



## PRESS RELEASE

30 July 2018

### **Petropavlovsk PLC (the “Company”) 2018 Half Year Trading Update**

Petropavlovsk PLC (“Petropavlovsk”, or the “Company” and, together with its subsidiaries, the “Group”) today issues its trading update for the period from 1 January 2018 through 30 June 2018 (“the Period” or “H1 2018”) in advance of its 2018 Half-Year Interim Results, which are expected to be published on 27th September 2018.

#### **H1 2018 Highlights and FY 2018 Outlook**

##### **Operational Review**

- A full operational review is under way after being launched by the CEO following his appointment at end-June
- This has revealed recent disruptions to mining operations; measures to mitigate these are being developed and implemented to optimise mining and maximise margins
- However the Company has adjusted its full year production guidance conservatively, as provided in this release.

##### **Production**

- 13% yoy decrease in H1 total gold production due to lower grades processed and a decrease in the contribution from gold in circuit - c.201,400oz vs c.232,400oz in H1 2017
- Mixed performance at underground operations: the production of development ore at Quartzitovoye underground mine in H1 2018 contributed significantly to Malomir’s overall production, whilst the development of NE Bakhmut at Pioneer is behind schedule; measures have been introduced in order to increase the contribution of underground operations to overall production by the end of H2 2018
- An optimisation plan for the current mining schedule is being developed.

##### **Gold Sales**

- 13% yoy decrease in physical volumes of gold sold – c.201,400 vs c.231,800 in H1 2017
- 2% yoy increase in average realised gold price – US\$1,285/oz vs US\$1,255/oz
- As at 30 June 2018, the Group had outstanding hedging contracts for c.300koz of gold at an average price of US\$1,252/oz.

##### **Development**

- Malomir flotation plant operations have commenced following delays in their scheduled commissioning due to lack of strategic leadership in H1 2018
  - A programme has been developed to accelerate the ramp up of the flotation plant to its designed capacity

- POX commissioning expected in December 2018 versus previous guidance of Q4 2018 due to some delays in the development schedule in H1 2018
  - POX production excluded from full year estimates as a result
- Dry commissioning scheduled for August 2018 following a number of measures introduced to improve the timeline.

### Year End Guidance

- Company guidance has been amended conservatively following a review and measures have been introduced to improve performance:
  - Full year production expected to be within the revised range of c.400-410Koz (from c.420-460Koz) due to the exclusion of POX production from full year estimates
  - Cash costs of production are currently expected to be 15-20% higher than guidance given at the beginning of the year (US\$700-750/oz, based on a RUB:US\$ exchange rate of 58) due to the suboptimal organisation of mining works in H1
- Capex for the year is expected to be c.US\$105m as guided.

### Appointment of CFO and Non-Executive Director

- The Board is pleased to announce that Mr Alexey Dubynin has been appointed as Chief Financial Officer, a non-Board appointment. Alexey has been employed by the Company since 2012, initially as Head of Internal Audit and as Group Financial Controller from April 2013. Prior to his employment with Petropavlovsk, Alexey was employed by a number of Russian companies within the mining and metallurgical sectors. Alexey is a fellow member of the Association of Chartered Certified Accountants.
- The Company also announces the appointment of Mr Bektas Mukazhanov as a Non-Independent Non-Executive Director on 27 July 2018
- Mr Mukazhanov is an Investment Advisor at Fincraft Holdings Ltd, the major shareholder of Petropavlovsk. Mr Mukazhanov holds degrees in computer science and information technology and is a CFA charterholder. Mr Mukazhanov was formerly a Director of the Company from 8 February 2018 until 8 June 2018. There is no other information to disclose in respect of Listing Rule 9.6.13
- The Company is entering into a relationship agreement with Fincraft Holdings Ltd in line with best practice corporate governance.

### IRC Update

- Previous Board arranged to provide bridge loan to IRC during recent period of financial difficulty
- The new Board is resolved to achieve a solution to remove the Company's guarantee of IRC's bank debt and will update shareholders in due course.

### Gold production – Dore (incl. GIC movement), '000oz

	Q2 2018	Q2 2017	H1 2018	H1 2017
Pioneer	37.7	47.9	78.6	96.4

Pokrovskiy	1.4	8.4	5.6	14.2
Malomir	18.8	12.3	46.8	28.7
Albyn	30.9	45.7	70.3	93.1
Total	88.8	114.3	201.4	232.4

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

#### **Comment from Sir Roderic Lyne, Non-Executive Chairman**

“Following our election in June and the return of Pavel Maslovskiy as Chief Executive Officer, the Board and I would like to reiterate our commitment to the strategic objective: that Petropavlovsk should be at the forefront of Russian gold mining, delivering sustainable and profitable growth through experienced management, technological development and exploration success.

We have worked hard over the past four weeks to stabilise and restore momentum to the Group after a difficult year. On 29 June the Board initiated a review of all of the Group’s activities. We have commenced a formal process with a leading recruitment agency to bring in new independent non-executive Directors with relevant experience in order to establish a diverse and fully compliant Board. I hope to have further news on this front within a few weeks.

The Board wishes to develop clear lines of communication with all stakeholders. I believe that a productive and transparent dialogue with our stakeholders will benefit Petropavlovsk. It is our common aim to realise the Company’s undoubted potential and unlock its value.

#### **Comment from Dr Pavel Maslovskiy, Chief Executive Officer**

Following my reappointment at end-June and with the support of the Board, I have been reviewing every aspect of the Company’s operational activities, and will continue to do this in the weeks ahead. Recent events had a negative impact in certain areas and have caused some disruption to our operational and development plans. Primarily due to this, we have decided to adjust our guidance for the year to be more conservative, and to introduce a programme of measures to rectify the delays in order to improve current schedules.

The review has shown that the POX Hub development project was partially delayed in H1. We now expect its commissioning in December 2018. This is slightly later than we would have hoped and as such we expect no meaningful production from POX during 2018. This affects our total production for the year, which is now expected to be within the revised range of 400-410Koz. I am working closely with the operational team in order to devise and implement a plan to get us back on track.

I am confident of our ability to bring POX into operation in 2019, and of the huge contribution that the successful execution of this project will make to the Group’s production and value. The POX plant is the result of almost a decade of work from a strong group of scientists and engineers. Our general development progress on this project has also been assessed by an independent third party, which confirmed that commissioning in Q4 is feasible. Our development team has a renewed focus on POX construction activities in general, and they are looking forward to demonstrating our new capabilities once the project is complete.

Our engineering and scientific team is currently focused on the Malomir flotation plant, which has just commenced work with a significant delay compared to the original timeline. Our development team is currently exploring potential technological and functional improvements in order that the first line of the plant may be brought to full capacity by September, and to commission the second line in October.

Once these improvements are introduced, we expect to produce 20-30kt of high grade flotation concentrate by the end of the year, ensuring that POX facilities are commissioned smoothly. In addition, this is a marketable product that can potentially be sold to third parties, providing additional flexibility if required. The impact of these improvements on production and cash flow projections is currently being evaluated.

My review has also demonstrated that the current assessment of the Company's Total Cash Costs should be about 15-20% higher than the US\$700-750/oz provided at the beginning of the year. Together with the team we will work hard to improve this estimate.

The previous Board failed to secure a repayment schedule with IRC and ICBC, and deemed it appropriate to provide a bridge loan to IRC during its recent period of financial difficulty. We are working to improve the guarantee situation and to clarify the relationship between Petropavlovsk and IRC and recently held a joint meeting of the Boards of the two companies in order to bring the new Board of Petropavlovsk fully up to date. We hope to have further news for our shareholders in the course of this year.

It has been a pleasure to resume the position of CEO and during my recent trip to benefit from the wise counsel of our experts on the ground. The support they have shown for the new Board in recent weeks is truly humbling and I am dedicated to providing our collective operational team with the constructive strategic leadership they seek in order to achieve optimum performance over the critical months ahead."

## Operations Report

### Pioneer

#### Pioneer mining operations

	<i>Units</i>	<b>Q2 2018</b>	Q2 2017	<b>H1 2018</b>	H1 2017
Total material moved	<i>m3 '000</i>	<b>5,362</b>	3,812	<b>9,449</b>	7,206
Ore mined	<i>t '000</i>	<b>842</b>	1,895	<b>2,183</b>	2,935
Average grade	<i>g/t</i>	<b>0.99</b>	0.78	<b>0.96</b>	0.90
Gold content	<i>oz. '000</i>	<b>26.8</b>	47.5	<b>67.1</b>	85.1

#### Pioneer processing operations

##### Resin-in-pulp (RIP) plant

Total milled	<i>t '000</i>	<b>1,670</b>	1,707	<b>3,267</b>	3,349
Average grade	<i>g/t</i>	<b>0.83</b>	0.78	<b>0.85</b>	0.79
Gold content	<i>oz. '000</i>	<b>44.4</b>	42.7	<b>88.8</b>	85.4
Recovery	<i>%</i>	<b>80.6</b>	82.4	<b>78.8</b>	76.8
Gold recovered	<i>oz. '000</i>	<b>35.8</b>	35.2	<b>70.0</b>	65.6

##### Heap leach operations

Total stacked	<i>t '000</i>	<b>225</b>	359	<b>225</b>	359
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Average grade	<i>g/t</i>	<b>0.50</b>	0.51	<b>0.50</b>	0.51
Gold content	<i>oz. '000</i>	<b>3.6</b>	5.9	<b>3.6</b>	5.9
Recovery	<i>%</i>	<b>28.5</b>	39.6	<b>28.5</b>	39.6
Gold recovered	<i>oz. '000</i>	<b>1.0</b>	2.3	<b>1.0</b>	2.3
<b>Pioneer gold production – Dore</b>	<i>oz. '000</i>	<b>37.7</b>	47.9	<b>78.6</b>	96.4

Mining took place at 6 open pits of Yuzhnaya, NE Bakhmut, Alexandra and Kulisnaya, as well as at Katrin in the Sosnovy area south of Pioneer, and Alexandra to the north. Most work took place at the Yuzhny pit. In addition, some ore was blended in from stockpiles.

Underground mining development has been carried out at NE Bakhmut 3 (beneath open pit 6.3), specifically between +55m and -5m levels beneath open pit 6.3. Capital development, pre-production development and mine preparation works including sublevel ore development took place. In addition, development continued at the two lower grade ore bodies located south-west of the main ore body. Total underground development in H1 comprised 2,167m, and 48kt of development ore was mined with an average grade of 2.3g/t. Ore was predominantly mined from sublevel developments and therefore gold grades were significantly lower compared to the average reserve grade. Both the process plant and the heap leach operations functioned as planned.

In H2 it is expected that mining at Alexandra pit 10 and at the southern side of the Yuzhny pit will be completed, and the team expects to reach and extract high-grade ores with grades up to 4.0g/t from NE Bakhmut pit 6.4. Regarding underground development, in H2 it is envisaged that stope mining will commence at the main ore body between -5m and +40m levels. Development is expected to reach the -50m level, providing access to areas where production is planned for 2019.

## Pokrovskiy

### Pokrovskiy mining operations

	<i>Units</i>	<b>Q2 2018</b>	Q2 2017	<b>H1 2018</b>	H1 2017
Total material moved	<i>m3 '000</i>	–	1,036	<b>152</b>	2,073
Ore mined	<i>t '000</i>	–	392	<b>116</b>	520
Average grade	<i>g/t</i>	–	0.51	<b>0.59</b>	0.50
Gold content	<i>oz. '000</i>	–	6.4	<b>2.2</b>	8.4

### Pokrovskiy processing operations

Resin-in-pulp (RIP) plant					
Total milled	<i>t '000</i>	–	450	<b>223</b>	888

Average grade	<i>g/t</i>	–	0.47	<b>0.55</b>	0.44
Gold content	<i>oz. '000</i>	–	6.8	<b>4.0</b>	12.4
Recovery	<i>%</i>	–	84.8	<b>94.2</b>	78.3
Gold recovered	<i>oz. '000</i>	–	5.8	<b>3.7</b>	9.7
<b>Heap leach operations</b>					
Total stacked	<i>t '000</i>	–	246	–	246
Average grade	<i>g/t</i>	–	0.40	–	0.40
Gold content	<i>oz. '000</i>	–	3.2	–	3.2
Recovery	<i>%</i>	–	22.4	–	22.4
Gold recovered	<i>oz. '000</i>	–	0.7	–	0.7
<b>Pokrovskiy gold production – Dore</b>	<i>oz. '000</i>	<b>1.4</b>	8.4	<b>5.6</b>	14.2

Mining at ore bodies accessed in 2017 (Zeyskoye pit 1 and Vodorazdelnoye) stopped in Q1 2018. All ore extracted was processed at the RIP (resin-in-pulp) plant in Q1 2018, together with ore from stockpiles.

All mining works at the deposit are now complete and the process plant is undergoing reconstruction as part of the POX project.

## Malomir

### Malomir mining operations

	<i>Units</i>	<b>Q2 2018</b>	Q2 2017	<b>H1 2018</b>	H1 2017
Total material moved	<i>m3 '000</i>	<b>2, 266</b>	2, 772	<b>4, 245</b>	5, 126
Ore mined	<i>t '000</i>	<b>674</b>	675	<b>1, 317</b>	1, 434
Average grade	<i>g/t</i>	<b>1.09</b>	0.68	<b>1.22</b>	0.78
Gold content	<i>oz. '000</i>	<b>23.5</b>	14.9	<b>51.5</b>	36.0

### Malomir processing operations

#### Resin-in-pulp (RIP) plant

Total milled	<i>t '000</i>	<b>772</b>	858	<b>1, 645</b>	1, 652
Average grade	<i>g/t</i>	<b>1.05</b>	0.71	<b>1.15</b>	0.78

Gold content	oz. '000	26.0	19.6	60.8	41.7
Recovery	%	68.7	58.9	72.4	59.8
Gold recovered	oz. '000	17.9	11.5	44.0	24.9
<b>Flotation Plant</b>					
Ore	t '000	98	–	98	–
Grade	g/t	0.98	–	0.98	–
Gold content	oz. '000	3.1	–	3.1	–
Recovery	%	86.5	–	86.5	–
Yield	%	2.2	–	2.2	–
Concentrate produced	t '000	2.1	–	2.1	–
Grade	g/t	39	–	39	–
Gold content	oz. '000	2.7	–	2.7	–
<b>Malomir gold production – Dore</b>	oz. '000	18.8	12.3	46.8	28.7

Non-refractory mining focused on the Quartzitovoye 1 and Dorozhny pits. Pit expansion continued at Magnetitovoye 2 with the view to commence ore mining there in H2 2018, and continue mining in 2019. In Q2, the mining of refractory ores for the flotation plant began at the Central pit. In addition, minor non-refractory ore residuals were extracted for further cyanidation.

Underground mining development continued at Quartzitovoye 1, whilst capital development, pre-production development and mine preparation works including sublevel ore development continued between +375m and +300m levels. Total underground development in H1 comprised 3,760m, and 158kt of ore was mined with an average grade of 5.4g/t.

All development ore extracted from underground together with non-refractory ore mined from pits was processed at the RIP plant using cyanidation technology. The process plant operated as scheduled.

Commissioning began at the flotation plant in June. Major refractory ore mining works to feed the flotation plant will focus on the Central open pit, where high grade ores with average grades of up to 2g/t are expected, alongside low grade ore with an average grade of 0.8-1.0g/t. Significant volumes of refractory ore are also available via stockpiles.

## Albyn

### Albyn mining operations

	<i>Units</i>	<b>Q2 2018</b>	Q2 2017	<b>H1 2018</b>	H1 2017
Total material moved	<i>m3 '000</i>	<b>5, 165</b>	7, 426	<b>10, 107</b>	14, 942
Ore mined	<i>t '000</i>	<b>1, 010</b>	1, 258	<b>1, 877</b>	2, 633
Average grade	<i>g/t</i>	<b>0.96</b>	1.19	<b>0.97</b>	1.14
Gold content	<i>oz. '000</i>	<b>31.2</b>	48.1	<b>58.3</b>	96.4

### **Albyn processing operations**

#### Resin-in-pulp (RIP) plant

Total milled	<i>t '000</i>	<b>1, 155</b>	1, 152	<b>2, 291</b>	2, 290
Average grade	<i>g/t</i>	<b>0.94</b>	1.23	<b>1.01</b>	1.14
Gold content	<i>oz. '000</i>	<b>34.9</b>	45.6	<b>74.1</b>	84.3
Recovery	<i>%</i>	<b>94.3</b>	93.6	<b>93.9</b>	93.0
Gold recovered	<i>oz. '000</i>	<b>32.9</b>	42.6	<b>69.6</b>	78.4
<b>Albyn gold production – Dore</b>	<i>oz. '000</i>	<b>30.9</b>	45.7	<b>70.3</b>	93.1

Overburden removal and mining works continued at the eastern, central and southern areas of the Central pit. The process plant operated as planned with a high recovery rate.

In H2 it is expected that the access and extraction of ore in the central area will be completed down to the planned elevation of 520m. In addition, the development of the eastern and western areas of the ore zone is scheduled to be completed.

### **IRC Limited (IRC)**

Petropavlovsk is a shareholder (31.1%) of IRC and is the guarantor of the US\$340m project finance facility. IRC is a vertically integrated iron ore producer and developer in the Russian Far East and North Eastern China, listed on the Hong Kong Stock Exchange (Ticker: 1029.HK).

On 27<sup>th</sup> July, IRC released its trading update for the period ended 30 June 2018, the highlights from which are extracted below:

#### K&S

- Production and sales volumes in 2Q2018 increased by 53% and 47% respectively comparing with the same period last year
- Record high monthly production and sales volumes of 201,000 tonnes and 192,000 tonnes respectively
- Average production capacity at 73% in 2Q2018, up 12% points from the 1Q2018 production capacity of 61%



- Successfully operated at 105% of K&S' designed capacity during a 24-hour production run; operated at more than 90% capacity continuously for 72 hours
- Additional mining fleet on site to support the ramp-up programme.

#### Kuranakh

- Care and maintenance process satisfactory.

#### Corporate

- ICBC June repayment made after obtaining a bridge loan
- ICBC waivers obtained.

Please refer to the IRC website, <http://www.ircgroupp.com.hk>, to access the full release.

As announced on 13 June 2018, under the previous Board and as a precautionary measure, the Group entered into a bridge loan agreement with IRC having failed to negotiate with IRC and ICBC on a scheduled facility repayment. The current Board is working to improve this situation and shall update shareholders in due course on the outcome of these efforts.

### Conference Call and Webcast

A live conference call and webcast will take place today at 9.00am BST. Participants will be able to listen to the call by dialing one of the following numbers shortly before 9.00am BST:

UK Toll: 02034281542

UK Toll Free: 08082370040

Russia Toll Free: 810 800 2136 5011

Russia Toll: 04956469304

Ukraine Toll Free: 0800 501 988

Pin: 73533850#

A presentation will be webcasted and can be accessed via this link, from which a recording of the call will also be made available:

<http://webcasting.buchanan.uk.com/broadcast/5b4745e358af64687c93efb9>

### 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 IRC's US\$340 million project finance facility. 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).*

## **Enquiries**

For more information, please visit [www.petropavlovsk.net](http://www.petropavlovsk.net) and [www.ircgroupp.com.hk](http://www.ircgroupp.com.hk) or contact:

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***This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014.***