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Polymetal International plc

Q1 2019 production results

Polymetal International plc reports record production for the first quarter ended 31 March 2019.

“Strong contribution from Kyzyl and steady operational results at other mines drove a big jump in Q1 production”, said Vitaly Nesis, Group CEO of Polymetal. “Kyzyl’s performance demonstrates both Polymetal’s project development capability and the asset’s huge potential for cash flow generation”.

HIGHLIGHTS

- The Company’s Q1 gold equivalent (“GE”) production grew 27% year-on-year to 374 Koz as Kyzyl exceeded design throughput and recovery and enjoyed positive grade reconciliation. Meanwhile, a grade-driven increase in production at Omolon offset the disposals of Okhotsk and Kapan. Gold equivalent production from continuing operations was 369 Koz, up 37% year-on-year.
- Q1 gold production was up 41% over the previous year at 302 Koz, while silver production was down 15% due to the planned grade decline at the Dukat underground mine. The share of gold production increased to 81% of the Group’s total output.
- Kyzyl continued to demonstrate an excellent operating performance in Q1 with flotation recoveries climbing up to 89% in March, while gold production was 78 Koz with 92 Koz produced in concentrate.
- Revenues increased 28% year-on-year to US\$ 454 million, largely driven by a 41% uptick in gold sales compared to the prior year.
- Full-scale construction activities have commenced at both the Nezhda and POX-2 projects which are expected to start up in Q4 2021 and H2 2023 respectively.
- The Company is on track to produce 1.55 Moz of GE in 2019 and reiterates its full-year cost guidance: the TCC range of US\$ 600-650/ GE oz while the AISC range is US\$ 800-850/ GE oz. The cost guidance remains contingent on the Russian rouble and Kazakh tenge exchange rate dynamics, which has a significant effect on the Group’s operating costs.
- We are saddened to report a fatal accident that occurred on 8 March at our Mayskoye operation. An underground development driller died following injury from the rotating part of the rig. In response, the Company decided to complete a comprehensive review of behavioural safety risks and potential mitigation approaches.
- Net debt increased 12% during the quarter to US\$ 1,704 million as at 31 March 2019, primarily due to seasonal advance purchases of diesel fuel and other consumables. On the other hand, compared to 31 March 2018, the relative leverage level has improved as 8% y-o-y increase in net debt was outpaced by the growth of profitability metrics on the back of a 28% increase in revenue. Free cash flow generation in 2019 will, as is usual for Polymetal, be weighted towards the second half of the year on the back of higher production volumes and seasonal working capital drawdowns.
- As previously announced, the final dividend for 2018 of US\$ 0.31 per share (approx. US\$ 146 million) will be paid on 24 May 2019.
- The Company will host its annual Analyst and Investor Day on 24 April 2019 in London to provide an operating asset review and exploration update.

	3 months ended Mar 31,		% change ¹
	2019	2018	
Waste mined, Mt	37.6	28.8	+30%
Underground development, km	28.2	32.8	-14%
Ore mined, Mt	4.2	3.2	+32%
Open-pit	3.2	2.0	+57%
Underground	1.0	1.2	-12%
Ore processed, Mt	3.4	3.1	+13%
Production			
Gold, Koz	302	214	+41%
Silver, Moz	5.1	6.0	-15%
Copper, Kt	0.9	0.7	+18%
Gold equivalent, Koz ²	374	295	+27%
Sales			
Gold, Koz	291	206	+41%
Silver, Moz	4.7	4.8	-4%
Copper, Kt	0.4	0.3	+38%
Revenue, US\$m ³	454	354	+28%
Net debt, US\$m ⁴	1,704	1,518	+12%
Safety ⁵			
LTIFR	0.24	0.15	+60%
Fatalities	1	1	0%

Notes: (1) % changes can be different from zero even when absolute numbers are unchanged because of rounding. Likewise, % changes can be equal to zero when absolute numbers differ due to the same reason. This note applies to all tables in this release.

(2) Based on 1:80 Ag/Au, 5:1 Cu/Au and 2:1 Zn/Au conversion ratios.

(3) Calculated based on the unaudited consolidated management accounts.

(4) Non-IFRS measure based on unaudited consolidated management accounts. Comparative information is presented for 31 December 2018

(5) LTIFR = lost time injury frequency rate per 200,000 hours worked.

PRODUCTION BY MINE

	3 months ended Mar 31,		% change
	2019	2018	
GOLD EQ. (KOZ)¹			
Kyzyl	78	-	NA
Dukat	78	79	-1%
Albazino-Amursk	81	90	-10%
Omolon	53	31	69%
Mayskoye	5	-	NA
Varvara	38	35	8%
Voro	27	26	3%
Svetloye	9	8	10%
TOTAL (continuing operations)	369	270	+37%
Okhotsk	-	13	-100%
Kapan	5 ²	12	-60%
TOTAL (including discontinued operations)	374	295	+27%

Notes: (1) Based on 1:80 Ag/Au, 5:1 Cu/Au and 2:1 Zn/Au conversion ratios.

(2) Production up to asset disposal date on 30 January 2019

CONFERENCE CALL AND WEBCAST

Polymetal will hold a conference call and webcast on Thursday, 18 April 2019 at 12:30 London time (14:30 Moscow time).

To participate in the call, please dial:

8 800 500 98 63 access code 95198051# (free from Russia), or

+44 203 009 24 83 (free from the UK), or

+1 646 722 49 12 (free from the US), or

follow the link: <http://polymetal180419-live.audio-webcast.com>. Please be prepared to introduce yourself to the moderator or register.

Webcast replay will be available on Polymetal's website (www.polymetalinternational.com) and at <http://polymetal180419-live.audio-webcast.com>. A recording of the call will be available immediately after the call at +44 20 3364 5147 (from within the UK), +1 646 722 4969 (USA Toll Free) and +7 495 249 16 71 (from within Russia), access code 418844238#, from 15:00 Moscow time Thursday, 18 April, till 15:00 Moscow time Thursday, 25 April, 2019.

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KYZYL

	3 months ended Mar 31,		% change
	2019	2018	
<u>MINING</u>			
Waste mined, Mt	15.9	13.8	+15%
Ore mined, Kt	522	74	+610%
<u>PROCESSING</u>			
Ore processed, Kt	476	-	NA
Gold grade, g/t	6.9	-	NA
Gold recovery	86.8%	-	NA
Concentrate produced, Kt	29.8	-	NA
Concentrate gold grade, g/t	96.0	-	NA
Gold in concentrate, Koz ¹	91.9	-	NA
Concentrate shipped, Kt	20	-	NA
Payable gold shipped, Koz	50.7	-	NA
<u>Amursk POX</u>			
Concentrate processed, Kt	8	-	NA
Gold grade, g/t	118.3	-	NA
Gold recovery	94.4%	-	NA
Gold produced, Koz	27.4	-	NA
<u>TOTAL PRODUCTION</u>			
Gold, Koz	78.1	-	NA

Note: (1) For information only; not considered as gold produced and therefore not reflected in the table representing total production. It will be included in total production upon shipment to off-taker or dore production at Amursk POX.

For a full quarter, Kyzyl operated above its nameplate throughput capacity thanks to the relative softness of near-surface ore. Grade mined exhibited positive reconciliation versus geological model due to the presence of small high-grade ore pods and lenses. The Company launched a study to re-optimize the open pit under updated operational and economic assumptions with results, including the update Ore Reserves assessment, to be presented in Q4 2019.

The average recovery rate was 86.8% with continued optimization of the circuit pointing to the potential increases going forward. The Company is evaluating targeted investments in hydrocyclones and concentrate filtering area to de-bottleneck the concentrator given better than expected ore hardness.

The Chinese off-take market continues to be volatile, however the high grade of Kyzyl concentrates helps ensure steady demand for material from a variety of customers in both Eastern and Western China.

DUKAT OPERATIONS

	3 months ended Mar 31,		% change
	2019	2018	
<u>MINING</u>			
Underground development, Km	15.5	14.4	+7%
Ore mined, Kt	603	595	+1%
<u>PROCESSING</u>			
Omsukchan concentrator			
Ore processed, Kt	513	484	+6%
Grade			
Gold, g/t	0.6	0.5	+1%
Silver, g/t	284	314	-10%
Recovery ¹			
Gold	86.2%	86.2%	-0%
Silver	87.2%	87.8%	-1%
Production			
Gold, Koz	9.2	7.3	+27%
Silver, Moz	4.0	4.2	-7%
Lunnoye plant			
Ore processed, Kt	116	113	+2%
Grade			
Gold, g/t	1.5	1.3	+15%
Silver, g/t	268	358	-25%
Recovery ¹			
Gold	86.2%	85.2%	+1%
Silver	90.2%	91.8%	-2%
Production			
Gold, Koz	4.7	4.0	+18%
Silver, Moz	0.9	1.2	-23%
<u>TOTAL PRODUCTION</u>			
Gold, Koz	13.9	11.2	+24%
Silver, Moz	4.9	5.4	-10%

The underground mines at Dukat, Goltsovoye and Lunnoye continued to operate at full capacity during the quarter, which translated into a slight year-on-year increase in ore mined volumes.

Gold output at the Dukat hub increased 24% year-on-year to 13.9 Koz, as the Omsukchan concentrator continued to process ore from gold-rich veins at the deeper levels of Dukat and from Lunnoye. Silver output was down 10% over the previous year to 4.9 Moz as record concentrator throughput failed to offset planned grade decline at the underground mine.

At Lunnoye, quarterly processing volumes remained flat, while gold production increased 18% year-on-year as higher grade material from Zone 5 was processed through the mill. Silver production on the other hand, declined 6% to 0.9 Moz with the depletion of high-grade areas of Zone 7.

Goltsovoye mine is approaching the end of its economic life with underground development expected to cease in Q3 2019 and ore mining to end in early 2020.

At Perevalnoye, positive exploration results led to a significant increase in average ore body widths and resource tonnage. This prompted a re-consideration of the previously proposed underground mining method. As a result, the start of stoping has been delayed to Q4 2019.

ALBAZINO

	3 months ended Mar 31,		% change
	2019	2018	
MINING			
Albazino			
Waste mined, Mt	5.5	5.1	+8%
Underground development, Km	2.3	2.4	-2%
Ore mined, Kt	480	452	+6%
Open-pit	362	345	+5%
Underground	118	108	+9%
Veduga¹			
Waste mined, Mt	1.7	-	NA
Ore mined (open-pit), Kt	45	-	NA
PROCESSING			
Albazino concentrator			
Ore processed, Kt	425	419	+1%
Gold grade, g/t	4.4	5.3	-16%
Gold recovery ²	83.7%	86.5%	-3%
Concentrate produced, Kt	35.6	33.9	+5%
Concentrate gold grade, g/t	44.5	57.1	-22%
Gold in concentrate, Koz ³	50.9	62.2	-18%
Amursk POX			
Concentrate processed, Kt	53	50	+6%
Gold grade, g/t	51.6	57.2	-10%
Gold recovery	95.2%	97.3%	-2%
Gold produced, Koz	81.3	89.9	-10%
TOTAL PRODUCTION			
Gold, Koz	81.3	89.9	-10%

Notes: (1) Based on 100%

(2) To concentrate

(3) For information only; not considered as gold produced and therefore not reflected in the table representing total production. Included in total production after dore production at the Amursk POX

At Albazino, gold in concentrate production fell 18% to 51 Koz on the back of lower grades and recoveries driven by more complex metallurgy and lower grade from Ekaterina-1. This, in turn, also impacted total gold output which was down 10% year-on-year at 81.3 Koz.

Underground mine productivity continued to improve with ore mined up 9% year-on-year following the full transition to partially cemented waste backfill that was completed last year.

Underground development at the new Ekaterina-2 underground mine is underway. Ore mining is expected to commence in Q4 2019. Once the new production areas are in production average grades through the mill are planned to increase.

AMURSK POX

	3 months ended Mar 31,		% change
	2019	2018	
Concentrate processed, Kt	61	50	+22%
Albazino	45	44	+2%
Purchased feedstock ¹	3	6	-43%
Veduga ¹	4	-	NA
Kyzyl	8	-	NA
Average gold grade, g/t	60.3	57.2	+5%
Average sulphur grade	12.7%	8.2%	+55%
Total gold produced ² , Koz	108.7	89.9	+21%

Notes: (1) Included in reportable production at Albazino

(2) For information only. Already accounted for in production at operating mines.

Amursk POX operated at full capacity and achieved record quarterly production of 109 Koz. Increasing recoveries from low-carbon Kyzyl concentrate will be the focus of optimization initiatives for the rest of the year.

OMOLON OPERATIONS

	3 months ended Mar 31,		% change
	2019	2018	
<u>MINING</u>			
Waste mined, Mt	1.3	1.0	+30%
Underground development, Km	3.2	3.2	+1%
Ore mined, Kt	648	385	+69%
Open-pit	533	293	+82%
Underground	115	92	+25%
<u>PROCESSING</u>			
Birkachan Heap Leach			
Ore stacked, Kt	54	-	NA
Gold grade, g/t	1.2	-	NA
Kubaka Mill			
Ore processed, Kt	220	206	+7%
Grade			
Gold, g/t	7.9	4.8	+65%
Silver, g/t	22	30	-25%
Recovery ¹			
Gold	94.2%	95.2%	-1%
Silver	72.9%	78.5%	-7%
Gold production, Koz	51.5	30.4	+69%
Silver production, Moz	0.1	0.1	+56%
<u>TOTAL PRODUCTION</u>			
Gold, Koz	51.5	30.4	+69%
Silver, Moz	0.1	0.1	+56%

Note: (1) Technological recovery, includes gold and silver within work-in-progress inventory

Q1 gold output increased 69% year-on-year as higher-grade ore from Olcha was introduced to the feed. Ore transportation from Olcha takes place every other year to reduce spending on winter road maintenance. 127 Kt of ore with the average grade of 9.3 g/t gold was trucked from Olcha during the 2019 cold season.

Fully outsourced open-pit mining restarted at Birkachan with the goal to supplant ore from Sopka open pit which will be fully depleted in Q2 2019.

The Birkachan seasonal heap leach operation restarted with 54 Kt of ore stacked during the quarter. Material contributions from the heap leach circuit are expected in H2 2019.

MAYSKOYE

	3 months ended Mar 31,		% change
	2019	2018	
<u>MINING</u>			
Waste mined, Mt	1.2	0.6	+105%
Underground development, km	5.5	6.1	-9%
Ore mined, Kt	218	178	+23%
Open-pit	64	21	+197%
Underground	155	157	-1%
<u>PROCESSING</u>			
Ore processed (sulphide ore), Kt	219	203	+8%
Gold grade, g/t	5.7	5.0	+12%
Gold recovery	83.8%	88.1%	-5%
Gold in concentrate, Koz ²	33.4	28.8	+16%
Gold produced in dore from concentrate (POX), Koz	-	-	-
Gold produced in dore from carbon, Koz ³	4.6	-	+100%
Payable gold in concentrate shipped to off-takers, Koz	-	-	-
<u>TOTAL PRODUCTION</u>			
Gold, Koz	4.6	-	+100%

Notes: (1) To concentrate

(2) For information only; not considered as gold produced and therefore not reflected in the table representing total production. Included in total production upon sale to off-taker or dore production at Amursk POX

(3) Gold produced from carbon at Amursk POX

At Mayskoye, gold in concentrate increased 16% year-on-year to 33 Koz on the back of higher processing volumes and improved grades. This more than offset a drop in recoveries as the plant processed metallurgically challenging ore with high antimony content. Recovery is expected to improve in Q2 after the adjustment in reagent addition rates and locations.

Successful conversion of resources at depth added 778 Koz of gold to reserves at Mayskoye. Newly defined ore bodies comprise Ore Zone 4 and are significantly different from the currently mined Ore Zones 1 and 2. They are much wider and have relatively flat dip. As a result, the Company initiated a technical study to evaluate the conversion to a cemented paste backfill with the goal of controlling dilution while mining Ore Zone 4. The results are expected in Q4 2019.

VARVARA

	3 months ended Mar 31,		% change
	2019	2018	
MINING			
Waste mined, Mt	11.1	7.1	+56%
Ore mined (open pit), Kt	961	675	+42%
PROCESSING			
Flotation			
Ore processed, Kt	147	76	+92%
Grade			
Gold, g/t	1.1	1.1	-2%
Copper	0.57%	0.55%	+4%
Recovery ¹			
Gold	68.3%	60.9%	+12%
Copper	91.9%	90.1%	+2%
Production			
Gold (in concentrate), Koz	2.6	1.6	+65%
Copper (in concentrate), Kt	0.7	0.4	+90%
Veduga ore toll processed, Kt ²	33	12	+181%
Leaching			
Ore processed, Kt	752	775	-3%
Gold grade, g/t	1.5	1.5	-3%
Gold recovery ¹	85.3%	86.4%	-1%
Gold production (in dore), Koz	31.4	31.2	+0%
Total ore processed, Kt	931	863	+8%
TOTAL PRODUCTION			
Gold, Koz	34.0	32.8	+4%
Copper, Kt	0.7	0.4	+90%

Note: (1) Technological recovery, includes gold and copper within work-in-progress inventory. Does not include toll-treated ore
(2) To be further processed at Amursk POX.

In Q1, gold output at Varvara increased 4% year-on-year driven by higher processing volumes and improved flotation recoveries.

Waste stripping started at the new Riverside pit at Varvara with first ore expected in Q2 2019. Most waste material from this pit will be used for the construction of the new tailings storage facility.

Varvara continued to toll-treat high-grade ore from Veduga and plans to process more than 100 Kt in 2019.

VORO

	3 months ended Mar 31,		% change
	2019	2018	
MINING			
Waste mined, Mt	0.4	1.1	-60%
Ore mined, Kt	269	302	-11%
PROCESSING			
Voro Heap Leach			
Ore stacked, Kt	-	-	NA
Gold grade, g/t	-	-	NA
Gold recovery	-	-	NA
Gold production, Koz	4.8	1.6	+201%
Voro CIP			
Ore processed, Kt	249	247	+1%
Gold grade, g/t	3.4	3.9	-12%
Gold recovery ¹	87.0%	80.4%	+8%
Gold production, Koz	22.3	24.5	-9%
TOTAL PRODUCTION			
Gold, Koz	27.0	26.1	+4%

Note: (1) Technological recovery, includes gold within work-in-progress inventory

Q1 gold production at Voro increased 4% year-on-year to 27 Koz mainly due to contributions from the heap leach operation. Higher gold recoveries partially offset a planned decline in grade at the CIP plant.

Mining volumes continued to decline as the open pit nears the end of its life in Q3 2019. Exploration drilling identified substantial mineralisation below the open pit with technical studies currently underway to determine the feasibility of underground mining.

SVETLOYE

	3 months ended Mar 31,		% change
	2019	2018	
MINING			
Waste mined, Mt	0.4	0.1	+285%
Ore mined (open pit), Kt	413	326	+27%
PROCESSING			
Ore stacked, Kt	184	219	-16%
Gold grade, g/t	4.9	3.8	+29%
Gold recovery	80.7%	80.8%	-0%
Gold production, Koz	9.2	8.3	+10%
TOTAL PRODUCTION			
Gold, Koz	9.2	8.3	+10%

Svetloye delivered a solid set of quarterly results with gold production up 10% to 9.2 Koz on the back of 29% increase in grade.

The new solar power plant is fully operational and provided 7.3% of total electricity produced at the mine in Q1 despite seasonal challenges.

At Levoberezhny (35 km from Svetloye), the results of in-fill drilling confirmed the continuity of mineralisation and the viability of using heap-leaching to recover gold.

DEVELOPMENT UPDATE

At Nezhda, mining activities resumed with 2.5 Mt of pre-stripping completed during the first quarter. Construction mostly focused on auxiliary infrastructure including additional accommodation, fuel depot, explosives depot, process and potable water boreholes, as well as the warm warehouse. Pouring of concrete for the concentrator building and mill foundations has commenced.

All contracts for key processing equipment have been signed including mills, flotation cells, thickeners, press filters for concentrates and tailings, and gravity concentrators.

At POX-2, the focus is currently on engineering activities and equipment contracting. Contracts have been signed for the main processing equipment including the autoclave vessel (Coek Engineering), the oxygen station (Linde), as well as desorption, electrolysis, carbon reactivation and smelting units.

SUSTAINABILITY, HEALTH AND SAFETY

In Q1, our LTIFR stood at 0.24 (versus 0.15 in Q1 2018) with a total of 6 work-related incidents recorded across the Group (4 incidents in 2017). The increase is driven by minor incidents that occurred on site but not during the production process.

We regret to report a fatality that occurred on 8 March 2019. A jumbo drill rig operator was injured by the rotating boom at the Mayskoye underground mine. We send our sincere condolences to the family, friends and colleagues of the deceased employee.

The two most recent fatalities at Polymetal operations, one each in 2018 and 2019, were both related to subjective factors. As a result, the focus of our efforts to ensure safe working conditions will increasingly shift towards behavioural analysis and proactive instruments of checking and preventing potentially unsafe employee actions.

Safety remains a top priority for Polymetal and the Company reaffirms its commitment to further improvements across health and safety metrics to achieve our zero harm target in relation to our employees, as well as our suppliers and contractors. Details of implemented safety and employee welfare initiatives are set out in the Sustainability Report, which can be found on our website.