PETROPAVLOVSK PLC (IN ADMINISTRATION)

PETROPAVLOVSK 2010 LIMITED

PETROPAVLOVSK 2016 LIMITED

322 High Holborn
London
WC1V 7PB

PETROPAVLOVSK

To: General Creditors (as defined in paragraph 1.6 below)

To: Citibank NA, London Branch
Citigroup Centre, Canary Wharf, Canada Square, E14 5LB

To: Apex Corporate Trustees (UK) Limited
6th Floor, 125 Wood Street, London EC2V 7AN

Dear Sirs,

PROPOSED SCHEMES OF ARRANGEMENT

THIS PRACTICE STATEMENT LETTER CONCERNS MATTERS WHICH MAY AFFECT YOUR LEGAL RIGHTS AND ENTITLEMENTS. YOU MAY THEREFORE WISH TO TAKE LEGAL ADVICE ON ITS CONTENTS

1. PURPOSE OF THIS PRACTICE STATEMENT LETTER

1.1 This letter is written pursuant to the Practice Statement issued by the Chancellor of the High Court of Justice of England and Wales (the "**Court**") on 26 June 2020 in relation to schemes of arrangement between a company and its creditors, members, or any classes thereof under Parts 26 and 26A of the Companies Act 2006 (as amended) (the "**2006 Act**"; the "**Practice Statement**"). This letter relates specifically to the schemes of arrangement to be proposed by

Petropavlovsk PLC, Petropavlovsk 2010 Limited and Petropavlovsk 2016 Limited (the "**Scheme Companies**"), which are described below (the "**Schemes**").

1.2 The Practice Statement requires any company proposing to implement a scheme of arrangement to draw to the attention of the Court:

(a) any issues which may arise as to the constitution of meetings of members or creditors, or which otherwise affect the conduct of those meetings;

(b) any issues as to the existence of the court's jurisdiction to sanction the scheme; and

(c) any other issue not going to the merits or fairness of the scheme, but which might lead the court to refuse to sanction the scheme.

1.3 The above matters are to be raised at a first hearing of the application in respect of the scheme pursuant to section 896(1) of the 2006 Act (a "**convening hearing**"). The Practice Statement also requires any such company to take all reasonable steps open to it to notify those affected by the scheme: (i) that a scheme is being promoted; (ii) as to the purpose that the scheme is designed to achieve and its effect; (iii) as to the meetings of creditors the company believes are required for the purposes of voting on the scheme and their composition; (iv) any of the matters described at paragraph 1.2 that may be ventilated at a convening hearing; and (v) the arrangements for the convening hearing, and that persons affected are entitled to attend the convening hearing (and any subsequent sanction hearing).

1.4 Consistent with the Practice Statement, the primary purposes of this letter are to:

(a) inform you that the Schemes are being promoted, of the proposed objectives of the Schemes and of the purpose that the Schemes are designed to achieve;

(b) notify you that the Scheme Companies intend to apply to the Court for a hearing (the "**Scheme Directions Hearing**") seeking an order granting the Scheme Companies certain directions in relation to the Schemes, including permission to convene meetings of the Scheme Creditors (as defined at paragraph 1.7 below) (the "**Scheme Meetings**") for the purpose of considering and, if thought fit, approving the Schemes;

(c) notify you of certain matters relating to the structure of the Schemes, and

(d) inform you of the proposed class composition of the Scheme Meetings.

1.5 The Scheme Directions Hearing will take place in the Companies Court, Chancery Division, Rolls Building, Fetter Lane, London EC4A INL; this hearing is presently expected to take place

by 21 December 2022 but the date is yet to be confirmed. The precise time and date on which the Scheme Directions Hearing will take place will be notified to all Scheme Creditors in writing when it has been confirmed and fixed by the Court. The Scheme Companies will provide notification to Scheme Creditors via Euroclear and Clearstream to the extent possible, by posting on the Petropavlovsk website : https://petropavlovskplc.com/administration-news/ (the "**Website**") and via any other means considered appropriate.

1.6 The Schemes are directed at all of the external creditors of the Scheme Companies, including:

(a) beneficial holders of the $500m 8.125 per cent, senior unsecured notes due 14 November 2022, issued by Petropavlovsk 2016 Limited ("**Petro 2016**"), originally issued on 14 November 2017 (the "**2022 Notes**" and the "**2022 Noteholders**");

(b) beneficial holders of the US$125 million 8.25 per cent, 2024 bonds due 3 July 2024, issued by Petropavlovsk 2010 Limited ("**Petro 2010**"), originally issued on 3 July 2019 (the "**2024 Bonds**" and the "**2024 Bondholders**");

(c) all trade or other creditors of Petropavlovsk plc (the "**Parent**"), referred to as "**General Creditors**".

1.7 Certain liabilities of the Scheme Companies are not to be included in the Schemes. These are the liabilities of the Scheme Companies inter se, principally the intercompany balances between them relating to the on-lending of the proceeds of the 2022 Notes and the 2024 Bonds, and the Parent's liability under its US$ 200 million term loan (the "**Term Loan**") now owing to JSC UMMC-INVEST ("**UMMC**"). In this Letter, the creditors of the Scheme Companies to whom the Schemes apply are referred to as the "**Scheme Creditors**" and the sums due to them from the Scheme Companies are referred to as "**Scheme Claims**".

1.8 If you have assigned, sold or otherwise transferred your interests in the 2022 Notes, 2024 Bonds, or any other Scheme Claims, or intend to do so before the applicable Scheme Meeting, you should forward a copy of this letter to the person or persons to whom you have assigned, sold or otherwise transferred, or the person(s) to whom you intend to assign, sell or transfer, such interests.

2. PRESENT STATUS OF COMPANIES

2.1 The Parent entered administration on 18 July 2022 pursuant to an order of the Court made on that day and sealed on 19 July 2022 (the "**Parent Administration**"). Allister Manson, Joanne Rolls and Trevor Binyon of Opus Restructuring LLP were appointed as the joint administrators of the Parent (the "**Parent Administrators**").

2.2 The directors of Petro 2010 and Petro 2016 have also considered whether it is appropriate for those companies to seek the appointment of administrators by the English Court. The English Court would have jurisdiction to do so on the basis that their centres of main interest are in the UK; this matter is discussed further at part 7 below. They have resolved to appoint Opus Restructuring LLP to advise on this matter. It is likely that applications will be issued in the near term for the appointment of administrators in respect of Petro 2010 and Petro 2016 who would then take responsibility for the implementation of the Schemes promoted by Petro 2016 and Petro 2010.

2.3 Further to the Parent Administrators' application for directions pursuant to paragraph 63 of Schedule B1 of the Insolvency Act 1986 ("**Schedule B1**") providing them with liberty to proceed with the sale of the Parent's business to UMMC, by order of 1 August 2022 Mr Jonathan Hilliard QC sitting as a Deputy Judge of the High Court among other things granted the Parent Administrators liberty to proceed with the transaction (the "**Sale**").

2.4 The consideration for the Sale was a sum anticipated to be sufficient to repay the external creditors of the Scheme Companies and the expenses of the Parent Administration, although with no surplus remaining for shareholders. In brief, the consideration payable by UMMC included:

(a) cash consideration of approximately US$380.5 million, to be reduced dollar for dollar at completion against the face value and unpaid interest on any 2022 Notes acquired by UMMC and transferred to the Parent, or the amount due on such 2022 Notes, if higher;

(b) consideration of approximately US$ 202.5 million, being equal to the amount outstanding on the Term Loan now owing to UMMC (after UMMC purchased that debt from Bank GPB (JSC)), to be discharged by way of set-off or similar against UMMC's claims under the Term Loan (which has been subordinated to all other creditors pending the set-off by agreement); and

(c) contributions towards the anticipated additional creditor claims in and expenses of the Parent Administration.

By way of further provision, any surplus funds remaining after payments to external creditors of the Scheme Companies and in respect of the expenses of the Parent Administration are to be applied to payment of the Term Loan.

2.5 During the course of the Parent Administration, the Parent Administrators have published a large amount of information relating to the Parent on the Website. This has included the evidence filed at Court for the purposes of seeking their appointment as Parent Administrators,

and the evidence filed at Court in connection with their application for liberty to dispose of substantially all of the assets of the Parent as referred to above.

2.6 Further, the Parent Administrators' statutory proposals under the Insolvency Act 1986 ("**the Proposals**" were published on 8 September 2022, being circulated to creditors of the Parent of whom the Parent Administrators were aware, and also published on the Website. Those proposals also contain a significant amount of useful information on the Scheme Companies and their intentions with regard to the Parent Administration. This letter should be read in conjunction with the Proposals.

2.7 The background to the insolvency of the Parent was set out at sections 2 and 3 of the Proposals. The objective of the administration was described at section 4, and the pursuit of the statutory objectives via a sale of the principal assets of the Parent was set out at section 5 of the Proposals.

2.8 Shortly after the publication of the Proposals on 8 September 2022, the Sale was successfully completed on 14 September 2022. The Parent therefore became absolutely entitled to receive and retain the consideration for the Sale. Following the completion of the Sale, the Parent Administrators and their advisers have been working to analyse the most appropriate means by which these funds can be paid to creditors.

2.9 The Parent Administrators have concluded that the most appropriate means of making distributions to creditors is via the Schemes. Further, in consultation with the directors of Petro 2010 and Petro 2016, the Parent Administrators and those directors have concluded that Petro 2010 and Petro 2016 should also promote Schemes that deal directly with their respective liabilities under the 2024 Bonds and the 2022 Notes.

2.10 The intention to propose the Schemes has been stated in the Parent Administrators' communications with creditors, including:

(a) the Proposals, which were issued on 8 September 2022 – see paragraphs 1.12, 1.13, and 5.13;

(b) Page 6 of the "Frequently Asked Questions" document published on 13 September 2022;

(c) The press release in relation to the 2022 Notes of 7 October 2022, which envisaged the pursuit of a scheme of arrangement with a view to payment in Spring 2023; and

(d) The press releases in relation to both the 2022 Notes and the 2024 Bonds of 2 November 2022, which envisaged an application for a scheme of arrangement being made "in the coming weeks" with a view to payment on or around the end of January 2023.

2.11 To date, no objections to the Parent Administrators' intention to propose the Schemes have been received

3. PROPOSED SCHEMES

Scheme of Arrangement

3.1 Part 26 of the Companies Act 2006 provides for a court-supervised process by which a company can propose a compromise or arrangement between it and its creditors, or any class of its creditors.

3.2 The Scheme Companies are proposing the Schemes under Part 26 of the Companies Act 2006 in order to effect a distribution of the funds currently held by the Parent, or funds to which it is entitled, in full discharge of the external liabilities of the Scheme Companies (the "**Distribution**"). It is anticipated that Scheme Creditors will receive payments in the full amount of their Scheme Claims.

3.3 Petro 2010 is the issuer of the 2024 Bonds and is proposing the 2010 Scheme (as defined below) with its Scheme Creditors in respect of the 2024 Bonds and its other debts. Petro 2016 is the issuer of the 2022 Notes and is proposing the 2016 Scheme (as defined below) with its Scheme Creditors in respect of the 2022 Notes and its other debts. Petro 2010 and Petro 2016 are also collectively referred to as the "**Issuers**". The Parent was the holding company of a group of companies operating primarily in the Far East of Russia (the "**Former Group**"), its interests in which were disposed of as part of the Sale and incurred various liabilities in its own right and on behalf of its subsidiary companies from time to time. Petro 2010 and Petro 2016 were financing entities for the Former Group and issued public debt on behalf of the Parent and the Former Group. The Parent remains indebted to each of Petro 2010 and Petro 2016 by way of intercompany loan in amounts approximately equivalent to the sums outstanding in respect of the 2022 Notes and the 2024 Bonds respectively (together the "**ICO Claims**"). The Parent is proposing the Parent Scheme with its external creditors, described in 1.6 and 6.12 of this letter, and referred to in it as the "**General Creditors**".

3.4 For each Scheme to become effective in accordance with its terms:

(a) it must be approved by a majority in number representing 75 per cent. in value of the relevant Scheme Creditors present and voting (in person or by proxy) at each Scheme Meeting convened for the purpose of considering the Schemes;

(b) it must be sanctioned by the Court; and

(c) a copy of the order sanctioning the Scheme (the "**Court Order**") must be delivered to the Registrar of Companies of England & Wales.

3.5 The terms of the Schemes themselves contain further conditions precedent to their becoming effective, which are described further below.

3.6 Under the Practice Statement, it is the responsibility of the applicant company to determine whether more than one meeting of creditors is required by a scheme and if so to ensure that those meetings are properly constituted so that each meeting consists only of creditors whose rights against the relevant Scheme Company are not so dissimilar as to make it impossible for them to consult together with a view to their common interest. The Scheme Companies consider that one meeting of the Scheme Creditors of each Scheme Company is appropriate to approve the Distribution, namely:

(a) a single meeting of the Scheme Creditors in respect of the 2024 Bonds, to consider and if thought fit approve the Scheme proposed by Petro 2010 (the "**2010 Scheme**");

(b) a single meeting of the Scheme Creditors in respect of the 2022 Notes, to consider and if thought fit approve the Scheme proposed by Petro 2016 (the "**2016 Scheme**"); and

(c) a single meeting of the Scheme Creditors in respect of the general creditor claims against the Parent to consider and if thought fit approve the Scheme proposed by it (the "**Parent Scheme**").

3.7 The Parent is also a guarantor in respect of both the 2022 Notes and the 2024 Bonds, and currently holds or is entitled to receive (following the Sale) sufficient funds to discharge all liabilities owed by all Scheme Companies to 2022 Noteholders, 2024 Bondholders and the General Creditors. It will therefore participate in the 2010 Scheme and the 2016 Scheme distributions by making payments to the relevant Scheme Creditors on behalf of Petro 2010 and Petro 2016 as the case may be.

Use of English Schemes

3.8 The Parent is incorporated in England & Wales. Petro 2010 and Petro 2016 are both incorporated in Jersey. However, they are both tax resident in the UK, and their respective centres of main interest are in England. The claims sought to be compromised by the Schemes are all governed by the laws of England & Wales. The funds from which Scheme Claims will be discharged are presently held by the Parent in the UK. Therefore, the Scheme Companies consider it appropriate to seek to have those claims compromised through schemes of arrangement under the 2006 Act overseen by the Court.

3.9 All Scheme Creditors will be affected by the Schemes. If the Schemes receive the requisite voting approval from each class of Scheme Creditor, and are sanctioned by the Court, then from the date on which the Schemes become effective, all Scheme Creditors (irrespective of whether or not they attended the Scheme Meetings or voted in favour of the Scheme) will be bound by the terms of the Scheme, together with the Scheme Companies. Certain other parties will undertake to be bound by the Schemes.

3.10 The detailed terms of the Scheme will be included within the Scheme Documentation (as defined in paragraph 10.1 below).

4. THE RATIONALE FOR IMPLEMENTING THE DISTRIBUTION BY WAY OF THE SCHEMES

4.1 Ordinarily, payments to unsecured creditors in an administration would take place pursuant to the provisions of Schedule B1 and the Insolvency Rules 2016. For various reasons, however, this does not appear to the Scheme Companies to be the most appropriate means of managing the estates in the present case.

4.2 First, were the statutory process pursuant to Schedule B1 and the Insolvency Rules 2016 to be followed in the present case, it would, among other things, result in three different sets of claims being made against different entities in respect of the same subject-matter, namely the 2022 Notes and the 2024 Bonds, as follows:

(a) Firstly, claims by the Trustees of the 2022 Notes and the 2024 Bonds against Petro 2016 and Petro 2010 in respect of the amounts due under the 2022 Notes and the 2024 Bonds respectively;

(b) Secondly, claims in debt by Petro 2016 and Petro 2010 against the Parent in respect of their respective ICO Claims; and

(c) Finally, claims by the Trustees of the 2022 Notes and the 2024 Bonds against the Parent under guarantees provided by it in respect of the 2022 Notes and the 2024 Bonds respectively.

4.3 In addition to the complexity which such a multiplicity of claims in respect of the same subject-matter would in itself give rise to, within each set of claims identified above a number of further issues arise, as described below. These include the following:

(a) there would be a potential inconsistency between the amounts for which creditors could prove in a distribution made by the Issuers, and the amounts for which creditors

(including the Issuers, the principal assets of which are their respective ICO Claims) could prove in a distribution made by the Parent;

(b) the extent to which creditors' claims are to be discounted under Rule 14.44 of the Insolvency Rules 2016 may also lead to potential inconsistencies in the proofs that would be submitted in any series of Schedule B1 distributions. The full nominal amount of the 2022 Notes has either matured or been the subject of a Relevant Event Put Option Notice (as that term is used in the terms and conditions of the 2022 Notes) prior to the possible entry into administration of Petro 2016. The majority of the 2024 Bonds have also been subject to a Relevant Event Notice (as that term is used in the terms and conditions of the 2024 Bonds, and referred to in this letter together with each Relevant Event Put Option Notice as the "**Relevant Event Notices**") prior to the possible entry into administration of Petro 2010 but, to the extent that they have not, the remaining amount would in due course be subject to being discounted under Rule 14.44 of the Insolvency Rules 2016. The intercompany claims of the Issuers against the Parent would also be subject to being discounted under Rule 14.44, not having been accelerated or otherwise due for payment on the date of the Parent Administration;

(c) the majority of the debts owed by the Scheme Companies are denominated in US Dollars, whereas proofs of debt in an administration distribution would have to be converted into GBP at the administration date. As is well known, the GBP/USD exchange rate has been subject to significant fluctuations since July 2022. In particular, the period in which the Sale was completed and the consideration received, in mid-September 2022, saw particularly extreme and sudden movements in the exchange rate. The Parent Administrators took the decision at that point to convert a substantial proportion of the consideration received for the Sale into US Dollars so as to provide certainty that the US Dollar liabilities could be met, and to avoid the risks inherent in holding assets in GBP out of which liabilities in US Dollars were intended to be discharged. This would not have been possible had an initial calculation of proofs and distribution in accordance with the Insolvency Rules been envisaged, where conversion would have been mandatory and could have led to a material initial shortfall in the amounts paid to Scheme Creditors;

(d) in addition, the majority of the debts owed bear interest at commercial rates, and proofs of debt may only include interest accrued up to the administration date. The Scheme Companies presently consider that there will be sufficient sums available to pay the amounts provable under the Insolvency Rules in full, plus statutory interest thereon until the likely final distribution date under the Insolvency Rules; however, any payment of post-administration interest under the Insolvency Rules would likely be delayed until

after an initial distribution had occurred, and this would lead to a further initial shortfall in the amounts paid to Scheme Creditors;

(e) payments to the legal creditors of the Scheme Companies under a Schedule B1 distribution, as would be expected under the Insolvency Rules, would involve payments to the trustees of the 2022 Notes and the 2024 Bonds (together, the "**Trustees**") – the true economic interest in these Scheme Claims is held by the 2022 Noteholders and the 2024 Bondholders, but these are not present legal creditors of the Issuers and the Issuers' payments to 2022 Noteholders or 2024 Bondholders would ordinarily be effected via intermediaries through Euroclear and Clearstream (the "**Clearing Systems**"). Further matters arising from these structures are discussed at Part 8 below. However, by virtue of the Sale, the Parent holds approximately 50% of the outstanding principal amount of the 2022 Notes. In the first instance, under a Schedule B1 distribution, the Trustee would be obliged to apply any sums received pro rata across all 2022 Notes, as it is unable to differentiate between 2022 Notes held in the Clearing Systems by or on behalf of Group companies or those held by external creditors. Again, this would have led to a dilution in the amounts payable to external creditors and a delay to any final dividend being capable of being paid;

(f) as referred to above, the principal assets of the Issuers are their respective ICO Claims. As a starting point, those entities would be expected to prove in the administration and distribution process of the Parent. However, the sale proceeds received or to be received by the Parent are only sufficient to pay in full the external creditors of the Group. Were the Issuers to prove in the administration of the Parent, this would only serve substantially to dilute the claims of external creditors. While, in due course, holders of 2022 Notes or 2024 Bonds would then have received a distribution from the Issuers, this would have been subject to considerable delay and expense, which could in turn have led to a shortfall for the 2022 Noteholders and 2024 Bondholders;

(g) the Schemes would allow for a framework to be put in place that establishes each Scheme Creditor's eligibility to receive payments in advance, including by reference to any applicable legislation relating to sanctions, whether under the UK The Russia (Sanctions) (EU Exit) Regulations 2019 or any other like applicable laws of any other jurisdiction ("**Sanctions**"). Under a Schedule B1 distribution there is a risk that the issue of Sanctions may delay the entire process. While the Scheme Companies are not aware of any Scheme Creditors that are the subject of Sanctions, as they are not aware of the ultimate identities of all of those creditors they cannot be certain that none of them are the subject of Sanctions. They are also aware that the Russian National Settlement Depositary ("**NSD**")

is the subject of EU Sanctions, and therefore the Clearing Systems are not dealing with or processing any instructions via or through NSD. Payment through the Clearing Systems or to other intermediaries in the course of a distribution is therefore subject to the risk that payments would be blocked by the Clearing Systems or NSD itself, or that monies would flow to persons who were subject to Sanctions contrary to applicable law and/or against the wishes of the Scheme Companies;

(h) finally, the Parent Administrators have been notified that the UK bankers to the Parent intend to withdraw the Parent's banking facilities on 31 January 2023. It would not be possible to operate an ordinary Schedule B1 distribution process for all three of the Scheme Companies before then, particularly where such a course is likely to require multiple interim distributions as funds pass back and forth between the Scheme Companies and the Clearing Systems. In any event it would not be possible to conclude such a process until the 2022 Notes held by the Parent could be cancelled, and funds and instructions could be freely passed through NSD – neither of which is likely to be possible in the near term. It is therefore considered preferable to seek to put in place a streamlined payment mechanism whereby a single payment can be made in full and final discharge of creditor claims.

4.4 In considering the issues which would arise were a distribution pursuant to the provisions of Schedule B1 and the Insolvency Rules 2016 to be proceeded with, it should also be borne in mind that payment to Scheme Creditors in full outside the ordinary insolvency framework would not prejudice any other creditor or stakeholder in the Scheme Companies – ordinary unsecured creditors are to be repaid the amounts owed to them in contract or otherwise in full, and to the extent that this might result in any delay or reduction in amounts that would otherwise be distributed to the subordinated creditor, UMMC, UMMC consents to this outcome. The amount of the consideration received for the Sale, and those conditions that relate to the application of any surplus towards repayment of the subordinated debt owed to UMMC, mean that there would be no distribution to members on any analysis.

5. ALTERNATIVE TO SCHEMES

5.1 If any of the Schemes is not approved by the requisite majority at the Scheme Meetings, or not sanctioned by the Court, then the estates will have to continue to be managed in accordance with applicable insolvency legislation. In the first instance, the Parent Administrators would seek to commence an urgent application for permission to make distributions under paragraph 65 of Schedule B1. However, for the reasons set out above, payment of all creditor claims plus interest is likely to require several interim distributions as monies are transferred between the Parent, the Clearing Systems and the Issuers. As this process would consume funds available to

the estates by way of increased expenses, whilst interest continued to accrue under the applicable Trust Deeds, this is likely to mean that creditors would not be paid in full.

5.2 In addition, payments of funds to the Trustees would result in a substantial proportion of the funds available being directed towards the Parent's account at the Bank of St. Petersburg in which it holds 2022 Notes. External holders would be diluted accordingly. Those funds will only become available to the Parent again to the extent that they can be received in its accounts at the Bank of St. Petersburg, and then remitted to it in its capacity as a 2022 Noteholder. However, as this account is held through NSD, these funds are highly likely to be blocked and therefore remain unavailable to the Parent or to its creditors.

5.3 It may also be the case that neither the Parent Administrators, the Scheme Companies nor the Trustees can be satisfied that any payments can be made in respect of the 2022 Notes or 2024 Bonds at all without obtaining one or more licences from relevant Sanctions authorities, as making payments through the Clearing Systems would ordinarily result in monies being made available to persons whose identities are unknown – this may create an unacceptable risk that monies could be made available to persons who are the subject of Sanctions.

5.4 Finally, if funds are not distributed by 31 January 2023, the Scheme Companies may be severely limited in their future ability to make payments by the withdrawal of banking facilities. The Parent Administrators have been seeking alternative facilities for the Parent since prior to the commencement of the Parent Administration in July 2022 but have not been successful due to the profile of the company. The funds standing to the credit of the Scheme Companies' accounts at that time could be frozen or converted into an instrument that the Scheme Companies would be unable to deal with at another financial institution. No further payments could be made to creditors until such a situation was resolved.

5.5 For these reasons, the Scheme Companies will strongly recommend in due course that each Scheme Creditor should vote in favour of the Scheme to which it is a proposed party.

6. CLASSES OF SCHEME CREDITORS

6.1 Where creditors have rights which are so dissimilar as to make it impossible for them to consult together with a view to their common interest they must be split into separate classes and a separate scheme meeting must be held for each class.

6.2 The Scheme Companies have considered the present rights of each of the Scheme Creditors and the way in which those rights will be affected under the Scheme. They have identified the following potential issues.

Relevant Event Put Options under 2022 Notes and 2024 Bonds

6.3 The present rights of 2022 Noteholder Scheme Creditors are defined by reference to the Terms and Conditions of the 2022 Notes, the 2022 Notes Trust Deed and the existing Deed of Guarantee. The present rights of 2024 Bondholder Scheme Creditors are defined by reference to the Terms and Conditions of the 2024 Bonds, and the 2024 Bonds Trust Deed.

6.4 Following the making of the PLC Administration Order on 18 July 2022, the shares in the Parent ceased to be listed on the Official List of the UK Listing Authority and ceased to trade on the regulated market of the London Stock Exchange. This constituted a Relevant Event for the purposes of condition 6.3.1(iv) 2022 Notes and condition 8(o) of the 2024 Bonds.

6.5 As a result, a holder of a 2022 Note or a 2024 Bond had an option to require the relevant Scheme Company to redeem its holding of 2022 Notes or 2024 Bonds as the case may be at 101% of its principal amount, together with accrued and unpaid interest thereon, and each relevant Scheme Company made public announcements and issued Relevant Event Put Option Notices to 2022 Noteholders and 2024 Bondholders accordingly.

6.6 Following the issue of the Relevant Event Notices, holders of approximately $95 million in principal amount of the 2022 Notes, and $32 million in principal amount of the 2024 Bonds sought to exercise their right to redeem their 2022 Notes or 2024 Bonds early in accordance with the Relevant Notices. The relevant Scheme Companies acknowledged the exercise of these early redemption rights but were unable to make payments of the sums that fell due as a consequence thereof on the dates determined in accordance with the terms and conditions of the 2022 Notes or 2024 Bonds, as appropriate.

6.7 It appears to the Scheme Companies that certain further holders of 2022 Notes and/or 2024 Bonds would have wished to participate in the early redemption procedure, but were unable to do so due to the inability of the Clearing Systems and intermediaries to process relevant instructions arising out of the imposition of Sanctions. The Scheme Companies consider that it would be unfair to divide the holders of outstanding 2022 Notes and 2024 Bonds, as the case may be, between those who were able to submit Relevant Event Notices and those who were not. Such a division may also result in disputes arising as to the circumstances in which an individual holder was unable to submit a Relevant Event Notice, which would require a disproportionate allocation of time and expense to resolve.

6.8 The Scheme Companies therefore intend to distribute funds to the 2022 Noteholders and 2024 Bondholders on the basis that they are all entitled to receive 101% of the principal amount of the 2022 Notes or 2024 Bonds they hold, plus accrued interest to the anticipated payment date.

The Scheme Companies consider that although certain 2022 Noteholders and 2024 Bondholders, in each case, have slightly different rights against each Scheme Company depending on whether or not they were capable of delivering a Relevant Event Notice to the relevant Scheme Company by the applicable deadline, this is not such a dissimilarity of interests between them that they cannot consult together with a view to their common interests in considering the present Schemes.

2022 Notes held by the Parent

6.9 Following the Sale of substantially all of its assets, the Parent holds approximately $175 million in principal amount of the 2022 Notes.

6.10 These 2022 Notes are held in an account at the Bank of St Petersburg, which in turn has an account with NSD. As NSD is presently the subject of EU Sanctions, the Clearing Systems are not carrying out any dealings with or via NSD – this means that the 2022 Notes held by the Parent cannot be cancelled in practical terms, as would ordinarily be the case where notes are obtained by an affiliate of an issuer.

6.11 Although these 2022 Notes are outstanding obligations of Petro 2016, the Parent would not be entitled to cast any votes in respect thereof on any resolution put to 2022 Noteholders under the 2022 Notes Trust Deed. The Parent will also not be distributing any funds to itself in respect of the Schemes – even if such a distribution could be effected without funds being frozen by the Clearing Systems, this would be purely circular and only serve to reduce and/or delay distributions to other Scheme Creditors. Therefore, the Parent is not considered to be a Scheme Creditor of Petro 2016, but will deal with its rights and obligations as against Petro 2016 by bilateral agreement. No class issue arises.

Creditors of Petropavlovsk plc

6.12 The General Creditors of the Parent have claims that arise from a number of different sources, including:

(a) Ordinary trading expenses of the Parent;

(b) Ordinary trading expenses of Petro 2010 or Petro 2016 for which the Parent was jointly liable or as to which the Parent assumed responsibility for payment;

(c) Claims of employees of the Parent calculated in accordance with applicable laws following the Parent Administration;

(d) Claims of former holders of 2024 Bonds who had issued Conversion Notices in respect thereof, and as to which the Parent had issued a Cash Alternative Election Notice whereby the applicable obligation under 2024 Bonds Trust Deed became an obligation to make a cash payment to the former bondholder, but which had not been settled before the date of the Parent Administration.

6.13 These differing categories of claim arise from different sources and have minor differences in rights attached to them, such as to the time of payment and whether contractual interest applies to them. However, they are all fundamentally claims to payments of cash from the Parent, and in the absence of the Schemes they would all be determined in accordance with the Insolvency Rules 2016. They would all be subject to the same provisions as to post-administration interest under Rule 14.7. Therefore, the Parent considers that all of the General Creditors have sufficiently similar rights against the Parent that they can sensibly consult together with a view to their common interest in considering the Parent Scheme.

Impact of Sanctions

6.14 Sanctions imposed as a result of the conflict in Ukraine may have an impact on the ability of Scheme Creditors to participate in the Scheme process or receive the sums due to them by way of distribution from the Scheme Companies in respect of their Scheme Claims (the "**Scheme Consideration**").

6.15 None of the Scheme Companies has been made the subject of any Sanctions, nor has any individual associated or connected with them. The Scheme Companies are not aware of any Scheme Creditor who is the subject of Sanctions, although the Scheme Companies cannot be aware of the present identity of every single Scheme Creditor by virtue of the way in which the 2022 Notes and 2024 Bonds are held through the Clearing Systems.

6.16 The Scheme Companies are aware that NSD has been made the subject of Sanctions by the European Union. One consequence of this is that the Clearing Systems, which are situated in the European Union and subject to its jurisdiction, will not communicate with or pass instructions via NSD. Scheme Creditors who hold 2022 Notes or 2024 Bonds via NSD will not be able to submit Voting Instructions through the Clearing Systems in the usual way, and would not be able to receive any Scheme Consideration that was distributed via the Clearing Systems. This is so regardless of whether the Scheme Creditor itself is the subject of any Sanctions.

6.17 The Schemes have been structured so as to mitigate these issues to the extent possible. Scheme Creditors are notified that if they consider that their ability to submit Voting Instructions via the Clearing Systems is affected by the imposition of Sanctions, they may submit evidence of their

Scheme Claims by other means. Scheme Creditors are also given the opportunity to nominate a bank account or Designated Recipient to which the Scheme Consideration due to the Scheme Creditor may be paid without having to pass through the Clearing Systems. If it transpires that certain Scheme Creditors are unable to submit Voting Instructions and/or evidence of their beneficial ownership prior to the Scheme Effective Date, due to Sanctions or for any other reason, Scheme Consideration due to such Scheme Creditors is to be transferred to the Holding Period Trust (as described in further detail below) for a reasonable period to permit the resolution of whatever issue it is that has prevented that Scheme Creditor from participating.

6.18 None of the above factors results in any class issue between Scheme Creditors who may be the subject of Sanctions themselves or whose ability to participate is affected by Sanctions. The proposition being put forward by the relevant Scheme Company is the same as regards all of its Scheme Creditors. Whether or not a particular Scheme Creditor is able to respond to that proposal is a function of the status of that individual Scheme Creditor, and not the consequence of any inherent difference in treatment of such Scheme Creditor by the Schemes themselves.

Conclusion on Class Issues

6.19 Each relevant Scheme Company considers that the Scheme Creditors in attendance at each Scheme Meeting have a sufficiently common interest in considering the proposal that is being put by the Schemes - namely whether they wish the distribution mechanisms set out in the Schemes to be adopted by the Scheme Companies as a means of paying and discharging their external creditor claims; or would they prefer the estate of each relevant Scheme Company to be administered and distributions to take place independently in accordance with the applicable insolvency laws of England and Jersey, with the risks to a full recovery of the amounts owed to them that this would entail.

6.20 Therefore, the Parent proposes to convene a single meeting of the General Creditors; Petro 2010 proposes to convene a single meeting of the 2024 Bondholders; and Petro 2016 proposes to convene a single meeting of the 2022 Noteholders, notwithstanding the matters set out above.

6.21 **IMPORTANT**: If any Scheme Creditor has comments as to the constitution of the Scheme Meetings that are proposed, or any other issues which they consider should be raised with the Court, they should in the first instance contact the Scheme Companies using the contact details set out in paragraph 10.5 below.

7. SUFFICIENT CONNECTION WITH ENGLAND AND WALES

7.1 Where there may be doubt, it is also incumbent on a Scheme Companies proposing a scheme of arrangement to set out the basis upon which the Court is said to have jurisdiction to sanction such scheme.

7.2 As noted above, Petro 2010 and Petro 2016 are incorporated in Jersey. However, the Scheme Companies are advised that as a matter of English law a scheme may be pursued in respect of a company that is liable to be wound up in England and Wales, even if not itself incorporated there. Petro 2010 and Petro 2016 are considered to be overseas companies under the Insolvency Act 1986, and may be wound up pursuant to section 221 of that Act if sufficient connection is shown with England and Wales.

7.3 Petro 2010 and Petro 2016 consider that sufficient connection can be shown for the following reasons:

(a) they are UK tax resident;

(b) their principal liabilities are, respectively, their liabilities under the 2024 Bonds and 2022 Notes, which are governed by English law;

(c) the Trustee of the 2024 Bonds is an English incorporated company with its registered offices and place of business in England and Wales. The Trustee of the 2022 Notes is a UK-registered establishment of an overseas company, with its registered establishment office address and place of business in England and Wales. In both cases, they are within the jurisdiction of the Court;

(d) the Issuers' respective principal assets are their intercompany claims against the Parent, which is situate in the UK and which claims are governed by English law;

(e) the Parent is already in administration in England, and is under the control of the Parent Administrators, who are officers of the English Court;

(f) the Issuers consider that it is likely to be appropriate for them also to enter into administration under the supervision of the English Court, and by the time the Schemes become effective (if approved) they will likely already be subject to an English administration order;

(g) more than one Scheme Creditor is subject to the jurisdiction of the Court - the Scheme Companies will file further evidence on this point in due course; and

(h) all communications and any negotiations in relation to the Distribution, including physical meetings, between Petro 2010 and Petro 2016 and their respective Scheme Creditors have been conducted from London, in that the Trustees, the 2024 Bondholders and the 2022 Noteholders typically look to the investor relations unit and company secretarial department of the Parent, whose personnel are based in London.

7.4 It is also considered highly desirable for the Distribution to be effected under a single mechanism under the oversight of a single Court, and appropriate officers of that Court. Therefore, Petro 2010 and Petro 2016 consider that they can demonstrate that they have sufficient connection to England and Wales, and that the Schemes would be an appropriate exercise of the powers of the English Court, and will seek to implement the Schemes in England accordingly.

7.5 The Scheme Companies have also been advised that the Schemes are likely to be recognised in Jersey and that upon such recognition no creditor would be able to take any action in Jersey that would be inconsistent with the terms of the Schemes – the appointment of administrators in respect of the Issuers is also likely to be recognised by the Jersey courts on application to the Jersey court, and upon recognition in Jersey the administrators' acts would be recognised as validly carried out on behalf of the Issuers as a matter of Jersey law.

7.6 **IMPORTANT**: If any Scheme Creditor has comments as to the jurisdiction of the Court to sanction the Schemes, or any other issues which they consider should be raised with the Court, they should in the first instance contact the Scheme Companies using the contact details set out in paragraph 10.5 below.

8. LEGAL STATUS OF SCHEME CREDITORS

8.1 The Scheme Companies have considered who satisfies the legal definition of "creditor" of the Scheme Companies for the purposes of the Schemes.

8.2 In respect of the Issuers, the Issuers have been advised (without waiving privilege) that, in relation to the 2022 Notes and the 2024 Bonds, the Issuers' only actual (as opposed to contingent) legal creditors in respect of the 2022 Notes or the 2024 Bonds are the common depositary entered in the relevant register as the holder of the 2022 Notes or 2024 Bonds, as applicable, issued pursuant to the relevant global note; and in each case the relevant Trustee, as beneficiary of the respective covenant to pay. However, the persons with the actual economic interest in the 2022 Notes or the 2024 Bonds, whose views on the merits of the Schemes are the most significant, are the underlying Scheme Creditors.

8.3 The 2022 Notes and 2024 Bonds are respectively held in global form through the Clearing Systems. All of the beneficial interests in the 2022 Notes or the 2024 Bonds are held by the Scheme Creditors through account holders (the "**Account Holders**"), who are registered as having a direct interest in the 2022 Notes or the 2024 Bonds with one of the Clearing Systems. The 2022 Notes or the 2024 Bonds could be definitised (in other words, individual bond certificates could be issued to each beneficial holder) in certain circumstances so that each beneficial holder would become a legal owner of the relevant number of 2022 Notes or 2024 Bonds to which it is entitled, as the case may be. However, this process would add administrative complexity and have a significant impact on the Scheme Companies' resources.

8.4 The more practical alternative, which has been relatively well established by similar previous transactions, is to treat ultimate beneficial holders as "contingent creditors", which they are by reason of their right to receive definitive notes, and permit them to vote on a scheme on this basis since they are the persons with the true economic interest in the 2022 Notes and 2024 Bonds. In these circumstances, the legal creditors – the Trustees and any registered holders – would not be instructed to vote and would not vote.

8.5 Accordingly, the Scheme Companies consider that votes at the Scheme Meetings for Petro 2010 and Petro 2016 ought to be cast by Scheme Creditors, as the beneficial owners of the 2022 Notes and 2024 Bonds. The Scheme Companies have discussed this matter with the respective Trustees and will continue to do so in advance of the Scheme Directions Hearing. However, the Trustees have not reviewed or approved the contents of this letter.

9. SCHEME DIRECTIONS HEARING

9.1 As noted above, the Scheme Directions Hearing is expected to take place at the Rolls Building, 7 Rolls Building, Fetter Lane, London, EC4A 1NL, not later than 21 December 2022, where the Scheme Companies will draw any issue raised by Scheme Creditors to the Court's attention. Scheme Creditors have the right to attend in person or through counsel and make representations at the Scheme Directions Hearing, the date of which will be notified to the Scheme Creditors by the Scheme Companies once it is confirmed.

9.2 This letter is intended to provide Scheme Creditors with sufficient information regarding the Schemes and the Distribution such that, should they wish to raise issues that relate to the jurisdiction of the Court to allow the Scheme Companies to convene the Scheme Meetings, or argue that the proposals outlined above for convening the Scheme Meetings are inappropriate, or to raise any other issue in relation to the constitution of the Scheme Meetings or which might otherwise affect the conduct of such Scheme Meetings, they may attend and/or be represented

before the Court at the hearing of the relevant applications for orders to convene the Scheme Meetings.

9.3 Scheme Creditors should be aware that the English courts have indicated that issues which may arise as to the constitution of meetings of creditors or which otherwise affect the conduct of those meetings or which affect the jurisdiction of the Court to sanction a scheme of arrangement ("**Scheme Creditor Issues**") should be raised at the Scheme Directions Hearing. If they do not do so, while Scheme Creditors will still be able to appear and raise objections at the later hearing to sanction the Schemes, the Court would expect those Scheme Creditors to show good reason why they did not raise the Scheme Creditor Issues at the Scheme Directions Hearing. Scheme Creditors should therefore raise any Scheme Creditor Issues that they may identify at the Scheme Directions Hearing.

9.4 If the Court orders the Scheme Meetings to be convened at the Scheme Directions Hearing, then the Scheme Creditors will have the opportunity to raise objections, for example, relating to the fairness of the Scheme, at a second and final Court hearing (the "**Sanction Hearing**") at which the Court will decide whether to exercise its discretion to sanction the Scheme (assuming that the Schemes is approved at the Scheme Meetings by the requisite majorities). The date of the Sanction Hearing will be notified to Scheme Creditors by the Scheme Companies at the earliest opportunity once it is known.

10. NEXT STEPS

10.1 If permission to convene the Scheme Meetings is granted by the Court at the Scheme Directions Hearing, then Scheme Creditors will be provided with (amongst other things) the following important documents:

(a) a notice convening each Scheme Meeting relevant to that Scheme Creditor;

(b) an explanatory statement relating to the relevant Scheme;

(c) the relevant Scheme and all accompanying documentation; and

(d) voting and proxy forms which the Scheme Creditors will use to cast their vote in respect of the relevant Scheme at each Scheme Meeting,

(together, the "**Scheme Documentation**").

10.2 The Scheme Documentation will be made available to Scheme Creditors in a manner to be approved by the English Court. Scheme Creditors will be asked to execute and submit voting

and proxy forms and instructions before the relevant Scheme Meeting in accordance with the instructions that will form part of the Scheme Documentation.

10.3 As explained above, the Scheme Companies are of the view that the Schemes are necessary in order to implement the Distribution, so as to address ongoing defaults under the 2022 Notes and the 2024 Bonds, and create a framework for the most efficient distribution of fund available to the Scheme Creditors.

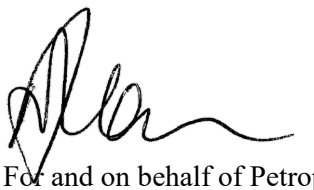
10.4 For this reason, all Scheme Creditors are encouraged to support the Schemes.

10.5 If you have any questions in relation to this letter or the Scheme, please contact the Scheme Companies using the contact details below:

petropavlovsk@opusllp.com

TeamIR@petropavlovskplc.com

Yours faithfully



For and on behalf of Petropavlovsk PLC (in Administration)
Allister Manson
Joint Administrator
(Joint Administrators act as agents and without personal liability)

For and on behalf of Petropavlovsk 2010 Limited and Petropavlovsk 2016 Limited
Charlotte Phillips
Director