



## PRESS RELEASE

11 June 2018

### **Petropavlovsk PLC (the “Company”)**

#### **Open Letter to Shareholders from Sothic Capital Management UK LLP**

Petropavlovsk PLC notes the open letter issued this morning to the Company’s shareholders from Sothic Capital Management UK LLP, Petropavlovsk’s second largest shareholder with a beneficial ownership of 10.9% of the issued share capital. The contents of this letter, which are the views of Sothic Capital Management UK LLP, are copied below.

*SOTHIC CAPITAL MANAGEMENT LLP  
1 Knightsbridge Green  
London SW1X 7QA  
United Kingdom*

*11 June 2018*

*Dear fellow shareholder,*

#### ***Re: open letter to shareholders of Petropavlovsk PLC***

*Sothic Capital, the second largest shareholder of Petropavlovsk with 10.9%, has been an investor in the company since 2013 and is strongly against replacing the current Board as requested by CABS and Slevin (and seemingly supported by Mr Rakishev) ahead of the Annual General Meeting (“AGM”) on 29 June 2018. Sothic considers the so-called activist attempt by CABS and Slevin as being contrary to good corporate governance and one which could jeopardise the significant value potential of Petropavlovsk.*

*As explained in more detail below, Sothic’s view is that the proposal advanced by CABS and Slevin is lacking transparency (both in terms of those making the proposal and the motivation behind it) and is directly contrary to the successful corporate strategy currently in place. Ultimately, Sothic considers there is a real risk that adoption of the proposal would squander Petropavlovsk’s turnaround potential and create the possibility for the Company to be sold at a discount to a minority of shareholders who may be working in concert.*

*Sothic believes that the successful completion of the POX Hub, removal of the IRC debt obligation and continued progress with underground mining will allow all shareholders to benefit from the eventual re-rating of the shares.*

*Our stance on CABS and Slevin's proposal is based on the following key facts:*

***Mr Kenges Rakishev's position is confused***

*Having been a shareholder for less than six months, Mr Rakishev's strategic vision for Petropavlovsk has changed completely from pursuing mergers and acquisitions ("M&A"), which we believe would be a poor strategy based on the company's current balance sheet and share price, to a strategy that seems to be aligned with the current Board's strategy (a "finish POX first" approach, as outlined in Mr Rakishev's recent profile interview in Russia Today).*

*If Mr Rakishev did hold different views, he certainly had the opportunity to make his position clear through his representative on the Board. For whatever reason, he did not do so. Nor did he consult with the Board or other major shareholders like Sothic before going public with his ill-advised strategy of bringing back Pavel Maslovskiy as CEO and pursuing M&A.*

*The current Board's strategy of harnessing cash flows from the existing asset portfolio, completing the transformational development of the POX Hub and disposing of the IRC guarantee whilst optimising the value of its equity holding in this business, is certainly the best way to take this company to the next stage of its development. Yet Mr Rakishev now wants the old Board back – his changing views are hard to reconcile and, at best, have been highly inconsistent.*

***CABS and Slevin refuse to reveal the identity of their controlling shareholder(s)***

*We are deeply concerned as the second-largest shareholder of Petropavlovsk that we do not know the true identity or business interests of the controlling shareholder(s) of both CABS and Slevin, which are registered in Cyprus and Tortola, BVI, respectively, where transparent disclosure of ownership is not required.*

*Despite the recent publication of documents naming five individuals supposedly behind the business interests of CABS, we understand that the relevant details of the ultimate owners remain unknown. In the circumstance where proposals are being made by CABS and Slevin to reverse the successful changes that have been implemented at Petropavlovsk over the past 11 months, it is of material concern to us that we understand who is ultimately driving those proposals and why—and what, if any, links those underlying shareholders have to existing Petropavlovsk shareholders, former Petropavlovsk management or Petropavlovsk counterparties.*

*That position, which remains entirely unclear, raises several follow-on concerns. For example, if CABS and Slevin are acting in concert with other shareholders and, as a group, control more than 30% (for example, if they are acting in concert with Mr Rakishev), that may trigger a mandatory takeover bid for the Company. We note in the press commentary that Mr Rakishev now appears to be acting as spokesperson for the unidentified controllers of CABS and Slevin whilst still claiming not to know them and not to be working in concert with them. Without further transparency around those relationships, we are understandably concerned that this could be part of a strategy to takeover Petropavlovsk by stealth means at a discount. Such processes commonly start with the removal of the independent directors from a Board, replacing them with individuals chosen by unidentified controllers. It can also result in shareholders not receiving a proper price for their interests. Plainly, these are all factors that are of critical importance to Petropavlovsk's future, and therefore*

*the details of such relationships should be explained transparently to all shareholders before the AGM. We understand that the Company has asked UK regulators to look into this matter.*

### **Lessons from the past are being ignored**

*In our view the old Board under the chairmanship of Peter Hambro made a number of key strategic errors that, as a major shareholder, we do not want repeated. It is therefore of considerable concern that the Directors being proposed by CABS and Slevin were the key decision-makers in the original flawed strategic direction of Petropavlovsk.*

### **There are three historic examples that highlight why we are concerned:**

- 1. In 2012, Petropavlovsk embarked on an investment program of \$500 million to build a Pressurized Oxidation Plant (POX) but failed to hedge itself against a fall in the gold price. When the gold price dropped from \$1,900 to \$1,200 per ounce, this failure to hedge brought the company to the edge of bankruptcy. Sir Roderic Lyne was a member of this board when the disastrous decision not to hedge was made. In addition, Sir Roderic Lyne retired voluntarily in June 2016, a year after the highly dilutive debt restructuring. We believe that Sir Roderic Lyne should not return to the board.*
- 2. In December 2010 Petropavlovsk agreed to be the sole guarantor of all of IRC's bank debt, despite owning only 65% of the equity of IRC at the time (now diluted to 31%). Petropavlovsk currently receives no compensation for this guarantee, as it is not able to collect on the below-market guarantee fee being accrued. Due to this guarantee, Petropavlovsk's own financing costs are higher than they should be. It is also worth noting that IRC's Chairman is Jay Hambro (the son of Peter Hambro) and its CEO is the stepson of Pavel Maslovskiy. From a corporate governance standpoint, we regard those arrangements as unacceptable.*
- 3. In January 2014 Robert Jenkins acted as a consultant to the Board, subsequently becoming a Non-Executive Director (NED) in April 2015, during a period that saw the Company suffer from a dramatic collapse in shareholder value, triggering financial restructurings, including the poorly conceived guarantee of the IRC debt position. In addition, Mr Jenkins presided over Petropavlovsk's decision to acquire Amur Zoloto for 30% of the share capital. That decision was subsequently challenged by the majority of shareholders who opposed what is regarded as a plainly dilutive transaction. As a result, the terms of the proposed deal changed to 20% dilution of the share capital. Our view (both then, and now) is that the substantial alteration of the deal underlined that the Board at that time did not give due consideration to shareholder value. We consider it would not be in the interests of all shareholders for Robert Jenkins to return to the Board. We are also concerned that Mr Rakishev's "M&A" agenda may include re-imposing the dilutive Amur Zoloto deal on Petropavlovsk's shareholders.*

### **Additional points regarding this proposal**

*The current Board did not remove Pavel Maslovskiy and in fact was very public in wanting him to stay. However, a new long-term CEO with considerable mining experience, Roman Deniskin, was appointed following Mr Maslovskiy's sudden resignation in July 2017. From a stability and continuity perspective (particularly regarding the completion of the construction and commissioning of the POX Hub), we would not*

support reversing that decision. Nevertheless, we would not be opposed to Mr Maslovskiy joining the current board as NED to assist in this process.

In short, whilst we believe that all shareholders will benefit from the current strategy aimed at (a) completing the POX Hub, (b) removing the IRC debt obligation, and (c) continuing to progress all of the Petropavlovsk operations, the proposals put forward by CABS and Slevin (and the lack of transparency surrounding them) risk a reversal of that successful strategy and, in turn, material harm to the proper governance and value of the Company.

Yours sincerely

SOTHIC CAPITAL MANAGEMENT LLP  
1 Knightsbridge Green  
London SW1X 7QA  
United Kingdom

#### Enquiries

For more information:

**Petropavlovsk PLC**  
Alya Samokhvalova  
Grace Hanratty  
+44 (0) 20 7201 8900  
[TeamIR@petropavlovsk.net](mailto:TeamIR@petropavlovsk.net)

**Camarco**  
Billy Clegg  
Jane Glover  
Nick Hennis  
+44 (0)20 3757 4980  
[POG@camarco.co.uk](mailto:POG@camarco.co.uk)

#### About Petropavlovsk

*Petropavlovsk is one of Russia's leading gold mining companies. As at 31 March 2018, the Company had produced approximately 6.9Moz of gold.*

*At this time, Petropavlovsk is in the construction phase of a state of the art pressure oxidation facility to process the Company's substantial refractory resource base. The Company's combined 3,430km<sup>2</sup> license holding has untapped resource potential. The Company is a leading employer and contributor to the development of the local economy in the Amur region, Russian Far East, where it has operated since 1994.*

*Petropavlovsk is a shareholder (31.1%) of IRC Limited and is the guarantor of the US\$340 million project finance facility (US\$234 million principal outstanding as at 31 March 2018). IRC is a vertically integrated iron ore producer and developer in the Russian Far East and North-eastern China. IRC is listed on the Hong Kong Stock Exchange (ticker: 1029.HK).*

*Petropavlovsk is listed on the Main Market of the London Stock Exchange (ticker POG:LN).*