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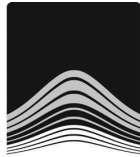
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Offering Circular dated 15 February 2010



**PETROPAVLOVSK**

## **Petropavlovsk 2010 Limited**

*(incorporated with limited liability in Jersey with registered number 104830)*

# **US\$380,000,000**

## **4.00 per cent. Guaranteed Convertible Bonds due 2015**

*convertible into redeemable preference shares  
of Petropavlovsk 2010 Limited which are guaranteed by,  
and will be exchangeable immediately upon issuance for, ordinary shares in*

## **PETROPAVLOVSK PLC**

*(incorporated with limited liability in England and Wales with registered number 04343841)*

**Issue Price: 100 per cent.**

*Sole Bookrunner and Joint Lead Manager*

**J.P. Morgan Cazenove**

*Joint Lead Manager*

**Citi**

*Co - Lead Managers*

**Canaccord Adams Limited    ING    Liberum Capital**

**RZB Group    Société Générale Corporate & Investment Banking**

**UniCredit Bank AG**

This Offering Circular comprises listing particulars given in compliance with the listing rules made under Section 73A of the Financial Services and Markets Act 2000, as amended (**FSMA**) by the UK Listing Authority (**UKLA**). Applications have been made for the US\$380,000,000 4.00 per cent. Guaranteed Convertible Bonds due 2015 (**Bonds**) of Petropavlovsk 2010 Limited (**Issuer**) to be admitted to the Official List of the UKLA (**Official List**) and to be admitted to trading on the Professional Securities Market of the London Stock Exchange plc (**London Stock Exchange**) (**Market**). The London Stock Exchange's Professional Securities Market is an unregulated market for the purposes of the Markets in Financial Investments Directive (Directive 2004/39/EC). Petropavlovsk PLC (the **Company**, **Guarantor** or **Petropavlovsk**) has undertaken to apply to have the Ordinary Shares issuable upon conversion of the Bonds admitted to the Official List and admitted to trading on the EEA regulated market of the London Stock Exchange. This Offering Circular is to be read in conjunction with all the documents which are incorporated by reference herein (see "Presentation of Information – Documents incorporated by reference").

Each of the Issuer and the Guarantor accepts responsibility for the information contained in this Offering Circular. The Issuer and the Guarantor confirm that, having taken all reasonable care to ensure that such is the case, the information contained in this Offering Circular is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

Each of the Managers (as defined in "Subscription and Sale") is acting for the Issuer and the Guarantor only and no one else in connection with the offering and will not regard any other person (whether or not as a recipient of this document) as its client in relation to the offering and will not be responsible to anyone other than the Issuer and the Guarantor for providing the protections afforded to clients of the Managers, or for providing advice in relation to the offering, the contents of this Offering Circular or any transaction or arrangement or other matter referred to in this Offering Circular.

This Offering Circular (including the information incorporated by reference herein) is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Guarantor, BNP Paribas Trust Corporation UK Limited (**Trustee**) or the Managers that any recipient of this Offering Circular 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.

No person is authorised to give any information or to make any representation not contained in this Offering Circular and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Guarantor or any of the Managers. Neither the delivery of this Offering Circular, nor any sale made in connection herewith, shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Guarantor since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented, or that there has been no adverse change in the financial position of the Issuer or the Guarantor since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented, or that the information contained in it or any other information supplied in connection with the Bonds is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor or any of the Managers to subscribe or purchase, any Bonds, Preference Shares (as defined herein) or Ordinary Shares. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor and the Managers to inform themselves about and to observe any such restrictions. For a description of further restrictions

on offers and sales of Bonds, and distribution of this Offering Circular, see “Subscription and Sale”.

To the fullest extent permitted by law, the Managers accept no responsibility whatsoever for the contents of this Offering Circular or for any other statement made, or purported to be made, by a Manager or on its behalf in connection with the Issuer, the Guarantor or the issue and offering of the Bonds. Each Manager accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

The Bonds, the Guarantee (as defined herein), the guarantee by way of deed poll provided by the Guarantor in respect of the Preference Shares, the Preference Shares and the Ordinary Shares have not been, and will not be, registered under the US Securities Act of 1933, as amended (**Securities Act**). The Bonds are being offered outside the United States by the Managers in accordance with Regulation S under the Securities Act (**Regulation S**) and, subject to certain exceptions, may not be offered or sold within the United States. The Ordinary Shares issuable upon conversion of the Bonds will be issued in reliance on Regulation S under the Securities Act and accordingly, a Bondholder exercising its conversion right must certify, among others, that it is located outside the United States. See “Terms and Conditions of the Bonds — Conversion and Exchange — Procedure for Conversion and Exchange.”

The Bonds will be in registered form and issued in authorised denominations of US\$100,000. The Bonds will be represented by a global bond in registered form (**Global Bond**), without interest coupons, which will be deposited on or around 18 February 2010 (the **Closing Date**) with a common depository for, and registered in the name of a common nominee of, Euroclear Bank S.A./N.V. (**Euroclear**) or Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**). The Global Bond will be exchangeable in certain limited circumstances in whole, but not in part, for definitive Bonds in registered form (**Definitive Certificates**). See “Summary of Provisions Relating to the Bonds in Global Form”.

This Offering Circular does not constitute, and may not be used for or in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

In connection with the offering of the Bonds, each Manager and/or its affiliates may act as an investor for its own account and may take up Bonds in the offering and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Issuer or the Guarantor or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering. Accordingly, references herein to the Bonds being offered should be read as including any offering of Bonds to the Managers and/or their affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Managers have not separately verified the information contained in this Offering Circular. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by the Managers as to the accuracy or completeness of the information contained in this Offering Circular or any other information supplied in connection with the Bonds, the Preference Shares or Ordinary Shares. Each person receiving this Offering Circular acknowledges that such person has not relied on any of the Managers in connection with its investigation of the accuracy of such information or its investment decision and each person must rely on its own examination of the Issuer and the Guarantor, and the merits and risks involved in investing.

In connection with the issue of the Bonds, J.P. Morgan Securities Ltd. (**Stabilisation Manager**) or any person acting on behalf of the Stabilisation Manager may, to the extent permitted by applicable laws and directives, over-allot and effect transactions with a view to supporting the

market price of the Bonds at levels higher than that which might otherwise prevail for a limited period after the issue date. However, there may be no obligation on the Stabilisation Manager or any persons acting on behalf of the Stabilisation Manager to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end no later than the earlier of the date falling 30 days after the issue date of the Bonds and the date falling 60 days after the date of the allotment of the Bonds. There shall be no obligation on the Stabilisation Manager or its agent to enter into any such transactions.

The Jersey Financial Services Commission (**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 and under Article 2 of the Control of Borrowing (Jersey) Order 1958 to the issue of the Preference Shares by the Issuer. The Commission has also given, and has not withdrawn, its consent under Article 1 of the Control of Borrowing (Jersey) Order 1958 to the Guarantor raising monies in Jersey by the issue of the Ordinary Shares and to the circulation in Jersey of this Offering Circular by the Guarantor. The Commission is protected by the Control of Borrowing (Jersey) Law 1947 against liability arising from the discharge of its functions under that law. A copy of this Offering Circular has been delivered to the Jersey registrar of companies in accordance with Article 5 of the Companies (General Provisions) (Jersey) Order 2002, and the registrar has given, and not withdrawn, consent to its circulation. It must be distinctly understood that, in giving these consents, neither the Jersey registrar of companies nor the 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.

**Any individual intending to invest in any investment described in this Offering Circular should consult his or her professional 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. Risk factors in relation to the Group are brought to your attention on pages 14 to 36 of this Offering Circular.**

**It should be remembered that the price of the Bonds and income from them can go down as well as up.**

Investors may not reproduce or distribute this Offering Circular, in whole or in part, and investors may not disclose any of the contents of this Offering Circular or use any information herein for any purpose other than considering an investment in the Bonds. Investors agree to the foregoing by accepting delivery of this Offering Circular.

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## PRESENTATION OF INFORMATION

### 1 Presentation of financial information

The consolidated financial information for the years ended 31 December 2007 and 2008 incorporated by reference in this Offering Circular has been prepared in accordance with International Financial Reporting Standards (**IFRS**) as adopted by the EU. The consolidated financial information for the years ended 31 December 2007 and 2008 has been audited in accordance with IFRS.

Rounding adjustments have been made in calculating some of the financial information included in this Offering Circular. As a result, numerical figures shown as totals in some tables may not be exact arithmetic aggregations of the figures that precede them.

### 2 Documents incorporated by reference

This Offering Circular should be read and construed in conjunction with:

- (a) the audited consolidated financial statements of the Guarantor for the years ended 31 December 2007 and 31 December 2008, together with the audit report thereon, which can be found at pages 174 to 226 of the Prospectus (defined below);
- (b) the annual reports and audited consolidated annual financial statements of Aricom Limited (formerly Aricom PLC) as at and for the years ended 31 December 2007 and 31 December 2008 together in each case with the audit report thereon;
- (c) the prospectus dated 21 April 2009 issued in connection with the admission of the Ordinary Shares to the Official List of the UKLA and to trading on the London Stock Exchange (the **Prospectus**); and
- (d) the unaudited interim accounts of the Group for the six months ended 30 June 2009 and the related review report

together, the **Incorporated Documents**.

The Prospectus has previously been published and filed with the UK Listing Authority. Copies of the Prospectus can be obtained from the registered office of the Guarantor.

Where the Incorporated Documents themselves incorporate information by reference, such information does not form part of this Offering Circular.

Any statement contained in an Incorporated Document shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained herein (or in a later document which is incorporated by reference 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 Offering Circular.

Investors in the Bonds shall be deemed to have notice of all information contained in, or incorporated by reference in, the Incorporated Documents as if all such information were included in this Offering Circular. Investors who have not previously reviewed such information should do so in connection with their purchase of the Bonds.

### 3 Currencies and conversion

In this Offering Circular, references to pounds Sterling, pence, £ or p are to the lawful currency of the United Kingdom, references to US Dollars, \$, US\$, cents or ¢ are to the lawful currency of the United States, references to Roubles or RUR are to the lawful currency of Russia and references to RMB or Renminbi are to the lawful currency of China. References to Euro or € are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

Unless otherwise indicated, the financial information contained in this Offering Circular has been expressed in US Dollars. The presentational and functional currency of the Group is the US Dollar. Balance sheet items are translated into US Dollars at period end exchange rates. These translations should not be construed as representations that the relevant currency could be converted into US Dollars at the rate indicated or at any other rate.

On 12 February 2010 (being the latest practicable date prior to the publication of this Offering Circular):

- £1.00 = \$1.5642;
- \$1.00 = RUR30.2110; and
- £1.00 = RUR47.25605

in each case based on data provided by Reuters at 4.00 p.m. (London time) on 12 February 2010.

Save as otherwise stated in this Offering Circular, the exchange rates above have been applied in this Offering Circular for all comparisons between pounds Sterling, US Dollars and Roubles.

### 4 Presentation of reserves and other data

The Group reports its reserves and resources estimates according to the Russian Standard Classification System and in addition, in respect of its most developed assets, in accordance with the JORC Code (2004). Certain reserve and resource estimates in this Offering Circular have been previously reviewed and reported on by Wardell Armstrong International (**WAI**) in accordance with the JORC Code (2004). For the JORC Code (2004) mineral resources are based on mineral occurrences quantified on the basis of geological data and an assumed cut-off grade, and are divided into measured, indicated and inferred categories reflecting decreasing confidence in geological and/or grade continuity. No allowances are included for dilution and losses during mining, but the reporting of resource estimates carries the implication that there are reasonable prospects for eventual economic exploitation. Resources may therefore be viewed as the estimation stage prior to the application of more stringent economic criteria for reserve definition, such as a rigorously defined cut-off grade and mine design outlines, along with allowances for dilution and losses during mining. Ore reserves as defined by the JORC Code (2004) are designated as proved and probable and are derived from the corresponding measured and indicated resource estimates by including allowances for dilution and losses during mining. The measured and indicated mineral resources can be reported as either being inclusive of those mineral resources modified to produce the ore reserves or additional to the ore reserves. The JORC Code (2004) reserve and resource estimates provided in this Offering Circular comply with the reserve and resource definitions in the JORC Code (2004).

In this Offering Circular, references to Category C<sub>1</sub> and C<sub>2</sub> reserves and P<sub>1</sub> and P<sub>2</sub> resources are references to the Russian Standard Classification System (See "Glossary of Abbreviations and Technical Terms" for further details).

Apart from the resource/reserve categories, there is also a Russian economic viability classification. This applies only when there is sufficient information (including geological and metallurgical testwork) to define reserves (categories C<sub>2</sub> and higher).



Balansovye (balance) ore is ore that is considered as economic, above a defined cut-off grade and considered as exploitable under currently available technology. By definition, a Russian official C<sub>2</sub>, B, or A category reserve is considered to consist of balance ore and is included in the State Balance. In international reporting terms such material would usually be considered as proven or probable reserves.

Zabalansovye (**out-of-balance** or **off-balance**) resources are uneconomic or marginal under present economic circumstances or with currently available technology. For example, they may consist of low-grade material, which may still be mined, but is not officially considered suitable for commercial exploitation, and is not included in the State Balance. In international reporting terms these may or may not be considered to be measured or indicated resources. If unlikely to be economically exploitable in the foreseeable future, they would not even be considered as resources.

## **5 Forward-looking statements**

Certain statements contained in this Offering Circular are forward-looking statements. Generally, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “anticipates”, “intends”, “may”, “will” or “should” or in each case their negative, or other variations or comparable terminology. Such forward-looking statements involve risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include, among other things, general economic and business conditions, industry trends, competition, commodity prices, changes in law or regulation, currency fluctuations (including fluctuations in the US Dollar or Rouble), the Group’s ability to recover its reserves or develop new reserves and to implement its expansion plans and achieve cost reductions and efficiency measures, changes in business strategy or development, political and economic uncertainty and other risks described in “Risk Factors”. There can be no assurance that the results and events contemplated by the forward-looking statements contained in this Offering Circular will, in fact, occur.

Any forward-looking statements in this Offering Circular reflect the Group’s current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Group’s operations and growth strategy. Investors should specifically consider the factors identified in this Offering Circular which could cause results to differ before making an investment decision. These forward-looking statements speak only as at the date of this Offering Circular. The Issuer will not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events, circumstances or unanticipated events occurring after the date of this Offering Circular except as required by law or by any appropriate regulatory authority.

## OVERVIEW OF THE OFFERING

*The following overview refers to certain provisions of the Terms and Conditions of the Bonds (**Conditions**), the Preference Shares, the Ordinary Shares issuable upon conversion of the Bonds and the Trust Deed (as defined herein) and is qualified by the more detailed information contained elsewhere in this Offering Circular. Terms which are defined in "Terms and Conditions of the Bonds" have the same meaning when used in this overview.*

<b>Issuer</b>	Petropavlovsk 2010 Limited.
<b>Guarantor</b>	Petropavlovsk PLC.
<b>Bonds</b>	US\$380,000,000 4.00 per cent. Guaranteed Convertible Bonds due 2015.
<b>The Offering</b>	The Bonds are being offered by the Managers outside the United States in accordance with Regulation S under the Securities Act.
<b>Closing Date</b>	18 February 2010.
<b>Issue Price</b>	100 per cent. of the principal amount of the Bonds.
<b>Final Maturity Date</b>	Unless previously purchased and cancelled, redeemed or converted, the Bonds will be redeemed on 18 February 2015 ( <b>Final Maturity Date</b> ) at their principal amount.
<b>Form and Denomination</b>	The Bonds will be in registered form and issued in authorised denominations of US\$100,000 and integral multiples thereof. The Bonds will be represented by a global bond in registered form ( <b>Global Bond</b> ), without interest coupons, which will be deposited on or around the Closing Date with, and registered in the name of a nominee of, a common depository for Euroclear and Clearstream, Luxembourg. The Global Bond will be exchangeable in certain limited circumstances in whole, but not in part, for Definitive Certificates.
<b>Interest</b>	The Bonds will bear interest from and including the Closing Date at 4.00 per cent. per annum payable semi-annually in arrear on 18 February and 18 August in each year with the first payment on 18 August 2010.

<b>Status of the Bonds</b>	The Bonds constitute senior, unsubordinated, direct, unconditional and (subject to Condition 3) unsecured obligations of the Issuer and rank <i>pari passu</i> without 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 present and future unsecured, unconditional and unsubordinated obligations.
<b>Yield</b>	4.00 per cent. The yield is calculated on the Closing Date on the basis of the Issue Price. It is not an indication of future yield.
<b>Guarantee of the Bonds</b>	The Guarantor will pursuant to the Trust Deed 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.
<b>Status of the Guarantee</b>	The Guarantee constitutes a senior, unsubordinated, direct, unconditional and (subject to Condition 3) unsecured obligation of the Guarantor and shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 3 of the Bonds, at all times rank at least equally with all its other present and future unsecured, unconditional and unsubordinated obligations.
<b>Negative Pledge</b>	So long as any Bond remains outstanding, the Issuer and the Guarantor will not, and the Guarantor will not permit any of its Principal Subsidiaries to create or permit to subsist any Security, upon the whole or any part of its undertaking, assets or revenues, present or future, to secure any Relevant Debt or any guarantee or indemnity in respect of any Relevant Debt, subject to limited exceptions in relation to project finance debt. See "Terms and Conditions of the Bonds - Negative Pledge".
<b>Cross Default</b>	The Bonds will contain a cross acceleration provision, subject to a threshold of US\$20,000,000, as further described in "Terms and Conditions of the Bonds - Events of Default".
<b>Other Events of Default</b>	For a description of certain other events that will permit the Bonds to become immediately due and payable at their principal amount, together with accrued interest, see "Terms and Conditions of the Bonds - Events of Default".
<b>Redemption at the Option of the Issuer</b>	The Bonds may be redeemed at the option of the Issuer in whole (but not in part only) at their principal amount together with accrued interest: <ul style="list-style-type: none"> <li>(i) at any time on or after 5 March 2012, if the Aggregate Value for not less than 20 dealing days in any period of 30 consecutive dealing days ending not more than 14</li> </ul>

days prior to the giving of the relevant Optional Redemption Notice, exceeds US\$150,000; or

- (ii) 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/or redemptions effected in respect of 80 per cent. or more in principal amount of the Bonds originally issued.

See "Terms and Conditions of the Bonds – Redemption and Purchase - Redemption at the Option of the Issuer".

**Redemption at the Option of Bondholders**

The Issuer will, at the option of the holder of any Bond, redeem such Bond at its principal amount together with interest accrued to the date fixed for redemption following the occurrence of a Relevant Event. See "Terms and Conditions of the Bonds - Redemption and Purchase - Redemption at the Option of Bondholders".

**Taxation**

Payments in respect of the Bonds will be made without any withholding or deduction for any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within Jersey, the United Kingdom or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. Neither the Issuer nor the Guarantor shall be required to pay any additional or further amounts in respect of such deduction or withholding.

**Conversion Right**

Unless previously redeemed or purchased and cancelled, each Bond will be convertible, at the option of the holder, into Preference Shares of the Issuer during the Conversion Period and all such Preference Shares shall be exchanged immediately as described below. Each US\$100,000 principal amount of a Bond is convertible into one Preference Share having a paid-up value (**Paid-up Value**) of US\$100,000 per Preference Share. The Issuer shall procure that such Preference Share is exchanged immediately, pursuant to the Articles of the Issuer and the terms of the Deed Poll and as contemplated by the Conditions, for Ordinary Shares credited as fully paid. The number of Ordinary Shares to be issued will be determined by dividing the Paid-up Value in respect of the relevant Preference Shares (converted into Sterling at the fixed rate of £1=US\$1.6244) issued on conversion of the Bonds by the Exchange Price in effect on the relevant Conversion Date. See "Terms and Conditions of the Bonds - Conversion and Exchange - Conversion Period and Exchange Price".

<b>Conversion Period</b>	<p>Conversion Rights may be exercised during the period from 1 April 2010 and ending on and including the earliest to occur of:</p> <ul style="list-style-type: none"> <li>• the close of business on the sixth day prior to the Final Maturity Date;</li> <li>• if the Bonds shall have been called for redemption by the Issuer before the Final Maturity Date, the close of business on the sixth day before the date fixed for redemption;</li> <li>• if the holder of a Bond has given notice requiring its redemption in accordance with the Conditions, the close of business on the day prior to giving such notice; and</li> <li>• the giving of notice of an Event of Default by the Trustee.</li> </ul>
<b>Exchange Price</b>	£12.9345 per Share subject to adjustment in accordance with the Articles of the Issuer.
<b>Exchange Price upon Change of Control</b>	In the event of a change of control constituting a Relevant Event, the Exchange Price will be adjusted downwards for a specified period as described in the Articles of the Issuer.
<b>Ordinary Shares</b>	Any Ordinary Shares to be delivered following conversion and delivery of the Preference Shares to the Guarantor will be delivered credited as fully paid, having, on the date hereof, a nominal value of £0.01 each and will rank <i>pari passu</i> in all respects with all fully paid Ordinary Shares in issue on the relevant Conversion Date save as provided in "Terms and Conditions of the Bonds".
<b>Preference Shares</b>	Preference Shares of the Issuer will be issued upon conversion of the Bonds with a Paid-up Value of US\$100,000 in respect of each US\$100,000 principal amount of Bonds converted.
<b>Further Issues</b>	The Issuer may from time to time, without the consent of the Bondholders, create and issue further debt securities either having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them) so that such further issue shall be consolidated and form a single series with the Bonds or upon such terms as the Issuer may determine at the time of their issue. See "Terms and Conditions of the Bonds - Further Issues".
<b>Use of Proceeds</b>	The Issuer undertakes that the net proceeds of the Bonds will be used for general corporate purposes and to provide the Group with an attractive source of relatively low cost long term capital.

<b>Lock Up</b>	The Guarantor has, subject to certain exceptions, agreed not to issue or sell Shares or certain related securities for a limited period after the Closing Date. See “Subscription and Sale” below.
<b>Trustee</b>	BNP Paribas Trust Corporation UK Limited
<b>Principal Paying, Transfer, Conversion and Exchange Agent</b>	BNP Paribas Securities Services, Luxembourg Branch
<b>Registrar</b>	BNP Paribas Securities Services, Luxembourg Branch
<b>Governing Law</b>	The Bonds, the Trust Deed and the Deed Poll will be governed by, and shall be construed in accordance with, English law.
<b>Listing and Trading</b>	Applications have been made for the Bonds to be admitted to the Official List of the UKLA and to trading on the Professional Securities Market of the London Stock Exchange. The Guarantor has undertaken to apply to have the Ordinary Shares issuable upon conversion of the Bonds admitted to listing on the Official List and admitted to trading on the EEA regulated market of the London Stock Exchange. The Preference Shares will not be listed on any exchange.
<b>Clearing</b>	The Bonds have each been accepted for clearing by Euroclear and Clearstream, Luxembourg. The Bonds have the following Common Code and International Securities Identification Number:  ISIN: XS0482875811 XS: 048287581
<b>Selling Restrictions</b>	There are restrictions on the offer, sale and delivery of the Bonds, <i>inter alia</i> , in the United States, the United Kingdom and Jersey. See “Subscription and Sale”.

## RISK FACTORS

*Prospective investors should consider carefully the risks set forth below and the other information contained in this Offering Circular prior to making any investment decision with respect to the Bonds. Each of the risks highlighted below could have a material adverse effect on the business, operations, financial condition or prospects of the Issuer and the Guarantor, which, in turn, could have a material adverse effect on the amount of principal and interest which investors will receive in respect of the Bonds. In addition, each of the risks highlighted below could adversely affect the trading price of the Bonds or the Ordinary Shares or the rights of investors under the Bonds or the Ordinary Shares and, as a result, investors could lose some or all of their investment.*

*Prospective investors should note that the risks described below are not the only risks the Issuer and the Guarantor face. Each of the Issuer and the Guarantor has described only those risks relating to its operations that it considers to be material. There may be additional risks that they currently consider not to be material or of which they are not currently aware, and any of these risks could have the effects set forth above.*

*Prospective investors should read the entire Offering Circular together with the documents incorporated by reference. Words and expressions defined in the "Terms and Conditions of the Bonds" below or elsewhere in this Offering Circular have the same meanings in this section.*

### **Risks relating to the Company/Group**

#### ***Legal and regulatory risks***

*Russian foreign investment legislation may impact transactions by, and investments in, the Group*

On 7 May 2008, legislation was introduced in the Russian Federation regulating foreign investment into strategic sectors of the Russian economy - the Federal Law No. 57-FZ of 29 April 2008 "On the manner of conducting foreign investments into companies having strategic significance for securing the defence of the country and the security of the State" (the **Foreign Investment Law**) and 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" (the **Amendment Law** and together with the Foreign Investment Law, the **Laws**). The Foreign Investment Law imposes restrictions on the acquisition by foreign investors of direct or indirect interests in strategic sectors of the Russian economy, including in respect of gold reserves in excess of a specified amount or any occurrences of platinum group metals.

None of the Group's assets were included on the inaugural list of Strategic Areas published by the Russian Government. However, on the basis of the Amendment Law, each of the licence areas in which the Group's Pioneer and Malomir deposits are located could, at some point in the future, be classified as a subsoil area of federal significance (a **Strategic Area**). If either is so classified, then OAO Pokrovskiy Rudnik (**Pokrovskiy Rudnik**), as the company owning the main Pokrovskiy and Pioneer deposit licences, and ZAO Malomirskiy Rudnik (**Malomirskiy Rudnik**), as the company owning the Malomir deposit licence, would be considered Strategic Entities. In relation to certain of the Group's licences, such as Malomir, the Group is not yet in a position to file the necessary information by reference to which the application of these provisions would be assessed by the regulatory authorities.

*The Foreign Investment Law regulates transactions in respect of interests in Strategic Entities*

The provisions of the Laws are likely to impact upon the Group in the future and, depending upon the circumstances, the impact could adversely affect the Group and its business, in particular by affecting any programme of acquisitions or disposals of the Group and/or by affecting the acquisition of control of the Group.

*Foreign investment legislation may prevent the exploration and development of new or existing projects of the Group*

Legislation relating to foreign investment permits the Russian Government to prevent the exploitation of a Strategic Area with a deposit which contains reserves of vein gold of 50 tonnes or more (a **Strategic Gold Deposit**), or the occurrence of a platinum-group metal deposit, each as in the context of the Law of the Russian Federation No. 2395-1, "On Subsoil", dated 21 February 1992, as reissued and amended (the **Subsoil Law**), on the grounds of a threat to state security. Where the relevant mineral licence is a combined licence, the Russian Government has power to terminate such licence. Where the relevant mineral licence is an exploration (prospecting) only licence, the authorities can refuse to issue an extraction or "exploration and development licence" to the relevant company. The Foreign Investment Law does not apply to exploration and extraction licences which were issued before the Commencement Date.

Any compensation payable which may become payable under the new Russian legislation as a consequence of preventing the Group from exploiting a newly discovered deposit may not adequately reflect the value of the asset and may take considerable time to obtain. Whilst certain of the Group's licences may become subject to the foregoing provisions of the Subsoil Law, the Company is not aware of any specific material threat to these licences or any of the Group's other licences from the Subsoil Law.

*Risks relating to the legal and regulatory environment in general*

The exploration and extraction activities of the Group are subject to various laws governing prospecting, development, production taxes, labour standards, occupational health, site safety, toxic substances and other matters. Although the Directors believe that the exploration, development and production activities of the Group are currently carried out in accordance with all applicable rules and regulations relevant to the current stage of development and that they hold all necessary approvals, licences and permits under those laws and regulations for the Group's current activities, no assurance can be given that new rules and regulations will not be applied in a manner which could limit or curtail exploration, production or development. Amendments to current laws and regulations governing operations and activities of exploration for and extraction of mineral resources, or more stringent implementation thereof, could have a material adverse impact on the business, operations and the financial performance of the Group.

*Risks associated with litigation*

Legal proceedings which do not have a material effect on the Group or its operations arise from time to time in the ordinary course of the Group's business and the Directors cannot prevent litigation being brought against the Group or any of its subsidiaries in the future. There have been occasions in Russia 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.

Attention is drawn to paragraph 5, "Governmental, Legal or Arbitration Proceedings" of the "General Information" section.

*Risks relating to the Russian legal system and Russian legislation*

Weaknesses in the Russian legal system and Russian legislation could create an uncertain



environment for investment and for business activity. Russia is still developing the legal framework typically required by a market economy. Several fundamental Russian laws have only recently become effective. The recent implementation of much of Russian legislation and the rapid evolution of the Russian legal system place the enforceability and underlying constitutionality of some laws in doubt and result in ambiguities, inconsistencies and anomalies. In addition, Russian legislation often leaves substantial gaps in the regulatory infrastructure and delays may occur in the production of necessary ancillary or subordinate legislation.

The risks of the current Russian legal system include:

- legal norms, at times, overlapping and contradicting one another;
- lack of independence in the judicial system, judicial precedents not having binding effect on subsequent decisions and court decisions not being readily available to the public;
- limited judicial and administrative guidance on interpreting Russian legislation;
- conflicting views and judgments as regards the interpretation of and the effect of Russian law in a number of key areas which affect investment in Russia, including in relation to joint ventures and legal relationships between participants in joint ventures;
- difficulties in enforcing arbitral awards under the 1958 Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention) (arbitral awards under this convention, while enforceable in Russia, can be subjected to procedural delays and re-examination of the subject matter);
- the relative inexperience of judges in interpreting new Russian business legislation, particularly relating to capital markets, companies, corporate governance and investor protection;
- a high degree of discretion on the part of governmental authorities; and
- bankruptcy procedures that are not well developed and are subject to abuse.

All of these weaknesses could affect the Group's ability to enforce its rights under contracts or statutes, or to defend itself against claims by others.

These uncertainties also extend to property rights. During Russia's transformation from a centrally planned economy to a market economy, legislation has been enacted to protect private property and investments made by a foreign investor against expropriation and nationalisation. However, it is possible that due to the lack of experience in enforcing these provisions and due to political changes, these protections would not be enforced by a Russian court in the event of an attempted or actual expropriation or nationalisation.

Expropriation or nationalisation of, the Group's assets or portions thereof, potentially with inadequate or no compensation, could have a material adverse effect on the Group. In such a scenario, the Group might have no remedy under protections afforded to a foreign investor by customary international law or relevant international treaties or, if it had a remedy, might not be able or willing to enforce its rights or might not be able to enforce any award that it obtained.

The Russian companies in the Group are required by Russian law and their constituent documents to obtain the approval of disinterested directors or shareholders for certain transactions with "interested parties". Under Russian law, the definition of an "interested party" is widely drawn and rules for transactions with interested parties can extend to intra-group transactions, with shareholders in a group potentially being disenfranchised from voting. This

could on occasion result in minority shareholders being able to preclude Group companies from carrying on activities which they would otherwise wish to undertake. In addition, the concept of "interested parties" is defined by reference to the concepts of "affiliated persons" and "group of persons" under Russian law, which are subject to different interpretations. Moreover, the provisions of Russian law defining which transactions must be approved as "interested party" transactions are subject to different interpretations. In view of this uncertainty, the Group cannot be certain that its application of these concepts will not be subject to challenge. Any such challenge could result in the invalidation of transactions that are important to the Group's business. High-profile cases against or involving major multinational companies (including major foreign companies or joint ventures involving such companies operating in the natural resources sectors) and their employees have caused concern in relation to the investment climate in Russia and no assurances can be given that these cases will not affect the public perception both of investment in Russia and foreign investment into Russia.

### **Country-specific risks**

#### *Risks relating to the jurisdictions in which the Group operates*

The Group may be adversely affected by changes in economic, political, judicial, administrative, taxation or other regulatory factors or foreign policy in the areas in which the Group operates or will operate and holds or will hold its major assets, as well as other unforeseen matters. The jurisdictions in which the Group operates may in some cases have less established judicial systems, a more volatile political environment and/or more challenging trading conditions than in some other parts of the world. Unlawful, selective, discriminatory or arbitrary government action could have a material adverse effect on the Group's business and prospects. The Group is subject to a broad range of taxes payable at federal, regional and local levels, including but not limited to income tax, mineral extraction taxes, royalty tax, sales tax, property tax, social taxes and road use tax. Laws related to these taxes, such as the Russian Tax Code, have been in force for a short period relative to tax laws in more developed market economies; therefore, the implementation of these tax laws by different tax authorities and courts is often unclear and/or inconsistent. Accordingly, few precedents with regard to the interpretation of these laws have been established. The Group has sought, and the Group will seek, legal and tax advice and to comply with all the relevant tax laws and regulations to the best of its ability. However, no assurances can be made that tax authorities and/or courts will apply various tax laws and regulations in a manner which is consistent with that taken by companies in the Group. If the tax authorities and/or courts adopt a different interpretation of various tax laws and regulations, the Group may have to pay significantly higher taxes or may suffer from the imposition of additional burdens and costs on the Group's operations, including on management resources, which could have a material adverse effect on the Group's business.

The principal assets of the Group are located in Russia, a country which is still developing from a command to a market-driven economy. While this process of change is establishing in Russia a business environment which is influenced by the western-style business environment, there are still substantial differences between the Russian economy and the market-driven economies which are found in other countries with long histories and experience of such an economy. These differences include the development in Russia of a model often described as "state capitalism", business sentiments referred to as "Russian nationalism", a lack of transparency and the apparent use of state power in relation to commercial businesses and relations between such businesses. In the past, but less so recently, Russia has suffered from a volatile financial system and political and economic instability. All these factors could adversely affect the Group and its operations. Ethnic, religious, historical, social and other divisions have, on occasion, given rise to tensions, armed conflict and terrorist activity.

Any spread of violence or terrorism, or political measures taken to counter them, could hinder the operation and the expansion of the Group's business. Various recent developments in Russia, including the tightening of state control over the economy, have caused some concern in relation

to the investment climate in the country (particularly as regards foreign investment) and no assurances can be given that various steps taken or being debated in the Russian Government will not affect foreign investment into Russia or the public perception thereof.

*External perceptions of Russia relating to foreign policy and of crime and corruption*

External perceptions of Russia with respect to the treatment of non-Russian businesses and media coverage of matters of foreign policy and of crime and corruption could affect the Group's ability to raise finance in the longer term and otherwise affect its business.

*Economic instability in Russia*

Following the Russian banking sector crisis in 1998, the economic environment in Russia had improved. However, the recent fluctuations in international gold prices and iron ore prices, the fluctuation of the Rouble against the US Dollar and the consequences of a relaxation in monetary policy, or other factors, have affected and/or could in the future adversely affect Russia's economy and the Group's business.

*Fluctuations in the global economy may adversely affect Russia's economy*

Russia's economy has recently become increasingly dependent on global economic trends and is more 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. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy and the Group's business.

*Risks relating to social instability in Russia*

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 the loss of revenue and/or value of the Group's securities.

*Risks associated with international operations of the Group*

The Group has made investments outside Russia, primarily in Venezuela and China, and is analysing further international investment opportunities in the future. There are a number of potential risks inherent in doing business in markets outside Russia, including the following:

- unfavourable or unfamiliar political or economic factors (including political or economic instability);
- currency controls;
- fluctuations in foreign currency exchange rates;
- potentially adverse tax consequences;
- unexpected legal or regulatory changes;
- difficulties in recruiting and retaining personnel, and managing international operations; and
- less developed infrastructure.

Any inability of the Group to manage successfully the risks in its international activities could adversely affect its business, financial condition and operating results. In addition, while the Group may expand its business worldwide as and when opportunities arise and increase sales, because of the risks associated with conducting an international operation (including the risks listed above), there can be no assurance that any expansion will be successful or have a positive effect on its financial results and condition.

*Risks relating to the Group's operations in China*

The Group is targeting the Chinese market for a significant proportion of its future sales. A decline in Chinese demand, and/or an increase in Chinese domestic production or other competition, could adversely affect the Group's performance and prospects. Similarly the imposition of export controls in Russia or import controls in China could adversely affect the Group's operations. The Group is also exposed to the state of diplomatic relations between Russia and China and other related risks.

**Financial risks**

*The Group is dependent on revenue from key gold mines*

In 2007, 2008 and 2009, a substantial portion of the Group's revenues and cash flows were derived from sales of gold mined at Pokrovskiy and Pioneer, and the Directors expect that these mines will continue to provide a substantial portion of the Group's operating revenues and cash flows in at least the short-to-medium-term. Consequently, the Group's results of operations, cash flows and financial condition could be materially and adversely affected by fluctuations in the price of gold realised by Pokrovskiy Rudnik or the Group or by the failure of the Pokrovskiy and Pioneer mines to produce the expected amounts of gold.

Gold production from the Pioneer mine commenced in April 2008. The second mill processing line was completed in September 2009, in line with the Group's schedule and budget for this project. However, the development plan at Pioneer is gradual and the ramp-up of production may take longer to reach its designed capacity than is currently expected. The Directors cannot guarantee that the project will continue to develop on time and on budget. If the project experiences any delays or cost overruns, this could have a material adverse effect on the Group's business, financial condition or results of operations.

The Malomir project is currently being prepared for production and it is expected that the commissioning of the Malomir mine will take place in August 2010. It is intended that the Malomir project will commence works processing non-refractory material similar to Pokrovskiy ore; subsequently, it is expected that pressure oxidation processing methods will be introduced to process refractory material. The Directors cannot make any guarantees that production will commence on time and on budget. If the project experiences any delays or cost overruns, this could have a material adverse effect on the Group's business, financial condition or results of operations.

*The Group may not be able to finance its future planned capital expenditure in the longer term*

In addition to operating expenses, the Group's business, in the longer term, requires significant capital expenditure, including in relation to exploration and development, production, transport and meeting the Group's obligations under environmental laws and regulations.

The Group may finance a substantial part of this longer term capital expenditure through equity financing and/or from external borrowings subject to the restrictions in the Convertible Bonds and the Group's other financing documentation. However, no assurance can be given that the Group will be able to raise the financing required for the Group's planned capital expenditure in the

longer term, on a secured basis or otherwise, on acceptable terms or at all. If the Group is unable to raise the necessary financing, the Group will have to reduce its long-term planned capital expenditure. Any such reduction could adversely affect the Group's ability to carry out long term 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 financing in the longer term will depend in part upon the price of minerals and the industry's perception of the minerals' (including gold, iron ore and related products) future price and other factors outside the Group's control.

*The profitability of the Group's operations and the cash flows generated by its operations is affected by changes in the market price for relevant metals and related products, which in the past have fluctuated significantly*

Although the Group's anticipated cash operating costs, total cash costs and total production costs at Pokrovskiy are each expected to be relatively low by world standards, the Group's ability to achieve or maintain earnings, pay dividends in the future and undertake capital expenditure may be affected in the event of a sustained material fall in the price of gold and/or related products. There can also be no assurance that the Group's actual costs (including cash operating costs, total cash costs and total production costs) will not be higher than currently anticipated.

The majority of the Group's revenues and cash flows have historically come from the sale of gold. Traditionally, the market price for gold has fluctuated significantly and has been affected by numerous factors, over which the Group has no control, including:

- the demand for gold for industrial uses and for use in jewellery;
- international or regional political and economic trends;
- the strength of the US Dollar (the currency in which gold prices generally are quoted) and of other currencies;
- financial market expectations regarding the rate of inflation;
- interest rates;
- speculative activities;
- price and availability of new technology;
- actual or expected purchases and sales of gold bullion holdings by central banks or other large gold bullion holders or dealers;
- hedging activities by gold producers; and
- the production and cost levels for gold in major gold-producing nations.

In addition, the current demand for, and supply of, gold affects the price of gold, but not necessarily in the same manner as current demand and supply affect the prices of other commodities. Historically, gold has tended to retain its value in relative terms against basic goods in times of inflation and monetary crisis. As a result, central banks, financial institutions, and individuals hold large amounts of gold as a store of value, and production in any given year constitutes a very small portion of the total potential supply of gold. Since the potential supply of

gold is large relative to mine production in any given year, normal variations in current production will not necessarily have a significant effect on the supply of gold or its price.

If gold prices should fall below and remain below the Group's cost of production for any 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.

Under Russian law, the Group has the right to export freely its refined product in exchange for hard currency payment. There is no developed system for sales of gold produced by Russian producers directly onto the international markets and should any of the Russian banks purchasing the gold terminate current gold sales arrangements with the Group for any reason whatsoever the Group will have a short period of uncertainty until new gold sales arrangements are put in place and, accordingly, the Group's financial performance could suffer. There is no guarantee that the Group will be able to make new arrangements for sales of gold on similar or equivalent terms.

The Group's revenues could also be materially affected should the Government or the Central Bank of Russia (**CBR**) re-impose price regulation for precious metals. Should this happen, there is no guarantee that the prices set by the CBR for such sales will not be lower than the market price of gold.

The Group's earnings are intended to be principally derived from the mining and processing of metal bearing ores and are therefore related to the market prices of such metals and related products. There has been considerable volatility in ore and product prices in recent years and there is no certainty that the current prices will be maintained or increase. Although the Group's anticipated costs of mining and production are expected to be relatively low by world standards, the Group's ability to achieve or maintain earnings, pay dividends in the future and undertake capital expenditure may be affected if the price of iron, iron ore and titanium dioxide remain at current levels.

#### *Currency risk*

The Company reports in US Dollars, being the currency in which gold is principally traded and therefore in which most of its revenue is generated. A large part of the Group's operating expenses are denominated in Roubles and a substantial portion are denominated in pounds Sterling. There has recently been considerable volatility in the exchange rates between these currencies. The Company's financial condition and results of operations could be adversely affected by changes in the exchange rates between the currencies in which it operates.

#### *Financing documentation*

Provisions of financing documents to which members of the Group are parties may restrict the ability of the Group to undertake transactions which they would otherwise undertake.

#### **Operational risks**

Notwithstanding anything in the operational risk factors, these risk factors should not be taken as implying that the Issuer, the Guarantor or the Group will be unable to comply with their obligations as companies with securities admitted to the Official List.

#### *The Group's future profitability is dependent on changes in its technology for gold extraction*

Historically, the Group used heap leach and resin-in-pulp (**RIP**) recovery routes at Pokrovskiy to extract gold from mined ore. The Group's level of profitability, results of operations and financial

condition are dependent on the continued ability satisfactorily to operate the RIP plant. The consistency of the head grade of ore processed through the mill and heap leach operations can affect the productivity and profitability of that process. It is expected that both the Pioneer and Malomir mines will, in the future, need to switch to pressure oxidation methods for part of their gold recovery. Technical failure or delays in their implementation could have a material adverse effect on the Group's profitability at these mines.

*The Group's operations are subject to the inherent hazards and risks associated with the exploration for and development of mineral deposits*

Any metals exploration programme entails risks relating to the location of economically viable ore bodies or gold deposits, the development of appropriate metallurgical processes, the receipt of necessary governmental permits and the construction of mining and processing facilities. The geology in which vein gold occurs can make evaluations of the potential size of deposits especially difficult to determine, as the veins in which they occur have inherently unpredictable characteristics. No assurance can be given that any minerals exploration programme will result in any new commercial mining operation or in the discovery of new resources.

Other hazards and risks include unusual and unexpected geological formations, rock falls, flooding and other climatic conditions, any one of which could result in damage to, or destruction of, the Group's facilities, damage to life or property, environmental damage or pollution and legal liability which could have a material adverse impact on the business, operations and financial performance of the Group. Although precautions to minimise risk will be taken, even a combination of careful evaluation, experience and knowledge may not eliminate all of the hazards and risks.

As is common with all exploration ventures, there will also be uncertainty and therefore risk associated with the Group's operating parameters and costs. These can be difficult to predict and will often be affected by factors outside the Group's control. With all metal and mineral operations there is uncertainty and, therefore, risk associated with operating parameters and costs resulting from the scaling up of extraction methods tested in pilot conditions. Metal and mineral exploration is speculative in nature and there can be no assurance that any potential deposits discovered will result in an increase in the Group's mineable resource base. In addition, it may take many years from the initial phase of exploration and drilling before production is possible. During this time, the economic feasibility of exploiting a discovery may change as a result of changes in metal and/or mineral market prices.

*Risks relating to mine construction and operation*

Mine construction work can involve considerable cost and raises a range of environmental issues. Costs associated with rehabilitation of areas which have been mined, disturbed land 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 closure costs will reduce earnings and could have a material adverse effect on the company's business, results of operations, financial condition and prospects.

*If the Group fails to acquire or find and develop additional reserves, its reserves and production will decline materially from their current levels*

Except to the extent that the Group conducts successful exploration and development activities or acquires further licences and/or properties containing reserves or both, the Group's reserves will decline as gold and iron ore are produced. In addition, the volume of production from the properties generally declines as reserves are depleted. The Group's future production growth is dependent upon its success in finding or acquiring and developing additional reserves. If the

Group is unsuccessful in this, the Group's total reserves and production will decline, which would adversely affect the Group's results of operations and financial condition.

*Risks relating to making, integrating and financing potential future acquisitions*

The Group has expanded its operations in Russia significantly through development and acquisitions since the first gold was extracted from the Pokrovskiy mine in 1999, and it expects to continue to do so in the future. To the extent that the making of future acquisitions relates to the acquisition, directly or indirectly, of voting shares in entities which hold mineral licences in respect of Strategic Areas and such acquisition is dependent upon obtaining the consent of the Russian Federal Anti-Monopoly Service as the competent authority in relation to the relevant legislation and the Amendment Law (**FAS** or the **Competent Authority**), the Group's rate of expansion could slow and the Group's results of operations and financial condition could suffer.

Moreover, regardless of any legal impediments, the Group may, in relation to the process, encounter serious delays and costs due to any procedural and other administrative difficulties. Additionally, the ability of the Group to participate in licence tenders or auctions could be restricted in the future if the Russian Government decides to exercise certain of the new powers it has been given under the new foreign investment legislation to restrict the participation of companies under foreign control in such tenders or auctions. In addition, the integration of businesses and operations acquired in the past, and of businesses that the Group may acquire in the future, requires significant time and effort of senior management, who are also responsible for managing existing operations. Some of the businesses or licences that members of the Group have acquired and may in future acquire, require or may require substantial capital investments to be made in order to maximise their economic potential.

*The Group may not be able to manage the expansion of its operations or have the resources to support its operations.*

There can be no assurance that the Group will be able to manage effectively the expansion of its mining operations or that its current personnel, systems, procedures and controls will be adequate to support its mining operations. Any failure of management to manage effectively the Group's growth and development could have a material adverse effect on the Group's business, financial condition and results of operations.

*Risks and uncertainties associated with the implementation of new projects and obtaining third party and governmental consents*

Implementation of the Group's projects will in most cases require, inter alia, conclusion of agreements with third parties and government consents. There is no certainty that any of these will be achieved. In addition a number of risks and uncertainties are associated with the development of the Group's projects, including political, regulatory, design, construction, labour, operating, technical and technological risks, uncertainties relating to capital and other costs.

Thus, there is no certainty that these projects can be implemented or that they will be successful if they were to be implemented. In pursuing the proposed projects, the Group may find itself in competition with companies with more substantial resources or with Russian-owned companies which are not subject to the constraints of the new foreign investment legislation. This risk is especially relevant to the Group, which has had limited business activity to date and whose mining interests have not yet been fully developed into commercial production.

Any failure or delay in the implementation of any of these projects could have a material adverse effect on the Group's business, financial condition or results of operations.

*The Group's joint venture arrangements may not be successful*



Members of the Group are involved in a number of joint ventures. There are special risks involved in joint ventures by their nature, in particular that relevant counterparties may:

- have different economic or business goals;
- take action contrary to the policies or objectives of the other party with respect to its investments, for example by vetoing proposals on operations; or
- as a result of financial or other difficulties, be unable or unwilling to fulfil their obligations.

Any of these may have a material adverse effect on the results of operations, financial condition or prospects of the Group through operational issues arising or the delay or non-completion of joint venture development projects. Also, the termination of any or all of the joint venture arrangements could have a material adverse effect on the results of operations, financial condition or prospects of the Group.

*Reserves and resources may be subject to restatement*

The reserve and resource estimates of the Group are estimates of the reserves and resources in the ground and stockpiles within existing licence areas. The ore reserve and resource estimates are based on many factors, including:

- the results of exploratory drilling and an ongoing sampling of the ore bodies;
- past experience with mining properties; and
- the experience of the person making the reserve estimates.

Because the ore reserve and resource estimates are calculated based on current estimates of production costs and product prices, they should not be interpreted as assurances of the economic life of the deposits or the profitability of the Group's future operations. Reserve and resource estimates may require revisions based on definitive exploration figures and actual production experience. Furthermore, 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.

Any failure of the reserves and resources to meet recovery expectations may have a material adverse effect on the Group's business, financial condition and results of operations.

*Payment and other obligations under licences (and related agreements) and contracts may not be complied with which may lead to, at worst, loss of mineral licences*

Licences: under the mineral licences (and related agreements) which are held by the relevant companies in the Group or which may be held by them in the future, such companies are or may become subject to payment and other obligations. If such obligations are not complied with when due to be performed, in addition to any other remedies which may be available to the state authorities, this could result in the loss of such mineral licences.

Contracts: there are contractual agreements to which Group companies are, or may in the future become, parties and which relate to direct or indirect interests held by such companies in or in respect of such mineral licences. If the relevant company does not comply with its payment or other obligations under such agreements when they are due to be performed, in addition to any other remedies which may be available to other parties, this could result in dilution or forfeiture of interests held by such companies.

*From time to time some of the Russian companies of the Group may have negative net assets (as defined under Russian accounting standards)*

There are certain requirements under both the Russian federal law "On Limited Liability Companies" and the Russian federal law "On Joint Stock Companies" that require Russian companies to have net assets that are equal to or more than their charter capital. In common with a number of other groups in the Russian mining and exploration sector, a number of the Group's subsidiaries may have negative net assets, especially those subsidiaries that are engaged in the early stages of exploration and the assets and deposits of which are prior to the development, mining and/or production stage and those subsidiaries may voluntarily decide not to rectify the situation. If a Russian company has negative net assets, 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 as they fell due, and/or has subsequently become profitable and/or has received a capital contribution to render that company's negative net assets positive (under Russian law). However, there is no guarantee that Russian courts will continue to decide in this way, in which event one or more of the members of the Group having negative net assets 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 and result in adverse consequences for the rest 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 of the Group's joint ventures, or any other investment which is less than a 100 per cent. subsidiary of the Group, which has negative net assets, 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 may not be able to recruit personnel or the costs could increase significantly and labour disputes and disruptions could affect the Group*

If the Group is unable to recruit the required personnel with the required skills, this could adversely affect the Group's investment plans and/or operations, which could in turn adversely affect the Group. Significant increases in labour costs could also adversely affect the Group.

A substantial number of the Group's employees are members of the independent trade union for the Group's subsidiary, Pokrovskiy Rudnik, which is unaligned with any national trade union. 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 operational and financial performance could be materially and adversely affected.

*Risks associated with obtaining access rights to mining tenements, land rights and third party rights*

There may be cases where the Group requires additional rights to access or to exploit future mining projects.

In accordance with the Russian legislation and terms commonly included in licence agreements, a licence holder is obliged to obtain rights to the part of the licensed area where certain geological works are carried out. This requires the licence holder to obtain lease agreements and mine allotment acts in respect of those areas to ensure it has all of the required land rights (together, **Land Rights**). The lease agreements must also be registered with the state to be enforceable. If the Land Rights are not obtained, fines can be imposed on licence holders.

Obtaining the required Land Rights can be a long, drawn-out and bureaucratic process for licence holders for reasons beyond their control. The Group and its subsidiaries may not always have the required Land Rights at the time of commencing their mining operations or for periods of time where agreements expire in relation to Land Rights.

A failure to obtain Land Rights and any resulting fines may adversely affect the Group's operations.

*Risks relating to prior reorganisations may lead to litigation or financial burdens for the Group*

In accordance with Russian legislation, a company may be voluntarily reorganised through the procedure provided for by the law governing Russian limited liability companies and joint stock companies. A reorganisation of a company can be effected in the form of consolidation, merger, division, spin-off or transformation. Members of the Group have effected reorganisations by way of merger where the rights and obligations of one company are transferred to another company.

There is often a delay between the time at which the decision is made by the participant to the time all of the relevant assets (including licences) are transferred to the reorganised company. There is a risk that if the subsidiaries subject to the reorganisation continue to operate there may be certain tax burdens.

There is also a risk that third parties, the participant or creditors may bring a claim based on the non-observance of the merger procedure. The time limitations for each of these are different but can be up to 3 years from the date of the decision. There is a risk that such actions may be brought in the future in relation to reorganisations carried out in the past by members of the Group.

*Operational failures, the impact of climatic conditions and other unscheduled interruptions*

The achievement of the Group's operational targets 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 may result in delays in the achievement of operational targets with a consequent material adverse impact on the business, operations and financial performance of the Group.

The location of the Group's deposits means that climatic conditions have an impact on operations and, in particular, severe weather could disrupt operations, including the delivery of supplies, equipment and fuel. It is, therefore, possible that exploration and extraction activity levels may fall as a result of meteorological factors.

Unscheduled interruptions in the Group's operations due to mechanical or other failures or industrial relations-related issues or problems or issues with the supply of goods or services may occur and could have a material adverse impact on the financial performance of those operations.

*Lack of infrastructure or difficulties with state-owned infrastructure*

Although a number of the Group's deposits are in regions with well-developed state infrastructure, some of its assets which are not currently in production are situated in areas lacking some of the necessary infrastructure, which must be developed. The Group must invest heavily in the construction of the required mining and auxiliary infrastructure (such as roads, loading terminals, railways connecting to the BAM Railway and/or Trans-Siberian railways and staff living quarters) if the Group decides to proceed with the development of these deposits. Construction and operation of this infrastructure will require substantial capital expenditure by the Group and no assurance can be given that market conditions will continue to make such investments financially viable.

Kuranakh and Bolshoi Seym are located in close proximity to the BAM Railway, which is operated by a state-owned company, OAO Russian Railways. State-owned infrastructure in Russia largely dates back to Soviet times and much has not been adequately funded and maintained over the last 15-20 years. Particularly affected are the rail and road networks, building stocks and power generation and transmission. Currently, the Russian Government sets rail tariffs and may further increase these tariffs as it has done in the past. The Group could be adversely affected by insufficient capacity on the BAM Railway. Although the construction of a cross-border rail bridge in close proximity to K&S may be beneficial to the Group's operations, there is no certainty that the necessary funding will be forthcoming for such a bridge to be constructed.

*Labour risks including health and safety issues*

Certain of the Group's operations are carried out under potentially hazardous conditions. Whilst the Directors intend to continue to operate in accordance with relevant health and safety regulations and requirements, the Group remains susceptible to the possibility that liabilities might arise as a result of accidents, fatalities or other workforce-related misfortunes, some of which may be beyond the Group's control. The occurrence of any accidents could delay production, increase production costs and/or result in liability for the Group.

*Dependence on certain key personnel*

The Group's growth and future success will depend in significant part upon the continued contributions of a number of the Group's key senior management and personnel, in particular the Group's Chairman and member of the Board of Directors, Peter Hambro, and the Group's Chief Executive, Pavel Maslovskiy.

There is no certainty that the services of these key persons will continue to be available to the Group and, if the Group is not successful in retaining or attracting highly qualified individuals in key management positions, its business may be harmed. The Group does not currently maintain "key man" insurance, and, due to the risks associated with doing business in Russia, no assurances can be made that, if the Group seeks to obtain such cover in future, it will be able to do so at acceptable rates or at all.

*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 and iron ore 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 Russia 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, are not yet generally available in some of the areas

where the Group will operate. The Group does not have full coverage for all of its plant 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. Until the Group is able, or decides, to obtain more comprehensive insurance coverage, there is a risk that losses and liabilities arising from such events could significantly increase its costs and have a material adverse effect on its business, results of operations and financial condition. The Group does not hold any title insurance for its properties. Please also see the risk factor below entitled "*The Group's mineral licences may be challenged*".

#### *Costs of environmental compliance and rehabilitation*

The Group accrues estimated rehabilitation costs over the operating life of a mine. Estimates of ultimate rehabilitation costs are subject to revision as a result of future changes in regulations and cost estimates. The costs associated with compliance with laws and government regulations may ultimately be material and adversely affect the Group's business.

#### *Risks relating to deposits held in banks*

Although the majority of the cash and cash equivalents held by the Group are deposited with major UK financial institutions with credit ratings of Ba1 or above, for operational reasons, it holds and will continue to hold, deposits with banks in Russia. One of these Russian banks, a related party, has no official credit rating.

#### ***Risks in relation to licences, permitting and environmental issues***

##### *Risks relating to the licensing regime and extensions of existing licences*

The Group's production 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 the licence. While the Group has been successful in renewing and/or extending several of its gold extraction licences in the past, no assurances can be given that the Group's licences will be in a position to achieve renewal by way of extension.

While ZAO ZRK Omchak (**Omchak**), in which the Group currently has a 50 per cent. interest, has been successful in renewing and/or extending several of its alluvial gold extraction licences in the past, no assurances can be given that Omchak will be able to renew/extend all of its alluvial gold extraction licences in the future. There is no certainty that the proposed reduction in the Company's holding in Omchak will take place.

In connection with any deposit which could become classified as a Strategic Gold Deposit, see also the risk factor above headed "*The new foreign investment legislation may prevent the exploration and development of new or existing projects of the Group*" relating to the potential impact of the new foreign investment laws in relation to the award of an extraction/production licence or the continuation of a combined licence.

The Group would be adversely affected if any extension or renewal applied for was not granted.

#### *The Group's mineral licences may be challenged*

Title to some of the properties (including mineral rights) of the Group may be challenged or impugned, and insurance for these rights may not be available or sufficient. The Group does not

hold any title insurance for its properties. Each sovereign state is the sole authority able to grant mineral property rights, and the Group's ability to maintain extraction rights on some of the Group's properties will be dependent on Government policy and rules for use of subsoil. Some of the properties that the Group have acquired may be subject to prior claims, and title may be affected by, among other things, undetected defects.

The licensing regime in Russia for the exploration, extraction and production of minerals is governed primarily by the Subsoil Law and regulations promulgated thereunder and the Federal Law on Precious Metals and Precious Stones No.41-FZ dated 26 March 1998 (as amended). The Group's licences provide that they may be revoked if the relevant licence holder fails to comply with any of the material licence requirements, such as minimum work commitments or completing work to be carried out by specified milestones, if the relevant licence holder does not make timely payments of levies and taxes for the use of the subsoil, if the relevant licence holder systematically fails to provide information, if the immediate licence holders go bankrupt or are liquidated, or if the relevant licence holder fails to fulfil any capital expenditure or production obligations or both.

*The Group's operations depend on the Group's ability to obtain necessary permits*

Generally, compliance with various government regulations will require the Group to obtain permits issued by Russian governmental agencies, both to implement new developments or projects or on the basis of periodic renewal or review for ongoing activities or operations. The Directors cannot predict whether the Group will be able to obtain or renew all these permits or whether material changes in permit conditions will be imposed. Non-renewal of a permit may cause the Group to discontinue the operations requiring the permit, and the imposition of additional conditions on a permit may cause the Group to incur additional compliance costs, either of which could have a material adverse effect on the Group's financial condition and results of operations. Additionally certain activity must be discussed in advance with local communities and other interested persons.

The Group may not be able to, or may voluntarily decide not to, comply, or may not have complied in all respects, with the licence requirements for some or all of the licences. If the Group fails to fulfil the specific terms of any of its licences 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 not renew its licences, any of which could have a material adverse effect on the operational and financial position of the Group.

Any failure to obtain, or delay in obtaining, any permits or approvals could adversely affect the Group's investment plans and/or operations, which could in turn adversely affect the Group.

*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 Directors believe that the relevant Group companies 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 and those which the Group will undertake in the future, such as risks of accidental spills, leakages or other unforeseen circumstances, that could subject the Group to considerable liability. In addition, the Group is subject to checks, including spot checks, by various regulators including the Russian environmental regulator, Rosprirodnadzor. 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 Directors are 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.

During the conduct of its operations, the Group is subject to regular inspections and reporting requirements for a range of issues relating to environmental pollution, and must comply with maximum acceptable concentrations, determined by state authorities, for air quality, water quality, soils and sediments. Any issues identified in such inspections or reporting processes and/or any breach of these requirements could have adverse consequences for the Group. The Group may be subject to investigations by Rosprirodnadzor, which may make announcements relating to such investigations when they are at a very preliminary stage and in advance of any findings, which could have an adverse impact on the Group.

### ***Risks relating to the mining industry***

#### *Exploration is highly speculative and involves commercial risks*

The Group's future growth and profitability will depend, in part, on its ability to identify and acquire additional mineral rights, and on the costs and results of its continued exploration and development programs. Exploration is highly speculative and involves numerous risks, including the risk that the Group will encounter no commercially productive viable deposits. The subsoil areas over which the Group's mineral exploration rights relate may not contain commercially exploitable reserves of metals and minerals including gold and iron ore or may contain quantities which qualify them as Strategic Areas (in the case of gold). Uncertainties as to the metallurgical recovery of any minerals discovered may mean that it does not warrant processing on the basis of available technology.

If the Group discovers a viable deposit, it will usually take several years from the initial phases of exploration until production is possible. During this time, the economic feasibility of production may change. Moreover, the Group will use the evaluation work of professional geologists, geophysicists, and engineers for estimates in determining whether to commence or continue mining. These estimates generally rely on scientific and economic assumptions, which in some instances may not be correct, and could result in the expenditure of substantial amounts of money on a deposit before it can be determined whether or not the deposit contains economically recoverable mineralisation.

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 writedown on its investment in that interest. All of these factors may result in losses in relation to amounts spent which are not recoverable.

In most of the regions where the Group's operations are carried on environmental and weather conditions are challenging, resulting in exploration costs (and ultimately production costs) which may be higher than originally budgeted for.

#### *Adverse publicity from consumer and environmental groups*

There is an increasing level of consumer awareness relating to the effect of mining production on its surroundings, communities and environment. Consumer groups therefore exist to encourage participants in the mining industry to employ practices which minimise any adverse impact that mining may have on communities, workers and the environment. Whilst the Group seeks to operate in a socially responsible manner, adverse publicity generated by such consumer groups which relates either to the gold mining industry as a whole, the iron ore mining industry as a whole or to the Group in particular, could have an adverse effect on the reputation and financial position of the Group.

The Group intends to work towards bringing its operations in line with the International Cyanide Management Code's guidelines, compliance with which is voluntary. In relation to the Group, WAI has also recommended that it works to achieve the ISO14001 scheme for Environmental Management, another voluntary standard. The Directors expect the process of bringing the Group's gold operations in line with the International Cyanide Management Code's guidelines to take time to be implemented across its local management teams and institutions. Until such time as those guidelines are implemented in full, and/or the Group achieves the ISO14001 scheme for Environmental Management, the Group may receive adverse publicity, which may damage the Group's reputation and business.

#### *Competition for mineral interests*

The Group faces competition from other mining companies in all areas of its operations, including the acquisition of mineral licences, exploratory prospects and producing properties. In conducting its exploration activities, the Group competes with other mining companies in connection with the search for and acquisition of properties producing or possessing the potential to produce gold. Some of these companies may have significantly greater resources than those of the Group. Other companies may have a competitive advantage as a result of legislation which regulates foreign investment in Russia. Existing or future levels of competition in the mining industry could materially and adversely affect the Group's prospects for mineral exploration and success.

#### *Taxation risks*

The attention of prospective investors is drawn to the "Taxation" section on pages 136 to 139 of this Offering Circular. The tax rules and their interpretation relating to an investment in the Issuer or the Guarantor may change during the life of the Issuer or the Guarantor. The levels of, and reliefs from, taxation may also change. The tax reliefs referred to in this Offering Circular are those currently available and their value depends on the individual circumstances of the investors. Any change in the Issuer or Guarantor's tax status or the tax applicable to holding Bonds, Preference Shares or Ordinary Shares or in taxation legislation or its interpretation, could affect the value of investments held by the Guarantor, affect the Guarantor's ability to provide returns to Shareholders and/or alter the post-tax returns to Shareholders. Statements in this Offering Circular concerning the taxation of the Issuer or the Guarantor and their investors are based upon current tax law and practice which is subject to change.

#### **Risks Relating to the Issuer**

The Issuer is a special purpose financing entity with no business operations other than the issuance of the Bonds, the lending of the proceeds to other Group companies, the issue of the Preference Shares upon conversion of the Bonds and the entry into certain ancillary arrangements. The Issuer's only material assets will be the obligation of one or more other Group companies to repay such loan. Therefore, the Issuer is subject to the material risks to which the Guarantor is subject, to the extent that such risks could limit the Guarantor's ability to satisfy in full and on a timely basis its obligations under such loan. See "— Risks Relating to the Company / Group" above for a description of these risks. Neither the Issuer nor the Guarantor is aware of any other material risks which could adversely affect the business of the Issuer.

#### **Risks Relating to the Bonds**

##### ***The Bonds may not be a suitable investment for all investors***

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:



- (a) 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 Offering Circular or any applicable supplement;
- (b) 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;
- (c) understand thoroughly the terms of the Bonds and be familiar with the behaviour of financial markets in which they participate; and
- (d) 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.

***The Group's ability to generate cash depends on many factors beyond its control, and it may not be able to generate sufficient cash to service its debt***

The Guarantor cannot assure Bondholders that the Group's business will generate sufficient cash flows from operations or that future borrowings will be available to the Group in an amount sufficient to enable it to pay its debt, including the Bonds when due, or to fund its other capital requirements or any operating losses. This will depend, to some extent, on general economic, financial, competitive, market and other factors, many of which are beyond the Group's control. If the Guarantor's future cash flows from operations and other capital resources are insufficient to pay its obligations as they mature or to fund its liquidity needs, the Guarantor may be forced to:

- reduce or delay its business activities and capital expenditures;
- sell assets;
- obtain additional debt or equity capital;
- restructure or refinance all or a portion of its debt, including the Bonds, on or before maturity; or
- forego opportunities such as acquisitions of other businesses.

The Guarantor cannot assure Bondholders that it will be able to accomplish any of these alternatives on a timely basis or on satisfactory terms, if at all. In addition, the terms of existing or future debt, including the Bonds, may limit its ability to pursue any of these alternatives.

***There is no active trading market for the Bonds***

The Bonds are new securities which may not be widely distributed and for which there is currently no active trading market. If the Bonds are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions, the Group's results of operations and the market price of the Shares. Although applications have been made for the Bonds to be admitted to the Official List of the UKLA and to trading on the Professional Securities Market of the London Stock Exchange, there is no assurance that such applications will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Bonds.

***General economic conditions may affect the value of the Bonds and the ability of the Group to pay the interest on the Bonds***

A number of factors outside the control of the Issuer and the Company may impact significantly on the Issuer, the Company, the Group, their operating and financial performance, including:

- economic conditions in the United Kingdom, Russia and internationally;
- general movements in the local and international stock markets;
- investor sentiment;
- changes in interest rates, exchange rates and the rate of inflation;
- changes in fiscal, monetary or regulatory policies; or
- international hostilities.

Prolonged deterioration in general economic conditions, including an increase in interest rates or decrease in consumer and business demand, could be expected ultimately to have an adverse impact on the Group's operating and financial performance. This impact might not be immediate.

***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 and accordingly the Issuer may choose to redeem the outstanding Bonds at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Bonds.

***The Group may not be able to obtain enough funds to redeem the Bonds if a Relevant Event takes place***

Upon a change of control constituting a Relevant Event (as defined in the Conditions), the Issuer or the Guarantor may be required to redeem all or a part of the Bonds at their principal amount plus accrued and unpaid interest to the date of redemption. If a Relevant Event were to occur, there can be no assurance that the Issuer or the Guarantor will have sufficient funds to pay the redemption price of the outstanding Bonds. The inability to redeem the Bonds would constitute an Event of Default under the Conditions.

The change of control provisions contained in the Conditions may not protect holders of the Bonds in the event of highly leveraged transactions, including reorganisations, restructurings or mergers, because these transactions may not involve a change in voting power or beneficial ownership of the magnitude required to trigger the change of control provisions. See "Terms and Conditions of Bonds — Exercise of Conversion Right".

***Bondholders have no shareholder rights before conversion***

An investment in the Bonds will not convey any voting rights, any right to receive dividends or other distributions or any other rights with respect to any Ordinary Shares until such time, if any, as the relevant Bondholder exercises his Conversion Right and becomes registered as the holder of Ordinary Shares.

***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 Ordinary Shares to be delivered may vary substantially between the date on which the Conversion Rights are exercised and the date on which such Ordinary Shares are delivered.

***There is a limited period for, and there are costs associated with, the exercise of Conversion Rights***

A bondholder will, subject as more fully described herein under “Terms and Conditions of the Bonds - Conversion and Exchange”, have the right to convert their Bonds into Preference Shares which shall be exchanged immediately into Ordinary Shares. Conversion Rights may be exercised, subject as herein provided, at any time on or after 1 April 2010 up to the close of business (at the place where such Bond is deposited for conversion) six days prior to the Final Maturity Date.

***Changes in tax law may adversely affect returns to Bondholders***

Any change in the Issuer's tax status (or that of other members of its Group) or taxation legislation could affect the Issuer's ability to provide returns to Bondholders or alter post tax returns to Bondholders. Commentaries in this Offering Circular concerning the taxation of investors in the Bonds are based on current Jersey and UK tax law and practice which is subject to change. The taxation of an investment in the Issuer depends on the individual circumstances of investors.

***Bondholders will bear the risk of fluctuation in the price of the Ordinary Shares***

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, 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.

Future issues or sales of the Ordinary Shares may significantly affect the market price of the Bonds and/or the Shares. The future issue of Ordinary Shares by the Guarantor or the perception that such issues may occur may significantly affect the trading price of the Bonds and/or the Ordinary Shares. The Guarantor has agreed to certain restrictions on its ability to issue or dispose of Ordinary Shares or related securities for 90 days after the launch of the Bonds. Except for such restrictions and the undertakings of the Issuer and the Guarantor described in the Subscription Agreement, there is no restriction on the Guarantor's ability to issue Ordinary Shares, and 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.

***Because the global certificate is held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communications with the Issuer***

The Bonds will be represented by the Global Bond. The Global Bond will be deposited with a common depository for, and registered in the name of the common nominee of, Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Global Bond, 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 Bond. While the Bonds are represented by the Global Bond, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer and the Guarantor will discharge their payment obligations under the Bonds by making payments to the common depository for Euroclear and Clearstream, Luxembourg for distribution to their account Bondholders. A holder of a beneficial interest in a Global Bond must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Bonds. The Issuer and the Guarantor have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Bonds.

#### ***Structural subordination to subsidiary debt***

The Group's operations are principally conducted through the Company's subsidiaries. Accordingly, the Guarantor is and will be dependent on its subsidiaries' operations to service its indebtedness, including the Guarantee. The Guarantee will be structurally subordinated to the claims of all holders of debt securities and other creditors, including trade creditors, of the Guarantor's subsidiaries, and to all secured creditors of the Guarantor. In the event of an insolvency, liquidation, reorganisation, dissolution or winding up of the business of any subsidiary of the Guarantor, creditors of such subsidiary generally will have the right to be paid in full before any distribution is made to the Guarantor. The Negative Pledge is subject to limited exceptions in relation to project finance debt.

#### ***Holding company structure; dependence on subsidiaries***

The Guarantor's results of operations and financial condition are dependent on the trading performance of members of the Group and upon the level of distributions, interest payments and loan repayments, if any, received from the Guarantor's operating subsidiaries and associated undertakings, any amounts received on asset disposals and the level of cash balances. Certain of the Group's operating subsidiaries and associated undertakings are and may, from time to time, be subject to restrictions on their ability to make distributions and loans including as a result of applicable laws, restrictive covenants in loan agreements, foreign exchange and other regulatory restrictions and agreements with the other shareholders of such subsidiaries or associated undertakings. Any of the situations described above could adversely affect the ability of the Issuer to service its obligations under the Bonds.

#### ***Modification, waivers and substitution***

The Conditions 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 also provide that the Trustee may, without the consent of Bondholders, agree 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.

#### ***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Bonds are legal investments for it, (ii) the Bonds can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of the Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Bonds under any applicable risk-based capital or similar rules.

## TERMS AND CONDITIONS OF THE BONDS

*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 and endorsed on the Bonds in definitive form (if issued).*

The issue of the US\$380,000,000 4.00 per cent. Guaranteed Convertible Bonds due 2015 (the "Bonds" which term shall, unless otherwise indicated, include any further bonds issued pursuant to Condition 20 and consolidated and forming a single series therewith) 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 26 January 2010 and 15 February 2010. The giving of the guarantee (the "Guarantee") by Petropavlovsk PLC (the "Guarantor") in respect of the Bonds was authorised by resolutions of a committee of the Board of Directors of the Guarantor (the "Board") passed on 21 January 2010 and 17 February 2010.

The Bonds are constituted by a trust deed dated 18 February 2010 (the "Trust Deed") between the Issuer, the Guarantor and BNP Paribas Trust Corporation 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 holders (as defined below) of the Bonds. 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, which includes the forms of the Bonds in both global and definitive form. The Bondholders (as defined below) 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 18 February 2010 (the "Agency Agreement") relating to the Bonds between the Issuer, the Guarantor, the Trustee and BNP Paribas Securities Services, Luxembourg Branch in its capacity as Principal Paying, Transfer, Conversion and Exchange Agent (the "Principal Paying, Transfer, Conversion and Exchange Agent", which expression 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) and any other paying, transfer, conversion and exchange agent appointed under these Conditions, and the registrar named therein (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 ("Deed Poll") executed and delivered on 18 February 2010 by the Guarantor. Copies of each of the Trust Deed, the Agency Agreement, the Articles of the Issuer and the Deed Poll are available for inspection during normal business hours at the registered office for the time being of the Trustee (being at the Closing Date at 55 Moorgate, London EC2R 6PA), and 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.

Further to the passing of an ordinary resolution of the Guarantor on 10 February 2010, whereby the Board was directed to elect on behalf of the Guarantor that the exercise of all conversion rights attached to the Bonds be settled in full by the delivery of Ordinary Shares of the Guarantor in exchange for Preference Shares ("Share Settlement"), the Terms and Conditions accordingly provide for Share Settlement only and do not provide for the option of a cash settlement alternative following the due exercise of Conversion Rights under these Conditions.

## 1 Form, Denomination and Title

### (a) Form and Denomination

The Bonds are in registered form, serially numbered in principal amounts of US\$100,000 and integral multiples thereof (“Authorised Denominations”) without coupons attached.

*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 in registered form only and in an Authorised Denomination. Bonds in definitive form will be issued 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) 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.

## 2 Status and Guarantee

### (a) Status

The Bonds constitute senior, unsubordinated, direct, unconditional and (subject to Condition 3) 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 payment of all sums payable by the Issuer in respect of the Bonds and all other moneys payable under or pursuant to the Trust Deed, has been unconditionally and irrevocably guaranteed by the Guarantor in the Trust Deed. The obligations of the Guarantor under the Trust Deed constitute senior, unsubordinated, direct, unconditional, and (subject to Condition 3) 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

So long as any Bond remains outstanding (as defined in the Trust Deed):

- (i) 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 (“Security”)

upon the whole or any part of its undertaking, assets or revenues, present or future, to secure any Relevant Debt or any guarantee or indemnity in respect of any Relevant Debt; and

- (ii) the Guarantor will not permit any of its Principal Subsidiaries to create or permit to subsist any Security upon the whole or any part of their respective undertaking, assets or revenues, present or future, to secure any Relevant Debt, or any guarantee of or indemnity in respect of any Relevant Debt,

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 (as defined in the Trust Deed) of the Bondholders.

#### 4 Definitions

In these Conditions:

“Additional Shares” has the meaning provided in the Articles of the Issuer.

“Aggregate Value” means, in respect of any dealing day, the US dollar amount calculated as follows:

$$AV = OS \times MP$$

Where

AV = the Aggregate Value

OS = the number of Ordinary Shares that would fall to be delivered in relation to the exercise of Conversion Rights in respect of a Bond in the principal amount of US\$100,000.

MP = the Volume Weighted Average Price of an Ordinary Share on such dealing day (provided that if on any such dealing day the Ordinary Shares shall have been quoted cum-Dividend or cum-any other entitlement the Volume Weighted Average Price of an Ordinary Share on such dealing day shall 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 first date on which the Ordinary Shares are traded ex-the relevant Dividend or other entitlement on the Relevant Stock Exchange (determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax and disregarding any associated tax credit)), translated into US dollars at the Prevailing Rate on such dealing day.

“Bondholder” and “holder” mean, in relation to a Bond, the person in whose name the Bond is registered in the Register.



“business day” means, in relation to any place, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for business.

“Closing Date” means 18 February 2010.

“Conversion Date” has the meaning provided in Condition 8(b).

“Conversion Notice” has the meaning provided in Condition 8(b).

“Conversion Period” has the meaning provided in Condition 8(a).

“Conversion Right” has the meaning provided in Condition 8(a).

“Current Market Price” has the meaning provided in the Articles of the Issuer.

“dealing day” means a day on which the Relevant Stock Exchange or securities market is open for business, other than a day on which the Relevant Stock Exchange or securities market is scheduled to, or does, close prior to its regular weekday closing time.

“Dividend” has the meaning provided in the Articles of the Issuer.

“Event of Default” has the meaning provided in the Trust Deed.

“Exchange Price” has the meaning provided in the Articles of the Issuer.

“Extraordinary Resolution” has the meaning provided in the Trust Deed.

“Final Maturity Date” means 18 February 2015.

“Fixed Rate of Exchange” means £1.00 = US\$1.6244.

“Group” means the Guarantor and its subsidiaries.

“Indebtedness” means any obligation (whether present or future, actual or contingent, secured or unsecured, as principal, surety or otherwise) for the payment or repayment of money.

“Independent Financial Adviser” has the meaning provided in the Articles of the Issuer.

“Interest Payment Date” has the meaning provided in Condition 7(a).

“Interest Period” has the meaning provided in Condition 7(a).

“London business day” means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for business in London.

“London Stock Exchange” means the London Stock Exchange plc.

“Merger” has the meaning provided in Condition 13(d).

“Newco Scheme” has the meaning provided in the Articles of the Issuer.

“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 Closing Date of £0.01 each (and all other (if any) shares or stock resulting from any sub-division, consolidation or re-classification of such Ordinary Shares).

“Preference Shares” means exchangeable redeemable preference shares of the Issuer of nominal value US\$0.01 each and which will be issued on conversion of each US\$100,000 in principal amount of the Bonds at a paid-up value (the “Paid-up Value”) of US\$100,000 each.

“Principal Subsidiary” at any time shall mean any Subsidiary of the Guarantor:

- (a) whose (a) profits on ordinary activities before tax or (b) net assets represent 10 per cent. or more of the consolidated profits on ordinary activities before tax of the Guarantor and its Subsidiaries or, as the case may be, consolidated net assets of the Guarantor and its Subsidiaries, in each case as calculated by reference to the then latest audited financial statements of such Subsidiary and the then latest audited consolidated financial statements of the Guarantor provided that in the case of a Subsidiary acquired after the end of the financial period to which the then latest relevant audited consolidated financial statements of the Guarantor relate, the reference to the then latest audited consolidated financial statements of the Guarantor for the purposes of the calculation above shall, until consolidated financial statements for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned financial statements as if such Subsidiary had been shown in such financial statements by reference to its then latest relevant audited financial statements, adjusted as deemed appropriate by the Auditors (as defined in the Trust Deed) after consultation with the Guarantor; or
- (b) to which is transferred all or substantially all of the business, undertaking and assets of a Subsidiary of the Guarantor which immediately prior to such transfer is a Principal Subsidiary whereupon the transferor Subsidiary shall immediately cease to be a Principal Subsidiary and the transferee Subsidiary shall cease to be a Principal Subsidiary under the provisions of this sub-paragraph (ii) upon publication of its next audited financial statements but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary on or at any time after the date on which such audited financial statements have been published by virtue of the provisions of sub-paragraph (i) above or before, on or at any time after such date by virtue of the provisions of this sub-paragraph (ii).

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.

“Prevailing Rate” means in respect of any dealing day, the spot rate of exchange between the US dollar and the pound sterling as at or about 12 noon (London time) on that date as appearing on or derived from Bloomberg L.P. or, if such a rate cannot be determined at such time, the rate prevailing as at or about 12 noon (London time) on the immediately preceding dealing day on which such rate is so available.

“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 iron or iron related assets or projects of OOO Garinskaya Infrastructure, OOO KS GOK and/or OOO Rubikon, in respect of which the person or persons to whom any such Indebtedness is or may be owed by the relevant borrower

(whether or not a member of the Group) has or have no recourse whatsoever to any member of the Group for the repayment thereof except for:

- (a) recourse to such borrower for amounts limited to the present and future cash flow or net cash flow from the relevant assets or projects; and/or
- (b) recourse to such borrower for the purpose only of enabling amounts to be claimed in respect of such Indebtedness in an enforcement of any security or encumbrance given by such borrower over any such assets or projects or the income, cash flow or proceeds deriving therefrom provided that the extent of such recourse to such borrower is limited solely to the amount of any recoveries made on any such enforcement; and/or
- (c) recourse to any shareholder or the like in the borrower over its shares or the like (in each case, to the extent paid up) in the capital of or shareholder loans or the like (in each case, to the extent drawn) to secure such Indebtedness; and/or
- (d) recourse to a member of the Group, under any form of assurance, undertaking or support, which recourse is limited to a claim for damages (other than liquidated damages and damages required to be calculated in a specified way) for breach of an obligation (not being a payment obligation or an obligation to procure payment by another or an indemnity in respect thereof or an obligation to comply or to procure compliance by another with any financial ratios or other tests of financial condition) by the person against whom such recourse is available; and/or
- (e) recourse to the Guarantor, Aricom Limited, Aricom UK Limited and/or OOO Olekminskiy Rudnik 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.

“Record Date” means, in respect of a payment, the seventh London business day before the due date for the relevant payment.

“Reference Date” has the meaning provided in Condition 8(b).

“Register” has the meaning provided in Condition 5.

“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 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 but shall not include Project Finance Indebtedness.

“Relevant Event” has the meaning provided in the Articles of the Issuer.

“Relevant Event Period” has the meaning provided in the Articles of the Issuer.

“Relevant Stock Exchange” means 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.

“Retroactive Adjustment” has the meaning provided in the Articles of the Issuer.

“Securities” has the meaning provided in the Articles of the Issuer.

“Share Exchange Rights” has the meaning provided in the Articles of the Issuer.

“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 International Financial Reporting Standards, as the case may be, from time to time, should have its accounts consolidated with those of the Guarantor.

“UK Listing Authority” means the Financial Services Authority in its capacity as competent authority for the purposes of the Financial Services and Markets Act 2000.

“Volume Weighted Average Price” has the meaning provided in the Articles of the Issuer.

For the purposes of Condition 13, (a) references to the “issue” of Ordinary Shares shall include the transfer and/or delivery of Ordinary Shares 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 shall not be considered as or treated as “in issue”.

References in these Conditions to listing on the London Stock Exchange (or like or similar references) shall be construed as admission to the Official List of the UK Listing Authority and admission to trading on the EEA Regulated Market or, in relation to the Bonds, the Professional Securities Market of the London Stock Exchange and references to “EEA Regulated Market” means a market as defined by Article 4.1 (14) of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

## **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 the terms of the Agency Agreement and to Conditions 6(b) and 6(c), be transferred in whole or in part in an Authorised Denomination 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).

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 (and, in the case of a transfer of part only of a Bond, deliver a Bond for the untransferred balance to the transferor), 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), (ii) in respect of which a Conversion Notice has been delivered in accordance with Condition 8(b), (iii) in respect of which a holder has exercised its right to require the Issuer to redeem pursuant to Condition 9(d), 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) Business Day

In this Condition 6, "Business Day" means a day (other than a Saturday or Sunday) 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 the Closing Date at the rate of 4.00 per cent. per annum calculated by reference to the principal amount thereof and payable semi-annually in equal instalments in arrear on 18 February and 18 August in each year (each an "Interest Payment Date"), commencing with the Interest Payment Date falling on 18 August 2010.

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 Closing 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 Closing Date (subject in any such case as provided in Condition 8(e)) 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 Period and Exchange Price

Each Bond shall confer on the holder the right (such right a “Conversion Right”) to convert each US\$100,000 principal amount of Bonds delivered to the Paying, Transfer, Conversion and Exchange Agent in accordance with Condition 8(b) on the exercise of a Conversion Right into one fully paid Preference Share, allotted at a price equal to the Paid-up Value, and the Issuer shall forthwith procure that such Preference Share is exchanged immediately, pursuant to the Articles of the Issuer and the terms of the Deed Poll and as contemplated by these Conditions, for Ordinary Shares.

Where a Conversion Right is exercised in respect of a part only of a Bond, the old Bond shall be cancelled and a new Bond for the balance thereof in an Authorised Denomination shall be issued *in lieu* thereof without charge but upon payment by the holder of any taxes, duties or other governmental charges payable in connection therewith and the Registrar will within seven Business Days (as defined in Condition 6) following the relevant Conversion Date deliver such new Bond to the Bondholder at the specified office of the Registrar or (at the risk and, if mailed at the request of the Bondholder otherwise than by ordinary uninsured mail, at the expense of the Bondholder) mail the new Bond by ordinary uninsured mail to such address as the Bondholder may request.

Subject to, and upon compliance with, the provisions of 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 April 2010 to the close of business (in the place where the relevant Bond is delivered for conversion) on the date falling six days prior to the Final Maturity Date (both days inclusive) or, if the Bonds shall have been called for redemption pursuant to Condition 9(b) prior to the Final

Maturity Date, then up to the close of business (in the place aforesaid) on the sixth day before the date fixed for redemption thereof, unless there shall be default in making payment in respect of such Bond on such date fixed for redemption, in which event the period during which the Conversion Right may be exercised shall extend up to the close of business (in the place aforesaid) on the date on which the full amount of such payment becomes available for payment and notice of such availability has been duly given in accordance with Condition 19 or, if earlier, the Final Maturity Date; provided that, in each case, if the final such date for the exercise of Conversion Rights is not a business day in the place aforesaid, then the period during which the Conversion Right may be exercised shall end on the immediately preceding business day in the place aforesaid.

Conversion Rights may not be exercised (i) in respect of a Bond where the holder shall have exercised its right to require the Issuer to redeem such Bond pursuant to Condition 9(d), or (ii) following the giving of notice by the Trustee pursuant to Condition 12.

A Conversion Right 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 (other than any payment of interest payable pursuant to Condition 8(e)) and ending on the relevant Interest Payment Date (both days inclusive).

The period within which a Conversion Right may be exercised by a Bondholder is referred to as the "Conversion Period".

By exercising a Conversion Right, a Bondholder will be deemed, subject to and in accordance with the Articles of the Issuer, to have exercised the Share Exchange Rights applicable to the Preference Shares arising on the exercise of such Conversion Right, and the Issuer will procure that such Preference Shares are immediately, following issue of such Preference Shares to the Bondholder or to its nominee and registration of such Preference Shares in the name of the relevant person, exchanged for Ordinary Shares on the relevant Conversion Date (without any further action being required to be taken by any Bondholder or the Trustee). 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.

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.

### **Share Exchange Rights**

*The following is a summary of the Articles of the Issuer in effect as of the date of these Conditions relating to the Share Exchange Rights. The Articles of the Issuer are separate from, and do not form part of these Conditions.*

#### **(a) Exercise of Share Exchange Rights**

*The number of Ordinary Shares to be issued on the exercise of a Share Exchange Right shall be determined by dividing the Paid-up Value in respect of the relevant Preference Shares (translated into sterling at the Fixed Rate of Exchange) by the exchange price (the "Exchange Price") in effect on the relevant Conversion Date. The initial Exchange Price is £12.9345 (which, on the basis of the Fixed Rate of Exchange, is equal to US\$21.0108) per Ordinary Share and the Exchange Price shall thereafter be subject to adjustment in the circumstances described in the Articles of the Issuer as summarised in paragraph (b) below.*

*Fractions of Ordinary Shares will not be issued and no cash payment or adjustment will be made in lieu thereof. However, if a Share Exchange Right in respect of more than one Preference Share is deemed to be exercised at any one time such that Ordinary Shares in respect of such exercise are to be issued to the same person, the number of Ordinary Shares to be issued in respect thereof shall be calculated on the basis of the aggregate Paid-up Value of such Preference Shares.*

*(b) Adjustment of Exchange Price*

*Upon the happening of any of the events described below, the Exchange Price shall be adjusted as follows:*

- (i) Consolidation or Subdivision: If and whenever there shall be an alteration to the nominal value of the Ordinary Shares as a result of consolidation or subdivision, the Exchange Price shall be adjusted by multiplying the Exchange Price in force immediately prior to such alteration by the following fraction:*

$$\frac{A}{B}$$

*where:*

*A is the nominal amount of one Ordinary Share immediately after such alteration; and*

*B is the nominal amount of one Ordinary Share immediately before such alteration.*

*Such adjustment shall become effective on the date the alteration takes effect.*

- (ii) Capitalisation of Profits or Reserves: If and whenever the Guarantor shall issue any Ordinary Shares credited as fully paid to the holders of Ordinary Shares (the "Shareholders") by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) other than (1) where any such Ordinary Shares are issued instead of the whole or part of a cash Dividend which the Shareholders would or could otherwise have received or (2) where the Shareholders may elect to receive a cash Dividend in lieu of such Ordinary Shares, the Exchange Price shall be adjusted by multiplying*



the Exchange Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B}$$

where:

*A is the aggregate nominal amount of the issued Ordinary Shares immediately before such issue; and*

*B is the aggregate nominal amount of the issued Ordinary Shares immediately after such issue.*

*Such adjustment shall become effective on the date of issue of such Ordinary Shares.*

- (iii) *Capital Distribution: If and whenever the Guarantor shall pay or make any Capital Distribution (as defined below) to the 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 (as defined below at the end of this paragraph (b)) of one Ordinary Share on the Effective Date.*

*B is the portion of the Fair Market Value (as defined below) of the Capital Distribution attributable to one Ordinary Share, with such portion being determined by dividing the Fair Market Value of the aggregate Capital Distribution by the number of Ordinary Shares entitled to receive the relevant Capital Distribution (or, in the case of a purchase of Ordinary Shares or any receipts or certificates representing shares by or on behalf of the Guarantor or any Subsidiary of the Guarantor, by the number of Ordinary Shares in issue immediately prior to such purchase).*

*Such adjustment shall become effective on the Effective Date or, in any such case if later, the first date upon which the Fair Market Value of the Capital Distribution is capable of being determined as provided herein.*

*As used in this paragraph (b)(iii) and also, in the case of Spin-Off Securities, elsewhere:*

*“Capital Distribution” means:*

- (a) *a Spin-Off (in which case, the Capital Distribution shall be the Fair Market Value of the relevant Spin-Off Securities or, as the case may be, the relevant property or assets); or*

- (b) any Dividend (in which case the Capital Distribution shall be the Fair Market Value of such Dividend).

For the purposes of the above, the Fair Market Value of a Dividend shall (subject as provided in paragraph (a) of the definition of "Dividend" below and in the definition of "Fair Market Value" below) be determined as at the Effective Date.

In making any such calculation, such adjustments (if any) shall be made as an Independent Financial Adviser determines in good faith appropriate to reflect any consolidation or subdivision of any Ordinary Shares or the issue of Ordinary Shares by way of capitalisation of profits or reserves, or any like or similar event.

"Dividend" means any dividend or distribution (excluding a Spin-Off) whether of cash, assets or other property, and whenever paid or made and however described (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 cash Dividend is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the issue or delivery of Ordinary Shares or other property or assets, or where a capitalisation of profits or reserves is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the payment of a cash Dividend, then for the purposes of this definition the Dividend in question shall be treated as a Dividend of the greater of (i) such cash Dividend and (ii) the Fair Market Value (as at the Effective Date in respect of the relevant Dividend or, as the case may be, the record date or other due date for establishment of entitlement in respect of the relevant capitalisation or if later, the date on which the number of Ordinary Shares (or amount of property or assets, as the case may be) which may be issued or delivered is determined) of such Ordinary Shares or other property or assets;
- (b) any issue of Ordinary Shares falling within paragraph (b)(ii) shall be disregarded;
- (c) a purchase or redemption of share capital of the Guarantor by the Guarantor or any Subsidiary of the Guarantor shall not constitute a Dividend unless, in the case of purchases of Ordinary Shares by or on behalf of the Guarantor or any of its Subsidiaries, the Volume Weighted Average Price per Ordinary Share (before expenses) on any one day in respect of such purchases exceeds by more than 5 per cent. the Volume Weighted Average Price of an Ordinary Share on the five dealing days immediately preceding either (1) that day, or (2) where an announcement (excluding for the avoidance of doubt for these purposes, any general authority for such purchases or redemptions approved by a general meeting of Shareholders of the Guarantor or any notice convening such a meeting of Shareholders) has been made of the intention to

*purchase Ordinary Shares at some future date at a specified price, the date of such announcement or, if in the case of either (1) or (2), the relevant day is not a dealing day, the immediately preceding dealing day, in which case such purchase shall be deemed to constitute a Dividend to the extent that the aggregate price paid (before expenses) in respect of such Ordinary Shares purchased by the Guarantor or, as the case may be, any of its Subsidiaries exceeds the product of (i) 105 per cent. of the Volume Weighted Average Price of the Ordinary Shares determined as aforesaid and (ii) the number of Ordinary Shares so purchased; and*

- (d) *if the Guarantor or any of its Subsidiaries shall purchase any receipts or certificates representing Ordinary Shares, the provisions of paragraph (c) 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 Financial Adviser.*

*“Fair Market Value” means, with respect to any property on any date, the fair market value of that property as determined in good faith by an Independent Financial Adviser provided, that (i) the Fair Market Value of a cash Dividend paid or to be paid shall be the amount of such cash Dividend; (ii) the Fair Market Value of any other cash amount shall be the amount of such cash; (iii) where Spin-Off Securities, options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined in good faith by an Independent Financial Adviser), the fair market value (a) of such Spin-Off Securities shall equal the arithmetic mean of the daily Volume Weighted Average Price of such Spin-Off Securities and (b) of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights, in the case of both (a) and (b) during the period of five dealing days on the relevant market commencing on such date (or, if later, the first such dealing day such Spin-Off Securities, options, warrants or other rights are publicly traded); and (iv) in the case of (i) converted into sterling (if declared or paid in a currency other than sterling) at the rate of exchange used to determine the amount payable to Shareholders who were paid or are to be paid or are entitled to be paid the cash Dividend in sterling; and in any other case, converted into sterling (if expressed in a currency other than sterling) at such rate of exchange as may be determined in good faith by an Independent Financial Adviser to be the spot rate ruling at the close of business on that date (or if no such rate is available on that date the equivalent rate on the immediately preceding date on which such a rate is available).*

*“Effective Date” means, in respect of this sub-paragraph (b)(iii), the first date on which the Ordinary Shares are traded ex-the relevant Dividend on the Relevant Stock Exchange 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, the date on which such purchase, redemption or buy back is made or, in the case of a Spin-Off, on the first date on which the Ordinary Shares are traded ex-the relevant Spin-Off on the Relevant Stock Exchange.*

*“Spin-Off” means:*

- (a) *a distribution of Spin-Off Securities by the Guarantor to Shareholders as a class; or*
- (b) *any transfer of any property or assets (including cash or shares or 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 Newco Scheme, Existing Shareholders as a class (but excluding the issue and allotment of shares by Newco to Existing Shareholders), 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.*

- (iv) *Shares, Rights and Share-Related Securities Issues to Shareholders: If and whenever the Guarantor shall issue Ordinary Shares to Shareholders as a class by way of rights, or issue or grant to Shareholders as a class by way of rights, options, warrants or other rights to subscribe for or purchase any Ordinary Shares, in each case at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share on the Effective Date, 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 Effective Date;*

*B is the number of Ordinary Shares which the aggregate amount (if any) payable for the Ordinary Shares issued by way of rights, 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 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.*

*Such adjustment shall become effective on the Effective Date.*

*“Effective Date” means, in respect of this sub-paragraph (b)(iv), the first date on which the Ordinary Shares are traded ex-rights, ex-options or ex-warrants on the Relevant Stock Exchange.*

- (v) *Rights Issues of Other Securities to Shareholders: If and whenever the Guarantor shall issue any Securities (other than Ordinary Shares*

or options, warrants or other rights to subscribe for or purchase any 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 any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase 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 Effective Date; and*

*B is the Fair Market Value on the Effective 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 sub-paragraph (b)(v), the first date on which the Ordinary Shares are traded ex- the relevant Securities or ex-rights, ex-option or ex-warrants on the Relevant Stock Exchange.*

- (vi) *Issues of Shares at less than Current Market Price: If and whenever the Guarantor shall issue (otherwise than as mentioned in sub-paragraph (b)(iv) above) any Ordinary Shares (other than Ordinary Shares issued on the exercise of Conversion Rights or on the exercise of any rights of conversion into, or exchange or subscription for or purchase of, Ordinary Shares) wholly for cash or no consideration or issue or grant (otherwise than as mentioned in sub-paragraph (b)(iv) above) wholly for cash or for no consideration any options, warrants or other rights to subscribe for or purchase any Ordinary Shares (other than the Bonds, which term shall include any further bonds issued pursuant to Condition 20 and consolidated and forming a single series with the Bonds and other than the Preference Shares), in each case at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share on the Effective Date, 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 issue of such Ordinary Shares or the grant of such options, warrants or rights;*

*B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the issue of such additional 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.*

*Such adjustment shall become effective on the Effective Date.*

*“Effective Date” means, in respect of this sub-paragraph(b)(vi), the date of issue of such Ordinary Shares or, as the case may be, the grant of such options, warrants or rights.*

- (vii) *Other Issues at less than Current Market Price: 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 (otherwise than as mentioned in sub-paragraphs (b)(iv), (b)(v) or (b)(vi) above) shall issue wholly for cash or no consideration any Securities (other than the Bonds), which term shall for this purpose exclude any further bonds issued pursuant to Condition 20 and consolidated and forming a single series with the Bonds and other than the Preference Shares) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued) or Securities which by their terms might be redesignated as Ordinary Shares, and the consideration per Ordinary Share receivable upon conversion, exchange, subscription or redesignation is less than 95 per cent. of the Current Market Price per Ordinary Share on the Effective Date, 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 such issue or grant (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for Ordinary Shares which have been issued by the Guarantor for the purposes of or in connection with such issue, less the number of such Ordinary Shares so issued or otherwise made available);*

*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 attached to such Securities or, as the case may be, for the Ordinary Shares to be issued or to arise from any such 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 attached thereto at the initial conversion, exchange or subscription price or rate or, as the case may be, the maximum number of Ordinary Shares which may be issued or arise from any such redesignation.*

*Provided that if at the time of issue of the relevant Securities or date of grant of such rights (as used in this sub-paragraph (b)(vii) 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 are exercised or, as the case may be, such Securities are redesignated or at such other time as may be provided) then for the purposes of this sub-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 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 sub-paragraph (b)(vii), the date of issue of such Securities or, as the case may be, the grant of such rights.*

- (viii) Amendment of Terms of Rights or Share-Related Securities: If and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any such Securities (other than the Bonds and any further bonds issued pursuant to Condition 20 and consolidated and forming a single series therewith and other than the Preference Shares) as are mentioned in sub-paragraph (b)(vii) above (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 receivable has been reduced and is less than 95 per cent. of the Current Market Price per Ordinary Share on the Effective Date, 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 such modification (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for Ordinary Shares which have been issued, by 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) for the purposes of or in connection with such issue, less the number of such Ordinary Shares so issued or otherwise made available on conversion);*

*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 attached to the Securities so modified would purchase at such Current Market Price per Ordinary Share or, if lower, the existing conversion, exchange or subscription price 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 attached thereto at the modified conversion, exchange or subscription price or rate but giving credit in such manner as an Independent Financial Adviser shall determine in good faith appropriate for any previous adjustment under this sub-paragraph or sub-paragraph (b)(vii) above.*

*Provided that if at the time of such modification (as used in this sub-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 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 or subscription had taken place on the Specified Date.*

*Such adjustment shall become effective on the Effective Date.*

*"Effective Date" means, in respect of this sub-paragraph(b)(viii), the date of modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to such Securities.*

- (ix) *Other Offers to Shareholders: 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 offer 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 sub-sub-paragraphs (b)(ii), (iii), (iv), (vi) or (vii) above or (x) below (or 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 dealing day) or under sub-paragraph (b)(v) above) the Exchange Price shall be adjusted by multiplying the*



*Exchange Price in force immediately before the Effective Date by the following fraction:*

$$\frac{A-B}{A}$$

*where:*

*A is the Current Market Price of one Ordinary Share on the Effective Date; and*

*B is the Fair Market Value on the Effective 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 sub-paragraph(b)(ix), the first date on which the Ordinary Shares are traded ex-rights on the Relevant Stock Exchange.*

- (x) *Change of Control: If 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 2006) 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 with regard to such acquisition (other than an Exempt Newco Scheme) and (such offer or scheme having become or been declared unconditional in all respects) the right to cast more than 50 per cent. of the votes which may ordinarily be cast on a poll at a general meeting of the Guarantor has become unconditionally vested in the offeror and/or such associate as aforesaid (a “Relevant Event”), the Exchange Price (the “Change of Control Exchange Price”) shall be determined as set out below (but in each case adjusted, if appropriate, proportionately on each adjustment to the Exchange Price under the foregoing sub-paragraphs and sub-paragraph (xi) below), provided that the Change of Control Exchange Price shall only apply to Bonds in respect of which Conversion Rights are duly exercised and the Conversion Date falls within the period (the “Relevant Event Period”) commencing on the date the Relevant Event occurs and ending on the date 60 days following the occurrence of the Relevant Event or, if later, 60 days following the date on which notice of such Relevant Event is given to Bondholders by or on behalf of the Issuer or the Guarantor:*

$$COCEP = OEP / (1 + (EP \times c/t))$$

*where:*

*COCEP = means the Change of Control Exchange Price*

*OEP = means the Exchange Price in effect immediately prior to the Relevant Event*

- EP* = means 32.5 per cent. (expressed as fraction)
- c* = means the number of days from and including the date the Relevant Event occurs to but excluding the Final Maturity Date
- t* = means the number of days from and including the Closing Date to but excluding the Final Maturity Date

*“Exempt Newco Scheme”* means a Newco Scheme (as defined below) where immediately after completion of the relevant scheme of arrangement or analogous proceeding the ordinary shares of Newco (as defined below) are (1) admitted to trading on the Relevant Stock Exchange or (2) admitted to listing on such other regulated, regularly operating, recognised stock exchange or securities market as the Guarantor or Newco may determine.

*“Newco Scheme”* means a scheme of arrangement which effects the interposition of a limited liability company (*“Newco”*) between the Shareholders of the Guarantor immediately prior to the scheme of arrangement (the *“Existing Shareholders”*) and the Guarantor; provided that only ordinary shares of Newco are issued to Existing Shareholders and that immediately after completion of the scheme of arrangement the only shareholders of Newco are the Existing Shareholders and that 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 the scheme of arrangement.

- (xi) *Other Events: If the Guarantor (after consultation with the Trustee) determines that an adjustment should be made to the Exchange Price as a result of one or more circumstances not referred to above in this paragraph (b) (even if the relevant circumstance is specifically excluded from the operation of sub-paragraphs (b)(i) to (x) above), the Guarantor shall, at its own expense and acting reasonably, request an Independent Financial Adviser to determine in good faith 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 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 sub-paragraph (b)(xi) if such Independent Financial Adviser is so requested to make such a determination not more than 21 days after the date on which the relevant circumstance arises.*

*Notwithstanding the foregoing provisions, where the events or circumstances giving rise to any adjustment pursuant to this paragraph (b) 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, 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 advised by an Independent Financial Adviser to be in its opinion appropriate to give the intended result and provided further that, for the avoidance of doubt, the issue of Ordinary Shares pursuant to the exercise of Conversion Rights shall not result in an adjustment to the Exchange Price.*

*For the purpose of any calculation of the consideration receivable or price pursuant to sub-paragraphs (iv), (vi), (vii) and (viii), the following provisions shall apply:*

- (a) the aggregate consideration receivable or price for Ordinary Shares issued for cash shall be the amount of such cash;*
- (b) (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 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 Effective Date, 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 or 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;*
- (c) if the consideration or price determined pursuant to (a) or (b) above (or any component thereof) shall be expressed in a currency other than sterling it shall be converted into sterling at such rate of exchange as may be determined in good faith by an Independent Financial Adviser to be the spot rate ruling at the close of business on the relevant Effective Date;*
- (d) in determining 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; and*

- (e) an adjustment shall not be made pursuant to sub-paragraphs (b)(vii) or (ix) in respect of an issue or offer by or on behalf of an entity which is a Subsidiary of the Guarantor (but which is not a Subsidiary of the Guarantor) unless (1) the same is also made at the direction or request of or pursuant to any arrangements with the Guarantor or any of its Subsidiaries and (2) (in the case of sub-paragraph (b)(vii)) the relevant Ordinary Shares have been issued or are issued or are to be issued by the Guarantor in connection with or in contemplation of the relevant issue or offer.*

*In addition, the following expressions have the following meanings:*

*“Bonds” means the 4.00 per cent. Guaranteed Convertible Bonds due 2015 of the Issuer, unconditionally and irrevocably guaranteed by the Guarantor.*

*“Conditions” means the terms and conditions of the Bonds.*

*“Current Market Price” means, in respect of an Ordinary Share at a particular date, the average of the Volume Weighted Average Price of an Ordinary Share for the five consecutive dealing days ending on the dealing day immediately preceding such date; provided that if at any time during the said five-dealing-day period the Volume Weighted Average Price shall have been based on a price ex-Dividend (or ex-any other entitlement) and during some other part of that period the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum- any other entitlement), then:*

- (a) if the Ordinary Shares to be 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 Effective Date relating to such Dividend (or entitlement) (excluding, in any case, any associated tax credit and less the tax (if any) falling to be deducted on payment thereof to a resident of the United Kingdom); or*
- (b) if the Ordinary Shares to be issued 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 such similar amount,*

*and provided further that if 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) in respect of a Dividend (or other entitlement) which has been declared or announced but the*

*Ordinary Shares to be issued do not rank for that Dividend (or other entitlement) the Volume Weighted Average Price on each of such dates shall for the purposes 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 Effective Date of such Dividend or entitlement (excluding, in any case, any associated tax credit and less the tax (if any) falling to be deducted on payment thereof to a resident of the United Kingdom),*

*and provided further that, if the Volume Weighted Average Price of an Ordinary Share is not available on one or more of the said five dealing days, then the average of such Volume Weighted Average Prices which are available in that five-dealing-day period shall be used (subject to a minimum of two such prices) and if only one, or no, such Volume Weighted Average Price is available in the relevant period the Current Market Price shall be determined in good faith by an Independent Financial Adviser.*

*“dealing day” means a day on which the Relevant Stock Exchange or securities market is open for business, other than a day on which the Relevant Stock Exchange or securities market is scheduled to, or does, close prior to its regular weekday closing time.*

*“Fixed Rate of Exchange” means £1.00 = US\$1.6244.*

*“Guarantor” means Petropavlovsk PLC.*

*“Independent Financial Adviser” means a financial institution of international repute appointed by the Issuer or the Guarantor at its own expense and, in any such case, approved in writing by the Trustee (such approval not to be unreasonably withheld or delayed) 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 costs, fees and expenses of such adviser and otherwise in connection with such appointment, appointed by the Trustee (without liability for so doing) following notification to the Issuer and the Guarantor.*

*“Ordinary Shares” means the ordinary shares of the Guarantor having a nominal value at the Closing Date of £0.01 each (and all other (if any) shares or stock resulting from any sub-division, consolidation or re-classification of such Ordinary Shares).*

*“Preference Shares” means exchangeable redeemable preference shares of the Issuer of nominal value US\$0.01 each and which will be issued on conversion of each US\$100,000 in principal amount of the Bonds at a paid-up value (the “Paid-up Value”) of US\$100,000 each.*

*“Securities” includes, without limitation, shares in the share capital of the Guarantor and options, warrants or other rights to subscribe for or purchase or acquire shares in the capital of the Guarantor.*

*“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 International Financial Reporting Standards, as the case may be, from time to time, should have its accounts consolidated with those of the Guarantor.*

*“Volume Weighted Average Price” means, in respect of an Ordinary Share or, as the case may be, a Spin-Off Security on any dealing day, the volume-weighted average price of an Ordinary Share or, as the case may be, a Spin-Off Security published by or derived (in the case of an Ordinary Share) from Bloomberg page VAP or (in the case of a Spin-Off Security) from the principal stock exchange or securities market on which such Spin-Off Securities are then listed or quoted or dealt in, if any, or, if such page is not available, such other source as shall be determined in good faith to be appropriate by an Independent Financial Adviser on such dealing day, provided that on any such dealing day where such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of an Ordinary Share or a 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 or as the Independent Financial Adviser might otherwise determine in good faith to be appropriate.*

*References to any issue or offer or grant to 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 other than Shareholders to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant.*

*For the purposes of paragraphs (a) and (b) above, and paragraphs (c), (e) and (f) below, (i) references to the “issue” of Ordinary Shares shall include the transfer and/or delivery of Ordinary Shares 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 (ii) Ordinary Shares held by or on behalf of the Guarantor or any of its Subsidiaries (and which, in the case of sub-paragraphs (b)(iv) and (vi) above, do not rank for the relevant right or other entitlement) shall not be considered as or treated as “in issue”.*

*In making any calculation or determination of Current Market Price or Volume Weighted Average Price, such adjustments (if any) shall be made as an Independent Financial Adviser determines in good faith to be 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.*

(c) *Retroactive Adjustments*

*If the Conversion Date in relation to any Bond shall be after the record date for any such issue, distribution, grant or offer (as the case may be) as is mentioned in paragraphs (b)(ii) (iii), (iv), (v) and (ix), or any such issue as is mentioned in paragraphs (b)(vi) and (vii) which is made to the Shareholders or any of them, but before the relevant adjustment becomes effective under paragraphs (b) (such adjustment, a “Retroactive Adjustment”), in circumstances where such Bond is to be converted into Preference Shares, the Issuer shall (conditional upon the relevant adjustment becoming effective) procure that there shall be issued to the exchanging holder of Preference Shares, in accordance with the instructions contained in the Conversion Notice, such additional number of Ordinary Shares (if any) (the “Additional Shares”) as, together with the Ordinary Shares issued or to be issued on such exchange (together with any fraction of an Ordinary Share not so issued), is equal to the number of Ordinary Shares which would have been required to be issued on exchange of such Preference Share if the relevant adjustment (more particularly referred to in the said provisions of paragraphs (b)) to the Exchange Price had in fact been made and become effective immediately after the relevant Conversion Date. In such circumstances, the Issuer shall procure that the Additional Shares are issued to or as directed by the relevant Bondholder in the relevant Conversion Notice. Such Additional Shares will be allotted as at the relevant Conversion Date or as at the date of issue of Ordinary Shares if the adjustment results from an issue of Ordinary Shares.*

*(d) Decision of an Independent Financial Adviser*

*If any doubt shall arise as to the appropriate adjustment to the Exchange Price, and following consultation between the Issuer, the Guarantor and an Independent Financial Adviser a written opinion of such Independent Financial Adviser in respect of such adjustment to the Exchange Price shall be conclusive and binding on all concerned, save in the case of manifest error.*

*(e) Ordinary Shares may not be Issued at a Discount*

*The Exchange Price may not be reduced so that, on conversion of the Bonds, Ordinary Shares would fall to be issued at a discount to their nominal or par value.*

*(f) Employees’ Share Schemes*

*No adjustment will be made to the Exchange Price where Ordinary Shares or other Securities (including rights, warrants and options) are issued, offered, exercised, allotted, appropriated, modified or granted to, or for the benefit of, employees or former employees (including Directors holding or formerly holding executive office 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 to be held for the benefit of any such person, in any such case pursuant to any employees’ share scheme (as defined in Section 1166 of the Companies Act 2006).*

*(g) Rounding Down and Notice of Adjustment to the Exchange Price*

*On any adjustment, the resultant Exchange Price, if not an integral multiple of £0.01, shall be rounded down to the nearest whole multiple of £0.01. 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.*

*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.*

(b) 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 usual 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.

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 an Authorised Denomination.

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 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 and delivery of any Ordinary Shares issued on exchange of the Preference Shares, including any stamp duty or stamp duty reserve tax payable under Sections 67, 70, 93 or 96 of the Finance Act 1986 (including any Additional 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 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 Shares, not later than seven London business days following the date (the "Reference Date") the relevant Retroactive Adjustment takes effect). 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 Share Exchange Rights will not be available for issue (i) to, or to a nominee or agent for, Euroclear Bank S.A./N.V. 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.

(c) 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.

(d) Ranking

(i) Ordinary Shares issued upon exchange 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 Shares, on the relevant Reference Date (except in any such case for any right excluded by mandatory provisions of applicable law), except that the Ordinary Shares or, as the case may be, the Additional Shares so issued will not rank for any rights, distributions or entitlement 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.

(ii) Save as provided in Condition 8(e), no payment or adjustment shall be made on conversion and exchange 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 Closing Date).

(e) Interest on Conversion

If an Optional Redemption Notice is given on or after the fifteenth London business day prior to a record date in respect of any Dividend or distribution payable in respect of the Ordinary Shares, which record date has occurred since the last

Interest Payment Date (or in the case of the first Interest Period, since the Closing Date) (whether such notice is given before, on or after such record date) 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, 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 and on or prior to the Interest Payment Date next following such record date, 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 Closing 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 US 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.

(f) 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.

(g) Relevant Event Notice

Within 14 days following the occurrence of a Relevant Event, the Issuer or the Guarantor shall give notice thereof to the Trustee and to the Bondholders in accordance with Condition 19 (a "Relevant Event Notice"). Such notice shall contain a statement informing Bondholders of their entitlement to exercise their Conversion Rights as provided in these Conditions and the Exchange Price applicable in consequence of the Relevant Event, calculated in accordance with the Articles of the Issuer and their entitlement to exercise their rights to require redemption of their Bonds pursuant to Condition 9(d). The Relevant Event Notice shall also specify:

- (i) all information material to Bondholders concerning the Relevant Event;
- (ii) the Exchange Price immediately prior to the occurrence of the Relevant Event and the Exchange Price applicable pursuant to the Articles of the Issuer 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), and may only be redeemed by the Bondholders prior to the Final Maturity Date in accordance with Condition 9(d).

### **(b) Redemption at the Option of the Issuer**

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:

- (i) at any time on or after 5 March 2012, if the Aggregate Value for not less than 20 dealing days in any period of 30 consecutive dealing days ending not more than 14 days prior to the giving of the relevant Optional Redemption Notice, exceeds US\$150,000; or
- (ii) 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/or redemptions effected in respect of 80 per cent. or more in principal amount of the Bonds originally issued.

For the purposes of Condition 9(b)(ii), the principal amount of the Bonds originally issued shall be the aggregate of the principal amount of the Bonds, including any further bonds issued pursuant to Condition 20 and consolidated and forming a single series with the Bonds.

### **(c) Redemption Notices**

Any Optional Redemption Notice shall be irrevocable. Any such notice shall specify (i) the Optional 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, and (iv) the last day on which Conversion Rights may be exercised by Bondholders.

### **(d) 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 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 US 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.

(e) 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.

(f) 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.

(g) 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.

## 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 US dollar account maintained by the payee with a bank in New York City. 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 are subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

(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 Luxembourg, 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 Luxembourg, 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, (ii) a Registrar with a specified office outside the United Kingdom and (iii) a Paying, Transfer, Conversion and Exchange Agent with a specified office in a European Union Member State, if any, that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive. 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 in respect of the Bonds by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Jersey or the United Kingdom or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. Neither the Issuer nor the Guarantor shall be required to pay any additional or further amounts in respect of such deduction or withholding.

## 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 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 US\$20,000,000 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 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 or any Share Exchange 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 an amendment to the Deed Poll, unless the amendment is agreed 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 or any Share Exchange Right remains exercisable, the Guarantor will, save with the approval of an Extraordinary Resolution or with the 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) be the beneficial owner, directly or indirectly, of not less than 100 per cent. of the ordinary share capital of the Issuer;
- (ii) at all times keep available for issue free from pre-emptive rights (where necessary) out of its authorised but unissued capital sufficient authorised but unissued Ordinary Shares to enable the obligation of the Issuer to procure that Preference Shares be exchanged for Ordinary Shares pursuant to the exercise of a Share Exchange Right and all other rights of subscription and exchange for Ordinary Shares, to be satisfied in full at the current subscription prices or exchange prices;
- (iii) 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 shares or Securities to the holders of Ordinary Shares 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 shares or Securities on a capitalisation of profits or reserves, or (B) by the issue of Ordinary Shares paid up in full out of distributable profits or reserves (in accordance with applicable law) and issued wholly, ignoring fractional entitlements, *in lieu* of the whole or part of a cash dividend, or (C) by the issue of fully paid equity share capital (other



than Ordinary Shares) to the holders of equity share capital of the same class and other holders of shares in the capital of the Guarantor which by their terms entitle the holders thereof to receive equity share capital (other than Ordinary Shares) on a capitalisation of profits or reserves, unless in any such case the same gives rise (or would, but for the provisions of Article 2.4.6(g) of the Articles of the Issuer, give rise) to an adjustment to the Exchange Price in accordance with the terms of the Articles of the Issuer;

- (iv) not in any way 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 such rights but so that nothing in this sub-paragraph (iv) shall prevent (A) the issue of equity share capital to employees or former employees or directors (including directors holding or formerly holding executive office or the personal service company of any such person) (or the spouse or relative of any such person) whether of the Guarantor or any of its subsidiary or associated companies by virtue of their office or employment pursuant to any employees' share scheme as defined in Section 1166 of the Companies Act 2006 now in existence or which may in the future be approved by the Guarantor in general meeting, or (B) any consolidation or sub-division of the Ordinary Shares or the conversion of any Ordinary Shares into stock or *vice versa*, or (C) any modification of such rights, or any such issue which is not, in the determination in good faith of an Independent Financial Adviser, materially prejudicial to the interests of the Bondholders, or (D) without prejudice to any rule of law or 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 of the Guarantor (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 sub-paragraph (iv) 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 (E) any issue of equity share capital where the issue of such equity share capital results (or would, but for the provisions of any other Condition or the Articles of the Issuer, otherwise result) in an adjustment of the Exchange Price, or (F) any issue of equity share capital pursuant to the exercise of any warrants or options relating to the Guarantor and issued prior to 22 January 2010, or (G) any issue of equity share capital or modification of rights attaching to the Ordinary Shares where prior thereto the Guarantor shall have instructed an Independent Financial Adviser to determine in good faith what (if any) adjustments should be made to the Exchange Price as being fair and reasonable to take account thereof and such Independent Financial Adviser shall have determined in good faith either that no adjustment is required or that an adjustment 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);
- (v) procure that no securities (whether issued by the Guarantor or any of its Subsidiaries or procured by the Guarantor or any of its Subsidiaries to be issued) issued without rights to convert into or exchange or subscribe for Ordinary Shares shall subsequently be granted such rights at a

consideration per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share at close of business on the last dealing day preceding the date of the announcement of the proposed inclusion of such rights unless the same gives rise (or would but for the provisions of Article 2.4.6(g) of the Articles of the Issuer give rise) to an adjustment of the Exchange Price and that at no time shall there be in issue Ordinary Shares of different nominal values save where such Ordinary Shares have the same economic rights;

- (vi) not make any issue, grant or distribution or take any other action if the effect thereof would be that, on the conversion of the Bonds and the exchange of the Preference Shares, Ordinary Shares would (but for the provisions of the Articles of the Issuer) have to be issued at a discount or otherwise could not, under any applicable law then in effect, be legally issued as fully paid;
- (vii) not reduce its issued ordinary share capital, ordinary share premium account or capital redemption reserve or any uncalled liability in respect thereof except (A) pursuant to the terms of issue of the relevant ordinary share capital, or (B) by means of a purchase or redemption of ordinary share capital of the Guarantor, or (C) as permitted by Sections 610(2) and (3) of the Companies Act 2006, or (D) where the reduction does not involve any distribution of assets, or (E) where the reduction results in (or would but for the provisions of Article 2.4.6(g) of the Articles of the Issuer result in) an adjustment to the Exchange Price under the provisions of the Articles of the Issuer or is otherwise taken into account for the purposes of determining whether such an adjustment should be made, or (F) solely in relation to a change in the currency in which the nominal value of the Ordinary Shares is expressed; or (G) a reduction of 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 (H) by way of transfer of reserves as permitted under applicable laws; or (I) to create distributable reserves; or (J) pursuant to a Newco Scheme;
- (viii) if any offer is made to all (or as nearly as may be practicable all) holders of Ordinary Shares or all (or as nearly as may be practicable all) such holders other than the offeror and/or any associates of the offeror (as defined in section 988(1) of the Companies Act 2006), to acquire all or a majority of the issued ordinary share capital of the Guarantor, or if any person proposes a scheme (other than an Exempt Newco Scheme) with regard to such acquisition, give notice of such offer or scheme to the Trustee and the Bondholders in accordance with Condition 19, at the same time as any notice thereof is sent to the Guarantor's shareholders (or as soon as practicable thereafter) stating that details concerning such offer or scheme may be obtained from the specified offices of the Paying, Transfer, Conversion and Exchange Agents and, where such an offer has become or been declared unconditional in all respects, 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 the Conversion Rights and/or to the holders of the Bonds;

- (ix) use its reasonable endeavours to ensure that the Ordinary Shares issued upon exchange of any Preference Shares will be admitted to listing and to trading on the Relevant Stock Exchange, and that such Ordinary Shares will be listed, quoted or dealt in on any other stock exchange or securities market on which the Ordinary Shares may then be listed or quoted or dealt in;
- (x) 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 upon 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 and the Guarantor (with the Issuer and the Guarantor providing a joint and several 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 such other adjustments are made to these Conditions, the Trust Deed, the Deed Poll and Articles of the Issuer to ensure that the Bonds may be converted into or exchanged (whether by the exchange for preference shares or otherwise) for ordinary shares of Newco *mutatis mutandis* in accordance with and subject to these Conditions, the Trust Deed and the Articles of the Issuer as the Trustee shall, in its opinion, think fit; and
- (xi) in accordance with its obligations under the Deed Poll, undertake to procure the performance by the Issuer of all the Issuer's obligations with respect to the exercise of the Conversion Rights and the exercise of the Share Exchange Rights.

As used in these Conditions, "ordinary share capital" has the meaning ascribed to it in Section 832 of the Income and Corporation Taxes Act 1988 and "equity share capital" has the meaning ascribed to it in Section 548 of the Companies Act 2006.

(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) 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;
- (ii) 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;
- (iii) 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;
- (iv) 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); and

- (v) 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,

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 corporation formed by such Merger 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 the Articles of the Issuer. 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 Articles of the Issuer, (iv) modifying or varying the Conversion Rights in respect of the Bonds or the Share Exchange Rights, (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.

(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)(x)) 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, 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.

**17 Enforcement**

The Trustee may at any time, at its discretion and without notice, take such steps, actions or 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 or any other action or step in relation to the Trust Deed or the Bonds 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. No Bondholder shall be entitled to proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, 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*:

- (i) 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;
- (ii) to rely without liability to Bondholders on a report, confirmation or certificate of the Auditors, 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;
- (iii) 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;

- (iv) 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;
- (v) 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
- (vi) 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 regarding the Bonds will be valid if sent to the address of the relevant Bondholder as specified in the Register. The Issuer shall also ensure that all notices are duly published 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 notice. 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.

## **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**

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. The Issuer has in the Trust Deed submitted to the jurisdiction of the English courts in respect of any disputes that may arise out of or in connection with the Bonds and the Trust Deed ("Proceedings") and has appointed the Guarantor as its agent for service of process in connection with any Proceedings in England.

## SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

The Global Bond contains provisions which apply to the Bonds while they are in global form, some of which will modify the effect of the Conditions. The following is a summary of certain of those provisions. Terms defined in the Conditions have the same meaning when used below.

### 1 Exchange for Definitive Certificates

The Global Bond is exchangeable in whole but not in part (free of charge to the holder) for Definitive Certificates described below if the Global Bond is held on behalf of Euroclear or Clearstream, Luxembourg or such other clearing system as shall have been approved by the Trustee (**Alternative Clearing System**) and any such clearing system is closed for business for a continuous period of 14 days or more (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so by such holder giving notice to the Principal Paying, Transfer, Conversion and Exchange Agent;

On or after the Exchange Date the holder of the Global Bond may surrender it to or to the order of the Registrar. In exchange for a Global Bond, the Issuer shall deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Certificates.

**Exchange Date** means a day falling not less than 60 days after that on which the notice requiring exchange is given (as specified in such notice) and on which banks are open for business in the city in which the specified office of the Registrar is located and in the cities in which Euroclear and Clearstream, Luxembourg or, if relevant, the Alternative Clearing System are located.

Except as otherwise described herein, each Global Bond is subject to the Conditions and the Trust Deed and, until it is exchanged for Definitive Certificates, its holder shall be entitled to the same benefits as if it were the holder of the Definitive Certificates for which it may be exchanged and as if such Definitive Certificates had been issued on the date of the Global Bond.

### 2 Payments

Payments of amounts falling due in respect of a Global Bond will be made against presentation for endorsement and, if no further payment falls to be made on it, surrender of the Global Bond to or to the order of the Principal Paying, Transfer, Conversion and Exchange Agent or such other Agents as shall have been notified to the Bondholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Bond, which endorsement will be prima facie evidence that such payment has been made.

### 3 Notices

So long as the Global Bond is held on behalf of Euroclear or Clearstream, Luxembourg or any Alternative Clearing System, notices required to be given to Bondholders may be given by their being delivered to Euroclear and Clearstream, Luxembourg or, as the case may be, the Alternative Clearing System, rather than by notification as required by the Conditions in which case such notices shall be deemed to have been given to Bondholders on the date of delivery to Euroclear and Clearstream, Luxembourg or, as the case may be, the Alternative Clearing System.

#### **4 Prescription**

Claims in respect of principal, interest and other amounts payable in respect of 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 or any other amounts) from the relevant date of payment.

#### **5 Meetings**

The holder of the Global Bond (unless the Global Bond represents only one Bond) shall be treated as one person for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, as having one vote in respect of each US\$100,000 principal amount of Bonds for which the Global Bond may be exchanged.

#### **6 Purchase and Cancellation**

Cancellation of any Bond represented by the Global Bond which is required by the Conditions to be cancelled will be effected by reduction in the principal amount of the Global Bond on its presentation to or to the order of the Principal Paying, Transfer, Conversion and Exchange Agent for annotation.

#### **7 Conversion**

For so long as the Global Bond is held on behalf of any one or more of Euroclear, Clearstream, Luxembourg or the Alternative Clearing System, Conversion Rights (as defined in the Conditions) may be exercised at any time during the Conversion Period by the presentation to or to the order of the Principal Paying, Transfer, Conversion and Exchange Agent of a Global Bond for appropriate notation, together with one or more Conversion Notices duly completed by or on behalf of a holder of a book-entry interest.

#### **8 Redemption at the Option of Bondholders**

The option of the Bondholders provided for in Condition 9(d) may be exercised by the holder of a Global Bond giving notice to the Principal Paying, Transfer, Conversion and Exchange Agent within the time limits relating to the deposit of Bonds as set out in Condition 9(d), substantially in the form of the Relevant Event Put Exercise Notice available from the Principal Paying, Transfer, Conversion and Exchange Agent and stating the principal amount of Bonds in respect of which the option is exercised and at the same time presenting the Global Bond to the Principal, Paying, Transfer, Conversion and Exchange Agent for annotation accordingly.

## USE OF PROCEEDS

The net proceeds from the issue of Bonds, after deduction of fees and commissions and expenses, are expected to be approximately US\$370 million and will be used for general corporate purposes and to provide the Group with an attractive source of relatively low cost long term capital.

The proceeds will allow the Group to:

- progress the exploration and development of its projects; and
- provide flexibility for future corporate activity such as investments into the Leader Fund.

During 2009, the Group raised approximately US\$105 million (before expenses) through a placing of 16 million Shares, acquired Aricom and acquired the full US\$180 million nominal of the gold exchangeable bonds previously issued by the Group. In November 2009 the Group also exercised a call in respect of the US\$139.8 million outstanding of its previous convertible bonds, leading to conversion of the bonds into the Company's shares. Given the above mentioned corporate activity, including the repayment of its prior debt sources, the Group went from a net debt position of US\$389 million at 31 December 2008 to a position of US\$19 million at 31 December 2009 (unaudited). Cash and cash equivalents at the end of 2009 were US\$76 million (unaudited).

The Group has announced its capital expenditure guidance for 2010 of US\$200 million in relation to its gold projects, excluding exploration. The Group's development programme is central to maintaining an increasing production profile.

In light of the recent corporate activity and the Group's significant development opportunities the Group has decided to increase its financial flexibility through the issue of the Bonds.

### **Rationale for issuing the Bonds**

In light of recent acquisitions, corporate activity and development opportunities, the Group has investigated a range of funding options available to it and feels that the issue of the Bonds with a coupon of 4.00 per cent. and which would, assuming full conversion and no other share issues or adjustment events, convert into approximately 9 per cent. of the enlarged Company, is an attractive and relatively low cost financing option as it:

- allows the Group to take forward its strong business case
- is an appropriate funding source for a mining company such as Petropavlovsk with its existing production facilities and exciting development projects
- builds upon Petropavlovsk's reputation with convertible bond investors given the success of the 2005 issue.

The Group has a successful track record of using bond finance to unlock value in development stage assets and the issue of the Bonds, which will have a coupon of 4.00 per cent., effectively replaces the previous bonds which had a coupon in excess of 7 per cent. The Board believes that, notwithstanding the potential dilution resulting from the issue of the Bonds, the Offering is in the best interests of Shareholders as it permits the Company to fund, on a relatively low cost basis, the next stage of the Group's development. The Directors believe that the near term development opportunities available require the Group to have funds available to take advantage of them and that the anticipated resultant growth in capital value should outweigh the effect of the potential dilution.

## **BUSINESS**

### **1 Incorporation**

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 principal legislation under which the Issuer operates is the Companies (Jersey) Law 1991, as amended.

The registered office of the Issuer is located at 13-14 Esplanade, St Helier, Jersey JE1 1BD, telephone number + 44 (0)1534 888777.

The Guarantor was incorporated on 20 December 2001 and registered with the registered number 04343841 under the laws of England and Wales as a public company limited by shares under the name Excelsior Corporation plc. On 14 March 2002, the Guarantor's name was changed to Peter Hambro Mining Plc. On 23 September 2009, the Guarantor's name was changed to Petropavlovsk PLC. The principal legislation under which the Guarantor operates is the Companies Act 2006 and the regulations made thereunder.

The Guarantor's registered office and principal place of business is at 11 Grosvenor Place, London SW1X 7HH. The telephone number of the Guarantor's principal place of business is +44 (0)20 7201 8900.

The Guarantor's Shares are listed on the Official List of the UKLA and traded on the London Stock Exchange. The ISIN Number for the Shares is GB0031544546. The Warrants issued by the Guarantor are listed on the Official List and traded on the London Stock Exchange. The ISIN Number for the Warrants is GB00B6507Y92. Information about the performance of the Shares and Warrants and their volatility can be found on the website of the London Stock Exchange (<http://www.londonstockexchange.com>).

### **2 Overview of the Business**

Petropavlovsk is the holding company for a group of mining and exploration companies whose principal assets are located in Russia. The Group is focused on the acquisition, exploration, development and production of mineral deposits with a current focus on its precious metal deposits and, in future, the development of its iron ore assets as and when the iron ore and project finance markets recover.

The Group has a number of production and exploration assets across Russia with its principal operations located in the Amur Region, in the Russian Far East, where it has operated since 1994. The Group is also active (itself or through joint ventures) in other areas of Russia including the EAO and the Yamal, Buryatia, Magadan, Chita, Irkutsk, Altay and Sakha regions.

The Group currently produces gold from its own mines and from a number of joint ventures. In 2009, the Group produced 486,800 oz of gold, making it the third largest gold producer in Russia. On 22 April 2009, the Company completed its acquisition of the mining and exploration company Aricom plc, the Company's Shares were admitted to the Official List of the UKLA and to trading on the London Stock Exchange and the Company's AIM listing was cancelled.

The Group's gold operations are focused on its Pokrovskiy and Pioneer producing mines, Malomir (a development project) and its exploration projects at the Pokrovskiy Satellite Deposits area and Albyn, Tokur and Osipkan deposits, all of which are in the Amur Region, and the Novogodnee Monto and Petropavlovskoye deposits in the Yamal Region. Its primary iron ore assets are Kuranakh and Garinskoye in the Amur Region and K&S in the EAO.

The Group's gold production in 2009 is set out in the table below:

	Attributable Production*	
	Year ended 31 Dec 2009 oz	Year ended 31 Dec 2008 oz
<b>Amur region</b>		
Pokrovskiy deposit**	190,100	189,500
Pioneer deposit**	234,100	150,500
Alluvials (including Tokur)	24,400	22,700
<b>Joint ventures</b>		
Odolgo (50%) and Priisk Solovievsky (13.76%)	11,400	10,800
Omchak (50%)***	26,800	28,100
<b>TOTAL</b>	<b>486,800</b>	<b>401,600</b>

\* Total attributable gold production, as stated throughout this document, is comprised of 100 per cent. of production from the Group's subsidiaries and the relevant share of production from joint ventures and other investments. Figures for the comparative period are restated accordingly. The Group has held c.1.1 per cent. interest in Rusoro Mining Ltd since March 2009; no attributable ounces are included in the Group figures. The Company's direct and indirect interest in Pokrovskiy Rudnik is 98.6 per cent.

\*\*During 2009, some of the ore from Pioneer deposit was processed through Pokrovskiy mill, yielding production of 9,500oz. Pioneer gold processed through Pokrovskiy mill is included in the Pioneer deposit figures. Figures for the comparative period are restated accordingly.

\*\*\* The Group has entered into a conditional contract for the disposal of the majority of its interest in Omchak. At this stage there is no certainty that this disposal will take place and the numbers and forecasts in this document do not reflect any reduction in this interest.

The Pokrovskiy and Pioneer mines are the key producing assets of the Group. The Pokrovskiy mine exceeded its 2009 production target by 13 per cent. (199,600oz versus the Group's forecast of 177,000oz), and operated successfully throughout 2009 with the plant processing 1,782,000 tonnes of ore (an increase of 5 per cent. versus 2008) and heap leach operations yielding 67 per cent. recovery rates. The mine is open pit and gold is processed using RIP and heap-leach operations. The Pioneer mine produced 224,600oz of gold in 2009, an increase of 208 per cent. versus 2008 mainly due to the successful commissioning and ramp-up of the second milling processing line in September 2009. This extra production facility, with a design capacity of 125,000 tonnes of ore per month (without heap leach operations), was constructed on schedule and on budget. Based on production volume, the Group is the third largest gold producer in Russia and the total cash costs for its Pokrovskiy mine are in the lowest quartile for gold producers worldwide.

The key iron ore assets of the Group are Kuranakh, K&S and Garinskoye. Kuranakh is a medium-sized titanomagnetite iron ore and ilmenite deposit at the advanced development stage. Construction at the Group's Kuranakh project has continued to progress and at the end of December 2009 c.90 per cent. of the iron concentrate circuit and c.65 per cent. of the ilmenite circuit were complete. The new plant is expected to be producing concentrate in the first half of 2010 and to reach full capacity in the second half of 2010. K&S is a large magnetite iron ore deposit also at the development stage. Garinskoye is a large magnetite iron ore deposit at the development stage. A combined feasibility study for K&S and Garinskoye (the **K&S and Garinskoye Feasibility Study**) was completed in October 2008. Subject to obtaining the appropriate funding, both assets have the potential to beneficiate iron ore concentrate to pig iron.

The Group also includes various in-house services companies and contractors that currently meet the majority of its geological, exploration and construction needs. These companies and

contractors help to ensure that the Group's projects are well supported and also provide some services under contract to third parties.

Historically, the majority of the assets, employees and operations of the Group have been in Russia and the Directors believe that this gives the Group a competitive advantage over other companies in the identification, acquisition, management and development of mining projects in Russia. In addition, the Directors believe that the Company's Russian background was beneficial in enabling it to make the investment in Rusoro in Venezuela, a country which has strong ties with Russia. The Group may consider making further investments outside Russia.

The Group continues to review a varied range of mining opportunities in other commodity and geographic areas and intends to invest when projects meet specific economic criteria and when financial markets allow.

### **3 Key strengths**

The Directors believe that the Group has a number of key strengths. These include:

#### **3.1 Regional and management experience**

The Group has been operating in Russia for over 15 years and the Company was one of the first mining companies with solely Russian assets to achieve admission of its shares to trading on AIM. It is now one of the largest gold producers in the Amur Region and the third largest in Russia by production volume. The Group is one of the largest employers in the Amur Region.

The Group has a very experienced management team headed by Peter Hambro and Pavel Maslovskiy, the Company's founders, who remain actively involved in its management. The Group has built up a group of experienced specialists for the development of mineral projects from early geological prospecting to the production stage. The majority of their exploration and development work is undertaken in-house by highly-qualified personnel using advanced technologies.

#### **3.2 Established portfolio of production and exploration assets**

The Group has an extensive portfolio of licences relating to gold deposits and exploration opportunities in several well-known gold mining regions of Russia and major development stage iron ore deposits also located in Russia.

The Group's principal mining and exploration assets comprise (i) the Pokrovskiy and Pioneer Division which includes the Pokrovskiy and Pioneer mines; the North East Amur Division, which includes the Malomir, Tokur and Albyn deposits and other prospective exploration projects around the Amur Region and (ii) the iron ore assets acquired through the Aricom Acquisition. The first gold was produced from the Pokrovskiy mine in 1999 and from the Pioneer mine at the end of 2004 and the first sales of iron ore pre-concentrate from Kuranakh occurred in June 2008.

The Group also owns the Petropavlovskoye and Novogodnee Monto deposits in the Yamal Region, interests in a number of joint ventures in such areas of Russia as Magadan, Amur, Chita, Irkutsk and Altay and in China and exploration operations in Buryatia and Sakha.

The Group's production is principally derived from the mines at Pokrovskiy and Pioneer as well as its alluvial operations and the Omchak joint venture.

### **3.3 Location**

The principal mining and exploration assets of the Group are located in the Amur Region and the EAO. Both regions are particularly rich in mineral resources and positioned close to the Chinese market. A well developed infrastructure and a strong presence in the Amur Region and the EAO gives the Group a strong position to exploit or develop other licence interests which it may acquire in Russia.

### **3.4 Geology**

The majority of the Group's assets in the Amur Region are located on and around a geological belt, formed by a collision of tectonic plates during the late Jurassic/early Cretaceous period, along the Mongol-Okhotsk line, the ancient boundary between the Eurasian and Amur plates. This collision has created favourable geological conditions for the formation of hydrothermal mineralisation associated with volcanism in the belt.

The majority of the Group's assets in the EAO are located on and around a geological feature known as the Malokhingansky iron ore belt. Geological exploration has identified seventeen deposits in the Malokhingansky area, of which the key deposits are Kimkan, Sutara and Kostenginskoye.

### **3.5 Established revenue of the Group**

The Group has a history of increasing revenue year-on-year through its production operations. In 2008, the Group's revenue (prior to the Aricom Acquisition) was US\$381.7 million compared to US\$226.4 million for 2007 and US\$157.8 million for 2006. The Group's revenue for the first six months of 2009 was US\$214.1 million (unaudited) compared to US\$146.4 million (unaudited) for the first six months of 2008.

### **3.6 Low operating costs**

The Group's operations at the Pokrovskiy mine have total cash costs (at US\$281/oz as at 30 June 2009) which are in the lowest quartile for gold producers in Russia and worldwide, according to production volume. The Pioneer mine's total cash costs are also low at US\$222/oz as at 30 June 2009.

### **3.7 Infrastructure**

The Group's principal assets are located in the Amur Region and the EAO, prospective gold and iron ore mining regions of Russia both of which have well-developed infrastructure including railroads, roads, power lines and a pool of highly qualified workers.

*Transport* - two major Russian railways, namely the Trans-Siberian and BAM Railways, pass through the Amur Region, and the Trans-Siberian Railway also runs through the EAO. The Group's Amur assets are, in most cases, located close to one or both of these railways and are connected to them by good quality roads.

*Power* - there are two large hydro-electric power stations in the Amur Region and the Amur Region is a net surplus producer of electricity. These power stations provide reliable and sustainable supplies of power to the Amur operations of the Group through the national grid, which also provides power to the Group's other Russian operations. The power supply in the EAO, much of which is derived from the Amur Region, has also been able to adequately support the Group's existing operations and the Directors believe will also adequately support the new mine operations at K&S.



*Human resources and facilities* - the Amur Region, in particular, has a long-standing history of mining operations and a strong mining culture. As a result, there is currently a pool of qualified workers from which the Group can recruit. Specialists working for the Group cover a wide spectrum and include geologists, laboratory technicians and engineers. The Group has a long-term and comprehensive educational and training policy to encourage their mining experts to fulfil their potential and to attract new employees for the Group's projects. These education policies cover internal seminars and conferences plus sponsorships to attend key academic institutions. The Group also has its own technical college at Pokrovskiy which trains operations specialists.

Some of the Group's other assets are located in the Yamal Region, which is one of the most prominent oil and gas provinces of Russia and as such the Group benefits from a very well-developed infrastructure in that region.

### **3.8 Diverse asset base**

The Group's operations are focused on the acquisition, exploration, development and production both of precious metals and iron ore deposits. The differences between the demand and pricing dynamics, as well as the cycle, of the gold market and the markets for commodities, such as iron ore, provide the Group with greater resilience to a wider variety of macroeconomic conditions, than if its focus was restricted to the development and production of a single commodity or a group of other commodities whose exposure to economic cycles was similar.

## **4 Strategy**

The Group's strategy is to create shareholder value through participation in the full development cycle of mining projects, from greenfield site to production, and thereafter through continued profitable operation. The Directors intend to maintain and build on the position of the Group as a leading gold producer, developer and explorer in Russia while continuing to consider other opportunities. In the near term, the Group will pursue growth of gold production while continuing to evaluate opportunities to finance the development of its large iron ore assets once project finance and iron ore markets recover.

In particular, the Directors intend to:

- continue the development of the Group's Pioneer and Malomir assets;
- complete the construction of the Kuranakh beneficiation plant and to commence production and sales of fully beneficiated iron ore and titanomagnetite concentrates during 2010; and
- incur expenditure on the Group's iron ore projects maintaining positive progress for the later development of the K&S and Garinskoye assets. The rationale for this strategy is to preserve the inherent value in, and the ability to accelerate development of, these projects once the finance and commodity markets support the start of full scale construction.

The Directors will continue to review a varied range of mining opportunities in other commodity and geographic areas and to invest when projects meet specific economic criteria and when financial markets allow.

## **5 Group structure**

The diagram in Appendix 1 summarises the Group's corporate structure showing its operating subsidiaries and those non-operating subsidiaries that own directly or indirectly such operating subsidiaries.

## 6 Organisational structure of the Group

### 6.1 Organisational Structure

The Group's corporate headquarters are in London and its Russian headquarters in Moscow. In the Amur Region, the Group has its operational headquarters in the capital of Blagoveschensk, with local management and operational teams for each of its Pokrovskiy, Pioneer and North East Amur Divisions. Each Division has its own management and technical teams and is supported by teams from the Group's services divisions, including engineering, construction and laboratory services. In each case, these provide personnel and services to the individual mines or other operations forming part of the respective Division, providing cost and operational efficiencies. The Group's main laboratories at Blagoveschensk provide centralised strategic and methodological support to the Group's laboratories in the Amur Region.

The Group has management and technical teams for its Yamal and Buryatia operations. Assets in Omchak are managed by either the joint venture management or by the Group's joint venture partners. The Group has entered into a conditional contract for the disposal of the majority of its interest in Omchak. At this stage there is no certainty that this disposal will take place.

The Group's management and administrative structure is vertically integrated and can be summarised as follows:

- **London** - the Group's corporate headquarters; treasury functions; investor relations; UK legal and accounting functions; the Group's Board of Directors and Board Committees;
- **Moscow** - federal regulatory and licensing and Government liaison; Russian treasury, legal and accounting functions; operational headquarters; the Group's environmental, construction, exploration and design engineering consultancy;
- **Blagoveschensk** - Amur Regional headquarters; operational headquarters; regional regulatory and licensing and local Government liaison; regional laboratory services and environmental, construction and exploration consultancy for the Amur Region. The Group's operations in the Amur and EAO regions are run from Blagoveschensk.
- **China** - the Group has a local management team based in China.

MC Petropavlovsk (operating from both Moscow and Blagoveschensk) co-ordinates the provision of services to entities in the Group by various in-house service companies namely OOO Regis Exploration Company (**Regis**) (a specialist geological exploration company), ZAO PHM Engineering (**PHM Engineering**) (a specialist engineering company), OAO Irgiredmet (**Irgiredmet**) (a research institute), OOO Kapstroj (**Kapstroj**) (a specialist construction company) and OAO Giproruda (a mining design institute) (**Giproruda**). These specialist companies are deployed in each of the regions in which the Group operates, namely Amur, Yamal, Buryatia and the EAO, save for Kapstroj which, at present, only has operations in the Amur Region, and Giproruda.

In relation to the Omchak and Odolgo joint ventures, only certain engineering and research services are currently provided by the Group to each joint venture.

## 7 Principal Assets

### 7.1 Principal precious metal assets

The Group's principal precious metal-related mining, exploration and development assets, being Pokrovskiy, Pioneer, Malomir and Albyn, are located in the Amur Region. The Group's production

is derived mainly from the Pokrovskiy mine, the Pioneer mine and the operating assets of the Omchak joint venture. Further information on these assets and on the Group's reserves and resources were set out in the Prospectus. An independent mineral consultant, AuVerdi Capital, has been working with the Group to set up an internal JORC reporting system to report fully JORC compliant reserves and resources. It is expected that the first results of this process will be included in the Group's Annual Results which are due to be published on 25 March 2010.

In addition, the Group holds a number of other gold mining and exploration licences in the Amur Region and Yamal, and is active, either as principal or through its joint ventures, in such regions of Russia as Buryatia, Magadan, Sakha, Chita, Irkutsk and Altay.

The following is a summary of the status, ownership and deposits of the Group's principal current and proposed precious metal mining operations and assets and its gold-related joint ventures:

### Group gold operations

<i>Project</i>	<i>Status</i>	<i>Interest %</i>	<i>Control</i>	<i>Description</i>
<i>Amur - Pokrovskiy and Pioneer Division</i>				
<b>Pokrovskiy</b>	In production	98.6 <sup>1</sup>	Yes	Gold deposit, silver bi-product
<b>Pokrovskiy satellite deposits</b>	Expected to be in production in 2012	98.6 <sup>1</sup>	Yes	Gold deposit, silver bi-product
<b>Pioneer</b>	In production	98.6 <sup>1</sup>	Yes	Gold deposit, silver bi-product
<i>Amur-North East Amur Division</i>				
<b>Malomir</b>	Expected to be in production August 2010	98.6 <sup>1</sup>	Yes	Gold deposit
<b>Albyn</b>	Expected to be in production in 2011/2012	100	Yes	Gold deposit
<i>Joint Venture Operations</i>				
<b>Omchak</b>	In production	50	No	Alluvial and gold underground deposit
<b>Odolgo</b>	In production	50	No	Gold deposit
<i>Other divisions</i>				
<b>Alluvials (Amur Doré, Elga and Koboldo)</b>	In production	100 <sup>2</sup>	Yes	Alluvial gold deposits

#### Notes:

1 The remaining interest is held by or is attributable to the Amur Region Property Fund, a Russian state entity, through its holding in Pokrovskiy Rudnik.

2 Except for Koboldo in which the Group has a 95.7 per cent. interest.

### 7.1.1 Amur Region

#### Pokrovskiy and Pioneer Division

Pokrovskiy Rudnik was formed in 1994 and is held as to 98.6 per cent. by the Group and 1.4 per cent. by the Amur Region Property Fund, a Russian state entity. Pokrovskiy Rudnik holds a number of licences including the licences for the Pokrovskiy and Pioneer deposits.

The combined licence for the extraction of the Pokrovskiy deposit was originally issued on 16 May 1994 to Pokrovskiy Rudnik by the State Geology Committee of Russia. The extraction licence was re-issued to Pokrovskiy Rudnik in 1997 and 1998. The licence is due to expire on 1 June 2014 and may thereafter be extended with the consent of the licensing authority.

Pokrovskiy Rudnik also holds a combined licence for the survey, exploration and extraction of the Pioneer deposit. The licence was issued on 15 January 2001 by the Natural Resources Committee of the Amur Region to Pokrovskiy Rudnik and is due to expire on 31 December 2013 and may thereafter be extended with the consent of the licensing authority.

### **Pokrovskiy**

The Pokrovskiy mine is one of the largest producing gold mines (by annual production value) in the Amur Region and has been in operation for over ten years, with the first gold having been recovered from the mine in 1999. The Pokrovskiy mine is currently one of the key producing assets of the Group.

The Pokrovskiy mine exceeded its 2009 production target by 13 per cent. (199,600oz versus the Group's forecast of 177,000oz), and operated successfully throughout 2009 with the plant processing 1,782,000 tonnes of ore (an increase of 5 per cent. versus 2008) and heap leach operations yielding 67 per cent. recovery rates.

The increase in production compared to the original plan was achieved despite the mining plan being rescheduled in the fourth quarter of 2009 to accommodate significant remedial work necessary to manage a potential sidewall failure in the main pit.

The mine's management continually monitors the ground conditions around the pit to provide early warning of any geotechnical problems as well as monitoring ground water conditions. This system indicated potential sidewall stability issues at the main Pokrovskiy pit and allowed the management to address the situation before it became a major concern. To that end, around 600,000 cubic metres of stripping at Pokrovskiy was undertaken in a short period of time with the help of the Pioneer mining fleet. A large portion of scheduled stripping at Pokrovskiy was thus delayed and resulted in a shortfall of about 350,000 tonnes of planned ore production from the main pit. However, the resulting mine plan rescheduling saw some mining being diverted to the flanks of the main deposit with the result that the shortfall of ore produced by the main pit was compensated by the ore from the Pokrovka-2 pit - the nearest flank to the main deposit. In the second half of 2009, 232,000 tonnes of ore from this source at an average grade of 3 g/t (22,000oz) were processed through the Pokrovskiy plant.

The advanced stripping mentioned above was part of the 2010 and 2011 mining schedule and therefore the associated cost will still be a constituent of the overall costs of production for the Pokrovskiy deposit when the ore from these areas will be processed.

Pokrovskiy mining and processing operations:

#### *Pokrovskiy mining operations*

	Units	Year ended 31 Dec 2009	Year ended 31 Dec 2008
Total material moved	m <sup>3</sup> '000	5,445	5,594
Ore mined	t '000	1,879	2,105
Average grade	g/t	2.7	3.0
Gold content	oz '000	161	203

#### *Pokrovskiy processing operations*

Units	Year ended 31 Dec 2009	Year ended 31 Dec 2008
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Resin in Pulp Plant			
Ore from pit	t '000	1,295	1,293
Average grade	g/t	3.7	4.2
Ore from stockpile	t '000	452	223
Average grade	g/t	3.4	3.8
Pioneer ore	t '000	35	180
Average grade	g/t	10.0	15.4
Total milled	t '000	1,782	1,696
Average grade	g/t	3.8	5.3
Gold content	oz '000	218	291
Recovery rate	%	84.6	87.0
Gold recovered	oz '000	184.6	253.4
Heap Leach			
Ore stacked	t '000	770	785
Average grade	g/t	0.9	0.8
Gold content	oz '000	22	21
Recovery rate	%	67.3	65.0
Gold recovered	oz '000	15.0	13.7
Total			
Gold recovered	oz '000	199.6	267.1
Including			
Pokrovskiy	oz '000	190.1	189.5
Pioneer	oz '000	9.5	77.6

The Pokrovskiy deposit is located on the south side of the Mongolo-Okhotsk fold/thrust line but well within the broad zone of mineralisation associated with this plate junction. The Pokrovskiy deposit consists of a set of five large, irregular, but mostly flat-lying ore bodies within a sequence of volcanic and sedimentary rocks of Mesozoic age, lying above a thick dacite sill, and results from hydrothermal activity associated with the Mesozoic volcanism.

Mineralisation extends to at least 240 metres in depth and two distinct deposits are recognised: Pokrovka 1 (the main area of current production) and Pokrovka 3, which is located 400 metres to the northeast of Pokrovka 1. The Pokrovka 1 deposit comprises four separate mineralised zones, namely Glavnoye, Zeyskoye, Novoye and Ozeroye.

Exploration in 2009 continued within the operating pit boundaries and has identified extensions to the ore bodies on the north and south sides. In the north, economic ore of 9,099 oz at 2.6g/t of oxide ore has been identified and is as yet unbounded. On the south side of the pit, ore has also been followed at depth identifying material at 8g/t, which is also expected to increase reserves of the deposit.

The mine is open pit and gold is currently produced at the mine using two main routes: the RIP plant and the heap-leach operations, with the latter contributing approximately 5 per cent. of the Pokrovskiy mine's production. The RIP plant works all year round and the heap-leach process operates during eight months of the year and is used to treat low-grade material (less than 0.8g/t).

It is planned that the 2010 rate of production within the Pokrovskiy mine as a whole will continue until 2011 and then drop further in 2012 when the main Pokrovskiy pit is expected to be exhausted. The Company is carrying on exploration works at the edges of the main pit to add further reserves and resources, which may allow for production from the main pit beyond 2012. In 2008, exploration works both on the northern and southern edges of the pit indicated additional high-grade oxidized reserves for Pokrovskiy. It is currently planned that after 2012, production will move to a series of smaller open pits termed the "Pokrovskiy Satellite Deposits". The average grade of the Pokrovskiy Satellite Deposits is lower than the current Pokrovskiy mine. Further exploration works are being carried out at a number of prospective areas within the Pokrovskiy

Satellite Deposits with a view to increasing the reserves and resources base to replenish the Pokrovskiy mine main pit reserves.

A summary of Pokrovskiy's mineral resources<sup>1</sup> evaluated in accordance with the guidelines of the JORC Code (2004) as at July 2008, is set out below:

*Pokrovka 1<sup>1</sup>*

<i>Resource category</i>	<i>Tonnage (kt)</i>	<i>Grade (g/t of gold)</i>	<i>Gold kg</i>	<i>koz</i>
Measured	1,956	2.13	4,185	134
Indicated	3,947	1.98	7,801	251
<b>Measured + indicated</b>	<b>5,903</b>	<b>2.03</b>	<b>11,986</b>	<b>385</b>
Inferred	12,974	1.26	16,385	527

*Pokrovka 3<sup>1</sup>*

<i>Resource category</i>	<i>Tonnage (kt)</i>	<i>Grade (g/t of gold)</i>	<i>Gold kg</i>	<i>koz</i>
Measured	1,463	1.36	1,987	64
Indicated	1,012	0.73	738	23
<b>Measured + indicated</b>	<b>2,474</b>	<b>1.10</b>	<b>2,725</b>	<b>87</b>
Inferred	991	0.58	570	18

*Source:* WAI report, July 2008

**Note:**

- 1 The figures have been based on 100 per cent. ownership, however the Group's interest in these deposits is only 98.6 per cent.

*The JORC Code (2004) reserve estimation*

As at 5 November 2008, the proven and probable reserves at Pokrovskiy based on the US\$650/oz gold price were 5.6 million tonnes of ore at an average grade of 2.05g/t of gold requiring 23.4 million tonnes of waste to be removed to access the ore body at a stripping ratio of 4.17:1. WAI is of the opinion that significant further inferred resource exists within the deposit.

*Russian Standard Classification System reserves and resources estimates*

Total Category A, B, C<sub>1</sub>, C<sub>2</sub> and P<sub>1</sub> reserves and resources for the Pokrovskiy deposit and the Pokrovskiy Satellite Deposits were calculated as being 2,403,525 oz as at 1 January 2009.

***Pokrovskiy Satellite Deposits***

The occurrences of gold mineralisation around the Pokrovskiy mine have been termed the Pokrovskiy Satellite Deposits. The Pokrovskiy Satellite Deposits are located at distances ranging from several hundred metres to up to 15km from the main site and are at different stages of exploration. These areas have been termed the 'inner' and 'outer' satellite deposits. The inner satellite deposits are covered by the licence for the main Pokrovskiy deposit.

Exploration on the inner flanks of Pokrovskiy has been completed at the Pokrovka 2 and Bazoviy sites. It is planned that after depletion of gold bearing ore from the main Pokrovskiy pit at the end of 2012, the Pokrovskiy RIP plant will treat material from Pokrovka 2 and Bazoviy.

It is the Group's intention to explore the Pokrovskiy Satellite Deposits in greater detail in the coming years and gradually bring them into production as the main Pokrovskiy deposit becomes exhausted. Operations at the Pokrovskiy Satellite Deposits should benefit from the established infrastructure at the main Pokrovskiy deposit.

## Pioneer

### *Introduction*

The Pioneer mine is located in the Amur Region, approximately 35km from the Pokrovskiy mine. The Pioneer licence was acquired by Pokrovskiy Rudnik in 2001 and since then an extensive exploration programme has been carried out at this deposit. As a result of this, Pioneer's first stage production facility came into production in April 2008.

The Pioneer mine consists of four main open pits: Bakhmut, Yuzhnaya, Promezhutochnaya and Andreevskaya. The mine is planned to be developed gradually through four main stages with a target peak production of 337,000 oz per year of gold production and with a mine life expected to last until 2018.

The Pioneer mine produced 224,600oz of gold in 2009, an increase of 208 per cent. versus 2008 mainly due to the successful commissioning and ramp-up of the second milling processing line in September 2009. This extra production facility, with a design capacity of 125,000 tonnes of ore per month (without heap leach operations), was constructed on schedule and on budget. The actual capacity of the new line achieved after the ramp-up period has exceeded the design capacity by approximately 8 per cent. (to 135,000 tonnes of ore a month) offsetting initial start-up problems (such as the replacement of the SAG mill lining after around 40 days of commissioning).

As stated above, normal mining operations at Pioneer in the fourth quarter of 2009 were affected by the diversion of part of the mining fleet to the Pokrovskiy deposit. The result of this exercise was a reduction of overburden moved, resulting in a shortfall of 100,000 tonnes of rich ore mined at an average grade of 10g/t. This resulted in a shortfall of 25,000oz in Pioneer's overall production compared to the Company's previous forecast.

Overall the plant operated efficiently during 2009, achieving the designed annual recovery rates of 90 per cent.

### Pioneer mining and processing operations

#### *Pioneer mining operations*

	Units	Year ended 31 Dec 2009	Year ended 31 Dec 2008
Total material moved	M3 '000	9,056	2,973
Ore mined	T '000	1,286	399
Grade	g/t	6.2	12.5
Gold	oz '000	255	160

#### *Pioneer mining operations*

	Units	Year ended 31 Dec 2009	Year ended 31 Dec 2008
Resin in Pulp Plant			
Ore from pit****	t '000	951	434
Average grade	g/t	7.8	6.1
Ore from stockpile****	t '000	134	94
Average grade	g/t	2.4	4.3
Total milled	t '000	1,085	528

Average grade	g/t	7.2	5.8
Gold content	oz '000	250	99
Recovery rate	%	90.0	74.1
Gold recovered	oz '000	224.6	72.9

\*\*\*\*In the H1 2009 Trading Update, ore from pit should be read as ore from stockpile and ore from stockpile should be read as ore from pit.

Extensive exploration work was undertaken on the Pioneer licence area in 2009 and is continuing. A number of prospective resources which are likely to extend the operational life of the Pioneer mine have been identified.

A summary of the Pioneer mine's mineral resources<sup>1</sup>, evaluated in accordance with the guidelines of the JORC Code (2004), as at July 2008, is set out below:

<b>Pioneer</b>	<i>Tonnage</i>	<i>Grade (g/t of</i>		<i>Gold</i>
<i>Resource category</i>	<i>(kt)</i>	<i>gold)</i>	<i>kg</i>	<i>koz</i>
Measured	14,960	1.11	16,559	532
Indicated	14,854	1.07	15,862	510
<b>Measured + indicated</b>	29,814	1.09	32,421	1,042
Inferred	38,364	0.92	35,355	1,137

Source: WAI report, July 2008

<b>Andreevskaya</b>	<i>Tonnage</i>	<i>Grade (g/t of</i>		<i>Gold</i>
<i>Resource category</i>	<i>(kt)</i>	<i>gold)</i>	<i>kg</i>	<i>koz</i>
Measured	2,621	2.97	7,773	250
Indicated	1,649	2.11	3,483	112
<b>Measured + indicated</b>	4,270	2.64	11,256	362
Inferred	3,292	1.73	5,684	183

Source: WAI report, July 2008

**Note:**

- 1 The figures have been based on 100 per cent. ownership, however the Group's interest in these deposits is only 98.6 per cent.

As noted above, a new Micromine model for the Andreevskaya zone was prepared by WAI in January 2009 incorporating the original exploration data as well as the results from the new drilling and depletion from the deposit. The January 2009 resource estimate for the Andreevskaya area is provided in the table below:

*Andreevskaya Mineral Resource classified in accordance with the guidelines of the JORC Code (2004) at 0.4g Au COG'*

*Gold Resource*

*Silver Resource*



<i>Resource Category</i>	<i>Tonnage</i>	<i>Grade</i>	<i>Contained Metal</i>		<i>Grade</i>	<i>Contained Metal</i>	
	<i>(kt)</i>	<i>(g/t Au)</i>	<i>(kg Au)</i>	<i>(oz Au)</i>	<i>(g/t Ag)</i>	<i>(kg Ag)</i>	<i>(oz Ag)</i>
Measured	223.7	11.99	2,681.4	86,211	32.0	7,155.7	230,062
Indicated	2,340.1	4.34	10,145.4	326,183	11.8	27,689.8	890,247
Measured+ Indicated	2,563.8	5.00	12,826.9	412,393	13.6	34,845.5	1,120,309
Inferred	3,866.9	1.15	4,439.5	142,412	4.2	16,403.3	527,377

Source: WAI report, January 2009

**Note:**

- 1 The figures have been based on 100 per cent. ownership, however the Group's interest in this deposit is only 98.6 per cent.

*JORC Code (2004) reserve estimation*

The Pioneer reserves, as estimated by WAI are based on a US\$650/oz gold price, which gives combined proven and probable reserves, as at July 2008, of 27.5 million tonnes of ore at an average grade of 1.30g/t of gold and requiring 151.2 million tonnes of waste to be removed to access the ore bodies.

*Russian system reserves and resource estimates*

Total Category C<sub>2</sub> and P<sub>1</sub> reserves and resources for Pioneer were calculated as being 4,910,000 oz as at 1 January 2009. There has been a 300 per cent. increase in the overall evaluated reserves and resources at Pioneer since its acquisition by the Group.

**7.1.2 North-East Amur Division**

Along the major thrust zone close to the Mongolo-Okhotsk fault/thrust line, a north-eastern group of assets are located comprising Malomir, Tokur, Albyn and Sagur located between 60km to 80km away from each other. All are at different stages of exploration or development, with Malomir being in an advanced development stage (with construction of the main infrastructure now complete and construction of the plant having commenced).

This division is served by the Group's local assay laboratory located at Tokur and is operated by a local team and a management team from MC Petropavlovsk. In addition to the technological synergies which can be achieved from being located in the same geological zone, it is the Group's intention that the North-East Amur Division assets will benefit from shared infrastructure, management and other synergies.

Exploration work was concentrated in 2009, and is continuing, mainly on new deposits of non refractory ore at Malomir and the central part of the Albyn deposit. Exploration at Malomir indicated certain structures parallel to the previously identified Quartzitovoye zone allowing for a larger resources of non refractory ore at this deposit.

## Malomir

Malomirskiy Rudnik holds a combined licence for the exploration and extraction of the Malomir deposit, which is located in the Selemdja area of the Amur Region, approximately 80km to the west of the area's capital, Ekimchan, approximately 35km to the north of Stoyba, the closest settlement, and approximately 360km east of Pokrovskiy. The acquisition of the licence for the Malomir deposit was part of a long-term development strategy of the Group.

The Malomir deposit design provides for three open pits, Malomir, Ozhidayemoye and Quartzitivoye. It is planned that Malomir will be mined using conventional open-pit mining techniques and will employ a mixture of Russian and western built mining equipment. The principal mining equipment will consist of electric powered rotary drills for drilling in blast-holes; electric powered rope shovels for ore and waste excavation; and diesel dump trucks for hauling ore to the crushing plant and taking waste to surface stockpiles.

Malomir is at an advanced stage of development. The geological exploration work carried out at the Malomir licence area indicated that it consists of three separate deposits: the Malomir deposit, the Ozhidaemoye deposit and the Quartzitivoye deposit.

The Group made excellent construction and development progress at Malomir in 2009. The construction of the main infrastructure including roads, power lines, substations, warehouses, workshops, accommodation and storage facilities is now complete and all machinery (cranes, bulldozers, excavators etc) for construction and for the first stage of the mining operation has now been delivered to the site. Site preparation for the plant and tailings dam has been completed and construction of the plant's crushing and grinding blocks has commenced.

During December 2009, the first mining works (stripping) commenced at Malomir's Quartzitivoye deposit which is scheduled for first production in August 2010. All remaining equipment has been ordered and should be delivered by March 2010. The metallurgical testing of Malomir's refractory ore has been completed with the results confirming the technical feasibility of treating the ore.

A summary of Malomir's mineral resources<sup>1</sup>, evaluated in accordance with the guidelines of the JORC Code (2004) as at July 2008, is set out below:

<i>Resource category</i>	<i>Tonnage (kt)</i>	<i>Grade (g/t of gold)</i>	<i>Gold</i>	
			<i>kg</i>	<i>koz</i>
Measured	7,239	1.31	9,501	305
Indicated	57,156	1.19	68,115	2,190
<b>Measured + indicated</b>	<b>64,395</b>	<b>1.21</b>	<b>77,616</b>	<b>2,495</b>
Inferred	87,549	0.94	82,262	2,645

Source: WAI report, July 2008

**Note:**

- 1 The figures have been based on 100 per cent. ownership, however the Group's interest in this deposit is only 98.6 per cent.

In February 2009, WAI assessed the Quartzitivoye area using the JORC Code (2004) model. The January 2009 resource estimate for the Quartzitivoye zone of the Malomir deposit is provided in the table below:

*Quartzitivoye (Zone 1-3) Mineral Resource classified in accordance with the guidelines of the JORC Code (2004) at COG of 1.10g/t Au1*

<b>JORC Classification</b>	<b>Volume (m<sup>3</sup>)</b>	<b>Density (t/m<sup>3</sup>)</b>	<b>Tonnage (t)</b>	<b>Grade (g/t Au)</b>	<b>Contained Metal (kg) (oz)</b>	
<b>ZONE 1</b>						
<b>Inferred</b>	349,171	2.60	907,845	1.82	1,649.5	53,033
<b>ZONE 2</b>						
<b>Measured</b>	8,188	2.60	21,289	3.07	65.3	2,099
<b>Indicated</b>	34,611	2.60	89,988	2.72	245.2	7,883
<b>Inferred</b>	195,285	2.60	507,742	10.65	5,408.6	173,890
<b>ZONE 3</b>						
<b>Inferred</b>	32,283	2.60	83,935	2.12	178.2	5,729

Source: WAI report, January 2009

**Note:**

- 1 The figures have been based on 100 per cent. ownership, however the Group's interest in this deposit is only 98.6 per cent.

*JORC Code (2004) reserve estimation*

The proposed mining schedule for Malomir based on measured and indicated resources uses a US\$650/oz gold price. This gives proven and probable ore reserves at Malomir of 50.7 million tonnes of ore at an average grade of 1.26g/t of gold and requiring 181 million tonnes of waste to be removed to access the ore body at a stripping ratio of 3.57:1.

Optimisation of the Malomir deposit including inferred resources yields proven and probable reserves of 60 million tonnes at an average grade of 1.24g/t of gold. An increase in the gold price and hence in economic cut-off grade has a large impact on the preliminary reserves.

*Russian system reserves and resources estimates*

Total Category C<sub>2</sub> and P<sub>1</sub> reserves and resources for Malomir were calculated as being 5,013,266 oz as at 1 January 2009 of which 800,535 oz of C<sub>2</sub> resources with an average grade of 4.6g/t and 115,740 oz of P<sub>1</sub> resources with an average grade of 2.0g/t are located at the Quartzitivoye deposit.

**Albyn**

In 2005, the Group acquired 100 per cent. of ZAO Spanch, which holds a combined licence for the survey, exploration and extraction of the Albyn licence area, covering an area of 40km<sup>2</sup>. The licence was renewed in February 2006 and is due to expire in December 2030, when it may be extended with the consent of the licensing authority.

The Albyn deposit is located approximately 45km south east of Tokur and approximately 485km from Pokrovskiy, in the Selemdzhinskiy area of the Amur Region along the bank of the river Kharga. Since 1901, gold mineralisation has been known to exist in this area and it was worked until 1955 for gold and scheelite (tungsten). Mineralisation is in quartz veins similar to those at Tokur, which is described below.

During 2009, exploration continued and a technological study was completed. Design work commenced in the second half of the year and construction of the main infrastructure including power lines, the substation, accommodation camp and the main deposit roads is planned for 2010. It is also intended to sign contracts for the supply of all the main mining machinery and equipment for the plant and to acquire the main construction materials for the mine in 2010.

As a result of exploration works and metallurgical tests by the Group a pre-feasibility study has been completed for the deposit. It is planned as an open pit operation with an average stripping ratio for the life of the mine of 11.7:1 t/t (within a framework of the optimal pit). The commissioning of the plant is planned for July 2011 ramping to full capacity in 2012 producing c.200,000 oz of gold. Throughput of the plant is designed at 2.8 million tonnes per annum and envisages using three stage crushing and grinding in ball mills to produce a concentrate. Gold is recovered via a gravity circuit followed by cyanidation of the concentrate. It is planned to build two parallel processing lines simultaneously.

### **Tokur**

The Tokur deposit is located in the Amur Region, approximately 70km from Malomir and approximately 450km east of Pokrovskiy. The extraction licence for the Tokur deposit is 100 per cent. indirectly owned by the Company, following the acquisition by the Group of Tokurskiy Rudnik in June 2003. The Tokur licence, which covers an area of 4.8km<sup>2</sup>, was issued on 22 November 2002 by the Amur Region Department of Natural Resources of Russia and is due to expire on 31 December 2013 and may be extended with the consent of the licensing authority.

Tokur, which has been mined previously, is well served by local infrastructure and is located in an area of intensive historic alluvial mining. The exploration and mining licence covers the area surrounding the old Tokur mine and the Innokentevskiy and Taranakh deposits, which are associated with the Glavniy fault that appears to control the gold mineralisation in the vicinity. Tokur has been mined extensively underground to a depth of around 400 metres and to date has produced approximately 35 tonnes of gold.

### *Joint Ventures*

The Company's strategy of organic growth has been pursued not only through exploration of new areas, but also through collaboration with other recognised players in the Russian gold mining industry. This has enabled the Group to enter prospective regions where it otherwise would have had no presence and which are logistically challenging. Collaboration with appropriate local companies has been very important when the Group has undertaken projects where it does not have the appropriate engineering or technological expertise.

### **Omchak**

As part of this strategy, Omchak was formed in 2003 with Susumanzoloto and Shkolnoye, which contributed two principal assets to the joint venture, namely Berelekh (an operator of a number of alluvial deposits in the Magadan Region) and Nelkobazoloto (an underground Shkolnoye mine), respectively. The formation of Omchak allowed the Group to operate in the Magadan Region, one of the oldest and largest Russian gold provinces. The primary objective of the joint venture is to identify, acquire and develop promising gold deposits in regions of Russia which are new territories for the Group.

The production attributable to the Group from Omchak was 26,800 oz in 2009 compared to 28,100 oz of gold in 2008.

The Group has entered into a conditional contract for the disposal of the majority of its interest in Omchak. At this stage there is no certainty that this disposal will take place and the numbers and forecasts in this document do not reflect any reduction in this interest.

### **Odolgo**

Odolgo was established in 2003 as a 50/50 joint venture company with OAO Priisk Solovyevskiy in order to develop hard rock gold assets belonging to OAO Priisk Solovyevskiy using the Group's expertise. Concentrate from the Odolgo plant is currently being processed at the Pokrovskiy RIP plant.

In 2009 attributable gold production from the Odolgo joint venture was 2,070 oz, compared to 2,660 oz in 2008.

#### *Other Amur Region production - Alluvials*

The Group's alluvial production in the Amur Region comes from licences held by Amur Dore and Koboldo and three joint venture projects. Amur Dore is 100 per cent. owned by the Group and Koboldo is 95.7 per cent. owned by the Group. Total attributed gold production from alluvial projects (including Tokur) was approximately 24,400 oz in 2009, compared to 22,700 oz in 2007. These operations are seasonal and production typically increases in the summer months.

The Group's joint ventures and alluvial operations contributed 62,600oz in 2009 (compared to 61,600oz in 2008) in line with the Group's forecast. The Group intends to continue to expand these operations through acquisition and exploration expansion opportunities.

#### *Other mining divisions - Exploration*

The Group's strategy of development through organic growth in a short period of time has brought it from a single greenfield deposit holder to a producer operating several mines. This was possible due to the Group's advantageous position in very prospective, but still little-explored, gold provinces of Russia which benefit from long traditions of gold mining and a highly qualified work force.

In 2009, the Group carried out exploration and development works on a significant number of licences and projects. The Group intends to continue to explore and develop new opportunities within Russia with a view to monitoring its balance of producing, development and exploration assets over the mid to long-term.

### **Principal Iron Ore Assets**

The Group's principal iron ore assets are Kuranakh, Garinskoye, the Garinskoye Flanks and its interest in Bolshoi Seym which are located in the Amur Region, K&S and Kostenginskoye which are located in the EAO and the titanium sponge joint venture which is located in Jianlong in China.

#### *Iron ore operations*

##### *Iron ore operations*

<i>Project</i>	<i>Status</i>	<i>Interest %</i>	<i>Control</i>	<i>Description</i>
<b>Kuranakh</b>	Advanced development	100	Yes	Titanomagnetite and ilmenite deposits
<b>Garinskoye</b>	In development	99.58	Yes	Iron ore

<b>K&amp;S</b>	In development	100	Yes	Iron ore; direct reduced iron
<b>Bolshoi Seym</b>	In exploration	49	No	Titanomagnetite deposit
<b>Garinskoye Flanks</b>	Pre-drilling stage	100	Yes	Iron ore
<b>Kostenginskoye</b>	Pre-drilling stage	100	Yes	Iron ore
<b>Titanium Sponge JV</b>	In development	65	Yes	Titanium sponge

## **Kuranakh**

### *Description*

Kuranakh is located in the north-west Amur Region. The Company's interest in this project is 100 per cent. via its indirect subsidiary, OOO Olekminsky Rudnik, which holds the licence for the exploration and development of the Kuranakh ilmenite and titanomagnetite deposit. The Kuranakh licence area is 85km<sup>2</sup> and contains two ore zones, with six more suggesting exploration potential.

### *Project status*

Construction at the Group's Kuranakh project has continued to progress and at the end of December c.90 per cent. of the iron concentrate circuit and c.65 per cent. of the ilmenite circuit were complete. The new plant is expected to be producing concentrate in the first quarter of 2010 and to reach full capacity in the second half of 2010.

## **K&S**

The K&S deposits are located in the Obluchensky district of the EAO. The Company's interest in this project is 100 per cent., via its indirect subsidiary, KS GOK, which holds the licences for the exploration and development of the K&S deposits. The licence area for Kimkanskoye is 22.4km<sup>2</sup> and for Sutarskoye, is 27km<sup>2</sup>; there are seven ore zones at Kimkanskoye and three at Sutarskoye.

In October 2008 the Group presented the results of the K&S and Garinskoye Combined Feasibility Study that detailed the construction of a combined iron ore and metal processing plant at K&S, capable of producing 17 million tpa of iron ore from both deposits. Since then the following milestones have been achieved for the K&S project:

- Water reserves have been confirmed and usage permissions have been obtained;
- Environment and Social Public consultations and hearings on the project have been carried out;
- Receipt of technical specifications for connecting electric lines and rail connections;
- The design of the process plant and accommodation camp has been completed;
- Clearing and preparation of area for construction of the process plant, accommodation camp, temporary base and roads for the process plant is in progress;
- A new office has been constructed at Birobidjan.

Receipt of all permits and approvals for construction are required to begin construction.

Further information on the Garinskoye project is set out below.

As the Group has previously stated, the development of the K&S and Garinskoye projects is dependent on obtaining appropriate funding. Discussions continued throughout 2009 with a number of potential Chinese project partners and lenders. A number of relationships have

progressed significantly such that the Group has agreed an indicative loan term sheet and signed a key Cooperation Agreement. Management continues to develop these relationships and to consider available funding proposals. The Group continues to advance the preliminary works on the planning and development of these assets with good progress on initial infrastructure.

As part of the iron ore development plan, in 2009 the Group acquired the Ushumun coal deposit, situated in the EAO approximately 40km to the south of Birobidjan, for this reason. This would be a source of coal for the Group's heating plant requirements and for the metallisation plant to be built at K&S.

#### *Reserves and Resources*

In September 2008, Aricom completed the conversion of K&S reserve and resource calculations from the Russian Standard Classification System to the internationally accepted JORC Code (2004) classification, as shown below.

<i>Deposit</i>	<i>Indicated Grade</i>			<i>Inferred Grade</i>		
	<i>Tonnage (kt)</i>	<i>(% Fe Total)</i>	<i>Metal (kt)</i>	<i>Tonnage (kt)</i>	<i>(% Fe Total)</i>	<i>Metal (kt)</i>
Kimkanskoye <sup>1</sup>	165,820	33.85	56,127	83,120	32.94	27,378
Sutaraskoye <sup>2</sup>	248,010	30.90	76,635	58,200	30.92	17,995
K&S Total	413,830	32.08	132,762	141,320	32.11	45,373

Source: RJC Consulting and WAI

**Note:**

1 Independently verified by RJC Consulting, St. Petersburg.

2 Independently verified by WAI.

#### **Garinskoye**

The Garinskoye deposit is located in the Mazanovsky District in Central Amur. The Company's interest in this project is 99.58 per cent., via its indirect subsidiary, Lapwing, which holds the licences for the exploration and development of the K&S deposits. The licence area is 12 km<sup>2</sup> and there is one ore zone present.

Confirmation and geotechnical drilling is in progress at Garinskoye.

The Group used a Russian contractor, RJC Consulting, St. Petersburg, to independently verify the mineable reserve for both the K&S and Garinskoye projects using both historical geological data as used in the Russian Standard Classification System reserve and resource data and the more recent confirmation drilling that the Group has undertaken. The following table sets out this information and highlights the good correlation between the historical mineable reserves and the results of redrilling which have been independently audited by WAI in November 2008:

	<i>GKZ Resource Estimate</i>	<i>GKZ Mineable Reserve Estimate<sup>4</sup></i>	<i>Mineable Reserve Estimate<sup>5</sup></i>	<i>Estimated Mine Life<sup>6</sup></i>
Garinskoye <sup>1</sup>	388.8 mt at 41.3% <sup>3</sup>	223 mt at 38.5% <sup>3</sup>	220.2 mt at 37.9% <sup>2</sup>	25 years
K&S	564.5 mt at 33.7% <sup>2</sup>	539.6 mt at 33.7% <sup>2</sup>	377.5 mt at 31.8% <sup>2</sup>	40 years

TOTAL	953.3 mt at 36.7%	762.6 mt at 35.1%	597.7 mt at 34.0%	40 years
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Source: K&S and Garinskoye Feasibility Study, November 2008.

**Note:**

- 1 The figures have been based on 100 per cent. ownership, however the Group's interest in Garinskoye is only 99.6 per cent.
- 2 Confirmed by GKZ in 1956 for Kimkanskoye and calculated, but not confirmed, for Sutarskoye.
- 3 Confirmed by GKZ in 1956.
- 4 Mineable reserve estimated as GKZ A + B + C1 categories.
- 5 Mineable reserve estimate as independently reviewed by WAI.
- 6 Mine life as estimated by the Group's studies at forecast annual mining capacity and based on reserves before the addition of resources and halo areas.

**Bolshoi Seym**

The Bolshoi Seym deposit is located in the Tyndinski district, 40km to the south of Kuranakh. The Company has an indirect 49 per cent. interest in this project via its holding in OOO Uralmining, the company that owns the licence to develop the Bolshoi Seym deposit. The remaining 51 per cent. of OOO Uralmining is held by a company belonging to the Onexim Group, a Russian private investment group.

**Kostenginskoye and Garinskoye Flanks Projects**

In March 2008, the Aricom acquired options to purchase the licences for Kostenginskoye and Garinskoye Flanks, which are located close to the existing K&S and Garinskoye projects and in September 2008 the options were exercised. The Kostenginskoye licence covers an area of 24km<sup>2</sup> located approximately 25km to the south of K&S. The Garinskoye Flanks licence covers an area of 3,530km<sup>2</sup> immediately surrounding Garinskoye.

Preliminary site surveying and aerial magnetometer surveys have taken place at Kostenginskoye. An exploration programme at Garinskoye Flanks is being prepared and reviewed.

**Other Activities**

**In-house specialist services**

The Group has a number of in-house service teams that offer support for the exploration, development and mining needs of the Group.

*Laboratories*

The Group's first chemical laboratory was constructed at Pokrovskiy in 1999 and has since expanded into a complex comprising five local laboratories and one central laboratory, with additional laboratories near the Tokur deposit and in the Yamal Region. The Group's laboratories carry out a wide range of analysis of samples taken from the Group's own deposits to support exploration and plant construction needs and environmental monitoring. It is planned to expand the Group's laboratory network in the future.

*Design work*



Petropavlovsk Engineering comprises a team of highly qualified specialists undertaking scientific studies that has supported the Group in the development of its projects.

#### *Exploration*

Regis, which is wholly owned by the Group, uses computer modelling (Micromine) to develop a clear understanding of the Group's exploration areas. Almost all the exploration areas of the Group are equipped with modern computers and satellite communications, making it possible to receive assay data quickly and to input this directly into Micromine software on-site, allowing for greater efficiency.

#### *Irgiredmet*

Based in Irkutsk, Irgiredmet, in which the Group has a 99.85 per cent. interest, is one of the best-known laboratory research and scientific consulting companies in Russia. Established in 1871, it became a leading centre for gold and diamond research during the Soviet period, playing a central role in the development of mining projects.

#### *Giproruda*

The Group has a 70.3 per cent. interest in Giproruda, which is one of Russia's most respected mining design institutes specialising in the analysis and design of both open pit and underground mining projects. Giproruda has considerable experience in extreme mining, geological and climatic conditions. Iron ore is a key area of the institute's expertise.

#### **Investment in Rusoro**

In June 2008, the Company created a syndicate which made a US\$80 million strategic investment in Rusoro, a gold production and exploration business based in Venezuela and listed on Canada's TSX Venture Exchange, by way of a secured convertible loan (**Loan**). Rusoro has 12.8 million oz of gold resources classified under the Canadian NI 43-101 mineral resource classification and has a property interest in the Bolivar State region of Venezuela.

On 6 March 2009, the Company subscribed for US\$3.0 million for 6,166,666 new shares in Rusoro as part of an equity placing by Rusoro. As a result, in addition to the Loan, the Company has an approximate 1.1 per cent. stake in the share capital of Rusoro as enlarged by that placing.

### **8 Competitive environment**

The Group is the third largest gold producer in Russia by production volume.

The Group's main competitors in Russia are ZAO Polyus Gold and Kinross Gold Corporation, currently the largest and second largest gold producers respectively in Russia. The Group's other main gold and silver producing/mining competitors in Russia include Highland Gold Mining Ltd, whose shares are traded on AIM, and OAO Polymetal, whose GDRs are listed on the Main Market of the London Stock Exchange.

The Group's iron ore assets are not yet in production. The Directors believe there are only a few iron ore producing companies in the Russian Far East. Therefore, when in production in 2010, the Directors anticipate only limited competition for exploration and development opportunities from local players. More broadly, the Group considers BHP Billiton and Rio Tinto as key international competitors supplying the Chinese iron ore market. However the Group's iron ore assets are considerably closer to the key Chinese markets than those of its international competitors.

The Group, as a regional mining company focused on the mineral resources sector of the Russian Far East, faces competition for capital, experienced workforce and, particularly in respect of gold assets, exploration and development opportunities, from other regional mining companies as well as international competitors.

## **9 Financing**

During 2009 the Group acquired Aricom and acquired the full US\$180 million nominal of the gold exchangeable bonds previously issued by the Group. In November 2009 the Group also exercised a call in respect of the US\$139.8 million outstanding of its previous convertible bonds, leading to conversion of the bonds into the Company's shares. Given the above mentioned corporate activity, including the repayment of its prior debt sources, the Group went from a net debt position of US\$389 million at 31 December 2008 to a position of US\$19 million at 31 December 2009 (unaudited). Cash and cash equivalents at the end of 2009 were US\$76 million (unaudited).

In addition to its US\$60 million Sberbank facility, in December 2009, the Group entered into a US\$150 million facility, of which US\$60 million has currently been drawn down.

## **10 Dividend policy**

As the business of the Group develops, and subject to the availability of distributable reserves, the Directors intend to pursue a dividend policy which reflects the Group's cash flow and earnings, while maintaining an appropriate level of dividend cover and having regard to the need to further fund development of the Group's activities. On 1 August 2008, a final dividend of 7.5 pence per share was paid to Shareholders in respect of the financial year ended 31 December 2007. On 31 October 2008, an interim dividend of 7.5 pence per share was paid to Shareholders in respect of the financial year ended 31 December 2008. No further dividend in respect of the financial year ended 31 December 2008 was paid by the Company in 2009.

The Board has declared an interim dividend of £0.07 per share payable on 30 March 2010 to Shareholders on the register on 26 February 2010. No final dividend will be paid for 2009 but in future years the Board expects to pay both interim and final dividends.

## MANAGEMENT OF THE COMPANY

### Board of Directors

The Directors and their functions are as follows:

<i>Director</i>	<i>Position</i>	<i>Principal activities outside the Group</i>
Peter Hambro <sup>2</sup>	Chairman	Non-Executive Director of Russian Timber Group Limited and Non Executive Chairman of Sundeala Limited
Dr. Pavel Maslovskiy	Chief Executive	
Brian Egan	Chief Financial Officer	
Peter Hill-Wood <sup>1245</sup>	Senior Non-Executive Director	Chairman of Arsenal Football Club. On the board of advisors of the Russian Technology Fund
Sir Malcolm Field <sup>123</sup>	Non-Executive Director	Senior Independent Director of Hochschild Mining plc
Sir Roderic Lyne <sup>345</sup>	Non-Executive Director	Member of the Board of Governors of Kingston University and the Council of the Royal Institute of International Affairs. Senior advisor to J.P. Morgan. Member of the Iraq Committee of Inquiry.
Lord Guthrie <sup>345</sup>	Non-Executive Director	Director of NM Rothschild & Sons Limited, Colt Defense LLC and an independent member of the House of Lords. Visiting Professor and Honorary Fellow of King's College London University. Board member of the Moscow School of Policy Studies.
Charles McVeigh <sup>12</sup>	Non-Executive Director	Chairman of Citigroup's Corporate and Investment Banking Global Wealth Management Partnership. Director of EFG-Hermes and Savills PLC
Dr. Graham Birch <sup>124</sup>	Non-Executive Director	Director of Rothamsted Research Limited

Notes:

<sup>1</sup> Member of Audit Committee

<sup>2</sup> Member of Nomination Committee

<sup>3</sup> Member of Remuneration Committee

<sup>4</sup> Member of Risk Committee

<sup>5</sup> Member of Health, Safety and Environmental Committee

The senior management of the Group comprises Peter Hambro, Pavel Maslovskiy and Brian Egan.

The business address of each of the Directors is 11 Grosvenor Place, London SW1X 7HH.

In respect of the Company's Directors and the members of senior management stated above, there are no potential conflicts between their duties to the Issuer and their other duties or private interests.

## PRINCIPAL SHAREHOLDERS

As at 12 February 2010 (being the latest practicable date prior to the publication of this Offering Circular), the Company was aware of the following persons who, directly or indirectly were interested in 3 per cent. or more of the Company's share capital (calculated exclusive of treasury shares):

<i>Name</i>	<i>Number of ordinary shares</i>	<i>Percentage of the issued ordinary share capital</i>
BlackRock Inc	21,940,419	12.05
Pavel Maslovskiy & Associates	16,763,657	9.21
Peter Hambro & Associates	10,615,863	5.83
Vanguard Precious Metals and Mining Fund	8,782,994	4.82
JP Morgan Asset Management	8,259,509	4.54
M&G Investment Managers	7,850,000	4.31
Lansdowne Partners Ltd	7,722,738	4.24
Baring Asset Management Limited	7,057,059	3.88
Standard Life Investments Limited	6,627,647	3.64
Capital Research and Management Company	6,047,130	3.32
Legal & General Group Plc	5,917,178	3.25

In so far as is known to the Issuer:

- (a) no person other than those holding the interests referred to above is interested in 3 per cent. or more of the Company's capital. The Company is not aware of any persons who, directly or indirectly, exercise or could exercise control of the Company;
- (b) there are no arrangements, the operation of which may at a subsequent date result in a change of control of the Company.

## MATERIAL CONTRACTS

The following are the only contracts (not being contracts entered into in the ordinary course of business) which could result in any group member being under an obligation or entitlement that is material to the Issuer's ability to meet its obligation to Bondholders in respect of the Bonds:

### 1 Contracts relating to the Bonds

The following contracts directly concerning the issue of the Bonds have been entered into by a member of the Group immediately preceding the publication of this Offering Circular or will, shortly after the date of this Offering Circular, be entered into by a member of the Group and are, or may be, material:

- (a) the Trust Deed dated 18 February 2010 between the Issuer and BNP Paribas Trust Corporation UK Limited as Trustee, *inter alia*, constituting the Bonds and appointing the Trustee to act in that capacity and under which such commission in respect of the services of the Trustee as shall be agreed between the Issuer and the Trustee are to be paid;
- (b) the Paying and Transfer and Conversion Agency Agreement dated 18 February 2010 between the Issuer, BNP Paribas Securities Services, Luxembourg Branch, the Trustee and others setting out, *inter alia*, the terms of appointment and duties of BNP Paribas Securities Services, Luxembourg Branch in its capacity as Principal Agent and under which such commissions in respect of the services of the agents as shall be agreed between them and the Issuer are to be paid; and
- (c) the Subscription Agreement; and
- (d) the Deed Poll.

### 2 Other contracts

#### 2.1 Sberbank loan agreement

The loan agreement dated 10 July 2009 between JSC "Pokrovskiy Mine" as borrower, and Sberbank as lender pursuant to which a facility of US\$60,000,000 has been extended by the Sberbank, together the associated security documentation. The interest rate is 9-9.5 per cent. and the loan is repayable between August 2010 and November 2013.

#### 2.2 Club Facility

The facility agreement dated 16 December 2009 between JSC "Pokrovskiy Mine" as borrower and ING Bank, Unicredit Bank and Raiffeisenbank as the lenders, pursuant to which a facility of up to US\$150,000,000 has been extended by the lenders, together the associated guarantee and security documentation. The interest rate is LIBOR plus 6.3 per cent. and the loan is repayable between December 2010 and December 2012.

## SUMMARY OF THE GROUP'S KEY 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 three months prior to the expiry of the relevant Licence.

The Subsoil Law does not provide for an automatic extension of a producing 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.

### 1 Amur Region

#### *Key licences and selected licence agreement terms*

Pokrovskiy Rudnik

<i>No</i>	<i>Name of deposit</i>	<i>End use</i>	<i>Area</i>	<i>Registration date</i>	<i>Valid until</i>
1	Sergeevskoye ore field (BLG 00900 BR)	Geological survey, exploration and extraction (lode gold)	95.0 km <sup>2</sup>	06/05/1999	01/09/2020
2	Stream Sergeevskiy (BLG 01061 BE)	Extraction (alluvial gold)	5.8 km <sup>2</sup>	07/04/2000	31/12/2015
3	Pioneer ore occurrence and flanks (BLG 01181 BR)	Geological survey, exploration and extraction (lode gold)	52.0 km <sup>2</sup>	15/01/2001	31/12/2013
4	Jeltunakskaya ore projected area (4 sites) (BLG 01697 BR)	Geological survey, exploration and extraction (lode gold)	147.0 km <sup>2</sup>	14/06/2005	31/12/2030
5	Pokrovskoye deposit (extraction of gold and associated components) (BLG 10590 BE)	Extraction (lode gold)	41.3 km <sup>2</sup>	20/02/1998	01/06/2014
6	Aprelskaya area (BLG 13995 BR)	Geological survey, exploration and extraction (lode gold)	46.0 km <sup>2</sup>	13/03/2007	30/12/2031

gold)

Malomirsky Rudnik

<i>No</i>	<i>Name of deposit</i>	<i>End use</i>	<i>Area</i>	<i>Registration date</i>	<i>Valid until</i>
1	Malomirskoye ore field (Diagonal object) North-East and South- West flanks (BLG 01892 BR)	Geological survey (lode gold)	38.5 km <sup>2</sup>	01/02/2007	31/12/2011
2	Malomirskoye lode gold deposit (BLG 14039 BE)	Exploration and extraction (lode gold)	40.0 km <sup>2</sup>	27/04/2007	15/04/2030

Koboldo

1	River Ima, left inflow of river Kera (BLG 01139 BE)	Extraction with no right of waste use (alluvial gold)	0.7 km <sup>2</sup>	16/10/2000	31/12/2012
2	River Selemdga with estuary part of river Kera's valley (BLG 01142 BE)	Extraction with no right of waste use (alluvial gold)	20.2 km <sup>2</sup>	16/10/2000	31/12/2013
3	Stream Chelogor, right inflow of river M. Karaurak (BLG 01832 BR)	Geological survey, exploration and extraction (alluvial gold)	2.0 km <sup>2</sup>	13/06/2006	31/12/2012
4	River B. Karaurak (downstream), right inflow of river Selemdga (BLG 01841 BR)	Geological survey, exploration and extraction (alluvial gold)	35.6 km <sup>2</sup>	13/07/2006	31/12/2021
5	River Gar-2, right inflow of Gar – 3 (BLG 01885 BR)	Geological survey, exploration and extraction (alluvial gold)	15.0 km <sup>2</sup>	14/12/2006	31/12/2017
6	Stream Kenurakh (BLG 13959 BR)	Extraction (alluvial gold)	7.0 km <sup>2</sup>	21/02/2007	30/12/2026
7	Stream Alkagan (BLG 02061 BE)	Extraction (alluvial gold)	6.4 km <sup>2</sup>	06/02/2009	31/12/2015

Spanch



1	Albyskaya ore projected site (BLG 01784 BR)	Geological survey, exploration and extraction (lode gold)	40.0 km <sup>2</sup>	15/02/2006	31/12/2030
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#### Amur Doré

<i>No</i>	<i>Name of deposit</i>	<i>End use</i>	<i>Area</i>	<i>Registration date</i>	<i>Valid until</i>
1	Stream Sagur, Motor, Berkachan, river Selemджа valley (BLG 01613 BR)	Geological survey, exploration and extraction (alluvial gold)	1.4 km <sup>2</sup>	14/01/2005	31/12/2014
2	River Osipkan right inflow river B.Karaurak and its right inflow stream Nikolaevskiy (BLG 01720 BR)	Geological survey, exploration and extraction (alluvial gold)	9.0 km <sup>2</sup>	17/08/2005	31/12/2015
3	River Ulunga valley of its middle current (BLG 01951 BE)	Exploration and extraction (alluvial gold)	1.0 km <sup>2</sup>	03/08/2007	31/12/2014
4	River Djeltulak Bolshoy (BLG 01960 BE)	Extraction (alluvial gold)	2.1 km <sup>2</sup>	12/11/2007	31/12/2020
5	Stream Pikan Cheremushniy (BLG 01961 BE)	Extraction (alluvial gold)	2.7 km <sup>2</sup>	12/11/2007	31/12/2019

#### Elga

1	Stream Igak, left inflow of river Urkan (BLG 01634 BR)	Prospecting, evaluation, survey and extraction (alluvial gold)	30.0 km <sup>2</sup>	03/03/2005	31/12/2019
2	River Obka (Petrovkaya alluvial deposit) (BLG 01635 BE)	Extraction (alluvial gold)	1.2 km <sup>2</sup>	03/03/2005	31/12/2012
3	Streams: Talga-Makit, Ulagir (Ulegir, Uligir, Maliy and Bolshoy, right of the river Juvasit)	Prospecting, evaluation and development (alluvial gold)	1.2 km <sup>2</sup>	03/03/2005	31/12/2011

	(BLG 01636 BR)				
4	River Ulunga (BLG 02034 BR)	Geological survey, exploration and extraction (alluvial gold)	5.5 km <sup>2</sup>	24/09/2008	31/12/2022

Tokurskiy Rudnik

1	Tokur deposit (BLG 01366 BE)	Extraction (lode gold)	4.8 km <sup>2</sup>	22/11/2002	31/12/2013
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## 2 Yamal Region

Yamalzoloto

<i>No</i>	<i>Name of deposit</i>	<i>End use</i>	<i>Area</i>	<i>Registration date</i>	<i>Valid until</i>
1	Novogodnee Monto deposit (SLKh 01212 BR)	Geological survey, exploration and extraction (lode gold)	0.5 km <sup>2</sup>	31/01/2002	31/12/2020
2	Toupugol- Khanmeishorskaya area (includes Petropavlovskoye deposit) (SLKh 01356 BP)	Geological survey (lode gold)	10.0 km <sup>2</sup>	04/04/2003	31/12/2011

Sever Chrome

1	Zapadnoye deposit (SLKh 13779 TE)	Exploration and extraction (chromium ore)	0.5 km <sup>2</sup>	10/10/2006	10/03/2026
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## 3 Joint Venture Licences

Odolgo joint venture – Amur Region

<i>No</i>	<i>Name of deposit</i>	<i>End use</i>	<i>Area</i>	<i>Registration date</i>	<i>Valid until</i>
1	Odolgo ore occurrence BLG 01522BR	Geological survey, exploration and extraction (lode gold)	4.5 km <sup>2</sup>	24/05/2004	01/09/2018

<i>No</i>	<i>Name of deposit</i>	<i>End use</i>	<i>Area</i>	<i>Registration date</i>	<i>Valid until</i>
2	River Des BLG 01962 BR	Exploration and extraction (alluvial gold)	255.1 km <sup>2</sup>	15/11/2007	31/12/2021
3	Solovyevskiy site BLG 13936 BR	Geological survey, exploration and extraction (lode gold)	253.7 km <sup>2</sup>	12/02/2007	30/12/2031

Omchak joint venture - Zabaikalskiy Krai, Chita Region

<i>No</i>	<i>Name of deposit</i>	<i>End use</i>	<i>Area</i>	<i>Registration date</i>	<i>Valid until</i>
1	Verkhne-Aliinskoye deposit (ChIT 13256 BE)	Exploration and extraction	15.6 km <sup>2</sup>	08/08/2005	15/07/2025
2	Bukhtinskaya area (IRK 02474 BR)	Geological exploration and extraction of lode gold	35.0 km <sup>2</sup>	28/03/2006	15/02/2031
3	Kulinskoye ore field (ChIT 13553 BR)	Geological exploration and extraction of lode gold and associated components	34.0 km <sup>2</sup>	28/03/2006	01/03/2031

Berelekh - Magadan Region

Berelekh has 54 alluvial licences in the Magadan Region a number of which were awarded in October 1999. These licences expire at various dates over the next five or more years. Applications have been made to the licensing authority for an extension to the relevant licences.

<i>No</i>	<i>Name of deposit</i>	<i>End use</i>	<i>Area</i>	<i>Registration date</i>	<i>Valid until</i>
Uduma - Republic of Sakha (Yakutiya)					
1	Stream Uduma (YaKU 024002 BR)	Survey, exploration and extraction of lode gold	5.4 km <sup>2</sup>	27/02/2006	01/07/2015

#### 4 Iron ore interests

##### (a) Amur Region

<i>No</i>	<i>Name of deposit</i>	<i>End use</i>	<i>Area</i>	<i>Registration date</i>	<i>Valid until</i>
Olekminsky Rudnik					
1	Kuranakh deposit (No. BLG 01244 TR)	Exploration and extraction (titanomagnetite ores)	85.0 km <sup>2</sup>	25/06/2001	01/06/2026
Garinskiy Mining and Metallurgical Complex					
1	Garinskoye iron-ore deposit (No. BIR 14123 TE)	Extraction (iron ores)	11.2 km <sup>2</sup>	19/06/2007	31/12/2026
Uralmining					
1	Bolshoi Seym deposit (No. BLG 13384 TE)	Exploration and extraction (titanomagnetite ores)	26.0 km <sup>2</sup>	30/11/2005	01/12/2030
Orlovo-Sokhatinsky Rudnik					
1	Orlovo-Sokhatinskaya area (No. BLG 14664 TR)	Geological study, exploration and extraction (iron ores)	3,542.0 km <sup>2</sup>	12/03/2008	01/03/2033

##### (b) EAO

###### Kostenginsky Mining and Processing Enterprise

<i>No</i>	<i>Name of deposit</i>	<i>End use</i>	<i>Area</i>	<i>Registration date</i>	<i>Valid until</i>
1	Kostenginskoye deposit (No. BIR 14650 TE)	Exploration and extraction (iron ores)	24.0 km <sup>2</sup>	06/02/2008	31/12/2027

###### Kimkano-Sutarskiy Mining and Processing Enterprise

1	Kimkanskoje ferruginous	Exploration and extraction (iron)	22.4 km <sup>2</sup>	27/04/2007	30/12/2025
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	quartzite deposit (No. BIR 14037 TE)	ores)			
2	Sutarskoye ferruginous quartzite deposit (No. BIR 14038 TE)	Exploration and extraction (iron ores)	27.0 km <sup>2</sup>	27/04/2007	30/12/2025

## DESCRIPTION OF PETROPAVLOVSK 2010 LIMITED

### 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 principal legislation under which the Issuer operates is the Companies (Jersey) Law 1991, as amended. The registered office and business address of the Issuer is located at 13-14 Esplanade, St Helier, Jersey JE1 1BD, telephone number + 44 (0)1534 888777.

### Business of the Issuer

The Issuer is a wholly-owned indirect subsidiary of the Guarantor and its sole purposes are the issue of the Bonds and the Preference Shares into which the Bonds are convertible and the loan of the proceeds of the issue of the Bonds to other entities in the Group. Since the date of its incorporation, other than entering into contracts in connection with the matters described above, the Issuer has not commenced business nor has it incurred any liabilities.

### Share Capital of the Issuer

The Issuer has no subsidiaries. The Issuer can issue Founders' Shares (as defined herein) or Preference Shares. Founders' Shares are issuable at an agreed issue price of £1.00 each and Preference Shares are issuable at an agreed issue price of US\$100,000 each.

As of the date of this Offering Circular, the Issuer had issued two Founders' Shares at an agreed price of £1.00 each.

### Corporate Administration

Appleby Trust (Jersey) Limited, 13-14 Esplanade, St Helier, Jersey JE1 1BD Jersey will act, or procure that a subsidiary acts, as the corporate services provider for the Issuer (**Corporate Services Provider**) pursuant to the terms of a corporate services agreement to be entered into between the Issuer and the Corporate Services Provider. 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 employees other than those directors listed below in the section entitled "— Directors and Secretary".

### Directors and Secretary

The directors of the Issuer and their other principal activities as of the date hereof are as follows:

<i>Name</i>	<i>Other Principal Activities</i>
Peter Hambro	As described on page 107 of this document
Andrey Maruta	Group Financial Controller

The company secretary of the Issuer is Appleby Secretaries (Jersey) Limited, 13-14 Esplanade, St Helier, Jersey JE1 1BD.

### **Directors' Interests**

No director has any interest in the promotion of, or any property acquired or proposed to be acquired by, the Issuer and no director has any conflict of interest and/or any potential conflict of interest between any of its duties to the Issuer and its private interests and/or other duties. As a matter of Jersey law, each director 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.

### **Financial Statements and Auditors' Report**

On an annual basis, the Issuer will prepare and publish audited financial statements, which will be filed in accordance with Jersey law. The Issuer only intends to prepare audited annual financial statements. As of the date hereof, the Issuer has not yet commenced operations, nor prepared any financial statements.

It is anticipated that the Issuer will have an accounting reference date of 31 December with the first year ending 31 December 2010. The auditors appointed in respect of the Issuer are Deloitte LLP of 2 New Street Square, London EC4A 3BZ.

Deloitte LLP qualifies for appointment as an auditor of a Jersey incorporated company pursuant to Article 113 of the Companies (Jersey) Law 1991, as amended.

The audited annual financial statements will be available free of charge at the offices of the Issuer and the Corporate Services Provider.

## DESCRIPTION OF THE ISSUER'S SHARE CAPITAL AND THE PREFERENCE SHARES

*Words and/or provisions defined in the Conditions have the same meanings in this description of the Issuer's share capital, unless the context otherwise requires. References to particular Conditions of the Bonds shall be to the relevant Condition set out in "Terms and Conditions of the Bonds".*

### Issuer's Share Capital

The Issuer is authorised to issue 100 Founders' Shares of £1.00 each and 1,000,000 Preference Shares of US\$0.01 each. The Issuer can issue Founders' Shares or Preference Shares. Founders' Shares are issuable at an agreed issue price of £1.00 each and Preference Shares are issuable at an agreed issue price of US\$100,000 each. As of the date of this Offering Circular, the Issuer had issued two Founders' Shares at an agreed price of £1.00 each.

### Founders' Shares

The Founders' Shares shall confer on the holders thereof the right to receive any profits of the Issuer available for distribution after the payment to the holders of the Preference Shares of their cumulative dividend and after payment of any other preferential dividend on any other class of shares.

Following payments to the holders of Preference Shares described in paragraph 2 of "Preference Shares" below, the Founders' Shares shall carry the right to payment of the amount of capital paid up (including credited as paid up) thereon, and any surplus assets then remaining shall be distributed pari passu among the holders of the Founders' Shares, in proportion to the amounts paid up (including credited as paid up) thereon.

### Preference Shares

Preference Shares shall only be issued on conversion of Bonds pursuant to the Conditions and the terms of the Trust Deed, and shall be issued at the Paid-up Value, credited as fully paid. The terms of the Preference Shares are set out in the Articles of the Issuer. Holders of the Preference Shares will also have the benefit of the Deed Poll and will be entitled to the benefit of, will be bound by, and will be deemed to have notice of, all the provisions of the Articles of the Issuer and the Deed Poll. The Preference Shares will not be listed on any stock exchange. The Articles of the Issuer contain provisions to the following effect:

#### 1. Dividends

- (a) Each Preference Share will on allotment, and subject to (b) below and to the relevant provisions of the Companies (Jersey) Law 1991, as amended, confer on the holder thereof a right to receive a cumulative dividend at the rate of 4.00 per cent. per annum of the Paid-up Value of each such Preference Share payable annually in arrear on 18 February and 18 August in each year (each a **Dividend Payment Date**). The dividend payable in respect of each Preference Share for any period that is not a dividend period shall be calculated on a strict proportional basis by reference to the same rate where "Dividend Period" means each period beginning on (and including) a Dividend Payment Date and ending on (but excluding) the next succeeding Dividend Payment Date. Such dividends shall accrue from day to day. Each Preference Share will cease to accrue dividends from and including its due date for redemption. No account will be taken of accrued dividends on an exchange pursuant to any Share Exchange Right.



- (b) Each payment of income in respect of the Preference Shares shall be the amount provided in or determined in accordance with (a) above, multiplied by the greater of (i) one (1) and (ii) the Index Ratio (as defined in the Issuer's Articles) applicable to the month in which such payment falls to be made and rounded to four decimal places (0.00005 being rounded upwards). If at any time and from time to time the Index (as defined in the Issuer's Articles) shall be changed by the substitution of a new base therefor, then with effect from the calendar month from and including that in which such substitution takes effect: (i) the definition of Index and Index Figure (as defined in the Issuer's Articles) shall be deemed to refer to the new date or month in substitution for 1982-84 (or, as the case may be, to such other date or month as may have been substituted therefor); and (ii) the new Base Index Figure (as defined in the Issuer's Articles) shall be the product of the existing Base Index Figure (being at the date of issue of the Bonds) and the Index Figure immediately following such substitution, divided by the Index Figure immediately prior to such substitution.

If the Trustee has been notified by the Principal Paying, Transfer and Exchange Agent that the Index has ceased to be published or any change is made to the coverage or the basic calculation of the Index which constitutes a fundamental change which would, in the opinion of the Trustee, be materially prejudicial to the interests of the holders, the Trustee will give written notice of such occurrence to the Issuer, and the Issuer and the Trustee together shall seek to agree for the purpose of the Preference Shares one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the holders in no better and no worse a position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made.

If the Issuer and the Trustee fail to reach agreement as mentioned above within 20 business days following the giving of notice, a bank or other person in London shall be appointed by the Issuer with the approval of the Trustee, or, failing agreement on and the making of such appointment within 20 business days following the expiry of the 20 business day period referred to above, by the Trustee (in each case, such bank or other person so appointed being referred to as the "**Expert**") to determine for the purpose of the Preference Shares one or more adjustments to the Index or a substitute index (with or without adjustments) with the intention that the same should leave the Issuer and the holders in no better and no worse a position than they would have been had the Index not ceased to be published or the relevant fundamental change not been made. Any Expert so appointed shall act as an expert and not as an arbitrator and all fees, costs and expenses of the Expert and of the Issuer and the Trustee in connection with such appointment shall be borne by the Issuer.

The Index shall be adjusted or replaced by a substitute index as agreed by the Issuer and the Trustee or as determined by the Expert pursuant to the foregoing paragraphs, as the case may be, and references to the Index and to any Index Figure shall be deemed amended in such manner as the Issuer and the Trustee agree. Such amendments shall be effective from the date of such notification and shall be binding upon the Issuer, the Trustee, and the holders and the Issuer shall give notice to the holders of such amendments as promptly as practicable following such notification.

- (c) The cumulative dividends payable in respect of the Preference Shares shall be paid in priority to any dividend in respect of any other class of shares in the capital of the Issuer, other than any such class that ranks *pari passu* with the Preference Shares as respects rights to dividends.
- (d) The Preference Shares shall not confer any further right of participation in the profits of the Issuer.

- (e) The obligations of the Issuer to pay dividends are subject to applicable law in Jersey.

## 2. Capital

On a winding-up of the Issuer or other return of capital (other than a purchase or redemption of any Preference Share or any share of any other class of redeemable shares), the assets of the Issuer available for distribution shall be applied in the following priority: the Preference Shares shall carry the right (**First Right**), pari passu with the shares of any class having the like right, to payment of the Paid-up Value thereof, together with a sum equal to any accrued but unpaid preferential dividend due in respect of such Preference Shares to be calculated to the date when payment of the return of capital is made and to be payable irrespective of whether or not such dividend has been declared or earned and the right to such additional amount, if any, as when aggregated with the other amounts payable pursuant to the First Right is (in the opinion of a bank or investment bank of international repute in London) such as to be reasonably comparable with rights to repayment which are generally applicable for shares listed on the official list of the UK Listing Authority which have entitlements to dividend which most closely resemble such rights of the Preference Shares. (In the event that the assets of the Company available for distribution are insufficient to repay in full the Paid-up Value of each Preference Share or shares carrying the like right together with such accruals, the available assets shall be apportioned pro rata among the Preference Shares and shares carrying the like right then in issue according to the Paid-Up Value and the amount at which any such other share is credited as paid-up and accruals outstanding).

## 3. Redemption

- (a) The Issuer shall redeem all the Preference Shares for cash at their Paid-up Value forthwith upon their issue, save that any Preference Shares in respect of which the Share Exchange Right has been exercised or is deemed to have been exercised shall not be redeemed forthwith pursuant to the foregoing but may be redeemed for cash at their Paid-up Value at any time after the first transfer of the same into the name of the Guarantor or its nominee on any date specified by the holder for the time being in any notice (which may be a standing notice) given by the holder to the Issuer requiring such redemption either forthwith or on any subsequent date.
- (b) On redemption of a Preference Share, the Issuer will cancel the Preference Share and any certificate relating thereto and such Preference Share may not be reissued or sold as a Preference Share.
- (c) The obligations of the Issuer to redeem shares are subject to applicable law in Jersey.

## 4. Share Exchange Right

If Conversion Rights (as defined in Condition 8(a)) are exercised in respect of the Bonds, the Share Exchange Right in respect of the Preference Shares issued on exercise of such Conversion Rights shall be deemed to have been exercised and the Issuer will procure that such Preference Shares will be exchanged immediately for Ordinary Shares. All Preference Shares so exchanged will, after such exchange, be held by the Guarantor. The Guarantor is not obliged, and does not intend, to redeem such Preference Shares. A summary of the provisions of the Articles of the Issuer in this respect is set out in "Terms and Conditions of the Bonds — Conversion and Exchange".

## 5. Voting and General Meetings

- (a) Founders' Shares shall entitle the holders thereof to receive notice of and to attend and vote at general meetings of the Issuer. Preference Shares shall entitle the holders thereof to receive notice of general meetings of the Issuer but not to attend and vote thereat.

- (b) On a poll every holder of Founders' Shares who (being an individual) is present in person or by proxy or (being a corporation) is present by representative or by proxy shall have one vote in respect of each Founders' Share registered in the name of such holder.

#### 6. Transfers

- (a) Any Preference Share in respect of which the Share Exchange Right has been or is deemed to have been exercised shall forthwith upon allotment and issue of the same be transferred to the Guarantor or its nominee in exchange for the issue to the holder thereof of Ordinary Shares. Any such transfer shall be effected by the Issuer (or a person appointed for this purpose by the Issuer) as agent for the holder thereof and the Issuer (or a person appointed for this purpose by the Issuer) is authorised by such holder to execute all such documents and do all such things as may be necessary properly to effect the same, without any cost or liability to, or any further action required by, the holder (save as provided in Article 2.4.6(h)(iv) of the Articles of the Issuer).
- (b) Transfers of Preference Shares shall be effected by any instrument of transfer in common or usual form or such other form as may be approved by the board of directors of the Issuer. The transferor shall be deemed to remain the holder of a Preference Share until the name of the transferee is entered in the register in respect of it. All instruments of transfer, when registered, may be retained by the Issuer.

#### 7. Payments

- (a) Payments in respect of a Preference Share may be made by cheque or warrant and mailed to the holder (or to the first-named of joint holders) of such Preference Shares at his registered address (or to such address as such holder may direct) and at his risk.
- (b) All payments in respect of the Preference Shares shall be made subject to the deduction of or withholding of, or on account of, any taxation in Jersey or the United Kingdom required or permitted by applicable law to be withheld or deducted at source. No additional payment will be required to be made in respect of such withholding or deduction.
- (c) In determining amounts to be paid to Preference Shareholders, fractions of one cent will be rounded to the nearest cent with one half of one cent being rounded upwards.
- (d) Any unclaimed dividend may be invested or otherwise made use of by the directors of the Issuer for the benefit of the Issuer until claimed and any dividend which has remained unclaimed for a period of ten years from the date when it became due for payment shall, if the directors of the Issuer so resolve, be forfeited and cease to remain owing by the Issuer and shall thenceforth belong to the Issuer absolutely.

#### 8. Variation of Rights

- (a) Subject to the provisions of the Companies (Jersey) Law 1991, as amended, all or any of the rights for the time being attached to any class of shares for the time being issued may (unless otherwise provided by the terms of issue of the shares of that class) from time to time (whether or not the Issuer is being wound-up) be varied or abrogated with the consent in writing of the holders of not less than two-thirds in nominal value of the issued shares of that class or with the sanction of a special resolution (that is, one passed by a majority of not less than two-thirds of members who (being entitled to do so) vote in person or by proxy) passed at a separate general meeting of the holders of those shares. All the provisions of the Articles of the Issuer as to general meetings of the Issuer shall mutatis mutandis apply to any such separate general meeting, except that the necessary quorum shall be two persons holding or representing by proxy at least one-third in nominal value of

the issued shares of the class but so that if at any adjourned meeting of such holders a quorum as above defined is not present, those holders who are present in person or by proxy shall be a quorum.

- (b) The rights attached to the Preference Shares shall, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed not to be varied by the creation or issue of further shares ranking after or pari passu therewith.

## DESCRIPTION OF THE DEED POLL

*Words and expressions defined in “Terms and Conditions of the Bonds” and “Description of the Issuer’s Share Capital and the Preference Shares” have the same meaning in this Description of the Deed Poll, unless the context otherwise requires. References to particular Conditions of the Bonds shall be to the relevant Condition set out in “Terms and Conditions of the Bonds”.*

The Deed Poll contains provisions to the following effect:

### 1. Guarantee

The Guarantor unconditionally and irrevocably undertakes to the Issuer and to each of the Preference Shareholders to make due and punctual payment (subject as provided in the Deed Poll) of all redemption monies, dividends and other amounts expressed to be payable in respect of the Preference Shares or, if Preference Shares shall not have been issued as so required by the terms and conditions of the Bonds, which would have been payable on such Preference Shares had the same been so issued when so required, on the due date for payment, or if Preference Shares shall not have been so issued as aforesaid, on what would have been the due date for payment had such Preference Shares been so issued, to the extent that the same shall not be paid by the Issuer, regardless of (i) whether the profits of the Issuer justify the relevant payment of any dividend, (ii) whether the relevant amounts shall be available for distribution or payment by the Issuer, (iii) whether payment thereof shall have been declared or approved by or on behalf of the Issuer or by the Issuer in general meeting, (iv) whether the payment thereof by the Issuer shall be prohibited by law or (v) where Preference Shares shall not have been so issued the fact that for whatever reason such Preference Shares shall not have been issued. Such obligations will constitute senior direct, unconditional, unsecured and unsubordinated obligations of the Guarantor.

### 2. Payments

All payments made by the Guarantor pursuant to the Deed Poll will be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the United Kingdom or the Island of Jersey or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. The Guarantor shall not be required to pay any additional or further amounts in respect of such deduction or withholding.

When making any payments to Preference Shareholders, fractions of one cent will be rounded down to the nearest cent.

### 3. Undertaking to Deliver Ordinary Shares

The Guarantor has undertaken that, on each occasion on which Conversion Rights related to a Bond are exercised, it will purchase the relevant Preference Shares allotted and issued on conversion and, in consideration for such purchase, deliver fully paid Ordinary Shares in accordance with the Deed Poll and the Terms and Conditions of the Bonds.

The Deed Poll also states that the Exchange Price is subject to adjustment in the circumstances described in the Articles of the Issuer, a summary of which is set out in the Terms and Conditions of the Bonds.

#### 4. Other Undertakings

The Guarantor undertakes to each Preference Shareholder and the Issuer that whilst any Conversion Right or Share Exchange Right remains exercisable, save with the approval of the Bondholders by an Extraordinary Resolution or with the 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, it will comply with the covenants given by it in the Deed Poll (see "Terms and Conditions of the Bonds — Undertakings"). The Guarantor will, in the event of failure of the Issuer so to perform the same when due, (i) procure the performance by the Issuer of all the obligations to be performed by the Issuer and (ii) procure the enforcement by the Issuer of all the Issuer's rights, in either case, with respect of the exercise of Conversion Rights and Share Exchange Rights.

## DESCRIPTION OF THE ORDINARY SHARES OF THE COMPANY

The following provides a summary of the share capital of the Company and summarises certain provisions of the Articles of Association of the Company (**Articles**). This summary does not purport to be complete and is subject to and is qualified in its entirety by reference to the Articles.

### Share capital

1. As at the date of this Offering Circular, the Company's authorised share capital is £3,500,000 divided into 350,000,000 ordinary Shares of £0.01 each in the Company. The Company's issued share capital as at the date of this Offering Circular was £1,820,797.67 comprising 182,079,767 ordinary shares of £0.01 each in the Company, all allotted, called up and fully paid. The principal governing legislation for the Shares is the Companies Act 2006 and the Articles.
2. On the acquisition of Aricom plc, the Company issued 8,312,463 Warrants in consideration for the transfer of the Aricom warrants to the Company. Each Warrant confers the right to subscribe for one Ordinary Share of the Company at an exercise price of £12.80. These warrants expire on 9 June 2010.
3. On the acquisition of Aricom plc, the Company issued an option to International Finance Corporation to subscribe for 1,067,273 Ordinary Shares at an exercise price of £11.84 per share, subject to adjustments. The option expires on 25 May 2015, subject to adjustments.
4. The Ordinary Shares are in registered form and shares have been issued in both certificated and uncertificated form. The Company's registrar is Capita Registrars of Northern House, Woodsome Park, Fenay Bridge, Huddersfield, West Yorkshire HD8 0LA.

### Share rights

1. Subject to the provisions of the Companies Act 2006 and to any special rights for the time being attached to any existing shares, any shares may be allotted or issued with or have attached to them such preferred, deferred or other special rights or restrictions, whether in regard to dividend, voting, transfer, return of capital or otherwise, as the Company 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 may determine.
2. Subject to the provisions of the Companies Act 2006 and to any relevant authority of the Company in general meeting required by the Companies Act 2006, unissued shares at the date of adoption of the Articles and any shares hereafter created shall be at the disposal of the Board, which may allot (with or without conferring rights of renunciation), grant options over, offer or otherwise deal with or dispose of them or rights to subscribe for or convert any security into shares to such persons (including the Directors themselves), at such times and generally on such terms and conditions as the Board may decide, provided that no share shall be issued at a discount.
3. Subject to the provisions of the Companies Act 2006 and to any special rights for the time being attached to any existing shares, any share may be issued which is, or at the option of the Company or of the holder of such share is liable, to be redeemed on such terms and in such manner as the Articles may provide.

## Voting Rights

1. Subject to the provisions of the Companies Act 2006 and other provisions of the Articles, 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:
  - (a) on a show of hands, every member who is present in person shall have one vote; and
  - (b) on a poll, every member present in person or by proxy shall have one vote for each share of which he is the holder.
  
2. If a member, or any other person appearing to be interested in shares held by that member, has been issued with a notice pursuant to section 793 of the Companies Act 2006 and has failed in relation to any shares (the "default shares", which expression includes any shares issued after the date of such notice in right of those shares) to give the Company the information thereby required within the prescribed period from the service of the notice, the following sanctions shall apply unless the Board otherwise determines:
  - (a) the member shall not be entitled in respect of the default shares to be present or to vote (either in person or by representative or proxy) at any general meeting or at any separate meeting of the holders of any class of shares or on any poll or to exercise any other right conferred by membership in relation to any such meeting or poll; and
  - (b) where the default shares represent at least 0.25 per cent. in nominal value of the issued shares of their class:
    - (i) any dividend or other money payable in respect of the shares shall be withheld by the Company, which shall not have any obligation to pay interest on it, and the member shall not be entitled to elect to receive shares instead of that dividend; and
    - (ii) no transfer, other than an excepted transfer, of any shares held by the member shall be registered unless:
      - (A) the member is not himself in default as regards supplying the information required; and
      - (B) the member proves to the satisfaction of the Board that no person in default as regards supplying such information is interested in any of the shares the subject of the transfer.
  
3. Where the sanctions under paragraph 2 above apply in relation to any shares, they shall cease to have effect (and any dividends withheld under paragraph 2(b)(i) above shall become payable):
  - (a) if the shares are transferred by means of an excepted transfer but only in respect of the shares transferred; or
  - (b) at the end of the period of seven days (or such shorter period as the Board may determine) following receipt by the Company of the information required by the notice mentioned in that paragraph and the Board being fully satisfied that such information is full and complete.



4. Where, on the basis of information obtained from a member in respect of any share held by him, the Company issues a notice pursuant to section 793 of the Companies Act 2006 to any other person, it shall at the same time send a copy of the notice to the member, but the accidental omission to do so, or the non-receipt by the member of the copy, shall not invalidate or otherwise affect the application of paragraph 2 above.
5. For the purposes of paragraphs 2 to 3 above:
  - (a) a person, other than the member holding a share, shall be treated as appearing to be interested in that share if the member has informed the Company that the person is, or may be, so interested, or if the Company (after taking account of any information obtained from the member or, pursuant to a notice under section 793 of the Companies Act 2006, from anyone else) knows or has reasonable cause to believe that the person is, or may be, so interested;
  - (b) “**interested**” shall be construed as it is for the purpose of section 793 of the Companies Act 2006;
  - (c) reference to a person having failed to give the Company the information required by a notice, or being in default as regards supplying such information, includes reference:
    - (i) to his having failed or refused to give all or any part of it; and
    - (ii) to his having given information which he knows to be false in a material particular or having recklessly given information which is false in a material particular;
  - (d) “**prescribed period**” means 28 days;
  - (e) “**excepted transfer**” means, in relation to any shares held by a member:
    - (i) a transfer by way of or pursuant to acceptance of a takeover offer for the Company (within the meaning of the Companies Act 2006); or
    - (ii) a transfer in consequence of a sale made through a recognised investment exchange (as defined in section 417 of FSMA) or any other stock exchange outside the United Kingdom on which the Company's shares are normally traded; or
    - (iii) a transfer which is shown to the satisfaction of the Board to be made in consequence of a sale of the whole of the beneficial interest in the shares to a person who is unconnected with the member and with any other person appearing to be interested in the shares.

#### **Dividends and other payments**

1. Subject to the provisions of the Companies Act 2006 and of the Articles, the Company may by ordinary resolution declare dividends to be paid to members according to their respective rights and interests in the profits of the Company. However, no dividend shall exceed the amount recommended by the Board.
2. Subject to the provisions of the Companies Act 2006, 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 Company available for distribution. If at any time the share

capital of the Company 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.

3. 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.
4. The Board may deduct from any dividend or other money payable to any person on or in respect of a share all such sums as may be due from him to the Company on account of calls or otherwise in relation to the shares of the Company.
5. The Board may, with the authority of an ordinary resolution of the Company, 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.
6. Unless otherwise provided by the rights attached to the share, no dividend or other moneys payable by the Company or in respect of a share shall bear interest as against the Company.
7. All dividends, interest or other sum payable and unclaimed for 12 months after having become payable may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends unclaimed for a period of 12 years after having been declared or become due for payment shall (if the Board so resolves) be forfeited and shall cease to remain owing by the Company.
8. The Board may, with the prior authority of an ordinary resolution of the Company and subject to such terms and conditions as the Board may determine, offer to any holders of ordinary shares the right to elect to receive ordinary shares, credited as fully paid, instead of the whole (or some part, to be determined by the Board) of any dividend specified by the ordinary resolution. Inter alia, the following provisions of the Articles shall apply:
  - (a) The Board shall, after determining the basis of allotment, notify the holders of ordinary shares in writing of the right of election offered to them, and specify the procedure to be followed and place at which, and the latest time by which, elections must be lodged in order to be effective;

- (b) The Board may exclude from any offer any holders of ordinary shares or any ordinary shares held by a depositary or any ordinary shares on which dividends are payable in foreign currency where the Board considers that the making of the offer to them or in respect of such shares would or might involve the contravention of the laws of any territory or that for any other reason the offer should not be made to them or in respect of such shares.
- 9. Notwithstanding any other provision of the Articles but without prejudice to the rights attached to any shares and subject always to the Companies Act 2006s the Company or the Board may by resolution specify any date (the “record date”) as the date at the close of business (or such other time as the Board may determine) on which persons registered as the holders of shares or other securities shall be entitled to receipt of any dividend, distribution, interest, allotment, issue, notice, information, document or circular and such record date may be on or at any time before the date on which the same is paid, made, given or served or (in the case of any dividend, distribution, interest, allotment or issue) at any time after the same is recommended, resolved, declared or announced but without prejudice to the rights inter se in respect of the same of transferors and transferees of any such shares or other securities. No change in the register of such holders after the record date shall invalidate the same.

#### **Division of assets on a winding up**

- 1. If the Company is wound up the liquidator may, with the sanction of a special resolution of the Company and any other sanction required by law, divide among the members in specie the whole or any part of the assets of the Company 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. Any such division may be otherwise than in accordance with the existing rights of the members, but if any division is resolved otherwise than in accordance with such rights, the members shall have the same right of dissent and consequential rights as if such resolution were a special resolution passed pursuant to section 110 of the Insolvency Act 1986. The liquidator may, with the like sanction, vest the whole or any part of the assets in trustees on such trusts for the benefit of the members as he with the like sanction shall determine, but no member shall be compelled to accept any assets on which there is a liability.
- 2. A special resolution sanctioning a transfer or sale to another company duly passed pursuant to section 110 of the Insolvency Act 1986 may in the like manner authorise the distribution of any shares or other consideration receivable by the liquidator among the members otherwise than in accordance with their existing rights, and any such determination shall be binding on all the members, subject to the right of dissent and consequential rights conferred by the said section.

#### **Pre-emption rights in offers for subscription of securities of the same class**

- 1. Subject to the Articles, the Board has the power to allot equity securities for cash as if section 561(1) of the Companies Act 2006 did not apply, provided that this power is limited to the allotment of equity securities:
  - (a) in connection with a pre-emptive issue;
  - (b) pursuant to the terms of any share option scheme adopted by the Company;
  - (c) (otherwise than pursuant to (a) and (b) above) up to such amount specified in general meeting.

### **Variation of rights**

1. If at any time the share capital of the Company is divided into shares of different classes, any of the rights for the time being attached to any share or class of shares in the Company (and notwithstanding that the Company 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 the class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of shares of the class duly convened and held.
2. The quorum at any such meeting shall be not less than two persons holding or representing by proxy at least one-third of the nominal amount paid up on the issued shares of the class in question and at an adjourned meeting not less than one person holding shares of the class in question or his proxy.
3. Subject to the terms of issue of or rights attached to any shares, the rights or privileges attached to any class of 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 Company of its own shares in accordance with the provisions of the Companies Act 2006 and the Articles.

### **Lien and forfeiture**

1. Subject to the terms of allotment of 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 receiving 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 Company the amount of every call so made on him as required by the notice.
2. 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 Company 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.
3. The Company shall have a first and paramount lien on each of its shares which is not fully paid, for all amounts payable to the Company (whether presently or not) in respect of that share and to the extent and in the circumstances permitted by the Companies Act 2006.

### **Transfer of shares and restrictions on the free transferability of shares**

1. Subject to any applicable restrictions, each member may transfer all or any of his shares 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.

2. The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of a share (or renunciation of a renounceable letter of allotment) 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 registered office of the Company or such other place as the Board may from time to time determine, accompanied (except in the case of a transfer by a recognised person where a certificate has not been issued or 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 which are listed on the London Stock Exchange 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.

3. Unless the Board otherwise determines, a transfer of shares will not be registered if the transferor or any other person appearing to be interested in the transferor's shares has been issued with a notice under section 793 of the Companies Act 2006, has failed to give the Company the information required by such notice within 28 days and the shares in respect of which such notice has been served represent at least 0.25 per cent. in nominal value of their class, unless the member is not himself in default as regards supplying the information required and proves to the satisfaction of the Board that no person in default as regards supplying such information is interested in any of the shares the subject of the transfer, or unless such transfer is by way of acceptance of a takeover offer, in consequence of a sale on a recognised stock exchange or is in consequence of a bona fide sale to an unconnected party.
4. If the Board refuses to register a transfer of a share it shall, within two months after the date on which the transfer was lodged with the Company, send notice of the refusal to the transferee.
5. No fee shall be charged for registration of a transfer or other document relating to or affecting the title to any shares.

#### **Alteration of share capital**

1. The Company in general meeting may from time to time by ordinary resolution:
  - (a) increase its share capital by such sum to be divided into shares of such amount as the resolution prescribes;
  - (b) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;

- (c) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled; and
  - (d) subject to the provisions of the Companies Act 2006, sub-divide its shares or any of them into shares of smaller amount, and may by such resolution determine that, as between the shares resulting from such sub-division, one or more of the shares may, as compared with the others, have any such preferred, deferred or other special rights or be subject to any such restrictions as the Company has power to attach to unissued or new shares.
2. Whenever as the result of any consolidation, division or sub-division of shares any difficulty arises, the Board may settle it as it thinks fit.
  3. Subject to the provisions of the Companies Act 2006 and to any rights for the time being attached to any shares, the Company may by special resolution reduce its share capital or any capital redemption reserve or share premium account in any way.

#### **Purchase of own shares**

Subject to the provisions of the Companies Act 2006 and to any rights for the time being attached to any shares, the Company may purchase any of its own shares of any class (including any redeemable shares). Any shares to be so purchased may be selected in any manner whatsoever.

#### **Conversion provisions**

Conversion of certificated shares into uncertificated shares and vice versa, may be made in such manner as the Board may, in its absolute discretion think fit (subject always to The Uncertificated Securities Regulations 2001 and the facilities and requirements of the relevant system).

#### **Mandatory takeover bids in relation to the shares**

1. As an English public limited company, resident in the United Kingdom, the Company is subject to the UK City Code on Takeovers and Mergers (the **City Code**). Rule 9 of the City Code stipulates, inter alia, that except with the consent of the Panel, when:
  - (a) any person acquires, whether by a series of transactions over a period of time or not, an interest in shares which (taken together with shares in which persons acting in concert with him are interested) carry 30 per cent. or more of the voting rights of a company; or
  - (b) any person, together with persons acting in concert with him, is interested in shares which in the aggregate carry not less than 30 per cent. of the voting rights of a company but does not hold shares carrying more than 50 per cent. of such voting rights and such person, or any person acting in concert with him, acquires an interest in any other shares which increases the percentage of shares carrying voting rights in which he is interested

such person shall extend (an) offer(s) to the other shareholders in the company on the basis set out in the City Code.

2. Where a person or group of persons acting in concert holds shares carrying more than 50 per cent. of the voting rights in a company no obligation would normally arise to make a general offer under Rule 9 if the concert party increases its aggregate shareholding. However, even if the concert party holds shares carrying over 50 per cent. of the voting

rights, the Panel may, inter alia, regard any acquisition by a member that increases his interests in shares to 30 per cent. or more or, if he is already interested in 30 per cent. or more, which increases the percentage of shares carrying voting rights in which he is interested as giving rise to an obligation on that individual to make an offer. In the above summary, persons "acting in concert" are persons who, pursuant to an agreement or understanding (whether formal or informal), actively co-operate, through the acquisition by any of them of shares in the Company, to obtain or consolidate control of the Company. Control means a holding, or aggregate holdings, of shares carrying 30 per cent. or more of the voting rights of the Company, irrespective of whether the holding or holdings give *de facto* control.

### **Squeeze-out and sell-out provisions**

1. Part 28 of the Companies Act 2006 governs "squeeze-out" and "sell-out" provisions, which are triggered when a person acquires 90 per cent. of both the issued shares and voting rights in the Company as a result of having made a takeover offer for the Company. Under this regime, such an acquirer may serve a notice on the remaining minority shareholder stating that it desires to buy their shares ("squeeze-out") and, conversely, the remaining minority shareholder may exercise in writing its right to require the acquirer to acquire its shares ("sell out"). The consideration offered to the minority shareholder whose shares are compulsorily acquired must, in general, be the same as the consideration that was available under the takeover offer.
2. Both squeeze-out and sell-out rights are exercisable within a three month period from the end of the period within which the takeover offer can be accepted. Under the squeeze-out provisions, the acquirer must, at the end of six weeks from the date of the notice, send a copy of its notice and an executed transfer for the shares to the Company and pay the consideration for the shares to the Company, whereupon the shares will be registered in the name of the acquirer. The consideration is then held on trust by the Company for the minority shareholder. Under the sell-out provisions, the acquirer is entitled and bound to acquire the shares on the terms of the takeover offer or on such other terms as may be agreed.

### **Public takeover bids in the last and current financial years**

There have been no public takeover bids by third parties in respect of the share capital of the Company in the last or current financial year.

### **Impact on the Company of the underlying share of the exercise of the right and potential dilution effect for the shareholders**

Assuming the Bonds are fully subscribed and the over-allotment option is exercised, exercise of the conversion rights in respect of the Bonds would, assuming full conversion, and no other share issues or adjustment events, convert into approximately 9.0 per cent. of the enlarged ordinary share capital of the Company. The total number of Shares underlying the Bonds is equivalent to approximately 9.9 per cent. of the Company's currently issued Shares.

### **References to statutory provisions**

In the Articles, a reference to any statute or provision of a statute shall include any orders, regulations or other subordinate legislation made under it and shall, unless the context otherwise requires, include any statutory modification or re-enactment of it for the time being in force.

## TAXATION

*The following is a general description of certain Jersey and United Kingdom tax considerations relating to the Bonds, the Preference Shares, and the Ordinary Shares. It does not purport to be a complete analysis of all tax considerations relating to the Bonds, the Preference Shares, and the Ordinary Shares whether in Jersey, the United Kingdom or elsewhere and relates only to persons who are the absolute beneficial owners of their Bonds, their Preference Shares, and their Ordinary Shares and does not deal with special situations, such as those of dealers in securities or where the interest payable on the Bonds is, for tax purposes, deemed to be income of any person other than the beneficial owners. Prospective purchasers of Bonds should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Jersey and the United Kingdom of acquiring, holding and disposing of Bonds, Preference Shares and Ordinary Shares and receiving payments of interest, principal and/or other amounts under the Bonds, Preference Shares, Ordinary Shares or in respect of an exercise of Conversion Rights.*

The following is based upon the law and the Company's understanding of published revenue authority practice as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date (possibly with retrospective effect). The information below is a summary only and may not apply to certain categories of Bondholder.

### **Jersey Taxation**

#### ***Taxation of the Issuer***

The Issuer is not regarded as resident for tax purposes in Jersey. Therefore, the Issuer will not be liable to Jersey income tax other than on Jersey source income (except where such income is exempted from income tax pursuant to the Income Tax (Jersey) Law 1961, as amended) and payments in respect of the 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. In the case of a grant of probate or letters of administration, stamp duty is levied according to the size of the estate (wherever situate in respect of a holder of Bonds domiciled in Jersey, or situate 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.

Jersey does not otherwise levy taxes upon capital, inheritances, capital gains or gifts nor are there otherwise estate duties.

#### ***EU Savings Directive***

As part of an agreement reached in connection with the EU directive on the taxation of savings income in the form of interest payments, and in line with steps taken by other relevant third countries, Jersey introduced with effect from 1 July 2005 a retention tax system in respect of payments of interest, or other similar income, made to an individual beneficial owner resident in an EU Member State by a paying agent established in Jersey. The retention tax system applies for a transitional period prior to the implementation of a system of automatic communication to EU Member States of information regarding such payments. During this transitional period, such an individual beneficial owner resident in an EU Member State will be entitled to request a paying agent not to retain tax from such payments but instead to apply a system by which the details of



such payments are communicated to the tax authorities of the EU Member State in which the beneficial owner is resident.

The retention tax system in Jersey is implemented by means of bilateral agreements with each of the EU Member States, the Taxation (Agreements with European Union Member States) (Jersey) Regulations 2005 and Guidance Notes issued by the Treasury & Resources Department of the States of Jersey. Based on these provisions and what is understood to be the current practice of the Jersey tax authorities, the Issuer would not be obliged to levy retention tax in Jersey under these provisions in respect of interest payments made by it to a paying agent established outside Jersey.

### **United Kingdom Taxation**

This summary is based upon the law and UK HM Revenue & Customs practice as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date (possibly with retrospective effect). The information below is a summary only and may not apply to certain categories of Bondholder.

#### ***Withholding Tax and Interest on Bonds***

The Bonds will constitute “quoted Eurobonds” so long as they continue to be listed on a recognised stock exchange, within the meaning of section 1005 of the Income Tax Act 2007. 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 by the UKLA and are admitted to trading on the London Stock Exchange. HM Revenue & Customs have confirmed that securities that are admitted to trading on the Professional Securities Markets satisfy the condition of being admitted to trading on the London Stock Exchange.

Whilst the Bonds are and continue to be quoted Eurobonds, payments of interest on the Bonds may be made without withholding or deduction for or on account of UK income tax.

In all other cases, interest will generally be paid under deduction of income tax at the basic rate (currently 20 per cent.) subject to any direction to the contrary from HM Revenue & Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty and subject to any other exemption that may be available to particular Bondholders.

If interest were paid under deduction of UK income tax (e.g. if the Bonds ceased to be listed on a recognised stock exchange), Bondholders who are not resident in the UK may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.

If the Guarantor makes any payments in respect of interest on the Bonds (or other amounts due under the Bonds other than the repayment of amounts subscribed for the Bonds) such payments may be subject to UK 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 to any other exemption which may apply. Such payments by the Guarantor might not be eligible for the other exemptions described herein.

The interest has a UK source and accordingly may be chargeable to UK tax by direct assessment. In this event, where the interest is paid without withholding or deduction, the interest will not be assessed to UK tax in the hands of Bondholders who are not resident for tax purposes in the UK, except where such persons carry on a trade, profession or vocation in the UK through a UK branch or agency, or in the case of a corporate holder, a permanent establishment, in connection with which the interest is received or to which the Bonds are attributable, in which case tax may be levied on the UK branch, agency or permanent establishment. There are exemptions for

interest received by certain categories of agents. Exemption from, or reduction of, such UK tax liability might be available under an applicable double taxation treaty.

Payments of dividends by the Guarantor on the Ordinary Shares will be made without deduction or withholding for or on account of UK tax.

The tax treatment of a Bondholder that is within the charge to United Kingdom corporation tax in respect of its holding of Bonds is likely to depend on the Bondholder's generally accepted accounting treatment in respect of the Bonds (including, in particular, whether the Bonds are to be bifurcated into a host contract and embedded derivative in accordance with applicable accounting principles).

Bondholders who are not resident in the United Kingdom for tax purposes, and who do not carry on a trade, profession or vocation in the United Kingdom through a permanent establishment in connection with which the Bonds are held, will generally not be liable to United Kingdom corporation tax on amounts received in respect of the Bonds.

### ***HM Revenue & Customs Information Powers***

Bondholders should note that where any interest on Bonds is paid to them (or to any person acting on their behalf) by any person in the UK acting on behalf of the Issuer (a "paying agent"), or is received by any person in the UK acting on behalf of the relevant Bondholder (other than solely by clearing or arranging the clearing of a cheque) (a "collecting agent"), then the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to HM Revenue & Customs details of the payment and certain details relating to the Bondholder (including the Bondholder's name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of UK income tax and whether or not the Bondholder is resident in the UK for UK taxation purposes. Where the Bondholder is not resident for tax purposes in the UK, the details provided to HM Revenue & Customs may, in certain cases, be passed by HM Revenue & Customs to the tax authorities of the jurisdiction in which the Bondholder is resident for taxation purposes.

### ***EU Savings Directive***

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "Directive"), each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual or certain other residual entities resident in that other Member State.

### ***UK Stamp Duty and Stamp Duty Reserve Tax (SDRT)***

No SDRT should be payable on either the issue, transfer or conversion of a Bond. No UK stamp duty will be payable on the issue or conversion of the Bonds, or on the transfer of the Bonds provided that any transfer documents are executed and retained outside the UK.

No UK stamp duty or SDRT will be payable on the issue of the Preference Shares.

No SDRT will be required to be paid in respect of the transfer of the Preference Shares provided there is no register of the Preference Shares kept in the UK and provided that the Preference Shares are not paired with shares issued by a body corporate incorporated in the UK. UK stamp duty should not in practice be required to be paid on the transfer of the Preference Shares provided that any transfer documents are executed and retained outside the UK.

No UK stamp duty or SDRT is payable on any issue of Ordinary Shares by the Guarantor in exchange for Preference Shares. Special rules apply where shares are issued to issuers of depository receipts or providers of clearance services.

The written conveyance or transfer on sale of an Ordinary Share will be liable to stamp duty at the rate of 0.5 per cent., of the amount or value of the consideration for the transfer rounded up to the nearest £5. The purchaser normally pays the stamp duty.

An unconditional agreement to sell an Ordinary Share will generally give rise to a liability on the purchaser to SDRT, at the rate of 0.5 per cent., of the amount or value of the consideration for the sale. If a duly stamped transfer in respect of the agreement is produced within six years of the date that the agreement is entered into or (if later) the date that it becomes unconditional, any SDRT paid is repayable generally with interest, and the SDRT charge is cancelled.

Under the CREST system for paperless share transfers, no stamp duty or SDRT will arise on a transfer of Ordinary Shares into the CREST system unless such transfer is made for a consideration in money or money's worth, in which case a liability to SDRT (usually at a rate of 0.5 per cent.) will arise. Paperless transfers of Ordinary Shares within CREST will be liable to SDRT rather than stamp duty.

**IF YOU ARE NOT RESIDENT IN THE UK OR ARE SUBJECT TO TAX IN ANY OTHER JURISDICTION OR IF YOU ARE IN ANY DOUBT AS TO YOUR TAX POSITION, YOU SHOULD CONSULT AN APPROPRIATE PROFESSIONAL ADVISER WITHOUT DELAY.**

**IN PARTICULAR THIS SUMMARY DOES NOT DETAIL THE INCOME TAX, CORPORATION TAX OR CAPITAL GAINS TAX CONSEQUENCES OF A DISPOSAL OF ORDINARY SHARES OR THE TAX CONSEQUENCES OF A CONVERSION OR SALE OF THE CONVERTIBLE BOND. IT ALSO DOES NOT DISCUSS THE TAX CONSEQUENCES RELEVANT TO RETURNS ON THE BONDS, PREFERENCE SHARES OR ORDINARY SHARES OR TO ANY CASH AMOUNTS RECEIVED ON A CONVERSION.**

## SUBSCRIPTION AND SALE

J.P. Morgan Securities Ltd. (**JPM**) and Citigroup Global Markets Limited (together with JPM, the **Joint Lead Managers**), Canaccord Adams Limited, ING Bank N.V., Liberum Capital Limited, ZAO Raffeisenbank, Société Générale Corporate & Investment Banking and Unicredit Bank AG (together with Joint Lead Managers, the **Managers**) have entered into a subscription agreement dated 15 February 2010 with the Issuer and the Guarantor (**Subscription Agreement**). Upon the terms and subject to the conditions contained therein, JPM has agreed to subscribe for the aggregate principal amount of the Bonds at the issue price of 100 per cent. of their principal amount.

The Subscription Agreement may be terminated in certain circumstances prior to the issue of the Bonds.

The Issuer, failing whom the Guarantor, has agreed to pay to JPM (i) an underwriting commission (the **Commission**) and (ii) at its sole discretion, the whole or any part of a discretionary fee in consideration of its agreement to act as sole bookrunner and has also agreed to reimburse the Managers for certain of their expenses incurred in connection with the management of the issue of the Bonds. Pursuant to the terms of the Subscription Agreement, the parties thereto have acknowledged and agreed that JPM shall apportion the Commission in accordance with the Subscription Agreement. The Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Bonds.

The Issuer and the Guarantor have undertaken that during the period from and including 22 January 2010 to but excluding 23 April 2010 save for any issue of securities pursuant to arrangements in place prior to the date of the Subscription Agreement disclosed to JPM in writing expressly for the purposes of the Subscription Agreement prior to its execution (including the issue of Ordinary Shares pursuant to the option agreement between the Guarantor and the International Financial Corporation), the Guarantor will not without the prior written consent of JPM (such consent not to be unreasonably withheld or delayed) (i) issue, offer, sell, contract to sell, grant any option to purchase or otherwise dispose of, any shares of the Guarantor (or any securities convertible into or exchangeable for shares of the Guarantor, other than pursuant to the Guarantor's employee share option plan or (ii) enter into a transaction (including a derivative transaction) having an economic effect similar to that of any such transaction referred to in paragraph (i) above or (iii) publicly announce any intention to issue, offer, sell, contract to sell, grant any option to purchase or otherwise dispose of, any shares of the Guarantor (or any securities convertible into or exchangeable for or which carry rights to subscribe or purchase shares of the Guarantor) or (iv) deposit any shares of the Guarantor (or any securities convertible into or exchangeable for shares of the Guarantor) in any depository receipt facility.

The Managers and their affiliates have, in the past, performed investment banking and advisory services for the Guarantor and the Group for which they have received customary fees and expenses. The Managers and their affiliates may, from time to time, engage in further transactions with, and perform services for, the Issuer, the Guarantor and the Group in the ordinary course of its business.

### **Purchase of Bonds**

The Bonds are a new issue of securities with no established trading market. Accordingly, the Issuer cannot assure the liquidity of the trading market for the Bonds.

Purchasers who purchase Bonds may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the Issue Price set out on the cover page of this Offering Circular.

In connection with the offering of the Bonds, the Managers and/or any of their affiliates may act as an investor for its own account and may take up Bonds or Ordinary Shares in the offering and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Issuer or related investments and may offer or sell such securities or other investments otherwise than in connection with the Offering. Accordingly, references herein to the Bonds being offered should be read as including any offering or placement of securities to the Managers and/or their affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

### **United States**

The Bonds, the Guarantee, the guarantee by way of deed poll provided by the Guarantor in respect of the Preference Shares, the Preference Shares and the Ordinary Shares have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each of the Managers has represented that it has not offered or sold, and agreed that it will not offer or sell, any Bonds, the Guarantee, the guarantee by way of deed poll provided by the Guarantor in respect of the Preference Shares, the Preference Shares and the Ordinary Shares within the United States except in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither the Managers, their affiliates, nor any persons acting on their behalf have engaged or will engage in any directed selling efforts with respect to the Bonds, the Guarantee, the guarantee by way of deed poll provided by the Guarantor in respect of the Preference Shares, the Preference Shares or the Ordinary Shares. Terms used in this paragraph have the meanings given to them by Regulation S.

### **Jersey**

Each Manager has represented and agreed with the Issuer that it will not make any offer or invitation on behalf of the Issuer in respect of the Bonds until such time as the necessary consents and approvals set out in the Subscription Agreement have been obtained and are effective.

### **United Kingdom**

Each of the Managers has represented, warranted and agreed that:

- (a) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any 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 any Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Bonds in, from or otherwise involving the United Kingdom.

### **Russia**

Each of the Managers has agreed that the Bonds will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian Law.

**General**

Each Manager acknowledges that no action has been or will be taken in any jurisdiction that would permit a public offering of the Bonds, or possession or distribution of any offering materials in any country or jurisdiction where action for that purpose is required. It will comply to the best of its knowledge and belief with all applicable securities laws and regulations in each jurisdiction in which it purchases, offers, sells or delivers Bonds or has in its possession or distributes any offering materials, in all cases at its own expense.

## **GENERAL INFORMATION**

### **1 Listing**

Application has been made to the UKLA for the Bonds to be admitted to the Official List. Application has been made to the London Stock Exchange for the Bonds to be admitted to trading on the Professional Securities Market. It is expected that admission of the Bonds to the Official List of the UKLA and admission to trading of the Bonds on the Professional Securities Market of the London Stock Exchange will be granted on or around 18 February 2010, subject to the issue of the Bonds. It is expected that dealings in the Bonds will commence on 19 February 2010.

The Guarantor has undertaken to apply to have the Ordinary Shares issuable upon conversion of the Bonds admitted to the Official List of the UKLA and to trading on the London Stock Exchange.

The listing of the Bonds on the London Stock Exchange will be expressed in pounds Sterling as a percentage of their principal amount (exclusive of accrued interest). Transactions will normally be effected for settlement in pounds Sterling for delivery on the third business day in London after the date of the transaction.

### **2 Authorisation**

The Issuer and the Guarantor have each obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds. The creation and issue of the Bonds has been authorised by resolutions of the Board of Directors of the Issuer dated 26 January 2010 and 15 February 2010. The giving of the Guarantee of the Bonds has been authorised by the resolution of a committee of the Board of Directors dated 21 January 2010 and 17 February 2010.

### **3 Expenses**

The Company estimates that the amount of expenses related to the admission to trading of the Bonds will be approximately £7,175.

### **4 Clearing**

The Bonds have been accepted for clearance through the Clearstream, Luxembourg and Euroclear systems. The Common Code for the Bonds is 048287581. The International Securities Identification Number for the Bonds is XS0482875811. The address of Euroclear is 1 Boulevard du Roi Albert I, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855, Luxembourg.

### **5 Governmental, Legal or Arbitration Proceedings**

Save as set out below, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which either the Issuer or the Guarantor is aware) during the 12 months before the date of this Offering Circular, which may have, or have had in the recent past, significant effects on the Issuer's and/or the Guarantor's and/or the Group's financial position or profitability.

The Group is involved in legal proceedings with two minority shareholders in Lapwing, Gatnom Capital and Finance Ltd. and O.M. Investments & Finance Ltd. The claim was filed in September 2008 in Cyprus and the respondents are Lapwing and Aricom UK Limited.

The claimants allege their holdings in Lapwing were improperly diluted as the result of the issuance of additional shares following a September 2007 shareholders' meeting. The claimants have asked the court to dissolve Lapwing or, alternatively, to order that their shares be purchased at a price allegedly previously agreed upon or to be determined by an expert appointed by the court. On 20 January 2010, the claimants withdrew their composite claim and re-filed individual claims in substantially similar form. The maximum potential liability arising from the claim cannot currently be accurately assessed although the Directors believe that the claim is of a limited merit.

## 6 Financial and Trading Position

Since the date of the Issuer's incorporation on 18 January 2010, there has been no material adverse change in the prospects of the Issuer nor has there been any significant change in the financial trading position of the Issuer.

There has been no material adverse change in the prospects of the Guarantor and its subsidiaries taken as a whole since 31 December 2008.

Save as disclosed below, there has been no significant change in the financial or trading position of the Guarantor and its subsidiaries taken as a whole since 30 June 2009:

- (a) the Group purchased a total of US\$51.9 million 7.00 per cent. guaranteed gold equivalent exchangeable bonds due 2012 (**Exchangeable Bonds**) at an average price of US\$109.00 plus accrued interest and a total of US\$1.1 million Exchangeable Bonds at an average price of US\$104.00 plus accrued interest;
- (b) following the satisfaction of the relevant conditions, in November 2009 the Group decided to exercise its option to redeem all of its outstanding 7.125 per cent. guaranteed convertible bonds due 2010 (**Convertible Bonds**) prior to their final maturity date. Bondholders holding a total of US\$139.8 million Convertible Bonds elected to convert their bonds into Ordinary Shares;
- (c) the Group repaid its existing loans of US\$30 million in aggregate from Sberbank and US\$16 million from Unicredit Bank;
- (d) the Group entered into the Sberbank loan agreement and Club Facility (as described in "Material Contracts" on page 110);
- (e) the Group has continued to invest in mining projects with a total of US\$170 million invested in property, plant and equipment and exploration from 30 June 2009 to 31 December 2009; and
- (f) primarily as a result of (a), (c), (d) and (e), the effect of which was partially offset by US\$80 million cash flows from operations, total cash within the Group decreased from US\$165 million as at 30 June 2009 to US\$76 million as at 31 December 2009.

## 7 Financial Information

The consolidated financial statements of the Guarantor have been audited without qualification as at and for the years ended 31 December 2007 and 31 December 2008 by Moore Stephens LLP registered by the Institute of Chartered Accountants in England and Wales to carry out audit work.

The consolidated financial statements of Aricom Limited (formerly Aricom PLC) have been audited without qualification as at and for the years ended 31 December 2007 and 31



December 2008 by Deloitte LLP registered by the Institute of Chartered Accountants in England and Wales to carry out audit work.

The unaudited interim financial statements of the Group for the six months ended 30 June 2009 were the subject of a limited review by Deloitte LLP registered by the Institute of Chartered Accountants in England and Wales to carry out audit work.

## **8 Documents on Display**

Copies of the following documents may be inspected during normal business hours at the offices of the Principal Agent during the 12 months starting on the date on which this Offering Circular is made available to the public:

- (a) the Memorandum and Articles of Association of the Issuer;
- (b) the Memorandum and Articles of Association of the Guarantor;
- (c) the annual reports and audited consolidated annual financial statements of the Guarantor as at and for the years ended 31 December 2007 and 31 December 2008 together in each case with the audit report thereon;
- (d) the annual reports and audited consolidated annual financial statements of Aricom Limited (formerly Aricom PLC) as at and for the years ended 31 December 2007 and 31 December 2008 together in each case with the audit report thereon;
- (e) the unaudited interim financial statements of the Group for the six months ended 30 June 2009 and the related review report; and
- (f) the Paying, Transfer and Conversion Agency Agreement, the Trust Deed and the Deed Poll.

In addition, this Offering Circular is also available at the website of the Regulatory News Service operated by the London Stock Exchange at:

<http://www.londonstockexchange.com/gbpricenews/marketnews>

## DEFINITIONS

### Definitions

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

<b>AIM</b>	the AIM Market of the London Stock Exchange
<b>Amur Region or Amur</b>	the Amur Region of Russia
<b>Aricom</b>	Aricom Limited (formerly Aricom PLC)
<b>Aricom Acquisition</b>	the acquisition of Aricom
<b>Articles</b>	the articles of association of the Company
<b>BAM Railway</b>	Baikal Amur Railway
<b>Berelekh</b>	OAOGDK Berelekh, a subsidiary of Omchak
<b>Board</b>	the Board of Directors of the Company
<b>Bonds</b>	US\$380,000,000 4.00 per cent. Guaranteed Convertible Bonds due 2015
<b>China</b>	the People's Republic of China
<b>Chita Region or Chita</b>	the Chita region of Zabaykalskiy Krai of Russia
<b>Clearstream, Luxembourg</b>	Clearstream Banking, <i>société anonyme</i>
<b>Closing Date</b>	on or around 18 February 2010
<b>combined licence</b>	a licence for both the prospecting (exploration) and the development and extraction (exploitation) of a licence area
<b>Commencement Date</b>	7 May 2008, being the date on which the New Law and the Amendment Law came into effect
<b>Commission</b>	The Jersey Financial Services Commission
<b>Companies Act 2006</b>	The United Kingdom Companies Act 2006, as amended
<b>Company, Guarantor or Petropavlovsk</b>	Petropavlovsk PLC, a company incorporated with limited liability in England and Wales
<b>CREST</b>	the system for paperless settlement of trades and holdings of uncertificated shares administered by Euroclear UK & Ireland Limited (formerly known as CRESTCo Ltd)
<b>Definitive Certificates</b>	definitive Bonds in registered form
<b>Directive</b>	(Directive/2003/48/EC) adopted by the EU regarding the taxation of savings income in the form of interest payments that came into force on 1 July 2005
<b>Directors</b>	the Executive Directors and Non-executive Directors of the Company
<b>Division</b>	one or both of the Pokrovskiy and Pioneer Division and the North East Amur Division
<b>EAO</b>	Evreyskaya Avtonomnaya Oblast, a region within Russia, also known as the Jewish autonomous region of Russia

<b>Elga</b>	OOO Elga, an indirect subsidiary of the Company
<b>EEA</b>	The European Economic Association which comprise all current EU member states, Iceland, Liechtenstein and Norway
<b>EEA regulated market of the London Stock Exchange</b>	a market for securities which appears in the list of regulated markets drawn up by the EEA state in which the market is situated or operates. For example, the various “markets” currently established by the London Stock Exchange are (with the exception of the Alternative Investment market) regulated markets for this purpose
<b>EU</b>	the European Union as established by the Treaty on European Union
<b>Euroclear</b>	Euroclear Bank S.A./N.V.
<b>Executive Directors</b>	Peter Hambro, Pavel Maslovsky and Brian Egan
<b>Founders’ Shares</b>	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
<b>FSA</b>	Financial Services Authority of the United Kingdom
<b>FSMA</b>	The United Kingdom Financial Services and Markets Act 2000, as amended
<b>GKZ</b>	State Commission for Reserves and Resources of the Russian Federation or its territorial committees as the case may be
<b>Global Bond</b>	a global bond in registered form
<b>Group</b>	the Guarantor and its subsidiary undertakings and, where the context requires, its associates
<b>Guarantee</b>	the unconditional and irrevocable guarantee provided by the Guarantor pursuant to the Trust Deed of 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 its other obligations in respect of the Bonds.
<b>IFRS</b>	International Financial Reporting Standards
<b>Irkutsk Region</b>	the Irkutsk Region of Russia
<b>Issuer</b>	Petropavlovsk 2010 Limited
<b>JORC Code (2004)</b>	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, as published by the Joint Ore Reserves Committee of The Australian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
<b>K&amp;S</b>	the Kimkanskoje and Sutarskoje iron ore deposits field located in the EAO in the south-western part of Russia’s Far East
<b>Koboldo</b>	OAO ZDP Koboldo, an indirect subsidiary of the Company
<b>KS GOK</b>	OOO Kimkano-Sutarskiy Mining and Processing Enterprise, an indirect subsidiary of the Company
<b>Lapwing</b>	Lapwing Limited, a company incorporated in Cyprus which indirectly holds the licence for the Garinskoye deposit

<b>LIBOR</b>	London Interbank Offering Rate
<b>Listing Rules</b>	the listing rules of the UK Listing Authority
<b>LSE or London Stock Exchange</b>	London Stock Exchange plc
<b>Magadan Region</b>	the Magadan Region of Russia
<b>Managers</b>	those entities engaged as managers in connection with the offering of the Bonds and whose names are set out on page 140
<b>MC Petropavlovsk</b>	ZAO Management Company Petropavlovsk (a subsidiary of the Company) or its subsidiary ZAO Peter Hambro Mining Engineering
<b>Nelkobazoloto</b>	ZAO Nelkobazoloto, a subsidiary of Omchak
<b>Non-executive Directors</b>	Peter Hill-Wood, Sir Malcolm Field, Sir Roderic Lyne, Lord Guthrie, Charles McVeigh and Dr. Graham Birch
<b>North East Amur Division</b>	the operations at Malomir, Albyn and Tokur ranging from exploration to advanced development stages
<b>OAO</b>	Russian open joint stock company
<b>Official List</b>	the official list maintained by the UK Listing Authority for the purposes of Part VI of the FSMA
<b>OOO</b>	Russian limited liability company
<b>Ordinary Shares or Shares</b>	ordinary shares of £0.01 each in the Company
<b>Osipkan</b>	OOO Osipkan
<b>Paid-up Value</b>	US\$100,000 per Preference Share
<b>Panel</b>	the Panel on Takeovers and Mergers
<b>Pokrovskiy and Pioneer Division</b>	the producing mines at Pokrovskiy and Pioneer together with the exploration and development operations at the satellite deposits
<b>Pokrovskiy Deposits</b>	<b>Satellite</b> the occurrences of gold mineralisation around the Pokrovskiy mine
<b>Preference Shares</b>	shares issuable at an agreed issue price of US\$100,000 each, the terms of which are as set out in the Articles of the Issuer
<b>Principal Paying, Transfer, Conversion and Exchange Agent</b>	BNP Paribas Securities Services, Luxembourg Branch
<b>Prospectus</b>	the prospectus dated 21 April 2009 issued in connection with the admission of the Ordinary Shares to the Official List of the UKLA and to trading on the London Stock Exchange
<b>Registrar</b>	BNP Paribas Securities Services, Luxembourg Branch
<b>Rusoro</b>	Rusoro Mining Limited, a mining company with interests in Venezuela incorporated under the laws of the Province of British Columbia
<b>Russia</b>	the Russian Federation
<b>Sakha</b>	the Republic of Sakha (Yakutia) of Russia

<b>SDRT</b>	The Stamp Duty Reserve Tax of the UK
<b>Shkolnoye</b>	OAO Shkolnoye, a member of the Omchak joint venture
<b>Stabilisation Manager</b>	J.P. Morgan Securities Ltd.
<b>State Balance</b>	the Russian state balance of registered mineral reserves
<b>Subscription Agreement</b>	the subscription agreement dated 15 February 2010 entered into among J.P. Morgan Securities Ltd. (as Joint Lead Manager) and the other Managers, the Issuer and the Guarantor in relation to the Bonds
<b>Subsidiary</b>	<p>in relation to a company, means another company that:</p> <p>(a) holds a majority of the voting rights in it; or</p> <p>(b) is a member of it and has the right to appoint or remove a majority of its board of directors; or</p> <p>(c) is a member of it and controls alone, pursuant to an agreement with other members, a majority of the voting rights in it,</p> <p>or a subsidiary of a company that is itself a subsidiary of that other company</p>
<b>Susumanzoloto</b>	OAO SGOC Susumanzoloto, a member of the Omchak joint venture
<b>Trust Deed</b>	the trust deed to be dated on or about dated 18 February 2010 among the Issuer, the Guarantor and the Trustee constituting the Bonds
<b>Trustee</b>	BNP Paribas Trust Corporation UK Limited
<b>UK Listing Authority or UKLA</b>	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the FSMA and in the exercise of its functions in respect of admission to the Official List otherwise than in accordance with Part VI of the FSMA
<b>United Kingdom or UK</b>	The United Kingdom of Great Britain and Northern Ireland
<b>United States or US or USA</b>	The United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
<b>Warrants</b>	warrants each of which gives the right to subscribe for one Ordinary Share, constituted by a warrant instrument executed by the Company on 21 April 2009
<b>Yamal Region</b>	Yamalo-Nenets Autonomous District of Russia
<b>Yamalzoloto</b>	OAO Yamalzoloto, a subsidiary of Pokrovskiy Rudnik
<b>ZAO</b>	Russian closed joint stock company

## GLOSSARY OF ABBREVIATIONS AND TECHNICAL TERMS

<b>Ag</b>	chemical symbol for the element silver
<b>albite</b>	sodic feldspar, $\text{Na(AlSi}_3\text{O}_8)$ ; variety of plagioclase feldspars
<b>alluvial</b>	<i>detrital</i> material which is transported by a river and deposited at points along the flood plain
<b>assay</b>	qualitative analysis of ore to determine its components
<b>Au</b>	chemical symbol for the element gold
<b>balance</b>	Russian Standard Classification System term defining commercially exploitable reserves but without mining dilution and recovery
<b>barren</b>	of rock or vein material containing no minerals of value
<b>Cambrian</b>	geologic period of time from 590 to 505 million years ago
<b>Category A</b>	Soviet "ore reserves" where the reserves in place are known in detail. The boundaries of the deposit have been outlined by trenching, drilling, or underground workings. The quality and properties of the ore are known in sufficient detail to ensure the reliability of the projected exploitation
<b>Category B</b>	Soviet "ore reserves" whose blocks are delineated by mine workings on three or more sides
<b>Category C<sup>1</sup></b>	Soviet "ore reserves" whose blocks are delineated by mine workings above and below
<b>Category C<sup>2</sup></b>	Soviet "ore reserves" extrapolated from Category C <sub>1</sub> but with more complex geology or limited mine workings
<b>Category P<sub>1-3</sub></b>	Soviet "Prognostic" ore reserves extrapolated beyond more definable reserves and resources. The category is subdivided into three sub-categories P <sub>1</sub> to P <sub>3</sub> , with the level of confidence decreasing progressively from sub category 1 to 3
<b>cyanidation</b>	metallurgical technique for extracting gold by leaching from low-grade ore, converting the gold to water soluble aurocyanide metallic complex ions
<b>dacite</b>	fine-grained igneous rock with composition between rhyolite and trachyte
<b>Deposit</b>	coherent geological body such as a mineralised body
<b>Dip</b>	the angle a plane makes with the horizontal plane
<b>Doré</b>	unrefined gold. After being mined, the first stage in the purification process of the gold ore produces a

	cast bar (gold dot-6) that mostly comprises gold (up to >90 per cent.) with the remainder comprising silver, copper etc.
<b>fault</b>	surface of rock fracture along which has been differential movement
<b>Feasibility Study</b>	extensive technical and financial study to assess the commercial viability of a project
<b>g/t</b>	gram per metric tonne
<b>grade</b>	relative quantity or the percentage of ore mineral or metal content in an ore body
<b>heap leach</b>	process used for the recovery of metal ore from typically weathered low-grade ore. Crushed material is laid on a slightly sloping, impervious pad and uniformly leached by the percolation of the leach liquor trickling through the beds by gravity to ponds. The metals are recovered by conventional methods from the solution
<b>hydrogeological</b>	study of the occurrence and distribution of underground water
<b>hydrothermal</b>	refers in the broad sense to the process associated with alteration and mineralisation by a hot mineralised fluid (water)
<b>ilmenite</b>	a black or dark brown mineral which is a major source of titanium and used as a feedstock for the production of titanium dioxide
<b>indicated resource</b>	as defined in the JORC Code (2004), is that part of a mineral resource which has been sampled by drill holes, underground openings or other sampling procedures at locations that are too widely spaced to ensure continuity but close enough to give a reasonable indication of continuity and where geoscientific data is known with a reasonable degree of reliability. An indicated mineral resource will be based on more data and therefore will be more reliable than an inferred resource estimate
<b>inferred resource</b>	as defined in the JORC Code (2004), is that part of a mineral resource for which the tonnage and grade and mineral content can be estimated with a low level of confidence. It is inferred from the geological evidence and has assumed but not verified geological and/or grade continuity. It is based on information gathered through the appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability
<b>JORC</b>	Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of

	Australia
<b>Km</b>	Kilometres
<b>km<sup>2</sup></b>	square kilometres
<b>Kt</b>	kilo tonnes (1,000 tonnes)
<b>Kv</b>	Kilovolts
<b>leached</b>	a rock that is in the process of being broken down by the action of substances dissolved in water
<b>magnetite</b>	an iron ore mineral, Fe <sub>3</sub> O <sub>4</sub> , being a ferromagnetic material form of iron oxide which is a valuable source of iron ore
<b>measured</b>	defined in the JORC Code (2004), as that part of a mineral resource for which the resource has been intersected and tested by drill holes, underground openings or other sampling procedures at locations which are spaced closely enough to confirm continuity and where geoscientific data is reliably known. A measured resource estimate will be based on a substantial amount of reliable data, interpretation and evaluation which allows a clear determination to be made of the shapes, sizes, densities and grades
<b>Mesozoic</b>	era of geologic time, from the end of the Paleozoic to the beginning of the Cenozoic, or from about 225 million years to about 65 million years ago
<b>metallurgical</b>	describing the science concerned with the production, purification and properties of metals and their applications
<b>Micromine©</b>	company that has developed innovative geological resource modelling software for the mineral resource industry since 1986
<b>mill</b>	equipment used to grind crushed rocks to the desired size for mineral extraction
<b>mineralisation</b>	process of formation and concentration of elements and their chemical compounds within a mass or body of rock
<b>mineral resource</b>	concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such a form that there are reasonable prospects for eventual economic extraction. The location, quantity, grade geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are sub-divided into <i>Inferred</i> , <i>Indicated</i> and <i>Measured</i> categories
<b>m</b>	metres
<b>m<sup>2</sup></b>	square metres



<b>Mm</b>	Millimetres
<b>Mt or mt</b>	million tonnes
<b>Mtpa</b>	mt per annum
<b>open pit</b>	large scale hard rock surface mine
<b>ore</b>	mineral deposit that can be extracted and marketed profitably
<b>ore body</b>	mining term to define a solid mass of mineralised rock that can be mined profitably under current or immediately foreseeable economic conditions
<b>ore reserve</b>	the economically mineable part of a <i>Measured</i> or <i>Indicated</i> mineral resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could be reasonably justified. Ore reserves are sub-divided in order of increasing confidence into <i>Probable</i> and <i>Proven</i>
<b>ounce or oz</b>	Troy ounce (= 31.1035 grams)
<b>overburden</b>	material that lies above the ore deposit
<b>oxide</b>	a mineral formed by the direct union of an element with oxygen; e.g. corundum, hematite, magnetite and cassiterite
<b>oxide ore</b>	often known as secondary or supergene ore, which consists of alteration products of primary ore as a result of weathering or other surfrcial processes resulting from descending surface waters
<b>Paleozoic Era</b>	first of the three eras of the Phanerozoic, spanning 570 to 248 million years ago
<b>primary ore</b>	often known as hypogene ore, where ore minerals are deposited during the original period or periods of mineralisation. Ore that has remained practically unchanged from the time of original formation
<b>precious metal</b>	gold, silver and platinum group minerals
<b>pressure oxidation</b>	a high temperature and pressure process in which gold bearing sulphides are oxidised to render gold amenable to cyanide leaching
<b>quartz</b>	mineral composed of silicon dioxide
<b>quartzite</b>	hard, metamorphic rock which was originally sandstone
<b>recovery</b>	proportion of valuable material obtained in the

	processing of an ore, stated as a percentage of the material recovered compared with the total material present
<b>refractory ore</b>	Ore material that is difficult to treat for recovery of the valuable element
<b>Reserves</b>	Proven: measured mineral resources, where technical economic studies show that extraction is justifiable at the time of the determination and under specific economic conditions  Probable: measured and/or indicated mineral resources which are not yet proven, but where technical economic studies show that extraction is justifiable at the time of the determination and under specific economic conditions
<b>RIP</b>	Resin in Pulp; processing technique by which a resin medium is used to absorb the desired element out of solution or pulp
<b>Russian Standard Classification System</b>	means by which Russian reserves are assigned to classes based on the degree of reliability of data and indicate their comparative importance for the national economy
<b>sandstone</b>	detrital sedimentary rock in which particles range from 1/16 to 2mm
<b>sill</b>	tabular mass of igneous rock that has been intruded laterally between layers of older rock
<b>stockpile</b>	an accumulation of ore or mineral formed to create a reserve for loading or when demand slackens or when the process plant is unequal to handling mine output
<b>sulphide</b>	mineral containing sulphur in its non-oxidised form
<b>t or tonne</b>	metric tonne
<b>tailings</b>	material that remains after all metals/minerals considered economic have been removed from the ore
<b>tectonic</b>	said of or pertaining to the forces involved in, or the resulting structures or features of, tectonics: branch of geology dealing with the broad architecture of the outer part of the Earth; i.e., the regional assembling of structural or deformational features
<b>thrust</b>	overriding movement of one crustal unit over another, such as in thrust faulting
<b>thrust fault</b>	Type of break in the earth's crust across which there has been relative movement, in which rocks of lower stratigraphic position are pushed up and over higher strata
<b>tpa</b>	tonnes per annum

**underground working**

mine openings for evaluation for ore extraction excavated beneath the ground surface

**vein**

tabular deposit of minerals occupying a fracture, in which particles may grow away from the walls towards the middle



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