

## IMPORTANT NOTICE

### FOR DISTRIBUTION ONLY TO PERSONS WHO ARE LOCATED OUTSIDE THE UNITED STATES.

**IMPORTANT:** You must read the following notice before continuing. The following notice applies to the prospectus following this page (the "**Prospectus**"), whether received by email, accessed from an internet page or otherwise received as a result of an electronic communication, and you are therefore advised to read this notice carefully before reading, accessing or making any other use of this Prospectus. In reading, accessing or making any other use of this Prospectus, you agree to be bound by the following terms and conditions and each of the restrictions set out in this Prospectus, including any modifications made thereto from time to time, each time you receive any information from Karlou B.V. (the "**Issuer**"), each of Geopromining Investment (CYP) Limited (the "**Company**" or the "**Parent**"), CJSC "Agarak Copper Molybdenum Combine", GPM Armenia B.V., JSC "Sarylakh-Surma", JSC "Zvezda", LLC "GeoProMining Gold" and LLC "GeoProMining Verkhne Menkeche" (together with the Company, the "**Guarantors**") and each of Citigroup Global Markets Limited, GPB-Financial Services Ltd, Sberbank CIB (UK) Limited and VTB Capital plc (together, the "**Joint Lead Managers**") as a result of such access.

**RESTRICTIONS:** NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE NOTES DESCRIBED IN THIS PROSPECTUS IN THE UNITED STATES OR IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. ANY NOTE TO BE ISSUED HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR WITH ANY SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION. THE NOTES MAY NOT BE OFFERED OR SOLD EXCEPT IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**"), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

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

**MiFID II product governance / Professional investors and ECPs only target market** – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

**PRIIPs Regulation / Prohibition of sales to EEA retail investors** – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the "**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2016/97/EU, as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information

document required by Regulation (EU) No. 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

FOR A MORE COMPLETE DESCRIPTION OF RESTRICTIONS ON OFFERS AND SALES, SEE "*SUBSCRIPTION AND SALE*" IN THIS PROSPECTUS.

**Confirmation of your Representation:** The distribution of this Prospectus in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Joint Lead Managers, the Issuer and the Guarantors to inform themselves about, and to observe, any such restrictions. In order to be eligible to view this Prospectus or make an investment decision with respect to the Notes described herein, (i) each prospective investor in respect of the Notes being offered outside the United States in an offshore transaction pursuant to Regulation S and (ii) each prospective investor in respect of the Notes being offered in the United Kingdom must be a Relevant Person. By accepting this e-mail and accessing, reading or making any other use of this Prospectus, you shall be deemed to have represented to the Issuer, the Guarantors, the Joint Lead Managers and Citibank, N.A., London Branch that (a) you have understood and agree to the terms set out herein, (b) the electronic mail (or e-mail) address to which, pursuant to your request, this Prospectus has been delivered by electronic transmission is located outside the United States, (c) in respect of the Notes being offered in the United Kingdom, you are (or the person you represent is) a Relevant Person, (d) you consent to delivery by electronic transmission, (e) you will not transmit this Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Joint Lead Managers and the Issuer, and (f) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase of any of the Notes.

You are reminded that this Prospectus has been delivered to you on the basis that you are a person into whose possession this Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised, to deliver or disclose the contents of this Prospectus, electronically or otherwise, to any other person. Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where such offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licenced broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licenced broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Joint Lead Manager or such affiliate on behalf of the Issuer in such jurisdiction.

This Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Joint Lead Managers, the Issuer, the Guarantors or any person who controls or is a director, officer, employee or agent of the Joint Lead Managers, the Issuer, the Guarantors or any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between this Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

The information in this Prospectus is not complete and may be changed. This Prospectus is not an offer to sell the securities described herein and is not soliciting an offer to buy such securities in any jurisdiction where the offer or sale is not permitted or to any person or entity to whom it is unlawful to make an offer or sale. This Prospectus is an advertisement and is not a prospectus for the purpose of EU Directive 2003/71/EC, as amended or superseded (the "**Directive**"). A final form prospectus will be prepared and made available to the public in accordance with the Directive. Investors should not subscribe for any securities referred to in this Prospectus except on the basis of information contained in the final form prospectus.



**Karlou B.V.**

*(a private company with limited liability incorporated under the laws of The Netherlands)*

US\$300,000,000 7.75% Notes due 2024

*irrevocably and unconditionally guaranteed by*

**Geopromining Investment (CYP) Limited**

*(incorporated in the Republic of Cyprus)*

**GPM Armenia B.V.**

*(incorporated in The Netherlands)*

**CJSC "Agarak Copper Molybdenum Combine"**

**LLC "GeoProMining Gold"**

*(each incorporated in the Republic of Armenia)*

**LLC "GeoProMining Verkhne Menkeche"**

**JSC "Sarylakh-Surma"**

**JSC "Zvezda"**

*(each incorporated in the Russian Federation)*

**Issue Price: 100%**

Karlou B.V., a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated and operating under the laws of The Netherlands (the "**Issuer**"), a wholly-owned subsidiary of Geopromining Investment (CYP) Limited (the "**Company**" or the "**Parent**"), is offering an aggregate principal amount of US\$300,000,000 7.75% guaranteed notes due 2024 (the "**Notes**"). Each of (a) the Company, (b) CJSC "Agarak Copper Molybdenum Combine" ("**Agarak**") and LLC "GeoProMining Gold" ("**GPM Gold**" and, together with Agarak, the "**Armenian Guarantors**"), (c) JSC "Sarylakh-Surma" ("**Sarylakh-Surma**"), JSC "Zvezda" ("**Zvezda**") and LLC "GeoProMining Verkhne Menkeche" ("**Verkhne-Menkeche**" and, together with Sarylakh-Surma and Zvezda, the "**Russian Guarantors**") and (d) GPM Armenia B.V. (together with the Company, the Armenian Guarantors and the Russian Guarantors, the "**Guarantors**") has fully, irrevocably and unconditionally, on a joint and several basis, agreed to guarantee the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes under the guarantee (the "**Guarantee**") contained in the trust deed relating to the Notes to be dated 18 June 2019 (the "**Trust Deed**") between the Issuer, the Guarantors and Citibank, N.A., London Branch (the "**Trustee**").

The Notes will bear interest at a rate of 7.75% per annum payable semi-annually in arrear on 18 June and 18 December in each year, commencing on 18 December 2019. Payments on the Notes (including payments by the Guarantors under the Guarantee or otherwise under the Trust Deed) will be made without deduction for or on account of taxes of The Netherlands, the Russian Federation, the Republic of Armenia or the Republic of Cyprus, unless such withholding or deduction is required by law. In such event, the Issuer or (as the case may be) the Guarantors will, subject to certain exceptions and limitations, pay additional amounts to the holder of any Note (a "**Noteholder**") to the extent described under "**Terms and Conditions of the Notes—Taxation**". Unless previously redeemed or cancelled as described herein under the terms and conditions of the Notes (the "**Conditions**"), the Notes will mature at their principal amount on 18 June 2024 (the "**Maturity Date**"). In the event of certain developments affecting taxation, the Issuer may redeem the Notes in whole, but not in part, at the principal amount thereof together with accrued and unpaid interest (if any) to (but excluding) the date fixed for redemption. See Condition 6.2 ("**Redemption and Purchase—Redemption for Tax Reasons**"). The Issuer may at any time, upon not less than 30 nor more than 60 days' irrevocable notice to Noteholders, redeem all, but not some only, of the Notes at a redemption price equal to 100% of the principal amount thereof plus the Applicable Redemption Premium (as defined in the Conditions) together with accrued and unpaid interest (if any) to (but excluding) the redemption date specified in such notice. See Condition 6.4 ("**Redemption and Purchase—Optional Redemption at Make Whole**"). If a Relevant Event (as defined in the Conditions) has occurred, each Noteholder will have the option to require the Issuer to redeem such Note on the Relevant Event Put Settlement Date (as defined in the Conditions) at an amount equal to 101% of the principal amount of the Note together with accrued and unpaid interest (if any) to (but excluding) the Relevant Event Put Settlement Date. See Condition 6.3 ("**Redemption and Purchase—Redemption upon a Relevant Event**").

This prospectus (this "**Prospectus**") has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under Directive 2003/71/EC, as amended or superseded (the "**Prospectus Directive**"). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive. Such approval relates only to the Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2014/65/EU, as amended ("**MiFID II**") or which are to be offered to the public in any Member State of the European Economic Area (the "**EEA**"). Application has been made to the Irish Stock Exchange plc, trading as Euronext Dublin ("**Euronext Dublin**") for the Notes to be admitted to the official list of Euronext Dublin (the "**Official List**") and to trading on its regulated market ("**the Regulated Market of Euronext Dublin**"). This Prospectus constitutes a Prospectus for the purposes of the Prospectus Directive. References in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to the Official List and to trading on the Regulated Market of Euronext Dublin. The Regulated Market of Euronext Dublin is a regulated market for the purposes of MiFID II.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or with any securities regulatory authority of any state or other jurisdiction of the United States. The Notes are being offered and sold outside the United States in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered or sold except in an offshore transaction in accordance with Regulation S.

**An investment in the Notes involves a high degree of risk. Investors should carefully review the risks described herein under "**Risk Factors**" beginning on page 28.**

The Notes are expected to be rated "B+" by S&P Global Ratings Europe Limited ("**S&P**") and "B+(Exp)" by Fitch Ratings Limited ("**Fitch**"). The Company is rated B+ with Stable Outlook by S&P and B+(Exp) with Stable Outlook by Fitch. Each of Fitch and S&P is established in the EEA and registered under Regulation (EC) No. 1060/2009 on credit rating agencies, as amended (the "**CRA Regulation**"). The list of credit rating agencies registered in accordance with the CRA Regulation is available on the European Securities and Market Authority's website (<https://www.esma.europa.eu/supervision/credit-rating-agencies/risk>). **A rating is a not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.**

The Notes will be issued in registered form in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof up to and including US\$399,000. It is expected that delivery of the Notes will be made to investors in book-entry form through Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"), on or about 18 June 2019 (the "**Issue Date**"). The Notes will be represented on issue by a global certificate in registered form (the "**Global Certificate**"). Interests in the Global Certificate will be exchangeable for definitive note certificates (the "**Definitive Note Certificates**") only in certain limited circumstances described in "**Summary of Provisions relating to the Notes in Global Form**".

*Joint Lead Managers*

**Citigroup**

**GPB-Financial Services Ltd  
(Gazprombank Group)**

**Sberbank CIB**

**VTB Capital**

The date of this Prospectus is 14 June 2019.

## IMPORTANT NOTICES

The Issuer and the Guarantors accept responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of each of the Issuer and the Guarantors (each of which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

See "*Presentation of Financial and Certain Other Information*" regarding information derived from third party sources.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of the Notes may be restricted by law in certain jurisdictions. No representation is made by any of the Issuer, the Guarantors or the Joint Lead Managers or the Trustee that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Guarantors, the Joint Lead Managers or the Trustee which is intended to permit a public offering of the Notes or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe any such restrictions on the distribution of this Prospectus and the offering and sale of the Notes (the "**Offering**"). In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of the Notes in the United States, the United Kingdom, The Netherlands, the Russian Federation, the Republic of Armenia and the Republic of Cyprus. See "*Subscription and Sale*".

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

Neither the Joint Lead Managers nor the Trustee has made an independent verification of the information contained in this Prospectus and no representation or warranty, express or implied, is made by any of the Joint Lead Managers or the Trustee as to the accuracy or completeness of such information. Nothing contained in this Prospectus is, is to be construed as, or shall be relied on as a promise, warranty or representation, whether as to the past or future, by any of the Joint Lead Managers or the Trustee in any respect. To the fullest extent permitted by law, neither the Joint Lead Managers nor the Trustee accepts any responsibility whatsoever for the contents of this Prospectus. Each of the Joint Lead Managers and the Trustee accordingly disclaims all and any liability, whether arising in tort, contract or otherwise, which it might otherwise have to any Noteholder in respect of this Prospectus.

**The contents of this Prospectus are not, are not to be construed as, and shall not be relied on as legal, business or tax advice, and each investor should consult its own legal, business, tax and other advisers for any such advice that may be relevant to such investor.**

No person is or has been authorised by the Issuer, the Guarantors, the Joint Lead Managers or the Trustee to give any information or to make any representation other than as contained in this Prospectus or as approved for such purpose by the Issuer and the Guarantors and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Issuer, the Guarantors, the Joint Lead Managers or the Trustee.

Neither this Prospectus nor any other information supplied in connection with the Offering (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer, the Guarantors, any of the Joint Lead Managers or the Trustee that any recipient of this Prospectus or any other information supplied in connection with the Offering should purchase any Notes. Each investor

contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Guarantors. Neither this Prospectus nor any other information supplied in connection with the Offering constitutes an offer or invitation by or on behalf of the Issuer, the Guarantors, any of the Joint Lead Managers or the Trustee to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Prospectus nor the offer, issue, sale or delivery of the Notes shall, under any circumstances, imply that there has been no change in the affairs of the Issuer, or the Company and its consolidated subsidiaries taken as a whole (the "**Group**") since the date hereof or that the information contained herein concerning the Issuer and/or the Group is correct as of any time subsequent to its date or that any other information supplied in connection with the Offering is correct as of any time subsequent to the date hereof.

In connection with the issue and sale of the Notes, each of the Joint Lead Managers and any of their respective affiliates acting as an investor for its own account may buy the Notes 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 issue and sale of the Notes. Accordingly, references in this Prospectus to the Notes being offered, issued or sold should be read as including any offer, issue or sale of securities to the Joint Lead Managers and any of their affiliates acting in such capacity. The Joint Lead Managers do not intend to disclose the extent of any such transactions or investments otherwise than in accordance with any legal or regulatory obligation to do so.

In addition, certain of the Joint Lead Managers and their respective affiliates have performed, and may in the future perform, various advisory, investment banking and/or commercial banking services for, and may arrange loans and other non-public market financing for, and enter into derivative transactions with, the Issuer, the Guarantors and/or their respective affiliates, for which they have and may receive in the future customary fees and expenses.

#### **THE NOTES MAY NOT BE A SUITABLE INVESTMENT FOR ALL INVESTORS**

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

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- understand thoroughly the terms of the Notes; and
- 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.

**MiFID II product governance / Professional investors and ECPs only target market** – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

**PRIIPs Regulation / Prohibition of sales to EEA retail investors** – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2016/97/EU, as amended (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No. 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

#### **NOTICE TO INVESTORS IN THE UNITED KINGDOM**

This Prospectus is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**") or (iii) persons falling within Article 49(2)(a) to (d) ("**high net worth companies, unincorporated associations, etc.**") of the Order or (iv) other persons to whom it may lawfully be communicated (all such persons together being referred to as "**relevant persons**"). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons (and subject to the other restrictions referred to in this Prospectus). Any person who is not a relevant person should not act or rely on this Prospectus or any of its contents.

#### **NOTICE TO INVESTORS IN THE NETHERLANDS**

The Notes (including the rights representing an interest in the Notes in global form), which are the subject of this Prospectus, shall not be offered or sold to individuals or legal entities in The Netherlands other than to qualified investors as defined in the Dutch Financial Supervision Act (*Wet op het financieel toezicht*).

#### **NOTICE TO INVESTORS IN THE RUSSIAN FEDERATION**

This Prospectus and the information contained herein is not an offer, or an invitation to make offers, to sell, purchase, exchange or otherwise transfer the Notes in the Russian Federation to or for the benefit of any Russian person or entity and does not constitute an advertisement or offering of securities in the Russian Federation within the meaning of Russian securities laws. The information contained in this Prospectus is not intended for any persons in the Russian Federation who are not "qualified investors" within the meaning of Article 51.2 of the Federal Law no. 39-FZ "On the Securities Market" dated 22 April 1996, as amended (the "**Russian QIs**") and this Prospectus must not be distributed or circulated into the Russian Federation or made available in the Russian Federation to any persons who are not Russian QIs, unless and to the extent they are otherwise permitted to access such information under Russian law. The Notes have not been and will not be registered in Russia and are not intended for "placement" or "circulation" in Russia (each as defined in Russian securities laws) unless and to the extent otherwise permitted under Russian law.

#### **NOTICE TO INVESTORS IN THE REPUBLIC OF ARMENIA**

This Prospectus is only being distributed to and is only directed at persons who are outside Armenia and other persons to whom it may lawfully be communicated under applicable law ("**applicable persons**"). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, applicable persons. Any person who is not an applicable person should not act or rely on this Prospectus or any of its contents. The Notes are not being issued in Armenia, or issued by an Armenian issuer, or offered in Armenia.

The Notes have not been approved or disapproved by the Central Bank of Armenia or any other Armenian regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Notes or the accuracy or the adequacy of this Prospectus.

#### **NOTICE TO INVESTORS IN THE REPUBLIC OF CYPRUS**

This Prospectus is being distributed solely to and is only directed at persons in Cyprus who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive as transposed in Cypriot legislation

by the Cyprus Prospectus Law (Law 114(I)/2005), as amended ("**Qualified Investors**"). Any investment activity to which this Prospectus relates will only be available to and will only be engaged in with Qualified Investors. Any person who is not a Qualified Investor should not act or rely on this Prospectus.

#### **STABILISATION**

In connection with the offer, issue and sale of the Notes, Citigroup Global Markets Limited (the "**Stabilising Manager**") (or any person acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the Offering is made and, if begun, may cease at any time, but must end no later than the earlier of 30 days after the Issue Date and 60 days after the date of allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf thereof) in accordance with all applicable laws, regulations and rules.

#### **FOREIGN LANGUAGE**

The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

## ENFORCEABILITY OF JUDGMENTS

The Issuer and GPM Armenia B.V. are incorporated under the laws of The Netherlands, the Russian Guarantors are incorporated under the laws of the Russian Federation, the Armenian Guarantors are incorporated under the laws of the Republic of Armenia and the Company is incorporated under the laws of the Republic of Cyprus, and none of the Issuer, the Company or the other Guarantors has a presence in the United Kingdom. Most of the directors and executive officers of the Issuer, the Company and the other Guarantors reside outside the United Kingdom and most of the assets of such persons and all assets of the Group are located outside of the United Kingdom. Moreover, the majority of the assets of the Group and the majority of the assets of its directors and officers are located in the Russian Federation and the Republic of Armenia.

### **The Netherlands**

#### ***Submission to arbitration***

Pursuant to article 1074 Dutch Code of Civil Procedure (*Wetboek van Burgerlijke Rechtsvordering*) the Dutch courts will, on the application of a party to an arbitration agreement, stay proceedings in respect of a matter which under the Conditions or the Trust Deed is to be referred to arbitration.

#### ***Enforceability of arbitral awards in The Netherlands***

An arbitral award rendered pursuant to the arbitration clause as set forth in the Conditions and the Trust Deed will be recognised and enforced in The Netherlands subject to the provisions of the Convention on the Recognition and Enforcement of Foreign Arbitral Awards of New York, 1958 in conjunction with Section 1075 of the Dutch Code of Civil Procedure (*Wetboek van Burgerlijke Rechtsvordering*).

### **Russian Federation**

The Conditions, the Trust Deed and the Guarantee are governed by English law and provide that disputes arising from or in connection with the Conditions, the Trust Deed or the Guarantee may be settled by arbitration in accordance with the rules of the LCIA (formerly the London Court of International Arbitration) (the "**LCIA Rules**"). The place of such arbitration shall be London, England. The Russian Federation and the United Kingdom are parties to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**"). Consequently, Russian courts should generally recognise and enforce in the Russian Federation an arbitral award from an arbitral tribunal in the United Kingdom on the basis of the rules of the New York Convention (subject to qualifications provided for in the New York Convention and compliance with Russian procedural regulations and other procedures and requirements established by Russian legislation).

The Arbitrazh Procedural Code of the Russian Federation (the "**Arbitrazh Procedural Code**") sets out the procedure for the recognition and enforcement of foreign arbitral awards by Russian courts. The Arbitrazh Procedural Code also contains an exhaustive list of grounds for the refusal of recognition and enforcement of foreign arbitral awards by Russian courts, which grounds are broadly similar to those provided by the New York Convention.

The Arbitrazh Procedural Code and other Russian procedural legislation could change, and other grounds for Russian courts to refuse the recognition and enforcement of foreign court judgments and foreign arbitral awards could arise in the future. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in the Russian Federation.

Furthermore, any arbitral award pursuant to arbitration proceedings in accordance with the LCIA Rules and the application of English law to the Conditions, the Trust Deed or the Guarantee may be limited by the mandatory provisions of Russian laws relating to the exclusive jurisdiction of Russian courts and the application of Russian laws with respect to bankruptcy, winding up or liquidation of Russian companies.

### **Republic of Armenia**

It may be difficult for Noteholders to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom, liabilities predicated upon English laws. In Armenia foreign judgments are



recognised and enforced pursuant to international treaties, as well as on the basis of the principle of reciprocity (Armenian law recognises the presumption of the existence of reciprocity). Foreign court judgments will be submitted to the Armenian Court of First Instance of General Jurisdiction. In ruling on the recognition of a judgment, a state court will determine: (i) where there is an international treaty in force, whether the judgment is in accordance with the respective international agreement of the Republic of Armenia and Armenian public order; (ii) where there is no international treaty in force, whether there are grounds for rejecting the recognition according to Armenian law. Where a judgment is recognised in reliance on the principle of reciprocity, the Armenian courts may take into account analogical circumstances in a foreign state, a court of which made the judgment. Thus, if English law does not provide the opportunity of recognition and enforcement of the judgments based on the principle of reciprocity, the Armenian courts may also not recognise a decision of the English courts. At the same time, recognition of foreign judgments on the principle of reciprocity is applicable only to final judicial rulings, while other judicial rulings, such as securing means of a claim, cannot be recognised. A judgment given by a foreign court or arbitral award of an arbitration tribunal will be enforced in accordance with the enforcement act granted by the relevant Armenian court, based on the application of the litigant or their authorised representative.

The limitations described above, including the general procedural grounds set out in Armenian legislation for the refusal to recognise and enforce foreign court judgments in the Republic of Armenia, may significantly delay the enforcement of such judgment or deprive the Noteholders of effective legal recourse for claims related to the investment in the Notes. The Conditions, the Trust Deed and the Guarantee are governed by English law and provide for disputes, controversies and causes of action brought by any party thereto to be settled by arbitration in accordance with the LCIA Rules. The legal place of such arbitration shall be London, England. The Republic of Armenia and the United Kingdom are parties to the New York Convention. Consequently, Armenian courts should generally recognise and enforce in the Republic of Armenia an arbitral award from an arbitral tribunal in the United Kingdom on the basis of the rules of the New York Convention (subject to qualifications provided for in the New York Convention and compliance with Armenian procedural regulations and other procedures and requirements established by Armenian legislation).

Law No. 55-N on Commercial Arbitration dated 25 December 2006 of the Republic of Armenia (the "**Armenian Arbitration Act**") sets out the procedure for the recognition and enforcement of foreign arbitral awards by Armenian courts. Article 36 of the Armenian Arbitration Act also contains an exhaustive list of grounds for the refusal of recognition and enforcement of foreign arbitral awards by Armenian courts, which grounds are broadly similar to those provided by the New York Convention. The Armenian Arbitration Act and other Armenian procedural legislation could change, and other grounds for Armenian courts to refuse the recognition and enforcement of foreign court judgments and foreign arbitral awards could arise in the future. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of an Armenian courts or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in the Republic of Armenia.

Furthermore, any arbitral award pursuant to arbitration proceedings in accordance with the LCIA Rules and the application of English law may be limited by the mandatory provisions of Armenian laws relating to the exclusive jurisdiction of Armenian courts and the application of Armenian laws with respect to bankruptcy and the winding up or liquidation of Armenian companies and financial institutions, including banks.

## **Republic of Cyprus**

The courts of the Republic of Cyprus will not recognise and/or enforce any judgment obtained in a court established in a country other than the Republic of Cyprus unless such enforcement is envisaged by an international treaty to which the Republic of Cyprus is a party providing for enforcement of such judgments and then only in accordance with the terms of such treaty. The Recast Brussels Regulation No. 1215/2012 is directly applicable in the Republic of Cyprus. Subject to its provisions, any final judgment obtained in a court of a Member State to which the aforementioned regulation applies coming within the scope of the regulation would be recognised and enforced in the Republic of Cyprus. The Republic of Cyprus is also party to the New York Convention. Consequently, a foreign arbitral award obtained in a state which is party to the New York Convention should be recognised and enforced by a Cypriot court in accordance with the procedure and subject to the matters set out in the New York Convention and the Cypriot International Commercial Arbitration Law, Law No. 101/87, although a Cyprus court will not recognise as binding an arbitration award or issue an order for its enforcement under certain circumstances.

## FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus are not historical facts and are "forward-looking statements". Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical fact. The words "believe", "expect", "anticipate", "intend", "project", "estimate", "will", "may", "should" and similar expressions identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements appear, without limitation, under the headings "*Overview*", "*Risk Factors*" and "*Business*". By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. Prospective investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include but are not limited to the following:

- changes in the prices of gold, copper, molybdenum, antimony, silver, lead and zinc;
- changes in the Group's ability to maintain or obtain the licences necessary for its business;
- changes in the Group's operating costs;
- changes in the Group's ability to successfully implement any of its business, development plans or financing strategies;
- liquidity, capital resources and capital expenditures;
- developments in, or changes to, the laws, regulations and governmental policies governing the Group's business;
- inflation, interest rate and exchange rate fluctuations;
- changes in the political, social, legal or economic conditions in Russia and Armenia;
- the effect of international political events;
- the effects of the restrictive covenants in the Group's financing documentation; and
- the Group's success in identifying other risks to its businesses and managing the risks of the aforementioned factors.

This list of important factors is not exhaustive. When reading any forward-looking statements, prospective investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Issuer and the Guarantors operate. Such forward-looking statements speak only as of the date on which they are made. Accordingly, subject to the Issuer's and the Guarantors' obligations under applicable laws and regulations, the Issuer and the Guarantors do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. The Issuer and the Guarantors do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

## PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

### Presentation of Financial Information

The annual audited consolidated financial statements as at and for the years ended 31 December 2016, 2017 and 2018 (the "**Financial Statements**") of the Company and its consolidated subsidiaries taken as a whole, have been included in this Prospectus beginning on page F-1. The Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("**IFRS**") and the Cyprus Companies Law, Cap. 113, as amended. The term "**periods under review**" means the periods for which Financial Statements have been included in this Prospectus.

This Prospectus also includes information on the Group's consolidated revenue for the three months ended 31 March 2019 and 31 March 2018. Such information is based on management accounts which have neither been audited nor reviewed. While the basis of accounting used by the Group for preparation of this financial data is consistent with the accounting policies of the Group and is comparable with the audited historical financial information included in this Prospectus, no assurance can be given that in the course of the preparation of the Group's financial statements for the next reporting period the Group will not make adjustments to this financial data. As a result, the financial data in such financial statements may differ from the management's expectations of the financial results for the next reporting period which were based on these management's accounts. No management accounts of the Group have been submitted to, or otherwise reviewed by, the Central Bank of Ireland.

### Presentation of Non-IFRS Measures

This Prospectus includes certain financial measures that are not measures defined by IFRS ("**Non-IFRS measures**"). These measures include EBITDA, EBITDA margin, EBITDA of the Group's reportable segments, Net Debt and Net Debt to EBITDA ratio, Net Finance Charges, Interest Cover ratio and average realised prices, and they are used by the management of the Group to assess the financial performance of the Group. However, these measures are supplementary in nature and should not be used instead of, or considered as alternatives to, the Group's historical financial results based on IFRS. Non-IFRS measures are unaudited. Each of the Non-IFRS measures is described below.

#### *EBITDA, EBITDA Margin and Segment EBITDA*

EBITDA represents profit/(loss) for the period plus income tax expense, plus net finance cost, plus depreciation, plus net impairment of assets / reversal of impairment of assets, plus net gain / loss from commodity derivatives, plus cash received from commodity derivatives, plus loss on disposal of property, plant and equipment and other assets, minus income from waived payable, plus additional royalties, fines and penalties imposed by the tax authorities in Armenia, minus reversal of additional royalties, fines and penalties imposed by the tax authorities in Armenia and plus other items. EBITDA margin is calculated by dividing EBITDA by revenue, expressed as a percentage. Segment EBITDA represents the EBITDA for the Group's reportable segments.

The table below sets out calculation of the Group's EBITDA for the years ended 31 December 2016, 2017 and 2018.

	For the year ended 31 December		
	2016	2017	2018
	<i>(in thousands of US\$)</i>		
<b>Profit / (loss) for the year</b> .....	<b>(62,302)</b>	<b>1,651</b>	<b>5,009</b>
<i>Plus:</i> Income tax expense .....	13,121	13,548	20,606
<i>Plus:</i> Net finance costs .....	34,955	27,501	23,588
<i>Plus:</i> Depreciation .....	37,780	39,285	42,900
<i>Plus:</i> Net impairment / (reversal of impairment) of assets...	(3,114)	6,218	28,551
<i>Plus:</i> Net (gain) / loss from commodity derivatives .....	35,366	4,182	(3,296)
<i>Plus:</i> Cash received from commodity derivatives .....	24,816	—	—
<i>Plus:</i> Loss on disposal of property, plant and equipment and other assets .....	2,410	574	318
<i>Minus:</i> Income from waved payable.....	(2,511)	—	—
<i>Plus:</i> Additional royalties, fines and penalties imposed by the Tax Authority in Armenia .....	2,876	—	959
<i>Minus:</i> Reversal of additional royalties, fines and penalties imposed by the Tax Authorities in Armenia .....	—	(1,232)	—
<i>Plus:</i> Other items .....	795	1,390	867
<b>EBITDA</b> .....	<b>84,192</b>	<b>93,117</b>	<b>119,502</b>

The table below sets out the calculation of EBITDA of the Group's reportable segments operating in Armenia, being Agarak and GPM Gold, for the years ended 31 December 2016, 2017 and 2018.

	Agarak			GPM Gold		
	For the year ended 31 December			For the year ended 31 December		
	2016	2017	2018	2016	2017	2018
	<i>(in thousands of US\$)</i>					
<b>Segment profit / (loss) for the year</b> .....	<b>(15,534)</b>	<b>10,432</b>	<b>2,146</b>	<b>(5,691)</b>	<b>(3,155)</b>	<b>13,959</b>
<i>Plus:</i> Net interest expense / (income) .....	4,104	4,371	4,037	23,718	17,182	13,809
<i>Plus:</i> Depreciation allocated to statement of profit or loss and other comprehensive income .....	5,124	2,110	5,545	28,738	31,196	33,370
<i>Plus:</i> Net impairment loss / (reversal of impairment) of assets.....	—	(10,685)	—	(3,114)	16,903	—
<i>Plus:</i> Net foreign exchange (gain) / loss .....	18	134	14	1,393	726	802
<i>Plus:</i> Income tax expense .....	1,715	1,554	820	7,629	6,800	9,751
<i>Minus:</i> Income from waved payable.....	—	—	—	(2,511)	—	—
<i>Plus:</i> Provision (reversal of provision) for additional royalties, fines and penalties imposed by the Tax Authorities in Armenia .....	2,876	(1,232)	959	—	—	—
<i>Plus:</i> Other items .....	431	1,086	838	(68)	34	(161)
<b>Segment EBITDA</b> .....	<b>(1,266)</b>	<b>7,770</b>	<b>14,359</b>	<b>50,094</b>	<b>69,686</b>	<b>71,530</b>

The table below sets out the calculation of EBITDA of the Group's reportable segments operating in the Russian Federation, being Sakha and Verkhne-Menkeche, for the years ended 31 December 2016, 2017 and 2018.

	Sakha			Verkhne-Menkeche		
	For the year ended 31 December			For the year ended 31 December		
	2016	2017	2018	2016 <sup>(1)</sup>	2017	2018
	<i>(in thousands of US\$)</i>					
<b>Segment profit / (loss) for the year</b> .....	<b>10,328</b>	<b>10,048</b>	<b>21,487</b>	—	<b>3,884</b>	<b>11,321</b>
<i>Plus:</i> Net interest expense / (income) .....	(2,293)	(2,625)	(789)	—	1,821	628
<i>Plus:</i> Depreciation allocated to statement of profit or loss and other comprehensive income .....	3,813	4,899	2,604	—	275	1,355
<i>Plus:</i> Net foreign exchange (gain) / loss .....	1,007	304	(605)	—	(881)	2,120
<i>Plus:</i> Income tax expense .....	2,567	2,774	5,621	—	1,236	4,164
<i>Plus:</i> Other items .....	1,185	525	361	—	10	89
<b>Segment EBITDA</b> .....	<b>16,607</b>	<b>15,925</b>	<b>28,679</b>	—	<b>6,345</b>	<b>19,677</b>

<sup>(1)</sup> The Group has recognised Verkhne-Menkeche as a separate segment since 1 January 2018; in accordance with IFRS requirements, comparative information for the year ended 31 December 2017 is also set out above. Accordingly, there is no segment information for the Verkhne-Menkeche segment for the year ended 31 December 2016.

The Group's consolidated EBTIDA differs from the aggregate EBITDA of the Group's reportable segments because certain portions of the line items comprising the Group's consolidated EBITDA are not attributable to any of the Group's reportable segments.

The Group uses Non-IFRS measures because they are frequently used by investors and analysts to assess the performance of the Group's ongoing business operations. However, these are not measures of financial performance presented in accordance with IFRS. Accordingly, they should not be considered as alternatives to revenue, operating profit, cash flows from operating activities for the period or other financial measures of the Group's results of operation or other financial performance or condition presented in accordance with IFRS as indications of operating performance or as a measure of the Group's profitability or liquidity. In addition, these Non-IFRS measures have important limitations as analytical tools and you should not consider them in isolation or as substitutes for analysis of the Group's results as reported under IFRS. For example, EBITDA and EBITDA margin:

- do not reflect the impact of income taxes on the Group's operating performance that may represent a reduction in cash available;
- do not reflect the impact of depreciation and amortisation on the Group's operating performance. The assets of the Group's business that are being depreciated and/or amortised will likely have to be replaced in the future and such depreciation and amortisation expense may approximate the cost to replace these assets in the future. The exclusion of this expense from EBITDA effectively omits the Group's future cash requirements for these replacements;
- do not reflect changes in, or cash requirements for, working capital needs;
- do not reflect foreign exchange gains or losses;
- do not reflect asset impairment; and
- do not reflect the impact of financing costs, which are significant and could further increase if the Group incurs more debt, on the Group's operating performance.

Such Non-IFRS measures must be considered only in addition to, and not as a substitute for or superior to, financial information and measures prepared in accordance with IFRS. Other companies, including those in the same industry as the Group, calculate Non-IFRS measures differently from the Group. Therefore, the Group's presentation of the Non-IFRS measures would not be comparable to other similarly titled Non-IFRS measures presented by other companies.

#### *Net Debt*

The Group management believes that Net Debt is a useful indicator of the Group's indebtedness, financial flexibility and capital structure because it indicates the level of borrowings after taking account of cash and cash equivalents and bank deposits within the Group's business that could be utilised to pay down its outstanding borrowings. The Group management believes that Net Debt can assist securities analysts, investors and other parties to evaluate the Group. Net Debt and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. Accordingly, caution is required in comparing Net Debt as reported by the Group to Net Debt of other companies.

Net Debt is a Non-IFRS measure which the Group management defines as the aggregate of short-term borrowings and long-term borrowings (including obligations under bonds, bank loans, finance leases, factoring arrangements, other borrowings, as well as overdrafts) *minus* cash and cash equivalents (which includes cash balances and call deposits). Net Debt does not include interest payable. The table below sets out calculation of the Group's Net Debt as at 31 December 2016, 2017 and 2018.

	As at 31 December		
	2016	2017	2018
		(in thousands of US\$)	
Secured bank loans <sup>(1)</sup> .....	257,319	235,828	240,599
Plus: loans from third parties <sup>(1)</sup> .....	25	25	—
Plus: loans from other related party <sup>(1)</sup> .....	9,283	9,283	9,283
Less: Cash and cash equivalents .....	(4,654)	(4,502)	(8,599)
<b>Net Debt</b> .....	<b>261,973</b>	<b>240,634</b>	<b>241,283</b>

<sup>(1)</sup> Represents face value, or nominal amount, of the loans.

#### *Net Debt to EBITDA ratio*

Net Debt to EBITDA ratio shows the level of Net Debt as a proportion of EBITDA. Net Debt to EBITDA metrics are used by different companies for differing purposes and are often calculated in ways that reflect the specific circumstances relating to those companies. Accordingly, caution is required in comparing Net Debt to EBITDA as reported by the Group to such metrics of other companies. The following table sets out the calculation of Net Debt to EBITDA ratio for 31 December 2016, 2017 and 2018.

	As at 31 December		
	2016	2017	2018
		(in thousands of US\$)	
Net Debt .....	261,973	240,634	241,283
EBITDA .....	84,192	93,117	119,502
<b>Net Debt to EBITDA</b> .....	<b>3.1</b>	<b>2.6</b>	<b>2.0</b>

#### *Interest Cover ratio and Net Finance Charges*

Interest Cover ratio shows the level of the Group's Net Finance Charges as a proportion of EBITDA and is used by the Group's management to determine the Group's ability to successfully meet its interest payment obligations and comply with certain covenants contained in the Group's loan facility agreements. The Group's Net Finance Charges include the combination of interest expense, interest capitalised on qualifying assets and transaction costs capitalised less expensed portion of arrangement fees and interest income. The table below sets out calculation of the Group's Net Finance Charges for the periods ended 31 December 2016, 2017 and 2018:

	Year ended 31 December		
	2016	2017	2018
		(in thousands of US\$)	
Interest expense .....	33,039	26,707	22,881
Interest capitalised on qualifying assets .....	415	416	418
Transaction costs capitalised .....	3,341	—	—
Less: Expensed portion of arrangement fees .....	(127)	(634)	(643)
Less: Interest income .....	(980)	(383)	(96)
<b>Net Finance Charges</b> .....	<b>35,688</b>	<b>26,106</b>	<b>22,560</b>

The following table sets out the calculation of the Interest Cover ratio for 31 December 2016, 2017 and 2018.

	As at 31 December		
	2016	2017	2018
		(in thousands of US\$)	
EBITDA .....	84,192	93,117	119,502
Net Finance Charges .....	35,688	26,106	22,560
<b>Interest Cover</b> .....	<b>2.36</b>	<b>3.57</b>	<b>5.30</b>

#### *Average realised prices*

The Group presents average realised prices for the sales of its products, which is a Non-IFRS measure. Average realised prices for a particular metal for a particular period are calculated by dividing revenue from sales of that metal for that period by the volume of that metal sold for that period. Average realised prices are calculated net of deductions, which include refining charges, in the case of gold and silver doré bars, and deductions for treatment charges and refining charges, in the case of copper concentrate and molybdenum concentrate, gold-

bearing antimony concentrate and gravitational alluvial gold. Deductions are also made for specified impurities in the products exceeding specified thresholds. Deductions are also made for moisture content in concentrates, and for transportation and administration fees. See "*Operating and Financial Review—Pricing Mechanics under the Group's sales contracts*" and "*Business—Sales*" for information on the terms of the Group's sales contracts. Average realised prices do not include gains or losses on commodity derivatives (other than embedded derivatives), which are reported in other expenses.

As a result of a change in the Group's IFRS revenue recognition policy which took effect from 1 January 2018, in the Financial Statements for the year ended 31 December 2018, revenue from sales of antimony consists of two components: (i) revenue from antimony sales in 2018 based on a provisional invoice issued upon delivery and (ii) revenue from antimony sales which occurred in prior periods, but were finalised in 2018 based on final quality results. Prior to this change in IFRS revenue recognition policy, the Group recognised revenue from antimony sales based on the final invoice price. The change in policy, however, did not affect the final price payment terms, which envisage payment on the basis of 59-61% of the spot price. Therefore, the average realised prices for antimony in 2018 and 2017 (calculated by dividing (i) revenue from antimony sales in 2018 or 2017, as applicable, based on a provisional invoice issued upon delivery as well as revenue from antimony sales in prior periods as finalised in 2018 or 2017, as applicable, based on final quality results, by (ii) the volume of antimony sold in the period) differ from the spot prices by the percentage of the actual payment received.

#### *Cash Costs*

The Group's total, cash costs comprise all direct cash expenditures required to secure the sales volumes and sales revenues and include mining, processing, general and administration, applicable mineral extraction tax, reimbursable services, distribution, toll refining and retrenchment costs. The Group's all-in sustaining costs comprise total cash costs plus sustaining costs.

Cash costs amounts in this Prospectus are not presented on consolidated IFRS basis or any other comprehensive basis of accounting, and prospective investors are therefore cautioned not to place undue reliance on cash costs or related amounts.

#### **Currencies and Exchange Rates**

In this Prospectus, references to "**U.S. dollars**", "**US\$**" or "**\$**" are to the lawful currency of the United States of America (the "**U.S.**"), references to "**AMD**" or "**dram**" are to the lawful currency of the Republic of Armenia, references to "**RUB**" or "**roubles**" are to the lawful currency of Russia and references to "**euro**", "**EUR**" or "**€**" are to the currency of the member states of the European Union (the "**EU**") participating in the European Monetary Union.

The presentational currency of the consolidated financial statements of the Group is the U.S. dollar. The functional currency for all Russian entities of the Group is the rouble. The functional currency for all Armenian entities of the Group is the dram.

The tables below present (i) the exchange rates of the Group's main functional currencies, other than the U.S. dollar, shown relative to the U.S. dollar as at 31 December 2016, 2017 and 2018 and 17 May 2019 and (ii) the average exchange rates of the Group's main functional currencies, other than the U.S. dollar, shown relative to the U.S. dollar below for the years ended 31 December 2016, 2017 and 2018 and for the period from 1 January through 17 May 2019. The average rates in the table below are daily weighted averages, but they are not necessarily the rates used to translate the Group's results due to the seasonality of its earnings. These exchange rates should not be construed as representations that the relevant currency could be converted into U.S. dollar, euro, dram or rouble, as the case may be, at the rate indicated or at any other rate:

<b>Rate against U.S. dollar as at</b>	<b>Euro</b>	<b>Dram</b>	<b>Roubles</b>
31 December 2016.....	1.05	483.94	60.66
31 December 2017.....	1.20	484.10	57.60
31 December 2018.....	1.15	483.75	69.47
17 May 2019.....	1.12	479.72	64.56

Average rate against U.S. dollar for the period ended	Euro	Dram	Roubles
Year ended 31 December 2016.....	1.11	477.46	67.19
Year ended 31 December 2017.....	1.12	482.63	58.29
Year ended 31 December 2018.....	1.16	483.03	62.93
From 1 January through 17 May 2019.....	1.17	485.81	65.40

*Sources:* For euro, the European Central Bank; for dram, the Central Bank of Armenia; for roubles, the Central Bank of Russia. The average in respect of a year is calculated as the average of the exchange rates on the last business day of each month for the relevant year.

### **Rounding**

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

### **Definitions**

Unless the context otherwise requires, all references in this Prospectus to the "**Company**" or "**Parent**" are to Geopromining Investment (CYP) Limited and none of its consolidated subsidiaries and all references in this Prospectus to the "**Group**" refer collectively to the Company and its consolidated subsidiaries taken as a whole. References in this Prospectus to "**subsidiaries**" of the Company or the Group are to consolidated subsidiaries of the Company.

Definitions of certain terminology associated with the Company's business and industry are set forth under "*Glossary of Technical Terms, Units of Measurement and Conversion Factors*".

### **Reserves and Resources Data**

The ore reserves and mineral resources data included in this Prospectus has been extracted from a report by IMC Montan Limited ("**IMC Montan**"), an international mining consultant (the "**IMC Montan Report**"). The IMC Montan Report was commissioned at the request of the Group. IMC Montan's business address is Geneva Building D, 1st floor, Unit 8, Lakeview Drive, Annesley, Nottingham, NG15 0ED, England. IMC Montan does not have any interest in the Group.

IMC Montan has reviewed the reserves and resources statements of the individual units compiled by the Group and has stated the reserves and resources as of 1 January 2019 in compliance with the recommendations of the Committee of European Securities Regulators updated with the ESMA guidelines of 2013 and in accordance with the criteria for internationally recognised reserve and resource categories of the "Australasian Code for Reporting Mineral Resources and Ore Reserves" published by the Joint Ore Reserves Committee, as amended ("**JORC**") of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of Australia (the "**JORC Code**") 2012. In the IMC Montan report, all reserves and resources estimates, initially prepared by the Group have been substantiated by evidence obtained from IMC Montan's site visits and observation and are supported by details of drilling results, analyses and other evidence and takes account of all relevant information supplied by the management of the Group. This reserves and resources information has been accurately reproduced, and as far as the Issuer is aware and is able to ascertain from the IMC Montan Report, no facts have been omitted which would render the reproduced information inaccurate or misleading. IMC Montan has given and has not withdrawn its written consent to, as the case may be, the inclusion in this Prospectus of information from the IMC Montan Report, reference to the IMC Montan Report and references to its name in the form and context in which they are included and has authorised the contents of those parts of this Prospectus. IMC Montan accepts responsibility for the information extracted from the IMC Montan Report contained in this Prospectus. To the best of IMC Montan's knowledge (having taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the accuracy of such information.

### **Market, Industry and other Statistical Data**

Market and industry data used in this Prospectus, including statistics in respect of the Company's competitors' sales volumes and market share, has been extracted from official and industry sources and other sources the



Company believes to be reliable, including publicly available information, such as annual reports, financial statements and other public filings. This information appears throughout this Prospectus including, without limitation, in the sections headed "*Operating and Financial Review*", "*Industry*" and "*Business*", and is sourced in the text or in footnotes where it appears. Such information, data and statistics may be approximations or estimates or use rounded numbers.

In particular, the Company has cited the following other sources: the Statistical Committee of the Republic of Armenia, the Federal State Statistics Service of the Russian Federation ("**Rosstat**"), the European Central Bank, the Central Bank of Armenia and the Central Bank of Russia.

This Prospectus includes market and industry data and forecasts from a report dated May 2019 (the "**AME Report**") prepared by AME Consulting Limited ("**AME**"). The AME Report was commissioned at the request of the Group. AME's business address is 4/F Lucky Building, 39 Willington Street, Central, Hong Kong. AME does not have any interest in the Group. AME has given and has not withdrawn its written consent to the inclusion of the statements from the AME Report, and references to its name, in this Prospectus in the form and context in which they are included and has authorised the contents of those parts of this Prospectus. AME accepts responsibility for the information extracted from the AME Report contained in this Prospectus. To the best of AME's knowledge (having taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the accuracy of such information.

The Company confirms that the third party information used in this Prospectus has been accurately reproduced and that, as far as the Company is aware and is able to ascertain from information published by these third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The Company notes that, unless stated otherwise, neither these independent sources nor the Joint Lead Managers accept liability for the accuracy of any such information, and prospective investors are advised to consider such information with caution. The Company has relied on the accuracy of this information without independent verification.

Production and sales volume data for the Group in this Prospectus for gold and silver is expressed in ounces of poured metal, in the form of doré bars and gravitational alluvial gold (in case of Sarylakh-Surma/Zvezda). Production and sales volume data in this Prospectus for copper, antimony and molybdenum is expressed in tons of concentrate.

Some of the market data contained in this Prospectus has been derived from the official data of Armenian and Russian government agencies. Any discussion of matters relating to Armenia or Russia in this Prospectus is subject to uncertainty due to concerns about the completeness or reliability of available official and public information. See "*Risk Factors—Risks Relating to the Russian Federation and Armenia—Incomplete, unreliable or inaccurate official data and statistics could create uncertainty*".

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## OVERVIEW

*This overview may not contain all the information that may be important to prospective purchasers of the Notes and, therefore, should be read in conjunction with this entire Prospectus, including the more detailed information regarding the Group's business and the Financial Statements beginning from page F-2 of this Prospectus. Prospective purchasers of the Notes should also carefully consider the information set forth under the heading "Risk Factors". Certain statements in this Prospectus include forward-looking statements that also involve risks and uncertainties as described under "Forward-Looking Statements".*

### OVERVIEW OF THE GROUP

The Group was founded in 2001 and is an international, diversified metals and mining company specialising in the mining and processing of gold, copper, antimony, molybdenum and silver. The Group owns a portfolio of high quality assets located in Armenia and Russia, comprising of four producing mines (Zod, producing gold and silver, and Agarak, producing copper and molybdenum, in Armenia, and Sentachan and Sarylakh-Surma, both producing antimony and gold, in Russia) and three associated processing facilities (Ararat and Agarak in Armenia and Sarylakh in Russia). The Group also owns one polymetallic deposit, containing silver, lead and zinc, located in Russia (Verkhne-Menkeche) where it expects to commence full cycle operations in 2021 following completion of the construction of a new concentrating mill which is currently underway.

As at 1 January 2019, the Group's proven and probable reserves consisted of 3,349koz of gold, 457kt of copper, 118,334t of antimony, 22,800t of molybdenum, 55,524koz of silver, 191kt of lead and 230kt of zinc, in each case, as classified in accordance with the JORC Code. As at 1 January 2019, the Group's indicated and inferred resources consisted of 5,963koz of gold, 1,617kt of copper, 147,561t of antimony, 89,400t of molybdenum, 70,056koz of silver, 243kt of lead and 333kt of zinc, in each case, as classified in accordance with the JORC Code. On a gold equivalent basis, this amounted to approximately 8.4Moz gold equivalent proven and probable reserves and approximately 19Moz gold equivalent indicated and inferred resources.

In the year ended 31 December 2018, the Group produced approximately 149koz of gold, 7,987t of copper, 7,226t of antimony and 297t of molybdenum. On a gold equivalent basis, this amounted to approximately 243koz in the year ended 31 December 2018, having grown at a CAGR of 17.5% since 2016. The growth in the Group's production levels has been primarily driven by organic development of the Group's assets. The Group's production levels have also increased as a result of the introduction in 2014 of the Albion Process™ (the "**Albion Process Technology**") for gold enrichment at its Armenian Ararat processing facility. According to Glencore, the Group was the first company in the world to apply the Albion Process Technology for the oxidation of sulphide concentrate produced from mined ore at its Ararat processing facility in 2014. In the three months ended 31 March 2019, the Group produced approximately 46.7koz of gold, 1,932t of copper, 1,932t of antimony and 103t of molybdenum. On a gold equivalent basis, this amounted to approximately 69.2koz in the same period, representing a 23.2% increase in production from 56koz produced in the three months ended 31 March 2018.

The Group is the largest gold producer in Armenia according to AME, with 2,813koz of gold reserves and 5,325koz of gold resources, as classified in accordance with the JORC Code. According to AME, the resource base of the Group's Zod mine located in Armenia makes it a 'world class deposit' (i.e. a deposit containing at least 100t (3.2Moz) of gold resources in accordance with the terminology generally used in the mining industry).

In addition, according to AME, in 2018, the Group was the largest primary antimony producer in Russia and in the CIS and accounted for approximately 5% of total global production. The Group also has significant reserves of 118,334t of antimony, which, according to AME, accounts for approximately 48% of antimony reserves in Russia, and approximately 8% of antimony reserves globally. Additionally, according to AME, the Group produces one of the highest grade antimony concentrates in the world, averaging 60% contained antimony. Having one of the few sizeable antimony deposits in the world, the Group is strategically located to service the Chinese market, which, according to AME, has a significant interest in purchasing high grade antimony concentrates to compensate for reduced domestic production.

The Group enjoys a cash cost position (total cash cost of US\$561/oz and all-in sustaining cost of US\$777/oz, as of 31 December 2018) which is lower than many of comparable mining companies based on a review of their latest publicly available financial statements and has historically enabled it to stay resilient to market downturns. In addition, the Group's cash cost position has enabled the Group to achieve higher margins when

the commodity prices are higher. In the years ended 31 December 2018, 2017 and 2016, the average London Bullion Market Association (the "**LBMA**") price of gold was US\$1,269/oz, US\$1,257/oz and US\$1,248/oz, respectively. The Group's cash cost position is supported by the Group's high gold grade and long life of mine. Gold at GPM Gold, the Group's primary gold producing asset which operates the Zod mine, is graded at 3.4 g/t, with the average grade of all of the Group's three gold producing assets being 4.6 g/t gold equivalent, based on reserves (1.5 g/t gold equivalent for the Group, if diluted by its non-gold base metals bearing deposits). The grade at the Zod mine is significantly higher than the average gold grade of comparable mining companies of 1.9 g/t, based on the latest publicly available disclosure of such companies. In addition, the Group enjoys a long life of mine (18 years at GPM Gold, 31 years at Agarak, 10 years at Sarylakh-Surma, 24 years at Sentachan and 16 years at Verkhne-Menkeche, based on the Group's reserves, and 31 years at GPM Gold, over 100 years at Agarak, 14 years at Sarylakh-Surma, 24 years at Sentachan and 20 years at Verkhne-Menkeche, based on the Group's resources).

In the year ended 31 December 2018, the Group's consolidated revenue was US\$283 million, EBITDA was US\$120 million and EBITDA margin was 42%. In the year ended 31 December 2017, the Group's consolidated revenue was US\$228 million, EBITDA was US\$93 million and EBITDA margin was 41%. In the year ended 31 December 2016, the Group's consolidated revenue was US\$195 million, EBITDA was US\$84 million and EBITDA margin was 43%. Over the two years ended 31 December 2018, the Group had a compound annual growth rate ("**CAGR**") in revenue of 20.5% and a CAGR in EBITDA of 19.5%. This financial performance reflects improved mine site key performance indicators ("**KPIs**") across all of its operations resulting from the completion of capital expenditures of approximately US\$313 million during 2012-2018.

In the next three years, the Group is aiming to increase its total production output by 44% from 243koz in the year ended 31 December 2018 to approximately 351koz on a gold equivalent basis and targets to invest approximately US\$133 million for further development of its existing assets portfolio with a focus on high-return operational investment.

### Properties and Mining Operations

The Group operates four producing mines and three associated processing facilities located in Armenia and Russia. The Group also owns one polymetallic deposit located in Russia where it expects to commence full cycle operations in 2021. Through its subsidiaries, the Group wholly-owns each of these mines and processing facilities. The Group is organised and managed through four business units. These comprise:

Business Unit	Deposit	Processing Facility	Location
GPM Gold	Zod	Ararat	Gegharqunik Marz, Armenia
Agarak	Agarak	Agarak	Syunik, Armenia
	Sentachan		Verhoyanskiy District, Republic of Sakha (Yakutia), Russia
Sakha	Sarylakh-Surma	Sarylakh	Oymyakonskiy District, Republic of Sakha (Yakutia), Russia
Verkhne-Menkeche	Verkhne-Menkeche	In process of construction	Tomponsky District, Republic of Sakha (Yakutia), Russia

#### Armenia

- **GPM Gold**

GPM Gold is a gold and silver mining and processing complex comprising the Zod open-pit mine in the Gegharqunik Marz region (located approximately 197km to the north-east of Yerevan) and the Ararat processing facility (located approximately 46km to the south-east of Yerevan and approximately 270km by rail from the Zod mine). In 2014, the Ararat processing facility was upgraded with a new Albion Process Technology, which allowed the Group to switch to sulphide ore processing at this site. Albion Process Technology, developed by Australian companies Xstrata Technology (now Glencore Technology) and Core Process Engineering allowed the Group to increase the total gold recovery to up to 87-88% within two years from 20-30%. Ore from the Zod deposit is transported directly by rail to the Ararat processing facility. As at 1 January 2019, the Zod deposit had 2,813koz of gold reserves and 5,325koz of gold resources, with a mine life of 18 years, based on reserves, and 31 years, based on resources, and average gold grade of 3.4 g/t. The Ararat processing facility had a current annual through-put capacity of 1.45Mt (based on actual results for the year ended 31 December 2018).

- **Agarak**

Agarak is an integrated copper and molybdenum mining and processing complex in the Syunik region of Armenia (located approximately 400km to the south-east of Yerevan) comprising the Agarak open-pit mine and the Agarak processing facility (located approximately 6km by road from the Agarak mine) which produces copper and molybdenum concentrates through flotation processing. As at 1 January 2019, the Agarak deposit had 457kt of copper reserves and 1,617kt of copper resources, 22,800t of molybdenum reserves and 89,400t of molybdenum resources, with a mine life of 31 years, based on reserves, and more than 100 years, based on resources. In 2012, the Agarak processing facility underwent significant modernisation as a result of which its annual design through-put capacity increased to 3.7Mt.

#### *Russia*

- **Sakha**

Sakha operates as the Group's single business unit for its Russian Sarylakh-Surma and Sentachan (Zvezda) assets and is run by one management team. The Group's Sakha business unit comprises of an antimony and gold mining and processing complex in the Republic of Sakha (Yakutia) in north-eastern Russia comprising the Sarylakh-Surma and Sentachan underground antimony and gold mines and the Sarylakh processing facility (located near the town of Ust Nera, approximately 700km from the Sentachan mine and approximately 64km from the Sarylakh mine), which produces antimony and gold concentrates through flotation processing and course gold through a gravitational separation process. As at 1 January 2019, the Sarylakh-Surma mine had 42,157t of antimony reserves and 65,385t of antimony resources, 121koz of gold reserves and 190koz of gold resources; and the Sentachan mine had 76,177t of antimony reserves and 82,176t of antimony resources, 415koz of gold reserves and 448koz of gold resources. As at 31 December 2018, the Sarylakh processing facility had an annual design through-put capacity of 100kt of ore. The Sentachan mine life is 24 years, based on both, reserves and resources, and the Sarylakh-Surma mine life is 10 years, based on reserves, and 14 years, based on resources. In 2017, the Group also initiated construction of a new concentrating mill at its Sentachan field with a targeted 30kt annual through-put capacity. The Group targets to launch operations at this new mill in the fourth quarter of 2019.

- **Verkhne-Menkeche**

Verkhne-Menkeche is an exploration and development project comprised of a polymetallic deposit containing silver, lead and zinc located in the Tomponsky District of the Republic of Sakha (Yakutia) in north-eastern Russia (approximately 60km from the nearest town of Nezdansinskoye). The development of the project commenced in 2008. The Group expects that this project will expand the Group's existing silver production capacity and add lead and zinc to the Group's metals portfolio. The Group plans to commence full cycle operations on the site in 2021 following completion of the construction of a new concentrating mill with a planned through-put capacity of 330kt which is currently underway. The Group expects the project to reach planned production capacity by 2022. The Group has already completed Verkhne-Menkeche mine development and infrastructure construction. As a result, the polymetallic ore mined during mine development of the Verkhne-Menkeche deposit has already been sold to third parties. As at 1 January 2019, the Verkhne-Menkeche mine had 55,524koz of silver reserves, 191kt of lead reserves and 230kt of zinc reserves and 70,056koz of silver resources, 243kt of lead resources and 333kt of zinc resources. The mine life of the field is 16 years, based on reserves, and 20 years, based on resources. The Group's total estimated capital expenditure for implementation of the project amounts to US\$98.8 million, with US\$48.2 million invested as of 31 December 2018.

#### **Competitive Strengths**

The Group's management believes that the Group's competitive strengths include:

##### ***Diversified and well balanced asset base with vast high-grade reserves and resources and long mine life***

The Group owns a diversified portfolio of assets for mining and processing of gold, copper, antimony, molybdenum and silver located in Armenia and Russia, comprised of four producing mines and three associated processing facilities. The Group also owns one polymetallic deposit containing silver, lead and zinc located in Russia (Verkhne-Menkeche) where it expects to commence full cycle operations in 2021 following completion of the construction of a new concentrating mill which is currently underway. On a gold equivalent

basis, the Group had approximately 8.4Moz of proven and probable reserves and approximately 19Moz of indicated and inferred resources as of 1 January 2019, in each case, as classified in accordance with the JORC Code. The Group is the largest gold producer in Armenia according to AME, with 2,813koz of gold reserves and 5,325koz of gold resources. According to AME, the resource base of the Group's Zod mine located in Armenia makes it a 'world class deposit' (i.e. a deposit containing at least 100t (3.2Moz) of gold resources in accordance with the terminology generally used in the mining industry). This significant resource position provides the Group with long-term production capability and economic benefit as resources are progressively converted to reserves.

While gold dominates the Group's metals portfolio, representing 40% of its total reserves on a gold equivalent basis, the other two principal metals it produces, being copper and antimony, are highly complementary to gold. Gold is an industrial and investment metal viewed as a hedge against global financial instability. Copper is an industrial metal that largely correlates with the global economy, and antimony is a niche metal with unique properties that behaves like rare earth metals in terms of supply and demand and pricing. As the Group's major contributors to revenue are gold and antimony, the Group's metals basket has been the least volatile in terms of price over the last nine years as compared to other commodities. In addition, based on Bloomberg data, the metal basket comprising metals that the Group produces showed an overall positive performance since 2010. This information is provided as a reference point only and is not an indication of the Group's performance.

The gold produced at GPM Gold, the Group's primary gold producing asset which operates the Zod mine, is graded at 3.4 g/t, with the average grade of all of the Group's three gold producing assets being 4.6 g/t gold equivalent, based on reserves (1.5 g/t gold equivalent for the Group, if diluted by its non-gold base metals bearing deposits). The grade at the Zod mine is significantly higher than the average gold grade of comparable mining companies of 1.9 g/t, based on the latest publicly available disclosure of such companies. In addition, the Group enjoys a long life of mine (18 years at GPM Gold, 31 years at Agarak, 10 years at Sarylakh-Surma, 24 years at Sentachan and 16 years at Verkhne-Menkeche, based on the Group's reserves, and 31 years at GPM Gold, over 100 years at Agarak, 14 years at Sarylakh-Surma, 24 years at Sentachan and 20 years at Verkhne-Menkeche, based on the Group's resources).

In addition to being a scale gold producer, the Group also produces copper, antimony, molybdenum and silver in material volumes as primary, co- and by-products. A well balanced portfolio of producing assets offers a commodity portfolio aligned to various cyclical and growth drivers. In addition, this provides the Group with the benefit of by-product credits which allows the Group to maintain low and competitive production cash costs.

The Group believes that its diversified assets portfolio will also benefit from the Verkhne-Menkeche polymetallic site that will expand its existing silver production capacity and further diversify the Group's metals portfolio to add lead and zinc to it.

#### ***Track record of successful development and optimisation of mining and processing operations***

The Group has a strong track record of developing and optimising mining and processing operations. It has historically focused on acquiring and developing assets with significant growth potential. Most of its assets' growth has been achieved by the Group's leveraging its in-house engineering and construction expertise. The Group acquired all of the assets comprising its current asset portfolio when they were in a largely non-operating state or loss-making. Having made significant financial investments in upgrading the outdated infrastructure and equipment, repayment of debt, enhancing management team and improving management processes, the Group managed to successfully turn around these assets in a short period of time to achieve strong growth that these assets have demonstrated over more than a decade. For example, the Group was able to bring its Russian Sarylakh-Surma and Sentachan assets to full operation and triple production output within only three years of their acquisition in 2007-2008. In addition, the Group acquired GPM Gold, its principal gold producing asset, in September 2007 and, after extensive reconstruction and refurbishment of its infrastructure, operations restarted in November 2008. In 2014, the Group made a strategic decision to implement Albion Process Technology for gold enrichment at its Ararat processing facility, which has allowed the Group to increase the total gold recovery to up to 87-88% within two years from 20-30%, resulting in an increase in the production output from 45.9koz to 129.5koz on gold equivalent basis in the same period.

### ***Largest antimony producer in Russia and CIS***

According to AME, in 2018, the Group was the largest primary antimony producer in Russia and in the CIS and accounted for approximately 5% of total global production. The Group also has significant reserves of 118,334t of antimony, which, according to AME, accounts for approximately 48% of antimony reserves in Russia, and approximately 8% of antimony reserves globally. Additionally, according to AME, the Group produces one of the highest grade antimony concentrates in the world, averaging 60% contained antimony. Having one of the few sizeable antimony deposits in the world, the Group is strategically located to service the Chinese market, which, according to AME, has a significant interest in purchasing high grade antimony concentrates to compensate for reduced domestic production. The Group believes that continuing strong demand from China and the relative global scarcity of antimony reserves will ensure continuing stable up-take from this region and will support prices well above the historic average.

### ***Strong financial and operational performance and resilient cash cost position***

The Group has successfully achieved organic growth and targeted acquisitions resulting in strong financial and operational performance. In the year ended 31 December 2018, the Group's revenue was US\$283 million and EBITDA was US\$120 million, having increased at a CAGR of 20.5% and 19.5%, respectively, since 31 December 2016. EBITDA margin for the year ended 31 December 2018 was 42% compared to 41% in 2017 and 43% in 2016. During the three years ended 31 December 2018, the Group's overall production on gold equivalent basis increased at a CAGR of 17.5% from 176koz in 2016 to 243koz in 2018. In the three months ended 31 March 2019, the Group produced 69koz of metal on a gold equivalent basis, representing a 23.2% increase in production from 56koz produced in the three months ended 31 March 2018. This strong financial and operational performance reflects improved mine site KPIs across all of its operations resulting from the completion of capital expenditures of approximately US\$313 million during 2012-2018.

The Group enjoys a competitive cash cost position that has historically enabled it to stay resilient towards downturns in commodity prices. In addition, the Group's cash cost position has enabled the Group to achieve higher margins when the commodity prices are higher. In the years ended 31 December 2018, 2017 and 2016, the average LBMA price of gold was US\$1,269/oz, US\$1,257/oz and US\$1,248/oz, respectively. The Group's cash cost position is based on the Group's efficient management of its diversified asset base with vast high-grade reserves and resources and a long life of mine. Gold at the Group's Zod mine is graded at 3.4 g/t, with the average grade of all of the Group's three gold producing assets being 4.6 g/t gold equivalent, based on reserves (1.5 g/t gold equivalent for the Group, if diluted by its non-gold base metals bearing deposits). The grade at the Zod mine is significantly higher than the average gold grade of comparable mining companies of 1.9 g/t, based on the latest publicly available disclosure of such companies. The Group has a long life of mine of at least 10 years. In the year ended 31 December 2018, the Group's total cash cost was US\$561/oz and all-in sustaining cost was US\$777/oz, which is lower than many of comparable mining companies based on a review of their latest publicly available financial statements. The Group's cash cost significantly improved as a result of implementation by the Group of the Albion Process Technology at its Ararat processing facility. By the time the Albion Process Technology was launched, all of the Zod mine's oxidised ore reserves had been exhausted. The remaining reserves represented sulphide ore which could not be economically treated through the existing flowsheet due to low recovery rates and high operating costs. The Albion Process Technology was integrated into the existing flowsheet to oxidise the sulphide ore so that it could be subsequently treated by the existing equipment. This significantly increased recoveries and resulted in reduced operating costs with a modest capital investment. The Group's cash cost position has also been positively supported by the depreciation of the rouble given that a significant portion of the Group's revenue is denominated in U.S. dollars.

### ***Superior technological advantage and innovation expertise based on successful implementation of Albion Process Technology***

According to Glencore, the Group was the first company in the world to apply the Albion Process Technology for the oxidation of sulphide concentrate produced from mined ore at its Ararat processing facility in 2014. The introduction of this technology allowed the Group to switch to sulphide ore processing at this site. The Albion Process Technology is considered to be superior to many of the analogous gold enrichment technologies used by other mining companies, including in terms of extraction rates, capital expenditure involved, simplicity of equipment and personnel qualification requirements needed to operate the equipment, supplier warranty, start-up and commissioning time periods, environmental impact, ability to process ore with high deviations in quality and volume as well as high equipment use coefficient and

maintenance costs. Albion Process Technology has allowed the Group to increase the total gold recovery to up to 87-88% within two years from 20-30%, resulting in an increase in the production output from 45.9koz to 129.5koz on gold equivalent basis in the same period. This technology combines ultrafine grinding and oxidative leaching under atmospheric pressure. Albion Process Technology allows the concentrate containing base metals and precious metals to be processed by oxidation of sulphide minerals and recover metals for further extraction in conventional manner. Moreover, the technology, while improving efficiency helps to minimise any impact on the environment.

Having been fully involved in the construction of the Albion Process Technology based plant at its GPM Gold site, the Group obtained significant technological expertise that is unique within the CIS market and provides opportunities for potential capitalisation in the future. The Group entered into a collaboration agreement with Glencore Technology in February 2018, pursuant to which it has an exclusive right to market the Albion Process Technology in Russia in partnership with Glencore Technology. Under this agreement, the Group is entitled to undertake a full range of services as a contractor for Albion Process Technology based plant construction on a turnkey basis. The Group's Albion Process Technology based plant can also now be used as a training facility for what is recognised as a proven combination of ultrafine grinding and oxidative leaching, which means that any potential Albion Process Technology clients can gain a faster ramp-up through better technology transfer.

#### ***Highly experienced management team***

The Group benefits from a highly experienced team of industry professionals, with experience across the commodity spectrum and operational responsibility in all major global mining jurisdictions, most of whom have been with the Group since its foundation. The Group's management has experience in building sizeable mining businesses in the CIS coupled with expertise in the regions of the Group's current operations. The Group's management has expanded the business through a series of successful acquisitions and has maintained consistency in developing projects in a timely fashion while continuing to grow reserves and new exploration opportunities. The Group's management has successfully brought all of its assets to operation having acquired most of them in a non-operating state. Management believes that they have unrivalled local knowledge further facilitating the Group's continued growth in the CIS region including some of its most natural resource-prolific regions, such as Yakutia.

#### ***Prudent financial policies and risk management***

The Group has a conservative debt policy aimed at deleveraging. The Group's target Net Debt to EBITDA ratio is below 2.5:1. In the last five years the Group decreased its Net Debt to EBITDA ratio from 5.6:1 in 2014 to 2.0:1 in 2018. The Group has historically focused on establishing close relations with several anchor banks that provided the bulk of financing to the Group and satisfied working capital and other project financing needs primarily from local players. Historically, the Group did not pay dividends. The Group's dividend policy allows dividend distribution subject to Group's Net Debt to EBITDA ratio staying below 3.0:1 and up to 25% of free consolidated cash flow and net profit of the Group.

The Group's liquidity policy is based on efficient working capital management, maintaining minimum cash level of working capital, with excess cash used for debt repayment, and keeping open limits in local banks. The Group also adheres to internal cash control policy that requires that cash utilisation plans of the Group's operating entities are monitored on a 10-day basis and actual cash utilisation is controlled on a monthly basis. It also follows a conservative approach to new projects, using a set of investment limits and specific project parameters. The Group continuously works on capital expenditure optimisation with long-term plans for organic growth. As of the date of this Prospectus, the Group has completed majority of its current capital expenditure programme and intends to focus on high-return operational efficiency projects going forward.

In terms of risk management, the Group uses XAU/GOLD hedging of 50% of gold volume produced in order to protect against a downward movement of gold price. While this hedging is undertaken pursuant to the Group's obligations under its existing debt agreements, the Group expects to continue such hedging practice even after such debt is refinanced. The Group's diversified metals portfolio with low volatility acts as a natural hedge. In addition, the Group maintains strict tender process system for counterparty selection and works only with well-established market participants, global traders, upstream companies or subsidiaries of international banking groups.



### ***Sophisticated in-house engineering, procurement and construction expertise***

The Group has an in-house engineering, procurement and construction expertise utilised across the mining lifecycle. This expertise allows the Group to rely on internal resources for mine and related infrastructure design, construction and development as well as processing. It has engineering facilities, construction specialists, procurement resources, drilling teams as well as mine planning and feasibility study capabilities which allow it to control each stage of mine development. As a result, the Group is able to significantly reduce operational costs that are typically higher when these functions are outsourced to third parties as well as to manage project execution timeframes in a highly efficient manner. Further, this operating model facilitates post-implementation maintenance. This operating structure has been instrumental to the Group's project development and processing capacity growth. The quality of the Group's engineering, procurement and construction expertise allowed the Group to successfully implement, primarily using its internal resources, the construction of its Albion Process Technology based plant in 2014.

### **Strategy**

The principal pillars of the Group's strategy are:

#### ***Organic growth based on existing assets***

Consistent with a proven track record of developing and rehabilitating assets, the Group will focus on the optimisation and expansion of its existing assets and the development of new mineral properties in order to deliver sustainable growth.

In the next three years, the Group is aiming to increase its total production output by 44% from 243koz in the year ended 31 December 2018 to approximately 351koz on a gold equivalent basis and targets to invest approximately US\$133 million for further development of its existing assets portfolio with a focus on high-return operational investment.

The Group expects to achieve this target by completing implementation of several investment projects that are currently ongoing. In particular, the Group is currently implementing a project to increase production capacity at the Ararat processing facility to up to 1.6Mt by 2020. The Group expects that as a result of the targeted capacity increase gold production at GPM Gold will reach 154koz by 2022, representing an 18% increase from gold production in 2018. In addition, the Group plans to increase the ore processing capacity of its Agarak facility from 3.7Mt to 4.5Mt per annum by 2021. The Group expects that as a result of the targeted capacity increase, the copper and molybdenum production on a gold equivalent basis will reach 62koz by 2022, representing a 32% increase from 2018 production levels. In 2019, the Group plans to launch a new concentrating mill near its Sentachan site with an annual through-put capacity of 30kt of ore. The new mill will allow the Group to process concentrate in close proximity to the mining site instead of having to transport ore for processing to the Sarylakh processing facility. Transportation to Sarylakh processing facility is naturally limited to the time when the surrounding rivers (which the Group believes represent the most cost-efficient way of transportation there) are frozen. Therefore, the Group expects that this new mill will allow it to decrease the impact that seasonality has on production and also decrease transportation costs.

In addition, the Group plans to commence full cycle operations at its Verkhne-Menkeche site in 2021 after completion of the construction of a new concentrating mill with a planned through-put capacity of 330kt. The Group expects that the launch of full cycle operations at Verkhne-Menkeche will expand its current capacity for production of silver (which is currently produced as a by-product) as well as to add lead and zinc to its metals portfolio. This provides management with confidence that it will be able to deliver strong growth as it implements this strategy of pursuing organic growth.

In addition to its primary focus on organic expansion, the Group may pursue, on a selective basis, acquisitions of the mining assets if these opportunities complement the Group's current operations and industry expertise.

#### ***Improve efficiency of current operations***

Management intends to enhance the Group's profitability and maintain its competitiveness by improving the Group's overall operating efficiencies. This will be delivered by increasing productivity, reducing per unit production costs, implementing new production technologies and equipment, and maintaining an efficient

sales, distribution and overhead structure. Management believes that the use of modern equipment and technology will enable the Group to achieve significant productivity enhancements.

In order to successfully implement its strategy across the Group's operations, management is committed to the recruitment of industry experts with extensive market experience. This enables the Group to ensure that its strategies are implemented in a targeted and efficient manner and ensures that the Group meets all necessary regulations, including environmental and safety standards.

Consistent with this, the Group continues to invest in human resources in order to be an employer of choice in the markets within which it operates. Management continues to implement a policy of attracting and employing the most qualified mining professionals across all CIS geographies.

### ***Maintaining balanced financial discipline***

Financial stability is a fundamental strategy of the Group's management; it aims to maintain solid financial ratios and will continue to seek to optimise its loan maturity profile whilst pursuing organic growth and efficiency improvements strategic initiatives. Maintenance of a conservative capital structure, consistent with the overall risk profile of the Group and with mid-term positive free cash flow, remains the critical feature of the financial strategy. The Group also expects to continue to observe a conservative dividend policy and will adhere to its cash control policy as discussed in "*Competitive Strengths—Prudent financial policies and risk management*".

### **Risk Factors**

Investment in the Notes involves a high degree of risk. For a detailed discussion of the risks and other factors to be considered when making an investment with respect to the Notes, see "*Risk Factors*" and "*Forward-Looking Statements*". Prospective investors should note that the risks described in this Prospectus are not the only risks the Group faces. The risks described in this Prospectus are the risks that the Issuer and the Guarantors currently consider to be material. There may be additional risks that the Issuer and the Guarantors currently consider to be immaterial or of which they are currently unaware, and any of these risks could have similar effects to those set forth below.

## OVERVIEW OF THE OFFERING

*The following overview of the Offering is derived from, and should be read in conjunction with, the full text of the Conditions, the Trust Deed and the Agency Agreement (as defined in the Conditions), which shall prevail to the extent of any inconsistency with this overview. Capitalised terms used but not otherwise defined herein have the respective meanings given to such terms in the relevant Conditions.*

<b>Issuer:</b>	Karlou B.V., a private company with limited liability ( <i>besloten vennootschap met beperkte aansprakelijkheid</i> ) incorporated under Dutch law, registered with the trade register of the chamber of commerce in Amsterdam, The Netherlands under number 14034376.
<b>Company:</b>	Geopromining Investment (CYP) Limited.
<b>Guarantors:</b>	CJSC "Agarak Copper Molybdenum Combine", Geopromining Investment (CYP) Limited, GPM Armenia B.V., JSC "Sarylakh-Surma", JSC "Zvezda", LLC "GeoProMining Gold" and LLC "GeoProMining Verkhne Menkeche".
<b>Joint Lead Managers:</b>	Citigroup Global Markets Limited, GPB-Financial Services Ltd, Sberbank CIB (UK) Limited and VTB Capital plc.
<b>Notes Offered:</b>	<p>US\$300,000,000 aggregate principal amount of 7.75% Notes due 2024 (the "<b>Notes</b>").</p> <p><i>The "Notes", as used in this Prospectus, except for the purposes of the Conditions, mean the Notes offered in connection with the Offering. The definition of the "Notes" for the purposes of the Conditions includes any further Notes that may be issued pursuant to Condition 15 and, as such, form a single series with the outstanding Notes issued in connection with the Offering or in any subsequent offering.</i></p>
<b>Issue Price:</b>	100% of the principal amount of the Notes.
<b>Maturity Date:</b>	18 June 2024.
<b>Form and Denominations:</b>	The Notes will be issued in registered form in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof up to and including US\$399,000. The Notes will be represented on issue by the Global Certificate in registered form, without interest coupons, and will be registered in the name of a nominee of Citibank Europe plc as common depositary for Euroclear and Clearstream. Interests in the Global Certificate will be exchangeable for Definitive Note Certificates only in certain limited circumstances outlined in the Global Certificate. See " <i>Summary of Provisions Relating to the Notes in Global Form</i> ".
<b>Interest:</b>	The Notes will bear interest from, and including, the Issue Date at the rate of 7.75% per annum, payable semi-annually in arrear on 18 June and 18 December in each year, commencing on 18 December 2019.

<b>Ranking of the Notes and the Guarantee:</b>	The Notes constitute direct, unconditional, unsubordinated and (subject to Condition 4.6 (" <i>Covenants—Limitation on Liens</i> ")) unsecured obligations of the Issuer and shall at all times rank <i>pari passu</i> and without any preference among themselves. The Guarantee constitutes direct, unsubordinated and (subject to Condition 4.6 (" <i>Covenants—Limitation on Liens</i> ")) unsecured obligations of the relevant Guarantor. Each of the Issuer and the Guarantors shall ensure that at all times the claims of the Noteholders against them under the Notes and the Guarantee, respectively, rank at least <i>pari passu</i> with claims of all their other present and future unsecured and unsubordinated creditors (other than claims preferred under any bankruptcy, insolvency, liquidation or similar laws).
<b>Further issues:</b>	The Issuer may from time to time, without the consent of the Noteholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the date for and amount of the first payment of interest) so that such further issue shall be consolidated and form a single series with the outstanding Notes. See Condition 15 (" <i>Further Issues</i> ").
<b>Relevant Event:</b>	If a Relevant Event has occurred, each Noteholder will have the option to require the Issuer to redeem such Note on the Relevant Event Put Settlement Date at an amount equal to 101% of the principal amount of the Note together with accrued and unpaid interest (if any) to (but excluding) the Relevant Event Put Settlement Date. See Condition 6.3 (" <i>Redemption and Purchase—Redemption upon a Relevant Event</i> ").
<b>Optional Redemption for Tax Reasons:</b>	The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders, the Trustee and the Principal Paying Agent (which notice shall be irrevocable) at the principal amount thereof, together with accrued and unpaid interest (if any) to (but excluding) the date fixed for redemption, if the Issuer or a Guarantor has become or would become obligated to pay additional amounts as a result of certain changes in tax laws or their interpretation. See Condition 6.2 (" <i>Redemption and Purchase—Redemption for Tax Reasons</i> ") and Condition 8 (" <i>Taxation</i> ").
<b>Optional Redemption at Make Whole:</b>	The Issuer may at any time, upon not less than 30 nor more than 60 days' notice to the Noteholders, redeem all, but not some only, of the Notes at a redemption price equal to 100% of the principal amount thereof together with the Applicable Redemption Premium and accrued and unpaid interest (if any) to (but excluding) the redemption date specified in such notice.
<b>Events of Default and Certain Covenants:</b>	The terms and conditions of the Notes contain events of default and covenants (including a cross default provision and a negative pledge) as described further in " <i>Terms and Conditions of the Notes—Events of Default</i> " and " <i>Terms and Conditions of the Notes—Covenants</i> ".

<b>Substitution:</b>	The Notes also permit substitution of the Issuer and the Guarantors in certain circumstances. See Condition 12.3 (" <i>Substitution</i> ").
<b>Governing Law:</b>	The Trust Deed, the Guarantee and the Notes, including any non-contractual obligations arising out of or in connection with the Trust Deed, the Guarantee and the Notes, will be governed by and construed in accordance with English law.
<b>Use of Proceeds:</b>	The net proceeds of the Notes will be used by the Issuer for debt refinancing and other general corporate purposes. See " <i>Use of Proceeds</i> ".
<b>Listing and Trading:</b>	Application has been made for the Notes to be admitted to the Official List and to trading on the Regulated Market of Euronext Dublin.
<b>Selling Restrictions:</b>	The Notes have not been and will not be registered under the Securities Act. The Notes are being offered and sold outside the U.S. by the Joint Lead Managers in accordance with Regulation S, and may not be offered or sold except in an offshore transaction in accordance with Regulation S. In addition, there are limitations on offers and sales of Notes in certain other jurisdictions. See " <i>Subscription and Sale</i> ".
<b>Clearance and Settlement:</b>	The Notes have been accepted for clearance through Euroclear and Clearstream.
<b>Security Codes:</b>	<p>ISIN: XS2008618501</p> <p>Common Code: 200861850</p> <p>FISN: KARLOU B.V./EUR NT 20240617 RESTN</p> <p>CFI Code: DYFXXR</p> <p>LEI Code: 724500YH6Y896A2J4H56</p>
<b>Trustee:</b>	Citibank, N.A., London Branch
<b>Principal Paying Agent:</b>	Citibank, N.A., London Branch
<b>Registrar:</b>	Citigroup Global Markets Europe AG
<b>Expected Rating of the Notes:</b>	<p>The Notes are expected to be rated "B+" by S&amp;P and "B+(Exp)" by Fitch. The Company is rated B+ with Stable Outlook by S&amp;P and B+(Exp) with Stable Outlook by Fitch. Each of Fitch and S&amp;P is established in the EEA and registered under the CRA Regulation. The list of credit rating agencies registered in accordance with the CRA Regulation is available on the European Securities and Market Authority's website (<a href="https://www.esma.europa.eu/supervision/credit-rating-agencies/risk">https://www.esma.europa.eu/supervision/credit-rating-agencies/risk</a>).</p> <p>Credit ratings do not necessarily mean that the Notes are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision,</p>

suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes, the Issuer or the Guarantors could adversely affect the price that a subsequent purchaser would be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.

**Risk Factors:**

An investment in the Notes involves a high degree of risk. Investors should carefully review the risks described herein under "*Risk Factors*" beginning on page 28 of this Prospectus.

## RISK FACTORS

*Investment in the Notes involves a high degree of risk. Prospective investors may lose the value of their entire investment or part of it and should carefully review this Prospectus in its entirety. In particular, investors should consider all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest. Any of the following risks, individually or together, could adversely affect the Group's business, results of operations, financial condition and prospects, in which case the trading price of the Notes could decline and investors could lose all or part of their investment.*

*Prospective investors should note that the risks described below are not the only risks the Group faces. These are the risks the Issuer and the Guarantors currently consider to be material. There may be additional risks that the Issuer and the Guarantors currently consider to be immaterial or of which they are currently unaware, and any of these risks could have similar effects to those set forth below.*

### **Risks Relating to the Group's Business and Industry**

***The Group's results of operations depend largely on the prices of gold, copper and antimony and, to lesser extent, molybdenum and silver which may be subject to significant volatility and are difficult to predict.***

The Group derives substantially all of its revenues from the sale of gold, copper, molybdenum and antimony with further revenues from sales of silver. The Group generally sells its products, whether under long-term contracts or on the spot market, at market prices. Accordingly, the Group's financial results largely depend on the price of these metals which can fluctuate substantially. The gold, copper, antimony, molybdenum and silver markets are cyclical and sensitive to changes in general economic conditions, and may be subject to significant volatility. As a result, it is not possible to forecast accurately the price of the metals. Their price is influenced by various factors, many of which are outside of the Group's control, including, but not limited to:

- global and regional economic and political conditions;
- global and regional supply and demand, and expectations of future supply and demand;
- speculative trading activities;
- changes in the supply of metals from production, disinvestment, scrap and hedging;
- military conflicts, acts of terrorism and natural disasters;
- local and foreign government regulations and regulatory actions, including export quotas;
- the overall level of forward sales by other producers of the same metals;
- the overall level and cost of production of other producers of the same metals;
- currency exchange rates, particularly movements in the value of the U.S. dollar (the currency in which the gold, silver, molybdenum and copper prices trade internationally) against other currencies; and
- actual or expected inflation and interest rates.

### *Gold*

Gold is a commodity traded on the London Bullion Market, the Tokyo Commodity Exchange, the New York Commodity Exchange (the "COMEX") and the Zurich Gold Pool. As sales of gold are the most substantial contributor to the Group's revenues, changes to the market price of gold have a significant impact on the financial performance of the Group. The price of gold is often subject to sharp, short-term changes resulting from speculative activities. The gold market is volatile, although among commodities gold carries a special function because it is used by investors as a "safe haven" investment, especially during times of economic

uncertainty and fears of currency instability. Additional factors can also affect the gold price substantially, including, among others:

- actual, expected or rumoured purchases or releases of built-up reserves of gold by central banks or other large holders or dealers, as well as purchases under hedging contracts;
- changes in the use of gold in industrial applications or as an investment, as well as fluctuations in the demand for jewellery;
- economic growth and political conditions in China and India, which are the largest consumers of gold in the world, as well as other major developing economies; and
- changes in the use of gold in industrial applications and as an investment.

During the three years ended 31 December 2018, LBMA daily settlement prices ranged from US\$1,073 to US\$1,364 per ounce of gold.

In case of a significant and prolonged reduction in the price of gold, the Group may be required to revise its development plans and budget, and if the price falls below the Group's cost of production, unless the Group is able to compensate for the decrease under its existing hedging contracts, it may determine that it is not economically feasible to continue commercial production at some or all of its operations or the development of all of its current prospects. In such circumstances, the Group may curtail or suspend some or all of its production activities or be required to draw down (without replacement) or restate downwards its reserves, which may have a material adverse effect on the Group's business, results of operations and financial condition and the Group's ability to service its payment obligations under the Notes and/or the trading price of the Notes.

### *Copper*

Copper is sold at prices based on those quoted on the London Metal Exchange (the "LME"), the COMEX and the Shanghai Futures Exchange (the "SHFE"). The Group's copper is sold at prices based on those quoted on the LME. The price of copper as reported on this exchange is influenced significantly by numerous additional factors which are outside the Group's control, including, among others:

- trends in industrial production and conditions in the housing and automotive industries, all of which correlate with demand for copper;
- economic growth and political conditions in China, which is the largest consumer of refined copper in the world, as well as other major developing economies;
- speculative investment positions in copper and copper futures;
- the availability and cost of substitute materials; and
- inventory levels maintained by producers, governments and others and actions of participants in the copper market.

The copper market is volatile and cyclical. During the year ended 31 December 2018, LME daily closing spot prices ranged from US\$6,020 to US\$7,080 per tonne of copper.

### *Antimony*

Antimony is not traded on any official metal exchange, however, antimony quotations are published by several information agencies, including AntimonyNet, MetalBulletin, Metal Pages as well as Asian Metal. The Group's antimony is sold at prices based on those quoted on the MetalBulletin and AntimonyNet and varies depending on specific customers. The price of antimony as reported by sources referred to above is influenced significantly by numerous factors which are outside the Group's control, including, among others:



- trends in industrial production and conditions in the mechanical rubber and polymeric industries (where antimony is mostly used as a flame retardant coating), all of which correlate with demand for antimony;
- changes in Chinese legislation in relation to the antimony industry as well as the productivity of Chinese antimony companies due to the fact that China is the largest producer of antimony metal in the world;
- the availability and cost of substitute materials, in particular, in light of the relative scarcity of antimony reserves globally; and
- currency exchange fluctuations, particularly cross-rate US\$/RMB.

The antimony market is volatile and cyclical. In the majority of the Group's antimony sales contracts the price is based on the average of the monthly low quotations. In the three years ended 31 December 2018, the market prices ranged from the lowest of US\$5,050 per tonne to the highest of US\$8,775 per tonne. The 2018 monthly average price was US\$8,159 per tonne compared to US\$8,121 per tonne in 2017.

#### *Molybdenum*

Molybdenum is sold at prices based on those quoted on the LME. Molybdenum is characterised by volatile, cyclical prices. Molybdenum prices are also influenced by additional factors, including:

- rates of global economic growth, especially construction and infrastructure activity that requires significant amounts of steel;
- the volume of molybdenum produced as a by-product of copper production; and
- inventory levels.

Molybdenum demand depends significantly on the global steel industry, which uses the metal as a hardening and corrosion inhibiting agent. Approximately 80% of global molybdenum production is used for this purpose. The remainder is used in specialty chemical applications such as catalysts, water treatment agents and lubricants. Approximately 65% of global molybdenum production is a by-product of copper mining, which is relatively insensitive to molybdenum prices. The average price of molybdenum during 2018 was approximately US\$26,140 per tonne as compared with US\$17,940 per tonne during 2017.

#### *Silver*

Silver prices are subject to substantially similar factors as gold prices. See "*—Gold*" above. During the three years ended 31 December 2018, LMBA daily settlement prices ranged from US\$13.58 to US\$20.71 per ounce of silver.

Significant sustained declines in the price of gold, copper, molybdenum, antimony and silver, may render any of the production, exploration or development activities in respect of these metals to be undertaken by the Group less profitable or unprofitable and may have a material adverse effect on the Group's business, results of operations, financial condition and the ability of the Group to service its payment obligations under the Notes and/or the trading price of the Notes.

***Economic returns and development costs could differ materially from the Group's expectations and the development of the Group's mines and processing facilities, as well exploration projects, may be subject to unforeseen problems and delays.***

The Group's results of operations depend, in part, on the actual economic returns and the actual costs of developing mines, which may differ significantly from the Group's current estimates. The development of the Group's mines, processing facilities and exploration projects may be subject to unexpected problems and delays.

Furthermore, the Group's decision to develop a mineral property or invest into an existing property is typically based, in the case of an extension or a new development, on the results of a feasibility study. Feasibility

studies derive estimates of expected or anticipated project economic returns. These estimates are based on assumptions about future metal prices; anticipated tonnage, grades and metallurgical characteristics of ore to be mined and processed; anticipated recovery rates of metal from the ore; anticipated capital expenditure and cash operating costs; and the anticipated return on investment.

Actual cash operating costs, production and economic returns may differ significantly from those anticipated by such studies and estimates. There are a number of uncertainties inherent in the development and construction of an extension to an existing mine, or in the development and construction of any new mine. These uncertainties include, in addition to those discussed immediately above: the timing and cost of the construction of mining and processing facilities, which can be considerable; the availability and cost of skilled labour, power, water, consumables, such as cyanide, lubricants and fuel, and transportation facilities; unexpected labour shortages or strikes; natural phenomena, such as inclement weather conditions including heavy rain and snow and extreme cold, water availability, floods, and earthquakes; inability to reach the mines due to remote locations and harsh climatic conditions; equipment breakdowns and the need to upgrade outdated machinery periodically; the availability and cost of appropriate refining arrangements; the need to obtain necessary environmental and other governmental permits, and the timing of those permits; and the availability of funds to finance construction and development activities.

The costs, timeframe for, and complexities of mine development and construction can increase because of the remote location of many mining properties. New mining operations could experience unexpected problems and delays during development, construction and mine start-up. In addition, delays in the commencement of mineral production could occur. Accordingly, the Group's future development activities may not result in the expansion or replacement of current production sites with new production sites, and any new production sites or facilities may be less profitable than currently anticipated or may not be profitable at all, which could adversely affect the Group's business, results of operations and financial condition and/or on the price of the Notes.

***The Group's production may be materially and adversely affected by grades of ore, stripping costs and other costs.***

The Group's levels of production may also be materially and adversely affected by:

- the grades of ore which can be processed – unless prices for the metals the Group produces are high, the mining of low grade ore might be uneconomical;
- stripping costs – in open-pit mining operations, removal of overburden and other waste materials is required to obtain access to the ore body. In the event that a large amount of overburden removal is required, this may result in production being uneconomical; and
- costs of production – the key drivers of production costs are labour, energy, fuel and consumables.

Any adverse changes in any of these drivers (or a combination of them) could have a material adverse effect on production. If costs of production increase, profitability and possibly production capacity could be negatively affected, which may have a material adverse effect on the Group's business, results of operations and financial condition, the Group's ability to service its payment obligations under the Notes and/or the trading price of the Notes.

***The Group is subject to mining risks.***

The Group's operations, like those of other mining companies, are subject to all of the hazards and risks normally associated with the exploration, development and production of natural resources, any of which could result in production shortfalls or damage or injury to persons, property or the environment. The risks and hazards include, but are not limited to: environmental hazards, including discharge of metals, pollutants or hazardous chemicals; industrial accidents and occupational health diseases; underground fires; labour disputes; unexpected geological formations; unanticipated ground and water conditions; fall of ground accidents; failure of mining pit slopes and tailings dam walls; legal and regulatory restrictions and changes to such restrictions; and production disruptions due to other natural phenomena, such as floods or adverse weather conditions.

The Group engages in open-pit mining. Hazards associated with open-pit mining operations include flooding, collapses of the open-pit wall or shelf, accidents associated with the operation of mining transportation

equipment, accidents associated with the preparation and ignition of large-scale open-pit blasting operations, production disruptions due to weather and hazards associated with the disposal of mineralised waste water, such as groundwater and waterway contamination. The operations of the Group's mines may also be adversely affected by the low or high temperatures in the regions where the Group's principal mines are located and by unforeseen geological conditions, as well as emergency breakdowns in mining equipment.

The Group may experience any of these hazards. The occurrence of any of these or similar hazards could delay production, increase production costs, damage the Group's reputation or result in injury or death to persons and damage to property, as well as associated liability for the Group, and may result in actual production differing materially from estimates of production. In addition, many of the Group's assets are not covered by the Group's existing insurance. The Group may incur costs that are described above, which may have a material adverse effect on the Group's business, results of operations and financial condition, the Group's ability to service its payment obligations under the Notes and/or the trading price of the Notes. See "*— The Group may incur losses from uninsured or self-insured risks*".

***The Group requires ongoing capital expenditures to fund the projects contemplated by the Group's strategy and its current development plan.***

The mining business is capital intensive and the development and exploitation of reserves, the conversion of resources and the acquisition of machinery and equipment require substantial capital expenditures.

The Group will require capital to develop its ongoing projects and any new projects it may initiate in the future. See "*Business—Strategy*". In particular, the Group management's current development plans contemplate significant investments between 2019-2021, including capital expenditures required in connection with the targeted capacity increase projects at its principal Russian and Armenian processing sites, as well as completion of the construction of the new concentrating mill at its Verkhne-Menkeche site. There is no assurance that these or any other projects that the Group will undertake will not be adversely affected, delayed, terminated or will be completed as planned as a consequence of a number of factors, including:

- the timing and cost of the construction of processing facilities;
- the availability and cost of skilled labour, transportation facilities, power, water and raw materials;
- restrictive covenants under the terms of the Group's indebtedness;
- the availability and cost of funds to finance these projects;
- the need to obtain necessary environmental and other governmental permits and the timing of those permits; and
- other technical difficulties.

Technical and technological decisions made as part of the integration of new technologies or developing or enhancing existing systems, or assumptions used, during each stage of the Group's projects on the basis of the information available to the Group may reveal themselves to be wrong and, as a result, lead to operating costs being higher than originally estimated. Procurement costs of these projects may also exceed the Group's planned investment budget. As a consequence of any delay in completing the Group's capital expenditure projects, cost overruns, changes in market circumstances or other factors, the intended economic benefits from these capital expenditure projects may not materialise or the Group may not be able to make these capital expenditures at the times and in the amounts planned, and the Group's business, results of operations or financial condition may be materially adversely affected.

The Group's capital expenditures might also be subject to inflationary price pressures resulting from overall price increases, as well as price increases caused by an undersupply of critical equipment for mining and processing.

As the Group's strategy involves both the development of existing assets and, potentially, acquisitions, further development of such strategy may be dependent upon the Group's ability to obtain financing through the raising of equity or debt financing or other means. The Group's ability to secure debt or equity financing in amounts sufficient to meet the financial needs of the Group could be adversely affected by many factors

beyond the Group's control, including, but not limited to, economic conditions, the level of liquidity in the Russian, Armenian and international banking sectors and the impact of U.S. and EU sanctions on the Russian economy. There can be no assurance that additional funding required by the Group for its current development projects or any that might be undertaken in the future will be made available to it and, if such funding is available, that it will be offered on reasonable terms. If the Group is unable to obtain additional financing as needed, it may be required to delay or reduce the scope of its operations or anticipated capital investments, which may have a material adverse effect on the Group's business, results of operations and financial condition, the Group's ability to service its payment obligations under the Notes and/or the trading price of the Notes.

***The Group depends on its personnel.***

The Group's business depends in significant part upon the contributions of a number of its key personnel, in particular its senior management team and its team of engineers and geologists. There can be no certainty that the services of its key personnel will continue to be available to the Group. Moreover, the Group competes with mining and other companies to attract and retain personnel at all levels with appropriate technical skills and operating and managerial experience necessary to continue to operate its business. The Group's future success is dependent on its ability to attract and retain qualified personnel. Factors critical to both retaining the Group's present staff and attracting additional qualified personnel include the Group's ability to provide these individuals with competitive compensation arrangements. If the Group is not successful in retaining or attracting highly qualified individuals in key management positions and highly skilled engineers and geologists, the Group's business may be materially harmed.

Competition in Russia and Armenia for personnel with relevant expertise is intense due to the small number of qualified individuals, particularly skilled technicians, accounting personnel and information technology personnel. Furthermore, only a limited number of skilled geologists and other mining specialists with adequate qualifications and experience are available globally, and there is an increasing demand for such qualified personnel as more international companies invest in the Russian and Armenian mining industries as well as, to a certain extent, the oil and gas industries, which often compete for the same personnel. This competition for attracting and retaining qualified personnel is the main factor behind the recent increase in labour costs in the mining industry. To the extent that labour costs were to keep increasing in the mining industry, this could result in a reduction in the Group's profit margins, while failure to retain an adequate number of qualified geologists or other mining specialists may hinder the development of the Group's assets and have a material adverse effect on the Group's business, results of operations and financial condition, the Group's ability to service its payment obligations under the Notes and/or the trading price of the Notes.

***The Group depends on third party service providers.***

The Group depends on certain key third party service providers for the goods and services they provide, which include transportation, drilling, communications technologies and offtakers. As a result, the Group's operations that require engaging such contractors are subject to a number of risks, some of which are outside the Group's control, including:

- negotiating agreements with contractors on terms acceptable to the relevant Group company;
- the inability to replace a contractor and its operating equipment in a timely manner in the event that either party terminates the agreement;
- reduced control over those aspects of operations which are the responsibility of the contractor;
- failure of a contractor to perform its obligations under its agreement with the Group, in particular, failure to meet schedules and/or specifications for the execution of projects;
- interruption of operations or increased costs in the event that a contractor ceases its business due to insolvency or other unforeseen events; and
- failure of a contractor to comply with applicable legal and regulatory requirements, to the extent it is responsible for such compliance.

The occurrence of any one of, or a combination of any of, the risks mentioned above could adversely affect the introduction of new production capacity and existing production targets, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes and/or the trading price of the Notes.

For example, the Group's operations use certain infrastructure provided by third parties, such as transportation services. The delivery of supplies by third parties may be disrupted or transportation costs of third parties may increase. See "*Some of the Group's principal operations are located in geographically remote areas in Russia with harsh climates and are subject to seasonality, which in some cases require limiting production operations to specific times of year, and the delivery of supplies to such areas may be disrupted or transportation costs may increase*". Failure by suppliers to meet schedules for the production and delivery of necessary supplies could affect the Group's ability to conduct operations and to continue developing mines. The inability to obtain consumables, materials and equipment in a timely manner could adversely affect the introduction of both new production capacity and existing production targets, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Group's ability to service its payment obligations under the Notes and/or the trading price of the Notes.

The Group is also significantly dependent on using the local railway system to transport ore from the Zod mine to the Ararat processing facility. Any disruption in railway transportation (including as a result of technical breakdowns, accidents, improper maintenance, shortages of locomotives, industrial action caused by trade unions at South Caucasus Railway or the blockage or destruction of key rail routes connecting the Group's facilities to the railway network) could significantly affect the Group's ability to bring products to market, delay delivery times and increase its costs, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Company's ability to service its payment obligations under the Notes and/or the trading price of the Notes.

The Group currently sells all of its gold and silver doré bars to VTB Capital Trading Ltd, Zug Branch ("**VTB Trading**") and all of its copper and molybdenum concentrate to Industrial Minerals SA ("**Industrial Minerals**"). As a result, 73% of the Group's revenue is derived from these two offtakers. If any of these offtakers terminate their existing contracts with the Group or decide to significantly decrease their purchase volumes and the Group is unable to replace them with other offtakers or sell these products to direct customers on at least equivalent commercial terms, the Group's revenue and thus its results and operations and profitability could be materially adversely affected.

***Actual and potential supply chain shortages and increases in the prices of production inputs may have an adverse effect on the Group's operations and profits.***

The Group's results of operations may be affected by the availability and pricing of raw materials and other essential production inputs, including fuel, grind balls, and cyanide and other reagents. A sustained interruption in the supply of any of these materials would require the Group to find acceptable substitute suppliers and, in relation to cyanide, the Group believes that the alternatives to its two current suppliers are limited. To the extent that the Group is unable to obtain alternative sources in the event of a prolonged disruption to its usual supply network, the Group may be forced to reduce its operating levels. Furthermore, even if the Group were able to obtain supplies of production inputs from alternative sources, it may incur substantially higher costs, particularly in relation to purchases of grind balls. More generally, the price of raw materials may be substantially affected by changes in global supply and demand, along with weather conditions, governmental controls and other factors. Any significant increase in the prices of these materials will increase the Group's operating costs and affect production considerations, which may have a material adverse effect on the Group's business, results of operations and financial condition, the Group's ability to service its payment obligations under the Notes and/or the trading price of the Notes.

***The cost and supply of electricity, particularly self-generated electricity, can be volatile. An increase in power costs will make production more costly and alternative power sources may not be available.***

Power is one of the Group's largest operating expenses. The Group's mines currently purchase energy from third party providers that are in most cases the only available providers in the localities in which they operate and so are able to set prices free of competitive restraints. Some of the Group's mines currently purchase power from state-controlled regional energy agencies, which charge consumers a rate based on tariffs that are modified from time to time and any deregulation of the electricity industry in Armenia or Russia could result in increases in the tariffs. In particular, the Russian Government initiated the deregulation of electricity prices for industrial consumers in 2011, which has resulted in the Group purchasing electricity at higher prices. The

Armenian government has not yet indicated any intention to deregulate tariffs, but under the Armenian law Armenian electricity tariffs may be revised every six months and the rates are determined based on certain methodology set forth in law and are not discretionary.

There is a deficit of power grid facilities in the Yakutia region (Sarylakh and Sentachan deposits). As a result, the Group is required to use more expensive captive generations, reducing the security of the energy supply for existing operations. The implementation of new power line construction projects may be threatened by a poor road infrastructure and harsh climatic conditions. The deficit of generating and power grid facilities, along with delays in the construction of new power grids, may result in a material adverse effect on the Group's business, results of operations and financial condition, the Group's ability to service its payment obligations under the Notes and/or the trading price of the Notes.

Some of the Group's mines, such as the Verkhne-Menkeche site, generate their own power through diesel facilities located at the mines. These mines purchase diesel and any increase in the costs of diesel supply or any interruption diesel supply could result in higher overall fuel costs. Increases in diesel costs may result in a reduction in the revenue and production capacity of the Group, which may result in a material adverse effect on the Group's business, results of operations and financial condition, the Group's ability to service its payment obligations under the Notes and/or the trading price of the Notes.

***Some of the Group's principal operations are located in geographically remote areas in Russia with harsh climates and are subject to seasonality, which in some cases require limiting production operations to specific times of year, and the delivery of supplies to such areas may be disrupted or transportation costs may increase.***

Certain of the Group's current assets such as Sarylakh-Surma, Sentachan and Verkhne-Menkeche are remotely located, with some of them being difficult to access, and subject to extreme weather conditions, resulting in potentially extensive delivery times. While the Group benefits from the modern mining transportation skills and technologies, that it has developed for operating in areas with harsh climates, it may sometimes be unable to overcome problems related to weather and climate at a commercially reasonable cost, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Group's ability to service its payment obligations under the Notes and/or the trading price of the Notes.

The Group requires reliable roads, power sources and water supplies to access and conduct its operations and the availability and cost of this infrastructure affects capital and operating costs and the Group's ability to maintain expected levels of production and sales. Unusual weather or other natural phenomena, sabotage, theft or other interference in the maintenance or provision of such infrastructure could impact the development of a project, reduce mining volumes, increase mining or exploration costs or delay the transportation of raw materials or inputs to the mines and projects and of doré or concentrate to the market. Any such issues arising in respect of the infrastructure supporting or on the Group's sites could materially adversely affect the Group's business, results of operations and financial condition. Furthermore, any failure or unavailability of the Group's operational infrastructure (for example, through equipment failure or disruption to its transportation arrangements) could adversely affect the production output from its mines or impact its exploration activities and development of a mine or project. For example, the Group's operations in Armenia were disrupted for up to two days on several occasions, including, most recently, in 2017, when a number of illegal miners as well as employees of the Group's previous ore transportation provider with whom the Group terminated its contract initiated roadblocks preventing access to the Group's facilities, as well as in 2018, when a number of parties similarly blocked access to the Group's facilities claiming that they were driven by certain political events.

The remote location of the Group's principal operations may also result in increased costs and transportation difficulties. The delivery of supplies to areas where the Group operates may be disrupted, or transportation costs may increase. The air temperature at some sites in the Yakutia (Siberia) region can fall to minus 65°C in winter and rise to plus 32°C in summer.

The Group's mining activities at the Sentachan mine and the related cost of ore transportation are characterised by seasonality. Because of the Sentachan mine's location, the Group uses methods of ground-based transportation to cross over the surrounding frozen rivers, which it believes to be the most cost-efficient method of transportation. Accordingly, the off-take from the Sentachan mine is naturally limited to three months per year: from February until April, when weather conditions allow for the transport of ore to the Sarylakh processing facility located near the town of Ust Nera, which is then processed from April through December. See "Operating and Financial Review—Significant Factors Affecting Results of Operations and

*Financial Condition–Seasonality*". In addition, due to harsh climate at the Group's Sentachan site, similar to other industrial companies operating in the region, the Group purchases fuel on a seasonal basis in capacities sufficient for the entire duration of the winter.

The mud periods also significantly challenge the timely procurement of materials and technical resources for capital construction projects. An increase in costs of, or interruptions in, transportation could have a material adverse effect on the Group's business, results of operations and financial condition, the Group's ability to service its payment obligations under the Notes and/or the trading price of the Notes.

***The Group has a substantial amount of indebtedness secured by pledge of the shares in the Group's operational subsidiaries and operational assets. Covenants under the debt agreements could affect the ability of the Group to operate and further expand its business.***

The Group has a substantial amount of indebtedness and significant debt service obligations, which could adversely affect its cash flows or prevent it from carrying out obligations under the Notes. The Group's total borrowings as of 31 December 2018 were US\$254 million. The Group's loan agreements include collateral requirements and restrictive covenants, such as pledges of assets of the borrowing entity and other Group companies, and limitations on additional borrowings. See "*Operating and Financial Review—Indebtedness*".

Almost all of the Group's bank debt arrangements as well as Notes contain covenants that impose operating and financial restrictions on its subsidiaries, including, unless permitted upon prior consent of the lenders, restrictions on the Group's ability to:

- incur, assume or permit to exist additional indebtedness or guarantees while the borrower's financial ratios are below predetermined levels;
- engage in any transactions which have a material effect on the borrower's assets or liabilities without prior approval of or notice to the lender;
- pay dividends or distributions on, or redeem or repurchase, share capital;
- engage in mergers, acquisitions, consolidations or joint ventures;
- engage in significant reorganisation; and
- sell assets in excess of a predetermined threshold.

The terms of the Group's indebtedness also require it to operate within certain specified financial ratios. If prices of gold, copper, antimony, molybdenum or silver decrease significantly, or if the Group's business and/or results of operations deteriorates, these financial covenants could be breached.

The Group has obtained irrevocable waivers from VTB and Sberbank, as lenders under the US\$299.7 million syndicated loan facility (the "**VTB/Sberbank Syndicated Facility**") and VTB, as a lender, under its US\$80 million loan agreement (the "**VTB Loan**"), both of which it expects to repay using the proceeds of the Notes, permitting the Group to issue the Notes and the Guarantors to guarantee the Notes. No waivers are required from the lenders of the Group's other indebtedness expected to be repaid using the proceeds of the Notes.

The Issuer, the Parent and GPM Armenia B.V. are also parties to a share retention deed entered into by them and the Parent's shareholders with Sberbank of Russia in connection with the loan facility provided to Nakilep Overseas Limited, the second largest shareholder of the Parent, as borrower. The execution of the share retention deed was a condition for the lenders under this loan facility to make this facility available to the borrower. Pursuant to the share retention deed, the Parent's shareholders agreed not to (and to procure that the Group companies do not) dispose or create security over the Group's principal assets, including the Russian and Armenian Guarantors without consent of the lenders under the facility. The issuance of bonds, such as Notes, is expressly permitted under the share retention deed. The existence of these restrictions on the Parent's shareholders and the Group may affect the Group's ability to obtain additional financing in the future as potential future lenders may be unwilling to provide financing to the Group or provide financing on terms that are acceptable to the Group given these restrictions.

Pursuant to the Conditions, the Group is required to use the proceeds of the Notes to repay substantially all of its existing indebtedness, which includes the VTB/Sberbank Syndicated Facility, the VTB Loan, as well as debt outstanding under the Group's loan agreements with Sberbank, Ameriabank, Ardshinbank and Maritime Bank (see "*Operating and Financial Review—Indebtedness*"). However, the Group will remain restricted by the terms of the Notes or any new financing it may attract after the Offering, all of which could potentially (i) limit its ability to obtain additional financing for working capital, capital expenditures or other purposes, (ii) require the Group to dedicate a substantial portion of its cash flows to pay its interest expense and repayment of loan principal, which would reduce the funds that would otherwise be available to the Group for its operations, capital expenditure and future business requirements, (iii) limit its ability to plan for, or react to, changes in its business and the markets in which the Group operates, (iv) place the Group at a competitive disadvantage compared to its competitors that have less debt or (v) increase its vulnerability to general adverse economic and industry conditions. Any of these factors could have a material adverse effect on the Group's business, results of operations and financial condition and/or the price of the Notes.

***The exploration of new deposits and development of new mines involves a high degree of risk uncertainty and cost.***

To increase production materially through mining new deposits, the Group may need to extend its mineral base through geological exploration. This may require substantial expenditure and involves a high degree of risk, and exploration projects might be unsuccessful. Exploration activities often require substantial expenditure to: establish reserves through drilling, metallurgical and other testing techniques; determine appropriate recovery processes to extract metals from the ore; and construct, renovate or expand mining and processing facilities.

The long-term success of the Group's operations will be related to the cost and success of its exploration programmes. The risks associated with ore exploration include the identification of potential ore mineralisation based on analysis of geological data, the technological challenges of exploration and development, the receipt of necessary governmental permits, approvals and licences and the construction of mining and processing facilities at any site chosen for mining. A decline in the market price of ore metals may render the mining and/or processing of reserves containing relatively lower grades of such ore mineralisation uneconomical. No assurance can be given that any exploration programme undertaken by the Group will result in the discovery of new resources or in any new commercial mining operation.

Substantial expenditure may be required to establish reserves through drilling and to determine technological processes to extract metals from ore. If reserves are developed, it can take a number of years from the initial phases of drilling and identification of mineralisation until production is possible. During this period, the assumptions on which the Group has based its assessments of the economic feasibility of the mine, including in relation to future ore prices, anticipated tonnage, grades and metallurgical characteristics of ore to be mined and processed, anticipated recovery rates of the metals from the ore, anticipated capital expenditures and cash operating costs, may require significant adjustment. The Group's initial access to information when forming such assumptions and making such assessments may also be limited.

Actual cash operating costs, production levels and economic returns may differ significantly from those anticipated by studies and estimates. There are a number of uncertainties inherent in the development and construction of a new mine or an extension to an existing mine. These uncertainties include, in addition to those discussed above, the timing and cost of the construction of mining and processing facilities (which can be considerable); the availability and cost of skilled labour, power, water, consumables (such as cyanide, lubricants and fuel) and transportation facilities; the availability and cost of appropriate smelting and refining arrangements; the need to obtain necessary environmental and other governmental permits and the timing of those permits; and the availability of funds to finance construction and development activities in the longer term.

Consequently, no assurance can be given that the current and future exploration programmes undertaken by the Group will result in the discovery of deposits, the expansion of existing reserves or the development of mines. This may result in a material adverse effect on the Group's business, results of operations and financial condition, the Group's ability to service its payment obligations under the Notes and/or the trading price of the Notes.



***The Group's stated mineral reserves and resources are only estimates based on a range of assumptions and there can be no assurance that the anticipated tonnages or grades will be achieved.***

The resource and reserve estimates presented in this Prospectus have been prepared in accordance with definitions adopted by the JORC. Ore reserves and resources estimates are expressions of professional judgment, based on knowledge, experience and industry practice, but are subject to considerable uncertainties. As a result, the Group cannot be certain that its estimated ore reserve and resources are completely accurate. Moreover, future volumes of mining, which may not occur for many years, and rates of recovery of metals could differ materially from such estimates. Should the Group discover, in the course of mining its deposits, that those deposits differ from those predicted by drilling, sampling and similar examinations, it may have to adjust its reserve and resource estimates and alter its mining plans in a way that might adversely affect the results of operations. The estimated mineral resources described in this Prospectus should not be interpreted as a statement of the commercial viability, potential or profitability of any future operations. Although most of the Group's ore reserves and resources estimates have been prepared and reported according to the JORC Code, further exploration or evaluation may significantly alter their value.

In addition, there can be no assurance that further on-site drilling or other exploratory work will result in the affirmation of previous estimates or that mineral recoveries in small-scale laboratory tests will be duplicated in larger scale tests performed under on-site conditions or during production. The estimated resources described in this Prospectus should not be interpreted as a statement of the commercial viability, potential or profitability of any future operations. Lower market prices, increased production costs, reduced recovery rates and other factors may render it uneconomical for the Group to exploit its reserves and/or resources and may result in a reduction of its reserve estimates from time to time. Reserves data is not indicative of future results of operations. If the Group's actual mineral reserves and resources are less than current estimates or are rendered uneconomic, or if the Group fails to develop its resource base through the realisation of new mineral potential, the Group's business, results of operations and financial condition and the price of the Notes may be materially adversely affected.

***Failure by the Group to develop additional reserves will cause its reserves and production to decline materially from their current levels over time.***

To realise future production growth, extend the lives of its mines and ensure the continued operation of its business, the Group must continue to realise its existing identified reserves, convert resources into reserves, develop its resource base through the realisation of identified mineral potential and undertake successful exploration.

The Group's reserves decline as production increases. Reserves are increased when the Group discovers new deposits or increases reserves of operating mines via additional exploration. Once mineralisation is discovered, it may take a number of years to complete the geological surveys to assess whether production is possible and, even if production is possible, the economic feasibility of production may change during that time. Substantial capital expenditure is required to identify and delineate ore reserves through geological surveying, drilling and sampling to determine metallurgical processes to extract the metals from the ore and, in the case of new properties, to construct mining and processing facilities. Any acquisition that the Group may choose to complete may change the scale of the Group's business and operations and may expose the Group to additional geographic, political, operating, financial and geological risks. The Group's success in its acquisition activities depends on its ability to identify suitable acquisition candidates, negotiate acceptable terms and integrate the acquired entity successfully.

The volume of production from 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. There can be no assurance that the Group will be able to identify future reserves or continue to extend the mine life of its existing operations. There can be no assurance that the Group's ability to find new reserves in the future will be adequate to support the existing level of production at those mines. If the Group is unsuccessful in securing new reserves, the Group's total reserves and production will decline, which would materially adversely affect the Group's business, results of operations and financial condition and/or the price of the Notes.

***The Group's business could be adversely affected if it fails to obtain, maintain or renew necessary contracts, licences and permits, including subsoil licences, or fails to comply with the terms of its contracts, licences and permits.***

The Group's exploration, mining and processing activities are dependent upon the grant, renewal and continued enforceability of appropriate contracts, licences, permits and regulatory approvals and consents, which may be valid only for a defined period of time, may be subject to limitations and may provide for withdrawal in certain circumstances. The Group is required to seek and to comply with the terms of governmental licences as set out in the section entitled "*Business—Licences*", permits, authorisations and other approvals in connection with its exploration, construction, and operating activities. Obtaining the necessary governmental permits can be a complex, expensive and time-consuming process. The duration and success of permit applications are contingent on many factors that are outside the Group's control, such as, for example, results of inspections conducted by regulatory authorities or changes to current laws and regulations governing exploration and production of mineral resources, or more stringent implementation thereof, any of which could impact the considerations taken into account by relevant governmental authorities when issuing permits, authorisations and other approvals. In addition, exploration licences often require the Group to carry out a specified amount of expenditure or set exploration milestones and there can be no assurance that the relevant authorities will be satisfied with such expenditure or work conducted and that licences will be renewed on acceptable terms or at all. See "*Regulation of Mining Industry in Armenia and Russia*" for a description of the Russian and Armenian licensing regimes.

The Group believes that it currently has all of the material permits required for the conduct of its current operations. There can be no assurance that all licence holders within the Group will comply or continue to comply with their respective licence obligations. In the event that they do not, the Group could face the imposition of substantial fines, penalties and the licences may be suspended, terminated or revoked in certain cases, which could have a material adverse effect on the Group's business, results of operations and financial condition and on the price of the Notes.

***Equipment failures or production curtailments or shutdowns could adversely affect the Group's sales and profitability.***

The Group may experience plant shutdowns or periods of reduced production as a result of major equipment failures, including with respect to the Albion Process Technology based equipment installed by the Group in 2014. Interruptions in production capacities may increase production costs and reduce sales revenue. In addition to equipment failures, the Group's facilities are also subject to the risk of catastrophic loss or production curtailments due to unanticipated events, such as fires, explosions, strikes or adverse weather conditions. If any of these events were to occur, future sales and the Group's profitability could be adversely affected. In addition, many of the Group's assets are not covered by the Group's existing insurance. The above may have a material adverse effect on the Group's business, results of operations and financial condition, the Group's ability to service its payment obligations under the Notes and/or the trading price of the Notes. See "*—The Group may incur losses from uninsured or self-insured risks*".

***There are risks associated with the Group's management controls and processes, governance policies, accounting and reporting systems, and internal controls relating to the preparation of IFRS financial statements.***

The Group has been preparing financial statements in accordance with IFRS since 2007. The preparation of consolidated IFRS financial statements for the Group involves, first, the transformation of the statutory financial statements of each member of the Group into IFRS financial statements through accounting adjustments and, second, the consolidation of all such financial statements. This process is complicated and time-intensive, and requires significant attention from the Group's senior accounting personnel.

In light of the Group's past and planned growth, the preparation of annual or interim IFRS financial statements may need more time than required by other companies and such financial statements may be subject to a greater possibility of errors or misstatements. With each acquisition the Group seeks to adapt and incorporate the financial reporting system of the acquired operations quickly and efficiently. The Group's ability to generate accurate financial information in a timely manner and to produce consolidated financial statements is currently overly dependent on a small group of accounting professionals. To address this risk the Group has implemented numerous controls to help ensure the accuracy of the financial information generated and continues to automate its processes where possible.

The Group does not currently have in place formal antibribery and anticorruption policies customary for international businesses operating in similar industry and jurisdictions. While the Group is not aware of any past instances of bribery by or corruption at the Group, it is currently in the process of adopting a formal antibribery and anti-corruption policies which are expected to become effective within 12 months of the offering of Notes. The proposed policies will be based on a comprehensive set of risk-based procedures in line with best practices for a company operating in the relevant sector and jurisdiction and is expected to include prohibitions on different types of bribery and corruption, as well as details in relation to the procedure for escalating concerns and whistleblowing. There can be no assurance, however, any such policy will prove effective in preventing instances of bribery or corruption in the future.

There can be no assurance that the Group's systems and controls as currently in place will function effectively or as designed and this may nevertheless adversely affect its business, results of operations and financial condition.

***The Group's activities employ processes and chemicals that may be harmful to the environment and may be subject to compliance, clean-up and other costs.***

Mining activities are generally subject to environmental and safety hazards as a result of the processes and chemicals used in the extraction and production methods. In particular, the Group stores, transports, uses and disposes of cyanide and other hazardous substances at its mines and processing plants, which gives rise to the risk of spillage or seepage in areas where there could be damage or harm caused to the environment and/or to the public. In addition, environmental hazards may exist on the Group's properties, or may be encountered while its products are in transit or may arise irrespective of compliance with all applicable laws and regulations. Furthermore, the storage of tailings also presents a risk to the environment, property and persons. There remains a risk of leakage from, or the failure of, the Group's tailings dams, including as a result of theft and vandalism during the operating life of the mines or after their closure.

The Group may be liable for losses associated with environmental hazards and rehabilitation, have its licences and permits withdrawn or suspended, face negative reputational consequences or be forced to undertake extensive remedial clean-up action or to pay for government-ordered remedial clean-up actions, even in cases where such hazards have been caused by any previous or subsequent owners or operators of the property, by any past or present owners of adjacent properties or by acts of vandalism by trespassers. Any such losses, withdrawals, suspensions, reputational consequences, actions or payments may have a material adverse effect on the Group's business, results of operations and financial condition and/or the price of the Notes.

***The Group is subject to extensive environmental, health and safety controls and regulations, and any breach of these regulations could result in fines or the suspension of operations, which could have a material adverse effect on its reputation, operating results and financial condition.***

The Group is subject to extensive environmental controls and regulations in Russia and Armenia. Its operations involve the use of environmentally hazardous materials, such as cyanides, as well as processes that could lead to the discharge of materials and contaminants into the environment, disturbance of land, potential harm to flora and fauna and other environmental concerns. In addition, environmental hazards may exist on the Group's properties, or may be encountered when its products are in transit. Environmental laws and regulations are continually changing and are generally becoming more restrictive. New laws and regulations, the imposition of more stringent requirements in licences, increasingly strict enforcement or new interpretations of existing environmental laws, regulations or licences, or the discovery of previously unknown contamination, may require further expenditures to modify operations, install pollution control equipment or perform site clean-ups; the curtailment of operations; or the payment of fees, fines and other penalties. The applicable laws and the terms of the Group's subsoil licences contain extensive site clean-up, restoration and rehabilitation obligations due in the future that are mandatory for the Group, and the Group is required to have a closure plan for each mine and to allocate a budget for site rehabilitation in the event of a mine closure. In Armenia, recently introduced laws also impose obligations on mining companies, such as the Group's Armenian subsidiaries, to undertake waste management measures, which may result in additional costs. The Group could also be liable for losses associated with environmental hazards and rehabilitation.

In addition, the licences and subsoil use contracts under which the Group operates include conditions regarding environmental compliance. For example, each operating mine of the Group is required to obtain a mandatory environmental permit in order to conduct atmospheric emissions, discharge waste water and dispose of waste. Failure to obtain such a permit could lead to administrative penalties, civil sanctions and, in certain circumstances, may result in the issuance of a court order prohibiting and suspending those operations

of the relevant mine causing atmospheric emissions, waste water discharge or waste disposal, although the Group believes that such a severe sanction is unlikely to occur. The introduction of more stringent environmental laws and regulations or more stringent enforcement of the existing laws could lead to the need for new or additional rehabilitation and decommissioning reserves or to an increase in the Group's environmental liabilities, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Group's ability to service its payment obligations under the Notes and/or the trading price of the Notes. See "*Regulation of Mining Industry in Armenia and Russia—Armenia—Environmental Law*" and "*Regulation of Mining Industry in Armenia and Russia—Russia—Environmental Law*".

In particular, under both Armenian and Russian law, any company or individual violating industrial safety rules may incur administrative or civil liability, and individuals may also incur criminal liability. A company that violates safety rules that results in health problems for an individual may also be obliged to compensate the individual for lost earnings, as well as for other damages and, in certain cases, its activity may be suspended. In addition, in Russia if the operations of a company violate environmental requirements or are harmful to the environment or any individual or legal entity, the environmental authorities may suspend such operations for up to 90 days or a court action may be brought to limit or ban such operations and require the company to remedy the effects of the violation. In Armenia operations may be suspended for indefinite time, though the remedial grace period is also 90 days, failing which the licence may become subject to withdrawal (which does not become effective if questioned in court and until the court delivers final ruling which becomes effective).

The Zod mine is located next to the National Park Sevan, and, thus, it is a subject to a more strict environmental regulation. In particular, the Group is restricted from conducting mining and processing operations within the special protected zone surrounding Lake Sevan. While the Group does not currently carry out any operations that are prohibited by the regulation governing the status of the National Park Sevan, there is no assurance that any change in the regulation or different interpretation of the regulation by the relevant governmental authorities will not result in potential liability, including fines or suspension of operations, any of which could have a material adverse effect on the Group's business, results of operations and financial condition.

Even though in the past Russian and Armenian competent authorities have not suspended the Group's operations, no assurance can be given that they will not do so in the future in case of even minor breaches and violations of applicable environmental, health and safety control and regulations. Any such suspension or other sanction could have a material adverse effect on the Group's business, results of operations and financial condition, the Group's ability to service its payment obligations under the Notes and/or the trading price of the Notes.

In addition, environmental groups, such as EcoLur (see "*Potential opposition to mining could lead to negative publicity relating to the Group's existing operations and exploration prospects*"), may issue reports criticising or otherwise oppose the Group's operations, and such actions and any related actions of, or measures taken in response to such actions by, relevant state authorities may result in legal proceedings and state inspections and which may result in of fines or the suspension of operations.

Environmental laws and regulations in the jurisdictions in which the Group operates are continually changing and are generally becoming more restrictive. While the Group aims to adhere to international best practices across its asset base, there can be no assurance that it will be able to meet international best practices at all of its mines. If the Group's environmental compliance obligations were to change as a result of changes in the laws and regulations or enforcement practices or in certain assumptions it makes to estimate liabilities, or if unanticipated conditions were to arise in its operations, the Group's expenses and provisions would increase to reflect these changes. If material, these expenses and provisions could materially adversely affect the Group's business, operating results and financial position and/or the price of the Notes.

***The Group operates in a highly competitive industry and may not be able to compete successfully for licences, exploratory prospects, producing properties and skilled personnel.***

The gold and copper markets are highly competitive and the Group faces competition from other gold and copper mining competitors in all areas of its operations, including the acquisition of mineral licences, exploratory prospects and producing properties and for skilled mining employees and geologists. Existing or future competition in the mining industry could materially adversely affect the Group's prospects for mineral exploration and success in the future. Some of the Group's competitors are larger, have greater resources for

raising capital, have more technologically advanced production facilities and, in some cases, have higher operating margins and lower operating costs than the Group does. The Group cannot guarantee that it will be able to compete successfully in the future. The intensity of competition, combined with the cyclicity and unpredictability of ore markets, results in significant variations in economic performance, which may have a material adverse effect on the Group's business, results of operations and financial condition, the Group's ability to service its payment obligations under the Notes and/or the trading price of the Notes.

***The Group faces risks associated with past and future acquisitions.***

The Group considers from time to time the acquisition of reserves, development properties and operating mines, either as stand-alone assets or as parts of companies. The Group has acquired a number of assets in Russia and Armenia which constitute its current asset portfolio. Its decisions to acquire these assets have historically been based, and decisions to acquire other assets in the future will similarly be based, on a variety of factors including historical operating results, estimates of and assumptions about future reserves, cash and other operating costs, estimation of potential optimisation and cost reduction measures and their effect, the gold price and projected economic returns, the age and quality of processing plant and available technology, the ability to integrate the acquisitions' operations and financial procedures into the Group's operations, and evaluations of existing or potential liabilities associated with the property and its operations. If any of these estimates or assumptions prove to be wrong, the Group may incur additional costs, some of which may be material, which may have a material adverse effect on the Group's business, results of operations and financial condition, the Group's ability to service its payment obligations under the Notes and/or the trading price of the Notes.

If the Group acquires additional mining operations, the acquisition and integration of new businesses and companies will pose significant risks to its operations. These risks include the difficulty of integrating the operations and personnel of the acquired business, problems with minority shareholders in acquired companies and their material subsidiaries, the potential disruption of current business, the assumption of liabilities, including in relation to tax and environmental matters, relating to the acquired assets or businesses, the possibility that indemnification agreements with, or warranty protection from, the sellers of those assets may be unenforceable or insufficient to cover potential tax or other liabilities, the difficulty of implementing effective management, financial and accounting systems and controls over acquired businesses, the imposition and maintenance of common standards, controls, procedures and policies, and the impairment of relationships with employees and counterparties as a result of difficulties arising out of integration. Any of these may have a material adverse effect on the Group's business, results of operations and financial condition, the Group's ability to service its payment obligations under the Notes and/or the trading price of the Notes.

Furthermore, even if the Group successfully integrates new businesses, expected synergies and cost savings may not materialise, or may take longer than anticipated to materialise, resulting in lower than expected profit margins. The value of any business that the Group acquires or invests in may be less than the amount that the Group pays for it if, for example, there is a decline in the position of that business in the relevant market in which it operates or there is a decline in the price of gold or reserves and resources estimates.

When making acquisitions, it may not be possible for the Group to conduct a detailed investigation of the nature or title of the assets being acquired, for example, due to time constraints in making the decision. The Group may also become responsible for additional liabilities or obligations not foreseen at the time of an acquisition. As a result, unforeseen expenditures may arise which may have a material adverse effect on the Group's business, results of operations and financial condition, the Group's ability to service its payment obligations under the Notes and/or the trading price of the Notes.

***Fluctuations in currencies may adversely affect the Group's business, results of operations and financial condition.***

The Group's revenue is almost entirely in U.S. dollars, while a proportion of the Group's costs is incurred in dram and roubles. The Group's reporting currency is U.S. dollars, and currency fluctuations between the U.S. dollars and the Group's functional currencies would cause foreign currency translation gains and losses. In the years ended 31 December 2018, 2017 and 2016, the Group had net foreign exchange losses of US\$790 thousand, US\$1,070 thousand and US\$2,066 thousand, respectively, due to appreciation of local currencies in Russia and Armenia.

Due to the volatility in oil prices, economic sanctions imposed on certain Russian companies and individuals by the U.S., the EU, Canada and other countries, high inflation and a sharp capital outflow from Russia,

among other factors, the rouble has been highly volatile since the beginning of 2014 and has significantly depreciated against the U.S. dollar. According to the Central Bank of Russia (the "CBR"), from 31 December 2014 to 31 December 2015 and from 31 December 2013 to 31 December 2014, the rouble has depreciated by 30% and 72% against the U.S. dollar, respectively. From 31 December 2015 to 31 December 2016, the rouble appreciated somewhat against the U.S. dollar, although fluctuations remained significant within that year and the average U.S. dollar exchange rate for 2016 actually exceeded that for 2015. Exchange rates remained relatively stable throughout 2017; however, depreciation of the Rouble resumed in 2018 when its value fell 7.7% against the U.S. dollar, in each case from 2017 to 2018, primarily due to the newly introduced U.S. sanctions (see "*Risks Relating to the Russian Federation and Armenia—The Ukraine crisis, and its possible escalation, and resulting Western sanctions, and their possible expansion, could materially adversely affect the value of investments in Russia, as well as the Group's business, financial condition, results of operations and prospects*"). As of 31 December 2018, 95.6 per cent. of the Group's indebtedness was denominated in U.S. dollars.

While dram has been historically relatively stable, there is no assurance that it will not be subject to significant fluctuations in the future.

If the dram or rouble were to strengthen against the U.S. dollars, this could have a material adverse effect on the Group's business, results of operations and financial condition. If inflation in Armenia and Russia were to increase without a corresponding devaluation of the respective currencies relative to the U.S. dollars, the Group's business, results of operations and financial condition and the price of the Notes could be materially adversely affected.

***Interest rate fluctuations may adversely affect the Group's borrowing costs.***

The Group has incurred debt at variable interest rates. Many of the Group's short-term and long-term loans have variable interest rates and this interest rate risk exposure is not hedged. As of 31 December 2018, weighted average interest rate on short-term borrowings constituted 8.45%, while weighted average interest rate on long-term borrowings constituted 8.46%. Although the Group expects to repay its existing debt using proceeds of the Notes, it may incur variable interest rate debt in the future. Therefore, interest rate fluctuations may adversely affect the Group's borrowing costs and, therefore, have a material adverse effect on the Group's business, results of operation, financial condition and prospects.

***The Group's operations could be adversely affected by strikes and walkouts.***

Any work slowdowns, stoppages, disputes with employees or other labour-related developments or disputes could result in a decrease in the Group's production levels and adverse publicity and/or increase costs, which could have a material adverse effect on the Group's business, results of operations and financial condition and/or the price of the Notes.

***The Group may incur losses from uninsured or self-insured risks.***

The Group maintains only the level of insurance required by each of the jurisdictions in which it operates. The Group has insured its property and equipment to compensate for losses arising from accidents. However, the Group does not have full insurance coverage for its mining, processing and transportation facilities, for business interruption, or for third party liabilities in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations.

As a participant in exploration and mining activities, the Group may become subject to liability for risks that cannot be insured against, or against which it may elect not to be insured because of high premium costs. Moreover, the insurance which the Group does maintain in respect of certain risks may not provide sufficient coverage for losses related to these or other risks or hazards. The Group does not have coverage for certain environmental losses and other risks, as such coverage cannot be purchased at a commercially reasonable cost.

Losses from uninsured risks may cause the Group to incur costs that could have an adverse effect on the Group's business and financial condition, and no assurance can be given that such insurance will thereafter continue to be available, that it will be available at commercially reasonable premiums or that the Group will obtain or maintain such insurance.

***The Group's cash reserves are held predominantly at Russian and Armenian banks and bankruptcy or financial soundness concerns regarding any of such banks could result in a forfeiture of the Group's cash reserves.***

Most of the Group's cash reserves are kept at leading Russian and Armenian banks, with a significant part of those cash reserves being held at VTB Bank. Bankruptcy, revocation of banking licence, failure to meet financial soundness requirements, the impact on Russian banks, in particular, of the U.S. and EU sanctions (see "*Risks Relating to the Russian Federation and Armenia—The Ukraine crisis, and its possible escalation, and resulting Western sanctions, and their possible expansion, could materially adversely affect the value of investments in Russia, as well as the Group's business, financial condition, results of operations and prospects*") or the impact of other material adverse developments on any of such banks could lead to forfeiture of, or delays in accessing, the Group's cash reserves or withdrawal and/or transactional limits, or restrictions being imposed on the Group's accounts, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Group's ability to service its payment obligations under the Notes and/or the trading price of the Notes.

***Title to the Group's mineral rights may be challenged, which may prevent or severely curtail its use of the affected properties.***

Title to the Group's mineral rights may be challenged or impugned, in particular if the tender for the issuance of the relevant licence was conducted with certain violations, and title insurance is generally not available. The governments of Russia and Armenia are the sole authorities able to grant mineral rights in the Group's countries of operation. The land registry and recording systems in these jurisdictions may constrain the Group's ability to ensure that it has obtained secure title to individual exploration licences or mineral rights. The Group's title may be affected by, among other things, undetected defects, such as, for example, risks unknown to the Group related to the land use by previous owners. In addition, the Group may be unable to conduct its activities or operations as permitted or to enforce its rights with respect to its properties. A successful challenge to the Group's rights may result in the Group being unable to proceed with the development or continued operation of a mine or project which, in turn, may have a material adverse effect on the Group's business, results of operations and financial condition and/or the price of the Notes.

***The Group is subject to a significant number of laws and governmental regulations and may be adversely affected by changes in costs of compliance or changes to applicable laws and regulations.***

The Group's exploration, development and operational activities are subject to extensive laws and regulations governing various matters. These include, but are not limited to, laws and regulations relating to taxation, environmental protection, management and use of hazardous substances and explosives, management of natural resources, licences over resources owned by the various applicable governments, exploration, development of mines, production and post-closure reclamation, the employment of expatriates, labour and occupational health and safety standards, including mine safety, and historic and cultural preservation.

The costs associated with compliance with these laws, regulations and licences are substantial, and possible additional future laws and regulations, changes to existing laws and regulations (including, but not restricted to, the imposition of higher licence fees, mining royalties or taxes) or more stringent enforcement or restrictive interpretation of current laws and regulations by governmental authorities or rulings or clearances obtained from such governmental authorities, could cause additional expenditure (including capital expenditure) to be incurred or impose restrictions on, or suspensions of, the Group's operations and delays in the development of its properties. Moreover, these laws and regulations may allow governmental authorities and private parties to bring lawsuits based upon damages to property and injury to persons resulting from the environmental, health and safety impacts of the Group's past and current operations, and could lead to the imposition of substantial fines, penalties or other civil or criminal sanction, which could have a material adverse effect on the Group's business, results of operations and financial condition and/or on the price of the Notes.

For example, starting from 2015 the Armenian tax authorities have been taking an aggressive tax position with respect to the calculation of royalty payments in certain mining companies in Armenia, including Agarak, resulting in claimed material increases to the royalty amounts for previous years. The Group is currently challenging in competent Armenian court the claim of the Armenian tax authority against Agarak for assessment of additional taxes in the amount of US\$2.1 million. See "*Business—Legal Proceedings*". In February 2019, first instance administrative court took the appeal for administrative proceeding. If the

decision of the tax authority will be enforced the Group would be required to satisfy the claims of the tax authority for payment of the disputed amount.

***Potential opposition to mining could lead to negative publicity relating to the Group's existing operations and exploration prospects.***

As a mining business, the Group may come under pressure in the jurisdictions in which it operates to demonstrate that its stakeholders — including employees, communities surrounding operations and the countries in which they operate — benefit and will continue to benefit from these commercial activities, and/or that the Group operates in a manner that will limit damage to the interests of those stakeholders. Such pressure may be especially high in those areas where the Group's operations constitute a major part of local business activities, as in the case of Agarak. In addition, nongovernmental organisations ("NGOs") are often vocal critics of the mining industry, as is the case in relation to EcoLur, an Armenian environmental NGO, which has environmental concerns relating to the operations of GPM Gold at the Zod mine. Such pressures tend to be applied most strongly against companies whose activities are perceived to have a high impact on the social and physical environment of surrounding communities. The potential consequences of these pressures include reputational damage, legal suits and social spending obligations. While the Group attempts to maintain good relations with local communities in the areas in which it operates, the Group cannot rule out the possibility of opposition arising in the future in respect of its existing operations or prospects or in relation to obtaining or renewing mineral rights permits for current or future projects.

If the Group experiences opposition in connection with its existing operations or were to experience new opposition to any future plans, it could interfere with its ability to operate its mines efficiently or develop its prospects and therefore have a material adverse effect on the Group's business, results of operations and financial condition and/or the price of the Notes. See also "*—The Group is subject to extensive environmental, health and safety controls and regulations, and any breach of these regulations could result in fines or the suspension of operations, which could have a material adverse effect on its reputation, operating results and financial condition*" in relation to EcoLur's actions opposing the Group's activities in Armenia.

***The Company is a holding company of the Group and is dependent upon its subsidiaries and affiliates to meet its obligations.***

The Company is a holding company, and conducts its operations through subsidiaries and affiliates. The Company does not hold any significant assets other than direct and indirect investments in its operating companies and is therefore dependent upon the receipt of sufficient dividend and interest income from its subsidiaries to meet its obligations. The Company's subsidiaries may from time to time be subject to restrictions on their ability to make such payments to the Company as a result of regulatory, fiscal and other restrictions. In addition, dividend payments by its subsidiaries, if made, may be subject to withholding tax. Moreover, its ability to benefit from the distribution of any assets upon the liquidation of any of its subsidiaries will be subject to the prior claims of that subsidiary's creditors, including trade creditors. A decrease in dividend income or interest payments from the Company's operating entities or the insolvency of one of its subsidiaries may have a material adverse effect on the Company's business, results of operations and financial condition.

***The interests of the Company's largest shareholders may conflict with those of the Noteholders.***

The Company is beneficially controlled by Mr. Povarenkin, who beneficially owns 50.3% of the Company, and Mr. Trotsenko, who beneficially owns 48.2% of the Company (together, the "**Principal Shareholders**"). See also "*Shareholders*". As a result, Mr. Povarenkin has the ability to control, and the Principal Shareholders together are able to significantly influence the Group's business and certain actions requiring shareholders' approval, including, but not limited to, increasing or decreasing the authorised share capital of the Company, the election of directors, declaration of dividends, amendments to the Company's articles of association, the appointment of management and other policy decisions. Further, the interests of the Principal Shareholders may, in certain circumstances, conflict with the interests of the Noteholders, which could have a material adverse effect on a prospective investor's investment in the Group's securities. Any such conflicts could have a material adverse effect on the Group's business, financial condition and results of operations.



***This Prospectus does not contain separate single company accounts for each of the Issuer and the Guarantors.***

Although item 11.1 of Annex IX of Commission Regulation (EC) No. 809/2004 requires that this Prospectus includes separate single company accounts for each of the Issuer and the Guarantors, the Issuer has submitted a request to the Central Bank for the omission of such single company accounts from this Prospectus, and the Central Bank has granted such omission request. This Prospectus includes the Group's audited consolidated financial statements as at and for the years ended 31 December 2018, 2017, and 2016, which consolidate the financial information of the Issuer and the Guarantors.

## **Risks Relating to the Russian Federation and Armenia**

***Emerging markets such as Russia and Armenia are generally subject to greater risks than more developed markets, including significant legal, economic and political risks.***

Investors in emerging markets such as Russia and Armenia should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in debt or equity markets of all emerging market countries as investors move their money to more stable, developed markets. The current global economic crisis, the developments affecting the Russian economy in the last several years, including in connection with the political and economic crisis in Ukraine and related sanctions imposed on certain Russian individuals and legal entities by the U.S. and the EU, as well as the sharp decrease in oil prices have had and may continue to have an adverse impact on the Russian economy. In addition, both in Russia and Armenia, financial problems or an increase in the perceived risks associated with investing in emerging economies may adversely affect the level of foreign investment, which may, in turn, adversely affect the economies of those countries. In addition, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. As a result, a financial downturn in Russia and/or Armenia could result in a decrease in the trading price of the Notes. Companies operating in emerging markets may also be exposed to political risks related to major policy shifts, government reshuffles, general political instability or a lack of consensus among key political groups resulting in political, economic and regulatory reforms, which could discourage foreign investment in Russia or Armenia, result in volatility in capital markets and otherwise adversely affect the economy of these countries. Investors should also note that an emerging economy such as that of Russia and Armenia are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved. Potential investors are urged to consult with their own legal and financial advisers before making an investment in the Notes.

***The Ukraine crisis, and its possible escalation, and resulting Western sanctions, and their possible expansion, could materially adversely affect the value of investments in Russia, as well as the Group's business, financial condition, results of operations and prospects.***

Political instability and deteriorating economic conditions in Ukraine over the last several years resulted in a wide-scale crisis in the country involving a military conflict in Eastern Ukraine. The Ukraine crisis has led to a significant deterioration of Russia's relations with the West, which intensified following introduction by the U.S., the EU as well as a number of other countries of a variety of economic sanctions against Russia. Pursuant to these sanctions, certain persons, including a number of Russian Government officials, businessmen, banks and companies, were identified as "designated nationals" with the basic practical consequences that U.S. persons cannot do business with them while EU persons cannot provide funds or other economic resources to them, their assets in the EU and the U.S. are subject to seizure and in the case of individuals they can be subject to travel bans. Another form these sanctions have taken is 'sectoral' sanctions with the basic consequence that several of Russia's leading banks and energy companies cannot access Western capital markets. These sectoral sanctions have had the effect, magnifying over time, of adding to the overall cost of capital in Russia. Other Western sanctions have been imposed in respect of, inter alia, Russian military defence entities, dual use technologies, sophisticated off-shore oil drilling technologies and doing business in Crimea.

In August 2017, the U.S. passed a Countering America's Adversaries Through Sanctions Act ("**CAATSA**"), which significantly tightened the 'sectoral sanctions' discussed above and introduced a host of new sanctions, including 'secondary sanctions' targeting non-U.S. persons if the U.S. President determines that any such person knowingly and materially violates, attempts to violate, conspires to violate or causes a violation of a restriction introduced under any relevant U.S. Russian sanctions legislation or facilitates a significant transaction or transactions for or on behalf of any person subject to U.S. Russian sanctions or his or her relatives. This legislation further restricts access of the sanctioned Russian banks and energy companies to debt financing on international capital markets, and expands the application of sanctions in relation to the Russian energy sector to worldwide projects of the sanctioned companies. Furthermore, this legislation puts significant limitations on the U.S. President's authority to ease sanctions and issue licensing actions with respect to Russia. The new legislation also makes mandatory certain previously discretionary 'secondary sanctions' (i.e. U.S. sanctions programmes that target activity by non-U.S. persons outside U.S. jurisdiction) and enacts new secondary sanctions, most notably by targeting significant transactions by non-U.S. persons with any person subject to Russian sanctions, Russian energy export pipelines and significant activity undermining cybersecurity. In October 2017, the U.S. Department of State issued public guidance on implementation of the new legislation and the list of Russian defence and intelligence companies and institutions, 'significant transactions' with which may result in the imposition of sanctions on persons that engage in such transactions. The new legislation also widens the differences between the U.S. and EU sanctions against Russia. The EU recently extended its own sectoral sanctions until 31 July 2019 but has not adopted new, broader sanctions like those in the said U.S. legislation. Instead, some EU leaders have discussed possible "blocking" or retaliatory measures in response to those U.S. secondary sanctions that may adversely affect European companies.

CAATSA also requires the U.S. Department of Treasury to issue reports on Russian senior political figures and oligarchs, Russian parastatal entities and illicit financing in Russia, presumably to determine whether other parties should be sanctioned. The first report was issued on 29 January 2018 and lists 114 senior Russian political figures and 96 wealthy Russian businessmen (the "**Report**"). The Report states, and the Office of Foreign Assets Control of the U.S. Department and the Treasury (the "**OFAC**") further clarified, that it is not a sanctions list, and the inclusion of individuals or entities in it, its appendices, or its annex does not and in no way should be interpreted as imposing sanctions on those individuals or entities, and moreover, the inclusion of individuals or entities in the Report, its appendices, or its classified annexes does not, in and of itself, imply, give rise to, or create any other restrictions, prohibitions, or limitations on dealings with such persons by U.S. or non-U.S. persons. The inclusion on the unclassified list does not indicate that the U.S. Government has information about the individuals' involvement in malign activities. Any new sanctions imposed on the basis of the Report, may have a material adverse effect on the Russian economy and lead to retaliatory sanctions from Russia.

On 6 April 2018, the OFAC extended the list of 'designated nationals' to include several prominent Russian businessmen, companies and government officials. The last update of the list was in May 2019. Some of these persons are significant participants in various industries in Russia. This round of sanctions therefore had a significant impact on the Russian economy in general and resulted in substantial depreciation of the rouble.

Furthermore, in March 2019, in connection with the incident involving Ukrainian vessels near the Kerch Strait in November 2018, the U.S., the EU, the United Kingdom, Canada and Australia imposed new sanctions on certain Russian individuals and companies including such measures as asset freeze, financial sanctions and travel ban. Ukraine has also announced new sanctions targeting those individuals and legal entities connected with the construction of the bridge from Russia to Crimea, local elections in Eastern Ukraine and the incident in the Kerch Strait and Sea of Azov.

To date, no individual or entity within the group has been designated by either the U.S. or the EU as a specific target of their respective Ukraine related sanctions. No assurance can be given, however, that any such individual or entity will not be so designated in the future, or that broader sanctions against Russia that affect the Group, may not be imposed. None of the proceeds of the issue of the Notes will be used to fund activities or persons that are subject to specifically targeted sanctions introduced by the U.S. and the EU in any manner that will result in a violation by any person of such sanctions (see "*Use of Proceeds*"). In the ordinary course of business, the Group's Russian companies, like many other Russian companies, may conduct commercial operations with Russian persons and entities that are currently subject to the U.S. or EU sectoral sanctions or are "designated nationals". Such operations are limited to the territory of Russia and the Group believes are permissible pursuant to applicable law. Although commercial relations of the Group with these entities are not prohibited or otherwise negatively affected by the sanctions due to the Group not being a U.S. person, should

the sanctions in respect of these entities be expanded or new sanctions introduced in respect of the above or any other of major partners of the Group, the business of the Group could be adversely affected.

While the Group believes that none of the Group's operations contravene any applicable sanctions, the Group's business and reputation could be adversely affected if the U.S. government were to designate any Group company as a blocked party and extend such sanctions to the Group, pursuant to the CAATSA or otherwise. EU financial sanctions prohibit the direct and indirect making available of funds or economic resources to or for the benefit of sanctioned parties. Investors may also be adversely affected if the Group is so designated, resulting in their investment in the Group's securities being prohibited or restricted. Furthermore, under those circumstances, investors may decide for legal or reputational reasons to divest Notes or not to purchase the Group's securities in the first place. The Group is aware of initiatives by U.S. governmental entities and U.S. institutional investors, such as pension funds, to adopt or consider adopting laws, regulations, or policies prohibiting transactions with or investment in, or requiring divestment from, entities doing business with certain countries. There can be no assurance that the foregoing will not occur or that such occurrence will not have a material adverse effect on the price of the Group's Notes.

Russia has responded with countermeasures to international sanctions, currently including limiting the import of certain goods from the U.S., the EU and other countries, imposing visa bans on certain persons, and imposing restrictions on the ability of Russian companies to comply with sanctions imposed by other countries. In addition, in January 2018, the Russian Government adopted regulations allowing Russian companies not to publicly disclose information with respect to certain transactions entered into with other Russian companies and individuals that are subject to sanctions imposed by foreign states. These regulations also provide that the following information with respect to sanctioned persons should not be publicly disclosed even if otherwise required to be so disclosed pursuant to applicable Russian laws: (i) financial reports and accounting statements, (ii) information on pledges of movable property, (iii) information on issuance and material conditions of guarantees, save for certain exceptions, and (iv) certain other information. These measures may interfere with, and prevent, sanctions compliance procedures and actions taken by various parties, including Russian companies, as certain information related to dealings with sanctioned persons will not be publicly available.

As part of Russia's response to recent Russia-related foreign sanctions, a new framework law came into effect on 4 June 2018, granting the Russian government the authority to impose certain restrictive measures against certain foreign persons in accordance with a decision of the Russian president. Moreover, a draft law on criminal and administrative liability for complying with Western sanctions on Russian soil has been under consideration by the Russian State Duma since May 2018.

The crisis in Ukraine is ongoing and could escalate, which could cause significant economic disruption in the country. There could be calls from the West for a further strengthening and broadening of sanctions against Russian persons. Some proposed sanctions that have not been enacted so far but could, among others, (i) have a significant effect on the Russian economy in general and the Group's business, financial condition, results of operations and prospects in particular, (ii) include more comprehensive sanctions with respect to major Russian state-owned banks (including a prohibitions on U.S. dollar transactions) and other entities and (iii) include a prohibition on transactions involving sovereign debt of Russia.

Existing and new sanctions could negatively affect the Russian economy by, among other things, further accelerating capital flight from Russia, weakening the rouble, exacerbating negative investor sentiment towards Russia and making it harder for Russian companies, including the Group's Russian companies, to access international financial markets for debt and/or equity financing. If individuals or entities with whom the Group does business were or are sanctioned as 'designated nationals', this could interfere with the Group's operations. More expansive sanctions targeting broader segments of the Russian economy could also interfere with the Group's operations. Accordingly, the Ukraine crisis, for which no resolution appears imminent, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

In addition, the sanctions against Russia may negatively impact the Armenian economy, including growth prospects and foreign investments, given Russia is its major trading partner. Sanctions against Russia may, therefore, have a consequential material adverse effect on the Armenian economy, which, as a result, could materially adversely affect the Group's business, financial condition, results of operations and prospects.

***Deterioration of relations between Russia and other countries could negatively affect the Russian economy and those of the nearby regions.***

Over the past several years, Russia has been involved in conflicts involving its neighbouring states and other countries which have resulted in significant deterioration of relations between Russia and other members of the international community, including the U.S. and various countries in Europe. Many of these jurisdictions are home to financial institutions and corporations that are significant investors in Russia and whose investment strategies may be affected by such conflicts and by worsening relations between Russia and its immediate neighbours. For example, relations between Ukraine and Russia have been strained over a variety of issues. See "*—The Ukraine crisis, and its possible escalation, and resulting Western sanctions, and their possible expansion, could materially adversely affect the value of investments in Russia, as well as the Group's business, financial condition, results of operations and prospects*". The Ukraine crisis, which started in late 2013 and remains unresolved, has brought additional tensions between Russia and Western countries (such as the U.S., the United Kingdom and a number of EU countries), and new issues that adversely affect such relations may arise in the future. Other recent points of tension between Russia and Western governments have included: the Russian role in the Syrian crisis and its military support for the government of Syria; the alleged involvement of the Russian government in the cyber-attacks aimed at disrupting the election process in the U.S.; the alleged involvement of the Russian intelligence service in an attempted poisoning of a Russian citizen in the United Kingdom; the alleged involvement of Russian state companies in evasion of sanctions imposed on Venezuela and the incident involving Ukrainian vessels near the Kerch Strait in November 2018. All of the above have led to the escalation of geopolitical tensions, and the introduction or expansion of international sanctions or other countermeasures by Western countries against Russia, and may continue to do so in the future.

In particular, in response to the alleged use by Russian intelligence services of chemical warfare on United Kingdom soil, in August 2018 the U.S. State Department imposed new sanctions on Russia under the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991 (the "**CBW Act**"). The initial round of sanctions under the CBW Act includes, among other things, termination of sales of any defence articles and services and the prohibition on the export to Russia of certain national security-sensitive goods and technology. If within three months after the initial determination made under the CBW Act, the U.S. President determines that certain conditions set out in the CBW Act are not met, further sanctions, including, among other things, a prohibition on U.S. financial institutions to provide financing to the Russian state, additional bans on exports of goods and technologies and a possible suspension or revocation of the authority of Russian state-owned or controlled air carriers to provide transportation to or from the U.S., may be introduced.

Moreover, in 2019, the special counsel Robert Mueller delivered a report on the investigation into Russian interference in the 2016 election in the U.S. that became available to the public on 18 April 2019. The report described alleged Russian illegal actions during the elections and, thus, may result in further sanctions being brought against Russia.

The emergence of new or escalated tensions between Russia and its neighbouring states or other states could negatively affect the Russian economy. This, in turn, may result in a general lack of confidence among international investors in the region's economic and political stability and in Russian investments generally. Such lack of confidence may result in reduced liquidity, trading volatility and significant declines in the price of listed securities of Russian companies, including the Notes.

***There are border disputes between Armenia and Azerbaijan which may have a material adverse effect on the Group's business in the region.***

The Zod mine is located in the Gegharqunik Marz (region) of Armenia, which is near the Nagorno-Karabakh region, which is the subject of dispute. See "*—Political conditions or policies in Russia and Armenia could change and could materially adversely affect the business of the Group—Armenian Political Conditions*". Should political tensions or hostilities escalate, the mine's close proximity to this region may result in it becoming difficult to access and isolated from economic supply and distribution channels, which could have a material adverse effect on the Group's business, results of operations and financial condition and/or the price of the Notes.

***The infrastructure in Russia and Armenia is inadequate, which could increase costs or result in losses for businesses and disrupt normal business activities.***

The infrastructure in Russia and Armenia largely dates back to Soviet times and has not been adequately funded and maintained in the past. As a result, it is unreliable and may fail temporarily or completely at any time. Particularly affected are the rail and road networks; power generation and transmission systems; communication systems; and building stock. In the past, fires have occurred at power stations resulting in large power outages that disrupted transportation, mobile communications, electricity and water supply in commercial and residential buildings. Armenia is located in a broad seismic area over a fault line and in 1988 it experienced an earthquake in the northwest region of Armenia, which measured 6.9 on the Richter scale. Abnormal adverse weather conditions, such as very low temperatures and heavy snowfalls in winter, amongst others, may result in overloading of power grids, power supply disruptions, transportation lags or other disruptions, malfunctioning or failure of the infrastructure, which may materially adversely affect the Group's business, results of operations, financial condition and prospects.

The poor condition and further deterioration of the infrastructure in Russia and Armenia may disrupt the transportation of goods and supplies, add costs to doing business and can interrupt business operations. The Russian and Armenian governments are actively reorganising their respective rail, electricity and communications systems. Any such reorganisation may result in increased charges and tariffs. These factors could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***Political conditions or policies in Russia and Armenia could change and could materially adversely affect the business of the Group.***

The Russian and Armenian political systems may be vulnerable to popular dissatisfaction, including, in particular in case of Russia, dissatisfaction with the results of the privatisations of the 1990s and demands for autonomy from certain regional and ethnic groups. The course of political and other reforms has in some respects been uneven and the composition of the Russian and Armenian governments has at times been unstable.

#### *Russian Political Conditions*

While Russia has generally experienced a higher degree of governmental stability since 2000, it remains vulnerable to popular dissatisfaction. Any future political instability could result in a worsening of the overall economic situation, including capital flight and a slowdown of investment and business activity. Future shifts in governmental policy and regulation, lack of consensus between the President, the Russian Government, the Parliament and powerful economic groups in Russia or selective arbitrary actions by the Russian authorities aimed at individuals or businesses in Russia also could lead to political instability and disrupt or reverse political, economic and regulatory reforms, which could have a material adverse effect on the value of investments relating to Russia, including the Notes, as well as on the Group's business, financial condition, results of operations or prospects.

Russia is a federation of various sub-federal political units, sometimes exercising considerable autonomy over their internal affairs pursuant to applicable laws. The division of authority between federal and regional authorities, in certain instances, remains uncertain and contested. This uncertainty may prevent the Group from carrying out the Group's business strategy effectively. In addition, ethnic, religious, historical and other divisions have on occasion given rise to tensions and, in certain cases, military conflict. In the future, such events could disrupt normal economic activity in Russia and materially adversely affect the business, financial condition, results of operations and prospects of the Group, as well as the trading price of the Notes.

#### *Armenian Political Conditions*

In 1988, Armenia became involved in a territorial dispute with Azerbaijan over the enclave of Nagorno-Karabakh. The majority of the enclave consisted of Armenians who wanted to secede from Azerbaijan and either become part of Armenia or gain full independence. Whilst Armenia declared its independence from the collapsing Soviet Union on 23 September 1991, war ensued between Armenia and Azerbaijan over the Nagorno-Karabakh region until 1994, resulting in more than 30,000 casualties. Armenia effectively controls the region today, and a ceasefire has been in place since 1994, though this is not regarded as a permanent solution. The economies of both sides have been negatively affected by their inability to make substantial progress toward a peaceful resolution.

For several years Armenia and Azerbaijan have been in the process of negotiating a settlement to the Nagorno-Karabakh dispute, under the auspices of the Organisation for Security and Co-operation in Europe (the "OSCE") Minsk Group, co-chaired by the U.S., Russia and France. Despite ongoing efforts, a definitive settlement has yet to be reached, and skirmishes continue to break out from time to time along the truce line, including a significant incident occurring in April 2016, when on 1 April 2016, Azerbaijan army launched a large scale assault across the whole front line with Nagorno-Karabakh which was mainly deterred and defeated by Armenian forces, though Azerbaijan succeeded to occupy some frontline adjacent areas and positions. On 5 April the ceasefire was re-established by intermediation of Russia with general status quo since 1994 remaining intact.

Despite extensive commercial relations between the two countries, since 1992, Armenia and Turkey have tense political relations resulting from the fact that neither of them has diplomatic representation in the other and a closed border between them. While Armenia has always expressed its position on its readiness to normalise relations with Turkey, the latter in response has always declared that such normalisation is subject to final resolution of Nagorno-Karabakh conflict to the satisfaction of Azerbaijan, the escalation of which was the initial a reason for Turkey to close the border in 1993. International recognition of genocide against Armenians in Turkey 1915-1923 is another topic which is hindering normalisation of relations between the two countries. The governments of Armenia and Turkey also agreed to normalise relations in October 2009, although Turkey subsequently declared that the opening of the border will depend on progress on the Nagorno-Karabakh dispute.

Armenian relations with both of these neighbouring countries are quite complex in their own right, and the future successes or failures of both or either of these reconciliation efforts are unpredictable.

Large-scale peaceful demonstrations in April and May 2018 forced Prime Minister Mr. Serge Sarkissian to relinquish the power he had held since 2008. Following the "Velvet Revolution", in June 2018, the leader of the protests Mr. Nikol Pachinian, was placed at the head of a new government. After he resigned in order to trigger snap parliamentary elections, his "My Step" coalition, won 70% of the votes, and securing Mr. Pachinian a sufficiently large parliamentary majority (88 out of 132 members) to enact constitutional changes. The coalition's programme focuses on fighting corruption and the informal economy, addressing the porous boundaries between the business world and politics, and ending the monopolies mainly still controlled by people close to former leaders of Armenia. Mr. Pachinian has secured the benign neutrality of Russia, which has a military presence in the country (on the Turkish and Iranian borders) as well as an economic presence, by providing assurance that foreign policy will stay unchanged.

Many challenges face the development of a pluralistic, democratic and competitive political party system in Armenia. With its independence only re-established in 1991 and with no historic tradition of democratic rule, Armenia remains a traditional democracy, its political institutions still maturing. Although the new government has pledged to make the judiciary independent by refraining from any interference with judiciary, the judiciary is still not fully independent and is subject to substantial influence by political executives. See "*Russian and Armenian Legal Risks and Uncertainties—The limited independence and experience of the judiciary, the difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent the Group from obtaining effective redress from a court or tribunal*". Further, while certain improvements have been made since 2018, both political and judicial decision making can still be influenced by bribery and corruption.

Major policy shifts, government reshuffles, general political instability or a lack of consensus among key political groups could hinder or reverse political, economic and regulatory reforms in Russia and Armenia. Any deterioration of Russia's or Armenia's political condition could disrupt the Group's day-to-day operations or discourage foreign investment in Russia or Armenia which may make the funding which the Group requires for the development of its projects unavailable to the Group in the future.

***Russia and Armenia may be subject to conflict, including military, political, economic, ethnic and/or religious conflicts which could adversely affect the business of the Group.***

Hostilities and acts of terrorism, violence or war, or pandemics or the threat or perceived potential of these events could materially adversely affect the Group's operations. Ethnic, religious, historical and other divisions have, on occasions, given rise to tensions and, in certain cases, military conflict, terrorist attacks or other security concerns. Violence and attacks relating to conflicts in the North Caucasus also spread to other parts of Russia and resulted in terrorist attacks in Moscow and in various places in southern Russia. In the future, such tensions, military conflicts or terrorist activities could have significant political consequences,

including the imposition of a state of emergency in some or all regions of Russia and Armenia. Moreover, any terrorist attacks and the resulting heightened security measures may cause disruptions to domestic commerce and could have a material adverse effect on the Group's business, results of operations, financial condition and prospects or the value of the Notes.

***The Russian and Armenian governments could reverse reform policies or government policies targeted at specific individuals or companies and may take unlawful, selective or arbitrary government actions.***

The political and economic environments in Russia and Armenia have generally become more stable and conducive to investment over the last decade. However, any significant struggle over the direction of future reforms or the reversal of the reform process could lead to a deterioration in the investment climate of Russia and Armenia that might constrain the Group's ability to obtain financing on the international capital markets or otherwise have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Moreover, regulatory authorities in Russia and Armenia have a high degree of discretion and at times appear to exercise their discretion selectively or arbitrarily, without hearing or prior notice, and in a manner that may be considered as contrary to law or influenced by political or commercial considerations. Unlawful, selective or arbitrary government action, if directed at the Group's operations, could have a material adverse effect on the Group's business, results of operations, financial condition and prospects and on the value of the Notes.

Furthermore, the Russian and Armenian governments have the power, in certain circumstances, to interfere with the performance of, nullify or terminate contracts and, through their tax, environmental and prosecutorial arms, and have, in the past, engaged in selective investigations and prosecutions of particular companies or persons. More generally, some observers have noted that takeovers in recent years of major private sector companies in the oil and gas, metals and manufacturing sectors by state-controlled companies following tax, environmental and other challenges may reflect a shift in the official policy in favour of state control as opposed to individual or private ownership, at least in respect of large and significant enterprises.

While the business environment appears to have improved in Armenia in recent years, the influence of the government through aggressive tax administration remains an important factor and businesses have, at times, been subject to significant fines for incidental violations.

The reversal of reforms, arbitrary government action or the use of government power, if directed at the Group, its major shareholders or its beneficial owners, could have a material adverse effect on the value of investments in Russia and Armenia generally and on the Group's business, results of operations, financial condition and prospects.

***Instability in the Russian and Armenian economies could materially adversely affect the Group's business.***

To the extent that global economic conditions deteriorate in the future, the financial and economic situation in Russia and Armenia may be adversely affected and, as a result, would likely impact the profitability of the Group's business. Any of the following risks, which the Russian and Armenian economies have experienced at various times in the past, may have or have already had a significant adverse effect on the investment climate in Russia and Armenia and, in turn, may adversely affect or have already adversely affected the Group:

- significant declines in its gross domestic product ("GDP") and rate of GDP growth;
- high levels of inflation;
- high and fast-growing interest rates;
- unstable credit conditions;
- an unstable currency and instability in the local currency market;
- pervasive capital flight;
- high levels of government debt relative to GDP;

- a weakly diversified economy which depends significantly on global prices of commodities;
- sudden price declines in commodities;
- a lack of reform in the banking sector and a weak banking system, providing limited liquidity to enterprises;
- continued operation of loss-making enterprises due to the lack of effective bankruptcy proceedings;
- high levels of corruption and the penetration of organised crime into the economy;
- widespread tax evasion;
- significant increases in unemployment and underemployment;
- ethnic and religious tensions;
- low personal income levels of a significant part of population; and
- major deterioration of physical infrastructure.

### *Russia*

In the past few years, in addition to the risks and conditions referred to above, the Russian economy has been characterised by significant volatility in the debt and equity markets. The Russian economy has also recently been characterised by significant reductions in foreign investment. As Russia produces and exports large quantities of crude oil, natural gas, petroleum products and other commodities, the Russian economy is particularly vulnerable to fluctuations in oil and gas prices, which historically have been subject to significant volatility. After a prolonged period of record-high oil prices, oil prices fell sharply in 2014-2015, with the average annual price of the global benchmark Brent crude falling to US\$52.35/bbl for 2015 and then to US\$43.55/bbl for 2016, as compared to average prices in excess of US\$100/bbl for the years 2011-2013. A gradually increasing trend for oil prices was recorded for 2017 and, in 2018, the average price of Brent crude oil was US\$71.06/bbl, although this did not result in a corresponding strengthening of the rouble. Due to oil prices volatility and other factors, including the economic sanctions imposed against Russia, high inflation and a sharp capital outflow from Russia, the rouble has significantly depreciated since the levels seen prior to 2014. Russian real GDP contracted by 3.7% in 2015, putting Russia in recession. 2015 was the worst year for the Russian economy since 2009, when Russian GDP fell 7.8%, according to Rosstat. In 2016, Russian real GDP sustained a decline at a slower pace and fell by 0.2% according to Rosstat, although it then rebounded slightly in 2017 and continued to do so in 2018. Despite this growth, the Rouble depreciated significantly in 2018 and inflation exceeded the government's forecasts.

There can be no assurance that any measures adopted by the Russian Government to mitigate the effect of any financial and economic crisis will result in a sustainable recovery of the Russian economy. Russian banks, and the Russian economy generally, were also adversely affected by the global financial crisis which began in 2008. Current macroeconomic challenges, low or negative economic growth in the U.S., China, Japan and/or Europe and market volatility may provoke or prolong any economic crisis. As an emerging economy, Russia remains particularly vulnerable to further external shocks. Events occurring in one geographic or financial market sometimes result in an entire region or class of investments being disfavoured by international investors – so-called "contagion effects". Russia has been adversely affected by contagion effects in the past, and it is possible that the market for Russian investments will be similarly affected in the future by negative economic or financial developments in other countries. Economic volatility, or a future economic crisis, may undermine the confidence of investors in the Russian markets and the ability of Russian businesses to raise capital in international markets, which in turn could have a material adverse effect on the Russian economy and the Group's results of operations, financial condition and prospects. In addition, any further declines in oil and gas prices or other commodities pricing could disrupt the Russian economy and/or materially adversely affect the Group's business.



## Armenia

In recent years, the Armenian economy has experienced growth, driven by private domestic demand, despite some recent moderation in growth because of global macroeconomic conditions and a tight fiscal policy. As a small economy, Armenia has historically been highly exposed to external development, including latent geopolitical tensions with neighbouring Azerbaijan. See "*—There are border disputes between Armenia and Azerbaijan which may have a material adverse effect on the Group's business in the region*". However, as a result of recent economic reforms and policies there appears to be a trend for lower vulnerability to external shocks. While the dram has been relatively stable in recent years, Armenia may also be subject to sharp currency depreciation. The high, but gradually declining, level of dollarisation in the economy also leaves Armenia and its banking sector exposed to external factors, although the Central Bank of Armenia has introduced measures that promote de-dollarisation. Ongoing reforms of the fiscal framework may also strengthen the economy over time. Two consecutive years of growth and low inflation contributed to an improvement in living conditions. The economic growth in 2017 translated into higher consumption levels.

Following an initial spike in early 2018, Armenia's economic performance slowed during the rest of the year, mostly due to weakening external conditions, the lower execution of public capital expenditures, and slowing investment. Still, the economy expanded at 5.2% for the year. Although larger economic disturbances were avoided during the political transition after the December 2018 parliamentary elections (See "*—Political conditions or policies in Russia and Armenia could change and could materially adversely affect the business of the Group*"), the associated uncertainty may have weighed on economic sentiments. The current account deficit in Armenia is expected to remain in place in 2019. Increased imports linked to sustained domestic demand and continued high oil prices are expected to be offset by higher export revenues and expatriate remittances. The deficit is financed by foreign direct investments, government debt and borrowing related to foreign direct investments. Given its largely concessional nature, servicing the public external debt (half of total external debt estimated at 90% of GDP) does not represent a heavy burden.

According to the Statistical Committee of the Republic of Armenia, Armenia's real GDP year-on-year grew by 0.2% in 2016, by 7.5% in 2017 and by 5.2% in 2018.

Also, decreased demand of any of Armenia's major trading partners, such as Russia (which is Armenia's largest single-country export market) and the EU member states, could have a material adverse impact on Armenia's balance of trade and on the export-oriented sectors of Armenia's economy. In particular, the fall in global oil prices – which are a key factor in Russian economic performance given the importance of the oil and gas sector in Russia – together with the effects of Western sanctions imposed on Russia as a result of the Ukraine crisis put the Russian economy into recession in 2014 which may have a consequential material adverse effect on the Armenian economy.

Any deterioration in the general economic conditions in Armenia or Russia could adversely impact the level of demand for various products, including those sold by the Group, and therefore could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

### ***Fluctuations in the global economy may have an adverse effect on the Russian and Armenian economies.***

The economies of Russia and Armenia are vulnerable to market downturns and economic slowdowns elsewhere in the world. Each of Russia and Armenia is a major producer and exporter of metal products and their economies are therefore vulnerable to fluctuations in global commodity prices and the imposition of tariffs and/or anti-dumping measures by the U.S., the EU or by other principal export markets.

The global economic downturn which began in 2008 has had an extensive adverse impact on the Russian and Armenian economies. While many economies have subsequently recovered from the economic crisis, growth in many markets remains slow, and many markets which previously had seen very high growth have exhibited slower growth in recent years. The global economic environment remained unstable in 2015-2018. The slowdown has been attributed to slowing growth rates in emerging and developing economies, among other developments. In particular, China has recently seen a substantial decline in its rate of growth, which has contributed to a significant decline in commodity prices. There is a risk of a possible cyclical downturn in the Chinese economy and other developing markets and a stagnation of European and U.S. economies, which would result in a global economic downturn and impact the Russian economy in general and the Group's industry and business as a result.

The global economic environment is subject to a number of uncertainties, including mounting government deficits, discontinuation of certain stimulus programmes, potential inflation or deflation, continuing high levels of unemployment, political tensions over global trade of goods, labour and capital mobility, terrorism and concerns over the stability of the monetary and political union in the EU. Financial markets and the supply of credit are likely to continue to be impacted by concerns surrounding the sovereign debt of periphery and potentially other EU countries, the possibility of further credit rating downgrades of, or defaults on, such sovereign debt, as well as concerns about a slowdown in growth in certain economies. In June 2016, a majority of voters in the United Kingdom elected to withdraw from the EU in a national referendum. The British Government triggered the exit process on 29 March 2017. It is expected that the United Kingdom may officially leave the EU by or on 31 October 2019. There is a possibility of new trade barriers resulting from the United Kingdom leaving the EU, which may affect the macroeconomic environment in Europe. The referendum has also given rise to calls for the governments of other EU member states to consider withdrawal. In addition, there has recently been significant uncertainty with respect to the status of trade relations between the U.S. and some of its largest trade partners, including the U.S.'s existing trade agreements. The worsening of such trade relations, in particular between the U.S. and China, could result in negative repercussions in these countries and have a knock-on effect on global trade and the economic environment. The U.S. continues to face an uncertain political environment and substantial fiscal and economic challenges due to other political and economic factors as well. These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to fund their capital and liquidity requirements and operate in certain financial markets. Any of these factors could depress economic activity, commodities markets and restrict access to capital.

These developments could seriously limit the Group's access to capital and could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The above negative impacts from the global economic downturn could have a material adverse effect on business, financial condition and results of operations of the Group.

***Inflation could affect the Group's results of operations.***

The Russian and Armenian economies have historically been characterised by high rates of inflation. According to Rosstat, in Russia, inflation was 5.4% in 2016 and stood at a record low of 2.5% in 2017, before increasing again to 4.2% in 2018, which exceeded the targets set by the government, while the population's real disposable income has been declining over recent years save for an increase of 0.3% in 2018 according to Rosstat. According to the Statistical Committee of the Republic of Armenia, the annual inflation rate in Armenia was approximately 2.5%, 1.0% and -1.4% in 2018, 2017 and 2016, respectively. Certain of the Group's costs, including salaries and utilities are sensitive to inflation in Russia and Armenia. As a result, high rates of inflation without respective depreciation of local currencies could increase the Group's costs, and there can be no assurance that the Group will be able to maintain or increase its margins.

***Restrictive currency regulations may adversely affect the Group's business, results of operations, financial condition and prospects.***

The Group's operational expenses are denominated in roubles and dram. The current Russian and Armenian currency control laws and regulations impose a number of limitations on banking and currency transactions. Currency control restrictions include a general prohibition on foreign currency operations between Russian and Armenian residents, except for certain specified operations permitted by law, and the requirement to repatriate, subject to certain exceptions, export-related earnings in Russia and Armenia, respectively. For example, should the Group wish to export its metals from its Russian subsidiaries, it will have to ensure that any export-related earnings are repatriated to Russia. Failure to comply with this requirement may lead to the imposition of various administrative fines on the relevant member of the Group exporting the relevant commodity. These currency control restrictions may restrict the Group's operational flexibility, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Group's ability to service its payment obligations under the Notes and/or the trading price of the Notes.

Restrictions on the Group's ability to conduct transactions could increase its costs, prevent the Group from continuing necessary businesses, or from successfully implementing its business strategy, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. In addition, because of the limited development of the foreign currency market in Russia and Armenia, the

Group may experience difficulty converting dram and roubles into other currencies. Any delay or other difficulty in converting dram or roubles into a foreign currency to make a payment or any practical difficulty in the transfer of foreign currency could limit the Group's ability to meet its payment and debt obligations, which could result in the acceleration of debt obligations and cross defaults. Furthermore, there is only a limited number of available dram and rouble denominated instruments in which the Group may invest its excess cash. Any balances maintained in dram and roubles will give rise to losses if the dram or rouble devalues against major foreign currencies. Moreover, currency restrictions could prevent or delay any acquisition opportunities outside of Russia and Armenia that the Group might wish to pursue.

***The Russian and Armenian banking systems remain underdeveloped and another banking crisis could place liquidity constraints on the Group's operations.***

The Russian and Armenian banking and other financial systems are not as developed and regulated as those of some of certain Western jurisdictions, and Russian and Armenian legislation relating to banks and bank accounts is subject to varying interpretations and, sometimes, inconsistent application. The imposition of more stringent regulations, for example regarding the capital adequacy ratios of banks, or new interpretations of existing regulations could lead to the insolvency and liquidation of certain banks or the withdrawal of international banks from emerging markets.

In particular, there is currently a limited number of creditworthy Russian banks. Although the CBR has the mandate and authority to suspend banking licences of insolvent banks, many insolvent banks still operate. Many Russian banks also do not meet international banking standards, and the transparency of the Russian banking sector still does not meet internationally accepted norms.

Historically, the revocation of banking licences by the CBR has been a relatively rare event mostly occurring to local banks with little assets and little or no significance for the banking sector as a whole. However, in recent years, the CBR has considerably increased the intensity of its supervision and regulation of the Russian banking sector. In October 2013, the CBR launched a campaign aimed at cleansing the Russian banking industry, revoking the licences of an unusually high number of banks (including some major banks) on the basis of alleged of money laundering, financial statements manipulation and other illegal activities, as well as the inability of certain banks to discharge their financial obligations, which resulted in significant disruption within the industry, instigated bank runs on a number of Russian credit institutions, and severely undermined the trust that the Russian population had for private banks. In the course of 2017 three of Russia's largest private banks, Otkritie Bank, B&N Bank and Promsvyazbank, were all bailed out and taken over by the CBR through the newly established Banking Industry Consolidation Fund, since all three were allegedly unable to perform their obligations as they fell due for various reasons. Licence revocations continued throughout 2018 and early 2019. The private banking sector in Russia has contracted severely as a result. This can be expected to result in reduced competition in the banking sector, increased inflation and a general deterioration of the quality of the Russian banking industry. It could be expected that the difficulties currently faced by the Russian economy could result in collapses of further Russian banks.

Current economic circumstances in Russia are putting stress on the Russian banking system. Combined with heightened interest rates – with the key interest rate of the CBR currently at 7.75% per annum (but rising as high as 17% over the course of 2014-2015) – these circumstances decrease the affordability of consumer credit, putting further pressure on overall consumer purchasing power. In addition, these factors could further tighten liquidity on the Russian market and result in the devaluation of the rouble.

The deficiencies in the Russian banking sector, combined with similar liquidity issues or the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to any worldwide credit market downturn and economic slowdown. A prolonged or serious banking crisis or the bankruptcy of a number of Russian banks could materially adversely affect the Group's business and the Group's ability to access financing or complete banking transactions in Russia.

The Armenian economy is characterised by a high rate of foreign ownership within the banking sector. These foreign-owned banks may seek to rebalance their global loan portfolios in a manner adversely affecting Armenia as a result of events related or unrelated to Armenia. In addition, foreign banks may decrease funding to their subsidiaries operating in Armenia due to actual or perceived deterioration in asset quality (such as a substantial increase in lending risk), particularly in the event of a weaker than expected economic performance (as may be indicated by increasing non-performing loans as the Armenian economy slows). As a result of these or other factors or other potential shocks, foreign banks may revise their business strategies in,

or relating to, Armenia and, in particular, their decision to fund their subsidiaries in Armenia. Such events could have a material adverse effect on the financial and economic condition of Armenia.

A banking crisis or the bankruptcy or insolvency of the banks in which the Group holds its funds could make it more difficult for the Group to access its funds or affect its ability to complete banking transactions, or may result in the loss of its deposits altogether, which would have a material adverse effect on its business, results of operations, financial condition and prospects.

***Crime and corruption could create a difficult business climate in Russia and Armenia.***

Levels of corruption in Russia and Armenia, including the bribing of government officials for the purpose of instigating investigations by government agencies, are generally higher than the levels that prevail in Western economies. Press reports have also described instances in which government officials engage in selective investigations and prosecutions to further the commercial interests of government officials or certain individuals. See "*The Russian and Armenian governments could reverse reform policies or government policies targeted at specific individuals or companies and may take unlawful, selective or arbitrary government actions*". Additionally, some members of the Russian and Armenian media are alleged to publish regularly disparaging articles in return for payment.

The presence of organised or other crime, the demands of corrupt officials or claims that the Group has been involved in corruption could result in negative publicity for the Group or disrupt the Group's ability to conduct its business effectively, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***Social and labour unrest could lead to increased support for renewed centralised authority and a rise in nationalism or violence could restrict the Group's ability to conduct its business effectively.***

Failure of the Russian and Armenian governments to adequately address social problems has led in the past, and could lead in the future, to labour and social unrest. Social and labour unrest has arisen in the past and may arise in the future due to a failure of the Russian or Armenian government and private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living and the elimination of many subsidised services. These conditions have already led to a certain amount of labour and social unrest that may continue or escalate in the future. Such social and labour unrest may cause other significant political, social and economic consequences, such as increased violence and support for renewed centralisation of authority, re-nationalisation or expropriation of property, or restrictions on foreign involvement in the economy of Armenia or Russia. Any of these consequences, in particular those which would delay completion of the Group's capital expenditure projects or disrupt operations at its production facilities could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

***Incomplete, unreliable or inaccurate official data and statistics could create uncertainty.***

The official data published by the Russian and Armenian federal, regional and local government agencies are less complete or reliable than those of some of the more economically developed countries of North America and Europe. Official statistics may also be produced on different bases than those used in more economically developed countries. Additionally, the Group relies on and refers to information and statistics from various third-party sources and its own internal estimates. For example, substantially all the information contained in this Prospectus concerning metals markets and pricing has been derived from publicly available information, including press releases. The Group believes that these sources and estimates are reliable, but the Group has not independently verified them. However, to the extent that such sources or estimates are based on official data released by federal, regional and local government agencies, they will be subject to the same uncertainty. Any discussion of matters relating to Armenia or Russia in this Prospectus is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

**Russian and Armenian Legal Risks and Uncertainties**

***Weakness relating to the Russian and Armenian legal system and Russian and Armenian legislation create an uncertain environment for investment and business activity.***

The legal framework required by a market economy is still under development in Russia and Armenia and certain portions of this legal framework have only recently become operational. The recent nature of much of

Russian and Armenian law and the rapid evolution of the Russian and Armenian legal systems places the enforceability and underlying constitutionality of laws in doubt. Ambiguities, lack of guidance and interpretation, gaps in regulatory structure and the inexperience of judges also make it difficult for the Group to determine whether it has adequate property and other rights.

Among the risks of the current Russian and Armenian legal systems are:

- inconsistencies between and amongst their national or federal laws, presidential decrees and governmental, ministerial and local orders, decisions, resolutions and other acts;
- discrepancies between federal and regional legislation in Russia;
- limited judicial and administrative guidance on interpreting legislation;
- gaps in the regulatory structure due to the absence of or delay in implementing regulations;
- the relative inexperience of judges and courts in interpreting new principles of law, particularly in relation to business and commercial law;
- bankruptcy procedures that are still under development;
- a lack of judicial independence from political, social and commercial forces;
- alleged corruption within the judiciary and the governmental authorities;
- problematic and time-consuming enforcement of both domestic and foreign judicial orders and international arbitration awards; and
- a high degree of discretion on the part of governmental authorities, leaving significant opportunities for arbitrary and capricious government action.

In addition, the relatively recent enactment of many laws and the lack of consensus about the aims, scope, content and pace of economic and political reforms have resulted in ambiguities, inconsistencies and anomalies in the Russian and Armenian legal systems. Any or all of these risks could affect the Group's ability to enforce its legal rights in Russia and Armenia, including rights under its contracts, or to defend against claims by others in Russia and Armenia and could have a material adverse effect on the Group's business, results of operations, financial condition.

Weaknesses in the Russian legal system create an uncertain legal environment, which makes the decisions of courts or governmental authorities difficult, if not impossible, to predict. Regulatory authorities may bring claims for formal and technical non-compliances with Russian law. For example, under Russian law, a business entity, cannot have as a sole shareholder/participant another entity wholly owned by one person. Russian law, however, does not provide a clear sanction for a violation of this requirement. Currently, all of the Russian Guarantors have as a sole shareholder/participant another entity wholly owned by one person. There have not been any claims from state authorities challenging or questioning the Group's structure. The Group is not aware of any cases where the courts have ordered companies to change their structure as a result of a formal non-compliance with the respective Russian law requirement. However, there is no assurance that this structure may not be challenged in the future. If this happens, the Group may be required to reorganise holding of its Russian Guarantors to comply with the relevant requirement.

***The limited independence and experience of the judiciary, the difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent the Group from obtaining effective redress from a court or tribunal.***

As is the case in many emerging markets, the independence of the judicial system remains largely untested. The court systems in Russia and Armenia may be understaffed and/or under-funded and are not immune to external influences. Judges and the courts in Russia and Armenia are often inexperienced in interpreting and applying many aspects of business and corporate law. Judicial precedents in Russia generally have no binding effect on subsequent decisions. Not all court decisions are readily available to the public. Enforcement of court judgments can in practice be very difficult in Russia and Armenia. All of these factors make judicial

decisions in Russia and Armenia difficult to predict and effective redress uncertain. Additionally, court claims and prosecutions are sometimes influenced by, or used in furtherance of, private interests. The Group may be subject to such claims and may not be able to receive a fair trial.

In particular, in the recent past, Russian authorities have prosecuted some prominent Russian companies, their senior managers and their shareholders on tax evasion and related charges. In some cases, the result of such prosecutions has been the imposition of prison sentences for individuals and/or significant claims for unpaid taxes with respect to companies such as Yukos, Mechel, TNK-BP and VimpelCom. Most recently, in February 2018, Michael Calvey, the founder and a senior partner at Baring Vostok Capital Partners and among Russia's most prominent investors, was detained on charges of fraud in the amount of RUB 2.5 billion in connection with a dispute involving Vostochny Bank in which Baring Vostok Capital Partners has a controlling stake. The announcement of Calvey's detention triggered a negative reaction in the international investment community, prompting numerous pleas for his immediate release. On 11 April 2019, the court ruled to move Michael Calvey from pre-trial detention to house arrest through 14 July 2019. This and similar events may exacerbate the negative investor sentiment towards Russia, increase capital outflows as well as worsen the general business and investment climate in Russia.

These uncertainties also extend to mineral rights. While legislation has been enacted to protect private property against expropriation and nationalisation, due to the lack of experience of the courts in Russia and Armenia in enforcing these provisions and due to political factors, these protections may not be enforced in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any of the Group's entities, their assets or portions thereof, potentially without adequate compensation, could have a material adverse effect on the Group's business, results of operations, financial condition, and prospects.

***The regions in which the Group operates are subject to undeveloped, ambiguous and inconsistent mining regulations.***

*Russia*

Russian mining legislation remains relatively undeveloped. The main law regulating mining activities in Russia, the Russian Subsoil Law, was generally enacted as a framework law and many of its provisions are declarative in nature, however, only a few laws specifying its provisions have been adopted so far. In addition, the possession, use and disposal of the land, subsoil, water and other natural resources as well as environmental protection pertain to the joint competence of Russian federal and regional authorities, which sometimes leads to the enactment of inconsistent and competing legislation at federal and regional levels. Therefore such provisions create potential for interpretation and in certain cases for abuse on the side of the governmental authorities, which may affect the Group's mining operations and ultimately have a material adverse effect on the Group's business, results of operations, financial condition and the price of Notes. See "*Regulation of Mining Industry in Armenia and Russia*".

*Armenia*

The two key pieces of legislation regulating the mining industry are the Code on Subsoil, adopted on 25 February 1992, which was later replaced by a completely new Code on Subsoil adopted on 6 November 2002 and the "Law on Concession (on Provision) of Subsoil Assets For the Purposes of Exploration and Mining of Minerals", adopted on 5 November 2002. Both were subsequently replaced in 2011 by a unified document regulating mining issues, the Code on Subsoil. Since their adoption, these and numerous other relevant legal acts regulating mining operations have been adopted. There are often inconsistencies among the various legal acts, or conflicting regulations or lack of detail, common sense or clarity within regulations. This results in the inconsistent application of such regulations and law with respect to businesses operating in such environment.

Moreover, the processes involved in obtaining the licences, consents and permits required for mining operations are both time consuming and costly. Furthermore, the lack of clarity of the legislative requirements provide opportunities for state and local government officials to sometimes unnecessarily delay the issuance of requisite permits and consents, or arbitrarily assess the compliance of the licensee with its obligations under the licence agreement, and potentially abuse their supervisory authority. These factors limit the dependability of the mining rights held by a licensee.

These legislative uncertainties, along with developing judicial system (despite the constant reforms taking place in that sector, including most recent reforms related to the adoption of a new Code of Civil Procedure

and amendments to the Judiciary Code which have elaborated procedural regulations aimed to cover procedural uncertainties), create an unpredictable environment for companies trying to operate in Armenia, including those involved in mining operations, creating a risk that procedures or timelines for curing licence breaches are not adhered to by officials. See also "*The limited independence and experience of the judiciary, the difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent the Group from obtaining effective redress from a court or tribunal*".

***There may be difficulties in ascertaining the validity and enforceability of title to land or other real property in Russia and Armenia and the extent to which it is encumbered.***

After the dissolution of the Soviet Union, Russia and Armenia have engaged in substantial efforts with respect to land reform, as described below.

#### *Russia*

The legal framework relating to the ownership and use of land and other real property in the Russian Federation is not yet sufficiently developed to support private ownership of land and other real property to the same extent as is common in some of the more developed market economies, such as those of North America and Western Europe. During the Russian Federation's transformation from a centrally planned economy to a market economy, legislation was enacted to protect private property against expropriation and nationalisation. However, it is possible that, due to a lack of experience in enforcing these provisions and due to political changes, these protections would not be enforced in the event of an attempted expropriation or nationalisation, or in the event that the Group's business is reorganised. It is often difficult to determine with certainty the validity and enforceability of title to land in the Russian Federation and the extent to which it is encumbered. Moreover, in order to use and develop real property in the Russian Federation, approvals, consents and registrations of various federal, regional and local governmental authorities are required, and this can be a lengthy and complex process. Further, it is not always clear which governmental body or official has the right to lease or otherwise regulate the use of real property. In addition, building and environmental regulations often contain requirements that are impossible to fully comply with in practice. Failure to obtain or comply with the required approvals, consents, registrations or other regulations may lead to severe consequences, including with regard to any current construction activities. If the real property owned or leased by the Group is found not to be in compliance with all applicable approvals, consents, registrations or other regulations, the Group may lose the use of such real property, which could have a material adverse effect on the Group's business, results of operations and financial condition, the Group's ability to service its payment obligations under the Notes and/or the trading price of the Notes.

#### *Armenia*

Ownership of land and real property, as well as other related rights, were initially regulated by the Armenian Land Code of 1991 and the Law on Real Property adopted in 1995. Subsequently, the determination and regulation of these rights were considerably improved, by the adoption of the Armenian Civil Code in 1998, the Law on State Registration of Property Rights in 1999, as replaced by a similarly named new law in 2012 (Law "On State Registration of Property Rights"), and the Land Code in 2001. Pursuant to these laws, additional legal acts and rules were enacted regulating various aspects of rights dealing with land and real property. In general, the legal framework for the regulation of this sector can be considered as sufficiently developed, despite the various uncertainties and contradictions among different legal acts.

As a result of such continually evolving legislation, it is often difficult to ascertain the validity and enforceability of title to land or other real property and the extent to which it is encumbered. As a result, the Group may not have properly obtained or registered the rights to its land plots, buildings located thereon and other real property and the Group may face challenges in courts of its rights to such and plots, buildings located thereon and other real property. These uncertainties in Russia and Armenia may have a material adverse effect on its business, results of operations, financial condition and prospects.

***Protection provided by Russian and Armenian legislation against expropriation and nationalisation may not be adequately enforced.***

Both Russian and Armenian Governments have enacted legislation to protect foreign investment and other property against expropriation and nationalisation. If property is expropriated or nationalised, legislation provides for fair compensation. However, there is no assurance that such protections would be enforced. This uncertainty is due to several factors, including legal weaknesses in the judiciary and insufficient mechanisms to

enforce judgments, as well as reported corruption among state officials. In addition, it is possible that, due to a lack of experience in enforcing these provisions or due to political changes, legislative protections may not be enforced in the event of an attempted nationalisation. Furthermore, there are few past examples of enforcing legislation enacted to protect private property against nationalisation. Although the Group does not believe that there is a legal basis for the expropriation or nationalisation of any of its assets, any expropriation or nationalisation of the Group's business could have a material adverse effect on the Group's business, results of operations and financial condition, the Group's ability to service its payment obligations under the Notes and/or the trading price of the Notes.

***If transactions or corporate resolutions that the Group's Russian and Armenian subsidiaries have entered into are challenged for non-compliance with applicable legal requirements, the transactions could be invalidated or liabilities could be imposed on the Group.***

The Group's Russian and Armenian subsidiaries have taken a variety of actions relating to share issuances, corporate reorganisations, share and asset disposals and acquisitions, changes in charter capital, valuation of property, interested party transactions, major transactions, currency control and antimonopoly issues, in respect of which the applicable legal procedures are not always clear and which, therefore, could be subject to legal challenges. If any such challenge was successful, it could result in the invalidation of the relevant transaction or resolution, seizure of the relevant assets and/or the imposition of liabilities on the Group. Moreover, since many provisions of Russian and Armenian law are open to many different interpretations, the Group's Russian and Armenian subsidiaries may not be able to defend successfully any challenge in respect of such transactions. Although the Group does not expect any past transaction to be so challenged, the invalidation of any such transactions or imposition of any such liabilities could have a material adverse effect on the Group's business, results of operations and financial condition, the Group's ability to service its payment obligations under the Notes and/or the trading price of the Notes.

## **Risks Related to the Taxation**

### ***Risks related to the Armenian tax system.***

Until 2018, Armenian tax legislation was comprised of separate laws for each specific tax. From 2018, the new tax code ("**Armenian Tax Code**") came into force and has replaced uncodified tax legislation. The Armenian Tax Code has certain ambiguities and uncertainties that are supposed to be addressed by certain amendments currently contemplated to be introduced into the Armenian Tax Code. The current corporate profits tax rate is 20%. Under the proposed amendments to the Armenian Tax Code that are expected to come into force not later than 1 January 2020; the corporate tax rate would be decreased to 18%. Personal income tax system is progressive and the tax rate ranges from 23% to 36%, specifically: (a) for the tax base less or equal to AMD150,000 the personal income tax rate is 23%, (b) for the tax base of more than AMD150,000 and less or equal to AMD2.0 million the personal income tax rate is 28%, and (c) for the tax base of more than AMD2.0 million the applicable rate is 36%. Under the proposed amendments to the Armenian Tax Code, the personal income tax rate will become fixed and equal to 23%. The personal income tax rate will be reduced by 1% each year until the rate reaches 20%. The VAT rate is 20% and no changes are expected.

Currently, the Armenian government plans to thoroughly change certain parts of the Armenian Tax Code. Written recommendations and clarifications on the application of the Armenian Tax Code are not yet published. In addition, the Armenian Tax Code does not stipulate any tax rulings. A taxpayer (tax agent) has the right to apply to the tax authority, as prescribed by the Armenian Tax Code, for the tax provisions and legal acts clarifications. Clarifications received from the tax authorities are not binding and are only of advisory nature, are released for an indefinite period of time and are relevant until a provision to which they have been issued is changed or amended.

The abovementioned ambiguities in the tax legislation may expose the Group to fines, penalties and potentially severe enforcement measures despite the Group's efforts to comply with the Armenian tax law, any of which could result in a greater than expected tax burden.

The Armenian Tax Code has no general anti-avoidance rules and "controlled foreign company" ("**CFC**") provisions. Under the Armenian Tax Code, application of transfer pricing ("**TP**") rules has been suspended and they will come back into effect from January 2020. Accordingly, due to the underdeveloped TP practice in Armenia, no assurance can be given that the Armenian tax authorities will not challenge the prices under the Group's transactions and will not make adjustments for tax periods following the end of 2019 tax year.



Armenia has signed the Multilateral Convention to Implement Tax Treaty Related Measures ("MLI") but the National Parliament has not yet enacted it. Once ratified, the MLI provisions would be applicable to the double tax treaties recognised as covered tax agreements. It is possible that the law ratifying the MLI would come into force by the end of 2019 and the MLI itself would be enforceable starting 2020.

Generally, additional tax liabilities may be assessed only for the period of three calendar years immediately preceding the date when a tax return for that particular tax has been due. In some cases, Armenian tax authorities are permitted to perform repeat audits of tax years that have already been examined (e.g., due to company's liquidation; after a written order of the Prime Minister of the Republic of Armenia; as a reaction to criminal action against inspectors who have previously carried out an audit and were convicted by a valid judgement; repeat audit has to be conducted according to certain provisions of the Armenian Criminal Code; and etc.). In such cases, tax authorities can conduct a tax audit for any tax period, irrespective of the three preceding calendar years threshold. Tax liabilities, including fines and penalties, may be satisfied from accounts receivable and from taxpayer's other property.

Thus, field tax audits may reduce the tax risks associated with the taxpayer's activities. Nevertheless, repeat tax audits, especially with respect to large taxpayers, are common. Therefore, there is a risk that periods formally closed by a field tax audit could be re-opened and additional tax burden can be imposed on a taxpayer. If field tax audits are not conducted by the tax authorities, tax risks associated with the taxpayer's activities may increase significantly.

Another kind of an audit is a desk tax audit. It is an internal procedure conducted by the tax audit department on the basis of the financial statements and other returns to ascertain the financial and actual state of an entity. There is an exception for input value added tax ("VAT") refund, which is carried out at the taxpayer's premises and is conducted by a review of source documents. Performance of a desk tax audit does not limit the right of tax authorities to initiate a field tax audit for the same period. The results of a desk tax audit can be reviewed during a field tax audit. Upon a written request by the tax authorities, taxpayers are required to provide a copy of the accounting records (for the period included in the tax audit terms) created with a computer programme on an electronic storage device. The requirements for an accounting programme are set by the Armenian law.

Hence, if the tax authorities challenge the Group's tax position on key business transactions, a tax audit may result in additional costs to the Group.

***Payments under the Guarantee made by the Armenian Guarantors may be subject to Armenian withholding tax or Armenian personal income tax, as applicable.***

Payments following enforcement of the Guarantee made by the Armenian Guarantors to a non-resident Noteholder relating to interest on the Notes would be characterised as Armenian source income. Therefore, the Armenian Guarantors paying interest to non-resident entities are liable to act as a tax agent and withhold at source tax at the rate of 10% according to the procedure established under Armenian law. In cases where the Noteholder is an individual, then according to Articles 144 and 150 of the Armenian Tax Code, the Armenian Guarantor paying interest to individuals are liable to act as a tax agent and withhold 10% Personal Income Tax ("PIT") at source. An individual is not obligated to submit any tax returns to Armenian tax authorities.

Other payments following enforcement of the Guarantee in respect of principal, premium or such other amounts made by the Armenian Guarantors to a non-resident Noteholder in accordance with the Trust Deed are likely to be characterised as Armenian source income. Accordingly, the Armenian Guarantors paying other amounts in respect of principal, premium, interest or such other amounts under guarantee to non-resident entities are liable to act as a tax agent and withhold 20% tax at source. In cases where the Noteholder is a non-resident individual, then according to Articles 144 and 150 of the Armenian Tax Code, the Armenian Guarantors paying such amounts to individuals are liable to act as a tax agent and withhold 23%, 28% or 36% PIT at source (for amounts less or equal AMD150,000: 23%, for amounts more than AMD150,000 and less or equal to AMD2.0 million: 28% and for amounts more than AMD2.0 million: 36%). An individual is not liable to submit any reporting to Armenian tax authorities.

Notwithstanding the above, under the gross-up provisions in the Trust Deed, any payments made under the Guarantee that are subject to withholding tax or PIT at source shall be increased as necessary so that the net amounts transferred in respect of such payments after such withholding or deduction will equal the respective

amounts that would have been transferred in respect of such payments in the absence of such withholding or deduction. The gross-up provisions in the Trust Deed are enforceable under Armenian law.

*The Russian taxation system is relatively underdeveloped.*

The Russian Government regularly revises its tax system by redrafting parts of the Tax Code of the Russian Federation (the "**Russian Tax Code**"). Since 1 January 2009, the corporate profits tax rate has been 20%. For individuals who are tax residents in the Russian Federation the current personal income tax rate applicable to most types of income is 13%. As of 1 January 2019, the general rate of VAT was increased from 18% to 20%.

Russian tax laws, regulations and court practice are subject to frequent change, varying interpretations and inconsistent and selective enforcement. In accordance with the Constitution of the Russian Federation, laws that introduce new taxes or worsen a taxpayer's position cannot be applied retrospectively. Nonetheless, there have been several instances when such laws have been introduced and applied retrospectively.

For instance, legislatures of the Russian Federation's regions are currently empowered to provide wide-ranging incentives such as reduced income tax rates for business units operating within the region's territory. However, the federal government of the Russian Federation has recently initiated legislative amendments aimed at reducing region-level authority to stipulate such preferential taxation. Thus, a reduction of the corporate profits tax rate at the regional level will be available solely for targeted types of taxpayers, defined at the federal level. The reduced regional profits tax rates that are currently applicable will remain in effect until 1 January 2023 (at the latest). These conditions complicate tax planning and related business decisions. The related uncertainties could also expose the Group to significant fines and penalties and potentially severe enforcement measures despite the Group's best efforts at compliance, and could result in a greater than expected tax burden. This, in turn, could have a material adverse effect on the Group's business, results of operations, financial condition and prospects, its ability to service its payment obligations under the Notes and as a consequence the Group's ability to make payments under the Notes.

Generally, taxpayers are subject to a tax audit for a period of three calendar years immediately preceding the year in which the decision to carry out a tax audit was taken. In certain circumstances, repeated tax audits (i.e. audits with respect to the same taxes and the same periods) are possible. Generally, the statute of limitations for a tax offence is three years after the date on which the tax offence was committed or from the date following the end of the tax period during which the tax offence was committed (depending on the nature of the tax offence). Nevertheless, according to the Russian Tax Code and based on current judicial interpretation, there may be cases where the statute of limitations for tax offences may extend beyond three years.

Tax audits or inspections may result in additional costs to the Group, in particular if the relevant tax authorities conclude that the Group did not satisfy its tax obligations in any given year. Such audits or inspections may also impose additional burdens on the Group by diverting the attention of management.

In October 2006, the Plenum of the Supreme Arbitrazh Court of the Russian Federation issued a resolution concerning judicial practice with respect to unjustified tax benefits. In this context, a tax benefit means a reduction in the amount of a tax liability resulting, in particular, from a reduction in the tax base, the receipt of a tax deduction or tax concession or the application of a lower tax rate or the receipt of a right to a refund (offset) or reimbursement of tax. The resolution provides that where the true economic intent of business operations is inconsistent with the manner in which it has been taken into account for tax purposes, a tax benefit may be deemed to be unjustified. The same conclusion may apply when an operation lacks a reasonable economic or business rationale. As a result, a tax benefit cannot be regarded as a business objective in its own right. On the other hand, the fact that the same economic result might have been obtained with a lesser tax benefit accruing to the taxpayer does not constitute grounds for declaring a tax benefit to be unjustified. Moreover, there are no rules and little case law applicable to distinguishing between lawful tax optimisation and tax avoidance or evasion. The tax authorities have actively sought to apply the resolution of the Supreme Arbitrazh Court when challenging tax positions taken by taxpayers in court, and are expected to extend its application in the future. Although the intention of this resolution is to combat tax abuses, in practice there can be no assurance that the tax authorities will not seek to apply this concept in a broader sense than may have been intended by the Supreme Arbitrazh Court.

The above approach was further developed by amendments to the Russian Tax Code, which became effective on 19 August 2017. The amendments introduced the new Article 54.1 to the Russian Tax Code, which limits activities aimed at reducing the amount of taxes payable. Under these provisions, a taxpayer may not reduce the tax base and/or the amount of tax payable by misrepresenting information regarding economic events or

the objects of taxation which are required to be disclosed in a taxpayer's tax and/or accounting records or tax statements. A taxpayer has the right to reduce the tax base and/or the amount of taxes payable, provided that the following conditions are met: (i) it is not the principal objective of a transaction to cause an amount of tax not to be paid or to be refunded; or (ii) the obligation arising from a transaction was performed by a person who is a party to the contract concluded with the taxpayer and/or a person to whom such obligation was transferred by contract or law. The following circumstances do not, on their own, constitute grounds for a tax benefit to qualify as unjustified: (i) if primary documents were signed by unidentified or unauthorised persons; (ii) if a taxpayer's counterparty violated the tax law; or (iii) if the same economic result could have been obtained through other transactions.

As a result of these rules, it is possible that despite the best efforts of the Group to comply with Russian tax laws and regulations, certain transactions and activities of the Group that have not been challenged in the past may be challenged in the future, resulting in a greater than expected tax burden, exposure to significant fines and penalties and potentially severe enforcement measures for the Group.

Recent developments show that the Russian tax authorities are scrutinising various tax planning and mitigation techniques used by taxpayers, including international tax planning. In particular, the Russian Federation introduced CFC rules, the concept of "tax residency for an organisation" and the "beneficial ownership" concept, and is increasingly engaged in the international exchange of tax and financial information (including through country-by-country reporting standards and common reporting standards developed and approved by the Organisation for Economic Co-operation and Development (the "OECD")). In 2017, the Russian Federation signed the MLI implementing a series of tax treaty measures to update international tax rules and lessen the opportunity for tax avoidance. It is possible that the law ratifying the MLI will come into force by the end of 2019 and the MLI itself will apply in the Russian Federation from 2020.

It is currently unclear how the Russian tax authorities will interpret and apply the new tax provisions and what will be the possible impact on the Group. Therefore, it cannot be excluded that the Group might be subject to additional tax liabilities because these changes are applied to transactions carried out by the Group.

Furthermore, Russian tax legislation is consistently becoming more sophisticated. It is possible that new revenue-raising measures could be introduced. Although it is unclear how any new measures would operate, the introduction of such measures may affect the Group's overall tax efficiency and may result in significant additional taxes becoming payable. No assurance can be given that no additional tax exposures will arise for the Group.

The Russian transfer pricing legislation allows the Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities with respect to "controlled" transactions. The list of "controlled" transactions under the transfer pricing legislation includes transactions performed with related parties and certain types of cross-border transactions with unrelated parties. Starting from January 2019, (i) transactions between related parties are no longer "controlled" if both related parties are located in the Russian Federation and apply the same corporate profits tax rate (i.e. 20%); and (ii) the minimum threshold of RUB60 million is introduced for cross-border transactions between related parties. This legislation also shifts the burden of proving market prices from the Russian tax authorities to the taxpayer. Although Russian transfer pricing rules were modelled based on the transfer pricing principles developed by the OECD, there are some peculiarities as to how the OECD transfer pricing principles are reflected in the Russian rules. Special transfer pricing rules continue to apply to transactions with securities and derivatives. All the aforesaid evolving tax conditions create tax risks in the Russian Federation that are greater than the tax risks typically found in countries with more developed taxation, legislative and judicial systems. These tax risks impose additional burdens and costs on the Group's operations, including management's resources. Furthermore, these risks and uncertainties complicate the Group's tax planning and related business decisions, potentially exposing the Group to significant fines, penalties and enforcement measures, and could have material adverse effect on the Group's business, results of operations and financial condition, its ability to service its payment obligations under the Guarantee and as a consequence, its ability to service its payment obligations under this Prospectus and as a consequence, the Issuer's ability to make payments under the Notes.

***The Group may encounter difficulties in obtaining lower rates of withholding income tax envisaged by the respective double tax treaties for dividends distributed from the Company's subsidiaries.***

Generally an application of double tax treaties gives a possibility to reduce or even eliminate dividend withholding tax. An application of a reduced dividend withholding tax rate is usually subject to certain

conditions. For instance, the double tax treaty between the Russian Federation and The Netherlands provides for a reduction of withholding income tax on dividends paid by a Russian company to a Dutch company to 5% provided that the following conditions are met: (i) the Dutch company is a tax resident of The Netherlands within the meaning of the Tax Treaty; (ii) the Dutch company is the beneficial owner of the dividends which holds directly at least 25% of the capital of the company paying the dividends and has invested in it at least holding EUR75,000; (iii) the dividends are not attributable to a permanent establishment of the Dutch company in Russia; and (iv) the treaty clearance procedures are duly performed.

Although the Company's subsidiaries will seek to claim treaty protection, there is a risk that the applicability of the reduced rates may be challenged by local tax authorities.

As a result, there can be no assurance that the Company's subsidiaries would be able to avail itself of the reduced withholding income tax rate in practice.

***The Group may encounter difficulties in the recovery of VAT paid to vendors or at customs and with the application of a 0% VAT rate on export sales.***

Many Russian companies, especially those involved in export sales or sale of precious metals, encounter difficulties with the recovery of VAT paid to vendors or at customs ("**Input VAT**").

Under the Russian Tax Code, Russian incorporated companies within the Group are entitled to recover the excess of Input VAT over VAT collected from the buyers of their goods and services ("**Output VAT**") either through cash refunds or offset against future tax liabilities and are also entitled to earn interest on any excess Input VAT amounts which have not been timely refunded by the Russian tax authorities. In practice, however, it is sometimes difficult to receive cash refunds, and the Group must seek recovery of excess Input VAT through an offset against future tax liabilities over protracted periods of time while the receipt of interest thereon is not very likely. Furthermore, the Russian tax authorities often scrutinise the companies showing such excess Input VAT amounts in their tax returns and sometimes seek to challenge them on different grounds.

Despite the Group's efforts at compliance, there remains a risk that a portion of Input VAT may not be recoverable by the Russian incorporated companies within the Group or that the recovery may take a significant amount of time, which may have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the Notes.

***Payments under the Notes may be subject to Russian withholding tax.***

Payments made by the Issuer under the Notes may be subject to Russian withholding tax if the Issuer is treated as a Russian tax resident or if the Issuer's activities lead to creation of a permanent establishment for the Issuer in the Russian Federation. In these cases, payments of interest under the Notes made by the Issuer to the Non-Resident Noteholders could be recognised by Russian tax authorities as subject to Russian withholding tax at a rate of 20% (or 30% in respect of Individual Non-Resident Noteholders (as defined in "*Taxation—The Russian Federation*")).

However, the Russian Tax Code provides an exemption from the obligation to withhold tax from interest paid by a Russian organisation to Legal Entity Non-Resident Noteholders (as defined in "*Taxation—The Russian Federation*") under the "quoted bonds" issued in accordance with the legislation of a foreign jurisdiction (this exemption is also applicable to foreign organisations, which are either recognised as Russian tax residents, or recognised as organisations, the activities of which lead to the creation of a permanent establishment in the Russian Federation). The Issuer believes that the Notes should be recognised as "quoted bonds" for the purposes of the Russian Tax Code. For details, see "*Taxation—The Russian Federation*".

The Issuer believes that it should be released from the obligation to withhold Russian withholding tax from interest payments made to Legal Entity Non-Resident Noteholders under the Notes provided that the Notes continue to be recognised as "quoted bonds" for the purposes of the Russian Tax Code as outlined above.

If the Issuer's activities lead to the creation of a permanent establishment for the Issuer in the Russian Federation, the payments under the Notes (including interest and principal amounts under the Notes) made by the Issuer to Individual Non-Resident Noteholders less any available cost deduction could be subject to Russian taxation at a rate of 30% subject to any available double tax treaty relief (for details, see "*Taxation—The Russian Federation—Double Tax Treaty Relief*").

Also, if the Issuer is treated as a Russian tax resident or if the Issuer's activities lead to the creation of a permanent establishment in the Russian Federation, the Issuer will be fully subject to all applicable Russian taxes in accordance with the Russian tax law and will be exposed to all of the risks and implications associated with the Russian tax system.

***Payments under the Guarantee made by the Russian Guarantors may be subject to Russian withholding tax or Russian personal income tax, as applicable.***

Payments following enforcement of the Guarantee to be made by the Russian Guarantors to the Non-Resident Noteholders (as defined in "*Taxation—The Russian Federation*") relating to interest on the Notes are likely to be characterised as Russian-source income. Accordingly, there is a risk that such payments may be subject to withholding tax at a rate of 20% in the event that a payment under the Guarantee is made to a Non-Resident Noteholder that is a legal entity or organisation which in each case is not organised under Russian law and which holds the Notes otherwise than through a permanent establishment in the Russian Federation. In the event a payment under the Guarantee is made to a Non-Resident individual, there is a risk that such payment may be subject to personal income tax at a rate of 30%. If tax is not withheld at source by the Russian Guarantors, Non-Resident Noteholders that are individuals may be obliged to pay Russian personal income tax on their own on the basis of a personal income tax return.

Pursuant to the Russian Tax Code, there is a possibility that the Russian Guarantors would be exempt from the obligation to withhold Russian withholding tax from the payments to the Trustee under the special exemption established for "quoted bonds" under guarantees. Meanwhile, there is some ambiguity with respect to the applicability of the exemption in this situation due to the current absence of practice on how the Russian tax authorities would apply such exemption to the current payments to be made by the Russian Guarantors to the Trustee. Such tax, if it arises, would not be in any way indemnified by the Issuer and/or the Russian Guarantors. The Group cannot offer any assurance that such withholding tax would not be imposed on the full amount of the payment under the Guarantee, including with respect to the principal amount of the Notes. The imposition or possibility of imposition of this withholding tax could adversely affect the value of the Notes. See "*Taxation—The Russian Federation*".

Under the gross-up provisions of the Notes, if payments made under the Guarantee are subject to any withholding taxes for any reason (as a result of which the Russian Guarantors would be obliged to reduce the payments to be made under the Guarantee by the amount of such taxes to be withheld), the Russian Guarantors are required to increase the payments as necessary so that the net amounts received in respect of such payments after such withholding or deduction will equal the respective amounts that would have been received in respect of such payments in the absence of such withholding or deduction. It is unclear whether a tax gross-up clause such as that contained in the Trust Deed is enforceable in the Russian Federation. There is a risk that the tax gross-up for withholding tax will not take place and that the full amount of the payments made by the Russian Guarantors will be reduced by Russian withholding income tax at a rate of 20% (or 30% in respect of individual Noteholders). See "*Taxation—The Russian Federation*".

***Tax might be withheld on disposals of the Notes in the Russian Federation, thereby reducing their value.***

If a Non-Resident Noteholder that is a legal entity or organisation, which in each case is not organised under Russian law and which holds and disposes of the Notes otherwise than through a permanent establishment in Russia, sells the Notes and receives proceeds from a source within the Russian Federation, there is a risk that any part of the payment that represents accrued interest may be subject to a 20% Russian withholding tax (even if a disposal is performed at a loss). The foreign Noteholder may be entitled to a reduction of such Russian withholding tax under an applicable double tax treaty.

Where proceeds from a disposal of the Notes are received from a source within the Russian Federation by a Non-Resident Noteholder that is an individual, there is a risk that Russian withholding tax would be charged (or such Noteholder would be required to pay Russian personal income tax on a self-assessment basis) at a rate of 30% on gross proceeds from such disposal of the Notes less any available documented costs (including the acquisition cost of the Notes).

Although such tax may be reduced or eliminated under an applicable double tax treaty, subject to compliance with the treaty clearance formalities. Obtaining a refund of taxes withheld can be extremely difficult, if not impossible. The imposition or possibility of imposition of the withholding tax could adversely affect the value of the Notes. See "*Taxation—The Russian Federation*".

***Changes in the application or interpretation of the Cypriot tax system could materially adversely affect the Group's business.***

The Company is incorporated in Cyprus. Cyprus became a member of the EU on 1 May 2004, as a result of which it has harmonised its legislation with EU directives and guidelines and has reformed its tax system. Moreover, as a result of its accession to the EU, Cyprus will adhere to decisions of the European Court of Justice and any amendments to, or newly introduced, EU directives with respect to taxation. Such judicial decisions and legislative changes may adversely affect the tax treatment of the Company Guarantor and of transactions with the Company.

In addition, a company is considered to be tax resident in Cyprus if its management and control is exercised in Cyprus. There is no definition in the Cyprus income tax laws as to what constitutes management and control, however, this is traditionally interpreted as the place of effective management which under the commentary of past OECD model, has been interpreted as "... the place where key management and commercial decisions that are necessary for the conduct of the entity's business are in substance made.". The Cyprus interpretation has not yet progressed to defining management and control in accordance with the most recent OECD commentary where the "primary place of management and control" by contrast, refers to the place where the day-to-day responsibility for the management of the company or entity (and its direct or indirect subsidiaries) is exercised. Based on the definition followed by in practice by Cyprus, management and control may be considered to be exercised where the board of directors of a company meets and makes decisions and where the majority of the members of the board of directors are resident.

Management believes that the Company meets these criteria and can be considered a Cyprus tax resident. A company that is tax resident in Cyprus is subject to Cypriot taxation on its worldwide income and qualifies for benefits available under the Cypriot tax treaty network including the Convention between the government of Armenia and the government of the Republic of Cyprus for the avoidance of double taxation dated January 17, 2011 (the "**Armenia-Cyprus Double Tax Convention**") which became effective on 1 January 2012 and the Convention between the government of Russian Federation and the Republic of Cyprus dated 5 December 1998 as amended by the Protocol signed 7 October 2010 (the "**Russia-Cyprus Double Tax Convention**");

(a) Under the Armenia-Cyprus Tax Convention, dividends paid to the Company would be taxed at source at the rate of 5% on the gross amount of the dividends unless the beneficial owner has an investment of at least EUR150,000 in the capital of the Armenian company at the time of the investment, in which case, the rate is reduced to zero. The Armenia-Cyprus Double Tax Convention further provides for taxation at source in Armenia at the rate of 5%.

(b) Under the Russia-Cyprus Double Tax Convention, dividends paid to the Company would be taxed at source at the rate of 10% on the gross amount of the dividends unless the beneficial owner has directly invested at least EUR100,000 in the capital of the Russian company in which case the rate is reduced to 5%. The Russia-Cyprus Double Tax Convention further provides that interest paid by a Russian subsidiary to the Company will be taxed only in Cyprus.

In addition, an EU parent company may be able to claim tax benefits under EU tax directives with respect to dividends paid from Cypriot resident companies or gains from the sale of shares in Cypriot resident companies.

In the event the tax residency of a company incorporated in Cyprus is challenged, such Cypriot company would be required to demonstrate that it is managed and controlled from Cyprus. If the tax residency of the Company were to be challenged and the Company was unable to demonstrate that it qualified as a Cypriot tax resident, it could be subject to tax in its place of tax residency wherever that might be and would be unable to make use of the Cypriot tax treaty network. If the Company is not tax resident in a member state of the EU, tax benefits under the EU tax directives referred to above may be restricted or eliminated. In addition, if management and control of the relevant Cypriot company takes place in another jurisdiction, or strategic or significant operational decisions or other management activities take place in that jurisdiction, the relevant Cypriot company may be subject to tax in that other jurisdiction. Whether this is the case will depend upon the tax laws of that other jurisdiction and, in certain cases, the impact of any tax residence "tie-breaker" provision in any double tax treaty between Cyprus and that jurisdiction.

Adverse changes in the application or interpretation of Cypriot tax law, or a finding that the Company does not qualify as a Cypriot tax resident or for tax treaty based benefits, or changes to the Armenia-Cyprus Double Tax Convention and Russia-Cyprus Double Tax Convention may significantly increase our the

Group's tax burden and adversely affect our its business, financial condition, results of operations and prospects.

### **Risks Related to the Notes**

***The Issuer's ability to fulfil its obligations under the Notes will depend upon the receipt of funds from the Company or other members of the Group.***

The Issuer is a wholly-owned subsidiary of the Company and does not conduct any operational activity. The Issuer would, therefore, in the absence of other funding sources, have to rely on the Company or other members of the Group to provide sufficient funds in order to meet its payment obligations.

Similarly, GPM Armenia B.V., one of the Guarantors, is a wholly-owned subsidiary of the Issuer and does not conduct any operational activity. GPM Armenia B.V. would, therefore, in the absence of other funding sources, have to rely on its subsidiaries to provide sufficient funds in order to meet its payment obligations pursuant to the Guarantee.

In addition, other members of the Group are separate and distinct legal entities and have no obligation, other than the Guarantors in relation to the Guarantees, contingent or otherwise, to pay any amounts due pursuant to the Notes or to make any funds available for these purposes, whether by dividends, loans, distributions or other payments, and do not – apart from the Guarantors – guarantee the payment of interest on, or principal of, the Notes.

***The Group will have the ability to incur more debt.***

The Group may decide to incur additional debt in the future (where not restricted by the Conditions), including secured debt that will be effectively senior to the Notes as to the value of the assets constituting collateral for such secured debt. While the Notes contain certain limitations on the Group's ability to incur additional debt, nonetheless it is permitted to incur such debt. If new debt, in particular secured debt, is added to the Group's current debt levels, this could have an adverse effect on the ability of the Issuer or the Guarantors to pay amounts due in respect of the Notes.

***Secured indebtedness of the Guarantors would rank senior to the Guarantee.***

Any secured indebtedness of the Guarantors would be effectively senior to its obligations under the Guarantee, since the Guarantee and the Notes are unsecured. As a result, any default on the Notes that were to trigger an event of default under any of the Guarantors' secured indebtedness, would give holders of such secured indebtedness priority over the claims of Noteholders under the Guarantee.

***The Notes will be structurally subordinated to subsidiary debt, secured creditors and other liabilities.***

With the exception of the Guarantors, the Group's subsidiaries have no obligation in respect of any amounts due under the Guarantee and neither the Issuer, the Trustee nor holders of Notes will have any direct or indirect claim on such non-Guarantor subsidiaries' cash flows or assets other than through the Company's shareholding in such entities. In most circumstances, the Issuer's ability to make payments under the Notes is effectively subordinated to any liabilities of the Group's non-Guarantor subsidiaries. In the event of a bankruptcy, liquidation or reorganisation of a non-Guarantor subsidiary, holders of that subsidiary's indebtedness and trade and other creditors of that subsidiary will have a claim to the assets of that subsidiary that is senior to the Company's interest in those assets as a shareholder, except to the extent that the Company is recognised as a creditor through intercompany claims or loans. Accordingly, the Notes are effectively subordinated to this debt. Moreover, the Issuer's ability to make payments under the Notes are effectively subordinated to the secured liabilities of the Guarantors.

***The Noteholders or the Trustee may face difficulties enforcing their rights under the Guarantee or the Notes.***

The Company's subsidiaries (including, the other Guarantors) are incorporated outside the United Kingdom. The enforceability of the Guarantee may be limited by the mandatory provisions of the laws of The Netherlands, the Russian Federation, the Republic of Armenia and/or the Republic of Cyprus (as applicable) relating to the exclusive jurisdiction of courts of such jurisdiction and the application of the laws of such

jurisdiction with respect to bankruptcy, winding up or liquidation of companies incorporated in such jurisdiction. See "*Enforceability of Judgments*".

***The claims of Noteholders or the Trustee may be limited in the event that the Issuer or the Guarantors are declared bankrupt.***

Dutch, Russian, Armenian and Cypriot bankruptcy laws often differ from bankruptcy laws of England and the U.S., and are subject to varying interpretations. It is difficult to predict how claims of the Noteholders or the Trustee against the Issuer or the Guarantors would be resolved in the event of bankruptcy. In the event of bankruptcy, the Issuer's or the Guarantors' obligations to the Noteholders or the Trustee could be subordinated to the following obligations:

- workplace injury obligations;
- severance pay and employment related obligations;
- secured creditors;
- tax and other payment obligations to the government;
- liabilities arising from the liquidation of the estate; and
- other creditors preferred by law.

In the event of the insolvency of the Issuer or the Guarantors, Dutch, Russian, Armenian and/or Cypriot bankruptcy laws may adversely affect the Issuer's or the Guarantors' ability to make payments to the Noteholders or the Trustee.

***Redemption prior to maturity.***

The Issuer may redeem all outstanding Notes in accordance with the Conditions in the event that the Issuer or one or more Guarantors has or will become obligated to pay any additional amounts as a result of certain changes in tax laws or their interpretation and such obligation cannot be avoided by the Issuer or the Guarantors taking reasonable measures available to them. On any such redemption, Noteholders will receive the principal amount of the Notes that they hold, together with accrued and unpaid interest (if any) to (but excluding) the date fixed for redemption. In addition, the Conditions provide that the Notes are redeemable at the Issuer's option in certain other circumstances and accordingly the Issuer may choose to redeem the Notes at times when prevailing interest rates may be relatively low. It may not be possible to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes and this may only be possible at a significantly lower rate than the interest rate on the Notes. See Condition 6 ("*Redemption and Purchase*").

***The Issuer may not be able to finance a relevant event offer required by the Conditions.***

Upon the occurrence of a Relevant Event, unless the Issuer has exercised its right to redeem all of the Notes as described in Condition 6.2 ("*Redemption and Purchase—Redemption for Tax Reasons*") and/or Condition 6.4 ("*Redemption and Purchase—Optional Redemption at Make Whole*"), each Noteholder has the right to require that the Issuer redeem all or any part (equal to US\$200,000 and any integral multiple of US\$1,000 in excess thereof up to and including US\$399,000 and provided that any unpurchased portion of any Note surrendered is in a principal amount of at least US\$200,000) of that Noteholder's Notes at 101% of its principal amount together with accrued and unpaid interest (if any) to (but excluding) the Relevant Event Put Settlement Date.

If any such Relevant Event were to occur, there can be no assurance that the Issuer would have sufficient funds available at the time to pay the price of the outstanding Notes or that restrictions in agreements governing other indebtedness would not restrict or prohibit such repurchases. The Relevant Event may cause the acceleration of other indebtedness that may be senior to the Notes or rank equally with the Notes. There can be no assurance that the Issuer would be able to obtain this financing.



***Modification, waivers and substitution.***

The Trust Deed and the Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, certain provisions of the Notes or the Trust Deed which is not materially prejudicial to the interests of the Noteholders or (ii) any modification of the Notes or of the Trust Deed which is of a formal, minor or technical nature or to correct a manifest error. The Conditions also provide for the substitution of another entity in place of the Issuer or any of the Guarantors without the consent of the Noteholders (subject to certain conditions as referred to therein). See Condition 12.3 ("*Substitution*").

***As the Global Certificate is held by or on behalf of Euroclear and Clearstream, investors will have to rely on their procedures for transfers, payments and communications with the Issuer and/or the Guarantors.***

The Notes will initially only be issued in global certificated form, and held through the clearing systems. Interests in the Global Certificate will trade in book-entry form only through the clearing systems, and notes in definitive registered form, or Definitive Note Certificates, will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of Notes. The common depositary, or its nominee, for the clearing systems will be the sole registered holder of the Global Certificate representing the Notes. Payments of principal, interest and other amounts owing on or in respect of the Global Certificate representing the Notes will be made to the Principal Paying Agent, who will make payments to the clearing systems. Thereafter, these payments will be credited to accounts of participants who hold book-entry interests in the Global Certificate representing the Notes and credited by such participants to indirect participants. After payment to the common depositary for the clearing systems, none of the Issuer, the Guarantors, the Joint Lead Managers, the Trustee or the Agents will have any responsibility or liability for the records relating to, or payment of interest, principal or other amounts to the owners of the book-entry interests. Accordingly, any party that owns a book-entry interest must rely on the procedures of the clearing systems, and any party that is not a participant in the clearing systems must rely on the procedures of the participant through which such interest is held, to receive any payments and exercise any other rights and obligations of a holder of Notes under the Conditions or the Trust Deed.

Unlike the Noteholders themselves, owners of book-entry interests will not have the direct right to act upon the Issuer's solicitations for consents, requests for waivers or other actions from holders of the Notes. Instead, any party that owns a book-entry interest will be permitted to act only to the extent it has received appropriate proxies to do so from the relevant clearing system. The procedures implemented for the granting of such proxies may not be sufficient to enable such party to vote on a timely basis.

Similarly, upon the occurrence of an Event of Default under the Trust Deed, unless Definitive Note Certificates are issued in respect of all book-entry interests, any party that owns a book-entry interest will be restricted to acting through Euroclear and Clearstream. The procedures to be implemented through Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Notes.

***There is no public market for the Notes.***

There is no existing market for the Notes, and there can be no assurance regarding the future development of a market for the Notes. Application has been made for the Notes to be admitted to the Official List and to trading on the Regulated Market of Euronext Dublin. However, an active trading market in the Notes may not develop or be maintained after listing. No assurance can be made as to the liquidity of any market that may develop for the Notes, the ability of Noteholders to sell the Notes or the price at which Noteholders may be able to sell the Notes. The liquidity of any market for the Notes will depend on the number of Noteholders, prevailing interest rates, the market for similar securities and other factors, including general economic conditions and the Issuer's and the Group's financial condition, performance and prospects, as well as recommendations of securities analysts. If an active trading market does not develop or cannot be maintained, this could have a material adverse effect on the liquidity and the trading price of the Notes. In addition, liquidity may be limited if the Issuer makes large allocations of the Notes to a limited number of investors. In addition, a material part of Notes has been allocated to the joint lead managers and their affiliates and that could affect the liquidity of the Notes.

***The Notes may be delisted in the future.***

Application has been made for the Notes to be admitted to the Official List and to trading on the Regulated Market of Euronext Dublin. The Notes may subsequently be delisted despite the best efforts of the Issuer to maintain such listing and, although no assurance is made as to the liquidity of the Notes as a result of listing, any delisting of the Notes may have a material effect on a Noteholder's ability to resell the Notes on the secondary market.

***The market price of the Notes may be volatile.***

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the operating results of the Group and those of the Group's competitors, adverse business developments, changes to the regulatory environment in which the Group operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes, as well as other factors.

***Financial turmoil in emerging markets could cause the price of the Notes to suffer.***

The market price of the Notes will be influenced by economic and market conditions in the countries of operation of the Issuer and the Guarantors and, to a varying degree, economic and market conditions in other emerging markets generally. Even if the economies of the countries in which the Group has its main operations remain relatively stable, financial turmoil in these countries could materially adversely affect the market price of the Notes. Financial or economic turmoil in emerging markets could materially adversely affect the market price of the Notes.

***Changes in law may adversely affect the rights of Noteholders.***

Changes in law after the date hereof may affect the rights of Noteholders as well as the market value of the Notes. The Conditions are based on English law in effect as of the date of issue of the Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes. Such changes in law may include changes in statutory, tax and regulatory regimes during the life of the Notes, which may have an adverse effect on an investment in the Notes.

***Minimum denomination.***

As the Notes have a denomination consisting of the minimum denomination plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of US\$200,000 that are not integral multiples of US\$200,000. In such case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum denomination may not receive a Definitive Note Certificate in respect of such holding (should Definitive Note Certificates be printed) and would need to purchase a principal amount of Notes such that its holding amounts to the minimum denomination.

***Credit rating.***

The Notes are expected to be rated "B+" by S&P and "B+(Exp)" by Fitch. The Company is rated B+ with Stable Outlook by S&P and B+(Exp) with Stable Outlook by Fitch. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes.

***Interest rate risks.***

Investment in the Notes, which are fixed rate, involves the risk that the subsequent changes in market interest rates may adversely affect the value of the Notes.

***The Notes are subject to exchange rate risk and exchange controls.***

The Issuer will pay principal and interest on the Notes in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the U.S. dollar. These include the risk that exchange rates may

significantly change (including changes due to devaluation of the U.S. dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the U.S. dollar would decrease: (i) the Investor Currency's equivalent yield on the Notes; (ii) the Investor's Currency equivalent value of the principal payable on the Notes; and (iii) the Investor's Currency equivalent market value of the Notes.

## USE OF PROCEEDS

The Issuer intends to use the net proceeds from the issuance of the Notes for debt repayment and other general corporate purposes.

The table below summarises the estimated uses of proceeds from the issuance of the Notes, based on the Group's estimates of certain assets and liabilities upon issuance of the Notes and fees and expenses to be incurred as if the issuance of the Notes had been completed on 30 April 2019. The actual amounts of such uses may differ as of the date of the issuance of the Notes or the date of the contemplated debt repayment and may vary from estimated amounts depending on several factors, including, among other things, differences from the Group's estimate of fees, expenses and other costs related to the issuance of the Notes, and any changes made to the sources of the contemplated debt repayment.

<b>Sources</b>	<b>Amount</b>	<b>Uses</b>	<b>Amount</b>
	<i>(US\$ thousands)</i>		<i>(US\$ thousands)</i>
Notes offered hereby.....	300,000	Debt repayment <sup>(1)</sup> .....	248,142
		Estimated fees and expenses.....	5,269
		General corporate purposes .....	46,589
<b>Total sources</b> .....	<b>300,000</b>	<b>Total uses</b> .....	<b>300,000</b>

<sup>(1)</sup> Includes all of the Group's loans outstanding as of the date of this Prospectus, other than the loan from related party. These include the VTB/Sberbank Syndicated Facility, the VTB Loan, as well as debt outstanding under the Group's loan agreements with Sberbank, Ameriabank, Ardshinbank and Maritime Bank (further details of which are set out in "Operating and Financial Review—Liquidity and Capital Resources—Indebtedness"). See also "Capitalisation" for information on the Group's total debt as of 31 December 2018 (i) on an actual basis and (ii) on an as adjusted basis giving effect to the issuance of US\$300 million in aggregate principal amount of Notes and the contemplated debt repayment.

None of the Issuer, each Guarantor or any other member of the Group will directly or indirectly use the proceeds of the issue of the Notes, or lend, contribute or otherwise make available all or part of such proceeds to any subsidiary, affiliate, joint venture partner or other person (i) to fund or facilitate directly or indirectly any activities of or business with any person that, at the time of such funding or facilitation, is the subject or the target of any sanctions or restrictive measures administered by the United States government, the United Nations, the European Union (or any of its member states), the United Kingdom or the respective governmental institutions and agencies of any of the foregoing including, without limitation, the OFAC, the United States Department of State, the United States Department of Commerce and Her Majesty's Treasury ("Sanctions"), which would result in the violation of Sanctions if such activity or business were conducted by a U.S. or EU person, (ii) to fund or facilitate directly or indirectly any activities of or business in or involving any country or territory that is the subject or the target of country-wide or territory-wide Sanctions, including, without limitation, Crimea, Cuba, Iran, North Korea and Syria or an activity specified in the United States Ukraine Freedom Support Act of 2014, as amended, supplemented or supplanted (the "UFSA"), the Sovereignty, Integrity, Democracy, and Economic Stability of Ukraine Act of 2014, as amended, supplemented or supplanted, or the CAATSA, as a basis for the imposition of sanctions or penalties on any person pursuant to the UFSA and/or CAATSA as a result of such person engaging in such activity, or (iii) in any other manner that will result in a violation by any person (including any person participating in the transaction, whether as a Joint Lead Manager, adviser, investor or otherwise) of Sanctions.

## CAPITALISATION

The following table sets forth the Group's combined capitalisation as of 31 December 2018 (i) on an actual basis and (ii) on an as adjusted basis giving effect to the issuance of US\$300 million in aggregate principal amount of Notes and the repayment of the loans discussed in Note 1 below. This table should be read in conjunction with "*Selected Consolidated Financial and Other Information*", "*Operating and Financial Review*" and the Financial Statements included elsewhere in this Prospectus.

	<b>As of 31 December 2018</b>	
	<b>Actual</b>	<b>As adjusted<sup>(1)</sup></b>
	<i>(US\$ thousands)</i>	
<b>Non-current loans and borrowings</b>		
Secured bank loans .....	161,227	—
Notes issued hereby .....	—	300,000
<b>Total non-current loans and borrowings</b> .....	<b>161,227</b>	<b>300,000</b>
<b>Current loans and borrowings</b>		
Current portion of secured bank loans .....	76,563	—
Secured bank loans .....	872	—
Loan from other related party .....	9,283	9,283
Interest accrued .....	5,710	2,120
<b>Total current loans and borrowings</b> .....	<b>92,428</b>	<b>11,403</b>
<b>Total debt</b> .....	<b>253,655</b>	<b>311,403</b>
<b>Equity</b>		
Share capital .....	941	941
Share premium .....	272,703	272,703
Translation reserve .....	(107,719)	(107,719)
Retained earnings .....	(10,212)	(10,212)
Non-controlling interests .....	—	—
<b>Total equity</b> .....	<b>155,713</b>	<b>155,713</b>
<b>Total capitalisation<sup>(2)</sup></b> .....	<b>409,368</b>	<b>467,116</b>

<sup>(1)</sup> Adjusted to give effect to the issue of the Notes. For the purposes of this table, the net proceeds from the issuance of the Notes have been applied to repay all of the Group's loans outstanding as of the date of this Prospectus (further details of which are set out in "*Operating and Financial Review—Liquidity and Capital Resources—Indebtedness*"), other than the loan from related party. These include the VTB/Sberbank Syndicated Facility, the VTB Loan, as well as debt outstanding under the Group's loan agreements with Sberbank, Ameriabank, Ardshinbank and Maritime Bank (further details of which are set out in "*Operating and Financial Review—Liquidity and Capital Resources—Indebtedness*").

<sup>(2)</sup> Calculated as the sum of total debt and total equity.

During February-March 2019, the Group made a drawdown in the amount of US\$10,010 thousand under the loan facility with VTB Bank PJSC.

Other than as described above, there have been no material changes to the capitalisation of the Group since 31 December 2018.

The Group's Net Debt to EBITDA as at 31 December 2018 on an as adjusted basis giving effect to the issuance of US\$300 million in aggregate principal amount of Notes and the repayment of the loans discussed in Note 1 above is 2.5.

## SELECTED CONSOLIDATED FINANCIAL AND OTHER INFORMATION

The selected consolidated financial information set forth below has been extracted from, and should be read in conjunction with, the financial information included elsewhere in this Prospectus. Certain operating information relating to the Group is also set forth below. EBITDA, EBITDA margin, Net Debt and Net Debt to EBITDA ratio are Non-IFRS measures and were calculated by the Company based on data derived from its financial information. See also "Presentation of Financial and Certain Other Information—Presentation of Non-IFRS Measures".

The following tables set out certain financial and operational information for the Group as at and for the years ended 31 December 2016, 2017 and 2018 and must be read in conjunction with "Operating and Financial Review" and the Financial Statements (including the notes thereto) included in this Prospectus and beginning on page F-1. For a description of the Financial Statements, see "Presentation of Financial and Certain Other Information—Presentation of Financial Information".

### Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Year ended 31 December		
	2016	2017	2018
	<i>(US\$ thousands, except per share amounts)</i>		
<b>Revenue</b> .....	<b>194,597</b>	<b>228,345</b>	<b>283,053</b>
Cost of sales .....	(140,423)	(137,262)	(155,881)
<b>Gross profit</b> .....	<b>54,174</b>	<b>91,083</b>	<b>127,172</b>
Distribution expenses .....	(2,710)	(2,948)	(3,831)
Administrative expenses .....	(23,218)	(24,930)	(36,024)
Net gain / (loss) from commodity derivatives .....	(35,366)	(4,183)	3,296
Net (impairment loss) / reversal of impairment loss .....	3,114	(6,218)	(28,551)
Other income .....	2,804	1,233	—
Other expenses .....	(13,024)	(11,337)	(12,859)
<b>Result from operating activities</b> .....	<b>(14,226)</b>	<b>42,700</b>	<b>49,203</b>
Finance income .....	980	383	96
Finance costs .....	(35,935)	(27,884)	(23,684)
<b>Profit / (loss) before income tax</b> .....	<b>(49,181)</b>	<b>15,199</b>	<b>25,615</b>
Income tax expense .....	(13,121)	(13,548)	(20,606)
<b>Profit / (loss) for the year</b> .....	<b>(62,302)</b>	<b>1,651</b>	<b>5,009</b>
<b>Other comprehensive (loss) / income</b>			
<i>Items that are or may be reclassified to profit or loss</i>			
Foreign currency translation differences for foreign operations .....	12,252	4,376	(19,324)
<b>Other comprehensive (loss) / income</b> .....	<b>12,252</b>	<b>4,376</b>	<b>(19,324)</b>
<b>Total comprehensive (loss) / income</b> .....	<b>(50,050)</b>	<b>6,027</b>	<b>(14,315)</b>
<b>Profit / (loss) attributable to:</b>			
Shareholders of the Group .....	(61,628)	1,777	18,920
Non-controlling interests .....	(674)	(126)	(13,911)
	<b>(62,302)</b>	<b>1,651</b>	<b>5,009</b>
<b>Total comprehensive (loss) / income attributable to:</b>			
Shareholders of the Group .....	(49,367)	6,156	(446)
Non-controlling interests .....	(683)	(129)	(13,869)
<b>Total comprehensive (loss) / income</b> .....	<b>(50,050)</b>	<b>6,027</b>	<b>(14,315)</b>

	Year ended 31 December		
	2016	2017	2018
	(US\$ thousands)		
REPORTABLE SEGMENTS			
REVENUE DATA			
Agarak (Armenia) segment			
External revenue .....	22,546	31,294	44,137
Inter-segment revenue.....	—	—	—
Total segment revenue .....	22,546	31,294	44,137
GPM Gold (Armenia) segment			
External revenue .....	131,714	146,786	161,950
Inter-segment revenue.....	—	—	—
Total segment revenue .....	131,714	146,786	161,950
Sakha (Russia) segment			
External revenue .....	40,337	40,203	48,968
Inter-segment revenue.....	—	—	—
Total segment revenue .....	40,337	40,203	48,968
Verkhne-Menkeche (Russia) segment <sup>(1)</sup>			
External revenue .....	—	10,062	27,998
Inter-segment revenue.....	—	224	344
Total segment revenue .....	—	10,286	28,342

<sup>(1)</sup> The Group has recognised Verkhne-Menkeche as a separate segment since 1 January 2018; in accordance with IFRS requirements, comparative information for the year ended 31 December 2017 is also set out above. Accordingly, there is no segment information for the Verkhne-Menkeche segment for the year ended 31 December 2016.

## Consolidated Statement of Financial Position

	31 December		
	2016	2017	2018
	(US\$ thousands)		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment .....	457,848	459,353	447,455
Financial assets at fair value through profit or loss .....	646	—	—
Other non-current assets .....	191	203	175
Deferred tax assets .....	3,502	4,166	1,439
<b>Total non-current assets .....</b>	<b>462,187</b>	<b>463,722</b>	<b>449,069</b>
<b>Current assets</b>			
Inventories .....	36,102	48,581	55,446
Bank deposits .....	6,330	6,330	—
Financial assets at fair value through profit or loss .....	1,772	—	—
Income tax receivable .....	1,376	2,829	2,071
Trade and other receivables .....	21,199	15,726	14,163
Prepayments for current assets .....	5,579	5,112	6,868
Cash and cash equivalents .....	4,654	4,502	8,599
Restricted cash .....	7,176	—	—
Assets held for sale .....	—	—	1
<b>Total current assets .....</b>	<b>84,188</b>	<b>83,080</b>	<b>87,148</b>
<b>Total assets .....</b>	<b>546,375</b>	<b>546,802</b>	<b>536,217</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital .....	941	941	941
Share premium .....	272,703	272,703	272,703
Translation reserve .....	(92,732)	(88,353)	(107,719)
Retained earnings .....	(30,909)	(29,132)	(10,212)
<b>Total equity, fully attributable to shareholders of the Group .....</b>	<b>150,003</b>	<b>156,159</b>	<b>155,713</b>
Non-controlling interests .....	13,998	13,869	—
<b>Total equity .....</b>	<b>164,001</b>	<b>170,028</b>	<b>155,713</b>
<b>Non-current liabilities</b>			
Loans and borrowings .....	235,365	209,223	161,227
Financial liabilities at fair value through profit or loss .....	4,943	6,337	3,044
Provisions .....	11,781	11,335	16,295
Trade and other payables .....	—	9,166	—
Deferred tax liabilities .....	53,950	49,896	42,725
<b>Total non-current liabilities .....</b>	<b>306,039</b>	<b>285,957</b>	<b>223,291</b>
<b>Current liabilities</b>			
Loans and borrowings .....	30,519	37,273	92,428
Financial liabilities at fair value through profit or loss .....	—	371	367
Trade and other payables .....	42,525	48,619	62,186
Income tax payable .....	3,291	4,554	2,232
<b>Total current liabilities .....</b>	<b>76,335</b>	<b>90,817</b>	<b>157,213</b>
<b>Total liabilities .....</b>	<b>382,374</b>	<b>376,774</b>	<b>380,504</b>
<b>Total equity and liabilities .....</b>	<b>546,375</b>	<b>546,802</b>	<b>536,217</b>



## Consolidated Statement of Cash Flows

	Year ended 31 December		
	2016	2017	2018
	(US\$ thousands)		
<b>OPERATING ACTIVITIES</b>			
Profit / (loss) for the year.....	(62,302)	1,651	5,009
<i>Adjustments for:</i>			
Depreciation.....	37,780	39,285	42,900
Impairment loss / (reversal of impairment loss) of property, plant and equipment .....	(3,114)	6,218	28,551
Loss on disposal of property, plant and equipment and other assets .....	2,410	574	318
Provision for obsolete inventory .....	—	196	194
Additional royalty and other than on income tax payments imposed by the tax authorities of previous periods.....	—	—	959
Income from waived payables .....	(2,511)	—	—
Net (gain)/loss from commodity derivatives.....	35,366	4,182	(3,296)
Net finance costs.....	34,955	27,501	23,588
Income tax expense.....	13,121	13,548	20,606
<b>Operating profit before changes in working capital .....</b>	<b>55,705</b>	<b>93,155</b>	<b>118,829</b>
Change in inventories .....	3,664	(13,093)	(10,793)
Change in trade and other receivables .....	4,043	4,433	(2,718)
Change in prepayments for current assets.....	(2,046)	515	(2,166)
Change in trade and other payables .....	(11,286)	5,517	(16,560)
<b>Cash flows from operations before income taxes and interest paid.....</b>	<b>50,080</b>	<b>90,527</b>	<b>86,592</b>
Income taxes paid .....	(6,661)	(18,311)	(27,102)
Interest paid .....	(29,815)	(22,351)	(18,885)
Proceeds from realised commodity derivatives.....	24,816	—	—
<b>Cash flows from operating activities .....</b>	<b>38,420</b>	<b>49,865</b>	<b>40,605</b>
<b>INVESTING ACTIVITIES</b>			
Deposits repaid, including interest.....	862	925	—
Acquisition of property, plant and equipment and other assets.....	(20,710)	(35,900)	(41,913)
Released restricted cash .....	12,590	7,176	—
<b>Cash flows used in investing activities.....</b>	<b>(7,258)</b>	<b>(27,799)</b>	<b>(41,913)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from borrowings.....	275,274	23,159	58,474
Repayment of borrowings.....	(300,779)	(44,788)	(53,206)
Payment of transaction costs related to the Facility agreement .....	(2,327)	(529)	—
<b>Cash flows from / (used in) financing activities .....</b>	<b>(27,832)</b>	<b>(22,158)</b>	<b>5,268</b>
<b>Net increase / (decrease) in cash and cash equivalents .....</b>	<b>3,330</b>	<b>(92)</b>	<b>3,960</b>
Cash and cash equivalents at 1 January .....	1,213	4,654	4,502
Effect of exchange rate fluctuations on cash held.....	111	(60)	137
<b>Cash and cash equivalents at 31 December .....</b>	<b>4,654</b>	<b>4,502</b>	<b>8,599</b>

## Selected Non-IFRS financial information and operating information

### Cash costs

The Group's total cash, costs comprise all direct cash expenditures required to secure the sales volumes and sales revenues and include mining, processing, general and administration, applicable mineral extraction tax, reimbursable services, distribution, toll refining and retrenchment costs. The Group's all-in sustaining costs comprise total cash costs plus sustaining costs.

Cash costs amounts in this Prospectus are not presented on consolidated IFRS basis or any other comprehensive basis of accounting, and prospective investors are therefore cautioned not to place undue reliance on cash costs or related amounts.

The following table presents the Group's total cash costs and all-in sustaining costs for the years ended 31 December 2016, 2017 and 2018, expressed in U.S. dollars per ounce of gold.

	Year ended 31 December		
	2016	2017	2018
	(US\$ per gold oz)		
Total cash costs (TCC) .....	653	567	561
All-in sustaining costs (AISC) .....	846	773	777 <sup>(1)</sup>

<sup>(1)</sup> Excludes one-off bonus paid to management in 2018 for meeting the Group's growth development targets for the preceding 3 years.

### **EBITDA and EBITDA margin**

The Group discloses EBITDA and EBITDA margin because it believes that this figure represents additional information that may be useful for users of financial statements. See also "*Presentation of Financial and Certain Other Information—Presentation of Non-IFRS Measures*". The following table sets forth the Group's EBITDA and EBITDA margin for the years ended 31 December 2016, 2017 and 2018.

	Year ended 31 December		
	2016	2017	2018
	(in thousands of US\$, except percentages)		
EBITDA <sup>(1)</sup> .....	84,192	93,117	119,502
EBITDA margin <sup>(2)</sup> .....	43%	41%	42%

<sup>(1)</sup> The Group defines EBITDA as profit/(loss) for the period *plus* income tax expense, net finance cost, depreciation, net impairment of assets / reversal of impairment of assets, net gain / loss from commodity derivatives, cash received from commodity derivatives, loss on disposal of property, plant and equipment and other assets, *minus* income from waved payable, *plus* additional royalties, fines and penalties imposed by the Tax Authority in Armenia, *minus* reversal of additional royalties, fines and penalties imposed by the Tax Authorities in Armenia and *plus* other items.

<sup>(2)</sup> EBITDA margin is calculated by dividing EBITDA by revenue, expressed as a percentage.

See "*Presentation of Financial and Certain Other Information—Presentation of Non-IFRS Measures*" for reconciliation of the Group's EBITDA to profit before income tax.

The following table sets forth EBITDA for the Group's operating segments for the years ended 31 December 2016, 2017 and 2018.

	Year ended 31 December		
	2016	2017	2018
	(in thousands of US\$)		
Agarak (Armenia) .....	(1,266)	7,770	14,359
GPM Gold (Armenia) .....	50,094	69,686	71,530
Sakha (Russia) .....	16,607	15,925	28,679
Verkhne-Menkeche (Russia) <sup>(1)</sup> .....	—	6,345	19,677

<sup>(1)</sup> The Group has recognised Verkhne-Menkeche as a separate segment since 1 January 2018; in accordance with IFRS requirements, comparative information for the year ended 31 December 2017 is also set out above. Accordingly, there is no segment information for the Verkhne-Menkeche segment for the year ended 31 December 2016.

### **Net Debt and Net Debt to EBITDA Ratio**

The Group discloses Net Debt and Net Debt to EBITDA ratio because it believes that this figure represents additional information that may be useful for users of financial statements. See also "*Presentation of Financial and Certain Other Information—Presentation of Non-IFRS Measures*". The following table sets forth the Group's Net Debt and Net Debt to EBITDA ratio for the years ended 31 December 2016, 2017 and 2018.

	As at 31 December		
	2016	2017	2018
	(in thousands of US\$, except ratios)		
Net Debt .....	261,973	240,634	241,283
Net Debt to EBITDA .....	3.1	2.6	2.0

### Operating and sales data

The following table presents the calculation of the Group's production volume of gold, copper, antimony and molybdenum, as well as gold equivalent production for the years ended 31 December 2016, 2017 and 2018.

	Year ended 31 December		
	2016	2017	2018
<b>Production volume</b>			
Gold (koz).....	115	132	149
Copper (tonnes) .....	6,573	6,220	7,987
Antimony (tonnes) .....	6,620	6,118	7,226
Molybdenum (tonnes).....	199	201	297
<b>Gold equivalent production</b>			
Gold (koz).....	115	132	149
Copper (koz) .....	25	30	41
Antimony (koz).....	34	39	47
Molybdenum (koz) .....	2	3	6
<b>Total gold equivalent production (koz) .....</b>	<b>176</b>	<b>205</b>	<b>243</b>

(1) The gold equivalent production for a particular metal for the period indicated is calculated as the price of that metal for the period indicated divided by the price of gold for the period indicated, multiplied by the production volume of that metal in the period indicated.

The following table presents the Group's sales volume for gold, copper, antimony and molybdenum, as well as gold equivalent sales volume for the years ended 31 December 2016, 2017 and 2018.

	Year ended 31 December		
	2016	2017	2018
<b>Sales volume</b>			
Gold (koz).....	116	132	144
Copper (tonnes) .....	6,620	5,943	8,055
Antimony (tonnes) .....	7,403	6,817	6,395
Molybdenum (tonnes).....	187	204	305
<b>Gold equivalent sales volume</b>			
Gold (koz).....	116	132	144
Copper (koz) .....	26	29	41
Antimony (koz).....	38	44	41
Molybdenum (koz) .....	2	3	6
<b>Total gold equivalent sales volume (koz).....</b>	<b>182</b>	<b>208</b>	<b>233</b>

(1) The gold equivalent sales volume for a particular metal for the period indicated is calculated as the price of that metal for the period indicated divided by the price of gold for the period indicated, multiplied by the sales volume of that metal in the period indicated.

The following table presents the average commodity prices for gold, copper, antimony and molybdenum for the years ended 31 December 2016, 2017 and 2018.

	Year ended 31 December		
	2016	2017	2018
Gold price (US\$/oz).....	1,249	1,259	1,269
Copper price (US\$/tonne) .....	4,867	6,173	6,527
Antimony price (US\$/tonne).....	6,406	8,380	8,246
Molybdenum price (US\$/tonne) .....	14,042	15,558	22,902

(1) Bloomberg

### Average Realised Prices

The following table presents the average realised prices for gold, copper, antimony and molybdenum for the years ended 31 December 2016, 2017 and 2018. Because the Group's revenue reflects the applicable deductions for treatment charges and refining charges, the Group's average realised prices differ from the

applicable spot prices for the relevant metals. See also "*Presentation of Financial and Certain Other Information—Presentation of Non-IFRS Measures—Average Realised Prices*".

	Year ended 31 December		
	2016	2017	2018
Gold (US\$/oz).....	1,264	1,221	1,238
Copper (US\$/tonne).....	3,088	4,763	4,667
Antimony (US\$/tonne) .....	3,345	3,943	5,246
Molybdenum (US\$/tonne) .....	10,834	14,439	21,241

## OPERATING AND FINANCIAL REVIEW

*The following overview of the Group's financial condition and results of operations as at and for the years ended 31 December 2016, 2017 and 2018 should be read in conjunction with the Financial Statements and related notes included elsewhere in this Prospectus. Investors should not rely solely on the information contained in this section.*

*The following discussion and analysis of financial condition and results of operations includes forward-looking statements that reflect the current views of the Group's management and involve inherent risks and uncertainties. The actual results of the Group's operations could differ materially from those contained in such forward-looking statements due to the factors discussed below and elsewhere in this Prospectus, particularly in the section entitled "Risk Factors".*

*The selected consolidated financial information in this section has been extracted, or recalculated based on the information derived, from the Financial Statements, in each case without material adjustment, unless otherwise stated, as well as from internal data concerning the Group contained in the Company's management financial reports. The Financial Statements have been prepared in accordance with IFRS.*

### Overview

The Group was founded in 2001 and is an international, diversified metals and mining company specialising in the mining and processing of gold, copper, antimony, molybdenum and silver. The Group owns a portfolio of high quality assets located in Armenia and Russia, comprising of four producing mines (Zod, producing gold and silver, and Agarak, producing copper and molybdenum, in Armenia, and Sentachan and Sarylakh-Surma, both producing antimony and gold, in Russia) and three associated processing facilities (Ararat and Agarak in Armenia and Sarylakh in Russia). The Group also owns one polymetallic deposit, containing silver, lead and zinc, located in Russia (Verkhne-Menkeche) where it expects to commence full cycle operations in 2021 following completion of the construction of a new concentrating mill which is currently underway.

As at 1 January 2019, the Group's proven and probable reserves consisted of 3,349koz of gold, 457kt of copper, 118,334t of antimony, 22,800t of molybdenum, 55,524koz of silver, 191kt of lead and 230kt of zinc, in each case, as classified in accordance with the JORC Code. As at 1 January 2019, the Group's indicated and inferred resources consisted of 5,963koz of gold, 1,617kt of copper, 147,561t of antimony, 89,400t of molybdenum, 70,056koz of silver, 243kt of lead and 333kt of zinc, in each case, as classified in accordance with the JORC Code. On a gold equivalent basis, this amounted to approximately 8.4Moz gold equivalent proven and probable reserves and approximately 19Moz gold equivalent indicated and inferred resources.

In the year ended 31 December 2018, the Group produced approximately 149koz of gold, 7,987t of copper, 7,226t of antimony and 297t of molybdenum. On a gold equivalent basis, this amounted to approximately 243koz in the year ended 31 December 2018, having grown at a CAGR of 17.5% since 2016. The growth in the Group's production levels has been primarily driven by organic development of the Group's assets. The Group's production levels have also increased as a result of the introduction in 2014 of the Albion Process Technology for gold enrichment at its Armenian Ararat processing facility. According to Glencore, the Group was the first company in the world to apply the Albion Process Technology for the oxidation of sulphide concentrate produced from mined ore at its Ararat processing facility in 2014. In the three months ended 31 March 2019, the Group produced approximately 46.7koz of gold, 1,933t of copper, 1,932t of antimony and 103t of molybdenum. On a gold equivalent basis, this amounted to approximately 69.2koz in the same period, representing a 23.2% increase in production from 56koz produced in the three months ended 31 March 2018.

The Group is the largest gold producer in Armenia according to AME, with 2,813koz of gold reserves and 5,325koz of gold resources, as classified in accordance with the JORC Code. According to AME, the resource base of the Group's Zod mine located in Armenia makes it a 'world class deposit' (i.e. a deposit containing at least 100t (3.2Moz) of gold resources in accordance with the terminology generally used in the mining industry).

In addition, according to AME, in 2018, the Group was the largest primary antimony producer in Russia and in the CIS and accounted for approximately 5% of total global production. The Group also has significant reserves of 118,334t of antimony, which, according to AME, accounts for approximately 48% of antimony reserves in Russia, and approximately 8% of antimony reserves globally. Additionally, according to AME, the Group produces one of the highest grade antimony concentrates in the world, averaging 60% contained

antimony. Having one of the few sizeable antimony deposits in the world, the Group is strategically located to service the Chinese market, which, according to AME, has a significant interest in purchasing high grade antimony concentrates to compensate for reduced domestic production.

The Group enjoys a cash cost position (total cash cost of US\$561/oz and all-in sustaining cost of US\$777/oz, as of 31 December 2018) which is lower than many of comparable mining companies based on a review of their latest publicly available financial statements and has historically enabled it to stay resilient to market downturns. In addition, the Group's cash cost position has enabled the Group to achieve higher margins when the commodity prices are higher. In the years ended 31 December 2018, 2017 and 2016, the average LBMA price of gold was US\$1,269/oz, US\$1,257/oz and US\$1,248/oz, respectively. The Group's cash cost position is supported by the Group's high gold grade and long life of mine. Gold at GPM Gold, the Group's primary gold producing asset which operates the Zod mine, is graded at 3.4 g/t, with the average grade of all of the Group's three gold producing assets being 4.6 g/t gold equivalent, based on reserves (1.5 g/t gold equivalent for the Group, if diluted by its non-gold base metals bearing deposits). The grade at the Zod mine is significantly higher than the average gold grade of comparable mining companies of 1.9 g/t, based on the latest publicly available disclosure of such companies. In addition, the Group enjoys a long life of mine (18 years at GPM Gold, 31 years at Agarak, 10 years at Sarylakh-Surma, 24 years at Sentachan and 16 years at Verkhne-Menkeche, based on the Group's reserves, and 31 years at GPM Gold, over 100 years at Agarak, 14 years at Sarylakh-Surma, 24 years at Sentachan and 20 years at Verkhne-Menkeche, based on the Group's resources).

### Significant Factors Affecting Results of Operations and Financial Condition

The Group believes that the following factors have significantly affected its results of operations and/or financial condition during the periods under review, and/or may continue to affect its results of operations and/or financial condition in the future.

#### Production and Sales Volumes

The Group's long-term operating and financial results can be influenced by changes in its actual production and sales volumes as well as its production and sales plans. The Group's production and sales plans are primarily structured to optimise the mining of ore reserves deposits, which limits its ability to change its level of output and its cost structure in the event of changes in the business environment. For instance, in the event of a sudden fall in metal prices, the Group may not be able to adjust its cost base promptly, given that geological factors (such as ore grade), mine plans, a need for continuity of the production process and limitations on the Group's ability to reduce its headcount under applicable labour laws may limit the Group's ability to cost-effectively reduce its production level in the short term.

The following table sets out the Group's production volumes for gold, copper, antimony and molybdenum for the years ended 31 December 2016, 2017 and 2018.

	For the year ended 31 December		
	2016	2017	2018
<b>Gold (oz)</b>			
GPM Gold .....	100,024	115,890	129,512
Sarylakh-Surma/Zvezda <sup>(1)</sup> .....	14,746	16,057	19,770
<b>Total</b> .....	<b>114,769</b>	<b>131,947</b>	<b>149,282</b>
<b>Copper (t)</b>			
Agarak .....	<b>6,573</b>	<b>6,220</b>	<b>7,987</b>
<b>Antimony (t)</b>			
Sarylakh-Surma/Zvezda .....	<b>6,620</b>	<b>6,118</b>	<b>7,226</b>
<b>Molybdenum (t)</b>			
Agarak .....	<b>199</b>	<b>201</b>	<b>297</b>

<sup>(1)</sup> Production volumes include volumes of gold in gold-bearing antimony concentrate and gravitational alluvial gold.

The following table sets out the Group's sales volumes for gold, copper, antimony and molybdenum for the years ended 31 December 2016, 2017 and 2018.

For the year ended 31 December			
	2016	2017	2018
<b>Gold (oz)</b>			
GPM Gold .....	100,490	115,298	127,994
Sarylakh-Surma/Zvezda <sup>(1)</sup> .....	14,991	15,094	14,701
<b>Total</b> .....	<b>115,481</b>	<b>130,392</b>	<b>142,695</b>
<b>Copper (t)</b>			
Agarak .....	<b>6,620</b>	<b>5,943</b>	<b>8,055</b>
<b>Antimony (t)</b>			
Sarylakh-Surma/Zvezda .....	<b>7,403</b>	<b>6,817</b>	<b>6,395</b>
<b>Molybdenum (t)</b>			
Agarak .....	<b>187</b>	<b>204</b>	<b>305</b>

<sup>(1)</sup> Sales volumes include volumes of gold in gold-bearing antimony concentrate and gravitational alluvial gold.

### Metals Prices

The Group's financial performance is heavily dependent on the market prices of gold and antimony, and, to a lesser extent, copper, molybdenum, each of which are affected by factors beyond the Group's control. The prices at which such metals are traded in the market have a material impact on the Group's results of operations and are, in turn, significantly affected by changes in global economic and political conditions and related industry cycles. Prices of commodities such as gold, antimony, copper and molybdenum are volatile and cyclical and can vary significantly. See also *"Risk Factors—The Group's results of operations depend largely on the prices of gold, copper and antimony and, to lesser extent, molybdenum and silver which may be subject to significant volatility and are difficult to predict"*.

Prices are predominantly determined by industry demand, supply and stocks, with no single producer of gold, antimony, copper or molybdenum consistently able to determine the price of these products. Additionally, the prices realised by particular producers on sales of their products can be affected by contractual arrangements, production levels, product quality and hedging strategies. See *"Industry"* for information on supply, demand and competition in the gold, copper, antimony and molybdenum markets and the pricing outlook of AME for those markets.

For information on the principal terms of the Group's contracts that impact the prices realised by the Group, see *"—Pricing Mechanics under the Group's sales contracts"*. Price variations and market cycles have historically significantly influenced the financial results of the Group and are expected to continue to do so.

The following table sets out the Group's average realised prices for gold, antimony, copper and molybdenum for the years ended 31 December 2016, 2017 and 2018.

For the year ended 31 December			
	2016	2017	2018
Gold (US\$/oz) .....	1,264	1,221	1,238
Copper (US\$/t) .....	3,088	4,763	4,667
Antimony (US\$/t) .....	3,345	3,943	5,246
Molybdenum (US\$/t) .....	10,834	14,439	21,241

Because the Group's revenue reflects the applicable deductions for treatment charges and refining charges, the Group's average realised prices differ from the applicable spot prices for the relevant metals.

Factors affecting the prices the metals market as a whole include (i) global and regional economic and political conditions, (ii) global and regional supply and demand, and expectations of future supply and demand, (iii) speculative trading activities, (iv) changes in the supply of metals from production, disinvestment, scrap and hedging, (v) military conflicts, acts of terrorism and natural disasters, (vi) local and foreign government regulations and regulatory actions, including export quotas, (vii) the overall level of forward sales by other producers of the same metals, (viii) the overall level and cost of production of other producers of the same metals, (ix) currency exchange rates, particularly movements in the value of the U.S. dollar (the currency in which the gold, silver, molybdenum and copper prices trade internationally) against other currencies and (x) actual or expected inflation and interest rates. Specific factors affecting the prices of each of gold, copper, antimony and molybdenum are discussed further below:

- *Gold.* Gold is a commodity traded on the LBMA, the Tokyo Commodity Exchange, the COMEX and the Zurich Gold Pool. The Group's gold is sold at prices based on those quoted on the full LBMA p.m. spot fixing price in U.S. dollars. The price of gold is influenced significantly by a number of factors, including (i) actual, expected or rumoured purchase or release of built-up reserves of gold by central banks or other large holders or dealers, as well as purchases under hedging contracts, (ii) changes in the use of gold in industrial applications or as an investment, as well as fluctuations in the demand for jewellery, (iii) economic growth and political conditions in China and India, which are the largest consumers of gold in the world, as well as other major developing economies and (iv) changes in the use of gold in industrial applications and as an investment.

The gold market is volatile, although among commodities gold carries a special function because it is used by investors as a "safe haven" investment, especially during times of economic uncertainty and fears of currency instability and/or inflation. Historically, the gold prices and the U.S. dollars have had an inverse correlation. When the U.S. dollar is weak, gold prices are typically higher. However, the strong growth in investment demand for gold in subsequent years has resulted in the relationship with the U.S. dollars breaking down at times.

During the three years ended 31 December 2018, the LBMA daily settlement prices fluctuated between US\$1,073 and US\$1,364 per ounce of gold. The LBMA spot gold price closed at US\$1,282 per ounce on 30 April 2019. See also "*Industry*" for a description of the gold price dynamics.

- *Antimony.* Antimony is not an exchange-traded commodity and is generally traded in over-the-counter markets. Nonetheless, antimony quotations are published by several information agencies, including AntimonyNet, Metal Bulletin, Metal Pages and Asian Metal. The Group's antimony is sold at prices based on those quoted on Metal Bulletin and AntimonyNet and vary by customer. The antimony market is a specialist market which is significantly smaller and less liquid than the major metal markets, such as gold or copper, and accordingly it is characterised by more significant fluctuations in prices and transaction volumes. The price of antimony is influenced significantly by numerous factors, including: (i) trends in industrial production and in power supply (such as the development of molten-salt high-capacity batteries which employ antimony as the positive electrode) and conditions in the mechanical rubber and polymeric industries (where antimony is mostly used as a flame retardant coating), all of which correlate with demand for antimony, (ii) changes in Chinese legislation in relation to the antimony industry as well as the productivity of Chinese antimony companies due to the fact that China is the largest producer of antimony metal in the world and (iii) the availability and cost of substitute materials including chromium, tin, zinc and titanium compounds in the paint industry and cadmium, sulfur, copper, and calcium in metallurgy.

Antimony is mainly used as a flame retardant, and is also used in plastics or as a coating for materials such as synthetic fabrics, building materials and electronic equipment coverings. Antimony also forms useful alloys with lead that is used in lead-acid batteries, and is also the major catalyst in the production of polyethylene terephthalate (PET) plastics used to manufacture beverage bottles.

During the three years ended 31 December 2018, the monthly low quotations for antimony metal MMTA Standard Grade No. 2 as published by Metal Bulletin, which are used in the Group's contracts for sale of antimony concentrate, ranged from US\$5,050 to US\$8,775 per tonne. Antimony metal MMTA Standard Grade No. 2 closed at US\$7,000 per tonne (low quotation) on 30 April 2019. See also "*Industry*" for a description of the antimony metal price dynamics.

- *Copper.* Copper is a commodity traded on the LME, the COMEX and the SHFE. The Group's copper is sold at prices based on those quoted on the LME (Copper Grade A). The price of copper as reported on this exchange is influenced significantly by numerous factors, including (i) trends in industrial production and conditions in the housing and automotive industries, and particularly trends in the production of electric cars, all of which correlate with demand for copper, (ii) economic growth and political conditions in China, which is the largest consumer of refined copper in the world, as well as other major developing economies, (iii) speculative investment positions in copper and copper futures, (iv) the availability and cost of substitute materials and (v) inventory levels maintained by producers, governments and others and actions of participants in the copper market.



During the three years ended 31 December 2018, LME monthly average settlement prices ranged from US\$4,463 to US\$7,080 per tonne of copper. The LME spot copper price closed at US\$6,442 per tonne on 30 April 2019. See also "*Industry*" for a description of the copper price dynamics.

- *Molybdenum.* Molybdenum is a commodity that is not directly traded on international metal exchanges, however molybdenum futures are traded on the LME, and in addition molybdenum quotations are published by Platt's Metals Week. The Group's molybdenum is sold at prices based on Platt's Metals Week. Molybdenum prices are influenced by numerous factors, including (i) rates of global economic growth, especially in the spheres of construction and infrastructure which require significant amounts of hardened and non-corrosive steel, which are properties afforded by molybdenum, (ii) the volume of molybdenum produced as a by-product of copper production and (iii) inventory levels maintained by producers, consumers and others and actions of participants in the molybdenum market.

Molybdenum demand depends heavily on the global steel industry, which uses the metal as a hardening and corrosion inhibiting agent. Approximately 80% of global molybdenum production is used in this application. The remainder is used in specialty chemical applications such as catalysts, water treatment agents and lubricants. Approximately 65% of global molybdenum production is a by-product of copper mining, which is relatively insensitive to molybdenum prices.

During the three years ended 31 December 2018, the average monthly Platt's Metals Week dealer molybdenum oxide low prices fluctuated from US\$5.2 per pound to US\$12.7 per pound. The Platt's Metals Week dealer daily low molybdenum oxide price closed at US\$12.15 per pound on 30 April 2019. See also "*Industry*" for a description of the molybdenum price dynamics.

#### ***Pricing Mechanics under the Group's sales contracts***

The principal products sold by the Group are gold doré bars from GPM Gold, copper concentrate and molybdenum concentrate from Agarak, polymetallic ore (containing silver, lead and zinc) from Verkhne-Menkeche, and gold-bearing antimony concentrate and gravitational alluvial gold from Sarylakh-Surma/Zvezda.

The prices that the Group receives for gold, antimony, copper, silver and molybdenum, as well as lead and zinc, are determined by the amount of the relevant metal or metals contained in its products and the market prices for the relevant metal or metals at a specified date or over a specified quotation period, net of certain deductions. As is customary in the industry, the Group only receives payment for a certain percentage of the metals contained in its products, which varies from product to product according to the relative complexity associated with extracting the payable metal content.

Pricing mechanics applicable to various products sold by the Group are summarised below:

- *Gold.* The Group sells all of its gold doré bars from GPM Gold to VTB Trading and is credited for 100% of the gold and silver content of the doré bars at the LBMA a.m. gold price for the day prior to the relevant delivery date, less a discount of 0.09% covering the refining and transportation charges. Within three days from the date of delivery VTB Trading pays to the Group 95% of the amount, specified in the proforma invoice. Final payment is made within thirteen business days from the delivery date and is based on the final assay results.

The Group's gravitational alluvial gold is processed into chemically clean gold by JSC Krastsvetmet based in Krasnoyarsk, Russia, over a 14-day cycle. Such chemically clean gold is then transported to Sberbank, which pays the price to the Group upon acceptance of the gold based on the following formula: morning quotation for the gold metal Gold-LBMA-A.M. of the London Bullion Market at the date of dispatch from the Krastsvetmet refining plant, multiplied by the US\$/RUB exchange rate set by the CBR for the date following the date of dispatch from the Krastsvetmet refining plant, divided by 31.1035 (to factor in the troy ounce/g conversion ratio), multiplied by (1-0.15%), where 0.15% is Sberbank's gold handling fee.

- *Copper and molybdenum.* The Group currently sells copper concentrate and molybdenum concentrate from Agarak to Industrial Minerals S.A. and is credited for 99.0% of the copper content for the copper concentrate (calculated on a dry metric tonne basis) and of the molybdenum content

for the molybdenum concentrate. Under the Group's contracts with Industrial Minerals S.A., copper prices are currently based on LME Copper Grade A prices as published on Metal Bulletin, molybdenum prices are currently based on Metals Week low quotations for molybdenum dealer oxide published on Platt's Metals Week, respectively, in each case averaged over the applicable quotation period. A provisional payment of 80% of the amount specified in the proforma invoice is made by Industrial Minerals S.A. to the Group at the time of delivery. Currently, sales of copper concentrate from Agarak are made on an M or M+3 basis (as explained below), sales of molybdenum concentrate from Agarak are made on an M+1 or M+2 basis.

The quotation periods are selected by Industrial Minerals S.A. and historically have been month of delivery (referred to as "M"), one month after delivery (referred to as "M+1"), two months after delivery (referred to as "M+2") or three months after delivery (referred to as "M+3"). After the calculation of the average price of the applicable metal during the applicable quotation period, the final price is calculated and the final invoice is issued. Any balance owed is paid by the owing party (which may be the Group, for example if the average price determined over the applicable quotation period is less than the price used to calculate the provisional payment).

- *Antimony.* The Group sells most of its gold-bearing antimony concentrate directly to large Chinese metal producers, such as Guangxi Youngsun Chemicals Co Ltd, Forea Industries Co., Ltd and China Minmetals Non-Ferrous Metals Co Ltd, with most concentrate delivered to their smelting plants located in China and in Vietnam. In addition, the Group sells some of its gold-bearing antimony concentrate to a Swiss based trader Penfold World Trade AG. Antimony concentrate price is based on the low quotation for antimony metal MMTA Standard Grade II as published by Metal Bulletin for the contract date. Typical payment terms under the Group's antimony concentrate sales contract include 50% payment on cash against documents (CAD) basis, 30% payment upon delivery and the remaining 20% upon final quality determination.

The Group's offtake arrangements are generally structured on Ex Works (EXW) terms (Incoterms 2010) with varying delivery locations, which is for example the Agarak Facility in the case of copper and molybdenum concentrate under contracts with Industrial Minerals S.A.

See also "*Business—Sales*" for a description of the deductions made to the prices of the Group's products, such as refining charges ("**RCs**") in the case of gold and silver doré bars and treatment charges and refining charges ("**TCRCs**") in the case of copper concentrate and molybdenum concentrate, and certain other customer arrangements.

### ***Cost of Sales***

The key components of the Group's cost of sales are materials costs (including fuel, spare parts and reagents and utilities), service costs (including external transportation costs, maintenance and repair costs, and costs of other external services), salary and social charges and depreciation. Of the Group's key costs, its materials costs and service costs tend to be more variable than its salary and social charges and depreciation costs, as well as environmental and other taxes, and vary primarily as a result of the level of production. The majority of the Group's cost of sales is denominated in the local currencies of the Group's operations, which are the dram and the rouble; however, a significant part of the Group's cost of sales, such as costs related to imported equipment, parts and fuel, as well as development and maintenance capital expenditures, are denominated in, or otherwise correlates significantly with the applicable exchange rate for, the U.S. dollars. Accordingly, the Group does not hedge its exposure to these local currencies.

Primary factors which affect each cost include the rate of inflation and the level of production across the Group's assets. Factors affecting the more variable costs, being materials and services costs, are discussed below.

- *Materials costs.* Materials costs represented 34.0%, 27.6% and 31.2% of the Group's total cost of sales in the years ended 31 December 2016, 2017 and 2018, respectively. The most significant components of the Group's materials costs were chemicals and reagents (including cyanide, chemical lime and carbon), milling balls, machinery and spare parts, fuel costs, explosives, utilities (principally electricity) and other consumables. Materials costs vary depending on the amount purchased, which depends on the level of production and purchase prices, as well as macroeconomic factors such as inflation, prices of crude oil and natural gas, and relationships with suppliers.

Prices for chemicals and reagents tend to be correlated with natural gas prices, while fuel costs and explosives costs tend to be correlated with crude oil prices. Fuel costs are primarily for diesel fuel which is used to power equipment and operations. Diesel fuel is refined from crude oil and is therefore subject to price volatility similar to that affecting crude oil prices. The Organisation of Petroleum Exporting Countries (OPEC) yearly basket oil price was US\$41, US\$52 and US\$70 per barrel for the years ended 31 December 2016, 2017 and 2018, respectively. Volatility in crude oil prices has a significant direct and indirect impact on the Group's production costs by affecting not only the cost of fuel that the Group consumes but also transportation costs and the cost of other supplies that must be transported to production sites. Similarly, volatility in gas prices directly impacts the costs of cyanide, other reagents and chemicals used in the Group's production processes.

The Group's electricity costs depend primarily on production levels at its mines and processing facilities. In Armenia and Russia, electricity is provided from the applicable national electricity grid. In Armenia, during the years ended 31 December 2016, 2017 and 2018, GPM Gold's and Agarak's combined energy consumption was 181.5 million, 186.5 million and 205.4 million kWh, respectively. As of 30 April 2019, the applicable electricity rates payable by GPM Gold and Agarak varied between US\$0.055 and US\$0.073 per kWh, depending on the voltage supply (6 kV or 35 kV) and the applicable day/night cycle. In Russia, during the years ended 31 December 2016, 2017 and 2018, the electricity consumption at Sarylakh-Surma/Zvezda was 18.8 million, 19.0 million and 20.3 million kWh, respectively. As of 30 April 2019, the applicable electricity rate payable by Sarylakh-Surma/Zvezda was RUB4.58/kWh.

- *Services costs.* Services costs represented 24.0%, 25.7% and 24.8% of the Group's total cost of sales in the years ended 31 December 2016, 2017 and 2018, respectively. The most significant components of the Group's services costs were external transportation costs for ore, maintenance and repair costs, and costs of contractors providing security and other services. The Group incurs significant external transportation costs in connection with delivering ore from the Zod mine approximately 270 kilometres by rail to the Ararat facility and delivering ore from the Sentachan and Sarylakh mines by truck to the Sarylakh facility, using primarily third party transportation due to the seasonal nature of ore transportation.

### ***Capital Expenditures***

The Group makes regular investments in new equipment and production infrastructure in order to maintain or increase production levels, enhance efficiency and remain competitive. For example, in 2017 and 2018, the Group successfully modernized its tip lorry and excavator fleet at Agarak and GPM Gold, which resulted in an increase of the aggregate amount of run-of-mine ore transported at both mines from 35.6 million tonnes for the year ended 31 December 2016 to 53.4 million tonnes for the year ended 31 December 2018. In addition, in 2016, the Group launched a significant project for the construction of a mining and processing plant at the Verkhne-Menkeche field in the Republic of Sakha (Yakutia), Russian Federation (see "*Business—Verkhne-Menkeche Prospective Project*"), which it expects to launch by the end of 2021. Moreover, in 2017, the Group launched the construction of a new Sentachan concentrating mill to process the ore recovered from the Sentachan mine at the Sentachan in the Republic of Sakha (Yakutia), Russian Federation (see "*Business—Sarylakh-Surma/Zvezda—Development Projects*"), which the Group expects to become operational by the end of 2019. To the extent those projects are financed with debt, interest expense could increase in the future. For further information regarding the Group's committed and budgeted capital expenditure, see "*Liquidity and Capital Resources—Capital Expenditures*".

### ***Stripping costs***

Stripping costs incurred during the production phase are generally considered to create two benefits, being the production of inventory and improved access to the ore to be mined in the future. Where the benefits are

realised in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where the benefits are realised in the form of improved access to ore to be mined in the future, the costs are recognised as a non-current asset, referred to as a stripping activity asset, if the following criteria are met:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
- the entity can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity associated with that component can be measured reliably.

If any of the criteria are not met, the production stripping costs are charged to the statement of profit or loss as operating costs as they are incurred or included in the cost of inventory produced.

In identifying components of the ore body, the Group works closely with the mining operations personnel to analyse the mine plan. Generally, a component will be a subset of the total ore body, and a mine may have several components.

The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs.

A relevant production measure is used to allocate the production stripping costs between the inventory produced and the stripping activity asset. This production measure is calculated for the identified component of the ore body and is used as a benchmark to identify the extent to which the additional activity of creating a future benefit has taken place. The Group uses the expected volume of waste extracted compared with the actual volume for a given volume of ore production of each component.

The stripping activity asset is accounted for as an addition to, or an enhancement of, an existing asset, being the mine asset, and is presented as part of intangible assets in the statement of financial position.

The stripping activity asset is subsequently depreciated using the units of production method over the life of the identified component of the ore body that became more accessible as a result of the stripping activity. Economically recoverable reserves, which comprise proven and probable reserves, are used to determine the expected useful life of the identified component of the ore body. The stripping activity asset is then carried at cost less depreciation and any impairment losses.

### ***Exchange Rates***

The Group's results for the periods under review are affected by exchange rate fluctuations between the U.S. dollars, which is the presentation and functional currency for the Group's consolidated financial statements, and the dram and rouble, which are the functional currencies of the Group's subsidiaries in Armenia and Russia, respectively.

The majority of the Group's revenue from sales of metals is denominated in U.S. dollars. The majority of the Group's cost of sales is denominated in dram and roubles (depending on the jurisdiction where costs are incurred), although a significant portion of the Group's costs is driven by the U.S. dollars (such as imported equipment, parts and fuel). In addition, as of 31 December 2018, approximately 95% of the Group's borrowings was denominated in U.S. dollars. During the periods under review, the U.S. dollar has experienced volatility against the rouble. See "*Presentation of Financial and Certain Other Information—Currencies and Exchange Rates*" for a table that sets forth the average and period end exchange rates per US\$1.00 for the dram and the rouble.

Except for obligations and expected expenses to be incurred in U.S. dollars, the Group generally converts its U.S. dollars-denominated revenue into drams or roubles in order to satisfy obligations in those currencies. Such transactions are generally done on an as-needed basis using the spot exchange rate. During the periods under review, the Group has been able to convert its U.S. dollar-denominated revenue into functional currencies without delay or experiencing significant fees.

## Seasonality

The Group's mining activities at the Sentachan mine and the related cost of ore transportation are characterised by seasonality. Because of the mine's location, the Group uses methods of ground-based transportation to cross over the surrounding frozen rivers, which it believes to be the most cost-efficient method of transportation. Accordingly, the off-take from the Sentachan mine is naturally limited to three months per year: from February until April, when weather conditions allow for the transport of ore to the Sarylakh processing facility located near the town of Ust Nera, which is then processed from April through December.

The Group is currently engaged in the construction of a new Sentachan concentrating mill to process the ore recovered from the Sentachan mine. This is expected to reduce the impact of seasonality on its Sentachan mine operations following its launch in 2019, due to the expected reduction of volumes and costs relating to the transportation of products, as compared to the transportation of ore.

## Recent Developments and Current Trading

The Group produced approximately 46.7koz of gold, 1.9t of copper, 103t of molybdenum, 1.9kt of antimony in the three months ended 31 March 2019. On a gold equivalent basis, this amounted to approximately 69.2koz in the same period, representing a 23.2% increase in production from 56koz produced in the three months ended 31 March 2018. In the three months ended 31 March 2019, the Group's consolidated revenue was US\$83.7 million, a 16.7% increase from US\$72 million in the three months ended 31 March 2018.

The Group's revenue for the three months ended 31 March 2019 and the three months ended 31 March 2018 is based on management accounts which have neither been audited nor reviewed. While the basis of accounting used by the Group for preparation of this financial data is consistent with the accounting policies of the Group and is comparable with the audited historical financial information included in this Prospectus, no assurance can be given that in the course of the preparation of the Group's financial statements for the next reporting period the Group will not make adjustments to this financial data. As a result, the financial data in such financial statements may differ from the management's expectations of the financial results for the next reporting period which were based on these management's accounts. No management accounts of the Group have been submitted to, or otherwise reviewed by, the Central Bank of Ireland.

The financial and operating data shown above is not a guarantee of the Group's future performance.

## Results of Operations

The following table sets out selected data from the consolidated statement of profit or loss and other comprehensive income for the Group for the years ended 31 December 2016, 2017 and 2018.

	Year ended 31 December		
	2016	2017	2018
	<i>(US\$ thousands)</i>		
<b>Revenue</b> .....	<b>194,597</b>	<b>228,345</b>	<b>283,053</b>
Cost of sales .....	(140,423)	(137,262)	(155,881)
<b>Gross profit</b> .....	<b>54,174</b>	<b>91,083</b>	<b>127,172</b>
Distribution expenses .....	(2,710)	(2,948)	(3,831)
Administrative expenses .....	(23,218)	(24,930)	(36,024)
Net gain / (loss) from commodity derivatives .....	(35,366)	(4,183)	3,296
Net (impairment loss) / reversal of impairment loss .....	3,114	(6,218)	(28,551)
Other income .....	2,804	1,233	—
Other expenses .....	(13,024)	(11,337)	(12,859)
<b>Result from operating activities</b> .....	<b>(14,226)</b>	<b>42,700</b>	<b>49,203</b>
Finance income .....	980	383	96
Finance costs .....	(35,935)	(27,884)	(23,684)
<b>Profit / (loss) before income tax</b> .....	<b>(49,181)</b>	<b>15,199</b>	<b>25,615</b>
Income tax expense .....	(13,121)	(13,548)	(20,606)
<b>Profit / (loss) for the year</b> .....	<b>(62,302)</b>	<b>1,651</b>	<b>5,009</b>

## Year ended 31 December 2018 compared to year ended 31 December 2017

The following table sets out selected data from the consolidated statement of profit or loss and other comprehensive income for the Group for the years ended 31 December 2017 and 2018.

	Year ended 31 December		Change		Share of Revenue for the year ended 31 December	
	2017	2018	US\$	Percentage	2017	2018
	(US\$ thousands)				(Percentage)	
<b>Revenue</b> .....	<b>228,345</b>	<b>283,053</b>	<b>54,708</b>	<b>23.96%</b>	<b>100.00%</b>	<b>100.00%</b>
Cost of sales .....	(137,262)	(155,881)	(18,619)	13.56%	60.11%	55.07%
<b>Gross profit</b> .....	<b>91,083</b>	<b>127,172</b>	<b>36,089</b>	<b>39.62%</b>	<b>39.89%</b>	<b>44.93%</b>
Distribution expenses .....	(2,948)	(3,831)	(883)	29.95%	1.29%	1.35%
Administrative expenses .....	(24,930)	(36,024)	(11,094)	44.50%	10.92%	12.73%
Net gain / (loss) from commodity derivatives .....	(4,183)	3,296	7,479	n/a	1.83%	1.16%
Net impairment loss .....	(6,218)	(28,551)	(22,333)	359.17%	2.72%	10.09%
Other income .....	1,233	—	(1,233)	(100.00)%	0.54%	—
Other expenses .....	(11,337)	(12,859)	(1,522)	13.43%	4.96%	4.54%
<b>Result from operating activities</b> .....	<b>42,700</b>	<b>49,203</b>	<b>6,503</b>	<b>15.23%</b>	<b>18.70%</b>	<b>17.38%</b>
Finance income .....	383	96	(287)	(74.93)%	0.17%	0.03%
Finance costs .....	(27,884)	(23,684)	4,200	(15.06)%	12.21%	8.37%
<b>Profit before income tax</b> .....	<b>15,199</b>	<b>25,615</b>	<b>10,416</b>	<b>68.53%</b>	<b>6.66%</b>	<b>9.05%</b>
Income tax expense .....	(13,548)	(20,606)	(7,058)	(52.10)%	5.93%	7.28%
<b>Profit for the year</b> .....	<b>1,651</b>	<b>5,009</b>	<b>3,358</b>	<b>203.39%</b>	<b>0.72%</b>	<b>1.77%</b>

## Revenue

### Consolidated Revenue

The Group's consolidated revenue for the year ended 31 December 2018 was US\$283.1 million, as compared to US\$228.3 million for the year ended 31 December 2017, an increase of US\$54.7 million, or 24.0%. During the year ended 31 December 2018, revenue from sales of each of the Group's product lines increased as compared to the previous year. The most significant factors which contributed to the increase of consolidated revenues were increases in revenues from sales of polymetallic ores and produced gold doré bars:

- *revenue from sales of polymetallic ores* increased by US\$17.9 million, or 180%, primarily as a result of the full-year operations at the underground mine at the Verkhne-Menkeche field which were launched in July 2017 and an approximately 25,500 tonnes increase in the sale of ore which was characterised by a higher silver content: 1,630 grammes per tonne for the year ended 31 December 2018, as compared to 1,333 grammes per tonne for the year ended 31 December 2017; and
- *revenue from sales of produced gold doré bars* increased by US\$15.3 million, or 10.4%, primarily as a result of production increase at GPM Gold, following implementation of an expansion programme at GPM Gold.

The following table sets out the Group's revenue by product for the years ended 31 December 2017 and 2018.

	Year ended 31 December		Change		Share of Revenue for the year ended 31 December	
	2017	2018	US\$	Percentage	2017	2018
	(US\$ thousands)				(Percentage)	
Sales of produced gold doré bars .....	146,665	161,950	15,285	10.42%	64.23%	57.22%
Sales of copper concentrate .....	28,310	37,595	9,285	32.80%	12.40%	13.28%
Sales of antimony concentrate .....	32,458	40,349	7,891	24.31%	14.21%	14.25%
Sales of free gold .....	7,421	8,174	753	10.15%	3.25%	2.89%
Sales of polymetallic ores .....	9,956	27,904	17,948	180.27%	4.36%	9.86%
Sales of molybdenum concentrate .....	2,944	6,472	3,528	119.84%	1.29%	2.29%
Services provided .....	591	609	18	3.05%	0.26%	0.22%
<b>Total</b> .....	<b>228,345</b>	<b>283,053</b>	<b>54,708</b>	<b>23.96%</b>	<b>100.00%</b>	<b>100.00%</b>

## Segment Revenue

The following table sets forth revenue for the Group's segments for the years ended 31 December 2017 and 2018.

	Armenian operations				Russian operations				Total	
	Agarak		GPM Gold		Sakha		Verkhne-Menkeche			
	For the year ended 31 December									
	2017	2018	2017	2018	2017	2018	2017	2018		
	(US\$ thousands)									
External revenue ...	31,294	44,137	146,786	161,950	40,203	48,968	10,062	27,998	228,345	283,053
Inter-segment revenue .....	—	—	—	—	—	—	224	344	224	344
Total revenue .....	31,294	44,137	146,786	161,950	40,203	48,968	10,286	28,342	228,569	283,397

During the year ended 31 December 2018, all of the Group's individual segments experienced an increase in revenue, as compared to the previous year. The most significant factors which had an impact on the financial performance of the Group's individual segment revenue are described below.

- *Agarak.* Segment revenue attributable to Agarak for the year ended 31 December 2018 was US\$44.1 million, as compared to US\$31.3 million for the year ended 31 December 2017, an increase of US\$12.8 million, or 41.0%. This increase was principally due to an increase in production and sales volumes by 2,412 tonnes, or 45.3%, during the year ended 31 December 2018 as compared to 31 December 2017.
- *GPM Gold.* Segment revenue attributable to GPM Gold for the year ended 31 December 2018 was US\$162.0 million, as compared to US\$146.8 million for the year ended 31 December 2017, an increase of US\$15.2 million, or 10.3%. This increase was principally due to an increase in production and sales volumes by 11,770 ounces, or 10.1%, during the year ended 31 December 2018 as compared to 31 December 2017.
- *Sakha.* Segment revenue attributable to Sakha for the year ended 31 December 2018 was US\$49.0 million, as compared to US\$40.2 million for the year ended 31 December 2017, an increase of US\$8.8 million, or 21.8%. This increase was principally due to the change in final payment dates under the segment's concentrate sales contracts entered into during the year ended 31 December 2017, causing the date on which the final payment was made to be deferred for several months from the date of shipment, resulting in the majority of such payments being made during the year ended 31 December 2018. Accordingly, the majority of the shipments which took place after March 2017 were completed and subsequently paid for during the year ended 31 December 2018 resulting in an additional US\$6.7 million of revenue completion adjustment for the segment during the year ended 31 December 2018.
- *Verkhne-Menkeche.* Segment revenue attributable to Verkhne-Menkeche for the year ended 31 December 2018 was US\$28.3 million, as compared to US\$10.3 million for the year ended 31 December 2017, an increase of US\$18.1 million, or 180%. This increase was principally due to an approximately 25,500 tonnes increase in the sale of ore which was characterised by a higher silver content (see also the description of the increase in revenue from sales of polymetallic ores above). The inter-segmental revenue of the Verkhne-Menkeche segment in the years ended 31 December 2017 and 2018 related primarily to the services provided to the Sakha segment in connection with the leasing of mining equipment.

## Cost of Sales

Cost of sales for the year ended 31 December 2018 was US\$155.9 million, as compared to US\$137.3 million for the year ended 31 December 2017, an increase of US\$18.6 million, or 13.6%. This increase was principally due to a US\$10.8 million, or 28.4%, increase in materials costs associated with an increase in production and sales volume in 2018 as compared to 2017, and an associated increase in material costs. In addition, services costs increased by US\$3.5 million, or 9.8%, primarily as a result of an increase in ore transportation cost at Verkhne-Menkeche resulting from the increase in the volume of ore produced and sold.

Depreciation increased by US\$3.5 million, or 9.0%, primarily as a result of a reversal of impairment losses at Agarak as of 31 December 2017.

The following table sets out the components of the Group's cost of sales for the years ended 31 December 2017 and 2018.

	Year ended 31 December		Change		Share of Cost of sales for the year ended 31 December	
	2017	2018	US\$	Percentage	2017	2018
	<i>(US\$ thousands)</i>				<i>(Percentage)</i>	
Materials.....	37,887	48,639	10,752	28.38%	27.60%	31.20%
Services.....	35,263	38,733	3,470	9.84%	25.69%	24.85%
Salary.....	21,984	22,983	999	4.54%	16.02%	14.74%
Social insurance contributions.....	2,011	1,989	(22)	(1.09)%	1.47%	1.28%
Depreciation.....	38,647	42,120	3,473	8.99%	28.16%	27.02%
Environmental and other taxes.....	1,254	1,338	84	6.70%	0.91%	0.86%
Other.....	216	79	(137)	(63.43)%	0.16%	0.05%
<b>Total.....</b>	<b>137,262</b>	<b>155,881</b>	<b>18,619</b>	<b>13.56%</b>	<b>100.00%</b>	<b>100.00%</b>

#### *Distribution Expenses*

Distribution expenses were US\$3.8 million for the year ended 31 December 2018, as compared to US\$2.9 million for the year ended 31 December 2017, an increase of US\$0.9 million, or 30.0%. This increase was principally due to an increase in other expenses of US\$0.8 million, mainly resulting from interest expense accrued for VTB Trading prepayment covering sales through the period until November 2019, which interest at a rate of 6% p.a. and was received in December 2017. As such, significantly less interest relating to this prepayment was accrued during the year ended 31 December 2017, as compared to the year ended 31 December 2018.

The following table sets out the components of the Group's distribution expenses for the years ended 31 December 2017 and 2018.

	Year ended 31 December		Change		Share of Distribution Expenses for the year ended 31 December	
	2017	2018	US\$	Percentage	2017	2018
	<i>(US\$ thousands)</i>				<i>(Percentage)</i>	
Services.....	1,773	1,741	(32)	(1.80)%	60.14%	45.45%
Salary.....	697	695	(2)	(0.29)%	23.64%	18.14%
Social insurance contributions.....	72	85	13	18.06%	2.44%	2.22%
Depreciation.....	275	332	57	20.73%	9.33%	8.67%
Other.....	131	978	847	646.56%	4.44%	25.53%
<b>Total.....</b>	<b>2,948</b>	<b>3,831</b>	<b>883</b>	<b>29.95%</b>	<b>100.00%</b>	<b>100.00%</b>

#### *Administrative Expenses*

Administrative expenses were US\$36.0 million for the year ended 31 December 2018, as compared to US\$24.9 million for the year ended 31 December 2017, an increase of US\$11.1 million, or 44.5%. This increase was principally due to an increase in services expenses of US\$9.1 million, or 76.4%, mainly resulting from a one-off management bonus of US\$8.0 million which was paid for meeting growth development targets for 2014–2017.

The following table sets out the components of the Group's administrative expenses for the years ended 31 December 2017 and 2018.



	Year ended 31 December		Change		Share of Administrative Expenses for the year ended 31 December	
	2017	2018	US\$	Percentage	2017	2018
	(US\$ thousands)				(Percentage)	
Salary .....	10,052	11,528	1,476	14.68%	40.32%	32.00%
Social insurance contributions .....	840	906	66	7.86%	3.37%	2.51%
Services .....	11,897 <sup>(1)</sup>	20,982 <sup>(2)</sup>	9,085	76.36%	47.72%	58.24%
Depreciation .....	361	448	87	24.10%	1.45%	1.24%
Property and other taxes .....	631	1,070	439	69.57%	2.53%	2.97%
Other .....	1,149	1,090	(59)	(5.13)%	4.61%	3.03%
<b>Total .....</b>	<b>24,930</b>	<b>36,024</b>	<b>11,094</b>	<b>44.50%</b>	<b>100.00%</b>	<b>100.00%</b>

(1) Includes US\$393,000 of audit fees.

(2) Includes US\$402,000 of audit fees.

#### *Net gain / (loss) from commodity derivatives*

In the year ended 31 December 2018, the Group had a net gain from commodity derivatives of US\$3.3 million, which represented a US\$7.5 million increase from a loss of US\$4.2 million in the year ended 31 December 2017. Commodity derivatives represent put/call options and reflect at fair value on the balance sheet through profit and loss. Net gain during the year ended 31 December 2018 relates to an increase in fair value of put/call options of US\$3.3 million, whereas a decrease in fair value during 31 December 2017 resulted in a loss of US\$4.2 million.

#### *Net impairment loss*

Net impairment loss was US\$28.6 million for the year ended 31 December 2018, as compared to US\$6.2 million for the year ended 31 December 2017, an increase of US\$22.3 million, or 359%. This increase was primarily attributable to a US\$28.6 million impairment loss from writing down the carrying amount of a group of entities held for sale, being AMGM S.a.r.l. (in respect of which the Group formulated its intention to sell a controlling interest during the year ending 31 December 2019) and its subsidiaries, CJSC "Paramount Gold Mining" and Lernayin Arstutyun, the fair value of the consideration for which is negligible. For the year ended 31 December 2017, net impairment loss was US\$6.2 million, which consisted of two components: (i) an impairment of the full carrying amount of exploration and evaluation assets and other related assets of the Hankavan molybdenum mine (Armenia) of US\$16.9 million relating to the non-prolongation of the exploration licence and underlying exploration contract of the Hankavan molybdenum mine after 30 December 2016 as a result of non-approval of the mining plan, and (ii) a reversal of impairment of property, plant and equipment at Agarak of US\$10.7 million due to the fact that the recoverable amount of property, plant and equipment of Agarak as of 31 December 2017 exceeded its carrying amount.

#### *Other Expenses*

Other expenses were US\$12.9 million for the year ended 31 December 2018, as compared to US\$11.3 million for the year ended 31 December 2017, an increase of US\$1.5 million, or 13.4%. This increase was principally due to a US\$1.5 million, or 17.5%, increase in royalty expenses, as well as additional royalty and tax payments (other than on income tax) in the amount of US\$1.0 million imposed in respect of previous periods associated with payments to the state budget of Armenia, in each case during the year ended 31 December 2018. These increases were partially offset by a US\$0.6 million, or 90.0%, decrease in fines and penalties during the year ended 31 December 2018.

The following table sets out the components of the Group's other expenses for the years ended 31 December 2017 and 2018.

	Year ended 31 December		Change		Share of Other Expenses for the year ended 31 December	
	2017	2018	US\$	Percentage	2017	2018
	(US\$ thousands)				(Percentage)	
Loss on disposal of property, plant and equipment and other assets .....	574	318	(256)	(44.60)%	5.06%	2.47%
Royalty .....	8,616	10,127	1,511	17.54%	76.00%	78.75%
Additional royalty and other than on income tax payments imposed by the tax authorities of previous periods .....	—	959	959	n/a	—	7.46%
Fines and penalties .....	664	67	(597)	(89.91)%	5.86%	0.52%
Taxes .....	327	120	(207)	(63.30)%	2.88%	0.93%
Bank services .....	159	220	61	38.36%	1.40%	1.71%
Charity and welfare .....	315	520	205	65.08%	2.78%	4.04%
Provision for obsolete inventory .....	196	194	(2)	(1.02)%	1.73%	1.51%
Other .....	486	334	(152)	(31.28)%	4.29%	2.60%
<b>Total .....</b>	<b>11,337</b>	<b>12,859</b>	<b>1,522</b>	<b>13.43%</b>	<b>100.00%</b>	<b>100.00%</b>

#### Finance Income and Finance Costs

Net finance costs for the year ended 31 December 2018 were US\$23.6 million, as compared to US\$27.5 million for the year ended 31 December 2017, an decrease of US\$3.9 million, or 14.2%. This decrease was primarily due to a US\$3.4 million, or 14.0%, decrease in interest expense which was attributable to the refinancing of the Group's syndicated loan bearing, initially, an interest rate of LIBOR+7.6% p.a., and since 1 January 2018 an interest rate of LIBOR+5.75% p.a., which had as at 31 December 2017 the carrying amount of US\$205.1 million with a nominal interest rate of LIBOR plus 7.6% p.a. into a loan made by the syndicate of Sberbank and VTB which had as at 31 December 2018 the carrying amount of US\$181.8 million with a nominal interest rate of LIBOR plus 5.75% and the resulting decrease in interest payments during the year ended 31 December 2018.

The following table sets forth the components of the Group's net finance costs for the years ended 31 December 2017 and 2018.

	Year ended 31 December		Change		Share of Finance Costs for the year ended 31 December	
	2017	2018	US\$	Percentage	2017	2018
	(US\$ thousands)				(Percentage)	
<b>Finance Income</b>						
Interest income on bank deposits .....	383	96	(287)	(74.93)%	1.37%	0.41%
<b>Finance costs</b>						
Interest expense .....	(24,227)	(20,827)	3,400	14.03%	86.88%	87.94%
Withholding tax on intragroup interest .....	(1,469)	(1,004)	465	31.65%	5.27%	4.24%
Unwinding of discount on site restoration provision .....	(1,011)	(1,050)	(39)	(3.86)%	3.63%	4.43%
Net foreign exchange loss .....	(1,070)	(790)	280	26.17%	3.84%	3.34%
Impairment loss on receivables and prepayments .....	(107)	(13)	94	87.85%	0.38%	0.05%
Finance costs .....	(27,884)	(23,684)	4,200	15.06%	100.00%	100.00%
<b>Net finance costs .....</b>	<b>(27,501)</b>	<b>(23,588)</b>	<b>3,913</b>	<b>14.23%</b>	<b>98.63%</b>	<b>99.59%</b>

#### Income Tax Expense

The Group's income tax expense for the year ended 31 December 2018 was US\$20.6 million, as compared to US\$13.5 million for the year ended 31 December 2017, an increase of US\$7.1 million, or 52.1%. Income tax expense in the year ended 31 December 2018 consisted of current tax expense of US\$25.2 million and deferred tax benefit of US\$4.6 million, while income tax expense in the year ended 31 December 2017 consisted of US\$18.0 million of current tax expense and a deferred tax benefit of US\$4.5 million. The overall increase in income tax expense in the year ended 31 December 2018 as compared with the year ended 31 December 2017 principally resulted from the US\$10.4 million, or 68.5%, increase in profit before income tax in the year ended 31 December 2018 as compared to the year ended 31 December 2017.

### Profit for the Year

As a result of the above factors, the Group's profit for the year ended 31 December 2018 was US\$5.0 million, as compared to US\$1.7 million for the year ended 31 December 2017, an increase of US\$3.4 million, or 203%.

### Year Ended 31 December 2017 Compared to Year Ended 31 December 2016

The following table sets out selected data from the consolidated statement of profit or loss and other comprehensive income for the Group for the years ended 31 December 2016 and 2017.

	Year ended 31 December		Change		Share of Revenue for the year ended 31 December	
	2016	2017	US\$	Percentage	2016	2017
	(US\$ thousands)				(Percentage)	
<b>Revenue</b> .....	<b>194,597</b>	<b>228,345</b>	<b>33,748</b>	<b>17.34%</b>	<b>100.00%</b>	<b>100.00%</b>
Cost of sales .....	(140,423)	(137,262)	3,161	(2.25)%	72.16%	60.11%
<b>Gross profit</b> .....	<b>54,174</b>	<b>91,083</b>	<b>36,909</b>	<b>68.13%</b>	<b>27.84%</b>	<b>39.89%</b>
Distribution expenses .....	(2,710)	(2,948)	(238)	8.78%	1.39%	1.29%
Administrative expenses .....	(23,218)	(24,930)	(1,712)	7.37%	11.93%	10.92%
Net loss from commodity derivatives .....	(35,366)	(4,183)	31,183	(88.17)%	18.17%	1.83%
Net (impairment loss) / reversal of impairment loss .....	3,114	(6,218)	(9,332)	n/a	1.60%	2.72%
Other income .....	2,804	1,233	(1,571)	(56.03)%	1.44%	0.54%
Other expenses .....	(13,024)	(11,337)	1,687	(12.95)%	6.69%	4.96%
<b>Result from operating activities</b> .....	<b>(14,226)</b>	<b>42,700</b>	<b>56,926</b>	<b>n/a</b>	<b>7.31%</b>	<b>18.70%</b>
Finance income .....	980	383	(597)	(60.92)%	0.50%	0.17%
Finance costs .....	(35,935)	(27,884)	8,051	(22.40)%	18.47%	12.21%
<b>Profit / (loss) before income tax</b> .....	<b>(49,181)</b>	<b>15,199</b>	<b>64,380</b>	<b>n/a</b>	<b>25.27%</b>	<b>6.66%</b>
Income tax expense .....	(13,121)	(13,548)	(427)	3.25%	6.74%	5.93%
<b>Profit / (loss) for the year</b> .....	<b>(62,302)</b>	<b>1,651</b>	<b>63,953</b>	<b>n/a</b>	<b>32.02%</b>	<b>0.72%</b>

### Revenue

#### Consolidated Revenue

The Group's consolidated revenue for the year ended 31 December 2017 was US\$228.3 million, as compared to US\$194.6 million for the year ended 31 December 2016, an increase of US\$33.7 million, or 17.3%. During the year ended 31 December 2017, revenue from sales of each of the Group's main product lines increased as compared to the previous year. The most significant factors which contributed to the increase of consolidated revenues were increases in revenues from sales of gold and polymetallic ores:

- *revenue from sales of gold* increased by US\$13.2 million, or 9.1%, primarily as a result of a production increase at GPM Gold following final implementation of the Albion Process Technology project at full capacity;
- *revenue from sales of polymetallic ores* increased to US\$10.0 million from nil as a result of the launch of operations at the underground mine at the Verkhne-Menkeche field in July 2017;

The following table sets out the Group's revenue by product for the years ended 31 December 2016 and 2017.

	Year ended 31 December		Change		Share of Revenue for the year ended 31 December	
	2016	2017	US\$	Percentage	2016	2017
	(US\$ thousands)				(Percentage)	
Sales of gold .....	145,977	159,211	13,234	9.07%	75.02%	69.72%
Sales of copper .....	20,440	28,310	7,870	38.50%	10.50%	12.40%
Sales of antimony .....	24,766	26,878	2,112	8.53%	12.73%	11.77%
Sales of molybdenum .....	2,028	2,944	916	45.17%	1.04%	1.29%
Sales of silver .....	407	455	48	11.79%	0.21%	0.20%
Sales of polymetallic ores .....	—	9,956	9,956	n/a	0.00%	4.36%
Other revenue .....	979	591	(388)	(39.63)%	0.50%	0.26%
<b>Total</b> .....	<b>194,597</b>	<b>228,345</b>	<b>33,748</b>	<b>17.34%</b>	<b>100.00%</b>	<b>100.00%</b>

## Segment Revenue

The following table sets forth revenue for the Group's segments for the years ended 31 December 2016 and 2017, all of which was external revenue.

	Armenian operations				Russian operations					
	Agarak		GPM Gold		Sakha		Verkhne-Menkeche			
	For the year ended 31 December								Total	
	2016	2017	2016	2017	2016	2017	2016 <sup>(1)</sup>	2017	2016	2017
	(US\$ thousands)									
External revenue .....	22,546	31,294	131,714	146,786	40,337	40,203	—	10,062	194,597	228,345
Inter-segment revenue .....	—	—	—	—	—	—	—	224	—	224
Total revenue .....	22,546	31,294	131,714	146,786	40,337	40,203	—	10,286	194,597	228,569

<sup>(1)</sup> The Group has recognised Verkhne-Menkeche as a separate segment since 1 January 2018; in accordance with IFRS requirements, comparative information for the year ended 31 December 2017 was also prepared. Accordingly, there is no segment information for the Verkhne-Menkeche segment for the year ended 31 December 2016.

During the year ended 31 December 2017, all the Group's individual segments based in Armenia, being Agarak and GPM Gold, experienced an increase in revenue, as compared to the previous year. The Group's revenue from Russian operations in the Sakha segment experienced an insignificant decrease. The most significant factors which had an impact on the financial performance of the Group's individual segment revenue are described below.

- *Agarak.* Segment revenue attributable to Agarak for the year ended 31 December 2017 was US\$31.3 million, as compared to US\$22.5 million for the year ended 31 December 2016, an increase of US\$8.7 million, or 38.8%. This increase was principally due to an increase in the Group's average realised price for copper and molybdenum during the year ended 31 December 2017 as compared to the year ended 31 December 2016.
- *GPM Gold.* Segment revenue attributable to GPM Gold for the year ended 31 December 2017 was US\$146.8 million, as compared to US\$131.7 million for the year ended 31 December 2016, an increase of US\$15.1 million, or 11.4%. This increase was principally due to an increase in gold production and sales volumes by approximately 12 thousand ounces, or 11.5%, during the year ended 31 December 2017 as compared to 31 December 2016. GPM Gold's revenue was however negatively affected to a certain extent by the termination during the year ended 31 December 2017 of a gold-bearing ore processing agreement with Meghradzor Gold LLC, a third party, pursuant to which GPM Gold effectively purchased the ore from Meghradzor Gold LLC and then sold to it the gold doré bars processed from such ore.
- *Sakha.* Segment revenue attributable to Sakha for the year ended 31 December 2017 was US\$40.2 million, as compared to US\$40.3 million for the year ended 31 December 2016, and was relatively stable.

Verkhne-Menkeche was not recognised as a segment during the years ended 31 December 2016 and 2017. The aggregate revenue of the Agarak, GPM Gold and Sakha segment revenue for the year ended 31 December 2017 was US\$10.1 million less than the Group's consolidated revenue for the same year due to this amount being allocated, as required in accordance with the IFRS, to the Verkhne-Menkeche segment revenue for the year ended 31 December 2017 for the purposes of comparison with the year ended 31 December 2018, during which Verkhne-Menkeche was recognised as a separate segment.

## Cost of Sales

Cost of sales for the year ended 31 December 2017 was US\$137.3 million, as compared to US\$140.4 million for the year ended 31 December 2016, a decrease of US\$3.2 million, or 2.3%. This decrease was principally due to a US\$9.8 million, or 20.6%, decrease in materials costs associated with (i) the termination of the gold-bearing ore processing agreement with Meghradzor Gold LLC during the year ended 31 December 2017, resulting in a US\$3.1 million decrease in the cost of materials and (ii) the capitalisation of material mining costs relating to low-grade ore by GPM Gold during the year ended 31 December 2017. This decrease was

however partially offset by a US\$3.1 million, or 6.5%, increase in salary costs, a US\$1.6 million, or 3.26%, increase in services costs and US\$1.5 million, or 3.1%, increase in depreciation costs during the year ended 31 December 2017.

The following table sets out the components of the Group's cost of sales for the years ended 31 December 2016 and 2017.

	Year ended 31 December		Change		Share of Cost of sales for the year ended 31 December	
	2016	2017	US\$	Percentage	2016	2017
	<i>(US\$ thousands)</i>				<i>(Percentage)</i>	
Materials.....	47,684	37,887	(9,797)	(20.55)%	33.96%	27.60%
Services .....	33,708	35,263	1,555	4.61%	24.00%	25.69%
Salary .....	18,865	21,984	3,119	16.53%	13.43%	16.02%
Social insurance contributions .....	1,828	2,011	183	10.01%	1.30%	1.47%
Depreciation.....	37,171	38,647	1,476	3.97%	26.47%	28.16%
Environmental and other taxes .....	1,107	1,254	147	13.28%	0.79%	0.91%
Other.....	60	216	156	260.00%	0.04%	0.16%
<b>Total.....</b>	<b>140,423</b>	<b>137,262</b>	<b>(3,161)</b>	<b>(2.25)%</b>	<b>100.00%</b>	<b>100.00%</b>

#### *Distribution Expenses*

Distribution expenses were US\$2.9 million for the year ended 31 December 2017, as compared to US\$2.7 million for the year ended 31 December 2016, an increase of US\$0.2 million, or 8.8%. This was principally due to an increase in services expenses of US\$0.2 million, or 16.3%, and in salary expenses of US\$0.2 million, or 33.8%, during the year ended 31 December 2017. These increases were partially offset by a US\$0.3 million, or 66.4%, decrease in other expenses during the year ended 31 December 2017.

The following table sets out the components of the Group's distribution expenses for the years ended 31 December 2017 and 2018.

	Year ended 31 December		Change		Share of Distribution Expenses for the year ended 31 December	
	2016	2017	US\$	Percentage	2016	2017
	<i>(US\$ thousands)</i>				<i>(Percentage)</i>	
Services .....	1,525	1,773	248	16.26%	56.27%	60.14%
Salary .....	521	697	176	33.78%	19.23%	23.64%
Social insurance contributions .....	53	72	19	35.85%	1.96%	2.44%
Depreciation.....	221	275	54	24.43%	8.15%	9.33%
Other.....	390	131	(259)	(66.41)%	14.39%	4.44%
<b>Total.....</b>	<b>2,710</b>	<b>2,948</b>	<b>238</b>	<b>8.78%</b>	<b>100.00%</b>	<b>100.00%</b>

#### *Administrative Expenses*

Administrative expenses were US\$24.9 million for the year ended 31 December 2017, as compared to US\$23.2 million for the year ended 31 December 2016, an increase of US\$1.7 million, or 7.4%. This increase was principally due to an increase in salary expenses of US\$1.3 million, or 14.7%.

The following table sets out the components of the Group's administrative expenses for the years ended 31 December 2016 and 2017.

	Year ended 31 December		Change		Share of Administrative Expenses for the year ended 31 December	
	2016	2017	US\$	Percentage	2016	2017
	(US\$ thousands)				(Percentage)	
Salary .....	8,765	10,052	1,287	14.68%	37.75%	40.32%
Social insurance contributions .....	705	840	135	19.15%	3.04%	3.37%
Services .....	11,573 <sup>(1)</sup>	11,897 <sup>(2)</sup>	324	2.80%	49.84%	47.72%
Depreciation .....	375	361	(14)	(3.73)%	1.62%	1.45%
Property and other taxes .....	823	631	(192)	(23.33)%	3.54%	2.53%
Other .....	977	1,149	172	17.60%	4.21%	4.61%
<b>Total .....</b>	<b>23,218</b>	<b>24,930</b>	<b>1,712</b>	<b>7.37%</b>	<b>100.00%</b>	<b>100.00%</b>

(1) Includes US\$389,000 of audit fees.

(2) Includes US\$393,000 of audit fees.

#### *Net loss from commodity derivatives*

Net loss from commodity derivatives was US\$4.2 million for the year ended 31 December 2017, as compared to US\$35.4 million for the year ended 31 December 2016, a decrease of US\$31.2 million, or 88.2%. Commodity derivatives are represented by put/call options and are reflected at fair value on the balance sheet with changes for the period recognised through profit or loss. Net loss during the year ended 31 December 2017 relates to a decrease in fair value of put/call options of US\$4.2 million, and a decrease in their fair value during the year ended 31 December 2016 resulted in a loss of US\$35.4 million.

#### *Net (impairment loss) / reversal of impairment loss*

For the year ended 31 December 2017 the Group had net impairment loss of US\$6.2 million, as compared to reversal of impairment loss of US\$3.1 million for the year ended 31 December 2016. The US\$6.2 million impairment loss during the year ended 31 December 2017 represented an impairment of the full carrying amount of exploration and evaluation assets and other related assets of the Hankavan molybdenum mine (Armenia) of US\$16.9 million relating to the non-prolongation of the exploration licence and underlying exploration contract of the Hankavan molybdenum mine after 30 December 2016 as a result of non-approval of the mining plan, and reversal of impairment of property, plant and equipment at Agarak of US\$10.7 million due to the fact that the recoverable amount of property, plant and equipment of Agarak as of 31 December 2017 exceeded its carrying amount. The US\$3.1 million reversal of impairment during the year ended 31 December 2016 represented a final reversal of the initially recognised impairment relating to the recoverable amount of mining assets of GPM Gold.

#### *Other Expenses*

Other expenses were US\$11.3 million for the year ended 31 December 2017, as compared to US\$13.0 million for the year ended 31 December 2016, a decrease of US\$1.7 million, or 13.0%. This decrease was principally due to (i) a US\$2.9 million decrease, to nil, of additional royalties, fines and penalties imposed by the tax authorities in Armenia relating to additional tax royalties with respect to Agarak's operations carried out during the years ended 31 December 2012 and 2013 and (ii) a US\$1.8 million, or 76.2%, decrease in loss on disposal of property, plant and equipment and other assets principally due to an impairment of property, plant and equipment by CJSC "Paramount Gold Mining", the holder of the Lusadjur mine mining licence, due to the suspension of operations. These decreases were partially offset primarily by a US\$2.6 million, or 44.2%, increase in royalty expenses during the year ended 31 December 2017.

The following table sets out the components of the Group's other expenses for the years ended 31 December 2016 and 2017.

	Year ended 31 December		Change		Share of Other Expenses for the year ended 31 December	
	2016	2017	US\$	Percentage	2016	2017
	(US\$ thousands)				(Percentage)	
Loss on disposal of property, plant and equipment and other assets .....	2,410	574	(1,836)	(76.18)%	18.50%	5.06%
Fines and penalties .....	445	664	219	49.21%	3.42%	5.86%
Royalty .....	5,975	8,616	2,641	44.20%	45.88%	76.00%
Additional royalties, fines and penalties imposed by the tax authorities in Armenia .....	2,876	—	(2,876)	(100.00)%	22.08%	—
Taxes .....	781	327	(454)	(58.13)%	6.00%	2.88%
Bank services .....	261	159	(102)	(39.08)%	2.00%	1.40%
Charity and welfare .....	276	315	39	14.13%	2.12%	2.78%
Provision for obsolete inventory .....	—	196	196	n/a	—	1.73%
Other .....	—	486	486	n/a	—	4.29%
<b>Total .....</b>	<b>13,024</b>	<b>11,337</b>	<b>(1,687)</b>	<b>(12.95)%</b>	<b>100.00%</b>	<b>100.00%</b>

#### Finance Income and Finance Costs

Net finance costs for the year ended 31 December 2017 were US\$27.5 million, as compared to US\$35.0 million for the year ended 31 December 2016, a decrease of US\$7.5 million, or 21.3%. This decrease was primarily due to a US\$5.4 million, or 18.3%, decrease in interest expense during the year ended 31 December 2017 relating principally to the Group's refinancing of its US\$229.7 million syndicated loan facility originally maturing between 2016 and 2021 in September 2016, which was partially offset by a US\$0.6 million, or 60.9% decrease in interest income on bank deposits.

The following table sets forth the components of the Group's net finance costs for the years ended 31 December 2016 and 2017.

	Year ended 31 December		Change		Share of Finance Costs for the year ended 31 December	
	2016	2017	US\$	Percentage	2016	2017
	(US\$ thousands)				(Percentage)	
<b>Finance Income</b>						
Interest income on bank deposits .....	980	383	(597)	(60.92)%	2.73%	1.37%
<b>Finance costs</b>						
Interest expense .....	(29,655)	(24,227)	5,428	18.30%	82.52%	86.88%
Withholding tax on intragroup interest .....	(2,393)	(1,469)	924	38.61%	6.66%	5.27%
Unwinding of discount on site restoration provision .....	(991)	(1,011)	(20)	(2.02)%	2.76%	3.63%
Net foreign exchange loss .....	(2,066)	(1,070)	996	48.21%	5.75%	3.84%
Impairment loss on receivables and prepayments .....	(830)	(107)	723	87.11%	2.31%	0.38%
Finance costs .....	(35,935)	(27,884)	8,051	22.40%	100.00%	100.00%
<b>Net finance costs .....</b>	<b>(34,955)</b>	<b>(27,501)</b>	<b>7,454</b>	<b>21.32%</b>	<b>97.27%</b>	<b>98.63%</b>

#### Income Tax Expense

The Group's income tax expense for the years ended 31 December 2016 and 2017 was relatively stable. Income tax expense for the year ended 31 December 2017 was US\$13.5 million, as compared to US\$13.1 million for the year ended 31 December 2016, an increase of US\$0.4 million, or 3.3%. Income tax expense in the year ended 31 December 2017 consisted of US\$18.0 million of current tax expense and a deferred tax benefit of US\$4.5 million. Whereas in the year ended 31 December 2016 income tax expense consisted of US\$10.3 million of current tax expense and a deferred tax expense of US\$2.8 million.

#### Profit for the Year

As a result of the above factors, the Group's profit for the year ended 31 December 2017 was US\$1.7 million, as compared to a loss of US\$62.3 million for the year ended 31 December 2016, an increase of US\$64.0 million.

## Liquidity and Capital Resources

Historically, the Group's principal sources of funding have included cash from operations, funds raised from borrowings, including long-term borrowings under the Group's secured bank loan facilities, and equity contributions from the Group's shareholders. The Group's future liquidity and capital requirements, including those needed to implement capital expenditures in accordance with its business strategy or the funding of acquisitions, are expected to be financed by a combination of cash flows generated by the Group's operating activities and proceeds from the Offering. However, the Group's business may not generate sufficient operating cash flows, and external sources of financing may not be available in sufficient amounts or on commercially reasonable terms to enable the Group to service or refinance its indebtedness or to fund other liquidity needs. The Group's ability to rely on some of these sources of financing could be affected by factors such as the liquidity of financial markets, prevailing interest rates, the Group's credit rating and the Armenian and Russian governments, policies regarding local and foreign currency borrowings, as well as the Group's financial performance. The Group is also subject to restrictions on its ability to incur further indebtedness under the terms of its loan facilities. See "*Indebtedness*".

### Key Ratios

The following table presents the key ratios of the Group as at 31 December 2016, 2017 and 2018.

	As at 31 December		
	2016	2017	2018
Net Debt to EBITDA .....	3.1	2.6	2.0
Interest Cover (EBITDA / Net Finance Charges) .....	2.36	3.57	5.30

### Cash Flows

The following table sets out information on the Group's cash flows for the years ended 31 December 2016, 2017 and 2018.

	For the year ended 31 December		
	2016	2017	2018
		(US\$ thousands)	
Cash and cash equivalents at 1 January .....	1,213	4,654	4,502
Cash flows from operating activities.....	38,420	49,865	40,605
Cash flows used in investing activities .....	(7,258)	(27,799)	(41,913)
Cash flows used in / (from) financing activities .....	(27,832)	(22,158)	5,268
Cash and cash equivalents at 31 December .....	4,654	4,502	8,599

#### Cash Flows from Operating Activities

The Group's cash inflow from operating activities in the year ended 31 December 2018 decreased by US\$9.3 million, or 18.6%, to US\$40.6 million compared with US\$49.9 million for the year ended 31 December 2017, principally driven by (i) a US\$8.8 million, or 48.0%, increase in income taxes paid as a result of a 68.5% increase in the Group's profit before income tax for the year ended 31 December 2018 and (ii) a US\$3.9 million, or 4.4%, decrease in cash flows generated by operations before income taxes and interest paid. These factors were however partially offset by a US\$3.5 million, or 15.5%, decrease in interest paid during the year ended 31 December 2018.

The Group's cash inflow from operating activities in the year ended 31 December 2017 increased by US\$11.4 million, or 29.8%, to US\$49.9 million compared with US\$38.4 million for the year ended 31 December 2016, principally driven by a US\$40.4 million, or 80.8%, increase in cash flows generated by operations before income taxes and interest paid. This was principally due to an US\$37.5 million increase in the Group's operating profit and an increase in the Group's working capital at a lower rate during the year ended 31 December 2017 as compared to the year ended 31 December 2016. The effect of this increase was however partially offset by a decrease of US\$24.8 million in proceeds from realised commodity derivatives to nil in the year ended 31 December 2017, due to the Group selling all of its put options for gold during the year ended 31 December 2016.



### *Cash Flows used in Investing Activities*

The Group's cash outflow used in investing activities in the year ended 31 December 2018 increased by US\$14.1 million, or 50.8%, to US\$41.9 million as compared to US\$27.8 million for the year ended 31 December 2017. This increase in cash outflow resulted primarily from (i) a US\$6.0 million increase in capital expenditures relating to capitalised overburden removal at GPM Gold as part of the initiative to increase production capacity to 1.6 million tonnes of ore annually and (ii) a US\$2.9 million increase in capital expenditures relating to capitalised overburden removal at Agarak as part of the mid-term program of production capacity increase to 4.5 million tonnes of ore annually. In addition, in the year ended 31 December 2017, the Group's cash flows from investing activities had an inflow of US\$7.2 million of released restricted cash in connection with the unused amount of shareholder's special purpose injections made by Sberbank Capital LLC in 2014 (and accounted for by the Group as restricted cash) in connection with the acquisition of an interest in the Group, attributable to the Verkhne-Menkeche project and the expansion project at GPM Gold, with no comparable inflow during the year ended 31 December 2018.

The Group's cash outflow used in investing activities in the year ended 31 December 2017 increased by US\$20.5 million, or 283%, to US\$27.8 million compared to US\$7.3 million for the year ended 31 December 2016. This increase in cash outflow resulted primarily from (i) a US\$8.1 million increase in capital expenditures relating to Sarylakh-Surma/Zvezda, and in particular the bottom lift construction at the Sarylakh mine and purchase of equipment and metal work at the Zvezda plant and (ii) a US\$4.9 million increase in capital expenditures attributable to Agarak and relating to the modernization of its tip lorry and excavator fleet. In addition, in the year ended 31 December 2017, the Group's inflow of released restricted cash decreased by US\$5.4 million, or 43.0%, to US\$7.2 million as a result of complete implementation of shareholder's injections made by Sberbank Capital LLC in 2014 (see also the immediately preceding paragraph), whereas during the year ended 31 December 2016, the Group used US\$3.7 million attributable to capital expenditure for the Albion Process Technology based plant project and US\$8.9 million attributable to Verkhne-Menkeche project.

### *Cash Flows used in /from Financing Activities*

The Group had a cash inflow from financing activities in the year ended 31 December 2018 of US\$5.3 million, as compared with a cash outflow from financing activities of US\$22.2 million for the year ended 31 December 2017. This change in cash flows from financing activities resulted principally from a US\$35.3 million, or 152%, increase in proceeds from borrowings to US\$58.5 million for the year ended 31 December 2018 from US\$23.2 million for the year ended 31 December 2017, primarily in connection with drawdowns by the Group's operating subsidiaries under their loan agreements with Ameriabank, Sberbank and Maritime Bank. This increase was partially offset by a US\$8.4 million, or 18.8%, increase in repayment of borrowings in the year ended 31 December 2018 relating primarily to repayment under the Group's loans syndicated loan extended by VTB and Sberbank and the loan made by Rossiyskiy Kapital Bank.

The Group's cash outflow used in financing activities in the year ended 31 December 2017 decreased by US\$5.7 million, or 20.4%, to US\$22.2 million as compared to US\$27.8 million for the year ended 31 December 2016. This decrease in cash outflow related to a significant change in the Group's proceeds from borrowings and repayment of borrowings following the refinancing by the Group of its syndicated loan facility in September 2016 (see "*Indebtedness*"), as a result of which repayment of borrowings decreased by US\$256.0 million, or 85.1%, to US\$44.8 million for the year ended 31 December 2017, as compared to the US\$252.1 million, or 91.6%, decrease in proceeds from borrowings for the year ended 31 December 2016.

### *Capital Expenditures*

The Group has primarily incurred capital expenditure to build new mines and processing plants; expand, upgrade and improve existing mines, processing plants and related infrastructure; purchase mining and processing equipment to replace aged, inefficient, or obsolete machines; and explore for new reserves and resources. For the years ended 31 December 2016, 2017 and 2018, the Group made capital expenditures of US\$20.7 million, US\$35.9 million and US\$41.9 million, respectively.

The following tables provides a summary of capital expenditures for the Group's segments made in the years ended 31 December 2016, 2017 and 2018.

	For the year ended 31 December		
	2016	2017	2018
		(US\$ thousands)	
Agarak.....	2,445	7,298	10,211
GPM Gold .....	6,944	8,109	14,182
Sakha .....	4,895	13,032	13,473
Verkhne-Menkeche .....	6,426	7,461	4,047
<b>Total.....</b>	<b>20,710</b>	<b>35,900</b>	<b>41,913</b>

As at 31 December 2018, the Group's committed capital expenditure totalled US\$3.5 million and the Group's planned capital expenditure until the end of 2021 totalled US\$133 million. The Group's principal planned capital expenditure projects include:

- US\$55.6 million of expenditures relating to the project for the construction of a mining and processing plant at the Verkhne-Menkeche field in the Republic of Sakha (Yakutia), Russian Federation. See "*Business—Verkhne-Menkeche Prospective Project*";
- US\$24.1 million of expenditures relating to the support and expansion of GPM Gold, including the increase of annual processing capacity to 1.6 million tonnes by the end of 2021;
- US\$18.4 million of expenditures relating to the support and expansion of the Agarak plant, including the increase of annual processing capacity to 4.5 million tonnes by the end of 2021;
- US\$11.7 million of expenditures relating to the support and expansion of the Zvezda plant, including the launch of an ore processing plant by the end of 2019;
- US\$9.9 million of expenses relating to the exploration and development of Kim and Vzbroz deposits by Sarylakh-Surma/Zvezda; and
- US\$13.3 million of expenditures relating to maintenance of existing projects.

The Group intends to finance such budgeted capital expenditure primarily through cash from operations and the proceeds from the Offering.

### ***Indebtedness***

As at 31 December 2016, 2017 and 2018, the majority of the Group's indebtedness consisted of secured bank loans, with the balance consisting of unsecured bank loans and other indebtedness. The following table shows the Group's indebtedness as at the dates indicated.

	As at 31 December		
	2016	2017	2018
		(US\$ thousands)	
<b><i>Non-current liabilities</i></b>			
Secured bank loans.....	226,082	199,940	161,227
Loan from other related party .....	9,283	9,283	—
<b>Total non-current loans .....</b>	<b>235,365</b>	<b>209,223</b>	<b>161,227</b>
<b><i>Current liabilities</i></b>			
Current portion of secured bank loans.....	25,171	27,106	76,563
Secured bank loans.....	3,000	6,202	872
Loan from other related party .....	—	—	9,283
Unsecured loans from third parties .....	25	25	—
Interest accrued.....	2,323	3,940	5,710
<b>Total current loans .....</b>	<b>30,519</b>	<b>37,273</b>	<b>92,428</b>

In September 2016, the Group refinanced its US\$229.7 million syndicated loan facility maturing between 2016 and 2021. According to the terms of the refinancing agreement, the new loan is repayable in tranches on certain dates up until September 2021. In October and December 2018, the Group raised additional financing under new loan facility agreements in the amounts of US\$9.9 million maturing in 2019–2020 and US\$4.0 million maturing in 2019–2023, respectively. These loan facility agreements contain a number of restrictive covenants. As at 31 December 2018, the Group had available undrawn funds under these loan facilities of US\$1.7 million and less than US\$76.0 million, respectively.

As at 31 December 2018, the Group's obligations under its loan facility agreements were secured by pledges over:

- 100% of the share capital in each of LLC "GeoProMining Gold", CJSC "Agarak Copper Molybdenum Combine", JSC "Sarylakh-Surma", JSC "Zvezda", LLC "GeoProMining Verkhne Menkeche", Karlou B.V., GPM Russia B.V., GPM Armenia B.V. and LLC "GeoProMining";
- production equipment with a carrying amount of US\$35.3 million; and
- inventory in the amount of US\$1.4 million.

The following table summarises the Group's indebtedness by borrower as at 31 March 2019. All of the loans, other than the loan from related party are secured as described above.

Lender	Currency	Interest rate	Year of final maturity	Amount	
				Original total	Outstanding as at 31 March 2019
(US\$ thousands)					
Ameriabank.....	US\$	3m LIBOR + 6.50%	2023	21,500	17,477
Ameriabank.....	US\$	9.00%	2023	14,007	8,238
Ardshinbank.....	US\$	11.00%	2023	18,835	11,585
Maritime Bank.....	US\$	8.00%	2019 (Q4)	5,000	2,990
Sberbank.....	RUB	9.90%	2020 (Q4)	12,358	12,358
VTB and Sberbank (syndicate) .....	US\$	3m LIBOR + 5.75%	2021	229,704	177,704
VTB.....	US\$	3m LIBOR + 4.75%	2021	80,000	14,020
Related party <sup>(1)</sup> .....	US\$	4.50%	2022	9,283	
<b>Total.....</b>				<b>390,687</b>	<b>253,655</b>

<sup>(1)</sup> Shareholder loan.

The Group expects to repay all of the above loans, other than the loan from related party, using the funds obtained from the Offering.

#### ***Contingent Liabilities and Off-Balance Sheet Arrangements***

The Group does not engage in off-balance sheet financing activities, and does not have any significant off-balance sheet debt obligations, special purpose entities or unconsolidated affiliates.

## INDUSTRY

*Unless specified otherwise, the information has been extracted from the AME Report.*

### Gold

#### *Demand Drivers*

Jewellery demand, contributing 48% of the total in 2018, is expected to hold its position as the key driver of gold demand throughout the forecast period as it continues to rally upward from a seven-year low in 2016, to contribute 69% of global demand by 2024. In the short to medium term, jewellery demand is forecast to swell by a CAGR of 0.3% to 115Moz in 2024, driven by increasing incomes in rural areas, particularly in India. Dwindling gold investment will provide balance; this is forecast to decline to zero by 2023 before switching to net divestment in the following year.

Electronics, industrial applications and coinage are expected to comprise a 13–14% share of the market in the short to medium term. These uses, which include technical applications such as bonding wire, printed circuit boards and LED displays, dental and medical uses, coinage and medallions, have been in decline, falling at a compounding annual rate of 3.1% from a peak in 2010 to 2017. Higher prices have led to more-sparing use and substitution away from gold in industrial applications and dentistry. In 2016 these uses reached their lowest point since 2005, accounting for 19Moz of demand. AME expects 2018 to be a turning point, with electronics, industrial and coinage-driven demand forecast to rise for the second consecutive year to 22Moz in 2019, rising again in 2020 before levelling out at 23Mozpa in the medium term.

In the short term, a pickup in global economic activity will drive a recovery in consumer demand. The world bank forecasts 2.9% and 2.8% rises in GDP in 2019 and 2020, respectively, normalising at 2.9% in 2021. This will drive growth in consumer gold consumption. Stalled the U.S. interest rate hikes in the short to medium term will likely encourage movement to gold investment and away from U.S. Treasury bonds and similar interest-bearing investments in the short term.

#### *Global Demand*

Demand for gold rose 5.3% year on year to 166Moz in 2018 and is forecast to grow by a further 3.0% in 2019. In the medium term, gold demand is forecast to spike at 173Moz in 2020 before contracting again to 166Moz by 2024. Jewellery demand is expected to absorb additional supply and reduced investment appetite on the back of continuing economic growth.

During the December Quarter of 2018, China maintained the largest share of global consumer gold demand—accounting for 8.7Moz of jewellery, bar and coin demand—followed closely by India. Chinese demand declined, with a 4.7% quarter-on-quarter fall, partially offsetting the September Quarter's seasonal gain. However, this is not unexpected after a strong September Quarter and is still strong trend demand growth following three consecutive years of declining Chinese consumer demand from 2014 to 2016. Over the short term, Chinese consumption is expected to account for a consistent 31-32% share of global jewellery demand, in line with the preceding two years, as economic expansion continues. This would equate to Chinese jewellery demand rising to 25Moz in 2019.

In the short- to medium-term future, China will hold its position as the largest gold consumer, followed by India. Jewellery, which accounts for the majority of each country's consumer demand profile, is expected to grow over the medium term as India digests its revised tax regimes and markets—particularly those in Asia—continue to grow. These drivers are expected to see global jewellery demand lift from a trough bottoming out in 2016.

In the medium term, global gold demand is expected to rise at a CAGR of 0.9% by 2020 before returning to 166Moz in 2024. Gold jewellery is expected to lose some appeal in China with millennials expected to turn away from pure-gold pieces. This will likely be balanced by improving economic conditions and a rise in wealth in rural communities, with no substantial change predicted in China's market share. Between 2020 and 2024, global jewellery demand is expected to rise by a CAGR of 1.9%, with Chinese demand growth expected to follow suit.

Table 1: Historical and Forecast Gold Demand by End-Use, 2016-2024, koz

	2016	2017	2018	2019	2020	2021	2022	2023	2024
					(koz)				
Jewellery.....	70,166	78,555	80,118	86,527	93,450	99,991	104,991	110,240	114,640
Gold Investment .....	29,920	16,541	18,539	16,464	12,980	11,953	8,666	—	—
Gold Bar Hoarding .....	27,148	27,478	29,983	29,983	29,983	26,455	26,103	24,692	24,692
Central Banks .....	13,748	13,228	15,873	15,873	13,404	10,582	7,937	5,291	1,764
Producer De-Hedging .....	-1,152	966	—	—	—	—	—	—	—
Other & Industrial.....	21,017	21,023	21,693	22,399	23,034	23,034	23,034	23,704	24,410
<b>Total.....</b>	<b>160,847</b>	<b>157,792</b>	<b>166,207</b>	<b>171,247</b>	<b>172,851</b>	<b>172,016</b>	<b>170,730</b>	<b>163,927</b>	<b>165,505</b>

Source: AME

China's Belt and Road initiative is expected to have a substantial impact on the Chinese and global economies. This and other global policy changes could potentially see substantial rises in consumer demand in the longer term; jewellery demand especially would be boosted by a sustained long-term improvement in China's consumer spending.

Chinese demand is overwhelmingly dependent on jewellery demand and, in turn, upon personal wealth. A devaluation of the Yuan—a scenario which may be evaluated by the Chinese Government to stimulate exports in the wake of trade tensions with the U.S.—would risk weakening the purchasing power of Chinese consumers to buy gold, typically sold in U.S. dollars. Gold investment could also see downside from sustained rises in real interest rates, bond yields or the U.S. dollar.

India retained the world's second-largest base of consumer gold demand in the December Quarter of 2018, accounting for 8.3Moz of global demand for jewellery, coins and bars. The country's share of global consumer demand lifted from 21.2% in 2016 to 23.8% in 2017, driven by a 19.3% year-on-year rise in jewellery demand. In the short-term future, India is expected to retain a share of around 30% of global gold jewellery demand.

### Supply Drivers

A key driver for mined gold supply is the underlying pricing level of gold prices. In times of higher pricing levels, mined supply is more incentivised to be developed, including relatively higher cost operations which may otherwise be considered uneconomic. Due to generally long lead times associated with developing a mining operation (typically 3-5 years), there tends to be a delayed supply response to changes in the gold price. Rising gold prices over the period 2015 to 2018 have provided incentives for additional gold mined supply to be developed. AME forecasts mined gold supply in the short to medium term to be supported by the commencement of a number of large scale gold projects.

Similarly, for scrap supply, one of its key drivers is the underlying gold price. A higher gold price will incentivise holders of gold to sell as scrap (recycled supply). Conversely, a lower gold price may not provide sufficient incentive for holders of gold to contribute to scrap supply. Over the period 2015 to 2018, rising gold prices incentivised growth in scrap supply. AME expects the upward trend in scrap supply to continue in the short to medium term as recycling of gold becomes more attractive in light of a higher gold pricing environment.

Given economic uncertainties, central banks have been purchasing gold and have become a source of gold demand since 2010. However, AME believes that central banks will once again become net sellers of gold over the long term as markets become more stable. Key drivers concerning central bank supply are their risk management strategy and conditions in the financial markets.

Over the medium and long term, AME believes labour costs, increased government intervention and deteriorating ore grades will remain significant challenges for gold producers, and will possibly have an impact on future mined supply. AME expects the following key issues to limit supply growth over the long term.

- Rise in labour and development costs - In South Africa, previous labour disputes have impacted gold production significantly. Many large companies such as Gold Fields, AngloGold Ashanti and

Harmony Gold were affected. Rising labour wages in China also resulted in operations becoming more capital intensive rather than labour intensive.

- Government intervention - When the gold price rose over the last decade, governments around the world imposed regulations, taxes and royalties which translated into higher costs for gold producers. Approvals on mine projects and exports have also become more stringent in general over the years.
- Declining ore grades - This is a significant issue in the gold industry. Mines with high-grade ores are generally maturing, nearing the end of their economic life. Meanwhile other mines have moved on to exploiting lower grade areas of their deposits, having typically mined out the higher grade portions. As such, there has been a downward trend in the average ore grade over the past 10 years and it is unlikely to recover.

### ***Global Supply***

Total gold supply consists of mined supply (the largest single source of supply), as well as gold divestments, central banks' gold sales and recycling of scrap gold. In terms of mined supply, the major gold producing countries are China, Australia, the U.S., Russia and South Africa. China overtook South Africa to become the largest producer of gold in 2007 and has since continued to increase production.

AME expects mined supply to rise 7.3% year on year to an estimated 116Moz in 2019, growing again by 0.5% in 2020. In the medium term, mined supply is forecast to rise to 116Moz at the forecast peak of mined supply in 2020, before returning to 95Moz in 2024. This is due to declining reserves amongst gold projects.

New gold mining operations commissioning in the short- to medium-term future are expected to contribute over 21.3Mozpa of increased supply capacity. In 2019, these additions are expected to account for 6.2Moz, or 5.3% of the year's forecast global mined gold production. This is forecast to fall to 4.9% in 2020 and falling further to 4.7% in 2021. Producers typically commit to capacity increases based on the prevailing economic environment and increased project confidence. New capacity increases, both new and expansion-based, as well as reserve increases and life extensions, are typically announced progressively in the medium term.

AME expects mined supply to grow until 2020, when a medium-term peak is forecast as projects in the development pipeline enter production and ramp up. Peak gold is a country-by-country story; Australia's production is expected to decline from contributing 8.9% of global supply in 2020 to 6.1% of supply by 2024 as large projects in the Western Australian gold fields approach the end of their lives. Sudan, conversely, is expected to ramp up production in the short term, with 5.1Moz of gold production forecast for 2019. This production surge, driven almost entirely by small-scale or artisanal mining, is expected to see Sudan become Africa's largest gold producer in the medium term. Russian production is expected to decline slightly in the medium term, with closures somewhat offset by ramp-ups at several of Polyus Gold's projects, including the 450-600kozpa Natakka. In Indonesia, Grasberg production is expected to decline as it completes its transition from open-cut to underground.

Since 2013, improvements in technology, efficiency and production, ever-increasing economies of scale and the breaking-down of trade and investment barriers have impacted production efficiencies and raw material costs. In the short to medium term, producers will embrace autonomous mining technology; during the March Quarter, Hecla reported that 5% of output from its Greens Creek operation in the U.S. was from automated headings. In April, Randgold identified automated materials handling as a key supporter of the planned ramp-up of Kibali production. Indirect advances are also being made; Agnico launched the world's first underground 4G network during the September Quarter—to be completed by the end of 2018—and Goldcorp is ramping up its use of telemetry. These advances will lay the groundwork for greater adoption of autonomous operations. Goldcorp is also embracing innovation in exploration, partnering with IBM in November to improve mineralisation predictability.

In the short term, supply growth will primarily come from mines within Russia, Canada, west Africa and Australia. In 2019 Russia will add 1.1Moz, which will include Nordgold's 240kozpa Gross. Canada is expected to add 0.9Mozpa to supply in 2019, including Agnico's 440kozpa Meliadine and Eldorado's 140kozpa Sigma Lamaque. Australia will likely see 0.25Moz of additional capacity come online in the short term, with Gold Road and Gold Fields targeting first ore from the 300kozpa Gruyere in mid-2019. Burkina Faso will bring an additional 200koz with the start of the 230kozpa Boungou, owned by SEMAFO and the Burkinabe Government.

Table 2: Estimated Global Gold Supply by Country, 2018

	%	2018
Russia & CIS .....		13.9%
China .....		11.9%
Australia .....		9.3%
US .....		6.8%
Canada .....		5.6%
Rest of World .....		52.5%

Source: AME

North and Central America's share of mined gold supply is expected to grow between 2020 and 2024, with Centerra's 410kozpa Hardrock JV expected to commission in the medium term—pending a positive construction decision in the December Quarter—and Goldcorp's 240kozpa Coffee expected to commence in 2021. Production from China is expected to plateau as new supply additions from medium-scale mines fail to offset reductions in output from small-scale operations in the face of stricter environmental requirements.

Over the long term, China and Russia are expected to retain their current positions as the world's largest producers of mined gold. Australia, historically ranking consistently in the top-five mined gold suppliers, is likely to fall from its position in the forecast period, reflecting a dry project pipeline and the depletion of existing mineral inventories despite recent peaks in exploration expenditures. The long-term source of scrap will continue to shift to China and Southeast Asia, as rates of recycling of industrial gold picks at higher rates in these regions.

Table 3: Historical and Forecast Global Mined Gold Supply by Country, 2016-2024, koz

	2016	2017	2018	2019	2020	2021	2022	2023	2024
					(koz)				
China .....	14,926	13,793	12,896	17,524	17,398	16,973	16,056	15,638	15,254
Russia & CIS .....	13,000	13,610	15,040	16,156	16,006	15,328	14,057	13,862	13,710
Australia .....	9,237	9,295	10,019	10,281	10,385	9,493	7,600	6,310	5,299
Canada .....	5,286	5,634	6,069	6,913	7,401	7,461	7,639	7,718	6,698
US .....	7,251	7,875	7,321	6,800	6,501	6,626	6,306	6,018	5,571
Rest of World .....	54,873	55,180	56,700	58,213	58,683	58,832	56,323	53,220	48,118
<b>Total .....</b>	<b>104,574</b>	<b>105,387</b>	<b>108,046</b>	<b>115,887</b>	<b>116,374</b>	<b>114,714</b>	<b>107,981</b>	<b>102,767</b>	<b>94,650</b>

Source: AME

Government policy shifts can encourage development of domestic gold supply. The Chinese Ministry of Industry and Information Technology has inked plans to lift annual gold output to 16Mozpa by 2020 and is backed by a government division tasked with gold exploration. Similarly, Russia plans to lift production to a record 13Mozpa by 2030 through exploration of prospects in Eastern Siberia, Magadan and Yakutia regions.

Tightening scrutiny around development of projects, particularly in remote regions of developed countries such as Canada, could exacerbate declining output. Development of projects in the U.S. are subject to increased opposition, with large-scale mining in Alaska's Bristol Bay banned due to fauna concerns halting the Pebble project. Seabridge Gold's transboundary KSM, also in Alaska, has faced significant community opposition. Similarly, development of Goldcorp's Coffee project in Canada's Yukon has been delayed due to back-and-forth with environmental assessments.

### Market Dynamics in Russia and Armenia

Gold demand in Russia has been primarily driven by the CBR, which has been moving holdings out of U.S. dollars and into gold as part of its dedollarisation campaign in response to the risk of sanctions being placed on the country. The CBR purchased 9.7Moz of gold in 2018, the fourth consecutive year of purchases in excess of 9Moz. With the demand for gold in Russia from the non-banking sector at approximately 1.6Moz in 2018, total demand is estimated to have been around 11.3Moz. With 2018 mined production estimated to have been 9.9Moz, it is estimated that Russia was a net importer of gold. It is expected that demand from the CBR to remain strong in the short to medium term, with purchases remaining above 9Moz, Russia is expected to maintain its position as a net gold importer.

Russia is a major gold producer, currently producing, and expected to become the second largest producer in 2019, as new projects increase production. The main gold mining regions in Russia are the Krasnoyarsk region, Chukotka, the Amur region, Yakutia and the Magadan region.

Armenia contains considerable gold resources contained in gold and gold-polymetallic deposits. There are currently 13 operating mines mining gold. The Group is one of the key gold producers in Armenia, and currently operates the Zod, the largest gold mine in Armenia, and the largest current known resource, containing 6.8Moz, making it a world class deposit. The next largest known deposit in Armenia is Lydian International's stalled Amulsar deposit, which contains 3.47Moz of resources.

In the short-to medium-term, Russia will hold its position as the second largest gold supplier, followed by Australia. Due to the weak Australian dollar, many gold producers are expanding their operation to take advantage of the local gold prices. Thus, Russia are forecast to lose its second place in the global market. Supply from both Russia and Armenia is expected to grow over the medium term as the gold prices are expected to stay stronger over this period. Russia expect to break the 10Moz production mark in 2019 before falling back to 8.6Moz by 2024. Armenia also expect to follow this trend with strong production out until 2024.

### ***Gold Pricing and Outlook***

Unlike other commodities, the demand-supply balance is not the primary driver of the gold prices. The gold prices are more driven by global macro-economic and other political agenda between key countries related to gold market.

The gold price is largely determined by investors' attitude and the flow of investment funds into and out of gold as an asset class. The dominant factor remains the dedollarisation of the U.S. dollar. Russia and other advanced countries are trying to move away from U.S. dollars as a central trading currency. This move may cause the gold price to fluctuate in the future as gold may become the most attractive safe haven for the investors.

From an investment perspective, gold demand is now largely 'retail' rather than institutional. Gold has been a very popular investment option in China. However, we believe the Chinese financial system will mature in the medium term and subsequently offer more investment options to individuals in China, redefining its demand for gold.

While the Asia-Pacific region is likely to remain at the centre of global growth, central bank policies in developed economies are likely to be a key short term driver for gold prices. During periods of low interest rates, the opportunity cost for gold is relatively low. This led to an increase in physical gold bar hoarding and a subsequent increase in gold prices in the lead up to 2013. AME expects better economic conditions in developed markets to prompt central banks into increasing interest rate in the future.

Another key factor of gold pricing is the demand for physical gold in China and India which together account for over 50% of global consumer gold demand. China and India continue to exhibit strong growth in the sector, with demand per capita remain around 23.1 oz and 17.7 oz per thousand people. AME forecasts an average 2019 gold price of US\$1,300/oz, with the year's strong first quarter expected to be moderated by a dip in the second half of the year, with price falling below US\$1,300/oz at the end of the first quarter, despite averaging US\$1,307/oz for the January Quarter. In 2020, AME expects gold price to rise to an average of US\$1,307/oz, continuing to US\$1,338/oz by 2024 and maintaining relative stability in the medium term. Gold faces headwinds from a hawkish U.S. Fed outlook, an expectation of rising bond yields and an increasingly subdued market sensitivity to geopolitical events. Escalations in international tensions, downside in equities markets or a failure of bond yields to meet expectations would see price upside.

Overall the January Quarter has seen a minor rise in gold price, averaging US\$1,307/oz—up almost 6% quarter on quarter, remaining suppressed by sustained strength in the U.S. dollar with weakness in emerging market currencies. The month of March, however, saw this start to reverse after reaching the yearly high of US\$1,343/oz in February, as the greenback retreated following the Fed's announcement that it will be pausing its monetary tightening cycle, and finished March back below US\$1,300/oz at US\$1,298/oz. This was driven by surging uncertainty around the conditions of the United Kingdom's exit from the European Union as the exit day was postponed twice. An emerging expectation that 2019 will see the slowdown in global economic growth, as the Fed revealed that it no longer feels the need to offset inflation with restrictive monetary policy.



Table 4: Historical and Forecast Gold Spot Price, 2016–2024, US\$/oz (Forecast Real 2019)

	2016	2017	2018	2019	2020 (US\$/oz)	2021	2022	2023	2024
AME Europe Gold Spot.....	1,238	1,246	1,265	1,275	1,300	1,325	1,325	1,332	1,338

Source: AME Report

One of the longstanding geopolitical concerns that made several appearances during the first quarter was the ongoing dispute between the U.S. and China, as the threat of a trade war between the powerful countries continues to loom. Unlike previous quarters, the trade talks between the U.S. and China moved around quite significantly as conflicting news was released by both sides. Although there were, and continue to be, disputes between the regions, the quarter also introduced civil conversations between U.S. President Donald Trump and Chinese President Xi Jinping.

Several additions to gold supply from large-scale commercial mines are expected in the short to medium term, particularly in Canada. AME forecasts medium-term mined gold production to peak in 2020, after which a weak project pipeline is expected to see mined output decline, as a result of reduced greenfield exploration spending and the winding down of colossal mines. In addition, a spike is expected in artisanal mining in the short term, driven by countries with high ratios of small-scale mining like Sudan and Uganda. Scrap production, linked closely to the resale value of gold, is expected to rise in the short term on the back of a forecast rise in prices.

In 2018, jewellery demand accounted for 48% of the total market, falling from 50% in the previous year. This decrease was offset by increases in gold investment, gold bar hoarding and central bank investment. India's seasonal jewellery demand growth will likely remain subdued following the weak 2018 monsoon season in the subcontinent's north. The increase in gold investment is expected to be short lived, and 2019 is expected to see investment decline again.

## Antimony

### Description

Antimony is a chemical element with symbol Sb and atomic number 51. A lustrous grey metalloid, it is found in nature mainly as the sulphide mineral stibnite. Antimony occurs in both metallic and non-metallic forms. Antimony is too soft to make hard objects, and as a result is primarily used as an alloy or in chemical form, however, it is resistant to acids.

### Usage and End-Use Breakdown

AME estimates about 42% of antimony is consumed in flame retardants, and around 31% is used in alloys for batteries, plain bearings, and solders. Antimony is mainly used as the trioxide for flame-proofing compounds, always in combination with halogenated flame retardants except in halogen-containing polymers. The flame retarding effect of antimony trioxide is produced by the formation of halogenated antimony compounds, which react with hydrogen atoms, and probably also with oxygen atoms and hydroxyl radicals, thus inhibiting fire. Markets for these flame-retardants include children's clothing, toys, aircraft, and automobile seat covers. They are also added to polyester resins in fiberglass composites for such items as light aircraft engine covers. The resin will burn in the presence of an externally generated flame, but will extinguish when the external flame is removed.

Antimony forms a useful alloy with lead, increasing its hardness and mechanical strength. For most applications involving lead, varying amounts of antimony are used as alloying metal. In lead–acid batteries, this addition improves plate strength and charging characteristics. It is used in antifriction alloys, in bullets and lead shot, electrical cable sheathing, solder (some "lead-free" solders contain 5% antimony), in pewter, and in hardening alloys with low tin content in the manufacturing of organ pipes.

Three other applications consume the remainder of the world's supply. One application is as a stabilizer and catalyst for the production of polyethylene terephthalate. Another is as a fining agent to remove microscopic bubbles in glass, mostly for TV screens. The third application is pigments.

Antimony is increasingly being used in semiconductors as a dopant in n-type silicon wafers for diodes, infrared detectors, and Hall-effect devices. In the 1950s, the emitters and collectors of n-p-n alloy junction transistors were doped with tiny beads of a lead-antimony alloy. Indium antimonide is used as a material for mid-infrared detectors.

Table 5: Estimated Antimony End-Use by Application, 2018

	2018
Flame Retardant.....	38.0%
Lead Acid Batteries .....	31.0%
Alloy Strengthening Agent .....	16.0%
Fiberglass Composites .....	8.0%
Catalyst.....	5.0%
Other Application .....	2.0%

Source: AME Report

### Demand Overview

The majority of antimony is consumed in the production of flame retardants and lead-acid batteries. Combined, these end-uses accounted for approximately 69% of antimony demand in 2018. As a result, consumption trends in these two applications for antimony shape overall demand dynamics.

In both cases, a similar situation prevails while overall demand (for flame retardants and lead-acid batteries) has been steadily increasing, the antimony consumption within these applications has been reducing. In flame retardants, this is mainly due to the high antimony price prompting substitution of antimony, and legislative and requirements forcing changes to flame retardant formulas. In batteries, lead-calcium-tin alloys are increasingly being used instead of antimonial lead in battery grids for sealed-for-life maintenance-free automotive batteries, also called valve-regulated lead-acid batteries. Because of these trends, demand for antimony in both non-metallurgical and metallurgical applications has stagnant in recent years.

Table 6: Historical and Forecast Lead-Acid Battery Demand by Use, 2016-2024, GWh

	2016	2017	2018	2019	2020	2021	2022	2023	2024
	(GWh)								
UPS .....	77.3	84.9	92.2	99.4	107.0	115.1	123.6	128.2	133.0
Other .....	37.0	38.9	40.6	42.1	43.6	45.2	46.9	48.6	50.4
Automotive Starters.....	77.3	77.8	77.4	76.5	75.3	76.1	76.7	79.6	82.5
Motorcycles .....	60.5	67.2	70.0	72.6	75.3	78.1	81.0	84.0	87.1
Other Motive Applications .....	84.0	84.9	88.5	91.8	95.1	96.6	98.1	101.7	105.4
<b>Total.....</b>	<b>336.0</b>	<b>353.8</b>	<b>368.7</b>	<b>382.3</b>	<b>396.4</b>	<b>411.1</b>	<b>426.3</b>	<b>442.1</b>	<b>458.5</b>

Source: AME

AME expects that although the amount of antimony utilised per lead-acid battery will continue to decline, with tin increasingly used instead of antimony, overall demand for lead-acid batteries will continue to increase at a CAGR of around 3.7% to 2024, driven by continued demand from motor vehicle production, and stationary Uninterruptible Power Supply (UPS) demand in datacentres and telecommunications facilities.

Other alloys incorporating antimony are used to make bullets, cable sheaths, solder, and other specialty applications. Although this is currently a small part of the demand for antimony,

While the outlook for construction and plastics is broadly positive, which suggests demand for flame retardants will likely increase, the future of antimony demand in flame retardants will remain highly sensitive to prices and the regulatory environment.

Overall, AME expects antimony demand to grow at a CAGR of around 1% over the period to 2024, as demand from batteries and other uses offsets the decline in demand from fire retardants.

Table 7: Historical and Forecast Antimony Demand by End-Use Application, 2016-2024, kt

	2016	2017	2018	2019	2020	2021	2022	2023	2024
					(kt)				
Flame Retardant.....	78.3	72.6	66.9	65.5	64.1	62.7	61.3	60.8	60.2
Lead Acid Batteries .....	58.7	56.6	54.6	54.9	54.3	54.7	54.6	54.9	55.3
Alloy Strengthening									
Agent .....	19.6	23.9	28.2	29.2	30.3	30.5	30.6	30.8	31.0
Fiberglass Composites .....	13.4	13.7	14.1	14.6	15.1	15.7	16.2	16.3	16.4
Catalyst.....	5.3	7.1	8.8	8.9	10.7	12.5	14.4	15.4	16.5
Other Application .....	2.7	3.1	3.5	4.0	3.6	3.1	3.1	3.1	3.1
<b>Total.....</b>	<b>178.0</b>	<b>177.0</b>	<b>176.0</b>	<b>177.1</b>	<b>178.1</b>	<b>179.2</b>	<b>180.3</b>	<b>181.3</b>	<b>182.5</b>

Source: AME

### Supply Overview

After mining, antimony ore processed into metal ingots, which are then used to produce antimony trioxide for flame retardants. This processing capacity is predominantly located in China. As a result, China currently accounts for over 90% of finished antimony supply. However, this has been declining in recent years, due to older mines reaching the end of their life and a national movement to mitigate pollution, which has caused plant closures.

China's large resource, low cost of production and significant processing capacity has seen the country dominate market supply. However, a new plant opening in Oman aims to take significant market share. Oman's Strategic & Precious Metals Processing LLC will have a capacity of 20,000 tonnes of antimony, as well as gold. This represents approximately 12% of the average annual world antimony production over the past five years. This project which is assumed to be the first antimony roaster to be built outside of China in the last 30 years.

Table 8: Historical and Forecast Antimony Production by Country 2016-2024, kt

	2016	2017	2018	2019	2020	2021	2022	2023	2024
					(kt)				
China .....	108.0	98.0	90.0	89.0	88.1	87.2	86.4	84.0	81.7
Russia & CIS .....	22.0	28.4	52.4	53.3	54.3	55.2	56.2	57.2	58.2
Bolivia.....	2.6	2.7	2.7	2.6	2.6	2.5	2.4	2.3	2.3
US.....	—	—	3.1	3.1	3.2	3.2	3.2	3.3	3.3
Australia .....	5.0	3.1	—	—	—	—	—	—	—
Rest of World .....	10.4	4.8	7.8	9.5	11.0	12.6	14.1	17.2	20.2
<b>Total.....</b>	<b>148.0</b>	<b>137.0</b>	<b>156.0</b>	<b>157.6</b>	<b>159.1</b>	<b>160.7</b>	<b>162.3</b>	<b>164.0</b>	<b>165.6</b>

Source: AME

Between 2010 and 2017, global mined antimony production decreased at a rate of 3% per annum. China remain as the world's biggest producer, accounting for around 72% in 2018, although Chinese mine production has been falling continuously since 2011.

Prior to 2017, many large-scale producers reduced production and many small-scale producers closed in response to price declines in China and stricter environmental standards from provincial and national governments. In 2018, producers in Hunan, Yunnan, and Guizhou Provinces maintained a steady production rate after their smelters completed upgrades to meet the environmental standards. In the next several years, antimony mining in the Guizhou Province is expected to be limited, as a part of the Chinese Government's mining industry reforms aiming to reduce mine overproduction.

In Russia, the Group is the largest primary antimony producer in the country, and produced approximately 5% of global production in 2018. The Group has significant reserves of 169kt of antimony, which accounts for approximately 48% of reserves in Russia, and approximately 8% of reserves globally. Additionally, the Group produces one of the highest grade antimony concentrates in the world, averaging 60% contained antimony. As a result, this product is widely accepted in the markets, and in particular China, which is looking for high grade concentrates to compensate for reduced production domestically.

Russia and Tajikistan are upcoming supply regions in antimony market with 52kt of antimony produced in 2018 in the two countries. Russia's Polyus produced over 20kt of contained antimony, elevating into the

position of the world's largest production. Polyus' Olimpiada mine in Russia, for example, which produces antimony as a by-product, supplies around 20kt of the ore to China. However, as Polyus produces antimony as a by-product, its production can vary significantly from year to year.

### **Market Balance**

AME estimated that the market was balanced in 2018, with both demand and supply for antimony at around 140kt. This balance is expected to be maintained over the short term, with lower demand from China and additional supply injecting from Russia and Tajikistan, offset by increasing demand in the rest of Asia and the Middle East. The subdued demand is due, in part, to a trend for replacing antimony with tin in new lead-acid batteries, as well as some changes in flame retardant regulation that has shifted the industry away from antimony. However, the commodity is still generally considered to be the most cost-effective and best performing fire retardant product on the market.

Although mining antimony is cheaper in China because of labour costs, and the typically large deposits, the trend in declining production is set to continue. China's Green Shield strategy (Government initiatives to clean up the environmental damage done in recent years) should continue to restrict antimony processing and mine supply, as its government continues to clean up the environmental damage done in recent years. However, for the overall market, Russian supply will likely to mitigate China's decline. Thus, antimony market are expected to remain balanced until 2021, before tipping deficit in 2022, where additional Russian supply is not enough to fill the China's supply gap.

*Table 9: Estimated Antimony Reserves by Country, 2018*

	2018
China .....	21.1%
Russia & CIS .....	17.8%
Bolivia .....	13.6%
Australia .....	6.2%
Turkey .....	4.4%
US .....	2.6%
Rest of World .....	34.3%

*Source: AME*

### **Pricing and Outlook**

Antimony prices have been relatively stable, oscillating around US\$8,000/t since end-2016, having fallen from a peak of over US\$16,000/t in 2011. AME estimates the market to have been in surplus since 2011 and, in 2018 as the market reached a new balance, Russian gold miner Polyus added an additional 24kt of contained antimony to the market, which is produced as a by-product from its Olimpiada gold mine. This additional supply will be absorbed by the market, as mined supply decreases from China over the short to medium term. Although antimony prices have been falling since the last quarter, it is expected to recover from the second half of 2019, as Chinese supply continues to fall and the market as a whole begins to move into deficit from 2021.

*Table 10: Historical and Forecast Antimony Price, 2016-2024, US\$/t (Forecast Real 2019)*

	2016	2017	2018	2019	2020	2021	2022	2023	2024
					(US\$/t)				
Antimony Ingot									
CIF US .....	6,602	8,324	8,422	7,750	7,905	8,063	8,224	8,389	8,557
Antimony Trioxide 99.5%									
FOB China .....	5,638	7,369	7,142	6,387	6,515	6,645	6,778	6,914	7,052
Antimony Ingot 99.65% FOB									
China .....	6,406	8,380	8,246	7,370	7,517	7,668	7,821	7,977	8,137

*Source: AME*

## **Copper**

### ***Demand Drivers***

China remains responsible for a considerable portion of global refined copper demand, accounting for almost 50% of demand. This share will increase in 2019, with the country's addition of around 500kt, pushing it up to approximately 51% share of global demand. It has been responsible for the vast majority of annual demand growth throughout the 2010s. In terms of first use of copper, production of continuous cast wire rod is the key demand driver. Wire rod accounts for approximately 75% of global copper cathode output and is used to make copper wire. In terms of end uses, China's biggest demand sector is power (i.e. electricity generation and distribution) at 51% of total use.

Copper's end uses are in construction (including building wire, plumbing, heating and air conditioning), electrical and electronic products (including power utilities), transportation, industrial machinery and equipment, and consumer and general products. In China, electrical and electronic products make up 58% of demand due to the power sector. Construction accounts for 24% and transportation makes up 9% of Chinese demand. In the U.S., construction accounts for 43% of demand, followed by transportation at 19% and electrical and electronic products at 19%. Greatest demand growth is expected in transportation due to increasing sales of electric vehicles and in power due to growth in renewable energy generation. The largest users of copper are the semi-fabricate producers making sheet, strip, foil, bar, wire and tube from copper and copper alloys.

Copper demand is supported by the strong and growing electric vehicle industry. Honda and GAC Group have announced a US\$469 million new energy vehicle ("NEV") plant in China. The plant will produce up to 170,000 new energy vehicles to meet China's ever-tightening green car quotas. The Chinese Government requires NEV production to represent 10% of car producers output in 2019. Possible copper sources for the plant include Ningbo Jintian's two 315ktpa mills in Zhejiang and Guangdong. The new mills are expected to commission in 2019 & 2020. SK Holdings has spent US\$239 million to acquire a stake Lingbao Wason Copper to secure its supply of copper foil for its battery production. Lingbao Wason is currently expanding its copper foil production from 30ktpa to 75ktpa. The expansion is expected to be complete in 2022. Doosan has announced that it will build a US\$114 million copper foil plant in Hungary, responding to an increase in Hungarian copper demand. The new plant will begin production in mid-2019 and produce approximately 50ktpa of copper foil. Doosan estimates that at capacity the plant will supply enough copper foil for 2.2 million EV batteries annually. A number of potential destinations for the copper foil exist, as several major car producers are setting up car plants in Hungary, including BMW and Mercedes-Benz.

There is upside to copper demand forecast for developed countries should there be particularly strong growth in production of EVs (electric vehicles) over ICE (internal combustion engine) vehicles, and greater construction of solar and wind power generating capacity. A sustained period of economic growth in the U.S. or Europe could boost copper demand as consumers increased spending on housing, motor vehicles and durable goods.

Likewise, downside risks for copper demand include trade restrictions, a preference by manufacturers to invest in other countries, and slower than expected uptake of electric vehicles and renewable energy generating capacity. The U.S. in particular is a net importer of refined copper with approximately 0.6Mt, or one-third, of apparent refined copper demand made up of cathode net imports. If the U.S. moves towards trade protectionism through import tariffs widening and includes copper cathode, the U.S. copper demand would be expected to reduce. Copper semi-fabricators would face higher input costs than international competitors.

### ***Global Demand***

AME expects to see a 2.4% increase in refined copper demand through 2019, continuing the increasing growth trends seen in 2018—which itself saw 1.6% demand growth from the year before. As with previous years, the increase is in considerable part due to rising Asian demand, which is expected to rise by some 600kt. There is some downside potential for slower global and Chinese growth to hold growth down at a lower level than expected, but market fundamentals remain strong and significant downside is unlikely in the medium term. As such, we forecast a CAGR of 1.8% over the medium term to 2024.

Of the 2.4% expected increase in refined copper demand expected through 2019—and the medium term forecast CAGR of 1.8%—Asia is forecast to provide the majority of growth—around 600kt in 2019—the majority of which in turn is expected to come from China. There is some downside potential for slower global—and Chinese—growth to hold down demand growth at a lower level than expected, but market fundamentals remain strong and significant downside is unlikely in the medium term.

China remains responsible for a considerable portion of global refined copper demand, accounting for almost 50% in 2018. This share is expected to increase in 2019, with the country's addition of approximately 500kt of demand pushing it up to a 51% share of global demand. In terms of first use of copper, production of continuous cast wire rod is the key demand driver. Wire rod accounts for approximately 75% of global copper cathode output and is used to make copper wire. In terms of end uses, China's biggest demand sector is power (i.e. electricity generation and distribution) at an estimated 51% of total use, followed by air conditioning at around 15% and transportation at around 9%.

After China, the next-largest copper consuming country is the U.S.. The U.S. demand is forecast to increase by 2.0% in 2019. India's demand is expected to rise by 4.6% to reach approximately 520kt, and Vietnam is forecast to see a strong 5.9% growth rate, reaching approximately 286kt for the year—all countries that are set to contribute to Asia's overall CAGR of 1.9% in the medium term. Outside of Asia, European demand will rise by 1.9% in 2019 and see a CAGR of 1.5% through the medium term, bolstered by demand growth in Turkey, Germany, and Belgium.

*Table 11: Estimated Global Copper Demand by Country, 2018*

	2018
China .....	51.0%
US.....	7.5%
Germany.....	5.0%
Japan.....	4.2%
Korea.....	3.0%
Russia & CIS.....	1.9%
Rest of World .....	27.5%

*Source: AME*

China's copper demand-per-capita growth will ease as the economy's focus shifts from manufacturing to consumption. Demand per capita more than doubled from 3.7kg/person in 2007 to 8.4kg in 2017 and is forecast to be 9.2kg in 2023.

There is upside to the Chinese demand forecast in that the strong demand growth of the past decade may not fall away. There exists the possibility that China may continue to develop power and transport infrastructure, and export greater quantities of manufactured goods (e.g. motor vehicles and electrical appliances). Strong growth in the production of EVs over ICE vehicles and construction of solar and wind power generating capacity will add to copper demand.

Downside risks to the China demand forecast include the potential for restricted access to foreign markets for Chinese manufactured goods and slower economic growth in China, and with that reduced domestic demand for house construction, new vehicles and consumer durables such as refrigerators, air conditioners and televisions.

While China does make up a majority of global demand, the remaining top-ten countries are relatively geographically diverse, with Europe, Asia, and North America represented. The United States is the second-largest consumer, and is likely to see around 2% demand growth in 2019 to reach a total of 1.8Mt. As the third-largest consumer Germany's demand will rise to 1.2Mt, or 5% of global demand.

Looking towards the medium term, the market will remain broadly stable. European demand will rise by 1.9% in 2019 and see a CAGR of 1.5% through the medium term. Growth in other areas will be modest, with the U.S. seeing a 1.1% CAGR for copper demand in the medium term. Germany will see a CAGR of around 1.5%. Faster-growing Asian countries will have less of an impact on global demand distribution in the short and medium term despite their fast-paced increases—with India in particular expecting a CAGR of approximately 6.7%—due to their relatively small size compared to the largest producers.

Table 12: Historical and Forecast Finished Copper Demand by Key Countries, 2016-2024, kt

	2016	2017	2018	2019	2020	2021	2022	2023	2024
					(kt)				
China .....	11,694	11,809	12,354	12,675	12,967	13,208	13,434	13,644	13,865
U.S. ....	1,811	1,796	1,815	1,852	1,882	1,902	1,923	1,944	1,966
Germany .....	1,232	1,179	1,216	1,240	1,255	1,274	1,293	1,312	1,332
Japan .....	973	998	1,010	1,018	1,016	1,018	1,023	1,026	1,028
Korea .....	773	750	719	741	752	757	762	768	773
Russia & CIS .....	494	507	470	482	497	503	510	517	523
Rest of World .....	6,567	6,684	6,662	6,828	7,001	7,185	7,370	7,563	7,764
<b>Total.....</b>	<b>23,542</b>	<b>23,723</b>	<b>24,246</b>	<b>24,837</b>	<b>25,370</b>	<b>25,848</b>	<b>26,317</b>	<b>26,775</b>	<b>27,251</b>

Source: AME

### Global Supply

The trend of disruptions at copper mines is not set to alleviate over in 2019. The year has begun with blockades in Peru and ongoing accidents, fatalities, and labour unrest at Konkola Copper Mines plc's sites, and existing sites of unrest throughout 2017 may not alleviate as quickly as hoped. Despite this, and the overall slowing global economy, 2019's rate of growth is expected to be somewhat higher than 2018's as significant new capacity comes online as producers react to a potentially stabilised price, an ongoing demand shortfall, and predicted demand increases, a trend that is expected to see a CAGR of around 4.0% over the short-to-medium term.

A total of 3.6Mt of additional copper-in-concentrate capacity is expected to be brought online over the medium term. The largest capacity contributions are First Quantum's 340ktpa Cobre Panama in Panama, Teck Resources' 275ktpa Quebrada Blanca Phase Two and BHP's 200ktpa Spence expansion in Chile. In the next five years, notable expected closures include Glencore's 200ktpa Alumbra open-pit operations in Argentina, Sandfire Resources' 80ktpa DeGrussa in Australia, Guangdong Rising's 80ktpa Phu Kham in Laos, and Codelco's 50ktpa Salvador in Chile.

Table 13: Estimated Mined Copper Supply by Country, 2018

	2018
Chile .....	25.5%
Peru .....	14.2%
Russia & CIS .....	9.3%
China .....	9.0%
Australia .....	5.5%
Rest of World .....	36.5%

Source: AME

Chile, Peru and China will continue as the top three producer countries, making up an average of approximately 47% of global supply in 2019 at proportions of around 24%, 13% and 10% respectively. Other major producing countries include Indonesia, expected to produce approximately 5.3% of the total in 2022, the U.S. at around 5.0%, Zambia at around 4.9%, Australia at around 4.7% and Russia at around 4.6%. Zambia's production share is forecast to increase from around 4.1% in 2018, to an average of around 5.0% in 2020–2022, largely due to Sentinel's ramp-up, plus additions from Kansanshi (+80kt), Nkana (+50kt), Chambishi (+45kt), and Konkola (+40kt). Currently ranked fourth, Australia is forecast to fall to seventh in 2024 due to the expected closure at Sandfire Resources' 80ktpa DeGrussa, and Glencore's 180ktpa Mount Isa Copper approaching the end of its mine life.

AME forecasts that approximately 41% of the world's copper in concentrate supply will come from the top ten producers in short to medium term, continuing the industry's gradual deconsolidation of supply. The major producers will mostly see their share of global supply decrease very slightly through the year, including Chile's Codelco, which will produce around 7.8% of the world's copper in concentrate in 2019, as well as multinational mining companies, such as Glencore (5.9%), Freeport (3.6%), and BHP (5.0%). Southern Copper (4.8%) will see its share rise slightly, although it is expected to join other companies in the medium term and see its relative share decrease. Teck Resources is forecast to join the top ten producers and to be the eighth ranked by 2024 due to its 275ktpa Quebrada Blanca Phase Two where commissioning is expected from 2021, although it will be overtaken by other companies further into the long term.

Access to water in the Chilean and Peruvian Andes—the world's largest copper-producing region—and reliable electrical power (particularly in Africa), will remain important and costly issues with which producers must contend.

The world's top-ten copper-in-concentrate suppliers make up a large but decreasing percentage of the market. The top ten producers hold just under 80% of the world's supply, and this is not expected to decrease dramatically. The top three producers—Chile, Peru, and China—together hold almost 50% of the world's supply, with Chile alone producing almost 25%.

*Table 14: Historical and Forecast Mined Copper Supply by Key Countries, 2016-2024, kt*

	2016	2017	2018	2019	2020	2021	2022	2023	2024
					(kt)				
Australia .....	908	862	913	973	1,040	1,035	938	872	687
Chile .....	3,892	3,929	4,256	4,198	4,401	4,592	4,988	5,134	5,197
China .....	1,851	1,656	1,506	1,565	1,656	1,746	1,785	1,786	1,836
Peru .....	2,280	2,383	2,371	2,411	2,354	2,260	2,434	2,665	2,720
Russia & CIS .....	1,317	1,520	1,551	1,701	1,817	1,796	1,850	1,900	1,917
Rest of World .....	6,213	6,008	6,091	6,350	6,878	7,428	8,022	8,444	8,519
<b>Total.....</b>	<b>16,461</b>	<b>16,358</b>	<b>16,688</b>	<b>17,199</b>	<b>18,147</b>	<b>18,856</b>	<b>20,017</b>	<b>20,801</b>	<b>20,876</b>

*Source: AME Report*

### **Market Balance**

AME estimates that global copper concentrate market was around 351kt in deficit in 2018. However, this shortage is expected to be filled with additional capacity from emerging markets such as Russia and Zambia. The global demand for copper concentrate totalled around 17.1Mt in 2018 while supply remained at around 16.6Mt. The same deficit trend was also observed in the refined market with global refined copper demand totalled 24.2Mt where supply remained around 23.9Mt (a shortage of 380kt).

Unlike the concentrate market, refined market expects to remain in deficit in 2019 as the fresh capacity are not expect to inject into the market as quickly as the concentrates. In the medium term, the deficit expects to decrease and the market to move into surplus by 2022.

### **Market Dynamics in Russia and Armenia**

With production of 742kt of copper concentrate in 2018, Russia is the fifth largest supplier of copper concentrate in the world marginally behind Australia. Russia is expected to continuously increase its production and expect to overtake Australia by 2022 with estimated production of around 934kt. This is around 5% of global copper production in 2022 with the market still dominated by the conventional power houses of Chile, Peru and China. Armenia is another potential supplier of the copper concentrate with 55kt of copper concentrate production expected in 2019 and currently ranked as third largest producer in the CIS region.

With demand for copper concentrates from smelters in Russia expected to range between 715-774ktpa up to 2024, there is expected to be an excess of supply of concentrates in Russia over the forecast period, and it is expected that Russia will become a net exporter of concentrates. Similarly, Armenia is forecast to have higher production of copper concentrates over the forecast period than demand, and as a result also be a net exporter of concentrates.

### **Copper Pricing and Outlook**

The 2018 year ended with an average copper price of US\$6,510/t – very close to end of year estimates. 2019 forecasts for price remain largely the same, with AME expecting a yearly average of US\$6,580/t. The copper market is expected to see the current market deficit to narrow gradually until 2024, when the market is expected to return to balance. Average prices are expected to slow their rapid rise over the short-to-medium term, arriving at US\$6,750/t in 2024.

Copper prices appear to have reversed their gradual month-on-month decline over the quarter ended 31 March 2019, rising from a January of 2019 average of US\$5925/t and crossing back over the US\$/6,000/t mark to



average US\$6,429/t for March 2019 and US\$6,209/t for the quarter ended 31 March 2019. Despite no firm resolution to ongoing international trade tensions eventuating, escalation between the U.S. and China has largely ceased, reducing uncertainty and allowing a lift in outlooks. A full resolution to trade tensions would still be the most significant upside for copper prices, but demand remains strong and medium-term price stability is largely ensured. As such, price forecasts for the medium and long term remain in line with 2018's December Quarter forecasts.

*Table 15: Historical and Forecast Copper Price, 2016-2024, US\$/t (Forecast Real 2019)*

	2016	2017	2018	2019	2020 (US\$/t)	2021	2022	2023	2024
AME Ex Asia Copper Spot Price....	4,869	6,171	6,510	6,580	6,600	6,650	6,680	6,700	6,750

*Source: AME*

Disruptions seen over the last few years largely continue in the current market. Vedanta's Sterlite copper smelter in Tuticorin remains shut, with labyrinthine legal decisions and conflicting decisions from various regulatory bodies dragging the smelter's re-opening process out. Mitsubishi Materials has seen strikes and issues with ongoing work at its Gresik smelter in Indonesia, although the prolonged issues with its oxygen plant do appear to have been corrected. Zhongtiaoshan's Chinese Houma smelter remains halted for a years-long operational revamp, with operations expected to return before the end of 2020 with a 350ktpa capacity—far larger than its previous 50ktpa limit. Chile's Codelco has seen further issues with work at its Chuquibambilla smelting operations, terminating its ongoing contract with engineering firm SNC-Lavalin after alleging work at the site was not being performed according to agreed-upon standards. The site's overhaul programme has encountered many issues since it began in 2016, and this further delay has prompted Codelco to formally delay the site's smelter restart—a move expected to cost around US\$40m.

Maintenance at Glencore's Pasar smelter does appear to have concluded positively, however, and other shorter-term outages from producers such as BHP Billiton Marketing Asia Pte Ltd have largely ceased.

In the short to medium term, the key issues that may impact refined copper supply remain much the same as recent years: the potential for substantial mine, smelter and refinery disruptions, and whether additional capacity from new and reopened projects and expansions will come online according to schedule. Glencore's Katanga Mining planned to ramp up the restarted Kamoto complex in the Democratic Republic of the Congo (the "DRC") to 300ktpa from 2019, but the production guidance has been revised down to 285ktpa. Commissioning from Hechi Nanfang's new 150ktpa Nanguo smelter has been delayed from 2018 to 2019. Eurasian Resources' 77ktpa Roan Tailing Reclamation in the DRC and Excelsior Mining's 34ktpa Gunnison project in the U.S. has been delayed from 2018 and 2019. Further delays may impact on refined copper supply and widen deficit forecast. Vedanta was aiming to double smelting capacity at Tuticorin to 800ktpa by the end of 2019, but Tuticorin was ordered to permanently close by India's state Government of Tamil Nadu in May and the capacity expansion has been ordered to cease. AME has assumed Vedanta will successfully challenge the permanent closure and that production will resume in 2019, and the expansion will be delayed until the end of 2021. The closure, however, may prove to be permanent.

China is the key determinant of copper demand, as the country accounts for 50% of global demand and is responsible for approximately 90% of demand growth in the past five years. Factors that may impact upon Chinese short to medium term demand include changes in China's economic growth rate, impact of the trade dispute with the U.S. and tightening environmental restrictions in China that may affect seasonal and total industrial activity levels.

## **Molybdenum**

### ***Demand Drivers***

Major demand driver for the global molybdenum is from the oil and gas sector. The number of oil and gas rigs operating worldwide has continued to grow so far in to 2018. Oil and gas sector have already taken a market share of 15% in the global molybdenum sector, which is almost the same level as chemical/petrochemical and automotive industry. The oil and gas sector are expecting to grow even further in the future and become the dominant demand driver for Molybdenum.

Industrialisation of the developing countries, for multiple purposes, has also been the key demand driver of molybdenum as the ore is used in multiple applications in the industry ranging from automotive, process and mechanical industry. China's industrialisation has been the major factor with Chinese consumption for molybdenum surging by 15% within the last decade. The increase in China's share of consumption in the past decade has been at the expense of other industrialised countries such as the U.S. and Europe.

### Global Demand

AME expects global demand for molybdenum to be at the level of 264kt in 2018, a rise of 4% from 253kt recorded in 2017. China remained the largest user of molybdenum, at 97kt, a 6% increase from 92kt in 2017. Europe remained the second largest user at 65kt, a 2% increase from 64kt in 2017. Japan saw one of the biggest percentage rises in use from 24kt in 2017 to 26kt in 2018, an 8% increase. Use in the CIS also saw an 8% rise to 9kt from 10kt in 2017. While usage in the rest of the world rose by 1% to 40kt from 39kt in 2017. Use in the U.S. increased by 5% to 27kt from 26kt in 2017. Over the medium term, molybdenum demand is expected to increase at a CAGR of around 1.3% to reach 285kt by 2024.

Table 16: Historical and Forecast Molybdenum Demand by Key Countries and Regions, 2016–2024, kt

	2016	2017	2018	2019	2020	2021	2022	2023	2024
					(kt)				
Europe .....	59.0	63.7	65.0	65.9	65.9	65.9	65.9	65.9	65.9
United States.....	22.7	25.8	27.2	27.6	27.6	27.6	27.6	27.6	27.6
Japan.....	19.5	23.7	25.6	25.9	25.9	25.9	25.9	25.9	25.9
China .....	83.0	91.8	97.3	98.6	98.6	98.6	98.6	98.6	98.6
Russia & CIS .....	8.2	8.9	9.6	9.7	9.7	9.7	9.7	9.7	9.8
Rest of World .....	32.7	39.1	39.6	40.1	43.3	46.9	50.4	53.9	57.6
<b>Total.....</b>	<b>225.0</b>	<b>253.0</b>	<b>264.4</b>	<b>267.9</b>	<b>271.1</b>	<b>274.6</b>	<b>278.1</b>	<b>281.7</b>	<b>285.3</b>

Source: AME

Table 17: Estimated Molybdenum Demand by Country and Region, 2018

	2018
China .....	36.8%
Europe .....	24.6%
United States.....	10.3%
Japan.....	9.7%
Russia & CIS .....	3.6%
Rest of World .....	15.0%

Source: AME

### Supply Drivers

In terms of supply, AME estimates around 60% of global mined molybdenum supply originates as a by-product of copper mining, with most of the remainder coming from primary sources. Major supply drivers are highly related to the commodity prices, in particular the price of copper. With most of the primary molybdenum producers anticipated to increase production output to take advantage of the high prices in 2019.

### Global Supply

AME estimates that global production of molybdenum in 2018 rose by 1% to 259kt from 258kt in 2017. China remained the largest producer with 92kt in 2018, up 1% from 91kt in 2017. Production in South America, the second largest producing region, fell 2% to 88kt from 90kt. North America produced 61kt in 2018, a rise of 5% from 58kt in 2017. Production in other regions fell by 7% in 2018 to 18kt from 19kt in 2017. Production in Q4 of 2018 rose significantly by 13% in comparison to Q3, with a rise of 29% in China, 11% in North America and a 3% rise in South America but a 1% fall in other regions.

Table 18: Historical and Forecast Mined Molybdenum Supply by Region, 2016–2024, kt

	2016	2017	2018	2019	2020	2021	2022	2023	2024
					(kt)				
North America .....	23.3	20.9	21.4	21.6	21.9	22.2	22.0	22.1	22.2
South America .....	36.9	47.7	47.2	47.8	48.4	49.0	48.5	48.8	49.0
China .....	59.0	59.0	59.0	59.8	60.5	61.3	60.6	61.0	61.3
Russia & CIS .....	4.4	4.2	3.9	3.9	3.9	3.9	3.9	3.9	3.9
Rest of World .....	2.9	3.0	4.7	4.8	4.9	5.0	4.9	5.0	5.0
<b>Total.....</b>	<b>126.6</b>	<b>134.8</b>	<b>136.1</b>	<b>137.9</b>	<b>139.5</b>	<b>141.4</b>	<b>139.9</b>	<b>140.7</b>	<b>141.4</b>

Source: AME

Table 19: Historical and Forecast Finished Molybdenum Supply by Region, 2016–2024, kt

	2016	2017	2018	2019	2020	2021	2022	2023	2024
					(kt)				
North America .....	49.9	57.9	61.0	58.8	58.8	58.8	58.8	58.8	58.8
South America .....	80.8	89.8	88.4	91.2	91.2	91.2	91.2	91.2	91.2
China .....	81.2	90.7	91.6	92.1	92.1	92.1	92.1	92.1	92.1
Rest of World .....	16.3	19.3	18.1	19.6	22.2	27.5	30.2	32.9	35.6
<b>Total.....</b>	<b>228.2</b>	<b>257.8</b>	<b>259.1</b>	<b>261.7</b>	<b>264.3</b>	<b>269.6</b>	<b>272.3</b>	<b>275.0</b>	<b>277.7</b>

Source: AME

China is estimated to have accounted for approximately 43% of the world's mined molybdenum production in 2018. However, the large majority of this production comes from primary operations where molybdenum is mined as the main or only product. Given that many of these operations are privately owned and these are differences in disclosure requirements in China, there is no comprehensive data available to assess the capacities of individual Chinese molybdenum mines.

Historically, the U.S. was listed as having the biggest reserves in the world. However, that position in recent years has been surrendered to China. The U.S. holds the world's second largest reserves, followed by Chile in third place. These three countries together account for over 80% of published world reserves.

Table 20: Mined Molybdenum Supply by Country, 2018

	2018
China .....	43.3%
South America .....	34.7%
North America .....	15.7%
Russia & CIS .....	2.9%
Rest of World .....	3.4%

Source: AME

### Market Balance

AME estimates that the global molybdenum market was in deficit with 5kt of supply shortages recorded in 2018. AME estimates that the market was only just tipped into deficit in early 2018 with lower output from Sierra Gorda causing supply to match the growing demand from the oil and gas sector. Molybdenum market deficits are expected to shrink marginally in 2019, with production recovery expected from Sierra Gorda and strong by-product supplies from other mines. With strong demand from oil and gas sector along with global economic expansion, AME expects market to be in deficit for another 4 years.

### Molybdenum Pricing and Outlook

Molybdenum prices recovered gradually over past four years. The prices have fallen as low as US\$14,000/t in 2015, before recovering back to US\$15,000/t in 2017. On the back of strong demand and supply disruption from major regions, this has caused the price to break through the US\$20,000/t mark in 2018. In 2019, the prices are still on the rise, with the price hovering over US\$24,000/t level in early May. Going forward, AME forecasts that molybdenum price will go up even further but more slowly as consumption from oil and gas expect to grow at a slower pace than previous years.

Table 21: Historical and Forecast Molybdenum Price, 2016-2024, US\$/t (Forecast Real 2019)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
					(US\$/t)				
Molybdenum Price	15,558	22,902	24,883	25,236	26,117	32,399	34,008	35,903	36,082

Source: AME

## BUSINESS

### Overview

The Group was founded in 2001 and is an international, diversified metals and mining company specialising in the mining and processing of gold, copper, antimony, molybdenum and silver. The Group owns a portfolio of high quality assets located in Armenia and Russia, comprising of four producing mines (Zod, producing gold and silver, and Agarak, producing copper and molybdenum, in Armenia, and Sentachan and Sarylakh-Surma, both producing antimony and gold, in Russia) and three associated processing facilities (Ararat and Agarak in Armenia and Sarylakh in Russia). The Group also owns one polymetallic deposit, containing silver, lead and zinc, located in Russia (Verkhne-Menkeche) where it expects to commence full cycle operations in 2021 following completion of the construction of a new concentrating mill which is currently underway.

As at 1 January 2019, the Group's proven and probable reserves consisted of 3,349koz of gold, 457kt of copper, 118,334t of antimony, 22,800t of molybdenum, 55,524koz of silver, 191kt of lead and 230kt of zinc, in each case, as classified in accordance with the JORC Code. As at 1 January 2019, the Group's indicated and inferred resources consisted of 5,963koz of gold, 1,617kt of copper, 147,561t of antimony, 89,400t of molybdenum, 70,056koz of silver, 243kt of lead and 333kt of zinc, in each case, as classified in accordance with the JORC Code. On a gold equivalent basis, this amounted to approximately 8.4Moz gold equivalent proven and probable reserves and approximately 19Moz gold equivalent indicated and inferred resources.

In the year ended 31 December 2018, the Group produced approximately 149koz of gold, 7,987t of copper, 7,226t of antimony and 297t of molybdenum. On a gold equivalent basis, this amounted to approximately 243koz in the year ended 31 December 2018, having grown at a CAGR of 17.5% since 2016. The growth in the Group's production levels has been primarily driven by organic development of the Group's assets. The Group's production levels have also increased as a result of the introduction in 2014 of the Albion Process Technology for gold enrichment at its Armenian Ararat processing facility. According to Glencore, the Group was the first company in the world to apply the Albion Process Technology for the oxidation of sulphide concentrate produced from mined ore at its Ararat processing facility in 2014. In the three months ended 31 March 2019, the Group produced approximately 46.7koz of gold, 1,933t of copper, 1,932t of antimony and 103t of molybdenum. On a gold equivalent basis, this amounted to approximately 69.2koz in the same period, representing a 23.2% increase in production from 56koz produced in the three months ended 31 March 2018.

The Group is the largest gold producer in Armenia according to AME, with 2,813koz of gold reserves and 5,325koz of gold resources, as classified in accordance with the JORC Code. According to AME, the resource base of the Group's Zod mine located in Armenia makes it a 'world class deposit' (i.e. a deposit containing at least 100t (3.2Moz) of gold resources in accordance with the terminology generally used in the mining industry).

In addition, according to AME, in 2018, the Group was the largest primary antimony producer in Russia and in the CIS and accounted for approximately 5% of total global production. The Group also has significant reserves of 118,334t of antimony, which, according to AME, accounts for approximately 48% of antimony reserves in Russia, and approximately 8% of antimony reserves globally. Additionally, according to AME, the Group produces one of the highest grade antimony concentrates in the world, averaging 60% contained antimony. Having one of the few sizeable antimony deposits in the world, the Group is strategically located to service the Chinese market, which, according to AME, has a significant interest in purchasing high grade antimony concentrates to compensate for reduced domestic production.

The Group enjoys a cash cost position (total cash cost of US\$561/oz and all-in sustaining cost of US\$777/oz, as of 31 December 2018) which is lower than many of comparable mining companies based on a review of their latest publicly available financial statements and has historically enabled it to stay resilient to market downturns. In addition, the Group's cash cost position has enabled the Group to achieve higher margins when the commodity prices are higher. In the years ended 31 December 2018, 2017 and 2016, the average LBMA price of gold was US\$1,269/oz, US\$1,257/oz and US\$1,248/oz, respectively. The Group's cash cost position is supported by the Group's high gold grade and long life of mine. Gold at GPM Gold, the Group's primary gold producing asset which operates the Zod mine, is graded at 3.4 g/t, with the average grade of all of the Group's three gold producing assets being 4.6 g/t gold equivalent, based on reserves (1.5 g/t gold equivalent for the Group, if diluted by its non-gold base metals bearing deposits). The grade at the Zod mine is significantly higher than the average gold grade of comparable mining companies of 1.9 g/t, based on the latest publicly available disclosure of such companies. In addition, the Group enjoys a long life of mine (18

years at GPM Gold, 31 years at Agarak, 10 years at Sarylakh-Surma, 24 years at Sentachan and 16 years at Verkhne-Menkeche, based on the Group's reserves, and 31 years at GPM Gold, over 100 years at Agarak, 14 years at Sarylakh-Surma, 24 years at Sentachan and 20 years at Verkhne-Menkeche, based on the Group's resources).

In the year ended 31 December 2018, the Group's consolidated revenue was US\$283 million, EBITDA was US\$120 million and EBITDA margin was 42%. In the year ended 31 December 2017, the Group's consolidated revenue was US\$228 million, EBITDA was US\$93 million and EBITDA margin was 41%. In the year ended 31 December 2016, the Group's consolidated revenue was US\$195 million, EBITDA was US\$84 million and EBITDA margin was 43%. Over the two years ended 31 December 2018, the Group had a CAGR in revenue of 20.5% and a CAGR in EBITDA of 19.5%. This financial performance reflects improved mine site KPIs across all of its operations resulting from the completion of capital expenditures of approximately US\$313 million during 2012-2018.

In the next three years, the Group is aiming to increase its total production output by 44% from 243koz in the year ended 31 December 2018 to approximately 351koz on a gold equivalent basis and targets to invest approximately US\$133 million for further development of its existing assets portfolio with a focus on high-return operational investment.

### Properties and Mining Operations

The Group operates four producing mines and three associated processing facilities located in Armenia and Russia. The Group also owns one polymetallic deposit located in Russia where it expects to commence full cycle operations in 2021. Through its subsidiaries, the Group wholly-owns each of these mines and processing facilities. The Group is organised and managed through four business units. These comprise:

Business Unit	Deposit	Processing Facility	Location
GPM Gold	Zod	Ararat	Gegharqunik Marz, Armenia
Agarak	Agarak	Agarak	Syunik, Armenia
	Sentachan		Verhoyanskiy District, Republic of Sakha (Yakutia), Russia
Sakha	Sarylakh-Surma	Sarylakh	Oymyakonskiy District, Republic of Sakha (Yakutia), Russia
Verkhne-Menkeche	Verkhne-Menkeche	In process of construction	Tomponsky District, Republic of Sakha (Yakutia), Russia

#### Armenia

- **GPM Gold**

GPM Gold is a gold and silver mining and processing complex comprising the Zod open-pit mine in the Gegharqunik Marz region (located approximately 197km to the north-east of Yerevan) and the Ararat processing facility (located approximately 46km to the south-east of Yerevan and approximately 270km by rail from the Zod mine). In 2014, the Ararat processing facility was upgraded with a new Albion Process Technology, which allowed the Group to switch to sulphide ore processing at this site. Albion Process Technology, developed by Australian companies Xstrata Technology (now Glencore Technology) and Core Process Engineering allowed the Group to increase the total gold recovery to up to 87-88% within two years from 20-30%. Ore from the Zod deposit is transported directly by rail to the Ararat processing facility. As at 1 January 2019, the Zod deposit had 2,813koz of gold reserves and 5,325koz of gold resources, with a mine life of 18 years, based on reserves, and 31 years, based on resources, and average gold grade of 3.4 g/t. The Ararat processing facility had a current annual through-put capacity of 1.45Mt (based on actual results for the year ended 31 December 2018).

- **Agarak**

Agarak is an integrated copper and molybdenum mining and processing complex in the Syunik region of Armenia (located approximately 400km to the south-east of Yerevan) comprising the Agarak open-pit mine and the Agarak processing facility (located approximately 6km by road from the Agarak mine) which produces copper and molybdenum concentrates through flotation processing. As at 1 January 2019, the Agarak deposit had 457kt of copper reserves and 1,617kt of copper resources, 22,800t of molybdenum

reserves and 89,400t of molybdenum resources, with a mine life of 31 years, based on reserves, and more than 100 years, based on resources. In 2012, the Agarak processing facility underwent significant modernisation as a result of which its annual design through-put capacity increased to 3.7Mt.

#### *Russia*

- **Sakha**

Sakha operates as the Group's single business unit for its Russian Sarylakh-Surma and Sentachan (Zvezda) assets and is run by one management team. The Group's Sakha business unit comprises of an antimony and gold mining and processing complex in the Republic of Sakha (Yakutia) in north-eastern Russia comprising the Sarylakh-Surma and Sentachan underground antimony and gold mines and the Sarylakh processing facility (located near the town of Ust Nera, approximately 700km from the Sentachan mine and approximately 64km from the Sarylakh mine), which produces antimony and gold concentrates through flotation processing and course gold through a gravitational separation process. As at 1 January 2019, the Sarylakh-Surma mine had 42,157t of antimony reserves and 65,385t of antimony resources, 121koz of gold reserves and 190koz of gold resources; and the Sentachan mine had 76,177t of antimony reserves and 82,176t of antimony resources, 415koz of gold reserves and 448koz of gold resources. As at 31 December 2018, the Sarylakh processing facility had an annual design through-put capacity of 100kt of ore. The Sentachan mine life is 24 years, based on both, reserves and resources, and the Sarylakh-Surma mine life is 10 years, based on reserves, and 14 years, based on resources. In 2017, the Group also initiated construction of a new concentrating mill at its Sentachan field with a targeted 30kt annual through-put capacity. The Group targets to launch operations at this new mill in the fourth quarter of 2019.

- **Verkhne-Menkeche**

Verkhne-Menkeche is an exploration and development project comprised of a polymetallic deposit containing silver, lead and zinc located in the Tomponsky District of the Republic of Sakha (Yakutia) in north-eastern Russia (approximately 60km from the nearest town of Nezdaninskoye). The development of the project commenced in 2008. The Group expects that this project will expand the Group's existing silver production capacity and add lead and zinc to the Group's metals portfolio. The Group plans to commence full cycle operations on the site in 2021 following completion of the construction of a new concentrating mill with a planned through-put capacity of 330kt which is currently underway. The Group expects the project to reach planned production capacity by 2022. The Group has already completed Verkhne-Menkeche mine development and infrastructure construction. As a result, the polymetallic ore mined during mine development of the Verkhne-Menkeche deposit has already been sold to third parties. As at 1 January 2019, the Verkhne-Menkeche mine had 55,524koz of silver reserves, 191kt of lead reserves and 230kt of zinc reserves and 70,056koz of silver resources, 243kt of lead resources and 333kt of zinc resources. The mine life of the field is 16 years, based on reserves, and 20 years, based on resources. The Group's total estimated capital expenditure for implementation of the project amounts to US\$98.8 million, with US\$48.2 million invested as of 31 December 2018.

#### ***History and Development of the Group***

The Group was established in the British Virgin Islands in 2001 under the name Stanton Equities Corporation as a holding company for entities engaged in extracting and processing ore of precious metals and renamed GeoProMining Ltd in December 2007. The Company was incorporated in Cyprus in August 2010 by the controlling shareholder of GeoProMining Ltd and, in September 2011, as a result of a restructuring, became the holding company of the Group through the transfer of ownership by GeoProMining Ltd of all of its subsidiaries to the Company in return for shares in the Company. In February 2017, GeoProMining Ltd was dissolved.

Since its establishment in 2001 through 2012, the Group has become an integrated metals mining and processing group with a range of assets located in the CIS. The Group's growth has been driven by a combination of organic growth of its operations and selective acquisitions of mining assets.

In December 2005, the Group acquired Madneuli and Quartzite, Georgian copper and gold producers. These assets were sold in 2012, with the proceeds of the sale used for facilitating growth of the Group's Armenian operations.

In September 2007, the Group acquired 100% of Sterlite Gold Ltd., an Armenian gold and silver producer listed on the Toronto Stock Exchange that owned the Ararat processing facility and the Zod mine. Sterlite Gold Ltd. was then delisted from the Toronto Stock Exchange and Ararat Gold Recovery Company (AGRC), its Armenian subsidiary, was renamed GPM Gold LLC.

In December 2007, the Group also acquired 100% of the shares of Agarak, an Armenia copper and molybdenum producer.

In August 2007, the Group acquired 60% of the shares of Sarylakh-Surma and 59.8% of the shares of Zvezda, the legal entity that owns the Group's Sentachan asset. In February 2008, it acquired the remaining 40% of shares in Sarylakh-Surma and the remaining 40.2% of the shares of Zvezda from various government bodies of the Republic of Sakha (Yakutia). The Group fully renovated the acquired companies within three years of the acquisition by upgrading infrastructure and equipment, repayment of debt, enhancing the management team and undertaking a number of cost optimisation measures, resulting in tripling their combined levels of production.

Since 2013, the Group has been actively pursuing the development of its assets. In particular, in 2013, the Group completed renovation of its Agarak mine and processing plant, which allowed the Group to increase annual ore processing volumes from 2.7Mt to 3.5Mt.

In 2014, the Ararat processing facility was upgraded with new Albion Process Technology. Since its launch, the Albion Process Technology has allowed the Group to increase its total gold recovery to more than 87-88%.

In 2014, the Group also acquired the Verkhne-Menkeche polymetallic deposit located in Tomponsky District of the Republic of Sakha (Yakutia). In the same year the Group completed construction of infrastructure and mine facility at the Verkhne-Menkeche site, which already produces and sells mined ore to third parties. The Group targets commencing full cycle operations on the site in 2021 following completion of the construction of a new concentrating mill with a planned through-put capacity of 330kt, which is currently underway.

In 2017, the Group also initiated construction of a new concentrating mill at its Russian Sentachan field.

### **Competitive Strengths**

The Group's management believes that the Group's competitive strengths include:

#### ***Diversified and well balanced asset base with vast high-grade reserves and resources and long mine life***

The Group owns a diversified portfolio of assets for mining and processing of gold, copper, antimony, molybdenum and silver located in Armenia and Russia, comprised of four producing mines and three associated processing facilities. The Group also owns one polymetallic deposit containing silver, lead and zinc located in Russia (Verkhne-Menkeche) where it expects to commence full cycle operations in 2021 following completion of the construction of a new concentrating mill which is currently underway. On a gold equivalent basis, the Group had approximately 8.4Moz of proven and probable reserves and approximately 19Moz of indicated and inferred resources as of 1 January 2019, in each case, as classified in accordance with the JORC Code. The Group is the largest gold producer in Armenia according to AME, with 2,813koz of gold reserves and 5,325koz of gold resources. According to AME, the resource base of the Group's Zod mine located in Armenia makes it a 'world class deposit' (i.e. a deposit containing at least 100t (3.2Moz) of gold resources in accordance with the terminology generally used in the mining industry). This significant resource position provides the Group with long-term production capability and economic benefit as resources are progressively converted to reserves.

While gold dominates the Group's metals portfolio, representing 40% of its total reserves on a gold equivalent basis, the other two principal metals it produces, being copper and antimony, are highly complementary to gold. Gold is an industrial and investment metal viewed as a hedge against global financial instability. Copper is an industrial metal that largely correlates with the global economy, and antimony is a niche metal with unique properties that behaves like rare earth metals in terms of supply and demand and pricing. As the Group's major contributors to revenue are gold and antimony, the Group's metals basket has been the least volatile in terms of price over the last nine years as compared to other commodities. In addition, based on Bloomberg data, the metal basket comprising metals that the Group produces showed an overall positive



performance since 2010. This information is provided as a reference point only and is not an indication of the Group's performance.

The gold produced at GPM Gold, the Group's primary gold producing asset which operates the Zod mine, is graded at 3.4 g/t, with the average grade of all of the Group's three gold producing assets being 4.6 g/t gold equivalent, based on reserves (1.5 g/t gold equivalent for the Group, if diluted by its non-gold base metals bearing deposits). The grade at the Zod mine is significantly higher than the average gold grade of comparable mining companies of 1.9 g/t, based on the latest publicly available disclosure of such companies. In addition, the Group enjoys a long life of mine (18 years at GPM Gold, 31 years at Agarak, 10 years at Sarylakh-Surma, 24 years at Sentachan and 16 years at Verkhne-Menkeche, based on the Group's reserves, and 31 years at GPM Gold, over 100 years at Agarak, 14 years at Sarylakh-Surma, 24 years at Sentachan and 20 years at Verkhne-Menkeche, based on the Group's resources).

In addition to being a scale gold producer, the Group also produces copper, antimony, molybdenum and silver in material volumes as primary, co- and by-products. A well balanced portfolio of producing assets offers a commodity portfolio aligned to various cyclical and growth drivers. In addition, this provides the Group with the benefit of by-product credits which allows the Group to maintain low and competitive production cash costs.

The Group believes that its diversified assets portfolio will also benefit from the Verkhne-Menkeche polymetallic site that will expand its existing silver production capacity and further diversify the Group's metals portfolio to add lead and zinc to it.

#### ***Track record of successful development and optimisation of mining and processing operations***

The Group has a strong track record of developing and optimising mining and processing operations. It has historically focused on acquiring and developing assets with significant growth potential. Most of its assets' growth has been achieved by the Group's leveraging its in-house engineering and construction expertise. The Group acquired all of the assets comprising its current asset portfolio when they were in a largely non-operating state or loss-making. Having made significant financial investments in upgrading the outdated infrastructure and equipment, repayment of debt, enhancing management team and improving management processes, the Group managed to successfully turn around these assets in a short period of time to achieve strong growth that these assets have demonstrated over more than a decade. For example, the Group was able to bring its Russian Sarylakh-Surma and Sentachan assets to full operation and triple production output within only three years of their acquisition in 2007-2008. In addition, the Group acquired GPM Gold, its principal gold producing asset, in September 2007 and, after extensive reconstruction and refurbishment of its infrastructure, operations restarted in November 2008. In 2014, the Group made a strategic decision to implement Albion Process Technology for gold enrichment at its Ararat processing facility, which has allowed the Group to increase the total gold recovery to up to 87-88% within two years from 20-30%, resulting in an increase in the production output from 45.9koz to 129.5koz on gold equivalent basis in the same period.

#### ***Largest antimony producer in Russia and CIS***

According to AME, in 2018, the Group was the largest primary antimony producer in Russia and in the CIS and accounted for approximately 5% of total global production. The Group also has significant reserves of 118,334t of antimony, which, according to AME, accounts for approximately 48% of antimony reserves in Russia, and approximately 8% of antimony reserves globally. Additionally, according to AME, the Group produces one of the highest grade antimony concentrates in the world, averaging 60% contained antimony. Having one of the few sizeable antimony deposits in the world, the Group is strategically located to service the Chinese market, which, according to AME, has a significant interest in purchasing high grade antimony concentrates to compensate for reduced domestic production. The Group believes that continuing strong demand from China and the relative global scarcity of antimony reserves will ensure continuing stable up-take from this region and will support prices well above the historic average.

#### ***Strong financial and operational performance and resilient cash cost position***

The Group has successfully achieved organic growth and targeted acquisitions resulting in strong financial and operational performance. In the year ended 31 December 2018, the Group's revenue was US\$283 million and EBITDA was US\$120 million, having increased at a CAGR of 20.5% and 19.5%, respectively, since 31 December 2016. EBITDA margin for the year ended 31 December 2018 was 42% compared to 41% in 2017

and 43% in 2016. During the three years ended 31 December 2018, the Group's overall production on gold equivalent basis increased at a CAGR of 17.5% from 176koz in 2016 to 243koz in 2018. In the three months ended 31 March 2019, the Group produced 69koz of metal on a gold equivalent basis, representing a 23.2% increase in production from 56koz produced in the three months ended 31 March 2018. This strong financial and operational performance reflects improved mine site KPIs across all of its operations resulting from the completion of capital expenditures of approximately US\$313 million during 2012-2018.

The Group enjoys a competitive cash cost position that has historically enabled it to stay resilient towards downturns in commodity prices. In addition, the Group's cash cost position has enabled the Group to achieve higher margins when the commodity prices are higher. In the years ended 31 December 2018, 2017 and 2016, the average LBMA price of gold was US\$1,269/oz, US\$1,257/oz and US\$1,248/oz, respectively. The Group's cash cost position is based on the Group's efficient management of its diversified asset base with vast high-grade reserves and resources and a long life of mine. Gold at the Group's Zod mine is graded at 3.4 g/t, with the average grade of all of the Group's three gold producing assets being 4.6 g/t gold equivalent, based on reserves (1.5 g/t gold equivalent for the Group, if diluted by its non-gold base metals bearing deposits). The grade at the Zod mine is significantly higher than the average gold grade of comparable mining companies of 1.9 g/t, based on the latest publicly available disclosure of such companies. The Group has a long life of mine of at least 10 years. In the year ended 31 December 2018, the Group's total cash cost was US\$561/oz and all-in sustaining cost was US\$777/oz, which is lower than many of comparable mining companies based on a review of their latest publicly available financial statements. The Group's cash cost significantly improved as a result of implementation by the Group of the Albion Process Technology at its Ararat processing facility. By the time the Albion Process Technology was launched, all of the Zod mine's oxidised ore reserves had been exhausted. The remaining reserves represented sulphide ore which could not be economically treated through the existing flowsheet due to low recovery rates and high operating costs. The Albion Process Technology was integrated into the existing flowsheet to oxidise the sulphide ore so that it could be subsequently treated by the existing equipment. This significantly increased recoveries and resulted in reduced operating costs with a modest capital investment. The Group's cash cost position has also been positively supported by the depreciation of the rouble given that a significant portion of the Group's revenue is denominated in U.S. dollars.

#### ***Superior technological advantage and innovation expertise based on successful implementation of Albion Process Technology***

According to Glencore, the Group was the first company in the world to apply the Albion Process Technology for the oxidation of sulphide concentrate produced from mined ore at its Ararat processing facility in 2014. The introduction of this technology allowed the Group to switch to sulphide ore processing at this site. The Albion Process Technology is considered to be superior to many of the analogous gold enrichment technologies used by other mining companies, including in terms of extraction rates, capital expenditure involved, simplicity of equipment and personnel qualification requirements needed to operate the equipment, supplier warranty, start-up and commissioning time periods, environmental impact, ability to process ore with high deviations in quality and volume as well as high equipment use coefficient and maintenance costs. Albion Process Technology has allowed the Group to increase the total gold recovery to up to 87-88% within two years from 20-30%, resulting in an increase in the production output from 45.9koz to 129.5koz on gold equivalent basis in the same period. This technology combines ultrafine grinding and oxidative leaching under atmospheric pressure. Albion Process Technology allows the concentrate containing base metals and precious metals to be processed by oxidation of sulphide minerals and recover metals for further extraction in conventional manner. Moreover, the technology, while improving efficiency helps to minimise any impact on the environment.

Having been fully involved in the construction of the Albion Process Technology based plant at its GPM Gold site, the Group obtained significant technological expertise that is unique within the CIS market and provides opportunities for potential capitalisation in the future. The Group entered into a collaboration agreement with Glencore Technology in February 2018, pursuant to which it has an exclusive right to market the Albion Process Technology in Russia in partnership with Glencore Technology. Under this agreement, the Group is entitled to undertake a full range of services as a contractor for Albion Process Technology based plant construction on a turnkey basis. The Group's Albion Process Technology based plant can also now be used as a training facility for what is recognised as a proven combination of ultrafine grinding and oxidative leaching, which means that any potential Albion Process Technology clients can gain a faster ramp-up through better technology transfer.

### ***Highly experienced management team***

The Group benefits from a highly experienced team of industry professionals, with experience across the commodity spectrum and operational responsibility in all major global mining jurisdictions, most of whom have been with the Group since its foundation. The Group's management has experience in building sizeable mining businesses in the CIS coupled with expertise in the regions of the Group's current operations. The Group's management has expanded the business through a series of successful acquisitions and has maintained consistency in developing projects in a timely fashion while continuing to grow reserves and new exploration opportunities. The Group's management has successfully brought all of its assets to operation having acquired most of them in a non-operating state. Management believes that they have unrivalled local knowledge further facilitating the Group's continued growth in the CIS region including some of its most natural resource-prolific regions, such as Yakutia.

### ***Prudent financial policies and risk management***

The Group has a conservative debt policy aimed at deleveraging. The Group's target Net Debt to EBITDA ratio is below 2.5:1. In the last five years the Group decreased its Net Debt to EBITDA ratio from 5.6:1 in 2014 to 2.0:1 in 2018. The Group has historically focused on establishing close relations with several anchor banks that provided the bulk of financing to the Group and satisfied working capital and other project financing needs primarily from local players. Historically, the Group did not pay dividends. The Group's dividend policy allows dividend distribution subject to Group's Net Debt to EBITDA ratio staying below 3.0:1 and up to 25% of free consolidated cash flow and net profit of the Group.

The Group's liquidity policy is based on efficient working capital management, maintaining minimum cash level of working capital, with excess cash used for debt repayment, and keeping open limits in local banks. The Group also adheres to internal cash control policy that requires that cash utilisation plans of the Group's operating entities are monitored on a 10-day basis and actual cash utilisation is controlled on a monthly basis. It also follows a conservative approach to new projects, using a set of investment limits and specific project parameters. The Group continuously works on capital expenditure optimisation with long-term plans for organic growth. As of the date of this Prospectus, the Group has completed majority of its current capital expenditure programme and intends to focus on high-return operational efficiency projects going forward.

In terms of risk management, the Group uses XAU/GOLD hedging of 50% of gold volume produced in order to protect against a downward movement of gold price. While this hedging is undertaken pursuant to the Group's obligations under its existing debt agreements, the Group expects to continue such hedging practice even after such debt is refinanced. The Group's diversified metals portfolio with low volatility acts as a natural hedge. In addition, the Group maintains strict tender process system for counterparty selection and works only with well-established market participants, global traders, upstream companies or subsidiaries of international banking groups.

### ***Sophisticated in-house engineering, procurement and construction expertise***

The Group has an in-house engineering, procurement and construction expertise utilised across the mining lifecycle. This expertise allows the Group to rely on internal resources for mine and related infrastructure design, construction and development as well as processing. It has engineering facilities, construction specialists, procurement resources, drilling teams as well as mine planning and feasibility study capabilities which allow it to control each stage of mine development. As a result, the Group is able to significantly reduce operational costs that are typically higher when these functions are outsourced to third parties as well as to manage project execution timeframes in a highly efficient manner. Further, this operating model facilitates post-implementation maintenance. This operating structure has been instrumental to the Group's project development and processing capacity growth. The quality of the Group's engineering, procurement and construction expertise allowed the Group to successfully implement, primarily using its internal resources, the construction of its Albion Process Technology based plant in 2014.

### **Strategy**

The principal pillars of the Group's strategy are:

### ***Organic growth based on existing assets***

Consistent with a proven track record of developing and rehabilitating assets, the Group will focus on the optimisation and expansion of its existing assets and the development of new mineral properties in order to deliver sustainable growth.

In the next three years, the Group is aiming to increase its total production output by 44% from 243koz in the year ended 31 December 2018 to approximately 351koz on a gold equivalent basis and targets to invest approximately US\$133 million for further development of its existing assets portfolio with a focus on high-return operational investment.

The Group expects to achieve this target by completing implementation of several investment projects that are currently ongoing. In particular, the Group is currently implementing a project to increase production capacity at the Ararat processing facility to up to 1.6Mt by 2020. The Group expects that as a result of the targeted capacity increase gold production at GPM Gold will reach 154koz by 2022, representing an 18% increase from gold production in 2018. In addition, the Group plans to increase the ore processing capacity of its Agarak facility from 3.7Mt to 4.5Mt per annum by 2021. The Group expects that as a result of the targeted capacity increase, the copper and molybdenum production on a gold equivalent basis will reach 62koz by 2022, representing a 32% increase from 2018 production levels. In 2019, the Group plans to launch a new concentrating mill near its Sentachan site with an annual through-put capacity of 30kt of ore. The new mill will allow the Group to process concentrate in close proximity to the mining site instead of having to transport ore for processing to the Sarylakh processing facility. Transportation to Sarylakh processing facility is naturally limited to the time when the surrounding rivers (which the Group believes represent the most cost-efficient way of transportation there) are frozen. Therefore, the Group expects that this new mill will allow it to decrease the impact that seasonality has on production and also decrease transportation costs.

In addition, the Group plans to commence full cycle operations at its Verkhne-Menkeche site in 2021 after completion of the construction of a new concentrating mill with a planned through-put capacity of 330kt. The Group expects that the launch of full cycle operations at Verkhne-Menkeche will expand its current capacity for production of silver (which is currently produced as a by-product) as well as to add lead and zinc to its metals portfolio. This provides management with confidence that it will be able to deliver strong growth as it implements this strategy of pursuing organic growth.

In addition to its primary focus on organic expansion, the Group may pursue, on a selective basis, acquisitions of the mining assets if these opportunities complement the Group's current operations and industry expertise.

### ***Improve efficiency of current operations***

Management intends to enhance the Group's profitability and maintain its competitiveness by improving the Group's overall operating efficiencies. This will be delivered by increasing productivity, reducing per unit production costs, implementing new production technologies and equipment, and maintaining an efficient sales, distribution and overhead structure. Management believes that the use of modern equipment and technology will enable the Group to achieve significant productivity enhancements.

In order to successfully implement its strategy across the Group's operations, management is committed to the recruitment of industry experts with extensive market experience. This enables the Group to ensure that its strategies are implemented in a targeted and efficient manner and ensures that the Group meets all necessary regulations, including environmental and safety standards.

Consistent with this, the Group continues to invest in human resources in order to be an employer of choice in the markets within which it operates. Management continues to implement a policy of attracting and employing the most qualified mining professionals across all CIS geographies.

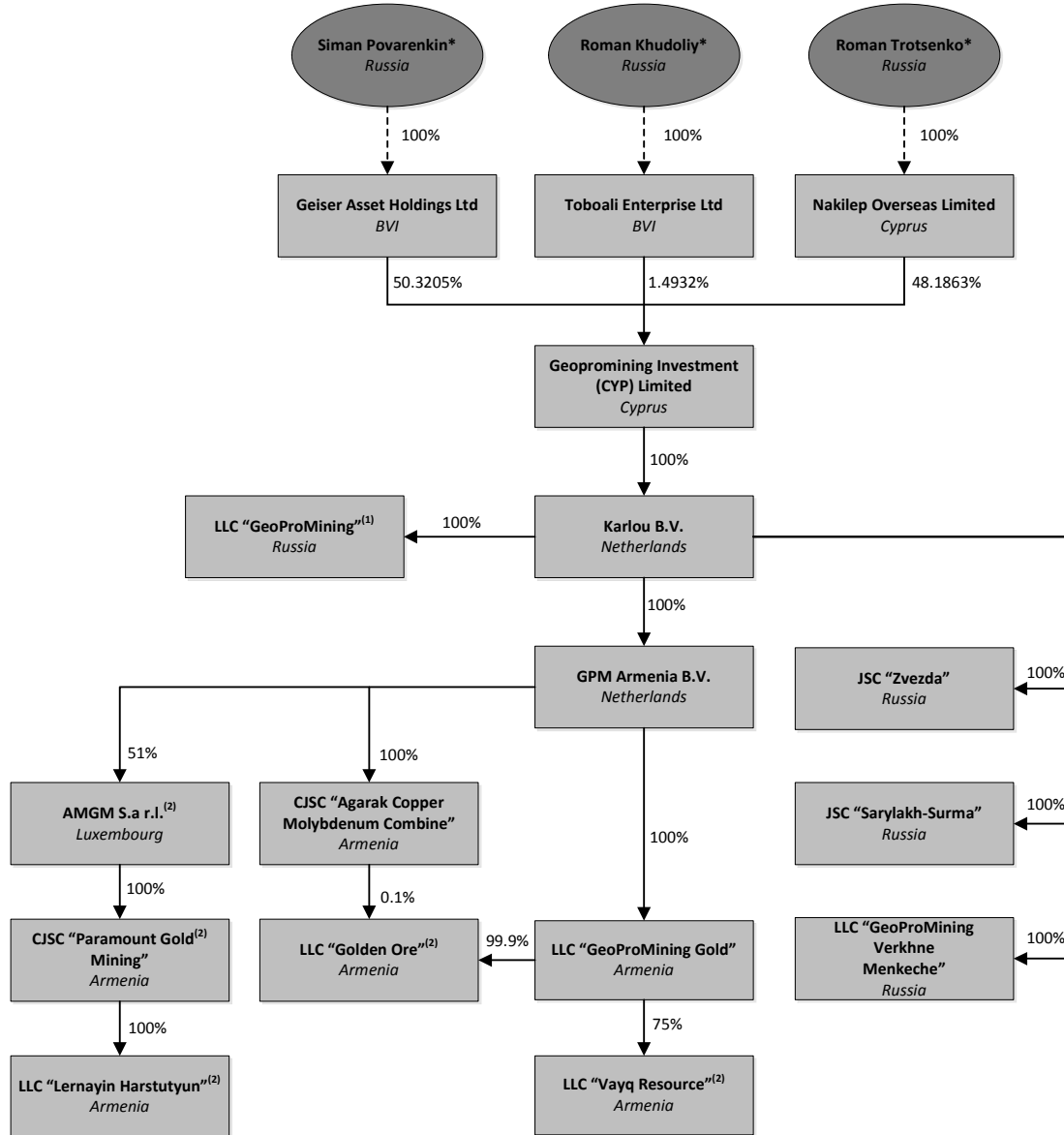
### ***Maintaining balanced financial discipline***

Financial stability is a fundamental strategy of the Group's management; it aims to maintain solid financial ratios and will continue to seek to optimise its loan maturity profile whilst pursuing organic growth and efficiency improvements strategic initiatives. Maintenance of a conservative capital structure, consistent with the overall risk profile of the Group and with mid-term positive free cash flow, remains the critical feature of the financial strategy. The Group also expects to continue to observe a conservative dividend policy and will

adhere to its cash control policy as discussed in "*Competitive Strengths—Prudent financial policies and risk management*".

### Organisational Structure of the Group

The following chart illustrates the Group's corporate structure.



(1) LLC "GeoProMining" acts as the management company for the Group's Russian subsidiaries.

(2) Dormant or non-material subsidiaries.

\* Ultimate beneficial owner.

## **Reserves and Resources**

As at 1 January 2019, the Group's proven and probable reserves consisted of 3,349koz of gold, 457kt of copper, 118,334t of antimony, 22,800t of molybdenum, 55,524koz of silver, 191kt of lead and 230kt of zinc, in each case, as classified in accordance with the JORC Code. On a gold equivalent basis, this amounted to approximately 8.4Moz gold equivalent proven and probable reserves. Approximately 84% and 16%, respectively, of the Group's gold reserves are located in Armenia and Russia. Substantially all of the Group's copper and molybdenum reserves are located in Armenia. Substantially all of the Group's antimony, silver, lead and zinc reserves are located in Russia.

As at 1 January 2019, the Group's indicated and inferred resources consisted of 5,963koz of gold, 1,617kt of copper, 147,561t of antimony, 89,400t of molybdenum, 70,056koz of silver, 243kt of lead and 333kt of zinc, in each case, as classified in accordance with the JORC Code. On a gold equivalent basis, this amounted to approximately 19Moz gold equivalent indicated and inferred resources. Approximately 90% and 10%, respectively, of the Group's gold resources are located in Armenia and Russia. Substantially all of the Group's copper and molybdenum resources are located in Armenia. Substantially all of the Group's antimony, silver, lead and zinc resources are located in Russia.

The table below presents a summary of the Group's reserves and resources as at 1 January 2019. The information in this table has been extracted without material adjustment from the IMC Montan Report.

		Gold		Copper		Antimony		Molybdenum		Silver		Lead		Zinc	
	Tonnage	Grade	Content	Grade	Content	Grade	Content	Grade	Content	Grade	Content	Grade	Content	Grade	Content
Ore Reserves	(kt)	(g/t)	(koz)	(%)	(kt)	(%)	(t)	(%)	(t)	(g/t)	(koz)	(%)	(t)	(%)	(t)
Probable															
GPM Gold .....	26,373	3.41	2,813	-	-	-	-	-	-	-	-	-	-	-	-
Agarak .....	142,600	-	-	0.32	456.5	-	-	0.016	22,800	-	-	-	-	-	-
Sarylakh-Surma/Zvezda															
Sarylakh-Surma .....	637	6.62	121	-	-	5.9	42,157	-	-	-	-	-	-	-	-
Sentachan .....	724.6	17.82	415	-	-	10.51	76,177	-	-	-	-	-	-	-	-
Verkhne-Menkeche .....	4,498	-	-	-	-	-	-	-	-	384.0	55,524	4.24	190,793	5.11	229,899
Total Ore Reserves .....	174,833	-	3,349	-	456.5	-	118,334	-	22,800	-	55,524	-	190,793	-	229,899
Mineral Resources															
Indicated															
GPM Gold .....	28,838	3.28	3,037	-	-	-	-	-	-	-	-	-	-	-	-
Agarak .....	240,200	-	-	0.36	856.4	-	-	0.019	46,300	-	-	-	-	-	-
Sarylakh-Surma/Zvezda															
Sarylakh-Surma .....	455.2	8.8	129	-	-	9.9	45,139	-	-	-	-	-	-	-	-
Sentachan .....	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Verkhne-Menkeche .....	4,465	-	-	-	-	-	-	-	-	400.1	57,422	4.34	193,593	5.24	233,987
Subtotal .....	273,958	-	3,166		856.4	-	45,139	-	46,300	-	57,422	-	193,593	-	233,987
Inferred															
GPM Gold .....	19,445	3.66	2,288	-	-	-	-	-	-	-	-	-	-	-	-
Agarak .....	315,100	-	-	0.29	760.3	-	-	0.016	43,100	-	-	-	-	-	-
Sarylakh-Surma/Zvezda															
Sarylakh-Surma .....	195.3	9.67	61	-	-	10.37	20,247	-	-	-	-	-	-	-	-
Sentachan .....	545.6	25.5	448	-	-	15.1	82,176	-	-	-	-	-	-	-	-
Verkhne-Menkeche .....	1,578	-	-	-	-	-	-	-	-	248.9	12,635	3.12	49,170	6.28	99,038
Subtotal .....	336,864	-	2,797	-	760.3	-	102,423	-	43,100	-	12,635	-	49,170	-	99,038
Total Mineral Resources ..	610,822	-	5,963	-	1,616.7	-	147,561	-	89,400	-	70,056	-	242,763	-	333,025

## Production

The table below sets out the Group's gold, copper, antimony and molybdenum production output for the years ended 31 December 2016, 2017 and 2018.

	For the year ended 31 December		
	2016	2017	2018
<b>Gold (koz)</b>			
GPM Gold.....	100	116	129
Sarylahk-Surma/Zvezda.....	15	16	20
<b>Total.....</b>	<b>115</b>	<b>132</b>	<b>149</b>
<b>Copper (t)</b>			
Agarak.....	6,573	6,220	7,987
<b>Antimony (t)</b>			
Sarylahk-Surma/Zvezda.....	6,620	6,118	7,226
<b>Molybdenum (t)</b>			
Agarak.....	199	201	297
<b>Total gold equivalent production volume (koz) .....</b>	<b>176</b>	<b>205</b>	<b>243</b>

Production from the Group's mines in Armenia and Russia accounted for 73% and 27%, respectively, of the Group's total production in gold equivalent ounces in the year ended 31 December 2018. The Group's mines operate continuously throughout the year.

## Licences

The table below shows the Group's deposits by subsidiary and region, with information on type of mine, type of licence and the expiration date of the licences under which the Group conducts its mining and exploration operations.

Deposit	Subsidiary Holding Licence	Region	Type of Mine	Type of Licence	Licence No.	Licence Expiration Date
Zod	GPM Gold	Gegharqunik Marz, Armenia	Open-pit	Mining	29/189	2028
Agarak	Agarak	Syunik, Armenia	Open-pit	Mining	29/311	2027
Sentachan	Zvezda	Verhoyanskiy District, Republic of Sakha (Yakutia), Russia	Underground	Production	05555	2029
Sarylakh	Sarylakh-Surma	Oymyakonskiy District, Republic of Sakha (Yakutia), Russia	Underground	Exploration/Production	05560	2028
Kim and Kinyass	Sarylakh-Surma	Oymyakonskiy District, Republic of Sakha (Yakutia), Russia	Underground	Exploration/Production	05559	2036
Verkhne-Menkeche	GPM Verkhne-Menkeche	Tomponsky District, Republic of Sakha (Yakutia), Russia	Underground	Exploration/Production	14731	2028

For a detailed description of the Armenian and Russian regulations governing the Group's principal exploration and production licences, the renewal process for such licences and the risks associated with holding and operating under such licences, see "*Regulation of Mining Industry in Armenia and Russia*". For a description of the risks involved, see "*Risk Factors—Risks Relating to the Group's Business and Industry—The Group's business could be adversely affected if it fails to obtain, maintain or renew necessary contracts, licences and permits, including subsoil licences, or fails to comply with the terms of its contracts, licences and permits*".



## Mining and Processing

The Group has two open pit mines, Zod and Agarak, and three underground mines, Sentachan, Sarylakh-Surma and Verkhne-Menkeche. Once mined, the ore is then crushed and ground into a finer consistency (or stored until it is able to be), to be processed to obtain gold, copper, antimony, molybdenum and/or silver. The Group currently employs gravitation, flotation, carbon-in-leach and Albion Process Technology methods to process the ore it mines. The technologies currently employed by the Group to extract gold, copper, antimony, molybdenum and silver from ore after it has been crushed and ground, include:

- *Gravitation (gold)*. After blending, crushing and grinding the ore, ore components are separated, with the aid of water and air, by their specific gravities. The Group currently uses the gravitational method to extract free gold at Sarylakh-Surma/Zvezda.
- *Flotation (copper, gold, silver molybdenum and antimony)*. After blending, crushing and grinding the ore, a slurry is created via the addition of reagents. The slurry is pumped through flotation cells and air is introduced into the bottom of the flotation cell to create a layer of froth that allows for materials high in metal-rich particles to be skimmed from the liquid's surface. This froth goes through a thickening and drying process and, in the case of GPM Gold, is further treated by the Albion Process Technology process to produce gold, and, in the case of Sarylakh-Surma/Zvezda and Agarak, copper concentrate is produced. The Group currently uses the flotation method to extract copper and molybdenum at Agarak and antimony and gold at Sarylakh-Surma/Zvezda.
- *Carbon-in-leach (gold and silver)*. In this process, activated carbon is mixed together with the ground ore and cyanide in the leaching process, rather than after the leaching process as with the carbon-in-pulp process. The cyanide dissolves the gold and/or silver from the ground ore, which is adsorbed onto the activated carbon almost as soon as it is dissolved. The activated carbon particles limit the adsorption of gold and/or silver onto other foreign carbon elements that may be present in the ground ore. The loaded carbon particles are then screened from the ground ore particles and removed from the pulp for separate processing to recover the gold. The Group currently uses the carbon-in-leach method to extract gold and silver at the Ararat processing facility.
- *Albion Process Technology (gold and silver)*. In 2014, the Ararat processing facility was upgraded with a new Albion Process Technology, which allowed the Group to switch to sulphide ore processing at this site. The Albion Process Technology is a combination of ultrafine grinding and oxidative leaching at atmospheric pressure which is carried out in conjunction with the flotation and the carbon-in-leach processes. The process of ultrafine grinding results in a high degree of strain being introduced into the mineral lattice. As a result, the number of grain boundary fractures and lattice defects in the minerals increase relative to un-ground minerals, which lowers the activation energy for the oxidation of the sulphides, thus releasing precious metals prior to the cyanide leach. The finely ground concentrate is then leached with oxygen at atmospheric pressure in agitated reactors at close to boiling point. Oxygen is introduced to the leach slurry for oxidation. The thickened oxidised residue is then fed to the carbon-in-leach process, together with thickened flotation tailings from the concentrator. Both feeds are treated in a single circuit.

After processing, gold and silver produced from carbon-in-leach technology and the Albion Process Technology is then extracted from the solution onto metal cathode bars through elution and electrowinning and melted down and poured into gold and silver doré bars, which may also contain a small amount of other metals.

## Mines and Processing Plants

The Group's current mining and processing operations are located in Armenia and Russia and include four producing mines, three associated processing facilities and one advanced prospective project.

### GPM Gold

GPM Gold is a gold and silver mining and processing complex comprising the Zod open-pit mine in the Gegharqunik Marz region (located approximately 197km to the north-east of Yerevan) and the Ararat processing facility (located approximately 46km to the south-east of Yerevan and approximately 270km by rail from the Zod mine). Ore from the Zod deposit is transported directly by rail to the Ararat processing facility.

The Zod deposit was first explored by the government of the USSR between 1947-1951 and complex large-scale exploration works were carried out between 1955-1965. After resources were confirmed in 1965, mining commenced in 1976. The latest confirmation of resources occurred in 2012. The Ararat facility commenced operations in 1976 and has been in continuous operation since that time except for the period between June 2007 and November 2008 when the facility did not operate as a consequence of previous owner's inefficient management of the business. The Group acquired GPM Gold in September 2007 and, after extensive reconstruction and refurbishment of its infrastructure, operations restarted in November 2008. In 2014, the Ararat processing facility was upgraded with new Albion Process Technology (see "*Processing*").

### *Reserves and Resources*

The table below sets forth GPM Gold's reserves and resources, classified in accordance with the JORC Code, as at 1 January 2019.

	<b>Tonnage</b>	<b>Grade</b>	<b>Content</b>
	(kt)	(g/t)	(koz)
<b>GPM Gold</b>			
Reserves			
Proved.....	-	-	-
Probable .....	26,373	3.41	2,813
Resources			
Indicated.....	28,838	3.28	3,037
Inferred .....	19,445	3.66	2,288

### *Geology*

The geology of the Zod mine comprises steeply dipping sub-parallel quartz-vein structures cutting through the host intrusive rocks, including mafic gabbro massif, serpentinite and peridotite. Mineralised zones are surrounded by hydrothermally altered metasomatic zones.

The name of the Zod mine usually applies to the central part of the Zod ore field covering 16-18 sq km within the area of ophiolite series rock occurrence. The Zod mine has a complicated geological structure. Morphologically, the ore bodies consist of steeply dipping veins and vein zones, with numerous apophyses. The mineralization is discontinuous and bedding elements change in terms of extension, thickness, and dip. The correlation of individual intersections is often suppositive. One peculiarity of the Central area of the mine is broadly occurring gabbroids occupying over 50% of its size.

### *Mining*

The table below presents an overview of the Group's mining and processing operations at GPM Gold over the years ended 31 December 2016, 2017 and 2018.

<b>GPM Gold</b>	<b>Year ended 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
Waste mined (Mt) .....	29	32	38
Stripping ratio .....	25	24	29
Ore mined (Mt) .....	1.2	1.4	1.3
Ore processed (Mt) .....	1.3	1.2	1.5
Au average head grade (g/t) .....	3.1	3.5	3.3
Recovery rate Au (%).....	83	86	85
Au produced (koz).....	100	116	130
Au sales volume (koz) .....	100	116	129
Au average realised price (US\$/oz) <sup>(1)</sup> .....	1,247	1,247	1,269
Capital expenditure (in millions of US\$).....	6.9	8.1	14.2

<sup>(1)</sup> Gold prices are average prices for the relevant realisation period taken from the full LBMA p.m. spot fixing in US\$ without deduction of treatment and transportation costs.

Mining is conducted by shovel and truck system in descending horizontal slices using drilling and blasting and a combination of shovels and trucks. Blasted rock mass is loaded by shovels to dump-trucks and unloaded directly to the crusher bin. Ore haulage is carried out by dump-trucks from the mine first to a crushing and screening plant installed at a distance of 2.0km, then to the railway station loading area at a distance of 7km; from there it is reclaimed to wagons and is delivered to the Ararat processing facility by railway at a distance of 270km and the overburden haulage is delivered to ex-pit dumps at the average distance of 4.5km.

In addition to the mining and associated equipment comprised of shovels, bulldozers, loaders, graders as well as contracted trucks and contracted drills, the Zod mine includes mechanical workshops, a laboratory, fuel storage facilities, crushers, an administration building, warehouses and a rail load-out facility (a frame crane). In 2017-2018, the Group modernised its mining fleet in anticipation of production volume increase in the following years as part of its development strategy.

### *Processing*

Ore is transported from Zod to Ararat processing facility (a distance of approximately 270km) by rail. The Ararat processing facility had a current annual through-put capacity of 1.45Mt (based on actual results for the year ended 31 December 2018) and processed 1,259kt, 1,212kt and 1,450kt of ore in the years ended 31 December 2016, 2017 and 2018, respectively.

The ore delivered to the processing facility is weighed on the railway weighbridge and is taken to the ground level ore stockpile with the capacity of 30kt. Ore from the ground level stockpile is delivered to bins, installed in the main building of the processing facility for grinding. The ground ore then undergoes flotation. The flotation output consists of two products: sulphide concentrate with the gold grade of 50-80g/t and tailings with the gold grade of 0.6-0.7g/t. The sulphide concentrate and flotation tailings are thickened prior to hydrometallurgical treatment. The thickened concentrate is delivered to the Albion Process Technology circuit for oxidation. The flotation tailings are thickened in a circular thickener. The thickened tailings are delivered for carbon-in-leach treatment.

In 2014, the Ararat processing facility was upgraded with a new Albion Process Technology, which allowed the Group to switch to sulphide ore processing at this site (see "*Mining and Processing*"). Prior to the implementation of the Albion Process Technology, GPM Gold's processing operations were conducted at the flotation factory which was established in 1976, using the carbon-in-leach processing technology, which had been in use since 1997. By the time the Albion Process Technology was launched, all of the oxidised ore reserves had been exhausted. The remaining reserves represented gold with pyrites, with recovery rates of 20-30% based on laboratory test results. The Albion Process Technology, developed by Australian companies Xstrata Technology (now Glencore Technology) and Core Process Engineering, allowed the Group to increase total gold recovery to up to 87-88% and more than double its gold production. The implementation of the technology involved complex research conducted by Core Process Engineering, who worked together with the Group to determine the optimal mining plan and the most efficient technology, detailed laboratory and pilot studies, preparation of a bankable feasibility study, which included an environmental impact assessment, and the plant project that was developed jointly with Glencore. Core Process Engineering was involved in the launch process together with Glencore. The plant's design parameters relating to the Albion Process Technology include 92% gold recovery from concentrate, ability to process raw materials of a wide range compositions (in terms of sulphur level, etc.) in different climatic conditions and a processing capacity of 100kt of flotation concentrate per year.

Ararat's Albion Process Technology based facility equipment comprises a grinding mill 5000 ISAMILL, with a processing capacity of 10.5-14t of concentrate per hour, a leaching cycle, with ore processing capacity of 4,200-4,500t per day and concentrate processing capacity of 250-340t per day, a lime plant with a 6t per hour productivity, an oxygen factory with a 2x60t per day productivity and a high performance thickener with a 21.1t per hour productivity.

The operating tailings dam is of the lowland type with a hydraulic fill embankment running throughout the tailings dam perimeter. The current effective capacity of the tailings dam is sufficient for storage of the processing facility's tailings for six years. The Group intends to expand the tailings dam area to ensure the processing facility operation during 14 years.

### *Location and Access*

The Zod ore field covers the south-eastern end of the Sevan Ridge and the north-eastern end of the East Sevan Ridge. This area is the central part of the Main Ophiolite Belt of the Minor Caucasus. The belt is 350-360km long overall, with the width ranging between a few and 40-60km. The belt is controlled by a strip of deep faults running through the whole of Northern Armenia and stretching out to Azerbaijan (in the east) and Turkey (in the west). The ore field is confined between the upstream river Seidlar (Soyutluchay) in the north and the upstream river Zod in the south. The deposit itself is situated 2 km north-west of the Zod mountain pass between the elevations of 1,950m and 2,550m.

The Zod mine is located approximately 80km (and 170km by road) north-east of the capital Yerevan. The nearest settlement to the mine is Zod village, which is located 8km to the west. The region's climate consists of cold winters lasting four to six months that include consistent snow cover and generally mild summers. The region's average annual precipitation is approximately 423 mm per year.

The Zod mine can be accessed year round by paved roads and is connected to Yerevan and the Ararat facility by rail (with a total distance of approximately 220km from Zod to Yerevan and approximately 270km from Zod to Ararat).

The Group has an annual contract in place with "South Caucasus Railway" CJSC for the transportation of crushed ore from the Zod mine to the Ararat processing facility.

The Ararat processing facility and tailings storage facility are located in south-eastern Armenia approximately 270km southwest of the Zod mine and approximately 15km to the north-west from the nearest settlement, the town of Ararat.

#### *Power*

Ararat sources energy from two independent lines (one of which is held in reserve) that feed a dedicated substation and the Zod mine sources energy from one independent line that feeds a dedicated substation, with each independent line connected to Armenia's national electricity grid (which is the country's sole electricity supplier).

#### *Development Projects*

The Group is currently implementing a project to increase production capacity at the Ararat processing facility to up to 1.6Mt by 2021 through expansion and modernisation of processing equipment and truck fleet. The Group expects that as a result of the targeted capacity increase, gold production at GPM Gold will reach 154koz by 2022, representing an 18% increase from 2018 production levels. The Group estimates that its capital expenditure until 2021 relating to the support and expansion of GPM Gold, including the increase of the production capacity at the Ararat processing facility will amount to approximately US\$24.1 million;

#### **Agarak**

Agarak is an integrated copper and molybdenum mining and processing complex in the Syunik region of Armenia (located approximately 400km to the south-east of Yerevan) comprising the Agarak open-pit mine and the Agarak processing facility (located approximately 7km by road from the Agarak mine) which produces copper and molybdenum concentrates through flotation processing.

Agarak deposit was discovered in 1958 and development work at the site began in 1960 with open-pit mining starting in 1963. In 1997, Agarak was restructured and privatised and subsequently sold to a commodities trading company, Comsup Inc, in 2004. In December 2007, the Group acquired 100% of the shares of Agarak. In 2009, mining was temporarily stopped for renovation and mobilisation works at the site, but returned to previous levels of production in 2010.

#### *Reserves and Resources*

The table below sets forth Agarak's reserves and resources, classified in accordance with the JORC Code, as at 1 January 2019.

	Tonnage	Grade		Content	
		Copper	Molybdenum	Copper	Molybdenum
	(kt)	(%)	(%)	(kt)	(t)
<b>Agarak</b>					
Reserves					
Proved.....	-	-	-	-	-
Probable .....	142,600	0.32	0.016	456.5	22,800
Resources					
Indicated.....	240,200	0.36	0.019	856.4	46,300
Inferred .....	315,100	0.29	0.016	760.3	43,100

## Geology

The Agarak deposit sits within the boundaries of the Megrin pluton and is associated with north-south oriented Megry-Tey graben structure which is formed in the hanging wall of the regional Tashtun fault. Metallogeny in the area is characterised by the presence of the copper-molybdenum deposits and mostly corresponds to the copper-porphyry type. The basic ore-forming hypogenic minerals are chalcopyrite, molybdenite, pyrite, magnetite. The most common among the vein minerals are: quartz, ankerite, sericite, chlorite, siderite, and calcite. Ore field covers an area exceeding 18 sq km and is elongated in a meridian direction over approximately 7.0km with a width of 2.0-3.0km.

## Mining

The table below presents an overview of the Group's mining and processing operations at Agarak for the years ended 31 December 2016, 2017 and 2018.

	Year ended 31 December		
	2016	2017	2018
Waste mined (Mt) .....	2	6	11
Stripping ratio .....	1	2	3
Ore mined (Mt) .....	2.8	2.6	3.2
Ore processed (Mt) .....	2.7	2.6	3.4
Cu average head grade (%) .....	0.33	0.32	0.31
Mo average head grade (%) .....	0.012	0.013	0.014
Recovery rate Cu (%) .....	74	75	74
Recovery rate Mo (%) .....	62	62	64
Cu produced (t) .....	6,573	6,220	7,987
Mo produced (t) .....	199	201	297
Cu sales volume (t) .....	6,620	5,943	8,055
Mo sales volume(t) .....	187	204	305
Cu average realised price (US\$/t) <sup>(1)</sup> .....	3,088	4,763	4,667
Mo average realised price (US\$/t) .....	10,834	14,439	21,241
Capital expenditure (in millions of US\$).....	2.4	7.3	10.2

<sup>(1)</sup> Average realised price is calculated by dividing revenue for the period to the sold quantity of metal during that period. Revenue includes all IFRS adjustments including embedded derivate adjustment. Because the Group's revenue reflects the applicable deductions for treatment charges and refining charges, the Group's average realised prices differ from the applicable spot prices for the relevant metals.

Mining is conducted using traditional truck and shovel open pit methods whereby on-site material is drilled and blasted, loaded by excavators on dump trucks and hauled to either the blending stockpile (ore) located at bunkers at Agarak's processing facility (a distance of approximately 6km) or to the waste dump. The ore is recovered, depending upon grade control, into either a high or low grade molybdenum feed. At the blending stockpile the two feeds are blended to the required grade and transported to the Agarak processing plant. Waste rock is hauled by truck to piles, which are tiered and stepped to minimise erosion, located at the surface near the east, south-west and south-east edges of Agarak's open pit (a distance of approximately 2km).

In addition to the mining and associated equipment comprised of shovels, drill rigs, bulldozers, loaders, graders as well as contracted trucks, Agarak includes mechanical workshops, a laboratory, fuel storage facilities, crushers, an administration building and warehouses. In 2017, the Group modernised its dump trucks and excavators fleet in preparation for further production increases and stripping work at the quarry.

## Processing

The Agarak processing facility is located 7km away from the operating mine at the elevation of 840m. It has an aggregate annual design ore processing through-put capacity of approximately 3.7Mt and it processed 2.7Mt, 2.6Mt and 3.4Mt of ore in the years ended 31 December 2016, 2017 and 2018 and, respectively. From 2010 to 2012, the Group significantly upgraded and modernised its Agarak processing facility, resulting in its annual design through-put capacity increasing to 3.7Mt.

Ore from the mine is delivered by dump trucks to two bins with the capacity of 1,000 m<sup>3</sup> and 800 m<sup>3</sup>. Ore is not blended, as the ore composition is mostly consistent and does not vary significantly. The ore undergoes three stages of crushing at the concentrator. The Agarak processing facility employs the flotation method to process ground ore containing molybdenum and copper and has a flotation circuit that is designed to produce separate

molybdenum and copper concentrates. For further information regarding the flotation method of processing, see "*—Mining and Processing*".

Recoveries and concentrate grades produced through flotation are dependent to some extent on the feed grade. After the processing facility upgrade in 2012, recovery rates at Agarak increased from 63% prior to the upgrade to 64% in 2018 for molybdenum and from 69% prior to the upgrade to 74% in 2018 for copper.

The molybdenum concentrate is loaded into crucibles and dried in ovens, before being loaded into bags weighing 2.3 tonne, weighed and sampled. The copper concentrate is thickened and dewatered until the moisture in the copper concentrate has been reduced to approximately 8% to 10%, before being transported, together with the molybdenum concentrate, by road trucks to an intermediate storage facility in Yerevan and then by rail to the port at Poti on the Black Sea. Commercial sampling is performed during discharge of bags with concentrate at the port. The molybdenum and copper concentrates are delivered to Industrial Minerals, to which Agarak sells 100% of its copper and molybdenum concentrates. For further information regarding copper and molybdenum concentrate sales, see "*—Sales—Copper and Molybdenum Concentrate*".

### *Tailings*

Tailings from the Agarak processing facility, which are in the form of slurry, are transported via a pipeline approximately 2km to 4km in length to one of three storage facilities which have been constructed as valley fills (tailings storage facilities). The tailings dam walls are raised in lifts of approximately 3m using rock excavated from the valley walls. Tailings are discharged into the dams at numerous points along the dam wall using spigots from the main pipeline. Coarse tailings settle first forming part of the dam wall construction. The dam wall at the largest storage facility can be raised approximately 30m from its present height, giving sufficient capacity for a further ten years of operation at the currently forecasted production rate. The Group plans to upgrade the tailing dump capacity by raising the dam of the tailing storage facility. Currently a project is being developed for this and the Group expects to complete the upgrade by 2020.

### *Location and Access*

Agarak is located in a mountainous region with elevations ranging between 600m and 2,700m. The region's climate is mild and arid, with an average yearly temperature of between 16 to 18 degrees Celsius and average precipitation of between 400mm and 500mm per annum.

Agarak is accessible by all-weather roads (a distance of approximately 415km from Yerevan). There are several settlements near the Agarak mine. The largest is Agarak with a population of 4,800, which is situated 0.5km north of the Arax River that forms the border with Iran and has a population of approximately 4,800 people.

### *Power*

Agarak sources energy from one independent line that feeds a dedicated step-down substation that is connected to Armenia's national electricity grid (which is the country's sole electricity supplier).

### *Development Projects*

The Group plans to increase Agarak's processing facility's ore processing capacity from 3.7Mt to 4.5Mt per annum by 2021 by upgrading its existing equipment at the Agarak concentrating mill. The Group expects that as a result of the targeted capacity increase the copper and molybdenum production on a gold equivalent basis will reach 62koz by 2022, representing a 32% increase from 2018 production. The Group estimates that its capital expenditure until 2021 relating to the support and expansion of the Agarak processing facility, including the increase of annual processing capacity will amount to approximately US\$18.4 million.

### **Sarylakh-Surma/Zvezda**

Sarylakh-Surma/Zvezda is an antimony and gold mining complex in the Republic of Sakha (Yakutia) in north-eastern Russia comprising the Sentachan and Sarylakh underground antimony and gold mines and the Sarylakh processing facility (located near the town of Ust Nera, approximately 700km from the Sentachan mine and approximately 64km from the Sarylakh mine), which produces antimony and free gold concentrates through flotation processing and coarse gold through a gravitational separation process.

The first ore deposits in the Yakutsk region were discovered in the 1960s through exploration conducted by the USSR and processing of ore from the Sentachan and Sarylakh mines commenced in 1972 and 1970, respectively. The Group acquired 60% of the shares of Sarylakh-Surma and 59.8% of the shares of Zvezda in 2007, and acquired the remaining shares in February 2008.

### Reserves and Resources

The tables below set forth Sentachan's (Zvezda) and Sarylakh-Surma's reserves and resources, classified in accordance with the JORC Code, as at 1 January 2019.

	Tonnage	Grade		Content	
		Antimony	Gold	Antimony	Gold
	(kt)	(%)	(g/t)	(t)	(koz)
<b>Sentachan (Zvezda)</b>					
Reserves					
Proved.....	-	-	-	-	-
Probable .....	724.6	10.51	17.82	76,177	415
Resources					
Indicated.....	-	-	-	-	-
Inferred .....	545.6	15.1	25.5	82,176	448
	Tonnage	Grade		Content	
		Antimony	Gold	Antimony	Gold
	(kt)	(%)	(g/t)	(t)	(koz)
<b>Sarylakh-Surma</b>					
Reserves					
Proved.....	-	-	-	-	-
Probable .....	637	5.9	6.62	42,157	121
Resources					
Indicated .....	455.2	9.9	8.8	45,139	129
Inferred .....	195.3	10.37	9.67	20,247	61

### Geology

The Sarylakh deposit is confined to the central part of the Yano-Kolyma belt of Mesozoic folding, within the Taryno-Elginsky synclinorium. The deposit is a subvertically lying (72 degrees) vein body, composed of more than 95% of quartz and antimony. The Sentachan sit is located in the north-west part of the Adycha-Taryn fracture, along which a gold-antimony ore area extends. The richest gold-antimony occurrences are located on its extreme flanks. The Sentachan deposit mineralisation is characterized by uniquely high concentrations of antimony and high gold content; ores have a simple composition and no chemical and mineral admixtures.

### Mining

The tables below present an overview of the Group's mining and processing operations at Sentachan (Zvezda) and Sarylakh-Surma for the years ended 31 December 2016, 2017 and 2018.

	Year ended 31 December		
	2016	2017	2018
Underground meterage (running metres) .....	1,805	2,150	3,303
Underground meterage (m <sup>3</sup> ) .....	15,336	19,789	35,932
Tons of development per US\$ .....	0.06	0.08	0.08
Ore mined (t) .....	86,969	76,561	86,887
Ore processed (t) .....	82,650	76,878	78,882
Sb average head grade (%).....	8.5	8.7	10.1
Au average head grade (g/t) .....	6.5	7.5	8.9
Recovery rate Sb (%).....	94	91	91
Recovery rate Au (%).....	85	86	87
Sb produced (t) .....	6,620	6,118	7,226
Au produced (koz) .....	15	16	20
Sb average realised price (US\$/t) <sup>(1)</sup> .....	3,345	3,943	5,246
Au average realised price (US\$/oz) .....	1,017	861	1,019
Capital expenditure (millions US\$).....	4.9	13.0	13.5

(1) As a result of a change in the Group's IFRS revenue recognition policy which took effect from 1 January 2018, in the Financial Statements for the year ended 31 December 2018, revenue from sales of antimony consists of two components: (i) revenue from antimony sales in 2018 based on a provisional invoice issued upon delivery and (ii) revenue from antimony sales which occurred in prior periods, but were finalised in 2018 based on final quality results. Prior to this change in IFRS revenue recognition policy, the

Group recognised revenue from antimony sales based on the final invoice price. The change in policy, however, did not affect the final price payment terms, which envisage payment on the basis of 59-61% of the spot price. Therefore, the average realised prices for antimony in 2018 and 2017 (calculated by dividing (i) revenue from antimony sales in 2018 or 2017, as applicable, based on a provisional invoice issued upon delivery as well as revenue from antimony sales in prior periods as finalised in 2018 or 2017, as applicable, based on final quality results, by (ii) the volume of antimony sold in the period) differ from the spot prices by the percentage of the actual payment received.

	Year ended 31 December		
	2016	2017	2018
Sb concentrate produced (t) .....	11,311	10,244	11,633
Au produced Free gold (oz) .....	6,376	6,908	9,159
Au produced in concentrate (oz) .....	8,370	9,149	10,610
Sb concentrate sold (dry tonnes) .....	12,649	11,414	10,294
Sb metal sold (dry tonnes) .....	7,403	6,817	6,395
Au sold total (oz) .....	14,991	15,094	14,701
Au sold Free gold (oz) .....	6,508	5,920	6,408
Au sold in ant. concentrate (oz) .....	8,483	9,174	8,293
Au average realised price in concentrate (US\$/oz) .....	718	608	820

The Sarylakh mine is mined all year round whilst the Sentachan mine is mined in the winter months from October through April. From February until April, the frozen rivers allow for transportation of ore to the Sarylakh processing facility located near the town of Ust Nera, which is then processed from April through December.

In accordance with applicable regulations, the shrinkage-stopping mining method is used at both mines. The Group believes this method, which is used in steeply dipping, relatively narrow ore bodies with regular boundaries is the most efficient in terms of labour utilisation, quantity and quality of resource extraction, consumption of materials and, consequently, overall cost efficiency.

Ore is transported from the Sarylakh deposit to the Sarylakh processing plant (65km) near the village of Ust Nera by third-party contractors' dumper trucks along a highway that operates all year.

Ore is transported from the Sentachan deposit to the Sarylakh processing plant (700km) by third-party contractors' dumper trucks and long haul trucks along a winter road which is created over frozen rivers. This road is constructed each winter along an agreed route by the Group, using its own plant and machinery. Preparation of the road includes clearing of snow and destruction and clearing of ice drifts. The winter road is then functional from the beginning of February until the end of April.

In addition to the mining and associated equipment comprised of bulldozers, loaders, trucks, dump trucks, buses and various other smaller vehicles, the Sarylakh and Sentachan mine sites include mechanical workshops, a laboratory, fuel storage facilities, crushers, an administration building and warehouses.

### *Processing*

At the date of this Prospectus, the Sarylakh processing facility has an aggregate annual design ore processing through-put capacity of approximately 100kt and it processed 83kt, 77kt and 79kt of ore, in the years ended 31 December 2016, 2017 and 2018, respectively.

The processing of ore from Sentachan and Sarylakh is a complex process including grinding, gravitation, flotation, thickening, filtration and drying of the flotation concentrate.

The first stage of processing involves grinding the ore using an autogenous grind mill and then a ball mill. The ground and milled material is sent to a gravitational circuit and free gold is separated following which further gravitational processing takes place. Residue from the flotation process is finely ground and undergoes a flotation process followed by thickening and drying. A filtration process is then used which filters the flotation concentrates using differing air pressures generated by a vacuum pump. The material attaching to the filter is then put into a high temperature drying drum containing heated gases of up to 950 degrees Celsius. Diesel fuel is used to generate the high temperatures needed for this process.

Following drying, gold-bearing antimony concentrate and gold is produced. The concentrate is stored on site and then transported on trucks to the port in Magadan (a distance of 1,042km by road), from where it is shipped to customers located mainly in China and Vietnam.



The tailings dam is of the upstream plain type with a frozen embankment running throughout the tailings dam perimeter. To maintain the dam wall in the frozen state, an air-freezing system is used, which consists of six fans supplying cold air into a pipe with a circular cross section, which distributes air among freezing columns. The tailings dam provides sufficient supply for the plant by re-circulating of the water being discharged with tailings.

#### *Location and Access*

The antimony and gold mine at Sentachan is located in the interfluvium of the river Yana and the river Indigirka in the Verkhoyanskiy District of the Republic of Sakha (Yakutia). The settlement of Batagay, the capital of Verkhoyanskiy District, is located 150km north-west from Sentachan deposit (180km along the road). The geographic centre of the district, the town of Verkhoyansk, is located 200km north-west. In orographic terms, the deposit is located in Yano-Oymyakonskoye upland, on the northern slopes of Nyandelginsky range. These are dissected medium high mountains with very narrow but flattened watersheds and ridge-like tops.

The antimony and gold mine at Sarylakh is located in Ust Nera-Oymyakonskiy District of the Republic of Sakha (Yakutia) within the basin of the Sarylakh brook on the right bank of the Indigirka river. The deposit is situated in the central part of Yano-Oymyakonskoye upland with the low mountain terrain. The elevation of watersheds is 900m-1,300m above the sea level, and the elevation difference in relation to valley bottoms is 150m-300m. The watershed slopes are medium steep (10-20°), less often steep (up to 35°). They are covered by sparse larch forests. Siberian dwarf pines grow occasionally on the watersheds.

The region in which the Sentachan and Sarylakh mines are located has an extreme climate, with an average temperature of minus 15.6 degrees Celsius, an average temperature in January, the region's coldest month, of minus 48.2 degrees Celsius and an average temperature in July, the region's hottest month, of 15.2 degrees Celsius. Each mine is equipped to work in permafrost conditions.

#### *Power*

The Sarylakh mine sources energy from the Arkagalinsky heating and power plant owned by Magadan Energo. It also uses two diesel generators for standby source of power. The Sentachan mine sources energy from local diesel power stations.

#### *Development Projects*

In the second half of 2019, the Group plans to launch a new concentrating mill near its Sentachan site with an annual through-put capacity of 30kt of ore. The new mill will allow the Group to process concentrate in close proximity to the mining site instead of having to transport ore for processing to the Sarylakh processing facility. Transportation to Sarylakh processing facility is naturally limited to the time when the surrounding rivers (which the Group believes represent the most cost-efficient way of transportation there) are frozen. Therefore, the Group expects that this new mill will allow it to decrease the impact that seasonality has on production and also decrease transportation costs. The Group estimates that its capital expenditure to complete this project will amount to approximately US\$11.7 million.

#### **Kim and Kinyass**

The Group also holds a licence for exploration and production of gold and antimony at Kim and Kinyass ore fields, comprised of the Kim deposit as well as Vzbro-2 ("**Vzbro**") and Kinyass-Yurakh ("**Kinyass**") ore mineralisations. The licence is effective until 1 December 2036. The Kim deposit as well as Vzbro and Kinyass ore occurrences are located in the 80-100km from the town of Ust Nera in the Republic of Sakha (Yakutia), 15-30km from the Sarylakh mine. The total area of the licence field is approximately 93 sq km.

The development of the Kim and Kinyass ore fields began in 2012. Between 2014 and 2016 the Group completed the initial stage of geological exploration and commenced the second stage of geological exploration in 2017. The Group has already completed a pre-feasibility study of the Kim deposit and Kinyass ore mineralisation and following additional drilling and exploration works expects to complete a feasibility study in 2022. The Group expects to complete a pre-feasibility study of the Vzbro ore mineralisation by the end of 2019 and following additional drilling and exploration works expects to complete a final feasibility study in 2026.

Exploration activities at these sites are aimed at extending the economic life of the Group's existing Sarylakh mine and finding mineral resources to supply expanding production. The Group expects that once the new concentrating mill near its Sentachan site is put into operation to allow the Group to process ore from the Sentachan mine, the Sarylakh processing facility capacity that is currently utilised for such processing will be used for processing of ore mined at the Kim deposit and Vzbroz and Kinyass ore mineralisations. Through the planned exploration activities near Sarylakh mine the Group also seeks to leverage existing infrastructure and available human resources. There can be no assurance that the Group's exploration projects at these fields will result in sustainable production assets. See *"Risk Factors—Risks Relating to the Group's Business and Industry—The exploration of new deposits and development of new mines involves a high degree of risk uncertainty and cost"*.

### Verkhne-Menkeche Prospective Project

Verkhne-Menkeche is an exploration and development project comprised of a polymetallic deposit containing silver, lead and zinc located in Tomponsky District of the Republic of Sakha (Yakutia) in north-eastern Russia (approximately 60km from the nearest town of Nezdansinoe). The Group expects that this project will complement the Group's existing silver production capacity and add lead and zinc to the Group's metals portfolio.

The Group plans to commence full cycle operations on the site in 2021 after completion of the construction of a new concentrating mill with a planned through-put capacity of 330kt that is currently underway. The Group's total estimated capital expenditure for implementation of the project amounts to US\$98.8 million. The Group expects the project to reach planned production capacity by 2022.

#### Development History

Exploration and mining licence for this deposit was acquired by its previous owners in 2008-2009. At the same time, exploration and environmental impact assessments studies were undertaken jointly with Yakutskgeologia. In 2010-2011, a camp was deployed at the site to carry out construction of auxiliary facilities and geological exploration. In addition, during that time, environmental monitoring studies were completed. In 2014, the Group acquired Verkhne-Menkeche from its previous owners. Until 2015, the Group worked on determining the optimal performance of the mine and concentration plant and on developing process regulations for the concentration plant, and also completed a pre-feasibility study and calculation of reserves. In 2016-2018, the Group completed mine development and infrastructure construction. It also formed a team of drilling and blasting specialists, and began underground geological exploration and ore mining in accordance with the pilot project design documentation. As a result, the ore mined during the development stages of the Verkhne-Menkeche deposit has already been sold to third parties. The Group also developed the processing plant project, which has already passed environmental and archaeological examination and the governmental examination conducted by Glavgosexpertiza, the state company authorised to conduct state examination of project documentation related to, among other things, mining assets.

#### Reserves and Resources

The table below sets forth Verkhne-Menkeche reserves and resources, classified in accordance with the JORC Code, as at 1 January 2019.

	Tonnage (kt)	Grade			Content		
		Silver (g/t)	Lead (%)	Zinc (%)	Silver (koz)	Lead (t)	Zinc (t)
<b>Verkhne-Menkeche</b>							
Reserves							
Proved .....	-	-	-	-	-	-	-
Probable .....	4,498	384.0	4.24	5.11	55,524	190,793	229,899
Resources							
Indicated .....	4,465	400.1	4.34	5.24	57,422	193,593	233,987
Inferred .....	1,578	248.9	3.12	6.28	12,635	49,170	99,038

#### Geology

The Verkhne-Menkeche deposit is located within the Yuzhno-Verkhoyansky synclinorium limits and Dybinsky anticline and in the northern part of Dybinsky ore cluster associated with Imtachan fault, composed of

terrigenous sediments of Verkhoyansky complex. The latter is represented by sandy-clay sediments of Medium and Upper Carboniferous, Lower and Upper Permian and Lower Triassic strata.

The deposit is represented with a number of parallel vein zones forming the overall mineralized structure extending towards northeast for about 7km (the strike of separate vein bodies as known today is about 1.5km). Thickness of these zones varies both in strike and dip from 0.8-1.0m to 20-30m. There is the presence of intermittent ore and barren ore intervals. The dip of bodies is steep (70-90°) mainly in the southeast direction. Mineralization is intersected by boreholes to a depth of 400m from the surface; there is similar depth (approximately 350m) of the maximum continuous mineralization was traced here. The ore bodies are represented by crushed and shattered zones of mineralization with short solid sulphide veins and lenses consisting of quartz, carbonate, galena, sphalerite, pyrrhotite, antimonite, and sulphosalts of silver.

### *Mining*

Ore shrinkage method is used for mining ore at the Verkhne-Menkeche deposit. The block reserves are mined in vertical slices from top to bottom with cutting of the hanging wall and footwall rocks and with a 4m high crown pillar. Ore is passed through cross cuts. Slices are broken by vertical holes drilled from the surface of broken rock mass by telescopic drills. Ore within the block can be extracted continuously or by benches. Rock mass is transported by load haul dumper and dump truck. The load haul dumper delivers the broken ore from top levels, then ore is loaded to dump truck and is delivered to the ore stockpile located on the right bank of the Menkeche river. The principal equipment used at the Verkhne-Menkeche deposit includes underground mining machinery, bulldozers, tractors and trucks. There are also storage, repair shops, garage and administrative amenities at the site.

### *Location and Access*

Verkhne-Menkeche deposit is located in Tomponsky District of the Republic of Sakha (Yakutia). Verkhne-Menkeche deposit is situated 36km south from Magadan-Khandyga motor road, and 270km north-east from the village of Khandyga. The deposit is linked with the populated areas by the 40km long temporary road and then by the 270km long permanent motor road running to Khandyga. There is a river port in Khandyga which links Tomponsky District with the city of Yakutsk, and from there with other regions of Russia by railway. The terrain is mountainous and dissected, with the elevation of up to 2,100m above sea level, and the elevation difference of 800-900 m. The mountain slopes are steep, with sharp dissected watershed crests and deep narrow water course canyons. The region has an extreme climate, with temperatures ranging from minus 40 degrees Celsius in the winter to 30 degrees Celsius in the summer, consistent snow cover that lasts for nine months, and average precipitation of 400mm per annum.

### *Power*

The operating mine is located in the zone of decentralised power supply and is fed by a diesel power plant, consisting of three mobile diesel generators.

### **Sales**

#### ***Gold and Silver Doré***

The Group currently sells all of its gold and silver doré bars from GPM Gold to VTB Trading and is credited for 100% of the gold and silver content of the doré bars. The price for gold is determined based on the LBMA a.m. gold price, set on the day prior to the relevant delivery date, less a discount of 0.09%. The price for silver is determined based on the LBMA a.m. silver price, set on the day prior to the relevant delivery date, less a discount of 0.5%. The discount covers refining and transportation charges.

Within three days from the date of delivery VTB Trading pays to the Group 95% of the amount, specified in the proforma invoice. Final payment is made within thirteen business days from the delivery date and is based on the final assay results.

Under the terms of the contracts, doré bars containing gold and silver produced at the Ararat processing facility are stored securely in the gold room at such facility until a sufficient amount of doré has accumulated, at which time the doré is transported by secured armoured car, secured helicopters and/or planes from the facility by Brinks International to Valcambi SA, which acts as a valuation agent (the "**Valuation Agent**") to be refined.

The risk of loss and damage of and to the doré bars passes from the Group to VTB Trading from the date of actual delivery of the doré bars at the delivery point, which is the Ararat processing facility.

The Group maintains legal title to the gold and silver, which does not pass from the Group until such gold and silver is sold.

The Group and the Valuation Agent each perform assays on doré samples to determine the final settlement amount. If the values of the Group's and the Valuation Agent's assays fall within a specified splitting limit, the settlement amount is calculated based on Valuation Agent's assays. If the two assays fall outside the specified limits and no agreement can be reached, either party may request a pre-approved third party to perform an additional assay. In such cases, the assay which is closer to the assay determined by the third party will be the final assay, and the other party bears the cost of the third party assayer. If the third party assay equals the mean of the parties' assays, the third party assay will be the final assay and both parties split the cost of the third party assay. In practice third party assays are rarely required.

### ***Copper and Molybdenum Concentrate***

The Group currently sells copper concentrate and molybdenum concentrate from Agarak to Industrial Minerals and is credited for 99.0% of the copper content for the copper concentrate (calculated on a dry metric tonne basis) and 99% of the molybdenum for the molybdenum concentrate, respectively. Under the Group's contracts with Industrial Minerals, copper prices are currently based on LME Copper Grade A prices as published on Metal Bulletin, molybdenum prices are currently based on Metals Week low quotations for molybdenum dealer oxide published on Platt's Metals Week, and gold prices are currently based on the average of the LBMA a.m. and p.m. spot fixing prices, as published on Metal Bulletin, respectively, in each case averaged over the applicable quotation period. A provisional payment of 80% of the amount specified in the proforma invoice is made by Industrial Minerals to the Group at the time of delivery. Currently sales of copper concentrate from Agarak are made on an M or M+3 basis (as explained below), sales of molybdenum concentrate from Agarak are made on an M+1 or M+2 basis.

The quotation periods are selected by Industrial Minerals and historically have been month of delivery (referred to as "M"), one month after delivery (referred to as "M+1"), two months after delivery (referred to as "M+2") or three months after delivery (referred to as "M+3"). After the calculation of the average price of the applicable metal during the applicable quotation period, the final price is calculated and the final invoice is issued. Any balance owed is paid by the owing party (which may be the Group, for example if the average price determined over the applicable quotation period is less than the price used to calculate the provisional payment).

Deductions are made to the prices of the concentrates for TCRCs. Deductions are also made for specified moisture exceeding specified thresholds. In these cases, refiners and smelters levy penalty charges, which are deductions from the price paid for the products. In any given year, TCRCs tend to settle around norms, or benchmarks, established through negotiations between the industry's major buyers and sellers of and concentrates. The TCRCs charged to the Group typically include a base treatment charge, which is negotiated based on the then-prevailing world market terms, as well as formulas that vary depending on the purity of the metal content. The Group has generally negotiated TCRCs for its concentrates sold to Industrial Minerals on an annual basis, based upon expectations of future market conditions. The TCRCs charged to the Group have remained stable over the last few years.

With respect to copper concentrate from Agarak, the TCRCs consist of: (i) a treatment charge of US\$177 per dry metric tonne as weighed in the Karmir Blur railway Station in Yerevan; (ii) refining charges of US\$0.177 per pound of payable copper, and (iii) penalty charges for moisture above specified thresholds.

With respect to molybdenum from Agarak, the settlement price per pound of molybdenum is US\$1.78.

Agarak's copper and molybdenum concentrate contracts with Industrial Minerals expire on 28 February 2020. Either party also has the right to terminate the contract. Industrial Minerals also has exclusive rights under the copper contracts with Agarak.

Under the terms of such contracts, the Group is obligated to deliver copper and molybdenum concentrate free of constituents deleterious to the smelting and refining process and radioactive materials as well as of an acceptable moisture content to Industrial Minerals at the Agarak, Armenia on a Free Carrier (FCA). (Incoterms 2010) basis in the case of Agarak. The concentrate then undergoes weighing, sampling and moisture

determination at the railway station of Karmir Blur in Yerevan, Armenia in order to carry out assays to calculate the final settlement price. The costs for weighing, sampling, moisture determination and assaying is borne jointly by both parties. Title passes upon Industrial Minerals making a provisional payment or prepayment, and the risk of loss passes to Industrial Minerals upon loading of the rail cars in the case of Agarak. The annual quantities under the contracts are: 40,000 dry metric tons of concentrate +/- 10% for copper from Agarak and 600 dry metric tons of concentrate +/- 10% for molybdenum from Agarak.

### **Antimony Concentrate**

The Group currently sells gold containing antimony concentrates to different customers with destination countries being mainly China and Vietnam, by organising a closed tender for one year volumes. See also *"Operating and Financial Review—Significant Factors Affecting Results of Operations and Financial Condition—Pricing Mechanics under the Group's sales contracts"*. The customer offering the highest price is offered the highest volume contract. Antimony prices are based on the monthly low quotations for antimony published in Metal Bulletin. Gold prices are based on monthly average between a.m. and p.m. official London gold quotations (fixings) published by LBMA. Payment terms are as follows: 50% cash against documents (CAD), 30% upon delivery, and the balance upon receiving of final quality.

### **Supplies**

The principal supplies purchased by the Group for its operations are electricity and consumables such as explosives, drilling bits, fuels and lubricants. While supplies at each of the Group's Armenia and Russian operations are not centralised (in that the Group does not have single supply contracts for both countries' operations), the Group's control over supply operations (including tender processes and pricing) is carried out at the Moscow headquarters' level. Supplies are agreed upon in accordance with Group policy and include grinding balls, ammonium nitrate, explosives and mining equipment. Historically, the prices paid for certain supplies have been determined based on the aggregate volumes required by the Group in order to obtain a higher volume discount.

### **Competition**

The Group experiences competition in identifying and acquiring exploration and development rights to attractive mining properties in the regions in which it operates. As ore reserves are depleted over time in established gold, silver, copper, antimony and molybdenum producing countries, demand for gold, silver, copper, antimony and molybdenum mining properties in the CIS region is increasing. The Group also faces competition for the skilled mining employees and geologists who work at its properties, and competition for such employees will increase as mining activity in the CIS region increases.

### **Environmental**

In common with other natural resources and mineral processing companies, the Group's operations generate hazardous and non-hazardous waste, effluents and emissions into the atmosphere, water and soil. The Group is subject to international, national, regional and local environmental laws, rules and regulations that apply to the Group's operations and development projects in each of the jurisdictions in which it operates. These laws and regulations address such matters as protection of the natural environment, air and water quality and emissions standards and disposal of waste.

The Group's priority is to maintain the high environmental protection standards that it has established and verified with leading environmental experts, and to implement new processing technologies and efficient waste management. Management of the Group is committed to complying with all applicable environmental legislation. The Albion Process Technology implemented by the Group at GPM Gold is ecologically safer than analogue technologies. In fact, implementation of the Albion Process Technology involved preparation of a bankable feasibility study which included an environmental and social impact report prepared by Digby Wells & Associates.

### *Armenia*

Armenian laws require that the mine and plant design and environmental and social impact assessment ("ESIA") documents are submitted to the relevant regulatory authorities for approval before any work may commence at the mining site. If there are any changes in the productivity or other mine performance indicators,

respective updates to ESIA documents are also required to be approved. The Group has all relevant environmental approvals and mining licences. The Agarak and GPM Gold environmental approvals and mining licences require that the Group comply with a number of provisions relating to the environment including protection of air, water, flora and fauna as well as areas of cultural, archaeological, architectural, historical and geographical importance.

Monthly monitoring of air emissions, water discharges, underground water and soil quality are carried out at the Group's Armenian operations, including at the mines, processing facility and affected localities on a monthly basis. Such monitoring is performed by licenced experts authorised by the relevant environmental authorities. The Group also conducts its internal environmental audits based on its internal policies and regulations and check-lists. At the end of each month, the results of the audits are discussed and new measures and steps are set for any environmental improvement needed.

At the Zod deposit, a number of environmental studies have been conducted over the last few years. The Zod mine is proximate to the protected Lake Sevan and so the main objective of the studies has been to determine the impact of mining operations on water quality in the Zod River. Currently, the Group is in the process of improving the Zod mine water (discharged water) treatment quality. The Group prepared new technological regulation for this purpose and is currently designing new purification ponds in order to obtain better quality of discharged water. The Group has a closed water cycle system at Agarak to prevent discharges of waste water into surrounding territories, including a local river, the construction of which was completed in 2013. The Group's Ararat processing facility is operating on a full water recycling basis with no discharge.

#### *Russia*

The current management systems at Zvezda and Sarylakh-Surma ensure that national environmental regulatory requirements and technical emission levels are met to the required standard. Environmental testing is conducted by relevant regulatory authorities on a regular basis.

Environmental standards can be and are being improved in many areas throughout the Group's operations, in particular at Zvezda and Sarylakh-Surma, to comply with international best practice.

See *"Risk Factors—Risks Relating to the Group's Business and Industry—The Group's activities employ processes and chemicals that may be harmful to the environment and may be subject to compliance, clean-up and other costs"*.

#### **Health and Safety**

The Group's facilities are large industrial sites staffed with a large number of workers, and workplace safety issues are of significant importance to the operations of these sites. The Group currently registers and reports the number and type of any incidents that occurred at operation to state authorities. Lost Time Injury Frequency Rate ("**LTIFR**") for the years ended 31 December 2018, 2017 and 2016 was 1.76, 2.86 and 2.96, which, according to IMC, is significantly lower than LTIFR average for similar international mining companies of 6.0 per million man-hours worked.

The following table sets forth information on workplace related accidents at the mines and the processing facilities of the Group and work days lost due to such accidents in the years ended 31 December 2018, 2017 and 2016.

	<b>GPM Gold</b>	<b>Agarak</b>	<b>Sarylakh-Surma /Zvezda</b>	<b>Total</b>
Total accidents in 2018 .....	4	2	2	8
not serious .....	1	1	2	4
serious .....	1	1	0	2
resulting in death(s) .....	2	0	0	2
Total work days lost in 2018 due to all accidents .....	169	140	303	612
Total work days lost in 2018 due to serious accidents .....	122	99	0	221
Total accidents in 2017 .....	5	4	4	13
not serious .....	3	3	3	9
serious .....	2	1	1	4
resulting in death(s) .....	0	0	0	0
Total work days lost in 2017 due to all accidents .....	152	125	433	710
Total work days lost in 2017 due to serious accidents .....	125	94	130	329
Total accidents in 2016 .....	4	4	5	13
not serious .....	1	2	2	5
serious .....	3	2	1	6
resulting in death(s) .....	0	0	2	2
Total work days lost in 2016 due to all accidents .....	203	163	415	781
Total work days lost in 2016 due to serious accidents .....	164	135	150	314

All of the Group's operations have occupational health, environmental and safety functions. The Group believes that it is in material compliance with applicable regulatory requirements in relation to occupational health and safety. The Group's facilities undergo regular safety inspections by state authorities and safety certificates are issued for each facility which are required for operating the facilities, and the Group has successfully obtained these in the past. The Group regularly analyses potential risks, develops measures to reduce these risks and reduce consequences of industrial accidents and conducts worker-safety training and updates internal safety regulations. The Group is also committed to introducing independently verified health and safety management systems in accordance with OHS AS 18001.

### Employees

The following table sets forth the average number of employees, including seasonal workers, at the Group in 2018.

	<b>Average as at 31 December 2018</b>
GPM Gold .....	1,194
Agarak .....	1,005
Sarylakh-Surma .....	392
Sentachan (Zvezda) .....	68
Verkhne-Menkeche .....	68
Head office/other .....	59
<b>Group Total .....</b>	<b>2,786</b>

At GPM Gold and Agarak, the employee turnover rate in 2018 was 7%. The employee turnover rate at the Group's other assets is seasonal in nature. There are no trade unions operating at any of the Group's assets. The Group has not experienced any industrial action by its employees.

The Group believes that it offers competitive salaries and benefit packages to its employees, including free medical care and financial aid for workers and their families. The Group also provides professional training opportunities and offers relocation training programmes across its operations.

### Corporate Social Responsibility

Many of the regions in which the Group operates are socially and economically undeveloped. The Group plays an important role in socio-economic development of the regions where its operations are located. The Group actively works with the local administrations in these regions to address some of the most pressing concerns.

The Group runs its "Resources for Good" social responsibility programme focused on the Group's key stakeholders with the principal objective of ensuring that it takes care of its employees, minimises any impact on the environment and support local communities. To maintain positive relationships with the local authorities and communities and to support the development of social infrastructure, the Group has also entered into social partnership agreements with municipalities and regional governments where it operates. Under these agreements, the Group organises and finances a variety of community development and humanitarian projects and has provided funds to build schools and hospitals in the vicinity of its operations.

### **Intellectual Property**

The Group does not currently own any registered intellectual property rights material to its business.

The Group utilises advanced manufacturing technologies and processes licenced to the Group by various technology providers, including Glencore Technology's perpetual licence for the use of the Albion Process Technology. The Group also entered into a collaboration agreement with Glencore Technology pursuant to which it has an exclusive right to market the Albion Process Technology in Russia in partnership with Glencore Technology. Under this agreement, the Group is entitled to undertake a full range of services as a contractor for Albion Process Technology based plant construction on a turnkey basis.

### **Insurance**

Whilst the Group maintains only the level of insurance required by each of the jurisdictions in which it operates and some voluntary property insurance policies purchased at mine levels it does not have full insurance coverage for its mining, processing and transportation facilities, for business interruption, or for third party liability in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations. See *"Risk Factors—Risks Relating to the Group's Business and Industry—The Group may incur losses from uninsured or self-insured risks"*.

### **Legal Proceedings**

From time to time, the Group is involved in litigation in the ordinary course of its business activities.

Other than as disclosed below, neither the Company, nor any member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the Group is aware) during the 12 months preceding the date of this Prospectus that may have, or have had, in the recent past significant effects on the Company and/or the Group's financial position or profitability.

Starting from 2015 the Armenian tax authorities have been taking an aggressive tax position with respect to the calculation of royalty payments in certain mining companies in Armenia, including Agarak, resulting in claimed material increases to the royalty amounts for previous years. Based on the tax inspection conducted in relation to the Agarak operations in 2018 additional royalty amounts claimed by the Armenian tax authorities as unpaid for the years 2014 to 2017 amounted to around US\$4.4 million. Out of the total amount of US\$4.4 million US\$2.3 million was recognised by Agarak. The recognised amount corresponds to the amount which would have been imposed by the tax authorities during an inspection, if they used the same interpretation of the Law on Nature Protection and Nature Utilisation Payments as was used during inspection conducted in the 2012-2013 tax year. The remaining sum of US\$2.1 million was not recognised by Agarak because it relates to a new interpretation of the Law on Nature Protection and Nature Utilisation Payments by Tax Authorities which differs from their previous interpretation. The Group's management believes that this tax position is not consistent with the Armenian Law on Nature Protection and Nature Utilisation Payments. Accordingly, in January 2019, the Group appealed the decision of the tax authority to the competent Armenian court. In February 2019, first instance administrative court took the appeal for administrative proceeding. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation, official pronouncements and court decisions. See *"Risk Factors—Risks Relating to the Group's Business—The Group is subject to a significant number of laws and governmental regulations and may be adversely affected by changes in costs of compliance or changes to applicable laws and regulations"*.



## REGULATION OF MINING INDUSTRY IN ARMENIA AND RUSSIA

Below is a summary of Armenian and Russian regulatory matters that are applicable to the Group's operations in Armenia and Russia.

### **Armenia**

#### ***Legal Framework***

The Group's operations in Armenia are regulated by a number of laws relating to mining operations, precious metals, quality standards, industrial safety, environmental regulation and other matters. The relevant legislation includes the following laws:

- Civil Code of Armenia, No. HO-239 dated 05 May 1998 (the "**Armenian Civil Code**");
- Land Code of Armenia No. HO-185 dated 2 May 2001 (the "**Land Code**");
- Water Code of Armenia No. HO-373-N dated 04 June 2002 (the "**Water Code**");
- Labour Code of Armenia No. HO-124-N dated 09 November 2004 (the "**Labour Code**");
- Subsoil Code of Armenia No. HO-280-N dated 28 November 2011 (the "**Subsoil Code**");
- Tax Code of Armenia No. NO-165-N dated 04 October 2016 (the "**Tax Code**");
- Law on Precious Metals No. HO-83-N dated 23 May 2006 (the "**Precious Metals Law**");
- Law on Licencing No. HO-193 dated 30 May 2001;
- Law on Environmental Impact Assessment and Expertise No. HO-110-N dated 21 June 2014 (the "**Law on Environmental Impact Assessment**");
- Law on State Regulation of Technical Safety No. Ho-204-N dated 24 October 2005 (the "**Law on Technical Safety**");
- Law on Foreign Investments No. HO-115 dated 31 July 1994;
- Law on Currency Regulation and Currency Control No. HO-135-N dated 24 November 2004 (the "**Law on Currency**");
- Law on Technical Regulation No. HO-19-N dated 08 February 2012 (the "**Technical Regulation Law**");
- Law on Trade Unions No. HO-135 dated 05 December 2000 (the "**Trade Union Law**");
- Law on Protection of Economic Competition No. HO-112 dated 06 November 2000; and
- Law on Waste No. HO-159-N dated 24 November 2004 (the "**Law on Waste**"),

and rules and regulations adopted in accordance with those laws.

#### ***Subsoil use and mining***

##### ***Subsoil licences***

The Precious Metals Law, Subsoil Code and the regulations issued under those laws are the main legal acts which establish the licensing regime in Armenia for the use of subsoil for geological research, exploration and production of mineral resources, particularly gold. The Subsoil Code governs the licensing of use of subsoil

plots containing precious metals and gems, under which the Ministry of Energy and Natural Resources, which will be absorbed by the Ministry of Territorial Administration and Infrastructure in June 2019, (the "**Mining Authority**") may grant two types of subsoil licences (called "subsoil use rights" under the Subsoil Code but referred to "licence" for easy reference), namely:

- licences for the geological survey and exploration for the purpose of mining; and
- licences for mining ("production of natural resources").

Under the Subsoil Code, licences for geological surveys are granted for up to three years with possibility of two prolongations for 2 years each.

Licences for the production of natural resources are provided for the useful life of a mineral reserves field, but for not more than 50 years. The term of the licence can be prolonged for a requested period and the same regime applies to such prolongation as is applicable to licence granting. The law is unclear whether prolongation is applicable to a licence granted for up to 50 years or any prolongation together with initial term is capped at 50 years.

As a general rule, subsoil licences are granted following an application to the licensing authority. Licences for geological survey related to radioactive resources are granted following an auction process.

Any legal entity (including a foreign legal entity) may apply for a subsoil use licence. The applicant shall provide the respective authority with the relevant documents, including a projection of estimated production levels of natural resources, which should include an assessment of the environmental impact, terms of use, and technical particularities. The procedure of granting licences may last for up to 180 days. Within this period, the application is sent for a technical safety examination and an environmental impact assessment. Following expert examination and assessment, the Mining Authority grants the permits and invites the applicant to sign the subsoil use contract. Although most of the conditions set out in the licence are based on mandatory rules, the parties may negotiate some of the provisions in such contracts. However, state authorities are generally inclined to participate in such negotiations and contracts usually simply restate the requirements of the regulations.

A subsoil licence can be transferred to another party based on a commercial contract or in a security enforcement process but only with the approval of the Mining Authority. The Mining Authority can reject a transfer based on the same grounds used for the rejection of an application for a subsoil licence.

According to the Constitution, the Republic of Armenia retains ultimate ownership of all subsoil resources. A licence holder, however, has the right to use (including to sell) resources extracted from the licenced mining area.

Licences generally require the holder to make various commitments, including to:

- to comply with the licence, agreement and project terms;
- to comply with the requirements implemented by authorised bodies;
- to comply with norms, standards and terms set by the Republic of Armenia;
- to keep documentation related to the usage of subsoil;
- to send annual and three-monthly reports to authorised bodies;
- to keep maintain the safety of its workers;
- to comply with reclamation requirements;
- to prove necessary information to authorised bodies; and
- to comply with the norms on the waste disposal and management.

The Group's licences are scheduled to expire at different times between 2025 and 2030. See "*Business - Licences*". In addition, some of these licences require approval of any changes to mining program (main project design document) as a condition to extend the licences and continue mining under them.

A licence holder can extend its licence based on the decision of the Mining Authority. For this purpose, a licence holder must apply to Mining Authority and send justifications and new project. In case of approval, a new subsoil use agreement shall be concluded. The Group intends to extend its licences for each of the fields that are expected to be productive following the end of their current periods.

Governmental authorities may implement periodic reviews for ensuring compliance of operations by subsoil users with the terms of their licences, agreements and applicable legislation. Based on such reviews the Environmental and Subsoil Control Body can carry out a protocol on violations. Based on such protocols, Mining Authority can give the licensee a written warning. If, during 90 days after receipt of the warning, the licensee does not remedy the violation, the licence becomes subject to withdrawal (which will not come to effect if the withdrawal order (if issued) is questioned in courts).

Four documents form part of the licence absence any of which may result in temporary or final termination of the licence:

- mining permit – issued initially based on approved mining program (mine project design document);
- mining agreement entered with the state – to be entered into within 10 days after the mining permit is issued;
- land mass allotment act – granted after entering into the mining agreement; and
- mining program (mine project design document) – initially required for technical and environmental impact assessment expertise and be approved as a result thereof. Any subsequent changes therein are subject to the same procedure.

#### *Land mass allotment act*

Under the Subsoil Code, the Mining Authority shall issue a "mining land mass allotment act" to the person who received a mining permit and a signed mining agreement. This act provides boundaries (geometric coordinates) of the mass of subsoil for the permit holder to execute exclusive mining right. The boundaries are determined based on the project. A mining allotment act is a part of a licence. The area of the land mass allotment and the area mentioned in the relevant mining permit (issued before the land mass allotment act) usually differ. The difference is that within the larger area of a land mass allotment act the company has the exclusive right to undertake any mining activity (including extraction, processing, waste disposal, explorations, etc.), while the area mentioned in mining permit is for excavation of ore from the land. While the mining permit area is determined from when the permit is granted, a land mass allotment for general mining activities is granted as the last part of the licence.

#### *Land use permits*

In addition to a subsoil production licence, a licensee needs to obtain property rights to use surface land within an allotted area. Armenian legislation does not provide an obligation for a land owner to conclude with a licensee an agreement to use the land. So, the licensee must solve this issue by negotiating with land owners. However, the Government of the Republic of Armenia can declare a certain activity as in the "prevailing public interest", meaning the licensee will have a right to obtain the land through certain procedures where the only issue subject to judicial review is the amount of compensation due to the relevant land owner.

#### *Payment system for the use of subsoil*

Under the Subsoil Code and Tax Code, the payment system for the use of subsoil currently consists of the following payment obligations:

- an ecological tax;

- payments for re-cultivation;
- payments for monitoring;
- royalties and other payments for the use of natural resources;
- state fee for subsoil licences;
- payments for local communities' development set out in the subsoil use agreement; and
- other payments and fees set forth by the legislation of the Republic of Armenia on taxes and duties (corporate income taxes, withdrawing employees income tax, VAT, tax on property, custom duties etc.).

The rates for relevant payments and methods for their calculation are indicated in various codes, laws and decrees.

#### *Precious metals regulation*

The extraction, production and refining of precious metals as well as their export and import are subject to specific regulations set forth in the Precious Metals Law and various other regulations. Entities specialising in the sale and purchase of precious metals, are regulated and supervised by the relevant state authorities. In certain cases persons performing operations with precious metals shall receive a state qualification.

#### *Licensing of types of activity*

In addition to licences for subsoil use, the Group is required to obtain other licences, authorisations and permits from the Armenian Government for its operations. In particular, the Group requires licences for the purchase and use of explosive and radioactive materials and permits for water use.

#### *Licensing for explosive materials*

The Ministry of Emergency Situations issues licences for the purchase and use of explosive materials. The licence for purchase and use of explosive materials is given for an indefinite period of time. The Group has all the necessary licences to purchase and use explosive materials.

#### *Licensing for radioactive materials*

The Armenian Nuclear Regulatory Authority issues licences for the use of radioactive materials. The licences are allocated for 10 year terms. The Group has the necessary licences for radioactive materials. The Group's licence will expire on 2028. The Group plans to extend the term of its licence.

#### *Permits for water use*

The Armenian Ministry of Nature Protection issues permits for water use (this includes permits for surface and underground fresh water use). Permits are issued for up to 3, 5 or 25 years, depending on the region, water type and interpretation of the law. Water is used by the Group for industrial matters.

Licences for usage of mineral water are issued by the Mining Authority. The Group does not utilise mineral water, therefore, does not possess licences for usage of mineral water.

#### *Mining Taxes*

The only mining specific tax in Armenia (a type of tax paid exclusively by metal mine owners) is the "royalty".

According to Armenian Tax Code provisions, companies producing metal products and metal concentrates in the Republic of Armenia, or any product-producing organisations as a result of processing of ore, ores, concentrates and moulds shall be considered a royalty (type of environment fee) payer.

The object of the royalty is disposal of extracted metal minerals or ore or products obtained as a result of ore or waste processing. The base of the royalty is revenue from sale of the production in the accounting period.

The royalty rate is calculated as follows:

$R = 4 + P/(B \times 8) \times 100$ , where

R – rate of royalty, %;

P – profit before taxation in AMD, which is calculated as positive difference between base of royalty and deductions specified by the law; and

B – base of royalty in AMD.

The accounting period for the royalty is a calendar year.

The calculated royalty is payable to the state budget until 20 April of the year following the reporting one.

### ***Environmental Law***

#### *General*

The Group is subject to extensive laws and regulations and local environmental regulations in the Republic of Armenia. The operations of the Group involve the discharge of materials and contaminants into the environment, the disturbance of land, potential damage to flora and fauna and other environmental concerns. As part of the Group's mining operations, the Group uses various chemicals and produces wastewater that could, if improperly disposed of, have a negative impact on wildlife and vegetation. Armenian laws and regulations set various health and environmental quality standards, provide for penalties and other liabilities for the violation of such standards and establish, in certain circumstances, obligations to compensate for environmental damage and restore environmental conditions.

Environmental protection laws are primarily set forth in the Subsoil Code, the Tax Code, the Law on Environmental Impact Assessment, the Law on Waste, the Water Code and the Law On Protection of the Atmosphere together with a number of other legal acts and more detailed regulations.

#### *Pay-to-pollute*

Legal regulation with respect to control and surveillance over environmental use and protection is a function of the Ministry of Nature Protection.

Companies whose operations result in the pollution of soil, air and water have to pay for pollution. The Armenian Government approves maximum permitted concentrations of dangerous components. Based on such permitted concentrations, every company has a limit as to how much it may pollute. These restrictions are provided by the Ministry of Nature Protection. The ecological tax is paid for pollution. In case of these limits being exceeded, fines can be implemented.

The industrial waste is subject to registration and companies disposing waste materials shall receive on appropriate passport for any type of waste from the state authorities.

The ecological tax is paid for all kinds of industrial waste, but the subsoil use (mining related) waste. For the latter however, the ecological tax shall be also required to be paid starting from 2021. Waste disposal requires a licence for dangerous type of waste where the waste disposing entity deals with the disposal itself, otherwise the function shall be outsourced with service fees being payable on a commercial basis.

#### *Environmental monitoring*

Territories containing mines are subject to monitoring, which is performed by the Mining Authority. During the monitoring, the condition of tailings dams, soil, air and water pollution, radiation are assessed.

### *Ecological approval*

The Law on Environmental Impact Assessment provides that project design documentation of certain activities and facilities (including all types mining facilities) before their implementation shall be subject to state review and may be approved for implementation only after clearance from experts hired by the state. The list of documents needed for examination are outlined in laws and other legal acts. Public hearings (at least four) with the stakeholder (including the communities) are the part of the process.

### *Environmental protection authorities*

The Armenian Government and the Armenian Ministry of Nature Protection are responsible for the development of regulations in the sphere of environmental protection and for the coordination of activities of the regulatory authorities in this area. The State Committee of Water Resource, the Forest Committee (which are sub-agencies of Ministry of Nature Protection), the Subsoil State Inspectorate are primarily responsible for environmental control, and the monitoring, implementation and enforcement of the relevant laws and regulations. These regulatory authorities, along with other state authorities, individuals and public and non-governmental authorities, have the right to initiate lawsuits for the compensation of damage caused to the environment. There is no time limitation if damage is ongoing. For other cases, the statute of limitations for such lawsuits is three years, unless criminal liability is imposed.

### *Environmental liability*

If the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, the Subsoil State Inspectorate can carry out a protocol on violations. Based on such protocol, the Ministry of Energy and Natural Resources can give the licensee a written warning. If, during 90 days after receipt of the warning the licensee does not remedy the violation, the licence becomes subject to termination. The Subsoil State Inspectorate may order suspension of the activities under the licence if it finds it necessary for preventing further damage.

Any company that fails to comply with environmental regulations may be subject to administrative and/or civil liability, and its employees may be held disciplinary, civilly, administratively or criminally liable. A court may impose an obligation to conduct reclamation measures at the expense of a breaching entity pursuant to a plan of restorative works.

There is also criminal liability for pollution of water, soil and air. Imprisonment for up to 12 years can be imposed.

### *Reclamation*

Reclamation activities, such as re-cultivation, restoration, regeneration and other methods of rehabilitation, are prescribed in the Subsoil Code. Reclamation must be performed in accordance with the project and agreement of soil use. Based on the type of land, the procedures of reclamations differ. The main legal act governing the reclamation activities is the Decree of the Government of the Republic of Armenia No 1643-N, dated 14 December 2017. Reclamation has to be funded throughout the life of the mine.

### *Regulation of Real Estate*

#### *General*

At present, the Republic of Armenia owns very little land in Armenia. The majority of land is owned by private persons and municipalities. Companies can use land based on ownership or lease rights. The Group owns and/or leases the majority of land plots that it uses in its activities.

The State Committee of Real Estate Cadaster (the "**Cadaster**") records details of land plots and other types of immovable property in a Unified State Cadaster of Immovable Property (the "**Cadaster of Immovable Property**"), which includes, among other parameters of land plots, their measurements and boundaries, category and permitted use. A person to become a landowner should register ownership of a land plot in the Cadaster of Immovable Property and obtain a certificate of ownership. Without such certificate it is not possible to sell, lease or otherwise transfer the plot.

Armenian law categorises all land as having a particular designated purpose, for example agricultural land, industrial land, settlement lands, lands by specially protected territories and objects. Land should be used in accordance with the purpose designated by the relevant category and the determined permitted use.

Under Armenian law, the person or entity holding the ownership rights to a building or other real estate asset shall be the same person or entity holding the ownership rights to the land plot on which the building or other real estate asset is constructed. Before the last amendments, Armenian legislation provided opposite regulations on that matter, and there were numerous cases when a building or other real estate asset and the land plot on which that real estate asset is constructed had different owners. However, the Armenian Government has taken steps to limit such events. In these circumstances, the owner of such building or other real estate asset, as a general rule, has a right of use over the relevant portion of that plot of land occupied by such building or other real estate asset and needed for its use. In some cases, the owner of the building or other real estate asset can use the relevant portion of the land plot under the lease agreement with the owner of such land plot.

#### *State registration of real estate and transactions and encumbrances involving registered real estate*

In Armenia, property rights and interests (including ownership, full title, ordinary lease, construction lease, easements, pledges and mortgages and various types of use rights) in immovables (including, among other things, buildings, infrastructure facilities, land plots and other real estate, regardless of term), are subject to mandatory registration. A person acquires rights to the relevant real estate only upon such state registration. A failure to register a transaction which requires state registration results in nullification of the transaction.

#### *Regulation of the sale and lease of real estate*

The Armenian Civil Code requires that agreements for the sale or lease of buildings and land plots expressly set out the price of such sale or lease. Such contracts must also be notarised. All real estate transactions, including the sale and purchase, lease, and mortgage of real estate, are subject to registration with the Cadaster of Immovable Property. Failing to verify or register the transaction results in the nullification of the transaction.

#### **Technical Regulation**

The Technical Regulation Law sets out the requirements for the development, enactment, application and enforcement of mandatory rules applicable to products, manufacturing, storage, transportation, sales and specified other operations and processes, as well as regulations relating to the quality of products and processes, including technical regulations, standards and certifications. The Government of the Republic of Armenia adopts specific technical regulations in various fields.

In cases where there is an adopted technical regulation, the Technical Regulation Law provides for mandatory confirmation that a product conforms to established technical regulations or standards. Companies are required to obtain certifications of compliance with the applicable technical regulations, standards and terms of contracts. Currently, there are some technical regulations for safety regarding subsoil usage.

#### **Health and Safety**

Due to the nature of the business of the Group, the Group's workplace safety issues are of significant importance to the operation of these sites.

The principal law regulating industrial safety is the Law on Technical Safety. The Law on Technical Safety provides some obligations for dangerous objects and projects, their examinations, information and qualification of personnel. All dangerous objects are subject to state registration and clearance by a technical safety expert.

Other Armenian regulations address safety rules for mines.

Any construction, reconstruction, liquidation or other activity in relation to regulated industrial sites is subject to a safety examination.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obliged to compensate the individual for lost earnings, as well as for health-related damages, and, in certain cases, its activity may be suspended.

The main authority in this field is the Urban Development, Technical Standards and Fire Safety Inspectorate.

### *Employment matters*

The Labour Code is the key law in Armenia which governs labour matters. In addition to this core legislation, various laws, such as Law on Minimal Monthly Wage No HO-66-N dated 27 December 2003 (the "**Law on Minimal Monthly Wage**"), regulate relationships between employers and employees. Labour relationships are also regulated by number of internal decrees, regulations and other local acts, issued by the Group.

### *Employment Contracts*

As a general rule, employers must conclude employment contracts for an indefinite term with all employees. Armenian labour legislation expressly limits the possibility of entering into fixed term employment contracts. However, employers and employees may enter into an employment contract for a fixed term in certain cases where it is not possible to establish labour relations for an indefinite term due to the nature of the duties or the conditions of the performance of such duties, as well as in other circumstances expressly identified by the Labour Code or other laws.

An employer may terminate an employment contract only on the basis of the specific grounds stated in the Labour Code, including:

- in the event of liquidation of the organisation;
- in the event of a reduction of the number of employees (redundancy) and/or elimination of positions due to the changes in volumes of production and/or economic and/or technological and/or work organisation conditions due to production needs;
- if an employee does not comply with the requirements of the position held or the work performed;
- if an employee is reinstated;
- if an employee regularly fails to perform obligations established by their employment contract or internal regulations without reasonable excuse;
- due to loss of trust and confidence in an employee;
- in the event of long-term disability of an employee (if such employee has not attended the workplace within more than 120 consecutive days or within more than 140 days in the last 12 months, unless the law provides that such employee shall retain their job and position for a longer term because he or she suffers from a certain type of illness);
- if an employee is found to be under the influence of alcohol, narcotic drugs or psychotropic substances at the workplace;
- if an employee fails to attend the workplace throughout an entire working day (shift) without reasonable excuse;
- if an employee rejects or evades mandatory medical examination;
- when an employee eligible for a pension attains the age of 63 (in case provided by employment contract); and
- when an employee ineligible for a pension attains the age of 65 (in case provided by employment contract).

### *Employees' rights*

The Labour Code provides employees with certain minimum rights, including the right to a working environment which complies with health and safety requirements, the right to receive a salary on a timely basis



and to participate in the management of the authorised entity. These rights may be extended by other laws, the company's constituent documents and local regulations, and collective and other agreements.

An employee dismissed from the company due to downsizing or liquidation is entitled to receive compensation from his or her employer, including a severance payment and, depending on the circumstances, salary payments for a specified period of time.

The Labour Code also provides protections for specified categories of employees. For example, except in limited circumstances, an employer cannot dismiss expectant mothers and mothers with a child under the age of three.

Any termination by an employer that is inconsistent with the Labour Code may be invalidated by a court, which may require the employer to reinstate the employee. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent and the Armenian courts tend to support employees' rights in most cases. Where a court reinstates an employee, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement.

#### *Work time, Annual Leave and Retirement*

The Labour Code sets the regular working week at 40 hours. In general, an employer must compensate an employee for any time worked beyond 40 hours per week, as well as for work on public holidays and weekends, at a higher rate.

Annual paid vacation leave is generally 20 working days. Employees who perform underground and open pit mining works or other work in harmful conditions are entitled to additional paid vacation of at least nine working days.

The retirement age in the Armenia is 63 years.

#### *Salary*

The minimum monthly salary in Armenia is established by the Law on Minimal Monthly Wage. From 1 July 2015, the minimum monthly salary was set at an amount of AMD 55,000. This minimum amount does not include taxes and other mandatory payments. Salaries of the Group's employees are generally higher than the statutory minimum and none are below such minimum.

#### *Strikes*

The Labour Code defines a strike as the temporary and voluntary refusal of workers to fulfil their work duties with the intention of settling a collective labour dispute. Armenian legislation contains several requirements which must be met for strikes to be legal. An employer may not use an employee's participation in a legal strike as grounds for terminating an employment contract, although employers can refuse to pay wages to striking employees for the duration of the strike. Conversely, an employee's participation in an illegal strike may provide adequate grounds for termination of his or her employment contract.

#### *Trade Unions*

The Trade Union Law defines "trade unions" as voluntary unions of individuals with common professional interests which are created for the purposes of representing and protecting the social and labour rights and interests of their members. Armenian law also permits national trade union associations, which coordinate activities of trade unions throughout Armenia.

Although Armenian labour regulations provide some rights to trade unions, they do not play any significant role in labour relations. It is not mandatory to found a trade union. None of the Group's companies in Armenia has a trade union. The activities of trade unions are generally governed by the Trade Union Law and applicable legal acts, including the Labour Code.

As part of their activities, trade unions may:

- negotiate collective contracts and agreements, such as those between trade unions and employers, federal, regional and local governmental authorities and other entities;
- monitor compliance with labour laws, collective contracts and other agreements;
- represent their members and other employees in individual and collective labour disputes with management; and
- participate in strikes and meetings to protect the social and labour rights of employees.

Trade unions may initiate collective labour disputes, which may lead to strikes. To initiate a collective labour dispute, trade unions must present their demands to the employer. The employer is then obliged to consider the demands and notify the trade union of its decision. If the dispute remains unresolved, a reconciliation commission shall attempt to end the dispute. If this proves unsuccessful, collective labour disputes are generally referred to court.

### ***Currency Restrictions***

The Group's operations are subject to the currency control regime set forth in the Law on Currency.

Generally, transactions between Armenian residents should be quoted and paid in drams, but the use of foreign currency is permitted for the transactions that comply with the following simultaneous requirements: (i) the transaction is performed between non-residents, which are business entities or individual entrepreneurs; (ii) there is a written agreement between the parties to the transaction; and (iii) the transfer of payment under the transaction will be performed by wire transfer (i.e. not in banknotes).

Legislation imposes severe fines for violations of the said rules, in the amount of the transaction but not less than 2 million drams.

## **Russia**

### ***Legal Framework***

The Group's operations in Russia are regulated by a number of laws relating to mining operations, precious metals, quality standards, industrial safety, environmental regulation and other matters. The relevant legislation includes the following laws:

- Civil Code of the Russian Federation, as amended (the "**Russian Civil Code**"). The Russian Civil Code establishes the general legal framework for commercial relations with participation of individuals and legal entities;
- Land Code of the Russian Federation dated 25 October 2001, as amended (the "**Russian Land Code**"). The Russian Land Code regulates the use and protection of land and establishes the legal basis for creation, transfer and termination of rights to land plots;
- Federal Law No. 173-FZ on Currency Regulation and Currency Control dated 10 December 2003, as amended, which regulates currency operations between residents of the Russian Federation and non-residents.
- Law of the Russian Federation "On Subsoil" No. 2395-1 dated 21 February 1992, as amended (the "**Russian Subsoil Law**"). The Russian Subsoil Law establishes the licensing regime for use of subsoil for geological research, exploration and production of mineral resources;
- Federal Law "On Precious Metals and Precious Stones" No. 41-FZ dated 26 March 1998, as amended (the "**Russian Law on Precious Metals**"). The Russian Law on Precious Metals provides for special regulation of relations, arising, inter alia, in connection with geological exploration and mining of precious metals deposits, production, use and turnover of precious metals in Russia;

- Federal Law "On Technical Regulation" No. 184-FZ dated 27 December 2002, as amended (the "**Russian Technical Regulation Law**"). The Russian Technical Regulation Law, inter alia, sets out rules relating to the development, enactment, application and enforcement of obligatory technical requirements for production and for associated processes of construction, storage, transportation, sale and utilisation of goods;
- Federal Law No. 57-FZ on Foreign Investments in Commercial Entities Having Strategic Importance for the Defence of the Country and the Security of State dated 29 April 2008, as amended (the "**Foreign Investments Law**"). The Foreign Investments Law sets out certain restrictions for foreign investors to acquire stakes in the share capital of or perform transactions that lead to imposition of control over entities that have strategic importance for the national defence and security of Russia;
- Federal Law "On Licensing of Certain Activities" No. 128-FZ dated 8 August 2001, as amended (the "**Russian Licensing Law**"). The Russian Licensing Law regulates licensing in Russia. It was substituted by a federal law regulating the licensing activities in Russia, which came into force in November 2011 with some provisions that entered into force in July 2011 and July 2012;
- Federal Law "On Environmental Protection" No. 7-FZ dated 10 January 2002, as amended (the "**Russian Environmental Protection Law**"). The Russian Environmental Protection Law establishes the state policy on environmental protection; and
- the Federal Law "On Industrial Safety of Hazardous Industrial Facilities" No. 116-FZ dated 21 July 1997, as amended (the "**Russian Safety Law**"). The Russian Safety Law provides for the measures for safety protection on industrial hazardous objects,

and rules and regulations adopted in accordance with those laws.

### ***Subsoil use and mining***

#### ***Subsoil licences***

The Russian Law on Precious Metals, the Russian Subsoil Law and the regulations issued under those laws are the main legal acts which establish the licensing regime in Russia for the use of subsoil for geological research, exploration and production of mineral resources, particularly gold. In accordance with the Russian Law on Precious Metals, the Russian Subsoil Law governs the licensing of use of subsoil plots containing precious metals and gems, under which the Rosnedra may grant several types of subsoil licences in relation to the geological survey and exploration and production of natural resources, including:

- combined licences for the geological survey, exploration, assessment and production of natural resources;
- licences for the geological exploration and assessment of a subsoil plot; and
- licences for the geological exploration and production of natural resources.

Until January 2000, the Russian Government's Committee for Geology and Subsoil Use typically granted geological survey licences for up to five years, production licences for up to 20 years and licences for combined activities for up to 25 years. Under the Russian Subsoil Law, as currently in effect, the maximum term of a regular geological survey licence is still five years (although the maximum term of a licence for the geological survey of subsoil plots located, fully or partly, in certain regions of the Russian Federation, including the Republic of Sakha (Yakutia), is seven years and for the geological survey of subsoil plots under inland sea waters, territorial waters and the continental shelf of the Russian Federation is 10 years). The Rosnedra may issue a production licence and combined licence for the useful life of a mineral reserves field, calculated on the basis of a feasibility study for exploration and production that ensures rational use and protection of the subsoil.

Prior to the amendment of the Russian Subsoil Law in August 2004, geological survey and production licences were granted jointly by federal and regional authorities. Under the Russian Subsoil Law, as currently in effect, the Rosnedra awards production licences and combined geological survey exploration and production licences by tender or auction. While the auction or tender commission formed by the Rosnedra must include a

representative of the relevant region, the Russian Subsoil Law no longer requires the separate approval of regional authorities in order to issue subsoil licences. Regional authorities may, however, issue production licences for "common" mineral resources, such as clay, sand or limestone. An auction for subsoil plots of federal importance (as defined by Article 2.1 of the Russian Subsoil Law), which include, among other things, subsoil plots with aggregate gold reserves exceeding or equal to 50 tonnes of vein gold, and in certain other cases, shall be arranged by the Russian Government, and the Government may impose limitations on Russian legal entities with foreign shareholders participating in such auctions. The Russian Subsoil Law provides that, in a tender, the licence should be awarded to the bidder which has submitted the most technically competent, financially attractive and socially and environmentally sound proposal that meets published tender terms and conditions, and, in an auction, to the bidder which has offered the largest one-off payment for the use of the subsoil plot. The Rosnedra may also, pursuant to a decision of the special committee comprised of representatives of the federal and state authorities, issue licences for exploration and production without holding an auction or tender if holders of geological survey licences discover mineral resource deposits through a geological survey (except for the subsoil plots of federal and local importance).

If a geological survey conducted at a subsoil site has identified a deposit falling under the classification of a subsoil plot of federal importance and/or in the interests of national defence and security, then the Russian Government may decide to deny a Russian legal entity with foreign participation the right to conduct exploration and production (even if a combined licence has already been issued to the subsoil user, which would entail the revocation of the licence subject to payment of compensation to the subsoil user for expenses incurred in conducting the geological survey and reimbursement of the lump sum payment upon issue of the licence). Exploration and production of natural resources on the subsoil plots of federal importance by foreign investors or persons under their control is only permitted by a resolution of the Russian Government.

Licensing agreements for subsoil use identify the terms and conditions for the use of the subsoil, the rights and obligations of the licensee and the level of payments. Although most of the conditions set out in a licence are based on mandatory rules, the parties may negotiate a number of provisions in a licensing agreement.

As a general rule, the Russian Subsoil Law prohibits the transfer of rights of subsoil use, subject to a licence, with certain exceptions, including the following:

- in the course of a reorganisation of the licence holder;
- to a newly established Russian legal entity in which the initial licence holder has at least a 50% interest;
- from a parent company to a Russian subsidiary;
- from a subsidiary to a Russian parent company;
- between two subsidiaries of the same parent company, provided that a transferee is a Russian company; and
- to a Russian legal entity as a result of the acquisition of property of a previous subsoil user in the course of insolvency proceedings.

Generally, the Russian Subsoil Law prohibits the transfer of rights of subsoil use over the subsoil plots of federal importance to a Russian legal entity with foreign participation if such foreign investor, or such group of persons including a foreign investor: (i) directly or indirectly possesses more than 10% of the voting shares of that entity; (ii) has the right, through a contract or otherwise, to issue binding instructions to that entity, including control over the business operations; or (iii) has the right to appoint the chief executive officer or more than 10% of the members of the collective executive body, or has an unconditional right to elect more than 10% of the board of directors or another collective management body of that entity. Such entities may obtain the right of subsoil use over the subsoil plots of federal importance in exceptional cases at the discretion of the Russian Government.

A licence holder has the right to develop and to use (including to sell) resources extracted from the licence area for a specified period. The Russian Federation, however, retains ultimate state ownership of all subsoil resources.

Licences generally require the licence holder to make various commitments, including:

- complying with the licence term and the timing of commencement of works (preparation of the technical design, achieving full design capacity, submission of geological information for state expert review);
- complying with the terms of payments levied on the use of subsoil, land plots, and water bodies;
- complying with the requirements for agreeing targets for the extraction of minerals, title to the extracted minerals;
- complying with the requirements for timely submission of geological information on subsoil to the federal fund for geological information and its regional bodies;
- complying with the requirements for the protection of subsoil and the environment and for work safety in the work place as set forth in law and the relevant standards, provisions and rules; and
- complying with the procedure and timing for preparing mine decommissioning and suspension projects and land reclamation.

The Group's licences are scheduled to expire at different times during the period between 2028 and 2029. See "*Licences*". In addition, some of these licences require approval of technical design of the deposit development (adjustment of the technical design of the deposit development) as a condition to extend the licences and continue mining under them.

In accordance with the Russian Subsoil Law, a licence holder may, on application to the Rosnedra, extend its licence if the exploration, assessment or development of the licenced field or wind-up operations require completion, provided that the licence holder complies with the terms of the licence. The Group intends to extend its licences for each of the fields that are expected to be productive following the end of their current periods.

In February 2015, the Rosnedra commenced working on a one-time "actualisation" of subsoil licences, which includes elimination of some conditions of subsoil use, bringing them in compliance with amended regulatory framework, as well as exclusion of those licence conditions that cannot be complied with and result in a formal requirement of premature termination of the right for subsoil use. The list of licences which are subject to "actualisation" is determined and from time to time updated by the Rosnedra. Most of the Group's licences were "actualised" in 2016 and 2017.

Governmental authorities may undertake periodic reviews for ensuring compliance by subsoil users with the terms of their licences and applicable legislation. The Federal Service for Supervision in the Sphere of Natural Resource Use (the "**Rosprirodnadzor**") and the Federal Service for Ecological, Technological and Nuclear Supervision (the "**Rostekhnadzor**") can fine a licensee for failing to comply with a subsoil licence and requirements of subsoil protection and efficient subsoil use, and the Rosnedra can prematurely revoke, suspend or limit a subsoil production licence in certain circumstances, including:

- a breach or violation by the licensee of material terms and conditions of the licence;
- repeated violation by the licensee of subsoil regulations;
- the failure by the licensee to commence operations within a period of time specified in the licence with production of required volumes;
- the occurrence of an emergency;
- the emergence of a direct threat to the life or health of people working or residing in the area affected by the subsoil use operations;
- the liquidation of the licensee; and

- a failure to submit reporting data or geological information in accordance with Russian subsoil legislation.

#### *Mining allotments*

Under the Russian Subsoil Law, the Rosnedra provides a subsoil plot to a subsoil user as a "mining allotment", in other words, a geometric block of subsoil. The Rosnedra determines the boundaries of the preliminary mining allotment at the time it issues the licence, subject to approval of the regional bodies of the Rostekhnadzor. Following the preparation of a subsoil use development plan by the licensee, which the state mining supervision authorities (or, in relation to subsoil plots of local importance, the regional authorities) and an environmental examination committee must approve, the Rostekhnadzor (or, in relation to subsoil plots of local importance, the regional authorities) prepares a mining allotment act and graphic annexes, which certify the exact mining allotment boundaries. The licence will then incorporate the exact mining allotment boundaries.

#### *Land use permits*

In addition to a subsoil production licence, a licensee needs to obtain rights to use surface land within the specified licenced mining area. The land resources management authorities provide a subsoil user with rights to the relevant land plot pursuant to Russian civil, forestry and land legislation. Under the previous regime, commercial legal entities were required to purchase or enter into lease agreements with respect to land plots occupied by their operations by 1 July 2012. From 1 March 2015, state-owned or municipality-owned land plots may be used for the purposes of geological exploration of a subsoil plot upon a formal decision of the regional land resources management authorities without entering into a purchase or lease agreement. The Group is in compliance with these requirements with respect to its material land plots occupied by its principal operations.

#### *Payment system for the use of subsoil*

Under the Russian Subsoil Law, the payment system for the use of subsoil currently consists of the following payment obligations:

- one-off payments in cases specified in the licence;
- regular payments for subsoil use;
- fees for the right to participate in tenders and auctions; and
- other payments and fees set forth by the legislation of the Russian Federation on taxes and duties.

The Russian Subsoil Law contains a range of minimum and maximum rates of regular payments for the use of subsoil and the federal authorities (and, in relation to subsoil plots of local importance, the regional authorities) have authority to set the rate in any particular licence. The Russian Tax Code contains the relevant rates of tax on mining.

#### *Precious metals regulation*

The extraction, production and refining of precious metals are subject to specific regulations set forth in the Russian Law on Precious Metals. As a general rule, a company which extracts ores that contain precious metals has title to those precious metals. Russian companies may buy or sell ores and concentrate which contain precious metals provided that they are registered with the Russian State Assay Chamber. Only authorised entities approved by the Russian Government may refine precious metals. Companies which extract precious metals are required to offer refined precious metals, as well as nuggets and precious metals which qualify as "unique", on a priority basis to the relevant governmental authorities, which may use their pre-emptive rights if they have notified such companies of their intention to purchase precious metals within a month since the date of the relevant offer to purchase refined precious metals on a priority basis, have entered into agreements for the purchase and sale of precious metals and made an advance payment under those agreements. Since 2008, the governmental authorities have not acquired any refined metals from the Group on such a priority basis. Refined precious metals which have not been sold to governmental authorities may be sold in the domestic markets, used in internal production and for collateral or exported.

Companies are required to obtain a licence from the Russian Ministry of Industry and Trade in order to export refined gold. For non-banking institutions, the Ministry of Industry and Trade only issues such licences with respect to each particular export contract for a term of no longer than one year. This kind of one-off licence is granted for a fixed volume of product, as specified in the sale contract. Imports of precious metals into Russia are not subject to licensing. In the first nine months of 2017 and the years of 2016, 2015 and 2014, the Group believed it could obtain more favourable contract terms with Russian banks for the sale of gold in its domestic market, except for the sale of the flotation concentrate through an agency agreement with Otkritie pursuant to the one-off export licences granted with respect to several sale contracts with Chinese and Korean consumers.

#### *Licensing of types of activity*

In addition to licences for subsoil use, the Group is required to obtain other licences, authorisations and permits from Russian governmental authorities for its operations. In particular, the Group requires licences for the operation of its hazardous industrial facilities using explosive and flammable materials and chemically hazardous materials and for the use of its underground water resources.

#### *Licensing of the operation of hazardous facilities*

The Rostekhnadzor issues licences for the operation of industrial facilities using explosive and flammable materials and chemically hazardous materials having a specified hazard level and maintains a register of such facilities. In accordance with the Russian Licensing Law, many provisions of which came into effect on 3 November 2011, the Group must continue to conduct those types of its activities on the basis of licences issued under the Federal Law No. 128-FZ on Licensing of Certain Types of Activities, dated 8 August 2001 (the "**Old Licensing Law**") and the regulations introduced under that law. Under the Old Licensing Law, licences were issued for a minimum period of five years. Licences issued under the Russian Licensing Law are not limited to a specified term. The issuance of the licence is subject to completion of a state industrial safety review and an industrial safety declaration and other requirements set forth in the licensing regulations. Licences issued prior to and valid as at the date of the Russian Licensing Law coming into force will also have unlimited duration.

Under the Russian Licensing Law, a licence will be suspended by a licensing authority in the following situations:

- imposition of administrative sanctions on a licensee for failure to implement, within the established period, orders issued by the licensing authority curing a material violation of the licensing requirements; and
- imposition upon a licensee of an administrative penalty in the form of administrative suspension of activity by reason of a material violation of licensing requirements.

If during a period of administrative suspension of the activity and suspension of a licence, as established by a court or an official of the Rostekhnadzor, a licensee has failed to cure a material violation of the licensing requirements, the licensing authority is obliged to bring before a court an application for revocation of the licence.

#### *Licensing of surface water use*

The Water Code of the Russian Federation No. 74-FZ dated 3 June 2006 (the "**Russian Water Code**") does not require licensing of surface water use. However, prior to the Russian Water Code, the law did require such licensing and the Group currently holds all of the licences that were previously required.

Under the Russian Water Code, water users may use surface water under a water use agreement concluded with state or local authorities or decision of state or local authorities granting rights to the use of surface water. In certain cases, provided by other federal regulations, surface water may be used without providing any water use rights, depending on the purpose of the surface water use. Water users and state or local authorities may conclude agreements on water use for a period of up to 20 years.

#### *Licensing of underground water use*

Users of underground water resources in Russia require a subsoil licence issued under the Russian Subsoil Law and the regulations adopted under that law. The Rosnedra currently issues licences for the use of underground

water (except for the subsoil plots of local importance). The Rosnedra may grant licences for a term of up to 25 years. Licencees may only amend the conditions of a subsoil licence, including its term, by application to the licensing authorities. The user may also enter into an agreement with the licensing authorities which sets out further terms of use of the relevant resources.

However, if underground water is produced for the process of water supply by the holders of combined licences for the geological survey, exploration and production of natural resources or licences for the geological survey and exploration of a subsoil plot, the requirements described above do not apply and the subsoil user is entitled to produce underground water upon approval of the technical design.

In the event of repeated breaches by a licensee of applicable regulations or material terms of the licence, as well as upon the occurrence of certain emergencies, the licensing authorities may amend, suspend or terminate the licence. Breaches may also result in the imposition of fines.

### *Mining Taxes*

In the Russian Federation, the minerals extraction tax rate is calculated as a percentage of the value of extracted minerals. The minerals extraction tax is currently 6% for gold and 8% for antimony. The minerals extraction tax is payable by the 25th day of the month following the reporting month.

### ***Environmental Law***

#### *General*

The Group is subject to extensive federal and state environmental laws and regulations and local environmental regulations in the Russian Federation. The operations of the Group involve the discharge of materials and contaminants into the environment, the disturbance of land, potential damage to flora and fauna and other environmental concerns. As part of the Group's mining operations, the Group uses various chemicals and produces wastewater that could, if improperly disposed of, have a negative impact on wildlife and vegetation. In addition, the Group uses hazardous materials, such as solvents, to clean, refurbish and maintain its equipment. Russian laws and regulations set various health and environmental quality standards, provide for penalties and other liabilities for the violation of such standards and establish, in certain circumstances, obligations to compensate for environmental damage and restore environmental conditions.

Environmental protection laws are primarily set forth in the Russian Environmental Protection Law, together with a number of other federal, state and local legal acts.

#### *Pay-to-pollute*

The Russian Environmental Protection Law establishes a "pay-to-pollute" regime administered by federal and local authorities. Additional payment obligations may arise under other laws such as Federal Law No. 89-FZ of 24 June 1998 on Production and Consumption Waste, as amended, and Federal Law No. 96-FZ of 4 May 1999 on the Protection of Atmospheric Air, as amended.

Legal regulation with respect to control and surveillance over environmental use and protection is a function of the Ministry of Natural Resources and Ecology. Ecology surveillance functions, including the "pay-to-pollute" regime, are administered by the Rosprirodnadzor. Certain ecology surveillance functions are exercised by the Rostekhnadzor in its capacity as the authority responsible for the register of the hydro-technical facilities, such as tailing dams.

The Russian Government has established standards that regulate the permissible impact of industrial and other business activities on the environment. Various federal ministries and services, including the Rosprirodnadzor and the Rostekhnadzor, determine limits for emissions and disposal of hazardous substances, waste disposal and soil and subsoil contamination. Companies must develop their own pollution standards based on these statutory standards, as modified to take into account the type and scale of the environmental impact of their operations. Companies must then submit these standards and limits for waste disposal for approval by the Rosprirodnadzor, which, if those standards do not comply with the relevant regulations, may determine the applicable limit for pollution and require the relevant company to prepare and submit a programme for the reduction of emissions or disposals to the prescribed limit. The law generally requires a company to implement an emission reduction programme within a specified period.



The Russian Government has established fees for both the statutory and individually approved limits on emissions and effluents and for pollution in excess of these limits. The fees may be increased by statutory approved multiples to reflect a company's environmental impact. Under the Russian Environmental Protection Law, fees are subject to multiples that may reach up to 25 times for emission and effluents in excess of statutory limits will be effective until 31 December 2019. From 1 January 2020, the highest multiple that can be applied to the fees will be increased to 100 times, which will apply to companies exceeding such pollution limits and having a significant negative environmental impact. Payments of such fees do not relieve a company from its responsibility to take environmental protection measures and undertake restoration and clean-up activities.

#### *Industrial environmental monitoring*

Under the Russian Environmental Protection Law, objects having negative environmental impact are divided into four categories based on the level of impact: objects having significant negative environmental impact, objects having moderate negative environmental impact, objects having low negative environmental impact and objects having minimal negative environmental impact. The criteria for determining the appropriate category of impact are determined by the Russian Government and take into account factors such as the level of negative environmental impact of the business and/or production activity, toxic level and carcinogenic property of polluting substances, classification of industrial facilities, etc. All objects having negative environmental impact will be registered with the state authorities.

The Russian Environmental Protection Law requires companies operating businesses and activities at a specified impact criteria to carry on an industrial environmental monitoring which includes implementation of a programme of industrial environmental monitoring and reporting on the results of the industrial environmental monitoring to the Rosprirodnadzor.

#### *Ecological approval*

Federal Law No. 174-FZ on Ecological Expert Examination, dated 23 November 1995, as amended (the "**Ecological Examination Law**"), provides for mandatory ecological approval of documentation before the implementation of certain types of activities made to prevent the negative impact of these activities on the environment, and the receipt of a positive examination by state ecological expert before the project may commence or be financed. State ecological approval must be obtained from federal or regional authorities based on the list of certain types of documentation being objects of such ecological approval (Environmental Impact Assessment) set forth by the Ecological Examination Law. Violation of the Ecological Examination Law may result in administrative fines, civil liability (to compensate for damages and losses) and criminal liability as described below.

#### *Environmental protection authorities*

The Rosprirodnadzor, the Rostekhnadzor, the Russian Federal Service for Hydrometeorology and Environmental Monitoring, the Rosnedra, the Russian Federal Agency on Forestry and the Russian Federal Agency on Water Resources, along with their regional branches, are primarily responsible for environmental control, and the monitoring, implementation and enforcement of the relevant laws and regulations. The Russian Government and the Russian Ministry of Natural Resources and Ecology are responsible for the development of regulations in the sphere of environmental protection and for the coordination of activities of the regulatory authorities in this area. These regulatory authorities, along with other state authorities, individuals and public and non-governmental authorities, have the right to initiate lawsuits for the compensation of damage caused to the environment. The statute of limitations for such lawsuits is 20 years.

#### *Environmental liability*

If the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, the environmental authorities may suspend these operations (for up to 90 days) or a court action may be brought to limit or ban these operations and require the company to remedy the effects of the violation. Any company that fails to comply with environmental regulations may be subject to administrative and/or civil liability, and its employees may be held disciplinary, civilly, administratively or criminally liable. A court may impose an obligation to conduct reclamation measures at the expense of a breaching entity pursuant to a plan of restorative works.

Since 1 January 2012, owners of certain types of hazardous facilities are required to obtain insurance for liability for harm caused to third parties (individuals) as a result of accidents at the facilities, except for harm caused to the environment. In addition, the Ministry of Natural Resources and Environment has recommended that a voluntary environmental insurance policy be obtained to cover events of accidental environmental pollution of air or land or accidental discharge of waste waters or other clean-up liabilities. In 2017, the Group voluntarily implemented the Standard on Rational Use of Natural Resources, pollution prevention and reporting on environmental parameters and the Standard on Biodiversity Conservation. Two other corporate standards – the Standard on Environmental Impact Assessment and the System of Evaluation of Wastes Quality are in the process of being approved by the Group.

### *Reclamation*

Reclamation activities, such as re-cultivation, restoration, regeneration and other methods of rehabilitation, are prescribed in the Basic Regulations on Land Reclamation, Removal, Preservation, and Rational Use of the Fertile Soil Layer, approved by Order No. 525/67 of 22 December 1995 of the Ministry of Natural Resources and Environment and the Russian Committee for Land Resources and Land Use. In general, reclamation activities applicable to the Group involve both a technical stage and a biological stage. In the first, technical stage, the Group performs landscaping operations (grades and terraces mound slopes and levelling of the surface of the mounds). In the second, biological stage, conifers, such as pine, larch or cedar, on horizontal and gently sloping surfaces, as well as shrubs and bushes, start to grow to reinforce inclines. Russian environmental regulations do not require mines to achieve the approximate original contour of the property as is required, for example, in the U.S.

### *Regulation of Real Estate*

#### *General*

At present, the government of the Russian Federation or the Russian regions or municipalities own most of the land in Russia, and only a small proportion of land is in private ownership. A relatively higher proportion of buildings and similar real estate assets is privately owned, due to a less restrictive regulatory regime which applies to these properties.

Under the Russian Land Code, companies generally have one ownership or lease rights in relation to the use of land in the Russian Federation. The Group owns or leases the majority of land plots that it uses in its activities.

The Federal Service for State Registration, Cadastre and Cartography (the "**Rosreestr**") records details of land plots and other types of immovable property in a Unified State Register of Immovable Property (the "**Register of Immovable Property**"), which includes, among other parameters of land plots, their measurements and boundaries, category and permitted use. As a general rule, a landowner must register a land plot in the Register of Immovable Property and obtain a state cadastre number for a land plot as conditions to selling, leasing or otherwise transferring interests in that plot. As described below, the Rosreestr maintains a combined register for the state cadastre numbers and maps, registration of rights, transactions and encumbrances and other information relating to the real estate.

Russian law categorises all land as having a particular designated purpose, for example agricultural land, industry land, settlement lands, lands by specially protected territories and objects. Land should be used in accordance with the purpose designated by the relevant category and determined permitted use. However, in March 2014, a draft federal law prepared by the Ministry of Economic Development of the Russian Federation and aimed primarily at simplifying the existing land use rules was submitted to the Russian State Duma, which was adopted in the first reading in December 2014 and is currently being considered by the Russian State Duma in the second reading. If the draft is adopted, the land categories will be abolished, and all land plots (save for the most valuable agricultural land) will be divided into certain functional zones.

Those companies that had obtained a right of perpetual use over land prior to the enactment of the Russian Land Code were required, by 1 July 2012, either to purchase the land from, or to enter into a land lease agreement with, the relevant federal, regional or municipal authority owning the land. Those companies that had a right of perpetual use over land containing linear facilities (such as power transmission lines, communication lines, pipelines and railway lines) were entitled to purchase such land, enter into a land lease agreement or establish a right of limited use of such land (servitude) by 1 January 2016. The right of perpetual use was abolished for companies starting from 1 March 2015.

Under Russian law, it is possible that the person or entity holding the ownership rights to a building or other real estate asset may not be the same person or entity holding the ownership rights to the land plot on which the building or other real estate asset is constructed. In these circumstances, the owner of that building, as a general rule, has a right of use over the relevant portion of that plot of land occupied by the building and needed for its use or, in some cases, the owner of the building or other real estate asset can use the relevant portion of the land plot under the lease agreement with the owner of such land plot. Moreover, in certain cases, an owner of a building or plot of land may require that the owner of an adjoining plot of land grant a right of limited use of the adjoining plot of land (servitude) in its favour.

#### *State registration of real estate and transactions and encumbrances involving registered real estate*

With effect from 1 January 2017, the Rosreestr maintains the Register of Immovable Property, which contains, among other things, the information on rights and encumbrances in respect of real estate, cadastre of real estate assets and borders of zones with special terms of land use. Registration is required for specified transactions involving leases of the registered real estate including, among other things, buildings, facilities, land plots and other real estate for a term of not less than one year (with certain exceptions and assumptions), as well as certain encumbrances, such as, servitude. A person acquires rights to the relevant real estate only upon such state registration. A failure to register a transaction which requires state registration generally results in the transaction being rendered invalid for the third parties or, to the extent stipulated by law, null and void.

#### *Regulation of the sale and lease of real estate*

The Russian Civil Code requires that agreements for the sale or lease of real estate expressly set out the price of such sale or lease. In relation to leases, both the rights granted by the lease and the lease agreement (other than lease agreements for a term of less than one year) require registration. In relation to sales, only the transfer of ownership effected by the relevant sale (but not the sale agreement itself) requires registration.

#### **Technical Regulation**

The Group is subject to various technical regulations and standards which apply to industrial manufacturing businesses. The Russian Technical Regulation Law introduced, on 1 July 2003, a new regime for the development, enactment, application and enforcement of mandatory rules applicable to products, manufacturing, storage, transportation, sales and specified other operations and processes, as well as new regulations relating to the quality of products and processes, including technical regulations, standards and certifications. Technical regulations are expected to replace the previously adopted state standards (the so-called "GOSTs"), and, in the absence of certain technical regulations, the existing federal laws and regulations, including GOSTs, that prescribe rules for different products and processes remain in force to the extent that they protect health, property, the environment or consumers. In any event, the State Committee on Standardisation and Metrology (a predecessor of the Federal Service for Technical Regulation and Metrology) has declared GOSTs and interstate standards adopted before 1 July 2003 to be the applicable national standards.

In those cases where the Russian Technical Regulation Law provides for mandatory confirmation that a product conforms to established technical regulations or standards, companies are required to obtain certifications of compliance with the applicable technical regulations, standards and terms of contracts. Currently, companies must certify a number of products containing precious metals and Russian law requires mandatory certification under a classification system. Where certification is not mandatory, a company may elect for voluntary certification by applying for a compliance certificate from the relevant authorities. Following the issuance of that certificate, the applicant has the right to use the relevant compliance mark on its products.

#### **Health and Safety**

Due to the nature of the business of the Group, the Group's workplace safety issues are of significant importance to the operation of these sites.

The principal law regulating industrial safety is the Russian Safety Law. The Russian Safety Law applies, in particular, to industrial facilities and sites where companies undertake specific activities, including sites where companies use lifting machines, produce alloys of ferrous and non-ferrous metals and conduct certain types of mining. Dangerous industrial facilities under the Russian Safety Law are divided into four categories based on the level of hazard. These categories vary from level one (extremely dangerous industrial sites) to level four (least dangerous industrial sites). The Russian Safety Law also contains a comprehensive list of dangerous

substances and their permitted concentration, and extends to facilities and sites where companies use these substances. As a general rule, a company that utilises industrial facilities of the highest two hazard levels is obliged to adopt an industrial safety declaration.

Other Russian regulations address safety rules for coal mines and the production and processing of ore, gold smelting and alloy production. Additional safety rules apply to metallurgical and coke chemical enterprises, the foundry industry and other industries.

Any construction, reconstruction, liquidation or other activity in relation to regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of industrial sites is prohibited, unless the revised documentation undergoes expert examination and the Rostekhnadzor approves the same.

Companies that operate regulated industrial facilities and sites have a wide range of obligations under the Russian Safety Law and other laws, including the Russian Labour Code effective from 1 February 2002, as amended (the "**Russian Labour Code**"). In particular, companies must limit access to such sites to qualified specialists, maintain industrial safety controls, have third-party insurance liability for injuries caused in the course of operating industrial sites and comply with other specific obligations. The Russian Safety Law also requires these companies to enter into contracts with professional wrecking companies or, in some cases, create their own wrecking services; conduct personnel training programmes; create emergency response systems; inform the Rostekhnadzor of accidents; and maintain these systems in good working order.

In some cases, companies operating industrial sites must also prepare industrial safety declarations, which summarise the risks associated with operating a particular industrial site and the measures the company has taken, and will take, to mitigate such risks and to use the site in accordance with applicable industrial safety requirements. The chief executive officer of the company must adopt those declarations, and is personally responsible for the completeness and accuracy of the data contained in the declarations. The Rostekhnadzor requires the industrial safety declaration and certain other documents, including a state industrial safety review, for the issuance of a licence permitting the operation of a hazardous industrial facility when such a licence is required by law.

Companies operating hazardous industrial facilities at the highest two levels of hazard are required to approve and ensure maintenance of an industrial safety management system, including an industrial safety policy, an internal regulation on industrial safety management system and an internal regulation on industrial control.

The Rostekhnadzor has broad authority in the field of industrial safety. In the event of an accident, a special commission led by a representative of the Rostekhnadzor conducts a technical investigation of the cause of the incident. The company operating the dangerous industrial facility where the accident took place must bear all the costs of the investigation. Rostekhnadzor officials have the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. The Rostekhnadzor has the power to suspend or terminate operations or impose administrative liability on the company or its officials.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obliged to compensate the individual for lost earnings, as well as for health-related damages, and, in certain cases, its activity may be suspended.

### ***Employment matters***

The Russian Labour Code is the key law in Russia which governs labour matters. In addition to this core legislation, various federal laws, such as Russian Law No. 1032-1 dated 19 April 1991 on Employment of Population in the Russian Federation, as amended, regulate relationships between employers and employees.

### ***Employment Contracts***

As a general rule, employers must conclude employment contracts for an indefinite term with all employees. Russian labour legislation expressly limits the possibility of entering into fixed term employment contracts. However, employers and employees may enter into an employment contract for a fixed term in certain cases where it is not possible to establish labour relations for an indefinite term due to the nature of the duties or the

conditions of the performance of such duties, as well as in other cases expressly identified by the Russian Labour Code or other federal laws.

An employer may terminate an employment contract only on the basis of the specific grounds stated in the Russian Labour Code, including, among others:

- the liquidation of the company or downsizing of staff;
- the failure of the employee to comply with the position's requirements due to incompetence confirmed by results of the employee's appraisal;
- the systematic failure of the employee to fulfil his or her labour duties if he or she was the subject of disciplinary measures;
- the gross violation by the employee of labour duties; and
- the delivery by the employee of false documents upon entering into the employment contract.

#### *Employees' rights*

The Russian Labour Code provides an employee with certain minimum rights, including the right to a working environment which complies with health and safety requirements and the right to receive a salary on a timely basis and to participate in the management of the authorised entity. These rights may be extended by other federal laws, the company's constituent documents and local regulations, and collective and other agreements.

An employee dismissed from the company due to downsizing or liquidation is entitled to receive compensation from his or her employer, including a severance payment and, depending on the circumstances, salary payments for a specified period of time.

The Russian Labour Code also provides protections for specified categories of employees. For example, except in limited circumstances, an employer cannot dismiss minors, expectant mothers, mothers with a child under the age of three, single mothers with a child under the age of 14 (or with a disabled child under the age of 18) or other persons caring for a child under the age of 14 without a mother.

Any termination by an employer that is inconsistent with the Russian Labour Code requirements may be invalidated by a court, which may require the employer to reinstate the employee. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent and Russian courts tend to support employees' rights in most cases. Where a court reinstates an employee, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for any mental distress.

#### *Work Time, Annual Leave and Retirement*

The Russian Labour Code sets the regular working week at 40 hours. In general, an employer must compensate an employee for any time worked beyond 40 hours per week, as well as for work on public holidays and weekends, at a higher rate.

Annual paid vacation leave is generally 28 calendar days. Employees who perform underground and open pit mining works or other work in harmful conditions are entitled to additional paid vacation of at least 7 calendar days. Employees required to work non-standardised working hours are entitled to additional paid vacation of at least three calendar days.

The retirement age in the Russian Federation is generally 60 years for males and 55 years for females. However, the retirement ages of males who have worked in arduous working conditions for at least 12 years and six months and females who have worked in arduous working conditions for at least 10 years are 55 years and 50 years, respectively, provided that their total qualifying period is not less than 25 years and 20 years, respectively. In the case of work involving underground operations, hazardous conditions or hot workshops, the retirement age is 50 years for males who have worked in such conditions for at least 10 years and whose qualifying period is not less than 20 years and 45 years for females who have worked in such conditions for at

least 7 years and six months and whose qualifying period is not less than 15 years. Persons who have worked as miners in open pit mines or underground mines for at least 25 years, and in specified circumstances for at least 20 years, may retire regardless of age.

### *Salary*

The minimum monthly salary in Russia is established by federal law from time to time. Starting from 1 January 2018, the minimum monthly salary is set at an amount of RUB 9,489. Although the law requires that the minimum wage be at or above a minimum subsistence level, the current statutory minimum monthly salary is generally considered to be less than the minimum subsistence level. Starting from 1 January 2019, the statutory monthly salary will equal the minimum subsistence level determined as at the second quarter of the preceding year. Salaries of the Group's employees are generally higher than the statutory minimum and none are below such minimum.

### *Strikes*

The Russian Labour Code defines a strike as the temporary and voluntary refusal of workers to fulfil their work duties with the intention of settling a collective labour dispute. Russian legislation contains several requirements which must be met for strikes to be legal. An employer may not use an employee's participation in a legal strike as grounds for terminating an employment contract, although Russian law generally does not require employers to pay wages to striking employees for the duration of the strike. Conversely, an employee's participation in an illegal strike may provide adequate grounds for termination of his or her employment contract.

### *Trade Unions*

Trade unions are defined by Federal Law No. 10-FZ on Trade Unions, Their Rights and Guaranties of Their Activity, dated 12 January 1996, as amended (the "**Russian Trade Union Law**"), as voluntary unions of individuals with common professional interests which are created for the purposes of representing and protecting social and labour rights and interests of their members. Russian law also permits national trade union associations, which coordinate activities of trade unions throughout Russia.

Although Russian labour regulations have curtailed the authority of trade unions, they still retain significant influence over employees and, as such, may affect the operations of large industrial companies in Russia. The Group's management routinely interacts with trade unions in order to ensure the appropriate treatment of its employees and the stability of the Group's business.

The activities of trade unions are generally governed by the Russian Trade Union Law and applicable legal acts including the Russian Labour Code.

As part of their activities, trade unions may:

- negotiate collective contracts and agreements such as those between trade unions and employers, federal, regional and local governmental authorities and other entities;
- monitor compliance with labour laws, collective contracts and other agreements;
- access work sites and offices, and request information relating to labour issues from the management of companies and state and municipal authorities;
- represent their members and other employees in individual and collective labour disputes with management;
- participate in strikes and meetings to protect social and labour rights of employees; and
- monitor the redundancy of employees and seek action by municipal authorities to delay or suspend mass redundancies.

Russian law requires that companies cooperate with trade unions and not interfere with their activities. Trade unions and their members enjoy certain guarantees as well, such as:

- the retention of job positions for those employees who stop working due to their election to the management of trade unions;
- protection from dismissal for employees who previously served in the management of a trade union for two years after the termination of the office term; and
- the provision of the necessary equipment, premises and transportation vehicles by the employer for use by the trade union free of charge, if provided for by a collective bargaining contract or other agreement.

If a trade union discovers any violation of work conditions requirements, notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or health of employees. The trade union may receive information on social and labour issues from an employer (or employers' unions) and state and local authorities, as well as cooperate with state authorities for the purposes of supervision of compliance with Russian labour laws. Trade unions may also initiate collective labour disputes, which may lead to strikes.

To initiate a collective labour dispute, trade unions must present their demands to the employer. The employer is then obliged to consider the demands and notify the trade union of its decision. If the dispute remains unresolved, a reconciliation commission attempts to end the dispute. If this proves unsuccessful, collective labour disputes are generally referred to mediation or labour arbitration.

The Russian Trade Union Law provides that those who violate the rights and guarantees of trade unions and their officers may be subject to disciplinary, administrative and criminal liability. The Russian Code on Administrative Offences of 30 December 2001, as amended, specifies that such violations may lead to imposition of an administrative fine. Although the Russian Criminal Code of 13 June 1996, as amended, currently has no provisions specifically relating to these violations, general provisions and sanctions may be applicable.

## MANAGEMENT

### Board of Directors

The Board of Directors of the Company currently consists of the five members, listed below. The business address of each member of the Board of Directors is Christodoulou Chatzipavlou, 221 HELIOS COURT, 3rd floor, 3036, Limassol, the Republic of Cyprus.

Name	Year of Birth	Date of Appointment	Position
Siman Povarenkin	1969	27 June 2011	Chairman of the Board of Directors, Non-executive Director
Roman Khudoliy	1965	28 August 2014	Executive Director
Igor Lojevsky	1957	27 June 2011	Independent Non-executive Director
Roman Trotsenko	1970	27 March 2019	Non-executive Director
Mirzaaziz Musakhanov	1972	27 March 2019	Non-executive Director

*Mr. Siman Povarenkin* has been the Chairman of the Board of Directors and Vice-President of GeoProMining LLC, the management company of the Group's Russian subsidiaries, since 2009. He also holds a number of other positions within the Group, including Chairman of the board of directors of GPM Gold and member of the boards of directors of Agarak. Mr Povarenkin has over 25 years of corporate management experience in the banking and industrial sectors. He held positions of Chairman of the board of directors at Industrial Investors Group, OOO Transport Group FESCO and Russian Industrial Bank. Mr Povarenkin was also Vice-President and Head of Investment Management Business at Incombank. Mr Povarenkin graduated from the Omsk State University, Russia, in 1992 with a degree in Chemistry and Petroleum Chemicals. He also completed courses in Finance and Banking at the Academy of Economics, Moscow, the Bank Tutors Institute, Frankfurt and the Intellectual Fund, Paris. Mr. Povarenkin is a member of the Business Council of the Russian Ambassador to the United Kingdom.

*Mr. Roman Khudoliy* has been Executive Director since August 2014. He also acts as the Group's Chief Executive Officer and holds a number of other positions within the Group, including as a member of the board of directors of GPM Gold and Verkhne-Menkeche and Chairman of the boards of directors of Zvezda, Sarylakh-Surma and Agarak. He has over 30 years of corporate management experience in leading industrial and mining companies in Russia and CIS. Mr. Khudoliy was the First Deputy General Director and an Executive Director at State United Enterprise ("Yakutugol") and a Director of Enterprise Polys. Mr. Khudoliy has a degree in Engineering Psychology from the Leningrad State University and a degree in Open-pit Mining from the Yakutsk State University (The Ammosov North-Eastern Federal University). Mr. Khudoliy was awarded the qualification of Mining Engineer and holds a PhD in Economics from the Academy of National Economy under the Government of Russia. Mr. Khudoliy is also a member of the Academy of Mining Sciences.

*Mr. Igor Lojevsky* has been an Independent Non-executive director of the Company since June 2011. He is currently a member of the board of directors of En+Group. Mr. Lojevsky has also served as Vice Chairman of Asset & Wealth Management, and the Corporate Banking & Securities Divisions of Deutsche Bank Eastern Europe. Until recently he was Chief Country Officer for Russia and the CIS region at Deutsche Bank. Mr Lojevsky has also served as Senior Vice President and Co-Head of Investment Banking at VTB, was a regional policy adviser for Europe and Central Asia at The World Bank and a financial adviser for Asia at the Ministry of Fuel and Energy of the Russian Federation. He graduated from the Omsk Polytechnic Institute in 1979 with a degree in Computer Science and also holds an MBA from the University of Massachusetts in Boston.

*Mr. Roman Trotsenko* has been a member of the Board of Directors since March 2019. He is currently the Chairman of the board of directors of AEON Corporation. For over 20 years Mr. Trotsenko has been engaged in crisis management of enterprises in various sectors, design and management of property development projects (residential and office projects in Moscow and the Moscow region) and consolidation and management of Russian airports. Mr. Trotsenko has experience in the following sectors: Russian airports (approximately 14 airports operated by NOVAPORT), development projects in Moscow and Russian regions, river transport (freight and passenger traffic and shipbuilding), chemical industry and sea port development. He holds a degree in Economics from the Education Institute of Asian and African countries at Lomonosov Moscow State University, Faculty of Law (Lomonosov MSU). He also completed internship at Yale University (USA) and the University of Coimbra (Portugal). Mr. Trotsenko has a Ph.D. in Economics.



*Mr. Mirzaaziz Musakhanov* runs a number of Russian projects for Meridian Capital, a CIS-based private equity firm. Prior to joining Meridian Capital in 2003 Mr. Musakhanov served as a Principal Banker with the EBRD Natural Resources Group in London. Mr. Musakhanov currently serves as Chairman of the Board of Novaport, one of the largest private operators of regional airports in Russia, and has over 20 years of financial and industry experience. Mr. Musakhanov graduated from the Moscow State University with a bachelor degree in Physics in 1994 and from the London Business School with a master's degree in Finance in 1998.

## Senior Managers

The following table sets forth the name, date of birth, position and year of appointment for each of the Company's senior managers ("**Senior Managers**"). The business address of each of the Senior Managers is 5 Petrovka street, Moscow, 107031, Russian Federation.

<b>Name</b>	<b>Year of Birth</b>	<b>Position</b>
Roman Khudoliy	1965	Chief Executive Officer, Executive Director
Oleg Belyaev	1971	Chief Financial Officer
Andrey Kishkinskiy	1982	Head of Strategy, Planning and Business Development
Alexander Kopyakov	1973	Chief Operating Officer

*Mr. Roman Khudoliy.* See "*Board of Directors*" above.

*Mr. Oleg Belyaev* has been Chief Financial Officer of the Group since 2008. Mr. Belyaev also holds a number of other positions within the Group, including as a member of the boards of directors of the Issuer, Zvezda, Sarylakh-Surma, Verkhne-Menkeche and GPM Gold. He has over 14 years of experience in financial management at a number of Russian industrial corporations, including as First Deputy General Director of "Integrated Energy Systems–EnergoStroyEngineering" (KES-ESI) and as Chief Financial Officer at the FSUE "Sredne-Nevsky Shipbuilding Plant". He also has 10 years of banking experience, worked for Inkombank in West, East Siberia as regional manager, and for Gута-Bank as Vice-President of Business Development in the North-West region of Russia. He graduated from the aerospace faculty of the Omsk State Technical University in 1994, from International Management Institute of Saint-Petersburg (IMISP) in 2007 with an MBA in Corporate Finance.

*Mr. Andrey Kishkinskiy* has acted as the Group's Head of Strategy, Planning and Business Development since 2014 and has held various positions at the Group since 2007. Mr. Kishkinskiy also holds a number of other positions within the Group, including as a member of the boards of directors of GPM Armenia B.V., Zvezda, Sarylakh-Surma and Agarak. Mr. Kishkinskiy has over 15 years of experience in the financial and mining sectors. Mr. Kishkinskiy worked for RUSAL at various positions in investments and corporate finance functions. He was also responsible for Rusal's international alumina assets (QAL in Australia and Euroalumina in Italy). Mr. Kishkinskiy graduated from the Financial Academy under the Government of the Russian Federation with a degree in Financial Management.

*Mr. Alexander Kopyakov* has served as the Group's Chief Operating Officer since 2008. He has over 24 years of experience at management positions in the mining industry. Mr. Kopyakov also holds a number of other positions within the Group, including as a member of the boards of directors of Zvezda, Sarylakh-Surma and Verkhne-Menkeche. For over 12 years Mr. Kopyakov worked at Yakutugol in the production and export departments. Mr. Kopyakov graduated from the Bratsk Industrial University in 1995 with a degree in engineering. He also received a MBA degree from the Russian Presidential Academy of National Economy and Public Administration (RANEPA) in 2007 and a degree in mining engineering from the Yakutsk University with a degree in 2015.

## Corporate Governance

Although the Company is incorporated in Cyprus, because its shares are not listed on the Cyprus stock exchange, it is not required to comply with, and has not implemented, the corporate governance regime applicable to companies listed on the Cyprus Stock Exchange.

## Compensation

The aggregate amount of remuneration paid by the Company to members of its Board of Directors and the Senior Managers as a group for services in all capacities provided to the Company during the year ended

31 December 2018 was approximately US\$12,647 thousand in salary and bonuses, including a US\$8,046 thousand one-time deferred bonus payable in respect of 2014-2017 performance.

**Litigation Statement about Directors and Officers**

As of the date of this Prospectus, none of the Directors or Senior Managers during at least the previous five years:

- has had any convictions in relation to fraudulent offences;
- has held an executive function in the form of a senior manager or a member of the administrative, management or supervisory body of any company at the time of, or preceding, a bankruptcy, receivership or liquidation of such company; or
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) or has been disqualified by a court from acting as a member of an administrative, management or supervisory body of a company or from performing a management role at any company.

## SHAREHOLDERS

The Issuer is a direct wholly-owned subsidiary of the Company. The following table sets forth the shareholders of record of the Company as of the date of this Prospectus.

<b>Shareholder</b>	<b>Number of shares</b>	<b>Percentage of the Company's share capital</b>
Geiser Asset Holdings Ltd <sup>(1)</sup> .....	33,699,137	50.3205%
Nakilep Overseas Limited <sup>(2)</sup> .....	32,269,927	48.1863%
Toboali Enterprise Ltd. <sup>(3)</sup> .....	1,000,000	1.4932%
<b>Total</b> .....	<b>66,969,064</b>	<b>100%</b>

<sup>(1)</sup> Geiser Asset Holdings Ltd is a company organised and existing under the laws of the British Virgin Islands. Mr. Siman Povarenkin, a director of the Company, is a beneficial owner of Geiser Asset Holdings Ltd.

<sup>(2)</sup> Nakilep Overseas Limited is a company organised and existing under the laws of the Republic of Cyprus. Mr. Roman Trotsenko, a director of the Company, is a beneficial owner of Nakilep Overseas Limited. Nakilep Overseas Limited acquired the shares it holds in the Company in March 2019 from affiliates of Sberbank that used to own shares in the Company.

<sup>(3)</sup> Toboali Enterprise Ltd. is a company organised and existing under the laws of the British Virgin Islands. Mr. Roman Khudoliy, the Group's Chief Executive Officer and an Executive Director of the Company, is a beneficial owner of Toboali Enterprise Ltd.

## RELATED PARTY TRANSACTIONS

*The following is a description of significant transactions with related parties for the years ended 31 December 2018, 2017 and 2016. For further details of these transactions, see Note 30 of the 2018 Financial Statements and Note 28 of the 2017 Financial Statements included in this Prospectus.*

### General Matters

In accordance with IFRS, parties are considered to be related if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

The Group is, and has been, a party to various agreements and other arrangements with certain related parties, which are shown and described in more detail below.

### Management Remuneration

Key management received the following remuneration during the year, which is included in personnel costs:

	2016	2017	2018
	<i>(in thousands of US\$)</i>		
Salaries and bonuses .....	3,558	4,113	11,195
Remuneration of Board of Directors .....	1,509	1,446	1,452
Total .....	<u>5,067</u>	<u>5,559</u>	<u>12,647</u>

### Transactions with Other Related Parties

The Group has undertaken related party transactions with the entities over which the Principal Shareholders of the Group are able to exercise significant influence. The "loan from other related party" relates to the loan provided by Sberbank, whose affiliate, until March 2019, was one of the Group's shareholder, and bears interest at 4.5%. The following tables summarise the Group's transactions with related parties, other than the Company's Board of Directors and key management.

#### *Loan from other related party*

	2016	2017	2018
	<i>(in thousands of US\$)</i>		
At 1 January .....	(10,154)	(10,569)	(10,985)
Interest expense capitalised to PPE .....	(415)	(416)	(418)
At 31 December .....	<u>(10,569)</u>	<u>(10,985)</u>	<u>(11,403)</u>

#### *Bank balances at other related party*

	2016	2017	2018
	<i>(in thousands of US\$)</i>		
Bank balances at other related party .....	1,619	850	4,845

The bank balances at other related party set forth above relate to balances at Sberbank, whose affiliate, until March 2019, was one of the Group's shareholder.

During 2018, 2017 and 2016, the Group realised goods to a related party in the amount of US\$8,174 thousand, US\$7,420 thousand and US\$9,160 thousand, respectively.

## THE ISSUER

The Issuer is a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated with the name of Karlou B.V. under the laws of The Netherlands on 23 April 1982 having its corporate seat in Amsterdam, The Netherlands and its registered office at Strawinskyiaan 1143, C-11 Tower World Trading Center, 1077XX, Amsterdam, The Netherlands. The Issuer is registered in the commercial register of the Chamber of Commerce under number 14034376. The telephone number of the registered office of the Issuer is +31 20 240 2780. The Issuer operates under the Dutch Civil Code (*Burgerlijk Wetboek*) and other laws of The Netherlands.

### Share capital and ownership

The authorised share capital of the Issuer is EUR 3,609,143 divided into 3,609,143 ordinary shares of par value EUR1 each (the "**Shares**"). The Issuer has issued 3,609,143 Shares, which are fully paid and are held by the Parent.

The Issuer is a wholly-owned subsidiary of the Parent. The rights of the Parent as a shareholder in the Issuer are contained in the articles of association of the Issuer and the Issuer will be managed in accordance with those articles and with the provisions of the laws of The Netherlands.

### Principal Activities

The principal business activities of the Issuer are to act as a finance and holding company. According to the articles of association of the Issuer, the objects of the Issuer are:

- to incorporate, to participate in, to cooperate with, to manage and to render services to other companies and enterprises, as well as to finance other companies and enterprises;
- to acquire, dispose of, manage and commercialise moveable and immovable property and other goods, including patents, trademark rights, licences, permits and other industrial property rights, for own account as well as on behalf of third parties;
- to borrow and lend moneys, act as surety or guarantor in any other manner, and bind itself jointly and severally or otherwise in addition to or on behalf of others;
- to perform any activity which may be related or conducive to the foregoing in the broadest sense. .

The Issuer has no employees.

The subsidiaries of the Issuer are reflected in the structure chart in "*Business—Organisational Structure of the Group*".

### Directors

The Issuer's board of directors consists of three members. The directors of the Issuer are Mr. Oleg Belyaev, having his professional address at 5 Petrovka, street, Moscow, 107031, Russia, Mr. Paul J.A. Wilbrink, having his professional address at Janne Addamslaan 83, 1187DA Amstelveen, The Netherlands, and Mr. Bastiaan A. Izelaar, having his professional address at Gaasterlandstraat 48, 1079RH Amsterdam, The Netherlands. Mr. Oleg Belyaev also acts as Chief Financial Officer of the Group, being his principal activity outside duties as a director of the Issuer. See "*Management*". Mr. Paul J.A. Wilbrink and Mr. Bastiaan A. Izelaar do not carry out any activities outside duties as directors of the Issuer which are significant with respect to the Issuer. There are no current or potential conflicts of interest between the private interests and/or other duties of any member of the Issuer's board of directors and the duties of the members of the Issuer's board of directors to the Issuer.

### Financial Statements

The Issuer's financial year begins on 1 January and ends on 31 December. The Issuer prepares annual stand-alone financial statements in accordance with Dutch legal and regulatory requirements relating to the preparation of annual accounts. The latest stand-alone financial statements of the Issuer are those related to the

year ended 31 December 2018, which were filed with the Dutch Chamber of Commerce on 25 March 2019. The Issuer's stand-alone financial statements are not audited as the Issuer is exempt from external audit requirements under Dutch law. The Issuer's financial statements can be obtained free of charge from the registered office of the Issuer.

## THE GUARANTORS

### Guarantor

Legal and commercial name	Geopromining Investment (CYP) Limited
Registration number	272638
Date and place of incorporation	30 August 2010, the Republic of Cyprus
Legislation under which Guarantor operates	The laws of the Republic of Cyprus
Duration of existence	Indefinite
Place of domicile	Limassol, Cyprus
Legal form	Private limited liability company under the laws of the Republic of Cyprus
Registered office	Christodoulou Chatzipavlou, 221 HELIOS COURT, 3rd floor, 3036, Limassol, the Republic of Cyprus
Telephone number of the registered office	+357 258 7300
Principal place of business	Christodoulou Chatzipavlou, 221 HELIOS COURT, 3rd floor, 3036, Limassol, the Republic of Cyprus
Shareholders	Geiser Asset Holdings Ltd, Nakilep Overseas Limited and Toboali Enterprise Ltd. are the only shareholders of the Guarantor (see " <i>Shareholders</i> "). Their rights as shareholders in the Guarantor are contained in the articles of association of the Guarantor and the Guarantor will be managed in accordance with those articles and with the provisions of the laws of the Republic of Cyprus.
Directors, their business addresses and principal activities performed outside the Guarantor if significant with respect to the Guarantor	The Directors of the Guarantor are Roman Khudoliy, Siman Povarenkin, Igor Lojevsky, Roman Trotsenko and Aziz Musakhanov. The business address of each of the directors of the Guarantor is Christodoulou Chatzipavlou, 221 HELIOS COURT, 3rd floor, 3036, Limassol, the Republic of Cyprus. See " <i>Management</i> " for a description of the principal activities of the directors outside the Guarantor which are significant with respect to the Guarantor.
Statutory auditors	KPMG Limited. KPMG Limited is a member of the following professional membership body ICPAC – The Institute of Certified Public Accountants of Cyprus.
Principal activities	Holding company for subsidiaries involved in the extraction and processing of ore, containing nonferrous metals, mainly gold, copper, molybdenum, antimony, silver, lead and zinc, at plants located in Armenia and Russia.

### Guarantor

Legal and commercial name	GPM Armenia B.V.
Registration number	33030763

Date and place of incorporation	19 March 2019, Amsterdam, The Netherlands
Legislation under which Guarantor operates	The laws of The Netherlands
Duration of existence	N/A
Place of domicile	The Netherlands
Legal form	Private limited liability company under the laws of The Netherlands
Registered office	Strawinskylaan 1143, C-11, 1077 XX, Amsterdam, The Netherlands
Telephone number of the registered office	+31 20 240 2780
Principal place of business	Strawinskylaan 1143, C-11, 1077 XX, Amsterdam, The Netherlands
Shareholders	The Issuer owns 100% of the issued and outstanding shares of the Guarantor. The rights of the Issuer as a shareholder in the Guarantor are contained in the articles of association of the Guarantor and the Guarantor will be managed in accordance with those articles and with the provisions of the laws of The Netherlands.
Directors, their business addresses and principal activities performed outside the Guarantor if significant with respect to the Guarantor	The directors of the Guarantor are Karlou B.V., Andrey Kishkinskiy, Paul J.A. Wilbrink and Bastiaan A. Izelaar. See " <i>The Issuer</i> " for the business address and a description of the principal activities outside the Guarantor for each of the directors except Andrey Kishkinskiy. The business address of Andrey Kishkinskiy is 5 Petrovka, street, Moscow, 107031, Russia. See " <i>Management</i> " for a description of the principal activities of Andrey Kishkinskiy outside the Guarantor which are significant with respect to the Guarantor.
Statutory auditors	None
Principal activities	Holding company for subsidiaries involved in the extraction and processing of ore, containing nonferrous metals, mainly gold, copper and molybdenum, at plants located in Armenia  Subsidiaries of GPM Armenia B.V. are (1) LLC "GeoProMining Gold", (2) CJSC "Agarak Copper Molybdenum Combine", (3) LLC "Golden Ore", (4) LLC "Vayq Resource", (5) AMGM S.a.r.l., (6) CJSC "Paramount Gold Mining" and (7) LLC "Lernayin Harstutyun". Subsidiaries listed under (3) through (7) are either dormant entities or not material subsidiaries of GPM Armenia B.V.

## **Guarantor**

Legal and commercial name	LLC "GeoProMining Gold"
Registration number	273.110.02424
Date and place of incorporation	19 October 1998, the Republic of Armenia
Legislation under which Guarantor operates	The laws of the Republic of Armenia



Duration of existence	Indefinite
Place of domicile	Republic of Armenia
Legal form	Limited liability company under the laws of the Republic of Armenia
Registered office	39/2, Israyelyan street, Kentron administrative district, Yerevan, 0015, Republic of Armenia
Telephone number of the registered office	+374 10538572
Principal place of business	39/2, Israyelyan street, Kentron administrative district, Yerevan, 0015, Republic of Armenia
Shareholders	GPM Armenia B.V. owns 100% of the issued and outstanding shares of the Guarantor. The rights of GPM Armenia B.V. as a shareholder in the Guarantor are contained in the articles of association of the Guarantor and the Guarantor will be managed in accordance with those articles and with the provisions of the laws of the Republic of Armenia.
Directors, their business addresses and principal activities performed outside the Guarantor if significant with respect to the Guarantor	The directors of the Guarantor are Siman Povarenkin, Roman Khudoliy, Anatoly Gogotin and Oleg Belyaev. The business address of each of the directors is 5 Petrovka, street, Moscow, 107031, Russia. See " <i>Management</i> " for a description of principal activities of Siman Povarenkin, Roman Khudoliy and Oleg Belyaev outside the Guarantor, which are significant with respect to the Guarantor. Anatoly Gogotin is the chief executive officer of GPM Gold.
Statutory auditors	KPMG Armenia LLC
Principal activities	Extraction and processing of ore, containing nonferrous metals, mainly gold and silver, at plants located in Armenia

## **Guarantor**

Legal and commercial name	CJSC "Agarak Copper Molybdenum Combine"
Registration number	79.140.00036
Date and place of incorporation	12 May 1995, the Republic of Armenia
Legislation under which Guarantor operates	The laws of the Republic of Armenia
Duration of existence	Indefinite
Place of domicile	Republic of Armenia
Legal form	Closed joint-stock company under the laws of the Republic of Armenia
Registered office	7 Garegin Nzhde street, city of Agarak, Syunik province, 3403, Republic of Armenia

Telephone number of the registered office	+374 10287306
Principal place of business	7 Garegin Nzhde street, city of Agarak, Syunik province, 3403, Republic of Armenia
Shareholders	GPM Armenia B.V. owns 100% of the issued and outstanding shares of the Guarantor. The rights of GPM Armenia B.V. as a shareholder in the Guarantor are contained in the articles of association of the Guarantor and the Guarantor will be managed in accordance with those articles and with the provisions of the laws of the Republic of Armenia.
Directors, their business addresses and principal activities performed outside the Guarantor if significant with respect to the Guarantor	The directors of the Guarantor are Siman Povarenkin, Roman Khudoliy and Andrey Kishkinskiy. The business address of each of the directors is 5 Petrovka, street, Moscow, 107031, Russia. See " <i>Management</i> " for a description of principal activities of the directors outside the Guarantor, which are significant with respect to the Guarantor.
Statutory auditors	KPMG Armenia LLC
Principal activities	Extraction and processing of ore, containing nonferrous metals, mainly copper and molybdenum, at plants located in Armenia

#### **Guarantor**

Legal and commercial name	JSC "Sarylakh-Surma"
Registration number	1021400791763
Date and place of incorporation	12 May 1997, Russian Federation
Legislation under which Guarantor operates	The laws of the Russian Federation
Duration of existence	Indefinite
Place of domicile	Republic of Sakha (Yakutia), Russian Federation
Legal form	Joint stock company under the laws of the Russian Federation
Registered office	16 Sovetskaya street, pgt. Ust-Nera, Oimyakonsky ulus, Republic of Sakha (Yakutia), 678730, Russian Federation
Telephone number of the registered office	+7 (495) 232 6120
Principal place of business	16 Sovetskaya street, pgt. Ust-Nera, Oimyakonsky ulus, Republic of Sakha (Yakutia), 678730, Russian Federation
Shareholders	The Issuer owns 100% of the issued and outstanding shares of the Guarantor. The rights of the Issuer as a shareholder in the Guarantor are contained in the articles of association of the Guarantor and the Guarantor will be managed in accordance with those articles and with the provisions of the laws of the Russian Federation.

Directors, their business addresses and principal activities performed outside the Guarantor if significant with respect to the Guarantor	<p>The directors of the Guarantor are Roman Khudoliy, Oleg Belyaev, Alexander Kopyakov, Andrey Gusev and Andrey Kishkinskiy. The business address of each of the directors is 5 Petrovka, street, Moscow, 107031, Russia. See "<i>Management</i>" for a description of principal activities of Roman Khudoliy, Oleg Belyaev, Alexander Kopyakov and Andrey Kishkinskiy outside the Guarantor, which are significant with respect to the Guarantor. Andrey Gusev acts as an advisor to the Group's Chief Executive Officer.</p> <p>LLC GeoProMining (the "<b>Management Company</b>") acts as the management company of the Guarantor, performing functions of the Guarantor's sole executive body. The Management Company is a limited liability company organised under the laws of the Russian Federation and is a wholly-owned subsidiary of the Issuer. Roman Khudoliy is the sole executive officer of the Management Company.</p>
Statutory auditors	JSC "KPMG"
Principal activities	Extraction and processing of ore, containing nonferrous metals, mainly gold and antimony, at plants located in the Russian Federation

## Guarantor

Legal and commercial name	JSC "Zvezda"
Registration number	1061420001994
Date and place of incorporation	25 May 2006, Russian Federation
Legislation under which Guarantor operates	The laws of the Russian Federation
Duration of existence	Indefinite
Place of domicile	Republic of Sakha (Yakutia), Russian Federation
Legal form	Joint stock company under the laws of the Russian Federation
Registered office	Office 201, 2 <sup>nd</sup> floor, 16 Sovetskaya street, pgt Ust-Nera, Oimyakonsky ulus, Republic of Sakha (Yakutia), 678730, Russian Federation
Telephone number of the registered office	+7 (495) 232 6120
Principal place of business	Office 201, 2 <sup>nd</sup> floor, 16 Sovetskaya street, pgt Ust-Nera, Oimyakonsky ulus, Republic of Sakha (Yakutia), 678730, Russian Federation
Shareholders	The Issuer owns 100% of the issued and outstanding shares of the Guarantor. The rights of the Issuer as a shareholder in the Guarantor are contained in the articles of association of the Guarantor and the Guarantor will be managed in accordance with those articles and with the provisions of the laws of the Russian Federation.

Directors, their business addresses and principal activities performed outside the Guarantor if significant with respect to the Guarantor	<p>The directors of the Guarantor are Roman Khudoliy, Oleg Belyaev, Alexander Kopyakov, Andrey Gusev and Andrey Kishkinskiy. The business address of each of the directors is 5 Petrovka, street, Moscow, 107031, Russia. See "<i>Management</i>" for a description of principal activities of Roman Khudoliy, Oleg Belyaev, Alexander Kopyakov and Andrey Kishkinskiy outside the Guarantor, which are significant with respect to the Guarantor. Andrey Gusev acts as an advisor to the Group's Chief Executive Officer.</p> <p>The Management Company acts as a management company of the Guarantor. The Management Company is a limited liability company organised under the laws of the Russian Federation and is a wholly-owned subsidiary of the Issuer. Roman Khudoliy is the sole executive officer of the Management Company.</p>
Statutory auditors	JSC "KPMG"
Principal activities	Extraction and processing of ore, containing nonferrous metals, mainly gold and antimony, at plants located in Russia.

## **Guarantor**

Legal and commercial name	LLC "GeoProMining Verkhne Menkeche"
Registration number	5087746087040
Date and place of incorporation	10 September 2008, Russian Federation
Legislation under which Guarantor operates	The laws of the Russian Federation
Duration of existence	Indefinite
Place of domicile	Republic of Sakha (Yakutia), Russian Federation
Legal form	Limited liability company under the laws of the Russian Federation
Registered office	Room 13, 1 <sup>st</sup> floor, 4 Magadanskaya street, Khandyga village, Tomponsky ulus, Republic of Sakha (Yakutia), 678720, Russian Federation
Telephone number of the registered office	+7 (495) 232 6120
Principal place of business	Room 13, 1 <sup>st</sup> floor, 4 Magadanskaya street, Khandyga village, Tomponsky ulus, Republic of Sakha (Yakutia), 678720, Russian Federation
Shareholders	The Issuer owns 100% of the issued and outstanding shares of the Guarantor. The rights of the Issuer as a shareholder in the Guarantor are contained in the articles of association of the Guarantor and the Guarantor will be managed in accordance with those articles and with the provisions of the laws of the Russian Federation.
Directors, their business addresses and principal activities performed outside the Guarantor if significant with	The directors of the Guarantor are Roman Khudoliy, Oleg Belyaev and Alexander Kopyakov. The business address of each of the directors is 5 Petrovka, street, Moscow, 107031, Russia. See

respect to the Guarantor	<p>"<i>Management</i>" for a description of principal activities of the directors outside the Guarantor, which are significant with respect to the Guarantor.</p> <p>The Management Company acts as a management company of the Guarantor. The Management Company is a limited liability company organised under the laws of the Russian Federation and is a wholly-owned subsidiary of the Issuer. Roman Khudoliy is the sole executive officer of the Management Company.</p>
Statutory auditors	JSC "KPMG"
Principal activities	Extraction and processing of ore, containing nonferrous metals, mainly silver, lead and zinc, at plants located in Russia

The Guarantors together represented over 85% of the Group's consolidated EBITDA and consolidated net assets in the years ended 31 December 2018, 2017 and 2016. The Guarantors together accounted for US\$120,810 thousand, US\$93,949 thousand and US\$62,486 thousand of the Group's consolidated EBITDA in the years ended 31 December 2018, 2017 and 2016, respectively. The Guarantors together accounted for US\$339,513 thousand, US\$352,236 thousand and US\$357,361 thousand of the Group's consolidated net assets as at 31 December 2018, 2017 and 2016, respectively. Other, non-Guarantor subsidiaries of the Group accounted for less than 15% of the Group's consolidated EBITDA and net assets in the years ended 31 December 2018, 2017 and 2016. The Issuer had negative EBITDA and negative net assets in the years ended 31 December 2018, 2017 and 2016, accounting for less than 1% of the Group's consolidated EBITDA and net assets in the same periods.

There are no potential conflicts of interest between any duties of directors of the Guarantors, and their private interests and/or other duties.

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions of the Notes which, subject to amendment and completion and except for the text in italics, will be endorsed on each Definitive Note Certificate (if issued) and incorporated by reference into the Global Certificate:*

The US\$300,000,000 7.75% guaranteed notes due 2024 of Karlou B.V. (the "**Issuer**") (the "**Notes**", which expression includes any further Notes issued pursuant to Condition 15 and forming a single series therewith) are guaranteed unconditionally and irrevocably, on a joint and several basis, by Geopromining Investment (CYP) Limited (the "**Parent**") and CJSC "Agarak Copper Molybdenum Combine", GPM Armenia B.V., JSC "Sarylakh-Surma", JSC "Zvezda", LLC "GeoProMining Gold" and LLC "GeoProMining Verkhne Menkeche" (together with the Parent, each a "**Guarantor**" and, together, the "**Guarantors**"). The Notes were authorised by the meeting of the board of directors and the resolution of the shareholders of the Issuer dated 29 May 2019 and the Guarantee (as defined below) of the Notes by the Parent was authorised by the written resolutions of the board of directors and the shareholders of the Parent dated 29 May 2019. The other Guarantees (as defined below) of the Notes were authorised by resolutions of the board of directors and the shareholders, as applicable, of the Guarantors passed on 29 May 2019.

The Notes are constituted by, are subject to and have the benefit of, a trust deed dated 18 June 2019 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and Citibank, N.A., London Branch (the "**Trustee**", which expression shall include all persons for the time being who are the trustee or trustees under the Trust Deed) as trustee for the Holders of the Notes.

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

The Issuer and the Guarantors have entered into an agency agreement dated 18 June 2019 (as amended or supplemented from time to time, the "**Agency Agreement**") with the Trustee, Citibank, N.A., London Branch, as principal paying agent and transfer agent (the "**Principal Paying Agent**" and a "**Transfer Agent**" which expressions shall include any successors or, in the case of the Transfer Agent, any additional transfer agents, appointed from time to time in connection with the Notes) and Citigroup Global Markets Europe AG, as the registrar (the "**Registrar**" which expression shall include any successor appointed from time to time in connection with the Notes) and the paying agents named in the Agency Agreement (and together with the Principal Paying Agent, the "**Paying Agents**" and each a "**Paying Agent**", which expressions shall include any successors). References herein to the "**Agents**" are to the Registrar, the Paying Agents and the Transfer Agent, and any reference to an "**Agent**" is to any one of them.

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

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

### 1. Form and Denomination

The Notes are issued in fully registered form, without interest coupons attached, in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof, up to and including US\$399,000 each (each an "**Authorised Denomination**"). A definitive note certificate (each a "**Definitive Note Certificate**") will be issued to each Noteholder in respect of its registered holding of Notes. The Notes may be transferred only in amounts not less than an Authorised Denomination.

*The Notes are initially issued in global, fully registered form, and will be represented on issue by a global certificate in registered form (the "**Global Certificate**"). Interests in the Global Certificate will only be exchangeable for **Definitive Notes Certificates** in the limited circumstances set forth therein.*

## **2. Guarantee and Status**

### **2.1 Guarantee**

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

### **2.2 Status**

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

### **2.3 Term of Guarantee**

For the avoidance of doubt, the Guarantee shall remain in full force and effect until all sums expressed to be payable by the Issuer under the Trust Deed and these Conditions have been paid by the Issuer and/or the Guarantors.

## **3. Register, Title and Transfers**

### **3.1 Register**

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

### **3.2 Title**

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

### **3.3 Transfers of Definitive Note Certificates**

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

### 3.4 Registration and delivery of Definitive Note Certificates

Within five business days of the surrender of a Definitive Note Certificate in accordance with Condition 3.3 above, the Registrar shall register the transfer in question and deliver a new Definitive Note Certificate to each relevant Holder at the specified office of the Registrar or (at the request of the relevant Noteholder) at the specified office of the Transfer Agent or (at the request and risk of such relevant Holder) send it by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder.

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

### 3.5 No Charge

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

### 3.6 Closed periods

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

### 3.7 Regulations concerning Transfer and Registration

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer and registration of Notes set out in the Schedule 1 of the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee, the Transfer Agents and the Registrar. A copy of the current regulations will be sent by the Registrar free of charge to any person who so requests and who can confirm they are a Holder to the satisfaction of the Registrar and will also be available at the specified office of the Registrar.

## 4. Covenants

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

### 4.1 Limitation on Indebtedness

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

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

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

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



- (b) Indebtedness represented by the Notes and the Guarantees;
- (c) Indebtedness outstanding on the Issue Date (excluding the Senior Bank Debt);
- (d) Indebtedness under the Senior Bank Debt outstanding on the Issue Date until such time as the Senior Bank Debt is redeemed in full with the proceeds of the Notes but in any event by no later than 35 days from the Issue Date;
- (e) Indebtedness under one or more credit facilities in an aggregate amount at any time outstanding not to exceed 7.5% of the Consolidated Total Assets;
- (f) Indebtedness of the acquiring Parent or Subsidiary of the Parent or an acquired Subsidiary of the Parent Incurred and outstanding on or prior to the date on which such Subsidiary was acquired by a member of the Group (other than Indebtedness Incurred in connection with, or to provide all or any portion of the funds or credit support utilised to consummate, the transaction or series of related transactions pursuant to which such Subsidiary became a Subsidiary of the Parent or was acquired by the Parent); provided, however, that on the date of such acquisition and after giving pro forma effect thereto, the Parent would have been entitled to Incur at least US\$1.00 of additional Indebtedness pursuant to Condition 4.1.1;
- (g) Refinancing Indebtedness Incurred by the Issuer, the Parent or a Subsidiary of the Parent in respect of Indebtedness Incurred by the Issuer, the Parent or a Subsidiary of the Parent pursuant to Condition 4.1.1 or pursuant to sub-Conditions (b), (c), (f), (g), (m) or (q) of this Condition 4.1.2;
- (h) Hedging Obligations Incurred in the ordinary course of business of the Parent or any Subsidiary of the Parent; provided that such Commodity Agreement, Interest Rate Agreements or Currency Agreements giving rise to such Hedging Obligations are entered into for the purpose of limiting interest rate, currency or commodity risk (including but not limited to gold price fluctuation risk), as the case may be, and are not entered into for speculative purposes;
- (i) obligations in respect of performance, bid and surety bonds, completion guarantees, letters of credit, *veksels* or similar obligations provided by the Parent or any Subsidiary of the Parent in the ordinary course of business, provided that, upon demand being made under such obligations, such obligations are reimbursed or the Indebtedness thereunder repaid within 45 days following such payment or disbursement in respect of such demand;
- (j) any guarantee extended to suppliers of goods or services to any member of the Group on an arm's length basis and on commercial terms and in the ordinary course of business;
- (k) Indebtedness arising from the honouring by a bank or other financial institution of a cheque, draft or similar instrument inadvertently drawn against insufficient funds in the ordinary course of business; provided, however, that such Indebtedness is extinguished within five Business Days of its Incurrence;
- (l) Indebtedness arising from agreements of the Parent or a Subsidiary of the Parent providing for indemnification, adjustment of purchase price or similar obligations, in each case, Incurred or assumed in connection with the acquisition or disposition of any business, assets or Capital Stock of the Parent or any Subsidiary of the Parent, provided that the maximum aggregate liability in respect of all such Indebtedness shall at no time exceed the relevant purchase price in connection with such acquisition or disposition;
- (m) Purchase Money Indebtedness Incurred to finance the repair, improvement, lease or acquisition by the Parent or any Subsidiary of assets in the ordinary course of business, and any Refinancing Indebtedness Incurred to Refinance such Indebtedness in an aggregate principal amount which, when added together with the amount of all other Indebtedness Incurred pursuant to this sub-Condition (m) and then outstanding, does not exceed US\$10 million;
- (n) Indebtedness in respect of workers' compensation claims or claims arising under similar legislation, or pursuant to self-insurance obligations and not in connection with the borrowing of money or the obtaining of advances or credit in the ordinary course of business;

- (o) advance payments received by any member of the Group from customers in the ordinary course of business;
  - (p) Project Finance Indebtedness;
  - (q) Indebtedness arising as a result of (the establishment of) a Dutch law fiscal unity for corporate income tax or turnover tax purposes (*fiscale eenheid*) of which any Subsidiary is a member;
  - (r) Indebtedness pursuant to a declaration of joint and several liability used for the purpose of Section 2:403 of the Dutch Civil Code (and any residual liability under such declaration arising pursuant to section 2:404(2) of the Dutch Civil Code); and
  - (s) any other Indebtedness of the Parent or any Subsidiary of the Parent in the aggregate principal amount at any time outstanding not to exceed US\$25 million.
- 4.1.3 Notwithstanding the foregoing, neither the Parent nor any Guarantor will Incur any Indebtedness pursuant to Condition 4.1 if the proceeds thereof are used, directly or indirectly, to Refinance any Subordinated Obligations of the Parent or any Guarantor unless such Indebtedness shall be subordinated to the Notes or the applicable Guarantee to at least the same extent as such Subordinated Obligations.
- 4.1.4 For purposes of determining compliance with this Condition 4.1:
- (a) in the event that an item of Indebtedness (or any portion thereof) meets the criteria of more than one of the types of Indebtedness described in Conditions 4.1.1 or 4.1.2, the Parent, in its sole discretion, will classify such item of Indebtedness (or any portion thereof) at the time of Incurrence and will only be required to include the amount and type of such Indebtedness in one of Conditions 4.1.1 or 4.1.2 and, for the avoidance of doubt, any Indebtedness incurred pursuant to Condition 4.1.2 shall be taken into account for purposes of determining the Consolidated Net Leverage Ratio;
  - (b) the Parent will be entitled to divide and classify an item of Indebtedness in more than one of the types of Indebtedness described in Conditions 4.1.1 or 4.1.2 and may change the classification of an item of Indebtedness (or any portion thereof) to any other type of Indebtedness described in Conditions 4.1.1 or 4.1.2 at any time and, for the avoidance of doubt, any Indebtedness incurred pursuant to Condition 4.1.2 shall be taken into account for purposes of determining the Consolidated Net Leverage Ratio. The outstanding principal amount of any particular Indebtedness shall be counted only once and any obligations arising under any guarantees, Lien, letters of credit or similar instrument supporting such Indebtedness shall not be double counted; and
  - (c) any entity that is allowed to incur Indebtedness under Condition 4.1.1 or under any of the paragraphs in Condition 4.1.2 may provide a guarantee of any other entity's Incurrence of such Indebtedness, provided that such other entity Incurs such Indebtedness pursuant to Condition 4.1.1 or the same paragraph in Condition 4.1.2 under which the guaranteeing entity provides its guarantee of such Indebtedness.
- 4.1.5 For purposes of determining compliance with any U.S. dollar denominated restriction on the Incurrence of Indebtedness where the Indebtedness Incurred is denominated in a different currency, the amount of such Indebtedness will be the U.S. Dollar Equivalent determined on the date of the Incurrence of such Indebtedness; provided, however, that if any such Indebtedness denominated in a different currency is subject to a Currency Agreement with respect to U.S. dollars covering all principal, premium, if any, and interest payable on such Indebtedness, the amount of such Indebtedness expressed in U.S. dollars will be as provided in such Currency Agreement. The principal amount of any Refinancing Indebtedness Incurred in the same currency as the Indebtedness being Refinanced will be the U.S. Dollar Equivalent, as appropriate, of the Indebtedness Refinanced, except to the extent that (a) such U.S. Dollar Equivalent was determined based on a Currency Agreement, in which case the Refinancing Indebtedness will be determined in accordance with the preceding sentence, and (b) the principal amount of the Refinancing Indebtedness exceeds the principal amount of the Indebtedness being Refinanced, in which case the U.S. Dollar Equivalent of such excess, as appropriate, will be determined on the date such Refinancing Indebtedness is Incurred. Notwithstanding any other provision of this

Condition 4.1, the maximum amount that the Parent or a Subsidiary of the Parent may Incur pursuant to this Condition 4.1 shall not be deemed to be exceeded, with respect to outstanding Indebtedness, due solely to fluctuations in the exchange rates of currencies.

#### 4.2 Limitation on Restricted Payments

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

- (a) a Default or Event of Default shall have occurred and be continuing (or would result therefrom);
- (b) the Parent is not entitled to Incur an additional US\$1.00 of Indebtedness pursuant to Condition 4.1.1; or
- (c) the aggregate amount of such Restricted Payment and all other Restricted Payments since the Issue Date would exceed the sum of (counting each amount or event in only one category below):
  - (i) 50% of the Consolidated Net Income accrued during the period (treated as one accounting period) from 1 January 2019 to the end of the most recent semi-annual financial period ending prior to the date of such Restricted Payment for which financial statements are available (or, in case such Consolidated Net Income shall be a deficit, minus 100% of such deficit); plus
  - (ii) 100% of the aggregate Net Cash Proceeds received by the Parent from the issuance or sale of its Capital Stock (other than Disqualified Stock), or warrants, options or rights to purchase shares of its Capital Stock (other than Disqualified Stock) but solely upon the exercise of such options, warrants or rights, in each case, subsequent to the Issue Date (other than an issuance or sale to a Subsidiary of the Parent and other than an issuance or sale to an employee stock ownership plan or to a trust established by the Parent or any of its Subsidiaries for the benefit of their employees) and 100% of any cash capital contribution received by the Parent from its shareholders subsequent to the Issue Date; plus
  - (iii) the amount by which Indebtedness of the Parent or any Subsidiary of the Parent is reduced on the Parent's balance sheet upon the conversion or exchange subsequent to the Issue Date of any Indebtedness of the Parent convertible or exchangeable for Capital Stock (other than Disqualified Stock) of the Parent (less the amount of any cash, or the fair value of any other property, distributed by the Parent upon such conversion or exchange); provided, however, that:
    - (A) subject to sub-Condition (B) of this Condition 4.2.1(c)(iii), the foregoing amount shall not exceed the Net Cash Proceeds received by the Parent or any Subsidiary of the Parent from the sale of such Indebtedness (excluding Net Cash Proceeds from sales to a Subsidiary of the Parent or to an employee stock ownership plan or a trust established by the Parent or any of its Subsidiaries for the benefit of their employees); and
    - (B) the foregoing amount, as limited by sub-Condition (A) of this Condition 4.2.1(c)(iii), shall be increased by the aggregate Net Cash Proceeds, if any, received by the Parent or a Subsidiary of the Parent upon such conversion or exchange (excluding any such Net Cash Proceeds comprising funds borrowed from the Parent or any Subsidiary of the Parent until and to the extent such borrowing is repaid); plus
  - (iv) an amount equal to the sum of (A) the net reduction in the Investments (other than Permitted Investments) made by the Parent or any Subsidiary of the Parent in any Person resulting from repurchases, repayments or redemptions of such Investments by such Person, (B) proceeds realised on the sale of such Investment and (C) proceeds representing the return of capital (excluding dividends and distributions), in each case received by the Parent or any Subsidiary of the Parent less the cost (including taxes payable in connection with such repurchase, repayment or redemption) of such

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

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

#### 4.2.2 Condition 4.2.1 shall not prohibit:

- (a) any Restricted Payment made out of the Net Cash Proceeds of the substantially concurrent sale of, or made by exchange for, Capital Stock of the Parent (other than Disqualified Stock and other than Capital Stock issued or sold to a Subsidiary of the Parent or an employee stock ownership plan or to a trust established by the Parent or any of its Subsidiaries for the benefit of their employees) or a substantially concurrent cash capital contribution received by the Parent from its direct or indirect shareholders; provided, however, that (i) such Restricted Payment shall be excluded from the calculation of the amount of Restricted Payments and (ii) the Net Cash Proceeds from such sale or such cash capital contribution (to the extent so used for such Restricted Payment) shall be excluded from the calculation of amounts under sub-Condition (c)(ii) of Condition 4.2.1;
- (b) so long as no Default or Event of Default has occurred and is continuing, any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Obligations of a Guarantor made by exchange for, or out of the proceeds of the substantially concurrent Incurrence of, Refinancing Indebtedness of such Person in respect of such Subordinated Obligations; provided, however, that such purchase, repurchase, redemption, defeasance or other acquisition or retirement for value shall be excluded from the calculation of the amount of Restricted Payments;
- (c) dividends paid by the Parent within 60 days after the date of declaration thereof if at such date of declaration such dividend would have complied with this Condition 4.2; provided, however, that such payment (without duplication of the relevant dividend) shall be included in the calculation of the amount of Restricted Payments;
- (d) so long as no Default or Event of Default has occurred and is continuing, the purchase, redemption or other acquisition of Capital Stock of the Parent or any of its Subsidiaries from employees, former employees, directors or former directors of the Parent or any of its Subsidiaries or any Affiliate of the Parent (or permitted transferees of such employees, former employees, directors or former directors), pursuant to the terms of the agreements (including employment agreements) or plans (or amendments thereto) approved by the Board of Directors under which such individuals purchase or sell or are granted the option to purchase or sell, shares of such Capital Stock; provided, however, that the aggregate amount of such Restricted Payments shall not exceed US\$5 million in the aggregate in any calendar year; provided further, however, that such Restricted Payments shall be excluded in the calculation of the amount of Restricted Payments;
- (e) repurchases of Capital Stock deemed to occur upon exercise of stock options or warrants if such Capital Stock represents a portion of the exercise price of such options; provided, however, that such Restricted Payments shall be excluded from the calculation of the amount of Restricted Payments;
- (f) cash payments in lieu of the issuance of fractional shares in connection with stock dividends, splits or combinations, the exercise of warrants, options or other securities convertible into or

exchangeable for Capital Stock of the Parent; provided, however, that any such cash payment shall not be for the purpose of evading the limitation of this Condition 4.2 (as determined in good faith by the Board of Directors); provided further, however, that such payments shall be excluded from the calculation of the amount of Restricted Payments;

- (g) in the event of a Relevant Event, and so long as no Default or Event of Default has occurred and is continuing, the payment, purchase, redemption, defeasance or other acquisition or retirement of Subordinated Obligations of any Guarantor, in each case, at a purchase price not greater than 101% of the principal amount of such Subordinated Obligations, plus any accrued and unpaid interest thereon; provided, however, that prior to such payment, purchase, redemption, defeasance or other acquisition or retirement, the Issuer (or a third party to the extent permitted by these Conditions) has issued a Relevant Event Put Event Notice with respect to the Notes as a result of such Relevant Event and has repurchased or shall repurchase all Notes validly tendered and not withdrawn in connection with such Relevant Event; provided further, however, that such payments, purchases, redemptions, defeasances or other acquisitions or retirements shall be included in the calculation of the amount of Restricted Payments;
- (h) payments of intercompany Indebtedness (in cash or otherwise), the Incurrence of which was permitted under sub-Condition (a) of Condition 4.1.2; provided, however, that such payments shall be excluded from the calculation of the amount of Restricted Payments;
- (i) payments or distributions to dissenting shareholders pursuant to applicable law in connection with or contemplation of a merger, consolidation or transfer of assets that complies with the provisions of the Notes relating to mergers, consolidations or transfers of substantially all of any Guarantor's assets; provided however, that such payments or distributions shall be excluded from the calculation of the amount of Restricted Payments; or
- (j) Restricted Payments in an amount which, when taken together with all Restricted Payments made pursuant to this sub-Condition (i), does not exceed US\$20 million; provided, however, that (i) at the time of each such Restricted Payment, no Default or Event of Default shall have occurred and be continuing (or result therefrom) and (ii) such payments shall be included in the calculation of the amount of Restricted Payments.

#### 4.3 Limitation on Restrictions on Distributions from Subsidiaries

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

- (a) any encumbrance or restriction pursuant to an agreement in effect at or entered into on the Issue Date;
- (b) encumbrances and restrictions contained in any agreement or other instrument of any Person acquired by the Parent or any Subsidiary of the Parent in effect at the time of such acquisition (but not created in contemplation thereof) which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired;
- (c) any encumbrance or restriction consisting of customary non-assignment provisions in leases governing leasehold interests to the extent such provisions restrict the subletting, assignment or transfer of the lease or the property leased thereunder;
- (d) any encumbrance or restriction contained in security agreements, operating leases of real property or mortgages securing Indebtedness of the Parent or a Subsidiary of the Parent, to the extent such encumbrance or restriction restricts the transfer of the property subject to such security agreements, operating leases during the continuation of a default in the payment of rent or mortgages;

- (e) customary encumbrances or restrictions in connection with Purchase Money Indebtedness for property acquired in the ordinary course of business;
- (f) encumbrances or restrictions existing by reason of any Permitted Lien;
- (g) any encumbrance or restriction pursuant to an agreement effecting a Refinancing of Indebtedness Incurred pursuant to an agreement referred to in sub-Condition (a), (b) or this sub-Condition (g) or contained in any amendment to an agreement referred to in sub-Condition (a), (b) or this sub-Condition (g); provided, however, that the encumbrances and restrictions with respect to such Subsidiary or the Parent contained in any such refinancing agreement or amendment, are not materially less favourable to the Noteholders than encumbrances and restrictions with respect to such Subsidiary or the Parent contained in such predecessor agreements (as determined in good faith by the Board of Directors of the Parent or the senior management of the relevant Subsidiary, as the case may be);
- (h) encumbrances or restrictions contained in contracts for sale of Capital Stock or assets permitted by Condition 4.4 with respect to the assets or Capital Stock to be sold pursuant to such contract or in customary merger or acquisition agreements (or any option to enter into such contracts) for the purchase or acquisition of Capital Stock assets or any of the Parent's Subsidiaries by another Person;
- (i) customary limitations on the distribution or disposition of assets or property of a Subsidiary of the Parent in joint venture agreements entered into in the ordinary course of business and in good faith; provided that such encumbrance or restriction is applicable only to such Subsidiary and provided that:
  - (i) the encumbrance or restriction is not materially more disadvantageous to the Noteholders than is customary in comparable agreements (as determined in good faith by the Parent); and
  - (ii) the Parent determines in good faith that any such encumbrance or restriction will not materially affect the ability of the Parent or any Guarantor to make any anticipated principal or interest payments on the Notes and any other Indebtedness for borrowed money that is an obligation of the Parent or a Guarantor;
- (j) encumbrances or restrictions imposed by applicable law or regulation or by governmental licence, concession or permit in the ordinary course of business; and
- (k) encumbrances or restrictions on cash or other deposits or net worth imposed by customers and suppliers under contracts entered into in the ordinary course of business.

#### 4.4 Limitation on Sales of Assets and Subsidiary Stock

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

- (a) the Parent or such Subsidiary receives consideration at the time of such Asset Disposition at least equal to the Fair Market Value (including as to the value of all non-cash consideration) of the Capital Stock and assets subject to such Asset Disposition;
- (b) at least 75% of the consideration thereof received by the Parent or such Subsidiary is in the form of (i) cash, (ii) Cash Equivalents (as defined below) or (iii) Additional Assets; and
- (c) an amount equal to 100% of the Net Available Cash from such Asset Disposition is applied by the Parent or such Subsidiary, as the case may be:
  - (i) to the extent the Parent elects (or is required by the terms of any Indebtedness), to prepay, repay, redeem or purchase Senior Indebtedness of the Parent or any Subsidiary of the Parent (in each case other than Indebtedness owed to the Parent or an Affiliate of the Parent) within 360 days from the later of the date of such Asset Disposition or the receipt of such Net Available Cash;

- (ii) to the extent the Parent elects, to acquire or invest in Additional Assets within 360 days from the later of the date of such Asset Disposition or the receipt of such Net Available Cash;
- (iii) for working capital purposes within 360 days from the later of the date of such Asset Disposition or the receipt of such Net Available Cash; and
- (iv) to invest in Temporary Cash Investments within 360 days from the later of the date of such Asset Disposition or the receipt of such Net Available Cash,

or any combination thereof, provided, however, that in connection with any prepayment, repayment, redemption or purchase of Indebtedness pursuant to sub-Condition (c)(i) above, the Parent or such Subsidiary shall permanently retire such Indebtedness and shall cause the related loan commitment (if any) to be permanently reduced in an amount equal to the principal amount so prepaid, repaid, redeemed or purchased and provided further that if the use of Net Available Cash is applied under sub-Condition (c)(iv) above, such Net Available Cash must be applied pursuant to sub-Condition (c)(i), (c)(ii) or (c)(iii) within 360 days from the date of such Asset Disposition or the receipt of such Net Available Cash.

4.4.2 Any Net Available Cash from Asset Dispositions that is not applied or invested as provided in Condition 4.4.1 within 360 days after receipt thereof will be deemed to constitute "**Excess Proceeds**" and:

- (a) when the aggregate amount of Excess Proceeds exceeds US\$20 million, the Issuer will be required to make an offer (an "**Asset Disposition Offer**") to all Holders of Notes to purchase the maximum principal amount of Notes that may be purchased out of the Excess Proceeds (equal to US\$200,000 and any integral multiple of US\$1,000 in excess thereof and provided that any unpurchased portion of any Note surrendered is in a principal amount of at least US\$200,000), at an offer price in cash in an amount equal to 100% of the principal amount of the Notes plus accrued and unpaid interest and any additional amounts payable pursuant to Condition 8, to the date of purchase. If there is any Indebtedness outstanding that ranks *pari passu* with the Notes and contains similar provisions to this Condition 4.4 requiring the Parent to make an offer to purchase such Indebtedness following as Asset Disposition, the Parent (i) may make an offer to purchase such Indebtedness on similar terms (but at a price not exceeding 100% of the relevant principal amount) as, or on terms that are no better than the terms of, the Asset Disposition Offer and, (ii) to the extent that the aggregate principal amount of Notes validly tendered and not withdrawn (the "**Tendered Notes**") together with the amount of such *pari passu* Indebtedness validly tendered and not withdrawn (the "**Aggregate Tendered Amount**") exceeds the Excess Proceeds, the proportion of the Excess Proceeds to be applied to the purchase of the Tendered Notes shall be the amount which bears the same proportion (rounded, as applicable) to the Excess Proceeds as the aggregate principal amount of the Tendered Notes bears to the Aggregate Tendered Amount, and any reference below to Excess Proceeds shall be taken to mean such proportional amount.
- (b) If the aggregate principal amount of Notes surrendered by Holders thereof exceeds the amount of Excess Proceeds, the Issuer shall select the Notes (equal to US\$200,000 and any integral multiple of US\$1,000 in excess thereof and provided that any unpurchased portion of any Note surrendered is in a principal amount of at least US\$200,000) to be purchased on a pro rata basis subject to the aforementioned denomination, by lot or by such other method as the Issuer in its sole discretion deems fair and appropriate, provided that such method is in compliance with the rules of any stock exchange on which the Notes are listed and the requirements of any depository. Immediately following such selection, the Issuer shall notify the Principal Paying Agent and the Trustee in writing thereof. Upon completion of such Asset Disposition Offer, the amount of Excess Proceeds shall be reduced by the aggregate amount of such Asset Disposition Offer.

The Parent will determine the relevant procedures in respect of any Asset Disposition Offer, provided that such procedures are in compliance with the rules of any stock exchange on which the Notes are listed. Notice of the Asset Disposition Offer will be given to Noteholders pursuant to Condition 16. The Asset Disposition Offer will remain open for a period of 20 Business Days following its commencement, except to the extent that a longer period is required by applicable law (the "**Asset Disposition Offer Period**"). No later than five Business Days after the expiration of the Asset Disposition Offer Period

(the "**Asset Disposition Purchase Date**"), the Parent will purchase and pay for the principal amount of Notes required to be purchased pursuant to this Condition 4.4.2.

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

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

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

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

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

4.5 Limitation on Affiliate Transactions

4.5.1 The Parent will not, and will not permit any Subsidiary of the Parent to, enter into or permit to exist any transaction or a series of related transactions (including, without limitation, the purchase, sale, lease or exchange of any assets or property, employee compensation arrangements or the rendering of any service) with, or for the benefit of, any Affiliate of the Parent or any other Subsidiary of the Parent (an "**Affiliate Transaction**") unless:

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



expected to be obtained at the time in an arm's length transaction with a Person who was not an Affiliate.

4.5.2 The provisions of Condition 4.5.1 above will not prohibit:

- (a) any Investment (including a Permitted Investment) or other Restricted Payment, in each case permitted to be made pursuant to Condition 4.2;
- (b) any transaction or series of related transactions in an aggregate amount not exceeding US\$5 million in any 12 month period;
- (c) any issuance of securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, employment arrangements, insurance plans, deferred compensation plans, retirement and savings plans, stock options and stock ownership plans that are customary and are approved by the Board of Directors in good faith and it is deemed by the Board of Directors that the services theretofore or thereafter to be performed for such compensation or payments are fair consideration therefor;
- (d) transactions between or among all or any of the Parent and a Subsidiary of the Parent;
- (e) the issuance or sale of any Capital Stock (other than Disqualified Stock) of the Parent;
- (f) loans or advances or guarantees of third party loans (but not any forgiveness of such loans or advances or guarantees) to employees, directors, officers and consultants in the ordinary course of business in accordance with the past practices of the Parent or its Subsidiaries in an aggregate amount not exceeding US\$5 million;
- (g) agreements and arrangements existing on the Issue Date and any amendment, extension, renewal, refinancing, modification or supplement thereof, provided that following such amendment, extension, renewal, refinancing, modification or supplement, the terms of any such agreement or arrangement so amended, modified or supplemented are not materially more disadvantageous to the Noteholders and to the Parent and the Subsidiary of the Parent, as applicable, than the original agreement or arrangement as in effect on the Issue Date and provided, further, that such amendment or modification is on a basis substantially similar to that which could reasonably have been obtained at such time in an arm's length transaction with third parties who are not Affiliates; or
- (h) transactions permitted by, and complying with, the proviso to Condition 4.8.2 and all agreements and instruments effecting such transactions.

4.6 Limitation on Liens

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

4.7 Limitation on Lines of Business

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

4.8 Merger and Consolidation

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

- (a) either (i) the Issuer will be the continuing entity or (ii) the resulting, surviving or transferee Person, if not the Issuer (the "**Successor Issuer**"), shall be a Person which is organised and existing under the laws of an Approved Jurisdiction and the Successor Issuer (if not the Issuer) shall expressly assume, (1) by a trust deed supplemental thereto, executed and delivered to the Trustee, in form and content satisfactory to the Trustee and each Guarantor, unless it is the Successor Issuer, has, by way of execution of such supplemental trust deed, confirmed that its Guarantee will apply to the Successor Issuer's obligations under the Notes and the Trust Deed, and (2) by an agency agreement supplemental thereto, executed and delivered to the Trustee, in form and content satisfactory to the Agents, each Guarantor and the Trustee, all the obligations of the Issuer under the Agency Agreement;
- (b) immediately after giving pro forma effect to such transaction (and treating any Indebtedness which becomes an obligation of the Successor Issuer or any Subsidiary of the Successor Issuer as a result of such transaction as having been Incurred by such Successor Issuer or such Subsidiary at the time of such transaction), no Default or Event of Default shall have occurred and be continuing;
- (c) immediately after giving pro forma effect to such transaction, the Successor Issuer would be able to Incur an additional US\$1.00 of Indebtedness pursuant to Condition 4.1.1 or the Consolidated Net Leverage Ratio would not be increased;
- (d) the Issuer shall have delivered to the Trustee an Officer's Certificate (including in respect of Condition 4.8.1(b) and (c)) and an Opinion of Counsel, each stating that such consolidation, merger or transfer complies with these Conditions (provided that the Opinion of Counsel may rely on the Officer's Certificate as to compliance with these Conditions and as to matters of fact (without further investigation or enquiry and without liability) and may contain customary assumptions, qualifications and limitations), each in form and substance satisfactory to the Trustee and upon each of which the Trustee shall be entitled to rely without liability to any person; and
- (e) the Issuer shall have delivered to the Trustee an Opinion of Counsel, in form and substance satisfactory to the Trustee, upon which the Trustee shall be entitled to rely without liability to any person, to the effect that (1) the Noteholders will not recognise income, gain or loss for Dutch income tax purposes as a result of such transaction and will be subject to Dutch income tax on the same amounts, in the same manner and at the same times as would have been the case if such transaction had not occurred and (2) where a supplemental trust deed and a supplemental agency agreement are entered into pursuant to Condition 4.8.1(a) above (x) such supplemental trust deed and the Trust Deed constitute legal, valid and binding obligations of the Issuer, each Guarantor and/or the Successor Issuer, enforceable in accordance with their terms and such supplemental agency agreement and the Agency Agreement constitute legal, valid and binding obligations of the Issuer, each Guarantor and/or the Successor Issuer, enforceable in accordance with their terms and (y) each of the Issuer, each Guarantor and/or the Successor Issuer has the capacity to enter into such supplemental trust deed and/or supplemental agency agreement, as applicable,

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

The Successor Issuer will be the successor to the Issuer and shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer under the Notes, and the Issuer shall be released from the obligation to pay the principal of and interest on the Notes.

The Trustee shall be obliged to enter into the supplemental trust deed and supplemental agency agreement upon receipt of the Officer's Certificate and Opinion(s) of Counsel referred to above save if, in the opinion of the Trustee, entering into such supplemental trust deed or supplemental agency agreement would impose new or additional obligations on, release the rights or protections of, or alter the obligations, rights and/or protections of, the Trustee under the Trust Deed, the Notes or otherwise.

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

- (a) the resulting, surviving or transferee Person (if not the Parent or such Guarantor, the "**Successor Guarantor**") shall be a Person which is organised and existing under an Approved Jurisdiction, and such Person (if not the Parent or such Guarantor) shall expressly assume, by executing a supplemental trust deed, in or substantially in the form of Schedule 5 to the Trust Deed, all the obligations of such Guarantor, if any, under its Guarantee and the Agency Agreement;
- (b) immediately after giving effect to such transaction or transactions on a pro forma basis (and treating any Indebtedness which becomes an obligation of the Successor Guarantor as a result of such transaction as having been issued by such Successor Guarantor at the time of such transaction), no Default or Event of Default shall have occurred and be continuing;
- (c) immediately after giving pro forma effect to such transaction, the Successor Guarantor would be able to Incur an additional US\$1.00 of Indebtedness pursuant to Condition 4.1.1 or the Consolidated Net Leverage Ratio would not be increased;
- (d) the Parent delivers to the Trustee an Officer's Certificate (including in respect of Condition 4.8.2(b) and (c)) and an Opinion of Counsel, each stating that such consolidation, merger or transfer complies with these Conditions (provided that the Opinion of Counsel may rely on the Officer's Certificate as to compliance with these Conditions and as to matters of fact (without further investigation or enquiry and without liability) and may contain customary assumptions, qualifications and limitations), each in form and substance satisfactory to the Trustee and upon each of which the Trustee shall be entitled to rely without liability to any person; and
- (e) the Issuer shall have delivered to the Trustee an Opinion of Counsel, in form and substance satisfactory to the Trustee, upon which the Trustee shall be entitled to rely without liability to any person, to the effect that (1) the supplemental trust deed and the Trust Deed constitute legal, valid and binding obligations of the relevant Guarantor and/or the Successor Guarantor, enforceable in accordance with their terms and (2) as to the capacity of the Issuer, each Guarantor and the Successor Guarantor to enter into such supplemental trust deed, as applicable,

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

Guarantors, any Guarantor with the Issuer or any direct or indirect Subsidiary of the Parent or (iv) a Guarantor engaging in a transaction with an Affiliate of the Parent solely for the purpose and with the sole effect of reincorporating such Guarantor in another jurisdiction that is an Approved Jurisdiction.

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

The Successor Guarantor will be the successor to such Guarantor and shall succeed to, and be substituted for, and may exercise every right and power of the relevant Guarantor, as the case may be, under its Guarantee and the Notes, and the predecessor company shall be released from the obligation to pay the principal of, premium, if any, and interest on the Notes.

The Trustee shall be obliged to enter into the supplemental trust deed and supplemental agency agreement upon receipt of the Officer's Certificate and Opinion(s) of Counsel referred to above save if, in the opinion of the Trustee, entering such supplemental trust deed or supplemental agency agreement would impose new or additional obligations on, release the rights or protections of, or alter the obligations, rights and/or protections of, the Trustee under the Trust Deed, the Notes or otherwise.

#### 4.9 Reports

##### 4.9.1 The Parent will furnish to the Trustee:

- (a) within 120 days after the end of each of its financial years, copies of its consolidated financial statements for such financial year, in each case audited by the Auditors and prepared in accordance with Accounting Standards consistently applied with the corresponding financial statements for the preceding period prepared in accordance with the Accounting Standards; and
- (b) within 90 days after the end of the first six months of each of its financial years, copies of its unaudited consolidated financial statements (for such period, in each case reviewed by the Auditors and prepared in accordance with Accounting Standards); and
- (c) promptly after the occurrence of a material event in respect of the Group or the Notes, an announcement to be published by the Issuer containing a description of such event; and
- (d) an Officer's Certificate of the Parent, within 120 days after the end of each of its financial years and, in addition, upon request by the Trustee, with respect to compliance with these Conditions.

- 4.9.2 Substantially concurrently with the issuance to the Trustee of the financial statements and/or reports specified in Condition 4.9.1, the Parent shall also use its reasonable efforts to post copies of such financial statements and/or reports in compliance with the guidelines published by the Stock Exchange or any agency or service customarily used by entities with debt securities listed on such Stock Exchange for the dissemination of information. All financial statements and/or reports referred to in this Condition 4.9 will be available for inspection and collection at the respective offices of the Paying Agents and the Transfer Agents. Any Noteholder may request that a copy of any such financial statements and/or report be mailed to such Noteholder, at the expense of the Issuer, by written request to the Issuer.

#### 4.10 Payment of Taxes and Other Claims

The Parent shall, and shall cause its Subsidiaries to, pay or discharge or cause to be paid or discharged, before the same shall become overdue and without incurring penalties, (a) all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or assets of the Parent or any Subsidiary of the Parent or a request to pay taxes and (b) all lawful claims for labour, materials and supplies which, if unpaid, might by law become a Lien (other than a Permitted Lien) upon the property of the Parent or any Subsidiary of the Parent; provided, however, that:

- (a) none of the Parent nor any Subsidiary of the Parent shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment or charge (which, in the context of any entity

incorporated in the Russian Federation and/or Armenia, shall mean the earlier of either a ruling of the tax inspection based on an act of audit or a request to pay taxes or any such claim) (i) whose amount, applicability or validity is being contested in good faith by appropriate proceedings or (ii) whose amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims, does not in the aggregate exceed US\$25 million; and

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

#### 4.11 Maintenance of Authorisations

- (a) The Parent shall, and shall cause its Subsidiaries to, take all necessary action to obtain and do or cause to be done all things necessary to ensure the continuance of its corporate existence, its business and intellectual property relating to its business.
- (b) The Issuer (with respect to itself only) and each Guarantor (if not the Parent, with respect to itself only) shall obtain or make, and procure the continuance or maintenance of, all registrations, recordings, filings, consents, licences, approvals and authorisations, which may at any time be required to be obtained or made in The Netherlands, the Russian Federation, the Republic of Armenia and the Republic of Cyprus or any other jurisdiction under the laws of which the Issuer or a Guarantor is organised, for the purposes of the execution, delivery or performance by the Issuer or any such Guarantor, as applicable, of the Notes and the Trust Deed and for the validity and enforceability thereof.

#### 4.12 Maintenance of Property and Insurance

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

#### 4.13 Additional Guarantors

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

- (a) aggregate total assets, after intragroup eliminations, of the Guarantors (calculated in accordance with IFRS and the accounting policies of the Parent for inclusion into the consolidated financial statements of the Parent), comprise 85% or more of the Consolidated Total Assets of the Group (calculated in accordance with IFRS), in each case with reference to the relevant financial information of the Guarantors prepared for inclusion into the consolidated financial statements of the Parent and the consolidated balance sheet of the Parent as at the end date of the relevant financial period immediately prior to the relevant Guarantor Testing Date; and
- (b) aggregate EBITDA and aggregate revenue, after intragroup eliminations of the Guarantors (calculated in accordance with IFRS and the accounting policies of the Parent for inclusion into the consolidated financial statements of the Parent), comprises 85% or more of the consolidated EBITDA and consolidated revenues of the Group (calculated in accordance with IFRS) in each case for the last two semi-annual periods ending on the end date of the relevant financial period immediately prior to the relevant Guarantor Testing Date and by reference to the relevant

financial information of the Guarantors prepared for inclusion into the consolidated financial statements of the Parent and the consolidated income statements of the Parent for such periods.

4.13.2

- (a) In the event that any of the tests in Condition 4.13.1 are not satisfied on any Guarantor Testing Date, the Issuer will cause additional Subsidiaries of the Parent to execute and deliver to the Trustee a supplemental trust deed, in or substantially in the form of Schedule 5 to the Trust Deed, pursuant to which each such Subsidiary will unconditionally and irrevocably, on a joint and several basis with each other Guarantor, guarantee the payment of all moneys payable under the Trust Deed and the Notes and will become vested with all the duties and obligations of a Guarantor as if originally named a Guarantor under the Trust Deed, as soon as practicable (but in any event no later than 90 days after the date on which reports referred to in Condition 4.9 are made available), such that, following such execution and delivery, if such additional Subsidiaries had been included as Guarantors prior to or as of such date, each of the tests in Condition 4.13.1 would have been satisfied.
- (b) In the event that a Subsidiary of the Parent that is not a Guarantor becomes a Material Subsidiary, the Issuer will cause such Material Subsidiary to become a Guarantor and the Issuer will cause such Subsidiary to execute and deliver to the Trustee a supplemental trust deed, in or substantially in the form of Schedule 5 to the Trust Deed, pursuant to which each such Subsidiary will unconditionally and irrevocably, on a joint and several basis with each other Guarantor, guarantee the payment of all moneys payable under the Trust Deed and the Notes and will become vested with all the duties and obligations of a Guarantor as if originally named a Guarantor under the Trust Deed, as soon as practicable (but in any event no later than 90 days after the date on which such Subsidiary becomes a Material Subsidiary).

4.13.3 A Guarantor or Guarantors shall be released from the Guarantee on request of the Issuer or the Parent if, after giving pro forma effect to such release, (i) each of the tests in Condition 4.13.1 would have been satisfied on the relevant Guarantor Testing Date; (ii) such Guarantor is not a Material Subsidiary; (the "**Guarantor Tests**"). When the Issuer or the Parent desires to procure such release, it shall provide to the Trustee an Officer's Certificate (in form and substance satisfactory to the Trustee) certifying compliance with the Guarantor Tests, which the Trustee shall be entitled to rely on without liability to any person. Upon the Trustee's acceptance of such Officer's Certificate, the Trustee shall enter into such documents in form and substance satisfactory to the Trustee to effect such release. The Noteholders by purchasing the Notes hereby authorise and instruct the Trustee to enter into such release documentation upon acceptance of such Officer's Certificate.

4.13.4 The Trustee shall be entitled to rely on any Officer's Certificate provided to it pursuant to Condition 4.13.3 and shall have no liability to any person for any action or step taken in reliance on such certification.

4.13.5 The Issuer will give notice to the Trustee in accordance with Condition 16 hereof forthwith upon any Guarantor ceasing to be a Guarantor, any additional Subsidiary of the Parent becoming a Guarantor and, so long as the Notes are listed on the Stock Exchange and/or any other stock exchange on which the Notes may be listed or quoted from time to time, shall comply with applicable rules of the Stock Exchange and/or such other exchange in relation to any Guarantor ceasing to be a Guarantor or any of the Subsidiaries of the Parent becoming Guarantors.

4.13.6 The Issuer shall also procure that the following opinions are delivered to the Trustee (at the expense of the Issuer) on the date of the execution of each supplemental trust deed referred to in Condition 4.13.2:

- (a) an Opinion of Counsel or tax advisers of recognised standing acceptable to the Trustee, in form and substance satisfactory to the Trustee, to the effect that neither the Trustee nor any Noteholders will recognise any income, gain or loss for Tax purposes as a result of any additional Guarantor executing such supplemental trust deed, subject to customary exceptions, qualifications and limitations; and
- (b) an Opinion of Counsel of recognised standing acceptable to the Trustee, in form and substance satisfactory to the Trustee, stating that the additional Guarantor has due capacity to enter into such supplemental trust deed and that such supplemental trust deed constitutes legal, valid and

binding obligations of the respective additional Guarantor, enforceable in accordance with its terms, subject to customary exceptions, qualifications and limitations.

4.14 Compliance with Laws

The Parent shall, and shall cause its Subsidiaries to, conduct their respective business and affairs in compliance with all applicable laws, regulations and orders, except where failure to do so would not have a Material Adverse Effect.

4.15 Environmental Compliance

The Parent shall, and shall cause its Subsidiaries to, comply with all Environmental Laws and obtain and maintain any Environmental Licences and take all reasonable steps in anticipation of known or expected future changes to or obligations under the same, except where failure to do so would not have a Material Adverse Effect.

4.16 The Issuer

The Issuer will not engage in any business activity or undertake any other activity, except (a) any activity relating to the Incurrence of Indebtedness to the extent permitted by these Conditions and the lending or otherwise advancing the proceeds thereof to the Parent or a Subsidiary of the Parent and any activities in connection therewith, (b) any activity undertaken with the purpose of fulfilling any obligations under the Notes, the Trust Deed or any document ancillary thereto, (c) any activity directly related to the establishment and maintenance of the Issuer's corporate existence, or (d) any activity permitted by these Conditions.

4.17 Officer's Certificate

The Issuer and the Guarantors have each undertaken in the Trust Deed to deliver to the Trustee within 120 days after the end of each of the Parent's financial years and otherwise within 14 days of a request by the Trustee, a certificate signed by one of their respective Authorised Signatories as to their respective compliance with the covenants contained in this Condition 4 and as to there not having occurred any Default or Event of Default since the date of the last such certificate, or if such event has occurred, as to the details of such event. The Trustee will be entitled to rely without liability to any person on such certificate (and any other certificates provided to it in accordance with this Condition 4) and shall not be obliged to independently monitor compliance by the Issuer or the Guarantors with the covenants contained in this Condition 4 or any of their other obligations under these Conditions or the Trust Deed, nor shall it be liable to any person for not so doing.

4.18 Role of the Trustee

Notwithstanding anything to the contrary contained in these Conditions:

- (a) at no time shall the Trustee have any obligation to determine whether any relevant transaction, action, event, breach, disposal or payment would result in, or could be reasonably expected to cause or to have caused, a Material Adverse Effect and, at all times, the Trustee shall be entitled:
  - (i) to rely, without further enquiry, on any opinion of an Independent Qualified Party which confirms that, in the opinion of such Independent Qualified Party, the relevant transaction, action, event, breach, disposal or payment would result in, or could be reasonably expected to cause or have caused, a Material Adverse Effect and, where the Trustee so relies, it shall suffer no liability to any Noteholder or any other relevant person for so doing; and/or
  - (ii) to refrain from taking any action or providing any consent to the Issuer in relation to any relevant transaction, event, breach, disposal or payment under this Condition 4 in the absence of a direction from the Noteholders (by way of Extraordinary Resolution);
- (b) the Trustee may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing an Officer's Certificate and the Trustee shall

not be bound in any such case to call for further evidence or be responsible for any losses or liabilities that may be occasioned by it or any other person acting on such certificate;

- (c) the Trustee shall be entitled to rely, without further enquiry, on any written opinion from the Auditors or from an Independent Qualified Party delivered to the Trustee and, where the Trustee so relies, it shall suffer no liability to any Noteholder or any other relevant person for so doing; and
- (d) at no time shall the Trustee have any obligation to review any information provided to it under Condition 4.9 or to perform any calculations in relation to figures provided in such financial statements or to monitor whether the Issuer or any of its Subsidiaries has complied or is complying with the provisions of this Condition 4 and, in the absence of express written notice to the contrary, shall be entitled to assume that the Issuer and each of its relevant Subsidiaries has complied in full with its obligations under this Condition 4.

## **5. Interest**

The Notes bear interest from and including the Issue Date at the rate of 7.75% per annum, payable semi-annually in arrear on 18 June and 18 December in each year (each an **"Interest Payment Date"**). Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to (but excluding) that day are received by or on behalf of the relevant Holder, and (b) the day seven days after the Trustee or the Principal Paying Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to (but excluding) that seventh day (except to the extent that there is failure in the subsequent payment to the relevant Holders under these Conditions). If interest is required to be calculated for a period of less than a complete Interest Period (as defined below), the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

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

## **6. Redemption and Purchase**

### **6.1 Final redemption**

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 18 June 2024. The Notes may not be redeemed at the option of the Issuer or any Guarantor other than in accordance with this Condition 6.

### **6.2 Redemption for Tax Reasons**

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders, the Trustee and the Principal Paying Agent (which notice shall be irrevocable) at the principal amount thereof, together with interest accrued to (but excluding) the date fixed for redemption, if (a) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it (or if the Guarantees have been called, a Guarantor) has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws, treaties or regulations of any Relevant Jurisdiction, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 14 June 2019 and (b) such obligation cannot be avoided by the Issuer (or the relevant Guarantor, as the case may be) taking reasonable measures available to it; provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the relevant Guarantor, as the case may be) would be obliged to pay such additional amounts were a payment in respect of the Notes (or the Guarantees, as the case may be) then due. Prior to the publication of any notice of redemption pursuant to this Condition 6.2, the Issuer (or the Parent on behalf of the relevant



Guarantor, as the case may be) shall deliver to the Trustee (i) a certificate signed by one director of the Issuer (or the Parent on behalf of the relevant Guarantor, as the case may be) stating that the obligation referred to in (a) above cannot be avoided by the Issuer (or the relevant Guarantor, as the case may be) taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (b) above, in which event it shall be conclusive and binding on the Noteholders and (ii) an Opinion of Counsel to the effect that the Issuer (or the relevant Guarantor, as the case may be) has or will become obliged to pay such additional amounts as a result of such change or amendment and the Trustee shall be entitled to accept such Opinion of Counsel as sufficient evidence of the satisfaction of the circumstances set out in (a) above in which event it shall be conclusive and binding on the Noteholders. All Notes in respect of which any such notice of redemption is given under and in accordance with this Condition 6.2 shall be redeemed on the date specified in such notice in accordance with this Condition 6.2.

### 6.3 Redemption upon a Relevant Event

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

- (a) any person or group of persons (other than one or more of the Permitted Holders) acting in concert or under an express or implied agreement or understanding, directly or through one or more intermediaries, shall (x) acquire ultimate beneficial or legal ownership of, or control over, more than 50% of the issued Voting Stock of the Parent; (y) acquire ownership of or control over more than 50% of the voting interests in the Voting Stock of the Parent; or (z) obtain the power (whether or not exercised) to elect not less than half of the directors of the Parent; or
- (b) there is a direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Parent and its Subsidiaries taken as a whole, to any Person (other than one or more of the Permitted Holders).
- (c) the adoption of a plan or legal procedure relating to the liquidation or dissolution of the Parent or the Issuer other than in a transaction which complies with the provisions described in Condition 4.8.

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

In order to exercise the Relevant Event Put Option, the Holder of a Note must deliver within the period from and including the date that the Relevant Event Put Event Notice is given to and including the date that is 30 days after the Relevant Event Put Event Notice is given (the "**Relevant Event Put Period**"), to the specified office of the Principal Paying Agent, evidence satisfactory to the Principal Paying Agent of such Holder's entitlement to such Note and a duly completed put option notice (a "**Relevant Event Put Option Notice**") specifying the principal amount of the Notes in respect of which the Relevant Event Put Option is exercised, in the form obtainable from the Principal Paying Agent. The Principal Paying Agent will provide such Noteholder with a non-transferable receipt. On the Business Day following the end of the Relevant Event Put Period, the Principal Paying Agent shall notify in writing the Issuer of the exercise of the Relevant Event Put Option specifying the aggregate principal amount of the Notes to be redeemed in accordance with the Relevant Event Put Option. Provided that the Notes that are the subject of any such Relevant Event Put Option Notice have been delivered to the Principal Paying Agent prior to the expiry of the Relevant Event Put Period, then the Issuer shall redeem all such Notes on the date falling ten Business Days after the expiration of the Relevant Event

Put Period (the "**Relevant Event Put Settlement Date**"). No Relevant Event Put Option Notice, once delivered in accordance with this Condition 6.3, may be withdrawn.

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

In the event Holders of not less than 90% of the aggregate principal amount of the outstanding Notes exercises the Relevant Put Event Option and the Issuer redeems or purchases all the Notes held by such Holders, within 90 days of such purchase, the Issuer will have the right, upon not less than 10 days and not more than 60 days prior notice, to redeem all the Notes that remain outstanding following such redemption or purchase at 101% of their principal amount together with accrued and unpaid interest (if any) to (but excluding) the redemption date specified in such notice.

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

#### 6.4 Optional Redemption at Make Whole

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

#### 6.5 Purchase

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

#### 6.6 Cancellation

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

### 7. Payments

#### 7.1 Principal and other amounts

Payment of principal and interest in respect of the Notes will be made to the persons shown in the Register at the close of business on the Record Date (as defined below). In the case of Notes represented by Definitive Note Certificates only, payments of principal and payments of interest due otherwise than on an Interest Payment Date will only be made against surrender of the relevant Definitive Note Certificate at the specified office of any of the Paying Agents. Payments of all amounts other than as provided in this Condition 7.1 will be made as provided in these Conditions.

#### 7.2 Payments

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

#### 7.3 Payments subject to laws

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment or any other laws to which the Issuer, the Guarantors or the Agents agree to be subject and neither the Issuer nor any Guarantor will be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

7.4 Payments on business days

If the due date for any payment of principal or interest under this Condition 7 is not a business day, the Holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition 7 only, "**business day**" means any day on which banks are open for business in London, New York and, in the case of presentation of a Definitive Note Certificate, in the place in which the Note Certificate is presented.

7.5 Record date

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

7.6 Agents

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

8. **Taxation**

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

- (a) held by or on behalf of a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or the Guarantees by reason of its having some connection with the Relevant Jurisdiction other than the mere holding of such Note or the benefit of the Guarantees; or
- (b) where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts if it had surrendered the relevant Definitive Note on the last day of such period of 30 days; or
- (c) any combination of sub-Conditions (a) and (b) above.

Notwithstanding any other provision of these Conditions, any amounts to be paid on the Notes by or on behalf of the Issuer will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the Code, or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an

intergovernmental agreement) (any such withholding or deduction, a "**FATCA Withholding**"). Neither the Issuer nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

In these Conditions, "**Relevant Date**" means whichever is the later of (i) the date on which the payment in question first becomes due and (ii) if the full amount payable has not been received by or for the account of the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given by the Issuer to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition.

## **9. Events of Default**

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

- (a) the Issuer or any of the Guarantors fails to pay the principal of or any interest on any of the Notes or under a Guarantee when due (whether at its stated maturity, on optional redemption, on required purchase, on declaration of acceleration or otherwise) and such failure continues for a period of 14 days in the case of interest and 7 days in the case of principal;
- (b) the Issuer or any of the Guarantors, as the case may be, defaults in the performance or observance of any of their respective other obligations under the Notes or the Trust Deed, as the case may be, and except where such default is not, in the opinion of the Trustee, capable of remedy, such default, in the opinion of the Trustee, remains unremedied for 30 calendar days (or such longer period as the Trustee may permit) after written notice thereof, addressed to the Issuer or the relevant Guarantor, as the case may be, has been delivered by or on behalf of the Trustee to the Issuer or such Guarantor, as the case may be;
- (c) (i) any Indebtedness of the Issuer, any Guarantor or any Material Subsidiary is not paid when due or payable (as the case may be) within any applicable grace period; or (ii) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer, a Guarantor or (as the case may be) such Material Subsidiary or (provided that no event of default, howsoever described, has occurred) any Person entitled to such Indebtedness; provided that the amount of Indebtedness referred to in (i) and/or (ii) above individually or in the aggregate exceeds US\$25 million (or its U.S. Dollar Equivalent);
- (d) the amount of any final (non-interim) unsatisfied judgments, decrees or orders of courts or dispute resolution bodies of competent jurisdiction for the payment of money against the Issuer, any Guarantor or any Material Subsidiary in the aggregate at any time exceeds US\$25 million or its U.S. Dollar Equivalent unless such judgment, decree or order is appealed, reversed, discharged or stayed within a period of 60 calendar days of the imposition thereof;
- (e) the Issuer, any Guarantor or any Material Subsidiary is unable or admits inability to pay its debts generally as they fall due, generally suspends making payments on its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with its creditors generally with a view to rescheduling its Indebtedness; and/or a moratorium is declared in respect of the Indebtedness of the Issuer, any Guarantor or any Material Subsidiary;
- (f) the occurrence of any of the following events, other than in each case a transaction that complies with Condition 4.8:
  - (i) the Issuer, any Guarantor or any Material Subsidiary ceases to have corporate existence or is seeking or consenting to (or an effective decision is made by any court of competent

jurisdiction, any competent arbitration court or any competent governmental agency for) the introduction of proceedings for its winding up, liquidation or dissolution or the appointment of a liquidator or liquidation commission (*likvidatsionnaya komissiya*) or bankruptcy manager or temporary bankruptcy manager or a similar officer of the Issuer, any Guarantor or any Material Subsidiary, as the case may be;

- (ii) the presentation or filing of a petition in respect of any of the Issuer, any Guarantor or any Material Subsidiary in any court of competent jurisdiction, any competent arbitration court or before any competent agency alleging, or for, the bankruptcy, winding-up, insolvency, dissolution, administration, examination, examinership, reorganisation (other than any corporate reorganisation on a solvent basis) or liquidation (or any analogous proceedings) including in the case of any entity in the Russian Federation the institution of supervision (*nablyudeniyе*), financial rehabilitation (*finansovoye otdorovleniye*), external management (*vneshneye upravleniye*) or bankruptcy management (*konkursnoye proizvodstvo*) as such terms are defined in the Federal Law of the Russian Federation No. 127-FZ "On Insolvency (Bankruptcy)" dated 26 October 2002 (as amended or replaced from time to time) (the "**Insolvency Law**") or in the case of any entity in the Republic of Armenia the institution of bankruptcy risk (*snankutyanyan vtang*), initiation of bankruptcy procedure (*snankutyanyan varuyti harutsum*), financial rehabilitation (*finansakan aroghjatsum*), appointment of bankruptcy manager (*snankutyanyan karavarich*) or temporary bankruptcy manager (*snankutyanyan zhamanakavor karavarich*) or declaration of bankruptcy (*snank chanachman*) as such terms are defined in the Law of the Republic of Armenia No. HO-51-N "On Bankruptcy" dated 10 February 2007 (as amended or replaced from time to time), of any of the Issuer, any Guarantor or any Material Subsidiary, other than any petition (presented or filed by a person that is not the Issuer, any Guarantor or any Material Subsidiary) which is not accepted by such competent court or competent agency for review on its merits or is accepted, but is otherwise discharged, stayed or dismissed within 60 days of commencement;
- (iii) the institution, in respect of any of the Issuer, any Guarantor or any Material Subsidiary, of composition with creditors, reprieve from payment, compromise, assignment, arrangement, controlled management, fraudulent conveyance, general settlement with creditors, examination, examinership, reorganisation or similar process affecting the rights of creditors generally (other than any corporate reorganisation on a solvent basis) which, in the case of any entity in the Russian Federation and without limitation, shall include the implementation of measures for the prevention of its bankruptcy, including implementation of recovery (*sanatsiya*, as defined in the Insolvency Law) or entry into an amicable settlement (including *mirovoye soglasheniye*, as defined in the Insolvency Law) with its creditors generally; or
- (iv) any extra-judicial liquidation or analogous act in respect of the Issuer, any Guarantor or any Material Subsidiary;
- (g) any Guarantee is finally held in any judicial proceeding to be unenforceable or invalid or ceases to be in full force and effect (other than in accordance with, the terms of such Guarantee) or any Guarantor denies, disaffirms, repudiates (or purports to repudiate) its obligations under its Guarantee, provided such judgment, decree or order is not appealed, reversed, discharged or stayed within a period of 60 calendar days of the imposition thereof;
- (h) it is or will become unlawful for the Issuer or any Guarantor to perform or comply with any one or more of its obligations under any of the Notes, the Guarantees or the Trust Deed provided, however, that the Issuer or relevant Guarantor has not rectified such non- performance or non-compliance within 60 calendar days of performance or compliance becoming unlawful;
- (i) any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer or a Guarantor lawfully to enter into, perform and comply with its obligations under and in respect of the Notes or the Trust Deed, as the case may be, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Notes and the Trust Deed admissible in evidence in an arbitration court in London, is not taken, fulfilled or done and such circumstance continues for a period of more than 60 calendar days;

- (j) any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation, condemnation, or nationalisation of all or substantially all of the property, undertaking, assets and revenues of the Issuer or any Guarantor; and the Issuer or any Guarantor is prevented by any such person from exercising normal control over the whole or substantially all of, its property, undertaking, assets and revenues;
- (k) the Parent ceases to hold a direct or indirect participation of at least 50% plus one share in the share capital of the Issuer or any of the Guarantors from time to time;
- (l) any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by any of the Issuer, any Guarantor or any Material Subsidiary becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, administrator, manager or other similar person), provided that the amount of Indebtedness to which such encumbrance relates is equal to or greater than US\$25 million (or its U.S. Dollar Equivalent); or
- (m) any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

## **10. Prescription**

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

## **11. Replacement of Definitive Notes Certificate(s)**

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

## **12. Meetings of Noteholders, Modification and Waiver**

### **12.1 Meetings of Noteholders**

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such meetings shall be held in accordance with the provisions set out in the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10% in principal amount of the Notes for the time being outstanding. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (a) to modify the maturity of the Notes or the dates on which interest is payable in respect of the Notes, (b) to reduce or cancel the principal amount of, or interest on, the Notes, (c) to alter the method of calculating the amount of any payment in respect of the Notes, (d) to change the currency of payment of the Notes, (e) to modify the provisions in Schedule 4 of the Trust Deed concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, (f) to modify or cancel the Guarantees, (g) to sanction the exchange or substitution for the Notes of, or the conversion of the Notes into, shares, bonds or other obligations or securities of the Issuer, the Guarantors or any other entity, or (h) to amend this Condition 12.1, in which case the necessary quorum will be one or more persons holding or representing not less than two thirds, or at any adjourned meeting not less than 25%, in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed). A written resolution signed by

or on behalf of the Holders of not less than 75% of the aggregate principal amount of Notes outstanding shall be as valid and effective as a duly passed Extraordinary Resolution.

#### 12.2 Modification, Waiver, Authorisation and Determination

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

#### 12.3 Substitution

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

#### 12.4 Entitlement of the Trustee

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (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 sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Guarantors, the Trustee or any other Person, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders.

### 13. Enforcement

The Trustee may, at its discretion and without further notice, institute such actions, steps or proceedings against the Issuer and/or any Guarantor as it may think fit to enforce the rights of the Noteholders and the terms of the Trust Deed and/or the Notes, but it need not take any such proceedings and nor shall the Trustee be bound to take, or omit to take any step or action (including instituting such proceedings) unless (a) it shall have been so requested by an Extraordinary Resolution of Noteholders or in writing by Noteholders holding at least one-quarter in principal amount of the Notes outstanding and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Noteholder may proceed directly against the Issuer or any Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

The Trustee may refrain from taking any action in any jurisdiction if the taking of such action in that jurisdiction would, in its opinion based upon legal advice in the relevant jurisdiction, be contrary to any law of that jurisdiction. Furthermore, the Trustee may also refrain from taking such action if it would otherwise render it liable to any person in that jurisdiction or if, in its opinion based upon such legal advice, it would not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or if it is determined by any court or other competent authority in that jurisdiction that it does not have such power.

**14. Indemnification and Removal of the Trustee**

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

**15. Further Issues**

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

**16. Notices**

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

**17. Currency Indemnity**

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

This indemnity constitutes a separate and independent obligation of the Issuer or, as the case may be, the Guarantors and shall give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by any Noteholder or any other person and will continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under the Trust Deed, the Guarantee and/or the Notes or any other judgment or order.



## **18. Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or Condition of the Notes under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## **19. Governing Law and Arbitration**

- (a) The Trust Deed, the Notes, the Guarantees and these Conditions and any non-contractual obligations arising out of or in connection therewith shall be governed by, and construed in accordance with, English law.
- (b) The Issuer and the Guarantors have in the Trust Deed for the benefit of the Trustee and the Noteholders agreed that any claims, controversies, disputes or differences arising out of or in connection with the Trust Deed, the Notes or the Guarantees (including any claim, controversy, dispute or difference relating to the existence, performance, interpretation, breach, validity or termination of the Trust Deed, the Notes or the Guarantees) or any non-contractual obligation arising out of or in connection with the Trust Deed, the Notes or the Guarantees shall be finally and exclusively resolved by confidential arbitration in accordance with the rules of the LCIA (formerly the London Court of International Arbitration) (the "**LCIA Rules**"), which are deemed to be incorporated by reference into the Trust Deed. The arbitral tribunal shall consist of three arbitrators. The claimant(s), irrespective of number, shall nominate jointly one arbitrator; the respondent(s), irrespective of number, shall nominate jointly the second arbitrator; and a third arbitrator, who shall serve as presiding arbitrator, shall be selected by the two party nominated arbitrators. For the avoidance of doubt, the parties have in the Trust Deed for the benefit of the Trustee and the Noteholders agree for the purpose of Article 8.1 of the LCIA Rules, that the claimant(s), irrespective of number, and the respondent(s), irrespective of number, constitute two separate sides for the formation of the arbitral tribunal.
- (c) In the event that the claimant(s) fail to nominate an arbitrator in accordance with the LCIA Rules, such arbitrator shall be nominated by the LCIA Court as soon as possible, preferably within 15 days of such failure. In the event that the respondent(s) fail to nominate an arbitrator in accordance with the LCIA Rules, such arbitrator shall be nominated by the LCIA Court as soon as possible, preferably within 15 days of such failure. In the event that both the claimant(s) and the respondent(s) fail to nominate their respective arbitrators in accordance with the LCIA Rules, all three arbitrators shall be nominated and appointed by the LCIA Court as soon as possible, preferably within 15 days of such failure, and such arbitrators shall then designate one amongst them as presiding arbitrator. The seat of arbitration shall be London, England and the language of the arbitration shall be English. The parties agree that the arbitrators shall have power to award on a provisional basis any relief that they would have power to grant on a final award.
- (d) The parties agree that without prejudice to the powers of the arbitrators provided by the LCIA Rules, statute or otherwise, the arbitrators shall have power at any time, on the basis of written evidence and the submissions of the parties alone, to make an award in favour of the claimant (or the respondent if a counterclaim) in respect of any claims (or counterclaims) to which there is no reasonably arguable defence, either at all or except as to the amount of any damages or other sum to be awarded.
- (e) The parties agree that nothing in the arbitration agreement contained in the Trust Deed shall be construed as preventing the parties from seeking conservatory or similar interim relief in any court of competent jurisdiction nor shall anything in the arbitration agreement contained in the Trust Deed prohibit a party from bringing an action to enforce a money judgment in any other jurisdiction.
- (f) The parties agree to 'opt out' of any Emergency Arbitrator provisions as may be contained in the LCIA Rules from time-to-time (presently Article 9B of the LCIA Rules), which provisions are expressly excluded.

## 20. Definitions

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

**"Accounting Standards"** means IFRS or any other internationally recognised set of accounting standards deemed equivalent to IFRS by the European Securities and Markets Authority from time to time.

**"Additional Assets"** means:

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

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

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

**"Applicable Redemption Premium"** means, with respect to any Note on any redemption date, the excess of:

- (i) the present value of the Notes at such redemption date, plus all required interest payments due on the Notes through 18 June 2024 (excluding accrued but unpaid interest to the redemption date), computed using a discount rate equal to the Treasury Rate as of such redemption plus 50 basis points; over
- (ii) the principal amount of the Note at such redemption date,

provided that if the value of the Applicable Redemption Premium at any time would otherwise be less than zero, then in such circumstances, the value of the Applicable Redemption Premium will be equal to zero.

**"Approved Jurisdiction"** means any state which was a member of the European Union as at 1 January 2004, The Netherlands, the Russian Federation, the Republic of Armenia, the Republic of Cyprus, the United Kingdom, any member country of the European Economic Area, Switzerland, Singapore, Hong Kong SAR, Canada, the United States, any state thereof or the District of Columbia.

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

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

- (c) any other assets of the Parent or any Subsidiary of the Parent outside of the ordinary course of business of the Parent or such Subsidiary of the Parent,

other than,

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

**"Auditors"** means the auditors of the consolidated financial statements of the Group from time to time.

**"Authorised Signatory"** means, (a) in relation to the Issuer, a director for the time being of the Issuer or any officer of the Issuer who is authorised to bind the Issuer by virtue of the Issuer's constitutive documents or any person who is authorised under a power of attorney executed by such an officer on behalf of the Issuer and, (b) in relation to the Parent, a member of the Board of Directors, the principal executive officer or any officer of the Parent who is authorised to bind the Parent by virtue of the Parent's constitutive documents or any person who is authorised under a power of attorney executed by such an officer on behalf of the Parent and (c) in relation to any other Guarantor, a director for the time being of such Guarantor or any officer of such Guarantor who is authorised to bind such Guarantor by virtue of such Guarantor's constitutive documents or any person who is authorised under a power of attorney executed by such an officer on behalf of such Guarantor.

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

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

**"Business Day"** means a day on which commercial banks generally are open for business in Amsterdam, Moscow, Yerevan, Nicosia, London and New York.

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

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

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

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

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

- (a) any net after-tax effect of gains or losses relating to the fair value change of financial instruments carried at fair value through the profit or loss account pursuant to IFRS;
- (b) any net after-tax effect of gains or losses relating to any Deferred Tax;
- (c) any net after-tax effect of non-cash gains or losses relating to foreign exchange;
- (d) the cumulative effect of a change in accounting principles after the Issue Date;
- (e) any after-tax effect of extraordinary, non-recurring, non-operating or unusual gains, losses, income or expenses or charges (including all fees and expenses relating thereto), severance, relocation costs, consolidation and closing costs, integration costs, non-recurring and unusual expenses relating to opening, expansion, relocation, remodelling, or modernisation of fixed assets, plant or facility costs or losses, business optimisation costs, transition costs, restructuring costs, signing, retention or completion bonuses and curtailments;
- (f) any net after-tax effect of income or loss from disposed, abandoned, transferred, closed or discontinued operations or fixed assets and any net after-tax gains or losses on disposal of disposed, abandoned, transferred, closed or discontinued operations or fixed assets shall be excluded;
- (g) any net after-tax effect of gains or losses (including all fees and expenses relating thereto) attributable to business dispositions or asset dispositions or the sale or other disposition of any Capital Stock of any Person other than in the ordinary course of business, as determined in good faith by the Parent;
- (h) the Parent's or the Subsidiary of the Parent's share of the net income for such period of any Person that is not a Subsidiary of the Parent, or that is accounted for by the equity method of accounting (other than a Guarantor); provided that Consolidated Net Income shall be increased by the amount of dividends or distributions or other payments that are actually paid in cash (or

to the extent converted into cash) to the referent Person or a Subsidiary thereof in respect of such period;

- (i) any net after-tax income (loss) from any acquisition, write-off, forgiveness or the early extinguishment of (i) Indebtedness, (ii) Hedging Obligations or (iii) other derivative instruments (including deferred financing costs written off and premiums paid);
- (j) any impairment charge or expense, asset write-off or write-down, including impairment charges or asset write-offs or write-downs related to intangible assets, long-lived assets or investments in debt and equity securities or as a result of a change in law or regulations, in each case, pursuant to IFRS and the amortisation of intangibles arising pursuant to IFRS;
- (k) any deductions attributable to minority interests (other than to the extent of dividends declared or paid during the relevant or prior period);
- (l) any net unrealised gain or loss (after any offset) resulting in such period from Hedging Obligations and the application of IFRS standards related thereto; and
- (m) any net unrealised gain or loss (after any offset) resulting in such period from currency translation or other non-cash gains or losses related to currency remeasurements of Indebtedness (including any net loss or gain resulting from hedge agreements for currency exchange risk),

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

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

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

- (a) if the Parent or any Subsidiary of the Parent has Incurred any Indebtedness (which for the avoidance of doubt, excludes any intercompany Indebtedness within the Group) since the beginning of the relevant Measurement Period that remains outstanding on such date of determination or if the transaction giving rise to the need to calculate the Consolidated Net Leverage Ratio is an Incurrence of Indebtedness, or both, Consolidated Net Indebtedness at the end of such Measurement Period and EBITDA for such Measurement Period shall be calculated after giving effect on a pro forma basis to such Consolidated Net Indebtedness and the use of proceeds therefrom as if such Indebtedness had been Incurred on the first day of the relevant Measurement Period;
- (b) if the Parent or any Subsidiary of the Parent has repaid, repurchased, defeased or otherwise discharged any Indebtedness since the beginning of the relevant Measurement Period or if any Indebtedness is to be repaid, repurchased, defeased or otherwise discharged (in each case other than Indebtedness Incurred under any revolving credit facility unless such Indebtedness has been permanently repaid and has not been replaced) on the date of the transaction giving rise to the need to calculate the Consolidated Net Leverage Ratio, the Consolidated Net Leverage Ratio shall be calculated on a pro forma basis as if such discharge had occurred on the first day of the relevant Measurement Period;

- (c) if since the beginning of the relevant Measurement Period the Parent or any Subsidiary of the Parent shall have made any Asset Disposition, Consolidated Net Indebtedness at the end of such Measurement Period shall be reduced by an amount equal to the Indebtedness discharged, defeased or retired with the Net Cash Proceeds of such Asset Disposition and EBITDA for such Measurement Period shall be reduced by an amount equal to EBITDA (if positive) directly attributable to the assets which are the subject of such Asset Disposition for such Measurement Period, or increased by an amount equal to EBITDA (if negative), directly attributable thereto for such Measurement Period, in each case as if such Asset Disposition had occurred on the first day of such Measurement Period;
- (d) if since the beginning of the relevant Measurement Period the Parent or any Subsidiary of the Parent (by merger or otherwise) shall have made an Investment in any Subsidiary of the Parent (or any Person which becomes a Subsidiary of the Parent) or an acquisition of assets, including any acquisition of assets occurring in connection with a transaction requiring a calculation to be made hereunder, which constitutes all or substantially all of an operating unit of a business, Consolidated Net Indebtedness at the end of such Measurement Period and EBITDA for such Measurement Period shall be calculated after giving pro forma effect thereto (including the Incurrence of any Indebtedness) as if such Investment or acquisition had occurred on the first day of such Measurement Period; and
- (e) if since the beginning of the relevant Measurement Period any Person (that subsequently became a Subsidiary of the Parent or was merged with or into the Parent or any Subsidiary of the Parent since the beginning of such period) shall have made any Asset Disposition, any Investment or acquisition of assets that would have required an adjustment pursuant to paragraphs (c) or (d) above if made by the Parent or a Subsidiary of the Parent during such period, the Consolidated Net Leverage Ratio at the end of such Measurement Period shall be calculated after giving pro forma effect thereto as if such Asset Disposition, Investment or acquisition had occurred on the first day of such Measurement Period.

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

**"Consolidated Total Assets"** mean at any date of determination, the total assets of the Parent and its consolidated subsidiaries as calculated in accordance with the then most recently published consolidated financial statements of the Parent prepared in accordance with IFRS.

**"Core Business"** means any business of the type in which the Parent or any Subsidiary of the Parent was engaged on the Issue Date and any business ancillary or complementary to such business, including, without limitation, providing mining or consulting services or acting as a managing company for any mining, construction or other similar business.

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

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

**"Deferred Tax"** means at any date of determination, deferred tax as calculated and recognised in accordance with the then most recently published consolidated financial statements of the Parent prepared in accordance with IFRS.

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

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

in each case on or prior to the first anniversary of the Stated Maturity of the Notes; provided, however, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to purchase or redeem such Capital Stock upon the occurrence of an Asset Disposition or Relevant Event occurring prior to the first anniversary of the Stated Maturity of the Notes shall not constitute Disqualified Stock if:

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

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

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

- (a) adding back interest expense;
- (b) excluding investment income;
- (c) excluding any changes in the fair value of derivative financial instruments;
- (d) adding back other finance losses;
- (e) excluding other finance gains;
- (f) adding back foreign exchange losses;
- (g) excluding foreign exchange gains;
- (h) adding back depreciation, amortisation and impairment;
- (i) excluding impairment reversals;
- (j) excluding the Group's share of the type referred in paragraphs (a) to (i) above of joint ventures or associates accounted for using the equity method; and
- (k) taking no account of any other non-monetary and one-off items of an unusual or non-recurring nature, such as disposals, revaluations, write-downs of the assets, restructuring of the activities of an entity and reversals of any provisions for the cost of restructuring, disposals of assets associated with discontinued operations,

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

**"Environment"** means living organisms including the ecological systems of which they form part and the following media:

- (a) air (including air within natural or man-made structures, whether above or below ground);
- (b) water (including territorial, coastal and inland waters, water under or within land and water in drains and sewers); and/or
- (c) land (including subsoil and land under water).

**"Environmental Laws"** means all applicable laws and regulations of any relevant jurisdiction which:

- (a) have as a purpose or effect the protection of, and/or prevention of harm or damage to, the Environment;
- (b) provide remedies or compensation for harm or damage to the Environment; and

relate to hazardous substances or health or safety matters.

**"Environmental Licences"** means any authorisation, consent, approval, resolution, licence, exemption, filing or registration required at any time under the applicable Environmental Laws.

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

**"Fair Market Value"** means, with respect to any asset or property, the price which could be negotiated in an arm's length, free market transaction, between a willing seller and a willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction. Fair Market Value will, in relation to any transaction or series of related transactions with an aggregate value in excess of US\$20 million be determined in good faith by a majority of the Board of Directors of the Parent disinterested with respect to such transaction (or, in the event that there is only one disinterested director, by the resolution of such disinterested director or, in the event that there are no disinterested directors, by a resolution of the entire Board of Directors or minutes of a meeting of the Board of Directors) of the Parent or the relevant Subsidiary, whose determination will be conclusive (evidenced by a resolution of the Board of Directors or minutes of a meeting of the Board of Directors). If such transaction involves an amount in excess of US\$50 million, the Board of Directors shall also have received a written opinion from an Independent Qualified Party to the effect that such transaction is fair, from a financial standpoint, to the Parent and its Subsidiaries or is not less favourable to the Parent and its Subsidiaries than could reasonably be expected to be obtained at the time in an arm's length transaction with a Person who was not an Affiliate.

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

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

**"Hedging Obligations"** of any Person means the obligations of such Person pursuant to any Commodity Agreement, Interest Rate Agreement or Currency Agreement, as recognised in the consolidated financial statements of the Parent prepared in accordance with IFRS.

**"IAS"** means International Accounting Standards.



**"IFRS"** means International Financial Reporting Standards, as defined by IAS 1.7, which are in effect for the relevant accounting period.

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

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

will not be deemed to be the Incurrence of Indebtedness.

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

- (a) the principal in respect of (A) indebtedness of such Person for money borrowed or raised and (B) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable, including, in each case, any premium on such indebtedness to the extent such premium has become due and payable;
- (b) all Capital Lease Obligations of such Person;
- (c) the principal component of all obligations of such Person issued or assumed as the deferred purchase price of property, all conditional sale obligations of such Person and all obligations of such Person under any title retention agreement (but excluding any accounts payable or other liability to trade creditors arising in the ordinary course of business);
- (d) the principal component of all obligations of such Person for the reimbursement of any obligor on any letter of credit, performance bonds or surety bonds, bankers' acceptance or similar credit transaction (other than obligations with respect to letters of credit securing obligations (other than obligations described in paragraphs (a), (b) and (c)) entered into in the ordinary course of business of such Person to the extent such letters of credit are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than the tenth Business Day following receipt of a demand for reimbursement);
- (e) the principal component of the amount of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Disqualified Stock of such Person or, with respect to any Preferred Stock of any Subsidiary of such Person, the principal amount of such Preferred Stock to be determined in accordance with these Conditions (but excluding, in each case, any accrued dividends);
- (f) all obligations of the type referred to in paragraphs (a) to (e) of other Persons and all dividends of other Persons for the payment of which, in either case, such Person is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise, including by means of any guarantee;
- (g) all obligations of the type referred to in paragraphs (a) to (f) of other Persons secured by any Lien on any property or asset of such Person (whether or not such obligation is assumed by such Person), the amount of such obligation being deemed to be the lesser of the Fair Market Value of such property or assets and the amount of the obligation so secured; and

- (h) to the extent not otherwise included in this definition, the notional principal component of Hedging Obligations of such Person.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations as described above, the maximum liability upon the occurrence of the contingency giving rise to the obligation

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

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

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

**"Issue Date"** means 18 June 2019.

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

**"Material Adverse Effect"** means a material adverse effect on:

- (a) the business, results of operations, property, assets, condition (financial or otherwise) or prospects of the Parent, any Guarantor or the Group; or
- (b) the Issuer's ability to perform its obligations under the Notes, the Agency Agreement or the Trust Deed; or
- (c) each Guarantor's ability to perform its obligations under the Trust Deed; or
- (d) the validity, legality or enforceability of these Conditions, the Agency Agreement, the Trust Deed or the Notes.

**"Material Subsidiary"** means any Subsidiary of the Parent which has total assets (if positive) or EBITDA (if positive) representing 10% or more of the Group's total consolidated assets or consolidated EBITDA. Compliance with the conditions set out in this definition shall be determined by reference to the latest financial information of that Subsidiary prepared in accordance with IFRS and the accounting policies of the Parent for inclusion into the consolidated financial statements of the Parent and the latest audited IFRS consolidated financial statements of the Parent.

A certificate of one director of the Parent that, in his or her opinion, a Subsidiary of the Parent, is or is not or was or was not at any particular time or throughout any specified period a Material Subsidiary

shall, in the absence of manifest error, be conclusive and binding on the Issuer, the Guarantors, the Trustee and the Noteholders.

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

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

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

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

**"Officer's Certificate"** means, in the case of the Issuer, a certificate signed on behalf of the Issuer by one Authorised Signatory of the Issuer, in the case of the Parent, a certificate signed on behalf of the Parent by one Authorised Signatory of the Parent who shall be the principal executive officer, principal accounting officer or principal financial officer of the Parent or, in the case of any other Guarantor, a certificate signed by one Authorised Signatory of such Guarantor.

**"Opinion of Counsel"** means a written opinion from international legal counsel of recognised standing.

**"Permitted Holders"** means Mr. Siman Povarenkin, Mr. Roman Trotsenko and Mr. Roman Khudoliy and any or their Related Party.

**"Permitted Investment"** means an Investment by the Parent or any Subsidiary of the Parent in:

- (a) the Parent, a Subsidiary of the Parent or a Person that will, upon the making of such Investment, become a Subsidiary of the Parent; provided, however, that the primary business of such Subsidiary of the Parent is the Core Business;

- (b) another Person if, as a result of such Investment, such other Person is merged or consolidated with or into, or transfers or conveys all or substantially all its assets to, the Parent or a Subsidiary of the Parent; provided, however, that such Person's primary business is a Core Business;
- (c) cash and Temporary Cash Investments;
- (d) receivables owing to the Parent or any Subsidiary of the Parent if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; provided, however, that such trade terms may include such concessionary trade terms as the Parent or any such Subsidiary deems reasonable under the circumstances;
- (e) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;
- (f) loans, advances or guarantees of loans or advances to employees, directors and officers made in the ordinary course of business consistent with past practices of the Parent or such Subsidiary and not to exceed US\$5 million in the aggregate outstanding at any time;
- (g) stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Parent or any Subsidiary of the Parent or in satisfaction of judgments or foreclosure of Liens;
- (h) any Person to the extent such Investment represents the non-cash portion of the consideration received for (i) an Asset Disposition as permitted pursuant to Condition 4.4 or (ii) a disposition of assets not constituting an Asset Disposition;
- (i) any Person where such Investment was acquired by the Parent or any of its Subsidiaries (i) in exchange for any other Investment or accounts receivable held by the Parent or any such Subsidiary in connection with or as a result of a bankruptcy, workout, reorganisation or recapitalisation of, or compromise with, the issuer of such other Investment or accounts receivable or (ii) as a result of a foreclosure by the Parent or any of its Subsidiaries with respect to any secured Investment or other transfer of title with respect to any secured Investment in default;
- (j) any Person to the extent such Investments consist of prepaid expenses, negotiable instruments held for collection and lease, utility and workers' compensation, performance and other similar deposits (or guarantees in respect thereof) made in the ordinary course of business by the Parent or any Subsidiary of the Parent;
- (k) any Person to the extent such Investments consist of Hedging Obligations otherwise permitted under the covenant described under Condition 4.1;
- (l) any Person to the extent such Investment exists on the Issue Date, or is made pursuant to a binding commitment existing on the Issue Date, and any extension, modification, refinancing or renewal of any such Investments existing on the Issue Date, but only to the extent not involving additional advances, contributions or other Investments of cash or other assets or other increases thereof (other than as a result of the accrual or accretion of interest or original issue discount or the issuance of pay in kind securities, in each case, pursuant to the terms of such Investment as in effect on the Issue Date or required by the terms of such Investment as in effect on the Issue Date);
- (m) guarantees permitted to be Incurred under Condition 4.1;
- (n) any Person where such Investment was acquired by the Parent or any of its Subsidiaries solely in exchange for the Issuance of Capital Stock (other than Disqualified Stock) of the Parent;

- (o) any Investments in a Person which, when taken together with all other Investments made pursuant to this paragraph (h) and outstanding on the date such Investment is made, do not exceed US\$15 million; and
- (p) the Notes or the Guarantees.

**"Permitted Liens"** means:

- (a) any Lien existing on the Issue Date or required to be provided as at the Issue Date;
- (b) any Lien granted by the Parent or any Subsidiary of the Parent in favour of the Parent or another Subsidiary of the Parent;
- (c) Liens incurred, or pledges and deposits in connection with workers' compensation, unemployment insurance and other social security benefits, and leases, appeal bonds and other obligations of like nature in the ordinary course of business;
- (d) Liens for taxes or assessments and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which the Parent has set aside in its books of account reserves to the extent required by IFRS, as consistently applied;
- (e) with respect to any Person, survey exceptions, encumbrances, easement or reservations of, or rights of others, licences, rights of way, sewers, electrical lines, telegraph or telephone lines and other similar purposes, or zone or other restrictions as to the use of real property or Liens incidental to the conduct of the business of such Person or to the ownership of its properties which do not act in the aggregate materially adversely affect the value of the property or materially impair their use in the operation of the business of such person;
- (f) any bankers' Liens in respect of deposit accounts, statutory landlords' Liens and deposits to secure bids, contracts, leases, and other similar obligations (provided such Liens do not secure obligations constituting Indebtedness and are incurred in the ordinary course of business), any netting or set-off arrangement entered into by any member of the Group in the normal course of its banking arrangements for the purpose of netting debit and credit balances and judgment Liens not giving rise to a Default or an Event of Default so long as such Lien is adequately bonded and any appropriate legal proceedings that may have been duly initiated for the review of such judgment have not been finally terminated or the period within which such proceedings may be initiated has not expired;
- (g) any title transfer or retention of title arrangement entered into by any member of the Group in the ordinary course of its trading activities on the counterparty's standard or usual terms or otherwise any Lien arising by operation of law and in the ordinary course of business;
- (h) any extension, renewal of or substitution for any Lien permitted by any of the paragraphs of this definition, provided, however, that such extension, renewal or replacement shall be no more restrictive in any material respect than the original Lien; with respect to Liens incurred pursuant to this paragraph (h) the principal amount secured has not increased (other than any increase representing costs, fees, expenses or commission associated with such extension, renewal or substitution) and the Liens have not been extended to any additional property or assets (other than proceeds of the property or assets in question);
- (i) Liens securing Hedging Obligations so long as such Hedging Obligations are permitted to be Incurred under these Conditions and (if applicable) the related Indebtedness is, and is permitted to be in accordance with these Conditions, secured by a Lien on the same property securing such Hedging Obligation;
- (j) Liens on property or Capital Stock of another Person at the time such other Person becomes a Subsidiary of the Parent; provided, however, that such Liens are not created, Incurred or assumed in connection with, or in contemplation of, such Person becoming a Subsidiary of the Parent and provided further that the Liens may not extend to any other property owned by the

Parent or a Subsidiary of the Parent (other than assets and property affixed or appurtenant thereto);

- (k) Liens on property at the time such Person or any of its Subsidiaries acquires the property, including any acquisition by means of a merger or consolidation with or into the Parent or a Subsidiary of the Parent; provided, however, that such Liens are not created, Incurred or assumed in connection with, or in contemplation of, such acquisition and provided further, that the Liens may not extend to any other property owned by such Person or any of its Subsidiaries (other than assets and property affixed or appurtenant thereto);
- (l) any interest or title of a lessor or other Lien arising under any Capital Lease Obligations or operating lease;
- (m) Liens securing Indebtedness that comprises Permitted Indebtedness pursuant to Condition 4.1.2 or which is permitted to be Incurred pursuant to Condition 4.1.1;
- (n) Liens created pursuant to the general conditions of a bank operating in The Netherlands based on the general conditions drawn up by The Netherlands Bankers' Association (*Nederlandse Vereniging van Banken*) and the Consumers Union (*Consumentenbond*) or pursuant to any other general conditions of, or any contractual arrangement with, any such bank to substantially the same effect including any security interest, suspension of performance (*opschorting*) or right of set-off (*verrekening*) in favour of Dutch banks arising from such general banking conditions (*algemene bankvoorwaarden*); and
- (o) any Liens (other than those contemplated above in paragraphs (a) to (n)) where the aggregate value of the assets or revenues subject to such Liens at any one time outstanding do not exceed US\$10 million.

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

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

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

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

an obligation to comply or to procure compliance by another with any financial ratios or other tests of financial condition) by the person against whom such recourse is available; and/or

- (e) recourse to the Parent under a guarantee provided in respect of such Indebtedness as an integral part of such Indebtedness and given when such Indebtedness was first incurred or issued.

**"Purchase Money Indebtedness"** means Indebtedness:

- (a) where the aggregate principal amount of such Indebtedness does not exceed the Fair Market Value of the property, plant, equipment or capital assets purchased for use in the business of the Group as at the date of the incurrence thereof, including any refinancing of such Indebtedness that does not increase the aggregate principal amount (or accreted amount, if less) thereof as of the date of refinancing and the maturity of such Indebtedness does not exceed the anticipated useful life of the property, plant, equipment or capital assets being financed; and
- (b) incurred to finance the acquisition, construction, improvement or lease of such property, plant, equipment or capital assets, including additions and improvements thereto; provided, however, that such Indebtedness is incurred within 180 days after the acquisition, construction, improvement or lease of such property, plant equipment or capital assets.

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

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

- (a) such Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness being Refinanced;
- (b) such Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is Incurred that is equal to or greater than the Average Life of the Indebtedness being Refinanced;
- (c) such Refinancing Indebtedness has an aggregate principal amount (or if Incurred with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if Incurred with original issue discount, the aggregate accreted value) then outstanding (plus all accrued interest and fees and expenses, including any premium and defeasance costs) under the Indebtedness being Refinanced; and
- (d) if the Indebtedness being Refinanced is subordinated in right of payment to the Notes, such Refinancing Indebtedness is subordinated in right of payment to the Notes at least to the same extent as the Indebtedness being Refinanced.

**"Related Party"** with respect to any Permitted Holder means:

- (a) any controlling stockholder, majority owned Subsidiary, or immediate family member (in the case of an individual) of any Permitted Holder; or
- (b) any trust, corporation, partnership, limited liability company or other entity, the beneficiaries, stockholders, partners, members, owners or Persons beneficially holding a majority (and controlling) interest of which consist of any one or more of the Permitted Holder and/or such other Persons referred to in the immediately preceding clause (a).

**"Relevant Jurisdiction"** means (in the case of payment by the Issuer) The Netherlands or any political subdivision or any authority thereof or therein having power to tax or (in the case of payments by the Guarantors) the Netherlands, the Russian Federation, the Republic of Armenia or the Republic of

Cyprus or (in each case) any political subdivision or any authority thereof or therein having power to tax or in any case any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer or any Guarantor is or becomes subject in respect of payments made by it of principal or interest on the Notes.

**"Restricted Payment"** with respect to any Person, means:

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

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

**"Senior Bank Debt"** means the following credit facilities:

- (a) US\$229,704,000 Facilities Agreement between Karlou B.V., as borrower, and VTB Bank PJSC and Sberbank of Russia as joint creditors dated 14 September 2016;
- (b) US\$4,000,000 loan agreement No. PVH16/03-01, between Ardshinbank and CJSC "Agarak Copper Molybdenum Combine" dated 24 February 2016;
- (c) US\$7,000,000, loan agreement No. PVP16/13-01, between Ardshinbank and CJSC "Agarak Copper Molybdenum Combine" dated 24 February 2016;
- (d) US\$2,000,000 loan agreement No. PVH17/03-01, between Ardshinbank and CJSC "Agarak Copper Molybdenum Combine" dated 31 March 2017;
- (e) US\$835,000 loan agreement No. PVH17/99-01, between Ardshinbank and CJSC "Agarak Copper Molybdenum Combine" dated 20 December 2017;
- (f) US\$5,000,000 loan agreement No. PVH18/66-01, between Ardshinbank and CJSC "Agarak Copper Molybdenum Combine" dated 14 September 2018;



- (g) RUB800,000,000 Loan Agreement between Sberbank of Russia and JSC "Sarylakh-Surma" dated 12 October 2018;
- (h) US\$2,990,000 Loan Agreement between MARITIME BANK and JSC "Zvezda" dated 8 October 2018;
- (i) US\$14,006,516 Loan Agreement No.VP034880 between Ameriabank CJSC and LLC "GeoProMining Gold" dated 20 May 2016;
- (j) US\$1,000,000 Credit Line Agreement No.VP045653 between Ameriabank CJSC and LLC "GeoProMining Gold" dated 10 January 2018;
- (k) US\$5,500,000 Credit Line Agreement No.VP067520 between Ameriabank CJSC and LLC "GeoProMining Gold" dated 25 April 2018;
- (l) US\$1,500,000 Loan Agreement No.VP115983 between Ameriabank CJSC and LLC "GeoProMining Gold" dated 14 September 2018;
- (m) US\$2,500,000 Loan Agreement No.VP123334 between Ameriabank CJSC and LLC "GeoProMining Gold" dated 15 October 2018;
- (n) US\$1,000,000 Credit Line Agreement between Ameriabank CJSC and LLC "GeoProMining Gold" dated 17 December 2018;
- (o) US\$800,000 Overdraft Agreement No.TO033000 between Ameriabank GJSC and LLC "GeoProMining Gold" dated 20 September 2018; and
- (p) US\$80,000,000 Facility Agreement between VTB Bank PJSC and LLC "GeoProMining Gold" dated 21 December 2018.

**"Senior Indebtedness"** means, with respect to any Person:

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

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

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

**"Stated Maturity"** means, with respect to any security, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to

any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

**"Stock Exchange"** means the Irish Stock Exchange plc, trading as Euronext Dublin.

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

**"Subsidiary"** of any specified person means any corporation, partnership, joint venture, association or other business or entity, whether now existing or hereafter organised or acquired, (a) in the case of a corporation, of which more than 50% of the total voting power of the Voting Stock is held by such first-named person and/or any of its Subsidiaries and such first-named person or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; or (b) in the case of a partnership, joint venture, association, or other business or entity, with respect to which such first-named person or any of its Subsidiaries has the power to direct or cause the direction of the management and policies of such entity by contract or otherwise if (in each case) in accordance with IFRS, as consistently applied, such entity would be consolidated with the first-named person for financial statement purposes.

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

**"Temporary Cash Investments"** means any of the following:

- (a) any investment in direct obligations of a member of the European Union, the United Kingdom, the United States, the Russian Federation or any agency thereof or obligations guaranteed by a member of the European Union, the United Kingdom, the United States, the Russian Federation or any agency thereof;
- (b) investments in demand and time deposit accounts, certificates of deposit and money market deposits with a maturity of one year or less from the date of acquisition thereof issued by a bank or trust company which is organised under the laws of the Russian Federation, a member of the European Union, the United Kingdom, the United States or any state thereof, and has outstanding debt which is rated "BBB-" by S&P Global Ratings, "Baa3" by Moody's Investors Service, Inc. or "BBB-" by Fitch Ratings (or such similar equivalent rating) or higher by at least two such rating organisations;
- (c) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in paragraph (a) entered into with a bank meeting the qualifications described in paragraph (b);
- (d) investments in commercial paper with a maturity of one year or less from the date of acquisition, issued by a corporation (other than an Affiliate of the Parent) organised and in existence under the laws of a member of the European Union, the United Kingdom, the United States, the Russian Federation with a rating at the time as of which any investment therein is made of "P1" (or higher) according to Moody's Investors Service, Inc., "A1" (or higher) according to S&P Global Ratings or "F1" by Fitch Ratings from at least two such rating organisations;
- (e) investments in securities with maturities of six months or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of a member of the European Union, the United Kingdom, the United States, the Russian Federation or by any political subdivision or taxing authority thereof, and rated "BBB-" by S&P Global Ratings, "Baa3" by Moody's Investors Service, Inc. or "BBB-" by Fitch Ratings (or such similar equivalent rating) or higher by at least two such rating organisations; and

- (f) investments in money market funds that invest substantially all their assets in securities of the types described in paragraphs (a) to (e).

**"Treasury Rate"** means the yield to maturity at the time of computation of United States Treasury securities with a constant maturity most nearly equal to the period from the redemption date to 18 June 2024. The Parent will obtain such yield to maturity from information compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) which has become publicly available at least two Business Days (but not more than five Business Days) prior to the redemption date (or, if such Statistical Release is not so published or available, any publicly available source of similar market data selected by the Parent in good faith); provided, however, that if the period from the redemption date to 18 June 2024 is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given, except that if the period from the redemption date to 18 June 2024 is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

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

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

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

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

*The following is a summary of the provisions to be contained in the Global Certificate which will apply to, and in some cases modify, the Conditions as they apply to the Notes evidenced by the Global Certificate.*

The Notes will be represented by a Global Certificate, which will be registered in the name of Citivic Nominees Limited as nominee for, and deposited with, a common depository for Euroclear and Clearstream.

### Exchange

The Global Certificate will become exchangeable in whole, but not in part, for the Definitive Note Certificates if (i) Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available or (ii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes in definitive form.

Whenever the Global Certificate is to be exchanged for Definitive Note Certificates, such Definitive Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Certificate, Euroclear and/or Clearstream, to the Registrar of such information as is required (including, without limitation, the names and addresses of the persons in whose names the Definitive Note Certificates are to be registered and the principal amount of each such person's holding), along with the surrender of the Global Certificate at the specified office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

In addition, the Global Certificate will contain provisions that modify the Conditions as they apply to the Notes evidenced by the Global Certificate. The following is a summary of those provisions:

### Notices

Notwithstanding Condition 16 ("*Notices*"), for so long as the Global Certificate is held on behalf of Euroclear, Clearstream or any other clearing system (an "**Alternative Clearing System**"), notices to holders of Notes represented by the Global Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream or (as the case may be) such Alternative Clearing System, provided that, so long as the Notes are listed and quoted on Euronext Dublin, all requirements of Euronext Dublin have been complied with. Any such notice shall be deemed to be given to the holders of the Notes on the day on which such notice is delivered to Euroclear, Clearstream or (as the case may be) the Alternative Clearing System.

### Payments on business days

In the case of all payments made in respect of the Global Certificate, "**business day**" means any day which is a day on which dealings in foreign currencies may be carried on in New York City.

### Payment Record Date

Each payment in respect of the Global Certificate will be made to the person shown as the Noteholder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Certificate is being held is open for business.

### Prescription

Claims against the Issuer and the Guarantors in respect of principal or premium (if any) and interest on the Notes while the Notes are represented by the Global Certificate will be prescribed after ten years (in the case of principal and premium) and five years (in the case of interest) from the appropriate due date.

## **Redemptions**

On the occurrence of a Relevant Event, the provisions of the Agency Agreement apply to the rights of the registered holder of the Notes, and the form of Relevant Event Put Option Notice shall be as set out the Agency Agreement.

## **Information Concerning Euroclear and Clearstream**

All book-entry interests will be subject to the operations and procedures of Euroclear and Clearstream, as applicable. The Issuer provides the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be discontinued or changed at any time. None of the Issuer, the Guarantors or the Joint Lead Managers are responsible for those operations or procedures.

Euroclear and Clearstream hold securities for participant organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry charges in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organisations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Because Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the Euroclear and/or Clearstream systems, or otherwise take actions in respect of such interest, may be limited by the lack of a definite certificate for that interest. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests to such person may be limited.

## **Initial Settlement**

Initial settlement for the Notes will be made in U.S. dollars. The book-entry interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional eurobonds in registered form. The book-entry interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

## **Secondary Market Trading**

The book-entry interests will trade through participants of Euroclear or Clearstream and will settle in same-day funds. Since the purchaser determines the place of delivery, it is important to establish at the time of trading of any book-entry interests where both the purchaser's and the seller's accounts are located to ensure that settlement can be made on the desired value date.

## SUBSCRIPTION AND SALE

Each of Citigroup Global Markets Limited, GPB-Financial Services Ltd, Sberbank CIB (UK) Limited and VTB Capital plc (together, the "**Joint Lead Managers**") has entered into a subscription agreement with the Issuer and the Guarantors dated 14 June 2019 with respect to the Notes (the "**Subscription Agreement**"). Subject to certain conditions, the Joint Lead Managers have, jointly and severally, agreed to subscribe and pay for the Notes.

The purchase price for the Notes will be the issue price of 100% of the principal amount of the Notes, less certain commissions and fees. The Subscription Agreement entitles the Joint Lead Managers to terminate the issue of the Notes in certain circumstances prior to payment to the Issuer. Each of the Issuer and the Guarantors has given certain representations and warranties to the Joint Lead Managers in the Subscription Agreement, and the Issuer and the Guarantors have agreed to indemnify the Joint Lead Managers on a joint and several basis against certain liabilities in connection with the offer and sale of the Notes.

### United States

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. The Notes are being offered and sold outside the United States by the Joint Lead Managers in accordance with Regulation S, and may not be offered or sold except in an offshore transaction in accordance with Regulation S. Terms used in this paragraph have the meanings given to them by Regulation S.

### United Kingdom

Each Joint Lead Manager has severally, but not jointly, represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, as amended (the "**FSMA**")) in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantors; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

### PRIPs Regulation / Prohibition of sales to EEA retail investors

Each Joint Lead Manager has severally, but not jointly, represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the EEA. For the purposes of this provision, the expression "**retail investor**" means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
- (b) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

### The Netherlands

Each Joint Lead Manager has severally, but not jointly, represented and agreed that the Notes are not, and may not be offered or sold to individuals or legal entities in The Netherlands other than to qualified investors as defined in the Dutch Financial Supervision Act (*Wet op het financieel toezicht*)

### Russian Federation

Each Joint Lead Manager has severally, but not jointly, represented and agreed that the Notes 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 Russia or

to any person located within the territory of Russia unless and to the extent otherwise permitted under Russian law.

### **Republic of Armenia**

Each Joint Lead Manager has severally, but not jointly, represented and agreed that no Armenian prospectus has been registered or is intended to be registered with respect to the Notes, and the Notes have not been and are not intended to be registered in the Republic of Armenia. Consequently, each Joint Lead Manager has severally, but not jointly, represented and agreed that it and its affiliates have not offered or sold or otherwise transferred, and will not offer or sell or otherwise transfer as part of their initial distribution or at any time thereafter, any Notes to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Republic of Armenia or to any person located within the territory of the Republic of Armenia unless and to the extent otherwise permitted under Armenian law.

### **Republic of Cyprus**

Each Joint Lead Manager has severally, but not jointly, represented and agreed that (i) the Notes have not been offered, marketed or sold and will not be offered, marketed or sold; and (ii) copies of this Prospectus or any offering material relating to the Notes will not be circulated or distributed or caused to be circulated or distributed, directly or indirectly, in Cyprus in contravention of the Public Offering and Prospectus Law (Law No. 114(I) of 2005) as amended (the "**Cyprus Prospectus Law**").

As the denomination of the Notes will be more than €100,000, this Prospectus is directed to "Qualified Investors" and as the Notes will not be offered for sale in Cyprus, there is no obligation under the Cyprus Prospectus Law to file or register this Prospectus with any competent authority in Cyprus.

Each Joint Lead Manager has severally, but not jointly, represented and agreed that it has not and will not provide any "Investment Services" or "Ancillary Services" or perform any "Investment Activities" (as such terms are defined in the Cyprus law on Investment Services and Activities and Regulated Markets Law of 2017, L. 87 (I) of 2017, as amended (the "**ISARM Law**")) in Cyprus in relation to the Notes, and has not and will not provide any Investment Services or Ancillary Services to residents or persons domiciled in Cyprus, in each case in contravention of the ISARM Law and/or any applicable regulations adopted pursuant thereto or in relation thereto.

### **General**

No action has been taken or will be taken in any jurisdiction by the Joint Lead Managers, the Issuer or the Guarantors that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Prospectus or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

Each Joint Lead Manager has severally, but not jointly, undertaken that it will (to the best of its knowledge and belief) comply in all material respects with all applicable securities laws and regulations in each jurisdiction in which it offers, sells or delivers Notes or has in its possession or distributes this Prospectus.

Persons into whose hands this Prospectus comes are required by the Issuer, the Guarantors and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

The Joint Lead Managers are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Joint Lead Managers and their respective affiliates have in the past performed commercial banking, investment banking and advisory services for the Group from time to time for which they have received customary fees and reimbursement of expenses and may, from time to time, engage in transactions with and perform services for the Group in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses. In particular, Sberbank of Russia and VTB Bank (Public Joint-Stock Company) and certain other affiliates of Sberbank CIB (UK) Limited and VTB Capital plc, each a Joint Lead Manager, are existing lenders to the Group. In addition, Sberbank of Russia and VTB Bank (Public Joint-Stock Company) and certain other affiliates of these entities currently provide

commercial banking and hedging services to the Group. Furthermore, VTB Trading is the principal offtaker for the Group's gold and silver doré bars. In the ordinary course of their various business activities, the Joint Lead Managers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve the Group's securities and instruments.



## TAXATION

*The statements herein regarding taxation are based on the laws in force in The Netherlands, the Russian Federation, the Republic of Armenia, the Republic of Cyprus and elsewhere as of the date of this Prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis.*

*The following summary does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to subscribe for, purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Prospective purchasers of the Notes are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of the Notes.*

*Also investors should note that the appointment by an investor in Notes, or any person through which an investor holds Notes, of a custodian, collection agent or similar person in relation to such Notes in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment.*

### **The Netherlands**

This summary solely addresses the principal Dutch tax consequences of the acquisition, ownership and disposal of Notes and does not purport to describe every aspect of taxation that may be relevant to a particular Noteholder. Tax matters are complex, and the tax consequences of the Offering to a particular Noteholder will depend in part on a Noteholder's circumstances. Accordingly, each Noteholder is urged to consult his own tax adviser for a full understanding of the tax consequences of the Offering to him, including the applicability and effect of Dutch tax laws.

Where in this summary English terms and expressions are used to refer to Dutch concepts, the meaning to be attributed to such terms and expressions shall be the meaning to be attributed to the equivalent Dutch concepts under Dutch tax law. Where in this summary the terms "The Netherlands" and "Dutch" are used, these refer solely to the European part of the Kingdom of The Netherlands. This summary assumes that the Issuer is organised, and that its business will be conducted, in the manner outlined in this Prospectus. A change to such organisational structure or to the manner in which the Issuer conducts its business may invalidate the contents of this summary, which will not be updated to reflect any such change.

This summary is based on the tax law of The Netherlands (unpublished case law not included) as it stands at the date of this Prospectus. The tax law upon which this summary is based, is subject to changes, possibly with retroactive effect. Any such change may invalidate the contents of this summary, which will not be updated to reflect such change.

The summary in this section "*The Netherlands*" does not address the Dutch tax consequences for a Noteholder who:

- (i) is a person who may be deemed an owner of Notes for Dutch tax purposes pursuant to specific statutory attribution rules in Dutch tax law;
- (ii) is, although in principle subject to Dutch corporation tax, in whole or in part, specifically exempt from that tax in connection with income from Notes;
- (iii) is an investment institution as defined in the Dutch Corporation Tax Act 1969;
- (iv) owns Notes in connection with a membership of a management board or a supervisory board, an employment relationship, a deemed employment relationship or management role;
- (v) has a substantial interest in the Issuer or a deemed substantial interest in the Issuer for Dutch tax purposes. Generally, a person holds a substantial interest if (i) such person – either alone or, in the case of an individual, together with his partner or any of his relatives by blood or by marriage in the direct line (including foster-children) or of those of his partner for Dutch tax purposes – owns or is deemed to own, directly or indirectly, 5% or more of the shares or of any class of shares of the Issuer, or rights to acquire, directly or indirectly, such an interest in the shares of the Issuer or profit participating

certificates relating to 5% or more of the annual profits or to 5% or more of the liquidation proceeds of the Issuer, or (ii) such person's shares, rights to acquire shares or profit participating certificates in the Issuer are held by him following the application of a non-recognition provision; or

(vi) is for Dutch tax purposes taxable as a corporate entity and resident of Aruba, Curaçao or Sint Maarten.

### ***Withholding tax***

All payments under the Notes may be made free from withholding or deduction of or for any taxes of whatever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority of or in The Netherlands.

### ***Taxes on income and capital gains***

#### **Resident holders of Notes**

A Noteholder who is resident or deemed to be resident in The Netherlands for Dutch tax purposes is fully subject to Dutch income tax if he (i) is an individual or (ii) is, fully subject to Dutch corporation tax if it is a corporate entity, or an entity, including an association, a partnership and a mutual fund, taxable as a corporate entity, as described in the summary below.

#### ***Individuals deriving profits or deemed to be deriving profits from an enterprise***

Any benefits derived or deemed to be derived from or in connection with Notes that are attributable to an enterprise from which an individual derives profits, whether as an entrepreneur or pursuant to a co-entitlement to the net value of an enterprise, other than as a shareholder, are generally subject to Dutch income tax at progressive rates up to 51.75%.

#### ***Individuals deriving benefits from miscellaneous activities***

Any benefits derived or deemed to be derived from or in connection with Notes that constitute benefits from miscellaneous activities by an individual are generally subject to Dutch income tax at progressive rates up to 51.75%.

An individual may, *inter alia*, derive or be deemed to derive benefits from or in connection with Notes that are taxable as benefits from miscellaneous activities if his investment activities go beyond regular active portfolio management.

#### ***Other individuals***

If a Noteholder is an individual whose situation has not been discussed before in "*Taxes on income and capital gains – Resident holders of Notes*", the value of his Notes forms part of the yield basis for purposes of tax on benefits from savings and investments. A deemed benefit, which is determined on the basis of progressive rates starting from 1.94% up to 5.6% per annum of this yield basis, is taxed at the rate of 30%. Actual benefits derived from or in connection with his Notes are not subject to Dutch income tax.

#### ***Corporate entities***

Any benefits derived or deemed to be derived from or in connection with Notes that are held by a corporate entity, or an entity, including an association, a partnership and a mutual fund, taxable as a corporate entity, are generally subject to Dutch corporation tax.

#### ***General***

A Noteholder will not be deemed to be resident in The Netherlands for Dutch tax purposes by reason only of the execution and/or enforcement of the documents relating to the issue of Notes or the performance by the Issuer of its obligations under such documents or under the Notes.

## **Non-resident holders of Notes**

### *Individuals*

If a Noteholder is an individual who is neither resident nor deemed to be resident in The Netherlands for purposes of Dutch income tax, he will not be subject to Dutch income tax in respect of any benefits derived or deemed to be derived from or in connection with Notes, except if:

- (i) he derives profits from an enterprise, whether as an entrepreneur or pursuant to a co-entitlement to the net value of such enterprise, other than as a shareholder, and such enterprise is carried on, in whole or in part, through a permanent establishment or a permanent representative in The Netherlands, and his Notes are attributable to such permanent establishment or permanent representative; or
- (ii) he derives benefits or is deemed to derive benefits from or in connection with Notes that are taxable as benefits from miscellaneous activities performed in The Netherlands.

### *Corporate entities*

If a Noteholder is a corporate entity, or an entity, including an association, a partnership and a mutual fund, taxable as a corporate entity, which is neither resident nor deemed to be resident in The Netherlands for purposes of Dutch corporation tax, it will not be subject to Dutch corporation tax in respect of any benefits derived or deemed to be derived from or in connection with Notes, except if:

- (i) it derives profits from an enterprise directly which is carried on, in whole or in part, through a permanent establishment or a permanent representative in The Netherlands, and to which permanent establishment or permanent representative its Notes are attributable; or
- (ii) it derives profits pursuant to a co-entitlement to the net value of an enterprise which is managed in The Netherlands, other than as a holder of securities, and to which enterprise its Notes are attributable.

### *General*

If a Noteholder is neither resident nor deemed to be resident in The Netherlands, such holder will for Dutch tax purposes not carry on or be deemed to carry on an enterprise, in whole or in part, through a permanent establishment or a permanent representative in The Netherlands by reason only of the execution and/or enforcement of the documents relating to the issue of Notes or the performance by the Issuer of its obligations under such documents or under the Notes.

### ***Gift and inheritance taxes***

No Dutch gift tax or Dutch inheritance tax will arise with respect to an acquisition or deemed acquisition of Notes by way of gift by, or upon the death of, a Noteholder who is neither resident nor deemed to be resident in The Netherlands for purposes of Dutch gift tax or Dutch inheritance tax except if, in the event of a gift whilst not being a resident nor being a deemed resident in The Netherlands for purposes of Dutch gift tax or Dutch inheritance tax, the Noteholder becomes a resident or a deemed resident in The Netherlands and dies within 180 days after the date of the gift.

For purposes of Dutch gift tax and Dutch inheritance tax, a gift of Notes made under a condition precedent is deemed to be made at the time the condition precedent is satisfied.

### ***Registration taxes and duties***

No Dutch registration tax, transfer tax, stamp duty or any other similar documentary tax or duty, other than court fees, is payable in The Netherlands in respect of or in connection with the execution and/or enforcement (including by legal proceedings and including the enforcement of any foreign judgment in the courts of The Netherlands) of the documents relating to the issue of the Notes, the performance by the Issuer of its obligations under such documents or under the Notes, or the transfer of the Notes, except that Dutch real property transfer tax may be due upon an acquisition, in connection with the Notes, of real property situated in The Netherlands, (an interest in) an asset that qualifies as real property situated in The Netherlands, or (an interest in) a right over real property situated in The Netherlands, for the purposes of Dutch real property transfer tax.

## The Russian Federation

### Taxation of the Notes

#### *General*

The following is an overview of certain Russian tax considerations relevant to the purchase, ownership and disposal of the Notes as well as the taxation of payments under the Guarantee. The overview is based on the laws of the Russian Federation in effect on the date of this Prospectus, which are subject to potential change (possibly with retroactive effect). The overview does not seek to address the applicability of, or procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of the Russian Federation, nor does it seek to address the availability of double tax treaty relief in respect of income payable on the Notes, or practical difficulties connected with claiming such double tax treaty relief.

Prospective investors in the Notes should consult their own tax advisers regarding the tax consequences of investing in the Notes that may arise in their own particular circumstances. No representation with respect to the Russian tax consequences of investing, owning or disposing of the Notes pertinent to any particular Noteholder is made hereby.

Many aspects of the Russian tax laws are subject to significant uncertainty and lack of interpretive guidance, resulting in inconsistent interpretations and application thereof. Further, provisions of the Russian Tax Code applicable to financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable changes (possibly with retroactive effect) and inconsistent interpretation than in jurisdictions with more developed capital markets or more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectorates and relevant interpretations may constantly change. In practice, interpretation by different tax inspectorates may be inconsistent or contradictory, and may result in the imposition of conditions, requirements or restrictions that are not explicitly stated in the Russian Tax Code. Similarly, in the absence of binding precedents, court rulings on tax or other related matters taken by different Russian courts relating to the same or similar facts and circumstances may also be inconsistent or contradictory.

For the purposes of this overview, the term "**Resident Noteholder**" means:

- (a) a Noteholder which is a legal entity or an organisation and is:
  - (i) a Russian legal entity;
  - (ii) a foreign legal entity or organisation recognised as a Russian tax resident based on Russian domestic law (if the Russian Federation is recognised as the place of management of such legal entity or organisation as determined in the Russian Tax Code unless otherwise envisaged by an applicable double tax treaty);
  - (iii) a foreign legal entity or organisation recognised as a Russian tax resident based on the provisions of an applicable double tax treaty (for the purposes of application of such double tax treaty); or
  - (iv) a foreign legal entity or organisation which holds and/or disposes of the Notes through its permanent establishment in the Russian Federation (a "**Legal Entity Resident Noteholder**"), and
- (b) an individual Noteholder that is actually present in the Russian Federation for a total of 183 calendar days or more in any period comprised of 12 consecutive months (an "**Individual Resident Noteholder**"). Presence in the Russian Federation is not considered interrupted if an individual departs for short periods (less than six months) from the Russian Federation for medical treatment or education purposes as well as for the employment or other duties related to the performance of works (services) on offshore hydrocarbon fields. The interpretation of this definition by the Ministry of Finance of the Russian Federation states that, for tax withholding purposes, an individual's tax residence status should be determined on the date of the income payment (based on the number of days spent in the Russian Federation in the 12-month period preceding the date of the payment). An individual's final tax liability

in the Russian Federation for any reporting calendar year should be determined based on the number of days spent in the Russian Federation in such calendar year.

For the purposes of this overview, the term "**Non-Resident Noteholder**" means any Noteholder (including any individual (the "**Individual Non-Resident Noteholder**") and any legal entity or an organisation (the "**Legal Entity Non-Resident Noteholder**")) that does not qualify as a Resident Noteholder.

The Russian tax treatment of payments under the Guarantee made by the Russian Guarantors may affect the holders of the Notes. See "*Taxation of Payments under the Guarantee made by the Russian Guarantors*" below.

Noteholders should seek professional advice on their tax status in Russia.

### ***Legal Entity Non-Resident Noteholders***

#### *Acquisition of the Notes*

The acquisition of the Notes by a Legal Entity Non-Resident Noteholder (whether upon issuance or in the secondary market) should not trigger any Russian tax implications for the Legal Entity Non-Resident Noteholder.

#### *Disposal of the Notes*

A Legal Entity Non-Resident Noteholder generally should not be subject to any Russian taxes in respect of gain or other income realised on sale, redemption or a disposal of the Notes, provided that no portion of proceeds from such sale, redemption or other disposal of the Notes is received from either a source within the Russian Federation or from a Russian tax resident which is a legal entity and no portion thereof is attributable to accrued interest. Any portion of such proceeds received from either a source within the Russian Federation or from a Russian tax resident which is a legal entity attributable to accrued interest may be subject to Russian withholding tax at a rate of 20% even if the sale, redemption or disposal itself results in a capital loss, subject to the provisions outlined in Section "*Double Tax Treaty Relief*" below.

Legal Entity Non-Resident Noteholders should consult their tax advisers with respect to the tax consequences of the acquisition and disposal of the Notes and the tax consequences of the receipt of proceeds from a source within the Russian Federation in respect of a sale, redemption or other disposal of the Notes and applicability of double tax treaty relief.

### ***Individual Non-Resident Noteholders***

#### *Acquisition of the Notes*

The taxation of income of Individual Non-Resident Noteholders will depend on whether the income is characterised as received from a Russian or non-Russian source. In certain circumstances, the acquisition of the Notes by Individual Non-Resident Noteholders (either at original issuance if the Notes are not issued at par, or in the secondary market) may constitute a taxable event for Russian personal income tax purposes. In particular, if Individual Non-Resident Noteholders acquire the Notes in the Russian Federation or from a Russian entity and the acquisition price of the Notes is below fair market value (calculated under a specific procedure for the determination of market prices of securities for Russian personal income tax purposes), this may constitute a taxable event pursuant to the provisions of the Russian Tax Code relating to material benefit (deemed income) received by individuals as a result of acquiring securities. Although the Russian Tax Code does not contain any provisions as to how the source of the related material benefit should be determined, in practice the Russian tax authorities may infer that such income should be considered as Russian-source income if the Notes are purchased "in the Russian Federation". In the absence of any additional guidance as to what should be considered as a purchase of securities in the Russian Federation, the Russian tax authorities may apply various criteria, including looking at the place of conclusion of the acquisition transaction, the location of the seller, or other similar criteria. In such a case, Individual Non-Resident Noteholders may be subject to Russian personal income tax at a rate of 30% on an amount equal to the difference between the fair market value and the purchase price of the Notes.

Tax may be withheld at source of payment or, if the tax is not withheld, the Individual Non-Resident Noteholder may be required to declare its income in the Russian Federation by filing a tax return and paying the tax.

#### *Disposal of the Notes*

Individual Non-Resident Noteholders generally should not be subject to any Russian taxes in respect of gain or other income realised on a redemption, sale or disposal of the Notes outside the Russian Federation, provided that the proceeds of such sale, redemption, or other disposal of the Notes are not received from either a source within the Russian Federation or from a Russian legal entity that qualifies as a tax agent for Russian personal income tax purposes (generally, a licenced broker or an asset manager that carries out operations in the Russian Federation in the interests of an Individual Non-Resident Noteholder under an asset management agreement, a brokerage service agreement, an agency agreement or a commission agreement).

If proceeds from the sale, redemption or other disposal of the Notes, including any portion of such proceeds attributable to accrued interest income under the Notes, are received either from a Russian source or from a Russian legal entity qualified as a tax agent for Russian personal income tax purposes, an Individual Non-Resident Noteholder will generally be subject to Russian personal income tax at a rate of 30%, in respect of the gross proceeds from such sale, redemption or other disposal less any available deduction of expenses incurred by the Noteholder (which includes the purchase price of the Notes) subject to any available double tax treaty relief, as discussed in "*Double Tax Treaty Relief*" below.

Income received from a sale, redemption or disposal of securities should be treated as having been received from a Russian source if such sale, redemption or disposal occurs in the Russian Federation. In the absence of any guidance as to what should be considered as a sale or other disposal of securities "in the Russian Federation", the Russian tax authorities may apply various criteria in order to determine the source of the sale or other disposal, including looking at the place of conclusion of the transaction, the location of the buyer, or other similar criteria. There is no assurance, therefore, that proceeds received by Individual Non-Resident Noteholders from a sale, redemption or disposal of the Notes will not become subject to tax in the Russian Federation.

Further, there is a risk that, if the documentation supporting the cost deductions is deemed insufficient by the Russian tax authorities or by the person remitting the proceeds to an Individual Non-Resident Noteholder (where such person is considered the tax agent, obliged to calculate and withhold Russian personal income tax and remit it to the Russian budget), the cost deductions may be disallowed and the tax will apply to the gross amount of the sale, redemption or disposal proceeds.

In certain circumstances, if the sale and/or disposal proceeds (including accrued interest on the Notes) are paid to an Individual Non-Resident Noteholder by a licenced broker or an asset manager that carries out operations in the Russian Federation in the interests of an Individual Non-Resident Noteholder under an asset management agreement, a brokerage service agreement, an agency agreement or a commission agreement, the applicable Russian personal income tax at the rate of 30% (or such other tax rate as may be effective at the time of payment) should be withheld at source by such entity who will be considered as the tax agent. The withholding tax rate should be applied to the difference between the proceeds paid to the Individual Non-Resident Noteholder and the amount of duly documented deductions relating to the original purchase cost and related expenses incurred by the Noteholder on the purchase, holding and sale of the Notes to the extent that such deductions and expenses can be determined by the entity making the payment. The entity making the payment would be required to report to the Russian tax authorities the income received by and a deduction allowed to the Individual Non-Resident Noteholder and tax withheld upon the sale or disposal of the Notes.

If a Russian personal income tax obligation arises as a result of the sale, redemption or other disposal of the Notes but the tax has not been withheld in the absence of a tax agent, an Individual Non-Resident Noteholder is required to file a personal income tax return in the Russian Federation to report the amount of income received to the Russian tax authorities and apply for a deduction in the amount of the acquisition cost and other expenses related to the acquisition, holding, sale or other disposal of the Notes, based on the provision of supporting documentation. The applicable personal income tax will then have to be paid by the individual on the basis of the filed personal income tax return.

If a Russian personal income tax obligation arises as a result of the sale, redemption or other disposal of the Notes but the tax agent was not able to withhold the tax and reported this fact to the Russian tax authorities, the tax is payable by the Individual Non-Resident Noteholder based on a tax assessment issued by the Russian tax authorities.

Under certain circumstances, gains received and losses incurred by an Individual Non-Resident Noteholder as a result of the sale, redemption or other disposal of the Notes and other securities of the same category (i.e., securities qualified as traded or non-traded for Russian personal income tax purposes) occurring within the same tax year may be aggregated for Russian personal income tax purposes, which would affect the total amount of personal income of an Individual Non-Resident Noteholder subject to taxation in the Russian Federation.

Since the sale, redemption or other disposal proceeds and deductible expenses for Russian tax purposes are calculated in roubles, the taxable base may be affected by fluctuations in the exchange rates between the currency in which the Notes were acquired, the currency in which the Notes were sold, and roubles, i.e. there could be a loss or no gain in the currency of the Notes but a gain in roubles which could be potentially subject to taxation. Individual Non-Resident Noteholders should consult their tax advisers with respect to the tax consequences of the acquisition and disposal of the Notes and the tax consequences of the receipt of proceeds from a source within the Russian Federation in respect of a sale, redemption or other disposal of the Notes.

### ***Resident Noteholders***

A Resident Noteholder will generally be subject to all applicable Russian taxes and responsible for complying with any documentation requirements that may be established by law or practice in respect of gain from the sale, redemption or other disposal of the Notes and interest income received on the Notes. Resident Noteholders should consult their own tax advisers with respect to the effect that the acquisition, holding and disposal of the Notes may have on their tax position.

### ***Legal Entity Resident Noteholders***

A Legal Entity Resident Noteholder should, prima facie, be subject to Russian profits tax at the rate of up to 20% on interest (coupon) income on the Notes as well as on the capital gain from the sale, redemption or other disposal of the Notes. Generally, Legal Entity Resident Noteholders are required to submit Russian profits tax returns, and assess and pay tax on capital gains and interest (coupon) income.

### ***Individual Resident Noteholders***

An Individual Resident Noteholder should generally be subject to personal income tax at a rate of 13% on (i) deemed income resulting from the acquisition of the Notes at a price below fair market value, (ii) on interest (coupon) income on the Notes and (iii) income received from the sale, redemption or other disposal of the Notes. If such income is paid to an Individual Resident Noteholder by a tax agent, the applicable Russian personal income tax of 13% should be withheld at source by such tax agent. For the purposes of taxation of interest (coupon) income and income received from a sale, redemption and/or other disposal of the Notes, a tax agent is, *inter alia*, a licenced broker or an asset manager who carries out operations in the interest of an Individual Resident Noteholder under an asset management agreement, a brokerage service agreement, an agency agreement or a commission agreement, or in certain cases, a Russian organisation, which makes payments under the Notes. If the Russian personal income tax has not been withheld (if there was no tax agent) Individual Resident Noteholders are required to submit annual personal income tax returns, assess and pay the tax. If the tax agent in Russia was not able to withhold the tax and reported this fact to the Russian tax authorities, the tax is payable by the Individual Resident Noteholder based on a tax assessment issued by the Russian tax authorities.

Resident Noteholders should consult their own tax advisers with respect to their tax position regarding the Notes.

## **Taxation of Principal and Interest under the Notes paid by the Issuer to the Non-Resident**

### **Noteholders**

Legal Entity Non-Resident Noteholders generally should not be subject to any Russian taxes in respect of payments of principal on the Notes received from the Issuer.

Payments under the Notes may be subject to Russian withholding tax if the Issuer is treated as a Russian tax resident or if the Issuer's activities lead to creation of a permanent establishment for the Issuer in the Russian Federation. In these cases payments of interest under the Notes made by the Issuer to the Non-Resident

Noteholders could be recognised by Russian tax authorities as subject to Russian withholding tax at a rate of 20% (or 30% in respect of Individual Non-Resident Noteholders).

However, the Russian Tax Code provides an exemption from the obligation to withhold tax from interest paid by a Russian organisation to Legal Entity Non-Resident Noteholders under the "quoted bonds" issued in accordance with the legislation of the foreign jurisdiction (this exemption is also applicable to the foreign organisations, which are either recognised as Russian tax residents, or as those organisations, which activities lead to creation of a permanent establishment in the Russian Federation).

For the purpose of the Russian Tax Code, "quoted bonds" means bonds and other debt obligations (i) which passed the listing procedure and/or (ii) which were admitted to circulation on one or more foreign stock exchanges and/or (iii) rights to which are recorded by a foreign depositary clearing organisation, provided such foreign stock exchanges and depositary clearing organisations are specified in the list of foreign financial intermediaries (the "**List**"). The List includes Euronext Dublin amongst the recognised foreign stock exchanges, and Euroclear and Clearstream amongst the recognised foreign depositary-clearing organisations.

Criteria (i) and (ii) should be satisfied as the Notes will be listed on Euronext Dublin. The Notes should satisfy criterion (iii) because the rights to the Notes will be held in Euroclear and Clearstream which for the purposes of the Russian Tax Code essentially should mean that the rights to the Notes are "recorded" with one of the above foreign depositary-clearing organisations. According to the Russian Tax Code, in order to be treated as "quoted bonds", fulfilment of one of the above criteria is sufficient. Therefore, the Notes should be recognised as "quoted bonds" for the purposes of the Russian Tax Code. Based on the professional advice received, the Issuer believes that it should be released from the obligation to withhold the Russian withholding tax from interest payments made to Legal Entity Non-Resident Noteholders under the Notes provided that the Notes continue to be recognised as "quoted bonds" for the purposes of the Russian Tax Code as outlined above.

If the Issuer's activities lead to the creation of a permanent establishment for the Issuer in the Russian Federation, the payments under the Notes (including interest and principal amounts under the Notes) made by the Issuer to Individual Non-Resident Noteholders less any available cost deduction could be subject to Russian taxation at a rate of 30% subject to any available double tax treaty relief (for details see "*–Double Tax Treaty Relief*" below).

Also, if the Issuer is treated as a Russian tax resident, or if the Issuer's activities lead to creation of a permanent establishment in the Russian Federation, the Issuer will be fully subject to all applicable Russian taxes in accordance with Russian tax law and will be exposed to all of the risks and implications associated with the Russian tax system. Such Russian tax consequences could have a material adverse effect on the Issuer's business, financial condition and results of operations and the Issuer's ability to make payments under, or the trading price, of the Notes.

## **Taxation of Payments under the Guarantee made by the Russian Guarantors**

### ***Russian withholding tax***

#### ***Non-Resident Noteholders***

Payments following the enforcement of the Guarantee to be made by the Russian Guarantors to Non-Resident Noteholders to the extent relating to interest on the Notes are likely to be characterised as Russian source income. Accordingly, such payments should be subject to withholding tax at a rate of 20% in the event that a payment under the Guarantee is made to a Legal Entity Non-Resident Noteholder which is not organised under Russian law and which holds the Notes otherwise than through a permanent establishment in the Russian Federation, subject to the provisions outlined in "*–Double Tax Treaty Relief*" below. In the event a payment under the Guarantee is characterised as Russian-source income and is made to an Individual Non-Resident Noteholder, such payment should generally be subject to personal income tax at a rate of 30%, subject to the provisions outlined in "*–Double Tax Treaty Relief*" below.

Pursuant to the Russian Tax Code, there is a possibility that the Russian Guarantors would be exempt from the obligation to withhold Russian withholding tax from the payments to the Trustee under the special exemption established for "quoted bonds" under guarantees. Meanwhile, there is some ambiguity with respect to the applicability of the exemption in this situation due to the current absence of practice on how the Russian tax authorities would apply such exemption to the current payments to be made by the Russian Guarantors to the



Trustee. If the exemption is not applied and tax is withheld it may be possible for a Noteholder who is eligible for an exemption from Russian withholding tax under a double tax treaty and the relevant Russian tax law provisions (e.g. the "beneficial ownership" concept) to claim a refund of tax withheld, although there would be considerable practical difficulties in obtaining any such refund.

There is no assurance that: (i) the exemption established for "quoted bonds" (as described above) will be available or (ii) double tax treaty advance relief (or a refund of any taxes withheld) will be available to the Trustee or a Non-Resident Noteholder with respect to payments under the Guarantee or (iii) that such withholding tax would not be imposed upon the entire payment under the Guarantee, including with respect to the principal amount of the Notes. The imposition or the possibility of the imposition of this withholding tax could adversely affect the value of the Notes.

Under the gross-up provisions for the Notes, if payments made under the Guarantee are subject to any withholding taxes for any reason (as a result of which the Russian Guarantors would be obliged to reduce the payments to be made under the Guarantee by the amount of such taxes to be withheld), the Russian Guarantors are required to increase the payments as necessary so that the net amounts received in respect of such payments after such withholding or deduction will equal the respective amounts that would have been received in respect of such payments in the absence of such withholding or deduction. It is unclear whether a tax gross-up clause such as that contained in the Trust Deed is enforceable in the Russian Federation. There is a risk that the tax gross-up for withholding tax will not take place and that the full amount of the payments made by the Russian Guarantors will be reduced by Russian withholding income tax at a rate of 20% (or 30% in respect of individual Noteholders).

Non-Resident Noteholders should consult their tax advisers with respect to the tax consequences of the receipt of payments under the Guarantee, including applicability of any available double tax treaty relief.

#### *Resident Noteholders*

A Resident Noteholder is subject to all applicable Russian taxes and responsible for complying with any documentation requirements that may be established by law or practice in respect of payments to be received by such Noteholder under the Guarantee.

Resident Noteholders should consult their tax advisers with respect to the tax consequences of the receipt of payments under the Guarantee.

#### *Russian VAT*

Payments under the Guarantee to be made by the Russian Guarantors attributable to the principal amount or interest under the Notes and the additional tax gross-up amounts, should not be subject to Russian VAT. The payments under the Guarantee to be made by the Russian Guarantors attributable to compensation of other expenses (if any) could be subject to Russian VAT.

All payments made by the Russian Guarantors with respect to the Guarantee will, except in certain limited circumstances, be made free and clear of and without withholding or deduction for, or on account of, any present or future taxes unless the withholding or deduction for, or on account of, such taxes is then required by law. In the event of such a deduction or withholding, the Russian Guarantors, as applicable, will pay such additional amounts as may be necessary in order that the net amounts received in respect of such payments after such withholding or deduction will equal the respective amounts that would have been received in respect of such payments in the absence of such withholding or deduction. While this Prospectus provides for the Russian Guarantors to pay such corresponding amounts in these circumstances, it is unclear whether a tax gross-up clause such as that contained in the Trust Deed is enforceable in the Russian Federation. There is a risk that the tax gross-up for VAT will not take place and that the portion of the payments under the Guarantee attributable to compensation of other expenses (if any) made by the Russian Guarantors will be reduced by Russian VAT at a rate of 20%.

Noteholders should consult their tax advisers with respect to the Russian VAT consequences of the receipt of payments under the Guarantee.

## ***Double Tax Treaty Relief***

### ***Advance relief***

The Russian Federation has concluded double tax treaties with a number of countries. These double tax treaties may contain provisions that allow for the reduction or elimination of Russian withholding taxes with respect to income or proceeds received by Non-Resident Noteholders from a source within Russia, including income or proceeds from the sale, redemption or other disposal of the Notes. To the extent double tax treaty relief is available and the Russian Tax Code requirements are met (i.e. the "beneficial ownership" concept and the concept of the "tax residency"), a Non-Resident Noteholder must comply with the information, documentation and reporting requirements which are then in force in the Russian Federation in order to obtain such relief.

A Legal Entity Non-Resident Noteholder who is the beneficial owner of income or proceeds in terms of an applicable double tax treaty and the Russian Tax Code would need to provide the payer of the income or proceeds with a certificate of tax residence issued by the competent tax authority of the relevant treaty country in advance of payment of income or proceeds in order to obtain a relief from Russian withholding taxes under a double tax treaty. This certificate should confirm that the respective Legal Entity Non-Resident Noteholder is a tax resident of the relevant double tax treaty country in the particular calendar year during which the income or proceeds is paid. This certificate should be apostilled or legalised and needs to be renewed on an annual basis. A notarised Russian translation of the certificate may be required. However, the payer of the income or proceeds in practice may request additional documents confirming the eligibility of the Legal Entity Non-Resident Noteholder for the benefits of the double tax treaty. In addition, in order to enjoy benefits under an applicable double tax treaty, the person claiming such benefits must be the beneficial owner of the relevant income or proceeds according to the respective requirements of the Russian Tax Code. In addition to a certificate of tax residency the Russian Tax Code obliges the Legal Entity Non-Resident Noteholder to provide the tax agent with a confirmation that it is the beneficial owner of the relevant income or proceeds in advance of payment of income or proceeds. As of the date of this Prospectus, there has been no guidance on the form of such confirmation and it is at the moment unclear how these measures will be applied in practice. Due to introduction of these changes, there can be no assurance that the treaty relief at source will be available in practice.

Currently, in order to obtain a full or partial exemption from taxation in Russia under an applicable double tax treaty at source, an Individual Non-Resident Noteholder should confirm to a tax agent that he or she is a tax resident in a relevant foreign jurisdiction having a double tax treaty with the Russian Federation by providing the tax agent with (i) a passport of a foreign resident, or another document envisaged by an applicable federal law or recognised as a personal identity document of a foreign resident in accordance with an international treaty, and (ii) if such passport/document does not confirm tax resident status in a foreign country, upon request of the tax agent, an official confirmation issued by the competent authorities evidencing his or her status of a tax resident in the respective country. A notarised Russian translation of such official confirmation is required. The above provisions are intended to provide a tax agent with the opportunity of applying reduced (or zero) withholding tax rates under an applicable double tax treaty at source.

Non-Resident Noteholders should consult their own tax advisers with respect to the applicability of any double tax treaty relief and the relevant procedures required in Russia.

### ***Refund of Tax Withheld***

If (i) Russian withholding tax on income derived from either Russian sources, or from a Russian tax resident, which is a legal entity by a Non-Resident Noteholder has been withheld at source or (ii) tax on such income has been paid by a Non-Resident Noteholder on the basis of a tax return, and such Non-Resident Noteholder is entitled to relief from tax on such income under an applicable double tax treaty allowing it not to pay the tax or to pay the tax at a reduced rate, a claim for a refund of such tax can be filed within three years from the end of the tax period in which the tax was withheld or paid (subject to limitations described below).

In order to obtain a refund, the Legal Entity Non-Resident Noteholder would need to file with the Russian tax authorities a duly notarised, apostilled and translated certificate of tax residence issued by the competent tax authority of the relevant double tax treaty country and other documents confirming the right for a refund under the Russian Tax Code (including the above Russian Tax Code requirements under the "beneficial ownership" concept).

If an Individual Non-Resident Noteholder wishes to obtain a refund, he or she should provide a claim for a refund of the tax withheld and documents confirming the right for a refund under the Russian Tax Code to the tax agent (if there is an agent in Russia). If there is no tax agent on the date of the receipt by the individual of confirmation of its tax residence status in a relevant foreign jurisdiction having an applicable double tax treaty with the Russian Federation, the individual can file a claim for a refund and documents confirming the right for a refund directly with the Russian tax authorities.

Obtaining a refund of Russian taxes withheld may be a time-consuming process and can involve considerable practical difficulties, including the possibility that a tax refund may be denied for various reasons. Non-Resident Noteholders should consult their tax advisers regarding the procedures required to be fulfilled in order to obtain a refund of Russian income tax which was excessively withheld at source.

## **The Republic of Armenia**

### ***Payment of interest amounts under the Guarantee***

According to Article 107(3) of the Armenian Tax Code, interest paid to a Noteholder which is a legal entity not organised under Armenian law and which holds the Notes other than through a permanent establishment in Armenia shall be classified as passive income received from Armenian sources if those payments are received from a resident entity.

Therefore, the Armenian Guarantors paying interest to non-resident entities are liable to act as a tax agent and withhold at source tax at the rate of 10% according to the procedure established under Armenian law. In cases where the Noteholder is an individual, then according to Articles 144 and 150 of the Code, the Armenian Guarantors paying interest to individuals are liable to act as a tax agent and withhold 10% PIT at source. An individual is not obligated to submit any tax returns to Armenian tax authorities.

### ***Payment of other amounts under the Guarantee***

Other payments following enforcement of the Guarantee in respect of principal, premium or such other amounts made by the Armenian Guarantors to a non-resident Noteholder in accordance with the Trust Deed are likely to be characterised as Armenian source income. According to Article 107(5) of the Code, income paid to a Noteholder that is a legal entity not organised under Armenian law and which holds the Notes other than through a permanent establishment in Armenia would be classified as other income received from Armenian sources, if those payments are received from a resident entity or a permanent establishment.

Accordingly, the Armenian Guarantors paying other amounts under guarantee in respect of principal, premium or such other amounts to non-resident entities are liable to act as a tax agent and withhold 20% tax at source. A non-resident entity is not liable to submit any reporting to Armenian tax authorities. In cases where the Noteholder is an individual, then according to Articles 144 and 150 of the Code, the Armenian Guarantors paying such amounts to individuals are liable to act as a tax agent and withhold 23%, 28% or 36% PIT at source (for amounts less or equal AMD150,000: 23%, for amounts more than AMD150,000 and less or equal to AMD2.0 million: 28% and for amounts more than AMD2.0 million: 36%). An individual is not liable to submit any reporting to Armenian tax authorities.

Notwithstanding the above, under the gross-up provisions in the Trust Deed, any payments made under the Guarantee that are subject to withholding tax or PIT at source shall be increased as necessary so that the net amounts transferred in respect of such payments after such withholding or deduction will equal the respective amounts that would have been transferred in respect of such payments in the absence of such withholding or deduction. The gross-up provisions in the Trust Deed are enforceable under Armenian law.

### ***Double Taxation Treaties***

Based on the residency of the Noteholder, double tax treaty relief (reduction) may be available for interest and for guarantee amounts payable under the Guarantee to non-resident entities, including individuals, taking into account that Armenia has concluded double taxation treaties with more than 46 jurisdictions, including The Netherlands and the UK.

## **The Republic of Cyprus**

*The following is a discussion of certain Cyprus tax consequences on the acquisition, ownership and disposal of Notes by the Investors when payments are carried out under the guarantee as well as any tax implications inferred on the Guarantor when acting under the guarantee arrangement. It is based on current Cypriot law and practice, all of which are subject to change, possibly with retroactive effect, and does not discuss any other tax considerations relating to the Notes, including but not limited to their acquisition, holding or disposal which is carried out by the Issuer; tax implications on the Company are analysed only to the extent that they derive by the Company's obligations under the guarantee and do not extend to an overall assessment of the Company's tax status. The information provided below does not purport to be a complete or exhaustive summary of the tax laws and practice currently applicable in Cyprus. Prospective noteholders should consult their own tax advisers as to the consequences, both under the tax law of the country of which they are resident for tax purposes and Cyprus tax law, of acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes.*

### **Payments under the Guarantee by the Guarantor**

Taxation of payments made under the Guarantee will depend on the tax residency status of the Noteholders and nature of the payment (interest or principal on the Notes).

### **Tax residency and Tax Basis**

#### *Individuals*

Under the provisions of the Cyprus Income Tax Law of 2002, L.118(I)/2002 ("**ITL**") purposes, an individual is resident if he stays in Cyprus for a period or periods exceeding in aggregate 183 days in the tax year.

As from 1 January 2017, an individual can be a tax resident of Cyprus even if the individual spends 183 days or less in Cyprus subject to the fulfilment of all the following conditions cumulatively within the same tax year (1 January – 31 December):

- the individual does not spend more than 183 days in any other country;
- the individual is not a tax resident of any other country;
- the individual spends at least 60 days in Cyprus;
- the individual maintains a permanent home in Cyprus that is either owned or rented; and
- the individual carries on a business in Cyprus, is employed in Cyprus or holds an office in a Cyprus tax resident company at any time during the tax year.

If the employment, business or holding of an office is terminated during the year, then the individual would cease to be considered a Cyprus tax resident for that tax year.

Non-resident individuals are taxed on their Cyprus-source income only whilst resident individuals are taxed on worldwide income.

Under the provisions of Special Contribution for the Defence Law of 2002, L.117(I)/2002 dated 16 July 2015, ("**SCD Law**"), an individual needs to be both tax resident as above and Cyprus domiciled.

Under the provisions of the SCD Law, a person is considered domiciled in Cyprus if his/her domicile of origin is Cypriot excluding:

- (i) a person who has a domicile of choice outside Cyprus provided that he has not been a Cyprus tax resident for any period of at least 20 consecutive years prior to the tax year.
- (ii) A person who was not a Cyprus tax resident for a period of at least 20 consecutive years immediately preceding the effective start date of the SCD Law (which is 16 July 2015).

Irrespective of domicile of origin, an individual that has been a Cyprus tax resident for at least 17 out of the 20 years prior to the tax year in question, shall be considered as domiciled in Cyprus.

Under the Cap.195 as amended, the domicile of origin is the domicile obtained by a person at his/her birth, while domicile of choice is the domicile obtained or maintained by a person through his/her own act, if that is different from his domicile of origin. Moreover, for a person born while his/her father was alive, the person's domicile of origin will be the same as his/her father's domicile at the time when the person was born.

An individual that, under the above tests, is not Cyprus domiciled is exempted from SCD on income from dividends, interest and rents, until such individual is deemed domiciled in Cyprus.

#### *Companies*

A company is considered to be tax resident in Cyprus if its management and control is exercised in Cyprus. There is no definition in Cyprus' income tax laws as to what constitutes "management and control" however in applying the rules, the Cyprus Tax Department draws influence from traditional definitions of the "place of effective management" as analysed in past OECD commentaries. Based on the definition followed in practice by Cyprus, management and control may be considered to be exercised where the board of directors of a company meets and makes decisions and where the majority of the members of the board of directors are resident.

A non-resident company is regarded as having a "permanent establishment" in Cyprus if it has a fixed place of business through which the business of the company is wholly or partly carried on, including a place of management, a branch or an office.

#### *Permanent Establishment*

A permanent establishment is defined in Cyprus tax legislation as a fixed base of business through which the trade of the business is carried out fully or partially, and including a management base, a branch or an office, on the same basis as the definition set forth in the OECD model convention.

#### *Taxability*

- **Income Tax:** All Cyprus tax residents are taxed on their worldwide income. Non-Cyprus tax residents are taxed on income derived from sources in Cyprus as specified in the ITL including but not limited to profits from a Cyprus situated permanent establishment.
- **Special Defence Contribution:** SCD applies only in respect of Cyprus tax resident taxpayers (and in respect of individuals, to Cyprus domiciled individuals).

#### *Implications on Guarantor by payment of capital or interest*

Further to the possible obligation to withhold taxes on payments to Noteholders (i.e. interest and capital payments under the Guarantee) as herein outlined, the Company will be caught by the earnings stripping provisions of the EU Directive (EU) 2016/1164 setting out rules against tax avoidance practices that directly affect the functioning of the internal market (Anti-Tax Avoidance Directive – "**ATAD**") as newly introduced in the ITL as of 1 January 2019 in relation to interest payments recorded under the Guarantee (thereby constituting interest expenses).

Under the earning stripping rules, exceeding borrowing costs shall be deductible in the tax period in which they are incurred only up to 30% of the taxpayer's earnings before interest, tax, depreciation and amortisation (EBITDA) as adjusted in accordance with the rules concerned. Exceeding borrowing costs refer to net interest expense (broadly interest income less interest expense on all forms of debt and other costs economically equivalent to interest and expenses incurred in connection with the raising of finance). In this respect, the Company's overall financial position would need to be assessed to determine applicability and/or whether or not the Company is eligible for an exemption from the rule (mainly opt-outs relating to de minimis thresholds, grandfathering provisions and or exemptions for long-term infrastructure projects which are considered to be in the general public interest and specified types of financial undertakings).

The implementing law also provides for a group equity ratio carve-out in that, where the taxpayer is a member of a consolidated group for financial accounting purposes, the taxpayer may be given the right to fully deduct its

exceeding borrowing costs if it can demonstrate that the ratio of its equity over its total assets is equal to or higher than the equivalent ratio of the group and subject to the following conditions:

- (a) the ratio of the taxpayer's equity over its total assets is considered to be equal to the equivalent ratio of the group if the ratio of the taxpayer's equity over its total assets is lower by up to two percentage points; and
- (b) all assets and liabilities are valued using the same method as in the consolidated financial statements prepared in accordance with acceptable accounting standards.

Taxpayers may carry forward exceeding borrowing costs and unused interest capacity which cannot be deducted in the current tax period, for a maximum of five years.

Under the option provided by the ATAD, Cyprus has opted to allow the interest limitation rule to apply cumulatively at the level of a Cyprus group as this is defined for group-relief purposes. In this respect the Company's position should be ascertained vis-à-vis its group position.

### ***Withholding Taxes on Principal and Interest Payments***

#### ***Principal***

The repayment of the principal amount of the Notes is not subject to withholding tax in Cyprus irrespective of the identity or tax residency of the Noteholders.

#### ***Interest payments - Non-Cyprus tax resident Noteholders***

Interest payments made to non-residents of Cyprus are not subject to any withholding taxes in Cyprus.

#### ***Interest payments - Cyprus tax resident Noteholders***

Cyprus tax resident companies that are paying interest to such Cyprus tax resident individuals or companies, are obliged to withhold SCD at source where applicable and remit the tax to the Cypriot tax authorities.

Interest payments made to Cyprus tax resident Noteholders may be subject to withholding tax under the SCD, at the rate of 30% on a gross basis in the event where the interest does not accrue or is not closely connected to the Noteholders ordinary business activities as defined in the Circular 2003/08 issued by the Cyprus Tax Department dated 19 May 2003. According to the Circular, the tax authorities will consider the interest as **"accruing from the ordinary carrying on of the business"** if the interest derived from:

- (a) the banking business such as the interest accrued by banking and financial institutions, co-operative credit societies, and business which have as their main object the granting of loans such as the Housing Finance Corporation.
- (b) Finance businesses with "hire purchase" system or leasing or other kind of finance companies.

On the other hand, the tax authorities considered as **"interest closely connected with the ordinary carrying on of the business"** as the interest:

- (a) of trade debtors e.g. business of which the ordinary activity is purchase or sale or development of immovable property and the businesses of the sellers or second hand sellers of cars or other vehicles or machinery;
- (b) of insurance companies;
- (c) on commercial current accounts;
- (d) of companies which act as the instrument through which companies of a group of companies are financed (according to the tax authorities, back-to-back loans are considered to fall under this category).

As regards individual Noteholders, withholding tax will not apply in the event of noteholders that are not Cyprus tax residents or Cyprus tax residents and non-domiciled in Cyprus as per the rules outlined.

If the interest paid to the Noteholders arises, or is closely related to the Noteholders ordinary business activities, no withholding under SCD will apply but taxation may arise under ITL as described herein.

Any interest paid to Cyprus tax resident individuals, regardless of their domicile will also be subject to the mandatory contributions for the Cyprus General Healthcare System applicable as of 1 March 2019 on a maximum income of EUR180,000 at the rate of 1.70% for the period 1 March 2019 – 28 February 2020 and at the rate of 2.65% from 1 March 2020 onwards.

#### ***Taxation of interest income at the level of the Noteholders***

##### ***Non-Cyprus tax resident Noteholders***

Interest received or credited by Noteholders (whether companies or individuals) who are non-tax residents of Cyprus are not subject to tax in Cyprus.

##### ***Cyprus tax resident individuals***

###### ***Cyprus tax resident and Cyprus domiciled individuals***

Interest income received or credited by a Cyprus tax resident and Cyprus domiciled individual is subject to SCD by way of withholding tax, at the rate of 30% on the gross interest received, unless it can be established that such interest income accrues from or is closely connected to the ordinary course of the individual's business, in which case it will be exempt from such SCD and subject to income tax at the rates applicable to the individual's level of income.

###### ***Cyprus tax resident but not Cyprus domiciled individuals***

Interest income received or credited by a Cyprus tax resident but not Cyprus domiciled individual is not subject to the SCD. If it can be established that such interest income accrues from or is closely connected to the ordinary course of the individual's business, such interest income shall be subject to income tax at the rates applicable to the individual's level of income.

#### ***Stamp Duties***

The Cyprus Stamp Duty Law (Law 19/1963), as amended, subjects to ad valorem stamp duty all documents (including contracts) concerning property or proprietary rights, situated in Cyprus or concerning things or matters to be executed in Cyprus or take place in Cyprus subject to certain exceptions, irrespective of where the same will be signed. For a final determination of whether a document is subject to stamp duty, the document in question will need to be submitted for a ruling to the Stamp Duty Commissioner in Cyprus who will either resolve that no stamp duty is payable in Cyprus by stamping the document as being exempt from stamp duty in Cyprus or confirm that the document is subject to stamp duty and the rate applicable for such document.

The granting of a performance guarantee (such as for example the Guarantee granted by the Company) is considered by the Cyprus Stamp Duty Commissioner to constitute a matter taking place in Cyprus and as such is subject to stamp duty.

For contracts the value of which ranges between EUR5,001 – EUR170,000, the current rate of stamp duty is EUR1,50cent for each EUR1,000 or part thereof; for contracts the value of which is over EUR170,000, the current rate of stamp duty is EUR2 for every EUR1,000 or part thereof, with a ceiling of EUR20,000. This maximum amount of stamp duty is payable on any document or on any transaction which has several documents; in such case, the parties may choose which of the transaction documents is the main document and only that main transaction document will be subject to the full stamp duty; the other transaction documents may be stamped as secondary documents, carrying stamp duty in the amount of EUR2 each, provided they are dated the same day as the main transaction document or very close to the main transaction document.

Not paying the stamp duty is a regulatory penal offence, which does not render a document void but merely requires in the future that the applicable stamp duty plus a penalty be paid; further, in the case of court proceedings, the court will not recognize the document as evidence unless it is stamped.

### ***Cyprus tax resident companies/Permanent Establishments***

Any interest received or credited by resident companies/permanent establishments that arises in or is closely connected to the ordinary course of the business, is subject to income tax in Cyprus at the rate of 12.5% (after deduction of allowable expenses) and is exempt from SCD.

Any interest received or credited by resident companies/permanent establishments that does not arise in or is not closely connected to the ordinary course of the business, is subject to SCD at the rate of 30% (without deducting expenses) and is exempt from income tax.

### ***Other Tax Considerations***

#### ***Upcoming Developments***

##### ***Further ATAD Implementation***

Cyprus will be implementing the remaining ATAD provisions by 1 January 2020 namely introducing:

- (i) Exit taxes for certain predefined situations, which include both transfers to other member states of the EU and third countries with the option to defer payment for a five year period by payment in annual instalments. Failure to honour its obligation in relation to the payment of annual instalments of the exit tax signifies immediate discontinuance of the deferral of exit tax payment and the tax becomes recoverable. Exemptions provided under ATAD will apply.
- (ii) Hybrid rules tackling mismatches in the characterisation of a financial instrument or entity between member states of the EU, if such a mismatch results in a double deduction or a deduction without inclusion.

##### ***Mandatory Disclosure Rules***

Cyprus will be implementing the latest amendment of the EU Directive 2011/16/EU on Administrative Cooperation namely introducing mandatory disclosure rules as of 1 July 2020 under which qualifying intermediaries and relevant taxpayers will be required to disclose information on reportable cross-border tax arrangements to their authorities within 30 days of the earlier of: when the arrangement is made 'available for implementation', 'ready for implementation' or actually implemented. In the absence of an intermediary, for example, if the obligation is not enforceable upon an intermediary due to legal professional privilege, or in case the intermediary is located outside the EU or because an arrangement is developed in-house, the obligation to disclose falls on the taxpayer. A taxpayer is defined as any person that uses a reportable cross-border arrangement to potentially optimise their tax position. As set out below, arrangements entered into after the aforementioned Directive has entered into force on 25 June 2018 will also have to be disclosed, albeit with a delayed reporting requirement until August 2020.

### **FATCA**

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. A number of jurisdictions have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register, and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding.



unless materially modified after such date (including by reason of a substitution of the issuer). However, if additional notes (as described under Condition 15 ("*Further Issues*")) that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including Notes issued on the Issue Date prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Noteholders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, none of the Issuer, the Guarantors or any other person will be required to pay additional amounts as a result of the withholding.

## **LISTING AND GENERAL INFORMATION**

### **1. Authorisations**

The issue of the Notes has been authorised and this Prospectus has been approved by resolutions of the board of directors and the shareholders of the Issuer dated 29 May 2019.

The grant of the Guarantee has been authorised by resolutions of the shareholders and, as applicable, boards of directors, of each of the Guarantors dated 29 May 2019.

### **2. Listing and Admission to Trading**

Application has been made for the Notes to be admitted to the Official List and to trading on the Regulated Market of Euronext Dublin. The total expenses related to the admission of the Notes to trading on Euronext Dublin are expected to amount to approximately €8,000.

### **3. Listing Agent**

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission of the Notes to the Official List and to trading on the Regulated Market of Euronext Dublin.

### **4. Documents Available**

For the life of this Prospectus, copies of the following documents will be available (in physical form) for inspection from the registered office of the Issuer and from the specified office of the Principal Paying Agent:

- (a) the constitutive documents (with an English translation thereof) of the Issuer;
- (b) the constitutive documents (with an English translation thereof) of each of the Guarantors;
- (c) the audited Financial Statements, in each case, together with the independent auditor's reports prepared in connection thereon;
- (d) the Agency Agreement;
- (e) the Trust Deed (containing the Guarantee);
- (f) this Prospectus; and
- (g) the IMC Montan Report.

### **5. Clearing Systems**

The Notes have been accepted for clearance through Euroclear and Clearstream. The ISIN and Common Code for the Notes are XS2008618501 and 200861850, respectively.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, and the address of Clearstream is 42 Avenue JF Kennedy, L-1855 Luxembourg.

### **6. Auditors**

The independent auditor of the Group is KPMG Limited. KPMG Limited has audited, without qualification, the Group's financial statements for the financial years ended 31 December 2018, 31 December 2017 and 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the provisions of the Cyprus Companies Law, Cap. 113.

KPMG Limited does not have any material interest in the Group.

**7. No Material Adverse Change**

There has been no material adverse change in the prospects of the Issuer, the Guarantors or the Group since 31 December 2018, the date of the most recent audited financial information for the Group.

**8. No Significant Change**

There has been no significant change in the financial or trading position of the Issuer, the Guarantors or the Group since 31 December 2018, the date of the most recent audited financial information for the Group.

**9. Legal proceedings**

None of the Issuer, the Guarantors or any other member of the Group is or has been engaged in nor, so far as the Issuer, the Guarantors or any other member of the Group is aware, has pending or threatened, any governmental, legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this Prospectus, a significant effect on the Issuer's, the Guarantors' or the Group's financial position or profitability.

**10. Yield**

On the basis of the issue price of the Notes of 100% of the principal amount thereof, the gross yield of the Notes will be 7.75% per annum paid semi-annually.

## GLOSSARY OF TECHNICAL TERMS, UNITS OF MEASUREMENT AND CONVERSION FACTORS

### *Technical Terms*

"activated carbon"	coconut fruit is skinned, dried and charcoaled in furnaces with temperatures around 1000 degree Celsius to produce activated carbon. Activated carbon is carbon that is free of contaminants and obstructions of its surface area meaning gold, silver and other soluble minerals may be adsorbed onto its surface;
"Ag"	the chemical symbol for silver;
"alteration"	the physical or chemical change in a rock or mineral subsequent to its formation;
"assay"	a chemical test performed on a sample of ores or minerals to determine the amount of valuable metals contained. A range of different methods and methodologies can be used to conduct assays;
"Au"	the chemical symbol for gold;
"average head grade"	the standard method (within the mining industry) for reporting the quality of ore. In the case of precious metals, the reported figure shows the number of grammes of precious metal (gold or silver) per tonne of mined ore; in the case of base metals, the reported figure shows the percentage of base metal (copper, antimony or molybdenum) per tonne of mined ore;
"ball mill"	a steel cylinder filled with steel balls into which crushed ore is fed. The ball mill is rotated, causing the steel balls to cascade and grind the ore;
"bullion"	gold or silver bars or ingots;
"by-product"	a secondary metal or mineral that is produced or recovered during mining and processing at a deposit. A by-product offers additional economic benefits to a project, but is not necessary in order for the project to be economically efficient;
"carbon-in-leach" or "CIL"	a method of recovering gold and silver, in which a slurry of gold or silver-bearing ore, carbon, and cyanide are mixed together. The cyanide dissolves the gold, which is subsequently absorbed by the activated carbon the base of which is usually ground coconut shells;
"carbon-in-pulp"	a technique in which granular activated carbon particles that are much larger than the ground ore particles are added to a cyanide pulp which is already impregnated with gold and silver particles. The activated carbon and pulp are agitated together to enable the solubilised precious metals to become adsorbed into the activated carbon. The loaded activated carbon is mechanically screened to separate it from the barren ore pulp and processed to remove the gold and silver and prepare it for reuse;
"cash operating costs"	unless otherwise stated, cash operating costs are determined in accordance with the internationally recognised Gold Institute Standard;

"concentrate"	a fine, powdery product of the milling process containing a high percentage of valuable metal; products containing precious metals that are produced after flotation. At a later stage, gold and silver concentrates are then processed into doré bars;
"core"	a cylindrical sample of rock obtained by core drilling;
"crushing"	one of the early steps in ore processing during which ore is reduced to relatively coarse particles by stamps, crushers or rolls, to be then fed to grinding mills or to a leach pad;
"crystal"	a mineral grain with developed faces which reflect its internal atomic structure;
"Cu"	the chemical symbol for copper;
"cut-off grade"	the figure that indicates the lowest grade of ore that it is economically feasible to mine at a deposit, based on current economic conditions. Cut-off grades can change based on fluctuations in macroeconomic factors (such as commodity prices) or technological changes. As cut-off grades change, the calculated resources and/or reserves at a site will also change;
"cuttings"	sample of rock produced by percussion and rotary drilling methods such as reverse circulation drilling;
"cyanide leach"	the treatment of minerals and metals with a solution of cyanide;
"deposit"	a coherent geological body such as a mineralised body;
"development projects"	this term is in contrast to exploration sites (an earlier stage) and operating deposits (a more advanced stage). A development project is a site where feasibility studies have been completed and a decision has been made to move forward with constructing an operating deposit, but the deposit has not yet come online;
"dip"	the angle at which a bed, structure or vein is inclined from the horizontal, measured perpendicular to the strike and in the vertical plane;
"doré bars"	the final saleable product of a gold mine. Gold and silver bars containing a certain percentage content of precious metals (gold and/or silver);
"drilling"	<p>multiple methods of drilling can be used, including: <b>core</b>: a drilling method that uses a rotating barrel and an annular-shaped, diamond impregnated rock-cutting bit to produce cylindrical rock cores and lift such cores to the surface, where they may be collected, examined and assayed;</p> <p><b>reverse circulation</b>: a drilling method that uses a rotating cutting bit within a double-walled drill pipe and produces rock chips rather than core. Air or water is circulated down to the bit between the inner and outer wall of the drill pipe. The chips are forced to the surface through the centre of the drill pipe and are collected, examined and assayed;</p> <p><b>conventional rotary</b>: a drilling method that produces rock chips similar to reverse circulation except that a sample is collected using a single-walled drill pipe. Air or water circulates down</p>

through the centre of the drill pipe and returns chips to the surface around the outside of the pipe; and

*in-fill*: the collection of additional samples between existing samples, used to provide greater geological detail and to provide more closely-spaced assay data;

**"exploration"**

activities associated with ascertaining the existence, location, extent or quality of mineralised material, including economic and technical evaluations of mineralised material (including prospecting, sampling, mapping, diamond drilling and other work);

**"feasibility study"**

a study that is conducted to determine the opportunities and potential challenges of a development project, before development commences. Feasibility studies focus on determining if developing the project is economically feasible given current market conditions;

**"fixing price"**

the London Bullion Market fixing price, which represents prices obtained through matching orders for purchases and sales of metals on the London Bullion Market;

**"flotation"**

a milling process in which valuable mineral particles are induced to become attached to bubbles and float as others sink; a mineral concentration process where the surface chemistry of the desired mineral particles is chemically modified such that they preferentially attach themselves to bubbles and float to the surface while the gangue minerals are chemically suppressed and do not float;

**"geochemical"**

a prospecting technique which measures the content of specified metals in soils and rocks and stream sediments; sampling defines anomalies for further testing;

**"geophysical"**

a prospecting technique which measures the physical properties (magnetism, conductivity, density, etc.) of rocks and identifies anomalies for further testing;

**"grade"**

the quantity of ore or metal in a specified quantity of rock;

**"grinding (or milling)"**

powdering or pulverising of ore, by pressure or abrasion, to liberate valuable minerals for further metallurgical processing; reducing mineralised rock to the consistency of fine sand by crushing and abrading in a rotating steel grinding mill;

**"heap"**

a pile in which ore is stacked prior to undergoing the leaching process;

**"heap leaching"**

a leaching process in which the ore is placed in heaps (or piles), which are then treated with cyanide (as the leaching chemical) that is poured over the heap or transmitted inside the heap through a system of pipes;

**"JORC"**

the Joint Ore Reserves Committee;

**"JORC Code"**

the 2004 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, which sets out the minimum standards, recommendations and guidelines for public reporting of exploration results, mineral resources and ore reserves in Australasia;

**"JORC Reserve(s)"**

the economically mineable part of a measured and/or indicated mineral resource. It includes diluting materials and allowances for losses which may occur when a material is mined. Appropriate assessments and 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 reasonably be justified. Ore reserves are sub-divided in order of increasing confidence into probable ore reserves and proved ore reserves. Refer to the JORC Code;

**"JORC Reserve(s) — Probable"**

the economically mineable part of an indicated and, in some circumstances, a measured mineral resource. It includes diluting materials and allowances for losses which may occur when a material is mined. Appropriate assessments and 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 reasonably be justified. Refer to the JORC Code;

**"JORC Reserve(s) — Proved"**

the economically mineable part of a measured mineral resource. It includes diluting materials and allowances for losses which may occur when a material is mined. Appropriate assessments and 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 reasonably be justified. Refer to the JORC Code;

**"JORC Resource(s)"**

a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form, quality and quantity 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, in order to increase geological confidence, into inferred, indicated and measured categories. Refer to the JORC Code;

**"JORC Resource(s) — Indicated"**

part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed. Refer to the JORC Code;

**"JORC Resource(s) — Inferred"**

part of a mineral resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified

	geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability. Refer to the JORC Code;
<b>"JORC Resource(s) — Measured"</b>	part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity. Refer to the JORC Code;
<b>"LBMA"</b>	the London Bullion Market Association;
<b>"leaching"</b>	an extraction process that is used to separate metal from ore, in which the solid (ore) is dissolved in a liquid. Generally, in the mining industry, the leaching solution is cyanide-based;
<b>"life of mine"</b>	a measure of how long it will be economically feasible to continue active mining operations at a deposit. Life of mine figures may change over time;
<b>"loaded carbon"</b>	activated carbon that was subjected to slurries or solutions containing dissolved gold or other minerals that has now become entrained with those minerals;
<b>"measured"</b>	that part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and/or grade continuity;
<b>"metallurgical"</b>	the science concerned with the extraction, production, purification and properties of metals and their applications;
<b>"mill"</b>	a plant in which ore is treated and metals are recovered or prepared for smelting; also a revolving drum used for the grinding of ores in preparation for treatment;
<b>"mineable"</b>	that portion of a mineralised deposit for which extraction is technically and economically feasible;
<b>"mineral"</b>	a natural, inorganic, homogeneous material that can be expressed by a chemical formula;
<b>"mineralisation"</b>	a process of formation and concentration of elements and their chemical compounds within a mass or body of rock. More generally, a term applied to accumulations of economic or related minerals in quantities ranging from weakly elevated to economically recoverable;
<b>"mining licence"</b>	permission to mine minerals from a mineral rights area.



<b>"Mo"</b>	the chemical symbol for molybdenum;
<b>"open pit"</b>	mining in which the ore is extracted from an excavation open to the sky. The geometry of the pit may vary with the characteristics of the orebody. Also referred to as open-cut or opencast mine;
<b>"ore"</b>	naturally occurring material from which a mineral or minerals of economic value can be extracted profitably or to satisfy social or political objectives. The term is generally but not always used to refer to metalliferous material, and is often modified by the names of the valuable constituent, e.g. iron ore material;
<b>"ore body"</b>	the volume of mineralised rock which can be mined profitably under current or immediately foreseeable economic conditions;
<b>"ore grade"</b>	the average weight of the valuable metal or mineral contained in a specific weight of ore;
<b>"ore reserves"</b>	the economically mineable part of a measured and/or indicated mineral resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments and 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 reasonably be justified. Ore reserves are sub-divided in order of increasing confidence into probable reserves and proved reserves;
<b>"pit"</b>	the area at a deposit where mining operations are carried out. In general, most deposits have more than one pit;
<b>"precious metal"</b>	gold, silver and platinum group metals;
<b>"probable reserves"</b>	the economically mineable part of an indicated, and in some circumstances, a measured mineral source. It includes diluting materials and allowances for losses which may occur when a material is mined. Appropriate assessments and 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 reasonably be justified. A probable reserve has a lower level of confidence than a proved reserve but is of sufficient quality to serve as the basis for a decision on the development of the deposit;
<b>"proved reserves"</b>	a proved reserve is the economically mineable part of a measured mineral source. It includes diluting materials and allowances for losses which may occur when a material is mined. Appropriate assessments and 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 reasonably be justified. A proved reserve represents the highest confidence category of reserve estimate. The style of mineralisation or other factors could mean that proved reserves are not achievable in some deposits;

<b>"proven and probable"</b>	the two sub-categories into which JORC standards divide reserves. Proved indicates a higher level of certainty about the measurements, whereas probable is less certain;
<b>"pulp"</b>	pulverised ore mixed with water;
<b>"quality control"</b>	a systematic setting, check, and operation designed to maintain steady working conditions in a continuous process such as mineral concentration; to forestall trouble; to check condition of ore or products at important transfer points;
<b>"reclamation"</b>	the restoration of a site after mining or exploration activity is completed;
<b>"recovery rate"</b>	the percentage of valuable metal in the ore that is recovered by metallurgical treatment;
<b>"refining"</b>	the final stage of metal production in which impurities are removed from molten metal;
<b>"refractory ores"</b>	ores with certain physical and chemical properties that make them difficult to process;
<b>"rock"</b>	mineral matter of various compositions;
<b>"sampling"</b>	taking small pieces of ore at intervals along exposed mineralisation for assay (to determine the mineral content);
<b>"Sb"</b>	the chemical symbol for antimony;
<b>"slurry"</b>	finely ground ore mixed with water;
<b>"smelting"</b>	the winning of metal or amalgam from burning sulphide minerals at high temperature;
<b>"spot price"</b>	the prices that are quoted for the immediate sale and delivery of a commodity. Companies may either sell their precious metals at spot price(s) or through hedge contracts (with prices that have been determined in advance);
<b>"stripping"</b>	a process used in open-pit mining. In stripping, surface layers are removed to gain access to ore containing precious metals;
<b>"stripping ratio"</b>	the unit amount of spoil or overburden that must be removed to gain access to a unit amount of ore or mineral material;
<b>"structure"</b>	the general disposition, attitude, arrangement or relative positions of rock;
<b>"sulphide ore"</b>	ore characterised by the inclusion of metal in the crystal structure of a sulphide mineral. This type of ore is often refractory;
<b>"tailings"</b>	the waste products in mining that remain after all of the minerals economically viable to mine have been extracted from ore;

"tonnage"	quantities where the tonne is an appropriate unit of measure. Typically used to measure reserves of gold-bearing material in situ or quantities of ore and waste material mined, transported or milled;
"tailings storage facility"	a natural or man-made confined area suitable for depositing material that remains after the treatment of ore;
"underground"	the process by which ore is mined underground;
"vein"	an area within a rock body that contains minerals, including gold and silver; and
"waste"	rock lacking or containing an uneconomic quantity of target elements.

## Units of Measurement and Conversion Factors

**Conversion factors** conversion factors from metric units to U.S. units are provided below:

Metric Unit	US equivalent
tonne = 1 t.....	1.10231 tons
1 gramme = 1 g.....	0.03215 ounces
1 gramme per tonne = 1 g/t.....	0.02917 ounces per tonne
1 kilogramme per tonne = 1 kg/t.....	29.16642 ounces per tonne
1 kilometre = 1 km.....	0.621371 miles
1 metre = 1 m.....	3.28084 feet
1 centimetre = 1 cm .....	0.3937 inches
1 millimetre = 1 mm .....	0.03937 inches

### metric conversion

grams x 31.10348 = troy ounces

grams per tonne x 34.28600 = troy ounces per short ton

tonnes x 0.00045 = pounds

tonnes x 0.90718 = tons

metres x 0.30480 = feet

kilometres x 1.60930 = miles

hectares x 0.40468 = acres

Fahrenheit (degrees Fahrenheit-32) x 5 ÷ 9 = Celsius

g/t	gramme per metric tonne
g/t Ag, or Ag g/t	grams of silver per metric tonne
g/t Au, or Au g/t	grams of gold per metric tonne.

km	kilometre, a thousand metres
koz	a thousand troy ounces
kozpa	koz per annum
kt	a thousand metric tonnes
ktpa	kt per annum
m	a metre
m <sup>3</sup>	a cubic metre
mm	a millimetre
Moz	a million troy ounces
Mozpa	Moz per annum
Mt	a million metric tonnes
ounce or oz	troy ounce (31.1035 gramme, or 1.097 Avoirdupois ounce)
sq km	square kilometre
ton	short or imperial ton (2,000 pounds)
tonne	metric ton
US\$/oz	a United States dollars per troy ounce
US\$/t	a United States dollar per tonne
°	a degree
°C	a degree Celsius
bbl	oil barrel (42 U.S. gallons or about 159 litres)

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**GeoProMining Investment (CYP) Limited**

**Consolidated Financial Statements  
for the year ended 31 December 2018**

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## **GEPROMINING INVESTMENT (CYP) LIMITED**

### **BOARD OF DIRECTORS AND PROFESSIONAL ADVISERS**

#### **Board of Directors:**

<u>Full Name</u>	<u>Nationality</u>	<u>Date of Appointment</u>	<u>Date of Resignation</u>
<i>Executive Director</i>			
Roman Khudoliy	Russian	28.08.2014	
<i>Non Executive Directors</i>			
Siman Povarenkin (Chairman)	Russian	27.06.2011	
Igor Lojevsky	Russian	27.06.2011	
Viatcheslav Pivovarov	Russian	11.03.2014	27.03.2019
Vladimir Lelyukh	Russian	28.08.2014	27.03.2019
Roman Trotsenko	Russian	27.03.2019	
Mirzaaziz Musakhanov	Russian	27.03.2019	

#### **Company Secretary:**

<u>Full Name</u>	<u>Nationality</u>	<u>Date of Appointment</u>
Chelco Consulting Limited	Cyprus	18.12.2014

#### **Independent Auditors:**

KPMG Limited

#### **Legal advisors:**

Andreas Neocleous & Co LLC

#### **Bankers:**

Bank of Cyprus  
International Business Unit  
66-68 Archiepiskopou Makariou & Markou Drakou Street  
Mesa Geitonia  
4003 Limassol, Cyprus

Banque J. Safra Sarasin SA  
8, place de l'Université, Case postale 33, CH-1211 Geneva 4 – Switzerland

CIM-Banque  
Rue Merle d'Aubigné 16, 1207 Geneva – Switzerland

VTB Bank PJSC, VTB Bank Europe SE  
Rüsterstraße 7-9, 60325 Frankfurt – Germany

#### **Registered Office:**

Christodoulou Chatzipavlou, 221 Helios Court, 3<sup>rd</sup> floor 3036. Limassol, Cyprus



## **GEOPROMINING INVESTMENT (CYP) LIMITED**

### **MANAGEMENT REPORT**

The Board of Directors present their annual report and the audited consolidated financial statements of **GeoProMining Investment (CYP) Limited** (the “Company”) and its subsidiaries (the “Group”) for the year ended 31 December 2018.

#### **INCORPORATION AND PRINCIPAL ACTIVITY**

The Company was incorporated in Cyprus by the controlling shareholder of GeoProMining Ltd on 30 August 2010 as a private limited liability company under the Cyprus Companies Law, Cap.113.

The Group’s principal activity continues to be the extraction and processing of ore, containing nonferrous metals, mainly gold, copper, molybdenum and antimony, at plants located in Armenia and Russia.

On 2 September 2011, as a result of restructuring, GeoProMining Investment (CYP) Limited became the holding company of the Group through the transfer of ownership by GeoProMining Ltd of all its subsidiaries to the Company in return for shares in the Company.

As of 31 December 2016 GeoProMining Ltd was under a liquidation process, which has been finalised in February 2017.

#### **REVIEW OF CURRENT POSITION AND OPERATIONAL PERFORMANCE**

The Group’s financial results for the year ended 31 December 2018 and its financial position at 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 10 and 11 and the consolidated statement of financial position on pages 12 and 13, respectively. Total assets as at 31 December 2018 amounted to USD 536,217 thousand (31 December 2017: USD 546,802 thousand), net assets as at 31 December 2018 amounted to USD 155,713 thousand (31 December 2017: USD 170,028 thousand). Total revenue for the year amounted to USD 283,053 thousand (2017: USD 228,345 thousand). The profit for the year amounted to USD 5,009 thousand (2017: USD 1,651 thousand).

#### **DIVIDENDS AND TRANSFER TO RESERVES**

The Board of Directors did not recommend the payment of dividends for the year ended 31 December 2018.

#### **FORESEEABLE FUTURE DEVELOPMENTS**

The main projects are the development of GPM Verkhne Menkeche LLC and construction of Sentachan plant located in Russia.

## **GEOPROMINING INVESTMENT (CYP) LIMITED**

### **MANAGEMENT REPORT (Continued)**

#### **MAIN RISKS AND UNCERTAINTIES**

During 2016, following the requirements of the new Facility agreement, the Group purchased put options for 287,200 ounces of gold and also sold call options for 475,750 ounces of gold. During 2019-2021, put options are exercisable quarterly at the strike price of USD 900 per ounce in 2019 (decreasing to USD 850 per ounce in 2021) and call options are exercisable quarterly at the strike price of USD 1,575-1,700 per ounce. The fair value of the put and call options was determined using a proprietary technique based on observable inputs including volatility, gold price quotations and risk-free rates. Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and loans receivables. The maximum exposure to credit risk at the reporting date is USD 14,614 thousand (31 December 2017: USD 18,423 thousand).

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The current liquidity ratio was 0.55 as at 31 December 2018 (31 December 2017: 0.91).

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Armenian Dram (AMD) and the Russian Rouble (RUB). The currencies in which these transactions primarily denominated are EUR and USD.

The steps taken to manage these risks are described in notes 26 and 28 to these consolidated financial statements.

#### **SHARE CAPITAL**

On 28 August 2014 the Company additionally issued 17,239,063 ordinary shares which were sold to Sberbank Capital LLC in two tranches for the amount of USD 77,000 thousand and fully paid-up in December 2014. The company cancelled 270,000 ordinary shares. As a result of the above changes number of issued share capital increased to 66,969,064 shares as at 31 December 2015.

The funds raised were used by the Company for the acquisition of Verkhne Menkeche, mining assets in Armenia and financing of the Company's projects.

There were no changes in the capital structure since 2015.

#### **BRANCHES**

During the year ended 31 December 2018 the Company did not operate any branches.

#### **BOARD OF DIRECTORS**

The members of the Board of Directors as at the date of this report are set out on page 3. They were all members of the Board throughout the year and up to the date of this report.

In accordance with the Company's Articles of Association, all members of the Board of Directors remain in office until their resignation or removal.

## **GEOPROMINING INVESTMENT (CYP) LIMITED**

### **MANAGEMENT REPORT (Continued)**

#### **RESEARCH AND DEVELOPMENT ACTIVITY**

The Group has research and development activities in respect of the following mines:

- Verkhne Menkeche polymetallic mine located in Russia;
- Construction of Sentachan plant located in Russia.
- KIM and Vzbrov antimony mine located in Russia.


Details of the exploration and licensing activities in respect of the above are given in note 16(b).

The budget for 2019 for exploration and evaluation expenditure is up to USD 22.9 million for development of Verkhne Menkeche, up to USD 6.2 million for construction of Sentachan plant and up to USD 2.4 million for KIM and Vzbrov mine project.

#### **INDEPENDENT AUDITORS**

The independent auditors of the Company, KPMG Limited, have expressed their willingness to continue in office and a resolution authorizing the Board of Directors to fix their remuneration will be submitted at the Annual General Meeting.

By order of the Board

Siman Povarenkin

Limassol, 23 April 2019



KPMG Limited  
Chartered Accountants  
11, June 16th 1943 Street, 3022 Limassol, Cyprus  
P.O.Box 50161, 3601 Limassol, Cyprus  
T: +357 25 869000, F: +357 25 363842

## INDEPENDENT AUDITORS' REPORT

### TO THE MEMBERS OF

#### GeoProMining Investment (Cyp) Limited

#### Report on the audit of the financial statements

##### *Opinion*

We have audited the accompanying consolidated financial statements of GeoProMining Investment (Cyp) Limited (the "Company"), and its subsidiaries (the "Group"), which are presented on pages 10 to 79, and comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and the requirements of the Cyprus Companies Law, Cap. 113, as amended from time to time (the "Companies Law, Cap. 113").

##### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report. We are independent of the Group in accordance with the *Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants ("IESBA Code")*, and the ethical requirements in Cyprus that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### **Other information**

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management report, but does not include the consolidated financial statements and our auditors' report thereon.

Nicosia P.O. Box 21121, 1502 T: +357 22 209000 F: +357 22 678200	Larnaca P.O. Box 40075, 6300 T: +357 24 200000 F: +357 24 200200
Paphos P.O. Box 60288, 8101 T: +357 26 943050 F: +357 26 943062	Paralimni / Ayia Napa P.O. Box 33200, 5311 T: +357 23 820080 F: +357 23 820081
Polea Chrysochous P.O. Box 66014, 8330 T: +357 26 322008 F: +357 26 322722	

KPMG Limited is a member firm of the KPMG network, a global organization of member firms, each of which is a separate legal entity. KPMG Limited is not a member firm of the KPMG network. KPMG Limited is a member firm of the KPMG network, a global organization of member firms, each of which is a separate legal entity. KPMG Limited is not a member firm of the KPMG network.

## **INDEPENDENT AUDITORS' REPORT (continued)**

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as required by the Companies Law, Cap.113

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

With regards to the management report, our report in this regard is presented in the *"Report on other legal requirements"* section.

### **Responsibilities of the Board of Directors for the financial statements**

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRS-EU and the requirements of the Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to either liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

### **Auditors' responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.



## **INDEPENDENT AUDITORS' REPORT (continued)**

### **Auditors' responsibilities for the audit of the financial statements (continued)**

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or the business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### **Report on other legal requirements**

Pursuant to the additional requirements of the Auditors' Law of 2017, L.53(I)/2017, as amended from time to time ("Law L.53(I)/2017"), we report the following:

- In our opinion, the management report, the preparation of which is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In the light of the knowledge and understanding of the business and the Group's environment obtained in the course of the audit, we have not identified material misstatements in the management report.

### **Other matter**

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 69 of Law L.53(I)/2017, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.



Zakis E. Hadjizacharias, CA  
Certified Public Accountant and Registered Auditor

for and on behalf of

KPMG Limited  
Certified Public Accountants and Registered Auditors

11, June 16th 1943 Street  
3022 Limassol  
Cyprus

23 April 2019

**GeoProMining Investment (CYP) Limited**  
*Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2018*

'000 USD	Note	2018	2017
<b>Revenue</b>	8	283,053	228,345
Cost of sales	9	(155,881)	(137,262)
<b>Gross profit</b>		127,172	91,083
Distribution expenses	10	(3,831)	(2,948)
Administrative expenses	11	(36,024)	(24,930)
Net gain / (loss) from commodity derivatives		3,296	(4,183)
	16(c), 16(d),		
Net impairment loss	16(e), 21	(28,551)	(6,218)
Other income	12	-	1,233
Other expenses	13	(12,859)	(11,337)
<b>Result from operating activities</b>		49,203	42,700
Finance income	14	96	383
Finance costs	14	(23,684)	(27,884)
<b>Profit before income tax</b>		25,615	15,199
Income tax expense	15	(20,606)	(13,548)
<b>Profit for the year</b>		5,009	1,651

**GeoProMining Investment (CYP) Limited**  
*Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2018*

'000 USD	Note	2018	2017
<b>Other comprehensive (loss) / income</b>			
<i>Items that are or may be reclassified to profit or loss</i>			
Foreign currency translation differences for foreign operations		(19,324)	4,376
<b>Other comprehensive (loss) / income</b>		(19,324)	4,376
<b>Total comprehensive (loss) / income</b>		(14,315)	6,027
 <b>Profit / (loss) attributable to:</b>			
Shareholders of the Group		18,920	1,777
Non-controlling interests		(13,911)	(126)
		5,009	1,651
 <b>Total comprehensive (loss) / income attributable to:</b>			
Shareholders of the Group		(446)	6,156
Non-controlling interests		(13,869)	(129)
<b>Total comprehensive (loss) / income</b>		(14,315)	6,027

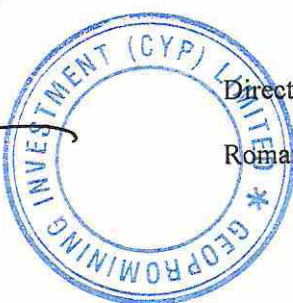
These consolidated financial statements were approved by the Board of Directors on 23 April 2019 and were signed on its behalf by:

Director

Siman Povarenkin

Director

Roman Khudoliy





**GeoProMining Investment (CYP) Limited**  
*Consolidated Statement of Financial Position as at 31 December 2018*

'000 USD	Note	2018	2017
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	16	447,455	459,353
Other non-current assets		175	203
Deferred tax assets	17	1,439	4,166
<b>Total non-current assets</b>		449,069	463,722
<b>Current assets</b>			
Inventories	19	55,446	48,581
Bank deposits		-	6,330
Income tax receivable		2,071	2,829
Trade and other receivables	20	14,163	15,726
Prepayments for current assets		6,868	5,112
Cash and cash equivalents		8,599	4,502
Assets held for sale	21	1	-
<b>Total current assets</b>		87,148	83,080
<b>Total assets</b>		536,217	546,802

**GeoProMining Investment (CYP) Limited**  
*Consolidated Statement of Financial Position as at 31 December 2018*

'000 USD	Note	2018	2017
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	22(a)	941	941
Share premium	22(b)	272,703	272,703
Translation reserve		(107,719)	(88,353)
Retained earnings		(10,212)	(29,132)
<b>Total equity, fully attributable to shareholders of the Group</b>		<b>155,713</b>	<b>156,159</b>
Non-controlling interests		-	13,869
<b>Total equity</b>		<b>155,713</b>	<b>170,028</b>
<b>Non-current liabilities</b>			
Loans and borrowings	23	161,227	209,223
Financial liabilities at fair value through profit or loss	18	3,044	6,337
Provisions	24	16,295	11,335
Trade and other payables	25	-	9,166
Deferred tax liabilities	17	42,725	49,896
<b>Total non-current liabilities</b>		<b>223,291</b>	<b>285,957</b>
<b>Current liabilities</b>			
Loans and borrowings	23	92,428	37,273
Financial liabilities at fair value through profit or loss	18	367	371
Trade and other payables	25	62,186	48,619
Income tax payable		2,232	4,554
<b>Total current liabilities</b>		<b>157,213</b>	<b>90,817</b>
<b>Total liabilities</b>		<b>380,504</b>	<b>376,774</b>
<b>Total equity and liabilities</b>		<b>536,217</b>	<b>546,802</b>

**GeoProMining Investment (CYP) Limited**  
*Consolidated Statement of Cash Flows for the year ended 31 December 2018*

'000 USD	Note	2018	2017
<b>OPERATING ACTIVITIES</b>			
Profit for the year		5,009	1,651
<i>Adjustments for:</i>			
Depreciation	16(a)	42,900	39,285
Impairment loss	16(c), 16(d), 16(e), 21	28,551	6,218
Loss on disposal of property, plant and equipment and other assets	13	318	574
Provision for obsolete inventory	13	194	196
Additional royalty and other than on income tax payments imposed by the tax authorities of previous periods	13	959	-
Net (gain)/loss from commodity derivatives		(3,296)	4,182
Net finance costs	14	23,588	27,501
Income tax expense	15	20,606	13,548
<b>Operating profit before changes in working capital</b>		118,829	93,155
Change in inventories		(10,793)	(13,093)
Change in trade and other receivables		(2,718)	4,433
Change in prepayments for current assets		(2,166)	515
Change in trade and other payables		(16,560)	5,517
<b>Cash flows from operations before income taxes and interest paid</b>		86,592	90,527
Income taxes paid		(27,102)	(18,311)
Interest paid		(18,885)	(22,351)
<b>Cash flows from operating activities</b>		40,605	49,865

**GeoProMining Investment (CYP) Limited**  
*Consolidated Statement of Cash Flows for the year ended 31 December 2018*

<b>'000 USD</b>	<b>Note</b>	<b>2018</b>	<b>2017</b>
<b>INVESTING ACTIVITIES</b>			
Deposits repaid, including interest		-	925
Acquisition of property, plant and equipment and other assets		(41,913)	(35,900)
Released restricted cash		-	7,176
<b>Cash flows used in investing activities</b>		<b>(41,913)</b>	<b>(27,799)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from borrowings	23(b)	58,474	23,159
Repayment of borrowings	23(b)	(53,206)	(44,788)
Payment of transaction costs related to the Facility agreement		-	(529)
<b>Cash flows from / (used in) financing activities</b>		<b>5,268</b>	<b>(22,158)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>3,960</b>	<b>(92)</b>
Cash and cash equivalents at 1 January		4,502	4,654
Effect of exchange rate fluctuations on cash held		137	(60)
<b>Cash and cash equivalents at 31 December</b>		<b>8,599</b>	<b>4,502</b>

	Attributable to shareholders of the Group						
	Share capital	Share premium	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
<b>Balance at 1 January 2017</b>	941	272,703	(92,732)	(30,909)	150,003	13,998	164,001
Profit for the year	-	-	-	1,777	1,777	(126)	1,651
Foreign currency translation differences	-	-	4,379	-	4,379	(3)	4,376
<b>Total comprehensive income for the year</b>	-	-	4,379	1,777	6,156	(129)	6,027
<b>Balance at 31 December 2017</b>	941	272,703	(88,353)	(29,132)	156,159	13,869	170,028
<b>Balance at 1 January 2018</b>	941	272,703	(88,353)	(29,132)	156,159	13,869	170,028
Profit for the year	-	-	-	18,920	18,920	(13,911)	5,009
Foreign currency translation differences	-	-	(19,366)	-	(19,366)	42	(19,324)
<b>Total comprehensive loss for the year</b>	-	-	(19,366)	18,920	(446)	(13,869)	(14,315)
<b>Balance at 31 December 2018</b>	941	272,703	(107,719)	(10,212)	155,713	-	155,713

The accompanying notes are an integral part of these consolidated financial statements.

## 1. Background

### (a) Organisation and operations

GeoProMining Investment (CYP) Limited (the “Company”) was incorporated in Cyprus by the controlling shareholder of GeoProMining Ltd on 30 August 2010 as a private limited liability company under the Cyprus Companies Law, Cap.113.

The Company’s registered office address is Christodoulou Chatzipavlou, 221 Helios Court, 3<sup>rd</sup> floor 3036. Limassol, Cyprus.

The Company, through its wholly owned subsidiaries, controls a number of production entities engaged in the processing of ore containing nonferrous metals, in Armenia and Russia and other entities which, together with the Company, are referred to as “the Group”.

On 2 September 2011 the Company (which had no business or assets of its own) became the holding company of the Group through a transfer of the ownership in all of the Group’s subsidiaries by GeoProMining Ltd in exchange for the newly issued shares in the Company.

For accounting purposes, this transaction has been treated as restructuring amongst entities under common control and the financial history of the Group prior to that date is that of GeoProMining Ltd and its subsidiaries.

The Group’s main subsidiaries are:

		31 December 2018	31 December 2017
	Country of incorporation	Ownership/voting	Ownership/voting
Agarak CJSC	Armenia	100%	100%
GPM Gold LLC	Armenia	100%	100%
Zvezda JSC	Russia	100%	100%
Sarilakh-Surma JSC	Russia	100%	100%
Karlou B.V.	Netherlands	100%	100%
GeoProMining LLC	Russia	100%	100%
GPM Verkhne Menkeche LLC	Russia	100%	100%
Paramount Gold Mining CJSC	Armenia	51%	51%
Lernayin Arstutyun LLC	Armenia	51%	51%

The Group is owned by Geiser Asset Holdings Ltd (50.3%), which does not produce publicly available financial statements, and other shareholders. The Group is ultimately controlled by a single individual, Mr. Siman Povarenkin (the “Shareholder”), who is also a director of the Company. Related party transactions are detailed in note 30.

**(b) Business environment**

**Russian business environment**

Some of the Group's operations are located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

Starting in 2014, the United States of America, the European Union and some other countries have imposed and gradually expanded economic sanctions against a number of Russian individuals and legal entities. The imposition of the sanctions has led to increased economic uncertainty, including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. As a result, some Russian entities may experience difficulties accessing the international equity and debt markets and may become increasingly dependent on state support for their operations. The longer-term effects of the imposed and possible additional sanctions are difficult to determine.

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

**Armenian business environment**

Some of the Group's operations are located in Armenia. Consequently, the Group is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Armenia. The consolidated financial statements reflect management's assessment of the impact of the Armenian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

**Cyprus business environment**

The Cyprus economy has been adversely affected during the last few years by the economic crisis. The negative effects have to some extent been resolved, following the negotiations and the relevant agreements reached with the European Commission, the European Central Bank and the International Monetary Fund (IMF) for financial assistance which was dependent on the formulation and the successful implementation of an Economic Adjustment Program.

The Cyprus Government has successfully completed earlier than anticipated the Economic Adjustments Program and exited the IMF program on 7 March 2016, after having recovered in the international markets and having only used EUR 7.25 of the total EUR 10 billion earmarked in the financial bailout. Under the new Euro area rules, Cyprus will continue to be under surveillance by its lenders with bi-annual post-programme visits until it repays 75% of the economic assistance it received.

The current economic environment of Cyprus will not have a significant impact on the operations of the Group and the Group does not hold significant funds in Cypriot financial institutions. The Group's management is unable to predict all developments which could have an impact on the Cyprus economy and consequently, what effect, if any, they could have on the future financial performance, cash flows and financial position of the Group.

The Group's management believes that it is taking all the necessary measures to maintain the viability of the Group and the development of its business in the current business and economic environment.

## **2. Basis of preparation**

### **(a) Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRSs”) and the provisions of the Cyprus Companies Law, Cap. 113.

### **(b) Basis of measurement**

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments, and investments at fair value through profit or loss are stated at fair value, property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRS.

### **(c) Functional and presentation currency**

Management has determined the functional currencies of the entities within the Group to be the currency which reflects the economic substance of the underlying events and circumstances of each entity.

As at 31 December 2018 the functional currencies of the entities, except for Karlou B.V. and the Company, were the national currencies of those countries in which each entity operates.

The functional currency of the Company and Karlou B.V. is the US Dollar (“USD”).

The Group’s presentation currency is USD. All financial information presented in USD has been rounded to the nearest thousand.

The results and financial position of subsidiaries whose functional currency is different from the presentation currency are translated to the presentation currency using the following procedures:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income presented are translated at average exchange rates for the period because it best approximates exchange rates at the transaction dates; and
- all resulting exchange differences shall be recognised in other comprehensive income.

### **(d) Going concern**

As at 31 December 2018 the Group’s current liabilities exceeded its current assets by USD 70,165 thousand (2017: USD 7,737 thousand). The Company incurred a profit of USD 5,009 thousand for the year ended 31 December 2018 (2017: USD 1,651 thousand).

As at 31 December 2018 the Company has unused long-term loan facilities in the amount of USD 78,644 thousand payable starting from 2021 to cover short-term loans payable when they become due.

Thus, the Company’s management believes that no material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern.

### **(e) Use of judgments, estimates and assumptions**

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these



consolidated financial statements in conformity with IFRSs. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 2(f) – ore reserves;
- Note 3(k)(i) – revenue recognition for the goods sold;
- Note 3(e)(vii) – useful lives of property, plant and equipment;
- Note 16(b) – licenses;
- Note 16(c) – impairment of mining assets of GPM Gold LLC;
- Note 16(d) – impairment of fixed assets of Agarak CJSC;
- Note 17 – deferred tax assets and liabilities;
- Note 18 – financial assets and liabilities at fair value through profit or loss;
- Note 24(a) – provision for site restoration;
- Note 27 – contingencies.

### ***Measurement of fair values***

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 26 – financial instruments.

**(f) Ore reserves**

There are a number of uncertainties in estimating quantities of ore reserves, including many factors beyond the control of the Company. Ore reserve estimates are based upon engineering evaluations of assay values derived from samplings of drill holes and other openings. Additionally, declines in the market price of a particular metal may render certain reserves containing relatively lower grades of mineralisation uneconomic to mine. Further, the availability of operating and environmental permits, changes in operating and capital costs, and other factors could materially affect the Company's ore reserve estimates. The Group uses its ore reserve estimates in evaluating impairment of its property, plant and equipment and the timing of site restoration costs.

**3. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

**(a) Basis of consolidation**

**(i) Subsidiaries**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

**(ii) Non-controlling interests**

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

**(iii) Acquisitions from entities under common control**

Acquisitions of controlling interests in entities that are under the control of the same controlling shareholder as the Group are accounted for using book values as recognised in the individual financial statements at the date when control of the Group was established. Difference between cash paid and book value is recognised directly in equity.

**(iv) Loss of control**

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

**(v) *Transactions eliminated on consolidation***

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**(b) *Foreign currency***

**(i) *Foreign currency transactions***

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss.

**(ii) *Foreign operations***

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to USD at the exchange rate at the reporting date. The income and expenses of foreign operations are translated to USD at average exchange rates for the relevant periods.

Foreign currency differences are recognised directly in other comprehensive income and presented in the foreign currency translation reserve (translation reserve) in equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

Foreign exchange gains and losses arising from a monetary item received from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the foreign currency translation reserve.

**(c) *Financial instruments***

**(i) *Recognition and initial measurement***

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) **Classification and subsequent measurement**

**Financial assets – Policy applicable from 1 January 2018**

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

**Financial assets – Business model assessment: Policy applicable from 1 January 2018**

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

**Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from 1 January 2018**

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

**Financial assets – Subsequent measurement and gains and losses: Policy applicable from 1 January 2018**

<b>Financial assets at FVTPL</b>	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. However, see Note 3(c)(v) for derivatives designated as hedging instruments.
<b>Financial assets at amortised cost</b>	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
<b>Debt investments at FVOCI</b>	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
<b>Equity investments at FVOCI</b>	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

### **Financial assets – Policy applicable before 1 January 2018**

The Group classified its financial assets into one of the following categories:

- loans and receivables;
- held to maturity;
- available for sale; and
- at FVTPL, and within this category as:
  - held for trading;
  - derivative hedging instruments; or
  - designated as at FVTPL.

### **Financial assets – Subsequent measurement and gains and losses: Policy applicable before 1 January 2018**

<b>Financial assets at FVTPL</b>	Measured at fair value and changes therein, including any interest or dividend income, were recognised in profit or loss. However, see Note 3(c)(v) for derivatives designated as hedging instruments.
<b>Held-to-maturity financial assets</b>	Measured at amortised cost using the effective interest method.
<b>Loans and receivables</b>	Measured at amortised cost using the effective interest method.
<b>Available-for-sale financial assets</b>	Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognised in OCI and accumulated in the fair value reserve. When these assets were derecognised, the gain or loss accumulated in equity was reclassified to profit or loss.

### **Financial liabilities – Classification, subsequent measurement and gains and losses**

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

The Group has fixed rate bank loans for which the banks have the option to revise the interest rate following the change of key rate set by the CBR. The Group have an option to either accept the revised rate or redeem the loan at par without penalty. The Group considers these loans as in essence floating rate loans.

#### **(iii) *Modification of financial assets and financial liabilities***

##### **Financial assets**

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as ‘substantial modification’), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

The Group performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Group assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Group analogizes to the guidance on the derecognition of financial liabilities.

The Group concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement;
- change of terms of financial asset that lead to non-compliance with SPPI criterion (e.g. inclusion of conversion feature).

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

### **Financial liabilities**

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

If a modification (or exchange) does not result in the derecognition of the financial liability the Group applies accounting policy consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset, i.e. the Group recognises any adjustment to the amortised cost of the financial liability arising from such a modification (or exchange) in profit or loss at the date of the modification (or exchange).

Changes in cash flows on existing financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in fixed interest rates initiated by banks due to changes in the CBR key rate, if the loan contract entitles banks to do so and the Group have an option to either accept the revised rate or redeem the loan at par without penalty. The Group treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

Group performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Group concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted

using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

**(iv) *Derecognition***

**Financial assets**

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

**Financial liabilities**

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

**(v) *Offsetting***

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

**(vi) *Derivative financial instruments and hedge accounting***

**Derivative financial instruments and hedge accounting – Policy applicable from 1 January 2018**

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

**Derivative financial instruments and hedge accounting – Policy applicable before 1 January 2018**

The policy applied in the comparative information presented for 2017 is similar to that applied for 2018. However, for all cash flow hedges, including hedges of transactions resulting in the recognition of non-financial items, the amounts accumulated in the cash flow hedge reserve were reclassified to profit or loss in the same period or periods during which the hedged expected future cash flows



affected profit or loss. Furthermore, for cash flow hedges that were terminated before 2017, forward points were recognised immediately in profit or loss.

**(d) Share capital and capital contributions**

*Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

**(e) Property, plant and equipment**

**(i) Recognition and measurement**

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2005, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Net gains and losses on disposal of an item of property, plant and equipment are recognised in “other income” or “other expenses” in profit or loss.

**(ii) Exploration and evaluation expenditure**

Exploration and evaluation assets include topographical, geographical, geochemical and geophysical studies; exploratory drilling; activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource. The exploration and evaluation assets are measured at cost less accumulated impairment losses, and are classified as “Construction in progress” within property, plant and equipment.

**(iii) Mine development costs**

Once exploration and evaluation activities have been completed and proven reserves are determined, the expenditure on the development of mineral resources is capitalised and classified within the “Construction in progress” category of property, plant and equipment. The development expenditure which is capitalised within property, plant and equipment includes the cost of materials, direct labour and an appropriate proportion of overheads related to the works on mine development which are inseparable from the mine’s landscape, as well as costs of development stripping as described in note 3(e)(iv).

Once the relevant mineral resource is ready for production, the capitalised mine development costs are reclassified to “Mining assets and mining structures” category, which is classified within property, plant and equipment.

**(iv) Stripping costs**

Stripping costs incurred during the production phase are generally considered to create two benefits, being either the production of inventory or improved access to the ore to be mined in the future. Where the benefits are realized in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where the benefits are realised in

the form of improved access to ore to be mined in the future, the costs are recognised as a non-current asset, referred to as a stripping activity asset, if the following criteria are met:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
- the entity can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity associated with that component can be measured reliably.

If any of the criteria are not met, the production stripping costs are charged to the statement of profit or loss as operating costs as they are incurred or included in the cost of inventory produced.

In identifying components of the ore body, the Company works closely with the mining operations personnel to analyse the mine plan. Generally, a component will be a subset of the total ore body, and a mine may have several components.

The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs.

A relevant production measure is used to allocate the production stripping costs between the inventory produced and the stripping activity asset. This production measure is calculated for the identified component of the ore body and is used as a benchmark to identify the extent to which the additional activity of creating a future benefit has taken place. The Company uses the expected volume of waste extracted compared with the actual volume for a given volume of ore production of each component.

The stripping activity asset is accounted for as an addition to, or an enhancement of, an existing asset, being the mine asset, and is presented as part of intangible assets in the statement of financial position.

The stripping activity asset is subsequently depreciated using the units of production method over the life of the identified component of the ore body that became more accessible as a result of the stripping activity. Economically recoverable reserves, which comprise proven and probable reserves, are used to determine the expected useful life of the identified component of the ore body. The stripping activity asset is then carried at cost less depreciation and any impairment losses.

**(v) Subsequent costs**

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

**(vi) Mining assets and mining structures**

This category of property, plant and equipment comprises the following categories of capitalised costs, related to mines put into production use:

- Capitalised mine development expenditure (note 3(e)(iii));
- Capitalised development stripping costs (note 3(e)(iv));
- Capitalised site restoration obligations (note 24(a));
- Cost of production mining licenses (note 16(b)).

**(vii) Depreciation**

Depreciation of property, plant and equipment, except mining assets and mining structures, is determined using the straight-line method based on the estimated useful lives of the individual assets or the useful life of the associated mine if shorter, unless an item of property, plant and equipment is consumed during the mining process proportionate to the volume of extraction, in which case its depreciation is determined using a unit of production method based on the extracted volumes of mineral resources and estimated production capacity of the individual asset.

Mining assets and mining structures are depleted over the life of the related mineral resource using the unit-of-production method based on the expected amount of commercially extractable reserves, determined as industrial (recoverable) reserves. Depletion of mining assets and mining structures capitalised development costs commences from the date when saleable materials begin to be extracted from the mine.

Depreciation is recognised in profit or loss except for depreciation of assets used for construction of other items of property, plant and equipment of the Group which is included in the cost of the constructed assets.

Depreciation commences from the date the construction of an asset is completed and it is ready for use. Land is not depreciated.

The estimated useful lives of items of property, plant and equipment used as a basis for asset's depreciation rates are as follows:

- |   |  |
|---|--|
| • Buildings and other production structures | 5-20 years;  |
| • Earth-moving machinery and vehicles       | 3-7 years;   |
| • Production equipment                      | 5-10 years;  |
| • Fixtures and fittings                     | 3-5 years;   |
| • Mining assets                             | pro rata to extraction<br>volumes in relevant mines. |

Depreciation methods, useful lives and residual values are reassessed at the period end date.

**(f) Leased assets**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position. They are recognised in profit or loss on a straight-line basis over the term of the lease.

**(g) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**(h) Impairment**

**(i) *Non-derivative financial assets***

**Policy applicable from 1 January 2018**

*Financial instruments and contract assets*

The Group recognises loss allowances for ECLs on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI; and
- contract assets.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

*Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

*Credit-impaired financial assets*

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

**Presentation of allowance for ECL in the statement of financial position**

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

*Write-off*

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Group has a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

**Policy applicable before 1 January 2018**

*Non-derivative financial assets*

Financial assets not classified as at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment.

Objective evidence that financial assets were impaired included:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer would enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.

For an investment in an equity instrument, objective evidence of impairment included a significant or prolonged decline in its fair value below its cost. The Group considered a decline of 20% to be significant and a period of nine months to be prolonged.

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**Financial assets measured at amortised cost**

The Group considered evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets were individually assessed for impairment. Those found not to be impaired were then collectively assessed for any impairment that had been incurred but not yet individually identified. Assets that were not individually significant were collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics.

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In assessing collective impairment, the Group used historical information on the timing of recoveries and the amount of loss incurred, and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser than suggested by historical trends.

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An impairment loss was calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognised in profit or loss and reflected in an allowance account. When the Group considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through profit or loss.

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**Available-for-sale financial assets**

Impairment losses on available-for-sale financial assets were recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified was the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increased and the increase was related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale were not reversed through profit or loss.

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**(ii) Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill

acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(i) Employee benefits**

The Group companies make contributions to defined contribution pension plans, including State pension funds, recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

**(j) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

**(i) Site restoration**

In accordance with the Group's environmental policy and applicable legal requirements, a provision for site reclamation and the related expense, is recognised when the mine development activities start. These costs include obligations relating to reclamation, waste site rehabilitation, plant closure, plant removal and other costs associated with the restoration of the site.

**(k) Revenue**

The Group has initially applied IFRS 15 from 1 January 2018. The effect of initially applying IFRS 15 is described in Note 4.

**Policy applicable from 1 January 2018**

Revenue from metal sales is recognised at a point of time when control over the asset is transferred to a customer and represents the invoiced value of all metal products shipped to customers, net of value added tax.

Revenue from contracts that are entered into and continue to meet the Group's expected sale requirements designated for that purpose at their inception and are expected to be settled by physical delivery, is recognised in the consolidated financial statements as and when they are delivered.

As a practical expedient, the Group does not adjust the promised amount of consideration for the effects of a significant financing component of the contracts where the period between when the

Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

Certain contracts are provisionally priced so that price is not settled until a predetermined future date based on the market price at that time. Revenue from these transactions is initially recognised at the forward price. Mark-to-market adjustment on provisionally priced contracts is recorded in other income and expenses.

Revenue from contracts with customers on sale of goods, other than metals, is recognised at a point of time when control over the asset is transferred to the customer in accordance with the shipping terms specified in the sales agreements.

**Policy applicable before 1 January 2018**

Revenue recognition varies depending on the individual terms of the contract of sale. In particular, management exercised judgment in interpretation of facts and circumstances of gold sales by the subsidiaries forming Sakha (Russia) operating segment. Thus, the revenue is recognized when gold bars are delivered and have been accepted by customers at their premises.

Some of the Group's sales contracts (Agarak CJSC and Sarilakh-Surma JSC) provide for a provisional payment as specified in individual contracts that are based upon provisional assays and historical quoted metal prices. Final settlement is done based on market metal prices averaged over a specified future quotation period. Typically, the future quotation period is up to three months after the goods have been transferred to the buyer.

The Company's provisionally priced sales contracts contain an embedded derivative that is separated from the host contract for accounting purposes. The embedded derivative, which is the final settlement price based on a future price, is recorded as a trade receivable or advances received on the balance sheet and marked to market (fair value) through revenue each period with reference to the appropriate commodity forward curve until the date of final settlement.

**(l) Other expenses**

**(i) Lease payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

**(ii) Social expenditure**

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in profit or loss as incurred.

**(m) Finance income and costs**

Finance income comprises interest income on funds invested and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses and impairment losses recognised on financial assets, including trade receivables.

Interest paid is classified as operating activities in the Statement of Cash flows as it enter into the determination of profit or loss. Foreign currency gains and losses are reported on a net basis.



**(n) Income tax expense**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Total royalty expense is an allowable deductible expense for the taxable income calculation purposes.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**(o) Royalty expense**

Royalties are the expected payments to the state budget of Armenia calculated in accordance with guidelines and requirements in the applicable laws and regulations and are based on the profitability levels of licensed operations. Royalties are calculated using rates enacted or substantively enacted at the reporting date. Royalties consist of two components: royalty calculated at 4% of revenue and royalty calculated as 12.5% of taxable income less expenses as per the guidelines and requirements in the applicable laws and regulations. Following provisions of the revised law effective from

1 January 2012 the Group presents the royalty component calculated on net measure as income tax expense.

Before the enactment of the revised law the royalty expense was recognized in other expenses as non-income tax expense.

**(p) Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the CEO of the Group to make decisions about resources to be allocated to the segment and assess its performance.

Segment results that are reported to the CEO of the Group include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Group's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

Inter-segment pricing is determined on an arm's length basis.

**4. Changes in significant accounting policies**

The Group has initially applied IFRS 15 (see (A)) and IFRS 9 (see (B)) from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

**A. IFRS 15 Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

No impact has been recognized on retained earnings at 1 January 2018 as a result of transition to IFRS 15.

For additional information about the Group's accounting policies relating to revenue recognition, see Note 8(b).

**B. IFRS 9 Financial Instruments**

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

The Group has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2018 but have not been generally applied to comparative information.

No impact has been recognized on retained earnings at 1 January 2018 as a result of transition to IFRS 9.

(i) ***Classification and measurement of financial assets and financial liabilities***

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities.

For an explanation of how the Group classifies and measures financial instruments, treats modifications and accounts for related gains and loss under IFRS 9, see Note 3(c).

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 January 2018.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements.

'000 USD	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
<b>Financial assets</b>				
Trade and other receivables	Loans and receivables	Amortized cost	15,726	11,673
Trade and other receivables	Loans and receivables	Fair value through profit or loss	-	4,053
Cash and cash equivalents	Loans and receivables	Amortized cost	4,502	4,502
<b>Total financial assets</b>			<b>20,228</b>	<b>20,228</b>

'000 USD	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
<b>Financial liabilities</b>				
Loans and borrowings	Other financial liabilities	Other financial liabilities	253,655	253,655
Financial liabilities at fair value through profit or loss	Fair value through profit or loss	Fair value through profit or loss	3,411	3,411
Trade and other payables	Other financial liabilities	Other financial liabilities	62,186	62,186
<b>Total financial liabilities</b>			<b>319,252</b>	<b>319,252</b>

Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. The allowance for impairment on these receivables was considered immaterial as at 1 January 2018 and 31 December 2018.

**(ii) *Impairment of financial assets***

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39 – see Note 26(e).

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of IFRS 9’s impairment requirements at 1 January 2018 does not result in an additional allowance for impairment.

Additional information about how the Group measures the allowance for impairment is described in Note 26(e).

**(iii) *Transition***

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- The Group has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

## **5. New standards and interpretations not yet adopted**

New standards and interpretations are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these financial statements.

**(a) *IFRS 16 Leases***

The Group is required to adopt IFRS 16 Leases from 1 January 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Based on initial assessment, no significant impact is expected for leases in which the Group is a lessee or a lessor.

**(i) Transition**

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

**(b) Other standards and interpretations**

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- IFRIC 23 *Uncertainty over Tax Treatments*.
- *Prepayment Features with Negative Compensation* (Amendments to IFRS 9).
- *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28).
- *Plan Amendment, Curtailment or Settlement* (Amendments to IAS 19).
- *Annual Improvements to IFRS Standards 2015–2017 Cycle* – various standards.
- *Amendments to References to Conceptual Framework in IFRS Standards*.
- IFRS 17 *Insurance Contracts*.

**6. Determination of fair values**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

**(a) Property, plant and equipment**

The fair value of property, plant and equipment recognised as a result of a business combination or first time adoption of IFRSs is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on market approach and cost approaches using quoted market prices for similar items when available.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

**(b) Investments in equity and debt securities**

The fair value of investment in equity and debt securities is determined by reference to their quoted bid price at the reporting date. The fair value of investments held to collect the contractual cash flows is determined for disclosure purposes only.

**(c) Trade and other receivables**

The fair value of trade and other receivables accounted at amortised cost is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

**(d) Derivatives**

The Group holds put and call gold options derivative financial instruments as hedging instrument. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in the profit or loss.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

The fair value of forward exchange contracts is based on their quoted market price, if available. If a quoted market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

**(e) Non-derivative financial liabilities**

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

**7. Operating segments**

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units produce different products, and are managed separately because they require different technology strategies. For each of the strategic business units, the CEO of the Group quarterly reviews internal management reports prepared on IFRS basis. The segment capital expenditures are based on management accounts. Apart from using segment profit before income tax, the CEO of the Group evaluates performance of each segment based on measure of operating profit adjusted by depreciation and amortisation, other non-cash and exceptional items (EBITDA). Since this term is not a standard IFRS measure the Group's definition of EBITDA may differ from that of other companies.

The following summary describes the operations in each of the Group's reportable segments:

- *Agarak (Armenia)*. Includes mining and processing of copper-molybdenum ore. The final products are copper and molybdenum concentrate.
- *GPM Gold (Armenia)*. Includes mining and processing of gold bearing ore to produce gold bullions.
- *Sakha (Russia)*. Includes operations of Sarilakh-Surma JSC and Zvezda JSC related to the mining and processing of antimony-gold bearing ore. There is a high level of integration in the activities of these subsidiaries which determine their merge into the single operating segment.
- *Verkhne Menkeche (Russia)*. Includes investing activity for exploration and development of the polymetallic mine. Now Verkhne Menkeche has already revenue from the sale of ore mined during mine development without processing. The Group plans to commence the full cycle operations on site in 2021 after end of construction of processing plant. Verkhne Menkeche is analysed as a separate segment since 2018, the information about reportable segments below includes data for 2017 for comparative purposes.

Information regarding the results of each reportable segment is included below.

(i) **Information about reportable segments**

	For the year ended 31 December							
	2018	2017	2018	2017	2018	2017	2018	2017
'000 USD								
External revenue	44,137	31,294	161,950	146,786	48,968	40,203	27,998	10,062
Inter-segment revenue	-	-	-	-	-	-	344	224
Total segment revenue	44,137	31,294	161,950	146,786	48,968	40,203	28,342	10,286
EBITDA	14,359	7,770	71,530	69,686	28,679	15,925	19,677	6,345
Segment profit before income tax	2,966	11,986	23,710	3,645	27,108	12,822	15,485	5,120
Reversal of impairment / (impairment loss)	-	10,685	-	(16,903)	-	-	-	-
Segment income tax expense	(820)	(1,554)	(9,751)	(6,800)	(5,621)	(2,774)	(4,164)	(1,236)
Segment capital expenditures	(10,211)	(7,298)	(14,182)	(8,109)	(13,473)	(13,032)	(4,047)	(7,461)
	As at 31 December							
Total external assets	88,039	82,713	339,162	337,002	74,438	58,918	32,667	38,035
Corporate loans and receivables	-	-	117	73	21,628	9,699	-	-
Inter-segment assets	26	2	804	2,035	1,713	15,957	361	228
Total segment assets	88,065	82,715	340,083	339,110	97,779	84,574	33,028	38,263
Total external liabilities	39,820	33,520	119,156	109,571	15,508	9,202	12,213	11,842
Corporate loans and payables	27,433	29,303	205,977	217,326	-	-	-	-
Inter-segment liabilities	804	2,035	26	2	361	228	1,713	15,957
Total segment liabilities	68,057	64,858	325,159	326,899	15,869	9,430	13,926	27,799



(ii) **Reconciliations of reportable segment revenues, profit or loss before tax, assets and liabilities**

'000 USD	2018	2017
<b>Revenues</b>		
Total revenue for reportable segments	283,053	228,345
Consolidated revenue	283,053	228,345
<b>Profit or loss</b>		
Profit before tax for reportable segments	69,269	33,573
External finance costs of the entities that are not reportable segments	(15,002)	(19,978)
Other expenses of the entities that are not reportable segments	(48,418)	(12,623)
Intercompany other income of the entities that are not reportable segments	5,026	4,697
Intercompany finance income of the entities that are not reportable segments	11,444	13,712
Net gain/(loss) from commodity derivatives	3,296	(4,182)
Consolidated profit before income tax	25,615	15,199
<b>EBITDA</b>		
EBITDA for reportable segments	134,245	99,726
Other expenses of the entities that are not reportable segments	(19,841)	(11,771)
Other (depreciation and exceptional items)	72	465
Intercompany other income of the entities that are not reportable segments	5,026	4,697
Consolidated EBITDA (see Note 26(h))	119,502	93,117
<b>Assets</b>		
Total assets for reportable segments	558,955	544,662
Assets for other entities that are not reportable segments	1,911	30,134
Elimination of Corporate loans and receivables	(21,745)	(9,772)
Elimination of inter-segment assets	(2,904)	(18,222)
Consolidated total assets	536,217	546,802

'000 USD	2018	2017
<b>Liabilities</b>		
Total liabilities for reportable segments	423,011	428,986
Liabilities for other entities that are not reportable segments	193,807	212,639
Elimination of Corporate loans and payables	(233,410)	(246,629)
Elimination of inter-segment liabilities	(2,904)	(18,222)
Consolidated total liabilities	380,504	376,774

(iii) **Geographical information**

In presenting information on the basis of geographical information, revenue is based on the geographical location of the buyers, which may differ from the geographic location of the end customers. Segment non-current assets are based on the geographical location of the property, plant and equipment.

'000 USD	Reportable segments									
	Agarak (Armenia)		GPM Gold (Armenia)		Sakha (Russia)		Verkhne- Menkeche (Russia)		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
<b>For the year ended 31 December</b>										
<b>Primary geographical markets</b>										
UK	-	-	161,950	146,665	-	-	-	-	161,950	146,665
Switzerland	44,067	31,254	-	-	-	-	-	-	44,067	31,254
China	-	-	-	-	40,349	32,458	-	-	40,349	32,458
CIS	70	40	-	120	8,619	7,746	27,998	10,062	36,687	17,968
<b>Total revenue</b>	<b>44,137</b>	<b>31,294</b>	<b>161,950</b>	<b>146,785</b>	<b>48,968</b>	<b>40,204</b>	<b>27,998</b>	<b>10,062</b>	<b>283,053</b>	<b>228,345</b>
<b>Major products / services lines</b>										
Gold	-	-	161,674	146,210	14,974	13,001	-	-	176,648	159,211
Copper	37,595	28,310	-	-	-	-	-	-	37,595	28,310
Antimony	-	-	-	-	33,549	26,878	-	-	33,549	26,878
Molybdenum	6,472	2,944	-	-	-	-	-	-	6,472	2,944
Polymetallic ores	-	-	-	-	-	-	27,904	9,956	27,904	9,956
Silver	-	-	276	455	-	-	-	-	276	455
Other services	70	40	-	120	445	325	94	106	609	591
<b>Total revenue</b>	<b>44,137</b>	<b>31,294</b>	<b>161,950</b>	<b>146,785</b>	<b>48,968</b>	<b>40,204</b>	<b>27,998</b>	<b>10,062</b>	<b>283,053</b>	<b>228,345</b>

'000 USD	Non-current assets	
	2018	2017
Armenia	379,438	397,427
Russia	68,017	61,926
	<u>447,455</u>	<u>459,353</u>

Non-current assets include property, plant and equipment only.

(iv) **Major customer**

For 2018 approximately 73% or USD 206,017 thousand (2017: 78% or USD 177,919 thousand) of the Group's revenue is attributable to two third party customers amounting to USD 161,950 thousand and USD 44,067 thousand (2017: USD 146,665 thousand and USD 31,254 thousand) of revenues respectively.

## 8. Revenue

The effect of initially applying IFRS 15 on the Group's revenue from contracts with customers is described in Note 5. Due to the transition method chosen in applying IFRS 15, comparative information has not been restated to reflect the new requirements.

(a) **Revenue streams**

The Group generates revenue primarily from the production and sale of concentrates to its customers.

'000 USD	2018	2017
Revenue from contracts with customers	283,053	228,345
	<u>283,053</u>	<u>228,345</u>

(b) **Disaggregation of revenue from contracts with customers**

In the following table, revenue from contracts with customers is disaggregated by major product lines and timing of revenue recognition.

'000 USD	2018	2017
<b>Major products/service lines</b>		
Sales of produced gold dore bars	161,950	146,665
Sale of copper concentrate	37,595	28,310
Sale of antimony concentrate	40,349	32,458
Sale of free gold	8,174	7,421
Sale of polymetallic ores	27,904	9,956
Sale of molybdenum concentrate	6,472	2,944
Services provided	<u>609</u>	<u>591</u>

'000 USD	2018	2017
	<b>283,053</b>	<b>228,345</b>
<b>Timing of revenue recognition</b>		
Products transferred at a point in time	282,444	227,754
Services transferred over time	609	591
<b>Revenue from contracts with customers</b>	<b>283,053</b>	<b>228,345</b>

During 2018 and 2017 the Group's sale prices for gold and silver were directly linked to the London Bullion Market Association spot prices.

Some of the Group's sales contracts provide for a provisional payment as specified in individual contracts that are based upon provisional assays and historical quoted metal prices. Final settlement is done based on market metal prices averaged over a specified future quotation period. Typically, the future quotation period is up to three months after the risks and rewards of ownership have been transferred to the buyer.

Trade receivables referring to provisionally priced sales contracts are accounted for at fair value through profit or loss.

The fair value of these trade receivables relating to copper and molybdenum concentrate has been calculated using forward prices as at the balance sheet date quoted in the metal markets. As at 31 December 2018, the fair value of the trade receivables referring to provisionally priced sales contracts amounted to USD 2,158 thousand (asset) (31 December 2017: USD 4,053 thousand (asset)).

**(c) Contract balances**

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

'000 USD	Note	31 December 2018	1 January 2018
Receivables, which are included in "Trade and other receivables"	13	5,873	7,268
Contract liabilities	16	(9,166)	(19,166)

The contract liabilities relate to an advance received from customer for supply of products. The amount of USD 10,000 thousand, included in the opening balance, has been recognized as revenue for the period ended 31 December 2018.

The prepayment bears 6% interest on outstanding balance. The interest is charged and paid during the period, so no outstanding balance is disclosed.

No information is provided about remaining performance obligations at 31 December 2018 that have an original expected duration of one year or less, as allowed by IFRS 15.

## 9. Cost of sales

'000 USD	2018	2017
Materials	(48,639)	(37,887)
Services	(38,733)	(35,263)
Salary	(22,983)	(21,984)
Social insurance contributions	(1,989)	(2,011)
Depreciation	(42,120)	(38,647)
Environmental and other taxes	(1,338)	(1,254)
Other	(79)	(216)
	<u>(155,881)</u>	<u>(137,262)</u>

The number of personnel of the Company and subsidiaries was 2,786 in 2018 (2017: 2,650).

## 10. Distribution expenses

'000 USD	2018	2017
Services	(1,741)	(1,773)
Salary	(695)	(697)
Social insurance contributions	(85)	(72)
Depreciation	(332)	(275)
Other	(978)	(131)
	<u>(3,831)</u>	<u>(2,948)</u>

## 11. Administrative expenses

'000 USD	2018	2017
Salary	(11,528)	(10,052)
Social insurance contributions	(906)	(840)
Services	(20,982)	(11,897)
Depreciation	(448)	(361)
Property and other taxes	(1,070)	(631)
Other	(1,090)	(1,149)
	<u>(36,024)</u>	<u>(24,930)</u>

The fees to auditors included in the services are as follows:

'000 USD	2018	2017
Audit fees of the Parent Company	(45)	(42)
Audit fees of subsidiaries and interim review fees	(357)	(351)
	<u>(402)</u>	<u>(393)</u>

## 12. Other income

'000 USD	2018	2017
Reversal of additional royalties, fines and penalties imposed by the Tax Authorities in Armenia in 2016	-	1,233
	-	1,233

## 13. Other expenses

'000 USD	2018	2017
Loss on disposal of property, plant and equipment and other assets	(318)	(574)
Royalty	(10,127)	(8,616)
Additional royalty and other than on income tax payments imposed by the tax authorities (Note 15) of previous periods	(959)	-
Fines and penalties	(67)	(664)
Taxes	(120)	(327)
Bank services	(220)	(159)
Charity and welfare	(520)	(315)
Provision for obsolete inventory	(194)	(196)
Other	(334)	(486)
	(12,859)	(11,337)

## 14. Finance income and costs

'000 USD	2018	2017
<b>Finance income</b>		
Interest income on bank deposits	96	383
Finance income	96	383
<b>Finance costs</b>		
Interest expense	(20,827)	(24,227)
Withholding tax on intragroup interest	(1,004)	(1,469)
Unwinding of discount on site restoration provision	(1,050)	(1,011)
Net foreign exchange loss	(790)	(1,070)
Impairment loss on receivables and prepayments	(13)	(107)
Finance costs	(23,684)	(27,884)
Net finance costs	(23,588)	(27,501)

## 15. Income tax expense

'000 USD	2018	2017
<b><i>Current tax expense</i></b>		
Current year	(15,079)	(11,497)
Current year royalty tax	(8,835)	(6,531)
Royalty tax expense under provided in prior years	(1,305)	-
	(25,219)	(18,028)
<b><i>Deferred tax expense</i></b>		
Origination and reversal of temporary differences	4,398	5,007
Tax loss carry-forwards	215	(527)
	4,613	4,480
	(20,606)	(13,548)

The Group companies pay income tax in accordance with the legislative requirements of their tax jurisdictions. The income tax rates of significant subsidiaries are as follows:

Holding company	Jurisdiction	2018	2017
The Company	Cyprus	12.5%	12.5%

Significant subsidiary	Jurisdiction	2018	2017
GPM Gold LLC	Armenia	20%	20%
Agarak CJSC	Armenia	20%	20%
Zvezda JSC	Russia	20%	20%
Sarilakh-Surma JSC	Russia	20%	20%
GPM Verkhne Menkeche LLC	Russia	20%	20%
Karlou B.V.	Netherlands	20%	20%

The effective applicable tax rate, comprising income and royalty tax of GPM Gold LLC and Agarak CJSC enacted as at 31 December 2018 is 30% (31 December 2017: 30%).

**Reconciliation of effective tax rate:**

	<b>2018</b>		<b>2017</b>	
	<b>'000 USD</b>	<b>%</b>	<b>'000 USD</b>	<b>%</b>
Profit (loss) before income tax	25,615	100.0	15,199	100.0
Income tax at applicable tax rate	(3,202)	(12.5)	(1,900)	(12.5)
Effect of income tax rates in foreign jurisdictions and royalty tax	(13,773)	(53.7)	(6,186)	(40.7)
Non-deductible expenses, net	(3,026)	(11.8)	(2,952)	(19.4)
Non-deductible expenses applicable to royalty tax	(2,615)	(10.2)	(2,568)	(16.9)
Royalty tax underprovided in prior years	(1,305)	(5.1)	-	-
Current year losses for which no deferred tax asset was recognised	615	2.4	58	0.4
Change in unrecognized deferred tax asset	2,700	10.5	-	-
	<u>(20,606)</u>	<u>(80.4)</u>	<u>(13,548)</u>	<u>(89.1)</u>



## 16. Property, plant and equipment

	Land, buildings and infrastructure	Production equipment	Mining assets	Vehicles and other	Construction in progress	Advances	Total
<b>'000 USD</b>							
<i>Cost / Deemed cost</i>							
Balance at 1 January 2017	38,028	218,654	394,545	5,263	77,270	2,819	736,579
Additions	1,587	7,487	16,222	545	15,750	4,811	46,402
Disposals	(8)	(5,003)	(108)	(236)	(37)	-	(5,392)
Transfers	7,107	13,678	5,920	280	(23,741)	(2,648)	596
Translation reserve	281	530	1,112	127	1,178	106	3,334
Balance at 31 December 2017	46,995	235,346	417,691	5,979	70,420	5,088	781,519
Additions	1,389	19,039	21,201	609	21,085	5,633	68,956
Disposals	(68)	(13,754)	-	(63)	-	-	(13,885)
Transfers	400	8,711	15	414	(4,392)	(3,924)	1,224
Translation reserve	(1,695)	(2,723)	(5,739)	(500)	(5,521)	(359)	(16,537)
Balance at 31 December 2018	47,021	246,619	433,168	6,439	81,592	6,438	821,277

	Land, buildings and infrastructure	Production equipment	Mining assets	Vehicles and other	Construction in progress	Advances	Total
<b>'000 USD</b>							
<b><i>Depreciation and impairment losses</i></b>							
Balance at 1 January 2017	(16,230)	(107,441)	(145,968)	(3,513)	(5,572)	(7)	(278,731)
Depreciation charge	(1,464)	(18,019)	(21,402)	(512)	-	-	(41,397)
Disposals	6	4,700	23	262	-	-	4,991
Impairment loss	-	-	-	-	(16,512)	-	(16,512)
Reverse of impairment	1,179	147	9,032	5	224	98	10,685
Translation reserve	(93)	(328)	(622)	(68)	-	(91)	(1,202)
Balance at 31 December 2017	(16,602)	(120,941)	(158,937)	(3,826)	(21,860)	-	(322,166)
Depreciation charge	(2,113)	(22,910)	(22,413)	(569)	-	-	(48,005)
Disposals	68	13,645	-	63	-	-	13,776
Reclassification to assets held for sale	-	-	-	-	(22,279)	-	(22,279)
Translation reserve	377	1,505	2,762	192	16	-	4,852
Balance at 31 December 2018	(18,270)	(128,701)	(178,588)	(4,140)	(44,123)	-	(373,822)
<b><i>Net book value</i></b>							
At 1 January 2017	21,798	111,213	248,577	1,750	71,698	2,812	457,848
At 31 December 2017	30,393	114,405	258,754	2,153	48,560	5,088	459,353
At 31 December 2018	28,751	117,918	254,580	2,299	37,469	6,438	447,455

**(a) Depreciation**

For 2018 and 2017 depreciation was allocated to statement of profit or loss and other comprehensive income as follows:

	<b>2018</b>	<b>2017</b>
	<b>'000 USD</b>	<b>'000 USD</b>
Cost of sales	42,120	38,647
Distribution expenses	332	275
Administrative expenses	448	361
Other expenses	-	2
	<b>42,900</b>	<b>39,285</b>

During 2018 the Group capitalised depreciation amounting to USD 1,514 thousand (2017: USD 340 thousand) to inventory and USD 3,591 thousand (2017: USD 1,772 thousand) to property, plant and equipment.

Additions to Mining assets of USD 4,258 thousand (2017: write-off of Mining assets of USD 1,359 thousand) represent a change in estimate of reclamation costs (see note 24).

Capitalised borrowing costs relating to the development of mining assets amounted to USD 418 thousand (2017: USD 416 thousand) with a capitalisation rate of 4.5% (2017: 4.5%).

**(b) Licenses**

Construction in progress includes exploitation and exploration licenses and rights for which mineral resources were not ready for production as at 31 December 2018 in respect of the following mines:

- Hankavan mine is fully impaired (2017: nil);
- KIM mine of USD 429 thousand (2017: USD 518 thousand);
- Lusadjur mine is fully impaired (2017: USD 22,279 thousand);
- Verkhne Menkeche of USD 16,008 thousand (2017: USD 14,912 thousand).

Mining assets include exploitation and exploration licenses and rights as at 31 December 2018 in respect of the following mines:

- Zod mine of USD 175,091 thousand (2017: USD 182,998 thousand);
- Agarak mine of USD 25,696 thousand (2017: USD 26,714 thousand);
- Sentachanskoe and Sarylakhskoye mines of USD 1,884 thousand (2017: USD 2,908 thousand).

**(c) Impairment of mining assets of GPM Gold LLC**

At 31 December 2017 and 31 December 2018 the Group determined that there is no indication of impairment of GPM Gold mining property.

**(d) Impairment of fixed assets of Agarak CJSC**

During 2015, due to significant decline in metal prices the Company determined that there is an indication of impairment and assessed the recoverable amount of its property, plant and equipment.

The recoverable amount was based on its value in use, determined by discounting future cash flows. The carrying amount of property, plant and equipment and intangible assets was determined to be higher than their recoverable amounts and an impairment loss of USD 54,122 thousand was recognised.

During 2017, due to change of market prices of metals and plans of reconstruction, which will increase production volume, the Company determined that there is an indication of reversal of previously recognized impairment losses and assessed the recoverable amount of its property, plant and equipment and intangible assets.

The recoverable amount was based on its value in use, determined by discounting future cash flows.

The key assumptions used in the estimation of value in use are as follows:

- Cash flows were projected based on past experience, actual operating results and the Company's five year business plan. The forecast period covers years until 2053, when the estimated ore reserves are assessed to be fully extracted,
- Total volume of processed ore was projected at 3.7 million tons per annum starting from 2020 which represents the production capacity with existing property, plant and equipment,
- Copper price is forecasted to reach USD 3.24 per pound in 2023-2027 and Molybdenum price is forecasted to increase to USD 8.23 per pound based on expectations in the global metal markets. Then the long term US inflation rate of 2% was applied,
- Unit production costs, treatment and refining charges, capital expenditure and administrative expenses are expected to increase by the long term US inflation rate of 2%,
- A pre-tax discount rate of 14.5% was applied. The discount rate was estimated based on an industry average weighted average cost of capital, which was based on a possible range of debt leveraging of 72% at a market interest rate of 10.5%.

As a result of the impairment test, the recoverable amount of property, plant and equipment of Agarak as at 31 December 2017 was estimated at USD 72,300 thousand and exceeded its carrying amount of USD 61,615 thousand. As a result reversal of the initially recognised impairment in the amount of USD 10,685 thousand was recorded in the consolidated financial statements for the year ended 31 December 2017.

At 31 December 2018 the Group determined that there is no indication of impairment of property, plant and equipment of Agarak.

**(e) Impairment of licence of the Hankavan molybdenum mine**

As at 31 December 2017 the Group recognized impairment in respect of full carrying amount of exploration and evaluation assets and other related assets of the Hankavan molybdenum mine in the total amount of USD 16,903 thousand (including current assets in the amount of USD 391 thousand). The impairment has been recognized due to the fact that the mining plan have not been approved and subsequently the exploration license and underlying exploration contract of Hankavan molybdenum mine have not been prolonged after 30 December 2016 by the Government in Armenia.

**(f) Security**

Properties with a carrying amount of USD 35,275 thousand (2017: USD 22,197 thousand) are pledged to secure bank loans (see note 23).

## 17. Deferred tax assets and liabilities

### (a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

'000 USD	Assets		Liabilities		Net	
	2018	2017	2018	2017	2018	2017
Property, plant and equipment	562	749	(52,151)	(55,009)	(51,589)	(54,260)
Inventories	1,537	1,419	(519)	(503)	1,018	916
Trade and other receivables	186	-	(90)	(134)	96	(134)
Provisions	4,255	2,957	-	-	4,255	2,957
Trade and other payables	1,554	1,081	(94)	(103)	1,460	978
Tax loss carry-forwards	3,474	3,813	-	-	3,474	3,813
Tax assets/(liabilities)	11,568	10,019	(52,854)	(55,749)	(41,286)	(45,730)
Set off of tax	(10,129)	(5,853)	10,129	5,853	-	-
Net tax assets/(liabilities)	1,439	4,166	(42,725)	(49,896)	(41,286)	(45,730)

The tax loss carry-forwards relates to the GPM Verkhne Menkeche LLC project. The project has started generating a taxable profit during 2017.

### (b) Movement of unrecognised tax losses during the year

'000 USD	31 1 January 2017		31 December 2017		Recognized	Utilised	31 December 2018
		Created		Created			
Tax loss	63,012	(58)	62,954	3,075	(8,281)	(5,219)	52,529
	63,012	(58)	62,954	3,075	(8,281)	(5,219)	52,529

The unrecognised tax loss expires in years 2020 – 2025.

In 2018 tax losses have not been recognised as the deferred tax assets by Karlou B.V. (2017: by Agarak) because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom. Also in 2018 part of previous unrecognized deferred tax losses have been recognized since Agarak has started taxable profits and will be able to utilise the benefits thereof.

**(c) Movement in temporary differences during the year**

'000 USD	1 January 2018	Recognised in profit or loss	Foreign currency translation	31 December 2018
Property, plant and equipment	(54,260)	2,383	288	(51,589)
Inventories	916	10	92	1,018
Trade and other receivables	(134)	224	6	96
Provisions	2,957	1,317	(19)	4,255
Trade and other payables	978	474	8	1,460
Tax loss carry-forwards	3,813	215	(554)	3,474
	<u>(45,730)</u>	<u>4,623</u>	<u>(179)</u>	<u>(41,286)</u>

'000 USD	1 January 2017	Recognised in profit or loss	Foreign currency translation	31 December 2017
Property, plant and equipment	(60,423)	6,040	123	(54,260)
Inventories	668	284	(36)	916
Trade and other receivables	195	(332)	3	(134)
Provisions	3,280	(327)	4	2,957
Trade and other payables	1,639	(658)	(3)	978
Tax loss carry-forwards	4,193	(527)	147	3,813
	<u>(50,448)</u>	<u>4,480</u>	<u>238</u>	<u>(45,730)</u>

**18. Financial assets and liabilities at fair value through profit or loss**

Following the requirements of the Facility agreement (see note 23(a)) during 2016 the Group purchased put options for 287,200 ounces of gold exercisable quarterly during 2017-2021 at the strike price of USD 1,100 per ounce in 2017 (decreasing to USD 850 per ounce in 2021) and also sold call options for 475,750 ounces of gold exercisable quarterly during 2017-2021 at the strike price of USD 1,500-1,700 per ounce. The fair value of the put and call options was determined using Vanna-Volga technique based on Bloomberg inputs including volatility, gold price quotations and risk-free rates.

**19. Inventories**

'000 USD	2018	2017
Raw materials and consumables	21,159	18,214
Semi-finished products	14,385	16,236
Work in progress	7,765	5,192
Finished goods and goods for resale	11,519	8,311
Other inventories	618	628
	<u>55,446</u>	<u>48,581</u>
Write-down of inventories for the period	<u>(194)</u>	<u>(196)</u>

Inventories with carrying amount of USD 1,383 thousand (2017: USD 1,365 thousand) are pledged as security for loans from banks (see note 23).

## 20. Trade and other receivables

	2018 '000 USD	2017 '000 USD
<i>Current</i>		
Trade receivables at amortised cost	3,715	3,215
Receivable relating to provisionally priced sales	2,158	4,053
VAT receivables	8,046	7,702
Other taxes receivables	103	433
Receivables from personnel	57	78
Other receivables	387	602
Provision for doubtful trade and other receivables	(303)	(357)
	14,163	15,726

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 26(e) and 26(g)(i).

## 21. Assets held for sale

During 2018 management committed to a plan to sell the controlling interest (51%) in AMGM SARL (Luxembourg) and its subsidiaries - Paramount Gold Mining and Lernayin Arstutyun. Accordingly these companies are presented as a disposal group held for sale. Effort to sell the disposable group has started and a sale is expected during 12 months from the reporting date.

As at 31 December 2018, the disposal group comprised assets and liabilities detailed as follows.

<b>'000 USD</b>	
Property, plant and equipment	22,279
Investments and other assets	6,822
Trade payables and other liabilities	(547)
Translation reserve	(2)
Net value of the disposal group	28,552

The Group possesses the asset held for sale with the fair value equals to USD 1 thousand and tries to locate the customer for it. An impairment loss of USD 28,551 thousand writing down the carrying amount of the disposal group to its fair value less costs to sell has been included in the consolidated statement of profit or loss and other comprehensive income.

The key assumptions used by management in the estimation of the fair value of the assets are:

- the latest geological assessment which made the management conclude that the initially approved gold reserves are not confirmed.
- a constant operating loss has been registered by the project, with no sources of income and with the binding fixed fees to be regularly paid for the possibility of the further exploration.

## 22. Equity

### (a) Share capital

In June 2011 the authorised share capital was increased to 50,000 shares of EUR 1 each and in August further increased to 1,500,000 shares of EUR 1 each. On 30 September 2011 the shares were re-denominated from EUR 1.00 to EUR 0.01 per each share. As at 31 December 2012 and 2013 the authorised share capital of the Company was EUR 1,500 thousand divided into 50,000,001 shares with a par value of EUR 0.01 each.

In 2014 the Company issued 17,239,063 ordinary shares and then cancelled 270,000 ordinary shares, increasing issued share capital to 66,969,064 shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the shareholders.

	2018		2017	
	Ordinary shares	Share capital '000 USD	Ordinary shares	Share capital '000 USD
On issue at 1 January – par value EUR 0.01	66,969,064	941	66,969,064	941
On issue at 31 December – par value EUR 0.01	66,969,064	941	66,969,064	941

### (b) Share premium

As part of the GPM Group restructuring the Company issued 450,000 ordinary shares of nominal value EUR 1.00 each and one ordinary share of nominal value EUR 0.01 on 2 September 2011 and 11 November 2011, respectively, for a total premium of USD 197,234 thousand in exchange for the equity instruments of the subsidiaries of the Group. The values of the contributed equity instruments in the agreements were primarily defined with reference to the statutory financial statements. The excess in the value of the contributions over the par value of the issued shares represents the premium recognised in the share premium account.

As part of the deal with Sberbank Capital LLC the Company issued and sold to Sberbank Capital LLC 17,239,063 ordinary shares of nominal value of EUR 0.01 on 28 August 2014 for the total amount of USD 77,000 thousand. The transaction costs were incurred and amounted to USD 1,309 thousand.

## 23. Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 26(g)(ii) and 26(g)(i).

In September 2016 the Group refinanced the Facility with syndicate of banks of USD 229,704 thousand maturing in 2016-2021. According to the terms of the agreement, the loan is repayable in tranches till 2021 year. In October and December 2018 the Group obtained the facilities in the amount of USD 9,861 thousand maturing in 2019-2020 and USD 4,010 thousand maturing in 2019-2023. According to the terms of the agreement, the loans are repayable in tranches till year 2020 and 2023, respectively. Facilities contain a number of restrictive covenants to comply. Available unused facilities as at 31 December 2018 are USD 1,654 and USD 75,990, respectively.

Up to the date of approval of these financial statements the Group has timely paid the instalments due. All covenants are complied with as at 31 December 2018.



'000 USD	2018	2017
<b>Non-current liabilities</b>		
Secured bank loans	161,227	199,940
Loan from other related party	-	9,283
Total non-current loans	161,227	209,223
	161,227	209,223
<b>Current liabilities</b>		
Current portion of secured bank loans	76,563	27,106
Secured bank loans	872	6,202
Loan from other related party	9,283	-
Unsecured loans from third parties	-	25
Interest accrued	5,710	3,940
Total current loans	92,428	37,273
	92,428	37,273

**(a) Terms and debt repayment schedule**

Terms and conditions of outstanding loans were as follows:

'000 USD				2018		2017	
	Curren cy	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Secured bank loans	USD	6 – 13%	2017- 2023	43,024	43,024	28,124	28,124
Secured bank loan	RUB	9.90%	2019- 2020	9,861	9,861	-	-
Secured bank loan	USD	LIBOR + 7.6%	2017- 2021	-	-	207,704	205,124
Secured bank loan	USD	LIBOR + 5.75%	2018- 2021	183,704	181,767	-	-
Secured bank loan	USD	LIBOR + 4.75%	2021- 2023	4,010	4,010	-	-
Loans from third parties	AMD	0%	2017	-	-	25	25
Loan from other related party	USD	4.5%	2019	9,283	9,283	9,283	9,283
				249,882	247,945	245,136	242,556

Bank loans are secured by the following:

- 100% of the share capital of GPM Gold LLC, Agarak CJSC, Sarilakh-Surma JSC, Zvezda JSC, GPM Verkhne Menkeche LLC, Karlou B.V., GPM Russia B.V., GPM Armenia B.V. and GPM LLC;
- Production equipment with a carrying amount of USD 35,275 thousand (2017: USD 22,197 thousand) – see note 16(f);
- Inventory in the amount of USD 1,383 thousand (2017: USD 1,365 thousand) – see note 19.

**(b) Reconciliation of movements of liabilities to cash flows arising from financing activities**

'000 USD	<u>Loans and borrowings</u>
<b>Balance at 1 January 2018</b>	<b>246,496</b>
<b>Changes from financing cash flows</b>	
Proceeds from loans and borrowings	58,474
Repayment of borrowings	(53,206)
Impairment of borrowings (Lusadjur)	(25)
<b>Total changes from financing cash flows</b>	<b>5,243</b>
The effect of changes in foreign exchange rates	(444)
<b>Liability-related</b>	
Capitalised borrowing costs	418
Interest expense	20,827
Interest paid	(18,875)
<b>Total liability-related other changes</b>	<b>1,916</b>
<b>Balance at 31 December 2018</b>	<b>253,655</b>

**24. Provisions**

'000 USD	<b>Site restoration</b>	
	<u>2018</u>	<u>2017</u>
Balance at 1 January	11,335	11,781
Change in estimated costs	4,258	(1,359)
Translation reserve	(104)	24
Prepayment during the year	(244)	(122)
Unwinding of discount	1,050	1,011
Balance at 31 December	16,295	11,335

**(a) Site restoration**

Site restoration provision includes:

- expected costs of demolishing of buildings and infrastructure, as well as closure of the open and close pit mines, waste pit and related dams of the Group;
- expected costs of leach pad reclamation;
- expected costs of supervision, insurance, administration and contingencies.

The discounted future costs of site restoration are initially included within mining assets of property, plant and equipment at the time land plots are disturbed, except where there is no evidence that any future benefits will be received from the asset, in which case costs are expensed as incurred.

At each year end the Group re-measures the provision for site reclamation based on the best estimate of the settlement amount. The effect of any changes to an existing obligation, resulting from changes in estimated future costs, the discount rate used or the life of the mine, are added to or deducted from the cost of the mining asset and depreciated prospectively over the asset's useful life.

Because of the nature of the liability, the greatest uncertainty in estimating the provision is the costs that will be incurred. Environmental legislation in the Republic of Armenia, Georgia and Russian Federation continues to evolve and it is difficult to determine the exact standards required by the current legislation in restoring sites such as this. Generally the standard of restoration is determined based on discussions with Government officials at the time that restoration commences. In making this assumption management has consulted with its in-house and external engineers.

Reclamation costs include:

- costs of demolishing of buildings and infrastructure as well as the closure of the dam in Ararat;
- costs of demolishing of the buildings and closure of the open pit mine in Zod.

The key assumptions, on which the asset retirement obligation is based, are as follows:

- the total un-discounted amount of the estimated cash flows required to settle the obligation is USD 23,968 thousand (2017: USD 24,043 thousand);
- the expected timing of site restoration provision is taken based on the management estimate on when the Group will cease extraction of ore (reserves expiration);
- the weighted average expected timing of payment of the cash flows required to settle the obligations varies from 9 to 36 years (2017: from 10 to 37 years);
- the discount rate, at which the estimated future costs have been discounted varies from 5.8% to 8.6 % (2017: from 7.4% to 10.61%) depending on the country of operations of the production subsidiaries.

## 25. Trade and other payables

	2018	2017
	'000 USD	'000 USD
Trade payables	15,421	14,124
Advances received for provisionally priced sales	12,487	22,164
Payables to personnel	5,074	4,390
Taxes other than income tax payables	20,297	16,046
Other payables	8,907	1,061
	<u>62,186</u>	<u>57,785</u>

The advances received for provisionally priced sales include a prepayment from VTB Capital plc. in the amount of USD 9,166 thousand received in 2017. The prepayment will be settled against sales until November 2019 in equal monthly instalments. VTB Capital plc. has no right to obtain cash. The prepayment bears interest of 6% p.a.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in notes 26(g)(i), 26(f).

## 26. Fair values and risk management

### (a) Accounting classifications and fair values

#### (i) Fair values versus carrying amounts

The fair value of the syndicated bank loan received in September 2016 is USD 188,957 as at 31 December 2018 (2017: USD 216,191).

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

'000 USD	Note	Designated at fair value	Deposits and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
<b>31 December 2018</b>									
<b>Financial assets measured at fair value</b>									
Receivables on provisionally priced sales contracts	20	2,158	-	-	2,158	-	2,158	-	2,158
		2,158	-	-	2,158	-	2,158	-	2,158
<b>Financial assets not measured at fair value</b>									
Cash and cash equivalents		-	8,599	-	8,599	-	-	-	-
Trade and other receivables	20	-	6,014	-	6,014	-	-	-	-
		-	14,613	-	14,613	-	-	-	-
<b>Financial liabilities measured at fair value</b>									
Financial liabilities designated at fair value through profit or loss		(3,411)	-	-	(3,411)	-	(3,411)	-	(3,411)
		(3,411)	-	-	(3,411)	-	(3,411)	-	(3,411)
<b>Financial liabilities not measured at fair value</b>									
Secured bank loans	23	-	-	(242,252)	(242,252)	-	-	-	-
Loan from other related party	23	-	-	(11,403)	(11,403)	-	-	-	-
Trade and other payables	25	-	-	(24,328)	(24,328)	-	-	-	-
		-	-	(277,983)	(277,983)	-	-	-	-

'000 USD	Note	Designated at fair value	Deposits and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
<b>31 December 2017</b>									
<b>Financial assets measured at fair value</b>									
Derivative embedded in sales contracts	20	6	-	-	6	-	6	-	6
		6	-	-	6	-	6	-	6
<b>Financial assets not measured at fair value</b>									
Cash and cash equivalents		-	4,502	-	4,502	-	-	-	-
Trade and other receivables	20	-	7,591	-	7,591	-	-	-	-
Investments		-	6,330	-	6,330	-	-	-	-
		-	18,423	-	18,423	-	-	-	-
<b>Financial liabilities measured at fair value</b>									
Financial liabilities designated at fair value through profit or loss	18	(6,708)	-	-	(6,708)	-	(6,708)	-	(6,708)
		(6,708)	-	-	(6,708)	-	(6,708)	-	(6,708)
<b>Financial liabilities not measured at fair value</b>									
Secured bank loans	23	-	-	(235,482)	(235,482)	-	-	-	-
Unsecured loan from third party	23	-	-	(25)	(25)	-	-	-	-
Loan from other related party	23	-	-	(10,989)	(10,989)	-	-	-	-
Trade and other payables	25	-	-	(15,185)	(15,185)	-	-	-	-
		-	-	(261,681)	(261,681)	-	-	-	-

The Group has not disclosed the fair values for financial instruments such as short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values.

**(b) Measurement of fair values**

**(i) Valuation techniques and significant unobservable inputs**

The following tables show the valuation techniques used in measuring Level 2 fair values, as well as the significant unobservable inputs used.

### Financial instruments measured at fair value

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Receivables on provisionally priced gold sales contracts	Market comparison technique: The fair value of the receivables on provisionally priced contracts relating to gold sales has been calculated using forward prices as at the reporting date available in the metal markets.	Not applicable.	Not applicable.
Receivables on provisionally priced copper and molybdenum sales contracts	Market comparison technique: The fair value measurement of the receivables on provisionally priced sales contracts which relate to copper and molybdenum concentrate has been calculated using prices per Metal Bulletin (for copper) and Platt's Metals Week (for molybdenum) averaged over the Quotation Period.	Not applicable.	Not applicable.
Put and call options on gold	Market comparison technique: The fair value of the put and call options was determined using Vanna-Volga technique based on Bloomberg inputs.	Gold price volatility: 17.30% to 26.20%	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>• Gold price volatility were higher (lower);</li> <li>• Risk-free rate were (lower) higher.</li> </ul>

### Financial instruments not measured at fair value

Type	Valuation technique	Significant unobservable inputs
Financial assets measured at amortised costs	Discounted cash flows	Not applicable.
Other financial liabilities	Discounted cash flows	Not applicable.

### (c) Master netting or similar agreements

In 2017 the Group entered into derivative transactions under International Swaps and Derivative Associations (ISDA) master netting agreements. Under the agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreement.

'000 RUB	Financial assets at fair value through profit or loss	Financial liabilities at fair value through profit or loss
<b>31 December 2018</b>		
Gross amounts	62	(3,473)
Amounts offset in accordance with IAS 32 offsetting criteria	(62)	62
Net amounts presented in the statement of financial position	-	(3,411)
Net amount	-	<b>(3,411)</b>

'000 RUB	Financial assets at fair value through profit or loss	Financial liabilities at fair value through profit or loss
<b>31 December 2017</b>		
Gross amounts	308	(7,016)
Amounts offset in accordance with IAS 32 offsetting criteria	(308)	308
Net amounts presented in the statement of financial position	-	(6,708)
Net amount	-	<b>(6,708)</b>

**(d) Financial risk management**

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

**(e) Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and loans receivables.

**(i) Trade and other receivables**

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

Most of the Group's customers are wholesalers and banks of high credit quality that have been transacting with the Group for over four years, and none of these customers' balances have been written off or are credit-impaired at the reporting date. The Group has no history of significant losses in relation to trade receivables.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures.

At the reporting date the Group has past due trade and other receivables in amount USD 303 thousand (31 December 2017: USD 357 thousand).

The management believes that no impairment allowance is necessary in respect of trade and other receivables not past due.

**Comparative information under IAS 39**

As at 31 December 2017 the Group did not recognise an impairment allowance on trade receivables based on historical information and the fact the trade receivables were neither past due nor impaired.

**Expected credit loss assessment for corporate customers as at 1 January and 31 December 2018**

The Group allocates exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss and applying experienced credit judgement.

Exposures to credit risk are assessed based on customers' delinquency status and actual credit loss experience over the past years.

The Group defines its trade receivables in the amount of USD 3,412 at 31 December 2018 (1 January 2018: USD 2,858) as a maximum exposure to a low credit risk grade, based on its customers' strong capacity to meet their contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may not likely reduce the ability of the customers to fulfil their contractual cash flow obligations.

**(ii) Loans receivable**

The Group's policy is to provide loans to third parties based on management assessment of their credibility and financial stability.

The Group does not require collateral in respect of loans receivable from third parties.



**(iii) Cash and cash equivalents**

The Group held cash and cash equivalents of USD 8,599 thousand at 31 December 2018 (31 December 2017: USD 4,502 thousand). The cash and cash equivalents are held with banks, which are rated B3 to Ba2, based on Moody's ratings.

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

The Group uses a similar approach for assessment of ECLs for cash and cash equivalents to those used for trade receivables.

Initial application of IFRS 9 did not result in additional impairment allowance as at 1 January 2018.

**Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

'000 USD	Carrying amount	
	2018	2017
Deposits and loans given	-	6,330
Trade and other receivables (excluding taxes receivable and receivables relating to provisionally priced sales contracts)	3,856	3,538
Cash and cash equivalents	8,599	4,502
	<u>12,455</u>	<u>14,370</u>

The maximum exposure to credit risk for trade and other receivables (excluding taxes receivable) at the reporting date by geographic region was:

'000 USD	Carrying amount	
	2018	2017
CIS countries	1,980	4,221
China	3,431	2,840
United Kingdom	603	530
	<u>6,014</u>	<u>7,591</u>

### Impairment losses

The aging of trade and other receivables (excluding taxes receivable) at the reporting date was:

	<b>Gross</b>	<b>Impairment</b>	<b>Gross</b>	<b>Impairment</b>
<b>'000 USD</b>	<b>2018</b>	<b>2018</b>	<b>2017</b>	<b>2017</b>
Not past due	6,014	-	7,591	-
Past due	303	(303)	357	(357)
	<u>6,317</u>	<u>(303)</u>	<u>7,948</u>	<u>(357)</u>

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

	<b>2018</b>	<b>2017</b>
	<b>'000 USD</b>	<b>'000 USD</b>
Balance at 1 January	357	912
Impairment loss recognised	13	107
Impairment loss written-off against receivables	(67)	(662)
Balance at 31 December	<u>303</u>	<u>357</u>

### (f) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The current liquidity ratio was 0.55 as at 31 December 2018 (31 December 2017: 0.91). The Group has long-term unused facilities as at 31 December 2018 in amount USD 78,644 thousand, which will replace short-term debt in 2019 and increase liquidity rate (Note 2(d)).

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

<b>'000 USD</b>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>0-6 mths</b>	<b>6-12 mths</b>	<b>1-2 yrs</b>	<b>2-3 yrs</b>	<b>3-4 yrs</b>	<b>4-5 yrs</b>	<b>Over 5 years</b>
<b>2018</b>									
Secured bank loans	238,662	276,339	39,630	49,627	110,002	65,991	6,258	4,831	-
Loan from other related party	9,283	9,561	-	9,561	-	-	-	-	-
Interest accrued	5,710	5,710	272	2,411	1,554	1,473	-	-	-
Trade and other payables	24,328	24,328	13,683	10,644	-	-	-	-	-
Financial liabilities at fair value through profit or loss	3,411	3,411	42	326	1,384	1,659	-	-	-
	281,393	319,349	53,627	72,569	112,940	69,123	6,258	4,831	-

<b>'000 USD</b>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>0-6 mths</b>	<b>6-12 mths</b>	<b>1-2 yrs</b>	<b>2-3 yrs</b>	<b>3-4 yrs</b>	<b>4-5 yrs</b>	<b>Over 5 years</b>
<b>2017</b>									
Secured bank loans	233,248	264,852	22,258	28,090	81,264	83,471	41,950	4,751	3,068
Loans from third parties	25	25	25	-	-	-	-	-	-
Loan from other related party	9,283	9,979	-	-	9,979	-	-	-	-
Interest accrued	3,940	3,940	1,117	1,117	1,706	-	-	-	-
Trade and other payables	15,185	15,185	4,376	10,809	-	-	-	-	-
Financial liabilities at fair value through profit or loss	6,708	6,708	44	327	1,679	2,300	2,358	-	-
	268,389	300,689	27,820	40,343	94,628	85,771	44,308	4,751	3,068

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

**(g) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

**(i) Currency risk**

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Armenian Dram (AMD) and the Russian Rouble (RUB). The currencies in which these transactions primarily denominated are Euro and USD.

**Exposure to currency risk**

The Group's exposure to foreign currency risk was as follows based on notional amounts:

'000 USD	<b>RUB- denominated</b>	<b>AMD- denominated</b>	<b>EUR- denominated</b>	<b>USD- denominated</b>
	<b>2018</b>	<b>2018</b>	<b>2018</b>	<b>2018</b>
Trade and loans receivable	253	-	-	603
Cash and cash equivalents	1	-	-	5,772
Loans and borrowings	-	-	-	(61,113)
Trade and other payables	(966)	-	(83)	(3,015)
	(712)	-	(83)	(57,753)

'000 USD	<b>RUB- denominated</b>	<b>AMD- denominated</b>	<b>EUR- denominated</b>	<b>USD- denominated</b>
	<b>2017</b>	<b>2017</b>	<b>2017</b>	<b>2017</b>
Trade and loans receivable	6,467	12,669	-	8,563
Cash and cash equivalents	2	-	-	2,856
Loans and borrowings	(22,318)	-	(3,105)	(294,118)
Trade and other payables	(838)	-	(80)	(1,827)
	(16,687)	12,669	(3,185)	(284,526)

The following significant exchange rates applied during the year:

<b>in USD</b>	<b>Average rate</b>		<b>Reporting date spot rate</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
RUB 1	0.0159	0.0172	0.0144	0.0174
AMD 1	0.0021	0.0021	0.0021	0.0021
EUR 1	1.1794	1.1238	1.1438	1.1956

### Sensitivity analysis

A 10% strengthening (weakening) of the USD and JPY, EUR, RUB against the above currencies at 31 December would have increased (decreased) profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2017.

'000 USD	Profit or loss	
	Strengthening	Weakening
<b>31 December 2018</b>		
USD	(5,775)	5,775
AMD	-	-
EUR	(8)	8
RUB	(71)	71
<b>31 December 2017</b>		
USD	(28,453)	28,453
AMD	1,267	(1,267)
EUR	(318)	318
RUB	(1,669)	1,669

### (ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

#### Exposure to interest rate risk

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

'000 USD	Carrying amount	
	2018	2017
<b>Fixed rate instruments</b>		
Financial assets	-	6,330
Financial liabilities	(67,878)	(41,372)
	(67,878)	(35,042)
<b>Variable rate instruments</b>		
Financial liabilities	(185,777)	(205,124)

In particular, fixed-rate financial liabilities include fixed rate bank loans in total amount of USD 12,637 thousand for which the banks have the option to revise the interest rate following the change of key rate set by the CBA and the Group have an option to either accept the revised rate or redeem the loan at par without penalty.

### **Fair value sensitivity analysis for fixed rate instruments**

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Company does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

### **Cash flow sensitivity analysis for variable rate instruments**

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2017.

'000 USD	Profit / (loss)	
	100 bp increase	100 bp decrease
<b>2018</b>		
Variable rate instruments	(1,858)	1,858
Cash flow sensitivity (net)	<u>(1,858)</u>	<u>1,858</u>
<b>2017</b>		
Variable rate instruments	(2,051)	2,051
Cash flow sensitivity (net)	<u>(2,051)</u>	<u>2,051</u>

### **(iii) Commodity price risk**

Some of the Group's sales contracts (Agarak, and Sarilakh-Surma) provide for a provisional payment as specified in individual contracts that are based upon provisional assays and historical quoted metal prices. Final settlement is done based on market metal prices averaged over a specified future quotation period. Typically, the future quotation period is up to five months after the risks and rewards of ownership have been transferred to the buyer.

Trade receivables referring to provisionally priced sales contracts are accounted for at fair value through profit or loss. These trade receivables, which is the final settlement price based on a future price, is marked to market (fair value) through other income and expenses each period with reference to the appropriate commodity forward curve until the date of final settlement. The effect of reasonably possible change of the forward prices will not have a material impact on these consolidated financial statements.

### **(h) Capital management**

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group monitors the return on capital, which the Group defines as the result from operating activities divided by total shareholders' equity.

The Group seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

Loan Facility with the carrying amount of USD 222,638 thousand as at 31 December 2016 was obtained from the syndicate of the banks.

Loans with carrying amounts of USD 181,767 thousand and USD 4,010 thousand as at 31 December 2018 (2017: USD 205,124 thousand) obtained during 2016 and 2018, respectively, impose a capital requirement on the Group's consolidated total borrowings, EBITDA and other ratios.

The measurement of EBITDA is not regulated by International Financial Reporting Standards and could not be treated as an alternative measurement for profit recognized by International Financial Reporting Standards in the financial statements. The management discloses EBITDA because it believes that this figure represents additional information that may be useful for users of financial statements. As there are no uniform standards for calculation of EBITDA, other companies may measure EBITDA in other ways. EBITDA of different companies may not be comparable with each other.

The main ratios of the Group which were as follows:

'000 USD	Note	2018	2017
<b>Profit before income tax</b>		25,615	15,199
Plus: Net finance costs	14	23,588	27,501
Plus: Depreciation	16	42,900	39,285
Plus: Net impairment of assets	16(c),16(d), 16(e)	28,551	6,218
Plus: Net (gain) / loss from commodity derivatives		(3,296)	4,182
Plus: Loss on disposal of property, plant and equipment and other assets	13	318	574
Plus: Additional royalties, fines and penalties imposed by the Tax Authority in Armenia	13	959	-
Minus: Reversal of additional royalties, fines and penalties imposed by the Tax Authorities in Armenia	12	-	(1,232)
Plus: Other items		867	1,390
<b>EBITDA consolidated</b> (see Note 7(ii))		119,502	93,117

'000 USD	2018	2017
<b>Total loans, borrowings and overdrafts</b>	249,882	245,136
Less: Cash and cash equivalents	(8,599)	(4,502)
<b>Total Net Debt</b>	241,283	240,634

The Group's Leverage ratio of Total Net Debt on the last day of the reporting period to EBITDA should not exceed 3.50 (2017: 4.25), and was as follows:

'000 USD	2018	2017
<b>Leverage</b>	2.02	2.58

During 2018 the Group predicted and informed in advance the Syndicate of the banks about technical breaching of the covenant related to the aggregate principal amount of the local bank facilities of USD 40,000 thousand, because in accordance to implementation of the Organic Growth Strategy the Group has changed Operational Model after renewal JORC reserves in 2017 and subsequently increased demand for capital expenditure of the Group's projects. Capital expenditure of the Group

has been more than it's permitted by the terms of the Facilities agreement by the end of 2018 (Note 23).

Considering the above, during 2018 the Group obtained a waiver of the breach of the following covenants – for excess of the permitted local bank principal amount and connected with it for excess of the permitted capex amount.

## **27. Contingencies**

### **(a) Insurance**

The insurance industry in the Russian Federation, Georgia and Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group has very limited coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

### **(b) Taxation contingencies**

Taxation systems in the Russian Federation and Republic of Armenia continue to evolve and are characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

Starting from 2015 the tax authorities have been taking aggressive tax position with respect to the calculation of royalty payments in certain mining companies in Armenia, including Agarak, resulting in claimed material increases to the royalty amounts for previous years. Based on the tax inspection in 2018 additional royalty amounts claimed for the years 2014 to 2017 amounted to around USD 4.4 million. Management has thoroughly analyzed these cases and believes that this tax position is not consistent with the Law on Nature Protection and Nature Utilization Payments. Accordingly, in January 2019 Agarak appealed to the competent courts of the Republic of Armenia. In February 2019 First Instance administrative court took the appeal for administrative proceeding.

Out of the total amount of USD 4,427 thousand mentioned in the tax inspection act for royalty and other taxes USD 2,556 thousand was recognized by Agarak (Notes 15 and 17). The recognized amount corresponds to the amount which would have been imposed by the Tax Authorities during current inspection, if they used the same interpretation of the Law on Nature Protection and Nature Utilization Payments as was used during inspection of 2012-2013 tax periods.

The remaining part was not recognized, because it relates to a new interpretation of the Law on Nature Protection and Nature Utilization Payments by Tax Authorities which differs from their previous interpretation used during 2012-2013 tax periods inspection.

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation, official pronouncements and court decisions.



**(c) Environmental contingencies**

The Group is subject to various state laws and regulations that governs emission of air pollutants; discharges of water pollutants; and generation, handling, storage and disposal of hazardous substances, hazardous wastes and other toxic materials.

The Group's management believes that its production subsidiaries are in compliance with all current existing environmental legislation in the countries in which it operates, and therefore the Group has not provided for any potential environmental contingency as the management does not consider any environmental contingent liability to be probable in the foreseeable future. However, environmental legislation continues to evolve and potential changes in the legislation and its interpretation may give rise to material liabilities in future.

**28. Operational risks**

**(a) Mines**

Mines by their nature are subject to many operational risks and factors that are generally outside of the Group's control and could impact the Group's business, operating results and cash flows. These operational risks and factors include, but are not limited to (i) unanticipated ground and water conditions, (ii) geological problems, including earthquakes and other natural disasters, (iii) metallurgical and other processing problems, (iv) the occurrence of unusual weather or operating conditions and other force majeure events, (v) lower than expected ore grades or recovery rates, (vi) accidents, (vii) delays in the receipt of necessary government permits, (viii) the results of litigation, including appeals of agency decisions, (ix) delays in transportation, (x) labour disputes, (xi) inability to obtain certain types of insurance coverage, (xii) unavailability of materials and equipment, (xiii) the failure of equipment or processes to operate in accordance with specifications or expectations, (xiv) unanticipated difficulties consolidating acquired operations and obtaining expected synergies and (xv) the results of financing efforts and financial market conditions.

**(b) Metals prices volatility**

The Group's financial performance is heavily dependent on the price of copper, molybdenum, gold and antimony which are affected by many factors beyond the Group's control.

**Copper**

Copper is a commodity traded on the London Metal Exchange (LME), the New York Commodity Exchange (COMEX) and the Shanghai Futures Exchange (SHFE). The Company's copper is sold at prices based on those quoted on the LME. The price of copper as reported on this exchange is influenced significantly by numerous factors, including (i) the worldwide balance of copper demand and supply, (ii) rates of global economic growth, trends in industrial production and conditions in the housing and automotive industries, all of which correlate with demand for copper, (iii) economic growth and political conditions in China, which has become the largest consumer of refined copper in the world, and other major developing economies, (iv) speculative investment positions in copper and copper futures, (v) the availability and cost of substitute materials and (vi) currency exchange fluctuations, including the relative strength of the USD. The copper market is volatile and cyclical. During the year ended 31 December 2018, LME daily closing spot prices ranged from USD 6,020 to USD 7,080 per ton for copper.

**Gold**

Gold is a commodity traded on the London Bullion Market, Tokyo Commodity Exchange, the New York Commodity Exchange (COMEX) and Zurich Gold Pool. The price of gold is influenced significantly by numerous factors, including (i) the worldwide balance of gold demand and supply,

(ii) rates of global economic growth, trends in jewellery production, all of which correlate with demand for gold, (iii) economic growth and political conditions in India and other Asian countries, which became the largest consumer of gold in the world, and other major developing economies, (iv) speculative investment positions in gold and gold futures, and (v) currency exchange fluctuations, including the relative strength of the USD.

The gold market is volatile, although among commodities gold carries a special function because it is used by investors as a “safe haven” investment, especially during times of economic uncertainty and fears of currency instability. During the three years ended 31 December 2018, London Bullion Market Association daily settlement prices ranged from USD 1,073 to USD 1,370 per ounce of gold.

### **Molybdenum**

The Company’s financial performance is also significantly dependent on the price of molybdenum. Molybdenum is characterized by volatile, cyclical prices, even more than copper. Molybdenum prices are influenced by numerous factors, including (i) the worldwide balance of molybdenum demand and supply, (ii) rates of global economic growth, especially construction and infrastructure activity that requires significant amounts of steel, (iii) the volume of molybdenum produced as a by-product of copper production, (iv) inventory levels, (v) currency exchange fluctuations, including the relative strength of the USD and (vi) production costs of U.S. and foreign competitors. Molybdenum demand depends heavily on the global steel industry, which uses the metal as a hardening and corrosion inhibiting agent. Approximately 80 percent of molybdenum production is used in this application. The remainder is used in specialty chemical applications such as catalysts, water treatment agents and lubricants. Approximately 65 percent of global molybdenum production is a by-product of copper mining, which is relatively insensitive to molybdenum prices. The price of molybdenum was averaging to approximately USD 26,140 per ton during 2018 in comparison with USD 17,940 per ton during 2017.

### **Antimony**

Antimony is included in the group of minor metals. It isn’t traded on Official Metal Exchanges however antimony quotations are published by several information agencies: AntimonyNet; MetalBulletin; Metal Pages as well as Asian Metal. The Company’s antimony is sold at prices based on those quoted on the MetalBulletin and AntimonyNet and varies depending on specific customers. The price of antimony as reported by mentioned sources is influenced significantly by numerous factors, including (i) the worldwide balance of antimony demand and supply, (ii) rates of global economic growth, trends in industrial production and conditions in the mechanical rubber and polymeric industries, all of which correlate with demand for antimony, (iii) changes in Chinese legislation in relation to the antimony industry as well as the productivity of Chinese antimony companies due to the fact that China is the largest producer of antimony metal in the world, (iv) the availability and cost of substitute materials and (v) currency exchange fluctuations, particularly cross-rate USD/RMB.

The antimony market is volatile and cyclical. In the majority of antimony purchase contracts the average monthly low price is used, 12 months average price in 2018 was USD 8,159 per ton in comparison with USD 8,121 per ton in 2017.

## **29. Capital commitments**

As at the year ended 31 December 2018 the Group has several contractual commitments for the upgrade of its current plant, purchase of mining equipment and spare parts for USD 3,538 thousand (31 December 2017: USD 2,668 thousand).

### 30. Related party transactions

For the purpose of these financial statements, parties are considered to be related if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

#### (a) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs:

	2018 '000 USD	2017 '000 USD
Salaries and bonuses	11,195	4,113
Remuneration of Board of Directors	1,452	1,446
	<u>12,647</u>	<u>5,559</u>

#### (b) Transactions with other related parties

The Group had related party relationships with the entities over which the Shareholder of the Group is able to exercise significant influence. The loan from other related party is bearing interest at 4,5%.

##### *Loan from other related party*

'000 USD	2018	2017
At 1 January	(10,985)	(10,569)
Interest expense capitalized to PPE	(418)	(416)
At 31 December	<u>(11,403)</u>	<u>(10,985)</u>

##### *Bank balances at other related party*

	2018 '000 USD	2017 '000 USD
Bank balances at other related party	<u>4,845</u>	<u>850</u>

During 2018 the Group realised goods to a related party in the amount of USD 8,174 thousand (2017: USD 7,420 thousand).

### 31. Subsequent events

On 27 March 2019 Sberbank Capital LLC and Bellmarsh Solutions Ltd have sold their ordinary shares of the Group purchased in 2014 to Nakilep Overseas Limited. As a result of the deal, Nakilep Overseas Limited owns 48.19% of ordinary shares of the Company.

On 27 March 2019 a loan from other related party with carrying amount of USD 11,403 thousand as at 31 December 2018 has been assigned to the shareholder company Nakilep Overseas Limited.

During March 2019 the Group's subsidiary First Dynasty Mines Limited was liquidated.

During February 2019 Karlou B.V. and GPM Russia B.V. have started the process of a merger.

During 2019 GPM Gold LLC made a withdrawal in the amount of USD 10,010 thousand within the loan facility with VTB Bank PJSC.

During 2019 the Group is considering the possibility of issuing 5-year Eurobonds under Regulation S in the amount of USD 300,000 thousand in order to refinance bank loans portfolio and to complete the construction of the Verkhne Menkeche mine factory.

**GeoProMining Investment (CYP) Limited**

**Consolidated Financial Statements  
for the year ended 31 December 2017**

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## **GEPROMINING INVESTMENT (CYP) LIMITED**

### **BOARD OF DIRECTORS AND PROFESSIONAL ADVISERS**

#### **Board of Directors:**

<u>Full Name</u>	<u>Nationality</u>	<u>Date of Appointment</u>
<i>Executive Director</i>		
Roman Khudoliy	Russian	28.08.2014
<i>Non Executive Directors</i>		
Siman Povarenkin (Chairman)	Russian	27.06.2011
Igor Lojevsky	Russian	27.06.2011
Viatcheslav Pivovarov	Russian	11.03.2014
Vladimir Lelyukh	Russian	28.08.2014

#### **Company Secretary:**

<u>Full Name</u>	<u>Nationality</u>	<u>Date of Appointment</u>
Chelco Consulting Limited	Cyprus	18.12.2014

#### **Independent Auditors:**

KPMG Limited

#### **Legal advisors:**

Andreas Neocleous & Co LLC

#### **Bankers:**

Bank of Cyprus  
International Business Unit  
66-68 Archiepiskopou Makariou & Markou Drakou Street  
Mesa Geitonia  
4003 Limassol, Cyprus

Banque J. Safra Sarasin SA  
8, place de l'Université, Case postale 33, CH-1211 Geneve 4

CIM-Banque  
Rue Merle d'Aubigne 16, 1207 Geneva - Switzerland

#### **Registered Office:**

Christodoulou Chatzipavlou, 221 Helios Court, 3<sup>rd</sup> floor 3036. Limassol, Cyprus

## **GEOPROMINING INVESTMENT (CYP) LIMITED**

### **MANAGEMENT REPORT**

The Board of Directors present their annual report and the audited consolidated financial statements of **GeoProMining Investment (CYP) Limited** (the “Company”) and its subsidiaries (the “Group”) for the year ended 31 December 2017.

#### **INCORPORATION AND PRINCIPAL ACTIVITY**

The Company was incorporated in Cyprus by the controlling shareholder of GeoProMining Ltd on 30 August 2010 as a private limited liability company under the Cyprus Companies Law, Cap.113.

The Group’s principal activity continues to be the extraction and processing of ore, containing nonferrous metals, mainly gold, copper, molybdenum and antimony, at plants located in Armenia and Russia.

On 2 September 2011, as a result of restructuring, GeoProMining Investment (CYP) Limited became the holding company of the Group through the transfer of ownership by GeoProMining Ltd of all its subsidiaries to the Company in return for shares in the Company.

As of 31 December 2016 GeoProMining Ltd was under a liquidation process, which has been finalised in February 2017.

#### **REVIEW OF CURRENT POSITION AND OPERATIONAL PERFORMANCE**

The Group’s financial results for the year ended 31 December 2017 and its financial position at 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 9 and 10 and the consolidated statement of financial position on pages 11 and 12, respectively. Total assets as at 31 December 2017 amounted to USD 546,802 thousand (31 December 2016: USD 546,375 thousand), net assets as at 31 December 2017 amounted to USD 170,028 thousand (31 December 2016: USD 164,001 thousand). Total revenue for the year amounted to USD 228,345 thousand (2016: USD 194,597 thousand). The profit for the year amounted to USD 1,651 thousand (2016: loss of USD 62,302 thousand).

#### **DIVIDENDS AND TRANSFER TO RESERVES**

The Board of Directors did not recommend the payment of dividends for the year ended 31 December 2017.

#### **FORESEEABLE FUTURE DEVELOPMENTS**

The main project is the development of LLC GPM Verkhne-Menkeche. During 2017 capital expenditure on the development of LLC GPM Verkhne-Menkeche project was USD 7,460 thousand, including the full release of the restricted cash reserved at 31 December 2016 of USD 7,176 thousand. The budget for capital expenditures of Verkhne-Menkeche project for 2018 will be discussed at the Board of Directors.

During 2015 the Group has completed the implementation of Albion technologies at the plant located in Ararat (Armenia), but had outstanding payments to sub-contractors of USD 3,669 thousand, which was fully paid in 2016 and financed by the amount of restricted cash.



## **GEOPROMINING INVESTMENT (CYP) LIMITED**

### **MANAGEMENT REPORT (Continued)**

#### **MAIN RISKS AND UNCERTAINTIES**

Following the requirements of the new Facility agreement the Group purchased put options for 287,200 ounces of gold exercisable quarterly during 2018-2021 at the strike price of USD 1,020 per ounce in 2018 (decreasing to USD 850 per ounce in 2021) and also sold call options for 475,750 ounces of gold exercisable quarterly during 2018-2021 at the strike price of USD 1,550-1,700 per ounce. The fair value of the put and call options was determined using a proprietary technique based on observable inputs including volatility, gold price quotations and risk-free rates. Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and loans receivables. The maximum exposure to credit risk at the reporting date is USD 18,423 thousand (31 December 2016: USD 29,004 thousand).

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The current liquidity ratio was 0.91 as at 31 December 2017 (31 December 2016: 1.1).

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Armenian Dram (AMD) and the Russian Rouble (RUB). The currencies in which these transactions primarily denominated are EUR and USD.

The steps taken to manage these risks are described in notes 24 and 26 to these consolidated financial statements.

#### **SHARE CAPITAL**

On 28, August 2014 the Company additionally issued 17,239,063 ordinary shares which were sold to Sberbank Capital LLC in two tranches for the amount of USD 77,000 thousand and fully paid-up in December 2014. The company cancelled 270,000 ordinary shares. As a result of the above changes number of issued share capital increased to 66,969,064 shares as at 31 December 2015.

The funds raised were used by the Company for the acquisition of Verkhne-Menkeche, mining assets in Armenia and financing of the Company's projects.

There were no changes in the capital structure since 2015.

#### **BRANCHES**

During the year ended 31 December 2017 the Company did not operate any branches.

#### **BOARD OF DIRECTORS**

The members of the Board of Directors as at the date of this report are set out on page 3. They were all members of the Board throughout the year and up to the date of this report.

In accordance with the Company's Articles of Association, all members of the Board of Directors remain in office until their resignation or removal.

## **GEOPROMINING INVESTMENT (CYP) LIMITED**

### **MANAGEMENT REPORT (Continued)**

#### **RESEARCH AND DEVELOPMENT ACTIVITY**

The Group has research and development activities in respect of the following mines:

- Verkhne-Menkeche polymetal mine located in Russia;
- Construction of Sentachan plant located in Russia.
- KIM and Vzbros antimony mine located in Russia;
- Hankavan copper-molybdenum mine located in Armenia (fully impaired in 2017);
- Lusadjur gold mine located in Armenia.

Details of the exploration and licensing activities in respect of the above are given in note 14.

The budget for 2018 for exploration and evaluation expenditure is up to USD 5.5 million for construction of Sentachan plant. The budget for Verkhne-Menkeche project will be discussed at the Board of Directors.

#### **INDEPENDENT AUDITORS**

The independent auditors of the Company, KPMG Limited, have expressed their willingness to continue in office and a resolution authorizing the Board of Directors to fix their remuneration will be submitted at the Annual General Meeting.

By order of the Board

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Siman Povarenkin

Limassol, 16 April 2018



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## INDEPENDENT AUDITORS' REPORT

### TO THE MEMBERS OF

#### GeoProMining Investment (Cyp) Limited

#### Report on the audit of the financial statements

##### *Opinion*

We have audited the accompanying consolidated financial statements of GeoProMining Investment (Cyp) Limited (the "Company"), and its subsidiaries (the "Group"), which are presented on pages 10 to 75, and comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and the requirements of the Cyprus Companies Law, Cap. 113, as amended from time to time (the "Companies Law, Cap. 113").

##### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the *Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants ("IESBA Code")*, and the ethical requirements in Cyprus that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### *Other information*

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management report, but does not include the consolidated financial statements and our auditors' report thereon.

##### *Board Members*

N.G. Symeon, A.K. Christofides, P.G. Lazarou, A.M. Gregoriades, D.S. Vellis, A.A. Apostolou, S.A. Louzides, M.A. Louzides, S.G. Solocleous, M.M. Antoniadou, E.V. Vasilou, P.E. Antoniadou, M.J. Hales, M.P. Michael, P.A. Pelotas, G.V. Markides, M.A. Papacosta, F.A. Papanicolaou, A.T. Shammoutis, G.N. Tziortzis, H.S. Charalambous, C.P. Anayiridis, P. Ghanas, M.G. Gregoriades, H.A. Kakoulis, G.P. Savva, C.A. Kalas, C.N. Kiliadis, M.H. Zaviou, P.S. Ema, M.G. Lazarou, Z.E. Hadjizacharias, P.S. Theophanous, M.A. Karanton, C.A. Markides, G.V. Andreou, J.C. Nicolaou, G.S. Prodromou, A.S. Solocleous, G.N. Symeon, T.J. Yiasemides, A.A. Bavgily, K.A. Christofides, P.P. Vaneza

KPMG Limited, a private company limited by shares, registered in Cyprus under registration number HE 132877 with its registered office at 14, Esperidon Street, 1087, Nicosia, Cyprus

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## **INDEPENDENT AUDITORS' REPORT (continued)**

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as required by the Companies Law, Cap.113

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. Our report in this regard is presented in the "Report on other legal requirements" section.

### **Responsibilities of the Board of Directors for the financial statements**

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRS-EU and the requirements of the Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to either liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

### **Auditors' responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves true and fair view.



We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

#### **Report on other legal requirements**

Pursuant to the additional requirements of the Auditors' Law of 2017, L.53(I)/2017, as amended from time to time ("Law L.53(I)/2017"), we report the following:

- In our opinion, the Management Report, the preparation of which is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the financial statements.
- In the light of the knowledge and understanding of the business and the Company's environment obtained in the course of the audit, we have not identified material misstatements in the Management Report.

#### **Other matter**

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 69 of Law L.53(I)/2017, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Zakis E. Hadjizacharias, CA  
Certified Public Accountant and Registered Auditor

for and on behalf of

KPMG Limited  
Certified Public Accountants and Registered Auditors

11, June 16th 1943 Street  
3022 Limassol  
Cyprus

April 19, 2018

**GeoProMining Investment (CYP) Limited**  
*Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2017*

<b>'000 USD</b>	<b>Note</b>	<b>2017</b>	<b>2016</b>
<b>Revenue</b>	6	228,345	194,597
Cost of sales	7	(137,262)	(140,423)
<b>Gross profit</b>		91,083	54,174
Distribution expenses	0	(2,948)	(2,710)
Administrative expenses	9	(24,930)	(23,218)
Net loss from commodity derivatives	16	(4,183)	(35,366)
Net (impairment loss)/ reversal of impairment loss	14(c), 14(d), 14(e)	(6,218)	3,114
Other income	10	1,233	2,804
Other expenses	11	(11,337)	(13,024)
<b>Result from operating activities</b>		42,700	(14,226)
Finance income	12	383	980
Finance costs	12	(27,884)	(35,935)
<b>Profit/(loss) before income tax</b>		15,199	(49,181)
Income tax expense	13	(13,548)	(13,121)
<b>Profit/(loss) for the year</b>		1,651	(62,302)

'000 USD	Note	2017	2016
<b>Other comprehensive income</b>			
<i>Items that are or may be reclassified to profit or loss</i>			
Foreign currency translation differences for foreign operations		4,376	12,252
<b>Other comprehensive income</b>		4,376	12,252
<b>Total comprehensive income (loss)</b>		6,027	(50,050)
<b>Profit/(loss) attributable to:</b>			
Shareholders of the Group		1,777	(61,628)
Non-controlling interests		(126)	(674)
		1,651	(62,302)
<b>Total comprehensive income (loss) attributable to:</b>			
Shareholders of the Group		6,156	(49,367)
Non-controlling interests		(129)	(683)
<b>Total comprehensive income (loss)</b>		6,027	(50,050)

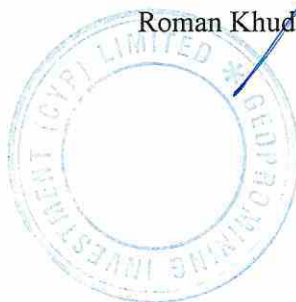
These consolidated financial statements were approved by the Board of Directors on 16 April 2018 and were signed on its behalf by:

Director

Siman Povarenkin

Director

Roman Khudoliy



**GeoProMining Investment (CYP) Limited**  
*Consolidated Statement of Financial Position as at 31 December 2017*

'000 USD	Note	2017	2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	459,353	457,848
Financial assets at fair value through profit or loss	16	-	646
Other non-current assets		203	191
Deferred tax assets	15	4,166	3,502
<b>Total non-current assets</b>		<b>463,722</b>	<b>462,187</b>
<b>Current assets</b>			
Inventories	17	48,581	36,102
Bank deposits		6,330	6,330
Financial assets at fair value through profit or loss	16	-	1,772
Income tax receivable		2,829	1,376
Trade and other receivables	18	15,726	21,199
Prepayments for current assets		5,112	5,579
Cash and cash equivalents		4,502	4,654
Restricted cash	19	-	7,176
<b>Total current assets</b>		<b>83,080</b>	<b>84,188</b>
<b>Total assets</b>		<b>546,802</b>	<b>546,375</b>



**GeoProMining Investment (CYP) Limited**  
*Consolidated Statement of Financial Position as at 31 December 2017*

'000 USD	Note	2017	2016
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	20(a)	941	941
Share premium	20(b)	272,703	272,703
Translation reserve		(88,353)	(92,732)
Retained earnings		(29,132)	(30,909)
<b>Total equity, fully attributable to shareholders of the Group</b>		156,159	150,003
Non-controlling interests		13,869	13,998
<b>Total equity</b>		170,028	164,001
<b>Non-current liabilities</b>			
Loans and borrowings	21	209,223	235,365
Financial liabilities at fair value through profit or loss	16	6,337	4,943
Provisions	22	11,335	11,781
Trade and other payables	23	9,166	-
Deferred tax liabilities	15	49,896	53,950
<b>Total non-current liabilities</b>		285,957	306,039
<b>Current liabilities</b>			
Loans and borrowings	21	37,273	30,519
Financial liabilities at fair value through profit or loss	16	371	-
Trade and other payables	23	48,619	42,525
Income tax payable		4,554	3,291
<b>Total current liabilities</b>		90,817	76,335
<b>Total liabilities</b>		376,774	382,374
<b>Total equity and liabilities</b>		546,802	546,375

**GeoProMining Investment (CYP) Limited**  
*Consolidated Statement of Cash Flows for the year ended 31 December 2017*

'000 USD	Note	2017	2016
<b>OPERATING ACTIVITIES</b>			
Profit/(loss) for the year		1,651	(62,302)
<i>Adjustments for:</i>			
Depreciation	14(a)	39,285	37,780
Impairment loss/(reversal of impairment loss) of property, plant and equipment	14(c)	6,218	(3,114)
Loss on disposal of property, plant and equipment and other assets	11	574	2,410
Provision for obsolete inventory	11	196	-
Income from waived payables	10	-	(2,511)
Net loss from commodity derivatives	16	4,182	35,366
Net finance costs	12	27,501	34,955
Income tax expense	13	13,548	13,121
<b>Operating profit before changes in working capital</b>		93,155	55,705
Change in inventories		(13,093)	3,664
Change in trade and other receivables		4,433	4,043
Change in prepayments for current assets		515	(2,046)
Change in trade and other payables		5,517	(11,286)
<b>Cash flows from operations before income taxes and interest paid</b>		90,527	50,080
Income taxes paid		(18,311)	(6,661)
Interest paid		(22,351)	(29,815)
Proceeds from realised commodity derivatives		-	24,816
<b>Cash flows from operating activities</b>		49,865	38,420

**GeoProMining Investment (CYP) Limited**  
*Consolidated Statement of Cash Flows for the year ended 31 December 2017*

'000 USD	Note	2017	2016
<b>INVESTING ACTIVITIES</b>			
Deposits repaid, including interest		925	862
Acquisition of property, plant and equipment and other assets		(35,900)	(20,710)
Released restricted cash		7,176	12,590
<b>Cash flows used in investing activities</b>		<b>(27,799)</b>	<b>(7,258)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from borrowings	21(a)	23,159	275,274
Repayment of borrowings	21(a)	(44,788)	(300,779)
Payment of transaction costs related to the Facility agreement		(529)	(2,327)
<b>Cash flows used in financing activities</b>		<b>(22,158)</b>	<b>(27,832)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>(92)</b>	<b>3,330</b>
Cash and cash equivalents at 1 January		4,654	1,213
Effect of exchange rate fluctuations on cash held		(60)	111
<b>Cash and cash equivalents at 31 December</b>		<b>4,502</b>	<b>4,654</b>

	Attributable to shareholders of the Group						
	Share capital	Share premium	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2016	941	272,703	(104,993)	30,719	199,370	14,681	214,051
Loss for the year	-	-	-	(61,628)	(61,628)	(674)	(62,302)
Foreign currency translation differences	-	-	12,261	-	12,261	(9)	12,252
Total comprehensive loss for the year	-	-	12,261	(61,628)	(49,367)	(683)	(50,050)
Balance at 31 December 2016	941	272,703	(92,732)	(30,909)	150,003	13,998	164,001
Balance at 1 January 2017	941	272,703	(92,732)	(30,909)	150,003	13,998	164,001
Profit for the year	-	-	-	1,777	1,777	(126)	1,651
Foreign currency translation differences	-	-	4,379	-	4,379	(3)	4,376
Total comprehensive income for the year	-	-	4,379	1,777	6,156	(129)	6,027
Balance at 31 December 2017	941	272,703	(88,353)	(29,132)	156,159	13,869	170,028

The accompanying notes are an integral part of these consolidated financial statements.

## 1. Background

### (a) Organisation and operations

GeoProMining Investment (CYP) Limited (the “Company”) was incorporated in Cyprus by the controlling shareholder of GeoProMining Ltd on 30 August 2010 as a private limited liability company under the Cyprus Companies Law, Cap.113.

The Company’s registered office address is Christodoulou Chatzipavlou, 221 Helios Court, 3<sup>rd</sup> floor 3036. Limassol, Cyprus.

The Company, through its wholly owned subsidiaries, controls a number of production entities engaged in the processing of ore containing nonferrous metals, in Armenia and Russia and other entities which, together with the Company, are referred to as “the Group”.

On 2 September 2011 the Company (which had no business or assets of its own) became the holding company of the Group through a transfer of the ownership in all of the Group’s subsidiaries by GeoProMining Ltd in exchange for the newly issued shares in the Company.

For accounting purposes, this transaction has been treated as restructuring amongst entities under common control and the financial history of the Group prior to that date is that of GeoProMining Ltd and its subsidiaries.

The Group’s main subsidiaries are:

		31 December 2017	31 December 2016
	Country of incorporation	Ownership/voting	Ownership/voting
Agarak CJSC	Armenia	100%	100%
Gold LLC GPM	Armenia	100%	100%
Zvezda JSC	Russia	100%	100%
Sarilakh-Surma JSC	Russia	100%	100%
Karlou B.V.	Netherlands	100%	100%
GeoProMining LLC	Russia	100%	100%
GPM Verkhne Menkeche LLC	Russia	100%	100%
Paramount Gold Mining CJSC	Armenia	51%	51%
Lernayin Arstutyin LLC	Armenia	51%	51%

The Group is owned by Geiser Asset Holdings Ltd (50.3%), which does not produce publicly available financial statements, and other shareholders. The Group is ultimately controlled by a single individual, Mr. Siman Povarenkin (the “Shareholder”), who is also a director of the Company. Related party transactions are detailed in note 28.

**(b) Business environment**

**Russian business environment**

Some of the Group's operations are located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

The recent conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

**Armenian business environment**

Some of the Group's operations are located in Armenia. Consequently, the Group is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Armenia. The consolidated financial statements reflect management's assessment of the impact of the Armenian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

**Cyprus business environment**

The Cyprus economy has been adversely affected during the last few years by the economic crisis. The negative effects have to some extent been resolved, following the negotiations and the relevant agreements reached with the European Commission, the European Central Bank and the International Monetary Fund (IMF) for financial assistance which was dependent on the formulation and the successful implementation of an Economic Adjustment Program.

The Cyprus Government has successfully completed earlier than anticipated the Economic Adjustments Program and exited the IMF program on 7 March 2016, after having recovered in the international markets and having only used EUR 7.25 of the total EUR 10 billion earmarked in the financial bailout. Under the new Euro area rules, Cyprus will continue to be under surveillance by its lenders with bi-annual post-programme visits until it repays 75% of the economic assistance it received.

The current economic environment of Cyprus will not have a significant impact on the operations of the Group and the Group does not hold significant funds in Cypriot financial institutions. The Group's management is unable to predict all developments which could have an impact on the Cyprus economy and consequently, what effect, if any, they could have on the future financial performance, cash flows and financial position of the Group.

The Group's management believes that it is taking all the necessary measures to maintain the viability of the Group and the development of its business in the current business and economic environment.

## **2. Basis of preparation**

### **(a) Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRSs”) and the provisions of the Cyprus Companies Law, Cap. 113.

### **(b) Basis of measurement**

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments, and investments at fair value through profit or loss are stated at fair value, property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRS.

### **(c) Functional and presentation currency**

Management has determined the functional currencies of the entities within the Group to be the currency which reflects the economic substance of the underlying events and circumstances of each entity.

As at 31 December 2017 the functional currencies of the entities, except for Karlou B.V. and the Company, were the national currencies of those countries in which each entity operates.

The functional currency of the Company and Karlou B.V. is the US Dollar (“USD”).

The Group’s presentation currency is USD. All financial information presented in USD has been rounded to the nearest thousand.

The results and financial position of subsidiaries whose functional currency is different from the presentation currency are translated to the presentation currency using the following procedures:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income presented are translated at average exchange rates for the period because it best approximates exchange rates at the transaction dates; and
- all resulting exchange differences shall be recognised in other comprehensive income.

### **(d) Use of judgments, estimates and assumptions**

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRSs. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 2(e) – ore reserves;
- Note 3(k)(i) – revenue recognition for the goods sold;

- Note 3(e)(vii) – useful lives of property, plant and equipment;
- Note 14(b) – licenses;
- Note 14(c) – impairment of mining assets of GPM Gold LLC;
- Note 14(d) – impairment of fixed assets of CJSC Agarak;
- Note 15 – deferred tax assets and liabilities;
- Note 16 – financial assets and liabilities at fair value through profit or loss;
- Note 22(a) – provision for site restoration;
- Note 25 – contingencies.

### ***Measurement of fair values***

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 24 – financial instruments.

### **(e) Ore reserves**

There are a number of uncertainties in estimating quantities of ore reserves, including many factors beyond the control of the Company. Ore reserve estimates are based upon engineering evaluations of assay values derived from samplings of drill holes and other openings. Additionally, declines in the market price of a particular metal may render certain reserves containing relatively lower grades of mineralisation uneconomic to mine. Further, the availability of operating and environmental permits, changes in operating and capital costs, and other factors could materially affect the Company's ore reserve estimates. The Group uses its ore reserve estimates in evaluating impairment of its property, plant and equipment and the timing of site restoration costs.



### **3. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

#### **(a) Basis of consolidation**

##### **(i) Subsidiaries**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

##### **(ii) Non-controlling interests**

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

##### **(iii) Acquisitions from entities under common control**

Acquisitions of controlling interests in entities that are under the control of the same controlling shareholder as the Group are accounted for using book values as recognised in the individual financial statements at the date when control of the Group was established. Difference between cash paid and book value is recognised directly in equity.

##### **(iv) Loss of control**

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

##### **(v) Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### **(b) Foreign currency**

##### **(i) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated

in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss.

**(ii) Foreign operations**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to USD at the exchange rate at the reporting date. The income and expenses of foreign operations are translated to USD at average exchange rates for the relevant periods.

Foreign currency differences are recognised directly in other comprehensive income and presented in the foreign currency translation reserve (translation reserve) in equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

Foreign exchange gains and losses arising from a monetary item received from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the foreign currency translation reserve.

**(c) Financial instruments**

**(i) Non-derivative financial instruments**

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and costs is discussed in note 3(m).

**(ii) *Derivative financial instruments***

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in the profit or loss.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

**Offsetting of financial assets and financial liabilities**

As a result of the amendments to IFRS 7, the Group has expanded its disclosures about the offsetting of financial assets and financial liabilities (see note 24(c)).

**(d) *Share capital and capital contributions***

*Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

**(e) *Property, plant and equipment***

**(i) *Recognition and measurement***

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2005, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Net gains and losses on disposal of an item of property, plant and equipment are recognised in “other income” or “other expenses” in profit or loss.

**(ii) *Exploration and evaluation expenditure***

Exploration and evaluation assets include topographical, geographical, geochemical and geophysical studies; exploratory drilling; activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource. The exploration and evaluation assets are measured at cost less accumulated impairment losses, and are classified as “Construction in progress” within property, plant and equipment.

**(iii) *Mine development costs***

Once exploration and evaluation activities have been completed and proven reserves are determined, the expenditure on the development of mineral resources is capitalised and classified within the

“Construction in progress” category of property, plant and equipment. The development expenditure which is capitalised within property, plant and equipment includes the cost of materials, direct labour and an appropriate proportion of overheads related to the works on mine development which are inseparable from the mine’s landscape, as well as costs of development stripping as described in note 3(e)(iv).

Once the relevant mineral resource is ready for production, the capitalised mine development costs are reclassified to “Mining assets and mining structures” category, which is classified within property, plant and equipment.

**(iv) Stripping costs**

Stripping costs incurred during the production phase are generally considered to create two benefits, being either the production of inventory or improved access to the ore to be mined in the future. Where the benefits are realized in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where the benefits are realised in the form of improved access to ore to be mined in the future, the costs are recognised as a non-current asset, referred to as a stripping activity asset, if the following criteria are met:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
- the entity can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity associated with that component can be measured reliably.

If any of the criteria are not met, the production stripping costs are charged to the statement of profit or loss as operating costs as they are incurred or included in the cost of inventory produced.

In identifying components of the ore body, the Company works closely with the mining operations personnel to analyse the mine plan. Generally, a component will be a subset of the total ore body, and a mine may have several components.

The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs.

A relevant production measure is used to allocate the production stripping costs between the inventory produced and the stripping activity asset. This production measure is calculated for the identified component of the ore body and is used as a benchmark to identify the extent to which the additional activity of creating a future benefit has taken place. The Company uses the expected volume of waste extracted compared with the actual volume for a given volume of ore production of each component.

The stripping activity asset is accounted for as an addition to, or an enhancement of, an existing asset, being the mine asset, and is presented as part of intangible assets in the statement of financial position.

The stripping activity asset is subsequently depreciated using the units of production method over the life of the identified component of the ore body that became more accessible as a result of the stripping activity. Economically recoverable reserves, which comprise proven and probable reserves, are used to determine the expected useful life of the identified component of the ore body. The stripping activity asset is then carried at cost less depreciation and any impairment losses.

**(v) Subsequent costs**

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is

derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

**(vi) Mining assets and mining structures**

This category of property, plant and equipment comprises the following categories of capitalised costs, related to mines put into production use:

- Capitalised mine development expenditure (note 3(e)(iii));
- Capitalised development stripping costs (note 3(e)(iv));
- Capitalised site restoration obligations (note 22(a));
- Cost of production mining licenses (note 14(b)).

**(vii) Depreciation**

Depreciation of property, plant and equipment, except mining assets and mining structures, is determined using the straight-line method based on the estimated useful lives of the individual assets or the useful life of the associated mine if shorter, unless an item of property, plant and equipment is consumed during the mining process proportionate to the volume of extraction, in which case its depreciation is determined using a unit of production method based on the extracted volumes of mineral resources and estimated production capacity of the individual asset.

Mining assets and mining structures are depleted over the life of the related mineral resource using the unit-of-production method based on the expected amount of commercially extractable reserves, determined as industrial (recoverable) reserves. Depletion of mining assets and mining structures capitalised development costs commences from the date when saleable materials begin to be extracted from the mine.

Depreciation is recognised in profit or loss except for depreciation of assets used for construction of other items of property, plant and equipment of the Group which is included in the cost of the constructed assets.

Depreciation commences from the date the construction of an asset is completed and it is ready for use. Land is not depreciated.

The estimated useful lives of items of property, plant and equipment used as a basis for asset's depreciation rates are as follows:

- |   |  |
|---|--|
| • Buildings and other production structures | 5-20 years;  |
| • Earth-moving machinery and vehicles       | 3-7 years;   |
| • Production equipment                      | 5-10 years;  |
| • Fixtures and fittings                     | 3-5 years;   |
| • Mining assets                             | pro rata to extraction<br>volumes in relevant mines. |

Depreciation methods, useful lives and residual values are reassessed at the period end date.

**(f) Leased assets**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position. They are recognised in profit or loss on a straight-line basis over the term of the lease.

**(g) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**(h) Impairment**

**(i) Financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. The reversal is recognised in profit or loss.

**(ii) Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(i) Employee benefits**

The Group companies make contributions to defined contribution pension plans, including State pension funds, recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

**(j) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

**(i) Site restoration**

In accordance with the Group's environmental policy and applicable legal requirements, a provision for site reclamation and the related expense, is recognised when the mine development activities start. These costs include obligations relating to reclamation, waste site rehabilitation, plant closure, plant removal and other costs associated with the restoration of the site.

**(k) Revenue**

**(i) Goods sold**

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. In particular, management exercised judgment in interpretation of facts and circumstances of gold sales by the subsidiaries forming Sakha (Russia) operating segment. Thus, the sales recognized upon the readiness of gold bars for the delivery.

Some of the Group's sales contracts (Agarak and Sarilakh-Surma JSC) provide for a provisional payment as specified in individual contracts that are based upon provisional assays and historical quoted metal prices. Final settlement is done based on market metal prices averaged over a specified

future quotation period. Typically, the future quotation period is up to three months after the risks and rewards of ownership have been transferred to the buyer.

The Company's provisionally priced sales contracts contain an embedded derivative that is separated from the host contract for accounting purposes. The embedded derivative, which is the final settlement price based on a future price, is recorded as a trade receivable or advances received on the balance sheet and marked to market (fair value) through revenue each period with reference to the appropriate commodity forward curve until the date of final settlement.

**(l) Other expenses**

**(i) Lease payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

**(ii) Social expenditure**

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in profit or loss as incurred.

**(m) Finance income and costs**

Finance income comprises interest income on funds invested and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses and impairment losses recognised on financial assets, including trade receivables.

Interest paid is classified as operating activities in the Statement of Cash flows as it enters into the determination of profit or loss. Foreign currency gains and losses are reported on a net basis.

**(n) Income tax expense**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.



Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Total royalty expense is an allowable deductible expense for the taxable income calculation purposes.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**(o) Royalty expense**

Royalties are the expected payments to the state budget of Armenia calculated in accordance with guidelines and requirements in the applicable laws and regulations and are based on the profitability levels of licensed operations. Royalties are calculated using rates enacted or substantively enacted at the reporting date. Royalties consist of two components: royalty calculated at 4% of revenue and royalty calculated as 12.5% of taxable income less expenses as per the guidelines and requirements in the applicable laws and regulations. Following provisions of the revised law effective from 1 January 2012 the Group presents the royalty component calculated on net measure as income tax expense.

Before the enactment of the revised law the royalty expense was recognized in other expenses as non-income tax expense.

**(p) Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the CEO of the Group to make decisions about resources to be allocated to the segment and assess its performance.

Segment results that are reported to the CEO of the Group include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Group's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

Inter-segment pricing is determined on an arm's length basis.

**(q) New Standards and Interpretations not yet adopted**

A number of new Standards, amendments to Standards and Interpretations are effective for annual periods beginning after 1 January 2017 and have not been applied in preparing these financial statements. The Company plans to adopt these pronouncements when they become effective.

The amendments are not expected to have a significant effect on the financial statements of the Company.

**(i) IFRS 15 Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

***Sales of goods***

For the sale of concentrates, golden bars and polymetallic ore revenue is currently recognised when the customer accepts the goods and related risks and rewards of ownership. Revenue is recognised at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods.

Under IFRS 15, revenue will be recognised when a customer obtains control of the goods.

Based on its assessment, the Company does not expect the application of IFRS 15 to have a significant impact on its financial statements.

**(ii) IFRS 16 Leases**

IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Company has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Company's borrowing rate at 1 January 2019 and the Company's latest assessment of whether it will exercise any lease renewal options.

Based on its assessment, the Company does not expect the application of IFRS 16 to have a significant impact on its financial statements.

***Transition***

As a lessee, the Company can either apply the standard using a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

The Company plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect whether to apply a number of practical expedients on transition. The Company is assessing the potential impact of using these practical expedients.

### **(iii) IFRS 9 Financial Instruments**

IFRS 9 *Financial Instruments* sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

#### ***Classification – Financial assets***

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Based on its assessment, the Company does not believe that the new classification requirements will have a material impact on its accounting for trade receivables.

#### ***Impairment – Financial assets and contract assets***

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. This will require considerable judgment about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- *12-month ECLs*. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- *lifetime ECLs*. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component.

The Company has estimated that application of IFRS 9's impairment requirements at 1 January 2018 will not result in recognition of additional material impairment losses.

#### ***Classification – Financial liabilities***

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognized in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Company has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Company's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

#### ***Disclosures***

IFRS 9 will require extensive new disclosures, in particular about credit risk and expected credit losses. The Company's assessment included an analysis to identify data gaps against current processes and the Company is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

#### ***Transition***

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

The Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and reserves as at 1 January 2018.

## **4. Determination of fair values**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### **(a) Property, plant and equipment**

The fair value of property, plant and equipment recognised as a result of a business combination or first time adoption of IFRSs is based on market values. The market value of property is the estimated

amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on market approach and cost approaches using quoted market prices for similar items when available.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

**(b) Investments in equity and debt securities**

The fair value of held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

**(c) Trade and other receivables**

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

**(d) Derivatives**

The Group holds put and call gold options derivative financial instruments as hedging instrument. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in the profit or loss.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

The fair value of forward exchange contracts is based on their quoted market price, if available. If a quoted market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

**(e) Non-derivative financial liabilities**

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

## 5. Operating segments

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units produce different products, and are managed separately because they require different technology strategies. For each of the strategic business units, the CEO of the Group quarterly reviews internal management reports prepared on IFRS basis. The segment capital expenditures are based on management accounts. Apart from using segment profit before income tax, the CEO of the Group evaluates performance of each segment based on measure of operating profit adjusted by depreciation and amortisation, other non-cash and exceptional items (EBITDA). Since this term is not a standard IFRS measure the Group's definition of EBITDA may differ from that of other companies.

The following summary describes the operations in each of the Group's reportable segments:

- *Agarak (Armenia)*. Includes mining and processing of copper-molybdenum ore. The final products are copper and molybdenum concentrate.
- *GPM Gold (Armenia)*. Includes mining and processing of gold bearing ore to produce gold bullions.
- *Sakha (Russia)*. Includes operations of JSC Sarilakh-Surma and JSC Zvezda related to the mining and processing of antimony-gold bearing ore. There is a high level of integration in the activities of these subsidiaries which determine their merge into the single operating segment.

The Group treated the GPM Verkhne Menkeche LLC as an investment project and did not include it into any reportable segment.

Information regarding the results of each reportable segment is included below.

(i)

**Information about reportable segments**

	Agarak (Armenia)		GPM Gold (Armenia)		Sakha (Russia)		Total	
	For the year ended 31 December							
'000 USD	2017	2016	2017	2016	2017	2016	2017	2016
External revenue	31,294	22,546	146,786	131,714	40,203	40,337	218,283	194,597
Total segment revenue	31,294	22,546	146,786	131,714	40,203	40,337	218,283	194,597
EBITDA	7,770	(1,266)	69,686	50,094	15,925	16,607	93,381	65,435
Segment profit/(loss) before income tax	11,986	(13,819)	3,645	1,938	12,822	12,895	28,453	1,014
Reversal of impairment / (impairment loss)	10,685	-	(16,903)	3,114	-	-	(6,218)	3,114
Segment income tax expense	(1,554)	(1,715)	(6,800)	(7,629)	(2,774)	(2,567)	(11,128)	(11,911)
Segment capital expenditures	(7,298)	(2,445)	(8,109)	(6,944)	(13,032)	(4,895)	(28,439)	(14,284)
Total external assets	82,713	68,139	337,002	365,869	58,918	49,184	478,633	483,192
Corporate loans and receivables	-	-	73	98	25,656	31,045	25,729	31,143
Inter-segment assets	2	299	2,035	759	-	-	2,037	1,058
Total segment assets	82,715	68,438	339,110	366,726	84,574	80,229	506,399	515,393
Total external liabilities	33,520	32,295	109,571	103,630	9,202	7,390	152,293	143,315
Corporate loans and payables	29,303	31,329	217,326	248,372	228	158	246,857	279,859
Inter-segment liabilities	2,035	759	2	299	-	-	2,037	1,058
Total segment liabilities	64,858	64,383	326,899	352,301	9,430	7,548	401,187	424,232

(ii) **Reconciliations of reportable segment revenues, profit or loss before tax, assets and liabilities**

'000 USD	2017	2016
<b>Revenues</b>		
Total revenue for reportable segments	218,283	194,597
Revenue of the entity that is not reportable segment	10,062	-
Consolidated revenue	228,345	194,597
<b>Profit or loss</b>		
Profit before tax for reportable segments	28,453	1,014
External finance costs of the entities that are not reportable segments	(23,868)	(58,656)
Other expenses of the entities that are not reportable segments	(6,112)	(13,388)
Intercompany other income of the entities that are not reportable segments	4,295	4,361
Intercompany finance income of the entities that are not reportable segments	12,431	17,488
Consolidated profit / (loss) before income tax	15,199	(49,181)
<b>EBITDA</b>		
EBITDA for reportable segments	93,381	65,435
Other expenses of the entities that are not reportable segments	(4,985)	(11,103)
Other (depreciation and exceptional items)	426	683
Intercompany other income of the entities that are not reportable segments	4,295	4,361
Cash received from commodity derivatives (see note 16)	-	24,816
Consolidated EBITDA (see Note 24(h))	93,117	84,192
<b>Assets</b>		
Total assets for reportable segments	506,399	515,393
Assets for other entities that are not reportable segments	68,169	63,183
Elimination of Corporate loans and receivables	(25,729)	(31,143)
Elimination of inter-segment assets	(2,037)	(1,058)
Consolidated total assets	546,802	546,375



<b>'000 USD</b>	<b>2017</b>	<b>2016</b>
<b>Liabilities</b>		
Total liabilities for reportable segments	401,187	424,232
Liabilities for other entities that are not reportable segments	224,481	239,059
Elimination of Corporate loans and payables	(246,857)	(279,859)
Elimination of inter-segment liabilities	(2,037)	(1,058)
Consolidated total liabilities	376,774	382,374

**(iii) Geographical information**

In presenting information on the basis of geographical information, revenue is based on the geographical location of the buyers, which may differ from the geographic location of the end customers. Segment non-current assets are based on the geographical location of the Property, plant and equipment.

**(iv) Major customer**

For 2017 approximately 78% or USD 177,919 thousand (2016: 79% or USD 153,602 thousand) of the Group's revenue is attributable to two third party customers amounting to USD 146,665 thousand and USD 31,254 thousand (2016: USD 131,134 thousand and USD 22,468 thousand) of revenues respectively.

<b>'000 USD</b>	<b>Revenues</b>	
	<b>2017</b>	<b>2016</b>
Canada	-	131,134
UK	146,665	22,468
Switzerland	31,254	-
China	32,458	30,857
Russia and CIS	17,968	10,138
	228,345	194,597

<b>'000 USD</b>	<b>Non-current assets</b>	
	<b>2017</b>	<b>2016</b>
Armenia	397,427	411,169
Russia	61,926	46,679
	459,353	457,848

Non-current assets include property, plant and equipment only.

## 6. Revenue

'000 USD	2017	2016
Sales of gold	159,211	145,977
Sales of copper	28,310	20,440
Sales of antimony	26,878	24,766
Sales of molybdenum	2,944	2,028
Sales of silver	455	407
Sales of polymetallic ores	9,956	-
Other revenue	591	979
	<u>228,345</u>	<u>194,597</u>

During 2017 and 2016 the Group's sale prices for gold and silver were directly linked to the London Bullion Market Association spot prices.

Some of the Group's sales contracts provide for a provisional payment as specified in individual contracts that are based upon provisional assays and historical quoted metal prices. Final settlement is done based on market metal prices averaged over a specified future quotation period. Typically, the future quotation period is up to three months after the risks and rewards of ownership have been transferred to the buyer.

Provisionally priced sales contracts contain an embedded derivative that, because it does not relate to the commodity sale, is separated from the host contract for accounting purposes. The embedded derivative, which is the final settlement price based on a future price, is recorded as a trade receivable or advances received on the balance sheet and marked to market (fair value) through revenue each period with reference to the appropriate commodity forward curve until the date of final settlement.

The fair value of the embedded derivative relating to copper and molybdenum concentrate has been calculated using forward prices as at the balance sheet date quoted in the metal markets. As at 31 December 2017, the fair value of the embedded derivative amounted to USD 6 thousand (asset) (31 December 2016: USD 688 thousand (asset)). The movement for the period was charged against revenue.

## 7. Cost of sales

'000 USD	2017	2016
Materials	(37,887)	(47,684)
Services	(35,263)	(33,708)
Salary	(21,984)	(18,865)
Social insurance contributions	(2,011)	(1,828)
Depreciation	(38,647)	(37,171)
Environmental and other taxes	(1,254)	(1,107)
Other	(216)	(60)
	<u>(137,262)</u>	<u>(140,423)</u>

The number of personnel of the Company and subsidiaries was 2,650 in 2017 (2016: 2,546).

## 8. Distribution expenses

'000 USD	2017	2016
Services	(1,773)	(1,525)
Salary	(697)	(521)
Social insurance contributions	(72)	(53)
Depreciation	(275)	(221)
Other	(131)	(390)
	<u>(2,948)</u>	<u>(2,710)</u>

## 9. Administrative expenses

'000 USD	2017	2016
Salary	(10,052)	(8,765)
Social insurance contributions	(840)	(705)
Services	(11,897)	(11,573)
Depreciation	(361)	(375)
Property and other taxes	(631)	(823)
Other	(1,149)	(977)
	<u>(24,930)</u>	<u>(23,218)</u>

The fees to auditors included in the services are as follows:

'000 USD	2017	2016
Audit fees of the Parent Company	(42)	(52)
Audit fees of subsidiaries and interim review fees	(351)	(337)
	<u>(393)</u>	<u>(389)</u>

## 10. Other income

'000 USD	2017	2016
Rental income	-	155
Income from waived payables	-	2,511
Reversal of additional royalties, fines and penalties imposed by the Tax Authorities in Armenia in 2016	1,233	-
Other income	-	138
	<u>1,233</u>	<u>2,804</u>

## 11. Other expenses

'000 USD	2017	2016
Loss on disposal of property, plant and equipment and other assets	(574)	(2,410)
Fines and penalties	(664)	(445)
Royalty	(8,616)	(5,975)
Additional royalties, fines and penalties imposed by the Tax Authorities in Armenia (note 25)	-	(2,876)
Taxes	(327)	(781)
Bank services	(159)	(261)
Charity and welfare	(315)	(276)
Provision for obsolete inventory	(196)	-
Other	(486)	-
	<u>(11,337)</u>	<u>(13,024)</u>

## 12. Finance income and costs

'000 USD	2017	2016
<b>Finance income</b>		
Interest income on bank deposits	383	980
Finance income	<u>383</u>	<u>980</u>

<b>'000 USD</b>	<b>2017</b>	<b>2016</b>
<b>Finance costs</b>		
Interest expense	(24,227)	(29,655)
Withholding tax on intragroup interest	(1,469)	(2,393)
Unwinding of discount on site restoration provision	(1,011)	(991)
Net foreign exchange loss	(1,070)	(2,066)
Impairment loss on receivables and prepayments	(107)	(830)
Finance costs	(27,884)	(35,935)
Net finance costs	(27,501)	(34,955)

### 13. Income tax expense

'000 USD	2017	2016
<b>Current tax expense</b>		
Current year	(11,497)	(6,223)
Current year royalty tax	(6,531)	(4,067)
	(18,028)	(10,290)
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	5,007	1,651
Tax loss carry-forwards	(527)	(4,482)
	4,480	(2,831)
	(13,548)	(13,121)

The Group companies pay income tax in accordance with the legislative requirements of their tax jurisdictions. The income tax rates of significant subsidiaries are as follows:

Holding company	Jurisdiction	2017	2016
The Company	Cyprus	12.5%	12.5%

Significant subsidiary	Jurisdiction	2017	2016
GPM Gold LLC	Armenia	20%	20%
CJSC Agarak	Armenia	20%	20%
JSC Zvezda	Russia	20%	20%
JSC Sarilakh-Surma	Russia	20%	20%
GPM Verkhne Menkeche LLC	Russia	20%	20%
Karlou B.V.	Netherlands	20%	20%
GeoProMining Ltd.	British virgin Islands	0%	0%

The effective applicable tax rate, comprising income and royalty tax of GPM Gold LLC and CJSC Agarak enacted as at 31 December 2017 is 30% (31 December 2016: 30%).

**Reconciliation of effective tax rate:**

	<b>2017</b>		<b>2016</b>	
	<b>'000 USD</b>	<b>%</b>	<b>'000 USD</b>	<b>%</b>
Profit (loss) before income tax	15,199	100.0	(49,181)	(100.0)
Income tax at applicable tax rate	(1,900)	(12.5)	6,148	12.5
Effect of income tax rates in foreign jurisdictions and royalty tax	(6,186)	(40.7)	(4,215)	(8.6)
Non-deductible expenses, net	(2,952)	(19.4)	(5,894)	(12.0)
Non-deductible expenses applicable to royalty tax	(2,568)	(16.9)	(3,069)	(6.2)
Write off of previously recognized deferred tax assets	-	-	(1,829)	(3.7)
Current year losses for which no deferred tax asset was recognised	58	0.4	(4,262)	(8.7)
	<u>(13,548)</u>	<u>(89.1)</u>	<u>(13,121)</u>	<u>(26.7)</u>

## 14. Property, plant and equipment

	Land, buildings and infrastructure	Production equipment	Mining assets	Vehicles and other	Construction in progress	Advances	Total
<b>'000 USD</b>							
<i>Cost / Deemed cost</i>							
Balance at 1 January 2016	36,975	205,761	384,323	4,648	64,923	941	697,571
Additions	261	8,044	7,124	257	13,457	1,690	30,833
Disposals	(15)	(288)	(271)	(142)	(1,140)	-	(1,856)
Transfers	247	3,956	-	85	(4,127)	(161)	-
Translation reserve	560	1,181	3,369	415	4,157	349	10,031
Balance at 31 December 2016	38,028	218,654	394,545	5,263	77,270	2,819	736,579
Additions	1,587	13,376	10,388	545	15,695	4,811	46,402
Disposals	(8)	(5,003)	(108)	(236)	(37)	-	(5,392)
Transfers	7,107	13,678	5,920	280	(23,741)	(2,648)	596
Translation reserve	281	530	1,112	127	1,178	106	3,334
Balance at 31 December 2017	46,995	241,235	411,857	5,979	70,365	5,088	781,519



	Land, buildings and infrastructure	Production equipment	Mining assets	Vehicles and other	Construction in progress	Advances	Total
<b>'000 USD</b>							
<b><i>Depreciation and impairment losses</i></b>							
Balance at 1 January 2016	(14,016)	(85,622)	(131,426)	(2,948)	(5,572)	(7)	(239,591)
Depreciation charge	(2,155)	(21,226)	(15,928)	(485)	-	-	(39,794)
Disposals	6	53	3	123	-	-	185
Reverse of impairment	-	-	3,114	-	-	-	3,114
Translation reserve	(65)	(646)	(1,731)	(203)	-	-	(2,645)
Balance at 31 December 2016	(16,230)	(107,441)	(145,968)	(3,513)	(5,572)	(7)	(278,731)
Depreciation charge	(1,464)	(18,019)	(21,402)	(512)	-	-	(41,397)
Disposals	6	4,700	23	262	-	-	4,991
Impairment loss	-	-	-	-	(16,512)	-	(16,512)
Reverse of impairment	1,179	147	9,032	5	224	98	10,685
Translation reserve	(93)	(328)	(622)	(68)	-	(91)	(1,202)
Balance at 31 December 2017	(16,602)	(120,941)	(158,937)	(3,826)	(21,860)	-	(322,166)
<b><i>Net book value</i></b>							
At 1 January 2016	22,959	120,139	252,897	1,700	59,351	934	457,980
At 31 December 2016	21,798	111,213	248,577	1,750	71,698	2,812	457,848
At 31 December 2017	30,393	120,294	252,920	2,153	48,505	5,088	459,353

**(a) Depreciation**

For 2017 and 2016 depreciation was allocated to statement of profit or loss and other comprehensive income as follows:

	<b>2017</b>	<b>2016</b>
	<b>'000 USD</b>	<b>'000 USD</b>
Cost of sales	38,647	37,171
Distribution expenses	275	221
Administrative expenses	361	375
Other expenses	2	13
	<u>39,285</u>	<u>37,780</u>

During 2017 the Group capitalised depreciation amounting to USD 340 thousand (2016: USD 85 thousand) to inventory and USD 1,772 thousand (2016: USD 1,929 thousand) to property, plant and equipment.

Write-off of Mining assets of USD 1,359 thousand (2016: addition to Mining assets of USD 730 thousand) represent a change in estimate of reclamation costs (see note 22).

Capitalised borrowing costs relating to the development of mining assets amounted to USD 416 thousand (2016: USD 415 thousand) with a capitalisation rate of 4.5% (2016: 4.5%).

**(b) Licenses**

Construction in progress includes exploitation and exploration licenses and rights for which mineral resources were not ready for production as at 31 December 2017 in respect of the following mines:

- Hankavan mine is fully impaired (2016: USD 15,649 thousand);
- KIM mine of USD 518 thousand (2016: USD 492 thousand);
- Lusadjur mine of USD 22,279 thousand (2016: USD 22,289 thousand);
- Verkhne-Menkeche of USD 14,912 thousand (2016: USD 17,852 thousand).

Mining assets include exploitation and exploration licenses and rights as at 31 December 2017 in respect of the following mines:

- Zod mine of USD 182,998 thousand (2016: USD 198,657 thousand);
- Agarak mine of USD 26,714 thousand (2016: USD 22,487 thousand);
- Sentachanskoe and Sarylakhskoye mines of USD 2,908 thousand (2016: USD 3,583 thousand).

**(c) Impairment of mining assets of GPM Gold LLC**

In 2009, due to the legislative changes in Armenia, the Group amended its strategic plans regarding the modernisation of the processing plant in Ararat.

The above changes have been assessed by the Group as indicators of impairment of GPM Gold CGU and, as a result of the impairment testing, an impairment loss of USD 13,273 thousand was recognised in 2009 in respect of this CGU.

As at 31 December 2013, following the decrease in gold price by 15.5 % in 2013 compared to 2012 average gold price, the Company determined that there is an indication of further impairment of its mining property.

Consequently, an impairment loss of USD 31,742 thousand was recognised in the consolidated financial statements for the year ended 31 December 2013.

At 31 December 2015 following the situation with non-stable gold prices the Company determined that there is an indication of impairment of its mining property.

As a result of the impairment test, the recoverable amount of mining assets of GPM Gold as at 31 December 2015 was estimated at USD 199,329 thousand and exceeded the mining assets' carrying value of USD 169,266 thousand. As a result reversal of the initially recognised impairment in the amount of USD 30,063 thousand was recorded in the consolidated financial statements for the year ended 31 December 2015.

At 31 December 2016 due to the continuing situation with non-stable gold prices the Company determined that there is an indication of impairment of its mining property.

As a result of the impairment test, the recoverable amount of mining assets of GPM Gold as at 31 December 2016 was estimated at USD 230,861 thousand and exceeded the mining assets' carrying value of USD 179,481 thousand. As a result final reversal of the initially recognised impairment in the amount of USD 3,114 thousand was recorded in these consolidated financial statements.

At 31 December 2017 the Group determined that there is no indication of impairment of GPM Gold mining property.

**(d) Impairment of fixed assets of CJSC Agarak**

During 2015, due to significant decline in metal prices the Company determined that there is an indication of impairment and assessed the recoverable amount of its property, plant and equipment.

The recoverable amount was based on its value in use, determined by discounting future cash flows. The carrying amount of property, plant and equipment and intangible assets was determined to be higher than their recoverable amounts and an impairment loss of USD 54,122 thousand was recognised.

During 2017, due to change of market prices of metals and plans of reconstruction, which will increase production volume, the Company determined that there is an indication of reversal of previously recognized impairment losses and assessed the recoverable amount of its property, plant and equipment and intangible assets.

The recoverable amount was based on its value in use, determined by discounting future cash flows.

The key assumptions used in the estimation of value in use are as follows:

- Cash flows were projected based on past experience, actual operating results and the Company's five year business plan. The forecast period covers years until 2053, when the estimated ore reserves are assessed to be fully extracted,
- Total volume of processed ore was projected at 3.7 million tons per annum starting from 2020 which represents the production capacity with existing property, plant and equipment,

- Copper price is forecasted to reach USD 3.24 per pound in 2023-2027 and Molybdenum price is forecasted to increase to USD 8.23 per pound based on expectations in the global metal markets. Then the long term US inflation rate of 2% was applied,
- Unit production costs, treatment and refining charges, capital expenditure and administrative expenses are expected to increase by the long term US inflation rate of 2%,
- A pre-tax discount rate of 14.5% was applied. The discount rate was estimated based on an industry average weighted average cost of capital, which was based on a possible range of debt leveraging of 72% at a market interest rate of 10.5%.

As a result of the impairment test, the recoverable amount of property, plant and equipment of Agarak as at 31 December 2017 was estimated at USD 72,300 thousand and exceeded its carrying amount of USD 61,615 thousand. As a result reversal of the initially recognised impairment in the amount of USD 10,685 thousand was recorded in the consolidated financial statements for the year ended 31 December 2017.

**(e) Impairment of licence of the Hankavan molybdenum mine**

As at 31 December 2017 the Group recognized impairment in respect of full carrying amount of exploration and evaluation assets and other related assets of the Hankavan molybdenum mine in the total amount of USD 16,903 thousand (including current assets in the amount of USD 391 thousand). The impairment has been recognized due to the fact that the mining plan have not been approved and subsequently the exploration license and underlying exploration contract of Hankavan molybdenum mine have not been prolonged after 30 December 2016 by the Government in Armenia.

**(f) Security**

Properties with a carrying amount of USD 22,197 thousand (2016: USD 32,007 thousand) are pledged to secure bank loans (see note 21).

## **15. Deferred tax assets and liabilities**

**(a) Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

'000 USD	Assets		Liabilities		Net	
	2017	2016	2017	2016	2017	2016
Property, plant and equipment	749	-	(55,009)	(60,423)	(54,260)	(60,423)
Inventories	1,419	1,225	(503)	(557)	916	668
Trade and other receivables	-	195	(134)	-	(134)	195
Provisions	2,957	3,280	-	-	2,957	3,280
Trade and other payables	1,081	1,744	(103)	(105)	978	1,639
Tax loss carry-forwards	3,813	4,193	-	-	3,813	4,193
Tax assets/(liabilities)	10,019	10,637	(55,749)	(61,085)	(45,730)	(50,448)
Set off of tax	(5,853)	(7,135)	5,853	7,135	-	-
Net tax assets/(liabilities)	4,166	3,502	(49,896)	(53,950)	(45,730)	(50,448)

The tax loss carry-forwards relates to the LLC GPM Verkhne-Menkeche project. The project has started generating a taxable profit during 2017.

**(b) Movement of unrecognised tax losses during the year**

'000 USD	1 January 2016	Created	31 December 2016	Utilised	31 December 2017
Tax loss	41,702	21,310	63,012	(58)	62,954
	41,702	21,310	63,012	(58)	62,954

The unrecognised tax loss expires in years 2018 – 2025. In 2017 tax losses have not been recognised as the deferred tax assets by Agarak (2016: by Karlou B.V. and Agarak) because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

**(c) Movement in temporary differences during the year**

'000 USD	1 January 2017	Recognised in profit or loss	Foreign currency translation	31 December 2017
Property, plant and equipment	(60,423)	6,040	123	(54,260)
Inventories	668	284	(36)	916
Trade and other receivables	195	(332)	3	(134)
Provisions	3,280	(327)	4	2,957
Trade and other payables	1,639	(658)	(3)	978
Tax loss carry-forwards	4,193	(527)	147	3,813
	(50,448)	4,480	238	(45,730)

'000 USD	1 January 2016	Recognised in profit or loss	Foreign currency translation	31 December 2016
Property, plant and equipment	(61,138)	945	(230)	(60,423)
Inventories	712	75	(119)	668
Trade and other receivables	434	(252)	13	195
Provisions	2,868	398	14	3,280
Trade and other payables	1,177	485	(23)	1,639
Tax loss carry-forwards	8,037	(4,482)	638	4,193
	(47,910)	(2,831)	293	(50,448)

**16. Financial assets and liabilities at fair value through profit or loss**

Following the requirements of the Facility agreement (see note 21 (a)) during 2016 the Group purchased put options for 287,200 ounces of gold exercisable quarterly during 2017-2021 at the strike price of USD 1,100 per ounce in 2017 (decreasing to USD 850 per ounce in 2021) and also sold call options for 475,750 ounces of gold exercisable quarterly during 2017-2021 at the strike price of USD 1,500-1,700 per ounce. The fair value of the put and call options was determined using Vanna-Volga technique based on Bloomberg inputs including volatility, gold price quotations and risk-free rates.

## 17. Inventories

'000 USD	2017	2016
Raw materials and consumables	18,214	14,386
Semi-finished products	16,236	8,574
Work in progress	5,192	5,098
Finished goods and goods for resale	8,311	7,585
Other inventories	628	459
	<u>48,581</u>	<u>36,102</u>
Write-down / (reversal) of inventories for the period	(196)	-

Inventories with carrying amount of USD 1,365 thousand (2016: USD 1,252 thousand) are pledged as security for loans from banks (see note 21).

## 18. Trade and other receivables

	2017 '000 USD	2016 '000 USD
<i>Current</i>		
Trade receivables	7,268	10,735
VAT receivables	7,702	9,691
Other taxes receivables	433	664
Receivables from personnel	78	38
Other receivables	602	983
Provision for doubtful trade and other receivables	(357)	(912)
	<u>15,726</u>	<u>21,199</u>

Trade receivables include the embedded derivatives at fair value relating to copper, molybdenum and antimony concentrate with the carrying amount of USD 6 thousand (positive) (31 December 2016: USD 688 thousand (positive)).

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 24(e) and 24(g)(i).

## 19. Restricted cash

	2017 '000 USD	2016 '000 USD
Restricted cash – current portion	-	7,176
	<u>-</u>	<u>7,176</u>

Bank balances with a carrying amount of nil (2016: USD 7,176 thousand) was restricted and represented the unused amount of the Shareholder injections of USD 77,000 thousand made by Sberbank Capital LLC in 2014. According to the Facility agreement for USD 207,704 thousand (2016: USD 225,704 thousand) (see note 21), this amount included nil (2016: USD 7,176 thousand) attributable to LLC GPM Verkhne-Menkeche project in 2017 and nil (2016: nil, 2015: USD 3,669 thousand) attributable to capital expenditure for the Albion Plant.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 24(g)(ii).

## 20. Equity

### (a) Share capital

In June 2011 the authorised share capital was increased to 50,000 shares of EUR 1 each and in August further increased to 1,500,000 shares of EUR 1 each. On 30 September 2011 the shares were re-denominated from EUR 1.00 to EUR 0.01 per each share. As at 31 December 2012 and 2013 the authorised share capital of the Company was EUR 1,500 thousand divided into 50,000,001 shares with a par value of EUR 0.01 each.

In 2014 the Company issued 17,239,063 ordinary shares and then cancelled 270,000 ordinary shares, increasing issued share capital to 66,969,064 shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the shareholders.

	2017		2016	
	Ordinary shares	Share capital '000 USD	Ordinary shares	Share capital '000 USD
On issue at 1 January – par value EUR 0.01	66,969,064	941	66,969,064	941
On issue at 31 December – par value EUR 0.01	66,969,064	941	66,969,064	941

### (b) Share premium

As part of the GPM Group restructuring the Company issued 450,000 ordinary shares of nominal value EUR 1.00 each and one ordinary share of nominal value EUR 0.01 on 2 September 2011 and 11 November 2011, respectively, for a total premium of USD 197,234 thousand in exchange for the equity instruments of the subsidiaries of the Group. The values of the contributed equity instruments in the agreements were primarily defined with reference to the statutory financial statements. The excess in the value of the contributions over the par value of the issued shares represents the premium recognised in the share premium account.

As part of the deal with Sberbank Capital LLC the Company issued and sold to Sberbank Capital LLC 17,239,063 ordinary shares of nominal value of EUR 0.01 on 28, August 2014 for the total amount of USD 77,000 thousand. The transaction costs were incurred and amounted to USD 1,309 thousand.

## 21. Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 24(g)(ii) and 24(g)(i).

In September 2016 the Group refinanced the Facility with syndicate of banks of USD 229,704 thousand maturing in 2016-2021. According to the terms of the agreement, the loan is repayable in tranches till 2021 year. Facility contains a number of restrictive covenants to comply.

Up to the date of approval of these financial statements the Group has timely paid the instalments due.

<b>'000 USD</b>	<b>2017</b>	<b>2016</b>
<b>Non-current liabilities</b>		
Secured bank loans	199,940	226,082
Loan from other related party	9,283	9,283
Total non-current loans	209,223	235,365
	<u>209,223</u>	<u>235,365</u>
<b>Current liabilities</b>		
Current portion of secured bank loans	27,106	25,171
Secured bank loans	6,202	3,000
Unsecured loans from third parties	25	25
Interest accrued	3,940	2,323
Total current loans	37,273	30,519
	<u>37,273</u>	<u>30,519</u>

**(a) Terms and debt repayment schedule**

Terms and conditions of outstanding loans were as follows:

<b>'000 USD</b>				<b>2017</b>		<b>2016</b>	
	<b>Curren- cy</b>	<b>Nominal interest rate</b>	<b>Year of maturity</b>	<b>Face value</b>	<b>Carrying amount</b>	<b>Face value</b>	<b>Carrying amount</b>
			2017-				
Secured bank loans	USD	10 – 13%	2023	28,124	28,124	30,656	30,656
Secured bank loan	EUR	8.16%	2019	-	-	959	959
		LIBOR +	2016-				
Secured bank loan	USD	7.6%	2021	207,704	205,124	225,704	222,638
Loans from third parties	AMD	0%	2017	25	25	25	25
Loan from other related party	USD	4.5%	2019	9,283	9,283	9,283	9,283
				<u>245,136</u>	<u>242,556</u>	<u>266,627</u>	<u>263,561</u>

Bank loans are secured by the following:

- 100% of the share capital of GPM Gold, Agarak, Sarilakh-Surma, Zvezda, Verkhne-Menkeche, Karlou B.V., GPM Russia B.V., GPM Armenia B.V. and LLC GPM;
- Production equipment with a carrying amount of USD 22,197 thousand (2016: USD 32,007 thousand) – see note 14(f);
- Inventory in the amount of USD 1,365 thousand (2016: USD 1,252 thousand) – see note 17.



**(b) Reconciliation of movements of liabilities to cash flows arising from financing activities**

<b>'000 USD</b>	<b>Loans and borrowings</b>
<b>Balance at 1 January 2017</b>	<b>265,994</b>
<b>Changes from financing cash flows</b>	
Proceeds from loans and borrowings	23,159
Repayment of borrowings	(44,788)
<b>Total changes from financing cash flows</b>	<b>(21,629)</b>
The effect of changes in foreign exchange rates	(161)
<b>Liability-related</b>	
Capitalised borrowing costs	416
Interest expense	24,227
Interest paid	(22,351)
<b>Total liability-related other changes</b>	<b>2,131</b>
<b>Balance at 31 December 2017</b>	<b>246,496</b>

**22. Provisions**

<b>'000 USD</b>	<b>Site restoration</b>	
	<b>2017</b>	<b>2016</b>
Balance at 1 January	11,781	10,114
Change in estimated costs	(1,359)	730
Translation reserve	24	(54)
Prepayment during the year	(122)	-
Unwinding of discount	1,011	991
Balance at 31 December	11,335	11,781

**(a) Site restoration**

Site restoration provision includes:

- expected costs of demolishing of buildings and infrastructure, as well as closure of the open and close pit mines, waste pit and related dams of the Group;
- expected costs of leach pad reclamation;
- expected costs of supervision, insurance, administration and contingencies.

The discounted future costs of site restoration are initially included within mining assets of property, plant and equipment at the time land plots are disturbed, except where there is no evidence that any future benefits will be received from the asset, in which case costs are expensed as incurred.

At each year end the Group re-measures the provision for site reclamation based on the best estimate of the settlement amount. The effect of any changes to an existing obligation, resulting from changes in estimated future costs, the discount rate used or the life of the mine, are added to or deducted from the cost of the mining asset and depreciated prospectively over the asset's useful life.

Because of the nature of the liability, the greatest uncertainty in estimating the provision is the costs that will be incurred. Environmental legislation in the Republic of Armenia, Georgia and Russian Federation continues to evolve and it is difficult to determine the exact standards required by the current legislation in restoring sites such as this. Generally the standard of restoration is determined based on discussions with Government officials at the time that restoration commences. In making this assumption management has consulted with its in-house and external engineers.

Reclamation costs include:

- costs of demolishing of buildings and infrastructure as well as the closure of the dam in Ararat;
- costs of demolishing of the buildings and closure of the open pit mine in Zod.

The key assumptions, on which the asset retirement obligation is based, are as follows:

- the total un-discounted amount of the estimated cash flows required to settle the obligation is USD 24,043 thousand (2016: USD 23,872 thousand);
- the expected timing of site restoration provision is taken based on the management estimate on when the Group will cease extraction of ore (reserves expiration);
- the weighted average expected timing of payment of the cash flows required to settle the obligations varies from 10 to 37 years (2016: from 11 to 38 years);
- the discount rate, at which the estimated future costs have been discounted varies from 7.4% to 10.61 % (2016: from 8.25% to 9.1%) depending on the country of operations of the production subsidiaries.

## 23. Trade and other payables

	<b>2017</b>	<b>2016</b>
	<b>'000 USD</b>	<b>'000 USD</b>
Trade payables	14,124	15,206
Advances received for provisionally priced sales	22,164	3,786
Payables to personnel	4,390	3,512
Taxes other than income tax payables	16,046	17,916
Other payables	1,061	2,105
	<u>57,785</u>	<u>42,525</u>

The advances received for provisionally priced sales include a prepayment from VTB Capital plc. in the amount of USD 19,166 thousand. The prepayment will be settled against sales until November 2019 in equal monthly instalments (2018: USD 10,000 thousand, 2019: USD 9,166 thousand). VTB Capital plc has no right to obtain cash. The prepayment bears interest of 6% p.a.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in notes 24(g)(i), 24(f).

## 24. Fair values and risk management

### (a) Accounting classifications and fair values

#### (i) Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

'000 USD	Note	Designated at fair value	Deposits and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
<b>31 December 2017</b>									
<b>Financial assets measured at fair value</b>									
Derivative embedded in sales contracts		6	-	-	6	-	6	-	6
		6	-	-	6	-	6	-	6
<b>Financial assets not measured at fair value</b>									
Cash and cash equivalents		-	4,502	-	4,502	-	-	-	-
Trade and other receivables	18	-	7,591	-	7,591	-	-	-	-
Investments		-	6,330	-	6,330	-	-	-	-
		-	18,423	-	18,423	-	-	-	-
<b>Financial liabilities measured at fair value</b>									
Derivative embedded in sales contracts		-	-	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	16	(6,708)	-	-	(6,708)	-	(6,708)	-	(6,708)
		(6,708)	-	-	(6,708)	-	(6,708)	-	(6,708)
<b>Financial liabilities not measured at fair value</b>									
Secured bank loans	21	-	-	(235,482)	(235,482)	-	-	-	-
Unsecured loan from third party	21	-	-	(25)	(25)	-	-	-	-
Loan from other related party	21	-	-	(10,989)	(10,989)	-	-	-	-
Trade and other payables	23	-	-	(15,185)	(15,185)	-	-	-	-
		-	-	(261,681)	(261,681)	-	-	-	-

'000 USD	Note	Designated at fair value	Deposits and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
<b>31 December 2016</b>									
<b>Financial assets measured at fair value</b>									
Financial assets designated at fair value through profit or loss	16	2,418	-	-	2,418	-	2,418	-	2,418
Derivative embedded in sales contracts		688	-	-	688	-	688	-	688
		3,106	-	-	3,106	-	3,106	-	3 106
<b>Financial assets not measured at fair value</b>									
Cash and cash equivalents		-	11,830	-	11,830	-	-	-	-
Trade and other receivables	18	-	10,844	-	10,844	-	-	-	-
Investments		-	6,330	-	6,330	-	-	-	-
		-	29,004	-	29,004	-	-	-	-
<b>Financial liabilities measured at fair value</b>									
Derivative embedded in sales contracts									
Financial liabilities designated at fair value through profit or loss	16	(4,943)	-	-	(4,943)	-	(4,943)	-	(4,943)
		(4,943)	-	-	(4,943)	-	(4,943)	-	(4,943)
<b>Financial liabilities not measured at fair value</b>									
Secured bank loans	21	-	-	(255,288)	(255,288)	-	-	-	-
Unsecured loan from third party	21			(25)	(25)				
Loan from other related party	21	-	-	(10,571)	(10,571)	-	-	-	-
Trade and other payables	23	-	-	(17,311)	(17,311)	-	-	-	-
		-	-	(283,195)	(283,195)	-	-	-	-

The Group has not disclosed the fair values for financial instruments such as short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values.

**(b) Measurement of fair values**

**(i) Valuation techniques and significant unobservable inputs**

The following tables show the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used.

**Financial instruments measured at fair value**

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Derivative embedded in copper and molybdenum contracts	Market comparison technique: The fair value of the embedded derivative relating to copper concentrate sales has been calculated using forward prices as at the reporting date available in the metal markets.	Not applicable.	Not applicable.
Derivative embedded in copper and molybdenum contracts	Market comparison technique: The fair value measurement of the derivatives embedded in sales contracts which relate to molybdenum concentrate is classified as level 3. Because of the lack of observable forward prices for molybdenum concentrate, the fair value of the embedded derivative has been calculated using the latest quoted metal price as at the reporting date, which the Company considers as an approximation to the forward price in view of the short quotation periods for copper and molybdenum contracts.	Not applicable.	Not applicable.
Put and call options on gold	Market comparison technique: The fair value of the put and call options was determined using Vanna-Volga technique based on Bloomberg inputs.	Gold price volatility: 17.30% to 26.20%	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>• Gold price volatility were higher (lower);</li> <li>• Risk-free rate were (lower) higher.</li> </ul>

#### Financial instruments not measured at fair value

Type	Valuation technique	Significant unobservable inputs
Loans and receivables	Discounted cash flows	Not applicable.
Other financial liabilities	Discounted cash flows	Not applicable.

#### (c) Master netting or similar agreements

In 2017 the Group entered into derivative transactions under International Swaps and Derivative Associations (ISDA) master netting agreements. Under the agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreement.

'000 RUB	Financial assets at fair value through profit or loss	Financial liabilities at fair value through profit or loss
<b>31 December 2017</b>		
Gross amounts	308	(7,016)
Amounts offset in accordance with IAS 32 offsetting criteria	(308)	308
Net amounts presented in the statement of financial position	-	(6,708)
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	-	-
Amounts related to financial collateral (including cash collateral)	-	-
Net amount	-	<b>(6,708)</b>

'000 RUB	Financial assets at fair value through profit or loss	Financial liabilities at fair value through profit or loss
<b>31 December 2016</b>		
Gross amounts	5,113	(9,066)
Amounts offset in accordance with IAS 32 offsetting criteria	(2,695)	4,123
Net amounts presented in the statement of financial position	2,418	(4,943)
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(2,418)	2,418
Amounts related to financial collateral (including cash collateral)	-	-
Net amount	-	<b>(2,525)</b>

**(d) Financial risk management**

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk

management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

**(e) Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and loans receivables.

**(i) Trade and other receivables**

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures.

**(ii) Loans receivable**

The Group's policy is to provide loans to third parties based on management assessment of their credibility and financial stability.

The Group does not require collateral in respect of loans receivable from third parties.

**(iii) Cash and cash equivalents**

The Group held cash and cash equivalents of USD 4,502 thousand at 31 December 2017 (31 December 2016: USD 11,830 thousand). The cash and cash equivalents are held with banks, which are rated B3 to Ba2, based on Moody's ratings.

**Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	<b>Carrying amount</b>	
<b>'000 USD</b>	<b>2017</b>	<b>2016</b>
Deposits and loans given	6,330	6,330
Trade and other receivables	7,591	10,844
Cash and cash equivalents	4,502	11,830
	<u>18,423</u>	<u>29,004</u>

The maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region was:

	<b>Carrying amount</b>	
<b>'000 USD</b>	<b>2017</b>	<b>2016</b>
CIS countries	4,221	336
Canada	-	7,338
China	2,840	3,170
United Kingdom	530	-
	<u>7,591</u>	<u>10,844</u>

### **Impairment losses**

The aging of trade and other receivables at the reporting date was:

	<b>Gross</b>	<b>Impairment</b>	<b>Gross</b>	<b>Impairment</b>
<b>'000 USD</b>	<b>2017</b>	<b>2017</b>	<b>2016</b>	<b>2016</b>
Not past due	7,591	-	10,844	-
Past due	357	(357)	912	(912)
	<u>7,948</u>	<u>(357)</u>	<u>11,756</u>	<u>(912)</u>

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

	<b>2017</b>	<b>2016</b>
	<b>'000 USD</b>	<b>'000 USD</b>
Balance at 1 January	912	630
Impairment loss recognised	107	282
Impairment loss written-off against receivables	(662)	-
Balance at 31 December	<u>357</u>	<u>912</u>

### **(f) Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The current liquidity ratio was 0.91 as at 31 December 2017 (31 December 2016: 1.1).

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:



<b>'000 USD</b>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>0-6 mths</b>	<b>6-12 mths</b>	<b>1-2 yrs</b>	<b>2-3 yrs</b>	<b>3-4 yrs</b>	<b>4-5 yrs</b>	<b>Over 5 years</b>
<b>2017</b>									
Secured bank loans	233,248	264,852	22,258	28,090	81,264	83,471	41,950	4,751	3,068
Loans from third parties	25	25	25	-	-	-	-	-	-
Loan from other related party	9,283	9,979	-	-	9,979	-	-	-	-
Finance lease liabilities	-	-	-	-	-	-	-	-	-
Interest accrued	3,940	3,940	1,117	1,117	1,706	-	-	-	-
Trade and other payables	15,185	15,185	4,376	10,809	-	-	-	-	-
Financial liabilities at fair value through profit or loss	6,708	6,708	44	327	1,679	2,300	2,358	-	-
	268,389	300,689	27,820	40,343	94,628	85,771	44,308	4,751	3,068

<b>'000 USD</b>	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>0-6 mths</b>	<b>6-12 mths</b>	<b>1-2 yrs</b>	<b>2-3 yrs</b>	<b>3-4 yrs</b>	<b>4-5 yrs</b>	<b>Over 5 years</b>
<b>2016</b>									
Secured bank loans	254,253	328,729	22,093	27,149	46,844	77,473	86,465	65,743	2,962
Loans from third parties	25	25	25	-	-	-	-	-	-
Loan from other related party	9,283	12,534	-	-	-	12,534	-	-	-
Finance lease liabilities	-	-	-	-	-	-	-	-	-
Interest accrued	2,323	2,323	83	-	-	2,240	-	-	-
Trade and other payables	17,311	17,311	5,707	11,604	-	-	-	-	-
Financial liabilities at fair value through profit or loss	4,943	4,943	-	-	-	1,716	1,650	1,577	-
	288,138	365,865	27,908	38,753	46,844	93,963	88,115	67,320	2,962

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

**(g) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

**(i) Currency risk**

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Armenian Dram (AMD) and the Russian Rouble (RUB). The currencies in which these transactions primarily denominated are Euro and USD.

**Exposure to currency risk**

The Group's exposure to foreign currency risk was as follows based on notional amounts:

'000 USD	<b>RUB- denominated</b>	<b>AMD- denominated</b>	<b>EUR- denominated</b>	<b>USD- denominated</b>
	<b>2017</b>	<b>2017</b>	<b>2017</b>	<b>2017</b>
Trade and loans receivable	6,467	12,669	-	8,563
Cash and cash equivalents	2	-	-	2,856
Loans and borrowings	(22,318)	-	(3,105)	(294,118)
Trade and other payables	(838)	-	(80)	(1,827)
	<u>(16,687)</u>	<u>12,669</u>	<u>(3,185)</u>	<u>(284,526)</u>

'000 USD	<b>RUB- denominated</b>	<b>AMD- denominated</b>	<b>EUR- denominated</b>	<b>USD- denominated</b>
	<b>2016</b>	<b>2016</b>	<b>2016</b>	<b>2016</b>
Trade and loans receivable	125	12,673	2,775	17,935
Cash and cash equivalents	-	-	56	5,828
Loans and borrowings	(29,435)	-	(3,829)	(341,825)
Trade and other payables	(1,361)	-	(1,675)	(4,080)
	<u>(30,671)</u>	<u>12,673</u>	<u>(2,673)</u>	<u>(322,142)</u>

The following significant exchange rates applied during the year:

<b>in USD</b>	<b>Average rate</b>		<b>Reporting date spot rate</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
RUB 1	0.0172	0.0150	0.0174	0.0165
AMD 1	0.0021	0.0021	0.0021	0.0021
EUR 1	1.1238	1.1070	1.1956	1.0584

### Sensitivity analysis

A 10% strengthening (weakening) of the USD and JPY, EUR, RUB against the above currencies at 31 December would have increased (decreased) profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2016.

'000 USD	Profit or loss	
	Strengthening	Weakening
<b>31 December 2017</b>		
USD	(28,453)	28,453
AMD	1,267	(1,267)
EUR	(318)	318
RUB	(1,669)	1,669
<b>31 December 2016</b>		
USD	(32,214)	32,214
AMD	1,267	(1,267)
EUR	(267)	267
RUB	(3,067)	3,067

### (ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

#### Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

'000 USD	Carrying amount	
	2017	2016
<b>Fixed rate instruments</b>		
Financial assets	6,330	6,330
Financial liabilities	(41,372)	(43,246)
	(35,042)	(36,916)
<b>Variable rate instruments</b>		
Financial liabilities	(205,124)	(222,638)

### Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Company does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

### **Cash flow sensitivity analysis for variable rate instruments**

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2016.

'000 USD	Profit / (loss)	
	100 bp increase	100 bp decrease
<b>2017</b>		
Variable rate instruments	(2,051)	2,051
Cash flow sensitivity (net)	(2,051)	2,051
<b>2016</b>		
Variable rate instruments	(2,226)	2,226
Cash flow sensitivity (net)	(2,226)	2,226

### **(iii) Commodity price risk**

Some of the Group's sales contracts (Agarak, and Sarilakh-Surma) provide for a provisional payment as specified in individual contracts that are based upon provisional assays and historical quoted metal prices. Final settlement is done based on market metal prices averaged over a specified future quotation period. Typically, the future quotation period is up to five months after the risks and rewards of ownership have been transferred to the buyer.

The Company's provisionally priced sales contracts contain an embedded derivative that is separated from the host contract for accounting purposes. The embedded derivative, which is the final settlement price based on a future price, is marked to market (fair value) through revenue each period with reference to the appropriate commodity forward curve until the date of final settlement. The effect of reasonably possible change of the forward prices will not have a material impact on these consolidated financial statements.

### **(h) Capital management**

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group monitors the return on capital, which the Group defines as the result from operating activities divided by total shareholders' equity.

The Group seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

In 2016 a loan with a carrying amount of USD 244,600 thousand as at 31 December 2015 has been fully repaid and a new loan with the carrying amount of USD 222,638 thousand as at 31 December 2016 thousand was obtained from the syndicate of the banks.

A loan with a carrying amount of USD 205,124 thousand as at 31 December 2017 (2016: USD 222,638 thousand) obtained during 2016 imposes a capital requirement on the Group's consolidated total borrowings, EBITDA and other ratios.

The measurement of EBITDA is not regulated by International Financial Reporting Standards and could not be treated as an alternative measurement for profit recognized by International Financial Reporting Standards in the financial statements. The management discloses EBITDA because it believes that this figure represents additional information that may be useful for users of financial statements. As there are no uniform standards for calculation of EBITDA, other companies may measure EBITDA in other ways. EBITDA of different companies may not be comparable with each other.

The main ratios of the Group which were as follows:

'000 USD	Note	2017	2016
<b>Profit / (loss) before income tax</b>		15,199	(49,181)
Plus: Net finance costs	12	27,501	34,955
Plus: Depreciation	14	39,285	37,780
Plus: Net impairment / (reversal of impairment) of assets	14(c),14(d), 14(e)	6,218	(3,114)
Plus: Net loss / (gain) from commodity derivatives	16	4,182	35,366
Plus: Cash received from commodity derivatives	16	-	24,816
Plus: Loss on disposal of property, plant and equipment and other assets	11	574	2,410
Minus: Income from waved payable	10	-	(2,511)
Plus: Additional royalties, fines and penalties imposed by the Tax Authority in Armenia	10	-	2,876
Minus: Reversal of additional royalties, fines and penalties imposed by the Tax Authorities in Armenia	10	(1,232)	-
Plus: Other items		1,390	795
<b>EBITDA consolidated</b> (see Note 5)		93,117	84,192

'000 USD	2017	2016
<b>Total loans, borrowings and overdrafts</b>	245,136	266,627
Less: Cash and cash equivalents	(4,502)	(4,654)
<b>Total Net Debt</b>	240,634	261,973

The Group's Leverage ratio of Total Net Debt on the last day of the reporting period to EBITDA should not exceed 4.25 (2016: 4.50), and was as follows:

'000 USD	2017	2016
<b>Leverage</b>	2.58	3.11

During 2017 the Group complied with any externally imposed capital requirements to which it was subject to.

## **25. Contingencies**

### **(a) Insurance**

The insurance industry in the Russian Federation, Georgia and Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group has very limited coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

### **(b) Taxation contingencies**

Taxation systems in the Russian Federation and Republic of Armenia continue to evolve and are characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in Armenia that are more significant than in other countries. In addition, in 2015 the tax authorities have been taking aggressive tax position with respect to the calculation of royalty payments in certain mining companies in Armenia, including Agarak, resulting in claimed material increases to the royalty amounts for previous years. Based on the tax inspection additional royalty amounts claimed for the years 2012 to 2013 amounted to around USD 5,600 thousand. Management has thoroughly analyzed these cases and believes that this tax position is not consistent with the Law on Nature Protection and Nature Utilization Payments. Accordingly, in 2015 Agarak appealed to the competent courts of the Republic of Armenia.

In May 2016, First Instance administrative court didn't support Agarak's opinion. Agarak appealed the decision in the Second instance Court.

Following the appellation, Agarak came to a mutual agreement with the Tax Authorities, according to which Tax Authorities annulled the first act and provided a new Inspection Act in accordance to which additional payment of royalty (including fines and penalties) of USD 2,876 thousand was imposed (see note 11).

In March 2017, amendment to the Law on Nature Protection and Nature Utilization Payments was accepted. According to the amendment Tax Authorities has forgiven fines and penalties of royalty tax in amount of USD 1,232 thousand out of the previously imposed USD 2,876 thousand (see note 10). The management treats the amount agreed under the new Inspection Act as a one-off and continues the recognition of royalty expenses for the years 2014-2017 in accordance with its interpretation of the Armenian tax legislation.

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation, official pronouncements and court decisions.

**(c) Environmental contingencies**

The Group is subject to various state laws and regulations that governs emission of air pollutants; discharges of water pollutants; and generation, handling, storage and disposal of hazardous substances, hazardous wastes and other toxic materials.

The Group's management believes that its production subsidiaries are in compliance with all current existing environmental legislation in the countries in which it operates, and therefore the Group has not provided for any potential environmental contingency as the management does not consider any environmental contingent liability to be probable in the foreseeable future. However, environmental legislation continues to evolve and potential changes in the legislation and its interpretation may give rise to material liabilities in future.

## **26. Operational risks**

**(a) Mines**

Mines by their nature are subject to many operational risks and factors that are generally outside of the Group's control and could impact the Group's business, operating results and cash flows. These operational risks and factors include, but are not limited to (i) unanticipated ground and water conditions, (ii) geological problems, including earthquakes and other natural disasters, (iii) metallurgical and other processing problems, (iv) the occurrence of unusual weather or operating conditions and other force majeure events, (v) lower than expected ore grades or recovery rates, (vi) accidents, (vii) delays in the receipt of necessary government permits, (viii) the results of litigation, including appeals of agency decisions, (ix) delays in transportation, (x) labour disputes, (xi) inability to obtain certain types of insurance coverage, (xii) unavailability of materials and equipment, (xiii) the failure of equipment or processes to operate in accordance with specifications or expectations, (xiv) unanticipated difficulties consolidating acquired operations and obtaining expected synergies and (xv) the results of financing efforts and financial market conditions.

**(b) Metals prices volatility**

The Group's financial performance is heavily dependent on the price of copper, molybdenum, gold and antimony which are affected by many factors beyond the Group's control.

**Copper**

Copper is a commodity traded on the London Metal Exchange (LME), the New York Commodity Exchange (COMEX) and the Shanghai Futures Exchange (SHFE). The Company's copper is sold at prices based on those quoted on the LME. The price of copper as reported on this exchange is influenced significantly by numerous factors, including (i) the worldwide balance of copper demand and supply, (ii) rates of global economic growth, trends in industrial production and conditions in the housing and automotive industries, all of which correlate with demand for copper, (iii) economic growth and political conditions in China, which has become the largest consumer of refined copper in the world, and other major developing economies, (iv) speculative investment positions in copper and copper futures, (v) the availability and cost of substitute materials and (vi) currency exchange fluctuations, including the relative strength of the USD. The copper market showed significant growth in the fourth quarter 2016. During the year ended 31 December 2017, LME daily closing spot prices ranged from USD 5,483 to USD 7,280 per ton for copper. The price of copper was averaging to approximately USD 6,163 per ton during 2017 in comparison with USD 4,885 per ton during 2016.

## **Gold**

Gold is a commodity traded on the London Bullion Market, Tokyo Commodity Exchange, the New York Commodity Exchange (COMEX) and Zurich Gold Pool. The price of gold is influenced significantly by numerous factors, including (i) the worldwide balance of gold demand and supply, (ii) rates of global economic growth, trends in jewellery production, all of which correlate with demand for gold, (iii) economic growth and political conditions in India and other Asian countries, which became the largest consumer of gold in the world, and other major developing economies, (iv) speculative investment positions in gold and gold futures, and (v) currency exchange fluctuations, including the relative strength of the USD.

The gold market is volatile, although among commodities gold carries a special function because it is used by investors as a “safe haven” investment, especially during times of economic uncertainty and fears of currency instability. Based on London Bullion Market Association daily settlement, during the year ended 31 December 2017 prices ranged from USD 1,148 to USD 1,351 per ounce of gold, average gold price was USD 1,257.

## **Molybdenum**

The Company’s financial performance is also significantly dependent on the price of molybdenum. Molybdenum is characterized by volatile, cyclical prices, even more than copper. Molybdenum prices are influenced by numerous factors, including (i) the worldwide balance of molybdenum demand and supply, (ii) rates of global economic growth, especially construction and infrastructure activity that requires significant amounts of steel, (iii) the volume of molybdenum produced as a by-product of copper production, (iv) inventory levels, (v) currency exchange fluctuations, including the relative strength of the USD and (vi) production costs of U.S. and foreign competitors. Molybdenum demand depends heavily on the global steel industry, which uses the metal as a hardening and corrosion inhibiting agent. Approximately 80 percent of molybdenum production is used in this application. The remainder is used in specialty chemical applications such as catalysts, water treatment agents and lubricants. Approximately 65 percent of global molybdenum production is a by-product of copper mining, which is relatively insensitive to molybdenum prices. The price of molybdenum was averaging to approximately USD 17,916 per ton during 2017 in comparison with USD 14,431 per ton during 2016. The LME spot price of USD 26,000 per ton of molybdenum was registered on 29 March 2018.

## **Antimony**

Antimony is included in the group of minor metals. It isn’t traded on Official Metal Exchanges however antimony quotations are published by several information agencies: AntimonyNet; MetalBulletin; Metal Pages as well as Asian Metal. The Company’s antimony is sold at prices based on those quoted on the MetalBulletin and AntimonyNet and varies depending on specific customers. The price of antimony as reported by mentioned sources is influenced significantly by numerous factors, including (i) the worldwide balance of antimony demand and supply, (ii) rates of global economic growth, trends in industrial production and conditions in the mechanical rubber and polymeric industries, all of which correlate with demand for antimony, (iii) changes in Chinese legislation in relation to the antimony industry as well as the productivity of Chinese antimony companies due to the fact that China is the largest producer of antimony metal in the world, (iv) the availability and cost of substitute materials and (v) currency exchange fluctuations, particularly cross-rate USD/RMB.



The antimony market is volatile and cyclical. In the majority of antimony purchase contracts the average monthly low price is used, 12 months average price in 2017 was USD 8,121 per ton in comparison with USD 6,364 per ton in 2016.

## 27. Capital commitments

As at the year ended 31 December 2017 the Group has several contractual commitments for the upgrade of its current plant, purchase of mining equipment and spare parts for USD 2,668 thousand (31 December 2016: USD 4,081 thousand).

## 28. Related party transactions

For the purpose of these financial statements, parties are considered to be related if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

### (a) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs:

	2017 '000 USD	2016 '000 USD
Salaries and bonuses	4,113	3,558
Remuneration of Board of Directors	1,446	1,509
	<u>5,559</u>	<u>5,067</u>

### (b) Transactions with other related parties

The Group had related party relationships with the entities over which the Shareholder of the Group is able to exercise significant influence.

#### *Loan from other related party*

'000 USD	2017	2016
<b>At 1 January</b>	(10,569)	(10,154)
Received from shareholder	-	-
Interest expense capitalized to PPE	(416)	(415)
Repaid	-	-
<b>At 31 December</b>	<u>(10,985)</u>	<u>(10,569)</u>

***Bank balances at other related party***

	<b>2017</b>	<b>2016</b>
	<b>'000 USD</b>	<b>'000 USD</b>
Bank balances at other related party	850	1,619

During 2017 the Group realised goods to a related party in the amount of USD 7,420 thousand (2016: USD 9,160 thousand).

## **29. Subsequent events**

In 2018 the Group has signed the Amendment to the Facilities agreement in respect to the secured loan with a carrying amount of USD 205,124 thousand (see note 21 to these consolidated statements), under which the interest rate will be decreased up to LIBOR3M + 5.75% with effect from 1 January 2018.

On 29 March 2018 the Company repaid the instalment with the accrued interest in the total amount of USD 9,940 thousand in accordance with the Repayment Schedule from the Facility agreement for the carrying amount of USD 205,124 thousand.

**GeoProMining Investment (CYP) Limited**

**Consolidated Financial Statements  
for the year ended 31 December 2016**

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## **GEPROMINING INVESTMENT (CYP) LIMITED**

### **BOARD OF DIRECTORS AND PROFESSIONAL ADVISERS**

#### **Board of Directors:**

<u>Full Name</u>	<u>Nationality</u>	<u>Date of Appointment</u>
<i>Executive Directors</i>		
Roman Khudoliy	Russian	28.08.2014
<i>Non Executive Directors</i>		
Siman Povarenkin (Chairman)	Russian	27.06.2011
Igor Lojevsky	Russian	27.06.2011
Viatcheslav Pivovarov	Russian	11.03.2014
Vladimir Lelyukh	Russian	28.08.2014

#### **Company Secretary:**

<u>Full Name</u>	<u>Nationality</u>	<u>Date of Appointment</u>
Chelco Consulting Limited	Cyprus	18.12.2014

#### **Independent Auditors:**

KPMG Limited

#### **Legal advisors:**

Andreas Neocleous & Co LLC

#### **Bankers:**

Bank of Cyprus  
International Business Unit  
66-68 Archiepiskopou Makariou & Markou Drakou Street  
Mesa Geitonia  
4003 Limassol, Cyprus

Banque J. Safra Sarasin SA  
8, place de l'Université, Case postale 33, CH-1211 Geneve 4

CIM-Banque  
Rue Merle d'Aubigne 16, 1207 Geneva - Switzerland

#### **Registered Office:**

Christodoulou Chatzipavlou, 221 Helios Court, 3<sup>rd</sup> floor 3036. Limassol, Cyprus

## **GEOPROMINING INVESTMENT (CYP) LIMITED**

### **MANAGEMENT REPORT**

The Board of Directors present their annual report and the audited consolidated financial statements of **GeoProMining Investment (CYP) Limited** (the “Company”) and its subsidiaries (the “Group”) for the year ended 31 December 2016.

#### **INCORPORATION AND PRINCIPAL ACTIVITY**

The Company was incorporated in Cyprus by the controlling shareholder of GeoProMining Ltd on 30 August 2010 as a private limited liability company under the Cyprus Companies Law, Cap.113.

The Group’s principal activity continues to be the extraction and processing of ore, containing nonferrous metals, mainly gold, copper, molybdenum and antimony, at plants located in Armenia and Russia.

On 2 September 2011, as a result of restructuring, GeoProMining Investment (CYP) Limited became the holding company of the Group through the transfer of ownership by GeoProMining Ltd of all its subsidiaries to the Company in return for shares in the Company.

As of 31 December 2016 GeoProMining Ltd was under a liquidation process, which has been finalised in February 2017.

#### **REVIEW OF CURRENT POSITION AND OPERATIONAL PERFORMANCE**

The Group’s financial results for the year ended 31 December 2016 and its financial position at 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 10 and 11 and the consolidated statement of financial position on pages 12 and 13, respectively. Total assets as at 31 December 2016 amounted to USD 546,375 thousand (31 December 2015: USD 619,404 thousand), net assets as at 31 December 2016 amounted to USD 164,001 thousand (31 December 2015: USD 214,051 thousand). Total revenue for the year amounted to USD 194,597 thousand (2015: USD 171,878 thousand). The loss for the year amounted to USD 62,302 thousand (2015: USD 21,660 thousand).

#### **DIVIDENDS AND TRANSFER TO RESERVES**

The Board of Directors did not recommend the payment of dividends for the year ended 31 December 2016. The loss for the year was transferred to reserves.

#### **FORESEEABLE FUTURE DEVELOPMENTS**

The Group has completed the implementation of Albion technologies at the plant located in Ararat (Armenia). The budget for final capital expenditure of the Albion project for 2016 was USD 3,669 thousand, which was financed by the amount of restricted cash held by the Group at 31 December 2015 (see note 19) to these consolidated financial statements.

Another project is the development of LLC GPM Verkhne-Menkeche. Full of the restricted cash reserved at 31 December 2016 of USD 7,176 thousand is attributable to development of LLC GPM Verkhne-Menkeche project.

## **GEOPROMINING INVESTMENT (CYP) LIMITED**

### **MANAGEMENT REPORT (Continued)**

#### **MAIN RISKS AND UNCERTAINTIES**

Following the requirements of the new Facility agreement the Group purchased put options for 287,200 ounces of gold exercisable quarterly during 2017-2021 at the strike price of USD 1,100 per ounce in 2017 (decreasing to USD 850 per ounce in 2021) and also sold call options for 475,750 ounces of gold exercisable quarterly during 2017-2021 at the strike price of USD 1,500-1,700 per ounce. The fair value of the put and call options was determined using Vanna-Volga technique based on Bloomberg inputs including volatility, gold price quotations and risk-free rates. Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and loans receivables. The maximum exposure to credit risk at the reporting date is USD 28,967 thousand (31 December 2015 USD 99,139 thousand).

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The current liquidity ratio was 1.1 as at 31 December 2016 (31 December 2015: 1.22).

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Armenian Dram (AMD) and the Russian Rouble (RUB). The currencies in which these transactions primarily denominated are EUR and USD.

The steps taken to manage these risks are described in notes 24 and 26 to these consolidated financial statements.

#### **SHARE CAPITAL**

On August 28, 2014 the Company additionally issued 17,239,063 ordinary shares which were sold to Sberbank Capital LLC in two tranches for the amount of USD 77,000 thousand and fully paid-up in December 2014. The company cancelled 270,000 ordinary shares. As a result of the above changes number of issued share capital increased to 66,969,064 shares as at 31 December 2015.

The funds raised were used by the Company for the acquisition of Verkhne-Menkeche, mining assets in Armenia and financing of the Company's projects.

There were no changes in the capital structure in 2016.

#### **BRANCHES**

During the year ended 31 December 2016 the Company did not operate any branches.

#### **BOARD OF DIRECTORS**

The members of the Board of Directors as at the date of this report are set out on page 3. They were all members of the Board throughout the year and up to the date of this report.

In accordance with the Company's Articles of Association, all members of the Board of Directors remain in office until their resignation or removal.

## **GEPROMINING INVESTMENT (CYP) LIMITED**

### **MANAGEMENT REPORT (Continued)**

#### **RESEARCH AND DEVELOPMENT ACTIVITY**

The Group has research and development activities in respect of the following mines:

- Verkhne-Menkeche polymetal mine located in Russia;
- Construction of Sentachan plant located in Russia.
- KIM and Vzbroz antimony mine located in Russia;
- Hankavan copper-molybdenum mine located in Armenia;
- Lusadjur gold mine located in Armenia;

Details of the exploration and licensing activities in respect of the above are given in note 14.

The budget for 2017 for exploration and evaluation expenditure is up to USD 130 thousand for Hankavan mine, USD 350 thousand for Lusadjur mine and USD 13 million for Verkhne-Menkeche project.

#### **INDEPENDENT AUDITORS**

The independent auditors of the Company, KPMG Limited, have expressed their willingness to continue in office and a resolution authorizing the Board of Directors to fix their remuneration will be submitted at the Annual General Meeting.

By order of the Board



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Siman Povarenkin

Limassol, 18 April 2017





KPMG Limited  
Chartered Accountants  
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## INDEPENDENT AUDITORS' REPORT

### TO THE MEMBERS OF

#### GeoProMining Investment (Cyp) Limited

#### Report on the audit of the consolidated financial statements

##### Opinion

We have audited the accompanying consolidated financial statements of GeoProMining Investment (Cyp) Limited (the "Company"), and its subsidiaries (the "Group"), which are presented on pages 10 to 68 and comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and the requirements of the Cyprus Companies Law, Cap. 113, as amended from time to time (the "Companies Law, Cap. 113").

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of the Group in accordance with the *Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code)*, and the ethical requirements in Cyprus that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management report, but does not include the consolidated financial statements and our auditors' report thereon.

##### Board Members:

N.G. Syrimis, A.K. Christofides, P.G. Loizou, A.M. Gregoriades, D.S. Vakis, A.A. Apostolou, S.A. Loizides, M.A. Loizides, S.G. Sofocleous, M.M. Antoniadou, C.V. Vasiliou, P.E. Antoniadou, M.J. Halios, M.P. Michael, P.A. Palatis, G.V. Markides, M.A. Papacosta, K.A. Papanicolaou, A.I. Shiamoutis, G.N. Tziortzis, H.S. Charalambous, C.P. Anayiotos, I.P. Ghalanos, M.G. Gregoriades, H.A. Kakoulis, G.P. Savva, C.A. Kalios, C.N. Kallis, M.H. Zavrou, P.S. Elia, M.G. Lazarou, Z.E. Hadjizacharias, P.S. Theophanous, M.A. Karantoni, C.A. Markides, G.V. Andreou, J.C. Nicolau, G.S. Prodromou, A.S. Sofocleous, G.N. Syrimis, T.J. Yiaseumides, A.A. Bargilly, K.A. Christofides, P.P. Vanezis

KPMG Limited, a private company limited by shares registered in Cyprus under registration number HE 132822 with its registered office at 14, Epiphany Street, 1087, Nicosia, Cyprus.

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## **INDEPENDENT AUDITORS' REPORT (continued)**

### **Other information (continued)**

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as required by the Companies Law, Cap. 113.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. Our report in this regard is presented in the "Report on other legal requirements" section.

### **Responsibilities of the Board of Directors for the consolidated financial statements**

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRS-EU and the requirements of the Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to either liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

### **Auditors' responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.



## **INDEPENDENT AUDITORS' REPORT (continued)**

### **Auditors' responsibilities for the audit of the consolidated financial statements (continued)**

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### **Report on other legal requirements**

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts of Law 2009, L42(I)/2009, as amended from time to time ("Law 42(I)/2009"), we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as it appears from our examination of these books.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the Management Report on pages 4 to 6, the preparation of which is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Companies Law, Cap. 113, and the information given is consistent with the financial statements.
- In the light of the knowledge and understanding of the business and the Company's environment obtained in the course of our audit, we have not identified material misstatements in the Management Report.

### **Other matter**

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of Law 42(I)/2009 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

  
Zakis E. Hadjizacharias, CA  
Certified Public Accountant and Registered Auditor

for and on behalf of

KPMG Limited  
Certified Public Accountants and Registered Auditors

11, June 16th 1943 Street  
3022 Limassol  
Cyprus

April 26, 2017

**GeoProMining Investment (CYP) Limited**  
*Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2016*

'000 USD	Note	2016	2015
<b>Revenue</b>	6	194,597	171,878
Cost of sales	7	(140,423)	(130,919)
<b>Gross profit</b>		54,174	40,959
Distribution expenses	8	(2,710)	(2,096)
Administrative expenses	9	(23,218)	(23,228)
Net (loss)/gain from commodity derivatives	16	(35,366)	22,794
Net reversal of impairment loss/ (impairment loss)	14(c),14(d)	3,114	(24,059)
Other income	10	2,804	611
Other expenses	11	(13,024)	(9,835)
<b>Result from operating activities</b>		(14,226)	5,146
Finance income	12	980	913
Finance costs	12	(35,935)	(33,531)
<b>Loss before income tax</b>		(49,181)	(27,472)
Income tax (expense)/benefit	13	(13,121)	5,812
<b>Loss for the year</b>		(62,302)	(21,660)

'000 USD	Note	2016	2015
<b>Other comprehensive loss</b>			
<i>Items that are or may be reclassified to profit or loss</i>			
Foreign currency translation differences for foreign operations		12,252	(12,536)
<b>Other comprehensive loss</b>		12,252	(12,536)
<b>Total comprehensive loss</b>		(50,050)	(34,196)
 <b>Loss attributable to:</b>			
Shareholders of the Group		(61,628)	(21,612)
Non-controlling interests		(674)	(48)
		(62,302)	(21,660)
 <b>Total comprehensive loss attributable to:</b>			
Shareholders of the Group		(49,367)	(33,893)
Non-controlling interests		(683)	(303)
<b>Total comprehensive loss</b>		(50,050)	(34,196)

These consolidated financial statements were approved by the Board of Directors on 18 April 2017 and were signed on its behalf by:

Director

Siman Povarenkin

Director

Roman Khudoliy

**GeoProMining Investment (CYP) Limited**  
*Consolidated Statement of Financial Position as at 31 December 2016*

'000 USD	Note	2016	2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	457,848	457,980
Financial assets at fair value through profit or loss	16	646	34,756
Other non-current assets		191	146
Deferred tax assets	15	3,502	3,955
Restricted cash	19	-	8,558
<b>Total non-current assets</b>		<b>462,187</b>	<b>505,395</b>
<b>Current assets</b>			
Inventories	17	36,102	40,448
Bank deposits		6,330	6,330
Financial assets at fair value through profit or loss	16	1,772	23,312
Income tax receivable		1,376	2,193
Trade and other receivables	18	21,199	25,954
Prepayments for current assets		5,579	3,351
Cash and cash equivalents		4,654	1,213
Restricted cash	19	7,176	11,208
<b>Total current assets</b>		<b>84,188</b>	<b>114,009</b>
<b>Total assets</b>		<b>546,375</b>	<b>619,404</b>

**GeoProMining Investment (CYP) Limited**  
*Consolidated Statement of Financial Position as at 31 December 2016*

'000 USD	Note	2016	2015
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	20(a)	941	941
Share premium	20(b)	272,703	272,703
Translation reserve		(92,732)	(104,993)
Retained earnings		(30,909)	30,719
<b>Total equity, fully attributable to shareholders of the Group</b>		150,003	199,370
Non-controlling interests		13,998	14,681
<b>Total equity</b>		164,001	214,051
<b>Non-current liabilities</b>			
Loans and borrowings	21	235,365	249,743
Financial liabilities at fair value through profit or loss	16	4,943	411
Provisions	22	11,781	10,114
Deferred tax liabilities	15	53,950	51,865
<b>Total non-current liabilities</b>		306,039	312,133
<b>Current liabilities</b>			
Loans and borrowings	21	30,519	44,358
Trade and other payables	23	42,525	48,461
Income tax payable		3,291	401
<b>Total current liabilities</b>		76,335	93,220
<b>Total liabilities</b>		382,374	405,353
<b>Total equity and liabilities</b>		546,375	619,404

**GeoProMining Investment (CYP) Limited**  
*Consolidated Statement of Cash Flows for the year ended 31 December 2016*

'000 USD	Note	2016	2015
<b>OPERATING ACTIVITIES</b>			
Loss for the year		(62,302)	(21,660)
<i>Adjustments for:</i>			
Depreciation	14(a)	37,780	39,646
(Reversal of impairment)/impairment loss of property, plant and equipment	14(c),14(d)	(3,114)	24,059
Loss on disposal of property, plant and equipment and other assets	11	2,410	3,000
Income from waived payables	10	(2,511)	-
Reversal of write-down of inventories	10	-	(34)
Net loss/(gain) from commodity derivatives	16	35,366	(22,794)
Net finance costs	12	34,955	32,618
Income tax expense/(benefit)	13	13,121	(5,812)
<b>Operating profit before changes in working capital</b>		55,705	49,023
Change in inventories		3,664	(13,320)
Change in trade and other receivables		4,043	(10,912)
Change in prepayments for current assets		(2,046)	1,297
Change in trade and other payables		(11,286)	3,034
<b>Cash flows from operations before income taxes and interest paid</b>		50,080	29,122
Income taxes paid		(6,661)	(5,272)
Interest paid		(29,815)	(23,343)
Proceeds from realised commodity derivatives		24,816	16,890
<b>Cash flows from operating activities</b>		38,420	17,397



**GeoProMining Investment (CYP) Limited**  
*Consolidated Statement of Cash Flows for the year ended 31 December 2016*

'000 USD	Note	2016	2015
<b>INVESTING ACTIVITIES</b>			
Proceeds from disposal of property, plant and equipment		-	-
Deposits repaid, including interest		862	-
Acquisition of property, plant and equipment and other assets		(20,710)	(23,344)
Restricted cash		12,590	12,554
<b>Cash flows used in investing activities</b>		<b>(7,258)</b>	<b>(10,790)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from borrowings	21(a)	275,274	55,160
Repayment of borrowings	21(a)	(300,779)	(60,666)
Payment of transaction costs related to the Facility agreement		(2,327)	-
<b>Cash flows used in financing activities</b>		<b>(27,832)</b>	<b>(5,506)</b>
<b>Net increase in cash and cash equivalents</b>		<b>3,330</b>	<b>1,101</b>
Cash and cash equivalents at 1 January		1,213	212
Effect of exchange rate fluctuations on cash held		111	(100)
<b>Cash and cash equivalents at 31 December</b>		<b>4,654</b>	<b>1,213</b>

The accompanying notes are an integral part of these consolidated financial statements.

## 1. Background

### (a) Organisation and operations

GeoProMining Investment (CYP) Limited (the “Company”) was incorporated in Cyprus by the controlling shareholder of GeoProMining Ltd on 30 August 2010 as a private limited liability company under the Cyprus Companies Law, Cap.113.

The Company’s registered office address is Christodoulou Chatzipavlou, 221 Helios Court, 3<sup>rd</sup> floor 3036. Limassol, Cyprus.

The Company, through its wholly owned subsidiaries, controls a number of production entities engaged in the processing of ore containing nonferrous metals, in Armenia and Russia and other entities which, together with the Company, are referred to as “the Group”.

On 2 September 2011 the Company (which had no business or assets of its own) became the holding company of the Group through a transfer of the ownership in all of the Group’s subsidiaries by GeoProMining Ltd in exchange for the newly issued shares in the Company.

For accounting purposes, this transaction has been treated as restructuring amongst entities under common control and the financial history of the Group prior to that date is that of GeoProMining Ltd and its subsidiaries.

As at 31 December 2016 GeoProMining Ltd was under a liquidation process, which has been finalised in February 2017.

The Group’s main subsidiaries are:

		31 December 2016	31 December 2015
	Country of incorporation	Ownership/voting	Ownership/voting
GeoProMining Ltd	British Virgin Islands	-	100%
Agarak CJSC	Armenia	100%	100%
Gold LLC GPM	Armenia	100%	100%
Zvezda OJSC	Russia	100%	100%
Sarilakh-Surma OJSC	Russia	100%	100%
Karlou B.V.	Netherlands	100%	100%
GeoProMining LLC	Russia	100%	100%
GPM Verkhne-Menkeche LLC	Russia	100%	100%
Paramount Gold Mining CJSC	Armenia	51%	51%
Lernayin Arstutyin LLC	Armenia	51%	51%

The Group is owned by Geiser Asset Holdings Ltd (50.3%), which does not produce publicly available financial statements, and other shareholders. The Group is ultimately controlled by a single individual, Mr. Siman Povarenkin (the “Shareholder”), who is also a director of the Company. Related party transactions are detailed in note 28.

**(b) Business environment**

**Russian business environment**

Some of the Group's operations are located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

The recent conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

**Armenian business environment**

Some of the Group's operations are located in Armenia. Consequently, the Group is exposed to the economic and financial markets of Armenia which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Armenia. The consolidated financial statements reflect management's assessment of the impact of the Armenian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

**Cyprus business environment**

The Cyprus economy has been adversely affected during the last few years by the economic crisis. The negative effects have to some extent been resolved, following the negotiations and the relevant agreements reached with the European Commission, the European Central Bank and the International Monetary Fund (IMF) for financial assistance which was dependent on the formulation and the successful implementation of an Economic Adjustment Program.

The Cyprus Government has successfully completed earlier than anticipated the Economic Adjustments Program and exited the IMF program on 7 March 2016, after having recovered in the international markets and having only used EUR 7.25 of the total EUR 10 billion earmarked in the financial bailout. Under the new Euro area rules, Cyprus will continue to be under surveillance by its lenders with bi-annual post-programme visits until it repays 75% of the economic assistance it received.

The current economic environment of Cyprus will not have a significant impact on the operations of the Group and the Group does not hold significant funds in Cypriot financial institutions. The Group's management is unable to predict all developments which could have an impact on the Cyprus economy and consequently, what effect, if any, they could have on the future financial performance, cash flows and financial position of the Group.

The Group's management believes that it is taking all the necessary measures to maintain the viability of the Group and the development of its business in the current business and economic environment.

## **2. Basis of preparation**

### **(a) Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRSs”) and the provisions of the Cyprus Companies Law, Cap. 113.

### **(b) Basis of measurement**

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments, and investments at fair value through profit or loss are stated at fair value, property, plant and equipment was revalued to determine deemed cost as part of the adoption of IFRS.

### **(c) Functional and presentation currency**

Management has determined the functional currencies of the entities within the Group to be the currency which reflects the economic substance of the underlying events and circumstances of each entity.

As at 31 December 2016 the functional currencies of the entities, except for Karlou B.V. and the Company, were the national currencies of those countries in which each entity operates.

The functional currency of the Company and Karlou B.V. is the US Dollar (“USD”).

The Group’s presentation currency is USD. All financial information presented in USD has been rounded to the nearest thousand.

The results and financial position of subsidiaries whose functional currency is different from the presentation currency are translated to the presentation currency using the following procedures:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income presented are translated at average exchange rates for the period because it best approximates exchange dates at the transaction dates; and
- all resulting exchange differences shall be recognised in other comprehensive income.

### **(d) Use of judgments, estimates and assumptions**

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRSs. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 2(e) – ore reserves;
- Note 3(k)(i) – revenue recognition for the goods sold;

- Note 3(e)(vii) – useful lives of property, plant and equipment;
- Note 14(b) – licenses;
- Note 14(c) – impairment of mining assets of GPM Gold LLC;
- Note 14(d) – impairment of fixed assets of CJSC Agarak;
- Note 15 – deferred tax assets and liabilities;
- Note 16 – financial assets and liabilities at fair value through profit or loss;
- Note 22(a) – provision for site restoration;
- Note 25 – contingencies.

### ***Measurement of fair values***

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 24 – financial instruments.

### **(e) Ore reserves**

There are a number of uncertainties in estimating quantities of ore reserves, including many factors beyond the control of the Company. Ore reserve estimates are based upon engineering evaluations of assay values derived from samplings of drill holes and other openings. Additionally, declines in the market price of a particular metal may render certain reserves containing relatively lower grades of mineralisation uneconomic to mine. Further, the availability of operating and environmental permits, changes in operating and capital costs, and other factors could materially affect the Company's ore reserve estimates. The Group uses its ore reserve estimates in evaluating impairment of its property, plant and equipment and the timing of site restoration costs.

### **3. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

#### **(a) Basis of consolidation**

##### **(i) Subsidiaries**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

##### **(ii) Non-controlling interests**

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

##### **(iii) Acquisitions from entities under common control**

Acquisitions of controlling interests in entities that are under the control of the same controlling shareholder as the Group are accounted for using book values as recognised in the individual financial statements at the date when control of the Group was established. Difference between cash paid and book value is recognised directly in equity.

##### **(iv) Loss of control**

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

##### **(v) Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### **(b) Foreign currency**

##### **(i) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated

in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss.

**(ii) Foreign operations**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to USD at the exchange rate at the reporting date. The income and expenses of foreign operations are translated to USD at average exchange rates for the relevant periods.

Foreign currency differences are recognised directly in other comprehensive income and presented in the foreign currency translation reserve (translation reserve) in equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

Foreign exchange gains and losses arising from a monetary item received from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the foreign currency translation reserve.

**(c) Financial instruments**

**(i) Non-derivative financial instruments**

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and costs is discussed in note 3(m).



**(ii) *Derivative financial instruments***

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in the profit or loss.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

**Offsetting of financial assets and financial liabilities**

As a result of the amendments to IFRS 7, the Group has expanded its disclosures about the offsetting of financial assets and financial liabilities (see note 24(c)).

**(d) *Share capital and capital contributions***

*Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

**(e) *Property, plant and equipment***

**(i) *Recognition and measurement***

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2005, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Net gains and losses on disposal of an item of property, plant and equipment are recognised in “other income” or “other expenses” in profit or loss.

**(ii) *Exploration and evaluation expenditure***

Exploration and evaluation assets include topographical, geographical, geochemical and geophysical studies; exploratory drilling; activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource. The exploration and evaluation assets are measured at cost less accumulated impairment losses, and are classified as “Construction in progress” within property, plant and equipment.

**(iii) *Mine development costs***

Once exploration and evaluation activities have been completed and proven reserves are determined, the expenditure on the development of mineral resources is capitalised and classified within the

“Construction in progress” category of property, plant and equipment. The development expenditure which is capitalised within property, plant and equipment includes the cost of materials, direct labour and an appropriate proportion of overheads related to the works on mine development which are inseparable from the mine’s landscape, as well as costs of development stripping as described in note 3(e)(iv).

Once the relevant mineral resource is ready for production, the capitalised mine development costs are reclassified to “Mining assets and mining structures” category, which is classified within property, plant and equipment.

**(iv) Stripping costs**

Stripping costs incurred during the production phase are generally considered to create two benefits, being either the production of inventory or improved access to the ore to be mined in the future. Where the benefits are realized in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where the benefits are realised in the form of improved access to ore to be mined in the future, the costs are recognised as a non-current asset, referred to as a stripping activity asset, if the following criteria are met:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
- the entity can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity associated with that component can be measured reliably.

If any of the criteria are not met, the production stripping costs are charged to the statement of profit or loss as operating costs as they are incurred or included in the cost of inventory produced.

In identifying components of the ore body, the Company works closely with the mining operations personnel to analyse the mine plan. Generally, a component will be a subset of the total ore body, and a mine may have several components.

The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs.

A relevant production measure is used to allocate the production stripping costs between the inventory produced and the stripping activity asset. This production measure is calculated for the identified component of the ore body and is used as a benchmark to identify the extent to which the additional activity of creating a future benefit has taken place. The Company uses the expected volume of waste extracted compared with the actual volume for a given volume of ore production of each component.

The stripping activity asset is accounted for as an addition to, or an enhancement of, an existing asset, being the mine asset, and is presented as part of intangible assets in the statement of financial position.

The stripping activity asset is subsequently depreciated using the units of production method over the life of the identified component of the ore body that became more accessible as a result of the stripping activity. Economically recoverable reserves, which comprise proven and probable reserves, are used to determine the expected useful life of the identified component of the ore body. The stripping activity asset is then carried at cost less depreciation and any impairment losses.

**(v) Subsequent costs**

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is

derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

**(vi) Mining assets and mining structures**

This category of property, plant and equipment comprises the following categories of capitalised costs, related to mines put into production use:

- Capitalised mine development expenditure (note 3(e)(iii));
- Capitalised development stripping costs (note 3(e)(iv));
- Capitalised site restoration obligations (note 22(a));
- Cost of production mining licenses (note 14(b)).

**(vii) Depreciation**

Depreciation of property, plant and equipment, except mining assets and mining structures, is determined using the straight-line method based on the estimated useful lives of the individual assets or the useful life of the associated mine if shorter, unless an item of property, plant and equipment is consumed during the mining process proportionate to the volume of extraction, in which case its depreciation is determined using a unit of production method based on the extracted volumes of mineral resources and estimated production capacity of the individual asset.

Mining assets and mining structures are depleted over the life of the related mineral resource using the unit-of-production method based on the expected amount of commercially extractable reserves, determined as industrial (recoverable) reserves. Depletion of mining assets and mining structures capitalised development costs commences from the date when saleable materials begin to be extracted from the mine.

Depreciation is recognised in profit or loss except for depreciation of assets used for construction of other items of property, plant and equipment of the Group which is included in the cost of the constructed assets.

Depreciation commences from the date the construction of an asset is completed and it is ready for use. Land is not depreciated.

The estimated useful lives of items of property, plant and equipment used as a basis for asset's depreciation rates are as follows:

- |   |  |
|---|--|
| • Buildings and other production structures | 5-20 years;  |
| • Earth-moving machinery and vehicles       | 3-7 years;   |
| • Production equipment                      | 5-10 years;  |
| • Fixtures and fittings                     | 3-5 years;   |
| • Mining assets                             | pro rata to extraction<br>volumes in relevant mines. |

Depreciation methods, useful lives and residual values are reassessed at the period end date.

**(f) Leased assets**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position. They are recognised in profit or loss on a straight-line basis over the term of the lease.

**(g) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**(h) Impairment**

**(i) Financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. The reversal is recognised in profit or loss.

**(ii) Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(i) Employee benefits**

The Group companies make contributions to defined contribution pension plans, including State pension funds, recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

**(j) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

**(i) Site restoration**

In accordance with the Group's environmental policy and applicable legal requirements, a provision for site reclamation and the related expense, is recognised when the mine development activities start. These costs include obligations relating to reclamation, waste site rehabilitation, plant closure, plant removal and other costs associated with the restoration of the site.

**(k) Revenue**

**(i) Goods sold**

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. In particular, management exercised judgment in interpretation of facts and circumstances of gold sales by the subsidiaries forming Sakha (Russia) operating segment. Thus, the sales recognized upon the readiness of gold bars for the delivery.

Some of the Group's sales contracts (Agarak and Sarilakh-Surma OJSC) provide for a provisional payment as specified in individual contracts that are based upon provisional assays and historical quoted metal prices. Final settlement is done based on market metal prices averaged over a specified

future quotation period. Typically, the future quotation period is up to five months after the risks and rewards of ownership have been transferred to the buyer.

The Company's provisionally priced sales contracts contain an embedded derivative that is separated from the host contract for accounting purposes. The embedded derivative, which is the final settlement price based on a future price, is recorded as a trade receivable or advances received on the balance sheet and marked to market (fair value) through revenue each period with reference to the appropriate commodity forward curve until the date of final settlement.

**(l) Other expenses**

**(i) Lease payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

**(ii) Social expenditure**

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in profit or loss as incurred.

**(m) Finance income and costs**

Finance income comprises interest income on funds invested and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses and impairment losses recognised on financial assets, including trade receivables.

Interest paid is classified as operating activities in the Statement of Cash flows as it enters into the determination of profit or loss. Foreign currency gains and losses are reported on a net basis.

**(n) Income tax expense**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Total royalty expense is an allowable deductible expense for the taxable income calculation purposes.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**(o) Royalty expense**

Royalties are the expected payments to the state budget of Armenia calculated in accordance with guidelines and requirements in the applicable laws and regulations and are based on the profitability levels of licensed operations. Royalties are calculated using rates enacted or substantively enacted at the reporting date. Royalties consist of two components: royalty calculated at 4% of revenue and royalty calculated as 12.5% of taxable income less expenses as per the guidelines and requirements in the applicable laws and regulations. Following provisions of the revised law effective from 1 January 2012 the Group presents the royalty component calculated on net measure as income tax expense.

Before the enactment of the revised law the royalty expense was recognized in other expenses as non-income tax expense.

**(p) Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the CEO of the Group to make decisions about resources to be allocated to the segment and assess its performance.

Segment results that are reported to the CEO of the Group include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Group's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

Inter-segment pricing is determined on an arm's length basis.

**(q) New Standards and Interpretations not yet adopted**

A number of new Standards, amendments to Standards and Interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

**(i) Disclosure Initiative (Amendments to IAS 7)**

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

The amendments are not expected to have a significant effect on the consolidated financial statements of the Group.

**(ii) IFRS 15 Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

**(iii) IFRS 9 Financial Instruments**

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

**4. Determination of fair values**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

**(a) Property, plant and equipment**

The fair value of property, plant and equipment recognised as a result of a business combination or first time adoption of IFRSs is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings



is based on market approach and cost approaches using quoted market prices for similar items when available.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

**(b) Investments in equity and debt securities**

The fair value of held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

**(c) Trade and other receivables**

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

**(d) Derivatives**

The Group holds put and call gold options derivative financial instruments as hedging instrument. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in the profit or loss.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

The fair value of forward exchange contracts is based on their quoted market price, if available. If a quoted market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

**(e) Non-derivative financial liabilities**

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

## **5. Operating segments**

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units produce different products, and are managed separately because they require different technology strategies. For each of the strategic business units, the CEO of the Group quarterly reviews internal management reports prepared on IFRS basis. The segment capital expenditures are based on management accounts. Apart from using segment profit before income tax, the CEO of the Group evaluates performance of each segment based on measure of operating profit adjusted by depreciation and amortisation, other non-cash and exceptional items (EBITDA). Since this term is not a standard IFRS measure the Group's definition of EBITDA may differ from that of other companies.

The following summary describes the operations in each of the Group's reportable segments:

- *Agarak (Armenia)*. Includes mining and processing of copper-molybdenum ore. The final products are copper and molybdenum concentrate.
- *GPM Gold (Armenia)*. Includes mining and processing of gold bearing ore to produce gold bullions.
- *Sakha (Russia)*. Includes operations of OJSC Sarilakh-Surma and OJSC Zvezda related to the mining and processing of antimony-gold bearing ore. There is a high level of integration in the activities of these subsidiaries which determine their merge into the single operating segment.

Information regarding the results of each reportable segment is included below.

(i)

**Information about reportable segments**

	Agarak (Armenia)		GPM Gold (Armenia)		Sakha (Russia)		Total	
	For the year ended 31 December							
'000 USD	2016	2015	2016	2015	2016	2015	2016	2015
External revenue	22,546	33,350	131,714	95,741	40,337	42,787	194,597	171,878
Total segment revenue	22,546	33,350	131,714	95,741	40,337	42,787	194,597	171,878
EBITDA	(1,266)	1,153	50,094	29,985	16,607	22,368	65,435	53,506
Segment (loss)/profit before income tax	(13,819)	(62,936)	1,938	(3,276)	12,895	22,754	1,014	(43,458)
(Impairment loss)/reversal of impairment	-	(54,122)	3,114	30,063	-	-	3,114	(24,059)
Segment income tax (expense)/benefit	(1,715)	17,611	(7,629)	(9,198)	(2,567)	(4,544)	(11,911)	3,869
Segment capital expenditures	(2,445)	(6,827)	(6,944)	(13,920)	(4,895)	(1,644)	(14,284)	(22,391)
Total external assets	68,139	70,563	365,869	377,567	49,184	48,620	483,192	496,750
Corporate loans and receivables	-	-	98	89	31,045	23,815	31,143	23,904
Inter-segment assets	299	-	759	259	-	774	1,058	1,033
Total segment assets	68,438	70,563	366,726	377,915	80,229	73,209	515,393	521,687
Total external liabilities	32,295	34,549	103,630	103,728	7,390	8,765	143,315	147,042
Corporate loans and payables	31,329	16,100	248,372	256,405	158	-	279,859	272,505
Inter-segment liabilities	759	1,033	299	-	-	-	1,058	1,033
Total segment liabilities	64,383	51,682	352,301	360,133	7,548	8,765	424,232	420,580

(ii) **Reconciliations of reportable segment revenues, profit or loss before tax, assets and liabilities**

'000 USD	2016	2015
<b>Revenues</b>		
Total revenue for reportable segments	194,597	171,878
Consolidated revenue	194,597	171,878
<b>Profit or loss</b>		
Profit/(loss) before tax for reportable segments	1,014	(43,458)
External finance income / (costs) of the entities that are not reportable segments	(58,656)	1,053
Other expenses of the entities that are not reportable segments	(13,388)	(9,849)
Intercompany other income of the entities that are not reportable segments	4,361	5,158
Intercompany finance income of the entities that are not reportable segments	17,488	19,624
Consolidated loss before income tax	(49,181)	(27,472)
<b>EBITDA</b>		
EBITDA for reportable segments	65,435	53,506
Other expenses of the entities that are not reportable segments	(11,103)	(9,849)
Other (depreciation and exceptional items)	683	407
Intercompany other income of the entities that are not reportable segments	4,361	5,158
Cash received from commodity derivatives (see note 16)	24,816	16,890
Consolidated EBITDA (see Note 24(h))	84,192	66,112
<b>Assets</b>		
Total assets for reportable segments	515,393	521,687
Assets for other entities that are not reportable segments	63,183	122,654
Elimination of Corporate loans and receivables	(31,143)	(23,904)
Elimination of inter-segment assets	(1,058)	(1,033)
Consolidated total assets	546,375	619,404

<b>'000 USD</b>	<b>2016</b>	<b>2015</b>
<b>Liabilities</b>		
Total liabilities for reportable segments	424,232	420,580
Liabilities for other entities that are not reportable segments	239,059	258,311
Elimination of Corporate loans and payables	(279,859)	(272,505)
Elimination of inter-segment liabilities	(1,058)	(1,033)
Consolidated total liabilities	382,374	405,353

**(iii) Geographical information**

In presenting information on the basis of geographical information, revenue is based on the geographical location of the buyers, which may differ from the geographic location of the end customers. Segment non-current assets are based on the geographical location of the Property, plant and equipment.

**(iv) Major customer**

For 2016 approximately 79% or USD 153,602 thousand (2015: 75% or USD 128,876 thousand) of the Group's revenue is attributable to two third party customers amounting to USD 131,134 thousand and USD 22,468 thousand (2015: USD 95,580 thousand and USD 33,296 thousand) of revenues respectively.

	<b>Revenues</b>	
<b>'000 USD</b>	<b>2016</b>	<b>2015</b>
Canada	131,134	95,580
UK	22,468	33,296
China incl. Hong-Kong	30,857	30,082
Russia and CIS	10,138	12,920
	194,597	171,878

	<b>Non-current assets</b>	
<b>'000 USD</b>	<b>2016</b>	<b>2015</b>
Armenia	411,169	425,982
Russia	46,679	31,998
	457,848	457,980

Non-current assets include property, plant and equipment only.

## 6. Revenue

'000 USD	2016	2015
Sales of gold	145,977	112,777
Sales of copper	20,440	28,739
Sales of antimony	24,766	24,421
Sales of molybdenum	2,028	4,557
Sales of silver	407	108
Other revenue	979	1,276
	<u>194,597</u>	<u>171,878</u>

During 2016 and 2015 the Group's sale prices for gold and silver were directly linked to the London Bullion Market Association spot prices.

Some of the Group's sales contracts provide for a provisional payment as specified in individual contracts that are based upon provisional assays and historical quoted metal prices. Final settlement is done based on market metal prices averaged over a specified future quotation period. Typically, the future quotation period is up to five months after the risks and rewards of ownership have been transferred to the buyer.

Provisionally priced sales contracts contain an embedded derivative that, because it does not relate to the commodity sale, is separated from the host contract for accounting purposes. The embedded derivative, which is the final settlement price based on a future price, is recorded as a trade receivable or advances received on the balance sheet and marked to market (fair value) through revenue each period with reference to the appropriate commodity forward curve until the date of final settlement.

The fair value of the embedded derivative relating to copper, molybdenum and antimony concentrate has been calculated using forward prices as at the balance sheet date quoted in the metal markets. As at 31 December 2016, the fair value of the embedded derivative amounted to USD 688 thousand (asset) (31 December 2015: USD 1,464 thousand (liability)). The movement for the period was charged against revenue.

## 7. Cost of sales

'000 USD	2016	2015
Materials	(47,684)	(41,196)
Services	(33,708)	(29,560)
Salary and social charges	(20,693)	(19,889)
Depreciation	(37,171)	(39,128)
Environmental and other taxes	(1,107)	(1,090)
Other	(60)	(56)
	<u>(140,423)</u>	<u>(130,919)</u>

## 8. Distribution expenses

'000 USD	2016	2015
Services	(1,525)	(933)
Salary and social charges	(574)	(642)
Depreciation	(221)	(81)
Other	(390)	(440)
	<u>(2,710)</u>	<u>(2,096)</u>

## 9. Administrative expenses

'000 USD	2016	2015
Salary and social charges	(9,470)	(10,166)
Services	(11,573)	(10,631)
Depreciation	(375)	(423)
Property and other taxes	(823)	(1,000)
Other	(977)	(1,008)
	<u>(23,218)</u>	<u>(23,228)</u>

The fees to auditors included in the services are as follows:

'000 USD	2016	2015
Audit fees of the Parent Company	(52)	(80)
Audit fees of subsidiaries and interim review fees	(337)	(356)
	<u>(389)</u>	<u>(436)</u>

## 10. Other income

'000 USD	2016	2015
Rental income	155	577
Income from waived payables	2,511	-
Reversal of write-down of inventories	-	34
Other income	138	-
	<u>2,804</u>	<u>611</u>

Rental income represents income from sub-rental agreements for the premises rented by one of the Group's entity.

## 11. Other expenses

'000 USD	2016	2015
Loss on disposal of property, plant and equipment and other assets	(2,410)	(3,000)
Fines and penalties	(445)	(74)
Royalty	(5,975)	(5,698)
Additional royalties, fines and penalties imposed by the Tax Authorities in Armenia (note 25)	(2,876)	-
Taxes	(781)	(522)
Bank services	(261)	(156)
Charity and welfare	(276)	(125)
Other	-	(260)
	<u>(13,024)</u>	<u>(9,835)</u>

## 12. Finance income and costs

'000 USD	2016	2015
<b>Finance income</b>		
Interest income on bank deposits	980	913
Finance income	<u>980</u>	<u>913</u>
<b>Finance costs</b>		
Interest expense	(29,655)	(24,405)
Withholding tax on intergroup interest	(2,393)	(2,296)
Unwind of discount on site restoration provision	(991)	(610)
Net foreign exchange loss	(2,066)	(6,217)
Impairment loss on receivables and prepayments	(830)	(3)
Finance costs	<u>(35,935)</u>	<u>(33,531)</u>
Net finance costs	<u>(34,955)</u>	<u>(32,618)</u>



### 13. Income tax (expense) / benefit

'000 USD	2016	2015
<b>Current tax expense</b>		
Current year	(6,223)	(4,426)
Current year royalty tax	(4,067)	(1,981)
Royalty tax underprovided in prior years	-	(225)
	<u>(10,290)</u>	<u>(6,632)</u>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	1,651	10,301
Tax loss carry-forwards	(4,482)	2,143
	<u>(2,831)</u>	<u>12,444</u>
	<u>(13,121)</u>	<u>5,812</u>

The Group companies pay income tax in accordance with the legislative requirements of their tax jurisdictions. The income tax rates of significant subsidiaries are as follows:

Holding company	Jurisdiction	2016	2015
The Company	Cyprus	12.5%	12.5%

Significant subsidiary	Jurisdiction	2016	2015
GPM Gold LLC	Armenia	20%	20%
CJSC Agarak	Armenia	20%	20%
OJSC Zvezda	Russia	20%	20%
OJSC Sarilakh-Surma	Russia	20%	20%
Verkhne Menkeche LLC	Russia	20%	20%
Karlou B.V.	Netherlands	20%	20%
GeoProMining Ltd.	British virgin Islands	0%	0%

The effective applicable tax rate, comprising income and royalty tax of GPM Gold LLC and CJSC Agarak enacted as at 31 December 2016 is 30% (31 December 2015: 30%).

**Reconciliation of effective tax rate:**

	<b>2016</b>		<b>2015</b>	
	<b>'000 USD</b>	<b>%</b>	<b>'000 USD</b>	<b>%</b>
Loss before income tax	(49,181)	(100.0)	(27,472)	(100.0)
Income tax at applicable tax rate	6,148	12.5	3,434	12.5
Effect of income tax rates in foreign jurisdictions and royalty tax	(4,215)	(8.6)	12,367	45.0
Non-deductible expenses, net	(5,894)	(12.0)	(5,072)	(18.5)
Non-deductible expenses applicable to royalty tax	(3,069)	(6.2)	(4,030)	(14.7)
Royalty tax underprovided in prior year	-	-	(225)	(0.8)
Write off of previously recognized deferred tax assets/ Recognition of previously unrecognised tax losses	(1,829)	(3.7)	289	1.1
Current year losses for which no deferred tax asset was recognised	(4,262)	(8.7)	(951)	(3.5)
	(13,121)	(26.7)	5,812	21.1

## 14. Property, plant and equipment

	Land, buildings and infrastructure	Production equipment	Mining assets	Vehicles and other	Construction in progress	Advances	Total
<b>'000 USD</b>							
<i>Cost / Deemed cost</i>							
Balance at 1 January 2015	31,412	201,848	388,559	3,966	63,989	673	690,447
Additions	3,733	5,089	9,983	1,098	7,182	1,171	28,256
Disposals	(383)	(3,702)	-	(119)	(5)	-	(4,209)
Acquisition							
Transfers	3,584	7,753	(9,906)	255	(1,098)	(588)	-
Translation reserve	(1,371)	(5,227)	(4,313)	(552)	(5,145)	(315)	(16,923)
Balance at 31 December 2015	36,975	205,761	384,323	4,648	64,923	941	697,571
Additions	261	8,044	7,124	257	13,457	1,690	30,833
Disposals	(15)	(288)	(271)	(142)	(1,140)	-	(1,856)
Transfers	247	3,956	-	85	(4,127)	(161)	-
Translation reserve	560	1,181	3,369	415	4,157	349	10,031
Balance at 31 December 2016	38,028	218,654	394,545	5,263	77,270	2,819	736,579

	Land, buildings and infrastructure	Production equipment	Mining assets	Vehicles and other	Construction in progress	Advances	Total
<b>'000 USD</b>							
<b>Depreciation and impairment losses</b>							
Balance at 1 January 2015	(6,619)	(57,855)	(107,542)	(2,698)	(4,845)	-	(179,559)
Depreciation charge	(2,036)	(21,816)	(17,445)	(527)	-	-	(41,824)
Disposals	203	1,284	-	96	-	-	1,583
Impairment loss	(5,813)	(9,425)	(38,022)	(128)	(727)	(7)	(54,122)
Reverse of impairment	-	-	30,063	-	-	-	30,063
Translation reserve	249	2,190	1,520	309	-	-	4,268
Balance at 31 December 2015	(14,016)	(85,622)	(131,426)	(2,948)	(5,572)	(7)	(239,591)
Depreciation charge	(2,155)	(21,226)	(15,928)	(485)	-	-	(39,794)
Disposals	6	53	3	123	-	-	185
Reverse of impairment	-	-	3,114	-	-	-	3,114
Translation reserve	(65)	(646)	(1,731)	(203)	-	-	(2,645)
Balance at 31 December 2016	(16,230)	(107,441)	(145,968)	(3,513)	(5,572)	(7)	(278,731)
<b>Net book value</b>							
At 1 January 2015	24,793	143,993	281,017	1,268	59,144	673	510,888
At 31 December 2015	22,959	120,139	252,897	1,700	59,351	934	457,980
At 31 December 2016	21,798	111,213	248,577	1,750	71,698	2,812	457,848

**(a) Depreciation**

For 2016 and 2015 depreciation was allocated to statement of profit or loss and other comprehensive income as follows:

	<b>2016</b>	<b>2015</b>
	<b>'000 USD</b>	<b>'000 USD</b>
Cost of sales	37,171	39,128
Distribution expenses	221	81
Administrative expenses	375	423
Other expenses	13	14
	<u>37,780</u>	<u>39,646</u>

During 2016 the Group capitalised depreciation amounting to USD 85 thousand (2015: USD 126 thousand) to inventory and USD 1,929 thousand (2015: USD 2,052 thousand) to property, plant and equipment.

Addition to Mining assets of USD 730 thousand (2015: USD 510 thousand) represent a change in estimate of reclamation costs (see note 22).

Capitalised borrowing costs relating to the development of mining assets amounted to USD 415 thousand (2015: USD 871 thousand) with a capitalisation rate of 4.5% (2015: 7%).

**(b) Licenses**

Construction in progress includes exploitation and exploration licenses and rights for which mineral resources were not ready for production as at 31 December 2016 in respect of the following mines:

- Hankavan mine of USD 15,649 thousand (2015: USD 15,649 thousand);
- KIM mine of USD 492 thousand (2015: USD 410 thousand);
- Lusadjur mine of USD 22,289 thousand (2015: USD 23,342 thousand);
- Verchne-Menkeche of USD 17,852 thousand (2015: USD 11,082 thousand).

Mining assets include exploitation and exploration licenses and rights as at 31 December 2016 in respect of the following mines:

- Zod mine of USD 198,657 thousand (2015: USD 199,329 thousand);
- Agarak mine of USD 22,487 thousand (2015: USD 23,153 thousand);
- Sentachanskoe and Sarylakhskoye mines of USD 3,583 thousand (2015: USD 3,792 thousand).

**(c) Impairment of mining assets of GPM Gold LLC**

In 2009, due to the legislative changes in Armenia, the Group amended its strategic plans regarding the modernisation of the processing plant in Ararat.

The above changes have been assessed by the Group as indicators of impairment of GPM Gold CGU and, as a result of the impairment testing, an impairment loss of USD 13,273 thousand was recognised in 2009 in respect of this CGU.

As at 31 December 2013, following the decrease in gold price by 15.5 % in 2013 compared to 2012 average gold price, the Company determined that there is an indication of further impairment of its mining property.

Consequently, an impairment loss of USD 31,742 thousand was recognised in the consolidated financial statements for the year ended 31 December 2013.

At 31 December 2015 following the situation with non-stable gold prices the Company determined that there is an indication of impairment of its mining property.

As a result of the impairment test, the recoverable amount of mining assets of GPM Gold as at 31 December 2015 was estimated at USD 199,329 thousand and exceeded the mining assets' carrying value of USD 169,266 thousand. As a result reversal of the initially recognised impairment in the amount of USD 30,063 thousand was recorded in the consolidated financial statements for the year ended 31 December 2015.

At 31 December 2016 due to the continuing situation with non-stable gold prices the Company determined that there is an indication of impairment of its mining property.

The following key assumptions were used in assessing the value in use of the mining properties:

- Cash flows were projected based on the Group's fifteen years business plan from 2017 till 2031;
- Resources to be extracted each year until 2031 were assessed by Snowden Group, an independent mine evaluation advisor;
- The sulphide ore extraction is expected to be around 916,000 tons per annum from 2016 to 2021 and 1,000,000 tons starting from 2022 for the next 10 years. The content of gold is assumed to be on average 4.74g/t. The gold recovery is expected to be 83% for 2017 and 88% for the next years;
- The Gabbro ore extraction is expected to be on average 300,000 tons per annum from 2019 to 2021. The content of gold is assumed to be on average 2.0g/t;
- Projected sales prices for gold are USD 1,275; USD 1,313 and USD 1,300 for 2017, 2018 and 2019, respectively, and are expected to increase in line with the inflation rate for the next 12 years which is projected on average 2% per annum. The projection is based on median prices forecasted by 15 investment banks/houses;
- A pre-tax discount rate of 19.9% was applied. The discount rate was estimated based on an industry weighted average cost of capital, taking into account the risk free rate (2.45%), the market borrowing rate for the Group (10.74%) and the corporate income tax rate (20%);
- Capital expenditures for 2016 are forecasted based on the Company's capital expenditures budget for 2017. Capital expenditures after 2017 are forecasted based on long-term capital expenditure plan of the Company.

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external and internal sources.

The above estimates are particularly sensitive in the following areas:

- An increase of one percentage points in the discount rate (WACC) used would have decreased the fair value by USD 16,602 thousand.
- A 5% decrease in future ore extraction volumes would have decreased the fair value by approximately USD 17,543 thousand.
- A 5% increase in gold prices would have increased the fair value by approximately USD 31,634 thousand.

- A decrease of five percentage point in future gold recovery would have decreased the fair value by approximately USD 36,266 thousand.
- A decrease of 0.25 percentage point in future gold grade of sulphide ore, down from average of 4.74 g/t to 4.49 g/t, would have decreased the fair value by approximately USD 34,617 thousand.

As a result of the above estimates, the recoverable amount of mining assets of GPM Gold as at 31 December 2016 was estimated at USD 230,861 thousand (31 December 2015: USD 199,329 thousand) and exceeded the mining assets' carrying value of USD 179,481 thousand (31 December 2015: USD 169,266 thousand). As a result final reversal of the initially recognised impairment in the amount of USD 3,114 thousand (2015: USD 30,063 thousand) was recorded in these consolidated financial statements.

**(d) Impairment of fixed assets of CJSC Agarak**

During 2015, due to significant decline in metal prices the Company determined that there is an indication of impairment and assessed the recoverable amount of its property, plant and equipment.

The recoverable amount was based on its value in use, determined by discounting future cash flows. The carrying amount of property, plant and equipment and intangible assets was determined to be higher than their recoverable amounts and an impairment loss of USD 54,122 thousand was recognised.

During 2016, due to incurred losses the Company determined that there is an indication of impairment and assessed the recoverable amount of its property, plant and equipment and intangible assets.

The following key assumptions used in the estimation of value in use are as follows:

- Cash flows were projected on the basis of past experience, actual operating results and the Company's business plan,
- The forecast period covers years until 2049, when the estimated ore reserves are assessed to be fully extracted,
- Total volume of processed ore was projected at 3.85 million tons per annum which represents the production capacity with existing property, plant and equipment,
- Copper price is forecasted to reach USD 2.9 per pound in 2020 and Molybdenum price is forecasted to increase to USD 7.5 per pound based on expectations in the global metal markets. Then the long term US inflation rate of 2% was applied,
- Metal recoveries are expected to increase by 5 and 3 percentage points for copper and molybdenum respectively, after improvement of production processes,
- Unit production costs, treatment and refining charges, capital expenditure and administrative expenses are expected to increase by the long term US inflation rate of 2%,
- A pre-tax discount rate of 19.5 % was applied. The discount rate was estimated based on an industry average weighted average cost of capital, which was based on a possible range of debt leveraging of 86% at a market interest rate of 10.5%.

The above estimates are particularly sensitive in the following areas:

- An increase of 1% in the discount rate used would have caused the recoverable amount to decrease by USD 5,072 thousand,
- A 5% decrease in forecasted metal prices would have caused the recoverable amount to decrease by USD 24,956 thousand,

- A 3% decrease in forecasted metal recoveries would have caused the recoverable amount to decrease by USD 12,081 thousand.

As a result of the above estimates, the carrying amount of mining assets was determined to be lower than their recoverable amount USD 55,310 thousand and no impairment loss was recognised in these consolidated financial statements.

**(e) Security**

Properties with a carrying amount of USD 32,007 thousand (2015: USD 24,136 thousand) are pledged to secure bank loans (see note 21).

## **15. Deferred tax assets and liabilities**

**(a) Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

'000 USD	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
Property, plant and equipment	-	-	(60,423)	(61,138)	(60,423)	(61,138)
Inventories	1,225	1,382	(557)	(670)	668	712
Trade and other receivables	195	434	-	-	195	434
Provisions	3,280	2,868	-	-	3,280	2,868
Trade and other payables	1,744	1,359	(105)	(182)	1,639	1,177
Tax loss carry-forwards	4,193	8,037	-	-	4,193	8,037
Tax assets/(liabilities)	10,637	14,080	(61,085)	(61,990)	(50,448)	(47,910)
Set off of tax	(7,135)	(10,125)	7,135	10,125	-	-
Net tax assets/(liabilities)	3,502	3,955	(53,950)	(51,865)	(50,448)	(47,910)

Tax loss carry-forwards expires in years 2019 – 2023. The tax loss carry-forwards relates to the LLC GPM Verkhne-Menkeche project. As at 31 December 2016 the project was still in the development stage, and it is expected to start generating a taxable profit during 2017 (see Note 19).

**(b) Movement of unrecognised tax losses during the year**

'000 USD	1 January 2015	Created	31 December 2015	Created	31 December 2016
Tax loss	40,751	951	41,702	21,310	63,012
	40,751	951	41,702	21,310	63,012

The unrecognised tax loss expires in years 2018 – 2025. In 2015 and 2016 a tax losses have not been recognised as the deferred tax assets by Karlou B.V. and Agarak because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.



**(c) Movement in temporary differences during the year**

'000 USD	1 January 2016	Recognised in profit or loss	Foreign currency translation	31 December 2016
Property, plant and equipment	(61,138)	945	(230)	(60,423)
Inventories	712	75	(119)	668
Trade and other receivables	434	(252)	13	195
Provisions	2,868	398	14	3,280
Trade and other payables	1,177	485	(23)	1,639
Tax loss carry-forwards	8,037	(4,482)	638	4,193
	<u>(47,910)</u>	<u>(2,831)</u>	<u>293</u>	<u>(50,448)</u>

'000 USD	1 January 2015	Recognised in profit or loss	Foreign currency translation	31 December 2015
Property, plant and equipment	(74,090)	11,270	1,682	(61,138)
Inventories	1,895	(1,291)	108	712
Trade and other receivables	455	(4)	(17)	434
Provisions	2,159	786	(77)	2,868
Trade and other payables	1,628	(460)	9	1,177
Tax loss carry-forwards	6,992	2,143	(1,098)	8,037
	<u>(60,961)</u>	<u>12,444</u>	<u>607</u>	<u>(47,910)</u>

**16. Financial assets and liabilities at fair value through profit or loss**

In March 2013 the Group obtained a loan facility arranged by the group of banks of USD 250,000 thousand maturing in 2014-2018 (see note 21(a)). Following the requirements of the facility agreement the Group purchased put options for 60,000 ounces of gold exercisable annually during 2014-2017 at the strike price of USD 1,450 per ounce and also sold call options for 35,000-40,000 ounces of gold exercisable every six months during 2014-2018 at the strike price of USD 1,700-1,825 per ounce. The fair value of the put and call options was determined using Vanna-Volga technique based on Bloomberg inputs including volatility, gold price quotations and risk-free rates. The net loss/gain on remeasurement of these derivative instruments is recognised in profit or loss. On 7 March 2015 and on 7 March 2016 the second and the third put options became due, and the Group exercised its right and received cash proceeds for the amount of USD 16,890 thousand and USD 12,216 thousand respectively.

In September 2016 the Group refinanced the Facility with a syndicate of banks of USD 229,704 thousand maturing in 2016-2021 (see note 21 (a)) and early terminated its options receiving cash proceeds for the amount of USD 12,600 thousand in November 2016

Following the requirements of the new Facility agreement the Group purchased put options for 287,200 ounces of gold exercisable quarterly during 2017-2021 at the strike price of USD 1,100 per ounce in 2017 (decreasing to USD 850 per ounce in 2021) and also sold call options for 475,750 ounces of gold exercisable quarterly during 2017-2021 at the strike price of USD 1,500-1,700 per ounce. The fair value of the put and call options was determined using Vanna-Volga technique based on Bloomberg inputs including volatility, gold price quotations and risk-free rates.

## 17. Inventories

'000 USD	2016	2015
Raw materials and consumables	14,386	13,137
Semi-finished products	8,574	12,897
Work in progress	5,098	4,886
Finished goods and goods for resale	7,585	9,067
Other inventories	459	461
	<u>36,102</u>	<u>40,448</u>
Reversal / (write-down) of inventories for the period	-	34

Inventories with carrying amount of USD 1,252 thousand (2015: USD 1,145 thousand) are pledged as security for loans from banks (see note 21).

## 18. Trade and other receivables

	2016 '000 USD	2015 '000 USD
<i>Current</i>		
Trade receivables	11,208	13,609
VAT receivables	9,691	10,945
Other taxes receivables	664	800
Receivables from personnel	38	36
Other receivables	983	1,194
Provision for doubtful trade and other receivables	(1,385)	(630)
	<u>21,199</u>	<u>25,954</u>

Trade receivables include the embedded derivatives at fair value relating to copper molybdenum and antimony concentrate with the carrying amount of USD 688 thousand (positive) (31 December 2015: USD 1,287 thousand (negative)).

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 24(e) and 24(g)(i).

## 19. Restricted cash

	2016 '000 USD	2015 '000 USD
Restricted cash – non-current portion	-	8,558
Restricted cash – current portion	7,176	11,208
	<u>7,176</u>	<u>19,766</u>

Bank balances with a carrying amount of USD 7,176 thousand (2015: USD 19,766 thousand) are restricted and represent the unused amount of the Shareholder injections of USD 77,000 thousand made by Sberbank Capital LLC in 2014. According to the Facility agreement for USD 229,704 thousand (2015: Restructuring agreement) (see note 21), this amount includes USD 7,176 thousand (2015: USD 16,097 thousand) attributable to LLC GPM Verkhne-Menkeche project in 2017 and nil (2015: USD 3,669 thousand) attributable to capital expenditure for the Albion Plant.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 24(g)(ii).

## 20. Equity

### (a) Share capital

In June 2011 the authorised share capital was increased to 50,000 shares of EUR 1 each and in August further increased to 1,500,000 shares of EUR 1 each. On 30 September 2011 the shares were re-denominated from EUR 1.00 to EUR 0.01 per each share. As at 31 December 2012 and 2013 the authorised share capital of the Company was EUR 1,500 thousand divided into 150,000,000 shares with a par value of EUR 0.01 each.

In 2014 the Company issued 17,239,063 ordinary shares and then cancelled 270,000 ordinary shares, increasing issued share capital to 66,969,064 shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the shareholders.

	2016		2015	
	Ordinary shares	Share capital '000 USD	Ordinary shares	Share capital '000 USD
On issue at 1 January – par value EUR 0.01	66,969,064	941	66,969,064	941
On issue at 31 December – par value EUR 0.01	66,969,064	941	66,969,064	941

### (b) Share premium

As part of the GPM Group restructuring the Company issued 450,000 ordinary shares of nominal value EUR 1.00 each and one ordinary share of nominal value EUR 0.01 on 2 September 2011 and 11 November 2011, respectively, for a total premium of USD 197,234 thousand in exchange for the equity instruments of the subsidiaries of the Group. The values of the contributed equity instruments in the agreements were primarily defined with reference to the statutory financial statements. The excess in the value of the contributions over the par value of the issued shares represents the premium recognised in the share premium account.

As part of the deal with Sberbank Capital LLC the Company issued and sold to Sberbank Capital LLC 17,239,063 ordinary shares of nominal value of EUR 0.01 on August 28, 2014 for the total amount of USD 77,000 thousand. The transaction costs were incurred and amounted to USD 1,309 thousand.

## 21. Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 24(g)(ii) and 24(g)(i).

In September 2016 the Group refinanced the Facility with syndicate of banks of USD 229,704 thousand maturing in 2016-2021. According to the terms of the agreement, the loan is repayable in tranches till 2021 year. Facility contains a number of restrictive covenants to comply.

Up to the date of approval of these financial statements the Group has timely paid the instalments due.

'000 USD	2016	2015
<b>Non-current liabilities</b>		
Secured bank loans	226,082	240,460
Loan from other related party	9,283	9,283
Total non-current loans	235,365	249,743
Finance lease liabilities	-	-
	235,365	249,743
<b>Current liabilities</b>		
Current portion of secured bank loans	25,171	38,333
Secured bank loans	3,000	3,500
Unsecured loans from third parties	25	30
Interest accrued	2,323	2,245
Total current loans	30,519	44,108
Finance lease liabilities	-	250
	30,519	44,358

### (a) Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

'000 USD	Curren cy	Nominal interest rate	Year of maturity	2016		2015	
				Face value	Carrying amount	Face value	Carrying amount
Secured bank loans	USD	10 – 13%	2017-2023	30,656	30,656	36,355	36,355
Secured bank loan	EUR	10%	2019	959	959	1,338	1,338
Secured bank loan	USD	LIBOR + 10.1%	2016-2019	-	-	244,600	244,600
Secured bank loan	USD	LIBOR + 7.6%	2016-2021	225,704	222,638	-	-
Loans from third parties	AMD	0%	2016	25	25	30	30
Loan from other related party	USD	7%	2019	9,283	9,283	9,283	9,283
Finance lease liabilities	USD	11%	2016	-	-	250	250
				266,627	263,561	291,856	291,856

Bank loans are secured by the following:

- 100% of the share capital of GPM Gold, Agarak, Sarilakh-Surma, Zvezda and Verkhne-Menkeche;
- Production equipment with a carrying amount of USD 32,007 thousand (2015: USD 24,136 thousand) – see note 14(e);
- Inventory in the amount of USD 1,252 thousand (2015: USD 1,145 thousand) – see note 17.

**(b) Finance lease liabilities are payable as follows:**

	2016			2015		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
'000 USD						
Less than one year	-	-	-	250	-	250
Between one and five years	-	-	-	-	-	-
	-	-	-	250	-	250

## 22. Provisions

	Site restoration	
	2016	2015
'000 USD		
Balance at 1 January	10,114	9,298
Change in estimated costs	730	510
Translation reserve	(54)	(304)
Unwind of discount	991	610
Balance at 31 December	11,781	10,114

**(a) Site restoration**

Site restoration provision includes:

- expected costs of demolishing of buildings and infrastructure, as well as closure of the open and close pit mines, waste pit and related dams of the Group;
- expected costs of leach pad reclamation;
- expected costs of supervision, insurance, administration and contingencies.

The discounted future costs of site restoration are initially included within mining assets of property, plant and equipment at the time land plots are disturbed, except where there is no evidence that any future benefits will be received from the asset, in which case costs are expensed as incurred.

At each year end the Group re-measures the provision for site reclamation based on the best estimate of the settlement amount. The effect of any changes to an existing obligation, resulting from changes in estimated future costs, the discount rate used or the life of the mine, are added to or deducted from the cost of the mining asset and depreciated prospectively over the asset's useful life.

Because of the nature of the liability, the greatest uncertainty in estimating the provision is the costs that will be incurred. Environmental legislation in the Republic of Armenia, Georgia and Russian Federation continues to evolve and it is difficult to determine the exact standards required by the current legislation in restoring sites such as this. Generally the standard of restoration is determined based on discussions with Government officials at the time that restoration commences. In making this assumption management has consulted with its in-house and external engineers.

Reclamation costs include:

- costs of demolishing of buildings and infrastructure as well as the closure of the dam in Ararat;
- costs of demolishing of the buildings and closure of the open pit mine in Zod.

The key assumptions, on which the asset retirement obligation is based, are as follows:

- the total un-discounted amount of the estimated cash flows required to settle the obligation is USD 23,872 thousand (2015: USD 23,610 thousand);
- the expected timing of site restoration provision is taken based on the management estimate on when the Group will cease extraction of ore (reserves expiration);
- the weighted average expected timing of payment of the cash flows required to settle the obligations varies from 11 to 38 years (2015: from 12 to 39 years);
- the discount rate, at which the estimated future costs have been discounted varies from 8.25% to 9.1 % (2015: from 8.25% to 10.24%) depending on the country of operations of the production subsidiaries.

## 23. Trade and other payables

	2016 '000 USD	2015 '000 USD
Trade payables	15,206	27,849
Advances received for provisionally priced sales	3,786	2,180
Payables to personnel	3,512	3,737
Taxes other than income tax payables	17,916	12,744
Other payables	2,105	1,951
	42,525	48,461
Current portion	42,525	48,461
Non-current portion	-	-
	42,525	48,461

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in notes 24(g)(i), 24(f).

## 24. Fair values and risk management

### (a) Accounting classifications and fair values

#### (i) Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

'000 USD	Note	Designated at fair value	Deposits and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
<b>31 December 2016</b>									
<b>Financial assets measured at fair value</b>									
Financial assets designated at fair value through profit or loss		2,418	-	-	2,418	-	2,418	-	2,418
Derivative embedded in sales contracts		688	-	-	688	-	688	-	688
		<u>3,106</u>	<u>-</u>	<u>-</u>	<u>3,106</u>	<u>-</u>	<u>3,106</u>	<u>-</u>	<u>3 106</u>
<b>Financial assets not measured at fair value</b>									
Cash and cash equivalents		-	11,830	-	11,830	-	-	-	-
Trade and other receivables	18	-	10,844	-	10,844	-	-	-	-
Investments		-	6,330	-	6,330	-	-	-	-
		<u>-</u>	<u>29,004</u>	<u>-</u>	<u>29,004</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Financial liabilities measured at fair value</b>									
Derivative embedded in sales contracts									
Financial liabilities designated at fair value through profit or loss	16	(4,943)	-	-	(4,943)	-	(4,943)	-	(4,943)
		<u>(4,943)</u>	<u>-</u>	<u>-</u>	<u>(4,943)</u>	<u>-</u>	<u>(4,943)</u>	<u>-</u>	<u>(4,943)</u>
<b>Financial liabilities not measured at fair value</b>									
Secured bank loans	21	-	-	(255,288)	(255,288)	-	-	-	-
Unsecured loan from third party	21			(25)	(25)				
Loan from other related party	21	-	-	(10,571)	(10,571)	-	-	-	-
Trade and other payables	23	-	-	(17,311)	(17,311)	-	-	-	-
		<u>-</u>	<u>-</u>	<u>(283,195)</u>	<u>(283,195)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

'000 USD	Note	Designated at fair value	Deposits and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
<b>31 December 2015</b>									
<b>Financial assets measured at fair value</b>									
Financial assets designated at fair value through profit or loss		58,068	-	-	58,068	-	58,068	-	58,068
		58,068	-	-	58,068	-	58,068	-	58,068
<b>Financial assets not measured at fair value</b>									
Cash and cash equivalents		-	20,979	-	20,979	-	-	-	-
Trade and other receivables	18	-	14,173	-	14,173	-	-	-	-
Investments		-	6,330	-	6,330	-	-	-	-
		-	41,482	-	41,482	-	-	-	-
<b>Financial liabilities measured at fair value</b>									
Derivative embedded in sales contracts		(1,287)	-	-	(1,287)	-	(1,287)	-	(1,287)
Financial liabilities designated at fair value through profit or loss	16	(411)	-	-	(411)	-	(411)	-	(411)
		(1,698)	-	-	(1,698)	-	(1,698)	-	(1,698)
<b>Financial liabilities not measured at fair value</b>									
Secured bank loans	21	-	-	(283,667)	(283,667)	-	-	-	-
Unsecured loan from third party	21			(30)	(30)				
Finance lease liabilities	21	-	-	(250)	(250)	-	-	-	-
Loan from other related party	21	-	-	(10,154)	(10,154)	-	-	-	-
Trade and other payables	23	-	-	(29,800)	(29,800)	-	-	-	-
		-	-	(323,901)	(323,901)	-	-	-	-

The Group has not disclosed the fair values for financial instruments such as short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values.



**(b) Measurement of fair values**

**(i) Valuation techniques and significant unobservable inputs**

The following tables show the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used.

**Financial instruments measured at fair value**

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Derivative embedded in copper and molybdenum contracts	Market comparison technique: The fair value of the embedded derivative relating to copper concentrate sales has been calculated using forward prices as at the reporting date available in the metal markets.	Not applicable.	Not applicable.
Derivative embedded in copper and molybdenum contracts	Market comparison technique: The fair value measurement of the derivatives embedded in sales contracts which relate to molybdenum concentrate is classified as level 3. Because of the lack of observable forward prices for molybdenum concentrate, the fair value of the embedded derivative has been calculated using the latest quoted metal price as at the reporting date, which the Company considers as an approximation to the forward price in view of the short quotation periods for copper and molybdenum contracts.	Not applicable.	Not applicable.
Put and call options on gold	Market comparison technique: The fair value of the put and call options was determined using Vanna-Volga technique based on Bloomberg inputs.	Gold price volatility: 17.30% to 26.20%	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>• Gold price volatility were higher (lower);</li> <li>• Risk-free rate were (lower) higher.</li> </ul>

**Financial instruments not measured at fair value**

Type	Valuation technique	Significant unobservable inputs
Loans and receivables	Discounted cash flows	Not applicable.
Other financial liabilities	Discounted cash flows	Not applicable.

**(c) Master netting or similar agreements**

In 2016 the Group entered into derivative transactions under International Swaps and Derivative Associations (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances – e.g. when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the statement of financial position, this is because the Group does not have any currently legally enforceable right to offset recognised amounts, because the right to offset may be enforceable only on the occurrence of future events such as a default on the bank loans or other credit events.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreement.

<b>'000 RUB</b>	<b>Financial assets at fair value through profit or loss</b>	<b>Financial liabilities at fair value through profit or loss</b>
<b>31 December 2016</b>		
Gross amounts	5,113	(9,066)
Amounts offset in accordance with IAS 32 offsetting criteria	(2,695)	4,123
Net amounts presented in the statement of financial position	2,418	(4,943)
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(2,418)	2,418
Amounts related to financial collateral (including cash collateral)	-	-
<b>Net amount</b>	<b>-</b>	<b>(2,525)</b>

<b>'000 USD</b>	<b>Financial assets at fair value through profit or loss</b>	<b>Financial liabilities at fair value through profit or loss</b>
<b>31 December 2015</b>		
Net amounts presented in the statement of financial position	58,068	(411)
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	58,068	(411)
<b>Net amount</b>	<b>57,657</b>	<b>-</b>

**(d) Financial risk management**

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

**(e) Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and loans receivables.

**(i) Trade and other receivables**

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures.

**(ii) Loans receivable**

The Group's policy is to provide loans to third parties based on management assessment of their credibility and financial stability.

The Group does not require collateral in respect of loans receivable from third parties.

**(iii) Cash and cash equivalents**

The Group held cash and cash equivalents of USD 11,830 thousand at 31 December 2016 (31 December 2015: USD 20,979 thousand). The cash and cash equivalents are held with banks, which are rated B3 to A2, based on Moody's ratings.

**Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

'000 USD	Carrying amount	
	2016	2015
Deposits and loans given	6,330	6,330
Trade and other receivables	10,806	14,173
Net financial assets at fair value through profit or loss	-	57,657
Cash and cash equivalents	11,830	20,979
	<u>28,966</u>	<u>99,139</u>

The maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region was:

'000 USD	Carrying amount	
	2016	2015
CIS countries	298	273
Canada	7,338	5,827
China incl. Hong-Kong	3,170	8,073
	<u>10,806</u>	<u>14,173</u>

### Impairment losses

The aging of trade and other receivables at the reporting date was:

'000 USD	Gross 2016	Impairment 2016	Gross 2015	Impairment 2015
Not past due	10,806	-	14,173	-
Past due	1,385	(1,385)	630	(630)
	<u>12,191</u>	<u>(1,385)</u>	<u>14,803</u>	<u>(630)</u>

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

	2016 '000 USD	2015 '000 USD
Balance at 1 January	630	396
Impairment loss recognised	755	234
Impairment loss written-off against receivables	-	-
Balance at 31 December	<u>1,385</u>	<u>630</u>

### (f) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The current liquidity ratio was 1.1 as at 31 December 2016 (2015: 1.22).

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

'000 USD	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 years
<b>2016</b>									
Secured bank loans	254,253	328,729	22,093	27,149	46,844	77,473	86,465	65,743	2,962
Loans from third parties	25	25	25	-	-	-	-	-	-
Loan from other related party	9,283	12,534	-	-	-	12,534	-	-	-
Finance lease liabilities	-	-	-	-	-	-	-	-	-
Interest accrued	2,323	2,323	83	-	-	2,240	-	-	-
Trade and other payables	17,311	17,311	5,707	11,604	-	-	-	-	-
Financial liabilities at fair value through profit or loss	4,943	4,943	-	-	-	1,716	1,650	1,577	-
	288,138	365,865	27,908	38,753	46,844	93,963	88,115	67,320	2,962

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'000 USD	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs
<b>2015</b>								
Secured bank loans	282,293	347,052	43,811	42,407	97,221	84,442	76,533	2,638
Loans from third parties	30	30	-	-	30	-	-	-
Loan from other related party	9,283	11,663	-	-	-	-	11,663	-
Finance lease liabilities	250	250	203	47	-	-	-	-
Interest accrued	2,245	2,245	1,374	-	-	-	871	-
Trade and other payables	29,801	29,801	17,544	12,257	-	-	-	-
Financial liabilities at fair value through profit or loss	411	411	-	-	144	267	-	-
	324,312	391,451	62,932	54,711	97,395	84,709	89,067	2,638

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

**(g) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

**(i) Currency risk**

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Armenian Dram (AMD) and the Russian Rouble (RUB). The currencies in which these transactions primarily denominated are Euro and USD.

**Exposure to currency risk**

The Group's exposure to foreign currency risk was as follows based on notional amounts:

'000 USD	<b>RUB- denominated</b>	<b>AMD- denominated</b>	<b>EUR- denominated</b>	<b>USD- denominated</b>
	<b>2016</b>	<b>2016</b>	<b>2016</b>	<b>2016</b>
Trade and loans receivable	125	12,673	2,775	17,935
Cash and cash equivalents	-	-	56	5,828
Loans and borrowings	(29,435)	-	(3,829)	(341,825)
Trade and other payables	(1,361)	-	(1,675)	(4,080)
	<u>(30,671)</u>	<u>12,673</u>	<u>(2,673)</u>	<u>(322,142)</u>

'000 USD	<b>RUB- denominated</b>	<b>JPY- denominated</b>	<b>EUR- denominated</b>	<b>AMD- denominated</b>	<b>USD- denominated</b>
	<b>2015</b>	<b>2015</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Trade and loans receivable	137	-	611	12,673	23,037
Cash and cash equivalents	-	-	10,521	-	9,779
Loans and borrowings	(22,356)	-	(1,344)	-	(292,727)
Trade and other payables	(843)	(2,085)	(2,106)		(10,332)
	<u>(23,062)</u>	<u>(2,085)</u>	<u>7,682</u>	<u>12,673</u>	<u>(270,243)</u>

The following significant exchange rates applied during the year:

<b>in USD</b>	<b>Average rate</b>		<b>Reporting date spot rate</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
RUB 1	0.0150	0.0163	0.0165	0.0137
AMD 1	0.0021	0.0021	0.0021	0.0021
EUR 1	1.1070	1.1076	1.0584	1.0935

### Sensitivity analysis

A 10% strengthening (weakening) of the USD and JPY, EUR, RUB against the above currencies at 31 December would have increased (decreased) profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2015.

'000 USD	Profit or loss	
	Strengthening	Weakening
<b>31 December 2016</b>		
USD	(32,214)	32,214
AMD	1,267	(1,267)
EUR	(267)	267
RUB	(3,067)	3,067
<b>31 December 2015</b>		
USD	(27,024)	27,024
JPY	(209)	209
EUR	768	(768)
RUB	(2,306)	2,306
AMD	1,267	(1,267)

### (ii) *Interest rate risk*

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

#### Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

'000 USD	Carrying amount	
	2016	2015
<b>Fixed rate instruments</b>		
Financial assets	6,330	6,330
Financial liabilities	(43,246)	(49,501)
	<u>(36,916)</u>	<u>(43,171)</u>
<b>Variable rate instruments</b>		
Financial liabilities	<u>(222,638)</u>	<u>(244,600)</u>

### Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Company does not designate derivatives as hedging instruments under a fair

value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

### **Cash flow sensitivity analysis for variable rate instruments**

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss before tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2015.

'000 USD	Profit / (loss)	
	100 bp increase	100 bp decrease
<b>2016</b>		
Variable rate instruments	(2,226)	2,226
Cash flow sensitivity (net)	(2,226)	2,226
<b>2015</b>		
Variable rate instruments	(2,446)	2,446
Cash flow sensitivity (net)	(2,446)	2,446

### **(iii) Commodity price risk**

Some of the Group's sales contracts (Agarak, and Sarilakh-Surma) provide for a provisional payment as specified in individual contracts that are based upon provisional assays and historical quoted metal prices. Final settlement is done based on market metal prices averaged over a specified future quotation period. Typically, the future quotation period is up to five months after the risks and rewards of ownership have been transferred to the buyer.

The Company's provisionally priced sales contracts contain an embedded derivative that is separated from the host contract for accounting purposes. The embedded derivative, which is the final settlement price based on a future price, is marked to market (fair value) through revenue each period with reference to the appropriate commodity forward curve until the date of final settlement. The effect of reasonably possible change of the forward prices will not have a material impact on these consolidated financial statements.

### **(h) Capital management**

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group monitors the return on capital, which the Group defines as the result from operating activities divided by total shareholders' equity.

The Group seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.



In 2016 a loan with a carrying amount of USD 244,600 thousand as at 31 December 2015 has been fully repaid and a new loan with the carrying amount of USD 222,638 thousand as at 31 December 2016 thousand was obtained from the syndicate of the banks.

A loan with a carrying amount of USD 222,638 thousand as at 31 December 2016 obtained during 2016 imposes a capital requirement on the Group's consolidated total borrowings, EBITDA and other ratios.

The measurement of EBITDA is not regulated by International Financial Reporting Standards and could not be treated as an alternative measurement for profit recognized by International Financial Reporting Standards in the financial statements. The management discloses EBITDA because it believes that this figure represents additional information that may be useful for users of financial statements. As there are no uniform standards for calculation of EBITDA, other companies may measure EBITDA in other ways. EBITDA of different companies may not be comparable with each other.

The main ratios of the Group which were as follows:

'000 USD	Note	2016	2015
<b>Loss before tax</b>		(49,181)	(27,472)
Plus: Net finance costs	12	34,955	32,618
Plus: Depreciation		37,780	39,646
Plus: Net impairment of assets	14(c),14(d)	(3,114)	24,059
Plus: Net loss / (gain) from commodity derivatives	16	35,366	(22,794)
Plus: Cash received from commodity derivatives	16	24,816	16,890
Plus: Loss on disposal of property, plant and equipment and other assets	11	2,410	3,000
Minus: Income from waved payable		(2,511)	-
Plus: Additional royalties, fined and penalties imposed by the Tax Authority in Armenia		2,876	-
Plus: Other items		795	165
<b>EBITDA consolidated</b> (see Note 5)		<u>84,192</u>	<u>66,112</u>

'000 USD	2016	2015
<b>Total loans, borrowings and overdrafts</b>	266,627	291,856
Less: Cash and cash equivalents	(4,654)	(1,213)
<b>Total Net Debt</b>	<u>261,973</u>	<u>290,643</u>

The Group's Leverage ratio of Total Net Debt on the last day of the reporting period to EBITDA should not exceed 4.50, and was as follows:

'000 USD	2016	2015
<b>Leverage</b>	3.11	4.40

During 2016 the Group complied with any externally imposed capital requirements to which it was subject to.

## **25. Contingencies**

### **(a) Insurance**

The insurance industry in the Russian Federation, Georgia and Republic of Armenia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group has very limited coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

### **(b) Taxation contingencies**

Taxation systems in the Russian Federation and Republic of Armenia continue to evolve and are characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in Armenia that are more significant than in other countries. In addition, in 2015 the tax authorities have been taking aggressive tax position with respect to the calculation of royalty payments in certain mining companies in Armenia, including Agarak, resulting in claimed material increases to the royalty amounts for previous years. Based on the tax inspection additional royalty amounts claimed for the years 2012 to 2013 amounted to around USD 5,600 thousand. Management has thoroughly analyzed these cases and believes that this tax position is not consistent with the Law on Nature Protection and Nature Utilization Payments. Accordingly, in 2015 Agarak appealed to the competent courts of the Republic of Armenia.

In May 2016, First Instance administrative court didn't support Agarak's opinion. Agarak appealed the decision in the Second instance Court.

Following the appellation, Agarak came to a mutual agreement with the Tax Authorities, according to which Tax Authorities annulled the first act and provided a new Inspection Act in accordance to which additional payment of royalty (including fines and penalties) of USD 2,876 thousand was imposed (see note 11).

The management treats the amount agreed under the new Inspection Act as a one-off and continues the recognition of royalty expenses for the years 2014-2016 in accordance with its interpretation of the Armenian tax legislation.

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Armenian tax legislation, official pronouncements and court decisions.

**(c) Environmental contingencies**

The Group is subject to various state laws and regulations that governs emission of air pollutants; discharges of water pollutants; and generation, handling, storage and disposal of hazardous substances, hazardous wastes and other toxic materials.

The Group's management believes that its production subsidiaries are in compliance with all current existing environmental legislation in the countries in which it operates, and therefore the Group has not provided for any potential environmental contingency as the management does not consider any environmental contingent liability to be probable in the foreseeable future. However, environmental legislation continues to evolve and potential changes in the legislation and its interpretation may give rise to material liabilities in future.

**26. Operational risks**

**(a) Mines**

Mines by their nature are subject to many operational risks and factors that are generally outside of the Group's control and could impact the Group's business, operating results and cash flows. These operational risks and factors include, but are not limited to (i) unanticipated ground and water conditions, (ii) geological problems, including earthquakes and other natural disasters, (iii) metallurgical and other processing problems, (iv) the occurrence of unusual weather or operating conditions and other force majeure events, (v) lower than expected ore grades or recovery rates, (vi) accidents, (vii) delays in the receipt of necessary government permits, (viii) the results of litigation, including appeals of agency decisions, (ix) delays in transportation, (x) labour disputes, (xi) inability to obtain certain types of insurance coverage, (xii) unavailability of materials and equipment, (xiii) the failure of equipment or processes to operate in accordance with specifications or expectations, (xiv) unanticipated difficulties consolidating acquired operations and obtaining expected synergies and (xv) the results of financing efforts and financial market conditions.

**(b) Metals prices volatility**

The Group's financial performance is heavily dependent on the price of copper, molybdenum, gold and antimony which are affected by many factors beyond the Group's control.

**Copper**

Copper is a commodity traded on the London Metal Exchange (LME), the New York Commodity Exchange (COMEX) and the Shanghai Futures Exchange (SHFE). The Company's copper is sold at prices based on those quoted on the LME. The price of copper as reported on this exchange is influenced significantly by numerous factors, including (i) the worldwide balance of copper demand and supply, (ii) rates of global economic growth, trends in industrial production and conditions in the housing and automotive industries, all of which correlate with demand for copper, (iii) economic growth and political conditions in China, which has become the largest consumer of refined copper in the world, and other major developing economies, (iv) speculative investment positions in copper and copper futures, (v) the availability and cost of substitute materials and (vi) currency exchange fluctuations, including the relative strength of the USD. The copper market is volatile and cyclical. During the year ended 31 December 2016, LME daily closing spot prices ranged from USD 4,328 to USD 5,945 per ton for copper. The LME spot copper price closed at USD 5,855 per ton on 20 March 2017.

## **Gold**

Gold is a commodity traded on the London Bullion Market, Tokyo Commodity Exchange, the New York Commodity Exchange (COMEX) and Zurich Gold Pool. The price of gold is influenced significantly by numerous factors, including (i) the worldwide balance of gold demand and supply, (ii) rates of global economic growth, trends in jewelry production, all of which correlate with demand for gold, (iii) economic growth and political conditions in India and other Asian countries, which became the largest consumer of gold in the world, and other major developing economies, (iv) speculative investment positions in gold and gold futures, and (v) currency exchange fluctuations, including the relative strength of the USD.

The gold market is volatile, although among commodities gold carries a special function because it is used by investors as a “safe haven” investment, especially during times of economic uncertainty and fears of currency instability. Based on London Bullion Market Association daily settlement, during the year ended 31 December 2016 prices ranged from USD 1,073 to USD 1,370 per ounce of gold, average gold price was USD 1,250.

## **Molybdenum**

The Company’s financial performance is also significantly dependent on the price of molybdenum. Molybdenum is characterized by volatile, cyclical prices, even more than copper. Molybdenum prices are influenced by numerous factors, including (i) the worldwide balance of molybdenum demand and supply, (ii) rates of global economic growth, especially construction and infrastructure activity that requires significant amounts of steel, (iii) the volume of molybdenum produced as a by-product of copper production, (iv) inventory levels, (v) currency exchange fluctuations, including the relative strength of the USD and (vi) production costs of U.S. and foreign competitors. Molybdenum demand depends heavily on the global steel industry, which uses the metal as a hardening and corrosion inhibiting agent. Approximately 80 percent of molybdenum production is used in this application. The remainder is used in specialty chemical applications such as catalysts, water treatment agents and lubricants. Approximately 65 percent of global molybdenum production is a by-product of copper mining, which is relatively insensitive to molybdenum prices. The price of molybdenum was averaging to approximately USD 14,431 per ton during 2016 in comparison with USD 14,891 per ton during 2015. The LME spot price of USD 15,250 per ton of molybdenum was registered on 20 March 2017.

## **Antimony**

Antimony is included in the group of minor metals. It isn’t traded on Official Metal Exchanges however antimony quotations are published by several information agencies: AntimonyNet; MetalBulletin; Metal Pages as well as Asian Metal. The Company’s antimony is sold at prices based on those quoted on the MetalBulletin and AntimonyNet and varies depending on specific customers. The price of antimony as reported by mentioned sources is influenced significantly by numerous factors, including (i) the worldwide balance of antimony demand and supply, (ii) rates of global economic growth, trends in industrial production and conditions in the mechanical rubber and polymeric industries, all of which correlate with demand for antimony, (iii) changes in Chinese legislation in relation to the antimony industry as well as the productivity of Chinese antimony companies due to the fact that China is the largest producer of antimony metal in the world, (iv) the availability and cost of substitute materials and (v) currency exchange fluctuations, particularly cross-rate USD/RMB.

The antimony market is volatile and cyclical. In the majority of antimony purchase contracts the average monthly low price is used, 12 months average price in 2016 was USD 6,364 per ton in comparison with USD 6,865 per ton in 2015.

## 27. Capital commitments

As at the year ended 31 December 2016 the Group has several contractual commitments for the upgrade of its current plant, purchase of mining equipment and spare parts for USD 4,081 thousand (31 December 2015: USD 1,164 thousand).

## 28. Related party transactions

For the purpose of these financial statements, parties are considered to be related if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

### (a) Management remuneration

Key management received the following remuneration during the year, which is included in personnel costs:

	2016 '000 USD	2015 '000 USD
Salaries and bonuses	3,558	3,393
Remuneration of Board of Directors	1,509	1,467
	<u>5,067</u>	<u>4,860</u>

### (b) Transactions with other related parties

The Group had related party relationships with the entities over which the Shareholder of the Group is able to exercise significant influence.

#### *Loan from other related party*

'000 USD	2016	2015
<b>At 1 January</b>	(10,154)	(9,511)
Received from shareholder	-	-
Interest expense capitalized to PPE	(415)	(643)
Repaid	-	-
<b>At 31 December</b>	<u>(10,569)</u>	<u>(10,154)</u>

***Bank balances at other related party***

	<b>2016</b>	<b>2015</b>
	<b>'000 USD</b>	<b>'000 USD</b>
Bank balances at other related party	1,619	1,138

During 2016 the Group realised goods to a related party in the amount of USD 9,160 thousand (2015: USD 11,644 thousand).

**29. Subsequent events**

On 27 March 2017 the Company repaid the second instalment with the accrued interest in the total amount of USD 8,906 thousand in accordance with the Repayment Schedule from the Facility agreement for the carrying amount of USD 222,638 thousand.

In January 2017 the Company repaid the short-term loan in the amount of USD 3,000 thousand and received the line of credit in the amount of USD 8,000 thousand on working capital replenishment.

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