue, any of the rights for the time being attached to any share or class of shares in the Guarantor (and notwithstanding that the Guarantor may be or be about to be in liquidation) may be varied or abrogated in such manner (if any) as may be provided by such rights or, in the absence of any such provision, either with the consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of such shares.

Subject to the terms of issue of or rights attached to any shares, the rights for the time being attached to any shares shall be deemed not to be varied or abrogated by the creation or issue of any new shares ranking *pari passu* in all respects (save as to the date from which such new shares shall rank for dividend) with or subsequent to those already issued or by the reduction of the capital paid up on such shares or by the purchase or redemption by the Guarantor of its own shares or the sale of any shares held as treasury shares in accordance with the provisions of the Companies Acts and the Articles.

Lien

The Guarantor shall have a first and paramount lien on each of its shares which is not fully paid for all amounts payable to the Guarantor (whether presently or not) in respect of that share to the extent and in the circumstances

permitted by the Companies Act. The Board may waive any lien that has arisen and may resolve that any share shall for some limited period be exempt wholly or partially from the provisions of article 14 of the Articles.

The Board may sell all or any of the shares subject to any lien at such time or times and in such manner as it may determine. However, no sale shall be made until such time as any money in respect of which such lien exists is presently payable or the liability or engagement in respect of which such lien exists is liable to be presently fulfilled or discharged, and until notice in writing shall have been served on the holder or the person (if any) entitled by transmission to the shares, demanding the amount due or specifying the liability or engagement and demanding payment or fulfilment or discharge thereof and giving notice of intention to sell if default in payment, fulfilment or discharge shall continue for 14 clear days after service of such notice. For giving effect to any such sale, the Board may authorise some person to execute an instrument of transfer of the shares sold in the name and on behalf of the holder or the person (if any) entitled by transmission in favour of the purchaser or as the purchaser may direct. The purchaser shall not be bound to see to the application of any purchase consideration nor shall his title to the shares be affected by any act, omission, irregularity or invalidity relating to or connected with the proceedings in reference to the sale.

The net proceeds of any sale of shares subject to any lien, after payment of the expenses of sale, shall be applied in or towards satisfaction of so much of the amount due to the Guarantor or of the liability or engagement (as the case may be) as is presently payable or is liable to be presently fulfilled or discharged. The balance (if any) shall (on surrender to the Guarantor for cancellation of the certificate for the shares sold, and subject to a like lien for any moneys not presently payable or any liability or engagement not liable to be presently fulfilled or discharged as existed on the shares before the sale) be paid to the holder or the person (if any) entitled by transmission to the shares so sold (without interest).

Calls on shares

Subject to the provisions of the Articles and to the terms of allotment of the shares, the Board may from time to time make calls on the members in respect of any moneys unpaid on the shares, of any class, held by them respectively (whether in respect of nominal value or premium) and not payable on a date fixed by or in accordance with the terms of issue. Each member shall (subject to the Guarantor serving upon him at least 14 clear days' notice specifying when and where payment is to be made and whether or not by instalments) be liable to pay to the Guarantor at the amount of every call so made on his as required by the notice. A call shall be deemed to have been made at the time when the resolution of the Board authorising such call was passed or (as the case may require) any person to whom power has been delegated pursuant to these Articles serves notice of exercise of such power. A call may be required to be paid by instalments and may, before receipt by the Guarantor of any sum due thereunder, be either revoked or postponed in whole or part as regards all or any such members as the Board may determine. A person on whom a call is made shall remain liable notwithstanding the subsequent transfer of the shares in respect of which the call was made.

The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof.

If the whole of the sum payable in respect of any call is not paid on or before the day appointed for payment thereof, the person from whom it is due and payable shall pay all costs, charges and expenses that the Guarantor may have incurred by reason of such non-payment, together with interest on the unpaid amount from the day appointed for payment thereof to the time of actual payment at the rate fixed by the terms of the allotment of the share or in the notice of the call or, if no rate is so fixed, at such rate, not exceeding 15 per cent. per annum as the Board shall determine. The Board may waive payment of such costs, charges, expenses or interest in whole or in part.

Unless the Board otherwise determines, no member shall be entitled to receive any dividend or to be present and vote at a general meeting or at any separate general meeting of the holders of any class of shares either in person or (save as proxy for another member) by proxy, or be reckoned in a quorum, or to exercise any other right or privilege as a member in respect of a share held by him unless and until he shall have paid all calls for the time being due and payable by him in respect of that share, whether alone or jointly with any other person, together with interest and expenses (if any) payable by such member to the Guarantor.

The Board may make arrangements on the allotment or issue of shares for a difference as between the allottees or holders of such shares in the amount and time of payment of calls.

The Board may, if it thinks fit, receive from any member willing to advance the same all or any part of the moneys uncalled and unpaid on the shares held by him. Such payment in advance of calls shall extinguish *pro tanto* the liability on the shares on which it is made. The Guarantor may pay interest on the money paid in advance, or so much of it as exceeds the amount for the time being called up on the shares in respect of which such advance has been made, at such rate as the Board may decide. The Board may at any time repay the amount so advanced on giving to such member not less than three months' notice in writing of its intention to do so, unless before the expiration of such notice the amount so advanced shall have been called up on the shares in respect of which it was advanced.

Forfeiture of shares

If any member fails to pay the whole of any call or any instalment of any call on or before the day appointed for payment, the Board may at any time serve a notice in writing on such member or on any person entitled to the shares by transmission, requiring payment, on a date not less than 14 clear days from the date of the notice, of the amount unpaid and any interest which may have accrued thereon and any costs, charges and expenses incurred by the Guarantor by reason of such non-payment. The notice shall name the place where the payment is to be made and state that, if the notice is not complied with, the shares in respect of which such call was made will be liable to be forfeited.

If the notice referred to above is not complied with, any share in respect of which it was given may, at any time before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect which shall state the date of forfeiture. Such forfeiture shall include all dividends declared or other moneys payable in respect of the forfeited shares and not paid before the forfeiture.

When any share has been forfeited, notice of the forfeiture shall be served on the person who was before forfeiture the holder of the share or the person entitled to such share by transmission (as the case may be). An entry of such notice having been given and of the forfeiture with the date thereof shall forthwith be made in the register of members of the Guarantor (the “**Register**”) in respect of such share. However, no forfeiture shall be invalidated by any omission to give such notice or to make such entry as aforesaid.

The Board may, at any time before any share so forfeited has been cancelled or sold, re-allotted or otherwise disposed of, annul the forfeiture, on the terms that payment shall be made of all calls and interest due thereon and all expenses incurred in respect of the share and on such further terms (if any) as the Board shall see fit.

The Board may accept a surrender of any share liable to be forfeited. In such case references in the Articles to forfeiture shall include surrender.

Every share which shall be forfeited shall thereupon become the property of the Guarantor. Subject to the provisions of the Companies Acts, any such share may be sold, re-allotted or otherwise disposed of, either to the person who was before forfeiture the holder thereof or entitled thereto or to any other person, on such terms and in such manner as the Board shall determine. The Board may, for the purposes of the disposal, authorise some person to transfer the share in question and may enter the name of the transferee in respect of the transferred share in the Register notwithstanding the absence of any share certificate being lodged in respect thereof and may issue a new certificate to the transferee. An instrument of transfer executed by that person shall be as effective as if it had been executed by the holder of, or the person entitled by transmission to, the share. The Guarantor may receive the consideration (if any) given for the share on its disposal.

A shareholder whose shares have been forfeited shall cease to be a member in respect of the shares forfeited and shall, in the case of a holder of certificated shares, surrender to the Guarantor for cancellation the certificate for such shares. He shall nevertheless be liable to pay to the Guarantor all calls made and not paid on such shares at the time of forfeiture, and interest thereon at 15 per cent per annum (or such lower rate as the Board may determine) from the date of the forfeiture to the date of payment (both dates inclusive), in the same manner in all respects as if the shares had not been forfeited, and to satisfy all (if any) claims, demands and liabilities which the Guarantor might have enforced in respect of the shares at the time of forfeiture, without any reduction or allowance for the value of the shares at the time of forfeiture or for any consideration received on their disposal.

The forfeiture of a share shall involve the extinction at the time of forfeiture of all interest in and all claims and demands against the Guarantor in respect of the share and all other rights and liabilities incidental to the share

as between the holder if any whose share is forfeited or the person entitled by transmission to the forfeited share (as the case may be) and the Guarantor, except only such of those rights and liabilities as are by the Articles expressly saved, or as are by the Companies Acts given or imposed in the case of past members.

A statutory declaration by a Director or the Secretary that a share has been forfeited in pursuance of the Articles, and stating the date on which it was forfeited, shall, as against all persons claiming to be entitled to the share, be conclusive evidence of the facts therein stated. The declaration, together with the receipt of the Guarantor for the consideration (if any) given for the share on the sale or disposition thereof and a certificate for the share delivered to the person to whom the same is sold or disposed of, shall (subject if necessary to the execution of an instrument of transfer) constitute a good title to the share. Subject to the execution of any necessary transfer, such person shall be registered as the holder of the share and shall be discharged from all calls made prior to such sale or disposition and shall not be bound to see to the application of the purchase consideration (if any), nor shall his title to the share be affected by any act, omission, irregularity or invalidity relating to or connected with the proceedings in reference to the forfeiture or disposal of the share. Such person shall not (except by express agreement with the Guarantor) become entitled to any dividend which might have accrued on the share before the completion of the sale or disposition thereof.

Transfer of shares

Subject to such of the restrictions of the Articles as may be applicable, any member may transfer all or any of his shares which are in certified form by instrument of transfer in writing in any usual form or in any form approved by the Board. Such instrument shall be executed by or on behalf of the transferor and (in the case of a transfer of a share which is not fully paid up) by or on behalf of the transferee. The transferor shall be deemed to remain the holder of such share until the name of the transferee is entered in the Register in respect of it.

The Board may, in its absolute discretion, refuse to register any transfer of a share unless:

- (a) it is in respect of a share which is fully paid up;
- (b) it is in respect of only one class of shares;
- (c) it is in favour of a single transferee or not more than four joint transferees;
- (d) it is duly stamped (if so required); and
- (e) it is delivered for registration to the Office or such other place as the Board may from time to time determine, accompanied (except in the case of (a) a transfer by a recognised person where a certificate has not been issued, (b) a transfer of an uncertificated share or (c) in the case of a renunciation) by the certificate for the shares to which it relates and such other evidence as the Board may reasonably require to prove the title of the transferor or person renouncing and the due execution of the transfer or renunciation by him or, if the transfer or renunciation is executed by some other person on his behalf, the authority of that person to do so,

provided that the Board shall not refuse to register any transfer or renunciation of partly paid shares on the grounds that they are partly paid shares in circumstances where such refusal would prevent dealings in such shares from taking place on an open and proper basis on the market on which such share is admitted to trading.

Without prejudice to the above, the Board may refuse to register a transfer of an uncertificated share in such other circumstances as may be permitted or required by the Uncertificated Securities Regulations 2001 as the same has been or may be amended.

Transfers of shares will not be registered (other than an excepted transfer) where a member, or any other person appearing to be interested in shares held by that member, has failed to disclose an interest in such shares in the circumstances referred to in article 33 of the Articles.

If the Board refuses to register a transfer of a share it shall, as soon as practicable and in any event within two months after the date on which the transfer was lodged with the Guarantor, send notice of the refusal to the transferee. At the same time as it sends the transferee notice of the refusal to register a transfer, the Board will provide the transferee with its reasons for the refusal. Any instrument of transfer which the Board refuses to

register shall (except in the case of suspected or actual fraud) be returned to the person depositing it. All instruments of transfer which are registered may be retained by the Guarantor.

No fee shall be charged for registration of a transfer or on the registration of any probate, letters of administration, certificate of death or marriage, power of attorney, notice or other instrument relating to or affecting the title to any shares.

Transfer Restrictions under the Articles of Association of the Company

The Board may impose such restrictions as they may think necessary for the purpose of ensuring that no shares in the Company are acquired or held by or transferred to any person in breach of Russian legislation, including any person having acquired (or who would as a result of any transfer acquire) shares or an interest in shares which, together with any other shares in which that member is deemed to have an interest for the purposes of the Strategic Asset Law, carry voting rights exceeding 50 per cent. (or such lower number as the Board may determine in the context of the Strategic Asset Laws) of the total voting rights attributable to the issued shares of the Company without such acquisition having been approved, where such approval is required, pursuant to the Strategic Asset Laws. These provisions include the ability of the Board to refuse to register a transfer of shares which in the Board's opinion is to a Non-Compliant Holder or if the transfer if implemented would result in the transferee and (if applicable any other person(s)) becoming a Non-Compliant Holder(s) as defined in the Articles.

Pending such sale or transfer or at any other time when the Board considers any person(s) to be Non-Compliant Holder(s) the Board may, in their absolute discretion, at any time by notice to such Holder direct that in respect of all or any part of their shares they shall not be entitled to attend or vote at a general meeting of the Company or a meeting of the holders of any class of shares or to exercise any other shareholder rights.

Performance and volatility of shares

Information about the Guarantor and the performance of the Ordinary Shares and their volatility can be found on the London Stock Exchange's website at <https://www.londonstockexchange.com/exchange/prices-and-markets/stocks/summary/company-summary/GB0031544546GBGBXSSMM.html>.

PART 7

USE OF PROCEEDS

The Issuer (A) has used the estimated net proceeds from the issue of the Bonds (i) to fund the Repurchase Price for any Existing Bonds purchased and redeemed by the Issuer pursuant to the Repurchase, (ii) to redeem any outstanding Existing Bonds following completion of the Repurchase, and (B) shall use the estimated net proceeds from the issue of the Bonds for the general corporate purposes of the Group.

In accordance with (A) above, US\$77.81 million of the Existing Bonds were repurchased and cancelled by the Issuer on 3 July 2019 and the remaining Existing Bonds of US\$22.19 million were redeemed by the Issuer on 9 July 2019.

PART 8

INDUSTRY OVERVIEW

The following information relating to the gold market overview has been provided for background purposes only. Unless stated otherwise, the information contained herein has been extracted from World Gold Council's industry reports.

Introduction

Russia is one of the world's leading producers of natural resources and one of the richest in terms of its mineral reserves and resources. The Amur region, the area in which Petropavlovsk's key assets are based, is one of the richest and oldest gold producing regions, with a history of gold mining dating back to 1867.

Based on H1 2019 production data, the largest publicly listed gold mining companies with Russian assets are:

1. Polyus Gold (1,285koz)
2. Polymetal International (602koz)
3. Kinross (258koz from the Kupol / Dvoinoye mine)
4. Petropavlovsk (225koz)
5. Nordgold (213koz)*
6. Highland Gold (142koz)

Source: Publicly available H1 2019 data for each of the companies

* For comparison on a like-for-like basis with other Russian gold miners / assets as described above, Nordgold's gold production excludes the company's Africa based assets

Factors influencing the price of gold

In addition to jewellery and industrial applications, gold has a long history of serving as a long-standing store of value and as an effective hedge or diversification tool because the precious metal has a low correlation with other assets. However, on a day to day basis, the gold price is driven by a range of interconnected factors, including but not limited to:

- Physical supply and demand dynamics;
- Real interest rates;
- Inflation and the expectation thereof;
- Currency exchange rates;
- Equity market volatility / elevated levels of risk aversion; and
- Economic and / or political uncertainty and related newsflow.

With this in mind, 2019 has been an eventful year in terms of political and macroeconomic newsflow. At the beginning of the year, the US witnessed its longest government shutdown lasting 35 days, while protracted Brexit negotiations resulted in the resignation of Prime Minister Theresa May. A deterioration in relations between Russia and the US, ongoing armed conflict in Syria, tensions between Iran and the US, the China trade war and the Venezuelan presidential crisis are some of the additional highlights to date. From a macro perspective, low real interest rates, downside growth / financial risks, as well as increasingly dovish sentiment from the US Federal Reserve in June helped gold to regain its status as a hedge against uncertainty and a portfolio diversification tool, pushing the price higher.

Historical gold price performance¹

The Gold PM Fix achieved a multi-year high of US\$1,895/oz in September 2011, on the back of the gradual effects of the global financial crisis, benefiting from a combination of negative real interest rates, global market volatility, lingering European sovereign debt concerns / contagion issues, a catalogue of country credit rating downgrades (including the USA), depressed housing prices, the on-going risk of currency debasement, as well as widespread social unrest.

However, the recovery of the financial markets following the crisis negatively affected the gold price once investors began to rotate out of safety and back into riskier assets and, as the equity markets recovered, the gold price slumped to US\$1,049/oz in December 2015, a peak to trough decline of 45%.

Since the low point reached in 2015, gold traded in a range of approximately US\$1,060/oz to US\$1,340/oz, until, in late June 2019, it breached the US\$1,400/oz barrier.

Overview of the gold market in H1 2019

The Gold PM Fix price appreciated by 10% during the first half of 2019, commencing the year at US\$1,279/oz and closing at US\$1,409/oz on 28 June 2019. The precious metal traded within a range of US\$1,270/oz – US\$1,431/oz, averaging US\$1,305/oz for the period, a 1% decrease compared to the first half of 2018 (US\$1,318/oz). On a relative basis, while gold comfortably outperformed silver (-1%), platinum (+5%) and the Bloomberg Commodity Index (+4%), it could not quite match the returns generated by palladium (+22%).

Global gold demand increased by 8% in H1 2019, to 70.1Moz (H1 2018: 65.0Moz), primarily influenced by central bank purchases, supported by a small uptick in ETF, jewellery and gold coin demand.

Jewellery demand²

The jewellery segment accounts for approximately half of the total gold demand figure, which totalled 34.1Moz in H1 2019, a modest 1% increase on the same period in 2018 (33.7Moz). Together, China (11.1Moz) and India (9.5Moz) were responsible for 60% of jewellery demand in H1 2019. By comparison, European demand totalled just 0.9Moz, 3% of the jewellery total.

Indian jewellery demand was up 9% in H1 2019, driven by wedding season related demand (there was a higher number of auspicious wedding days compared with H1 2018) and a correction in local prices. However, it should be noted that demand tapered off towards the end of H1 as the wedding season came to an end and local prices began to increase sharply. In contrast, jewellery demand from China declined by 3% in H1 2019 vs. H1 2018 due to a combination of volatile gold prices and consumers weary of a slowdown in the domestic economy, particularly against the background of the international trade conflict in mind.

Elsewhere in the world, jewellery demand in Turkey (0.6Moz) was down 7% in H1 2019, negatively impacted by high unemployment, inflation and currency devaluation. Beset by sanctions, Iran (0.5Moz) was affected (-8%) by a mix of currency devaluation and inflation, with local gold prices at record highs. In contrast, US jewellery demand (1.7Moz) increased 3% during the period, at first recovering from the effects of the US government showdown but slipping in June as concerns resurfaced regarding the ongoing US-China trade war and possible future implications.

Investment demand³

Investment demand is the second largest market and includes bars, coins and exchange traded funds (ETFs). While overall investment demand increased 2% to 18.8Moz (H1 2018: 18.3Moz), the bulk of this was due to ETF demand as total bar and coin demand, a sub-category within the investment category, declined 6% to 15.3Moz (H1 2018: 16.4Moz). ETF demand expanded by 3.5Moz (H1 2018: 2.0Moz), with total holdings at a 6 year high of 81.9Moz.

European listed funds and products, particularly in the UK, absorbed much of the inflows during the period, as investors made purchases in light of the ongoing tortuous Brexit negotiations (which resulted in the resignation

¹ Source: London Bullion Market Association.

² Source: World Gold Council.

³ Source: World Gold Council.

of Prime Minister Theresa May), the weaker sterling and questions surrounding Britain's economic growth in the near term.

North American investors, too, continued to add to their ETF holdings, supported by tensions between the US and various trade partners, as well as expectations of lower interest rates, as the Federal Reserve signalled a more dovish stance with possible rate cuts now being priced into the remainder of 2019.

By contrast, Asian listed ETFs saw a decrease in their holdings, driven by profit taking and a shift to riskier assets in the region, such as the rallying Chinese domestic stock market.

An additional sub-category of investor demand is bars and coins. During H1 2019, bar and coin demand accounted for 22% of the total demand figure, with demand in this category, at first glance, decreasing by 6% during the period to 15.3Moz (H1 2018: 16.4Moz). The quantitative data painted a mixed picture – bar and coin demand in India was up 9% to 2.5Moz (H1 2018: 2.3Moz), China demand slumped 18% to 4.0Moz (H1 2018: 4.8Moz), European demand increased 5% to 2.5Moz (H1 2018: 2.4Moz), while Middle East demand shrank 11% to 1.1Moz (H1 2018: 1.2Moz).

Lacklustre Chinese demand may be explained by the fact that during Q1 2019, the local stock market surged by some 30%, diverting the attention of investors in that direction, while in Q2 2019, the price of gold in local currency increased to a 6.5 year high, prompting investors to sit out the price volatility. Strong demand in India is partially attributable to festive purchases while European demand was buoyed by economic and political uncertainty, with UK investors seeking to protect their wealth against a potential chaotic departure from the European Union.

Official sector demand

In terms of official sector demand, central bank purchases totalled 12.0Moz in H1 2019, up 57% on H1 2018 (7.6Moz). Buying momentum has continued from 2018, a year which saw the highest level of central bank demand for almost half a century. As has historically been the case, purchases were made not only to diversify reserves but also on the back of economic uncertainty caused by trade tensions, sluggish growth and a historically low interest rate environment. With gold viewed as a safe haven asset class, Russia was once again a significant buyer, citing persistent sanction risk as one of the supplementary reasons for adding 3.0Moz to its portfolio for a total of 71Moz (19% of overall reserves).

During the same period, Chinese gold reserves grew by 2.4Moz to 61.9Moz (3% of overall reserves), Turkey acquired 1.9Moz resulting in a total gold holdings of 10.1Moz (16% of reserves), Kazakhstan's gold reserves increased by 0.8Moz to 12.1Moz (60% of reserves) while India bought an additional 0.6Moz during the period (total holding of 19.9Moz, 7% of reserves). However, the biggest surprise was a substantial strategic purchase of 3.2Moz by the National Bank of Poland, which grew its reserves to 7.3Moz. This strategic decision enabled Poland to increase its financial security buffer as well as strengthening its credibility to withstand potential adverse economic conditions.

Technology demand

In H1 2019, technology based gold demand accounted for around 7% of total gold demand at 5.2Moz, down 2% when compared to the same period in 2018. The technology sector encompasses electronic, dentistry and industrial demand. Gold demand across all three sub-sectors remained sluggish overall, with dentistry the most affected.

Global gold supply trends in H1 2019

Mine supply

Total gold supply increased by 2% in H1 2019 to 74.7Moz (H1 2018: 73.2Moz), on the back of record mine production of 55.6Moz.

Output ticked higher due to a combination of new projects and higher output at existing assets. Russia, Canada, US, Australia, Kazakhstan and Ghana all registered output gains during the period. In contrast, however, producers in China, the world's largest gold producer, saw output falling as the stricter environmental regulations continued to impact the mining industry while South African production fell as a direct result of industrial action.

Recycled gold

Recycled gold is an additional source of supply. During H1 2019, 19.4Moz of gold was recycled, a 7% increase on H1 2018 (18.2Moz), with recycling encouraged by the strong gold price rally, particularly as prices approached US\$1,400/oz. Perhaps unsurprisingly, the UK experienced a significant increase in recycled gold, with Brexit and economic uncertainty impacting on the strength of the sterling, encouraging some consumers to weigh in their gold stock.

PART 9 DESCRIPTION OF THE BOND ISSUER

Introduction

The Issuer was incorporated and registered in Jersey, Channel Islands, as a public company limited by shares under the name Petropavlovsk 2010 Limited on 18 January 2010 and with registered number 104830. The Issuer has the legal entity identifier 213800IJHR39Z98KEW82. The principal legislation under which the Issuer operates is the Jersey Companies Law. The registered office and business address of the Issuer is located at 13-14 Esplanade, St Helier, Jersey JE1 1EE and its telephone number is +44 (0) 1534 844844.

Business of the Issuer

The Issuer is a wholly owned subsidiary of the Company and its sole purposes are the issue of the Bonds, the preference shares and the loan of the proceeds to other entities in the Group. The Issuer is dependent on the other entities of the Group repaying their loans in order to repay any amounts due under the Bonds.

Share Capital of the Issuer

The Issuer has no subsidiaries. The Issuer can issue 100 ordinary shares issuable at an agreed issue price of £1.00 each, the terms of which are as set out in the Articles of the Issuer (the “**Founders’ Shares**”), Preference Shares or 1,000,000 preference shares of US\$0.01 each relating to the Bonds. Founders’ Share are issuable at an agreed issue price of £1.00 each and Preference Shares are each issuable at the Paid-Up value (as defined in the Articles of the Issuer).

As of the date of this Prospectus, the issuer has an issued share capital of 26.75169 Founders’ Shares.

The Issuer is legally and beneficially owned directly by the Company. The rights of the Company as a shareholder in the Issuer are contained in the Articles of the Issuer and the Issuer will be managed in accordance with those articles and with the provisions of Jersey law.

Corporate Administration

Estera Trust (Jersey) Limited, 13-14 Esplanade, St Helier, Jersey JE1 1EE Jersey acts as the corporate services provider for the Issuer (the “**Corporate Services Provider**”) pursuant to the terms of a corporate services agreement which has been entered into between the Issuer and the Corporate Services Provider the purpose of which is to allow the Issuer to issue bonds and preference shares and provide intra-group loans. In consideration of the foregoing, the Corporate Services Provider will be entitled to receive various fees payable by the Issuer at rates agreed upon from time to time, plus expenses.

Management and Employees

The Issuer has no officers or employees other than those directors listed below in the section entitled “*Directors and Secretary*”.

Directors and Secretary

The board of directors of the Issuer is comprised of Dr Alfiya Samokhvalova, Mrs Anna-Karolina Subczynska-Samberger and Ms Natalia Buynova. Mrs Subczynska-Samberger is also the Group Head of Legal Affairs, Petropavlovsk PLC and Ms Buynova is also the Group Head of Corporate Reporting of Petropavlovsk PLC.

Details of the other principal activities of Dr Samokhvalova are set out in section 19 of Part 10: “*Description of the Group - Board of Directors, Senior Management and Corporate Governance*”.

The business address of each of the directors of the Issuer is 11 Grosvenor Place, London SW1X 7HH.

The company secretary of the Issuer is Estera Secretaries (Jersey) Limited at 13-14 Esplanade, St Helier, Jersey JE1 1EE.

Directors' Interests

The Issuer's directors are also employees and/or directors of the Company and/or its subsidiaries. The directors of the Issuer are not remunerated by the Issuer for their role as directors. As a matter of Jersey law, each director of the Issuer is under a duty to act honestly and in good faith with a view to the best interests of the Issuer, regardless of any other directorships he may hold. Each director of the Issuer is responsible for advising the board of directors of any potential conflict of interest.

The directors are all employees or officers of the Guarantor. No director has any conflict of interest and/or any potential conflict of interest between any of his duties to the issuer and his private interests and/or other duties.

Financial Statements

The Issuer prepares and publishes audited financial statements on an annual basis, which are filed in accordance with Jersey Law. The Issuer only intends to prepare audited annual financial statements. The financial statements of the Issuer have been audited without qualification as at and for the years ended 31 December 2018 and 31 December 2017 by Deloitte LLP which is authorised as an auditor of a Jersey incorporated company pursuant to the Companies (Jersey) Law 1991, as amended.

The audited annual financial statements are available free of charge at the offices of the Issuer and the Corporate Services Provider.

PART 10

DESCRIPTION OF THE GROUP

Investors should read this Part 9 in conjunction with the the Financial Statements, including the notes thereto as well as the other information included in or incorporated by reference into this Prospectus.

1. Overview

Petropavlovsk is one of Russia's major gold mining companies. Since its formation and as of 30 June 2019, the Group has produced approximately 7.3Moz of gold. This figure includes production from the three key mining assets described below, the former Pokrovskiy mine (which stopped material production at the beginning of 2018 and has now become the site of the POX Hub), as well as production from alluvial operations and joint ventures which are no longer part of the Group. As at 31 December 2018, the Group had 20.52Moz of Mineral Resources, including 8.21Moz of Ore Reserves. The Group reports Mineral Resources and Ore Reserves in accordance with the JORC Code (2012) (the "**JORC Code**"). "**Mineral Resources**" are concentrations or occurrences of solid material of economic interest in or on the Earth's crust in such form, grade (or quality) and quantity that there are reasonable prospects for eventual economic extraction. "**Ore Reserves**" are the economically minable part of the Measured and/or Indicated Mineral Resources adjusted for dilution and losses that may occur during mining. Dilution and mining losses factors are defined by a pre-feasibility or a feasibility studies. Such studies consider all relevant economic, environmental, social, legal and any other material factors to demonstrate that, at the time of the reporting extraction could reasonably justified.

Petropavlovsk's key area of focus is the Amur region in the Russian Far East, where it has operated since 1994, and which benefits from well-developed infrastructure, access to hydroelectric power and a strong mining tradition. The Directors believe that the Company is one of the leading employers and contributors to the development of the local economy in the region.

The Group's key operational assets are all located in the Amur region and include the Pioneer, Albyn, and Malomir mines ("**Key Mining Assets**"), as well as known satellite deposits and the Pressure Oxidation ("**POX**") Hub. These mines are principally open-pit operations with smaller underground mining operations which commenced production from June 2017 at Pioneer and Malomir. The Group also mined gold at the Pokrovskiy deposit which was depleted in Q1 2018 and has subsequently become the site of the POX Hub. During the first six months of 2019 a small amount (0.2koz) of residual gold was recovered from the Pokrovskiy heap leach and RIP (as defined below) tailings.

Ores amenable for direct cyanidation are processed at on-site RIP plants located at all three of the Key Mining Assets. Ores that are not amenable for direct cyanidation, known as refractory ores, require additional treatment, flotation, followed by pressure oxidation. The flotation process recovers gold bearing sulphide minerals from the ore, producing a high-grade concentrate which is then oxidised in an autoclave using pressure oxidation. Once the concentrate is oxidised, the gold is then recovered using the RIP facility.

The Group's first flotation plant was completed and commissioned at Malomir in July 2018. A second flotation plant is under construction at the Pioneer site which is expected to start production in Q4 2020. High grade concentrate is transported for further processing and gold recovery to Pokrovskiy POX Hub where concentrate is first oxidised under high pressure in autoclaves and subsequently processed using RIP technology. In addition, there is a seasonal heap leaching facility at the Pioneer site which normally operates between April and November. However, 2019 is expected to be the last year of heap leach operations. In the first six months of 2019, the Group's Key Mining Assets processed approximately 5.5Mt of ore through the RIP plants, with 1.8Mt at the Malomir flotation plant, producing an aggregate of 225.1koz of gold in dore.

The table below sets out an overview of the Group's three Key Mining Assets and the former Pokrovskiy mine which has almost 1Moz of gold resources:

| | Pioneer | | Malomir | | Albyn | | Pokrovskiy | |
|--|------------------------------------|-----------------|-----------------------------------|-----------------|------------------------------------|-----------------|---------------------------------|-----------------|
| Licence area | Approximately 1,337km ² | | Approximately 74.5km ² | | Approximately 1,053km ² | | Approximately 95km ² | |
| Production to 30 June 2019 | c.2.6Moz Au | | c.0.8Moz Au | | c.1.2Moz Au | | c.2.0Moz Au | |
| Plant (RIP/flotation) capacity | 6.7Mtpa/0Mtpa | | 0.4Mtpa/3.6Mtpa | | 4.7Mtpa/0Mtpa | | n/a | |
| JORC R&R as of 31 December 2018 ^{1/2} | Resources | Reserves | Resources | Reserves | Resources | Reserves | Resources | Reserves |
| Total³ | 5.94Moz | 2.84Moz | 6.93Moz | 2.86Moz | 5.35Moz | 2.32Moz | 0.88Moz | – |
| Non-refractory | 1.44Moz | 0.67Moz | 0.22Moz | 0.13Moz | 4.22Moz | 1.89Moz | 0.88Moz | – |
| Refractory | 4.50Moz | 2.16Moz | 6.70Moz | 2.72Moz | 1.13Moz | 0.42Moz | – | – |

Notes:

- (1) In this Part, the reserves and resources data is sourced from the Group's 2018 Annual Report. The data is the Group's internal estimates as at 31/12/2018.
- (2) Resource figures are inclusive of reserves.
- (3) Totals may not add up due to rounding.

Pioneer is considered by management of the Group (“**Management**”) to be one of the largest gold mines in Russia based on processing capacity. Pioneer accounted for 32 per cent. of the Group's total gold production in 2018 (23 per cent. in the first six months of 2019). The mine was acquired as a greenfield site in 2001 and was explored, developed and constructed using in-house expertise rather than external contractors. Since commissioning in 2008, the Pioneer RIP plant has been expanded in phases to reach its current processing capacity of approximately 6.7Mtpa. As of 30 June 2019, Pioneer has produced approximately 2.6Moz of gold. At 31 December 2018, Pioneer contained an estimated 5.94Moz of gold in Measured Mineral Resources, Indicated Mineral Resources and Inferred Mineral Resources, of which approximately 2.84Moz were contained in Proven Ore Reserves and Probable Ore Reserves. Three pits are currently in operation and the area is considered prospective and is actively being explored. Underground mine development commenced in Q3 2016 in the North East Bakhmut area using sublevel open stoping with waste backfill.

In H1 2019, exploration focused on areas near the operational open pit and underground mines. Some modestly encouraging results have been obtained at Nikolaevskaya, Zvezdochka and Andreevskaya areas.

Pokrovskiy was the Group's first operation and mining and processing ended in Q1 2018, having produced approximately 2.0Moz of gold. The site has been reconfigured to house the Pressure Oxidation (POX) Hub, a large-scale centralised facility which can treat refractory concentrates from the Company's own refractory orebodies as well as third party material. The POX Hub is an integral part of the Group's strategy for processing refractory gold and Pokrovskiy provides an important strategic location, given its existing and regional infrastructure, but also its proximity to deposits of limestone, which is a key ingredient of the pressure oxidation process. The POX project comprises the POX Hub, commissioned in Q4 2018, the flotation plant at Malomir, commissioned in July 2018, the flotation plant at Pioneer which is expected to be commissioned in Q4 2020 and an expansion of the Malomir flotation plant where construction is expected to begin in 2020, depending on capital availability and approval by the Company's Board of Directors. These flotation plants produce refractory concentrates which are to be delivered to the POX Hub for processing. The POX Hub is also capable of processing concentrates sourced from third parties, with the first batches of third party material successfully processed in Q3 2019.

Malomir was acquired by the Group as a greenfield site in 2003. Management consider it to be one of the largest gold mines in Russia, in terms of its Mineral Resource base. Malomir's production accounted for 18 per cent. of the Group's total gold production in FY 2018 and 41 per cent. in the first six months of 2019. As at 31 December 2018, Malomir's Mineral Resources were estimated to be approximately 6.93Moz, of which 2.86Moz were Ore Reserves. As at 30 June 2019, Malomir had produced approximately 0.8Moz (including gold produced via the POX Hub) of gold since commissioning in mid-2010. Underground development at the Malomir mine commenced in January 2017. Over 97 per cent. of Malomir's Mineral Resources are estimated to be refractory. As a result, since the commissioning of the Malomir flotation plant and the POX Hub, the mine has become a major contributor to the Group's total gold production, with the POX Hub helping to unlock the value of the asset.

Albyn is the Group's newest mine, commissioned in 2011 and accounted for 36 per cent. of total gold production in FY 2018 and 35 per cent. in the first six months of 2019. The Group acquired its first Albyn

licence in 2005 when the project area was a greenfield site. Albyn was subsequently explored, developed and constructed principally using in-house expertise. Subsequent exploration identified two large adjacent (satellite) deposits, Elginskoye and Unglichikanskoye. Up to 30 June 2019, Albyn produced approximately 1.2Moz of gold. As at 31 December 2018, Albyn (including satellites) had an estimated 5.35Moz of Mineral Resources, of which 2.32Moz were Ore Reserves. Wide areas adjacent to the mine remain under-explored and Group geologists consider Albyn to have the potential for further, large gold discoveries including the recently identified extensions of Elginskoye and Unglichikanskoye, which confirm the near-mine exploration potential at the Albyn mine.

Each of the Group's three operating mines, Pioneer, Malomir and Albyn, have estimated mine lives of at least 18 years based on the Group's current mine plan.

During the first six months of 2019, management focused on ramping up the newly commissioned POX Hub while optimising production at the Group's existing mines. Gold production increased 12 per cent. to c.225koz during the period, while the average realised gold price increased only slightly, from US\$1,285/oz in H1 2018 to US\$1,286/oz in H1 2019. Higher gold sales helped to drive revenues up 13 per cent. to US\$305 million, while operating profit increased from a loss of US\$23.7 million in H1 2018 to a profit of US\$2.5 million, due to a combination of higher production and lower costs.

In the first six months of 2019, the Group achieved Total Cash Costs ("TCC") of US\$841/oz, a decrease of 6 per cent. on the same period in 2018 (US\$899/oz). The decrease in TCC primarily reflects the effect of higher grades of ore processed and higher recoveries achieved at Albyn and Malomir as well as the effect of Russian Rouble depreciation, notwithstanding a sub-optimal performance at Pioneer (underground mine water ingress resulted in lower processed grades and hence a lower than expected contribution).

A table of the Group's gold production for the periods indicated is set out below:

| | 6 months ended 30 June 2019 | 6 months ended 30 June 2018 | Year ended 31 December 2018 | Year ended 31 December 2017 | Year ended 31 December 2016 |
|------------------------------|--|--|--|--|--|
| | koz | koz | koz | koz | koz |
| Pioneer | 52.7 | 78.7 | 135.1 | 161.8 | 133.2 |
| Pokrovskiy | 0.2 | 5.6 | 6.5 | 30.6 | 38.2 |
| Malomir ⁽³⁾ | 93.0 | 46.8 | 77.6 | 65.6 | 54.9 |
| Albyn | 79.2 | 70.3 | 151.0 | 181.6 | 173.9 |
| Total gold production | 225.1 | 201.4 | 422.3⁽⁴⁾ | 439.6 | 400.2 |

Notes:

- (1) Figures may not add up due to rounding.
- (2) Commencing 2017, the Company moved to using gold poured as the definition for production. The data for 2017, 2018 and 2019 is quoted using this new approach. However, it should be noted that the full year of 2016 is quoted using the previous approach of gold recovered.
- (3) Malomir includes POX production.
- (4) Full year 2018 production of 422.3koz includes 52.1koz of gold contained in refractory concentrate produced at the Malomir flotation plant.

Total gold production (defined as gold poured) for the first six months of 2019 was 225.1koz.

The Group's in-house exploration team has a strong track record of identifying new targets and adding to the Group's resource base. As at 30 June 2019, the Group had produced a total of 7.3Moz of gold since its formation. Between 2002 and the end of 2018, Petropavlovsk had discovered a total of approximately 32.7Moz of JORC Resources (including approximately 4.8Moz which have been sold) through exploration. At present, the Group is working to identify and explore prospective areas in the vicinity of its three Key Mining Assets with the aim of adding new Ore Reserves suitable for processing at the Group's facilities.

The Group is a vertically-integrated producer with operations and expertise across the entire mining lifecycle. This includes a network of laboratories, research and development centres, engineering facilities, a construction company as well as exploration, geological survey, mine planning and feasibility study capabilities. This operating structure has been instrumental to the Group's project development and processing capacity growth. All of the Group's hard rock gold mines have been explored, designed and built principally using in-house expertise. Since 2008, the Group's milling capacity has increased by more than 500 per cent. as the Group has expanded its operations.

As at 30 June 2019, Petropavlovsk held a 31.1 per cent. interest in IRC, a producer and developer of industrial commodities, principally iron ore, based in the Russian Far East. IRC benefits from low production costs and proximity to China which is the world's largest consumer of iron ore. IRC was Petropavlovsk's Non-Precious Metals Division before it was demerged and listed on the Hong Kong Stock Exchange in late 2010. As part of its ongoing strategy of balance sheet optimisation, the Group continues to assess ways of realising the value of its interest in IRC.

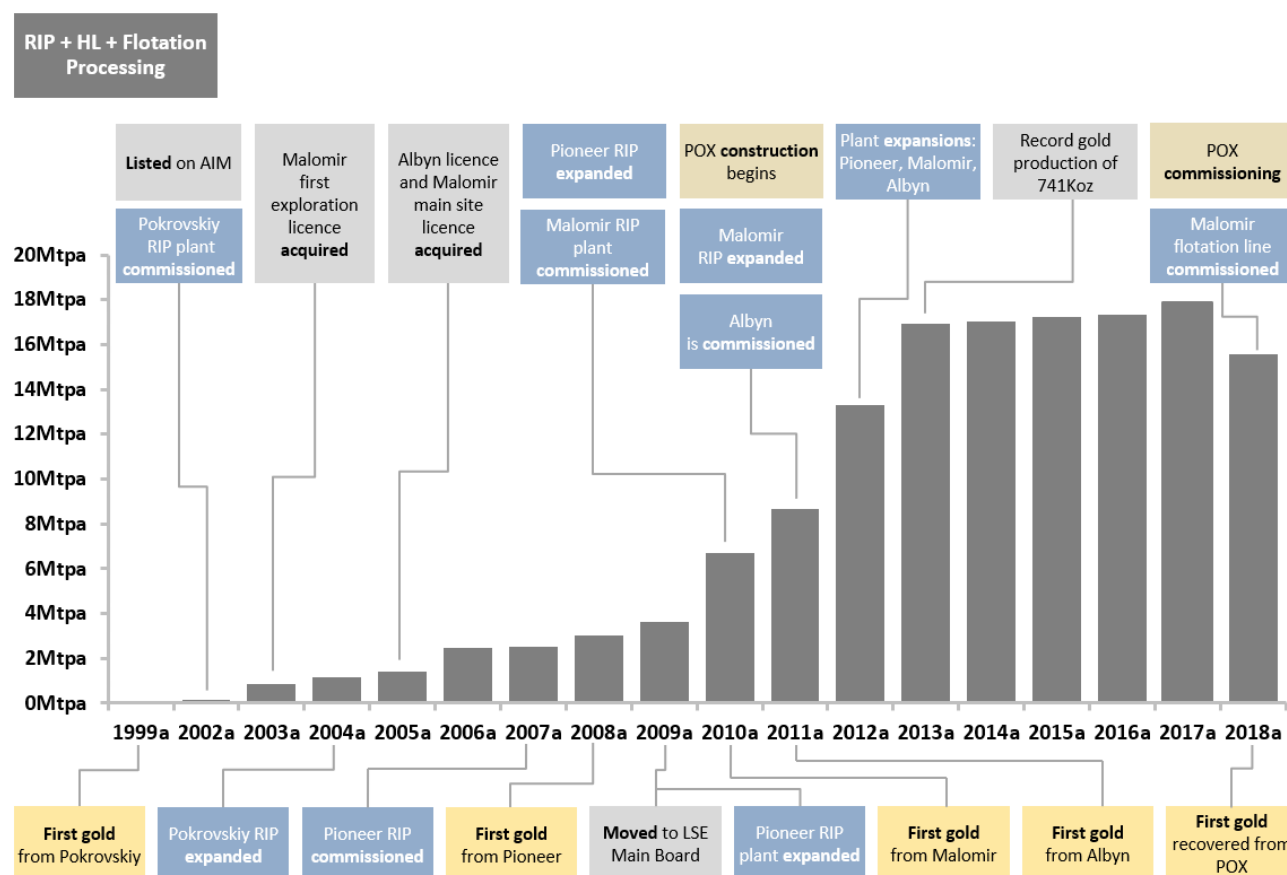
On 12 March 2019, Petropavlovsk shareholders approved the Company's proposal to guarantee the obligations of K&S, a wholly owned subsidiary of IRC, under two facility agreements with JSC Gazprombank ("**Gazprombank**") totalling US\$240 million. The new facility agreements have an improved loan repayment term along with a reduced guarantee resulting in lower risk for Petropavlovsk. This facility allowed IRC to repay in full an outstanding project finance facility (the "**Project Finance Facility**") K&S had with Industrial and Commercial Bank of China Ltd ("**ICBC**") and has enabled repayment to Petropavlovsk of \$57 million of bridge loan financings advanced in 2018 as well as a payment of US\$6 million in guarantee fees. As at 30 June 2019, c.US\$10.5 million has been paid by IRC as principal repayment and interest to Gazprombank in accordance with the repayment schedule for facility agreements guaranteed by Petropavlovsk. In return for providing a guarantee for these facility agreements, IRC has an obligation to pay the Company an annual fee of 3.07 per cent. on the maximum amount that may be payable by the Company on the outstanding facility agreements.

2. History

The Group was founded in 1994 to fund the development of Pokrovskiy, a known gold deposit in the Amur region in the Russian Far East. During the second half of the decade, the Group began to amass a team of experts and obtain project finance. The Group's first gold was produced from Pokrovskiy in 1999, using heap leach technology and the Merrill-Crowe process to recover gold from cyanide solution. A RIP plant was added in 2002 when the heap leach also started to use RIP technology.

Between 2001 and 2005, Petropavlovsk acquired licences relating to three greenfield sites – Pioneer, Malomir and Albyn – which have been explored, developed and constructed. They now represent the Group's Key Mining Assets, all of which are located in the Amur region. Subsequent exploration success resulted in the acquisition of further licence areas adjacent to the main sites and close to existing processing facilities.

The chart below sets out significant events in the Group's history.



Note: RIP = resin in pulp processing, HL = heap leach processing, POX – pressure oxidation processing

3. Key strengths

The Group believes that it benefits from a number of key strengths, including the following

Exploitable and long-life mineral resource base with expansion potential

As at 31 December 2018, the Group's total Measured, Indicated and Inferred Mineral Resources amounted to an estimated 20.52Moz, of which Proved & Probable Ore Reserves amounted to an estimated 8.21Moz of gold.

Based on a review of publicly available data, the Group believes that its gold mines are among the largest in Russia, in terms of the volume of gold produced (201.4koz in the first six months of 2018 and 225.1koz in the first six months of 2019), the ore milling capacity of its processing facilities (14.86Mt of ore milled in full year 2018 and 7.31Mt in the first six months of 2019) and the size of its Mineral Resources base.

The Group's current principal gold mining projects each have an estimated mine life, based on the Group's current mining plan, of at least 18 years.

The Group currently has gold exploration and mining licences covering approximately 3,000km² within the Amur and Khabarovsk Regions of the Russian Federation. Some of the Group's licence areas are considered by the Group's management to be under-explored, with exploration work to date suggesting the potential for the discovery of additional Mineral Resources.

Strong track record of mine development, expansion and asset optimisation

From its inception in 1994 to 30 June 2019 the Group had produced approximately 7.3Moz of gold. During the period of rapid expansion between 2008 and 2018 the Group increased milling tonnages by nearly 600 per cent. from 2.2Mtpa in 2008 to c.15Mtpa in 2018.

Most of the growth in the Group's reserves and resources has been achieved through in-house exploration of greenfield and brownfield sites, as opposed to the acquisition of mining assets from third parties. As such the

Group has an established track record of organic growth and project execution from initial exploration to mining, flowsheet design and development, as demonstrated by the successful commissioning of the POX Hub in 2018, construction and subsequent expansion at the Pokrovskiy, Pioneer, Malomir and Albyn mines, both as open pit and underground operations. Underground mining is expected to contribute between 10 and 20 per cent. of the Group's gold production between 2019 and 2022.

The POX Hub and growth optionality

The Group's in-house scientific expertise has been used to successfully develop the technically-challenging POX project. Commissioning of the POX Hub took place in Q4 2018 with throughput and gold recoveries exceeding expectations and at the Malomir flotation plant has achieved significant improvements on the original design parameters, including up to 50% higher concentrate grades and concentrate yields of up to 50-60% above design. The POX Hub has been designed on a modular basis, to facilitate future expansion as well as to enable it to process multiple sources of refractory material simultaneously, including third party material. The POX Hub is one of only two in Russia and is currently the only plant capable of treating double refractory material (refractory material comprising both sulphides and carbon).

Strategic location and access to developed infrastructure

The Group's principal assets are located in the Amur region of the Russian Far East, on and around a major belt of gold mineralisation, including the presence of large granite and granodiorite intrusions that host epithermal gold and black schist formations which is a favourable environment for large scale orogenic type refractory gold deposits. Gold mining has been one of the region's key industries for over 100 years and the Company benefits from this well-established gold mining tradition as a result of the skilled workforce and well-established infrastructure present in the region.

Because of its operational foothold in the Far East of Russia, the Group believes that it is well-positioned to capitalise on existing and future opportunities in the region and has a competitive advantage when it comes to bidding for new licences and assets locally because of its comprehensive knowledge of the area, deep understanding of the legislative framework and proven track record of successful exploration, development and operation.

The Company believes that the existing high-quality regional infrastructure is enough to support the Group's current development plans. The Amur region is served by two major rail lines: the Russian Trans-Siberian and Baikal-Amur Mainline ("BAM") railways. All of the Group's operating mines are connected to railway stations and to the regional capital, Blagoveschensk, via all seasonal roads, and have access to electrical power from the Russian national grid. The Amur region has a surplus of electrical power including cheap and reliable electricity from renewable hydro-electric power which provides approximately 85 per cent. of the region's electricity.

Highly efficient mining and processing operations

The Group efficiently manages a portfolio of large-scale open pit mines, which management believes provides the business with a sustainable cost advantage and economies of scale. This enables the Group to process its relatively low grade gold reserves with substantial margins (a 27 per cent. underlying EBITDA margin was achieved in the first six months of 2019, compared to a margin of 22% in the first six months of 2018).

In late 2013 the Group initiated and subsequently successfully implemented operational efficiency initiatives such as optimising schedules, cutting idle time and improving workforce distribution. The Group's cash cost advantage was further improved by the depreciation of the Russian Rouble in 2013 – 2016. As a result, the Group was able to significantly improve TCC. The Group continues to identify further cost-cutting opportunities.

The Group believes that it is well positioned to convert its Ore Reserve base into gold production while maintaining its cost advantage and discipline.

Experienced management team and skilled workforce

The Group has operated in Russia since 1994. Many of the Group's senior management team, including the Chief Executive Officer, as well as the majority of the middle level management, have been with the Group since inception and possess a range of relevant skills across the mining spectrum. The average industry

experience for the members of Executive Committee is more than 20 years. This includes knowledge of the Russian gold mining industry, the legislative and regulatory environment and an understanding of local operating conditions.

The Amur region, where Petropavlovsk is based, is home to a large pool of highly qualified individuals with gold mining experience due to the historic presence of the industry. This significantly facilitates the Group's hiring programme and its close cooperation with regional colleges and universities assists it in attracting high quality personnel across its operations.

4. Strategy

The Group's current strategy focuses on the following aspects:

Maintain and expand reserve and resource base

The commissioning and ramp-up of the POX Hub has reinforced the added value of refractory ore exploration at Petropavlovsk. Mining costs are potentially reduced as a result of lower stripping ratios associated with refractory ores. Furthermore, the availability of known refractory deposits in the Amur region also increases the possibilities for inorganic resource expansion. It is expected that these will be attractive to the Group given higher grades and low entry costs due to the lack of infrastructure available in Russia to process refractory ores.

The Group also aims to identify and develop new resources and reserves organically through its exploration programme in order to offset depletion and expand the total resource to support long term growth. Exploration potential exists for the discovery of further significant open pit resources, particularly south and south west of Pioneer. There are also a number of potential exploration targets at Albyn, of which Ulgen, Yasnoye and Leninskoye are the most significant. There is also exploration potential on down dip extensions of main Albyn ore body. Most of the licence area remains underexplored and is highly prospective.

The Group's short-term reserves and resources strategy focuses on:

- Maintaining reserves of non-refractory and refractory ore through exploration at or adjacent to the Group's current mining operations to continue efficient utilisation of current RIP processing capacity; and
- Further exploration to expand the reserves and resources at the existing underground operations at Pioneer and Malomir.

The Group's longer-term reserves and resources strategy focuses on:

- Further exploration of the identified refractory targets at Pioneer and Malomir;
- Further exploration to establish underground reserves and resources at Albyn and its satellites and to identify further underground targets in the Pioneer and Malomir areas; and
- Potential licence acquisitions adjacent to existing Group infrastructure to achieve growth with minimal additional capital expenditure targeting higher grade ore bodies with greater than 2Moz reserves of refractory nature.

Unlock the value creation potential of the POX Hub

The POX Hub has opened a swathe of new opportunities for the Group to exploit both in the short and long term.

In the short term, the commissioning of the POX Hub and associated flotation infrastructure at Malomir has unlocked the refractory gold which forms 60% of the Group's current resource base. The optimisation of the Malomir flotation plant has increased the grade and decreased the bulk of the concentrate for the POX Hub, reducing transportation and processing costs.

As a result of this optimisation at Malomir, it is envisaged that more than 50kt of excess annual processing capacity will be available at the POX Hub, based on four installed autoclaves and a fully expanded Pioneer flotation plant. This excess capacity can be filled with either high-grade third-party refractory concentrate or

material acquired via a joint venture process. In the future, the Group may also consider adding autoclave 5 and 6 to the POX Hub, which would increase processing capacity by an additional 30% from current levels.

The POX pilot plant and research facilities are used to provide metallurgical tests and consultancy services to third parties including Outotec, Polyus Gold, Kazzink, Kazakhmys and Norilsk Nickel.

Cost optimisation and operational efficiency

The Group's strategic plan for the identification and implementation of operational efficiencies and cost optimisations focuses on new projects and continued operations.

Two flotation lines have successfully been put into production at Malomir producing a concentrate at c.30-40g/t which is a significant improvement on the original design. This will engender cash flow improvement due to reduced processing and transportation costs (more gold, less material to process).

Other project cost initiatives include:

- Developing full-scale high-grade underground operations at Pioneer;
- Ramp up and optimisation POX Hub processing to maximize the POX Hub capacity and processing of material from third party suppliers; and
- Optimization of waste stripping when mining refractory ore bodies.

The Group is also committed to continuous operational improvements, aimed in part at increasing throughput and recovery rates and comprehensive cost control.

Strengthen the balance sheet and liquidity position

Management continue to look for ways to reduce risks related to the Group's development plans, including focusing on improving cash flow generation and optimising its capital structure.

As part of this strategy, the Group expects (on the basis of the current gold price and exchange rates), to generate strong and sustainable net operating cash flows to enable the Group to finance its planned capital expenditure programme of approximately US\$55 million in 2019 and the requisite part of the estimated US\$30 million capital expenditure requirements required in 2019-2020 for the Pioneer flotation facility.

The refinancing of the IRC debt, completed in March 2019, was a major milestone in reducing risks related to the Group's finances, as the potential breaches of financial covenants stemming from the previous ICBC facility terms might have otherwise impacted the Group's ability to continue as a going concern. Successful negotiation of a new US\$240 million facility with Gazprombank yielded more favourable terms than its previous ICBC facility and provides IRC with an extended period to repay this through to 2026. The new facility reduces risks related to the Group's liability due to longer maturity and a more relaxed amortisation schedule. The Gazprombank facility has enabled a US\$63 million aggregate cash inflow for Petropavlovsk as repayment by IRC of approximately US\$57 million of two bridge loans provided by Petropavlovsk in 2018 and US\$6 million in guarantee fees. A further US\$5 million in guarantee fees is payable no later than 31 March 2020. The Company has also repurchased its outstanding US\$100,000,000 convertible bonds due 2020, using the proceeds of the offering of Bonds due July 2024.

Continuous improvement of environmental health and safety standards

The health and safety of its workforce is a top priority for the Board and management of Petropavlovsk. The Group is focused on the continual improvement of health and safety performance to ensure a safe working environment for them. Risk management strategies are being implemented based on valid data and sound science to reduce the LTIFR (as defined below) and accidents.

An ongoing campaign is in progress to go beyond compliance with the regulatory framework and to develop a safety culture within the Group based on behavioural-based safety at the Group operations. Petropavlovsk's objective is to minimise the risk of accidents and occupational illnesses, and to aim for zero fatalities.

In 2018, employees were trained at the Pokrovskiy Mining College in the operation of the POX Hub. The course completed was 'Autoclave Oxidative Leaching of Gold-bearing Sulphide Flotation Concentrates'. This includes the creation of an Emergency Rescue Team.

Occupational health and safety (OHS) risks are identified, reviewed and evaluated to mitigate their impact. All accidents are recorded and reported to the Executive Committee and the Board, which then provides an immediate response and action plan. The Board's new Safety, Sustainability & Workforce Committee was constituted on 12 November 2018 and meets regularly, and at least quarterly. One of their duties is to assess and evaluate OHS management systems. Petropavlovsk also conducts regular on-site inspections to ensure all operations comply with regulations.

5. Group Assets

Overview

The Group holds substantial mining, exploration and development assets located in the Russian Far East and has extensive in-house exploration, research and development expertise as well as engineering and construction services.

The POX Hub is a cornerstone of Petropavlovsk's strategy and the principal driver of future value for the Company. The POX Hub will be used to process the Company's 5.31Moz of refractory gold reserves which are found in easily accessible deposits with relatively low strip rates. These deposits are highly prospective for further exploration and discovery.

Having worked on this project for almost a decade, the POX team successfully commissioned the facility in Q4 2018, within the revised timeframe. Design capacity was achieved, and Autoclave 1 commenced processing the refractory ore concentrate from Malomir in the first week of December. Gold recovery of c.93-94% was achieved in line with expectations for the double refractory ore. Following the successful commissioning of Autoclave 1, Autoclave 2 was commissioned on 27 December 2018. It has also reached design capacity ahead of schedule

Further information on the POX project is set out in section 8.

The Group's assets can be classified into the following three categories, each of which is described in further detail in this Part:

- (a) **Key Producing Assets.** These are the Group's hard-rock gold mines which are currently in production, being Pioneer, Malomir and Albyn together with their satellites and the POX Hub. These assets generate all the Group's gold production and contain the majority of the Group's Mineral Resources and Ore Reserves. These assets are wholly directly or indirectly owned by the Company save for minority interests owned, directly or indirectly, on behalf of the Amur Region represented by the Ministry for Property Relations of the Amur Region in the Pioneer, Pokrovskiy (including POX) and Malomir projects (0.62 per cent., 0.62 per cent. and 0.06 per cent. respectively). The related production, Mineral Resources and Ore Reserves are 100 per cent. attributable to the Group.
- (b) **Other Mining, Development and Exploration Assets,** being principally the Group's Tokur project and two early stage exploration projects acquired in Q3 2018 in the Khabarovsk region. Tokur is a "brownfield" non-refractory deposit, which is potentially suitable for re-opening as an open-pit mine. The project has confirmed JORC Ore Reserves (last updated in 2011), but is not currently being developed. The Group maintains the Tokur licence in good standing and can start development work when and if it chooses to do so taking into account economic conditions. The Group's Khabarovsk region projects are at an early exploration stage.
- (c) **In-house capabilities,** which provide exploration, engineering and other support for all stages of project development.

As indicated in the maps below, the Group's Key Mining Assets are located in the Amur region, in the Russian Far East.



Source: Maps produced by the Company, previously made available on pages 38 and 29 of the Company's 2014 Annual Report.

Summary of Group Ore Reserves and Mineral Resources

In line with best industry practice, Petropavlovsk reports its Mineral Resources and Ore Reserves in accordance with the JORC Code. These Group Mineral Resource and Ore Reserve estimates are an update on the estimates prepared in April 2017 by Wardell Armstrong International (WAI), a UK based independent technical consultancy firm. The updated estimates incorporate all material exploration completed during 2017 and 2018, as well as reflecting mining depletion in 2017 and 2018.

As at 31 December 2018, total Group Mineral Resources (including Ore Reserves) amounted to 20.52Moz, compared to 20.86Moz in 2017, with total Ore Reserves of 8.21Moz compared to 8.15Moz in the previous year.

The marginal decrease in total Mineral Resources is due to a combined effect of mine depletion, disposals and sterilisation of a part of the Pokrovskiy open pit resource by the development of a POX tailings facility. An estimated 0.49Moz of gold has been depleted and sent to processing during 2018. Non-core, non-producing satellite assets containing an aggregate 0.30Moz of Mineral Resources were disposed of during 2018. In addition, 0.12Moz of open pit Mineral Resources were sterilised by a POX tailings facility and removed from the resource statement. This decrease has been largely compensated by discoveries at Pioneer, Albyn and Malomir.

At Pioneer, new Mineral Resources and Ore Reserves were discovered at Katrin, Nikolaevskaya and Ulunginskaya zones. Katrin and Ulunginskaya are both open pits, whilst the new Resources and Reserves at Nikolaevskaya are suitable for underground mining. The Katrin deposit is of a non- refractory nature while Ulunginskaya and Nikolaevskaya are both refractory assets.

At Albyn, an increase in Mineral Resources is associated with discoveries at the western extensions of the Albyn ore body. The ore body has been extended in a down dip direction, allowing initial Mineral Resource estimation for potential underground mining at Albyn. During 2018 the results of exploration completed in H2 2017 at the south group of mineralised zones at Unglichikanskoye were interpreted and included in Mineral Resource and Ore Reserve estimates. This led to a 101koz increase in Mineral Resources and a 42koz increase in Ore Reserves for the project.

At Malomir, an increase in both Mineral Resources and Ore Reserves relates to the successful exploration of low-grade stock work mineralisation discovered at Quartzitovoye. The mineralisation was discovered west of the main Quartzitovoe pit, an area currently sterilised by the underground operations. It can be mined via open pit after 2023 once the mining at the Quartzitovoye underground mine is completed and the mine is decommissioned. In addition, metallurgical tests confirmed that existing RIP tailings contained c.0.17Moz of gold at 0.5g/t average grade and this material can be re-processed via flotation and POX. Consequently, these additions have now been included into Mineral Resource and Ore Reserve statements. All these additions are refractory.

Taking into account the 0.49Moz Mineral Resource and Ore Reserve depletion from mining operations and 0.30Moz of Mineral Resource disposals during 2018, the Group achieved a 0.45Moz gross increase in Mineral Resources compared to the position as at 31 December 2017. Ore Reserves increased by 0.56Moz and to a total of 8.21Moz.

Total Ore Reserves for underground mining marginally increased from 0.43Moz to 0.44Moz, whilst underlying Mineral Resources for potential underground mining increased by 26% from 0.94Moz to 1.19Moz. This increase is largely attributable to new Mineral Resources estimated at Pioneer's Nikolaevskaya Zone and below the Albyn main pit. Because the existing open pit at Pokrovka 1 has now been decommissioned and used as POX tailings storage further open pit mining in this area is no longer feasible. A higher grade part of Mineral Resources remaining below this open pit was re-classified and reported as a Mineral Resource for potential underground mining. This change contributed to the overall increase in underground Mineral Resources.

Following successful commissioning of the Pokrovskiy POX Hub, some of the transitional Mineral Resources and Ore Reserves suitable for either RIP or refractory processing, were reclassified from non-refractory to refractory. As a result of this change, and due to the success of the 2018 exploration campaign, total refractory Mineral Resources increased by 2.69Moz (from 9.64Moz) to 12.33Moz. There was a corresponding decrease in the non-refractory Mineral Resources which went down from 11.23Moz to 8.19Moz. This change also reflects mine depletion and disposals. All the ounces disposed of were non-refractory. As the result of this re-classification, first refractory Ore Reserves and Mineral Resources were classified at Elginskoye within the Albyn project.

The tables below provide a summary of Group Mineral Resources and Ore Reserves.

Total Open Pit and Underground Ore Reserves

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|-----------------------|-----------------|---------------------|-----------------------|-----------------------|
| Total | Proved | 49,360 | 0.77 | 1.23 |
| | Probable | 210,999 | 1.03 | 6.98 |
| | Proved+Probable | 260,359 | 0.98 | 8.21 |
| Non-Refractory | Proved | 17,943 | 0.69 | 0.40 |
| | Probable | 64,572 | 1.21 | 2.50 |
| | Proved+Probable | 82,516 | 1.09 | 2.90 |
| Refractory | Proved | 31,417 | 0.82 | 0.83 |
| | Probable | 146,426 | 0.95 | 4.48 |
| | Proved+Probable | 177,843 | 0.93 | 5.31 |

Note: Figures may not add up due to rounding.

Open Pit Ore Reserves

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|-----------------------|-----------------|---------------------|-----------------------|-----------------------|
| Total | Proved | 49,033 | 0.73 | 1.15 |
| | Probable | 208,967 | 0.98 | 6.61 |
| | Proved+Probable | 258,000 | 0.94 | 7.76 |
| Non-Refractory | Proved | 17,616 | 0.57 | 0.32 |
| | Probable | 63,193 | 1.13 | 2.29 |
| | Proved+Probable | 80,809 | 1.01 | 2.61 |
| Refractory | Proved | 31,417 | 0.82 | 0.83 |
| | Probable | 145,774 | 0.92 | 4.32 |
| | Proved+Probable | 177,191 | 0.90 | 5.15 |

Note: Figures may not add up due to rounding.

Underground Reserves

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|-----------------------|-----------------|---------------------|-----------------------|-----------------------|
| Total | Proved | 327 | 7.21 | 0.08 |
| | Probable | 2,031 | 5.62 | 0.37 |
| | Proved+Probable | 2,359 | 5.84 | 0.44 |
| Non-Refractory | Proved | 327 | 7.21 | 0.08 |
| | Probable | 1,379 | 4.68 | 0.21 |
| | Proved+Probable | 1,707 | 5.16 | 0.28 |
| Refractory | Proved | – | – | – |
| | Probable | 652 | 7.60 | 0.16 |
| | Proved+Probable | 652 | 7.60 | 0.16 |

Note: Figures may not add up due to rounding.

Group Mineral Resources as at 31 December 2018 (in accordance with the JORC Code ⁽¹⁾)

Total Open Pit and Underground Mineral Resources

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|-----------------------|--------------------|---------------------|-----------------------|-----------------------|
| Total | Measured | 69,778 | 0.89 | 1.99 |
| | Indicated | 417,735 | 0.90 | 12.06 |
| | Measured+Indicated | 487,513 | 0.90 | 14.05 |
| | Inferred | 236,188 | 0.85 | 6.47 |
| Non-Refractory | Measured | 33,735 | 0.96 | 1.04 |
| | Indicated | 144,365 | 1.03 | 4.80 |
| | Measured+Indicated | 178,099 | 1.02 | 5.84 |
| | Inferred | 58,154 | 1.25 | 2.34 |
| Refractory | Measured | 36,043 | 0.82 | 0.95 |
| | Indicated | 273,370 | 0.83 | 7.25 |
| | Measured+Indicated | 309,414 | 0.82 | 8.20 |
| | Inferred | 178,034 | 0.72 | 4.13 |

Note: Figures may not add up due to rounding

Open Pit Mineral Resources

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|--|-----------------|---------------------|-----------------------|-----------------------|
|--|-----------------|---------------------|-----------------------|-----------------------|

| | | | | |
|-----------------------|--------------------|---------|------|-------|
| Total | Measured | 68,525 | 0.81 | 1.79 |
| | Indicated | 413,124 | 0.86 | 11.44 |
| | Measured+Indicated | 481,649 | 0.85 | 13.24 |
| | Inferred | 232,070 | 0.82 | 6.09 |
| Non-Refractory | Measured | 32,481 | 0.81 | 0.84 |
| | Indicated | 141,080 | 0.97 | 4.41 |
| | Measured+Indicated | 173,561 | 0.94 | 5.25 |
| | Inferred | 54,822 | 1.15 | 2.04 |
| Refractory | Measured | 36,043 | 0.82 | 0.95 |
| | Indicated | 272,044 | 0.80 | 7.03 |
| | Measured+Indicated | 308,088 | 0.81 | 7.98 |
| | Inferred | 177,248 | 0.71 | 4.06 |

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

Underground Mineral Resources

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|-----------------------|--------------------|---------------------|-----------------------|-----------------------|
| Total | Measured | 1,253 | 4.93 | 0.20 |
| | Indicated | 4,611 | 4.13 | 0.61 |
| | Measured+Indicated | 5,864 | 4.30 | 0.81 |
| | Inferred | 4,118 | 2.85 | 0.38 |
| Non-Refractory | Measured | 1,253 | 4.93 | 0.20 |
| | Indicated | 3,285 | 3.70 | 0.39 |
| | Measured+Indicated | 4,538 | 4.04 | 0.59 |
| | Inferred | 3,332 | 2.89 | 0.31 |
| Refractory | Measured | – | – | – |
| | Indicated | 1,326 | 5.21 | 0.22 |
| | Measured+Indicated | 1,326 | 5.21 | 0.22 |
| | Inferred | 786 | 2.68 | 0.07 |

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

6. Key Mining Assets

6.1 Pioneer

Introduction

Pioneer accounted for 32 per cent. of the Group's total gold production in 2018 (and 23 per cent. for the first six months of 2019). In the first six months of 2019, Pioneer produced 52.7koz of gold. Pioneer is a principally open pit mine with a smaller contribution to non-refractory production from an underground mine. Underground mine production at Pioneer commenced in June 2017 with a total of 99kt with an average gold content of approximately 4.63g/t mined from underground operations in the first six months of 2019. In the longer term, development of the 3.6Mtpa flotation plant to enable mining of Pioneer's refractory ore (currently scheduled for Q4 2020 commissioning) and exploration potential within its approximately 1,337km² total licence area may help to drive further growth.

Location and Infrastructure

Pioneer is located in the south of the Amur region, 490km from Blagoveshchensk, the China border trade city and regional business hub. It is situated between the BAM and Trans-Siberian Railways, with the nearest station approximately 40km away by all-weather road. The largest regional hydropower station (1.3GW) is 63km to the north-east and Pioneer obtains its electricity from the grid.

Geology

Gold mineralisation at Pioneer was formed near a contact between a multiphase granitoid massif and Jurassic country rocks as a result of hydrothermal activity associated with volcanism during the late Mesozoic Period. The mine is located on the south side of the Mongolo-Okhotskiy thrust line, within the belt of mineralisation associated with the collision of the Eurasian and Amur plates. The Pioneer deposit consists of multiple identified orebodies, most of which are steep dipping and remain open in a down dip direction. Pioneer orebodies comprise high grade shoots and lower grade halo mineralisation.

The high grade shoots are normally 1 to 8 metres in thickness with a strike length up to 400m. The high grade ore is planned to be mined predominantly underground from North East Bakhmut.

The more moderate grade halo mineralisation is up to 200m thick with a strike length of up to 2km. The Group's main sources of non-refractory ore are the Alexandra, NE Bakhmut (underground) and Katrin zones. Principal refractory zones are Bakhmut-Promezhutochnaya, Yuzhnaya, Nikolaevskaya and Vostochnaya.

The Group regularly reviews its production schedules to reflect the latest exploration results, resource and reserve additions and revaluations, and changes in operating costs, in order to maximise profitability. Group currently undertaking further metallurgical studies on Pioneer refractory reserves with an aim to further optimise refractory processing.

Pioneer's Reserves and Resources

A summary of Pioneer's Ore Reserves and Mineral Resources estimated in accordance with the JORC Code 2012 as at 31 December 2018 is prepared internally as an update of the April 2017 WAI estimate and is set out below:

Pioneer Ore Reserves

(as at 31 December 2018, in accordance with JORC Code)

Pioneer Open Pit

| | Category | Tonnage (kt) | Grade (g/t Au) | Gold (Moz Au) |
|-----------------------|-----------------|---------------------|-----------------------|----------------------|
| Total | Proved | 21,154 | 0.64 | 0.44 |
| | Probable | 80,301 | 0.80 | 2.06 |
| | Proved+Probable | 101,454 | 0.77 | 2.50 |
| Non-Refractory | Proved | 8,946 | 0.44 | 0.13 |
| | Probable | 13,654 | 0.84 | 0.37 |
| | Proved+Probable | 22,600 | 0.68 | 0.49 |
| Refractory | Proved | 12,208 | 0.79 | 0.31 |
| | Probable | 66,647 | 0.79 | 1.69 |
| | Proved+Probable | 78,854 | 0.79 | 2.00 |

Pioneer Underground

| | Category | Tonnage (kt) | Grade (g/t Au) | Gold (Moz Au) |
|-----------------------|-----------------|---------------------|-----------------------|----------------------|
| Total | Proved | 152 | 5.03 | 0.02 |
| | Probable | 1,679 | 5.86 | 0.32 |
| | Proved+Probable | 1,831 | 5.79 | 0.34 |
| Non-Refractory | Proved | 152 | 5.03 | 0.02 |
| | Probable | 1,027 | 4.75 | 0.16 |
| | Proved+Probable | 1,179 | 4.78 | 0.18 |
| Refractory | Proved | – | – | – |
| | Probable | 652 | 7.60 | 0.16 |
| | Proved+Probable | 652 | 7.60 | 0.16 |

Pioneer Total (Open Pit and Underground)

| | Category | Tonnage (kt) | Grade (g/t Au) | Gold (Moz Au) |
|-----------------------|-----------------|---------------------|-----------------------|----------------------|
| Total | Proved | 21,305 | 0.67 | 0.46 |
| | Probable | 81,980 | 0.90 | 2.37 |
| | Proved+Probable | 103,285 | 0.85 | 2.84 |
| Non-Refractory | Proved | 9,098 | 0.51 | 0.15 |
| | Probable | 14,681 | 1.11 | 0.52 |
| | Proved+Probable | 23,779 | 0.88 | 0.67 |
| Refractory | Proved | 12,208 | 0.79 | 0.31 |
| | Probable | 67,299 | 0.86 | 1.85 |
| | Proved+Probable | 79,506 | 0.85 | 2.16 |

Notes:

- (1) The above Ore Reserves statement is prepared internally in February 2019 in accordance with JORC Code 2012 as an update of the April 2017 WAI estimate.
- (2) Ore Reserves estimate uses a \$1,200/oz gold price assumption; other modifying factors are based on the projected performance of Pioneer mine.
- (3) Ore Reserves for open pit extraction are estimated within economical open pit design based on optimal pit shells.
- (4) Underground Ore Reserve estimates use a mine design with decline access, trackless mining equipment and a sublevel open stope mining method with or without back fill.
- (5) The cut off grades for reporting Ore Reserves are as follows:
 - Open Pit non-refractory: 0.4g/t Au for Alexandra and 0.3g/t for all other Pioneer zones
 - Open Pit refractory: 0.5g/t Au for Alexandra and 0.4g/t for all other Pioneer zones
 - Underground non-refractory: 1.50g/t Au
- (6) Reserve figures have been adjusted for anticipated dilution and mine recovery.
- (7) In accordance with JORC Code, all open pit and underground designs has been based on Measured and Indicated Resources; in addition to the Proved Ore Reserve and Probable Ore Reserve quoted above Pioneer open pit design captures 1,281kt@1.04g/t (0.04Moz) of non-refractory and 8,600kt @ 0.61g/t (0.17Moz) of refractory Inferred Resource.
- (8) Figures may not add up due to rounding.

Pioneer Mineral Resources

(as at 31 December 2018, in accordance with JORC Code)

Pioneer Open Pit

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|-----------------------|--------------------|--------------|----------------|----------------|
| Total | Measured | 25,107 | 0.67 | 0.54 |
| | Indicated | 162,330 | 0.69 | 3.60 |
| | Measured+Indicated | 187,437 | 0.69 | 4.14 |
| | Inferred | 62,629 | 0.60 | 1.21 |
| Non-Refractory | Measured | 9,190 | 0.45 | 0.13 |
| | Indicated | 37,752 | 0.69 | 0.84 |
| | Measured+Indicated | 46,941 | 0.65 | 0.98 |
| | Inferred | 6,827 | 0.74 | 0.16 |
| Refractory | Measured | 15,918 | 0.79 | 0.40 |
| | Indicated | 124,578 | 0.69 | 2.76 |
| | Measured+Indicated | 140,496 | 0.70 | 3.16 |
| | Inferred | 55,803 | 0.58 | 1.04 |

Pioneer Underground

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|-----------------------|--------------------|--------------|----------------|----------------|
| Total | Measured | 183 | 6.38 | 0.04 |
| | Indicated | 2,637 | 5.08 | 0.43 |
| | Measured+Indicated | 2,820 | 5.16 | 0.47 |
| | Inferred | 1,297 | 3.04 | 0.13 |
| Non-Refractory | Measured | 183 | 6.38 | 0.04 |
| | Indicated | 1,311 | 4.95 | 0.21 |
| | Measured+Indicated | 1,495 | 5.12 | 0.25 |
| | Inferred | 511 | 3.59 | 0.06 |
| Refractory | Measured | – | – | – |
| | Indicated | 1,326 | 5.21 | 0.22 |
| | Measured+Indicated | 1,326 | 5.21 | 0.22 |
| | Inferred | 786 | 2.68 | 0.07 |

Pioneer Total (Open Pit and Underground)

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|-----------------------|--------------------|--------------|----------------|----------------|
| Total | Measured | 25,291 | 0.71 | 0.58 |
| | Indicated | 164,968 | 0.76 | 4.03 |
| | Measured+Indicated | 190,258 | 0.75 | 4.61 |
| | Inferred | 63,927 | 0.65 | 1.33 |
| Non-Refractory | Measured | 9,373 | 0.57 | 0.17 |
| | Indicated | 39,064 | 0.84 | 1.05 |
| | Measured+Indicated | 48,437 | 0.78 | 1.22 |
| | Inferred | 7,338 | 0.94 | 0.22 |
| | Measured | 15,918 | 0.79 | 0.40 |

| | | | | |
|-------------------|--------------------|---------|------|------|
| Refractory | Indicated | 125,904 | 0.74 | 2.98 |
| | Measured+Indicated | 141,822 | 0.74 | 3.39 |
| | Inferred | 56,589 | 0.61 | 1.11 |

Notes:

- (1) Mineral Resources include Ore Reserves.
- (2) Mineral Resource estimate was prepared internally by the Group in accordance with JORC Code 2012 as an update of the April 2017 statement audited by WAI.
- (3) Open Pit Mineral Resources is constrained by conceptual open-pit shell at US\$1,500/oz long term gold price.
- (4) The cut-off grade for Mineral Resources for open pit mining 0.30 g/t.
- (5) A cut-off grade of 1.5g/t is used to report Mineral Resources for potential underground mining.
- (6) Mineral Resources are not Reserves until they have demonstrated economic viability based on a feasibility or pre-feasibility study.
- (7) Grade represents estimated contained metal in the ground and has not been adjusted for metallurgical recovery.
- (8) Figures may not add up due to rounding.

Pioneer Exploration Results for 2018 and the first six months of 2019

Pioneer's approximately 1,337km² area offers a number of exploration opportunities for both non-refractory and refractory resources, including potentially high-grade exploration targets.

The most significant 2018 exploration results were achieved at Katrin, Nikolaevskaya and Ulunginskaya zones. Some early stage exploration also took place at Aprelskiy and Ulagach.

The 2018 drilling campaign at Katrin was predominantly to in-fill the existing drill grid with only a few holes targeting ore body extensions. The most significant 2018 Katrin intersections include:

- 16.8m @ 1.75g/t;
- 18.0m @ 1.41g/t;
- 11.0m @ 1.90g/t;
- 4.3m @ 1.21g/t; and
- 13.4m @ 1.01g/t.

These intersections have been included in the Katrin resource estimate, resulting in an increase in both Mineral Resources and Ore Reserves. Katrin Ore Reserves increased by c.30koz (before depletion).

A total of 34 drill holes were completed at Nikolaevskaya during 2018, principally targeting open pit resources with particular emphasis on in-filling the existing drill grid and increasing confidence in the resource estimate.

Of the five drill holes drilled 150m to 200m north of Nikolaevskaya, outside known mineralisation, one particular drill hole (C-2297) intersected with a high-grade interval (23.2m @ 3.33g/t, including 6.3m @ 8.54g/t) at a depth of c.75m from surface. This new and previously unknown zone of mineralisation may become an attractive open pit and/or underground mining target and as such warrants further exploration. Exploration at Nikolaevskaya in 2018 resulted in 57koz and 63koz increase in Mineral Resources and Ore Reserves respectively. Average grades of Nikolaevskaya underground Ore Reserves increased by 40% from 5.43g/t to 7.60g/t.

Exploration at the Shirokaya zone (an area part of Alexandra, north of Pioneer) involved mostly in-fill drilling to improve confidence in the resource estimate. The results are in-line with the existing resource model and expect to convert some of the Inferred Resources into the Indicated category, which should allow increase in Shirokaya Ore Reserves.

Most of the Shirokaya mineralisation is refractory and relatively low grade; as such, this area is not a high priority for further 2019 exploration.

A new 270m zone of refractory zone of mineralisation named Ulunginskaya, located south-east of the Pioneer plant, was delineated during 2018. The zone has a north to south strike with a steep dip. It was proven by

drilling on 40m to 80m spaced drill profiles to a depth of 100 to 120m from the surface and remains open at depth. Significant intersections include:

- 45.5m @ 1.69g/t;
- 20.7m @ 1.38g/t;
- 15.1m @ 0.62g/t; and
- 27.0m @ 0.86g/t.

Formal Ulunginskaya resource estimates have now been completed, adding 74koz and 21koz of gold to the Mineral Resource and Ore Reserve statement respectively. As the mineralisation has been proven to be refractory, Ulunginskaya is not a high priority for further exploration.

Early stage exploration was carried out at the Aprelskiy exploration target, an area of extensive historical alluvial production located c.15km west of the Pioneer processing plant. Thirteen drill holes were completed there in H1 2018. The best intersections include:

- 0.8m @ 2.69g/t;
- 2.2m @ 1.89g/t;
- 1.6m @ 1.38g/t;
- 4.6m @ 0.85g/t; and
- 2.2m @ 1.21g/t.

The gold grades at Aprelskiy are associated with quartz veins and veinlets containing arsenopyrite-pyrite sulphide mineralisation. Although the mineralisation discovered so far is unlikely to represent an immediate development interest due to its narrow thickness and relatively low grade, the presence of significant alluvial gold deposits historically known at Aprelskiy suggest further exploration may identify a more attractive mining target.

Early stage exploration continued at Ulagach, an exploration target c.20km east of Pokrovskiy and 10km south of Katrin. Trenches completed over the gold and gold-arsenic geochemical anomalies identified after evaluation of 2017 field work results discovered three intersections:

- 7.2m @ 1.74g/t;
- 1.5m @ 0.74 g/t; and
- 2.0m @ 0.79g/t.

Gold mineralisation discovered at Ulagach associated with disseminated sulphides hosted within Jurassic sandstone close to a contact with Cretaceous granitoids.

As Ulagach geology has certain similarities with the geology of Pioneer and Pokrovskiy, Group specialists believe it offers potential for discovery of a gold mineralisation of a significant scale.

Exploration completed at the North East Bakhmut underground mine during H1 2018 was production-related and as such did not result in any significant resource expansion.

Pioneer Exploration Results for the first six months of 2019

During H1 2019, exploration took place at several zones with the most significant results being at Nikolaevskaya and NE Bakhmut.

Nikolaevskaya

Four drill holes were completed which targeted deeper extensions of high-grade mineralisation. Highlights at a 1.5g/t cut-off grade, included:

- 7.5m @ 5.17g/t
- 1.0m @ 4.0g/t

NE Bakhmut.

Two drill holes with a total length of 520m were completed under NE Bakhmut sub pit 1, with mineralisation intersected between 30m to 70m below the existing open pit floor. The best intersections at a cut-off grade 0.4g/t were:

- 14.5m @ 1.17g/t
- 7.2m @ 3.77g/t
- 5.3m @ 1.36g/t

The results confirm that NE Bakhmut 1 mineralisation extends below the existing open pit and the Company is currently evaluating the possibility of deepening the pit.

Katrin

During H1 2019, drilling comprising of 21 drill holes which were completed at the west and north-east extensions of existing mineralisation at Katrin. Most holes did not discover significant gold grades which suggests that the along strike extensions of the Katrin ore body have now largely been defined. Only two drill holes (C-506-1 and C-506-24) were completed at the south-west side of Katrin which intersected mineralisation, including 4.6m @ 0.57g/t and 7.0m @ 1.91g/t. Although the Katrin ore body has now largely been defined, the surrounding areas remain prospective for discovery of similar-style mineralisation.

Zvezdochka-2

This zone is located 2-2.5km north-west of the Yuzhnaya zone, hosted by granodiorites and diorite-porphyries. In H1 2019, a 164m long trench K-1384 was completed and sampled. The best intersections included:

- 7.0m @ 14.3g/t
- 26.0m @ 0.63g/t

Zvezdochka offers potential for a small increase in both refractory and non-refractory resources.

Ulunginskaya

In H1 2019, seven drill holes were completed at the northern side of the zone which discovered further refractory mineralisation. The best intersections included:

- 14.4m @ 1.62g/t
- 11.0m @ 0.91g/t
- 20m @ 0.78g/t
- 27.9m @ 0.92g/t
- 8.2m @ 0.62 g/t
- 5.1m @ 0.88g/t

This drilling is expected to increase Ulunginskaya refractory Resources and Reserves.

Other Pioneer Exploration Results

Smaller exploration programmes were also completed at Nadvigoviy, Vodorazdelniy, Daktuy and KrestyanskiyOlgakan. In addition, the Group has commenced a comprehensive metallurgical test programme on its refractory resources. This programme aims to study the variability of metallurgical properties across the deposit to increase confidence in the mid-term production plan with the results expected soon.

Mining and Processing

Pioneer is a bulk tonnage mine with multiple open pits and an underground mine. The Pioneer ore bodies include both non-refractory and refractory ore. Non-refractory ore is processed at the 6.7Mtpa RIP plant, which operates throughout the year.

The new POX Hub has enabled gold production from the refractory ore. The POX Hub is located at Pokrovskiy, c.40km south of Pioneer, and was commissioned at the end of 2018. It will process refractory concentrates initially produced at Malomir and later at Pioneer after a flotation unit is added to the Pioneer processing facility.

The Group has started the construction of the Pioneer flotation plant and is aiming to complete it in Q4 2020 to enable refractory production as soon as possible, in order to increase production output in the mid-term.

Low-grade non-refractory ore (<0.5g/t) is processed via a seasonal, heap leach operation.

Underground development commenced at Pioneer's North East Bakhmut area in Q3 2016 using a reputable Russian mining contractor. Underground production at North East Bakhmut commenced in H1 2017.

Management is considering the construction of a second underground mine at the Andreevskaya Zone.

Pioneer Operational Report

The table below sets out a summary of mining operations at Pioneer for the periods indicated.

Pioneer mining operations

| | Units | 6 months ended 30 June 2019 | 6 months ended 30 June 2018 | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 |
|----------------------|---------------------|--------------------------------|--------------------------------|---------------------------|---------------------------|
| Total material moved | m ³ '000 | 10,490 | 9,449 | 18,612 | 15,857 |
| Ore mined | kt | 1,196 | 2,531 | 3,173 | 8,489 |
| Average grade | g/t | 0.97 | 1.11 | 1.07 | 0.72 |
| Gold content | koz | 37.14 | 90.6 | 108.9 | 196.4 |

Pioneer processing operations

Resin-in-pulp (RIP) plant

| | | | | | |
|----------------|-----|-------|-------|-------|-------|
| Total milled | kt | 2,819 | 3,267 | 6,395 | 6,783 |
| Average grade | g/t | 0.72 | 0.84 | 0.73 | 0.68 |
| Gold content | koz | 65.04 | 88.8 | 150.0 | 148.9 |
| Recovery rate | % | 80.5 | 78.9 | 80.4 | 75.3 |
| Gold recovered | Koz | 52.4 | 70.0 | 120.6 | 112.1 |

Heap leach operations

| | | | | | |
|------------------------------|-----|-------------|-------------|--------------|--------------|
| Ore stacked | Kt | - | 325 | 701 | 752 |
| Average grade | g/t | - | 0.50 | 0.5 | 0.49 |
| Gold content | koz | - | 5.2 | 11.3 | 11.7 |
| Recovery rate | % | - | 19.8 | 50.1 | 51.8 |
| Gold recovered | koz | 1.1 | 1.0 | 5.6 | 6.1 |
| Total gold production | koz | 52.7 | 78.7 | 135.1 | 161.8 |

Production

In 2018, Pioneer produced 135.1koz, c.32% of total Group production, and a c.16.5% decrease from 2017 (161.8koz). The decrease reflects an ending to exceptional gold recovered at the resin treatment facility which was constructed in 2017 to recover gold that had built up in the processing circuit.

The main sources of ore at Pioneer were stockpiles accumulated during 2017 and pits of the Alexandra, North-East Bakhmut, Katrin, Yuzhnaya and Promezhutochnaya. RIP processing recoveries were higher than in 2017 due to head grades being higher and the ore processed being less refractory than in the previous year. Heap leach operations operated through the warmer season, producing 5.6koz of gold.

During 2018, a total of 4,397m (57,763m³) of underground development was completed. In total, 115kt of underground ore with an average gold content of 2.82g/t was mined in 2018. More challenging than expected geotechnical and hydrogeological conditions hampered 2018 underground production.

As the result, access to the high-grade stopes was not available and majority of ore came from lower grade ore bodies and sublevel development. Problems faced in 2018 have now been resolved and by the end of 2019, when underground mining at Pioneer is ramped up to full capacity, Pioneer is expected to produce ore at an average of 4-5g/t.

H1 2019 production rates were below expectation due to a shortfall in underground production rates caused by the ingress of water earlier in the year. Remediation measures included additional pumps and cement backfilling leading to a resumption in planned production rates. In Q2 2019, shortfalls in underground operations were partly offset by higher grade ores from the underground mine. For 2019, production from Pioneer is expected to be slightly below guidance given at the start of the year due to the impact of water ingress in Q1 2019. These shortfalls are expected to be compensated for by higher production from Albyn and Malomir.

Costs

TCC in 2018 were US\$799/oz, a 1 per cent. increase on 2017. AISC in 2018 were US\$1,294/oz, a 26 per cent increase from 2017.

TCC at Pioneer for the first six months of 2019 were US\$1,138/oz (first six months of 2018: US\$843/oz). The increase in TCC at Pioneer is attributable to lower mined and processed grades as a result of a lower than expected contribution from underground mining, where production volumes were affected by water ingress earlier this year. The negative effect of the overall increase in TCC was partially offset by Rouble depreciation.

AISC at Pioneer for the first six months of 2019 were US\$1,506/oz (first six months of 2018: US\$1,116/oz). While sustaining exploration expenditure was lower than during the same period in 2018, increased TCC alongside an impairment of ore stockpiles, higher sustaining capital and central administration expenditure were the main contributors to higher AISC.

6.2 Pokrovskiy

Introduction

The Group was developed from the original Pokrovskiy mine. Having produced 2.0Moz since 1999 Pokrovskiy reached the end of its mine life in Q1 2018. The mine site has been transitioned into the location for the POX Hub. The POX Hub is an integral part of the Group's strategy and Pokrovskiy provided the ideal strategic location, not only due to its onsite and regional infrastructure, but also its close proximity to Pioneer's limestone deposit, limestone being a key ingredient for the pressure oxidation process. In 2018, Pokrovskiy produced 6.5koz of gold. Mining and ore processing stopped in Q1 2018. In the first six months of 2019 0.2koz of gold was produced from the re-circulation of residual tailing solutions. Group classifies this as recovery of "gold in circuit" and not as mining production.

Location and Infrastructure

Pokrovskiy is located in the south of the Amur region, 450km from Blagoveshchensk, the China border trade city and regional business hub. It is situated between the BAM and Trans-Siberian Railway, with the nearest

station approximately 15km away by all-weather road. The largest regional hydropower station (1.3GW) is located 88km to the north-east and Pokrovskiy obtains its electricity from the grid.

Geology

Pokrovskiy is located on the south side of the Mongolo-Okhotskiy regional belt, approximately 40km south of Pioneer, which in addition to gold hosts a significant limestone deposit.

Pokrovskiy's Reserves and Resources

There is currently no Ore Reserve estimated at Pokrovskiy. A summary of Pokrovskiy's Mineral Resources, estimated in accordance with the JORC Code 2012 as at 31 December 2018 is prepared internally as an update of the April 2017 WAI estimate and is set out below:

Pokrovskiy Mineral Resources

(as at 31 December 2018, in accordance with JORC Code)

Pokrovskiy Open Pit

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|-----------------------|--------------------|---------------------|-----------------------|-----------------------|
| Total | Measured | 4,182 | 0.70 | 0.09 |
| | Indicated | 19,954 | 0.62 | 0.40 |
| | Measured+Indicated | 24,136 | 0.63 | 0.49 |
| | Inferred | 5,872 | 0.88 | 0.17 |
| Non-Refractory | Measured | 4,182 | 0.70 | 0.09 |
| | Indicated | 19,954 | 0.62 | 0.40 |
| | Measured+Indicated | 24,136 | 0.63 | 0.49 |
| | Inferred | 5,872 | 0.88 | 0.17 |
| Refractory | Measured | – | – | – |
| | Indicated | – | – | – |
| | Measured+Indicated | – | – | – |
| | Inferred | – | – | – |

Pokrovskiy Underground

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|-----------------------|--------------------|---------------------|-----------------------|-----------------------|
| Total | Measured | 827 | 3.20 | 0.09 |
| | Indicated | 1,196 | 2.45 | 0.09 |
| | Measured+Indicated | 2,023 | 2.76 | 0.18 |
| | Inferred | 506 | 2.96 | 0.05 |
| Non-Refractory | Measured | 827 | 3.20 | 0.09 |
| | Indicated | 1,196 | 2.45 | 0.09 |
| | Measured+Indicated | 2,023 | 2.76 | 0.18 |
| | Inferred | 506 | 2.96 | 0.05 |
| Refractory | Measured | – | – | – |
| | Indicated | – | – | – |
| | Measured+Indicated | – | – | – |
| | Inferred | – | – | – |

Pokrovskiy Total (Open Pit and Underground)

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|------------------------|--------------------|---------------------|-----------------------|-----------------------|
| Total Resources | Measured | 5,009 | 1.11 | 0.18 |
| | Indicated | 21,150 | 0.72 | 0.49 |
| | Measured+Indicated | 26,159 | 0.79 | 0.67 |
| | Inferred | 6,378 | 1.04 | 0.21 |
| Non-Refractory | Measured | 5,009 | 1.11 | 0.18 |
| | Indicated | 21,150 | 0.72 | 0.49 |
| | Measured+Indicated | 26,159 | 0.79 | 0.67 |

| | | | | |
|-------------------|--------------------|-------|------|------|
| | Inferred | 6,378 | 1.04 | 0.21 |
| Refractory | Measured | – | – | – |
| | Indicated | – | – | – |
| | Measured+Indicated | – | – | – |
| | Inferred | – | – | – |

Notes:

- (1) Mineral Resource estimate was prepared internally by the Group in accordance with JORC Code 2012 as an update of the April 2017 statement audited by WAI.
- (2) Open Pit Mineral Resources are constrained by conceptual open-pit shell at US\$1,500/oz long term gold price.
- (3) The cut-off grade for Mineral Resources for open pit mining is 0.30g/t.
- (4) A cut-off grade of 1.5g/t is used to report Mineral Resources for potential underground mining.
- (5) Mineral Resources are not Reserves until they have demonstrated economic viability based on a feasibility or pre-feasibility study.
- (6) Grade represents estimated contained metal in the ground and has not been adjusted for metallurgical recovery.

Mining and processing

Pokrovskiy ceased mining and ore processing operations in Q1 2018, after nineteen years of successful operations. Economic and technical studies identified the site as the optimal strategic location for the planned POX Hub. Its extensive onsite facilities and well-developed infrastructure have been adopted and integrated into the project, which includes a RIP plant, accommodation, roads, power lines, offices and laboratories.

Mining at Zeyskoye and Vodorazdelnoye ore bodies accessed in 2017 stopped in Q1 2018. All ore extracted was processed at the RIP plant in Q1 2018, together with ore from stockpiles. Pokrovskiy RIP plant was stopped in Q1 2018 for refurbishment and integration into POX Hub. A further small amount of gold was recovered from plant circuit in the remaining months during plant reconstruction. Heap leach did not operate during 2018 and 2019.

The project is closed and transformed into the key component of the POX Hub. The physical volumes in 2018 were insignificant (6koz of gold sold).

There were no mining activities in H1 2019 with only a small amount of gold produced from the recirculation of residual tailing solutions.

Pokrovskiy Operational Report

The table below sets out a summary of mining operations at Pokrovskiy for the periods indicated.

Pokrovskiy mining operations

| | Units | 6 months ended 30 June 2019 | 6 months ended 30 June 2018 | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 |
|----------------------|---------------------|--------------------------------|-----------------------------------|---------------------------|---------------------------|
| Total material moved | m ³ '000 | – | 152 | 152 | 3,745 |
| Ore mined | kt | – | 116 | 116 | 1,468 |
| Average grade | g/t | – | 0.59 | 0.59 | 0.51 |
| Gold content | koz | – | 2.2 | 2.2 | 24.1 |

Pokrovskiy processing operations

Resin-in-pulp (RIP) plant

| | | | | | |
|----------------|-----|---|------|------|-------|
| Total milled | kt | – | 223 | 223 | 1,815 |
| Average grade | g/t | – | 0.55 | 0.55 | 0.47 |
| Gold content | koz | – | 4.0 | 4.0 | 27.4 |
| Recovery rate | % | – | 94.2 | 94.2 | 82.9 |
| Gold recovered | koz | – | 3.7 | 3.7 | 22.7 |

Heap leach operations

| | | | | | |
|------------------------------|-----|------------|------------|------------|-------------|
| Ore stacked | Kt | – | – | – | 498 |
| Average grade | g/t | – | – | – | 0.39 |
| Gold content | koz | – | – | – | 6.3 |
| Recovery rate | % | – | – | – | 45.4 |
| Gold recovered | koz | 0.4 | – | – | 2.9 |
| Total gold production | koz | 0.2 | 5.6 | 6.5 | 30.6 |

Production

The Pokrovskiy mine and processing facilities ceased operations in Q1 2018. The site has been rehabilitated and is now the site of the new POX Hub. As such, there were no mining activities in H1 2019 with only a small amount of gold produced from the re-circulation of residual tailing solutions.

Outlook

No material mine production is expected in the future, as Pokrovskiy has come to the end of its reserves.

6.3 Malomir

Introduction

Malomir is currently the Group's largest asset by Ore Reserves and Mineral Resources with approximately 90 per cent. of its Ore Reserves categorised as refractory ore. The POX Hub, which was commissioned at the end of 2018, is expected to unlock value embedded within the approximately 74.5 km² licence area at Malomir and to support an expected life of mine of approximately 18 years. In 2018, Malomir produced 77.6koz of gold; in the first 6 months of 2019, it produced 93.1koz (including 61.3koz of gold produced via the POX Hub).

Location and infrastructure

Malomir is located in the north-east of the Amur region, 550km from Blagoveshchensk, the China border trade city and regional business hub, and 670km from the POX Hub. The BAM railway is 130km away. It obtains electricity from the grid.

Malomir Reserves and Resources

A summary of Malomir's Ore Reserves and Mineral Resources for open pit mining, estimated in accordance with the JORC Code as at 31 December 2018 as an update of WAI in April 2017 estimate is set out below:

Malomir Ore Reserves

(as at 31 December 2018, in accordance with JORC Code)

Malomir Open Pit

| | <u>Category</u> | <u>Tonnage (kt)</u> | <u>Grade (g/t Au)</u> | <u>Gold (Moz Au)</u> |
|-----------------------|-----------------|---------------------|-----------------------|----------------------|
| Total | Proved | 19,335 | 0.84 | 0.52 |
| | Probable | 69,051 | 1.00 | 2.23 |
| | Proved+Probable | 88,386 | 0.97 | 2.75 |
| Non-Refractory | Proved | 126 | 1.00 | 0.004 |
| | Probable | 618 | 1.37 | 0.03 |
| | Proved+Probable | 743 | 1.31 | 0.03 |
| Refractory | Proved | 19,210 | 0.84 | 0.52 |
| | Probable | 68,434 | 1.00 | 2.20 |
| | Proved+Probable | 87,643 | 0.97 | 2.72 |

Malomir Underground

| | <u>Category</u> | <u>Tonnage (kt)</u> | <u>Grade (g/t Au)</u> | <u>Gold (Moz Au)</u> |
|-----------------------|-----------------|---------------------|-----------------------|----------------------|
| Total | Proved | 176 | 9.09 | 0.05 |
| | Probable | 352 | 4.48 | 0.05 |
| | Proved+Probable | 528 | 6.01 | 0.10 |
| Non-Refractory | Proved | 176 | 9.09 | 0.05 |
| | Probable | 352 | 4.48 | 0.05 |
| | Proved+Probable | 528 | 6.01 | 0.10 |
| Refractory | Proved | — | — | — |
| | Probable | — | — | — |
| | Proved+Probable | — | — | — |

Malomir Total

| | Category | Tonnage (kt) | Grade (g/t Au) | Gold (Moz Au) |
|----------------|-----------------|--------------|----------------|---------------|
| Total | Proved | 19,511 | 0.92 | 0.58 |
| | Probable | 69,403 | 1.02 | 2.28 |
| | Proved+Probable | 88,914 | 1.00 | 2.86 |
| Non-Refractory | Proved | 301 | 5.72 | 0.05 |
| | Probable | 970 | 2.50 | 0.08 |
| | Proved+Probable | 1,271 | 3.26 | 0.13 |
| Refractory | Proved | 19,210 | 0.84 | 0.52 |
| | Probable | 68,434 | 1.00 | 2.20 |
| | Proved+Probable | 87,643 | 0.97 | 2.72 |

Notes:

- (1) The above Ore Reserves statement is prepared internally in February 2019 in accordance with JORC Code 2012 as an update of the April 2017 WAI estimate.
- (2) Ore Reserves for open pit extraction are estimated within economical pit shells using a \$1,200/oz gold price assumption and applying other modifying factors based on the projected performance of Malomir mine.
- (3) Underground Ore Reserve estimates use a mine design with decline access, trackless mining equipment and a sublevel open stope mining method with or without back fill.
- (4) The cut off grades for reporting Ore Reserves are as follows:
 - Open Pit non-refractory: 0.3g/t Au
 - Open Pit refractory: 0.55 g/t Au
 - Underground non-refractory: 1.70g/t Au.
- (5) Reserve figures have been adjusted for anticipated dilution and mine recovery.
- (6) In accordance with JORC Code, all open pit and underground designs has been based on Measured and Indicated Resources; in addition to the Proved Ore Reserve and Probable Ore Reserve quoted above Malomir open pit design captures 277kt @ 3.00g/t (0.03Moz) of non-refractory and 2,644kt@0.96g/t (0.08Moz) of refractory Inferred Resource.
- (7) Figures may not add up due to rounding.

Malomir Mineral Resources

(as at 31 December 2018, in accordance with JORC Code)

Malomir Open Pit

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|----------------|--------------------|--------------|----------------|----------------|
| Total | Measured | 20,248 | 0.84 | 0.55 |
| | Indicated | 133,488 | 0.87 | 3.74 |
| | Measured+Indicated | 153,736 | 0.87 | 4.29 |
| | Inferred | 107,375 | 0.71 | 2.47 |
| Non-Refractory | Measured | 135 | 0.99 | 0.004 |
| | Indicated | 802 | 1.19 | 0.03 |
| | Measured+Indicated | 936 | 1.16 | 0.03 |
| | Inferred | 513 | 0.82 | 0.01 |
| Refractory | Measured | 20,113 | 0.84 | 0.54 |
| | Indicated | 132,686 | 0.87 | 3.71 |
| | Measured+Indicated | 152,800 | 0.87 | 4.25 |
| | Inferred | 106,862 | 0.71 | 2.45 |

Malomir Underground

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|----------------|--------------------|--------------|----------------|----------------|
| Total | Measured | 243 | 9.71 | 0.08 |
| | Indicated | 403 | 4.37 | 0.06 |
| | Measured+Indicated | 646 | 6.38 | 0.13 |
| | Inferred | 354 | 3.45 | 0.04 |
| Non-Refractory | Measured | 243 | 9.71 | 0.08 |
| | Indicated | 403 | 4.37 | 0.06 |
| | Measured+Indicated | 646 | 6.38 | 0.13 |
| | Inferred | 354 | 3.45 | 0.04 |
| Refractory | Measured | — | — | — |
| | Indicated | — | — | — |
| | Measured+Indicated | — | — | — |
| | Inferred | — | — | — |

Malomir Total

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|---------------------------|--------------------|--------------|----------------|----------------|
| Total | Measured | 20,492 | 0.95 | 0.62 |
| | Indicated | 133,891 | 0.88 | 3.79 |
| Total Non-Refractory | Measured+Indicated | 154,382 | 0.89 | 4.42 |
| | Inferred | 107,728 | 0.72 | 2.51 |
| Non-Refractory Refractory | Measured | 378 | 6.60 | 0.08 |
| | Indicated | 1,204 | 2.25 | 0.09 |
| | Measured+Indicated | 1,582 | 3.29 | 0.17 |
| | Inferred | 867 | 1.89 | 0.05 |
| | Measured | 20,113 | 0.84 | 0.54 |
| Refractory | Indicated | 132,686 | 0.87 | 3.71 |
| | Measured+Indicated | 152,800 | 0.87 | 4.25 |
| | Inferred | 106,862 | 0.71 | 2.45 |

Notes:

- (1) Mineral Resources include Ore Reserves.
- (2) Mineral Resource estimate was prepared internally by the Group in accordance with JORC Code 2012 as an update of the April 2017 statement audited by WAI.
- (3) Open Pit Mineral Resources are constrained by conceptual open-pit shells at US\$1,500/oz long term gold price assumption.
- (4) The cut-off grade for Mineral Resources for open pit mining varies from 0.30 to 0.4g/t depending on the type of mineralisation and proposed processing method.
- (5) A cut-off grade of 1.5g/t is used to report Mineral Resources for potential underground mining.
- (6) Mineral Resources are not Reserves until they have demonstrated economic viability based on a feasibility or pre-feasibility study.
- (7) Grade represents estimated contained metal in the ground and has not been adjusted for metallurgical recovery.

Malomir Exploration Results for 2018

All material exploration completed at Malomir relates to underground mining at Quartzitovoye and predominantly involved reserve definition drilling and sampling.

Ten drill holes completed at zone 49 proved 50m strike and 100m down dip extensions of high-grade mineralisation which is yet to be incorporated into the Mineral Resource and Ore Reserve estimate. New significant zone 49 intersections include:

- 1.6m @ 17.75g/t;
- 2.0m @ 10.5g/t;
- 1.0m @ 19.7g/t;
- 13.0m @ 25.17g/t; and
- 2.9m @ 5.67g/t.

Zone 49 remains open downdip and offers further exploration potential to increase resources and reserves for underground mining.

In addition, underground workings intersected low grade stockwork between Quartzitovoye areas 1 and 2, which is suitable for open pit mining once the Quartzitovoye underground mine is completed; 112koz of Ore Reserves were added in this area in 2018.

First six months of 2019 exploration

Osipkan

Osipkan is located c.130km (by road) east of Malomir and c.30km south-west (by road) from Tokur. Although geographically Osipkan is closer to Tokur, until a processing facility is available at Tokur, Osipkan is treated as a Malomir satellite. A total of 300m of drilling was completed during H1 2019 at Osipkan. Recent exploration has complemented work undertaken prior to 2011, which included 197,798m³ of trenching and 1,981m of diamond drilling. Based on that work, a resource estimate at Osipkan was prepared and approved by the local authority. Total category C₂ material, which is equivalent to Indicated or Inferred under JORC, amounted to 97koz within 2.5Mt of material at an average grade of 1.23g/t. In addition, 22koz of P₁ category, which is equivalent to Inferred under JORC, gold resources were also estimated within 458kt of material at an average

grade of 1.50g/t. These resources are yet to be re-evaluated in accordance with JORC and added to the JORC statement.

With c.1Moz of JORC resources, Tokur has potential to be developed into an open pit and/or underground mine. Osipkan is likely to be re-classified as a Tokur satellite once Tokur development is at an active phase.

Mining and processing

Mining operations at Malomir are carried out both in open pit and underground. The Group operates its own open pit mining fleet at Malomir. Underground mining is performed by a reputable Russian underground mining contractor, BSHPU OAO. BSHPU OAO productivity and equipment utilisation is optimised by operating two shifts daily throughout the year.

The higher-grade non- refractory ore at Quartzitovoye is processed at the 0.4Mtpa RIP plant, which is operational throughout the year. The refractory ore from Malomir does not respond to standard RIP processing methods but can now be processed in the Group's recently commissioned POX plant at Pokrovskiy c.1,134km (by road and rail) from Malomir.

The first stage construction of the Malomir flotation plant is now complete. The initial flotation line at Malomir was successfully commissioned in July 2018. The second was commissioned at the beginning of October and is now fully operational. A total of 46kt of concentrate containing c.52.1koz of gold has been produced by the end of 2018.

The second stage of construction designed to increase the capacity of the Malomir flotation unit to 5.4Mtpa, is currently scheduled to begin construction in 2020 (subject to funds availability and BoD approval). The flotation plant is converting the refractory reserves into higher- grade flotation concentrate, which is now being sent to the POX Hub for processing.

Underground development commenced at Malomir's Quartzitovoye zone in January 2017. Despite initial delays due to slow contractor mobilisation, Quartzitovoye underground production started in June 2017 and ramped up to an annualised 250ktpa of ore by the end of 2017. Quartzitovoye exceeded this rate of ore production through 2018 and the first six months of 2019. A total of 291kt of ore at an average grade 4.52g/t containing 42.3koz of gold was produced from Malomir underground operations in 2018 whilst 137kt of ore was mined during first six months of 2019.

Malomir Operational Report

The table below sets out a summary of mining operations at Malomir for the periods indicated.

| | Units | 6 months ended 30 June 2019 | 6 months ended 30 June 2018 | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 |
|--------------------------------------|---------|-----------------------------------|-----------------------------------|---------------------------|---------------------------|
| Total material moved | m3 '000 | 3,838 | 4,245 | 7,464 | 9,380 |
| Non-refractory ore | kt | 233 | 1,309 | 2,264 | 2,770 |
| Average grade | g/t | 4.70 | 1.19 | 1.39 | 0.97 |
| Gold content | koz | 35.2 | 49.9 | 101.3 | 86.1 |
| Refractory ore | kt | 2,713 | - | 837 | - |
| Average grade | g/t | 1.03 | - | 1.55 | - |
| Gold content | koz | 90.0 | - | 41.8 | - |
| Malomir processing operations | | | | | |
| Resin-in-pulp (RIP) plant | | | | | |
| Total milled | kt | 347 | 1,645 | 2,375 | 3,404 |
| Average grade | g/t | 3.61 | 1.15 | 1.33 | 0.91 |
| Gold content | koz | 40.2 | 60.7 | 101.7 | 99.5 |
| Recovery rate | % | 79.4 | 72.4 | 73.6 | 64.9 |
| Gold recovered | koz | 31.9 | 44 | 74.8 | 64.6 |
| Flotation Plant | | | | | |
| Ore | kt | 1,812 | 98 | 1,266 | - |
| Average grade | g/t | 0.97 | 0.98 | 1.48 | - |
| Gold content | koz | 56.3 | 3.1 | 60.2 | - |
| Recovery rate | % | 87.0 | 86.5 | 86.6 | - |
| Yield | % | 3.3 | 2.2 | 3.6 | - |
| Concentrate produced | kt | 59 | 2.1 | 46 | - |
| Average Grade | g/t | 25.8 | 39.0 | 35.2 | - |

| | Units | 6 months ended 30 June 2019 | 6 months ended 30 June 2018 | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 |
|--------------------------------|-------|-----------------------------------|-----------------------------------|---------------------------|---------------------------|
| Gold content | koz | 48.9 | 2.7 | 52.1 | – |
| POX Plant | | | | | |
| Concentrate treated | kt | 76 | - | - | - |
| Average grade | g/t | 29.7 | - | - | - |
| Gold in concentrate | koz | 72.1 | - | - | - |
| Recovery rate | % | 86.0 | - | - | - |
| Gold recovered | koz | 62.0 | - | - | - |
| Total production (Doré) | koz | 93.1 | 46.8 | 77.6 | 65.6 |

Production

In 2018, Malomir produced 77.6koz, 18% of total Group production and an 18% increase from 2017 (65.6koz) including gold in concentrate. The increase is mostly attributable to the processing of refractory reserves and high-grade underground ore.

The refractory ore was sourced from the Malomir Centralniy pit; Quartzitovoye and Magnetitovoye zones together with underground mine and low-grade stockpiles provided non-refractory for the RIP plant.

The volumes of ore treated through the plant increased by 7% compared to 2017, which was in line with the mining plan.

During H1 2019, a total of 233kt of non-refractory ore was mined (H1 2018: 1,309kt) at an average grade of 4.7g/t (H1 2018: 1.19g/t) resulting in production of 31.9koz of gold (H1 2018: 44.0koz). This was higher than expected due to a strong performance at the Quarzitovoye underground mine.

During H1 2019, a total of 2,713kt of refractory ore was mined (H1 2018: nil) at an average grade of 1.03g/t (H1 2018: nil), in-line with expectations. The flotation plant continued to deliver strong results, with recoveries averaging 87%. The total gold content for H1 2019 in flotation concentrates was 48.9koz (H1 2018: 2.7koz).

For 2019, production from Malomir is expected to remain in-line or slightly exceed the guidance given at the start of the year.

Costs

In 2018, TCC were US\$791/oz, a 15% decrease compared to 2017 (US\$929/oz). AISC were US\$1,058/oz, a 17% improvement from 2017 (US\$1,278/oz). Decrease in the TCC per ounce is associated with improvement in the RIP head grades and recovery, physical volumes of the both total rock moved and ore processed through RIP plant decreased helping to save on operating cost. AISC decrease is primarily related to the decrease in the underlying TCC.

TCC at Malomir for the first six months of 2019 were US\$860/oz (first six months of 2018: US\$971/oz). The decrease in TCC was due to higher processed grades, strong gold recovery and Rouble depreciation.

AISC at Malomir for the first six months of 2019 were US\$1,013/oz (first six months of 2018: US\$1,186/oz). Notwithstanding an increase in central administration expense, reduced TCC and lower sustaining exploration expenditure were the primary drivers behind the overall AISC decrease.

6.4 Albyn

Introduction

Albyn is currently the Company's largest non-refractory producing mine. In 2018, Albyn produced 135koz (32 per cent. of the Group total); in the first 6 months of 2019, it produced 79.2koz (35 per cent. of the Group total). The approximately 1,053km² licence area is, in the opinion of the Group's management, largely under-explored, presenting the potential for possible further non-refractory resources to be discovered. The main ore bodies at Albyn are open in a down dip direction beyond the feasible depth of open pit mining, offering longer term growth potential to establish resources and reserves for underground mining.

Location and infrastructure

Albyn is located in the north east of the Amur region, 720km from Blagoveshchensk, the China border trade city and regional business hub and 2km away from the town of Zlatoustovsk by all-weather road— a centre of local alluvial gold mining. The BAM railway is 280km away. Electricity is obtained from the grid.

Geology

The Albyn licence area covers multiple ore bodies within three key deposits: Albyn, Elginskoye and Unglichikanskoye. All these orebodies are open in a down dip direction. Elginskoye and Unglichikanskoye are also open along the strike. In addition to these proven deposits there are a number of known exploration targets of which Ulgen is the most significant. The majority of the licence area remains, in the opinion of the Group's management, under-explored, offering further exploration potential.

Albyn's Reserves and Resources

A summary of Albyn's Ore Reserves and Mineral Resources, estimated as at 31 December 2018 in accordance with the JORC Code and audited by WAI in April 2017 is set out below:

Albyn Ore Reserves

(as at 31 December 2018, in accordance with JORC Code)

Albyn

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|-----------------------|-----------------|--------------|----------------|----------------|
| Total | Proved | 6,516 | 0.45 | 0.09 |
| | Probable | 57,420 | 1.2 | 2.22 |
| | Proved+Probable | 63,936 | 1.13 | 2.32 |
| Non-Refractory | Proved | 6,516 | 0.45 | 0.09 |
| | Probable | 46,726 | 1.2 | 1.8 |
| | Proved+Probable | 53,243 | 1.11 | 1.89 |
| Refractory | Proved | — | — | — |
| | Probable | 10,694 | 1.23 | 0.42 |
| | Proved+Probable | 10,694 | 1.23 | 0.42 |

Notes:

- (1) All Albyn Ore Reserves are for open pit extraction.
- (2) The above Ore Reserves statement is prepared internally in February 2019 in accordance with JORC Code 2012 as an update of the April 2017 WAI estimate.
- (3) Ore Reserves are estimated within economical pit shells using a \$1,200/oz gold price assumption and applying other modifying factors based on the projected performance of Albyn mine.
- (4) The Open Pit Reserve cut-off grade for reporting is 0.30g/t Au for non-refractory and 0.5 for refractory.
- (5) Reserve figures have been adjusted for anticipated dilution and mine recovery.
- (6) In accordance with JORC Code, open pit has been based on Measured and Indicated Resources; in addition to the Proved Ore Reserve and Probable Ore Reserve quoted above Albyn open pit design captures 1,921 @ 1.38g/t (0.09Moz) of non-refractory and 348kt @ 1.08g/t (0.01Moz) of refractory Inferred Resources.
- (7) Figures may not add up due to rounding.

Albyn Mineral Resources

(as at 31 December 2018, in accordance with JORC Code)

Albyn Open Pit

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|-----------------------|--------------------|--------------|----------------|----------------|
| Total | Measured | 7,023 | 0.5 | 0.11 |
| | Indicated | 81,256 | 1.21 | 3.16 |
| | Measured+Indicated | 88,291 | 1.15 | 3.27 |
| | Inferred | 45,488 | 1.29 | 1.88 |
| Non-Refractory | Measured | 7,023 | 0.5 | 0.11 |
| | Indicated | 66,477 | 1.21 | 2.59 |
| | Measured+Indicated | 73,499 | 1.15 | 2.71 |
| | Inferred | 30,904 | 1.33 | 1.32 |
| Refractory | Measured | — | — | — |
| | Indicated | 14,792 | 1.19 | 0.57 |
| | Measured+Indicated | 14,792 | 1.19 | 0.57 |
| | Inferred | 14,584 | 1.2 | 0.56 |

Albyn Underground

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|-----------------------|--------------------|--------------|----------------|----------------|
| Total | Measured | – | – | – |
| | Indicated | 375 | 2.61 | 0.03 |
| | Measured+Indicated | 375 | 2.61 | 0.03 |
| | Inferred | 1,961 | 2.58 | 0.16 |
| Non-Refractory | Measured | – | – | – |
| | Indicated | 375 | 2.61 | 0.03 |
| | Measured+Indicated | 375 | 2.61 | 0.03 |
| | Inferred | 1,961 | 2.58 | 0.16 |
| Refractory | Measured | – | – | – |
| | Indicated | – | – | – |
| | Measured+Indicated | – | – | – |
| | Inferred | – | – | – |

Albyn Total

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|-----------------------|--------------------|--------------|----------------|----------------|
| Total | Measured | 7,023 | 0.5 | 0.11 |
| | Indicated | 81,644 | 1.22 | 3.19 |
| | Measured+Indicated | 88,666 | 1.16 | 3.31 |
| | Inferred | 47,449 | 1.34 | 2.04 |
| Non-Refractory | Measured | 7,023 | 0.5 | 0.11 |
| | Indicated | 66,852 | 1.22 | 2.63 |
| | Measured+Indicated | 73,874 | 1.15 | 2.74 |
| | Inferred | 32,866 | 1.4 | 1.48 |
| Refractory | Measured | – | – | – |
| | Indicated | 14,792 | 1.19 | 0.57 |
| | Measured+Indicated | 14,792 | 1.19 | 0.57 |
| | Inferred | 14,584 | 1.2 | 0.56 |

Notes:

- (1) Mineral Resources include Ore Reserves.
- (2) Mineral Resource estimate was prepared internally by the Group in accordance with JORC Code 2012 as an update of the April 2017 statement audited by WAI.
- (3) Open Pit Mineral Resources are constrained by conceptual open-pit shells at US\$1,500/oz long term gold price constraints.
- (4) The cut-off grade for Mineral Resources for open pit mining is 0.30 g/t Au for both refractory and non-refractory resources.
- (5) A cut-off grade of 1.5g/t is used to report Mineral Resources for potential underground mining.
- (6) Mineral Resources are not Reserves until they have demonstrated economic viability based on a feasibility or pre-feasibility study.
- (7) Grade represents estimated contained metal in the ground and has not been adjusted for metallurgical recovery.
- (8) Figures may not add up due to rounding.

Albyn Exploration Results for 2018

In 2018, exploration at Albyn targeted deeper extensions of both the Sukholozhskiy Zone and the main ore body at Albyn. A total of 52 drill holes were drilled, including 49 resource definition holes on a nominal 40m by 40m drill grid at Sukholozhskiy, and 3 prospecting holes to prove deeper extensions of the main Albyn ore body. The results received to date are very encouraging – the prospecting hole completed at Albyn (C-225-28-313), intersected two intervals of gold mineralisation potentially suitable for underground mining: 417.7m – 427.7m (10.0m @ 4.41g/t) and 439.6m – 443.6m (4.0m @ 3.76g/t). These intersections are situated 150m and 180m below the final Albyn pit respectively and mineralisation still remains open in a down-dip direction.

Resource definition and resource expansion drilling at Sukholozhskiy intersected further down-dip with the best intersections including:

- 1.7m @ 12.1g/t;
- 2.5m @ 7.84g/t;
- 1.4m @ 55.51g/t;
- 1.9m @ 7.86g/t;

- 1.0m @ 18.1g/t; and
- 0.8m @ 13.8g/t.

As Sukholozhskiy was an attractive mining target, this area was mined and fully depleted during 2018.

Petropavlovsk specialists believe an exploration target for potential underground mining at Albyn ought to be at least equivalent in size to total Albyn production to date (c.1Moz). All metallurgical tests completed to date suggest deeper extensions of Albyn are non-refractory and readily suitable for processing through the existing Albyn processing plant.

A small amount of exploration, including trenches, has been completed at Yasnoye and some other smaller exploration targets near Albyn. This work identified new gold mineralisation which warrants further work, but this remains a low priority compared to Elginskoye, Unglichikanskoye and Albyn.

Albyn Exploration Results for the first six months of 2019

Extensive in-fill and resource expansion drilling has been undertaken. A total of 207 in-fill holes with a total length of 11,674m were drilled within the Elginskoye Phase 1 pit to create a 20m x 20m drill grid and increase confidence in the reserve estimates and to increase the accuracy of short-term planning ahead of commencement of mining in 2020. Exploration is still ongoing with results received to date confirming existing reserves estimates. Once completed, the results are expected to lead to an increase in the Proved Ore Reserves at Elginskoye, setting the foundation for more accurate short and mid-term mining plans. 128 drill holes were completed at the central part of Elginskoye, with total length of 15,440m to in-fill an existing drill grid to 80m x 40m. An extensive metallurgical sampling program to study variability of metallurgical properties across the Phase 1 pit was also undertaken on samples recovered from drill holes completed this year. The results of this work are expected to be incorporated into the updated reserves estimate. Resource expansion drilling has also been completed at the periphery of Elginskoye comprising 22 drill holes with a total length of 2,755m. The extension of known gold mineralisation has been proven at the south-west, south-east and northern sides of the deposit, as well as at the right bank of the Poputniy stream. The completed drill holes have proven extensions of gold mineralisation, which is expected to increase Elginskoye Resources and Reserves. The best intersections, outside the current JORC Resource model, include:

- 4.4m @ 5.89g/t;
- 4.7m @ 3.92g/t;
- 3.4m @ 2.77g/t;
- 1.8m @ 4.94g/t; and
- 4.8m @ 4.86g/t.

Results of this exploration are yet to be reflected in the Elginskoye resource estimate. It is expected that they will lead to a slight increase the Elginskoye resource base, with a greater contribution from refractory gold ores.

Mining and Processing

Albyn is a large (2.2km long), open pit, bulk tonnage operation. The Group operates its own mining fleet at Albyn, consisting of modern diesel and electrical excavators, dump trucks, drill rigs, bulldozers and other vehicles. Mining productivity and equipment utilisation is optimised by operating two shifts daily throughout the year.

The Albyn licence includes multiple defined orebodies. All are non-refractory and can be treated at the 4.7Mtpa RIP plant, which operates throughout the year. The RIP plant comprises of two identical grinding lines, each with a 1.8Mtpa design capacity. Operational optimisations and improvements completed since the Albyn plant was commissioned in 2011 have allowed for a 30% increase over the original design processing capacity.

Albyn Operational Report

The table below sets out a summary of mining and processing operations at Albyn for the periods indicated.

| | Units | 6 months ended 30 June 2019 | 6 months ended 30 June 2018 | Year ended 31 Dec 2018 | Year ended 31 Dec 2017 |
|------------------------------------|---------|-----------------------------------|-----------------------------------|---------------------------|---------------------------|
| Total material moved | m3 '000 | 6,347 | 10,107 | 18,155 | 28,557 |
| Ore mined | kt | 2,429 | 1,877 | 3,904 | 5,263 |
| Average grade | g/t | 1.17 | 0.97 | 1.1 | 1.16 |
| Gold content | koz | 91.0 | 58.3 | 137.8 | 196.5 |
| Albyn processing operations | | | | | |
| Resin-in-pulp (RIP) plant | | | | | |
| Total milled | kt | 2,333 | 2,291 | 4,602 | 4,618 |
| Average grade | g/t | 1.12 | 1.01 | 1.09 | 1.16 |
| Gold content | koz | 83.7 | 74.1 | 161.7 | 171.9 |
| Recovery rate | % | 94.0 | 93.9 | 94 | 93.3 |
| Gold recovered | koz | 78.6 | 69.6 | 152.1 | 160.3 |
| Total production (Doré) | koz | 79.2 | 70.3 | 151 | 181.6 |

Production

In 2018, Albyn produced 151.0koz, 36% of total Group production and a c.17% decrease on 2017 (181.6koz) largely as a result of continued floodwater issues at the mine.

The main sources of ore were the Central zone of the Albyn main pit, with some amount of ore supplied from stockpiles. Throughout the year, the processing plant had consistently high recoveries of over 90%.

During H1 2019 a total of 2,429kt of ore was mined (H1 2018: 1,877kt) at an average grade of 1.17g/t (H1 2018: 0.97g/t) to produce 79.2koz of gold (H1 2018: 70.3koz) through the RIP plant. Production at Albyn has exceeded expectations due to higher grades.

Costs

TCC were US\$747/oz, a 38% increase from 2017 (US\$541/oz). AISC were US\$974/oz, a 36% increase from 2017 (US\$718/oz). TCC and AISC were affected by higher volumes of stripping, suboptimal organisation of mining works in the first half of 2018 and decrease in average grades processed. Russian Rouble depreciation against the US Dollar partially mitigated the negative effect of these factors.

TCC at Albyn for the first six months of 2019 were US\$622/oz (first six months of 2018: US\$884/oz). The decrease in TCC was driven by higher mined and processed grades, strong RIP plant gold recovery (94%) and Rouble depreciation.

AISC at Albyn for the first six months of 2019 were US\$731/oz (first six months of 2018: US\$1,110/oz). Reduced TCC, a reversal of impairment of ore stockpiles and lower sustaining capital expenditure contributed to improved AISC. The positive effect of the overall AISC decrease was partially offset by higher stripping costs and increased sustaining capital expenditure.

7. Development and Exploration Assets

Tokur

Introduction

Tokur is a hard-rock, non-refractory gold deposit. Although Tokur was mined in the Soviet era using underground mining methods, the deposit still contains significant Mineral Resources ((7 per cent. of the Group's total Mineral Resources). The deposit is currently not in commercial production.

Tokur is located in the north-eastern part of the Amur region, approximately halfway between the Malomir and Albyn mines.

Infrastructure

Being a former Soviet-era mine and in an area of intensive, historical alluvial mining, Tokur benefits from developed infrastructure, including all-weather roads and grid electricity. This led it to become a base for the Group's expansion into the area. The chemical and fire analysis laboratory located at Tokur is fully staffed by the Group's exploration division.

Tokur Reserves and Resources

There is currently no Ore Reserve estimated at Tokur. A summary of Tokur Mineral Resources, estimated in accordance with the JORC Code 2004 as of end of 2010 by WAI is set out below. There has been no changes to Tokur Resource estimate since that date.

Tokur Mineral Resources

(WAI 2011, accordance with JORC Code 2004)

| | <u>Category</u> | <u>Tonnage (kt)</u> | <u>Grade (g/t Au)</u> | <u>Metal (Moz Au)</u> |
|------------------------|--------------------|---------------------|-----------------------|-----------------------|
| Total Resources | Measured | 11,952 | 1.30 | 0.50 |
| | Indicated | 16,096 | 1.06 | 0.55 |
| | Measured+Indicated | 28,048 | 1.16 | 1.05 |
| | Inferred | 10,706 | 1.09 | 0.38 |
| Non-Refractory | Measured | 11,952 | 1.30 | 0.50 |
| | Indicated | 16,096 | 1.06 | 0.55 |
| | Measured+Indicated | 28,048 | 1.16 | 1.05 |
| | Inferred | 10,706 | 1.09 | 0.38 |
| Refractory | Measured | – | – | – |
| | Indicated | – | – | – |
| | Measured+Indicated | – | – | – |
| | Inferred | – | – | – |

Notes:

- (1) All Tokur Mineral Resources are for open pit extraction.
- (2) Mineral Resource estimate was prepared by WAI in March 2011 in accordance with JORC Code 2004.
- (3) Mineral Resources have no open pit constraints.
- (4) Mineral Resources reported at 0.40 g/t Au cut off-grade.
- (5) Mineral Resources are not Reserves until they have demonstrated economic viability based on a feasibility or pre-feasibility study.
- (6) Grade represents estimated contained metal in the ground and has not been adjusted for metallurgical recovery.
- (7) Figures may not add up due to rounding.

Outlook

Although Tokur was mined extensively during the Soviet era, the deposit still contains significant JORC-compliant Mineral Resources potentially suitable for processing via an RIP plant. Historical studies also indicate Tokur mineralisation responds well to flotation. The Group currently has no immediate plans to develop Tokur. Tokur's assets have been fully impaired and the Group intends to review its development plans for Tokur in the mid-term and development can be commenced when the Group considers that economic conditions support this decision.

Khabarovsk Exploration Assets

In H2 2018 Group acquired two early stage exploration assets in Khabarovsk region: – Verkhne Udkaya; and – Chogarskaya. Both properties are in proximity to known alluvial gold deposits and have geology deemed to be favourable for hosting orogenic type hard rock gold deposits. Both areas were subject to a systematic hard rock early stage exploration/prospecting in the 1960's when the Government funded 1:200 000 scale mapping and prospecting program was completed. Later in 2005-2006 smaller scale prospecting focusing on exploration targets identified by 1960's work was also undertaken. Historical trenching and geological traverses identified grades up to 68g/t in selected samples. Significant Verkhne Udkaya historical trench intersections include: – 8.0m @ 2.5g/t; – 7.0m @ 3.93g/t; – 3.0m @ 3.2g/t; and – 2.0m @ 2.2g/t. Historical work only involved trenching and geological traverses. No drilling was completed at these properties to date therefore Verkhne Udkaya and Chogarskaya are considered underexplored offering potential for significant discoveries. Verkhne Udkaya and Chogarskaya are located 120km and 160km north-north-west and north from Malomir respectively. These licences are one of the priority exploration areas for 2019.

8. The POX Project

Background and Overview

In 2010, an extensive feasibility study into refractory ore processing solutions was carried out by PHM Engineering, one of the Company's 100 per cent. owned subsidiaries. This incorporated a base engineering study prepared by Outotec, a Finnish engineering firm, in cooperation with RDC Hydrometallurgy, another of the Company's 100 per cent. owned subsidiaries. The results demonstrated that POX, via autoclaves, was the

most technically and economically viable and advantageous processing solution, in addition to being the most efficient, safe and environmentally friendly method.

Pressure oxidation is a globally recognised process for treating refractory ore and flotation concentrate, by applying high temperature and high pressure within an autoclave. This allows the gold bearing sulphides to break down, making the gold amenable to conventional cyanide leaching.

In 2011, the Company decided to proceed with the POX project development. The final design required the construction of flotation plants at Malomir (5.4Mtpa of which 3.6Mtpa plant has been already completed in 2018) and Pioneer (6.0Mtpa of which 3.6Mtpa is currently under construction) and an up to 500ktpa POX facility (the “POX Hub”) at Pokrovskiy, utilising four separate autoclave vessels (15m x 4m, each with a volume of 66m³). The POX Hub design allows for the addition of two further autoclaves.

Following the downward trend in gold price in 2013, the Company put the POX Hub development on care and maintenance while exploring potential external funding solutions, namely with the Company’s lenders and possible joint venture partners. Prior to this, significant design work, earth works, civil works and construction had been completed.

In 2018 the Group resolved to resume development of the POX Hub utilising internally-generated funding, and stage 1 of the Malomir flotation plant, and full scale development of the POX project, recommenced in January 2017. Being the second of its kind in Russia the POX Hub is an integral part of the Group’s future plans in allowing for refractory gold production. Pokrovskiy provides an important strategic location for the plant, not only due to its on-site and regional infrastructure, but also its close proximity to Pioneer’s limestone deposit, limestone being a key ingredient for the pressure oxidation process to be used at the POX Hub. The POX project comprises of the following:

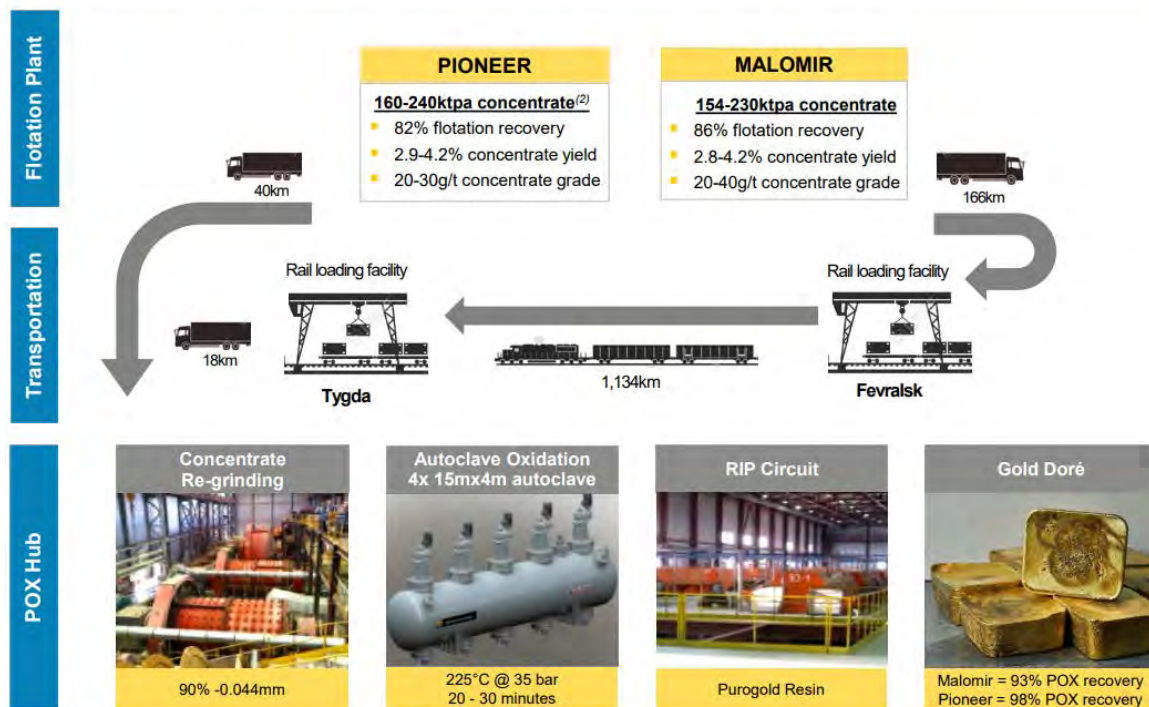
- POX Hub, which has been commissioned in the fourth quarter of 2018 and is now operational;
- the refractory ore flotation plant at the Malomir mine, the first stage of which has been commissioned in July 2018; and
- the refractory ore flotation plant at the Pioneer mine which is under construction and expected to be commissioned by the end of 2020.

Pokrovskiy POX Hub is also capable of processing concentrates sourced from third parties. In July 2019 the first batch of the third party concentrate was successfully processed at the POX Hub.

Set out below is an overview of the operation of the POX Hub.

The Processing of Refractory Gold Ores

The journey from refractory ore to gold doré (total recovery of c.80%⁽¹⁾)



Notes:

- (1) The figure for estimated total recovery is calculated for Malomir as 86% (conc. recovery) x 93% (POX recovery) = 80.0%. For Pioneer, calculated as 82% x 98% = 80.4%.
- (2) Concentrate tonnages represent fully expanded scenario with Stages 1 + 2 flotation plants completed at both sites. Pioneer concentrate tonnages vary depending on concentrate yield which is expected to range from 2.9% to 4.2% and 2.8% to 4.2% for Malomir.

Processing of Refractory Ore

The gold sector is increasingly unable to replace depleted oxide ounces through exploration. More than 50 per cent. of Russia's defined gold resources are refractory or partially refractory. The POX Hub enables Petropavlovsk to unlock the value embedded within the Group's refractory resources and within refractory resources in Russia and elsewhere, including Kazakhstan. Defined within Petropavlovsk's estimated 20.52Moz JORC Mineral Resources (8.21Moz JORC Ore Reserves as at 31 December 2018) is a 12.33Moz refractory gold JORC Resource (5.31Moz refractory JORC Ore Reserves), with under-explored resource upside within the licence areas.

The majority of the Group's defined economic refractory ounces are located within the Malomir licence area (approximately 74.5km²) and Pioneer licence areas (approximately 1,337km²). Both licences sit along or above the Mongolo-Okhotskiy mineralised belt. Refractory mineralisation at both Malomir and Pioneer is hosted mainly within carbonaceous schists and meta alevrolites. This same belt also hosts a number of large deposits, including Sukhoi Log and Teseevskoe-Baley to the west of the Amur region. Malomir (whose JORC Ore Reserves are estimated to be 95 per cent. refractory) is the only large refractory deposit within the north east part of the Amur region and remains largely under explored. The area is highly prospective for further resource growth due to favourable geology and large neighbouring alluvial deposits, many of which have potential for unidentified hard rock sources. In addition to its significant non refractory reserves, further refractory resource potential exists within the Pioneer licence, particularly along the contact between granitoid and Jurassic host rocks, south and south west of the Pioneer RIP plant. 76 per cent. of the Pioneer JORC Ore Reserves are refractory.

Refractory ore is first mined, crushed, ground and put through a flotation circuit at Malomir (and at Pioneer from Q4 2020). The resultant high grade flotation concentrate, equating to between 2 and 4 per cent. of the

mass of the original ore, will be dried and transported to the POX Hub for autoclave oxidation, neutralisation, filtration and then leached in the existing Pokrovskiy RIP circuit before doré smelting.

The establishment of the POX Hub allows the Group's mining operations to be significantly more flexible, as flotation concentrates from Malomir and Pioneer with varying metallurgic properties can be separately processed simultaneously, without compromising productivity or gold recovery. The final design also allowed for a further 30 per cent. expansion in processing capacity to approximately maximum 650ktpa, with the addition of two further autoclaves.

POX Hub location

The Pokrovskiy mine, in the Amur region, was identified as the optimal strategic location for the POX Hub, due to the regional and on site infrastructure. The Malomir mine is 670km from site and the Pioneer mine 40km from site via all-weather federal roads. The Trans-Siberian Railway is 10km from the site and Blagoveshchensk, the Russia-China trading hub of the Far East, is 450km from site via federal motorway. Furthermore, the region benefits from access to low cost hydropower from four regional hydroelectric stations (approximately 1.3GW capacity) and the availability of highly skilled labour.

Pokrovskiy has on-site infrastructure which was adopted and integrated into POX Hub. This existing infrastructure has a beneficial impact on capital costs, with buildings and equipment with a gross book value of approximately US\$90 million. By utilising the existing mine site, it is expected that there will be no increase in the environmental footprint.

Upside Potential

Exploration

The Group continues to explore the potential for further mine life extension and production expansion.

As described above, exploration work has identified several prospective satellite refractory targets at Malomir and Pioneer for further exploration work, including Ozhidaemoe.

There is also known refractory mineralisation within the Albyn licence holding.

Expansion

The autoclave plant was designed and constructed to allow for an additional two autoclaves to be installed when required, increasing processing capacity by 30 per cent. to approximately 650ktpa.

Ability to process third party concentrate

Given the scale of the POX Hub and the large amount of undeveloped refractory gold mineralisation in the Russian Far East, the POX Hub provides opportunities for the future growth of the Group beyond its own existing reserves and potential reserves by purchasing or processing third party concentrate for a fee.

Regional Licence Acquisition

The POX Hub also creates opportunities to treat ores from deposits available for acquisition in the Amur region, especially those with significant reserves and resources that were abandoned during the Soviet era due to a lack of processing technology.

9. Development of underground mines

In 2018 and in H1 2019, the Group continued the development of its underground mines at the Pioneer and Malomir sites.

At Pioneer, underground mining continued at North East Bakhmut zone (North East Bakhmut). Two further underground mines are planned at Andreevskaya and Nikolaevskaya. Andreevskaya mine should produce its first ore by the end of 2020. Construction of the Nikolaevskaya mine is currently envisaged after 2021, once the open pit mining there is completed.

At Malomir, the Group operates an underground mine at Quartzitovoye.

Both of the Group's operating mines are trackless; developed and mined by reputable mining contractors. Zvezdnyi and BSHPU. Ore is mined using sublevel open stoping with unconsolidated waste back fill, or without backfill where ground conditions permit.

Pioneer

The Group's North-East Bakhmut underground mine exploits the high-grade pay shoots remaining below the completed open pit. Pay shoots No2 and No3 are sufficiently explored to support JORC Mineral Resource and Ore Reserve estimates.

These two are included in the current mine plan. They both strike towards the north east dipping between 55 and 70 degrees towards the north west. Pay shoot No 3 is 165m in strike length. The explored vertical extent of the orebody remaining below the open pit is 280m. The Pay shoot is up to 15m wide.

It narrows with depth but appears to be open down dip.

The North East Bakhmut No 2 pay shoot is located c.550m southwest from No 3. It has a similar strike extension and thickness up to 25m and is also open down dip. There are further three pay shoots known at North East Bakhmut whose underground reserves are yet to be established: Nos 1, 4 and 5. Pay shoots Nos 1, 2 and 3 are non-refractory and can be processed through the existing RIP plant; Nos 4 and 5 are refractory and require flotation and POX.

As at 31 December 2018 Pioneer had 590koz of JORC Resources including 340koz of Proved Ore Reserves and Probable Ore Reserves for underground mining.

Production at North East Bakhmut started in 2017 at a lower grade but easily accessible "bridge zone" between North East Bakhmut pay shoot No 2 and No 3. During 2018 at North East Bakhmut, the access decline advanced from level +40 to – 50m allowing the first stopes to be mined from the high grade 1-7 orebody at North East Bakhmut 3. Work in 2018 was concentrated on the development of the main haulage decline and sublevels. The majority of 2018 production came from development ore.

Mining and mine development work at North East Bakhmut was hampered by challenging hydrogeological and geotechnical conditions. The main access and haulage decline hit exceptionally poor ground in Q1 2018; the position of the decline had to be changed away from the problematic area as the result and mine re-designed causing an initial delay.

In October 2018, mining in the first stopes of the main high-grade orebody at -5m level caused higher than expected water inflow into the +55 m sublevel and all work in the North East Bakhmut 3 area had to be stopped until the inflow was under control. While the mining team dealt with water at North East Bakhmut, efforts were re-orientated on developing access and ventilation declines on North East Bakhmut No 2 pay shoot. Ore mining at North East Bakhmut only resumed in January 2019.

A total of 4,397m of underground development was completed during 2018. A total of 115kt of ore grading 2.82g/t was mined from North East Bakhmut underground workings including 76kt@ 1.95 g/t of development ore and 39kt@ 4.55g/t of stope ore.

During first six months of 2019 2,231m of development were completed at NE Bakhmut underground mine, 99kt of ore grading 4.63g/t has been mined.

In the full year 2019 NE Bakhmut is expected to produce 211kt of ore with an average grade of 5.99g/t.

Malomir

Quartzitovoye underground mine at Malomir continued to exploit the high-grade ore body No55 and its smaller satellites. Ore body No55 has a strike length of 300m and an explored vertical extend of 215m (the remaining part below open pit). It has a north-south strike direction and sub-vertical dip. The ore body is open down dip.

As at 31 December 2018 Quartzitovoye had 170koz of JORC Resources including 102koz of Proved Ore Reserves and Probable Ore Reserves for underground mining.

Mining at Quartzitovoye started in 2017 and production was fully ramped up to 250ktpa of ore by the end of 2017. In 2018 production came from ore body No55 and a smaller ore body No49. In H1 2018, ore stoping took place at the central section of ore body No55 at sublevels 360-390m and at sublevel 245m in the south section. Later work moved to sublevel 285 in the northern section. As of year-end, central and northern sections were mined out above 285m. Ore body No49 was exploited between sublevels 330-350m.

The access and haulage decline advanced from 285m to 240m elevation providing a solid foundation for 2019 production. In 2018, a total of 6,910m of underground development was completed; 291kt of ore with an average grade 4.52g/t was mined. This included 165kt of development ore at an average grade 3.4g/t and 126kt of stoping ore grading 5.97g/t.

In the first six months of 2019 development was advancing from elevation of 240m to 150m, stope mining took place between sublevels 285m and 390m and later between 150m and 225m. A total of 2,136m of underground workings has been completed and 137kt of ore grading 7.0g/t has been mined. During the full year of 2019 Quartzitovoye is expected to produce 256kt of ore grading 6.24g/t.

10. Principal in-house Service Companies and Capabilities

Various in-house companies which specialise in a specific area of mine development operate within the Group and will continue to offer support for the exploration, development and mining needs of the Group in addition to conducting some work for third-parties.

Exploration Services

The Group has a specialist exploration subsidiary, Regis.

Regis provides the Group with a range of exploration services including early-stage prospecting, trenching and detailed reserve definition drilling. In the first six months of 2019 Regis completed 81,938m of drilling and 573,709m³ of trenching. They conducted approximately 113,000m of drilling and approximately 730,000m³ of trenching in 2018 and approximately 103,000m of drilling and approximately 1,500,000m³ of trenching in 2015, for other members of the Group and external clients.

In addition to this work, Regis uses computer modelling (Micromine®) to develop a clear understanding of the Group's exploration areas, define mineral resources and facilitate mine planning.

Laboratories

The Group, through one of its subsidiaries, operates a network of laboratories which support all of its analytical needs as well as conducting work for third parties. These laboratories have the capacity to conduct assaying, metallurgical testing and sample analysis to establish the gold grade, mineralogical composition and geotechnical properties of the ore and the most suitable method and parameters for cost-efficient extraction and processing. The Group's laboratories use a wide-range of analytical methods, including fire assaying, atomic absorption, spectroscopy and mineralogical analysis, x-ray crystallography and physical property determinations. The Group's laboratories also analyse samples to monitor discharge to water, air and soil, thus minimising the environmental impact of the Group's operation and ensuring each mine operates within Russian environmental legislation. On average, the Group's laboratories conduct 3,500 analysis tests a day and analyse approximately 1.2 million samples a year.

In-house engineering and R&D

PHM Engineering comprises a team of highly-qualified specialists undertaking technical studies which have supported the Group in the development of its projects. PHM Engineering is able to conduct strategic mine planning, detailed technical design, Feasibility Studies and facilitate technical permitting.

The Group also owns Irgiredmet, which the Group's Management considers to be one of the Russian Federation's leading R&D engineering and scientific consulting companies for mining projects. Irgiredmet typically works on more than 200 assignments annually for other members of the Group and external clients.

The research and development company Gidrometallurgiya has particular expertise with research into the processing of refractory ores. Gidrometallurgiya supports the development of the POX Hub, by providing

scientific research and testing into high-pressure and temperature autoclave technologies to process refractory ores.

The Group operates a unique metallurgical test plant, which enables it to replicate entire processing operations on a smaller scale, including the processing of refractory ores using pressure oxidation technology. The pilot test plant has a capacity of 500kg of ore an hour.

Construction

The Group operates a specialist construction company, Kapstroj. Kapstroj was established by the Group in 2005 and has since undertaken the majority of the Group's mine construction work, including the construction and expansion of the Pioneer, Malomir and Albyn mines.

11. IRC

As at September 2019, Petropavlovsk holds a 31.1 per cent interest in IRC, a producer and developer of industrial commodities, principally iron ore. Based in the Russian Far East, IRC benefits from low production costs and proximity to the Chinese border, China being the world's largest consumer of IRC's main product, iron ore. IRC was Petropavlovsk's non-precious metals division before it was listed on the Hong Kong Stock Exchange in late 2010. As part of the balance sheet optimisation, the Group also continues to assess ways to realise the value of its current interest in IRC.

IRC's assets

IRC's key mining assets are K&S, Kuranakh and Garinskoye:

- K&S. A producing iron ore mine which is located in the Jewish Autonomous Region (EAO) of the Russian Far East.
- Kuranakh. An iron ore/ilmenite concentrate mine located in the Amur region, Russian Far East. The board of IRC has authorised a strategic assessment of the option to restart the operation.
- Garinskoye. This project is at an advanced stage of exploration with probable Ore Reserves as well as Indicated and Inferred Mineral Resources Like Kuranakh, it is located in the Amur region.
- IRC's non-core mining assets – those that are not expected to contribute substantially to revenue in the short to medium term – are Bolshoi Seym, the Garinskoye Flanks and Kostenginskoye.
- Bolshoi Seym. An ilmenite deposit with Indicated and Inferred Mineral Resources, located North of Kuranakh.
- The Garinskoye Flanks. An area surrounding Garinskoye at an early stage of exploration.
- Kostenginskoye. An area 18km south of K&S at an early stage of exploration.

The Garinskoye Flanks and Kostenginskoye are yet to have JORC Code compliant Mineral Resources and Ore Reserves.

In addition to these assets, IRC also operates:

- Giproruda. 70 per cent. owned by IRC and based in St Petersburg, it is a technical mining and research consultancy.
- SRP. A steel slag reprocessing plant located in North East China. It is a joint venture between IRC, which owns 46 per cent., and one of its largest iron ore customers.

As at 30 June 2019, IRC's total debt outstanding was approximately US\$233.8 million and its unaudited cash balance was approximately US\$19.3 million.

Operational performance in 2018 and the first six months of 2019

K&S

During 2018, Phase One of the K&S development commenced final hot commissioning and in the last six months of 2018 entered a trial production phase. This phase of the development is expected to be able to produce 3.2 million tonnes of iron ore concentrate with a 65 per cent. iron (Fe) content, once completed and at full capacity. At the end of 2018, it had produced over 160,000 tonnes of iron ore concentrate.

During the first six months of 2019, K&S produced 1,167kt of concentrate (up 450% compared to the first nine months of 2018), with sales for the period of 1,152kt (up 376% compared to first nine months of 2018). The plant is currently operating at a steady capacity of around 80%. During the three months ended on 30 June 2019, IRC experienced some delays in the transportation of products from K&S to customers due to congestion of the Russian railway system in part due to the unusually heavy torrential rain in the region.

In December 2018, IRC announced the agreement of a US\$240 million facility with Gazprombank to repay in full K&S's outstanding debt with ICBC of US\$169 million, borrowed under K&S's project finance facility. The New Facility will mature in 2026, consisting of two tranches. The principal under the first tranche amounts to US\$160 million with interest charged at 5.7% above LIBOR per annum which is repayable in equal quarterly payments during the facility term. The principal under the second tranche amounts to US\$80 million with interest charged at 7.7% above LIBOR per annum and is repayable at the end of the facility term.

On 19 March 2019, the refinancing of the ICBC loan has been successfully completed and the facility has been drawn down and used to repay the outstanding ICBC facility of US\$169 million; two bridge loans advanced by the Company to IRC, amounting to c.US\$57 million; and will enable full payment of fees of c.US\$6 million owing to Petropavlovsk in relation to the guarantee provided for the ICBC facility with a further US\$5 million payable no later than 31 March 2020.

Kuranakh

Kuranakh was moved to care and maintenance in the beginning of 2018 in response to a difficult operating environment and remains on a care and maintenance basis. IRC considered the process to be satisfactory throughout 2018 with only minimal costs necessary to maintain security and equipment.

During 2018, the annual sales volume was 219,352 tonnes for the remaining iron ore concentrate, and the sales volume of ilmenite concentrate was 60,044 tonnes. The segmental revenue of the mine was US\$15.6 million.

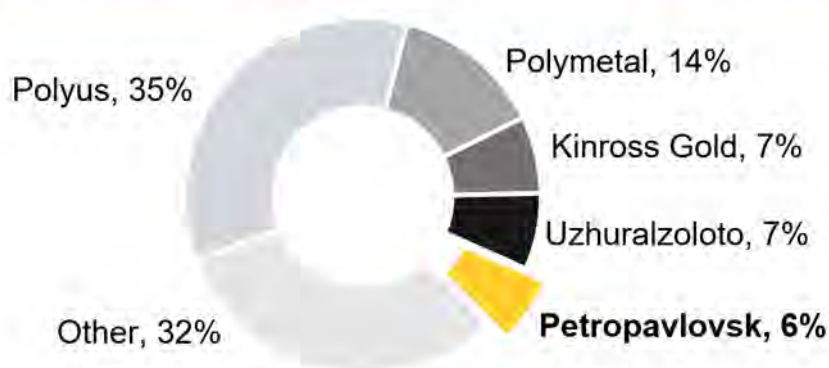
Garinskoye

Garinskoye remains an attractive, low cost, large scale, DSO style greenfield project. IRC did not develop it in 2018 or in the first six months of 2019 due to capital constraints, but continues to monitor market conditions for future opportunities.

12. Competitive Environment and Cost Profile

In 2018, Petropavlovsk was one of the largest producers of gold in Russia. The chart below sets out the gold mining production in Russia in 2018:

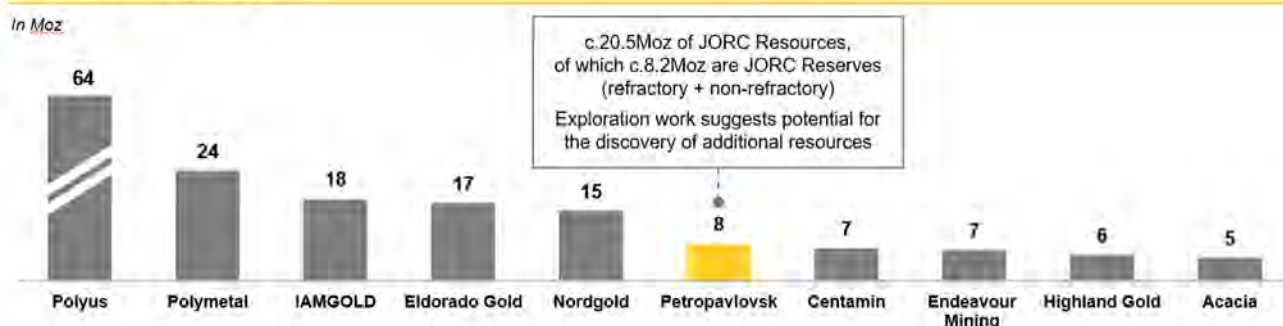
FY 2018 Russian gold mine production



Source: the Russian Union of Gold Producers

The chart below sets out some of the largest gold producers by reserves:

P&P Reserves (2018) ⁽¹⁾



The chart below sets out some of the largest gold producers by life of mine ⁽³⁾

Average mine life ⁽²⁾



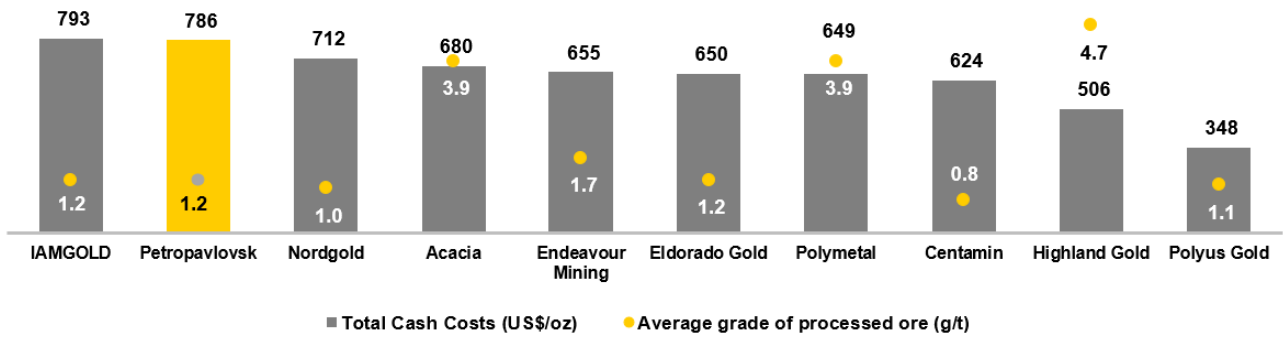
(1) Source: company data.

(2) Source: company data (calculated as Proved and Probable gold reserves as of year end 2018 divided by 2018 gold production; does not account for any potential future developments).

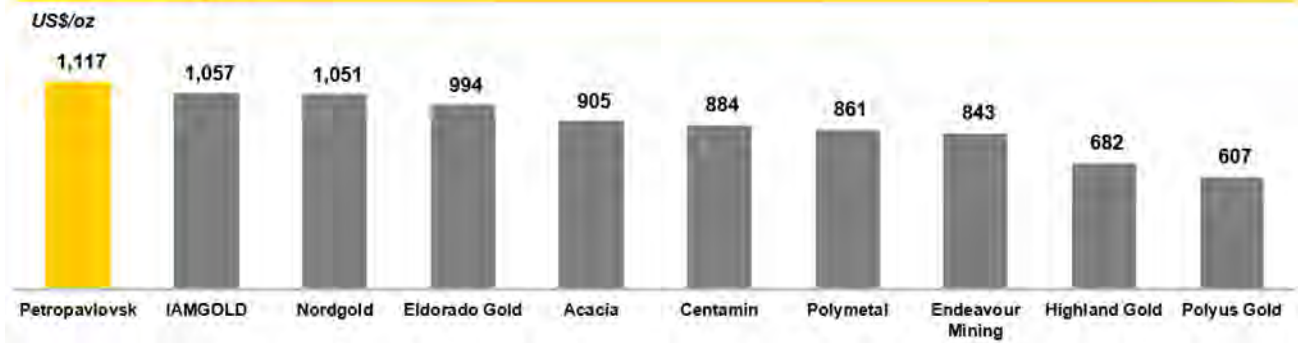
(3) Calculated as Proved and Probable gold reserves (including refractory reserves) as at year end 2018 divided by 2018 gold production. Based on the Group's current mining plan (including implementation of the POX project and planned underground mining), the Group's current gold mining projects each have an estimated mine life of at least 15 years.

The following charts show comparative cost information of certain gold producers

Total Cash Costs⁽¹⁾



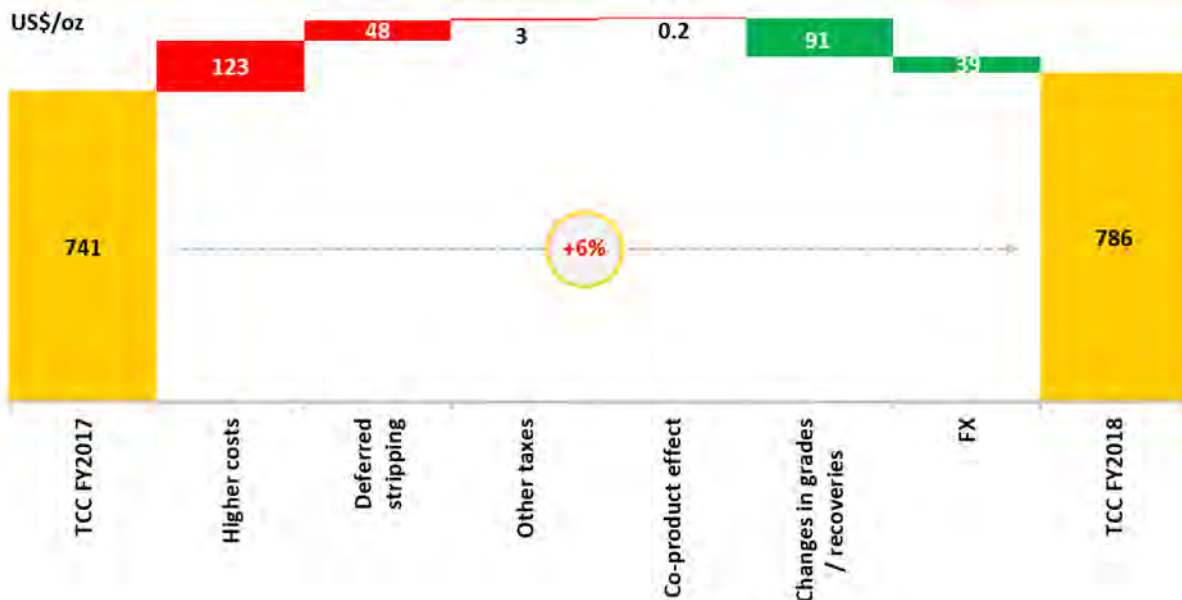
All-in Sustaining Costs⁽¹⁾



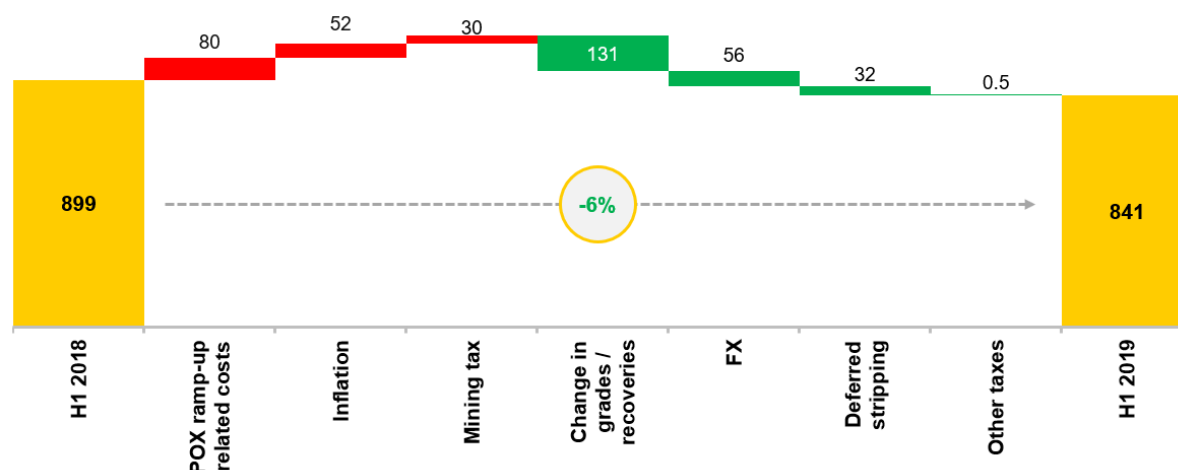
(1) Source: company data

TCC bridges based on analysis of TCC evolution

Total Cash Costs FY 2017 vs FY 2018



Total Cash Costs H1 2018 vs H1 2019



Petropavlovsk's main competitors in Russia are Polyus Gold, the largest gold mining company in Russia, and Polymetal International, a significant producer of gold in Russia. However, neither of these companies have significant operations in the Group's area of focus, the Amur region.

The Group considers its main competition to be for capital, a skilled workforce, assets and exploration and development opportunities.

The Group seeks to retain and, where appropriate, attract a skilled workforce. Succession planning is an important item on the agendas of both the Nomination Committee and the Board. Reviews of reward structures and incentive plans are carried out as appropriate in order to attract, retain and incentivise key employees.

13. Customers and Sales

Under Russian law, the Federal Ministry of Finance has a preferential right to purchase all refined gold and silver from each Russian producer. Regional authorities also have such preferential rights in relation to producers in their respective regions, but to date only a limited number of regional authorities have actually exercised their rights in this regard. In practice, unless waivers of these preferential rights are granted by such authorities annually, the producer may be required to sell up to all of its refined gold or silver to such authorities as and when demanded by them. Such sales are to be made at international prices for the refined gold or silver, as the case may be. Subject to the preferential rights of the Federal Ministry of Finance and the regional authorities, authorised Russian banks are also permitted to buy gold and silver bars from the producer. Alternatively, subject to such preferential rights, a producer of gold and silver may export its refined precious metals or it may engage an authorised Russian bank, acting as its agent, to do so on its behalf in return for a commission.

In recent years, producers have not been required to sell much if any of their gold and silver to the Russian State and such regional authorities under these preferential rights. The Company has submitted the required offers to the Federal Ministry of Finance and sold all of its gold production to Sberbank and VTB.

During the years ended 31 December 2018 and 2017, the Group generated revenues from the sales of gold to Russian banks for Russian domestic sales of gold. Included in gold sales revenue for the year ended 31 December 2018 are revenues of US\$451 million which arose from sales of gold to two banks that individually accounted for more than 10% of the Group's revenue, namely US\$368 million to Sberbank of Russia and US\$83 million to Gazprombank (2017: US\$555 million which arose from sales of gold to two banks that individually accounted for more than 10% of the Group's revenue, namely US\$414 million to Sberbank of Russia and US\$142 million to VTB. The proportion of Group revenue of each bank may vary from year to year depending on commercial terms agreed with each bank. Management considers there is no major customer concentration risk due to high liquidity inherent to gold as a commodity.

The Group's revenue by geographical location for the years ended 31 December 2018, 2017 and 2016 is set out below:

| | 2018 | 2017 | 2016 |
|----------------------|----------------|----------------|----------------|
| | (in US\$'000) | | |
| Russia and CIS | 499,716 | 587,361 | 540,606 |
| Other | 59 | 59 | 78 |
| Total | 499,775 | 587,420 | 540,684 |

The Group's revenue by operating segment for the years ended 31 December 2018, 2017 and 2016 is set out below:

| Segment | 2018 | 2017 | 2016 |
|---------------------------|----------------|----------------|----------------|
| | (in US\$'000) | | |
| Pioneer | 171,614 | 203,135 | 164,472 |
| Pokrovskiy | 8,202 | 40,808 | 46,967 |
| Malomir | 101,606 | 83,140 | 67,208 |
| Albyn | 189,295 | 229,100 | 211,362 |
| Corporate and other | 29,058 | 31,237 | 50,675 |
| Total | 499,775 | 587,420 | 540,684 |

The majority of the Group's revenue is derived from the sale of refined gold. The sale of gold is classified as a single performance obligation and revenue is recognised at a point in time when control has passed to the customer, as specified in individual sales contracts. The sales price is determined with reference to LBMA fixing at the time of sale. Silver is a co-product of gold production. Revenue from the sales of silver is recognised in revenue. Sales of silver is classified as a single performance obligation and revenue is recognised at a point in time when control has passed to the customer, as specified in individual sales contracts.

Other revenue is recognised as follows: Engineering contracts: revenue under each engineering contract is classified as a single performance obligation and revenue is recognised over time based on percentage completion applied to the contract price; Flotation concentrate: the sale of flotation concentrate is classified as a single performance obligation and revenue is recognised at a point in time when control has passed to the customer, as specified in individual sales contracts; Sales of other goods represent the procurement of materials, consumables and equipment for third parties. Revenue from sales of other goods is classified as a single performance obligation and revenue is recognised at a point in time when control has passed to the customer; Other services: revenue from other services is classified as a single performance obligation and revenue is recognised over time during the term of the relevant contract; and Rental income from operating leases is classified as a single performance obligation and revenue is recognised over time during the term of the relevant lease.

14. Employees

Petropavlovsk employed an average of 8,681 employees in the year ended 31 December 2018, compared to 8,519 employees in the year ended 31 December 2017 and 8,064 employees in the year ended 31 December 2016. A breakdown of employees by segment is set out in the following chart:

| Employees | 2018 | 2017 | 2016 |
|---------------------------|--------------|--------------|--------------|
| Pioneer | 2,711 | 1,670 | 1,658 |
| Pokrovskiy | — | 990 | 964 |
| Malomir | 1,138 | 1,021 | 926 |
| Albyn | 1,485 | 1,535 | 1,450 |
| Corporate and other | 3,347 | 3,303 | 3,066 |
| Total | 8,681 | 8,519 | 8,064 |

As at 31 December 2018, 2,187 employees were female, representing c.25% of the Group's total workforce. Petropavlovsk recognises the socioeconomic influence it has as a major employer and taxpayer in the Amur region. The Group understands that its employees are a key asset and invests in them accordingly, leveraging their expertise and providing continuous development. The Pokrovskiy Mining College, which aims to offer employment opportunities to graduates, was established in 2008 to provide future employees with specialised training, tailored to the needs of the Group. Since its inception, the college has trained more than 4,000 people and offers a broad range of different courses.

The Group provides equal opportunities and pay in all aspects of employment, regardless of gender or background, as required by both Russian and UK legislation, and women have the opportunity to reach the highest levels of senior management.

The Group complies with Russian and UK employment legislation (as applicable). In Russia, the Group operates in accordance with the Constitution of the Russian Federation, which details the rights and freedoms of citizens.

At the mines, shift patterns help employees to maintain their family commitments whilst ensuring operations can run throughout the year. Employees work to shift patterns of a fortnight, month, or 45 days. Once each shift is complete, employees have the same amount of time off work. Commuting is impractical due to the remote location of the mines. Employees stay in purpose built accommodation on site, with recreational facilities and modern conveniences.

15. Environmental matters

Petropavlovsk is committed to effectively managing environmental issues, upholding the highest standards as required by Russian law, and operating in line with international best practice.

In 2016, all Group mines adopted the Declarations on the Technical Regulation TR TS 030/2012 concerning lubricants, oils and speciality fluids, based on the Customs Union agreement (the Russian Federation, Kazakhstan, Belarus), following ratification and introduction into Russian legislation. These declarations were adopted at all of the Group's sites and are aimed at minimising the potential negative effects of such materials. All Group mines currently have ISO 14001-2017 certification which will be valid until 2020.

The Group requires licences and permits from Russian authorities for some operational activities (mining and exploration, construction, handling hazardous waste and using local water supplies). These may detail limits and conditions to help protect the environment. The Group must also draw up environmental impact assessments for mining project permits to be considered, in line with Russian legislation.

The environment is monitored throughout the life of each mine to identify any impact its activities might have on the surrounding ecosystem. Data is collected according to state approved schedules and samples analysed in state accredited laboratories.

All Group operations hold licences with water usage quotas detailing where water may or may not be used from. Pit water is purified before it is discharged and local water is continuously monitored. The Group's RIP plants use recycled water, reducing demand from local sources.

Waste management programmes are agreed with regulatory authorities in compliance with Russian legislation. The programmes detail standards and limits on what can be produced or disposed of. Data on waste is collected, logged and sent to regulatory authorities for review.

The Group is governed by laws designed to limit industrial impact on ecosystems. Land may only be cleared within the limits of licences and permits, for instance, and in designated areas it is forbidden to fish, hunt, poach or drive vehicles.

Petropavlovsk uses purification systems, anti-dust equipment and other protective facilities to prevent harmful substances entering the atmosphere. Gas purification equipment is at all emission points and is monitored on a regular basis. Air quality monitoring includes carbon monoxide and dust emissions and is performed according to mining and environmental monitoring programmes, which are agreed in advance with federal authorities.

Petropavlovsk monitors its approach to the handling, managing and monitoring of cyanide due to its hazardous potential. All associated risks are identified: cyanide levels in tailings, air, soil, surface and ground waters are monitored and strictly controlled. All facilities where cyanide is used in the process are in full compliance with Russian legislations, and environmental monitoring results are provided to the authorities regularly. The Company continuously reviews its approach to cyanide management and implements the highest safety levels at all its facilities.

Monitoring greenhouse gas emissions enables the Group to look for opportunities to minimize its carbon footprint. The Group's emissions principally come from the following sources – diesel, kerosene, benzene and coal.

As shown in the following table, the Group achieved a reduction in emissions in 2018 compared to 2017.

| Emissions | 2018 | 2017 | 2018 vs. 2017 |
|--|-------------|-------------|----------------------|
| Combustion of fuel and operation of facilities (tonnes of CO ₂ e) | 209,043 | 218,502 | 4% |
| Electricity, heat, steam and cooling purchased for own use (tonnes of CO ₂ e) | 218,854 | 227,305 | 4% |
| Total emissions per ounce of gold produced | 1.01 | 1.01 | 0% |

16. Health and Safety

The Group's health and safety team aims to maintain a safe environment at all the Group's operations, enforcing compliance with local legislation and seeking to exceed these requirements by implementing global best practices. The Group maintains high standards of training and in raising awareness and introducing enhanced monitoring tools to ensure a safe environment for employees. One of the key indicators that the Group relies upon to identify trends and areas of focus is the Lost Time Injury Frequency Rate (**LTIFR**). This is an integral part of a complex system covering a database of statistics, training programmes and operating parameters used for regular analysis and control. These systems should ensure that the Group operates in compliance with Russian legislation and provides the Group with a basis for continuous improvement.

The Lost-Time Injury Frequency Rate (LTIFR) for 2018 of 2.52 accidents per 1 million man-hours worked compared with a LTIFR of 3.11 in 2017. Regrettably this included one fatality, a road traffic accident involving an employee at Albyn who was being transported to his place of work from his accommodation at the time of the incident.. In the six months ended 30 June 2019, Group operations recorded a LTIFR of 1.29 accidents per million man hours worked.

The Group continues to develop its health and safety procedures, and is aiming for a low LTIFR and zero fatalities with enhanced reporting requirements and accountability, disciplinary procedures, general and specialist training and personnel safety meetings. The Group has successfully merged the Russian three stage reporting system with global best practices to reduce the probability of accidents by identifying and removing potential dangers.

There is rigorous control and monitoring of compliance with the Group's health and safety regulations to ensure a safe environment is promoted.

Health & Safety targets are included in the annual bonus scheme for Executive Directors and the Executive Committee. The Remuneration Committee may also consider the Group's health and safety performance during the year when considering bonus plan payments.

17. Summary of the Group's Key Subsoil Licences

The Group's policy is generally to apply to renew its prospective and/or producing licences by extension. Historically, applications for renewal have been submitted approximately six months prior to the expiry of the relevant licence.

The Subsoil Law does not provide for an automatic extension of a production mining licence to its current holder, but to date the members of the Group have, overall, been successful in obtaining extensions where they have applied for them. To apply to the licensing authority for the extension of an existing licence, the current holder must have complied with the terms and conditions of the licence. No assurances can be given that any of the Group's licences will be in a position to achieve renewal by way of extension.

This section sets out an overview of the Group's effective key subsoil licences and selected licence agreement terms:

| No | Name of deposit | End use | Area | Registration date | Valid until |
|---------------------------|---|--|------------------------|-------------------|-------------|
| Pokrovskiy Rudnik | | | | | |
| 1 | Sergeevskoye ore field (BLG 00900 BR) | Geological survey, including prospecting and evaluation, exploration and mining of minerals, including use of wastes associated with mining and mineral processing | 90.87 km ² | 06/05/1999 | 01/09/2020 |
| 2 | Pioneer ore occurrence and its Flanks (BLG 01181 BR) | Geological survey, including prospecting and evaluation, exploration and mining of minerals, including use of wastes associated with mining and mineral processing | 52.0 km ² | 15/01/2001 | 31/12/2024 |
| 3 | Pokrovskoye gold ore deposit (BLG 10590 BE) | Exploration and mining of minerals | 4.13 km ² | 20/02/1998 | 31/12/2021 |
| 4 | Alkagan-Adamovskaya ore prospective area (BLG 02191 BR) | Geological survey, exploration and mining of hard rock gold | 472.8 km ² | 14/07/2010 | 31/12/2035 |
| 5 | Sosnovaya ore prospective area (BLG 02825 BR) | Geological survey, including prospecting and evaluation, exploration and mining of minerals, including use of wastes associated with mining and mineral processing | 754.81 km ² | 21/01/2016 | 31/12/2040 |
| Malomirskiy Rudnik | | | | | |
| 1 | Malomirskoye gold ore deposit (BLG 14902 BE) | Exploration and mining of minerals | 40.0 km ² | 19/04/2010 | 15/04/2030 |
| 2 | Magnetitoviy ore occurrence (BLG 02561 BR) | Geological survey, including prospecting and evaluation, exploration and mining of minerals, including use of wastes associated with mining and mineral processing | 34.5 km ² | 03/09/2013 | 31/12/2033 |
| Albyskiy Rudmik | | | | | |
| 1 | Albyn ore prospective area (BLG 02308 BR) | Geological survey, exploration and mining of minerals | 40.0 km ² | 25/07/2011 | 31/12/2030 |
| Temj | | | | | |
| 1 | Elginskoye ore field (BLG 02225 BR) | Geological survey, exploration and mining of hard rock gold | 325.0 km ² | 02/11/2010 | 31/12/2035 |
| 2 | Afanasievskaya prospective ore area (BLG 02491 BR) | Geological survey, exploration and mining of minerals | 688.1 km ² | 18/01/2013 | 31/12/2037 |

18. Board of Directors, Senior Management and Corporate Governance

As at the date of this Prospectus, the Company is not aware of any actual or potential conflict of interests between the duties of any of the members of the Board of the Company and their respective private interests.

18.1 Directors

The following table lists the names, positions and ages of the Company's Directors:

| Name | Position | Age |
|---------------------|------------------------------------|-----|
| Sir Roderic Lyne | Non-Executive Chairman | 71 |
| Dr Pavel Maslovskiy | Chief Executive Officer | 62 |
| Harry Kenyon-Slaney | Senior Independent Director | 58 |
| James W. Cameron Jr | Independent Non-Executive Director | 71 |
| Damien Hackett | Independent Non-Executive Director | 71 |
| Robert Jenkins | Independent Non-Executive Director | 65 |

The business address of each of the Directors is: 11 Grosvenor Place, London SW1X 7HH, United Kingdom.

Sir Roderic Lyne – Non-Executive Chairman

Sir Roderic Lyne was first appointed to the Board in April 2009 upon the Company's merger with Aricom PLC. He was appointed as the Senior Independent Director in November 2015. He was also Chairman of the Company's Remuneration and HSE Committees. Sir Roderic continued to act in such a capacity until June 2016, when he retired as a Director. He was subsequently appointed as Chairman of Petropavlovsk following the Company's AGM on 29 June 2018 for a term of three years. From his date of appointment through 31 December 2018, Sir Roderic received remuneration totalling £75,577.

Sir Roderic was previously a Non-Executive Director of Aricom PLC, a position he held from October 2006 until April 2009, and a Director of the Russo-British Chamber of Commerce from April 2006 to July 2009. He served as British Ambassador to Russia from January 2000 until August 2004. Sir Roderic speaks Russian.

He is a former Non-Executive Director of Accor, Senior Adviser successively to HSBC, BP and JP Morgan, Deputy Chairman of the Council of the Royal Institute of International Affairs (Chatham House), and Chairman of the Governors of Kingston University. He was a member of the Committee of the Iraq Inquiry and was appointed to the Privy Council in 2009.

Sir Roderic is Chairman of the Company's Nominations Committee.

Dr Pavel Maslovskiy – Chief Executive Officer, Executive Director

Dr Pavel Maslovskiy co-founded the Company in 1994 together with former Chairman Peter Hambro. He held directorships within the Group – including the position of Chief Executive Officer, from the Group's inception in 1994 until December 2011, when he relinquished all remunerated positions following his appointment as a Senator-Member of the Federation Council (Upper House of the Russian Parliament).

Dr Maslovskiy retired as a Senator-Member in October 2014 and was re-appointed as Chief Executive Officer in November 2014, having acted as Honorary President from December 2011. He resigned from the Board and from the position of CEO in July 2017, and was reappointed following the Company's AGM on 29 June 2018, for an indefinite term with a twelve-month notice period from both the Company and Dr Maslovskiy. For the year ended 31 December 2018, Dr Maslovskiy received remuneration totalling £654,671.

Prior to embarking on his business career, Dr Maslovskiy was an Associate Professor of Metallurgy at the Moscow Aircraft Technology Institute.

Dr Maslovskiy is a member of the Company's Nominations and Safety, Sustainability & Workforce Committees and Chairman of the Executive Committee.

Mr Harry Kenyon-Slaney – Senior Independent Non-Executive Director

Mr Harry Kenyon-Slaney was appointed as an Independent Non-Executive Director of Petropavlovsk PLC on 7 November 2018 for a term of three years. He was appointed as Senior Independent Director on 23 April 2019. For the year ended 31 December 2018, Mr Kenyon-Slaney received remuneration totalling £11,346.

Mr Kenyon-Slaney is currently Non-Executive Chairman of Gem Diamonds Limited, Non-Executive Director of Sibanye Gold Limited (trading as Sibanye-Stillwater) and a senior advisor to McKinsey & Co.

Mr Kenyon-Slaney has over 33 years of experience in the mining industry, principally with Rio Tinto. He is a geologist by training and his experience spans operations, marketing, projects, finance and business development. Until 2015, Mr Kenyon-Slaney was a member of the Group Executive committee of Rio Tinto where he held the roles of CEO of Energy, and before that CEO of Diamonds and Minerals. Prior to this he led Rio Tinto's global titanium dioxide business, was CEO of Rio Tinto's listed subsidiary, Energy Resources of Australia Ltd, was GM Operations at Palabora Mining Company in South Africa and held senior marketing roles in copper, uranium and industrial minerals.

Mr Kenyon-Slaney began his career as an underground geologist with Anglo American on the gold mines in South Africa. Mr Kenyon-Slaney has a BSc Geology from Southampton University.

Mr Kenyon-Slaney is Chairman of the Company's Safety, Sustainability & Workforce Committee and a member of the Company's Audit and Nominations Committees.

Mr James W. Cameron Jr. - Independent Non-Executive Director

Mr James Cameron Jr. was appointed as an Independent Non-Executive Director of Petropavlovsk PLC on 15 October 2018 for a term of three years. For the year ended 31 December 2018, Mr Cameron received remuneration totalling £15,865.

Mr Cameron, a US qualified lawyer, has extensive international experience, providing expertise and consulting services for companies particularly in the natural resources sector within Russia and the former Soviet Union, since 1988. He was formerly Founder, CEO and Chairman of Occupational Urgent Care Systems Inc., a company traded on the NASDAQ National Market System until it was sold in 1992.

Mr Cameron is a member of the Company's Audit and Remuneration Committees.

Mr Damien Hackett - Independent Non-Executive Director

Mr Damien Hackett was appointed as an Independent Non-Executive Director of Petropavlovsk PLC on 15 October 2018 for a term of three years. For the year ended 31 December 2018, Mr Hackett received remuneration totalling £15,865.

Mr Hackett has 26 years critical investment research experience covering globally diverse mining companies, initially as Global Head of Mining Research with Credit Suisse – First Boston in Australia, following which he held similar roles with Credit Suisse and Canaccord Genuity in London. Latterly he was Vice Chairman Mining Advisory at Canaccord Genuity responsible for developing investment themes in metals and mining across North America, Europe, Russia and Australia.

Mr Hackett's early career in resources was grounded in 4 years of exploration, resource development and mining in Western Australia followed by 7 years in mineral exploration and economic assessment in Saudi Arabia. Mr Hackett holds a Bachelor of Science from the Australian National University in Canberra.

Mr Hackett is a member of the Company's Audit, Remuneration, Nominations and Safety, Sustainability & Workforce Committees.

Mr Robert Jenkins – Independent Non-Executive Director

Mr Robert Jenkins was originally appointed as an Independent Non-Executive Director in April 2015 and as a Senior Non-Executive Director in June 2016, a position he held until June 2017. He was reappointed to the Board as an Independent Non-Executive Director following the Company's AGM on 29 June 2018 for a term of three years. For the year ended 31 December 2018, Mr Jenkins received remuneration totalling £42,827.

Mr Jenkins is a Chartered Accountant, has an MA in Modern History and Modern Languages from Oxford University, and is a fluent Russian speaker. He has 25 years of Russia-related investment and natural resources experience.

Mr Jenkins is currently a Non-Executive Director of Brazilian Nickel PLC and of Oppenheimer Resources, a Luxembourg-registered investment vehicle engaged in financing oil production in the USA.

Mr Jenkins was formerly Finance Director of AIM listed Eurasia Mining PLC, a Russia-focused mining exploration company, and Chief Financial Officer of Urals Energy, a Russia-based oil exploration and production company. He was formerly Senior Independent Director and Audit Committee Chairman of Ruspetro Plc, a Russia-focused independent oil and gas production company, and Audit Committee Chairman of Toledo Mining Corporation PLC, which is engaged in nickel ore production in the Philippines.

Mr Jenkins is Chairman of the Company's Audit and Remuneration Committees and a member of the Nominations Committee.

Remuneration

If the Company terminates the employment of an Executive Director with immediate effect, in the absence of a breach of the service agreement by the Director, a payment in lieu of notice may be made. This may include base salary, pension and benefits. Benefits may also include, but are not limited to, legal fees. Executive Directors' service contracts may be terminated without notice for certain events, such as gross misconduct. No payment or compensation beyond sums accrued up to the date of termination will be made if such an event occurs.

18.2 Past Directorships

In addition to their directorships of the Company and other members of the group, the Directors and Senior Managers hold, or have held, the following directorships and are or were members of the following *partnerships*, within the past five years:

| <u>Name</u> | <u>Current directorships/partnerships</u> | <u>Past directorships/partnerships</u> |
|----------------------|--|--|
| Sir Roderic Lyne | | Petropavlovsk PLC JP Morgan Bank International LLC |
| Dr Pavel Maslovskiy | XAU Resources Inc. | Petropavlovsk PLC |
| Harry Kenyon-Slaney | Gem Diamonds Limited Sibayne Gold Limited (trading as Sibanye-Stillwater) Schenck Process AG Lime Tree Partners Limited Whitebeam Partners Limited | BBRG Holding (UK) Ltd World Coal Association |
| James W. Cameron Jr | Cameron & Associates | |
| Damien Hackett | UrAmerica Limited WRV Management Company | Themis Mining & Financial Ltd |
| Robert Jenkins | A.J. Poels & Company Limited Devereux Lane Management Company Limited The Packing House Products Company, Limited Northstar Corporate Finance Oy Northstar Holdings Limited Northstar Capital Advisors Limited Oppenheimer Resources SICAV-SIF | Petropavlovsk PLC Griffins Meat Company Limited Ruspetro Limited |
| Dr Alya Samokhvalova | Russo-British Chamber of Commerce | Petropavlovsk PLC |

18.3 Directors' Declarations

- (a) As at the date of this Prospectus, save as described in (b) below, none of the Directors has at any time within at least the past five years:
- (i) had any convictions in relation to fraudulent offences;
 - (ii) been a director or senior manager of any company at the time of or within a 12-month period preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with such company's creditors generally or any class of creditors of such company;
 - (iii) been subject to any official public incrimination and/or sanction by any statutory or regulatory authority or regulatory body (including designated professional bodies);
 - (iv) been disqualified by a court from acting in the management or conduct of the affairs of any issuer; or
 - (v) been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of any issuer.

(b) In respect of (a) above:

- (i) Mr Damien Hackett was a director of Themis Mining & Financial Ltd when it was dissolved (following a voluntary strike off). To the best of Mr Hackett's knowledge, Themis Mining & Financial Ltd was neither insolvent nor owed any amounts to creditors at the time of its dissolution.
- (ii) Mr Robert Jenkins was a director of Griffins Meat Company Limited when it was dissolved (following a voluntary strike off). To the best of Mr Jenkins's knowledge, Griffins Meat Company Limited was neither insolvent nor owed any amounts to creditors at the time of its dissolution.

18.4 Corporate Governance

UK Corporate Governance Code

The UK Corporate Governance Code, published by the Financial Reporting Council in July 2018 (the “**UK Corporate Governance Code**”), recommends that the Board of a company with a premium listing should include an appropriate combination of executive and non-executive directors (and in particular non-executive directors), with independent non-executive directors (excluding the Chairman) comprising at least one-half of the board.

The Directors support high standards of corporate governance. The Company is currently in compliance with the UK Corporate Governance Code.

The Board comprises six individuals, being the Independent Non-Executive Chairman, one Executive Director and four Independent Non-Executive Directors.

Roles and Responsibilities of the Board

The Board is responsible to Shareholders for the long-term sustainable success of the Company. The long-term strategy, set by the Board, is to continue generating cash flows by producing gold from non-refractory material at existing mines and refractory material by using the POX Hub. The Board's role is to ensure that the Company follows this strategy and that a financial and operational structure is in place to enable the Group to meet its goals.

The Board is also responsible for the Group's system of corporate governance and is ultimately responsible for the Group's activities, strategy, risk management and financial performance. The Company is led and controlled by the Board, chaired by Sir Roderic Lyne, Independent Non-Executive Chairman.

The Chairman and the Non-Executive Directors are deemed to be independent by the Board. Certain responsibilities, including carrying on the day-to-day management of the Group, are delegated to the Executive Director and the Senior Management.

18.5 Board Committees

As envisaged by the UK Corporate Governance Code, the Board has established a number of Committees and provides sufficient resources to enable them to undertake their duties.

The principal Committees are the Audit and Remuneration Committees. Both Committees comprise solely of Independent Non-Executive Directors.

Mr Jenkins is Chairman of the Audit Committee and is joined on the Audit Committee by Messrs Cameron, Hackett and Kenyon-Slaney. The Audit Committee reviews the audit report on the interim review and full year audit, reviews appropriateness of accounting standards, oversees relationships with internal and external auditors, reviews the financial risks, and reviews internal audit plans.

The Remuneration Committee comprises Mr Jenkins, Committee Chair and Messrs Cameron and Hackett. The Remuneration Committee determines and agrees with the Board the format and broad policy for the remuneration of the Company Chairman, Executive Directors, members of the Executive Committee and the

Company Secretary. The Remuneration Committee also reviews the ongoing appropriateness of the policy and ensures that the Company maintains contact with Shareholders regarding the Company's remuneration policy.

The Board also operates a Nominations Committee which comprises of a majority of Independent Non-Executive directors, in accordance with the UK Corporate Governance Code. Sir Roderic Lyne acts as Chair of the Nominations Committee. Other members comprise Dr Pavel Maslovskiy, Chief Executive Officer and Messrs Hackett, Jenkins and Kenyon-Slaney.

In addition the Company has a Safety, Sustainability & Workforce Committee which is chaired by Mr Kenyon-Slaney. Other members comprise Dr Pavel Maslovskiy, Chief Executive Officer, Mr Hackett, Independent Non-Executive Director and Dr Alya Samokhvalova, Deputy CEO.

18.6 Senior Management

In addition to Dr Pavel Maslovskiy, Chief Executive Officer, the following Senior Managers are considered relevant to establishing that Petropavlovsk has the appropriate expertise and experience for the management of its business:

| Name | Position | Age |
|-------------------------------|-----------------------------------|------------|
| Alexey Dubynin | Chief Financial Officer | 41 |
| Dr Alfiya (Alya) Samokhvalova | Deputy Chief Executive Officer | 52 |
| Sergey Ermolenko | General Director MC Petropavlovsk | 65 |
| Mikhail Safray | Senior Legal Adviser | 38 |
| Nikolai Vlasov | Group Chief Geologist | 75 |

The business address of Dr Alya Samokhvalova is 11 Grosvenor Place, London SW1X 7HH.

The business address of Messrs Alexey Dubynin and Mikhail Safray is 13 Rubtsov Pereulok, Moscow, Russia, 105082.

The business address of Messrs Sergey Ermolenko and Nikolai Vlasov is 140/1, Lenina Street, Blagoveshchensk, Amur Region, Russia, 675000.

The management, expertise and experience of each of these individuals, all of whom are members of the Executive Committee, is set out below:

Mr Alexey Dubynin – Chief Financial Officer

Mr Alexey Dubynin was appointed as Chief Financial Officer in July 2018.

Mr Dubynin has been employed with the Company since 2012, initially as Group Head of Internal Audit, being appointed as Group Financial Controller in April 2013 prior to his promotion as Chief Financial Officer.

Prior to his employment with Petropavlovsk, Mr Dubynin was employed by a number of large Russian companies within the mining and metallurgical sectors, in senior financial, audit and risk roles.

Mr Dubynin is a fellow member of the Association of Chartered Certified Accountants.

Dr Alfiya Samokhvalova – Deputy Chief Executive Officer

Dr Alfiya (Alya) Samokhvalova is Deputy Chief Executive Officer and a Member of the Safety, Sustainability and Workforce Committee of the Board of Directors. In addition, Dr Samokhvalova is Head of the Company's Corporate Office. Dr Samokhvalova joined the Company in 2002.

Dr Samokhvalova is also a Non-Executive Director of the Russo-British Chamber of Commerce and a member of the Global Advisory Board of Cass Business School.

Dr Samokhvalova holds a Masters in Investment Management from Cass Business School, London, and a PhD in Economics from the Moscow International High Business School, a BSc in Accounting and Audit (All Russia Distant Economic and Finance Institute, Moscow) and a BSc in Pharmacy (Alma-Ata State Medical University). She also holds a Professional Accountant Certificate from the Institute of Professional Accountants of Russia.

Mr Sergey Ermolenko - General Director MC Petropavlovsk

Mr Sergey Ermolenko is the General Director of Management Company Petropavlovsk. Mr Ermolenko served as a Director and as Interim Chief Executive Officer of Petropavlovsk PLC from 18 July 2017 until 16 April 2018. He previously served in this role from December 2011 to November 2014 when Dr Pavel Maslovskiy was serving as a Russian senator.

Mr Ermolenko is one of the original members of the Group's founding management team. He has held top managerial positions with the Group since its inception in 1994 and has been instrumental in the expansion of the Group into a multimine operation, overseeing the commissioning of Pokrovskiy, Pioneer, Malomir and Albyn.

He was appointed General Director of Management Company Petropavlovsk in 2004. In this capacity, he led the expansion of the Group into a multi mine operator.

Mr Mikhail Safray - Senior Legal Adviser

Mr Mikhail Safray joined the Petropavlovsk Group in August 2018 and was appointed as Senior Legal Adviser in **November** 2018.

Prior to joining the Company, Mr Safray held a number of senior legal positions with large Russian and international companies, including his tenure at Alfa Group, Immofinanz AG and Interros. He also acted as legal counsel for the European Bank for Reconstruction and Development in London where he was responsible for investments in industrial companies in the CIS countries and the Balkans.

Mr Safray graduated from the National Research University Higher School of Economics, summa cum laude, and received a PhD degree from the Kutafin Moscow State Law University and LL.M from the Boston University.

Mr Nikolai Vlasov - Group Chief Geologist

Mr Nikolai Vlasov has many years of experience in gold exploration and mining within the Amur region.

Mr Vlasov was one of the original members of the Company's founding management. Prior to this he was the chief geologist of the only comprehensive geological exploration expedition in the Amur Region. Mr Vlasov also headed the government department for the evaluation of gold resources in the Russian Far East.

In his role of Group Chief Geologist, Mr Vlasov leads the Group's exploration work.

Mr Vlasov has received various state awards including for excellence in exploration of mineral resources, Honored Prospector of mineral resources and Honored Geologist of the Russian Federation.

Senior Management Remuneration

Under the terms of their respective contracts, for the year ended 31 December 2018, the aggregate remuneration paid and benefits in kind granted to the Senior Managers who served during the year ended 31 December 2018, consisting of 13 individuals, was approximately US\$7.64 million.

18.7 Directors' and Senior Managers' Interest In The Company

Save as disclosed in the Prospectus, no Director or Senior Manager is or has been interested, directly or indirectly, in any transaction which is or was unusual in its nature or conditions or significant in relation to the business of the Group, and which has been effected by the Group during the current or immediately preceding financial year, or which was effected by the Group during an earlier financial year and which remains in any respect outstanding or unperformed.

Save for their capacities as persons beneficially interested in Shares, as summarised below, or as otherwise detailed in the Prospectus:

- (a) none of the Directors or Senior Managers have any potential conflicts of interest between their duties to the Company and their private interests or other duties;

- (b) Sir Roderic Lyne, Dr Pavel Maslovskiy and Mr Robert Jenkins were proposed by certain Shareholders for election at the Company's 2018 annual general meeting held on 29 June 2018. However, none of Sir Roderic, Dr Maslovskiy or Mr Jenkins had or has any relationship with the shareholders who proposed their appointment or any other major Shareholder of the Company except in their capacity as a Director of the Company. None of the Directors or Senior Managers were elected for their position pursuant to any arrangement or undertaking with major Shareholders, members, suppliers or other; and
- (c) none of the Directors or Senior Managers have agreed to any restrictions on the disposal within a certain time of their holdings in the Company's Shares.

18.8 Directors' and Senior Managers' Shareholding

As at 25 September 2019 (being the latest practicable date prior to the date of this Prospectus) interests of the Directors, Senior Managers and their immediate families (which are beneficial unless otherwise stated) in the securities of the Company which:

- (a) have been notified by each Director (or, in the case of Senior Managers, would have been, had they been Directors) to the Company; or
- (b) are interests of a connected person (within the meaning of section 252 of the Act) of a Director or Senior Manager which would, if the connected person was a Director or Senior Manager, be required to be disclosed and the existence of which is known to or could with reasonable diligence be ascertained by the Director or Senior Manager are as follows:

| Director | No. of Shares | Percentage of issued Shares |
|------------------------|---------------|-----------------------------|
| Sir Roderic Lyne | 0 | - |
| Dr Pavel Maslovskiy | 0 | - |
| Harry Kenyon-Slaney | 250,000 | 0.007 |
| James W. Cameron Jr | 0 | - |
| Damien Hackett | 0 | - |
| Robert Jenkins | 250,000 | 0.007 |
| Dr Alfiya Samokhvalova | 0 | - |
| Sergey Ermolenko | 1,467,296 | 0.044 |
| Alexey Dubynin | 0 | - |
| Mikhail Safray | 0 | - |
| Nikolai Vlasov | 323,426 | 0.010 |

18.9 Directors' and Senior Managers' Long-Term Incentive Awards

Long-Term Incentive Plan: Deferred Bonus Share Awards

The Remuneration Committee approved a bonus to the Chief Executive Officer and Senior Managers for the year ended 31 December 2018. A percentage of the bonus was payable in the form of a Deferred Bonus Award to be granted under the Company's Long-Term Incentive Plan (the "Plan").

The Remuneration Committee made the Deferred Bonus Awards on 1 May 2019. The number of Ordinary Shares awarded was based on the average mid-market closing share price of Ordinary Shares for the three dealing days immediately prior to the date of award, being 8.42 pence.

The table below details the Awards which were made to Directors and Senior Managers on 1 May 2019.

| Name | Percentage of Bonus | Number of Shares | Vesting Date ^(a) |
|----------------------|---------------------|------------------|-----------------------------|
| Dr Pavel Maslovskiy | 25% | 963,931 | 1 May 2020 |
| Dr Alya Samokhvalova | 10% | 463,182 | 1 May 2020 |
| Sergey Ermolenko | 10% | 324,679 | 1 May 2020 |
| Alexey Dubynin | 10% | 356,294 | 1 May 2020 |
| Nikolai Vlasov | 20% | 375,593 | 1 May 2020 |

The transfer of the shares subject to the above Awards is subject to the continued employment with the Company by the participant during a period of 12 months from the date of Award, subject to certain good leaver provisions.

Long-Term Incentive Plan: Performance Share Awards

On 24 June 2019 the Remuneration Committee awarded a conditional performance share award (a “**PS Award**”) under the Plan.

The PS Awards in respect of ordinary shares of £0.01 each in the share capital of the Company (the “**Shares**”) were made at nil consideration and, upon vesting, the shares will be acquired for nil consideration. The Awards were based on a share price of 9.19 pence, being the average middle market closing price of such Shares on the three dealing days immediately prior to the date the Awards were made.

Vesting of the PS Awards is subject to the satisfaction of the following two performance conditions over a three-year performance period:

(i) **TSR Outperformance:** Vesting of 70% of the PS Award will be dependent on total shareholder return (“**TSR**”) measured against a bespoke Gold Mining index (the “**Index**”). The constituents of the Index are:

- Endeavour Mining Corporation
- Atlantic Gold Corporation
- Perseus Mining Limited
- Roxgold Inc.
- Centamin plc
- Resolute Mining Limited
- Silver Lake Resources Limited
- Saracen Mineral Holdings Limited
- Acacia Mining plc
- Polymetal International plc
- Highland Gold Mining Limited

25% of the Shares in relation to this performance condition will vest if the Company’s TSR is equal to the Median TSR of the Index with 100% of Shares vesting for Median +10% p.a. or above.

For performance above Median and below Median +10% p.a. Shares will vest on a straight line basis. No Shares will vest if the Company’s TSR is below the median TSR of the Index

For this purpose, the three-year performance period commenced on 1 January 2019 and will end on 31 December 2021. The performance measurement for these awards will be based on the Company’s average share price over a 90-day dealing period to 31 December 2018.

(ii) **Strategic Targets:** Vesting of 30% of the PS Award will be subject to the completion of the following Strategic Targets:

- (A) Construction and launch of a flotation plant at Pioneer within an agreed budget and timescale (20%)
- (B) Commencement of operations at the Elginskoye deposit which will include preparation for a Feasibility Study of permanent conditions and protection of reserves in the State Committee of Mineral Reserves (5%)

- (C) Preparation of technical documentation and the start of construction of the third phase of flotation at Malomir within an agreed timescale (5%)

Further details of the above Strategic Targets will be provided at the date of Vesting.

The following PS Awards were made to the Executive Director and Senior Managers:

| Name | Number of Shares | Date of Award | Vesting Date ⁽¹⁾ |
|----------------------|------------------|---------------|-----------------------------|
| Dr Pavel Maslovskiy | 7,127,312 | 24 June 2019 | 24 June 2022 |
| Dr Alya Samokhvalova | 4,243,743 | 24 June 2019 | 24 June 2022 |
| Sergey Ermolenko | 3,536,452 | 24 June 2019 | 24 June 2022 |
| Alexey Dubynin | 3,264,417 | 24 June 2019 | 24 June 2022 |
| Mikhail Safray | 2,611,534 | 24 June 2019 | 24 June 2022 |
| Nikolai Vlasov | 2,992,383 | 24 June 2019 | 24 June 2022 |

Note:

- (1) A two-year post-vesting holding period will apply to the Award. Vested shares may not be sold during the holding period except to cover tax liabilities.

19. Major Shareholders

As at the Latest Practicable Date, and so far as is known to the Company by virtue of the notifications made to it pursuant to the Disclosure Guidance and Transparency Rules, the name of each person who is interested in 3 per cent. or more of the Company's shares, and the amount of such person's interest, is as follows:

| Shareholder | Number of Shares | Percentage of interest in voting rights of ordinary shares (%) |
|--|------------------|--|
| Aeon Mining Limited (formerly Fincraft Holdings Ltd ¹) | 440,565,485 | 13.30 |
| Sothic Capital European Opportunities Master Fund Limited & Gertjan Koomen | 309,757,863 | 9.36 |
| VTB Bank (Deutschland) AG | 300,000,000 | 9.06 |
| D.E. Shaw & Co., L.P. and D.E. Shaw & Co. (London), LLP ² | 256,609,333 | 7.75 |
| Prosperity Capital Management Limited | 165,519,276 | 5.00 |
| Slevin Ltd | 150,517,537 | 4.55 |
| Everest Alliance Limited (formerly known as CABS Platform Limited) | 150,517,537 | 4.55 |

Notes:

- (1) Aeon Mining Limited is the holder of the voting rights in Petropavlovsk PLC as set out above. Aeon Mining Limited is a wholly owned subsidiary of Limited Liability Company Research and Production Association Altair, a company ultimately controlled by Mr. Roman Trotsenko.
- (2) Each in their capacity as discretionary investment manager.

20. Subsidiaries

The Company is the principal holding company of the Group. The principal subsidiaries and subsidiary undertakings of the Company are as follows:

20.1 Subsidiaries and subsidiary undertakings

| Name | Country of incorporation and registered office | Percentage of ownership held by the Company | Percentage of ownership held by the Group | Field of activity |
|----------------------------|--|---|---|---------------------------------|
| JSC Management Company | Russia | 100% | 100% | Management Company |
| Petropavlovsk 2010 Limited | Jersey | 100% | 100% | Finance Company |
| Petropavlovsk 2016 Limited | Jersey | 100% | 100% | Finance Company |
| LLC Albynskiy Rudnik | Russia | 100% | 100% | Gold exploration and production |
| JSC Pokrovskiy mine | Russia | | 99.38% | Gold exploration and production |
| LLC Malomirskiy Rudnik | Russia | | 99.94% | Gold exploration and production |
| LLC Osipkan | Russia | | 100% | Gold exploration and production |
| LLC Tokurskiy Rudnik | Russia | | 100% | Gold exploration and production |
| LLC TEMI | Russia | | 75% | Gold exploration and production |
| LLC AGPK | Russia | | 99.38% | Gold exploration and production |

| Name | Country of incorporation and registered office | Percentage of ownership held by the Company | Percentage of ownership held by the Group | Field of activity |
|---------------------------|--|---|---|-----------------------------------|
| LLC Perspektiva DV | Russia | | 99.94% | Gold exploration and production |
| LLC Vostok Geologiya | Russia | | 99.94% | Gold exploration and production |
| Universal Mining Inc. | Guyana | | 100% | Gold exploration and production |
| LLC Kapstroï | Russia | | 100% | Construction services |
| LLC NPGF Regis | Russia | | 100% | Exploration services |
| CJSC ZRK Dalgeologiya | Russia | | 99.38% | Exploration services |
| JSC PHM Engineering | Russia | | 94% | Project and engineering services |
| JSC Irgiredmet | Russia | | 99.69% | Research services |
| LLC RDC Hydrometallurgy | Russia | | 100% | Research services |
| LLC BMRP | Russia | | 100% | Repair and maintenance |
| LLC AVT-Amur | Russia | | 49% | Production of explosive materials |
| LLC Transit | Russia | | 100% | Transportation services |
| Pokrovskiy Mining College | Russia | | 99.38% | Educational institute |

21. Regulation

21.1 General

The Group's activities in the Russian Federation are subject to regulation in relation to matters such as use of subsoil; employee health and safety; trade controls; permit and licence requirements; environmental impact assessment; planning and development; and environmental compliance. The Group is also subject to other laws and regulations.

The Group's principal activity is focused on the mining of precious and non-precious metals which requires the Group to hold licences that permit it to explore and mine in particular areas in the Russian Federation. The legal and regulatory grounds for obtaining and operating subsoil licences in the Russian Federation can be open to various interpretations and subject to change. In addition, it is possible that licences obtained from the relevant regulatory authorities could subsequently be challenged by governmental, prosecutorial or other authorities as being invalid or issued in breach of the required procedures.

The Group's activities and operations generate hazardous and non-hazardous wastes, effluent and emissions, require waste transportation and treatment, and have other environmental impacts which require various environment related permits and approvals to be held or received. Licences are also required for the activities performed by the Group. Such permits and licences are subject, in certain situations or on the occurrence of certain events, to modification (including monitoring, upgrading, decommissioning and aftercare requirements) or revocation by issuing authorities. Such activities and operations are also subject to various restrictions and other requirements under environmental, health and safety laws. Violations of health and safety laws or a failure to comply with the instructions of relevant health and safety authorities, may result in the temporary or permanent shutdown of the Group's operations in the jurisdiction where such a violation occurred, as well as the imposition of fines, penalties or corrective procedures.

The Group's businesses are also required in many cases to prepare and present information on the anticipated effects or impacts that its proposed activities may have upon the environment. The preparation and presentation of this information may require a substantial commitment of personnel and financial resources. The relevant authorities to whom such presentations are made may have the authority to determine that the Group's operations be suspended or restrained.

21.2 Foreign Investment Legislation

(a) Contributions

In May 2008, the Strategic Asset Laws were introduced in the Russian Federation regulating foreign investments into strategic sectors of the Russian economy. These laws included the Federal Law No. 57-FZ and Federal Law No. 58-FZ both dated 29 April 2008, which, *inter alia*, amended the Subsoil Law and Federal Law No. 160-FZ dated 9 July 1999 "On foreign investments in the Russian Federation".

(b) *Strategic Deposits and Strategic Entities within the Group*

A list of the “**Strategic Deposits**” is prepared, updated and maintained by Rosnedra and officially published. The Pioneer, Malomir and Elginskoye deposits are classified as Strategic Deposits and, therefore, Pokrovskiy Rudnik, the company that holds the key Pokrovskiy and Pioneer deposits subsoil licences, Malomirskiy Rudnik, the company that holds the Malomir deposit subsoil licence, and Temi that holds the Elginskoye deposit subsoil licence are deemed to be Strategic Entities.

In the event the Group discovers any other deposit with hard rock (vein) gold reserves of 50 tonnes (or more), or copper reserves of 500,000 tonnes (or more) or with reserves of any Precious Minerals irrespective of quantity in any of its assets, such assets would be classified as Strategic Deposits and the Russian Group companies holding subsoil licences in relation to such Strategic Deposits would become Strategic Entities.

(c) *Restrictions on transactions*

Since Pokrovskiy Rudnik, Malomirskiy Rudnik and Temi became Strategic Entities, the Group’s freedom to dispose of interests in Group companies, to effect a group reorganisation or to raise equity finance or loan finance (with the provision of security) must take account of the Strategic Asset Laws and the constraints contained in such legislation. It is not clear from the Strategic Asset Laws what stake in the Company may be viewed as enabling its holder to control the votes vested in the shares of Pokrovskiy Rudnik, Malomirskiy Rudnik and Temi or otherwise exercise Influence over Pokrovskiy Rudnik, Malomirskiy Rudnik and Temi. It is possible that in certain cases where the Strategic Approval to a proposed transaction has to be obtained either by the Group company or by a third party foreign investor (including a sovereign foreign investor), the Group may be materially and adversely affected by the actions of the Russian authorities (including granting the Strategic Approval subject to such foreign investor assuming certain obligations under the agreement it will have to enter into with the Federal Antimonopoly Service (the “**FAS**”) or a refusal to grant the Strategic Approval) or by delays in procedures which have to be followed under the Strategic Asset Laws.

As the Federal Law No. 57-FZ is expressed to have effect both in the territory of the Russian Federation and extraterritorially, it is possible that transactions between Shareholders of the Company (or members of their groups of persons) and between Group companies might be affected if such transactions required or will require the Strategic Approval and such approval was not or will not be obtained in accordance with the Federal Law No. 57-FZ (for these purposes, “groups of persons” are determined by reference to Russian legislation).

21.3 Competition Law

The anti-monopoly legislation of the Russian Federation is based on Federal Law No. 135-FZ dated 26 July 2006 “On Protection of Competition” (the “**Competition Law**”) and other federal laws and regulations governing anti-monopoly issues.

(a) *Control over the economic concentration*

Under the Competition Law, before an investor enters into a transaction (including transactions entered into on a stock exchange) that will enable it to exercise control or influence over a Russian entity/asset, provided certain thresholds (such as total book value of assets, total amount of proceeds) established in the Competition Law are met, the investor must obtain the prior approval of the FAS (the “**FAS Approval**”). This is required in addition to the Strategic Approval (if applicable), discussed above. In particular, the FAS Approval is required, amongst others, if an investor acquires:

- more than 25 per cent. of the voting shares in a Russian joint-stock company;
- more than one-third of the participation interests in the charter capital of a Russian limited liability company;
- more than 50 per cent. of voting shares in a foreign entity or other rights providing the ability to direct the conduct of business of such entity or the ability to exercise powers of its executive body; and/or

- the ability to direct the conduct of business of the Russian company or the ability to exercise powers of its executive body.

The Competition Law is applicable to transactions entered into both in the territory of the Russian Federation and extraterritorially, for example through a transaction on a non-Russian stock exchange.

Any transaction that is executed without the required FAS Approval may be challenged in court if the FAS can establish that the transaction restricts or may restrict competition in the relevant market, including occurrence or increase of a dominant position in that market. Such lawsuit can be brought within one year of the date on which the FAS became aware or should have become aware of the violation. In addition, failure of a foreign investor to comply with the requirements relating to the FAS Approval may result in administrative liability of the foreign investor (such as fines).

The Group's ability to dispose of interests in the Group companies, to effect a group reorganisation, among other transactions, must take account of the Competition Law and the constraints contained in such legislation. Additionally, concerns relating to vaguely worded legislation and delays in transactions concerning approvals under the Strategic Asset Laws apply equally to the Competition Law. Further information on these concerns is set out in the risk factor entitled "*Russian foreign investment legislation may affect transactions by, and investments in, the Group*" in Part 1: "*Risk Factors*".

(b) *Prevention and termination of monopolistic activity*

Anti-monopoly restrictions in the sphere of regulation of monopolistic activity include prohibitions of (i) conclusion of anticompetitive agreements, (ii) exercise of anticompetitive coordinated actions, (iii) unfair competition, and (iv) abuse of dominant position.

An entity or a group of entities is deemed to have a dominant position in a particular commodity market if: (a) the entity (or the group of entities) has a market share on a particular commodity market in excess of 50 per cent., unless it is specifically established by the FAS that the entity (or the group of entities) does not have a dominant position; or (b) the entity has a market share in a particular commodity market which is less than 50 per cent., but more than 35 per cent., and the dominant position of the entity (or the group of entities) is specifically established by the FAS based on (i) the stability or near stability of such entity's (group of entities') share on the particular commodity market, and (ii) certain characteristics of the relevant commodity market (such as the accessibility of the commodity market for new competitors). The Competition Law additionally specifies circumstances in which an entity is classified as having a dominant position with the market share of less than 35 per cent.

The Competition Law also provides the possibility of several unrelated entities being considered to collectively hold a dominant position. In particular, each of three business entities collectively having a market share exceeding 50 per cent., or each of five business entities collectively having a market share exceeding 70 per cent., provided that the market share of each entity in any case is not less than, collectively: (1) the market share of any other entity operating on such market and (2) 8 per cent., may be considered as having the dominant position provided that (i) market shares of relevant entities have been stable or nearly stable during a significant period of time; (ii) the access of new competitors to a particular commodity market is hindered; (iii) the relevant commodity cannot be easily substituted; (iv) the demand for the commodity is price-inelastic; and (v) information on the price, on the terms of distribution or acquisition of the commodity on a particular commodity market is available to the general public.

Furthermore, pursuant to the Competition Law, any entity being a natural monopoly is deemed to enjoy a dominant position in the relevant commodity market which represents the natural monopoly (natural monopolies are regulated by specific legislation and, *inter alia*, include the gas and electricity markets).

The Competition Law establishes a regulatory framework for companies enjoying dominant positions in certain markets, aimed at protection of competition in the relevant markets. In particular, an entity enjoying a dominant position is prohibited from abusing such a position through, *inter alia*, the following activities: (i) fixing and/or maintaining a monopolistic high or low price of goods; (ii) withdrawing goods from circulation which results in price increase; (iii) dictating to a counterparty terms of agreement unfavourable to it or not relevant to the subject-matter of the agreement; (iv) economically or technologically unjustified reduction or termination of production of certain goods; (v) economically or technologically unjustified refusal to enter into

an agreement with certain buyers (customers) or avoidance of such agreement; (vi) economically or technologically unjustified fixing of various prices (tariffs) for the same goods; (vii) creating discriminatory conditions; (viii) creating impediments for other entities to either access or exit a particular commodity market; and (ix) violation of established pricing rules.

Russian competition law also includes a general prohibition for any entity, irrespective of whether it holds a dominant market position or not, to enter into an anticompetitive agreement (a cartel agreement, a prohibited “vertical” agreement or other agreement not permitted by the Competition Law) or perform concerted actions in the market that result or may result, *inter alia*, in the prevention, restriction or elimination of market competition, in the increase, decrease or maintenance of the prices at tender, reduction or termination of goods production or refusal to make contracts with specific sellers or buyers. The sanctions for violation of these norms are generally similar to those for the abuse of a dominant market position, and generally include significant fines of up to 15 per cent. of the revenue of the offender in the market on which the offence has occurred, earned in the year preceding the year in which the offence occurred or the amount of goods and services expenditures of the offender in the market where the offence occurred, spent in the year preceding the year in which the offence occurred (the “**Calculation Base**”), but not more than 2 per cent of the gross revenue of the offender in case of the abuse of a dominant market position. Should the Calculation Base exceed 75 per cent of the gross revenue of the offender, the imposed fine may be of up to 3 per cent. of the Calculation Base, but not more than 2 per cent of the gross revenue of the offender in case of the abuse of a dominant market position. In addition, the administrative sanctions (such as fines or disqualification (i.e. prohibition on holding a management position) for up to three years) and/or criminal liability (including imprisonment for up to 7 years and a fine of up to 1 million Russian Roubles or five years’ salary or income of the relevant person) may also be imposed on the officers (including key managers) of the offender. The FAS may also require the offender to terminate any agreement or other agreed actions which, it has determined, has or may lead to restriction of competition.

21.4 Licensing of subsoil operations

(a) Introduction

The principal law governing subsoil use in the Russian Federation is the Subsoil Law, which is regularly amended per applicable procedures and is supplemented by various regulations in addition to the Subsoil Law such as the acts of the RF President, the Russian Federal Government, the Ministry of Natural Resources and Ecology and other state bodies and agencies. The Subsoil Law sets out the basic principles and features of the licensing and regulatory framework for the mining industry, and contains rules governing the issue, transfer, surrender and revocation of licences for exploration (search and assessment), detailed exploration and/or the production of minerals and other resources.

In general, a subsoil licence itself sets out only the basic terms of the licensing arrangement i.e. it identifies the licensee, the licence area and the term of the licence, and sets out the mineral rights granted thereunder.

A subsoil licence is terminated upon the expiry of its term, or sooner on grounds provided for by the Subsoil Law or in the licence itself. Some of these grounds are open to broad interpretation, providing a certain degree of discretion to the authorities in the exercise of their powers. Violation of the material terms of the licence (including a material breach in the process of its issuance or re-issuance) could lead to its early termination. There is no statutory definition of what is deemed to be a violation of the material terms which has allowed this provision to be interpreted broadly in the past in several highly publicised cases. It is necessary for licence holders to exercise extra care in their compliance with the appropriate licence terms and conditions. Obtaining and maintaining in force a subsoil licence for a successful production operation in the Russian Federation typically involves a series of voluminous filings, and even minor errors or omissions in respect of any documents that must form part of such filings in theory may be viewed by the licensing authorities as a violation of the material terms of the subsoil licence. In practice, if a material violation of a subsoil licence comes to the attention of the authorities, the typical action taken is the issue of a written direction to the licensee to remedy the violation within the period specified in the notice. If the licensee fails to fulfil the terms of the remedial notice during the applicable cure period, the subsoil licence may be revoked, although this is viewed as a measure of last resort and generally only used where the breach is severe, cannot be remedied or is complemented by other material violations. Usually, attempts are made to reach a compromise with the licensee as to methods or the periods of compliance with the terms of any remedial notice.

(b) Development of newly discovered Strategic Deposits

The Group's ability to develop newly discovered Strategic Deposits may be prevented by the Russian Government under the Subsoil Law. According to the Subsoil Law, in relation to any Strategic Deposits which form part of the operations of the Group and in respect of which the detailed exploration and production stage has not commenced before May 2008, the Russian Government has the power, on the grounds of the protection of national security, to prevent the detailed exploration and production of such deposits being undertaken by the Group. In the case of a combined subsoil licence (which allows the holder to carry out both search and assessment and detailed exploration and production), the Russian Government has the power to terminate the licence where the search and assessment stage has been completed, discovery of the Strategic Deposit has been made and prior to the commencement of the detailed exploration and production stage. In the case of a prospecting subsoil licence (which allows the holder to carry out search and assessment only), the grant of a detailed exploration and production subsoil licence can be refused after a discovery of a Strategic Deposit has been made. These provisions of the Subsoil Law do not apply to Strategic Deposits where search and assessment was completed and detailed exploration and production of such deposits began before May 2008 (i.e. before the relevant amendments to the Subsoil Law were enacted).

According to the Russian Government's Regulations on the Reimbursement of Expenses on Prospecting and Evaluation of a Discovered Mineral Deposit No. 206 dated 10 March 2009, where the termination provisions are invoked (i.e. a combined licence is terminated or a production licence is not awarded following the discovery of a Strategic Deposit under an prospecting licence), it is anticipated that a foreign investor affected by termination will be entitled to certain compensation. Such compensation is not based on market value of the property in question, but rather on limited costs and expenses which have been incurred by the subsoil user.

(c) Concurrent exploration and production

The Group's ability to carry out detailed exploration and production on newly discovered Strategic Gold Deposits in parallel with continued search and assessment activity within the same field is restricted under the Subsoil Law.

The Subsoil Law suggests that in respect of Strategic Deposits and/or Strategic Gold Deposits the foreign investors or entities controlled by foreign investors can carry out the detailed exploration and production concurrently with the search and assessment stage subject to the subsoil user having obtained confirmation by the Russian Government of its right to undertake detailed exploration and production activities within the relevant licence area.

(d) Actualisation of the subsoil licences

In February 2015 the President of the Russian Federation initiated the process of one-time "actualisation" of the subsoil use licences which completed at the end of 2016. The main purposes of such actualisation process were (i) to bring the licences to the unified standard format, to exclude an ambiguous interpretation of the licence terms, to rectify technical mistakes; and (ii) to make the transfer to the new system of control and management over the licences through the project documentation. It was envisaged that the licensing authorities must carry out the actualisation of over 5,300 licences issued in respect of the solid minerals by the end of 2016.

The actualisation of the licence was possible subject to certain conditions. Practically as part of the actualisation process, all subsoil users were given an opportunity to extend the existing conditions in relation to work obligations and to have the other licence terms amended. Technically the actualisation was triggered by application of the subsoil user (including those related to amending the licence). For different reasons two of Group's key licences have not undergone actualisation. Non-actualisation of such licences should not affect their validity.

(e) Licensing of other operations

The Federal Law No. 99-FZ dated 4 May 2011 "On Licensing of Certain Types of Activities", as amended, as well as other laws and regulations, set forth the activities subject to licensing and establish procedures for

issuing licences. In particular, some of the Group's Russian companies may need to obtain licences, permits and approvals of executive authorities to carry out certain activities, including, *inter alia*:

- the collection, utilisation, deactivation, transportation, processing and disposing of hazardous waste; and
- the operation of explosive, fire-hazardous and chemically-hazardous industrial facilities.

These licences generally are issued for an unlimited term. A licence can be suspended by a licensing authority or by the court if the licensee becomes subject to administrative liability or administrative suspension of activity for gross violation of conditions and requirements of a licence under the procedure stipulated by Russian law. If a licensee does not mitigate a gross breach of the licence granted to it within the period established by the court or a licensing authority, this licensing authority must apply to the court for cancellation of this licence.

As part of the Group's obligations under licensing regulations and the terms of its licences and permits, the Group must comply with numerous industrial standards, employ qualified personnel, maintain certain equipment and quality control systems, monitor operations, maintain and make appropriate filings and, upon request, submit specified information to the licensing authorities that control and inspect their activities.

The requirements imposed by regulatory authorities may be costly and time-consuming, and can cause a delay in the commencement or continuation of Group operations.

21.5 The Technical Regulation Law

Federal Law No. 184-FZ dated 27 December 2002 "On Technical Regulation", as amended (the "**Technical Regulation Law**"), describes rules relating to the development, enactment, application and enforcement of obligatory technical requirements and application and enforcement of voluntary standards relating to manufacturing processes, operations, storage, transportation, selling and utilisation.

The Technical Regulation Law supersedes the Laws of Russia No. 5151-1 dated 10 June 1993 "On Certification of Goods and Services" and No. 5154-1 dated 10 June 1993 "On Standardisation" and will be followed by the revision of existing legislation and technical rules falling within the scope of its regulation. Under the Technical Regulation Law, technical rules and regulations relating to specific matters, including industrial safety and environmental protection, can be enacted. Since Russia is a member of the Eurasian Economic Union, some of the applicable technical rules and norms are adopted at the level of the Union.

In those cases where the mandatory confirmation of product conformity to the technical regulations (standards) is required, certain Group companies are obliged to obtain certificates of compliance evidencing that their products meet the requirements of technical regulations, standardisation documents or terms and conditions of contracts. Violation of the rules of mandatory certification, i.e. sale of goods subject to mandatory certification without required certificates, may lead to banning further sales, mandatory recall of sold products and imposition of administrative fines.

In those cases where Russian laws and regulations relating to industrial safety provide for mandatory issuance of permits to use technical equipment at hazardous production facilities, certain Group companies are obliged to obtain the required permits which prove that their products meet the relevant industrial safety requirements.

21.6 Land Use Rights

Land use rights are needed and granted for those areas actually being used, including the plot being used, access areas and areas where other related activity is occurring. Russian legislation prohibits the carrying out of any commercial activity on a land plot without appropriate land use rights.

Under the Land Code of Russia of 25 October 2001, as amended, legal entities may generally have the rights of ownership, right of free use for a fixed term or lease with regard to land in the Russian Federation.

A majority of land plots in the Russian Federation are owned by federal, regional or local authorities, which, through public auctions, tenders or, in very limited cases, through private transactions, can sell, lease or grant

use rights to the land to third parties. Under the Land Code, no auction or tender is required for the granting of land lease rights to a holder of mining licence for a land plot that is necessary for subsoil mining activities.

21.7 Environmental Considerations

The Group is subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of substances into the air and water, the management and disposal of hazardous substances and waste, the clean-up of contaminated sites, and flora and fauna protection. Issues of environmental protection in the Russian Federation are regulated primarily by Federal Law No. 7-FZ of 10 January 2002 “On Environmental Protection”, as amended (the “**Environmental Protection Law**”), as well as by a number of other federal and local legal acts.

(a) Environmental permits

In accordance with the Environmental Protection Law, all companies whose activities lead to an adverse impact on environment must obtain permits in relation to all their production facilities from Rosprirodnadzor or, in some limited cases, Rostekhandzor. On 1 January 2019 amendments to the Environmental Protection Law came into force that significantly changed the regulation of environmental permits. In accordance with the amendments, the regime of obtaining permits depends on the category of the facility. There are four categories of the facilities depending on their negative impact on environment, with facilities of category I having the most negative effect and facilities of category IV having the least negative impact. According to the amendments for the facilities of category I (significant impact), a complex environmental permit shall be obtained from Rosprirodnadzor. Meanwhile, for the facilities of category II (moderate impact), only a declaration of negative impact shall be filed with Rosprirodnadzor. No such documents shall be obtained or filed in relation to other facilities. Previously obtained environmental permits are effective until the date of their expiry and, until then or until 1 January 2025 (whichever is closer), no complex permit or declaration shall be obtained or filed.

In order to obtain a complex environmental permit, companies shall develop technological standards of emission which comply with the technological standards for the best available technologies set out pursuant to the Environmental Protection Law. In case the technological standards of the facilities do not comply with the said standards, a temporary emissions permit shall be obtained from Rosprirodnadzor for a period of no longer than seven years, during which a company shall modernise their facilities to comply with the best available technologies.

(b) Pay-to-pollute

The Environmental Protection Law establishes a “pay-to-pollute” regime administered by federal and local authorities. According to such regime, fees for negative impact on the environment are assessed on a sliding scale depending on whether the emissions are within or outside the established limits. The lowest fees are imposed for pollution within the standards, intermediate fees are imposed for pollution within the temporary emissions permit, and the highest fees are imposed for pollution exceeding such limits. The amendments to the Environmental Protection Law that came into force on 1 January 2019 introduced an additional incentive for the companies to apply the best available technologies in their facilities of categories I and II. In particular, starting from 1 January 2020, the companies that have implemented the best available technologies shall pay no charges for negative impact on the environment within the emissions range set out under technological standards for the best available technologies.

Payments of the above mentioned fees do not relieve a company of its responsibility to take environmental protection measures and undertake restoration and clean-up activities.

(c) Environmental approval

Activities that may affect the environment may be subject to state ecological approval by federal authorities in accordance with Federal Law No. 174-FZ dated 23 November 1995 “On Ecological Expert Examination”, as amended. Conducting operations that may cause damage to the environment without state ecological approval may result in the negative consequences described in “—*Environmental liability*”.

(d) *Enforcement authorities*

The Rosprirodnadzor, the Rostekhnadzor, the Federal Service for Hydrometrology and Environmental Monitoring, the Rosnedra, the Federal Agency on Forestry and the Federal Agency on Water Resources (along with their regional branches) are involved in environmental control, implementation and enforcement of relevant laws and regulations. The federal government and the Ministry of Natural Resources and Ecology are responsible for co-ordinating the activities of the regulatory authorities in this area. Such regulatory authorities, along with other state authorities, individuals and public and non-governmental organisations, also have the right to initiate lawsuits for compensation as a result of damage caused to the environment. The statute of limitations for such lawsuits is 20 years.

(e) *Environmental liability*

If the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, a court action may be brought to limit or ban these operations and require the company to remedy the effects of the violation. The effects of violation may be remedied by a compensation of harm caused to the environment or by imposing clean-up obligations on violators aimed to rehabilitate the environment. Any company or employees that fail to comply with the requirements of applicable environmental laws and regulations may be subject to administrative and/or criminal liability.

21.8 *Health and Safety*

The principal law regulating industrial safety is the Federal Law No. 116-FZ dated 21 July 1997 “On Industrial Safety of Dangerous Industrial Facilities”, as amended (the “**Safety Law**”). The Safety Law contains a comprehensive list of dangerous substances and extends to facilities and sites where these substances are used.

Any construction, reconstruction, liquidation or other activities in relation to regulated industrial sites are subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of industrial sites is prohibited unless reviewed by a licensed expert and approved by the Rostekhnadzor.

Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and the Labour Code of Russia dated 30 December 2001, as amended (the “**Labour Code**”). In particular, they must limit access to such sites to qualified specialists, maintain industrial safety controls and carry insurance for liability for injuries caused in the course of operating industrial sites. The Safety Law also requires these companies to enter into contracts with professional wrecking companies or create their own wrecking services in certain cases, conduct personnel training programmes, create surveillance, alert, communication and support systems in the event of an accident and maintain these systems in good working order. Certain employees, including the chief executive officer, of such companies in order to maintain the level of qualification and confirm knowledge of industrial safety should be certified at least once every five years against the requirements of industrial safety. In addition, the Labour Code provides for state inspections of work safety to verify, in particular, the compliance of work conditions to state standards as well as compensations to employees due to hazardous work conditions. Companies engaged in manufacturing and/or production activities with more than 50 employees must also have a special work safety service or a work safety officer. Business entities are required to spend 0.2 per cent. of their production expenses on improvement of work safety.

In certain cases, companies operating industrial sites must also prepare declarations of industrial safety which summarise the risks associated with operating a particular industrial site and the measures the company has taken and will take to mitigate such risks and use the site in accordance with applicable industrial safety requirements. Such a declaration must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein. The industrial safety declaration, as well as a state industrial safety review, are required for the issuance of a licence permitting the operation of a dangerous industrial facility.

The Rostekhnadzor has broad authority in the field of industrial safety. In the case of an accident, a special commission led by a representative of the Rostekhnadzor conducts a technical investigation of the accident and its causes. The company operating the hazardous industrial facility where the accident took place bears all the costs of an investigation. The officials of the Rostekhnadzor have the right to access industrial sites and

may inspect documents to ensure a company's compliance with safety rules. The Rostekhnadzor may suspend operations or impose administrative fine upon a company.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obligated to compensate the individual for lost earnings, as well as health related damages.

21.9 *Employment and Labour*

Labour matters in the Russian Federation are primarily governed by the Labour Code. In addition to this core legislation, relationships between employers and employees are regulated by various federal laws and other subordinating legislation.

(a) *Employment contracts*

As a general rule, employment contracts are concluded with all employees for an indefinite term. Russian labour legislation expressly limits the possibility of entering into fixed term employment contracts.

Generally, an employment contract can be entered into for a fixed term of up to five years in cases where labour relations may not be established for an indefinite term due to the nature of the work or the conditions of the performance of work duties, as provided by the Labour Code and federal laws.

An employer may terminate an employment contract at its own initiative only on the basis of the specific grounds listed in the Labour Code, including, *inter alia*:

- liquidation of the employer or reduction of personnel (downsizing);
- unsuitability of the employee for the job due to insufficient skills as evidenced by the results of an evaluation (appraisal);
- systematic failure by the employee to fulfil his/her duties without due cause if the employee already has a disciplinary sanction imposed on him/her;
- a single gross breach by the employee of his/her employment duties in the events expressly identified by the Labour Code (e.g., absence from the work place without justification for longer than four consecutive hours; being in a state of alcoholic or drug intoxication at the workplace, on the employer's premises or anywhere else when working on behalf of the employer; disclosing a state, commercial, or other secret protected by law, including disclosing of personal data of other employees);
- provision by the employee of false documents when concluding the employment contract; and
- other grounds provided in the Labour Code or other federal laws.

Regardless of the grounds for employment termination, on the employee's last day of work (which is the date of employment termination) the employer must pay the employee his/her salary, compensation for unused vacation and other outstanding payments (such as bonuses).

Depending on the grounds for employment termination and the provisions of the relevant employment contract, the employee may also be entitled to a severance payment. The severance payment amount depends on the grounds for employment termination. For example, as a general rule, an employee dismissed due to a reduction of personnel (downsizing) or liquidation is entitled to the following severance payments: (i) one month's average earning payable on the employee's last day of work; plus (ii) one month's average earning for the second month of unemployment (or pro rata depending on the number of days during which the employee stays unemployed) payable two months after the employment termination date; plus (iii) an additional average month's earning payable in exceptional cases if the employee applies for jobs with the local employment service within two weeks of the employment termination date and is not offered a new job within three months following the employment termination date.

The Labour Code also provides protection from dismissal for specified categories of employees. For example, except in cases of liquidation of a company, an employer cannot dismiss an expectant mother. In addition, an employer may not dismiss a mother with a child under the age of three, a single mother with a child under the age of 14 (or a disabled child under the age of 18) or other persons caring for a child under the age of 14 (or a disabled child under the age of 18) without a mother, other than due to (i) liquidation of a company, (ii) repeat failure by the employee to fulfil or duly fulfil his/her job duties, (iii) a single gross violation of the employee's job functions (as described above), and (iv) certain other grounds specifically provided for by the Labour Code. The same restriction applies to both male and female employees who are the only wage earners (that is, the other parent is unemployed) (i) of a disabled child under eighteen years of age, or (ii) in families with three or more children under 14 years of age, provided that at least one of the children is under three years of age. Employment contracts with minors (that is, employees under the age of 18) can be terminated, subject to the general termination grounds listed above, at the initiative of the employer only with the consent of the state labour inspection and the commission for protection of minors' rights (except in the case of liquidation of a company).

Any dismissal may be challenged by the dismissed employee in court. The statute of limitations for such claims is one month following dismissal. If a court finds a dismissal wrongful, the court will oblige the employer to pay the employee his/her average earning for the period of forced absence (which is for the period from the employment termination date until the court ruling date) and pay the state's fee for resolving the dispute. Also, depending on the scope of the employee's claims, the court may order the employer to:

- reinstate the employee;
- amend the record of employment termination in the employee's employment records book;
- issue a duplicate of the employee's employment records book;
- pay the employee damages for emotional distress; and
- reimburse the employee's legal and other expenses incurred as a result of the litigation.

(b) *Work Time*

The Labour Code generally sets the regular working week at 40 hours. Any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate or with additional days of paid vacation. As a general rule overtime work and work on weekends is not allowed.

The minimum duration of annual paid vacation under the Labour Code is 28 calendar days. The Labour Code contemplates additional paid vacation in a number of cases, including, *inter alia*,

(i) work on an irregular hours basis (additional annual paid vacation provided to employee working under irregular hours regime cannot be less than three calendar days), (ii) work under harmful or dangerous conditions (the duration of additional annual paid vacation provided to such employees is determined based on provisions of an industrial agreement or a collective bargaining agreement and cannot be less than 7 calendar days), and (iii) work in the regions of the Russian Federation with abnormal climatic conditions (depending on a particular region where an employee performs his/her job duties, the employee may be entitled to 8, 16 or 24 calendar days of additional annual paid leave). Companies may establish additional paid vacations beyond the statutory minimums.

The retirement age in the Russian Federation has been recently increased and now it is generally 65 years for men and 60 years for women. At the same time the transitional provisions relating to the females born in 1964 – 1967 and males born in 1959 – 1962 has been introduced to provide for a smooth transition to the new requirements.

(c) *Salary*

The minimum salary in the Russian Federation is established by federal law and as at 1 January 2019 is 11,280 Russian Roubles (approximately U.S.\$179) per month. The minimum salary is annually reconsidered and adjusted in accordance with the cost of living. Employees working in localities with abnormal climatic conditions are entitled to regional coefficients salary increase and percentage salary increase related to the

duration of work in such conditions. Coefficients are generally aimed at compensating unfavourable climatic or other conditions in particular regions.

(d) *Strikes*

The Labour Code defines a strike as the temporary and voluntary refusal of the employees to fulfil their employment duties with the intention of settling a collective labour dispute. Russian legislation contains several requirements for legal strikes. Participation in a legal strike may not be considered by an employer as grounds for terminating an employment contract, although employers are generally not required to pay wages to striking employees for the duration of the strike. Participation in an illegal strike may be considered an adequate ground for termination.

(e) *Trade Unions*

The activities of trade unions are generally governed by the Federal Law No. 10-FZ dated 12 January 1996 "On Labour Unions, Their Rights and Guaranties of Their Activity" (as amended) (the **Trade Union Law**). The Trade Union Law defines a trade union as a voluntary union of individuals with common professional and production interests incorporated for the purposes of representing and protecting the social and labour rights and interests of its members. Where the trade union is formed a number of actions and decisions made by an employer require a consent of the trade union to be obtained or a view of the trade union to be expressed.

The employer must also ensure that if a trade union has been organised, the trade union is provided with conditions for performing its functions. Depending on the number of the company's employees, the company must provide the trade union with certain facilities.

If a trade union discovers any violation of work condition requirements, notification is sent to the employer with a request to cure the violation. Within one week from the date of reception of such notification the employer must inform the trade union about the results of reviewing of the notification and measures that have been taken. If the revealed violations create a threat to the life and health of employees, the trade union may demand the employer to immediately rectify such violations and, simultaneously, request the Federal Labour Inspectorate to take urgent measures.

If the employer fails to rectify violations revealed by the trade union (especially if the violations create a direct threat to life and health of employees), the trade union may demand the employer to suspend operations until a final decision is made by the Federal Labour Inspectorate.

The trade union may also apply to state authorities and labour inspectors and prosecutors to ensure that an employer does not violate Russian labour laws. Trade unions may also initiate collective labour disputes, which may lead to strikes.

To initiate a collective labour dispute, trade unions present their demands to the employer. The employer is then obliged to consider the demands and notify the trade union of its decision. If the dispute remains unresolved, a reconciliation commission attempts to end the dispute. If this proves unsuccessful, collective labour disputes are generally referred to mediation or labour arbitration.

The Trade Union Law provides that those who violate the rights and guarantees provided to trade unions and their officers may be subject to disciplinary, administrative and criminal liability.

21.10 Certain Russian Tax Laws

(a) *General*

Generally, taxes payable by Russian companies are both substantial and numerous. These taxes include, among others, profit tax, value added tax (VAT), property tax and other taxes as well as contributions to social security funds. Laws related to these taxes have been in force for a short period of time since 1991 collapse of Soviet Union compared to tax laws in more developed market economies. This short-lived system of tax collection has been relatively ineffective, resulting in the imposition of new taxes in an attempt to increase revenue and continual changes in the interpretation of the existing laws by various authorities. In late 90s the Russian Government implemented reforms of the tax system that have resulted in some improvement in the tax climate. The cornerstone of such reforms was a complete redrafting of the various tax laws and their codification into

the new Russian Tax Code (introduced in 1998, with first chapters addressing specific taxes coming into effect since year 2001). As well as providing greater clarity, this has included the reduction of most “headline” tax rates and the reduction of a number of taxes applicable to businesses. Progressive rates of personal income taxation and companies’ profit taxation were eliminated among other significant changes aimed at simplification of the tax regime.

(b) *CFC, beneficial ownership of income and entity tax residency*

Current Russian tax legislation is, in general, based upon the formal way in which transactions are documented, looking to form rather than substance. However, the Russian tax authorities have been increasingly taking a “substance over form” approach, which may cause additional tax exposures to arise in the future. The Russian Government has taken steps aimed at preventing tax evasion, imposing additional liabilities on taxpayers. On 24 November 2014, a new law was passed, effective 1 January 2015, which substantially amends the Russian Tax Code. The major changes envisaged by the new law include: (1) the introduction of the “controlled foreign companies” (“CFC”) regime, (2) the concept of a beneficial owner of income and (3) legal entities having a tax residency.

Under the new law, a foreign company is treated as a CFC if it is controlled by a Russian tax resident (which can be an individual or a corporate). The necessary level of control is 25 per cent. (held individually by a Russian resident or collectively with his/her spouse and under-aged children) or 10 per cent. (held in the same manner, provided other Russian persons control over 50 per cent. of the relevant company’s share capital). The CFC regime extends not only to corporate entities but also to “pass-through” entities (partnerships, trusts, collective investment vehicles). The term “control” means not only control over a certain percentage of capital, but also, the right to control the distributions of income from a CFC. As a consequence of the CFC regime, a Russian controlling party is obliged to include in its taxable base income of a CFC in proportion to its share in its share capital. Certain exemptions preclude companies from CFC treatment (for example, companies actively engaged in trade or business or companies registered in countries with tax information exchange agreements with the Russian Federation and with a rate of corporate taxation of not less than 75 per cent. of the Russian weighted average corporate income tax rate are exempt as well as foreign non-commercial organisations are not treated as CFCs). The income of a CFC up to 10 million Russian Roubles is exempt from taxation on the account of a Russian controlling party. Russian taxpayers are held responsible for filing information to tax authorities relating to their participation in foreign companies and pass-through entities. The main goal of this new law is to make it economically ineffective to keep income in the offshore accounts of Russian companies and to induce the distribution of dividends from foreign subsidiaries to Russian shareholders, and to have such dividends taxed in the Russian Federation.

This new law also introduces the concepts of beneficial owner of income and tax residency of corporate entities. Under the concept of beneficial owner of income, the non-Russian person may be viewed as not being beneficially entitled to income, if certain requirements are not met (mostly in cases where such foreign person performs conduit functions with respect to such income). In this case the income should be taxed as if directly received by the ultimate beneficial owner (whether non-resident or resident of the Russian Federation for tax purposes). Under the tax residency concept, the non-Russian corporate person may be viewed as a Russian tax resident, if its place of effective management is located in the Russian Federation. Several criteria are introduced to determine the place of effective management.

(c) *Unjustified tax benefit rulings*

In 2017 anti-avoidance rules were introduced by Article 54.1 of the Russian Tax Code. A similar “unjustified tax benefit” concept introduced by the Plenum of the Russian Supreme Arbitration Court in its Ruling No. 53 (“**Ruling No. 53**”) concerning judicial practice with respect to unjustified tax benefits received by taxpayers has been in existence for more than 10 years. The unjustified tax benefit concept has been widely used by Russian tax authorities to challenge the tax positions of Russian tax payers, inter alia, with respect to application of tax treaty benefits. However, the Ministry of Finance of the Russian Federation in its recent letter stated that the concepts expressed in Ruling No. 53 and evolved in the relevant Russian court practice should not be applied by the Russian tax authorities in the course of tax audits following the enactment of the new 2017 anti-avoidance rules.

The new anti-avoidance rules (a) establish the framework within which taxpayers enjoy tax benefits and (b) prohibit any wilful misconduct resulting in a non-payment or underpayment of taxes by misrepresenting information on commercial events and objects of taxation. In addition to that prohibition, taxpayers may reduce their tax base and/or payable amount of tax if they can document that: (i) tax evasion is not the primary purpose of a transaction and (ii) the contractual obligation is performed directly by the party named in the contract or by a person to whom such obligation has been transferred by contract or by law.

The new anti-avoidance rules apply retrospectively to all periods that may be subject to tax audits. Due to the fact that the court practice related to application of the new rules is still limited and underdeveloped, no assurance could currently be given as to the exact effect of such rules on taxpayers, including with respect to the Russian Group companies.

(d) Recent changes to withholding regime

Dividends paid by Russian subsidiaries to their foreign corporate shareholders are generally subject to Russian withholding income tax at a rate of 15 per cent., although this tax rate may be reduced under an applicable double tax treaty.

The new law outlining the concept of beneficial owner of income was enacted on 24 November 2014, effective 1 January 2015. Under the new law, a person participating in a company's capital or a person who has a right over the use and disposal of a company's income may be treated as beneficial owner of that income. If, however, a person serves as an intermediary and has an obligation to transfer part or all of the income received from the company to a third party (i.e. a person that is not able to act independently with respect to the use and disposition of the received income), such person may not be treated as beneficial owner of income. The result of the denial of beneficial owner's treatment with respect to a company's shareholders (or intermediary shareholders) would be the denial of double tax treaty benefits (zero rate taxation or reduced taxation of certain types of income distributed to such persons). The distribution of income to such shareholders would attract taxation which should have applied had the income been distributed directly to ultimate beneficial owners of such income (whether foreign or Russian).

(e) International conventions relating to tax matters

On 1 July 2015, the Convention on Mutual Administrative Assistance in Tax Matters developed by the Council of Europe and the OECD came into effect in Russia. On 12 May 2016, the Russian Federation signed the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information (thereby joining the Standard for Automatic Exchange of Financial Account Information (Common Reporting Standard)) which enables the Russian tax authorities to automatically exchange certain financial information with foreign countries. The relevant changes to the Russian Tax Code were introduced in November 2017.

In addition, on 7 June 2017, 68 jurisdictions, including Russia, signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (the "**Multilateral Convention**"). Several additional jurisdictions have signed the Multilateral Convention since then, and a number of jurisdictions have expressed their intention to sign the Multilateral Convention. It is expected that changes to specific bilateral treaties would come into effect after the parties to the treaties deposit their instruments of ratification, acceptance or approval of the Multilateral Convention, subject to an additional phase-in period. The Russian Federation ratified the Multilateral Convention in May 2019 pursuant to the Federal Law No. 79-FZ dated 1 May 2019. The Multilateral Convention sets forth additional requirements for the application of double taxation treaty benefits, including reduced tax rates.

The ratification of the above mentioned conventions may provide additional instruments to the Russian tax authorities to review at-source taxation of payments being made by the Russian Group companies.

PART 11

OPERATING AND FINANCIAL REVIEW

Investors should read this Part 11 in conjunction with the Financial Statements, including the notes thereto as well as the other information included in or incorporated by reference into this Prospectus.

This operating and financial review contains forward-looking statements that reflect current views of the Directors and involve risks and uncertainties. The actual results of operations and cash flows of the Group may differ materially from those discussed in forward-looking statements as a result of various factors, including those described in the “Risk Factors” section and elsewhere in this Prospectus.

This operating and financial review presents financial items such as “operating cash costs”, “operating cash expenses”, “total cash costs” and “total cash costs per oz” that are not measures under IFRS. Please see “Non-IFRS financial information” in Part 3 – Presentation of Financial and Other Information for additional information regarding the use of these non-IFRS measures.

1. Overview

1.1 Introduction to the Group

Petropavlovsk is one of Russia’s major gold mining companies. Since its formation and as of 30 June 2019, the Group has produced approximately 7.3Moz of gold. This figure includes production from the three key mining assets described below, the former Pokrovskiy mine (which stopped material production at the beginning of 2018 and has now become the site of the POX Hub), as well as production from alluvial operations and joint ventures which are no longer part of the Group. As at 31 December 2018, the Group had 20.52Moz of Mineral Resources, including 8.21Moz of Ore Reserves. The Group reports Mineral Resources and Ore Reserves in accordance with the JORC Code (2012) (the “**JORC Code**”). “**Mineral Resources**” are concentrations or occurrences of solid material of economic interest in or on the Earth’s crust in such form, grade (or quality) and quantity that there are reasonable prospects for eventual economic extraction. “**Ore Reserves**” are the economically minable part of the Measured and/or Indicated Mineral Resources adjusted for dilution and losses that may occur during mining. Dilution and mining losses factors are defined by a pre-feasibility or a feasibility studies. Such studies consider all relevant economic, environmental, social, legal and any other material factors to demonstrate that, at the time of the reporting extraction could reasonably justified.

Petropavlovsk’s key area of focus is the Amur region in the Russian Far East, where it has operated since 1994, and which benefits from well-developed infrastructure, access to hydroelectric power and a strong mining tradition. The Directors believe that the Company is one of the leading employers and contributors to the development of the local economy in the region.

The Group’s key operational assets are all located in the Amur region and include the Pioneer, Albyn, and Malomir mines (“**Key Mining Assets**”), as well as known satellite deposits and the Pressure Oxidation (“**POX**”) Hub. These mines are principally open-pit operations with smaller underground mining operations which commenced production from June 2017 at Pioneer and Malomir. The Group also mined gold at the Pokrovskiy deposit which was depleted in Q1 2018 and has subsequently become the site of the POX Hub. During the first six months of 2019 a small amount (0.2koz) of residual gold was recovered from the Pokrovskiy heap leach and RIP (as defined below) tailings.

Ores amenable for direct cyanidation are processed at on-site RIP plants located at all three of the Key Mining Assets. Ores that are not amenable for direct cyanidation, known as refractory ores, require additional treatment, flotation, followed by pressure oxidation. The flotation process recovers gold bearing sulphide minerals from the ore producing a high-grade concentrate which is then oxidised in an autoclave using pressure oxidation. Once the concentrate is oxidised, the gold is then recovered using the RIP facility.

The Group’s first flotation plant was completed and commissioned at Malomir in July 2018. A second flotation plant is under construction at the Pioneer site which is expected to start production in Q4 2020. High grade concentrate is transported for further processing and gold recovery to Pokrovskiy POX Hub where concentrate is first oxidised under high pressure in autoclaves and subsequently processed using RIP technology. In addition, there is a seasonal heap leaching facility at the Pioneer site which normally operates between April and November. However, 2019 is expected to be the last year of heap leach operations. In the first six months of

2019, the Group's Key Mining Assets processed approximately 5.5Mt of ore through the RIP plants, with 1.8Mt at the Malomir flotation plant, producing an aggregate of 225.1koz of gold in dore.

The table below sets out an overview of the Group's three Key Mining Assets and the former Pokrovskiy mine which has almost 1Moz of gold resources:

| | Pioneer | | Malomir | | Albyn | | Pokrovskiy | |
|--|------------------------------------|-----------------|-----------------------------------|-----------------|------------------------------------|-----------------|---------------------------------|-----------------|
| Licence area | Approximately 1,337km ² | | Approximately 74.5km ² | | Approximately 1,053km ² | | Approximately 95km ² | |
| Production to 30 June 2019 | c.2.6Moz Au | | c.0.8Moz Au | | c.1.2Moz Au | | c.2.0Moz Au | |
| Plant (RIP/flotation) capacity | 6.7Mtpa/0Mtpa | | 0.4Mtpa/3.6Mtpa | | 4.7Mtpa/0Mtpa | | n/a | |
| JORC R&R as of 31 December 2018 ^{1/2} | Resources | Reserves | Resources | Reserves | Resources | Reserves | Resources | Reserves |
| Total³ | 5.94Moz | 2.84Moz | 6.93Moz | 2.86Moz | 5.35Moz | 2.32Moz | 0.88Moz | - |
| Non-refractory | 1.44Moz | 0.67Moz | 0.22Moz | 0.13Moz | 4.22Moz | 1.89Moz | 0.88Moz | - |
| Refractory | 4.50Moz | 2.16Moz | 6.70Moz | 2.72Moz | 1.13Moz | 0.42Moz | - | - |

Notes:

- (1) In this Part, the reserves and resources data is sourced from the Group's 2018 Annual Report. The data is the Group's internal estimates as at 31/12/2018.
- (2) Resource figures are inclusive of reserves.
- (3) Totals may not add up due to rounding.

Pioneer is considered by management of the Group ("**Management**") to be one of the largest gold mines in Russia based on processing capacity. Pioneer accounted for 32 per cent. of the Group's total gold production in 2018 (23 per cent. in the first six months of 2019). The mine was acquired as a greenfield site in 2001 and was explored, developed and constructed using in-house expertise rather than external contractors. Since commissioning in 2008, the Pioneer RIP plant has been expanded in phases to reach its current processing capacity of approximately 6.7Mtpa. As of 30 June 2019, Pioneer has produced approximately 2.6Moz of gold. At 31 December 2018, Pioneer contained an estimated 5.94Moz of gold in Measured Mineral Resources, Indicated Mineral Resources and Inferred Mineral Resources, of which approximately 2.84Moz were contained in Proven Ore Reserves and Probable Ore Reserves. Three pits are currently in operation and the area is considered prospective and is actively being explored. Underground mine development commenced in Q3 2016 in the North East Bakhmut area using sublevel open stoping with waste backfill.

In H1 2019, exploration focused on areas near the operational open pit and underground mines. Some modestly encouraging results have been obtained at Nikolaevskaya, Zvezdochka and Andreevskaya areas.

Pokrovskiy was the Group's first operation and mining and processing ended in Q1 2018, having produced approximately 2.0Moz of gold. The site has been reconfigured to house the Pressure Oxidation (POX) Hub, a large-scale centralised facility which can treat refractory concentrates from the Company's own refractory orebodies as well as third party material. The POX Hub is an integral part of the Group's strategy for processing refractory gold and Pokrovskiy provides an important strategic location, given its existing and regional infrastructure, but also its proximity to deposits of limestone, which is a key ingredient of the pressure oxidation process. The POX project comprises the POX Hub, commissioned in Q4 2018, the flotation plant at Malomir, commissioned in July 2018, the flotation plant at Pioneer which is expected to be commissioned in Q4 2020 and an expansion of the Malomir flotation plant where construction is expected to begin in 2020, depending on capital availability and approval by the Company's Board of Directors. These flotation plants produce refractory concentrates which are to be delivered to the POX Hub for processing. The POX Hub is also capable of processing concentrates sourced from third parties, with the first batches of third party material successfully processed in Q3 2019.

Malomir was acquired by the Group as a greenfield site in 2003. Management consider it to be one of the largest gold mines in Russia, in terms of its Mineral Resource base. Malomir's production accounted for 18 per cent. of the Group's total gold production in FY 2018 and 41 per cent. in the first six months of 2019. As at 31 December 2018, Malomir's Mineral Resources were estimated to be approximately 6.93Moz, of which 2.86Moz were Ore Reserves. As at 30 June 2019, Malomir had produced approximately 0.8Moz (including gold produced via the POX Hub) of gold since commissioning in mid-2010. Underground development at the Malomir mine commenced in January 2017. Over 97 per cent. of Malomir's Mineral Resources are estimated to be refractory. As a result, since the commissioning of the Malomir flotation plant

and the POX Hub, the mine has become a major contributor to the Group's total gold production, with the POX Hub helping to unlock the value of the asset.

Albyn is the Group's newest mine, commissioned in 2011 and accounted for 36 per cent. of total gold production in FY 2018 and 35 per cent. in the first six months of 2019. The Group acquired its first *Albyn* licence in 2005 when the project area was a greenfield site. *Albyn* was subsequently explored, developed and constructed principally using in-house expertise. Subsequent exploration identified two large adjacent (satellite) deposits, *Elginskoye* and *Unglichikanskoye*. Up to 30 June 2019, *Albyn* produced approximately 1.2Moz of gold. As at 31 December 2018, *Albyn* (including satellites) had an estimated 5.35Moz of Mineral Resources, of which 2.32Moz were Ore Reserves. Wide areas adjacent to the mine remain under-explored and Group geologists consider *Albyn* to have the potential for further, large gold discoveries including the recently identified extensions of *Elginskoye* and *Unglichikanskoye*, which confirm the near-mine exploration potential at the *Albyn* mine.

Each of the Group's three operating mines, *Pioneer*, *Malomir* and *Albyn*, have estimated mine lives of at least 18 years based on the Group's current mine plan.

During the first six months of 2019, management focused on ramping up the newly commissioned POX Hub while optimising production at the Group's existing mines. Gold production increased 12 per cent. to c.225koz during the period, while the average realised gold price increased only slightly, from US\$1,285/oz in H1 2018 to US\$1,286/oz in H1 2019. Higher gold sales helped to drive revenues up 13 per cent. to US\$305 million, while operating profit increased from a loss of US\$23.7 million in H1 2018 to a profit of US\$2.5 million, due to a combination of higher production and lower costs.

In the first six months of 2019, the Group achieved Total Cash Costs ("TCC") of US\$841/oz, a decrease of 6 per cent. on the same period in 2018 (US\$899/oz). The decrease in TCC primarily reflects the effect of higher grades of ore processed and higher recoveries achieved at *Albyn* and *Malomir* as well as the effect of Russian Rouble depreciation, notwithstanding a sub-optimal performance at *Pioneer* (underground mine water ingress resulted in lower processed grades and hence a lower than expected contribution).

The decrease in the Company's All-in-Sustaining Costs ("AISC") to US\$1,029/oz is primarily due to lower TCC and sustaining exploration expenditure as well as a stockpile impairment reversal.

All-in Costs ("AIC") declined 19 per cent. to US\$1,091/oz during the first six months of 2019, driven by lower AISC and a material decrease in capital expenditure.

A table of the Group's gold production for the periods indicated is set out below:

| | 6 months ended 30 June 2019 koz | 6 months ended 30 June 2018 koz | Year ended 31 December 2018 koz | Year ended 31 December 2017 koz | Year ended 31 December 2016 koz |
|-------------------------------|---------------------------------------|---------------------------------------|--|--|--|
| <i>Pioneer</i> | 52.7 | 78.7 | 135.1 | 161.8 | 133.2 |
| <i>Pokrovskiy</i> | 0.2 | 5.6 | 6.5 | 30.6 | 38.2 |
| <i>Malomir</i> ⁽³⁾ | 93.0 | 46.8 | 77.6 | 65.6 | 54.9 |
| <i>Albyn</i> | 79.2 | 70.3 | 151.0 | 181.6 | 173.9 |
| Total gold production | 225.1 | 201.4 | 422.3⁽⁴⁾ | 439.6 | 400.2 |

Notes:

- (1) Figures may not add up due to rounding.
- (2) Commencing 2017, the Company moved to using gold poured as the definition for production. The data for 2017, 2018 and 2019 is quoted using this new approach. However, it should be noted that the full year of 2016 is quoted using the previous approach of gold recovered.
- (3) *Malomir* includes POX production.
- (4) Full year 2018 production of 422.3koz includes 52.1koz of gold contained in refractory concentrate produced at the *Malomir* flotation plant.

Total gold production (defined as gold poured) for the first six months of 2019 was 225.1koz.

The Group's in-house exploration team has a strong track record of identifying new targets and adding to the Group's resource base. As at 30 June 2019, the Group had produced a total of 7.3Moz of gold since its formation.

Between 2002 and the end of 2018, Petropavlovsk had discovered a total of approximately 32.7Moz of JORC Resources (including approximately 4.8Moz which have been sold) through exploration. At present, the Group is working to identify and explore prospective areas in the vicinity of its three Key Mining Assets with the aim of adding new Ore Reserves suitable for processing at the Group's facilities.

The Group is a vertically-integrated producer with operations and expertise across the entire mining lifecycle. This includes a network of laboratories, research and development centres, engineering facilities, a construction company as well as exploration, geological survey, mine planning and feasibility study capabilities. This operating structure has been instrumental to the Group's project development and processing capacity growth. All of the Group's hard rock gold mines have been explored, designed and built principally using in-house expertise. Since 2008, the Group's milling capacity has increased by more than 500 per cent. as the Group has expanded its operations.

As at 30 June 2019, Petropavlovsk held a 31.1 per cent. interest in IRC, a producer and developer of industrial commodities, principally iron ore, based in the Russian Far East. IRC benefits from low production costs and proximity to China which is the world's largest consumer of iron ore. IRC was Petropavlovsk's Non-Precious Metals Division before it was demerged and listed on the Hong Kong Stock Exchange in late 2010. As part of its ongoing strategy of balance sheet optimisation, the Group continues to assess ways of realising the value of its interest in IRC.

On 12 March 2019, Petropavlovsk shareholders approved the Company's proposal to guarantee the obligations of K&S, a wholly owned subsidiary of IRC, under two facility agreements with JSC Gazprombank ("**Gazprombank**") totalling US\$240 million. The new facility agreements have an improved loan repayment term along with a reduced guarantee resulting in lower risk for Petropavlovsk. This facility allowed IRC to repay in full an outstanding project finance facility (the "**Project Finance Facility**") K&S had with Industrial and Commercial Bank of China Ltd ("**ICBC**") and has enabled repayment to Petropavlovsk of \$57 million of bridge loan financings advanced in 2018 as well as a payment of US\$6 million in guarantee fees. As at 30 June 2019, c.US\$10.5 million has been paid by IRC as principal repayment and interest to Gazprombank in accordance with the repayment schedule for facility agreements guaranteed by Petropavlovsk. In return for providing a guarantee for these facility agreements, IRC has an obligation to pay the Company an annual fee of 3.07 per cent. on the maximum amount that may be payable by the Company on the outstanding facility agreements.

1.2 *Presentation of Financial Information*

The financial information in this Prospectus has been prepared in accordance with IFRS as adopted by the EU. As such, financial information included herein has been derived as follows:

- the financial information as at and for the six month period ended 30 June 2019 and for the six month period ended 30 June 2018 set forth herein has been derived from the 2019 Interim Financial Statements;
- the financial information as at and for the years ended 31 December 2018 and 31 December 2017 set forth herein has been derived from the 2018 Financial Statements; and
- the financial information as at and for the year ended 31 December 2016 set forth herein has, unless otherwise indicated, been derived from the 2017 Financial Statements.

2. **Principal factors affecting results of operations**

The Directors believe that the factors discussed below have significantly affected, or in the future will significantly affect, the Group's results of operations.

2.1 *Production levels*

The Group's results of operations and financial condition largely depend on total gold production levels during each reporting period. The Group's production levels in turn are affected by the production and development phase of each of its projects and future production levels will, in particular, depend upon the satisfactory continued operation of the Group's Key Mining Assets (Pioneer, Malomir, Albyn and

the POX Hub). The following table shows the Group's gold production by operation for the periods indicated:

| | | Six months ended 30 June 2019 | Six months ended 30 June 2018 | Year ended 31 December 2018 | Year ended 31 December 2017 | Year ended 31 December 2016 |
|--------------------------------------|------------|-------------------------------------|-------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Gold production by operation | | | | | | |
| Pioneer..... | koz | 52.7 | 78.7 | 135.1 | 161.8 | 141.9 |
| Pokrovskiy..... | koz | 0.2 | 5.6 | 6.5 | 30.6 | 37.6 |
| Malomir ⁽³⁾ | koz | 93.0 | 46.8 | 77.6 | 65.6 | 56.8 |
| Albyn..... | koz | 79.2 | 70.3 | 151.0 | 181.6 | 173.9 |
| Total Group gold production.. | koz | 225.1 | 201.4 | 422.3⁽⁴⁾ | 439.6 | 400.2 |

Notes:

- (1) Figures may not add up due to rounding.
- (2) Commencing 2017, the Company moved to using gold poured as the definition for production. The data for 2017, 2018 and 2019 is quoted using this new approach. However, it should be noted that the full year of 2016 is quoted using the previous approach of gold recovered.
- (3) Malomir includes POX production.
- (4) Full year 2018 production of 422.3koz includes 52.1koz of gold contained in refractory concentrate produced at the Malomir flotation plant.

The Pioneer Mine

As at 31 December 2018, Pioneer had produced approximately 2.6Moz of gold since commercial production began in 2008.

Pioneer produced approximately 161.8koz of gold in 2017 and approximately 135.1koz of gold in 2018, equating to approximately 32 per cent. and 37 per cent. of the Group's total gold production for those respective periods. In the first six months of 2019, Pioneer produced approximately 52.7koz of gold.

The Pokrovskiy Mine

To date, the Pokrovskiy mine has produced approximately 2.0Moz of gold since commissioning in 1999. Pokrovskiy ceased mining and ore processing operations in early 2018 and has become the site of the POX Hub.

Pokrovskiy produced approximately 30.6koz of gold in 2017 and approximately 6.5koz of gold in 2018, equating to approximately 7 per cent. and 2 per cent. of the Group's total gold production for those respective periods. In the first six months of 2019, Pokrovskiy produced approximately 0.2koz of gold.

The Malomir Mine

Malomir has produced approximately 0.8Moz of gold since commissioning in mid-2010.

Malomir produced approximately 65.6koz of gold in 2017 and approximately 77.6koz in 2018, equating to approximately 15 per cent. and 18 per cent. of the Group's total gold production for those respective periods. In the first six months of 2019, Malomir produced approximately 93.0koz of gold, which includes 61.3koz of gold produced from 76kt of Malomir concentrate at the POX Hub.

The Albyn Mine

Albyn is the newest of the Group's mines and has produced approximately 1.2Moz between commissioning in Q4 2011 and the first six months of 2019. Albyn produced approximately 181.6koz of gold during 2017 and 151.0koz during 2018 equating to approximately 41 per cent. and 36 per cent. of the Group's total gold production for these respective periods. In the first six months of 2019, Albyn produced approximately 79.2koz of gold.

2.2 *Reserves and Resources*

The Group's reserves will decline as it produces gold and its reserves are depleted. Moreover, the volume of production from gold properties generally declines as reserves are depleted. The Group's future production growth, therefore, will be dependent upon the successful discovery or acquisition and

development of additional reserves. A summary of the Group's reserves and resources is shown in section 6 of Part 10 (*Description of the Group*).

2.3 **Gold price**

The majority of the Group's revenue is derived from the sale of gold. The sale of gold is classified as a single performance obligation and revenue is recognised at a point in time when control has passed to the customer, as specified in individual sales contracts. The sales price is determined with reference to LBMA fixing at the time of sale. For the year ended 31 December 2018, revenue from gold and silver sales amounted to US\$467.5 million (2017: US\$556.2 million), equating to 93.5 per cent. of the Group's total revenue for the year. For the first six months of 2019, revenue from gold and silver sales amounted to US\$290.0 million (the first six months of 2018: US\$259.3 million), equating to 95.0 per cent. of the total Group revenue for that period.

As gold is the key commodity produced and sold by the Group, the key drivers for Group revenue are the amount of gold produced and the price at which it is sold.

The price of gold can vary significantly and is affected by factors which are outside the control of the Group, including in particular, the demand for gold as an investment. As a risk diversification and hedging tool, gold often benefits from political instability and economic malaise, serving as a long-standing store of value. Negative real interest rates, global market volatility, the risk of currency debasement, inflation concerns, as well as geopolitical unrest are some of the factors that market analysts and experts consider may have contributed to driving the gold price higher in recent years.

Historic gold prices per troy ounce, in US Dollars, as reported by the London Bullion Market Association (Gold PM fixing prices) are set forth for the periods indicated:

| | High | Low | Average |
|--|-------------|------------|----------------|
| For the period 1 January to 31 December 2014 | 1,385 | 1,142 | 1,266 |
| For the period 1 January to 31 December 2015 | 1,296 | 1,049 | 1,160 |
| For the period 1 January to 31 December 2016 | 1,366 | 1,060 | 1,248 |
| For the period 1 January to 31 December 2017 | 1,346 | 1,151 | 1,257 |
| For the period 1 January to 31 December 2018 | 1,355 | 1,178 | 1,268 |

In order to increase the certainty of part of its future cash flows, the Group sells a proportion of the gold it produces through forward-sales (hedging) contracts as well as at the prevailing market price.

Forward contracts to sell an aggregate of 200koz of gold matured during 2018 and resulted in a US\$(3.4) million net cash settlement by the Group (2017: US\$0.8 million cash contribution to revenue from forward contracts to sell an aggregate of 212.5koz of gold).

Forward contracts to sell an aggregate of 100koz of gold matured during the H1 2019 and resulted in US\$(6.0) million net cash settlement paid by the Group (H1 2018: US\$(6.5) million cash net cash settlement paid by the Group on forward contracts to sell 100koz of gold).

The Group's average realised gold sales price was US\$1,263/oz, US\$1,262/oz and US\$1,222/oz for the periods ended 31 December 2018, 2017 and 2016, respectively. The Group's average realised gold sales price for the six months ended 30 June 2019 and 30 June 2018 was US\$1,286/oz and US\$1,285/oz respectively.

2.4 **POX Hub**

The POX Hub is a strategic project for Petropavlovsk that enables the Group to unlock the value embedded within c.12.33Moz of its own refractory Mineral Resources. The Hub is located at the site of the Company's first mine, Pokrovskiy, where existing processing facilities and infrastructure was transformed into an advanced facility for the processing of refractory ore. The POX Hub allows Petropavlovsk not only to process its own refractory Resources, but also to process third party concentrate from anywhere in Russia and from Kazakhstan.

2.5 *Production costs and efficiency of the Group's gold mining operations*

The long-term profitability of the Group is dependent upon its ability to maintain low-cost and efficient gold mining operations.

The key elements of total cash costs are operating cash expenses, refinery and transportation costs, mining tax and other taxes and amortisation of deferred stripping costs and silver revenue which is a co-product of gold production and therefore is deducted when calculating total cash costs.

The key components of the operating cash expenses are detailed in section 2.6 "Operating Cash Expenses" of this Part 11. The key cost drivers affecting the operating cash expenses are stripping ratios, production volumes of ore mined and processed, grades of ore processed, recovery rates, inflation and fluctuations in the Rouble to US Dollar exchange rate.

Refinery and transportation costs are variable costs dependent on the production. Mining tax is also a variable cost dependent on the production volume and the gold price realised. The mining tax rate is 6 per cent. Under the Russian Federal Law 144-FZ dated 23 May 2016, introducing certain amendments to the Russian Tax Code, taxpayers who are participants in the RIP have the right to apply a reduced mining tax rate provided certain conditions are met. The Group's mining entities (JSC Pokrovskiy Rudnik, LLC Malomirskiy Rudnik and LLC Albynskiy Rudnik) met the eligibility criteria and continued applying 0 per cent. mining tax rate in the year ended 31 December 2018. In the six months ended 30 June 2019, LLC Malomirskiy Rudnik and LLC Albynskiy Rudnik met eligibility criteria and applied 1.2 per cent. mining tax rate while JSC Pokrovskiy Rudnik applied full mining tax rate, resulting in US\$6.7 million mining tax expense.

In open-pit mining operations, removal of overburden and other waste materials, referred to as "stripping", is required to obtain access to the ore body. Deferred stripping costs are stripping costs incurred during the production phase of a mine that are deferred as part of cost of inventory and are written off to the income statement in the period over which economic benefits related to the stripping activity are realised. Deferred stripping costs are mine-specific and may vary from year to year depending on the mining plan. In gold alluvial operations, stripping activity is sometimes undertaken in preparation for the next season. Stripping costs are then deferred as part of cost of inventory and are written off to the income statement in the following year to match related production.

The Pioneer mine

The following table sets forth a breakdown of the total cash costs for the Pioneer mine for the periods indicated:

| | Six months ended 30 June | | Year ended 31 December | | |
|---|--------------------------|-------------|------------------------|--------------|-------------|
| | 2019 | 2018 | 2018 | 2017 | 2016 |
| | US\$'000,000 | | | | |
| Physical volume of gold sold, oz | 52,805 | 78,733 | 135,001 | 160,421 | 133,605 |
| Operating cash expenses | 50.6 | 65.1 | 105.3 | 125.5 | 77.9 |
| Refinery and transportation | 0.1 | 0.1 | 0.2 | 0.3 | 0.2 |
| Other taxes | 0.9 | 1.1 | 2.0 | 1.9 | 1.9 |
| Mining tax | 4.2 | — | — | — | 5.2 |
| Deferred stripping costs | 4.6 | 0.5 | 0.9 | — | — |
| Operating cash costs | 60.4 | 66.8 | 108.5 | 127.7 | 85.3 |
| Deduct: co-product revenue | (0.3) | (0.4) | (0.6) | (0.7) | (1.0) |
| Total cash costs | 60.1 | 66.4 | 107.9 | 126.9 | 84.3 |
| Total cash costs per oz, US\$/oz | 1,138 | 843 | 799 | 791 | 631 |

In the six months ended 30 June 2019, the total cash costs per ounce for the Pioneer mine were US\$1,138/oz compared to US\$843/oz in the six months ended 30 June 2018. The increase in TCC at Pioneer is attributable to lower mined and processed grades as a result of a lower than expected contribution from underground mining, where production volumes were affected by water ingress earlier this year. The negative effect of the overall increase in TCC was partially offset by Rouble depreciation against the US Dollar.

In the year ended 31 December 2018, the total cash costs per ounce for the Pioneer mine were US\$799/oz compared to US\$791/oz in the year ended 31 December 2017. Total cash costs remained

broadly similar to the previous year despite a decrease in gold ounces produced due to an increase in the head grade and RIP recovery.

In the year ended 31 December 2017, total cash costs for Pioneer were US\$791/oz compared to US\$631/oz in the year ended 31 December 2016. The increase in the total cash costs per ounce was primarily due to Rouble appreciation against the US Dollar, Rouble inflation and reflect the impact of the lower grades processed and lower metallurgical recoveries.

The Pokrovskiy mine

Pokrovskiy was the Group's first operation and mining and processing ended in early 2018 and has been reconfigured to house the POX Hub.

The following table sets forth a breakdown of the total cash costs for the Pokrovskiy mine for the periods indicated:

| | Six months ended 30 June | | Year ended 31 December | | |
|---|--------------------------|--------------|------------------------|--------------|-------------|
| | 2019 | 2018 | 2018 | 2017 | 2016 |
| | US\$'000,000 | | | | |
| Physical volume of gold sold, oz | — | 5,646 | 6,442 | 32,250 | 38,151 |
| Operating cash expenses | — | 7.1 | 8.6 | 39.6 | 31.9 |
| Refinery and transportation..... | — | 0.0 | 0.0 | 0.1 | 0.1 |
| Other taxes..... | — | 0.1 | 0.1 | 0.4 | 0.5 |
| Mining tax | — | — | — | — | 1.3 |
| Deferred stripping costs..... | — | — | — | — | — |
| Operating cash costs | — | 7.2 | 8.7 | 40.0 | 33.8 |
| Deduct: co-product revenue | — | (0.0) | — | (0.1) | (0.3) |
| Total cash costs | — | 7.1 | 8.6 | 39.9 | 33.5 |
| Total cash costs per oz, US\$/oz | — | 1,262 | 1,341 | 1,236 | 878 |

In the six months ended 30 June 2019, there was no material production from the Pokrovskiy mine (0.2koz). As such total cash costs at Pokrovskiy for the first six months of 2019 amounted to US\$0/oz compared to US\$1,262/oz in the six months ended 30 June 2018.

In the year ended 31 December 2018, total cash costs per ounce for the Pokrovskiy mine were US\$1,341/oz compared to US\$1,236/oz in the year ended 31 December 2017. Total cash costs per ounce for the Pokrovskiy mine increased compared to 2017 due to the processing of remaining marginal reserves.

In the year ended 31 December 2017, total cash costs for the Pokrovskiy mine were US\$1,236/oz compared to US\$878/oz in the year ended 31 December 2016. The decrease in total cash cost per ounce was mainly due to the processing of remaining marginal reserves.

The Malomir mine

The following table sets forth a breakdown of the total cash costs for the Malomir mine for the periods indicated:

| | Six months ended 30 June | | Year ended 31 December | | |
|---|--------------------------|-------------|------------------------|-------------|-------------|
| | 2019 | 2018 | 2018 | 2017 | 2016 |
| | US\$'000,000 | | | | |
| Physical volume of gold sold, oz | 92,938 | 46,726 | 77,448 | 65,678 | 54,760 |
| Operating cash expenses | 71.8 | 36.3 | 51.2 | 55.7 | 41.6 |
| Refinery and transportation..... | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| Other taxes..... | 1.6 | 0.8 | 2.0 | 1.7 | 1.6 |
| Mining tax | 1.3 | — | — | — | 1.9 |
| Deferred stripping costs..... | 5.3 | 8.3 | 10.6 | 3.6 | — |
| Operating cash costs | 80.1 | 45.4 | 63.9 | 61.1 | 45.2 |
| Deduct: co-product revenue | (0.2) | (0.0) | (0.1) | — | (0.1) |
| Deduct: co-product revenue | — | — | (2.6) | — | — |
| Total cash costs | 79.9 | 45.4 | 61.3 | 61.0 | 45.1 |
| Total cash costs per oz, US\$/oz | 860 | 971 | 791 | 929 | 824 |

In the six months ended 30 June 2019, the total cash costs per ounce for the Malomir mine were US\$860/oz compared to US\$971/oz in the six months ended 30 June 2018. The decrease in TCC was due to higher processed grades, strong gold recovery and Rouble depreciation against the US Dollar.

In the year ended 31 December 2018, total cash costs for the Malomir mine were US\$791/oz compared to US\$929/oz in the year ended 31 December 2017. The decrease in the total cash costs per ounce was primarily due to an improvement in the RIP head grades and recovery, physical volumes of the both total rock moved and ore processed through RIP plant decreased helping to save on operating cost.

In the year ended 31 December 2017, total cash costs for the Malomir mine were US\$929/oz compared to US\$824/oz in the year ended 31 December 2016. The increase in the total cash costs per ounce was primarily due to Rouble appreciation against the US Dollar, Rouble inflation and the impact of the higher strip ratio and lower metallurgical recoveries.

The Albyn mine

The following table sets forth a breakdown of the total cash costs for the Albyn mine for the periods indicated:

| | Six months ended 30 June | | Year ended 31 December | | |
|---|--------------------------|-------------|------------------------|-------------|--------------|
| | 2019 | 2018 | 2018 | 2017 | 2016 |
| | US\$'000,000 | | | | |
| Physical volume of gold sold, oz | 79,288 | 70,275 | 150,720 | 181,485 | 173,342 |
| Operating cash expenses | 42.0 | 49.7 | 82.1 | 73.4 | 74.2 |
| Refinery and transportation..... | 0.1 | 0.1 | 0.2 | 0.3 | 0.3 |
| Other taxes..... | 0.9 | 1.1 | 2.1 | 2.0 | 2.2 |
| Mining tax | 1.3 | — | — | — | 6.3 |
| Deferred stripping costs | 5.2 | 11.4 | 28.2 | 22.6 | 18.0 |
| Operating cash costs | 49.4 | 62.3 | 112.7 | 98.4 | 101.0 |
| Deduct: co-product revenue | (0.1) | (0.1) | (0.2) | (0.2) | (0.2) |
| Total cash costs | 49.3 | 62.1 | 112.5 | 98.2 | 100.8 |
| Total cash costs per oz, US\$/oz | 622 | 884 | 747 | 541 | 581 |

In the six months ended 30 June 2019, the total cash costs per ounce for the Albyn mine were US\$622/oz compared to US\$884/oz in the six months ended 30 June 2018. The decrease in TCC was driven by higher mined and processed grades, strong RIP plant gold recovery (94 per cent.) and Rouble depreciation.

In the year ended 31 December 2018, total cash costs per ounce for the Albyn mine were US\$747/oz compared to US\$541/oz in the year ended 31 December 2017. The increase in the total cash costs per ounce was primarily due to higher volumes of stripping, suboptimal organisation of mining works in the first half of 2018 and decrease in average grades processed. This increase was partially offset by Rouble depreciation against the US Dollar.

In the year ended 31 December 2017, total cash costs for Pioneer were US\$541/oz compared to US\$581/oz in the year ended 31 December 2016. The total cash costs remained stable, being affected by Rouble appreciation against the US Dollar and Rouble inflation and offset by higher head grades.

2.6 *Operating Cash Expenses*

The Group's operating cash expenses have a significant effect on its results of operations. The key components of the operating cash expenses are staff costs, materials, fuel and electricity, other external services, as set out in the table below. Materials, fuel and electricity are variable cost components of the operating cash expenses, staff costs are the fixed cost component of the operating cash expenses. The key cost drivers affecting the operating cash expenses are stripping ratios, production volumes of ore mined and processed, grades of ore processed, recovery rates, inflation and fluctuations in the Rouble to US Dollar exchange rate.

| | Six months ended 30 June | | Year ended 31 December | | |
|---|--------------------------|--------------|------------------------|--------------|--------------|
| | 2019 | 2018 | 2018 | 2017 | 2016 |
| | | | US\$'000,000 | | |
| Staff cost..... | 40.8 | 36.3 | 67.3 | 72.1 | 54.7 |
| Materials..... | 42.4 | 49.1 | 93.2 | 107.1 | 97.4 |
| Fuel..... | 22.5 | 24.2 | 45.5 | 43.8 | 40.3 |
| Electricity | 17.0 | 14.5 | 26.5 | 30.1 | 23.3 |
| Other external services | 33.2 | 23.4 | 46.8 | 36.2 | 22.1 |
| Other operating expenses..... | 12.5 | 11.6 | 23.4 | 24.1 | 28.2 |
| | 168.4 | 159.1 | 302.7 | 313.4 | 266.0 |
| Movement in ore stockpiles, gold in circuit, bullion in process, limestone and flotation concentrate attributable to gold production..... | (4.1) | (1.0) | (55.6) | (19.2) | (40.5) |
| Total operating cash expenses..... | 164.4 | 158.1 | 247.1 | 294.2 | 225.6 |

Note:

The percentages which the key components of the operating cash expenses accounted for in the total operating cash expenses set out in (a) - (e) below have been calculated by dividing the relevant costs by the total operating cash expenses before movement in ore stockpiles, work in progress and bullion in process attributable to gold production.

(a) *Staff costs*

Staff costs are a significant component of the operating cash expenses and are comprised of the wages and salaries paid to both permanent employees of the Group and contractors employed on a temporary basis as required, and payroll taxes. Staff costs accounted for approximately 24 per cent. and 23 per cent. of the operating cash expenses in the six months ended 30 June 2019 and 2018, respectively, and 22 per cent., 23 per cent. and 21 per cent. of the operating cash expenses in the years ended 31 December 2018, 2017 and 2016, respectively.

The average number of employees at the Group was 8,681, 8,519 and 8,064 in the years ended 31 December 2018, 2017 and 2016, respectively.

(b) *Materials*

The cost of materials employed in the production process represents a significant amount of the operating cash expenses. Cost of materials consisted of approximately 25 per cent. and 31 per cent. of the operating cash expenses in the six months ended 30 June 2019 and 2018, respectively, and 31 per cent., 34 per cent. and 37 per cent. of the operating cash expenses in the years ended 31 December 2018, 2017 and 2016, respectively. Materials used in the production process primarily include chemicals reagents, consumables and spare parts.

(c) *Fuel*

Diesel fuel, used in the operation of the mining fleet, is a significant variable cost element of production, accounting for approximately 13 per cent. and 15 per cent. of the operating cash expenses in the six months ended 30 June 2019, respectively, and 15 per cent., 14 per cent. and 15 per cent. of the operating cash expenses in the years ended 31 December 2018, 2017 and 2016, respectively. The principal factors affecting the diesel fuel costs are the quantity of materials moved in mining operations and the global price of oil.

(d) *Electricity*

Electricity, used predominantly in processing operations, is also a significant component of the cash operating expenses. Electricity costs accounted for approximately 10 per cent. and 9 per cent. of the operating cash expenses in the six months ended 30 June 2019 and 2018, respectively and 11 per cent., 10 per cent. and 10 per cent. of the operating cash expenses in the years ended 31 December 2018, 2017 and 2016, respectively. Electricity prices are fixed on a yearly basis, with tariffs set by a regional energy committee and approved by the Amur region administration for a period of 12 months.

(e) *Other external services*

Other external services primarily relate to some hauling outsourced to third parties when the volume of work required exceeds the existing capacity of the Group's mining fleet and workforce. Other external services accounted for approximately 20 per cent. and 15 per cent. of the operating cash expenses in the six months ended 30 June 2019 and 2018, respectively, and 19 per cent., 12 per cent. and 10 per cent. of the operating cash expenses in the years ended 31 December 2018, 2017 and 2016, respectively.

2.7 *Results of specialist service companies*

These Group's specialist service companies primarily provide in-house specialist support to members the Group and some of them also provide services to third parties. External revenue generated varies year on year depending on the services provided by these specialist companies to third parties.

In the six months ended 30 June 2019 and 2018, these entities generated external revenues of US\$15.3 million and US\$11.2 million, respectively. External revenue generated by these entities represented 5 per cent. and 4.1 per cent. of Group revenue in the six months ended 30 June 2019 and 2018, respectively.

In the years ended 31 December 2018, 2017 and 2016, these entities generated external revenues of US\$29.1 million, US\$31.2 million and US\$50.7 million, respectively. External revenue generated by these entities represented 5.8 per cent., 5.3 per cent. and 9.4 per cent. of Group revenue in the years ended 31 December 2018, 2017 and 2016, respectively. This revenue was substantially attributable to sales generated by the Group's engineering and research institute, Irgiredmet, primarily through engineering services and the procurement of materials, consumables and equipment for third parties, which comprised US\$13.0 million and US\$9.1 million in the six months ended 30 June 2019 and 2018, respectively, and US\$25.1 million, US\$29.0 million and US\$44.8 million in the years ended 31 December 2018, 2017 and 2016, respectively.

2.8 *Inflation*

Since the majority of the Group's production costs are denominated in Roubles, inflation in Russia is a significant factor driving certain development and production costs including staff costs and raw materials. As described under the section 2.6 "Operating Cash Expenses" of this Part 11, employee wages and other operational costs are sensitive to general inflationary pressure in Russia.

2.9 *Effect of exchange rates*

The majority of the Group's revenues are denominated in US Dollars, and to a lesser extent, in Roubles, whilst the majority of its operating expenses are denominated in Roubles. The Group's interest expenses are largely denominated in US Dollars. Accordingly, the Group's financial results are affected by fluctuations in exchange rates, in particular, the exchange rate between the Rouble and the US Dollar. Depreciation of the US Dollar versus the Rouble will increase the Group's operating expenses in US Dollar terms, while appreciation of the US Dollar versus the Rouble will decrease operating expenses in US Dollar terms. For accounting purposes, expenses incurred in currencies other than the US Dollar are converted into US Dollars at the exchange rate prevailing on the date of the transaction. The Group maintains the majority of its cash balances in US Dollar- and Rouble-denominated accounts, adjusting its currency holdings on the basis of its operating and capital expenditure budget.

The following table sets out the average and closing rates of exchange of the Rouble in US Dollars applied in the Consolidated Financial Statements for the Group as at and in the six months ended 30 June 2019 and 2018 and as at and in the years ended 31 December 2018, 2017 and 2016, and the associated foreign exchange gain or loss for the Group for the periods indicated:

| | Six months ended 30 June | | Year ended 31 December | | |
|------------------------|--------------------------|-------|------------------------|-------|-------|
| | 2019 | 2018 | 2018 | 2017 | 2016 |
| Closing (RUR/USD)..... | 63.08 | 62.76 | 69.47 | 57.60 | 60.66 |
| Average (RUR/USD)..... | 65.20 | 59.33 | 62.68 | 58.32 | 67.18 |

| | Six months ended 30 June | | Year ended 31 December | | |
|--|--------------------------|------|------------------------|-------|-------|
| | 2019 | 2018 | 2018 | 2017 | 2016 |
| Group foreign exchange (loss)/gain (US\$'000,000)..... | (14.0) | 0.1 | 8.5 | (0.7) | (5.2) |

Foreign exchanges gains and losses arise primarily on the Rouble denominated net monetary assets and Pounds Sterling denominated net monetary liabilities.

2.10 Disposals

There were no disposals in the six months ended 30 June 2019 or the years ended 31 December 2018 or 2017.

In the year ended 31 December 2016, the Group entered into agreements to sell its wholly owned subsidiary LLC Ilijnskoye and its associate JSC Verkhnetisskaya Ore Mining Company for an aggregate cash consideration equivalent to US\$20 million, payable in tranches during 2016, out of which an amount of US\$19.8 million was attributed to the value of Visokoe asset held by LLC Ilijnskoye and the remainder to JSC Verkhnetisskaya Ore Mining Company. The disposal of LLC Ilijnskoye was completed on 11 May 2016. The Group recognised US\$0.5 million net loss on this disposal.

3. Results of Operations

3.1 Description of key line items

Certain line items in the Group's consolidated income statement are described below.

(a) Revenue

The Group generates the majority of its revenue from the sale of gold to two Russian banks. The Group sells its gold primarily to the banks at or around the spot price fixed by the London Bullion Market Association.

The following table sets forth the Group's revenues, by business segment, for the periods indicated:

| | Six months ended 30 June | | Year ended 31 December | | |
|---|--------------------------|---------|------------------------|---------|---------|
| | 2019 | 2018 | 2018 | 2017 | 2016 |
| | | | US\$'000 | | |
| Revenue from gold hard-rock mines, floatation concentrate and silver..... | 290,039 | 259,287 | 470,717 | 556,183 | 490,009 |
| Revenue from other operations | 15,289 | 11,167 | 29,058 | 31,237 | 50,675 |
| Group revenue..... | 305,328 | 270,454 | 499,775 | 587,420 | 540,684 |

(b) Operating expenses

The principal components of operating expenses are net operating expenses, central administration expenses, impairment charges and foreign exchange.

Net operating expenses consist of operating cash costs and depreciation. Operating cash costs are described in further detail in section 2.4 entitled "Production costs and efficiency of the Group's gold mining operations" of this Part 11 and in section 2.6 entitled "Operating Cash Expenses" of this Part 11. The majority of the Group's operating cash costs are denominated in Roubles. Accordingly, the Group's cost of sales is affected by exchange rate fluctuations between the US Dollar and the Rouble.

Central administration expenses consist principally of wages of employees not involved in the production process, Directors' emoluments, fees paid to consultants, auditor's remuneration, legal expenses, and business travel expenses.

Foreign exchange losses/(gains) is described in further detail in section 2.9 entitled “Effect of exchange rates” of this Part 11.

(c) *Investment income*

Financial income primarily consists of interest income on cash balances on term deposits with banks and interest income on loans granted to associate.

(d) *Interest expense*

Interest expense consists principally of interest expense on the Bonds and bank loans held by the Group, less interest capitalised within property, plant and equipment.

(e) *Taxation*

Taxation consists of (i) current tax, which is tax expected to be payable on the taxable income for the year calculated using rates that have been enacted or substantially enacted by the balance sheet date, and (ii) deferred tax, which arises on temporary differences existing at the balance sheet date between the carrying value of an asset or liability and its tax base.

3.2 *Selected income statement data*

The following sets forth certain income statement data for the Group in the six months ended 30 June 2019 and 2018 and in the years ended 31 December 2018, 2017 and 2016:

| | Six months ended 30 June | | Year ended 31 December | | |
|---|--------------------------|-----------------|------------------------|---------------|---------------|
| | 2019 | 2018 | 2018 | 2017 | 2016 |
| | | | US\$'000 | | |
| Continuing operations | | | | | |
| Group revenue | 305,328 | 270,454 | 499,775 | 587,420 | 540,684 |
| Operating expenses..... | (294,910) | (289,292) | (388,643) | (522,267) | (460,103) |
| Share of results of associates | (7,905) | (4,863) | 15,480 | 35,208 | 80,581 |
| Share of results of joint ventures..... | — | — | — | — | (3,581) |
| Operating profit/(loss) | 2,513 | (23,701) | 126,612 | 100,361 | 77,000 |
| Investment income..... | 2,522 | 718 | 3,775 | 760 | 556 |
| Interest expense | (25,979) | (11,987) | (29,520) | (25,905) | (60,976) |
| Other finance gains..... | 48,275 | 10,267 | 13,905 | 2,199 | 11,976 |
| Other finance losses..... | (10,555) | (8,401) | (32,354) | (28,470) | (1,548) |
| Profit/(loss) before taxation | 16,776 | (33,104) | 82,418 | 48,945 | 27,008 |
| Taxation..... | (3,233) | (6,747) | (56,489) | (11,804) | 4,698 |
| Profit / (loss) for the period | 13,543 | (39,851) | 25,929 | 37,141 | 31,706 |
| Attributable to | | | | | |
| Equity shareholders of Petropavlovsk PLC..... | 14,290 | (40,252) | 24,493 | 37,006 | 33,719 |
| Non-controlling interests | (747) | 401 | 1,436 | 135 | (2,013) |

3.3 *Comparison of the periods ended 30 June 2019 and 30 June 2018*

(a) *Revenue*

In the six months ended 30 June 2019, total revenue was US\$305.3 million, a US\$34.9 million or 12.9 per cent. increase from US\$270.5 million in the six months ended 30 June 2018.

Revenue from hard-rock mines was US\$290.0 million, a US\$30.8 million or 11.9 per cent. increase from US\$259.3 million achieved in the six months ended 30 June 2018.

The sale of gold and silver comprised 95.0 per cent. of total revenue generated in six months ended 30 June 2019. The physical volume of gold sold was 225,031 ounces in the six months ended 30 June 2019, a 11.7 per cent. increase from 201,381 ounces sold in the six months ended 30 June 2018. The average realised gold price increased slightly to US\$1,286/oz in the six months ended 30 June 2019 compared to US\$1,285/oz in the six months ended 30 June 2018.

The Group sold 42,976 ounces of silver in the six months ended 30 June 2019 at an average price of US\$15/oz, compared to 37,385 ounces of silver sold in the six months ended 30 June 2018 at an average price of US\$16/oz.

Revenue generated as a result of third-party work by the Group's in-house service companies was US\$15.3 million in the six months ended 30 June 2019, a US\$4.1 million increase compared to US\$11.2 million in the six months ended 30 June 2018. This was primarily attributable to sales generated by the Group's engineering and research institute, Irgiredmet, primarily through engineering services and the procurement of materials, consumables and equipment for third parties, which comprised US\$13.0 million in the six months ended 30 June 2019 compared to US\$9.1 million in the six months ended 30 June 2018.

(b) *Operating expenses*

The Group's operating expenses were US\$294.9 million in the six months ended 30 June 2019, a US\$5.6 million or 1.9 per cent. increase from US\$289.3 million in the six months ended 30 June 2018. This increase was primarily attributable to an increase in expense items as set out below.

Operating expenses comprise the following items:

| | Six months ended 30 June | |
|--|--------------------------|------------------|
| | 2019 | 2018 |
| | US\$'000 | |
| Operating cash costs | (205,852) | (193,195) |
| Depreciation | (54,007) | (48,243) |
| Central administration expenses | (21,953) | (19,842) |
| Impairment of exploration and evaluation assets | — | (12,194) |
| Reversal of impairment / (impairment of ore stockpiles) | 823 | (14,540) |
| Reversal of impairment / (impairment of gold in circuit) | 101 | (665) |
| Impairment of non-trading loans | — | (676) |
| Foreign exchange (losses) / gains | (14,022) | 63 |
| | <u>(294,910)</u> | <u>(289,292)</u> |

Operating cash costs

Operating cash costs for the six months ended 30 June 2019 were US\$205.9 million, a US\$12.7 million or 6.6 per cent. increase from US\$193.2 million in the six months ended 30 June 2018. This was primarily due to inflation of diesel and electricity prices.

Depreciation

Depreciation for the six months ended 30 June 2019 was US\$54.0 million, a US\$5.8 million or 11.9 per cent. increase from US\$48.2 million in the six months ended 30 June 2018. This increase was primarily due to transfers from capital construction in progress to property plant and equipment being costs primarily associated with continuous development of Malomir and Pioneer projects

Central administration expenses

The Group's central administration expenses were US\$22.0 million in the six months ended 30 June 2019, a US\$2.1 million or 10.6 per cent. increase from US\$19.8 million in the six months ended 30 June 2018, primarily due to increases in staff costs.

Impairment of exploration and evaluation assets

The Group's impairment of exploration and evaluation assets were a null amount in the six months ended 30 June 2019 compared to an amount of US\$12.2 million in the six months ended 30 June 2018. In the six months ended 30 June 2018, the Group performed a review of its exploration and evaluation assets and concluded to suspend exploration at the Flanks of Malomir, surrender the relevant licences and record an impairment charge against the associated exploration and evaluation assets.

An analysis of impairment of exploration and evaluation assets recorded in the years ended 31 December 2018 and 31 December 2017 is set out in section 3.4(b) "Comparison of the years ended 31 December 2018 and 2017" of this Part 11.

Impairment of ore stockpiles

The Group assessed the recoverability of the carrying value of ore stockpiles during the six months ended 30 June 2019 and recorded impairment charges/reversal of impairment as set out below:

| | Pre-tax impairment charge/(reversal of impairment) | Taxation | Post-tax impairment charge/(reversal of impairment) |
|--------------|--|-----------|---|
| | | US\$'000 | |
| Pioneer..... | 3,136 | (627) | 2,509 |
| Malomir..... | — | — | — |
| Albyn..... | (3,959) | 673 | (3,286) |
| | (823) | 46 | (777) |

Impairment charges in relation to ore stock piles recorded during the six months ended 30 June 2018 are set out below:

| | Pre-tax impairment charge | Taxation | Post-tax impairment charge |
|--------------|---------------------------------|----------------|----------------------------------|
| | | US\$'000 | |
| Pioneer..... | — | — | — |
| Malomir..... | 309 | (62) | 247 |
| Albyn..... | 14,231 | (2,419) | 11,812 |
| | 14,540 | (2,481) | 12,059 |

An impairment charge of US\$3.1 million against the ore stockpiles at Pioneer mine and the reversal of an impairment charge of US\$4.0 million against the ore stockpiles at Albyn mine in the six months ended 30 June 2019, compared to an impairment charge of US\$14.2 million against the ore stockpiles at Albyn mine in the six months ended 30 June 2018.

(c) *Operating profit/(loss)*

As a result of the factors discussed above, the Group had an operating profit of US\$2.5 million in the six months ended 30 June 2019 and an operating loss of US\$23.7 million in the six months ended 30 June 2018. The Group's operating profit increased by US\$26.2 million compared to the six months ended 30 June 2018.

(d) *Investment income*

The Group's investment income was US\$2.5 million in the six months ended 30 June 2019, a US\$1.8 million or 251.3 per cent. increase from US\$0.7 million in the six months ended 30 June 2018.

(e) *Interest expense*

The Group's interest expense was US\$26.0 million in the six months ended 30 June 2019, a US\$14.0 million or 116.7 per cent. increase from US\$12.0 million in the six months ended 30 June 2018.

(f) *Other finance gains and losses*

The Group's other finance gains was US\$48.3 million in the six months ended 30 June 2019, a US\$38.0 million or 370.2 per cent. increase from US\$10.3 million in the six months ended 30 June 2018.

The Group's other finance losses was US\$10.6 million in the six months ended 30 June 2019, a US\$2.2 million or 25.6 per cent. increase from US\$8.4 million in the six months ended 30 June 2018.

(g) *Taxation*

The Group is subject to corporation tax under UK, Russian and Cypriot tax legislation. The average statutory tax rate in the six months ended 30 June 2019 was 19 per cent. in the UK and 20 per cent. in Russia.

In the six months ended 30 June 2019, the Group's tax charge was US\$3.2 million, a US\$3.5 million or 52.1 per cent. decrease from US\$6.7 million in the six months ended 30 June 2018.

The Group made corporation tax payments in aggregate of US\$16.6 million and US\$0.1 million in Russia in the six months ended 30 June 2019 and 2018, respectively.

(h) *Profit (loss) for the period*

As a result of the foregoing the Group had a profit for the period of US\$13.5 million in the six months ended 30 June 2019 compared to a loss for the period of US\$39.9 million in the six months ended 30 June 2018.

3.4 ***Comparison of the years ended 31 December 2018 and 2017***

(a) *Revenue*

In the year ended 31 December 2018, total revenue was US\$499.8 million, a US\$87.6 million or 14.9 per cent. decrease from US\$587.4 million in the year ended 31 December 2017. This decrease was due to a US\$88.4 million decrease in gold sales partially offset by a US\$3.2 million increase flotation concentrate.

Revenue from hard-rock mines was US\$470.7 million, a US\$85.5 million or 15.4 per cent. decrease from US\$556.2 million achieved in year ended 31 December 2017. The sale of gold comprised 93 per cent. of total revenue generated in year ended 31 December 2018. The physical volume of gold sold was 369,611 ounces in the year ended 31 December 2018, a 16 per cent. decrease from 439,834 ounces sold in year ended 31 December 2017.

Revenue generated as a result of third-party work by the Group's in-house service companies was US\$29.1 million in the year ended 31 December 2018, a US\$2.2 million decrease compared to US\$31.2 million in the year ended 31 December 2017. This was primarily attributable to sales generated by the Group's engineering and research institute, Irgiredmet, of US\$25.1 million in the year ended 31 December 2018 compared to US\$29.0 million in year ended 31 December 2017, primarily through engineering services and the procurement of materials, consumables and equipment for third parties.

(b) *Operating expenses*

The Group's operating expenses were US\$388.6 million in the year ended 31 December 2018, a US\$133.6 million or 25.6 per cent. decrease from US\$522.3 million in the year ended 31 December 2017. This decrease was primarily attributable to an increase in expense items as set out below.

Operating expenses comprise the following items:

| | Year ended 31 December | |
|--|------------------------|---------|
| | 2018 | 2017 |
| | US\$'000 | |
| Net operating expenses..... | 427,255 | 461,908 |
| Accrual for additional mining tax..... | — | 19,852 |
| Reversal of impairment of mining assets and in-house service | (101,695) | — |
| Impairment of exploration and evaluation assets..... | 12,192 | — |
| Impairment/(reversal of impairment) of ore stockpiles..... | 18,021 | (4,702) |
| Impairment of gold in circuit..... | 2,125 | 3,890 |
| Central administration expenses | 39,195 | 39,944 |
| Foreign exchange losses/(gains) | (8,450) | 746 |
| Impairment of non-trading loans | — | 629 |
| Total | 388,643 | 522,267 |

Net operating expenses

Net operating expenses for the year ended 31 December 2018 were US\$427.3 million, a US\$34.7 million or 7.5 per cent. decrease from US\$461.9 million in the year ended 31 December 2017. This decrease was primarily attributable to a decrease in materials and in movement in ore stockpiles, deferred stripping, work in progress, bullion in process, limestone and flotation concentrate attributable to gold production and was partially offset by an increase in external services.

Accrual for additional mining tax

Accrual for additional mining tax for the year ended 31 December 2018 was a null amount, a US\$19.9 million decrease from US\$19.9 million in the year ended 31 December 2017. This mining tax was from the six-month period ended 31 December 2016, interest and penalties paid by the Group in 2017 following unfavourable court decisions.

Reversal of impairment of mining assets and in-house service

Reversal of impairment of mining assets and in-house service for the year ended 31 December 2018 was a negative amount of US\$101.7 million, a decrease from a null amount in the year ended 31 December 2017. The Group undertook a review of impairment indicators and impairment reversal indicators of the tangible assets attributable to its gold mining projects and supporting in-house service companies and concluded no impairment was required as at 31 December 2018 and 2017. Having considered the excess of estimated recoverable amounts over the carrying values of the associated assets on the statement of financial position as at 31 December 2018 and taking into consideration removed uncertainty connected with the timing of the final construction and performance of the POX hub, the Directors concluded on the following:

- A reversal of impairment previously recorded against the carrying value of the assets that are part of the Malomir CGU would be appropriate. Accordingly, a post-tax impairment reversal of US\$66.4 million (being US\$83.0 million gross impairment reversal net of associated deferred tax liabilities) has been recorded against the associated assets within property, plant and equipment. The aforementioned impairment reversal takes into consideration the effect of depreciation attributable to relevant mining assets and intra-group transfers of previously impaired assets to Malomir.
- A further reversal of impairment previously recorded against the carrying value of the assets of the supporting in-house service companies would be appropriate to the extent of the headroom available at Malomir and Albyn CGUs and relevant carrying values allocated to these CGUs. Accordingly, a post-tax impairment reversal of US\$15.2 million (being US\$18.7 million gross impairment reversal net of associated deferred tax liabilities) has been recorded against the associated assets within property, plant and equipment.

Impairment of exploration and evaluation assets

Impairment of exploration and evaluation assets for the year ended 31 December 2018 was US\$12.2 million as a result of suspending exploration at the Flanks of Malomir and surrendering the relevant licences. No impairment was recorded against exploration and evaluation assets for the year ended 31 December 2017.

Impairment of ore stockpiles

In 2018, the Group assessed the recoverability of the carrying value of ore stockpiles and recorded the impairment charges as set out below:

| | Pre-tax impairment charge | Taxation US\$'000 | Post-tax impairment charge |
|-----------------|---------------------------------|----------------------|----------------------------------|
| Pokrovskiy..... | — | — | — |
| Pioneer..... | — | — | — |
| Malomir..... | 309 | (62) | 247 |
| Albyn..... | 17,712 | (3,011) | 14,701 |
| | <u>18,021</u> | <u>(3,073)</u> | <u>14,948</u> |

Impairment of ore stockpiles recorded for the year ended 31 December 2018 an amount of US\$18.0 million compared to reversal of impairment of US\$4.7 million in the year ended 31 December 2017.

This increase was primarily attributable to an impairment charge of US\$17.7 million recorded against the ore stockpiles at Albyn mine in the year ended 31 December 2018, compared to reversals of impairment charges of US\$3.6 million and US\$1.6 million against the ore stockpiles at Pioneer and Albyn mines, respectively, in the year ended 31 December 2017.

Impairment of gold in circuit

Impairment of gold in circuit for the year ended 31 December 2018 was US\$2.1 million, a US\$1.8 million or 45.4 per cent. decrease from US\$3.9 million in the year ended 31 December 2017.

Central administration expenses

The Group's central administration expenses were US\$39.2 million in the year ended 31 December 2018, a US\$0.7 million or 1.9 per cent. decrease from US\$39.9 million in the year ended 31 December 2017, primarily reflecting cost-cutting measures undertaken by the Group. Staff costs, comprising approximately 64.7 per cent. and approximately 59.0 per cent. of the total central administration expenses in the years ended 31 December 2018 and 2017, respectively, increased by US\$1.8 million compared to the year ended 31 December 2017. Other significant categories of central administration expenses, including business travel expenses, insurance, operating lease rentals and office costs, remained at approximately the same level as in the year ended 31 December 2017.

(c) *Operating profit/(loss)*

As a result of the factors discussed above, the Group had an operating profit of US\$126.6 million in the year ended 31 December 2018 and an operating profit of US\$100.4 million in the year ended 31 December 2017. The Group's operating profit increased by US\$26.3 million or 26.2 per cent. in the year ended 31 December 2018 compared to the year ended 31 December 2017.

(d) *Investment income*

The Group's investment income was US\$3.8 million in the year ended 31 December 2018, a US\$3.0 million or 396.7 per cent. increase from US\$0.8 million in the year ended 31 December 2017.

(e) *Interest expense*

The Group's interest expense was US\$29.5 million in the year ended 31 December 2018, a US\$3.6 million or 14.0 per cent. increase from US\$25.9 million in the year ended 31 December 2017.

(f) *Other finance gains and losses*

The Group's other finance gains was US\$13.9 million in the year ended 31 December 2018, a US\$11.7 million or 532.3 per cent. increase from US\$2.2 million in the year ended 31 December 2017.

The Group's other finance losses was US\$32.4 million in the year ended 31 December 2018, a US\$3.9 million or 13.6 per cent. increase from US\$28.5 million in the year ended 31 December 2017.

(g) *Taxation*

The Group is subject to corporation tax under UK, Russian and Cypriot tax legislation. The average statutory tax rate in the year ended 31 December 2018 was 19 per cent. in the UK and 20 per cent. in Russia.

In the year ended 31 December 2018, the Group's tax charge amounted to US\$56.5 million a US\$44.7 million or 378.6 per cent. increase compared to US\$11.8 million in the year ended 31 December 2017.

The tax charge for the period arises primarily related to the Group's gold mining operations and is represented by a current tax charge of US\$19.9 million and a deferred tax charge, which is a non-cash item, of US\$36.6 million. Included in the deferred tax charge in 2018 is a US\$30.6 million charge foreign exchange effect which primarily arises because the tax base for a significant portion of the future taxable deductions in relation to the Group's property, plant and equipment are denominated in Russian Roubles, whilst the future depreciation charges associated with these assets will be based on their US Dollar carrying value.

In the year ended 31 December 2018, the Group made corporation tax payments in aggregate of US\$5.0 million in Russia compared to US\$31.1 million in the year ended 31 December 2017. This decrease was primarily attributable to tax refunds in the year ended 31 December 2018 of excessive advance payments made in prior periods.

(h) *(Loss)/profit for the period*

As a result of the factors discussed above, the Group's profit was US\$25.9 million in the year ended 31 December 2018 compared to US\$37.1 million in the year ended 31 December 2017.

3.5 *Comparison of the years ended 31 December 2017 and 2016*

(a) *Revenue*

In the year ended 31 December 2017, total revenue was US\$587.4 million, a US\$46.7 million or 8.6 per cent. increase from US\$540.7 million in the year ended 31 December 2016. This increase was due to an increase in revenue from gold sales from US\$488.5 million in the year ended 31 December 2016 to US\$555.1 million in the year ended 31 December 2017.

Revenue from hard-rock mines was US\$556.2 million, a US\$66.2 million or 13.5 per cent. increase from US\$490.0 million achieved in year ended 31 December 2016. The sale of gold comprised 95 per cent. of total revenue generated in year ended 31 December 2017. The physical volume of gold sold was 439,834 ounces in the year ended 31 December 2017, a 10 per cent. increase from 399,858 ounces sold in year ended 31 December 2016. The average realised gold price increased by 3 per cent. from US\$1,222/oz in the year ended 31 December 2016 to US\$1,262/oz in the year ended 31 December 2017.

Revenue generated as a result of third-party work by the Group's in-house service companies was US\$31.2 million in the year ended 31 December 2017, a US\$19.5 million decrease compared to US\$50.7 million in the year ended 31 December 2016. This was primarily attributable to sales generated by the Group's engineering and research institute, Irgiredmet, of US\$29.0 million in the year ended 31 December 2017 compared to US\$44.8 million in year ended 31 December 2016, primarily through engineering services and the procurement of materials, consumables and equipment for third parties.

(b) *Operating expenses*

The Group's operating expenses were US\$522.3 million in the year ended 31 December 2017, a US\$62.2 million or 13.5 per cent. increase from US\$460.1 million in the year ended 31 December 2016. This increase was primarily attributable to an increase in expense items as set out below.

Operating expenses comprise the following items:

| | Year ended 31 December | |
|--|------------------------|---------|
| | 2017 | 2016 |
| | US\$'000 | |
| Net operating expenses..... | 461,908 | 419,519 |
| Accrual for additional mining tax..... | 19,852 | — |
| Impairment of exploration and evaluation assets..... | — | 9,155 |
| Impairment/(reversal of impairment) of ore stockpiles..... | (4,702) | 1,163 |
| Impairment of gold in circuit..... | 3,890 | — |
| Central administration expenses..... | 39,944 | 32,623 |
| Foreign exchange losses/(gains)..... | 746 | 5,158 |
| Impairment of non-trading loans..... | 629 | — |
| Gain on disposal of non-trading loans..... | — | (6,724) |
| Gain on disposal of subsidiaries..... | — | (791) |
| Total..... | 522,267 | 460,103 |

Net operating expenses

Net operating expenses for the year ended 31 December 2017 were US\$461.9 million, a US\$42.4 million or 10.1 per cent. increase from US\$419.5 million in the year ended 31 December 2016. This increase was primarily due to increases in staff costs, external services and movement in ore stockpiles, deferred stripping, work in progress and bullion in process attributable to gold production partially offset by decreases in goods for resale and depreciation.

Impairment of exploration and evaluation assets

Impairment of exploration and evaluation assets for the year ended 31 December 2017 was a null amount compared to US\$9.2 million in the year ended 31 December 2016. This decrease was due to an impairment charge of US\$9.2 million recorded against exploration and evaluation of the Albyn mine in the year ended 31 December 2016.

Impairment of ore stockpiles

In 2017, the Group assessed the recoverability of the carrying value of ore stockpiles and recorded the impairment charges as set out below:

| | Pre-tax impairment charge | Taxation | Post-tax impairment charge |
|-----------------|---------------------------------|----------|----------------------------------|
| | US\$'000 | | |
| Pokrovskiy..... | 175 | (35) | 140 |
| Pioneer..... | (3,589) | 717 | (2,872) |
| Malomir..... | 304 | (61) | 243 |
| Albyn..... | (1,592) | 271 | (1,321) |
| | (4,702) | 892 | (3,810) |

Impairment of ore stockpiles recorded for the year ended 31 December 2017 a negative amount of US\$4.7 million compared to a positive amount of US\$1.2 million in the year ended 31 December 2016. This decrease was primarily due to reversals of impairment charges of US\$3.6 million and US\$1.6 million against the ore stockpiles at Pioneer and Albyn mines, respectively, in the year ended 31 December 2017, compared to an impairment charge of US\$6.1 million against the ore stockpiles at Pioneer mine and the reversal of an impairment charge of US\$5.8 million against the ore stockpiles at Malomir mine in the year ended 31 December 2016..

Impairment of gold in circuit

Impairment of gold in circuit for the year ended 31 December 2017 was US\$3.9 million compared to a null amount in the year ended 31 December 2016.

Central administration expenses

The Group's central administration expenses were US\$39.9 million in the year ended 31 December 2017, a US\$7.3 million or 22.4 per cent. increase from US\$32.6 million in the year ended 31 December 2016. This increase was primarily attributable to staff costs, comprising approximately 59.0 per cent. and approximately 52.3 per cent. of the total central administration expenses in the years ended 31 December 2017 and 2016, respectively, which increased by US\$6.5 million compared to the year ended 31 December 2016. The increase in central administration expenses was also attributable to increases in other expenses, partially offset by a decrease in professional fees.

(c) *Operating profit/(loss)*

As a result of the factors discussed above, the Group had an operating profit of US\$100.4 million in the year ended 31 December 2017 and an operating profit of US\$77.0 million in the year ended 31 December 2016. The Group's operating profit increased by US\$23.4 million or 30.3 per cent. in the year ended 31 December 2017 compared to the year ended 31 December 2016.

(d) *Investment income*

The Group's investment income was US\$0.8 million in the year ended 31 December 2017, a US\$0.2 million or 36.7 per cent. increase from US\$0.6 million in the year ended 31 December 2016.

(e) *Interest expense*

The Group's interest expense was US\$25.9 million in the year ended 31 December 2017, a US\$35.1 million or 57.5 per cent. decrease from US\$61.0 million in the year ended 31 December 2016.

(f) *Other finance gains and losses*

The Group's other finance gains was US\$2.2 million in the year ended 31 December 2017, a US\$9.8 million or 81.6 per cent. decrease from US\$12.0 million in the year ended 31 December 2016.

The Group's other finance losses was US\$28.5 million in the year ended 31 December 2017, a US\$26.9 million or 1,739.1 per cent. increase from US\$1.5 million in the year ended 31 December 2016.

(g) *Taxation*

The Group is subject to corporation tax under UK, Russian and Cypriot tax legislation. The average statutory tax rate in the year ended 31 December 2017 was 19.25 per cent. in the UK and 20 per cent. in Russia.

In the year ended 31 December 2017, the Group's tax charge increased by US\$16.5 million to US\$11.8 million compared to a deferred tax credit of US\$4.7 million in the year ended 31 December 2016.

The tax charge for the period arises primarily in relation to the Group's gold mining operations and is represented by a current tax charge of US\$24.4 million and a deferred tax credit of US\$12.6 million. Included in the deferred tax credit in 2017 is a US\$8.6 million credit foreign exchange effect which primarily arises because the tax base for a significant portion of the future taxable deductions in relation to the Group's property, plant and equipment are denominated in Russian Roubles, whilst the future depreciation charges associated with these assets will be based on their US Dollar carrying value.

In the year ended 31 December 2017, the Group made corporation tax payments in aggregate of US\$31.1 million in Russia compared to US\$35.3 million in the year ended 31 December 2016.

(h) *Profit/(loss) for the year*

As a result of the factors discussed above, the Group's profit was US\$37.1 million in the year ended 31 December 2017 compared to a profit of US\$31.7 million in the year ended 31 December 2016.

4 Liquidity and capital resources

4.1 Overview

The Group's principal sources of liquidity and capital resources are revenues from gold sales and other operations and existing debt and equity financing and debt financing. The Group's principal uses of cash have historically been operational costs, capital expenditures on the development of mining operations and the acquisition of new licences, and this is expected to continue (see section 4.5 "Capital, Exploration and Evaluation Expenditures - Capital expenditure programme" of this Part 11) and repayments of existing debt financing.

The Group may need ongoing access to liquidity and funding in order to: (i) Refinance or repay its existing debt as required; (ii) Support its existing operations and extend their life and capacity; and (iii) Invest to develop its refractory ore concentrate production and underground mining projects and exploration. There is a risk that the Group may be unable to obtain necessary funding when required or that such funding will only be available on unfavourable terms. The Group may therefore be unable to meet its business development objectives or financial commitments.

In the event that the Group requires additional finance for shorter term liquidity purposes, including for capital expenditure purposes, the Group may have access to forward gold sales funding. This may be advantageous, depending upon the Group's access otherwise to debt or equity finance and the terms on which these may be available. In December 2018, Petropavlovsk's liquidity position was significantly strengthened after entering into a number of gold sales contracts with Gazprombank, for sales of c.175koz in 2019-2020. These arrangements allow the Company to receive advance payments for 70 per cent. of gold with shipment to Gazprombank over a period commencing six months following receipt of an advance by the Company and ending no later than December 2020. These sale contracts have provided the Group with flexibility during the POX plant ramp up period.

On 21 August 2019, Fitch Ratings upgraded its Long-Term Issuer Default Rating and senior unsecured rating to 'B-' from 'CCC' with a Positive Outlook, citing: (i) a significant strengthening in Petropavlovsk's liquidity position due to the refinancing of the convertible bond; (ii) repayment of US\$57 million in bridge loans by IRC Limited; and (ii) increased visibility for production due to the launch of the POX plant.

4.2 Dividends

There were no dividends paid or declared during the six months ended 30 June 2019 and the years ended 31 December 2018, 2017 and 2016.

4.3 *Net current assets / (liabilities)*

As at 30 June 2019 and 31 December 2018, the Group had net current liabilities of US\$23.0 million and net current assets of US\$119.2 million, respectively.

As at 30 June 2019, the Group's current assets mainly consisted of inventories of US\$197.9 million, trade and other receivables of US\$83.2 million, cash and cash equivalents of US\$39.1 million, and current tax assets of US\$4.9 million. The Group's current liabilities mainly comprised trade and other payables of US\$216.7 million, short-term borrowings of US\$97.04 million and derivative financial instruments of US\$30.1 million.

As at 31 December 2018, the Group's current assets consisted of trade and other receivables of US\$66.7 million, inventories of US\$205.8 million, cash and cash equivalents of US\$26.2 million, loans granted to an associate of US\$51.0 million and current tax assets of US\$1.7 million. The Group's current liabilities mainly comprised trade and other payables of US\$219.8 million, derivative financial instruments of US\$10.0 million, and current corporation tax payable of US\$1.6 million.

4.4 *Cash flow information*

| | Six months ended 30 June | | Year ended 31 December | | |
|--|--------------------------|----------|------------------------|----------|----------|
| | 2019 | 2018 | 2018 | 2017 | 2016 |
| | | | US\$'000 | | |
| Net cash inflow from operating activities | 1,055 | 127,763 | 217,225 | 124,003 | 37,000 |
| Net cash inflow/(used in) investing activities.... | 6,424 | (95,100) | (186,489) | (86,972) | (8,658) |
| Net cash inflow/(used in) financing activities... | 3,177 | (9,008) | (13,017) | (38,636) | (46,770) |
| Net increase/(decrease) in cash and cash equivalents | 10,656 | 23,655 | 17,719 | (1,605) | (18,428) |
| Cash and cash equivalents at end of the period. | 39,138 | 33,107 | 26,152 | 11,415 | 12,642 |

(a) *Net cash inflow from operating activities*

Net cash inflow from operating activities was US\$1.1 million in the six months ended 30 June 2019, a US\$126.7 million or 99.1 per cent decrease from US\$127.8 million in the six months ended 30 June 2018. This variation was principally due to US\$121.6 million decrease in working capital changes, US\$17.3 million increase in cash inflow from operating activities before working capital changes, and US\$16.5 million increase in corporation tax payments.

Net cash generated from operations before working capital changes was US\$70.6 million in the six months ended 30 June 2019 compared to US\$53.3 million in the six months ended 30 June 2018.

The increase in working capital in the six months ended 30 June 2019 is mainly represented by the net effect of new advance payments received from Gazprombank and settling of outstanding advances from Gazprombank and Sberbank against physical delivery of gold produced by the Group during the period.

Interest payments of US\$32.7 million in the six months ended 30 June 2019 increased by US\$5.9 million compared to US\$26.8 million in the six months ended 30 June 2018.

Corporation tax payments comprised US\$16.6 million in the six months ended 30 June 2019 compared to US\$0.1 million in the six months ended 30 June 2018.

Net cash inflow from operating activities was US\$217.2 million in the year ended 31 December 2018, a US\$93.2 million or 75.2 per cent increase from US\$124.0 million in the year ended 31 December 2017. This variation was principally due to US\$112.7 million increase in working capital changes, US\$34.2 million decrease in cash inflow from operating activities before working capital changes, and US\$26.1 million decrease in corporation tax payments.

Net cash generated from operations before working capital changes was US\$122.6 million in the year ended 31 December 2018 compared to US\$156.8 million in the year ended 31 December 2017. The decrease in net cash generated from operations before working capital

changes was primarily attributable to the decrease in physical ounces sold and higher average total cash costs in the year ended 31 December 2018 compared to the year ended 31 December 2017.

The decrease was offset by a US\$160.3 million decrease in working capital compared to US\$47.5 million decrease in working capital in the year ended 31 December 2017.

The increase in working capital in the year ended 31 December 2018 is mainly represented by advance payments received from Gazprombank and Sberbank for future physical delivery of gold for the period of up to twenty-four months.

In addition to the changes in working capital described above, increased interest payments of US\$60.6 million in the year ended 31 December 2018 compared to US\$49.2 million in the year ended 31 December 2017 were offset by a decrease in corporation tax payments which comprised US\$5.0 million in the year ended 31 December 2018 compared to US\$31.1 million in the year ended 31 December 2017.

Net cash inflow from operating activities was US\$124.0 million in the year ended 31 December 2017, a US\$87.0 million or 235.1 per cent increase from US\$37.0 million in the year ended 31 December 2016. This variation was principally due to US\$32.5 million decrease in cash inflow from operating activities before working capital changes.

Net cash generated from operations before working capital changes was US\$156.8 million in the year ended 31 December 2017 compared to US\$189.3 million the year ended 31 December 2016. The decrease in net cash generated from operations before working capital changes was primarily attributable to the increase in total cash costs in the year ended 31 December 2017 compared to the year ended 31 December 2016. This decrease was partially offset by a decrease in working capital of US\$47.5 million in the year ended 31 December 2017 compared to US\$63.3 million increase in the year ended 31 December 2016.

Interest payments were US\$49.2 million in the year ended 31 December 2017 compared to US\$53.7 million in the year ended 31 December 2016. Corporation tax paid was US\$31.1 million in the year ended 31 December 2017 compared to US\$35.3 million in the year ended 31 December 2016.

(b) *Net cash inflow/(used in) investing activities*

The Group recorded net cash inflow from investing activities of US\$6.4 million in the six months ended 30 June 2019 compared to net cash used in investing activities of US\$95.1 million in the six months ended 30 June 2018. This variation was principally due to:

- US\$30.0 million loans granted to an associate in the first half of 2018;
- US\$56.2 million repayment of loans previously granted to an associate in the first half of 2019; and
- US\$26.4 million decrease in cash used for purchase of property and equipment.

The Group's net cash used in investing activities was US\$186.5 million in the year ended 31 December 2018, a US\$99.5 million or 114.4 per cent increase from US\$87.0 million in the year ended 31 December 2017. This variation was principally due to:

- US\$57.0 million loans granted to an associate in the year ended 31 December 2018; and
- and US\$48.9 million increase in cash used for purchase of property and equipment.

The Group's net cash used in investing activities was US\$87.0 million in the year ended 31 December 2017, a US\$78.3 million or 904.5 per cent increase from US\$8.7 million in the

year ended 31 December 2016. This variation was principally due to US\$60.3 million increase in cash used for purchase of property and equipment.

Net cash used in investing activities primarily relates to the development of mining projects, purchases of property, plant and equipment and exploration expenditure which comprised US\$45.0 million and US\$67.2 million in the six months ended 30 June 2019 and 30 June 2018, respectively and US\$134.4 million, US\$88.1 million and US\$29.4 million in aggregate in the years ended 31 December 2018, 2017 and 2016, respectively. Details of capital development and exploration and evaluation expenditure are set out in section 4.5 “Capital, Exploration and Evaluation Expenditures” of this Part 11.

In the year ended 31 December 2016, cash spent on capital development, purchases of property, plant and equipment and exploration expenditure was offset by US\$19.2 million cash proceeds received from the disposal of the Group’s interests in Visokoye. The details of these significant disposals are set out in section 2.10 “Disposals” of this Part 11.

(c) *Net cash inflow/(used in) financing activities*

The Group recorded net cash inflow from financing activities of US\$3.2 million in the six months ended 30 June 2019, a US\$12.2 million or 135.6 per cent increase compared to net cash used in financing activities of US\$9.0 million in the six months ended 30 June 2018. This variation was due to:

- US\$6.0 million Guarantee fee received from IRC in connection with ICBC facility in the first half of 2019;
- US\$2.2 million partial exercise of the Call Option over the Company’s shares in the first half of 2019;
- US\$6.4 million debt transaction costs in connection with bank loans paid in the first half of 2018; and
- US\$2.6 million Notes related costs paid in the first half of 2018.

The Group’s net cash used in financing activities was US\$13.0 million in the year ended 31 December 2018, a US\$25.6 million or 66.3 per cent decrease from US\$38.6 million net cash used in the year ended 31 December 2017. This variation was due to:

- US\$495.0 million issue of Notes, net of transaction costs, in the year ended 31 December 2017;
- US\$4.0 million repayment of bank loans in the year ended 31 December 2018 compared to US\$525.8 million repaid in the year ended 31 December 2017;
- US\$6.4 million debt transaction costs in connection with bank loans paid in the year ended 31 December 2018 compared to US\$9.0 million paid in the year ended 31 December 2017;
- US\$2.6 million Notes related costs paid in the year ended 31 December 2018; and
- US\$1.2 million Guarantee fee received from IRC in connection with ICBC facility in the year ended 31 December 2017.

The Group’s net cash used in financing activities was US\$38.6 million in the year ended 31 December 2017, a US\$8.1 million or 17.4 per cent decrease from US\$46.8 million net cash used in the year ended 31 December 2016. This variation was due to:

- US\$495.0 million issue of Notes, net of transaction costs, in the year ended 31 December 2017;

- US\$525.8 million repayment of bank loans in the year ended 31 December 2017 compared to US\$27.0 million of repayment, net of US\$295.3 million proceeds in connection with bank debt refinancing in the year ended 31 December 2016;
- US\$9.0 million debt transaction costs in connection with bank loans paid in the year ended 31 December 2017 compared to US\$4.0 million paid in the year ended 31 December 2016;
- US\$16.9 million net fund transferred under investment agreement with the Russian Ministry of Far East Development in the year ended 31 December 2016; and
- US\$1.2 million Guarantee fee received from IRC in connection with ICBC facility in the year ended 31 December 2017 compared to US\$1.1 million paid in the year ended 31 December 2016.

4.5 *Capital, Exploration and Evaluation Expenditures*

(a) *Historical capital expenditures*

The table below sets out the total amounts of capital expenditure, exploration and evaluation expenditure incurred in connection with each of the Group's other mining, development and exploration assets, throughout the six months ended 30 June 2019 and 2018 and the years ended 31 December 2018, 2017 and 2016.

In the six months ended 30 June 2019, the Group invested an aggregate of US\$45.0 million. The key areas of focus in the six months ended 30 June 2019 were the POX project completion, exploration and development to support the underground mining at Pioneer and Malomir, expansion of tailing dams at Pioneer and Albyn and ongoing exploration related to the areas adjacent to the ore bodies of the Group's main mining operations.

In the year ended 31 December 2018, the Group invested an aggregate of US\$134.4 million. The key areas of focus in the year ended 31 December 2018 were the POX Hub project, for which active development continued ahead of scheduled commissioning in the end of 2018, exploration and development to support the underground mining at Pioneer and Malomir, expansion of tailings dams at Pioneer and Albyn and ongoing exploration related to the areas adjacent to the ore bodies of the Group's main mining operations.

In the year ended 31 December 2017, the Group invested an aggregate of US\$88.1 million. The key areas of focus during this year were the POX project, for which active development was recommenced ahead of scheduled commissioning in 2018, exploration and development to support the underground mining at Pioneer and Malomir, expansion of tailing dams at Pioneer and Albyn and ongoing exploration related to the areas adjacent to the ore bodies of the Group's main mining operations.

In the year ended 31 December 2016, the Group invested an aggregate of US\$29.4 million. The key areas of focus during the year ended 31 December 2016 were on fulfilling existing contractual commitments in relation to the POX Hub project, exploration to support the underground mining at Pioneer, expansion of tailing dams at Pioneer and Albyn and ongoing exploration related to the areas adjacent to the ore bodies of the Group's main mining operations.

| | Six months ended 30 June | | | | | |
|--------------------------------------|----------------------------|---|-------------|-------------------------|---|-------------|
| | 2019 | | | 2018 | | |
| | Exploration expenditure | Development expenditure and other capital expenditure | Total | Exploration expenditure | Development expenditure and other capital expenditure | Total |
| | <i>In millions of US\$</i> | | | | | |
| Pokrovskiy and Pioneer..... | 2.7 | 10.4 | 13.2 | 6.1 | 6.1 | 12.2 |
| Malomir..... | 1.5 | 5.6 | 7.1 | 4.3 | 10.2 | 14.6 |
| POX..... | - | 9.1 | 9.1 | - | 34.0 | 34.0 |
| Albyn..... | 4.0 | 8.5 | 12.5 | 2.5 | 2.8 | 5.3 |
| Corporate and in-house services..... | - | 3.1 | 3.1 | - | 1.1 | 1.1 |
| Total..... | 8.2 | 36.8 | 45.0 | 13.0 | 54.2 | 67.2 |

| | Year ended 31 December | | | | | | | | |
|---------------------------------------|-------------------------|---|--------------|-------------------------|---|-------------|-------------------------|---|-------------|
| | 2018 | | | 2017 | | | 2016 | | |
| | Development | | | Development | | | Development | | |
| | Exploration expenditure | expenditure and other capital expenditure | Total | Exploration expenditure | expenditure and other capital expenditure | Total | Exploration expenditure | expenditure and other capital expenditure | Total |
| | US\$'000 | | | | | | | | |
| Pokrovskiy and Pioneer | 10.0 | 19.1 | 29.1 | 11.6 | 14.6 | 26.2 | 8.6 | 3.7 | 12.3 |
| Malomir | 5.5 | 19.3 | 24.8 | 3.8 | 12.7 | 16.5 | 1.9 | 1.6 | 3.5 |
| POX | - | 61.5 | 61.5 | - | 33.2 | 33.2 | - | 1.9 | 1.9 |
| Albyn | 5.0 | 10.5 | 15.5 | 6.4 | 3.6 | 10.1 | 6.1 | 4.9 | 11.0 |
| Corporate and in-house services | - | 2.4 | 2.4 | - | 2.2 | 2.2 | - | 0.6 | 0.6 |
| Other | 1.1 | - | 1.1 | - | - | - | - | - | - |
| Total | 21.6 | 112.8 | 134.4 | 21.9 | 66.2 | 88.1 | 16.6 | 12.8 | 29.4 |

(b) *Capital expenditure programme*

The Group's estimated capital expenditures for 2019 are approximately US\$55 million in connection with exploration and development (excluding the Pioneer flotation project). An estimated amount of US\$30 million is required in connection with the Pioneer flotation project, which is expected to be spent partly in 2019 and partly in 2020.

4.6 *Contractual obligations and commercial commitments*

The following table sets forth the Group's contractual obligations and commercial commitments as at 31 December 2018:

| | 0-3months US\$'000 | 3months-1 year US\$'000 | 1-2 years US\$'000 | 2-3 years US\$'000 | 3-6 years US\$'000 |
|--------------------------------|-----------------------|----------------------------|-----------------------|-----------------------|-----------------------|
| 2018 | | | | | |
| Borrowings | | | | | |
| - Convertible bonds | - | - | 100,000 | - | - |
| - Notes | - | - | - | - | 500,000 |
| Future interest payments | 2,250 | 47,375 | 42,875 | 40,625 | 40,625 |
| Trade and other payables | 31,506 | 26,837 | - | - | - |
| | 33,756 | 74,212 | 142,875 | 40,625 | 540,625 |

Note:

- 1 Expected future interest payments have been estimated using interest rates applicable at 31 December 2018. There are no borrowings that are subject to variable interest rates and, therefore, subject to change in line with the market rates.

5. *Financing Arrangements*

5.1 *Borrowings of the Group*

The table below sets forth the Group's borrowings at 30 June 2019 and 31 December 2018:

Principal

| | 30 June 2019 | | 31 December 2018 | |
|-------------------------------|------------------------|------------------------------|------------------------|------------------------------|
| | Liability ¹ | Principal amount outstanding | Liability ¹ | Principal amount outstanding |
| | US\$'000 | | | |
| Notes | 499,504 | 500,000 | 499,007 | 500,000 |
| Convertible Bonds | 97,045 | 100,000 | 95,170 | 100,000 |
| Total borrowings | 596,549 | 600,000 | 594,177 | 600,000 |

Note:

- 1 Amounts are stated at amortised cost.

(a) *Bonds and Notes*

See Part 4 for the Terms and Conditions of the Bonds.

(b) *Loan facilities*

As at 30 June 2019, the Group does not have any loan facilities in place.

5.2 ***Other financing arrangements***

Guarantee over IRC's external borrowings

The Group historically entered into an arrangement to provide a guarantee over its associate's, IRC, external borrowings, the ICBC Facility ("**ICBC Guarantee**"). At 31 December 2018 the principal amounts outstanding subject to the ICBC guarantee were US\$169.6 million. Under the terms of the arrangement the Group was entitled to receive an annual fee equal to 1.75 per cent. of the outstanding amount.

In March 2019, IRC has refinanced the ICBC Facility through entering into a US\$240 million new facility with Gazprombank ("**Gazprombank Facility**"). The facility was fully drawn down during the six months ended 30 June 2019 and was used, inter alia, to repay the amounts outstanding under the ICBC Facility in full, the two loans provided by the Group in the equivalent of approximately US\$57 million and part of the guarantee fee of US\$6 million owed by IRC to the Group in respect of the guarantee of the ICBC Facility. The remaining outstanding contractual guarantee fee of approximately US\$5.7 million is payable by IRC no later than 31 March 2020.

A new guarantee was issued by the Group over part of the Gazprombank Facility ("**Gazprombank Guarantee**"), the guarantee mechanism is implemented through a series of five guarantees that fluctuate in value through the eight-year life of the loan, with the possibility of the initial US\$160 million principal amounts guaranteed reducing to US\$40 million within two to three years, subject to certain conditions being met. For the final two years of the Gazprombank Facility, the guaranteed amounts will increase to US\$120 million to cover the final principal and interest repayments. If certain springing recourse events transpire, including default on a scheduled payment, then full outstanding loan balance is accelerated and subject to the guarantee. Under the Gazprombank Guarantee arrangements, the guarantee fee receivable is determined at each reporting date on an independently determined fair value basis, which for the six months ended 30 June 2019 was estimated at the annual rate of 3.07 per cent. for 2019 by reference to the average outstanding principal balance under Gazprombank Facility.

6. **Off-Balance sheet arrangements**

The Group had no off-balance sheet arrangements as at 30 June 2019 and 31 December 2018.

7. **Market risks**

The following information should be read in conjunction with the Financial Statements which are incorporated by reference herein. The Group's primary risk exposures are commodity price risk, foreign currency risk and credit risk.

7.1 ***Commodity price risk***

The Group generates most of its revenue from the sale of gold. The Group's policy is to sell its products at the prevailing market price. In the six months ended 30 June 2019 and the year 31 December 2018, the Group entered into gold forward contracts to protect cash flows from the volatility in the gold price.

7.2 ***Foreign currency exchange rate risk***

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

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

7.3 Credit risk

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

The credit risk on liquid funds held in current accounts and available on demand is limited because the main counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

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

The major financial assets at 31 December 2018 and 30 June 2019 are cash and cash equivalents held with the counterparties as set out below.

| Counterparty | As at 31 December 2018 | | As at 30 June 2019 | |
|----------------------------|------------------------|-----------------|--------------------|-----------------|
| | Credit rating | Carrying amount | Credit rating | Carrying amount |
| | | US\$'000 | | US\$'000 |
| Cash and cash equivalents: | | | | |
| VTB | BB+ | 14,841 | BBB- | 4,381 |
| Citibank | AA- | 8,011 | AA- | 700 |
| Raiffeisen Bank | BBB- | 872 | BBB- | 17 |
| AVANGARD | — | 764 | — | 506 |
| Sberbank | BBB- | 598 | BBB | 12,850 |
| Barclays | A | 337 | A+ | 646 |
| Asian-Pacific Bank | CCC | 266 | B- | 332 |
| Bank of Cyprus | B- | 145 | B- | 45 |
| Alfa-Bank | BB+ | 3 | BB+ | 12 |
| Gazprombank | — | — | BB+ | 18,417 |
| LANTA-BANK | — | — | — | 47 |

7.4 Interest rate risk

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

7.5 Liquidity risk

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

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

8. Critical accounting policies and estimates

The Group's significant accounting policies are more fully described in the notes to the Consolidated Financial Statements which are incorporated by reference herein. The Group's reported financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the Group's combined financial statements. The Group bases its estimates

on historical experience, the experience of other companies in the industry and on various other assumptions that it believes to be reasonable, the results of which form the basis for making judgements about the carrying amounts of assets and liabilities and the Group's financial results. The Group's management evaluates its estimates on an ongoing basis. Actual results may differ from these estimates under different assumptions and conditions.

The selection of critical accounting policies, the judgement and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the Group's financial statements. The Group believes that the following critical accounting policies involve the most significant judgements and estimates used in the preparation of its financial statements.

8.1 *Critical accounting policies*

(a) *Foreign currencies*

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

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

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

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

(b) *Exploration and evaluation assets*

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

Exploration and evaluation expenditure comprise costs directly attributable to:

- researching and analysing existing exploration data;
- conducting geological studies, exploratory drilling and sampling;

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

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

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

(b) *Tangible fixed assets and depreciation*

Mine development costs

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

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

Mining assets

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

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

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

Non-mining assets

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

Capital construction in progress

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

Depreciation

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

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

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

(d) *Investments in associate*

An associate is an entity over which the Group is in a position to exercise significant influence but not control or joint control.

Investments in associates are accounted for using the equity method of accounting. Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of an associate in profit or loss and the Group's share of movements in other comprehensive income of an associate in other comprehensive income.

Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

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

(e) *Taxation including deferred taxation*

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

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

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

- tax payable on the future remittance of the past earnings of subsidiaries, associates and jointly controlled entities is provided for except where the Company is able to control

the remittance of profits and it is probable that there will be no remittance in the foreseeable future;

- deferred tax is not provided on the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction that does not affect accounting profit or taxable profit and is not a business combination, such as on the recognition of a provision for close down and restoration costs and the related asset or on the inception of finance lease;
- deferred tax assets are recognised only to the extent that it is more likely than not that they will be recovered;
- deferred tax is provided in respect of fair value adjustments on acquisitions. These adjustments may relate to assets such as mining rights that, in general, are not eligible for income tax allowances. In such cases, the provision for deferred tax is based on the difference between the carrying value of the asset and its nil income tax base;
- deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised using tax rates that have been enacted, or substantively enacted. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt within equity; and
- deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(f) *Impairment of non-financial assets*

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

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

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

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

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

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

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

(g) *Deferred stripping costs*

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

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

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

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

(h) *Provisions for close down and restoration costs*

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

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

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

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

(e) *Financial assets and liabilities*

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group entity becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs attributable to financial assets and financial liabilities carried at FVPL are expensed in profit or loss.

(f) *Derivative financial instruments*

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently re-measured at fair value. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

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

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

Currently the Group has only cash flow hedge relationships.

To qualify for hedge accounting the hedging relationship must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, then the relationship does not qualify for hedge accounting. In this case the hedging instrument and the hedged item are reported independently as if there were no hedging relationship.

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The fair value gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

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

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

ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Changes in fair value of any derivative instrument that does not qualify for hedge accounting are recognised in profit or loss immediately and included in other finance gains or losses.

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

(g) *Adoption of new and revised standards and interpretations*

The impact of adoption of IFRS 9 is detailed in note 2.2 to the Company's Annual Consolidated Financial Statements for the year ended 31 December 2018.

The impact of the impairment models changes on Company-specific financial assets on the date of initial application is set out below:

| | 31 December 2017 US\$'000 | 1 January 2018 US\$'000 | Transition adjustment US\$'000 |
|--------------------------------|--|--|---|
| Owned by Group companies | 1,116,939 | 1,068,939 | (48,000) |

On initial application of IFRS 9, the Company recognised an additional provision for expected credit losses on amounts owed by Group companies of US\$48 million.

The impact of adoption of IFRS 16 is detailed in note 2.2 to the Company's Annual Consolidated Financial Statements for the year ended 31 December 2018. The Company expects to recognise right-of-use assets of approximately US\$0.9 million and corresponding lease liabilities.

8.2 *Areas of judgement in applying accounting policies and key sources of estimation uncertainty*

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

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are set out below.

(a) *Significant influence over IRC*

As at 31 December 2018, the Group was the single largest shareholder of IRC, holding approximately 31.1 per cent. of IRC's issued shares. The Group considers that it exercises significant influence, but does not control, over IRC such that it is equity accounted as an investment in an associate, in accordance with IAS 28 "Investments in associates". Significant influence is defined as the power to participate in the financial and operating policy decisions of the investee. If control were to exist then IRC would be required to be consolidated as a subsidiary into the Group's consolidated financial information. In making this assessment, the Group also considered the definition of control under IFRS 10 "Consolidated Financial Statements" being where an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The factors considered included:

- Relative shareholdings

- Shareholder voting rights;
- Rights to nominate and appoint Directors and executive management of IRC;
- Influence over the IRC Board and executive management; and
- Operational independence of IRC.

After taking into account the aforementioned control factors in aggregate, it is considered that the Group does not exercise de facto control over IRC and IRC is not a subsidiary to the Group. Accordingly, accounting treatment applied to treat the Group's investment in IRC is as an investment in associate in accordance with IAS 28 "Investments in associates".

(b) *Functional currency*

IAS 21 "The Effects of Changes in Foreign Exchange Rates" defines functional currency as the currency of the primary economic environment in which the entity operates. The Group therefore performs an analysis of the currencies in which each subsidiary primarily generates and expends cash. This involves an assessment of the currency in which sales are generated and operational and capital expenditures are incurred, and currency in which external borrowing costs are denominated. Management makes judgements in defining the functional currency of the Group's subsidiaries based on economic substance of the transactions relevant to these entities. For each of the Group's consolidated entities, management performed analysis of relevant factors that are indicators of functional currency and, based on the analysis performed, determined functional currency, accordingly. The Group concluded that the functional currency for each of the subsidiaries in Russia, except for its research institute Irgiredmet, is the US Dollar. Functional currency for Irgiredmet was concluded to be the Russian Rouble.

(c) *Cash generating unit ("CGU") determination and impairment indicators*

The Group exercises judgement in determining the Groups individual CGUs based upon an assessment of the whether the cash inflows generated are capable of being separately identifiable and independent. This assessment considered whether there is an active market for the outputs of each significant element of the production process, including gold concentrate. Management also applies judgement in allocating assets that do not generate independent cash inflows to the Group's CGUs. Any changes to CGU determinations would impact the carrying values of the respective CGUs. The Group considers both external and internal sources of information in assessing whether there are any indications that its CGUs are impaired. External sources of information include changes in the market, economic and legal environment in which the Group operates that are not within its control. Internal sources of information include the manner in which mining assets and plant and equipment are being used or are expected to be used and indicators of economic performance of such assets. Judgement is therefore required to determine whether these updates represent significant changes in the service potential of an asset or CGU, and are therefore indicators of impairment or impairment reversal.

(d) *Advances from customers under gold sales contracts*

In 2018-2019 the Group has entered into prepaid gold sales arrangements, which are settled solely through physical delivery and are priced based on the spot gold price, prevailing at the date of the respective shipment. The arrangements fall under IFRS 15 'Revenue from Contracts with Customers' and advances received represent contract liabilities included within Trade and other payables as Advances from customers. As of 30 June 2019, the relevant contract liabilities amount to c.US\$156.7 million (31 December 2018: US\$163.8 million, 30 June 2018: US\$102.5 million).

(e) *Key sources of estimation uncertainty*

- Ore reserve estimates

The Group estimates its ore reserves and mineral resources based on the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code) and the internally used Russian Classification System, adjusted to conform with the mining activity to be undertaken under the Group mining plan. Both the JORC Code and the Russian Classification System require the use of reasonable investment assumptions when reporting reserves, including future production estimates, expected future commodity prices and production cash costs. Ore reserve estimates are used in the calculation of depreciation of mining assets using a units of production method, impairment charges and for forecasting the timing of the payment of close down and restoration costs. Also, for the purposes of impairment reviews and the assessment of life of mine for forecasting the timing of the payment of close down and restoration costs, the Group may take into account mineral resources in addition to ore reserves where there is a high degree of confidence that such resources will be extracted.

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

- Asset carrying values due to changes in estimated future cash flows
- Depreciation charged to profit or loss where such charges are determined by using a units of production method or where the useful economic lives of assets are determined with reference to the life of the mine.
- Provisions for close down and restoration costs where changes in estimated reserves affect expectations about the timing of the payment of such costs.
- Carrying value of deferred tax assets and liabilities where changes in estimated reserves affect the carrying value of the relevant assets and liabilities.

- Impairment and impairment reversals

The Group reviews the carrying values of property, plant and equipment to determine whether there is any indication that those assets are impaired. The recoverable amount of an asset, or CGU, is measured as the higher of fair value less costs to sell and value in use. The Group necessarily applies judgement in the determining the assumptions to be applied within the value in use calculations.

Future changes to the key assumptions in the value in use calculation could impact the carrying value of the respective assets. The impairment assessments are sensitive to changes in commodity prices, foreign exchange rates and discount rates. Changes to these assumptions would result in changes to conclusions in relation to impairment, which could have a significant effect on the consolidated financial statements.

- Valuation of financial guarantee contracts

The Group has provided a guarantee over IRC's external borrowings from the Gazprombank. IFRS 9 "Financial Instruments" requires that financial guarantee contracts are valued at the higher of:

- The amount of the loss allowance; and
- The amount initially recognised less the cumulative amount of income recognised in accordance with the principals of IFRS 15 "Revenue from Contracts with Customers"

In determining the loss allowance, the Group must make significant judgements in the estimating the expected credit losses. This includes using a probability-based approach

to determine a range of possible outcomes, assessing the time value of money and thereby determining an estimate of the payments required to reimburse Gazprombank in the event of a future default by IRC.

- Valuation of ore stockpiles

Costs are allocated to ore mined based on the cost per tonne of extraction. These are tested for impairment at each reporting date based on the expected costs to complete their processing and the realisable gold price. Changes in these assumptions, particularly for ore stockpiles of a lower grade, can give rise to write downs.

- Taxation

The Group is subject to income tax in the UK, Russian Federation and Cyprus. Deferred tax liabilities are calculated on taxable temporary differences, being the difference between the tax and accounting base. Deferred tax assets, including those arising from unused tax losses carried forward for the future tax periods and deductible temporary differences, are recognised only when it is either probable that the future taxable profits will be available against which the unused tax losses can be utilised or there are sufficient taxable temporary differences. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. Judgements are also required about the application of income tax legislation. In addition, the functional currency for the subsidiaries in Russia is the US Dollar which gives rise to foreign exchange movements in relation to temporary differences and deferred tax. The aforementioned judgements and assumptions are subject to risk and uncertainty and there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax recognised in the statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, the carrying amount of recognised deferred tax assets may require adjustment, resulting in a corresponding charge or credit to profit or loss.

- Option to acquire non-controlling 25 per cent. interest in LLC TEMI

In May 2019, the Group entered into the option contract to acquire non-controlling 25 per cent. interest in LLC TEMI from its shareholder Agestinia Trading Limited. This represents a related party transaction as it is over the equity of a subsidiary company. The Group employed an independent third party expert to undertake the valuations of the underlying 25 per cent. interest in LLC Temi and the call option. The fair value of the call option, as well as the fair value of the underlying asset were determined based on the relevant valuation models which incorporated the judgements taken with regards to certain inputs like gold price and the expected volatility of the underlying asset.

9. Current trading and prospects

The majority of the Group's revenue is derived from the sale of gold and silver, the latter being a by-product of the gold production. For the year ended 31 December 2018, revenue from gold and silver sales amounted to US\$467.5 million (2017: US\$556.2 million), equating to 94 per cent of the Group's total revenue for the year. For the first six months of 2019, revenue from gold and silver sales amounted to US\$290.0 million (the first six months of 2018: US\$259.3 million), equating to 95.0 per cent. of the total Group revenue for that period.

As gold is the key commodity produced and sold by the Group, the key drivers for Group revenue are the amount of gold produced, the cost of production and the price at which the gold is sold.

For the year ended 31 December 2018, the Group produced 422.3koz of gold, in line with the Company's guidance. This was lower than the 439.6koz of gold produced in the year ended 31 December 2017. This was, in part, due to discontinued operations at Pokrovskiy.

The Group is targeting production of 450,000koz – 500,000koz of gold in 2019.

For the year ended 31 December 2018, the total average cost per ounce of gold produced was US\$786/oz (2017: US\$741/oz). Total average cash costs for the six months ended 30 June 2019 were US\$841/oz (six months ended 30 June 2018: US\$899/oz). Total cash costs of production for 2019 are expected to be in line with the Company's guidance of US\$750/oz.

The Group sold 370koz of gold in the year ended 31 December 2018 and 440koz during the year ended 31 December 2017.

The price of gold can vary significantly and is affected by factors which are outside the control of the Group, in particular, the demand for gold as an investment. In order to increase the certainty in respect of part of its future cash flows, the Group has entered into a number of gold forward contracts. Forward contracts to sell an aggregate of 200koz of gold matured during 2018 and resulted in US\$(3.4) million net cash settlement paid by the Group and US\$1,263/oz to the average realised gold price. Forward contracts to sell an aggregate of 100koz of gold matured during H1 2019 and resulted in US\$(6.0) million net cash settlement paid by the Group and US\$1,286/oz to the average realised gold price. As at 31 December 2018, the Company had outstanding forward contracts for 200koz at US\$1,252/oz.

The Group's average realised gold sales price was US\$1,263/oz for the year ended 31 December 2018 including the US\$(9)/oz effect by the hedging position of the Group. The Group's average realised gold sales price was US\$1,262/oz for the year ended 31 December 2017 including the US\$2/oz contributed by the hedging position of the Group.

According to the Russian Federal State Statistics Service, consumer price inflation in Russia for the first six months of 2019 amounted to 2.44 per cent. compared to 2.06 per cent. during the first six months of 2018. For the year ended 2018, consumer price inflation increased 4.27 per cent. compared to 2.25 per cent. in 2017. (*Source: <https://www.fedstat.ru/indicator/31074>*)

The increase in inflation in part reflects the decline in the Rouble against the US Dollar during 2019, which was adversely affected by significantly lower oil prices as well as the ongoing impact of EU and US sanctions.

The Rouble depreciated by 10 per cent. against the US Dollar during the first half of 2019, from RUB65.20/USD compared to RUB59.33/USD in the same period of 2018. The average year on year depreciation of Rouble against the US Dollar was approximately 7 per cent., with the average exchange rate for 2018 being RUB62.68/USD compared to RUB58.32/USD for 2017. The average exchange rate for the first half of 2018 was RUB59.33/USD compared to RUB65.20/USD for the first half of 2019. As the Group's operating cash expenses are substantially Rouble denominated, the Group expects that the impact of the Rouble price inflation will be mitigated by the depreciation of the Rouble against the US Dollar in 2019.

Unaudited net debt of c.US\$557 million as of 30 June 2019 is down by approximately US\$11 million year-on-year ("yoy") due to decreased capital spending. The cash balance as at 30 June 2019 was c.US\$39 million.

The Group's estimated development, maintenance and exploration capital expenditures for 2019 is approximately US\$45 million to US\$55 million excluding the construction of a new flotation facility at Pioneer.

PART 12

CAPITALISATION AND INDEBTEDNESS

The table below sets out the capitalisation and indebtedness of the Company as at 30 June 2019 on a historical basis, as extracted without material adjustment from the Financial Statements as at and for the six months ended 30 June 2019.

| | 30 June 2019 |
|---|------------------|
| | US\$' 000 |
| Total current debt | 97,045 |
| Guaranteed | - |
| Secured | - |
| Unguaranteed/unsecured | 97,045 |
| Total non-current debt (excluding current portion of long-term debt) | 499,504 |
| Guaranteed | - |
| Secured | - |
| Unguaranteed/unsecured | 499,504 |
| Total debt | 596,549 |
| Shareholder's equity ¹ | 567,145 |
| Share capital | 49,003 |
| Share premium | 518,142 |
| Own shares | - |
| Total capitalisation ² | 1,163,694 |

Notes:

- (1) Shareholders' equity does not include hedging reserve, convertible bond reserve, share-based payments reserve, other reserves and retained earnings, none of which are considered to be part of the invested capital of the Company.
- (2) This statement of capitalisation does not include debt guaranteed by the Company in favour of Gazprombank pursuant to the Gazprombank Facility. For details relating to Gazprombank Guarantee, see section 5.2 of Part 11 "Operating and Financial Review – Other financing arrangements".
- (3) Save for the changes pursuant to the issue of the Bonds and the repurchase of the Existing Bonds, there has been no material change in the capitalisation of the Company since 30 June 2019.
- (4) The following table sets out the Company's net indebtedness as at 30 June 2019, extracted without material adjustment from the the Financial Statements as at and for the six months ended 30 June 2019.

The table below sets out the net indebtedness of the Company as at 30 June 2019

| | As at 30 June 2019 |
|--|--------------------|
| | US\$' 000 |
| Cash | 38,107 |
| Cash equivalents | 1,031 |
| Trading securities | - |
| Liquidity | 39,138 |
| Current Financial Receivable | |
| Current bank debt | - |
| Current portion of non-current debt | - |
| Bonds issued ¹ | 97,045 |
| Other current financial debt | - |
| Current financial debt | 97,045 |
| Net Current Financial Indebtedness | 57,907 |
| Non-current bank loans | - |
| Bonds issued ² | 499,504 |
| Other non-current loans | - |
| Non current financial indebtedness | 499,504 |
| Net Financial Indebtedness ³ | 557,411 |

Notes:

- (1) Existing Bonds.
- (2) Existing Guaranteed Notes.
- (3) The above table does not reflect any indirect indebtedness. For details relating to Gazprombank Guarantee, see section 5.2 of Part 11 "Operating and Financial Review – Other financing arrangements".
- (4) The Group has no contingent indebtedness.

Save as described in the paragraph below, there has been no material change to the Group's total capitalisation since 30 June 2019.

On 3 July 2019, the Issuer issued the Bonds in an aggregate principal amount of US\$125 million. The net proceeds from the issue of the Bonds amounting to approximately US\$121 million have been partially applied to redeem the Existing Bonds for an aggregate amount of US\$108.4 million.

PART 13

TAXATION

The following is a general summary of the Jersey and United Kingdom tax consequences as at the date hereof in relation to payments made under the Bonds in relation to the sale or transfer of Bonds. It is not exhaustive and purchasers are urged to consult their professional advisors as to the tax consequences to them of holding or transferring Bonds.

Jersey Taxation

The following summary of the anticipated treatment of the Issuer and holders of Bonds (other than residents of Jersey) is based on Jersey taxation law and practice as they are understood to apply at the date of this Prospectus and is subject to changes in such taxation law and practice. It does not constitute legal or tax advice and does not address all aspects of Jersey tax law and practice. Prospective investors in the Bonds should consult their professional advisers on the implications of acquiring, buying, selling or otherwise disposing of the Bonds under the laws of any jurisdiction in which they may be liable to taxation.

Taxation of the Issuer

The Issuer is not regarded as resident for tax purposes in Jersey. Therefore, the Issuer will not be liable to Jersey income tax other than on Jersey source income (except where such income is exempted from income tax pursuant to the Income Tax (Jersey) Law 1961, as amended) and payments in respect of the Bonds may be paid by the Issuer without withholding or deduction for or on account of Jersey income tax. The holders of Bonds (other than residents of Jersey) will not be subject to any tax in Jersey in respect of the holding, sale or other disposition of such Bonds.

Stamp duty

In Jersey, no stamp duty is levied on the issue or transfer of the Bonds except that stamp duty is payable on Jersey grants of probate and letters of administration, which will generally be required to transfer the Bonds on the death of a holder of such Bonds where such Bonds are situated in Jersey. In the case of a grant of probate or letters of administration, stamp duty is levied according to the size of the estate (wherever situated in respect of a holder of Bonds domiciled in Jersey, or situated in Jersey in respect of a holder of Bonds domiciled outside Jersey) and is payable on a sliding scale at a rate of up to 0.75 per cent. of such estate and such duty is capped at £100,000. Where the Bonds are in registered form and the register is not maintained in Jersey such Bonds should not be considered to be situated in Jersey for these purposes. Jersey does not otherwise levy taxes upon capital, inheritances, capital gains or gifts nor are there other estate duties.

If you are in any doubt as to your tax position you should consult your professional tax adviser.

United Kingdom Taxation

The following is a summary of the Issuer's understanding of current United Kingdom law and published HM Revenue and Customs ("HMRC") practice relating only to the United Kingdom withholding tax treatment of payments of interest (as that term is understood for United Kingdom tax purposes) in respect of Bonds. It does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of Bonds or to the tax consequences of a conversion of the Bonds or a disposal of any Ordinary Shares to which the Bonds may convert or to any cash amounts received in respect of an exercise of Conversion Rights.

References to "interest" refer to interest as that term is understood for United Kingdom tax purposes. The United Kingdom tax treatment of prospective Bondholders depends on their individual circumstances and may be subject to change in the future. Prospective Bondholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

Payments of interest on the Bonds that do not have a United Kingdom source may be paid by the Issuer without withholding or deduction for or on account of United Kingdom income tax. The location of the source of a payment is a complex matter. It is necessary to have regard to case law and HMRC practice. Case law has established that in determining the source of interest, all relevant factors must be taken into account. HMRC has indicated that, in their view, the most important factors in determining the source of a payment are those which influence where a creditor would sue for payment, and has stated that the place where an issuer does business, and the place where its assets are located, are the most important factors in this regard; however, HMRC has also indicated that, depending on the circumstances, other relevant factors may include the place where the interest and principal are payable, the method of payment, the governing law of the relevant instrument and the competent jurisdiction for any legal action, the location of any security for an issuer's obligations under the relevant instrument, and similar factors relating to any guarantee. In slight contrast, recent case law has found that a "multi-factorial" approach should be taken in applying these indicators in any particular case and a determination on the basis of all relevant facts is required in order to determine the jurisdiction of source in any given case.

Where payments of interest on the Bonds have a United Kingdom source, such payments may be made without deduction of or withholding on account of United Kingdom income tax provided that the Bonds carry a right to interest and the Bonds are and continue to be: (i) listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007; or (ii) admitted to trading on a multilateral trading facility operated by an EEA regulated recognised stock exchange. The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the London Stock Exchange. Provided, therefore, that the Bonds carry a right to interest and are and remain so listed on a "recognised stock exchange", interest on the Bonds will be payable without deduction of or withholding on account of United Kingdom tax.

In other cases, an amount must generally be withheld from payments of interest on the Bonds that has a United Kingdom source on account of United Kingdom income tax at the basic rate (currently 20 per cent.), subject to any other available exemptions and reliefs. However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Bondholder, HMRC can issue a notice to the Issuer to pay interest to the Bondholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

The United Kingdom withholding tax treatment of payments by the Guarantor under the terms of the Guarantee which have a United Kingdom source is uncertain. In particular, such payments by the Guarantor may not be eligible for the exemptions described above in relation to payments of interest. Accordingly, if a Guarantor makes any payments under or in respect of interest on the Bonds which are regarded as having a United Kingdom source (or other amounts due under or in respect of the Bonds other than the repayment of amounts subscribed for such Bonds) such payments may be subject to United Kingdom withholding tax at the basic rate (currently 20 per cent.), subject to such relief as may be available under the provisions of any applicable double taxation treaty or any other exemption which may apply.

The proposed financial transactions tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Bonds (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range

of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Bonds are advised to seek their own professional advice in relation to the FTT.

PART 14

SUBSCRIPTION AND SALE

The Joint Bookrunners, pursuant to a Subscription Agreement dated 19 June 2019, jointly and severally agreed with the Issuer and the Guarantor, subject to the satisfaction of certain conditions, to subscribe the Bonds at 100 per cent. of their principal amount. In addition, the Issuer has agreed to reimburse the Managers for certain of their expenses in connection with the issue of the Bonds.

Certain of the Joint Bookrunners have, directly or indirectly through affiliates, provided investment and commercial banking, financial advisory and other services to the Issuer and its affiliates from time to time, for which they have received monetary compensation. Certain of the Joint Bookrunners may from time to time also enter into swap and other derivative transactions with the Issuer and its affiliates. In addition, certain of the Joint Bookrunners and their affiliates may in the future engage in investment banking, commercial banking, financial or other advisory transactions with the Issuer or its affiliates.

United States

The Bonds have not been and will not be registered under the Securities Act and the Bonds may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or in a transaction not subject to the registration requirements of, the Securities Act.

Each Joint Bookrunner has agreed that:

- (a) it has not solicited and will not solicit offers for, or offer or sell, Bonds by means of any general solicitation or advertising in the United States or otherwise in any manner involving a public offerings within the meaning of Section 4(2) of the Securities Act;
- (b) none of it, its affiliates or any person acting on its or their behalf, has engaged or will engage in any directed selling efforts (within the meaning of Regulation S) with respect to the Bonds;
- (c) such Manager, or any person acting on its behalf, will offer or sell or solicit offers for the Bonds as part of their initial distribution only in offshore transactions within the meaning and meeting the requirements of Rule 903 under the Securities Act.

The Bonds have not been and will not be registered under the U.S. Securities Exchange Act of 1933, as amended (the “**Securities Act**”), or any applicable local and state securities laws of the United States and, subject to certain exceptions, may not be offered or sold, directly or indirectly, within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S of the Securities Act). The Bonds are being offered and sold outside the United States to non-U.S. persons in reliance on Regulations S promulgated under the Securities Act and within the United States exclusively to “accredited investors” as that term is defined in Rule 501 promulgated under the Securities Act. Any resale of the Bonds to any person within the United States or to a U.S. person located outside the United States shall be made only if the Bonds being transferred have been registered under the Securities Act or are transferred pursuant to an applicable exemption from such registration.

Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Prohibition of Sales to EEA Retail Investors

Each Joint Bookrunner has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression “**retail investor**” means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
 - (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the “**Insurance Mediation Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

- (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded, the “**Prospectus Directive**”); and
- (b) the expression “**offer**” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds

United Kingdom

Each Joint Bookrunner has represented, warranted and agreed that:

- (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell the Bonds other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Bonds would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom

PART 15

MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Group during the two years preceding the date of this document and are or may be material or contain any provision under which any member of the Group has an obligation or entitlement which is material as at the date of this document.

Existing Guaranteed Notes

On 14 November 2017 the Group issued US\$500 million notes (the “**Existing Guaranteed Notes**”) due 14 November 2022.

The Existing Guaranteed Notes were issued by the Group’s wholly owned subsidiary Petropavlovsk 2016 Limited (the “**Loan Note Issuer**”) and are guaranteed by the Company, JSC Pokrovskiy Rudnik, LLC Albynskiy Rudnik and LLC Malomirskiy Rudnik (the “**Loan Note Guarantors**”). The Existing Guaranteed Notes carry a coupon of 8.125 per cent payable semi-annually in arrears and may be redeemed at the option of the Loan Note Issuer in whole at any time with prior notice at the principal amount plus accrued interest on the date fixed for redemption if certain events occur that would require the Issuer or a Loan Note Guarantor to pay additional amounts (redemption for taxation reasons).

Guarantees

On 15 February 2019 the Company and Gazprombank (Joint Stock Company) (“**Gazprombank**”) entered into the Sponsor Guarantee and Fixed Term Guarantees A, B, C and D (the “**Guarantees**”) securing the obligations of K&S under two broadly identical facility agreements signed between K&S and Gazprombank on 18 December 2018 (“**Gazprombank Facility**”).

Each Guarantee was approved by the shareholders of the Company on 12 March 2019.

The obligations of the Company under the Guarantees are initially for a maximum amount of US\$160 million – comprising of the US\$120 million Sponsor Guarantee and the US\$40 million Fixed Term Guarantee A (“**Fixed Term Guarantee A**”). The guarantee obligations in respect of the three remaining Fixed Term Guarantees (“**Fixed Term Guarantee B**”, “**Fixed Term Guarantee C**” and “**Fixed Term Guarantee D**”, each as set out in the table below) will then commence consecutively and will be effective for two years each.

| Guarantee | Level of maximum liability amount | Commencement date | End date for the maximum liability amount |
|------------------------|--|--------------------------|---|
| Sponsor Guarantee | US\$120 million | Approval Date | Project Completion Date (when the Sponsor Guarantee Conditions are satisfied and as defined in the Sponsor Guarantee) |
| Fixed Term Guarantee A | US\$40 million | Approval Date | 20 December 2020 |
| Fixed Term Guarantee B | US\$40 million | 21 December 2020 | 20 December 2022 |
| Fixed Term Guarantee C | US\$40 million | 21 December 2022 | 20 December 2024 |
| Fixed Term Guarantee D | US\$120 million | 21 December 2024 | The date on which Gazprombank Facility has been repaid in full |

The liability of the Company under the Sponsor Guarantee will be reduced to zero if the Sponsor Guarantee conditions are satisfied. The conditions mainly relate to the business, operations and development projects of K&S and IRC.

In addition, the terms of the Guarantees provide that if any of the Springing Recourse Events (as set out below) occur, the commencement date of each of Fixed Term Guarantee B, Fixed Term Guarantee C and Fixed Term Guarantee D will be brought forward (assuming that their respective commencement dates have not already

occurred) and thereby increase the Company's liability to a potential maximum amount of US\$360 million (although, notwithstanding the maximum liability under the Guarantees, Gazprombank can never recover more than the amount outstanding under the Gazprombank Facility).

The “**Springing Recourse Events**” relate to the solvency, constitutional and financial position of the Company and K&S and include, but are not limited to:

- (a) non-payment by the Company of amounts demanded under any of the Guarantees within a prescribed time period;
- (b) the insolvency of the Company and K&S;
- (c) transfers and terminations of any of K&S' subsoil licences;
- (d) K&S or the Company becoming a sanctions target;
- (e) the invalidity or illegality of the Guarantees against the Company.

There are further events that are qualified and would constitute a Springing Recourse Event to the extent that they might reasonably be expected to have a material adverse effect on either (i) the Company's ability to pay under any of the Guarantees or (ii) the ability of K&S and the Company taken together to meet their then due and payable payment obligations under the Finance Documents (as defined in the Gazprombank Facilities) taken together.

The nature of each of the Springing Recourse Events is such that they should only occur if there is a fundamental change to the business and financial position of the Company or K&S.

Recourse Agreement

On 15 February 2019, the Company, IRC and K&S entered into a recourse agreement (the “**Recourse Agreement**”). Pursuant to the Recourse Agreement, the Company has the right to inject new funds into the IRC Group by shareholder loan(s) up to a maximum amount equal to the amounts then outstanding under the Facility Agreements (less the amount of all previously advanced loans under the Recourse Agreement) if the IRC Group is unable to make the scheduled payments or repayments under the Facility Agreements or certain financial covenant breaches will occur without such injection. Under the terms of the Recourse Agreement, IRC has an obligation to pay to the Company a monthly fee to compensate the Company for its entry into the Guarantees (the “**Monthly Fee**”); the initial rate for the Monthly Fee shall be as suggested by the Company and, subject to its acceptance by the board of IRC or being confirmed by an independent expert as being on normal commercial terms and terms that are not unreasonable in all the circumstances (or, if not so confirmed, approved by the requisite majority of the shareholders of IRC), shall be calculated as a per cent. per annum rate on the then maximum amount that may be payable by the Company pursuant to the Guarantees.

PART 16

ADDITIONAL INFORMATION

1. Responsibility

The Issuer and the Company accept responsibility for the information contained in the Prospectus. To the best of the knowledge of the Company the information contained in this Prospectus is in accordance with the facts and the Prospectus makes no omission likely to affect its import.

2. Incorporation and Share Capital

- 2.1 The Company was incorporated and registered in England and Wales on 20 December 2001 as a public company limited by shares with registered number 04343841 and with the name Excelsior Corporation PLC. The Company's name was changed to Peter Hambro Mining PLC on 14 March 2002 and then to Petropavlovsk PLC on 23 September 2009. The principal legislation under which the Company operates is the Companies Act 2006 and its LEI 213800ZZOU5P76L8XB92

The registered office and head office of the Company is at 11 Grosvenor Place, Belgravia London, SW1X 7HH.

The ISIN Number for the Ordinary Shares is GB0031544546. The Company's register of Ordinary Shares is maintained by Link Asset Services. The Ordinary Shares are denominated in pounds sterling.

- 2.2 As at 25 September 2019 (the "**Latest Practicable Date**"), the share capital of the Company was £33,102,102.81, comprised of 3,310,210,281 Ordinary Shares. The Ordinary Shares in the share capital of the Company have a nominal value of 1 pence each and are listed on the premium listing segment of the Official List and admitted to trading on the London Stock Exchange's main market for listed securities. The Company has one class of Ordinary Shares.

- 2.3 The following table shows the changes in the share capital of the Company which occurred from 31 December 2016 to the Latest Practicable Date:

| | Number of Ordinary Shares |
|--|------------------------------|
| At 31 December 2016 | 3,303,768,532 |
| At 31 December 2017 | 3,303,768,532 |
| At 31 December 2018 | 3,307,151,712 |
| At 25 September 2019 (being the Latest Practicable Date) | 3,310,210,281 |

- 2.4 As at the Latest Practicable Date, the issued and fully paid ordinary share capital of the Company was as follows:

| | Number of Ordinary Shares | Amount of share capital (£) |
|--------|------------------------------|-----------------------------|
| Issued | 3,310,210,281 | 33,102,102.81 |

- 2.6 Pursuant to a shareholder resolution passed on at the Annual General Meeting, the Company resolved *inter alia* that the Directors be and they are hereby generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company up to an aggregate nominal amount of £11,030,000.

The authority conferred on the Directors shall expire at the conclusion of the Annual General Meeting of the Company in 2020 or 30 June 2020, whichever is earlier save that the Company may after the date of the passing of this resolution before such expiry make an offer or agreement which would or might require shares to be allotted or rights to subscribe for, or to convert any security into, shares to be granted after such expiry and the Directors may allot shares or grant rights to subscribe for, or to convert any security into, shares (as the case may be) in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

On 25 September 2019, being the Latest Practicable Date, this represented approximately 33 per cent of the issued share capital of the Company.

- 2.7 The Company's website address is <https://www.petropavlovsk.net/>. Any information contained on the Company's website does not form part of this Prospectus unless explicitly incorporated by reference into this Prospectus.

3. Mandatory Bids and Compulsory Acquisition Rules relating to Ordinary Shares

Other than as provided by the City Code and Chapter 28 of the Act, there are no rules or provisions relating to mandatory bids and/or squeeze out and sell out rules relating to the Company.

3.1 Mandatory Bid

The City Code applies to the Company. Under the City Code, if an acquisition of interests in shares were to increase the aggregate holding of the acquirer and its concert parties to interests in shares carrying 30% or more of the voting rights in the Company, the acquirer and, depending on the circumstances, its concert parties would be required (except with the consent of the Takeover Panel) to make a cash offer for the outstanding shares in the Company at a price not less than the highest price paid for interests in shares by the acquirer or its concert parties during the previous 12 months. This requirement would also be triggered by any acquisition of interests in shares by a person holding (together with its concert parties) shares carrying between 30% and 50% of the voting rights in the Company if the effect of such acquisition were to increase that person's percentage of the total voting rights in the Company.

3.2 Squeeze-Out

Under the Act, if an offeror were to make an offer to acquire all of the shares in the Company not already owned by it and were to acquire 90% of the shares to which such offer related it could then compulsorily acquire the remaining 10%. The offeror would do so by sending a notice to outstanding members telling them that it will compulsorily acquire their shares and then, six weeks later, it would deliver a transfer of the outstanding shares in its favour to the Company which would execute the transfers on behalf of the relevant members, and pay the consideration to the Company which would hold the consideration on trust for outstanding members. The consideration offered to the members whose shares are compulsorily acquired under this procedure must, in general, be the same as the consideration that was available under the original offer unless a member can show that the offer value is unfair.

3.3 Sell-Out

The Act also gives minority members a right to be bought out in certain circumstances by an offeror who has made a takeover offer. If a takeover offer related to all the shares in the Company and, at any time before the end of the period within which the offer could be accepted, the offeror held or had agreed to acquire not less than 90% of the shares, any holder of shares to which the offer related who had not accepted the offer could by a written communication to the offeror require it to acquire those shares. The offeror would be required to give any member notice of his/her right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of minority members to be bought out, but that period cannot end less than three months after the end of the acceptance period or, if later, three months from the date on which notice is served on members notifying them of their sell-out rights. If a member exercises his/her rights, the offeror is entitled and bound to acquire those shares on the terms of the offer or on such other terms as may be agreed.

4. Enforcement and civil liabilities under U.S. federal securities laws

The Company is a public limited company incorporated under English law. The Directors are citizens of non-US jurisdictions, and the Company's assets are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Directors or to enforce against them in the U.S. courts judgments obtained in U.S. courts predicated upon the civil liability provisions of the U.S. federal securities laws. There is doubt as to the enforceability in England, in original actions or in actions for enforcement of judgments of the U.S. courts, of civil liabilities predicated upon U.S. federal securities laws.

5. Litigation

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or the Guarantor is aware) which, during the 12 months preceding the date of this document, may have, or have had in the recent past significant effects on the Issuer, the Guarantor and/ or the Group's financial position or profitability.

6. Related party transactions

Save as set out in this Prospectus and as disclosed in note 21 of the 2019 Interim Financial Statements, note 25 of the 2018 Financial Statements, note 20 of the 2018 Interim Financial Statements, and note 25 of the 2017 Financial Statements, each incorporated by reference into this Prospectus, the Group did not enter into any related party transactions during the financial years ended 31 December 2018 and 31 December 2017 or the six months ended 30 June 2019 and up to the date of this Prospectus.

7. Working capital

In the opinion of the Company, the working capital available to the Group is sufficient for its present requirements, that is for at least the next 12 months following the date of this Prospectus.

8. No significant change

There has been no significant change in the financial position or the financial performance of the Group since 30 June 2019. There has been no material adverse change in the prospects of the Issuer or the Guarantor since 31 December 2018 (the date of the last published audited financial statements of the Issuer and the Guarantor, respectively).

9. Trend information

9.1 Gold production and sales

For the first six months of 2019, the Group produced 225.1koz of gold, with physical sales of 225.0koz. This is an increase of 12 per cent. on the same period in 2018 (production of 201.4koz, physical sales of 201.4koz). Overall, higher production was driven by a combination of higher processed grades at Malomir, higher mined and processed grades at Albyn as well as a material contribution from the processing of refractory concentrate by the Pokrovskiy POX plant.

9.2 Average gold sales price

The average realised gold price for the Group increased marginally from US\$1,285/oz in H1 2018 to US\$1,286/oz in H1 2019, inclusive of a US\$(26)/oz effect from the Group's hedge arrangements (H1 2018: US\$(32)/oz).

9.3 Production costs

Total Cash Costs ("TCC") decreased from US\$899/oz in H1 2018 to US\$841/oz in H1 2019. The decrease in TCC primarily reflects the effect of higher processed ore grades and recoveries achieved at Albyn and Malomir as well as by the effect of Rouble depreciation, achieved despite the suboptimal performance of Pioneer, where production volumes were affected by underground water ingress issues earlier in the year, resulting in lower processed grades.

The positive effect of overall TCC decrease was partially offset by the inflation of certain Rouble denominated costs. Compared with H1 2018, there was ongoing inflation of certain Rouble denominated costs. In particular, electricity costs increased by approximately 5 per cent. in Rouble terms (decreased by approximately 4 per cent. in US Dollar terms) while the cost of diesel increased by c.17 per cent. in Rouble terms (increased by approximately 7 per cent. in US Dollar terms).

The Rouble depreciated against the US Dollar by 10 per cent. in H1 2019 compared to H1 2018, with the average exchange rate for the period of 65.20 Roubles per US Dollar in H1 2019 compared to 59.33 Roubles per US Dollar in H1 2018, somewhat mitigating the effect of Rouble denominated costs inflation.

Refinery and transportation costs are variable costs dependent on production volume. Mining tax is also a variable cost dependent on production volume and the realised gold price.

The Russian statutory mining tax rate is 6 per cent.. Under the Russian Federal Law 144-FZ dated 23 May 2016 that introduced certain amendments to the Russian Tax Code, taxpayers who are participants in Regional Investment Projects (“**RIP**”) have the right to apply the reduced mining tax rate provided certain conditions are met. LLC Malomirskiy Rudnik and LLC Albynskiy Rudnik met eligibility criteria and applied 1.2 per cent. mining tax rate in H1 2019 while JSC Pokrovskiy Rudnik applied full mining tax rate in H1 2019, resulting in US\$6.7 million mining tax expense compared to nil in H1 2018 when mining tax rate of 0 per cent. was applied by the Group.

9.4 Financial performance

Group revenue during the first six months of 2019 period amounted to \$305.3 million, 13 per cent. higher than the US\$270.5 million achieved in same period during 2018, primarily due to higher volumes of gold produced and sold by the Group.

Revenue from hard rock mines was US\$290.0 million, 12 per cent. higher than the US\$259.3 million achieved in H1 2018. Gold remains the key commodity produced and sold by Petropavlovsk, comprising 95 per cent. of total revenue generated in H1 2019. The remaining 5 per cent. of revenue (US\$15.3 million), was generated by the Group’s in-house service companies, a US\$4.1 million increase compared to US\$11.2 million in H1 2018.

This revenue is substantially attributable to sales generated by the Group’s engineering and research institute, Irgiredmet, primarily through engineering services and the procurement of materials, consumables and equipment for third parties, which comprised US\$13.0 million in H1 2019 compared to US\$9.1 million in H1 2018.

During the period, the Group’s mines generated Underlying EBITDA of US\$83.3 million, compared to US\$60.7 million in H1 2018, while operating profit increased to US\$2.5 million from a loss of US\$23.7 million in H1 2018. The increase in both EBITDA and operating profit is mainly attributable to higher volumes of gold produced / sold as well as lower production costs.

10. Auditors

The consolidated financial statements of the Company for the years ended 31 December 2017 and 31 December 2018 incorporated by reference in this Prospectus have each been audited by Deloitte LLP which is a member firm of the Institute of Chartered Accountants in England and Wales and whose registered office is at 1 New Street Square, London EC4A 3HQ, United Kingdom. Deloitte LLP rendered an unqualified audit report on each such accounts of the Company for each of these years.

The auditors of the Company have no material interest in the Company.

Deloitte LLP are also the auditors of the Issuer and have confirmed that there are no conflicts with their appointment in this capacity.

11. General

The fees and expenses to be borne by the Company in connection with Listing including the FCA’s fees, professional fees and expenses and the costs of printing and distribution of documents are estimated to amount to approximately US\$300,000 (including VAT). In addition, the Company has agreed to pay its expenses in connection with the Listing up to approximately £2,500.

12. Documents available for inspection

Copies of the following documents will be available for inspection for a period of 12 months following the date of this Prospectus at the following website:

- the Issuer's memorandum and articles of association –
<https://www.petrodavlovsk.net/investors/petrodavlovsk-2010-limited/articles-of-association/>; and
- the Company's memorandum and articles of association –
<https://www.petrodavlovsk.net/about-us/corporate-governance/>.

13. Yield

On the basis of the issue price of the Bond of 100 per cent. of their principal amount, the yield of the Bonds is 8.25 per cent. on an annual basis.

14. Legend Concerning US Persons

The Bonds and any coupons appertaining thereto will bear a legend to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

15. ISIN and Common Code

The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS1201840326 and the common code of the notes is 120184032.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg.

16. Conflict of Interest

There are no potential conflicts of interest between any duties of the members of the administrative, management or supervisory bodies of the Issuer or the Guarantor towards either the Issuer or the Guarantor, and their private interests and/or other duties.

17. Enforcement by the Trustee

The Conditions provide for the Trustee to take action on behalf of the Bondholders in certain circumstances, but only if the Trustee is indemnified and/or prefunded and/or secured to its satisfaction. It may not be possible for the Trustee to take certain actions in relation to the Bonds and accordingly in such circumstances the Trustee will be unable to take action, notwithstanding the provision of an indemnity to it, and it will be for Bondholders to take action directly.

18. Foreign Language Text

The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

19. Governing Law and Jurisdiction

The Bonds and all related contractual documentation, including any non-contractual obligations arising out of or in connection with the Bonds and any related contractual documentation (other than as referenced above) are governed by, and shall be construed in accordance with, English law. The place of jurisdiction will be the courts of England.

20. Disclosure under the Market Abuse Regulation

Pursuant to Regulation (EU) No 596/2014, during the previous twelve months the Company has disclosed the following information to the public:

| Date | Subject Matter of Disclosure | Summary of Inside Information Disclosed |
|---------------------------------------|--|--|
| Company announcement - General | | |
| 13 June 2019 | Results of AGM | All resolutions passed with the exception of the two special resolutions to dis-apply pre-emption rights. |
| 12 March 2019 | Results of General Meeting | Shareholder approval obtained for the guarantees in respect of the obligations of Kimkano-Sutarsky Mining and Beneficiation Plan LLC under two broadly identical facility agreements with Gazprombank Joint Stock Company. |
| 5 December 2018 | First Refractory Ore Successfully Processed at POX Hub | Announcement reporting processing of the first refractory ore one month ahead of schedule. Ahead of schedule, Autoclave 2 has commenced hot commissioning and is due to process first concentrate by year end, with Autoclaves 3 and 4 scheduled for launch in Q2 2019. |
| 27 November 2018 | Successful Commissioning of the Pressure Oxidation Hub at Pokrovskiy and IRC Project Facility Refinancing Update | Announcement reporting successful commissioning of the Autoclave 1 and production of the first refractory ore concentrate. |
| Results and trading reports | | |
| 10 September 2019 | H1 2019 Financial Results | Total Cash Costs for the year has been revised downward, building on a 6% reduction in TCC and 10% decrease in AISC in H1. |
| 24 April 2019 | 2018 Annual Results and Q1 2019 Production Update | 2019 TCC guidance of US\$850-US\$950oz (based on a \$:RUB exchange rate of 66). Once POX Hub is operating at full production from 2020, cash costs are expected to normalise at c.15% below guidance. |
| 23 January 2019 | Full Year 2018 Production Results and 2019 Guidance | 2019 Outlook: <ul style="list-style-type: none"> c.450-500koz gold production Capex US\$45m-US\$50m capex |
| 27 September 2018 | Half Year Report for the Period Ended 30 June 2018 | Production guidance increased to 420k – 450koz from 400k-410koz. Reporting 10% reduction in Total Cash Costs to range of US\$750-800oz. |
| Holding(s) in Company | | |
| 11 July 2019 | New major shareholder | JSC Fincraft Resources entered into a sale and purchase deed relating to the transfer of the issued share capital of Fincraft Holdings Ltd, a major Petropavlovsk shareholder, to LLC Research & Production Association Altair, a limited liability company incorporated in Russia. |
| 26 June 2019 | Director/PDMR Shareholding and Purchase of Shares | Purchase of Petropavlovsk PLC Ordinary Shares (the “Shares”) by Directors of Petropavlovsk PLC: <ul style="list-style-type: none"> 250,000 Shares purchased Mr Harry Kenyon-Slaney, Senior Independent Director; and 250,000 Shares purchased by Mr Robert Jenkins, Independent Non-Executive Director |
| 16 May 2019 | PDMR Dealing Notice | Sale of 681,818 Shares by Dr Alya Samokhvalova |
| 9 May 2019 | PDMR Dealing Notice | Sale of 827,776 Shares by Dr Alya Samokhvalova |
| 2 May 2019 | PDMR Shareholding and Total Voting Rights | Vesting of Deferred Bonus Awards to: <ul style="list-style-type: none"> Mr Sergey Ermolenko, General Director of MC Petropavlovsk: 707,173 Shares Dr Alya Samokhvalova, Deputy CEO: 681,818 Shares Granting of Deferred Bonus Awards to: <ul style="list-style-type: none"> Dr Pavel Maslovskiy, CEO: 963,931 Shares Mr Sergey Ermolenko, General Director of MC Petropavlovsk: 324,679 Shares Dr Alya Samokhvalova, Deputy CEO: 463,182 Shares Mr Alexey Dubynin, CFO: 356,294 Shares |
| Other securities transactions | | |
| 3 July 2019 | Optional Redemption Notice | Notice issued by Petropavlovsk 2010 Limited (the “Issuer”) to holders of the outstanding US\$100 million 9 per cent. Guaranteed Convertible Bonds Due 2020 (the “Existing Bonds”) that the Issuer elected to exercise its option to redeem the outstanding Existing Bonds. US\$77.81 million of the Existing Bonds repurchased and cancelled by the Issuer: <ul style="list-style-type: none"> Issuer to redeem the remaining Existing Bonds of US\$22.19 million on 9 July 2019 with an additional payment so that |

| | | |
|------------------------|--|--|
| | | <p>Bondholders receive in total the amount of US\$1,080 per US\$1,000 in outstanding principal amount of the Existing Bonds</p> <ul style="list-style-type: none"> • Last date that the conversion rights are exercisable in respect of the Bonds is 4 July 2019. |
| 27 June 2019 | Approval of Written Resolution | <p>Notice to holders of the outstanding Existing Bonds that the written resolution set out in the notice of written resolution dated 19 June 2019 has been approved by the holders of not less than 75 per cent. in aggregate outstanding principal amount of the Existing Bonds. The Issuer intends to exercise its option to redeem the outstanding Existing Bonds under Condition 9(b) “Redemption at the Option of the Issuer”.</p> |
| 25 June 2019 | Grant of Performance Share Awards under the Petropavlovsk Long-Term Incentive Plan | <p>Details of Performance Share Awards (the Awards) granted to the Executive Director and PDMRs of Petropavlosk PLC.</p> |
| 20 June 2019 | Placement of US\$125m new convertible bonds and results of concurrent repurchase of outstanding US\$100m Guaranteed Convertible Bonds due 2020 issued by Petropavlovsk 2010 | <p>Summary of performance conditions and conditions of the Awards.</p> <ul style="list-style-type: none"> • Announcement of US\$125m placement • US\$25m increase option exercised in full • Coupon for new Bonds of 8.25 per cent • Invitation to Repurchase Existing Bonds |
| 19 June 2019 | Up to US\$125m new convertible bond offering and concurrent repurchase of, and consent solicitation in relation to, any and all of the outstanding US\$100m Guaranteed Convertible Bonds due 2020 issued by Petropavlovsk 2010 Limited | <ul style="list-style-type: none"> • Announcement of launch of an offering of US\$100m of Guaranteed Convertible Bonds due 2025 with an up to US\$25m increase option • Bonds to be guaranteed by the Company • Invitation to Repurchase Existing 9% Convertible Bonds Due 2020 • Details of Consent Solicitation seeking approval from existing Bondholders to modification of terms and conditions • Use of Proceeds disclosure including details of construction of a new flotation plant at Pioneer |
| IRC Refinancing | | |
| 15 February 2019 | The recommended proposal to guarantee the obligations of K&S, a wholly owned subsidiary of IRC, under two facility agreements with JSC Gazprombank | <p>Pursuant to the facility agreements entered into between K&S and Gazprombank (as announced on 19 December 2018), the Company is to guarantee the obligations of K&S up to an initial amount of approximately US\$160m through a series of five guarantees over the life of the Gazprombank Facility.</p> |
| 19 December 2018 | Update on IRC Loan Refinancing Transaction | <p>Announcement of completion of the first stage of the planned refinancing of IRC’s outstanding project finance facility with ICBC. The amount of Petropavlovsk’s current guarantee will reduce. IRC has been granted waivers by ICBC, subject to the fulfilment of certain condition precedents, from the obligations to maintain a debt service reserve account and for K&S and Petropavlovsk to comply with certain financial covenants until the earlier of the date on which the security under the ICBC Facility is released and 21 March 2019. IRC and Petropavlovsk PLC have been advised by a leading Russian Bank that its credit committee has granted approval for a new US\$240m facility to be provided to LLC KS GOK, a wholly owned subsidiary of IRC (the New Facility).</p> |
| 24 September 2018 | Proposed IRC Loan Refinancing Transaction | <p>The New Facility will be utilised to repay the ICBC Facility in full and thereafter to repay to Petropavlovsk the Rouble equivalent of US\$30m as full repayment inclusive of interest for the bridge loan advance by Petropavlovsk to IRC in June 2018 as well as the payment of a c.US\$6m fee owing to the Company in relation to the guarantee provided by it to ICBC under the ICBC facility.</p> |
| 10 August 2018 | IRC Update | <p>Announcement that noted the poll results of the IRC Extraordinary General Meeting (EGM). The EGM was held primarily to consider the receipt of a c.US\$30 million bridge loan provided by Petropavlovsk to IRC (classed as a connected transaction), in order to assist IRC to repay its 20 June 2018 instalment under the US\$340 million ICBC project finance facility. As part of the agreement, IRC shall repay Petropavlovsk the amount outstanding under the bridge loan, together with the applicable interest, in one instalment on 20 October 2018.</p> |

PART 17 DEFINITIONS AND GLOSSARY

The following definitions apply throughout this Prospectus unless the context requires otherwise:

| | |
|---|--|
| “Additional Cash Alternative Amount” | has the meaning given in <i>Part 4 – Terms and Conditions of the Bonds</i> ; |
| “Additional Ordinary Shares” | has the meaning given in <i>Part 4 – Terms and Conditions of the Bonds</i> ; |
| “Adjusted FMV Date” | has the meaning given in <i>Part 4 – Terms and Conditions of the Bonds</i> ; |
| “Agency Agreement” | means the Paying, Transfer, Conversion and Exchange Agency Agreement dated 3 July 2019 relating to the Bonds between the Issuer, the Guarantor, the Trustee, Citibank, N.A., London Branch and Citigroup Global Markets Europe AG; |
| “Articles” | means the Articles of Association of Petropavlovsk PLC; |
| “Articles of the Issuer” | means the Articles of Association of Petropavlovsk 2010 Limited; |
| “Beneficial Owner” | means the actual purchaser of each Bond in whom the ownership interest of such Bond vests; |
| “BEPS” | means Base Erosion and Profit Shifting; |
| “Board” | means the Board of Directors of Petropavlovsk PLC; |
| “Bondholders Committee” | has the meaning given in <i>Part 4 – Terms and Conditions of the Bonds</i> ; |
| “Bonds” | means the US\$125,000,000 8.25 per cent. Convertible Bonds due 2024 of Petropavlovsk 2010 Limited which are unconditionally and irrevocably guaranteed by Petropavlovsk PLC; |
| “Calculation Agency Agreement” | means the calculation agency agreement dated 3 July 2019 entered into by the Issuer and the Guarantor and Conv-Ex Advisors Limited; |
| “Calculation Agent” | means Conv-Ex Advisors Limited; |
| “Cash Alternative Election Date” | has the meaning given in <i>Part 4 – Terms and Conditions of the Bonds</i> ; |
| “CFC” | means “controlled foreign corporation” as defined in Federal Law No. 376-FZ dated 24 November 2014 “On amending Parts I and II of the Tax code of the Russian Federation (in respect of taxation of profits of controlled foreign companies and income of foreign organizations)”; |
| “Change of Control Exchange Price” | has the meaning given in <i>Part 4 – Terms and Conditions of the Bonds</i> ; |
| “Code” | means the U.S. Internal Revenue Code of 1986, as amended; |
| “Commission’s Proposal” | means the European Commission’s proposal published on 14 February 2013, for a Directive for a common financial transactions tax in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia; |
| “Competition Law” | means Federal Law No. 135-FZ dated 26 July 2006 “On Protection of Competition”, as amended; |
| “Conditions” | means the Terms and Conditions of the Bonds as set out in <i>Part 4 – “Terms and Conditions of the Bonds”</i> of this Prospectus; |

| | |
|--|--|
| “Conversion Date” | has the meaning provided in <i>Part 4 – Terms and Conditions of the Bonds</i> ; |
| “Conversion Period Commencement Date” | has the meaning provided in <i>Part 4 – Terms and Conditions of the Bonds</i> ; |
| “Corporate Services Provider” | means Estera Trust (Jersey) Limited, 13-14 Esplanade, St Helier, Jersey JE1 1EE Jersey, which provides the corporate and secretarial services to the Issuer; |
| “Deed Poll” | means the deed poll executed and delivered by the Guarantor on 3 July 2019; |
| “Environmental Protection Law” | means Federal Law No. 7-FZ of 10 January 2002 “On Environmental Protection”, as amended; |
| “Exchange Price” | has the meaning provided in <i>Part 4 – Terms and Conditions of the Bonds</i> ; |
| “Existing Shareholders” | means the Shareholders immediately prior to completion of the Scheme of Arrangement; |
| “Facility Agreements” | means two broadly identical facility agreements between K&S as a borrower and Gazprombank as a lender, dated 18 December 2018; |
| “FAS” | means the Federal Antimonopoly Service; |
| “FAS Approval” | means under the Competition Law, before an investor enters into a transaction (including transactions entered into on a stock exchange) that will enable it to exercise control or influence over a Russian entity/asset, provided certain thresholds (such as total book value of assets, total amount of proceeds) established in the Competition Law are met, the investor must obtain the prior approval of the FAS; |
| “FCA” | means the Financial Conduct Authority; |
| “Flanks” | in relation to a deposit, means the area adjacent to that deposit; |
| “FTT” | means financial transactions tax; |
| “FMV Date” | has the meaning given in <i>Part 4 – Terms and Conditions of the Bonds</i> ; |
| “Foreign Investor” | foreign incorporated and non-incorporated entities, entity controlled by a foreign investor, non-Russian citizens, Russian citizens with dual citizenship, stateless persons permanently residing outside Russia, sovereign Foreign Investors as well as international organisations (as this term is defined in Federal Law No. 57-FZ); |
| “Founders’ Shares” | means ordinary shares in the capital of the Issuer having the rights as set out in the Articles of Association of the Issuer; |
| “Gazprombank” | means Gazprombank (Joint Stock Company); |
| “Gazprombank Facility” | means the US\$240,000,000 facility provided by Gazprombank to K&S pursuant to the Facility Agreements; |
| “Gold PM Fix” | means the USD Gold price determined at 3p.m. London time daily; |
| “Global Bond” | means the global bond in registered form that represents the Bonds; |
| “Group” | means the Company and its subsidiaries; |

| | |
|--|---|
| “Guarantee” | means the guarantee given by Petropavlovsk PLC to unconditionally and irrevocably guarantee the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Bonds and the due and punctual performance by the Issuer of all of the Issuer’s other obligations in respect of the Bonds; |
| “Guarantees” | means the Sponsor Guarantee and Fixed Term Guarantees A, B, C and D that the Company and Gazprombank entered into on 15 February 2019; |
| “Guarantor” | means Petropavlovsk PLC; |
| “ICBC” | means Industrial Commercial Bank of China Ltd; |
| “ICBC Facility” | the US\$340,000,000 facility between the Company (as guarantor), K&S (as borrower) and ICBC (as facility agent), dated 13 December 2010, and the guarantee given by the Company in relation thereto (as amended and restated); |
| “Index” | means the bespoke Gold Mining index as determined by the Remuneration Committee of Petropavlovsk PLC to be used as the comparator group for the performance share awards made under the Petropavlovsk PLC Long-Term Incentive Plan in June 2019; |
| “Indicated Mineral Resource(s)” | as defined in the JORC Code, that part of a Mineral Resource for which quantity, grade (or quality), densities, shape and physical characteristics are estimated with sufficient confidence to allow the application of modifying factors in sufficient detail to support mine planning and evaluation of the economic viability of the deposit. Geological evidence is derived from adequately detailed and reliable exploration, sampling and testing gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes, and is sufficient to assume geological and grade (or quality) continuity between points of observation where data and samples are gathered. An Indicated Mineral Resource has a lower level of confidence than that applying to a Measured Mineral Resource and may only be converted to a Probable Ore Reserve; |
| “Inferred Mineral Resource(s)” | as defined in the JORC Code, that part of a Mineral Resource for which quantity and grade (or quality) are estimated on the basis of limited geological evidence and sampling. Geological evidence is sufficient to imply but not verify geological and grade (or quality) continuity. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. An Inferred Mineral Resource has a lower level of confidence than that applying to an Indicated Mineral Resource and must not be converted to an Ore Reserve. It is reasonably expected that the majority of Inferred Mineral Resources could be upgraded to Indicated Mineral Resources with continued exploration; |
| “Investor’s Currency” | means a currency or currency unit into which an investor’s financial activities are denominated principally; |
| “IRC” | IRC Limited, a company incorporated in Hong Kong with registered number 1464973; |
| “Issue Date” | has the meaning provided in <i>Part 4 – Terms and Conditions of the Bonds</i> ; |

| | |
|---------------------------------------|--|
| “Issuer” | means Petropavlovsk 2010 Limited; |
| “Jersey Commission” | means the Jersey Financial Services Commission; |
| “Jersey Registrar” | means the Jersey registrar of companies; |
| “JORC Code” | means The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code) is a professional code of practice that sets minimum standards for Public Reporting of minerals Exploration Results, Mineral Resources and Ore Reserves; |
| “JORC Mineral Resources” | means mineral resources estimated in accordance with JORC Code; |
| “JORC Ore Reserves” | means ore reserves estimated in accordance with the JORC Code; |
| “K&S” | means Kimkano-Sutarsky Mining and Beneficiation Plant LLC, a limited liability company established under the laws of the Russian Federation, OGRN 1047796563077, whose registered address is at Russian Federation, 679000, Jewish Autonomous Region, Birobidjan, Prospekt 60-letija of the USSR, 22b; |
| “Labour Code” | means the Labour Code of Russia dated 30 December 2001, as amended; |
| “Land Rights” | means rights to access or to exploit mining projects; |
| “Listing” | means an admission to listing and to trading of the US\$125,000,000 8.25 per cent. convertible bonds due 2024 of Petropavlovsk 2010 Limited which are unconditionally and irrevocably guaranteed by Petropavlovsk PLC; |
| “Loan Note Guarantors” | means the Company, JSC Pokrovskiy Rudnik, LLC Albynskiy Rudnik and LLC Malomirskiy Rudnik; |
| “Loan Note Issuer” | means Petropavlovsk 2016 Limited; |
| “LSE” | means the London Stock Exchange; |
| “Measured Mineral Resource(s)” | as defined in the JORC Code, that part of a Mineral Resource for which quantity, grade (or quality), densities, shape, and physical characteristics are estimated with confidence sufficient to allow the application of modifying factors to support detailed mine planning and final evaluation of the economic viability of the deposit. Geological evidence is derived from detailed and reliable exploration, sampling and testing gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes, and is sufficient to confirm geological and grade (or quality) continuity between points of observation where data and samples are gathered. A Measured Mineral Resource has a higher level of confidence than that applying to either an Indicated Mineral Resource or an Inferred Mineral Resource. It may be converted to a Proved Ore Reserve or under certain circumstances to a Probable Ore Reserve; |
| “Mineral Resource(s)” | a concentration or occurrence of solid material of economic interest in or on the Earth’s crust in such form, grade (or quality), and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade (or quality), continuity and other geological characteristics of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge, including sampling. Mineral Resources are sub-divided, in order of |

| | |
|--|---|
| | increasing geological confidence, into Inferred, Indicated and Measured categories; |
| “Modifying Factors” | are considerations used to convert Mineral Resources to Ore Reserves. These include, but are not restricted to, mining, processing, metallurgical, infrastructure, economic, marketing, legal, environmental, social and governmental factors; |
| “Monthly Fee” | means, under the terms of the Recourse Agreement, the monthly fee that IRC has an obligation to pay to the Company to compensate the Company for its entry into the Guarantees; |
| “Multilateral Convention” | means the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting; |
| “Non-Compliant Holder” | has the meaning given in the Articles; |
| “OECD” | means the Organisation for Economic Co-operation and Development; |
| “Optional Redemption Date” | has the meaning given in <i>Part 4 – Terms and Conditions of the Bonds</i> ; |
| “Ore Reserves” | is the economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined or extracted and is defined by studies at Pre-Feasibility or Feasibility level as appropriate that include application of Modifying Factors. Such studies demonstrate that, at the time of reporting, extraction could reasonably be justified; |
| “Ordinary Shares” | means the ordinary shares of the Guarantor having a nominal value at the Issue Date of £0.01 each; |
| “Paid-up Value” | has the meaning given in <i>Part 4 – Terms and Conditions of the Bonds</i> ; |
| “participating Member States” | means Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia, in which countries, on 14 February 2013, the European Commission published the Commission’s Proposal for a Directive for a common FTT; |
| “Plan” | means the Company’s Long-Term Incentive Plan; |
| “POX Hub” | means the POX plant and associated facilities and infrastructure at Pokrovskiy; |
| “PRIIPS Regulation” | means Regulation (EU) No 1286/2014, as amended; |
| “Principal Paying, Transfer, Conversion and Exchange Agent” | means Citibank, N.A., London Branch; |
| “Probable Ore Reserve(s)” | is the economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource. The confidence in the Modifying Factors applying to a Probable Ore Reserve is lower than that applying to a Proved Ore Reserve; |
| “Proved Ore Reserve(s)” | is the economically mineable part of a Measured Mineral Resource. A Proved Ore Reserve implies a high degree of confidence in the Modifying Factors; |
| “RA Reference Date” | has the meaning given in <i>Part 4 – Terms and Conditions of the Bonds</i> ; |

| | |
|-----------------------------------|--|
| “Recourse Agreement” | means the recourse agreement that the Company, IRC and K&S entered into on 15 February 2019; |
| “Reference Date” | has the meaning given in <i>Part 4 – Terms and Conditions of the Bonds</i> ; |
| “Register” | has the meaning given in <i>Part 4 – Terms and Conditions of the Bonds</i> ; |
| “Registrar” | means Citigroup Global Markets Europe AG; |
| “Rosnedra” | means the Federal Agency on the Use of Natural Resources; |
| “Rosprirodnadzor” | means the Federal Service for Supervision of Use of Natural Recourses; |
| “Russia” | means the Russian Federation; |
| “Russian Tax Code” | means the Tax Code of the Russian Federation; |
| “Safety Law” | means the Federal Law No. 116-FZ dated 21 July 1997 “On Industrial Safety of Dangerous Industrial Facilities”, as amended; |
| “Securities Act” | means the U.S. Securities Act of 1933 as amended; |
| “Settlement Date” | has the meaning given in <i>Part 4 – Terms and Conditions of the Bonds</i> ; |
| “Shareholders | means the holders of Ordinary Shares; |
| “Shares” | means the Ordinary Shares; |
| “SPV” | means a special purpose vehicle; |
| “Strategic Approval” | means a requirement to obtain the prior approval of the Russian government commission pursuant to Federal Law No. 57-FZ ; |
| “Strategic Asset Laws” | the Federal Law No. 57-FZ, the Federal Law No. 58-FZ dated 29 April 2008 “On introducing amendments in certain legal acts of the Russian Federation and declaring null and void certain provisions of legal acts of the Russian Federation in connection with the adoption of the Federal Law on the manner of conducting of foreign investments into companies having strategic significance for securing the defence of the country and the security of the State” and the Subsoil Law (as amended, including by Federal Law No. 58-FZ); |
| “Strategic Commodities” | means hard rock (vein) reserves of platinum group metals or diamonds, as well as reserves of the following: uranium, especially pure raw quartz, rare earths of the yttrium group, nickel, cobalt, tantalum, niobium, beryllium or lithium; |
| “Strategic Entity” | has the meaning given to it in Federal Law No. 57-FZ; |
| “Strategic Gold Deposit” | means a deposit which contains reserves of hard rock (vein) gold of 50 or more tonnes as referred to in the Subsoil Law; |
| “Subsoil Law” | means the law of the Russian Federation No. 2395-1, “On Subsoil” dated 21 February 1992, as reissued and amended; |
| “Tax Redemption Date” | has the meaning given in <i>Part 4 – Terms and Conditions of the Bonds</i> ; |
| “Technical Regulation Law” | means Federal Law No. 184-FZ dated 27 December 2002 “On Technical Regulation”, as amended; |

| | |
|---------------------------------------|--|
| “Trust Deed” | means a trust deed dated 3 July 2019 between the Issuer, the Guarantor and Apex Corporate Trustees (UK) Limited; |
| “Trustee” | means Apex Corporate Trustees (UK) Limited; |
| “UK Corporate Governance Code” | means UK Corporate Governance Code, published by the Financial Reporting Council in July 2018; and |
| “VAT” | means value added tax. |