PETROPAVLOVSK

PRESS RELEASE

1 June 2020

Petropavlovsk PLC (the "Company" or, together with its subsidiaries, the "Group")

Notice of Publication of Annual Report

The Annual Report for the year ended 31 December 2019 (the "Annual Report 2019") is available to view and download from the Company's website at www.petropavlovsk.net . A copy of the Annual Report 2019 has also been submitted to the National Storage Mechanism and will shortly be available for inspection at www.morningstar.co.uk/uk/nsm

The information contained in the Appendix to this announcement, which is extracted from the Annual Report 2019, is included solely for the purposes of complying with the Disclosure Guidance and Transparency Rules (the "DTR") 6.3.5 and the requirements it imposes on how to make public annual financial reports. The Appendix should be read in conjunction with the Company's Annual Results for the year ended 31 December 2019 issued on 27 May 2020 (the "Annual Results Announcement"). Together, these constitute the material required by DTR 6.3.5 to be communicated to the media in unedited full text through a Regulatory Information Service. This material should be read in conjunction with, and is not a substitute for reading, the Annual Report 2019.

References to page numbers and notes to the financial statement made in the Appendix refer to page numbers and notes to the financial statements in the Annual Report 2019. The information contained in this announcement does not constitute the Company's statutory accounts as defined in section 434 of the Companies Act 2006 (the "Act") for 2019 or 2018 but is derived from those accounts. The auditors have reported on those accounts and their report was unqualified, and did not contain statements under section 498(2) of the Act (regarding adequacy of accounting records and returns) or under section 498(3) of the Act (regarding provision of necessary information and explanations). The statutory accounts for the year ended 31 December 2019 have been approved by the Board and will be delivered to the Registrar of Companies. A copy of the statutory accounts for the year ended 31 December 2018 was delivered to the Registrar of Companies.

Neither the content of the Company's website, nor the content of any other website accessible from hyperlinks on the Company's website is incorporated into, or forms part of, this announcement.

APPENDIX

1. Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;

- the Strategic Report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and

- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

2. Principal risks relating to the Group

A table summarising Principal Risks is provided below. The risks set out in the table should not be regarded as a complete or comprehensive list of all potential risks and uncertainties facing the Group which could have an adverse impact on its performance. Additional risks which are currently believed to be immaterial could turn out to be material and significantly affect the Group's business and financial results.

OPERATIONAL RISKS

PRODUCTION RELATED RISK – Failure to achieve the Group's production plan

Risk	Description and potential impact	Mitigation/comments/ 2019 Progress	Potential impact/ change since 2018
Risk to the Group's employees and operations from COVID-19	The global COVID-19 pandemic could significantly impact on the Group's employees and could result in the suspension of some or all, of the Group's mining operations.	The Group has implemented measures in each of the jurisdictions in which it operates, in line with published guidance, in order to protect employees and the Group's operations. – The formation of an emergency response team to limit the spread of COVID-19 at the Group companies. Members of the response team will work in co-operation with the local authorities when and if required. The team includes representatives from each Group enterprise in Russia; and – Coordinators responsible for the control and counteraction against the spread of COVID-19 have been appointed at each location.	Potential impact – High New Risk
Risk to production from: **(i)Weather** **(ii) Delivery of equipment**	The Group's assets are located in the Russian Far East, a remote area that can be subject to severe climatic conditions. Severe weather conditions, such as cold temperatures in winter and torrential rain, potentially causing flooding in the region could have an adverse impact on operations, including the delivery of supplies, equipment and fuel. Exploration and extraction levels may fall as a result. The Group relies on the supply and availability of various services and equipment in order to successfully run its operations. Delay in the delivery or the failure of mining equipment could significantly delay production and impact the Group's profitability. The Group is dependent on production from its operating mines (both open pits and	Preventative maintenance procedures are undertaken on a regular basis to ensure that machines will function properly under extreme cold weather conditions; heating plants at operational bases are regularly maintained and operational equipment is fitted with cold weather options which could assist in ensuring that equipment does not fail as a result of adverse weather conditions. Pumping systems are in place and tested periodically to ensure that they are functioning. Management monitor natural conditions in order to pre-empt any disaster and in order that appropriate mitigating action can be taken. The Group aims to maintain several months of essential supplies at each site. Equipment is ordered with adequate lead time in order to prevent delays in delivery. The Group has contingency plans in place to address any disruption to services. **2019** In July 2019, the Company announced that heavy rainfall had impacted underground development works at Malomir which is in a remote region where heavy rainfall events are not uncommon during the summer months. The Company is well equipped to deal with such issues	High Risk Unchanged

	underground) and from the POX plant in order to generate revenue and cash flow.	as they arise including employee welfare and safety. The situation was well managed. Malomir produced 180.3koz of gold doré in 2019, including from concentrate, compared with 77.6koz in 2018.	

EXPLORATION RELATED RISK

Risk	**Description and potential impact**	**Mitigation/comments/ 2019 Progress**	**Potential impact/ change since 2018**
The Group's activities are reliant on the quantity and quality of the Mineral Resources and Ore Reserves available to it.	Exploration activities are speculative, time-consuming and can be unproductive. In addition, these activities often require substantial expenditure to establish reserves through drilling, metallurgical and other testing, to determine appropriate recovery processes to extract gold from the ore and to construct or expand mining and processing facilities. Once deposits are discovered it can take several years to determine whether reserves exist. During this time, the economic viability of production may change. As a result of these uncertainties, the exploration programmes in which the Group is engaged may not result in the expansion or replacement of the current production with new reserves or operations.	The Group uses core drilling combined with modern geophysical and geochemical exploration and surveying techniques. The Group employs a world-class team of geologists with considerable regional expertise and experience. They are supported by a network of fully accredited laboratories experienced in performing a range of assay work to high standards. Group Mineral Resource and Ore Reserve estimates are prepared by a team of qualified specialists following the guidelines of JORC Code 2012, which is one of the most recognised reporting codes. Mineral Resource and Ore Reserve estimates are subject to regular independent reviews and audits. The last full audit was completed in April 2017 by Wardell Armstrong International. In addition, as a part of compliance with The Subsoil Law, the Group also prepares reserve estimates following Russian GKZ guidelines. These estimates are subject to GKZ audits. Where possible, the Group reconciles GKZ and JORC estimates which provides additional assurance about the Company's Reserve estimates. The Group employs a team of qualified mining engineers to undertake mine planning, detailed open pit and underground mine design and production scheduling. The successful commissioning of the POX Hub unlocked the economic potential of the Group's 12.99Moz refractory resources which support the Group's long-term growth objectives. The Group continues to explore the potential for further mine life extension and production expansion and has identified several prospective satellite refractory targets at Malomir and Pioneer. In February 2020, the Group acquired exploration assets at Mariinskiy comprising two adjacent exploration licences. Our exploration geologists believe these assets have the potential to contain substantial gold resources, of a similar scale and to known orebodies at Malomir including its satellites. Successful near mine exploration identified a number of promising targets that warrant further exploration, which may result in an increase in Mineral Resources and possibly new Ore Reserves.	Potential impact - High Change – Reduced

PROCESSING

Risk	Description and potential impact	Mitigation/comments/ 2019 Progress	Potential impact/change since 2018
The POX Hub, together with the associated flotation plants at Malomir and Pioneer, sits at the heart of Petropavlovsk's strategy and is the principal driver of future value for the Group. A mechanical or metallurgical failure of the POX Hub, including failure to reach expected recovery rate or high levels of 'preg robbing' could result in lower production and/or higher costs, thus impacting the Group's Strategy.	POX is a new and complex metallurgical facility which brings added challenges. If there is a failure in the POX process it could lead to lower production and/or higher costs which may have a detrimental impact on the Group's operating and financial condition. Radioactive isotopes are used in monitoring the POX process. Failure to use this equipment correctly could result in contamination.	The smooth ramp-up of the POX Hub in 2019 is a record for the industry. The POX Hub exceeded the Group's most optimistic expectations, with 193.2koz of gold recovered from refractory concentrates during its first 12 months of operations. Of this amount, 132.0koz came from concentrates produced at Malomir, leading to an increase of 132% in gold produced at Malomir compared to a year ago. Gold recoveries from Malomir concentrates increased steadily at the POX plant through 2019 to reach above design during the fourth quarter. Productivity and capacity utilisation for key equipment exceeded design rate and all four autoclaves have tested at stable, full capacity. The Group's expertise in pressure oxidation is guided by RDC Hydrometallurgy, a scientific research centre based in St Petersburg with a POX pilot plant located in Blagoveschensk. Using its scientific strengths, RDC is now focussing on ways to process more complex refractory ores. Stringent safety standards governing licensing and use of nuclear isotopes are second only to the space industry. Employee training for such activity is undertaken at the Novosibirsk Institute for Advanced Studies.	Potential Risk: High Change: Reduced

FINANCIAL RISKS

Risk	Description and potential impact	Mitigation/comments	Potential impact/change since 2018
Liquidity Risk	The Group may need ongoing access to liquidity and funding in order to: (i) Refinance its existing debt; (ii) Support its existing operations and extend their life and capacity; and (iii) Invest to develop its refractory ore concentrate production, including construction of flotation plants, underground mining projects and exploration. There is a risk that the Group may be unable to obtain the necessary funding when required or that such funding will only be available on unfavourable terms. The Group may therefore be unable to meet its business development objectives or financial commitments.	In the event that the Group requires additional finance for shorter term liquidity purposes, including for capital expenditure purposes, the Group may access forward gold sales funding. This may be advantageous, depending upon the Group's access or otherwise to debt or equity finance and the terms on which these may be available. No forward contracts to sell gold were outstanding as at 31 December 2019 (31 December 2018: 200,000 ounces of gold at an average price of US$1,252/oz). Gold contracts during 2018 and 2019 provided the Group with flexibility during the POX plant ramp up period.	Potential impact - High Change – Reduced

In June 2019, the Company successfully refinanced the Group's US$100 million 9% Convertible Bonds due March 2020 by the placement of US$125 million 8.25% Convertible Bonds due 2024 (the 'New Bonds') significantly de-risking the Group's balance sheet. In addition, funds from the New Bonds have been used to advance construction of a new flotation facility at the Pioneer mine, enabling the Group to grow its production by unlocking the value embedded in its refractory reserves via the Pressure Oxidation (POX) Hub.

In August 2019, Fitch Ratings upgraded the Group's Long-Term Issuer Default Rating and senior unsecured rating to 'B-' from 'CCC' with a Positive Outlook due to 'a significant strengthening in Petropavlovsk's liquidity position due to the refinancing of the convertible bond, repayment of US$57 million bridge loan by affiliated iron ore producer IRC Limited and the increased visibility for production due to the launch of the POX Hub in November 2018.

Risk	Description and potential impact	Mitigation/comments/ 2019 Progress	Potential impact/ change since 2018
The Group's result of operations may be affected by changes in the gold price	The Group's financial performance is highly dependent on the gold price. The gold market is cyclical and sensitive to changes in the economy and numerous factors which are beyond the Group's control. A significant continuous decline in the gold price would negatively affect the Group's profitability and cash flow and consequently its ability to develop its business.	The Chief Financial Officer constantly monitors the gold price and influencing factors and consults with the Board as appropriate. The Group has a hedging policy and hedges a portion of production as the Chief Financial Officer and Board deem necessary. As at 31 December 2019 the Group was unhedged.	Potential impact - High Change – no change
Exchange rate fluctuations	The Company reports its results in US Dollars, which is the currency in which gold is principally traded and therefore in which most of the Group's revenues are generated. Significant costs are incurred in and/or influenced by the local currencies in which the Group operates, principally Russian Roubles. An appreciation of the Russian Rouble against the US Dollar tends to result in an increase in the Group's costs relative to its revenues whereas the depreciation of the Russian Rouble against the US Dollar tends to result in lower Group costs relative to its revenues. In addition: A portion of the Group corporate overhead is denominated in Sterling. Therefore,	The average year-on-year depreciation of the Russian Rouble against the US Dollar was approximately 3.2%, with the average exchange rate for 2019 being RUB64.69 : US$1 compared to RUB62.68 : US$1 for 2018. The Group's policy is to keep under review possible options for exchange rate hedging.	Potential impact - High Change – no change

	adverse exchange rate movements may materially affect the Group’s financial condition and results of operations; and – – If inflation in Russia were to increase without a corresponding devaluation of the Russian Rouble relative to the US Dollar, the Group’s business, results of operations and financial condition may be adversely affected		

FINANCIAL RISK

FUNDING AND LIQUIDITY RELATED RISKS

Risk	Description and potential impact	Mitigation/comments 2019 Progress	Potential impact/change since 2018
Risk that: – funding may be demanded from Petropavlovsk under a guarantee provided in relation to a project finance facility provided to K&S, a wholly owned subsidiary of IRC. – K&S will not be able to service the interest and meet the repayments due on its loan due to insufficient funds arising from a decrease in the iron ore price or operational issues at the K&S site.	As at 1 January 2019, Petropavlovsk had provided a guarantee against a US$340 million project loan facility provided to K&S by ICBC to fund the construction of IRC’s iron ore mining operation at K&S, of which c.US$169 million was outstanding as at 1 January 2019. In the event that K&S defaulted on its loan, Petropavlovsk may have been liable to repayment of the outstanding loan under the terms of the guarantee and other Group indebtedness may have become repayable under cross-default provisions. Due to actions taken by IRC and the Company during 2019 (see Mitigation/Comments) this risk has substantially reduced.	– On 18 December 2018, K&S signed two new broadly identical facility agreements with Gazprombank (the ‘Facility Agreements’) whereby Gazprombank would provide K&S with a US$240 million facility for the purposes of repaying in full the outstanding project finance facility K&S had with ICBC and repaying the two bridge loans provided by Petropavlovsk to IRC (the ‘Gazprombank Facility’). – Pursuant to the Facility Agreements, Petropavlovsk was to guarantee the obligations of K&S up to an initial amount of US$160 million through a series of five guarantees over the life of the Gazprombank Facility. These guarantees were entered into by the Company and Gazprombank on 15 February 2019, with the effectiveness of each of the guarantees being conditional upon shareholder approval being obtained at a General Meeting. Such shareholder approval was obtained on 12 March 2019. – The Gazprombank Facility has been fully drawn down and has enabled IRC to: – Repay in full the sum of approximately US$169 million outstanding under the ICBC Facility; – Repay Petropavlovsk the Rouble equivalent of approximately US$57 million, in addition to any accrued interest and fees, as full repayment of the two bridge loans; and	Potential Impact: High Change: Reduced

		– Pay Petropavlovsk approximately US$6 million in fees owed by K&S and IRC to Petropavlovsk in respect of the guarantee provided under the ICBC Facility. – The risk of K&S defaulting on its loan, and hence the risk that Petropavlovsk may be liable to repay the outstanding loan, has been reduced by K&S entering into the Gazprombank Facility and repaying the ICBC Facility because: – The Gazprombank Facility provides for a significantly more relaxed amortisation schedule compared to that under the ICBC Facility; and – It better aligns with the proposed ramp up of K&S and the revenues that are anticipated to be generated by it. – The guarantee provided by the Company has decreased to US$160 million as at the date of this Annual Report. However, in certain circumstances the Company could have a maximum liability of the full amount outstanding to Gazprombank by K&S. As at 31 December 2019, the Group has guaranteed the outstanding amounts IRC owed to Gazprombank. The outstanding loan principal was US$225 million as at 31 December 2019. **Preliminary Agreement for the Proposed Termination of IRC Guarantees and the Disposal of 29.9% of the Company's interest in IRC** On 18 March 2020, the Company entered into a preliminary agreement with Stocken Board AG, setting out the non-binding terms on which Petropavlovsk would sell to Stocken a 29.9% shareholding in IRC Limited, subject to certain conditions precedent being met, including the release of the Group's obligation to guarantee IRC's loan facilities with Gazprombank.	
Risk that further issues delaying the ramping up of the K&S facility and/or a decrease in the iron ore price could result in a decrease in	Due to the guarantees provided by the Company to Gazprombank, the Group's going concern status remains sensitive to IRC's ability to comply with covenants within the new facilities and generate sufficient cash flows from its K&S mine.	IRC announced its 2019 full year results on 27 March 2020. This confirmed that K&S had operated at 81% of capacity during 2019 whilst it was currently operating at c.95%. However, the IRC Board noted the potential negative impact of COVID-19 on IRC's performance.	Potential Impact: High Change: Reduced

the value of the Group's shareholding in IRC.

HEALTH, SAFETY AND ENVIRONMENTAL RISK

Risk	Description and potential impact	Mitigation/comments	Potential impact/change since 2018
The Group operates potentially hazardous sites such as the POX Hub, open pits, underground mines, exploration sites, processing facilities and explosive storage facilities. The operation of these sites exposes its personnel to a variety of health and safety risks.	The Group's employees are its most valuable assets. The Group recognises that it has an obligation to protect the health of its employees and that they have the right to operate in a safe working environment. Certain of the Group's operations are carried out under potentially hazardous conditions. Group employees may become exposed to health and safety risks which may lead to work-related accidents and harm to the Group's employees. These could also result in production delays and financial loss	Health & Safety management systems are in place across the Group to ensure that the operations are managed in accordance with the relevant health and safety regulations and requirements and where possible with international best practice. The Group continually reviews and updates its health and safety procedures in order to minimise the risk of accidents and improve accident response, including additional and enhanced technical measures at all sites, improved first aid response and the provision of further occupational, health and safety training. Board level oversight of health and safety issues occurs through the work of the Safety, Sustainability and Workforce Committee (SS&W Committee). The Committee is chaired by Mr Harry Kenyon-Slaney, Independent Non-Executive Director, who is assisted by his colleagues on the Committee namely, Dr Pavel Maslovskiy, Chief Executive Officer, Mr Damien Hackett and Mrs Katia Ray, Independent Non-Executive Directors and Dr Alya Samokhvalova, Deputy CEO. Mr Kenyon-Slaney's introduction to the Sustainability Report is provided on page 89 of this Annual Report. Members of the SS&W Committee visited the Group's operating mines in April 2019 and met with members of the workforce and the local community. Progress during 2019: – As part of the Company's commitment to environmental, sustainability and governance (ESG) matters, the Company became a member of the UN Global Compact Initiative on corporate sustainability. This requires the Company to align its operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption; – The Lost-Time Injury Frequency Rate (LTIFR) for 2019 of	Potential impact – Medium/High Change – no change

		1.61 accidents per 1 million man-hours worked represented a c.36% reduction compared to 2018; – Greenhouse Gas Emissions were reduced from 1.01t CO_2e per ounce of gold in 2018 to 0.88t; and – The Company recently appointed an experienced Head of Sustainable Business who will assist with the development of the Group in this area. Health & Safety targets are included in the annual bonus scheme for Executive Directors and the Executive Committee. The Remuneration Committee may also consider the Group's health and safety performance during the year when considering bonus plan payments.	

Risk	Description and potential impact	Mitigation/comments	Potential impact/change since 2018
Major pollution arising from operations include: air and water pollution, land contamination and deforestation.	If the Group was involved in a major environmental event, potential impacts could include fines and penalties, statutory liability for environmental redemption and other financial consequences that might be significant. Accidental spillages of cyanide and other chemicals may result in damage to the environment, personnel and individuals within the local community.	The Company operates a certified environmental management system at all of its sites which meet international standards. The Company has implemented a number of initiatives to monitor and limit the impact of its operations on the environment. Cyanide and other dangerous substances are kept in secure storages with access limited to qualified personnel and closely monitored by security staff.	Potential impact – Medium/High Change – no change

Country and Compliance Risks

Risk	Description and potential impact	Mitigation/comments	Potential impact/change since 2018
The Group requires various licences and permits in order to operate	The Group's principal activity is gold mining which requires licences permitting exploration and mining in specific areas in Russia. These licences are regulated by Russian governmental agencies and if a material licence was challenged or terminated, this would have a material adverse impact on the Group. In addition, various government regulations require the Group to obtain permits to implement new projects or to renew existing permits. Failure to comply with the requirements and terms of these licences may result in the subsequent termination of licences crucial to operations and cause reputational damage. Alternatively,	There are established processes in place to monitor the required and existing licences and permits on an on-going basis. Processes are also in place to ensure compliance with the requirements of the licences and permits.	Potential impact – Medium/High Change – no change

	financial or legal sanctions could be imposed on the Group. Failure to secure new licences or renew existing ones could lead to the cessation of mining at the Group's operations or an inability to expand operations.		
The Group is subject to Sovereign Risk	Actions by governments or changes in economic, political, judicial, administrative, taxation or other regulatory factors or foreign policy in the countries in which the Group operates or holds its major assets could have an adverse impact on the Group's business or its future performance. Most of the Group's assets and operations are based in Russia. Russian foreign investment legislation imposes restrictions on the acquisition by foreign investors of direct or indirect interests in strategic sectors of the Russian economy, including gold reserves in excess of a specified amount or any occurrences of platinum group metals. The Group's Pioneer and Malomir licences have been included on the list of subsoil assets of federal significance, maintained by the Russian Government ("Strategic Assets"). The impact of this classification is that changes to the direct or indirect ownership of these licences may require clearance in accordance with the Foreign Strategic Investment law of the Russian Federation.	To mitigate Russian economic and banking risk the Group strives to use the banking services of several financial institutions and not keep disproportionately large sums on deposit with a single bank. The Group seeks to mitigate political and legal risk by constant monitoring of proposed and newly adopted legislation in the countries in which it operates and specifically in Russia. It also relies on the advice of external counsel in relation to the interpretation and implementation of new legislation. The Group closely monitors its assets and the probability of their inclusion into the Strategic Assets lists published by the Russian Government. The Company's Articles of Association include a provision which allows the Board to impose such restrictions as the Directors may think necessary for the purpose of ensuring that no ordinary shares in the Company are acquired or held or transferred to any person in breach of Russian legislation, including any person having acquired (or who would as a result of any transfer acquire) ordinary shares or an interest in ordinary shares which, together with any other shares in which that person or members of their group is deemed to have an interest for the purposes of the Strategic Asset Laws, carry voting rights, exceeding 50 per cent. (or such lower number as the Board may determine in the context of the Strategic Asset Laws) of the total voting rights attributable to the issued ordinary shares without such acquisition having been approved, where such approval is required, pursuant to the Strategic Asset Laws. This risk cannot be influenced by the management of the Company. However, the Group continues to monitor changes in the political environment and reviews changes to the relevant legislation, policies and practices.	Potential impact – Medium/High Change – no change

Loss of Personnel

Risk	Description and potential impact	Mitigation/comments	Potential impact/change since 2018
The Company is dependent on Dr Pavel Maslovskiy, CEO and other long-serving members of the senior executive team.	The loss of key personnel to the Company may impact the morale of senior management, its workforce, the result of the Group's operations and a delay in the delivery of projects.	– During 2019, the Executive Committee has been strengthened by the appointment of Mr Dmitrii Chekashkin, Group Executive, Business Transformation and Operational Efficiency. – During 2020, Mr Danila Kotlyarov was appointed as Chief Financial Officer and Executive Director, further strengthening the Board and the executive team. – A revised Remuneration Policy will be proposed to shareholders for approval at the Company's 2020 Annual General Meeting.	Potential impact – Medium/High Change – No change

11. Subsequent events

On 13 April 2020 it was resolved that the principal subsidiary of the Company would distribute a Russian Rouble denominated dividend in the amount equivalent of US$45.6 million.

26. Related parties

Related parties the Group entered into transactions with during the reporting period

The Petropavlovsk Foundation for Social Investment (the 'Petropavlovsk Foundation') is considered to be a related party due to the participation of the key management of the Group in the board of directors of the Petropavlovsk Foundation.

IRC Limited and its subsidiaries (Note 33) are associates to the Group and hence are related parties since 7 August 2015.

Transactions with related parties which the Group entered into during the years ended 31 December 2019 and 2018 are set out below.

Trading Transactions

Related party transactions the Group entered into that relate to the day-to-day operation of the business are set out below.

	Sales to related parties		Purchases from related parties	
	2019	2018	**2019**	2018
	US$'000	US$'000	**US$'000**	US$'000
Entities in which key management have interest and exercise a significant influence or control	**-**	-	**4,046**	764
IRC Limited and its subsidiaries	**42**	164	**5,458**	681
	42	164	**9,504**	1,445

In March 2018, the Group entered into a transaction with the member of key management personnel to purchase the office building and land, which were subject to an operating lease arrangement. The aggregate consideration paid was an equivalent of c.US$3.2 million. The transaction was completed in February 2019.

On 13 December 2019, the Group entered into the sale and purchase agreement with a seller (the "Seller"), a related party of the Company, LLC GMMC. Pursuant to the sale and purchase agreement, the Group agreed to purchase, and the Seller agreed to sell, a helicopter for a consideration of RUB316.7 million (equivalent to US$5.0 million). At 31 December 2019, the contractual balance outstanding amounted to US$4.5 million.

During the year ended 31 December 2019, the Group made US$1.0 million charitable donations to the Petropavlovsk Foundation (2018: US$0.4 million).

The outstanding balances with related parties at 31 December 2019 and 2018 are set out below.

	Amounts owed by related parties		Amounts owed to related parties	
	2019	2018	**2019**	2018
	US$'000	US$'000	**US$'000**	US$'000
Entities in which key management have interest and exercise a significant influence or control	**-**	1,556	**759**	-
IRC Limited and its subsidiaries	**3,651**	2,078	**5,863**	976
	3,651	3,634	**6,622**	976

Financing transactions

Guarantee over IRC's external borrowings

The Group historically entered into an arrangement to provide a guarantee over its associate's, IRC, external borrowings, the ICBC Facility ('ICBC Guarantee'). At 31 December 2018 the principal amounts outstanding subject to the ICBC guarantee were US$169.6 million. Under the terms of the arrangement the Group was entitled to receive an annual fee equal to 1.75% of the outstanding amount, which amounted to US$0.7 million during the year ended 31 December 2019 (31 December 2018: US$4.0 million).

In March 2019, IRC has refinanced the ICBC Facility through entering into a US$240 million new facility with Gazprombank ('Gazprombank Facility'). The facility was fully drawn down during the year ended 31 December 2019 and was used, inter alia, to repay the amounts outstanding under the ICBC Facility in full, the two loans provided by the Group in the equivalent of approximately US$57 million and part of the ICBC Guarantee fee of US$6 million owed by IRC to the Group. At 31 December 2019 the remaining outstanding contractual guarantee fee was US$5.0 million, which had a corresponding fair value of US$4.4 million and is payable by IRC no later than 31 December 2020 (31 December 2018: outstanding contractual guarantee fee of US$10.3 million with a corresponding fair value of US$6.8 million).

A new guarantee was issued by the Group over part of the Gazprombank Facility ('Gazprombank Guarantee'), 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 the initial US$160 million principal amounts guaranteed reducing to US$40 million within two to three years, subject to certain conditions being met. For the final two years of the Gazprombank Facility, the guaranteed amounts will increase to US$120 million to cover the final principal and interest repayments. If certain springing recourse events transpire, including default on a scheduled payment, then full outstanding loan balance is accelerated and subject to the guarantee. The outstanding loan principal was US$225 million as at 31 December 2019. Under the Gazprombank Guarantee arrangements, the guarantee fee receivable is determined at each reporting date on an independently determined fair value basis, which for the year ended 31 December 2019 was at the annual rate of 3.07% for 2019 by reference to the average outstanding principal balance under Gazprombank Facility. The guarantee fee charged for 2019 was US$5.6 million, with corresponding value of US$5.0 million after provision for expected credit losses.

On 18 March 2020, the Group announced a preliminary agreement to dispose of its 29.9% out of 31.1% interest in IRC to Stocken Board AG for a cash consideration of US$10 million, subject to certain conditions precedent being met, including the release of the Group's obligation to guarantee IRC's debt under the Gazprombank Facility (note 31).

The following assets and liabilities have been recognised in relation to the ICBC Guarantee and Gazprombank Guarantee as at 31 December 2019 and 31 December 2018:

	31 December 2019 US$'000	31 December 2018 US$'000
Other receivables – ICBC Guarantee [(a)]	4,436	6,829
Other receivables – Gazpombank Guarantee [(b)]	4,981	-
Financial guarantee contract – ICBC Guarantee [(c)]	-	37,387
Financial guarantee contract – Gazprombank Guarantee [(d)]	8,923	-

(a) The fair value of the receivable, comprising billed fee receivable (31 December 2018: both billed and future fee receivable), less provision for credit losses. Considered Level 3 of the fair value hierarchy which valuation incorporates the following inputs:
- *Assessment of the credit standing of IRC and implied credit spread;*
- *Share price and share price volatility of IRC as at 31 December 2019 and 2018;*

(b) Amounts of guarantee fee for the period that are expected to be received from IRC and calculated by applying annual rate of 3.07% for 2019 by reference to the average outstanding principal balance under Gazprombank Facility for the period from 19 March 2019 until 31 December 2019, less provision for ECL.

(c) Measured in accordance with ECL model: the amount of the loss allowance equals to the lifetime ECL as it has been concluded that the credit risk on the financial guarantee contract had increased significantly since initial recognition, which reflected declining credit status of IRC prior to the refinancing through Gazprombank Facility completed in March 2019.

(d) Measured in accordance with ECL model: the amount of the loss allowance equals to 12-month ECL as it has been concluded that the credit risk on the financial guarantee contract has not increased significantly since initial recognition (note 3.1.)

The results from relevant re-measurements of the aforementioned assets and liabilities were recognised within Other finance gains and losses and impairments of financial instruments (note 9).

Loans issued to IRC

In June 2018, the Group provided a Rouble denominated unsecured loan to IRC in the amount of RUB1,878 million (an equivalent of US$29.75 million). The loan carried interest of 12% per annum. The loan was recognised net of lifetime ECL of US$0.5 million at inception and further US$0.8 million impairment based on ECL model was recognised during the year ended 31 December 2018. The loan was fully repaid in March 2019 with consequent reversal of US$1.3 million previously recognised ECL (note 9).

In December 2018, the Group provided a dollar denominated unsecured loan to IRC in the amount of US$27.0 million. The loan carried interest of 16% per annum. The loan was recognised net of lifetime ECL of US$1.9 million at inception. The loan was fully repaid in March 2019 with consequent reversal of US$1.9 million previously recognised ECL (note 9).

Other financing transactions

In March 2018, the Group entered into a loan agreement with Dr Pavel Maslovskiy. At 31 December 2019, the loan principal outstanding amounted to an equivalent of US$0.2 million (2018: US$0.2 million). Interest charged during the year ended 31 December 2019 comprised an equivalent of US$0.01 million (2018: US$0.01 million).

In April 2019, the Group entered into a loan agreement with Dr Alya Samokhvalova. At 31 December 2019, the loan principal outstanding amounted to an equivalent of US$0.4 million. Interest charged during the year ended 31 December 2019 comprised an equivalent of US$0.02 million.

Investing transactions

In May 2019, the Group entered into the option contract to acquire the remaining non-controlling 25% interest in the subsidiary LLC TEMI from Agestinia Trading Limited, a non-controlling holder of 25% interest in LLC TEMI, for an aggregate consideration of US$60 million (adjusted to US$53.5 million if certain conditions are met). This represents a related party transaction as it is over the equity of a subsidiary company. The option premium payable is US$13 million, which was paid during the year ended 31 December 2019. The exercise period of the option is 730 days from 22 May 2019.

The Group employed an independent third party expert to undertake the valuations of the underlying 25% interest in LLC TEMI and the call option. As at 31 December 2019, the fair value of the derivative financial asset was US$11.0 million reflecting a loss on re-measurement to fair value of US$2.0 million and the initial US$13 million cash payment (note 18).

There are no other related party relationships with Agestinia Trading Limited present.

Key management compensation

Key management personnel, comprising a group of 14 individuals during the period (2018: 16), including Executive and Non-Executive Directors of the Company and members of senior management, are those having authority and responsibility for planning, directing and controlling the activities of the Group.

	2019 **US$'000**	2018 US$'000
Wages and salaries	**5,794**	7,761
Pension costs	**62**	136
Share-based compensation	**157**	404
	6,013	8,301

Enquiries

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