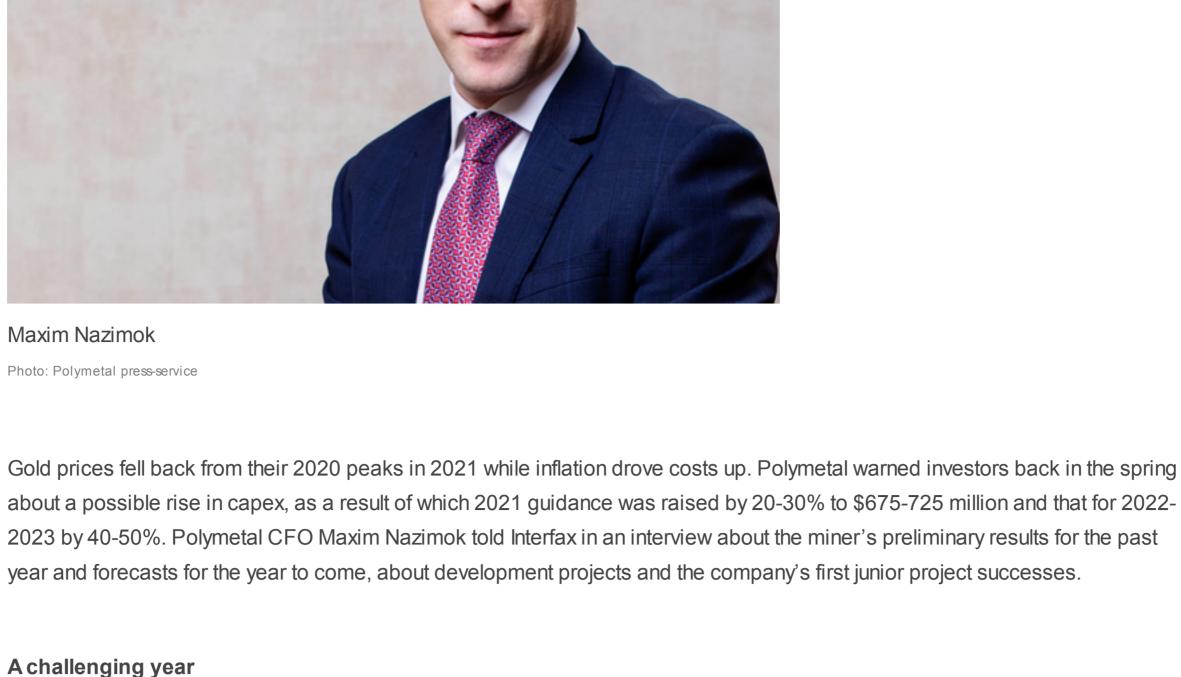
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Newsroom

12 Jan 2022



revised in August.

Q.: Polymetal is one of the sector's first companies to talk openly about cost inflation. A.: No one had cost inflation in 2020, there was no inflationary pressure, in fact demand for many goods fell. We also benefited further from devaluation, as oil prices and a number of other commodities were low. The industry got on splendidly: expensive gold, low-cost supplies and labor. But in 2021, against the backdrop of the same pandemic factors, the trend reversed.

## It's impossible, after all, to get through a lockdown in the global economy without consequences, because objectively something

came to a halt, something was produced in insufficient quantities, logistics chains were disrupted. Amid a drop in demand, this

Question: How is Polymetal closing 2021?

commodities rose and drove our costs up.

was not noticeable, but amid its recovery the full extent of the problems became evident. And cost inflation began on all fronts, faster in some places, where everything depends on exchange-traded commodities – the most striking example is probably rolled metal, and slower in others. Some contractors fixed prices for a certain period, but with the next indexation, naturally, passed increased costs onto us. The same applies to the cost of labor. We indexed wages for our employees, and other companies did too. Yes, our sector has wage growth that is faster than official inflation, but one should not underestimate the effect of stronger competition amid higher prices for metals.

A.: There are some components that are more elastic. For rolled metal, for example, we're already seeing a slight retreat from summer peaks and it is immediately reflected in producer prices, because they go by the exchange price of the metal. And some things, of course, are less elastic, such as wages. It's difficult to image a situation in which they fall, it's more like inflation will eat

commodities (concrete, rolled metal, metal constructions, energy resources, etc.). **Q.:** And when might this be reflected in operating costs? A.: Regarding the sector as a whole in 2022, operating expenses will gradually reflect these inflationary trends, some more, some less, depending on the cost structure and how well you manage the cost components. But judging by the rhetoric of colleagues in the sector, both Western and Russian, we will see inflation in opex in 2022. With regard to Polymetal's own costs, I think that in 2022 there will be a modest increase in TCC and AISC. But it is modest, not explosive growth, and comparable to the growth that we have seen in 2021 compared to 2020, a very favorable year.

Capital expenditures are growing faster than operating expenditures because operating expenditures are more inertial. We buy

things under long-term contracts, salary reviews are also gradual. But when we contract some specific work in a specific place

forecast just didn't include capex for the Prognoz deposit.

the Prognoz deposit and the revision of figures for Veduga from the feasibility study.

forecasts because of it? A.: In general, we do not change the ratio often. Looking back, when listing in 2011 we set 1:60, then went to 1:80 and stayed there for a very long time, because silver was 80 times cheaper than gold, plus or minus in a wide range. In 2020, we made, as is clear now, a too hasty decision, went to 1:120 after seeing how far silver lagged behind gold at the start of the pandemic. I would say that now we have simply corrected this hastiness and are unlikely to further play with this ratio, unless market realities change globally. What is the purpose of the ratio, after all? So that this year's production is comparable to production last year and to

In the budget we're traditionally conservative, factoring in \$1,500 per ounce for next year, like this year. And in the long term, we're taking \$1,500 as the basis for optimization. A 20% buffer compared to the spot [price] allows us to comfortably plan. **Q.:** What can shareholders expect regarding dividends for the year?

**A.:** Summing up everything that we've said before, we have a year in which the price of gold, while it remains quite acceptable,

has fallen by about 8%; the level of operating expenses rose, even if only a little; production increased or stayed at the same level;

and capex increased quite considerably. Therefore, in absolute terms free cash flow in 2021 will be somewhat lower than last year

debt to EBITDA ratio is about 1-1.1. This will enable us to pay dividends in the amount of 50% of net profit, like before. It's another

thing that 50% of net profit this year will probably coincide with free cash flow, meaning there will be virtually no reserve left at all for

voluntary distribution of dividends by the board of directors. In other words, we will distribute all free cash flow, but in this case it will

for objective reasons. However, we will, of course, strictly adhere to the dividend policy. Our debt burden is comfortable, the net

be approximately equivalent to 50% of net profit. Q.: Has the portfolio of non-key assets that the company can sell changed recently? A.: Non-key assets have not increased in number, and that's good. On the contrary, some that we considered non-key, such as Kutyn and Veduga, have turned into full-scale development projects. We only have a minimal portfolio, essentially small, undeveloped deposits, that we'd be prepared to sell.

Nezhda on time despite the pandemic.

## compared to shipping ore. Yes, some portion of the margin will go toward transport, but thanks to the significant reduction of capex and acceleration, we win in return on invested capital. And the amount of reserves has essentially not changed compared to the historical estimate for a plant on site. The approach to development is different.

Q.: That leads to two questions. Firstly, will Nezhda have to be expanded, as when the plant was built there were no plans to process ore from another major deposit there? Secondly, transportation – it is almost 700 km between the deposits, is there a year-round road or a winter road?

because its own ore is rich in silver, and significant technology adjustments for Prognoz ore will not be needed.

Therefore, we will either flux or technologically adjust the chain so as to avoid the fines as much as possible.

Q.: Have you found buyers for all types of concentrate from Nezhda?

**Q.:** When can we expect news on the consolidation of Veduga?

of money to get to a level that makes it possible to make a full-fledged investment decision. There are two restricting factors here.

Q.: What place does POX as a technology have in the climate agenda?

A.: There is, we're exploring a big renewable energy project for Sovetskaya Gavan.

carbon regulation has not touched gold yet, but everything is changing fairly quickly.

**Q.:** Does this increase the chances that Polymetal will raise its stake?

Q.: What is Chesterfield doing now, how are you involved in their life?

**A.:** We will now take a look taking into account this new input.

A.: Before introducing a market for CO2, we need to learn how to count it and track it along the chain, avoiding a double count, because right now it looks like candy wrappers are being sold, not verified and not backed by anything. This system must first of

**Q.:** Is there room to lower the rate? now. And rates on green financing will also move in this direction. Q.: What are the company's needs in terms of raising financing?

Q.: And how much have you managed to save since you started using green financing?

is eliminated based on the results of exploration, and we look at potential new projects to replace them. Q.: Do you have the sense that the number of juniors is growing? A.: Amid the growth of metal prices, many have turned to mining, but I can't say that a bunch of teams of professional geologists

support from a major industry player.

related to business, and they are not yet feeling strong pressure from their investors. Unlike European banks, which are

into them in real terms.

and by a specific date, of course, we are given a spot price, and the cost of labor, which has grown even faster in construction than in mining, simply because the Central Asian migration flow has dried up, and everything related to exchange-traded

Q.: Returning to capex, can new changes in guidance be expected in the foreseeable future? A.: Major ones, no. If you look at what has happened on the four-year horizon for total capex, it has been redistributed somewhat – the amounts for 2022-2023 have become larger while those for 2024-2025 have become smaller. This happened as a result of updates to the forecast. The tail end decreased to a significant degree because of Veduga, while for 2022-2023 the previous Q.: To what extent is the change in the production forecast to 2025 related to the ratio for converting silver into gold equivalent and to what extent is it due to other factors?

A.: The forecast for 2021 is purely a recalculation, 2022 is also almost completely a recalculation, there weren't any major

changes. For 2023, the recalculation resulted in around plus 100,000 ounces, while really the actual change in the forecast was

hand, we increased forecasts for the more distant horizon, for 2025-2026, when everyone expected a steeper drop due to aging

deposits, foremost Dukat, Omolon and Svetloye. Actually, Svetloye made a particularly big contribution to the increase in forecast,

because we've been seeing positive exploration results there for years now. And not only at Svetloye, at other operating deposits

as well – Kutyn, Albazino and Omolon. Well, plus a substantive change in the forecast, if we're talking generally, is the addition of

Q.: Does the company have any desire to switch to some more flexible model for calculating the gold ratio, so to not revise

minus 50,000 ounces. There is some redistribution among existing operations, foremost Albazino and Svetloye. On the other

A.: Right now we're seeing accelerating inflation and in the United States the latest figure is actually a little shocking – 6.8% yearon-year! The highest inflation there in 40 years. Inflation risks, as such, have been realized in full measure. But the situation is a little funny, as everyone understands the situation with inflation, but believes that the Federal Reserve reducing quantitative easing and a looming interest hike outweigh this risk. As a result, we're not seeing major growth of prices for gold amid accelerating

inflation, although it is traditionally an inflation hedge. I, frankly speaking, don't expect any breakthrough movement on gold right

Not a single aging deposit currently meets the criteria for selling either, because they all steadily generate substantial free cash

enterprises. This is an optimal number, we would not want to have more. After all, assets that produce roughly 50,000 ounces and

Q.: Is the company planning any new large-scale projects, so as not to be overshadowed by Sukhoi Log and Kyuchus?

**A.:** We're unlikely to find a second Sukhoi Log in the foreseeable future. We are already seeing the first results of our junior

projects strategy. We expect to announce mineral resources at one of the junior projects in January. And this is not a gold project.

It's a big one, a decent one. The resources estimate indicates a standalone asset. We'll be announcing another project, but this

will be the result of our own exploration, it'll probably be a satellite, not a standalone plant. So we're getting a portfolio of projects ready for launch after 2026. There'll still have to be follow-up exploration, a feasibility study the cycle usually takes five or six years before launch. We are also committed to our strategy to have no more than two projects in an active construction phase. Firstly we don't very much want to be overloaded from the point of view of capex, secondly good

150,000 ounces require absolutely the same attention, effort and semi-fixed costs.

**A.:** Winter road. Ore will be stored at the deposit and shipped to the Nezhda plant over a four-month period, from January through April, in shipments of 250,000 tonnes per year. Mining volumes will be synchronized with shipping volumes. There's no point in just Now, as for capacity, it's already a tradition that our plants on average can expand by 10% without any significant capex. Albazino and Kyzyl, for example, have already gone through this. Kyzyl now already has a project to reach 2.4 million tonnes, although at the feasibility study stage it was 1.8 million tonnes. Nezhda was also initially planned for 1.8 million tonnes. In the end we built for 2 million tonnes and understand that this plant will quite easily process 2.2 million tonnes. And Nezhda already has a silver chain,

A.: On the whole, yes. The only difficulty is with flotation concentrate, the high-arsenic concentrate subject to Chinese restrictions.

There are buyers for it in China, but in light of the new restrictions their conditions do not seem optimal to us at the moment.

bringing in partners would be beneficial in terms of easing the capex load and technological expertise. Q.: Will tax changes have an impact on the financial performance of the Tomtor rare-earth metal project? A.: On the part of taxation we do not see risks for this project at the moment. The second piece of good news that happened to come in the past few days was that the State Duma passed in the third reading the law on disposal of radioactive waste not related to nuclear energy. And this opens the road to further, real progress on the project, intensification and design, and the final feasibility study, and making a decision on Polymetal's potential participation in it. In the time that Tomtor was stalled due to waste,

rare-earth metals also saw price growth and the project progressed a little – reserves for it were published and basic things for

A.: The exploration results in Cyprus are not bad. But they diversified into Canada, they bought another project there, and this

The first is that we would like to see POX-2 in working condition, because Pacific POX is to a significant degree a copy of POX-2 in terms of technological solutions. The second factor is that we need to see what happens with the market for refractory concentrates, because our own material will fill around a third of Pacific POX capacity, and there could be more of it as a result of further exploration. Also important is what

Q.: Do you support the introduction of a CO2 market in Russia?

We decided for ourselves that we will not announce plans that are not backed by real elaboration and not based on already existing, real, commercialized technologies. On the other hand, we want to rely as little as possible on financial offset measures. Buying quotas is the most extreme measure, because strictly speaking this is not going green, it's just redistribution of emissions from one emitter to another. Q.: ESG-linked financing now makes up about 40% of Polymetal's portfolio. Do you plan to increase it? **A.:** We don't have a specific target level. It turns out that 'green' financing provides an opportunity to achieve three goals. The first is that this is long money. The second is that it is slightly cheaper than standard financing. The third goal, and I consider it to be important, is that it helps promote the ESG agenda insider the company. Because people realize that their actions in this direction

have an immediate monetary effect – did some work and you saved the company x-amount of money on the financing rate.

Q.: Have banks really begun to look carefully at a company's ESG indicators when issuing a regular loan? **A.:** Yes, they have. But this is not affecting issuing at Russian banks right now. So far very few of them have immersed themselves deeply into the subject of ESG, although it's apparent that this process has begun this year. But their goals are still foremost

**A.:** We don't have that many floating rates left in general. We probably won't fix even more.

have appeared, taken licenses by the declarative principle and are doing something with them. Time must pass. Juniors have many difficulties right now. First of all, there's the problem of qualified workers. The old Soviet guard is leaving, and there aren't that many new professionals, ambitious and technically skilled. And there is a very long cycle from getting a license by the declarative principle and getting at least to the calculation of reserves. There are few who will be able to stay afloat without

**Development projects** flow. Furthermore, unfortunately, we don't see investors on the market right now who would be prepared to come and pay the full price, say \$300 million, for a major asset. After all, we always compare how much it will bring in if it remains in the portfolio, and how much we could potentially earn from selling. On one hand, you accelerate monetization and avoid some things related to the inevitable closure of a deposit at the end of its life. On the other, you give a discount and lose potential geological upside. We have fairly good experience replacing the resource base at assets that, it seemed, were just about to close. Svetloye is a good example. When we launched it in 2016, we expected five-six years of operation, but now there are already confirmed reserves to 2026. In other words, due to a combination of factors, we're not prepared to sell anything from among operating assets at this point. Closer to the end of the lifespan, I think, we'll really be taking a look, particularly considering that we already have 10 operating

now in the absence of new black swans.

mining for storage.

transitioned from a purely Cyprus-based story to a Cyprus-Canada one. In Canada, we are not interested in the project itself, nor in the jurisdiction. Potentially, we are thinking to restructure our participation a little and stay only in the Cyprus project, in which we were initially involved. **Q.:** Are negotiations being held on this?

design were completed.

into China, the fines. But this isn't quite a carbon footprint. And then everything depends on the sources of origin of electricity, because both roasting and pressure oxidation are fairly energy-intensive. Although on the scale of the mining industry, of course, these are still not very big amounts, not comparable to a copper smelting plant, for example. Q.: Is there a possibility of using clean energy for the POX in Sovetskaya Gavan?

**ESG** and juniors

They are moving far faster than regulators, and are demanding plans for carbon neutrality from us. And we will finalize and announce these plans in 2022. Polymetal will follow the trajectory that we announced in the spring, but we will extend it in time, try to achieve this carbon neutrality.

**A.:** We're trying to steer clear of public debt for now, we have enough. A.: We don't have a lot of refinancing. Repayments are spread equally by years, averaging \$200 million-\$250 million, so we're

Q.: Are you considering more exotic options, such as 'green' bonds?

A.: \$1 million-\$1.5 million.

working on a schedule.

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Q.: Do you plan to fix rates?

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Answer: We expect that we will as usual slightly exceed the production forecast - this is already a good tradition. TCC will be within the guidance range, there is no particular doubt about that. In terms of AISC, we are now somewhere at the upper bound, perhaps slightly exceeding it, but not significantly. Likewise with capex - we expect to end the year near the upper end of the range The year was not the easiest one for gold mining, because our metal fell back while prices for other exchange-traded

Q.: And when prices for exchange commodities fall back, is this reflected in costs?

Q.: What is the company doing to mitigate inflation risks? A.: We've had a purchasing strategy for quite some time, and in 2020-2021 we felt all of its pluses. Key supplies and materials, such as balls for mills, tires, reagents for plants, are supplied under long-term contracts with fixed prices. Obviously, one cannot contract for ten years, and sooner or later we see indexation of prices, but three years is a realistic term. This guarantees sales volume for the supplier and a price for us. In 2020, long-term contracts played a role foremost in terms of continuity of supplies, and in 2021 already in terms of fixing prices. We try to use long-term contracts for all key supplies and materials for which one can predict needs. Foremost, these are purchases at existing enterprises, where the amounts of mining work are clear for two or three years ahead and we know how many tires, balls, bulldozers, dump trucks, and so on we will need.

production on the long-term horizon. Q.: It's always difficult to forecast gold prices, but can you at least tell us about your personal expectations?

Q.: I've heard the view that, because Polymetal decided to not develop Prognoz as an independent asset and instead ship the ore to Nezhda, perhaps the exploration results were not that impressive. A.: No, I wouldn't say that. This is a conscious decision that is related, among other things, to capex inflation, by the way. We understood that building an independent plant for Prognoz is a possible option, but this would be an even more remote plant than Nezhda. There are no prospects of grid electricity appearing there, plus it would take two and a half to three years longer

project management is important in these projects. Basically, Polymetal lives by it and this is what made it possible to launch

A.: Technically we'll be joining the project soon. We've requested clearance from the FAS and it's now only a matter of time - we'll obtain the permission and buy it right away. It was a quasi-debt deal in that VTB's price had a fixed rate. They invested \$71 million and the purchase price will be something like \$85 million. Q.: At Viksha, you defended reserves under the Russian classification. What's happening now? **A.:** Now we'll already start preparing reserves to JORC and then decide. They will be ready in the next 12 months. Q.: Are your potential South African partners maintaining a dialog, or have things gone quiet? **A.:** We're not tied to one partner, we can also develop the asset ourselves. But in order to accelerate this process, of course,

A.: Negotiations are underway, but all this is not very material against the backdrop of junior successes in Russia. Q.: As far as I understand, Polymetal is also looking at Uzbekistan? A.: At this point we're just studying geological materials, meaning this is a very, very early stage. If we don't see some asset that is attractive specifically from the geological point of view, we won't go any further. Q.: Polymetal has repeatedly stressed that the POX project in Sovetskaya Gavan is still just a concept. To what extent does the level of the project's development make it possible to go by the stated capacity and capex? A.: The level of the project's development is exactly what we said. This is why we need an additional two years and some amount

sources of outside feedstock we will see and what its economics will be. The case of the Chinese fines for arsenic correlates well

with the ideology of Pacific POX, so all companies that will not be able to sell concentrate in China are potentially our clients.

A.: POX is a very environmentally friendly technology on the whole. It is far cleaner not even in terms of CO2 emissions, which it

combustion, and we don't know how well Chinese plants catch it. This is the reason for the restrictions on imports of concentrates

doesn't really have, but other emissions, foremost arsenic, because in roasting technology it flies away as a product of

all start working as a tracking system, and then taxes, quotas and trading – all this can be selected and fine-tuned. Right now when making decisions for long-term projects we just use some fixed allowance in order to estimate the impact that potential climate-related financial measures might have on the project. For example, mine construction – what will the NPV be taking into account a carbon tax and without a carbon tax. The board of directors already looked at Veduga and Prognoz both ways when making investment decisions. At Prognoz, the difference in carbon footprint is colossal, so the potential tax is too. But, I repeat, we just took an allowance, an estimate, and it's close to the internal price of carbon of \$40 per tonne of CO2. Q.: Do you think some kind of carbon regulation will be introduced in Russia in the foreseeable future?

A.: Probably, yes, and they will try to synchronize it with the rest of the world so as not to give the carbon tax to European

We have two points of view. The first is the regulators who announced plans for a carbon tax. On the other side are our investors.

A.: In the current conditions, no. It's already very low. But it needs to be maintained. A base interest rate cycle will probably begin

systematically reducing the carbon footprint of their portfolio and raising its ESG rating. Q.: Do you plan to increase budgets for junior projects in light of your positive experience with juniors? A.: Probably not. The junior portfolio is currently big enough. And a different process is already beginning, culling, when someone

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