



Polymetal International
Q2 Production Results
09/08/2023



Vitaly Nesis, Polymetal Group Chief Executive Officer:

Welcome to the first half of Production Results for Polymetal International. I'm Vitaly Nesis, the CEO of the company, we will cover Production Results and also touch upon the recently completed re-domiciliation of the Company from Jersey to Kazakhstan. In the end, we will be open to the questions which can be asked through the webcast.

Overall I believe the second quarter and first half production demonstrated solid results despite a very challenging environment for the Russian part of the business, and some hiccups on the Kazakhstan side of the Company. For the first half of the year, we are pleased to report no fatalities among our employees and contractors, which obviously reflects the top priority of our operations, being the safety of the people who work for us. Second quarter gold equivalent production grew strongly on the back of contribution from the Russian operations. The Kazakhstan business recorded a 7% decline mostly on the reduction of third-party ore feed to Varvara. Importantly, our flagship operation, Kyzyl, continued to perform quite strongly, although it continued to be impacted by logistical disruptions on the Russian Railways with concentrate shipments to Russia Far East and to Russian eastern seaports with China being impacted by very heavy traffic.

In terms of our outlook for the full year, we believe we will be able to catch up in terms of production, but also importantly, the focus will be on bridging the production sales gap, which opened very widely after the imposition of US sanctions on the Russian subsidiaries. These sanctions have resulted in severe disruption to the sales channels. And right now, the Russian part of the business is struggling to re-establish those sales channels and to resume selling gold, silver and concentrates as normal. We expect this to be largely normalized by the end of the fourth quarter, I should say, but right now the Russian business is going through quite a lot of difficulties in terms of sales.

In terms of Kyzyl again, we expect the sales production gap to close in the fourth quarter after almost full termination of railway shipments in the second quarter. Now we have resumed shipments in July and found new seaports to ship stuff to China. So we hope that the gap will be mostly, if not fully closed by the end of the year. Clearly, our financial dynamics in terms of revenues is very positive, but then again reflect the severe issues with sales that the company went through last year after the imposition of sanctions on Russian gold. With the operational discussions, we are holding up very well in terms of

operations. Sales, including logistics, are significantly problematic, but the management is confident that these issues will be resolved likely by year-end.

Net debt by the end of the second quarter reached \$2.6 billion. This reflects a further increase compared with the end of the first quarter, we planned actually a substantial decrease, but instead of drawing down inventories, we actually continued to accumulate them, as I have mentioned, we struggled with logistics and sales channels, mostly in Russia.

I would like to highlight yet again that Polymetal International plc re-domiciled from Jersey, to the Astana International Financial Centre in Kazakhstan, as of Monday this week. This is an important step because it will enable the Company to receive dividends from Russian operations and consequently pay dividends to its shareholders. Now we will be definitely looking to pay a dividend by year-end. I can't tell you the exact timing - this will depend on the speed with which the Russian business liquidates the accumulated inventory post-sanctions. It also enables the company to pursue the sale of the Russian business in an orderly manner without significant hurdles imposed by Russian regulations. Kazakhstan is not an unfriendly jurisdiction under the meaning of the current Russian law and as such, the sale will not require very heavy, sometimes prohibitive approvals by the Russian government.

We remain committed to the disposal of the subsidiaries impacted by the US sanctions. Other options, such as spin-off or distribution of the Russian subsidiary to investors are not possible. Given the sanctions regime, as much as we are keen to preserve the shareholder value, we are equally keen not to breach any sanctions and therefore the sale of the Russian business remains the only reasonable option which we will pursue in the course of the next several quarters.

I would also like to inform the shareholders that starting tomorrow trading will resume on AIX and we're also working closely with MOEX to restart trading there and hopefully, liquidity will reappear and ensure that the shareholders have a way to trade their shares.

And with this, I would like to close the main presentation and pass on to the questions.

There are several questions about the necessity of divesting Russian assets post-redom. Again, we believe that a public company cannot really hold the assets, which are subject to US sanctions, that more or less block, any revaluation of the parent company. Now, we also have made an undertaking to the accepting jurisdiction to the AIFC that the Company will do it's best efforts to sell the Russian assets. Therefore, I think there is no alternative for us, but to continue with the sale.

In terms of dividends, also quite a lot of questions. Again, it is our intention to do our best to pay dividends by the year-end. The precise timing and amount will depend on the resumption of orderly gold sales from the Russian business.

I can understand the frustration and concern of many questions in terms of the need to sell the Russian business. But, I believe post re-dom the management and the board are in the position to extract substantial if not full value from that business. This will not be a fire sale or a giveaway. We definitely will not settle for any type of deferred consideration. So the goal is to get hard cash in substantial amounts to the parent-level company and to

play that cash both to dividend payouts and to the development of Polymetal International business in Kazakhstan and potentially in other Central Asian countries.

How much unsold gold and stock in Russia and separately in Kazakhstan?

In Russia, we currently have around 200,000 oz and in Kazakhstan there may be around 60,000 to 70,000 oz.

In light of OFAC sanctions, how do you see Kyzyl processing be impacted on an ongoing basis?

Well, we already have switched the interaction mode between Kyzyl and POX from the sale of concentrate to tolling. And we agreed that until we receive a green light from OFAC, Kyzyl is not paying for that tolling arrangement. We also had initial discussions with OFAC on tolling. And we will continue to discuss this and explain why the continuation of the relationship between Kyzyl and POX is essential. So, hopefully, we will find a way to ensure that the current arrangement is economic on both sides of the relationship and also that it's fully compliant with the sanctions.

Are you going to seek a shareholder vote before trying to give the Russian assets to a new owner?

Yes, definitely this will be put to a shareholder.

Have you already identified the buyer for the Russian mines?

No, we have not. This is a tricky process because we will need to ensure that the new buyer can guarantee the sustainability of the relationship between Kyzyl and POX. The new buyer should be okay to OFAC and in general, we want them to have a certainty of execution as a very important priority. We don't want to find ourselves in a situation where when we agree on the deal and then can't close it. So we will be very diligent and very careful in identifying the optimal buyer.

Could the shareholders on the MOEX receive the dividends that you plan to pay at the end of the year?

Currently, no, but we will find a way.

At Kyzyl, what is the cash cost contribution of POX processing currently in \$/oz?

It's approximately \$100 per ounce and another \$50 in logistics.

Is there any update on when trading on MOEX will be resumed?

I hope it can be done by the end of August.

Any views on how you think your Kazakh corporate domicile will differ from your Jersey experience?

Well, we have selected AIFC as the jurisdiction which aspires to maintain the highest standards of corporate governance and of board experience. So I hope that we will be able to maintain largely the same level of disclosure, corporate governance etc. as we have done within Jersey.

Do you still envisage a second listing on LSE, if so what does this timeline look like?

Now, in order to seriously consider a second listing we need to sell the Russian assets and also to prepare the Company for the listing in terms of establishing the proper investment case and the proper pipeline. My expectation is maybe 18 to 24 months.

We went along with the re-domiciliation because management said that selling the assets "is no longer being considered", yet at the smallest inconvenience, the sale is back on. For anyone that feels you're purposefully trying to destroy the capital, what would you say?

I would say that the imposition of OFAC sanctions on the Russian subsidiaries of Polymetal International cannot be named the smallest inconvenience. If the sanctions hadn't happened, then we probably, would have a much wider playing field. But after the designation of the Russian subsidiaries as SDNs, I don't think there is there are any other reasonable options. It's painful and destroys value. But you know, we don't really control this.

Please provide a timeline for selling the Russian assets.

Our optimistic timeline calls for about six months, but this can be delayed, given the fact that the sale would still require anti-monopoly approval in Russia. So I would say six to nine months, which is probably the range between optimistic and reasonably realistic.

Are you planning for an ore processing plant in Kazakhstan? If so, who will fund it?

Definitely, as we have mentioned before. The plan is to build a new POX facility in Kazakhstan to ensure that Kyzyl and potentially other Kazakh assets don't depend on a POX processing in Russia. We have already identified the site and signed the contracts for the critical processing equipment. So we plan to start construction early next year and complete it by 2027. Given our experience with POX in Russia, we believe that this project will be significantly de-risked and potentially cheaper, given better logistics and cheaper materials and labour force in Kazakhstan, compared with the Russian far east.

Could you please elaborate on the effect of OFAC designation on the link between the Company's subsidiaries in Kazakhstan and its blocked subsidiaries in the Russian Federation?

As I have mentioned, the relationship with POX transitioned to unpaid tolling and all other commercial relationships between Russian business and Kazakhstan business have been immediately broken off. So there is now no money flowing from Kazakhstan to Russia. And the process of disintegration of the two businesses is ongoing at full speed, and it will be completed very shortly. Full managerial independence of the Kazakhstan business is essential for the re-establishment of shareholder value. And for example, for the relisting of the business in London.

How do you plan to use proceeds from the sale of the Russian business?

Well, I think part of those proceeds will go for the construction of the POX in Kazakhstan, and part of it will go to dividends from Polymetal International.

We currently are not planning to do share buyback because of its unfavourable tax treatment in Kazakhstan.

I think dividend resumption will be much more likely in Q4 than in Q3.

Inventory levels will be published, along with the first half of financial results in September.

On Russian assets, is there an expectation of a market price being achieved or will it get sold at a significant discount?

I don't know what a market price is in terms of Russian assets nowadays. Clearly, we don't want and we will not sell at the levels that some other gold assets have been sold by foreign buyers. But in terms of, for example, EBITDA multiple clearly we cannot expect that they will be on par with public market multiples achieved in North America, so there will be a discount, but I think it will be reasonable.

What is the approximate value of accumulated inventory?

Our estimate currently is around half a billion dollars.

There are several questions related to the rights of the shareholders in the NSD. And the options that they have. We are keenly aware of this issue. I'm personally keenly aware because my personal shares are also stuck in NSD and we are working closely with AIX and with MOEX to find reasonable solutions. We hope that within a couple of months, we'll be able to present a game plan going forward.

Do you plan to pay dividends before by all means after the Russian asset sales?

I think we can pay and will pay dividends before the sale of Russian assets as long as we are able to resolve the inventory unwind in Russia.

Can cash travel from Kazakhstan to Russia at this point?

Yes, it can as long as the transfer complies with the US sanctions imposed on the Russian side of the business.

Polymetal has in the past not focused on fully characterizing reserves, will any effort be made to fully determine the reserve of Russian mines before sale?

I disagree with this statement - we publish JORC compliant reserve and resource statements every year, as it was a disclosure requirement on LSE. And I believe we have a full technical report, the CPR available. So definitely we will proceed to sell the assets understanding fully what their intrinsic resources base is.

How did you decide most of the loans belong to PolyR, not PolyK?

Well, we understand that the future of public value is in Kazakhstan. So we tried to shift the loans into Russia, where by the way the majority of our reserves and production is as well as the majority of CapEx over the last three or four years.

There are quite a lot of questions on the sale value of the Russian business. I will not comment on the precise number of this as it is too early. We definitely should be able to extract substantial value, well above the level of debt currently held by the Russian business. The Russian business definitely has substantial equity value, which will be transferred post-sale to the shareholders of Polymetal International.

Are there plans for new mine acquisitions in Kazakhstan?

Well, there are no specific plans, but we definitely are looking at several potential targets and reestablishing the size of the company to both exploration and potentially some M&A is a top priority for the management.

Should a potential buyer of Russian assets agree with the unpaid tolling scheme until Polymetal builds its own POX in Kazakhstan?

The game plan is that we will ask OFAC to allow paid tolling scheme because obviously if we sell the Russian business, it's highly unlikely that the buyer will agree with unpaid tolling. So the plan is to present to OFAC a bundled solution of selling the sanctioned business and ensuring that the sale does not destroy value on the Kazakhstan side of the business.

Several questions on cost forecasts. Honestly, with the huge volatility of the Ruble/Dollar exchange rate and huge volatility of Ruble/Tenge rate together with inflation in both Russia and Kazakhstan, we currently are a bit disoriented in terms of the cost levels. Additionally, the level of inventory matters a lot. But my gut feeling is at current exchange rates, and if we are able to sell the inventory, the cost levels are likely to be lower than the guidance at the beginning of the year.

A continuation of the discussion on the sale... I don't understand why it's not an option to maintain the Russian assets and pay down debt on them. The company could review in a few years. What will you say if I claim there isn't a legal challenge to do this?

Well, there isn't a legal challenge to do this. But there is a huge risk that if the assets are not sold, the next step in terms of sanctions will be the imposition of sanctions on Polymetal International parent company. So I think it's myopic to think that, you know, you have a gangrenous left leg and you can keep it on as long as you can walk on the right leg. Your right leg can also become gangrenous and then you will die. So that's why it's not an option to keep the SDN subsidiary within the public company. It's not realistic.

Will the proceeds of the Russian sale be used to pay dividends?

Yes, as I have mentioned, partially to fund the construction of POX in Kazakhstan, and partially to pay dividends.

Will management's position change possibly on the outcome of US selections?

No.

Are there any potential buyers of the Russian assets?

Quite a lot of questions about this. Well, several parties have expressed interest but it won't be an open auction process for sure. We want to maintain the discipline and spirit within the Russian workforce. And we also don't want to disrupt the production. So we will think now very clearly before we make the decision, about who to get involved with in terms of negotiations.

What will happen if you're not successful by vote on selling the Russian assets?

I think from my experience talking to large shareholders, this vote will be overwhelmingly in favour of selling Russian assets. So honestly, I just can't picture a situation in which the sale is not approved.

When you refer to the end of the year for dividends, is that this calendar year?

Yes, it is the end of the calendar year - 2023.

How can I buy in the future Polymetal shares in Astana?

I think you can either open an account with brokers active on AIX, or use their online application called Tabys. As far as I know, it's pretty user-friendly.

Is Polymetal getting proper market value for its gold?

Well, right now the discounts for gold sold out of Russia have widened to about 1.52%, which counts for silver around 5% to 7%. So notable but not really dramatic.

Can you rule out something akin to a management buyout, or did that become an option again now?

I will certainly not participate in any type of sale, I will not be part of the Purchasing Group. This is just impossible. And again, I think the reaction the first time around was a clear indication of what the shareholders think about management buyouts.

Would it be possible to fast-track the construction of POX-3 in the event that OFAC is not content with the proposed arrangements?

Realistically, no. You can't fast-track the construction of an industrial project of that scale and complexity. It is just not feasible.

Do you expect that the NSD shareholder rights will be restored by year-end?

This is my sincere, and I hope realistic, expectation.

Has Polymetal purchased any shares to its treasury in the past 2 months?

No, we don't have any treasury shares.

Several questions again on benchmarking the potential value of the Russian business. You should understand that I will not be able to provide any firm figures on that. We also will not provide any forward-going financial figures either for the full company or for the Russian business.

Would the number of shareholders be the same after selling the Russian assets?

Yes, it will the number of shares will not change.

What is the annual rate of shareholder dilution you expect due to the issuance of new shares on the open market or to management?

I don't think there will be any issuance to the open market and in terms of the management, we haven't thought about the new stock ownership program for the top management but that issuance definitely will not happen in the next three/ four years. So we don't expect any dilution.

Could you provide a breakdown of your debt portfolio by currencies?

Right now I think it's about 55% US dollar and 45% Russian Ruble.

Are you planning to expand production in Kazakhstan?

As I have mentioned before we'll definitely look at growth opportunities both organic and M&A.

Would you consider HK listing?

We looked at this option and it is very difficult and HK exchange is more for Chinese companies attracting local investors. Not for foreign companies looking for Chinese investors. We also looked at Shanghai and I don't think it is realistic for the next 2 years.

What will you provide in the way of a review of the statement "Selling the Russian assets is the only viable option"?

Again, I'm trying to drive the point that after the SDN designation, there is really no other way. The Russian assets became tainted and if we don't sell them, the TopCo is at a significant risk so we just need to do that.

What are you going to do with the Baksy property?

We recently bought Baksy and we will continue to drill it. I think part of the high-grade ore will find its way to the Varvara processing plant. And there is potential for a larger lower grade operation with new processing. I think the final answer we will be able to give in two years.

What is the AISC cost in KZ mines?

My sense is it probably will be around \$1,000 per ounce. But again, this depends heavily on the Tenge/Dollar exchange rate.

Shares were sold in the last few days of trading in London, where do you think the shares went? Who bought them?

I have no idea.

What is the production target for the KZ assets? Do mines have a long LOM?

Yes, both operations have LOM in excess of 25 years, and the production target is at least half a million ounces.

Why is the spin-off is not the option if the Russian company will be fully separated from the group?

Because the majority of shareholders will not be able to receive shares in the SDN entity, they will refuse the shares. So a spin-off would benefit a small minority of shareholders who are immune to the threat of American sanctions. This is not a reasonable option.

Will Kazakhstan be debt free before the point of the Russian business sale?

I think so.

Is it possible that your brother, Alexander Nesis, will participate in receiving the assets?

Absolutely not. Again, these assets are sanctioned property under the meaning of the American sanctions law. They're poisonous to anyone who wants to do anything to do outside of Russia. So this is just not realistic to find a buyer outside of Russia.

Do you think that the Russian government can block the sale of Russian assets?

This is a risk but I think the re-dom has dramatically reduced that risk probably to the level where I believe this risk is not critical.

Does Polymetal hedge?

We don't hedge, I don't think it's possible to hedge nowadays in Russia.

Now there are several questions on the use of Tabys and I really ask people to write to our IR team, because I'm really not fluent with the details of using Tabys.

How much of the inventory do you hope to clear by year-end?

I'm optimistic that 80% plus of the current \$500 million will be gone by the end of December. But again, this may be overly optimistic.