



# OPUS

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BUSINESS ADVISORY GROUP

13 September 2022

## PETROPAVLOVSK PLC (IN ADMINISTRATION)

### FREQUENTLY ASKED QUESTIONS

#### Introduction

Since our appointment, the Administrators have received a large volume of correspondence from stakeholders, seeking information regarding the Administrators' work and decision-making.

Where possible, we have responded to such queries, directly. Given the volume of correspondence, however, it has not been possible to provide full responses to every correspondent. Rather, we have endeavoured to provide all interested parties with as much information as possible regarding the Administration, on an open and even-handed basis, by:

1. Publishing announcements and updates regarding the Administration on the Company's website. These have also been sent directly to stakeholders who have contacted the Administrators directly.
2. Publishing court documents, including the evidence filed at court by the directors of the Company and the Administrators, on the Company's website. In particular, we have published full copies of all witness statements filed in support of the Administration Application and the Administrators' subsequent applications for directions, and copies of the exhibits to that evidence save for a limited number of exhibits which we did not consider appropriate to publish for the time being in order to protect the confidentiality of third parties (as explained in our previous updates and the [fifth witness statement of Allister Manson dated 17 August 2022](#)).
3. Providing details of the resulting court orders and judgments, including in particular:
  - a. The order of Milwyn Jarman QC sitting as a Judge of the High Court dated 18 July 2022 appointing the Administrators.
  - b. The order and judgment of Jonathan Hilliard QC sitting as a Deputy Judge of the High Court dated 1 August 2022 granting the Administrators liberty to enter into the transaction with UMMC-Invest (available [here](#)).

- c. The substantive judgment of Jonathan Hilliard QC sitting as Deputy Judge of the High Court dated 5 August 2022 explaining the Judge's reasoning for his order of 1 August 2022 (available [here](#)).
4. Publishing, on 8 August 2022, a report under Statement of Insolvency Practice 16 (available [here](#)).

The Administrators' updates and the documents referred to above are available on the [Company's website](#).

We repeat our invitation to interested parties to read these documents – in particular the Administrators' published SIP16 report, the evidence filed at court, and the decisions of the court – in full. These provide a detailed account of the background to the Administrators' appointment, our work since our instruction and subsequent appointment, and our conclusions.

The Administrators wish to provide interested parties with as much information as possible and we consider that we have done so (and indeed we have provided significantly more information and at an earlier stage than required by insolvency law).

We appreciate however that the volume of documentation that has been published to date is large and that some stakeholders may not be in a position to review all of it. In order to assist interested parties further, therefore, we provide answers below to a number of questions which we have been asked of us by stakeholders. These matters have been addressed in greater detail in the documents we have published to date – for the sake of brevity and accessibility, what follows is only a summary.

The Administrators will continue to respond to queries received from stakeholders and will supplement the questions and answers below in the future as appropriate.

## **Frequently Asked Questions & Answers (as of 8 September 2022)**

### *Did the Company apply for a licence in respect of UK sanctions against Russia?*

Neither the directors of the Company nor the Administrators, once appointed, have applied for a licence from the UK authorities to allow payments to be made to GPB (or UMMC, as assignee of the Company's GPB Term Loan facility).

An application for sanctions relief by the Company (i.e. to continue to pay GPB) would not have made a difference to the Company's solvency. GPB was entitled to accelerate the US\$ 200 million term loan to the Company (the "Term Loan") and the credit facilities of c. US\$ 86.7 million to certain of its subsidiaries in Russia (the "Facilities") and decided to do so and to assign them for its own commercial reasons and with no involvement from the Company (or the Administrators).

Indeed, GPB assigned the Term Loan during the sanctions licence period, which allowed it to seek to wind down positions, but which did not allow ongoing interest payments to be made. The Company was unable to extract sufficient funds to pay its debts due not only to UK sanctions but also due to Russian sanctions and banking restrictions, coupled with a sudden and serious deterioration in market conditions for the operating subsidiaries in Russia. Hence the Company was still unable to pay the sums due under the Term Loan or the Facilities to the assignees of those debts (UMMC and Nordic, respectively), even though they are not sanctioned, in the same way that it was unable to pay GPB when it was the Lender. A licence would not assist the Company in this regard.

The Administrators therefore considered that an application for a licence in respect of UK sanctions had no prospect of improving the Company's financial position. In addition, at the time of the Administrators' appointment, it was clear that the proposed transaction with UMMC was time-limited and that the delay occasioned by any application (even if one were warranted, which the Administrators did not consider to be the case) risked the loss of that sale and also risked individual creditors (including UMMC and Nordic) taking enforcement action against the trading subsidiaries, to the serious detriment of the Company's creditors as a whole.

The circumstances leading to the Company's insolvency are explained in more detail in the first witness statement of Charlotte Phillips dated 11 July 2022 and the first witness statement of Allister Manson dated 11 July 2022.

### *Are the Administrators investigating the conduct of the directors of the Company prior to the Administration? Should the board of directors be criticised for not applying for a sanctions licence from the UK authorities?*

The Administrators are duty-bound to consider the conduct of the Company's management prior to administration and we are, of course, doing so.

For the reasons given above, however, we do not consider that any criticism can be made of the board of directors for deciding not to apply for a licence in respect of UK sanctions, in circumstances where it is clear to us that such an application would not have made any difference to the Company's ability to pay its debts as they fall due.

### *Why did the Administrators pursue the transaction with UMMC-Invest on an urgent basis? What was the reason for the urgency?*

At the time we were appointed, it was clear that the time available to conclude any transaction which would result in a better return for stakeholders than could be achieved on a liquidation of the

Company was extremely limited. We therefore sought to evaluate the options available to the Company and to enter into a binding agreement as soon as practicable. The reasons for the urgency were, in summary, as follows:

First, UMMC-Invest had made it clear that its offer was time-limited. That offer was ultimately the only offer available to the Company to purchase its assets; had it been withdrawn, there could have been no sale and no realistic prospect of avoiding an insolvent liquidation which would result in a worse result for stakeholders. Although a non-binding offer from the Company's largest shareholder, UGC, was received on 7 July 2022 (shortly prior to our appointment), UGC ultimately chose not to pursue this bid despite being invited to do so by the Company and, after our appointment, by the Administrators. We understood that this was because UGC was unable to secure financing. By the time of our application to Court for directions seeking liberty to enter into the transaction with UMMC-Invest, therefore, that was the only offer available to the Company.

Second, we considered it extremely unlikely that a delay would result in any further or better offers for the Company's shares or assets emerging. The Company had marketed its assets with the assistance of professional advisors beginning in April 2022; a large number of potential investors, including the major shareholders of the Company, were approached and invited to bid. No binding offers were received as a result of that process, other than that received from UMMC-Invest. Further, the Company's financial difficulties since March 2022 had been well publicised and were known to the market, such that by the time of our appointment potential bidders had had ample time to make an approach outside of the marketing process conducted by the Company. Following our appointment, we discussed the potential for further marketing of the Company's assets with, among others, Hannam & Partners (who had run the Company's pre-administration marketing exercise). Hannam & Partners confirmed that in their view the universe of potential purchasers was limited and that the appetite to acquire the Company's assets in the market remained low.

Third, in mid-July 2022 the Group's two largest creditors, being UMMC-Invest, in respect of the Term Loan owed by the Company, and Nordic LLC in respect of the Facilities provided to the subsidiaries (of which the Company was a guarantor) had taken steps to enforce against the assets of the Company's subsidiaries in Russia. Such enforcement action would have caused obvious prejudice to the Company's other creditors, and we were advised that it could well result in non-Russian creditors of the Company receiving nothing at all (because UMMC-Invest, Nordic and other Russian creditors might succeed in obtaining the Russian assets of the Group directly through Russian insolvency proceedings against the subsidiaries, which proceedings it would be legally and practically difficult for non-Russian creditors to participate in). Other than the actions actually taken by UMMC-Invest and Nordic, there was similarly a prospect of other individual creditors taking enforcement action which would make any sale practically impossible.

These matters are explained in detail in the evidence. See in particular:

1. The second witness statement of Charlotte Philipps dated 14 July 2022, at paragraphs 12-19.
2. The third witness statement of Allister Manson dated 27 July 2022 at paragraphs 32-49, 53-54 and 148-149.

*How have the Administrators satisfied themselves that the price paid by UMMC-Invest is the best price attainable for the Company's assets?*

UMMC-Invest's offer was the only binding offer available to the Company and as such it represented the best price attainable in reality for the Company's assets. As explained above, we considered that there was little prospect of any further or better offers being made for the Company in the time available or at all.

The consideration payable by UMMC-Invest, of US\$ 619 million, was also within the valuation range produced by Kroll as expert valuers engaged by the Company in May 2022. Prior to and immediately following our appointment we took steps to satisfy ourselves that this valuation was reasonable, including by liaising with Kroll and instructing Opus Pear Tree (Opus' forensic accounting division) to evaluate the valuation. As a result of this work, we were satisfied that the valuation range was reasonable and that UMMC-Invest's offer, as well as being the only offer available, was objectively fair.

See further:

1. The first witness statement of Allister Manson dated 11 July 2022 at paragraphs 52-55 and 73-75.
2. The third witness statement of Allister Manson dated 27 July 2022 at paragraphs 32-35.

*How have the intercompany loans owed to the Company by its subsidiaries been accounted for?*

As part of the transaction with UMMC-Invest, UMMC-Invest acquired the benefit of certain intercompany receivables owed by the transferring subsidiaries to the Company (as well as Petropavlovsk 2020 Limited and Petropavlovsk 2016), following contractual assignment and set-off arrangements. This included an outstanding balance due from Petropavlovsk Mining Treasury UK Limited to the Company.

Following a detailed assessment of the asset and liability position of the Group, it was clear to us that there was no realistic prospect of these intercompany receivables being recovered by the Company. In particular, Petropavlovsk Mining Treasury UK Limited had no material assets other than loans due to it from other group companies, which sums it was unable to recover due to the restrictions on transferring cash from Russia to the United Kingdom. As noted above, if a sale was not carried out successfully, the alternative would have been a series of enforcement processes in Russia that would in all likelihood have led to little or no recovery for other parties, including the Company.

Furthermore, no sale could have been sensibly concluded with outstanding intercompany claims remaining in place – it was a requirement of the transaction with UMMC-Invest that the intercompany positions be rationalised. Therefore, the Company had no further recourse to or in respect of the assets of its subsidiaries other than the consideration for the sale that it has obtained pursuant to the transaction with UMMC-Invest.

See further:

1. The first witness statement of Allister Manson dated 11 July 2022 at paragraphs 87-88.
2. The third witness statement of Allister Manson dated 27 July 2022 at paragraphs 79-81.

*How will the cash held in the Company's account in GPB Luxembourg be accounted for?*

There is a balance of US\$ 25 million which is effectively frozen in the Company's account in GPB Luxembourg. To date, the Administrators have not been able to access these funds, but we intend to take steps to do so (including by applying for a sanctions licence to the extent necessary).

Once recovered, these funds will be available to the Company for the purposes of the Administration including the repayment of creditors. To the extent that the Company holds residual funds following the settlement of all other liabilities, any excess cash will be paid to UMMC-Invest in order to repay the Term Loan of which UMMC-Invest is creditor (and in respect of which it has agreed to be subordinated to other creditors). The SPA provides in this regard that:

*Once the Seller has discharged or reserved for, in full, the claims, rights and entitlements of all other creditors of the Seller (including statutory interest) and any costs and expenses (including administrators' and/or liquidators' remuneration) of the administration or any subsequent liquidation of the Seller, the Seller shall repay the Term Loan in the amount of value of all the Seller's then available assets including but not limited to the amounts of cash on all of the Seller's bank accounts, but not including (i) any cash retained in respect of liabilities reserved for as aforesaid, and (ii) any portion of the Administration Fund or the Contingency Fund then retained by the Seller or the Administrators.*

See further:

1. The first witness statement of Charlotte Philipps dated 11 July 2022 at paragraph 96.2.
2. The first witness statement of Allister Manson dated 11 July 2022 at paragraph 101.3.
3. The third witness statement of Allister Manson dated 27 July 2022 at paragraph 72.3.

*How will the holders of notes and bonds be repaid?*

The Administrators envisage pursuing a scheme of arrangement, with the blessing of the Court, in order to be able to pay noteholders and bondholders in the most efficient way possible regardless of how they hold their debt (noting that there are, for example, a large number of holders in Russia). We are aware of potential obstacles to payment arising out of the imposition of sanctions and we are taking steps to ensure that payments can be made in due course.

For the avoidance of doubt, the Administrators intend that any future distributions to holders of the Group's debt will be subject to mechanisms to ensure that no payments will be made to or for the benefit of any sanctioned persons or otherwise in breach of applicable laws unless appropriate licences are granted. We intend to apply for such licences as may be required at the same time as proposing a scheme of arrangement.

*Why have certain documents included in the exhibits to the evidence in the administration proceedings, including the Kroll valuation report, not been published?*

This is explained in detail in the fifth witness statement of Allister Manson dated 17 August 2022. In short, although we wish to provide stakeholders with as much information as possible regarding the administration, the Administrators have not published a limited number of documents exhibited to the evidence in the administration proceedings, and have applied for a direction that copies of those same documents on the court file should not for the time being be made available for inspection without the permission of the court, because third parties have asserted rights of confidentiality in that material or it otherwise appears to us to be confidential or commercially sensitive.

We have sought Kroll's permission to publish their report. Kroll have refused consent to the report being made public (including in redacted form). Kroll's reasoning is that the valuation was not intended to be public when Kroll were engaged and Kroll's terms of engagement with the Company contain restrictions on the Company's ability to provide the report to third parties.

The Administrators would prefer to be able to make Kroll's report public but do not consider it appropriate to do so in the face of an express objection from Kroll. We also note that Kroll's methodology and conclusions were summarised in the Opus Pear Tree report dated 28 July 2022, which has been published. In the circumstances, we consider that the account of Kroll's methodology and conclusions contained within the Opus Pear Tree report is sufficient in order to understand the basis of the Administrators' reasoning and the Court's decision to grant liberty to enter into the transaction with UMMC-Invest.

Nevertheless, should the Court ultimately take the view that the Kroll valuation report (or any of the documents which are the subject of the Administrators' application in respect of access to the court file) should be made available, then we will publish them.