



PRESS RELEASE

23 January 2019

Petropavlovsk PLC

Full Year 2018 Production Results and 2019 Guidance

Petropavlovsk PLC ("Petropavlovsk" or the "Company" or, together with its subsidiaries, the "Group") today issues its production results and corporate update for the period from 1 October 2018 to 31 December 2018 (the "Period").

Key Highlights

Production

- Total gold production for 2018 was 422.3Koz, in line with the Company's guidance of 420 – 450Koz which included gold in concentrate

Gold production, '000oz

Asset	Q4 2018	Q4 2017	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Pioneer	26.2	30.0	135.1	161.8
Albyn	42.3	43.6	151.0	181.6
Malomir	17.8	21.8	77.6	65.6
Pokrovskiy	0.2	7.8	6.5	30.6
Gold in concentrate	32.3	-	52.1	-
Total	118.8	103.2	422.3	439.6

Notes:

- Pioneer, Albyn Malomir and Pokrovskiy production is reported as gold in dore and includes movement in RIP gold in circuit (GIC)
- Gold in concentrate is gold contained in refractory concentrate produced at the Malomir flotation plant
- The first 0.6Koz of dore produced at the POX plant in December is not included to avoid double counting
- Figures may not add up due to rounding

Pokrovskiy Pressure Oxidation Hub

- The first phase of the Company's flagship project, the POX Hub, has been successfully commissioned ahead of schedule
- The first two autoclave lines reached design capacity in record time, validating the plant design work of the project's scientific and engineering teams
- First gold poured on 21 December 2018, ahead of schedule
- The Group is on track to commission the next two processing lines of the POX project in June 2019 once availability of third party concentrate for processing is secured

Successful refinancing of IRC facility

- Successful negotiation of new US\$240 million facility with Gazprombank
- New facility is on more favourable terms than the existing ICBC facility and provides IRC with an extended period to repay its debt finance through to 2026
- The new facility de-risks the Company's liability due to the longer maturity of the facility, alongside a more relaxed amortisation schedule
- As part of the new facility, the guarantee mechanism is implemented through a series of five guarantees that fluctuate in value through the eight year life of the loan, with the possibility of Petropavlovsk's initial liability reducing to US\$40 million within two to three years, subject to certain conditions being met. For the

final two years of the new facility, the guarantee liability will increase to US\$120 million to cover the final principal and interest repayments

- On completion, the new facility will be drawn down in full and will be used to repay:
 - The outstanding ICBC facility of US\$169 million
 - Two bridge loans advanced by the Company to IRC, amounting to c.US\$57 million
 - A guarantee fee of c.US\$6 million owing to the Company in relation to the guarantee provided for the ICBC facility
- This transaction is subject to approval by shareholders at a General Meeting of the Company expected to be held in late February 2019

Purchase of third party concentrate

- Autoclaves 3 and 4 are scheduled for launch in June 2019
- Following their launch, up to c.250Kt of annual spare processing ability will be created at the POX Hub until the expansion of the Malomir flotation plant is accomplished and the Pioneer flotation plant is in production
- The Company is assessing options to purchase third party concentrates to utilise this excess capacity
- Depending on the properties of purchased concentrate, there is potential to increase the Group's gold output in 2019

Board appointments

- Following a formal process with professional recruitment consultants the Board has been strengthened by the appointment of three additional, Independent, Non-Executive Directors who bring a broad range of skills and experience
- Board composition is compliant with UK Corporate Governance Code; four independent Directors on its Board of seven
- New Safety, Sustainability & Workforce Committee established, chaired by Mr Harry Kenyon-Slaney, as an Independent Non-Executive Director

2019 outlook

- Gold production: c.450 – 500Koz, subject to further POX plant development success
- Capex: US\$45 million - US\$50 million
- Outstanding forward sales contracts of 200Koz at a gold price of US\$1,252/oz (as at 31 December 2018)

Corporate Strategy

- Petropavlovsk's strategy in 2019 will focus on three main operational objectives:
 - Enhancement of capacity utilisation at the recently commissioned POX Hub facility by expanding and optimising concentrate throughput from the Company's large refractory ore reserves as well from concentrate sourced from third parties
 - Further work based on the earlier delineation of high-grade refractory ore bodies in order to improve the quality of the Company's refractory reserves and resources
 - Focus on cash flow creation to deleverage the Company and create shareholder value

Dr Pavel Maslovskiy, CEO, comments

"I am very proud to report the successful commissioning of our cornerstone project, the Pokrovskiy Pressure Oxidation plant. This is a project on which our world-class experts and consultants have worked for almost a decade. The design of the project has been well thought through and rigorously tested both inside our laboratories and at our test plant. The culmination of this know-how and hard work was demonstrated towards the end of 2018, when we were able not only to commission two lines of the POX plant ahead of schedule but also to ramp up the facility to design capacity quicker than had been planned.

The first two lines are now working at nameplate capacity. I would like to thank the collective Petropavlovsk team, especially our leading scientists from RDC Hydrometallurgy, Outotec and our other partners, who worked tirelessly to achieve such success.

The commissioning of the POX Hub is a landmark achievement for Petropavlovsk, which will allow us not only to unlock c.9.6Moz of our refractory ore reserves but going forward will also create a processing platform for refractory gold concentrate, thus providing the Group with sustainable cash flows in the years ahead.

We anticipate that the next two lines of the POX facility will be commissioned as scheduled in June 2019, thus creating spare processing capacity at the plant. By that time, we aim to have secured a suitable supply of third party refractory ore concentrate to be processed at Autoclaves 3 and 4.

The POX ramp up has allowed us to create additional capacity at the plant for 2019. We have already launched a programme to purchase third party refractory concentrates, ensuring the POX plant will work in the most efficient way. The Board is also reviewing the possibility of bringing forward the construction of the Pioneer flotation plant, allowing refractory ore from Pioneer to be processed, as well as the expansion of the flotation facility at Malomir.

The refinancing of IRC's project finance facility, ultimately de-risking Petropavlovsk's guarantee obligations, the new gold sales contracts with Gazprombank, providing flexibility during the POX plant ramp up period, and the successful commissioning of the POX Hub ahead of schedule, allows us to generate steady cash flows and deliver on our strategy. With all of the progress made in the second half of 2018, and the encouraging start to 2019, the Board and I are looking forward to generating strong returns for all our stakeholders in the years ahead."

Operations Report

Pioneer

Pioneer mining operations

	Units	Q4 2018	Q4 2017	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Total material moved	m3 '000	4,813	4,219	18,612	15,857
Ore mined	t '000	290	1,393	3,173	8,489
Average grade	g/t	0.64	0.56	1.07	0.72
Gold content	oz. '000	5.9	25.3	108.9	196.4

Pioneer processing operations

Resin-in-pulp (RIP) plant					
	Units	Q4 2018	Q4 2017	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Total milled	t '000	1,530	1,692	6,395	6,783
Average grade	g/t	0.57	0.56	0.73	0.68
Gold content	oz. '000	27.9	30.5	150.0	148.9
Recovery	%	82.4	72.0	80.4	75.3
Gold recovered	oz. '000	23.0	22.0	120.6	112.1
Heap leach operations					
Total stacked	t '000	23	44	701	752
Average grade	g/t	0.49	0.45	0.50	0.49
Gold content	oz. '000	0.4	0.6	11.3	11.7
Recovery	%	278.3	190.0	50.1	51.8
Gold recovered	oz. '000	1.0	1.2	5.6	6.1
Pioneer gold production – Dore	oz. '000	26.2	30.0	135.1	161.8

Albyn

Albyn mining operations

	Units	Q4 2018	Q4 2017	Year ended 2018	Year ended 2017
Total material moved	m3 '000	3,706	5,838	18,155	28,557
Ore mined	t '000	967	1,586	3,904	5,263
Average grade	g/t	1.33	1.24	1.10	1.16

Gold content	oz. '000	41.2	63.1	137.8	196.5
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Albyn processing operations

Resin-in-pulp (RIP) plant

Total milled	t '000	1,148	1,154	4,602	4,618
Average grade	g/t	1.25	1.19	1.09	1.16
Gold content	oz. '000	46.1	44.3	161.7	171.9
Recovery	%	94.2	93.7	94.0	93.3
Gold recovered	oz. '000	43.4	41.5	152.1	160.3
Albyn gold production – Dore	oz. '000	42.3	43.6	151.0	181.6

Malomir

Malomir mining operations

	Units	Q4 2018	Q4 2017	Year ended 2018	Year ended 2017
Total material moved	m3 '000	1,382	1,929	7,464	9,380
Non-refractory ore	t '000	180	579	2,264	2,770
Average grade	g/t	2.94	1.49	1.39	0.97
Gold content	oz. '000	17.0	27.8	101.3	86.1
Refractory ore	t '000	837	-	837	-
Average grade	g/t	1.55	-	1.55	-
Gold content	oz. '000	41.8	-	41.8	-

Malomir processing operations

Resin-in-pulp (RIP) plant

Total milled	t '000	271	901	2,375	3,404
Average grade	g/t	2.54	1.17	1.33	0.91
Gold content	oz. '000	22.1	33.8	101.7	99.5
Recovery	%	79.5	71.8	73.6	64.9
Gold recovered	oz. '000	17.6	24.2	74.8	64.6

Flotation Plant

Ore	t '000	748	-	1,266	-
Grade	g/t	1.56	-	1.48	-
Gold content	oz. '000	37.5	-	60.2	-
Recovery	%	86.4	-	86.6	-
Yield	%	3.8	-	3.6	-
Concentrate produced	t '000	29	-	46	-
Grade	g/t	34.6	-	35.2	-
Gold content	oz. '000	32.3	-	52.1	-
Malomir gold production – Dore	oz. '000	17.8	21.8	77.6	65.6

Pokrovskiy

Pokrovskiy mining operations

	Units	Q4 2018	Q4 2017	Year ended 2018	Year ended 2017
Total material moved	m3 '000	-	773	152	3,745
Ore mined	t '000	-	473	116	1,468
Average grade	g/t	-	0.52	0.59	0.51

Gold content	oz. '000	–	7.9	2.2	24.1
Pokrovskiy processing operations					
Resin-in-pulp (RIP) plant					
Total milled	t '000	–	463	223	1,815
Average grade	g/t	–	0.51	0.55	0.47
Gold content	oz. '000	–	7.6	4.0	27.4
Recovery	%	–	85.4	94.2	82.9
Gold recovered	oz. '000	–	6.5	3.7	22.7
Heap leach operations					
Total stacked	t '000	–	55	–	498
Average grade	g/t	–	0.40	–	0.39
Gold content	oz. '000	–	0.7	–	6.3
Recovery	%	–	122.7	–	45.4
Gold recovered	oz. '000	–	0.9	–	2.9
Pokrovskiy gold production – Dore	oz. '000	0.2	7.8	6.5	30.6

Note: Q4 Pokrovskiy dore production comes from Gold-In-Circuit released during final stages of RIP plant refurbishment

The Pokrovskiy Pressure Oxidation Hub

The Pressure Oxidation facility is a cornerstone of Petropavlovsk's strategy and the principal driver of future value based on the Company's 9.6Moz of refractory gold resources in highly prospective, easily accessible, low strip deposits.

Having worked on this project for almost a decade, the Petropavlovsk POX team successfully commissioned the facility at the end of November 2018, ahead of schedule. Group specialists were capable of ramping up the facility to its design capacity in a very short period of time, quicker than was initially envisaged.

During the first week of December, Autoclave 1 successfully commenced processing refractory ore concentrate, reaching stage gold recovery of c.93% - 94%, in line with expected design parameters for double refractory Malomir concentrate. This demonstrated the ability of the POX facility to effectively process the metallurgically challenging refractory material from Malomir. In addition, this also validated the significant work carried out for the project by the Company's in-house scientific and engineering teams, providing further confidence in the Company's plans and the ability of the POX Hub to generate significant cash flows.

Following the successful commissioning of Autoclave 1, Autoclave 2 was commissioned on 27 December 2018. Autoclave 2 also reached design capacity ahead of schedule.

On 3 January 2019, Autoclave 1 operations were paused as scheduled to undertake checks and maintenance in line with the commissioning plan. These maintenance checks revealed no material issues and on 10 January 2019, the autoclave was restarted on a three-month continuous cycle. Autoclave 2 is scheduled for a similar maintenance procedure at the end of January 2019.

At this time, both autoclaves are operating in line with design capacity for Malomir concentrate, processing c.11.5 to 12 tonnes per hour at an autoclave recovery of c.93% - 94%. Both autoclave lines are operating in automatic mode via the process control system. Up to 15 January 2019, c.12Kt of refractory concentrate has been successfully processed by the POX Hub, with c.4.5Koz of gold sold to date.

Autoclaves 3 and 4 are expected to be operational in June 2019. The commissioning and ramp up of those production facilities will create annual spare capacity at the plant of up to c.250Kt, depending on the properties of the concentrate to be processed. For H2 2019 the Company is actively seeking to purchase refractory concentrate from third parties. In the future, the expansion of the Malomir flotation plant and bringing into production a flotation plant at Pioneer will help to produce enough concentrate to fill the POX Hub.

Once fully commissioned, the POX plant will have capacity to process c.400Ktpa to 500Ktpa in its current configuration, depending on the properties of concentrate.

Refinancing of ICBC project finance facility and renegotiation of Petropavlovsk's guarantee

As announced by the Company on 19 December 2018, IRC reported that its wholly owned subsidiary K&S had entered into a new US\$240 million facility agreement with Gazprombank. The new facility is on more favourable terms than the existing ICBC facility and provides IRC with an extended period to repay its debt with a maturity through to 2026. The Gazprombank facility is expected to alleviate the cash flow position of IRC and provide it with a more manageable repayment schedule in comparison to the current ICBC facility.

During the duration of its term, the new facility will consist of five guarantees in total; one corporate guarantee of US\$120 million, three, two-year fixed consecutive guarantees of US\$40 million each and one two-year fixed term guarantee of US\$120 million that comes into force during the last two years of the facility in 2025 and 2026 to cover the final principal and interest repayments.

The net effect of the proposed refinancing is that Petropavlovsk's current guarantee will reduce initially from US\$204 million to US\$160 million, consisting of a US\$120 million corporate guarantee and a US\$40 million two-year fixed guarantee. The US\$120 million corporate guarantee will be released, subject to certain operational conditions of the K&S project being satisfied, which are expected to be met within two to three years.

The provision of the guarantees by Petropavlovsk will, in aggregate, constitute a Class 1 Transaction under the Listing Rules of the Financial Conduct Authority. As such, utilisation of the new facility will be conditional, among other things, upon the passing of a resolution by Petropavlovsk's shareholders at a general meeting. It is expected that a circular setting out details of the new facility and guarantees and convening a general meeting will be distributed to shareholders in the next couple of weeks, with the general meeting taking place in late February 2019. On this basis, and subject to shareholder approval, the refinancing of the ICBC facility is expected to take place in February 2019, with funds available for draw down shortly thereafter.

In the interim, the Company provided IRC with a further bridge loan of US\$27 million (at an interest rate of 16% p/a) to enable its subsidiary K&S to pay the interest and principal due under the ICBC facility on 20 December 2018. The bridge loan will be repaid to Petropavlovsk upon completion of the new facility, expected to be in late February 2019.

The Company also agreed to extend the existing bridge loan of c.US\$30 million, advanced to IRC in June 2018 (at an interest rate of 12% p/a) to the later of utilisation of the new facility or 21 March 2019.

Together, the two bridge loans due for repayment will amount to approximately US\$57 million. In addition, IRC will repay to Petropavlovsk the guarantee fee of approximately US\$6 million owing by IRC to Petropavlovsk in respect of the ICBC facility, as well as certain other associated costs.

Gazprombank gold sales contracts

Petropavlovsk's liquidity position has been significantly strengthened after entering into a number of gold sales contracts with Gazprombank, for a total of 5.5 tonnes (c.175Koz) of gold. These arrangements allow the Company to receive advance payments for 70% of gold with shipment to Gazprombank over a period commencing six months following receipt of an advance by the Company and ending no later than December 2020. The sales contracts provide the Group with flexibility during the POX plant ramp up period.

Purchase of third party concentrate

Autoclaves 1 and 2 were successfully launched in Q4 2018, with Autoclaves 3 and 4 scheduled for commissioning in June 2019. Each of the four autoclaves is able to process c.125Kt of refractory concentrate annually, depending on the properties of concentrate. The Company therefore expects that there will be annual spare capacity of up to c.250Kt at the POX Hub until the expansion of the Malomir flotation plant is completed and the Pioneer flotation plant is in production.

Petropavlovsk is actively assessing the option of sourcing third party refractory ore concentrate to utilise this spare capacity in H2 2019. Concentrate samples from five potential suppliers are currently being evaluated in-house, to determine their suitability for processing and end to end gold recovery. All companies that have submitted samples for testing currently produce concentrate of the required quality and are willing to conduct commercial negotiations.

The Board is also considering accelerated development of a flotation facility at Pioneer which would allow the Pokrovskiy POX Hub to be fully utilised using the Group's own concentrate.

Board appointments

As part of the Company's commitment to corporate governance, following an extensive search and selection process, Petropavlovsk recently announced the appointment of Mr James W Cameron Jr and Mr Damien Hackett as Independent Non-Executive Directors, effective 15 October 2018 and the appointment of Mr Harry Kenyon-Slaney on 7 November 2018. These new appointments mean that the Company now has four Independent Directors with a diverse range of skills and experience.

Following these appointments, the Board established a new Safety, Sustainability & Workforce Committee, chaired by Mr Harry Kenyon-Slaney, Independent Non-Executive Director. One of the first tasks of the new Committee was to consider the tragic accident at Albyn, involving a vehicle, which resulted in the Group's one fatality during 2018. The Board sends its condolences to the family of this employee. The Committee will consider whether any preventative actions need to be taken as a result of this accident when the official report has been received from the Russian authorities. The Board remains committed to improving health and safety performance throughout the Group.

In addition to the above, Mr Peter Hambro, who co-founded the Company with Dr Pavel Maslovskiy, previously a Non-Executive Director of IRC, was appointed as Non-Executive Chairman of IRC effective 19 December 2018. Mr Hambro no longer acts as Petropavlovsk's nominee director on the IRC Board but will continue to be Honorary President of Petropavlovsk and Senior Adviser to the Board on issues where there is no conflict with his Chairmanship of IRC.

2019 outlook / guidance

Production

The Group is targeting FY 2019 gold production of 450 – 500Koz, an increase on 2018 production due to the contribution from the newly commissioned POX Hub.

Capex

Total capital expenditure for the year is estimated at c.US\$45 to US\$50 million.

Gold hedging and forward sales

Forward contracts to sell an aggregate of c.200Koz of gold at an average price of US\$1,252/oz remained outstanding as at 31 December 2018.

About Petropavlovsk

With a Premium Listing on the London Stock Exchange, Petropavlovsk (LSE: POG) is one of Russia's largest gold producers. The Pioneer, Malomir and Albyn gold mines, as well as the Pokrovskiy and Blagoveschensk processing and R&D facilities, are all located in the Amur Region, the Russian Far East.

With total JORC Resources of almost 21Moz Au and a combined license area of over 3,000km², the Company has produced more than 7Moz of gold since the commencement of its operations. Petropavlovsk is one of the region's largest employers and remains one of the largest contributors to the sustainable development of the local economy.

Gold production is poised to increase following the commissioning of technology that will help to extract gold from the Company's refractory ore through a pressure oxidation process - the Pokrovskiy POX Hub. Once fully commissioned, the Hub will have the capacity to treat c.500K tonnes of refractory concentrate each year. The high grade underground operations at Pioneer and Malomir will further improve the gold production profile as they reach steady state over the near term whilst the Company looks to further increase the life of its mines through exploration.

Petropavlovsk is a shareholder (31.1%) of Hong-Kong listed IRC Limited, a vertically integrated Russian Far East iron ore producer. Petropavlovsk is the guarantor of IRC's US\$340 million project finance facility, of which US\$169 million was outstanding as at 31 December 2018.

Enquiries

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

Cautionary note on forward-looking statements

This release may include statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "projects", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward looking statements include all matters that are not historical facts. They appear in a number of places throughout this release and include, but are not limited to, statements regarding the Group's intentions, beliefs or current expectations concerning, among other things, the future price of gold, the Group's results of operations, financial position, liquidity, prospects, growth, estimation of mineral reserves and resources and strategies, and exchange rates and the expectations of the industry. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances [outside the control of the Group. Forward-looking statements are not guarantees of future performance and the development of the markets and the industry in which the Group operates may differ materially from those described in, or suggested by, any forward- looking statements contained in this release. In addition, even if the development of the markets and the industry in which the Group operates are consistent with the forward looking statements contained in this release, those developments may not be indicative of developments in subsequent periods. A number of factors could cause results and/or developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation, general economic and business conditions, demand, supply and prices for gold and other long-term commodity price assumptions (and their effect on the timing and feasibility of future projects and developments), trends in the gold mining industry and conditions of the international gold markets, competition, actions and activities of governmental authorities (including changes in laws, regulations or taxation), currency fluctuations (including as between the US Dollar and Rouble), the Group's ability to recover its reserves or develop new reserves, changes in its business strategy, any litigation, and political and economic uncertainty. Except as required by applicable law, rule or regulation (including the Listing and Disclosure Guidance and Transparency Rules), the Group does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Past performance cannot be relied on as a guide to future performance. The content of websites referred to in this announcement does not form part of this announcement.