



PRESS RELEASE

18 March 2020

Petropavlovsk PLC

Preliminary Agreement for the Proposed Termination of IRC Guarantees and the Disposal of 29.9% of the Company's Interest in IRC

Petropavlovsk PLC ("Petropavlovsk" or the "Company" or, together with its subsidiaries, the "Group"), announces that it has today entered into a preliminary agreement ("Agreement") with Stocken Board AG ("Stocken"), a Liechtenstein-incorporated investment company, setting out the non-binding terms on which Petropavlovsk would sell to Stocken a c.29.9% shareholding in IRC Limited ("IRC") (of Petropavlovsk's 31.1% shareholding), subject to certain conditions precedent being met, including the release of the Group's obligation to guarantee IRC's loan facilities with Gazprombank.

This preliminary agreement includes the proposed terms on which Stocken would agree to purchase from Petropavlovsk 2,120,922,527 IRC shares (representing 29.9% of IRC's outstanding shares at today's date), for a cash consideration of US\$10 million. Under the terms of the guarantees and related agreements, Petropavlovsk requires the consent of Gazprombank ("GPB") to enter into a binding share sale and purchase agreement ("SPA") in relation to the IRC shares.

If the consent of GPB is received and the parties enter into a SPA, completion of that SPA will be conditional upon:

- Termination and irrevocable release of the Group from all loan guarantees given to Gazprombank ("GPB") under the facility agreements signed between Kimkano-Sutarsky Mining and Beneficiation Plant LLC, a subsidiary of IRC and GPB in December 2018 ("Guarantees"); and
- The receipt of any consents that may be required under the Company's US\$500 million 8.125% notes maturing November 2022 ("Notes"), or confirmation by the Board that none are required (the date of "Consent").

If a SPA is entered into ("Signing"), the release of the Guarantees (or at least the execution of legally binding agreements which provide for the termination of such), is expected to be achieved within 180 days from the later of Signing and Consent, or such later date as agreed by the parties, failing which the agreement will terminate.

If Stocken is unable to demonstrate satisfactory progress in meeting this deadline within 90 days from the later of Signing and Consent, and which it cannot resolve within 10 business days, any SPA may be terminated by Petropavlovsk on 5 business days' notice provided that Gazprombank has not released or agreed to release Petropavlovsk from the Guarantees by this time.

Under the preliminary agreement, it is proposed that following Signing, the shares held in IRC by Petropavlovsk will be transferred to Stocken within 10 business days of the later of the Guarantees being released and Petropavlovsk's noteholders consenting to the transaction, if required ("Completion"). A cash consideration of US\$10 million is payable by Stocken for the 29.9% shareholding up to 31 December 2021 ("Consideration"). The Consideration will be subject to adjustment if IRC undertakes a share or other capital issue at less than the market price of the shares at the date of the Agreement but prior to Completion.

Under the preliminary agreement, it is proposed that the SPA will include a put option (“Option”), which may be exercised by Stocken, to provide them with a period of time to complete additional due diligence in relation to their equity investment in IRC. It is not proposed that the Option may be exercised should there be a deterioration in IRC’s performance (as outlined below) and thus would incorporate downside protection for Petropavlovsk.

The proposed Option is proposed to be capable of exercise by Stocken between the date of Completion and full payment of the Consideration or 31 December 2021 (whichever is the earlier). Should the Option be exercised by Stocken, the 29.9% shareholding in IRC will be returned to Petropavlovsk and any Consideration paid up to that date will be returned to Stocken. There would be no effect on the guarantee release and the IRC shares which Petropavlovsk transferred to Stocken upon Completion will be returned to Petropavlovsk without the Guarantees attached.

The proposed Option would also provide downside protection to Petropavlovsk in the event of a deterioration in IRC’s financial performance during this period, whereby the exercise of the Option is wholly dependent upon IRC’s financial performance remaining within the following thresholds: (i) a net debt of less than US\$275 million, (ii) a net debt / EBITDA ratio which is 35% above that on the date of the Agreement, or (iii) a market capitalisation which does not fall below 50% of the market capitalisation as at the date of Signing. Should any of these thresholds be breached, Stocken would not be able to exercise the Option.

Whilst Stocken and the Company have entered into the preliminary agreement, there can be no certainty that GPB will consent to Petropavlovsk entering into the SPA, the terms of the SPA and whether GPB will agree to release the guarantees or the terms on which it will agree to do so.

Petropavlovsk’s remaining 84,977,473 shares in IRC, equating to an interest of c.1.2%, are not proposed to be subject to the SPA.

Dr Pavel Maslovskiy, CEO of Petropavlovsk, comments:

“We are very pleased to announce that we have agreed terms for what would be the first stage of a potential transaction which is one of a number of opportunities we have been exploring to relieve the Company from the loans it currently guarantees on IRC’s behalf, while realising a fair and reasonable value for our shareholding.

The guarantee has a negative impact on our credit rating which increases the cost of our debt. We expect that the release from the guarantee would improve the Company’s credit profile and assist the ongoing momentum of Petropavlovsk’s equity and debt re-rating. As a result, we believe that the US\$10 million cash consideration proposed represents a fair and reasonable value for our holding in IRC given that it would enable us to relinquish the guarantees and enable us to focus on the successful implementation of our strategy which is to consolidate our position as a leading Russian gold miner with the ability to process a wide range of refractory gold ores.

I look forward to working with both Stocken and Gazprombank to enter into the SPA and ultimately successfully complete this transaction”.

The information contained within this announcement is considered by Petropavlovsk PLC to constitute inside information as stipulated under the Market Abuse Regulation (EU) No.596/2014. Upon the publication of this announcement via a Regulatory Information Service, this inside information will be considered to be in the public domain.

About Petropavlovsk

With a Premium Listing on the London Stock Exchange, Petropavlovsk (LSE: POG) is a major integrated Russian gold producer with JORC Resources of 20.52Moz Au which include Reserves of 8.21Moz Au.

The Company's key operating mines (Pioneer, Malomir and Albyn) are in the Amur Region in the Russian Far East and the Company has produced a total of c.7.6Moz of gold since operations began in 1994. Petropavlovsk has a strong track record of mine development, expansion and asset optimisation.

The Group recently entered a new era of growth following the successful commissioning and start-up of its flagship asset, the Pressure Oxidation (POX) Hub at Pokrovskiy, which enables the processing of the Company's abundant refractory reserves and resources.

Petropavlovsk is committed to implementing international best practices across all areas of sustainable development and is one of the region's largest employers and contributors to the local economy.

For More Information

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