

VTB BANK AND GAZPROMBANK DEBT RESTRUCTURING 2020



- As a result of the collapse in global coal prices, which started in the second half of 2012, Mechel Group began to experience serious difficulties with its debt obligations fulfillment and during 2015-2017 was in intensive negotiations with creditors on debt restructuring.
- Debt restructuring with Russian state-controlled banks (GPB, VTB, Sberbank) came into force in **April 2017**. Restructuring terms provided a three-year grace period with subsequent debt repayment in equal installments until April 2022. The interest rate on the loans was set in the amount calculated according to the formula: for ruble-denominated loans - Central bank key interest rate + 1,5%; for dollar-denominated loans - LIBOR 3M + 7%; paid interest rate on ruble-denominated loans was not more than 8.75% per annum; partial capitalization of interest was applied depending on the Debt/EBITDA ratio.
- **In September 2017**, Mechel Group signed the documents regarding overdue debt settlement with the state development corporation VEB.RF establishing the debt repayment schedule from October 2017 until April 2022.

- **In January 2019**, Mechel Group completed refinancing its 1-billion-dollar syndicated pre-export loan by raising a new credit line in euro at VTB Bank.
- In **November 2019**, Sberbank assigned its rights (claims) for Mechel Group loans to VTB Bank.
- At the end of 2019, under the terms of the loan agreements with VTB and GPB then applicable, the debt repayment obligations during the period from 2020 to 2022 amounted to 332.6 bln rubles (at the exchange rate for December 31, 2019) including: 121.2 bln rubles in 2020, 147.1 bln rubles in 2021 and 64.3 bln rubles in 2022.

- **On April 20 and 21, 2020**, Mechel Group signed loan and collateral documentation with Gazprombank and VTB Bank specifying the terms of the new restructuring.
- At the same time, Southern Kuzbass Coal Company signed a new loan agreement with VTB Bank to refinance existing loans of Southern Kuzbass Coal Company in US dollars. The interest rate was reduced from LIBOR 3M +7% to LIBOR 1M +5.6%.
- **On April 21, 2020**, Mechel Group and A-Property OOO signed the documents for the sale of 51% share in the companies constituting Elga Coal Complex (Elgaugol OOO, Elga-Doroga OOO and Mechel Trans Vostok OOO) for the amount of 89 bln rubles. The buyer also fully repaid Elgaugol OOO's obligations to the state development corporation VEB.RF totaling 107 mln dollars (approximately 8 bln rubles). **On April 30, 2020**, the deal came into effect.
- The proceeds from the sale were used to partially repay VTB and Gazprombank loans.
- **On May 7, 2020**, new restructuring of VTB Bank and Gazprombank's loans came into force.

Main reasons:

- Necessity to direct considerable amounts of funds towards debt servicing required expenditure optimization, which, as a consequence, resulted in a significant reduction of capital investment into development and maintenance of our production assets;
- Underfunding of our capital investment program led to a reduction of coking and steam coal production volumes in 2017-2018;
- Decline of coal prices on the international markets in 2019 and persistent low prices in 2020 had a negative impact on the revenue and financial results of our mining segment;
- The cash flow generated by Mechel Group allows us to meet obligations on debt servicing and partly repay our debts. Nevertheless, it is not sufficient to keep up with the repayment schedule set by loan agreements with state-owned banks, signed during the restructuring process that came into force in April 2017.

Successful debt restructuring will allow to:

- stabilize the financial position of the Group;
- extend the debt maturity by up to 10 years;
- save working capital;
- obtain necessary resources to invest in the development, renovation and maintenance of Mechel's production facilities;
- focus on improving operational efficiency and upgrading those areas of business which will increase the total profitability of business;
- repay the debt.

The total amount of VTB and Gazprombank debt before Restructuring 2020 came into force was **332.6 bln rubles*** (88% of the total Group's debt):

- Gazprombank - 139.7 bln rubles,
- VTB Bank - 192.9 bln rubles.

As a result of the partial repayment of VTB and Gazprombank's debt with proceeds from the sale of shares in companies comprising Elga Coal Complex, the outstanding amount of VTB and Gazprombank's debt following the restructuring amounted to **261.6 bln rubles***, including:

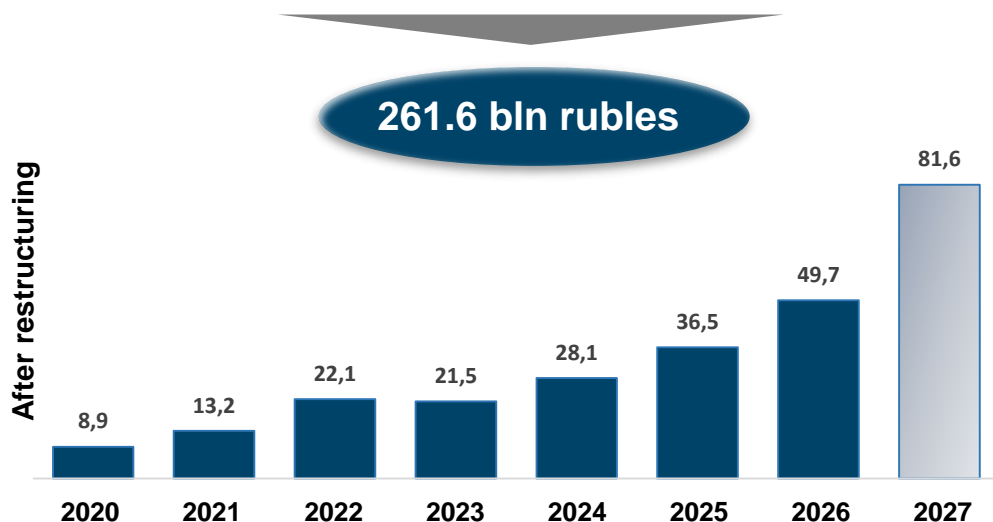
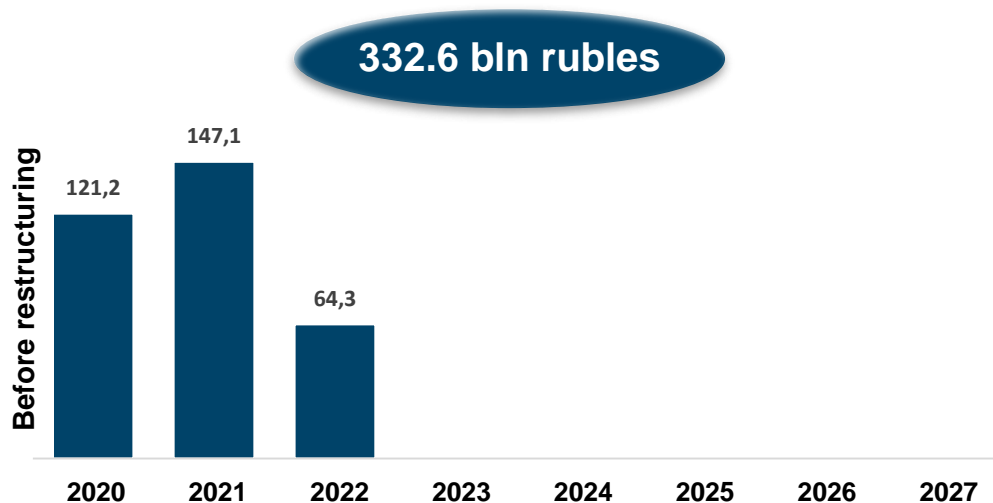
- Gazprombank - 102.6 bln rubles,
- VTB Bank - 159.0 bln rubles.

*Hereinafter all figures related to the debt prior to restructuring are given as of January 1, 2020, exchange rate - 61.91 rubles / \$1, for debt after restructuring - as of April 30, 2020, exchange rate - 73.69 rubles / \$1.

Further in the presentation the term Restructuring refers only to the above mentioned banks.

Non-restructured debt amounts to about 11% of the Group's loan portfolio (32.8 bln rubles) and relates to loans borrowed from foreign lenders covered by guarantees of export credit agencies. The Group continues to negotiate restructuring regarding this debt.

Debt repayment profile, bln rubles



■ repayment during the first 7 years

■ in case there is no breach of payment obligations the maturity period is extended by 3 years (2027- 2030)

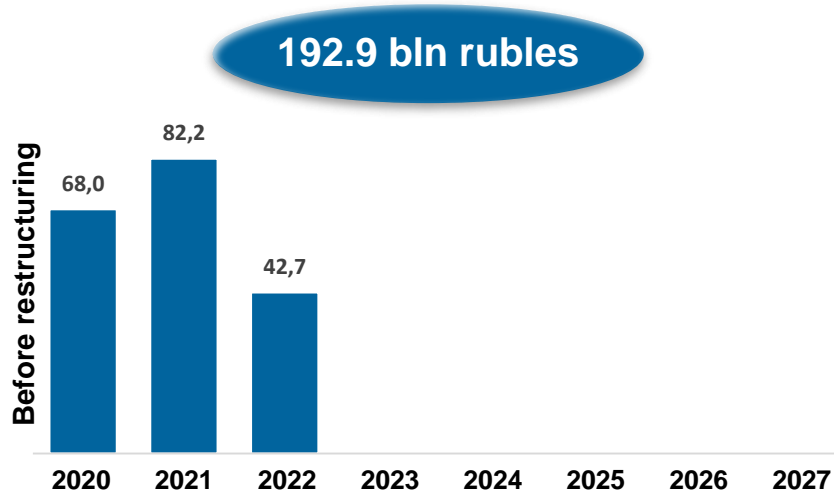
Debt Restructuring Terms:

- Maturity:
 - Is extended by 7 years without a provision of a grace period for debt principal repayment.
 - In case there is no breach of payment obligations during the first 7 years, the maturity of loans shall be extended for additional 3 years.
- Interest rates:
 - Remain unchanged and are linked to EURIBOR and the Russian Central Bank key rate.
- Security package:
 - Remains the same.

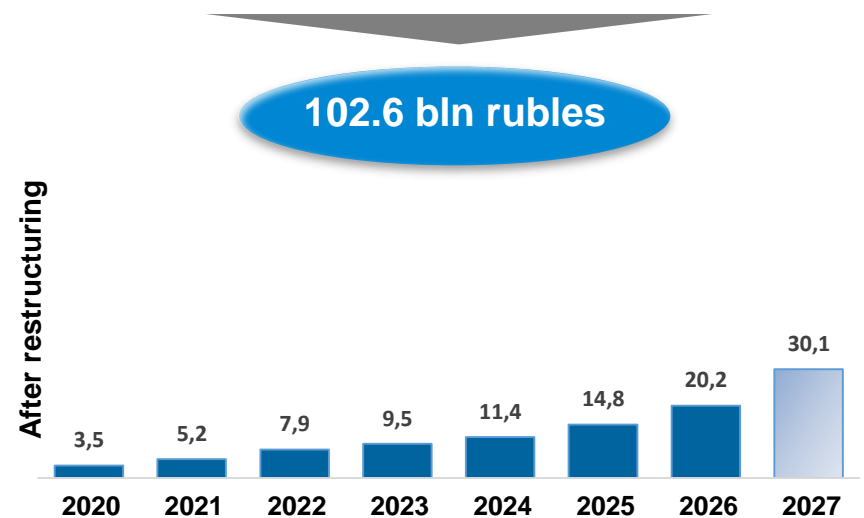
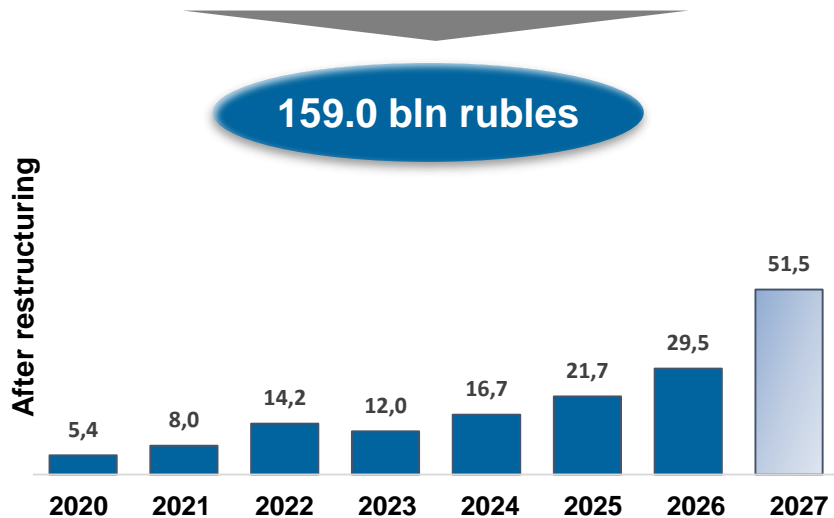
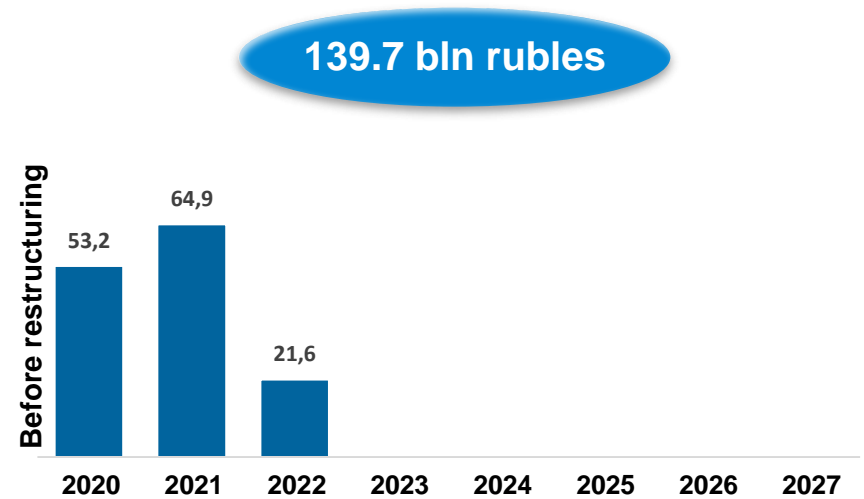
! Corporate approvals:

- **Lack of approval of loan and collateral transactions regarding Restructuring within the agreed timeframe will result in cancellation of Restructuring.**

Debt repayment profile, bln rubles



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- Debt restructuring is extremely important for the future of Mechel Group.
- Restructuring improves the Group's financial position and meets the interests of Mechel Group and its shareholders.
- Restructuring will ensure a smooth schedule of servicing and repayment of financial liabilities from operating cash flow with a gradual increase of the load on cash flow over the years, which is in line with the financial and economic forecasts of the Group.
- The Group will be able to invest in development, renovation and maintenance of its production facilities, which will ensure the Company's sustainable development.
- A majority of the minority shareholders' votes is required to approve the related-party transactions.
- Every shareholder`s vote counts!

If these transactions are not properly approved by the shareholders meeting, the entire Restructuring will lose its force, which will significantly complicate the financial position of Mechel Group!