**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 inveseting 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.

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## 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.$200,000 each |
| **7(a)(ii)** | **Par value** | The Bonds were issued at par and carry a coupon of 8.25% per annum payable quarterly in arrear in equal instalments. |
| **7(a)(ii)** | **Term** | The Bonds will be redeemed at par (if not converted, redeemed or purchased and cancelled) at the stated maturity date of 3 July 2024 (the "**Final Maturity Date**"). |
| **7(a)(iii)** | **Rights** | The Bonds will be convertible during the Conversion Period (as defined below) (subject as provided below) into redeemable preference shares of the Issuer (the "**Preference Shares**") with a par value of U.S.$ 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**").<br><br>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**").<br><br>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.<br><br>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 |

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 30 June | |
|---|---|---|---|---|---|
| | **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*) | | | |
| **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:

- 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.<br><br>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 qualities 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 impeding 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$^{o}$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 $15m^3$ 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 Irgiredment 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, it's 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 though 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 be 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

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

(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:


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| 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 |
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(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:


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| Consolidated Income Statement | 149 |
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| Consolidated Balance Sheet | 151 |
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| Consolidated Cash Flow Statement | 153 |
| Notes to the Consolidated Financial Statements | 154-191 |
| Company Balance Sheet | 192 |
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(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:


| | |
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| 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 |
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(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/:

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| 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/:

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| 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/:

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| Auditor's Report | 5 |
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| 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 andUBS.

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:

$$\text{CAA} = \sum_{n=1}^{N} \frac{1}{N} x \text{ CSS } x \text{ } P_n$$

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 x VWAP

where

PV = the Parity Value

N = 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 of 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 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:

$$\mathrm{COCEP} = \mathrm{OEP}/\left(1 + (\mathrm{EP} \times \mathrm{c}/\mathrm{t})\right)$$

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(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 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:

(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 depositary 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 depositary 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 depositary 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 performance*[1]**

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 demand**[2]

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 demand**[3]

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** |
| **Total[3]** | **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 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** |
|---|---|---|---|---|---|
| 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.

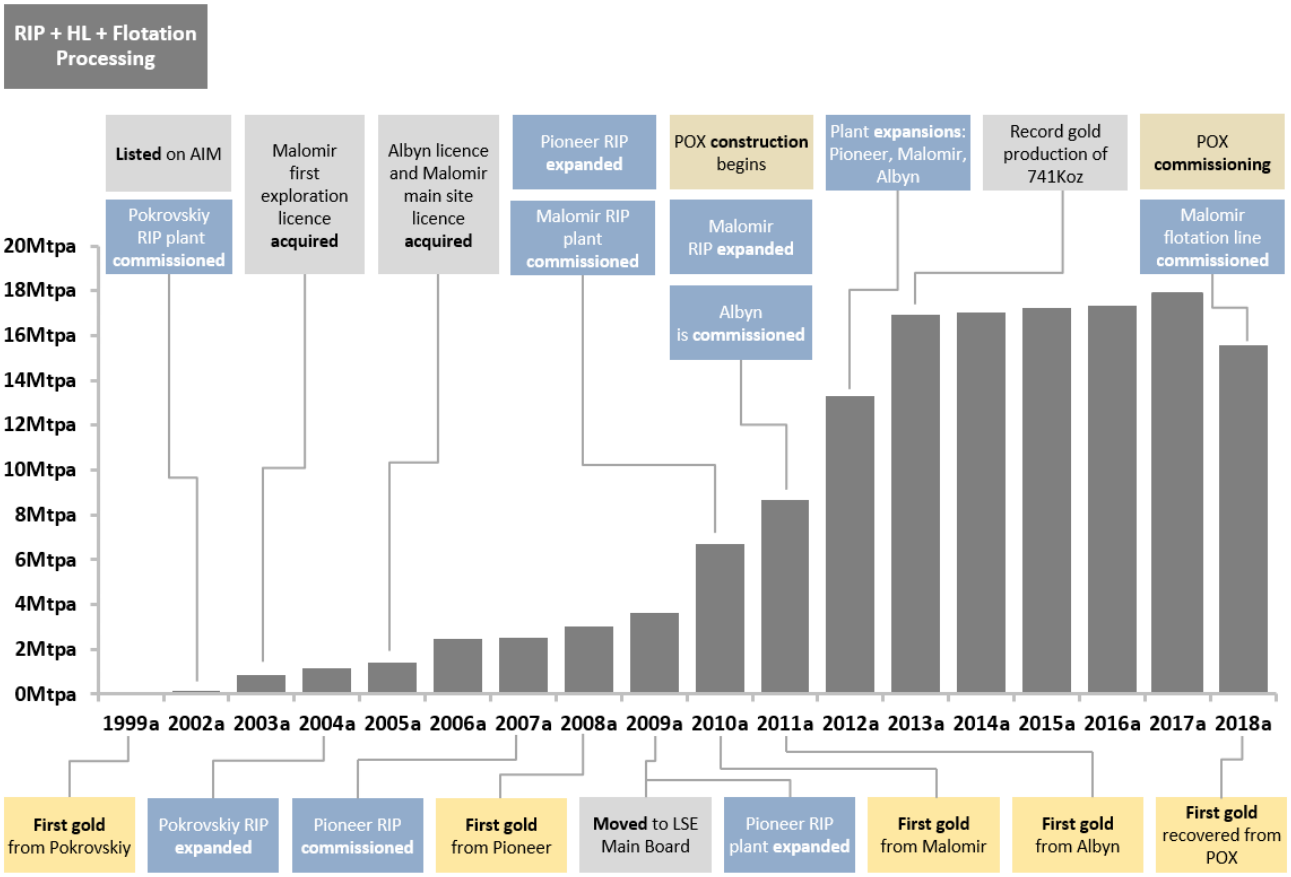
On 12 March 2019, Petropavlovsk shareholders approved the Company's proposal to guarantee the obligations of K&S, a wholly owned subsidiary of IRC, under two facility agreements with JSC Gazprombank ("**Gazprombank**") totalling US$240 million. The new facility agreements have an improved loan repayment 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 Merril-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 3,000km$^2$ 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.

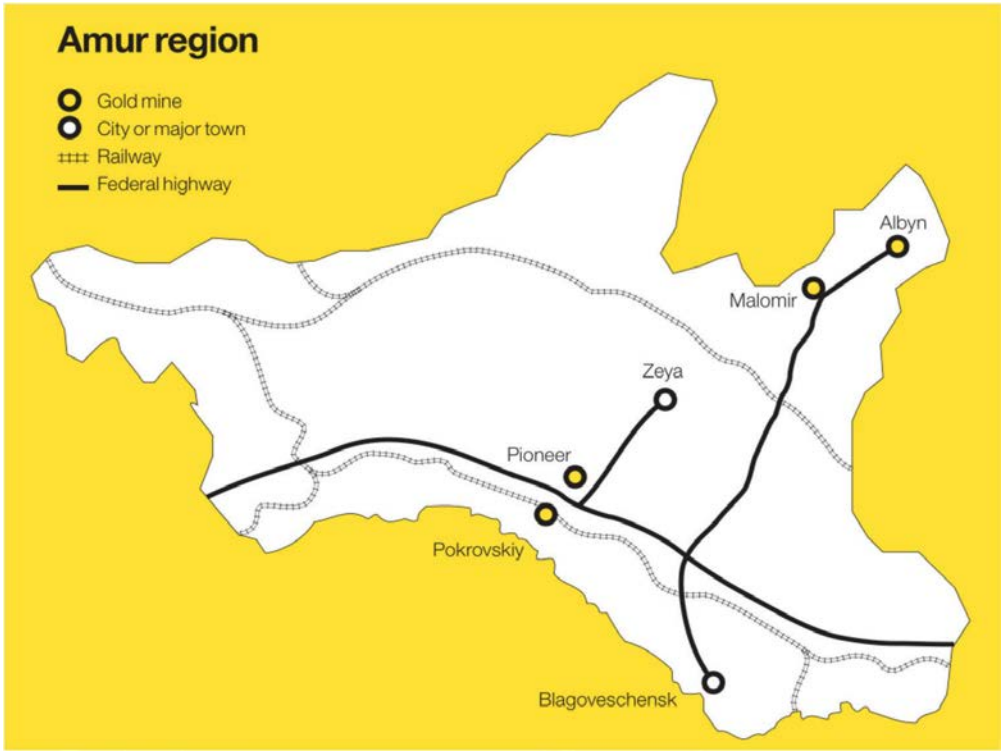
The Group's assets can be classified into the following three categories, each of which is described in further detail in this Part:

(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 1,337km$^2$ 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 03g/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 1,337km$^2$ 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.

<u>Pioneer Exploration Results for the first six months of 2019</u>

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 of1.5g/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 $km^2$ 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***

| | Category | Tonnage (kt) | Grade (g/t Au) | Gold (Moz Au) |
|---|---|---|---|---|
| | Proved | 19,335 | 0.84 | 0.52 |
| | Probable | 69,051 | 1.00 | 2.23 |
| **Total** | Proved+Probable | 88,386 | 0.97 | 2.75 |
| | Proved | 126 | 1.00 | 0.004 |
| | Probable | 618 | 1.37 | 0.03 |
| **Non-Refractory** | Proved+Probable | 743 | 1.31 | 0.03 |
| | Proved | 19,210 | 0.84 | 0.52 |
| | Probable | 68,434 | 1.00 | 2.20 |
| **Refractory** | Proved+Probable | 87,643 | 0.97 | 2.72 |

***Malomir Underground***

| | Category | Tonnage (kt) | Grade (g/t Au) | Gold (Moz Au) |
|---|---|---|---|---|
| | Proved | 176 | 9.09 | 0.05 |
| | Probable | 352 | 4.48 | 0.05 |
| **Total** | Proved+Probable | 528 | 6.01 | 0.10 |
| | Proved | 176 | 9.09 | 0.05 |
| | Probable | 352 | 4.48 | 0.05 |
| **Non-Refractory** | Proved+Probable | 528 | 6.01 | 0.10 |
| | Proved | – | – | – |
| | Probable | – | – | – |
| **Refractory** | Proved+Probable | – | – | – |

### *Malomir Total*

| | Category | Tonnage (kt) | Grade (g/t Au) | Gold (Moz Au) |
|---|---|---|---|---|
| | Proved | 19,511 | 0.92 | 0.58 |
| | Probable | 69,403 | 1.02 | 2.28 |
| **Total** | Proved+Probable | 88,914 | 1.00 | 2.86 |
| | Proved | 301 | 5.72 | 0.05 |
| | Probable | 970 | 2.50 | 0.08 |
| **Non-Refractory** | Proved+Probable | 1,271 | 3.26 | 0.13 |
| | Proved | 19,210 | 0.84 | 0.52 |
| | Probable | 68,434 | 1.00 | 2.20 |
| **Refractory** | 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) |
|---|---|---|---|---|
| | Measured | 20,248 | 0.84 | 0.55 |
| **Total** | Indicated | 133,488 | 0.87 | 3.74 |
| | Measured+Indicated | 153,736 | 0.87 | 4.29 |
| | Inferred | 107,375 | 0.71 | 2.47 |
| | Measured | 135 | 0.99 | 0.004 |
| **Non-Refractory** | Indicated | 802 | 1.19 | 0.03 |
| | Measured+Indicated | 936 | 1.16 | 0.03 |
| | Inferred | 513 | 0.82 | 0.01 |
| | 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 |

### *Malomir Underground*

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|---|---|---|---|---|
| | Measured | 243 | 9.71 | 0.08 |
| | Indicated | 403 | 4.37 | 0.06 |
| Total | Measured+Indicated | 646 | 6.38 | 0.13 |
| | Inferred | 354 | 3.45 | 0.04 |
| | Measured | 243 | 9.71 | 0.08 |
| | Indicated | 403 | 4.37 | 0.06 |
| Non-Refractory | Measured+Indicated | 646 | 6.38 | 0.13 |
| | Inferred | 354 | 3.45 | 0.04 |
| | Measured | – | – | – |
| | Indicated | – | – | – |
| Refractory | 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 |
| | Measured | 378 | 6.60 | 0.08 |
| | Indicated | 1,204 | 2.25 | 0.09 |
| **Non-Refractory Refractory** | Measured+Indicated | 1,582 | 3.29 | 0.17 |
| | Inferred | 867 | 1.89 | 0.05 |
| | Measured | 20,113 | 0.84 | 0.54 |
| | Indicated | 132,686 | 0.87 | 3.71 |
| **Refractory** | 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 197,798$m^3$ 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 $C_2$ 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 $P_1$ 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$791oz, 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 1,053km$^2$ 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)*

| | Category | Tonnage (kt) | Grade (g/t Au) | Metal (Moz Au) |
|---|---|---|---|---|
| **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 Udskaya; 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 Udskaya 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 Udskaya and Chogarskaya are considered underexplored offering potential for significant discoveries. Verkhne Udskaya 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 oxidisation 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.

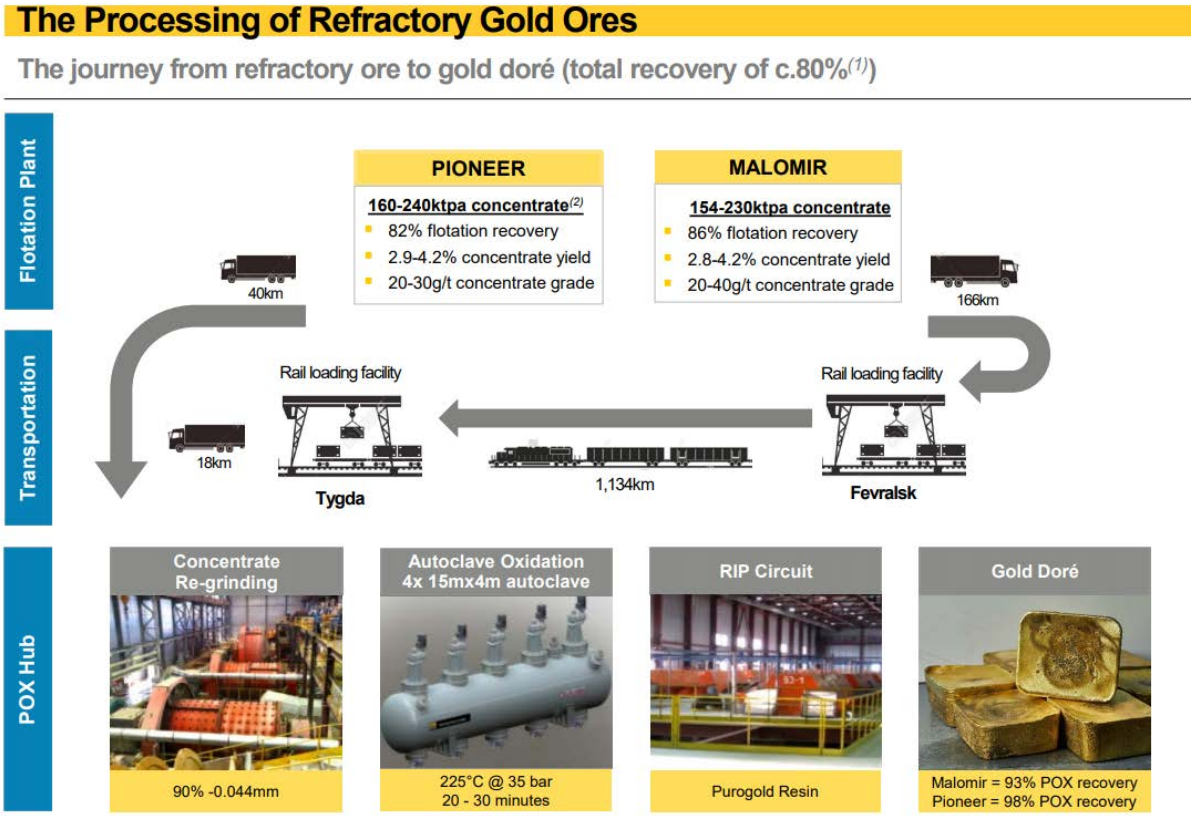
Following the downward trend in gold price in 2013, the Company put the POX Hub development on care and maintenance while exploring potential external funding solutions, namely with the Company's lenders and possible joint venture partners. Prior to this, significant design work, earth works, civil works 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.




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 1,337km$^2$). 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. Zvezdniy 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 1,500,000$m^3$ 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, Kapstroi. Kapstroi 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.

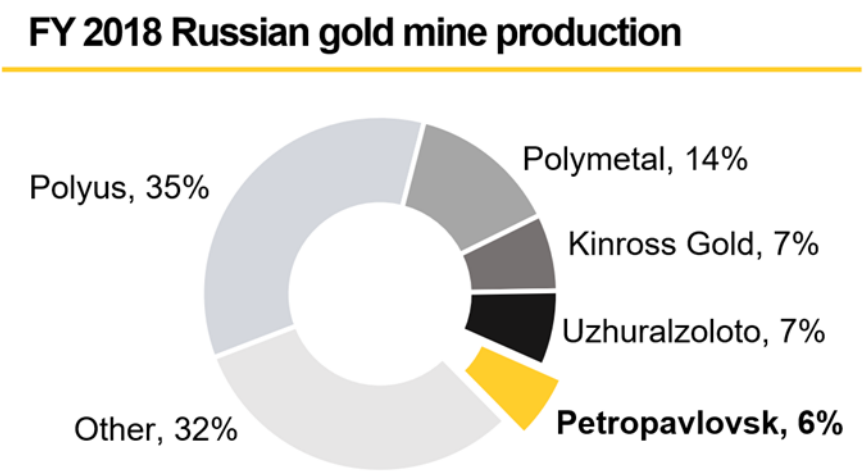
During 2018, the annual sales volume was 219,352 tonnes for the remaining iron ore concentrate, and the sales volume of ilmenite concentrate was 60,044 tonnes. The segmental revenue of the mine was US$15.6 million.

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.

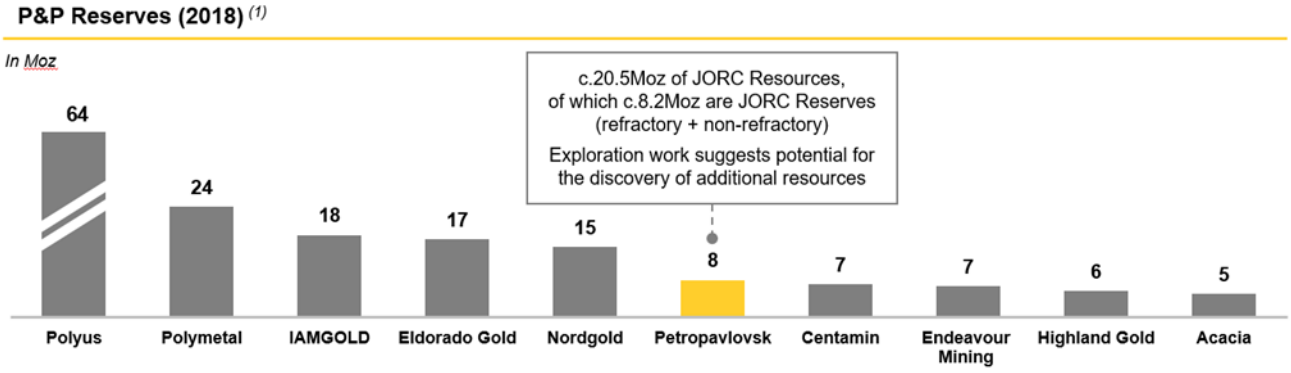
## 12. Competitive Environment and Cost Profile

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:

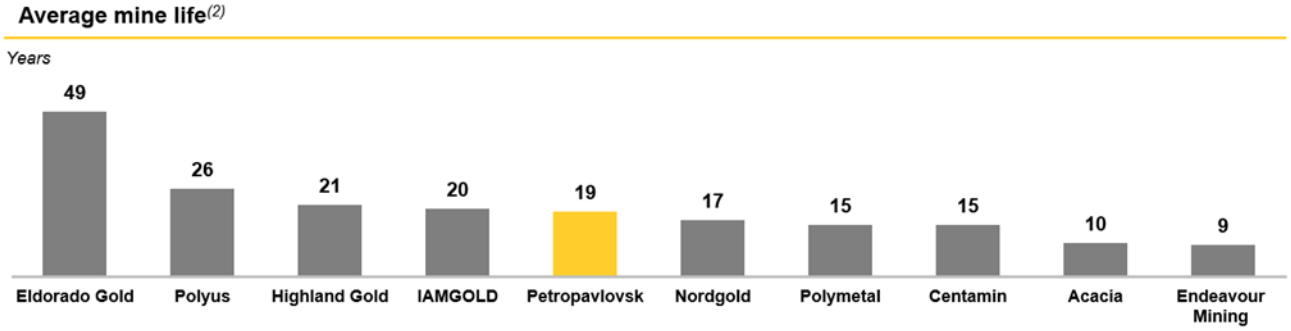



*Source*: the Russian Union of Gold Producers

The chart below sets out some of the largest gold producers by reserves:

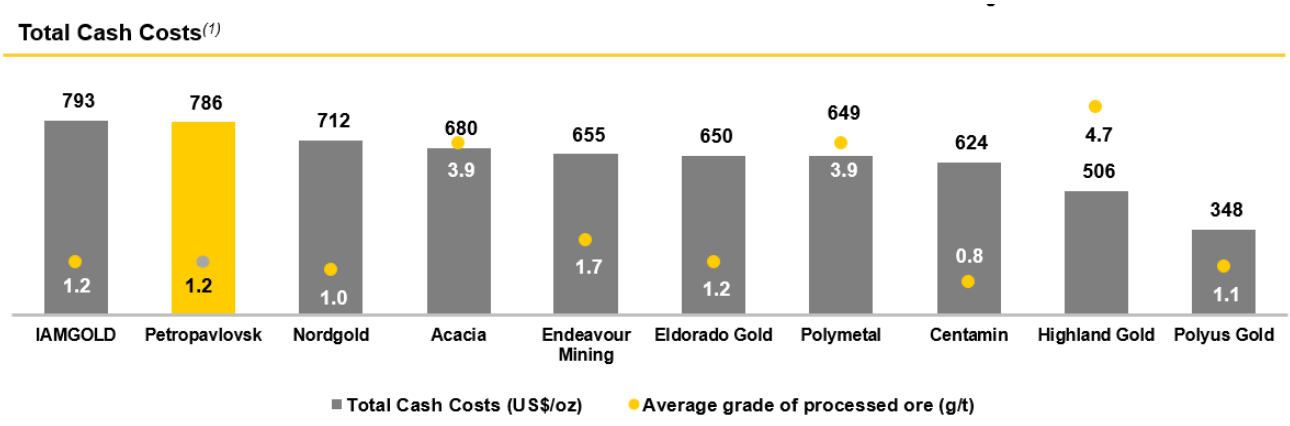


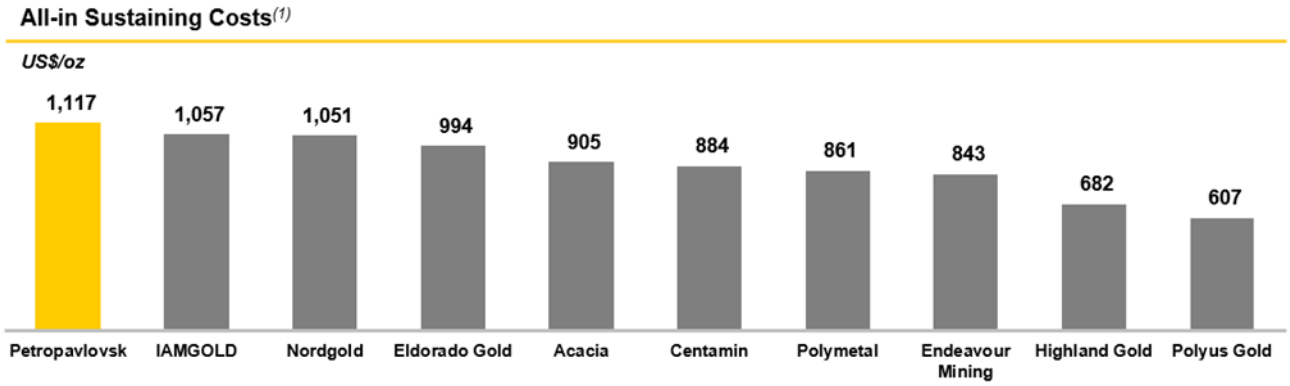

The chart below sets out some of the largest gold producers by life of mine[(3)]




(1) *Source*: company data.
(2) *Source*: company data (calculated as 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.

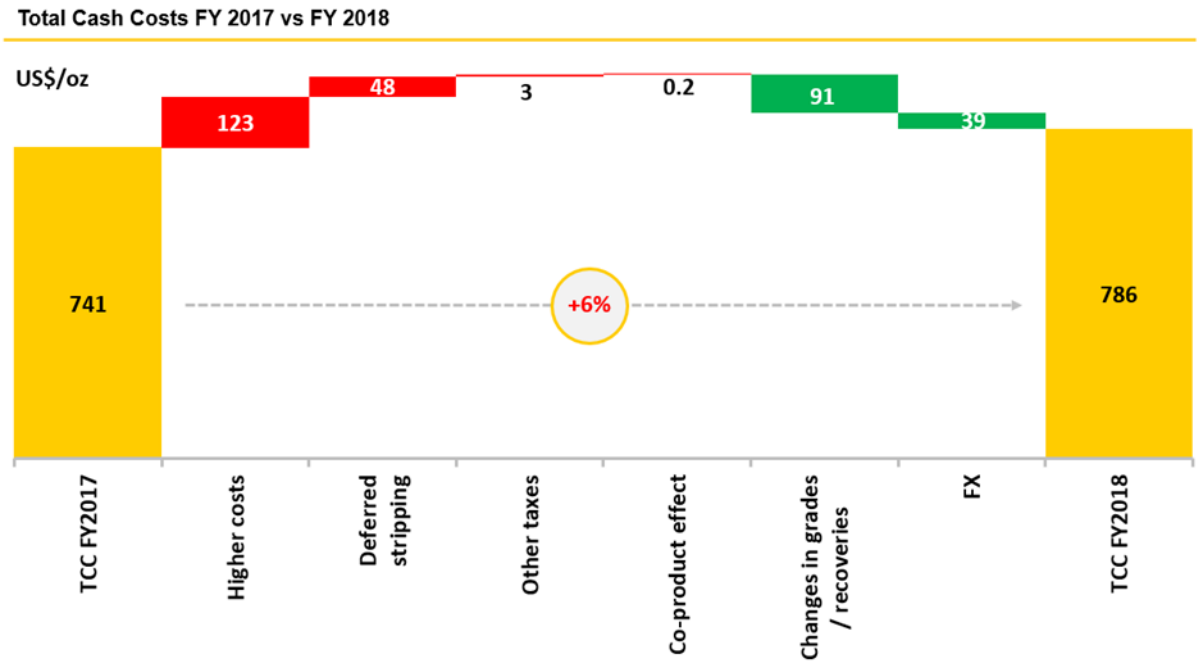
The following charts show comparative cost information of certain gold producers

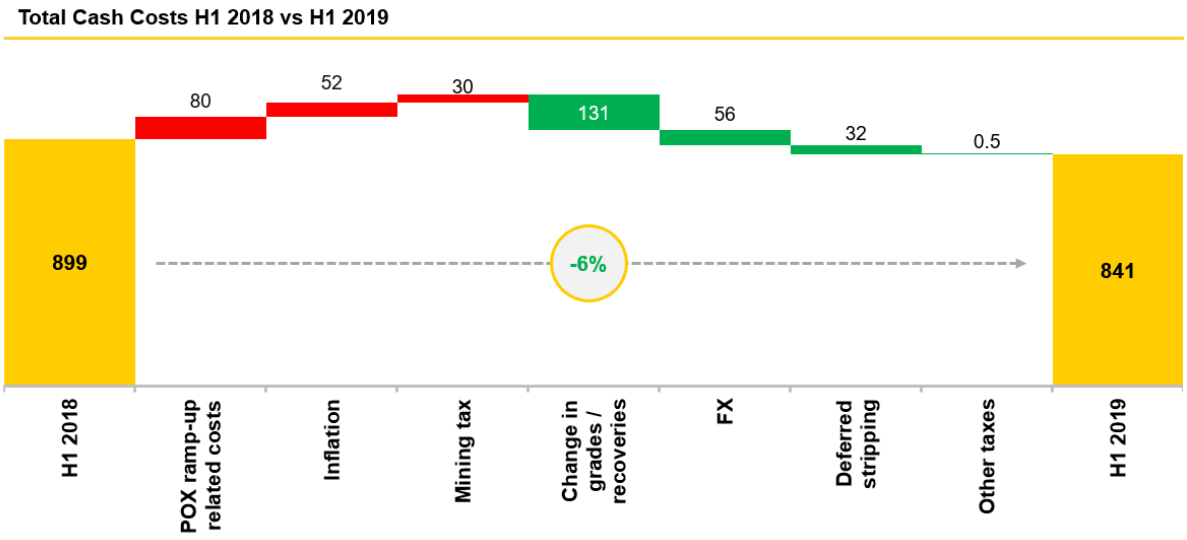



(1) *Source*: company data

***TCC bridges based on analysis of TCC evolution***






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: A1.15.1

| **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 CO2e) | 209,043 | 218,502 | 4% |
| Electricity, heat, steam and cooling purchased for own use (tonnes of CO2e) | 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 |
| **Albynskiy 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 |
| **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 |

## 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:

| Name | Current directorships/partnerships | Past directorships/partnerships |
|---|---|---|
| Sir Roderic Lyne | | Petropavlovsk PLC |
| | | JP Morgan Bank International LLC |
| Dr Pavel Maslovskiy | XAU Resources Inc. | Petropavlovsk PLC |
| Harry Kenyon-Slaney | Gem Diamonds Limited | BBRG Holding (UK) Ltd |
| | Sibayne Gold Limited (trading as Sibanye-Stillwater) | World Coal Association |
| | Schenck Process AG | |
| | Lime Tree Partners Limited | |
| | Whitebeam Partners Limited | |
| James W. Cameron Jr | Cameron & Associates | |
| Damien Hackett | UrAmerica Limited | Themis Mining & Financial Ltd |
| | WRV Management Company | |
| Robert Jenkins | A.J. Poels & Company Limited | Petropavlovsk PLC |
| | Devereux Lane Management Company Limited | Griffins Meat Company Limited |
| | | Ruspetro Limited |
| | The Packing House Products Company, Limited | |
| | Northstar Corporate Finance Oy | |
| | Northstar Holdings Limited | |
| | Northstar Capital Advisors Limited | |
| | Oppenheimer Resources SICAV-SIF | |
| 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 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 Kapstroi | 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 licencee, 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 licencee to remedy the violation within the period specified in the notice. If the licencee 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 licencee 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 licencee 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 licencee 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** |
| **Total[3]** | **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** |
|---|---|---|---|---|---|
| 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.

### 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 / (impairement 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 |
| | (294,910) | (289,292) |

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 | Post-tax impairment charge |
|---|---|---|---|
| | | *US$'000* | |
| Pokrovskiy | — | — | — |
| Pioneer | — | — | — |
| Malomir | 309 | (62) | 247 |
| Albyn | 17,712 | (3,011) | 14,701 |
| | 18,021 | (3,073) | 14,948 |

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 |
| | *In millions of US$* | | | | | |
| 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 Development | | | 2017 Development | | | 2016 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.

| | As at 31 December 2018 | | As at 30 June 2019 | |
|---|---|---|---|---|
| **Counterparty** | **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 Irgiredment 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 o 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 threated 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.petropavlovsk.net/investors/petropavlovsk-2010-limited/articles-of-association/; and

- the Company's memorandum and articles of association –

  https://www.petropavlovsk.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.<br>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).<br>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:<br>• c.450-500koz gold production<br>• 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.<br>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:<br>• 250,000 Shares purchased Mr Harry Kenyon-Slaney, Senior Independent Director; and<br>• 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:<br>• Mr Sergey Ermolenko, General Director of MC Petropavlovsk: 707,173 Shares<br>• Dr Alya Samokhvalova, Deputy CEO: 681,818 Shares<br>Granting of Deferred Bonus Awards to:<br>• Dr Pavel Maslovskiy, CEO: 963,931 Shares<br>• Mr Sergey Ermolenko, General Director of MC Petropavlovsk: 324,679 Shares<br>• Dr Alya Samokhvalova, Deputy CEO: 463,182 Shares<br>• 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.<br>US$77.81 million of the Existing Bonds repurchased and cancelled by the Issuer:<br>• Issuer to redeem the remaining Existing Bonds of US$22.19 million on 9 July 2019 with an additional payment so that |

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| | | Bondholders receive in total the amount of US$1,080 per US$1,000 in outstanding principal amount of the Existing Bonds<br>• Last date that the conversion rights are exercisable in respect of the Bonds is 4 July 2019. |
| 27 June 2019 | Approval of Written Resolution | 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.<br>The Issuer intends to exercise its option to redeem the outstanding Existing Bonds under Condition 9(b) "*Redemption at the Option of the Issuer*". |
| 25 June 2019 | Grant of Performance Share Awards under the Petropavlovsk Long-Term Incentive Plan | Details of Performance Share Awards (the Awards) granted to the Executive Director and PDMRs of Petropavlosk PLC.<br>Summary of performance conditions and conditions of the Awards. |
| 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 | • Announcement of US$125m placement<br>• US$25m increase option exercised in full<br>• Coupon for new Bonds of 8.25 per cent<br>• 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 | • Announcement of launch of an offering of US$100m of Guaranteed Convertible Bonds due 2025 with an up to US$25m increase option<br>• Bonds to be guaranteed by the Company<br>• Invitation to Repurchase Existing 9% Convertible Bonds Due 2020<br>• Details of Consent Solicitation seeking approval from existing Bondholders to modification of terms and conditions<br>• 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 | 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. |
| 19 December 2018 | Update on IRC Loan Refinancing Transaction | Announcement of completion of the first stage of the planned refinancing of IRC's outstanding project finance facility with ICBC.<br>The amount of Petropavlovsk's current guarantee will reduce.<br>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. |
| 24 September 2018 | Proposed IRC Loan Refinancing Transaction | 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).<br>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. |
| 10 August 2018 | IRC Update | Announcement that noted the poll results of the IRC Extraordinary General Meeting (EGM).<br>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.<br>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. |

## PART 17
## DEFINITIONS AND GLOSSARY

The following definitions apply throughout this Prospectus unless the context requires otherwise:

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| "**Additional Cash Alternative Amount**" | has the meaning given in *Part 4 – Terms and Conditions of the Bonds*; |
| "**Additional Ordinary Shares**" | has the meaning given in *Part 4 – Terms and Conditions of the Bonds*; |
| "**Adjusted FMV Date**" | has the meaning given in *Part 4 – Terms and Conditions of the Bonds*; |
| "**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 *Part 4 – Terms and Conditions of the Bonds*; |
| "**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 *Part 4 – Terms and Conditions of the Bonds*; |
| "**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 *Part 4 – Terms and Conditions of the Bonds*; |
| "**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 *Part 4 – "Terms and Conditions of the Bonds"*of this Prospectus; |

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| "**Conversion Date**" | has the meaning provided in *Part 4 – Terms and Conditions of the Bonds*; |
| "**Conversion Period Commencement Date**" | has the meaning provided in *Part 4 – Terms and Conditions of the Bonds*; |
| "**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 *Part 4 – Terms and Conditions of the Bonds*; |
| "**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 *Part 4 – Terms and Conditions of the Bonds*; |
| "**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; |

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| "**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 *Part 4 – Terms and Conditions of the Bonds*; |

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| "**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 |

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| | 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 *Part 4 – Terms and Conditions of the Bonds*; |
| "**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 *Part 4 – Terms and Conditions of the Bonds*; |
| "**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 *Part 4 – Terms and Conditions of the Bonds*; |

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| "**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 *Part 4 – Terms and Conditions of the Bonds*; |
| "**Register**" | has the meaning given in *Part 4 – Terms and Conditions of the Bonds*; |
| "**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 *Part 4 – Terms and Conditions of the Bonds*; |
| "**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 *Part 4 – Terms and Conditions of the Bonds*; |
| "**Technical Regulation Law**" | means Federal Law No. 184-FZ dated 27 December 2002 "On Technical Regulation", as amended; |

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| "**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. |