

## **NYRSTAR: FREQUENTLY ASKED QUESTIONS**

### **Q1: Why is Nyrstar having to seek a debt restructuring?**

A1: The Board of Directors of Nyrstar concluded that the Nyrstar group had a substantial and imminent additional funding need and that it would be unable to meet its liabilities and funding requirements in the coming year without a material reduction of its indebtedness. The debt restructuring was the only means realistically available to preserve Nyrstar as a going concern in the interests of all of its stakeholders.

### **Q2: What were the factors that led to the sudden deterioration of the Nyrstar group's liquidity in November 2018?**

A2: Nyrstar published its Q3 2018 Interim Management Statement on 30 October 2018. Whilst the Q3 financial performance was materially weaker than the prior year period (as previously warned in the trading update of 20 September 2018), the group believed it had adequate liquidity and announced it would be undertaking a capital structure review to address its upcoming EUR 340 million bond maturity in September 2019. However, the market reaction to the 30 October 2018 results announcement was extremely negative including a number of adverse market reports and press commentary alongside a sharp deterioration in the trading prices of Nyrstar's public securities. Over the next two to three weeks, the Group experienced a sudden and unexpected deterioration of liquidity primarily as a result of the withdrawal and contraction of trade credit lines alongside the inability to replace maturing prepayment arrangements. This deterioration of trade credit exceeded the Group's available liquidity resources leading to the threat of imminent insolvency.

### **Q3: What is the objective of the restructuring?**

A3: The restructuring is intended to:

- avoid insolvency and to preserve value for the benefit of all stakeholders
- keep the Nyrstar group trading and thereby to save the operations and the jobs of approximately 4,100 employees
- obtain new funding in order to enable the Nyrstar group to cover its operating expenses and recover its competitive position (through the provision of a new money facility by certain of the group's existing lenders)

### **Q4: How did this situation arise?**

A4: Over recent years the Nyrstar group has been burdened by heavy capital investments with the restart of mining operations and the redevelopment of the Port Pirie lead smelter in Australia which required material additional investment. Since IPO, the Nyrstar group has recognised total impairments of c. EUR 1.65 billion, predominantly on the carrying values of the mines and zinc streaming agreement with Talvivaara that were acquired / entered into between 2009-2011. Such impairments have placed a great deal of strain on Nyrstar's balance sheet. This was coupled with a severe deterioration in the macro-economic environment which led to a combination of low zinc prices and TC rates such that in Q4 2018 and Q1 2019, the Nyrstar group faced an extreme deterioration of revenues and cash flows and increases in operating costs. The group was also facing the maturity of the EUR 340

million high yield bond due in September 2019 (originally EUR 350 million). Management implemented a number of measures to address the increased costs of the operating business and the short term liquidity challenges. These measures have not been sufficient to make the existing balance sheet sustainable in the future and, in the absence of a balance sheet restructuring, Nyrstar and its stakeholders would face group-wide insolvencies.

**Q5: What was the process of the capital structure review and the reasons that justified the need for a restructuring?**

A5: The Board of Directors was anticipating the need to address the EUR 340 million high yield bond maturity in September 2019 having recognised that a refinancing in the ordinary course was unlikely to be possible in view of the Group's weak financial performance. Following the announcement of the capital structure review, the Board of Directors was then forced to act quickly to respond to the liquidity issues as they emerged in autumn 2018. In connection with the capital structure review, it retained and instructed Morgan Stanley and Freshfields Bruckhaus Deringer LLP to provide advice in view of the challenging macro, financial and operating conditions being faced by the Nyrstar group; established a special committee to assist with a capital structure review; and appointed Alvarez & Marsal Europe LLP (A&M) as a financial advisory team to seek to stabilise the business and operations during the capital structure review. The Board of Directors sought alternative financing arrangements as an interim measure, in advance of a wider restructuring. This financing of USD 220 million, implemented in November 2018, was from Trafigura on an accelerated basis in order to meet the Nyrstar group's immediate funding needs. This facility was later rolled by the Board of Directors into a larger and extended term USD 650 million secured committed trade finance framework agreement (TFFA) in favour of Nyrstar. Without this financing of USD 220 million and the USD 650 million TFFA, the Nyrstar group would have faced insolvency.

While the capital structure review was ongoing, the Nyrstar group took many steps to seek to improve liquidity and cash preservation, including: (i) reducing stock levels and concentrate purchases; (ii) negotiating consignment stock agreements with suppliers; and (iii) extending certain payments under the TFFA. However, the Nyrstar group faced continued short term cash flow and liquidity pressure, including further working capital outflows in Q1 2019 and the September 2019 high yield bond maturity of EUR 340 million was coming closer.

Based on the foregoing, it became clear that the Nyrstar group would be unable to meet its liabilities and funding requirements in the coming year (both operating costs and the EUR 340 million maturity) without a material reduction of the group's indebtedness. As a consequence, the capital structure review necessitated negotiations between the Nyrstar group's financial creditors in order to develop a deleveraging and funding plan as part of a comprehensive balance sheet recapitalisation. Nyrstar engaged primarily with its three main financial creditor groups and each of their advisers, specifically: (i) the Ad-hoc Group of Noteholders, (ii) the Co-ordinating Committee representing the Nyrstar group's banks, and (iii) Trafigura as lender under the TFFA and as potential capital provider, to develop a restructuring plan which was intended to achieve: (a) a significant deleveraging of the Nyrstar group; (b) a sizeable new capital injection; and (c) an extension to the maturity of certain debt facilities, which would be in the best interests of Nyrstar and all its stakeholders.

**Q6: Why is the Board of Directors implementing a restructuring that leaves shareholders with a 2% equity interest in the restructured operating group?**

A6: The Board of Directors believes that the Nyrstar group requires a material amount of new investment to avoid a likely insolvency due to an anticipated funding shortfall. Extensive negotiations with stakeholder groups have made it clear that any such funding would, at minimum, require a material de-leveraging of the balance sheet to ensure that the Nyrstar group's capital structure is sustainable. Due to the required impairment of debt and the very material concessions that had to be asked from the creditor groups, it is impossible to keep the existing shareholders' stake in the Nyrstar group intact.

Existing debt providers, who would rank above shareholders in an insolvency (so that they would be repaid in full before any money was returned to shareholders), are taking a write-off of over EUR 500 million in the restructuring. Despite this and independent financial advisors valuing the Company's equity at below EUR 0, the Board of Directors has succeeded in securing 2% of the restructured operating group and financing arrangements for Nyrstar NV (and thereby for the shareholders).

Failure to implement the restructuring is highly likely to lead to the insolvency of the Nyrstar group, which is anticipated to result in significant losses to most stakeholders, including the Nyrstar group's 4,100 employees. Absent the restructuring, it is likely that Nyrstar group entities will have to file for bankruptcy or insolvency (or another formal insolvency processes) in various countries, as a result of which the recoveries for shareholders would be zero. The Board of Directors believes that the restructuring is in the best interests of the Company and all its stakeholders. Furthermore, the 2% equity retention by shareholders is a superior outcome for shareholders compared to an insolvency of the Nyrstar group.

**Q7: Why is the restructuring better for shareholders than insolvency?**

A7: An insolvency (involving different insolvency proceedings in various countries) would likely lead to a liquidation of assets, closure of some or all operations with disastrous consequences for the Nyrstar group's 4,100 employees, suppliers, contractors, customers, creditors and shareholders. Any proceeds from an insolvency would by law go to secured debt holders in the first instance and secondly to any unsecured and trade creditors. The Company, endorsed by the Nyrstar group's independent financial advisors, has computed the recovery for shareholders to be EUR 0 in an insolvency scenario.

**Q8: Who has approved the restructuring proposal?**

A8: The proposal has been reviewed by the Board of Directors which, after taking appropriate, extensive and independent advice from legal and financial experts, has concluded that it is in the best interests of the Nyrstar group and all of its stakeholders, including the Company's shareholders. After significant negotiations, the restructuring has received the support from at least 92% of the outstanding EUR 350 million 2019 Notes, over 93% of the outstanding EUR 500 million 2024 Notes, over 97% of the outstanding EUR 115 million convertible notes, 100% of the lenders under the EUR 600 million Structured Commodity Trade Finance Facility and 100% of the lenders under the Nyrstar group's unsecured facilities (save for the USD 150 million Politus Prepay Agreement where 87.5% by value have agreed). It will also need to be approved by the High Court in England as the

proposal involves schemes of arrangement under Part 26 of the UK Companies Act 2006 between the Nyrstar group and the scheme creditors.

**Q9: When will the restructuring be completed?**

A9: It is currently expected that the restructuring will become effective by the end of July 2019.

The currently envisaged scheme timetable is:

- 20 June 2019: Practice Statement Letter published for the NN2 Scheme
- 4 July 2019: First English Court Hearing (Convening Hearing)
- 22 July 2019: Scheme meetings of the scheme creditors
- 26 July 2019: Second English Court Hearing (Sanction Hearing)
- End July: Schemes and restructuring fully effective

**Q10: What alternative solutions did the Board examine?**

A10: The Board looked at all the alternatives including raising further capital from shareholders, selling assets and issuing further longer dated debt instruments. None of these options were found to be viable or sufficient, in the context of the challenges that the Nyrstar group faced and continues to face. Reference is made to the 524 Report of the Independent Directors in respect of the restructuring (as published on our website on 19 June 2019) for more information in this respect.

**Q11: Why are shareholders not able to vote on the restructuring?**

A11: Belgian corporate law vests this decision within the Board of Directors, taking into account the interests of all of the Nyrstar group's stakeholders, including the Company's shareholders.

Without a restructuring, the Nyrstar group faces insolvency. Higher ranking existing debt providers are taking a write-off of over EUR 500 million. Despite this and several independent financial advisors valuing the Company's equity at below EUR 0, the Board of Directors has succeeded in securing for the shareholders 2% of the restructured operating group and financing arrangements.

The Board of Directors, having taken appropriate, extensive and independent advice, firmly believes that this transaction is in the best interests of all the Nyrstar group's stakeholders, including the Company's shareholders.

**Q12: Is the Board of Directors independent?**

A12: Yes, the Board of Directors is independent. The Board of Directors is currently composed of:

- (i) Ms Fahy, independent director pursuant to article 526<sup>ter</sup> of the Belgian Companies Code,
- (ii) Ms Cable, independent director pursuant to article 526<sup>ter</sup> of the Belgian Companies Code,

(iii) Ms Moriarty, independent director pursuant to article 526<sup>ter</sup> of the Belgian Companies Code,

(iv) Mr Rode, CEO and fully independent from any shareholder of the Company (i.e. Mr Rode does not qualify as independent director pursuant to article 526<sup>ter</sup> of the Belgian Companies Code only because of his executive role within the Company),

(v) Mr Konig, Executive Chairman and fully independent from any shareholder of the Company (i.e. since 18 January 2019, Mr Konig no longer qualifies as independent director pursuant to article 526<sup>ter</sup> of the Belgian Companies Code only because of his executive role within the Company), and

(vi) Mr Christopher Cox, Trafigura Director.

Mr Konig's appointment in 2015 was upon the proposal of Trafigura, and he was, in accordance with Belgian law, appointed as independent director by the general shareholders' meeting. At the time of that general shareholders' meeting, Trafigura only held 15.3% of the Company's share capital and did not have sufficient shares to constitute the majority of the shares present or represented. As disclosed on Nyrstar's website, he is currently, and since and indeed before his appointment with Nyrstar in 2015 has been, a consultant advisor to T Wealth Management SA, which has been separate from Galena Asset Management (a Trafigura affiliate) since June 2015. Mr Konig has not received any remuneration from Trafigura or its affiliates in respect of T Wealth Management SA, other than the limited remuneration he received from T Wealth Management SA between his appointment to Nyrstar at the end of April 2015 and the separation of T Wealth Management SA from Galena in June 2015.

Separately, as also disclosed on Nyrstar's website, since May 2012 Mr Konig has been a director of Euromax Resources Ltd, a publicly listed Canadian company. Six years later, in April 2018, Galena became a shareholder and in March 2019 increased its holding to 53.1% (fully diluted 49.5%). Euromax's other shareholders include the European Bank of Reconstruction and Development, investment funds and management. Mr Konig does not receive any payment from Galena (or Trafigura) and his Euromax compensation is paid in deferred Euromax equity. This information is publicly disclosed, including on the Euromax website. For the avoidance of doubt, Mr Konig has not received any remuneration from Trafigura or its affiliates (including Galena), other than as referenced above.

Prior to his appointment to Nyrstar, Mr Konig has had more than 35 years of commodity markets and banking experience including as President of European Goldfields until its sale to Eldorado Gold Corp, 15 years at the investment bank NM Rothschild and Sons Ltd. (9 years as a main board director), and senior positions in UBS and Goldman Sachs. Mr Konig is also the non-executive chairman of Stemcor Global Holdings Ltd, a leading independent service provider for the steel industry.

As noted in the answers to written questions, all decisions of the Board, at least since Mr Konig became chairman, have been unanimous, taking into account the requirements of Belgian Company law and the Company's corporate governance charter, so he has never used or had cause to use the chairman's casting vote.

Mr Cox's appointment in 2015 was upon the proposal of Trafigura, but in view of his then existing relationship with Trafigura as a more than 10% shareholder in the Company, Mr Cox did not qualify as independent director in accordance with article 526<sup>ter</sup> of the Belgian Companies Code. Pursuant to the relationship agreement entered into between the Company and Trafigura in November 2015, and as publicly announced, Mr Cox has been

qualified as Trafigura Director, although Mr Cox no longer has any relationship with, and no longer receives any remuneration from, Trafigura.

**Q13: How much is Trafigura paying for 98% of the operating group?**

A13: Trafigura is taking on liability for approximately EUR 2.32 billion of debt, comprising of:

- EUR 568 million of new instruments to be issued by Trafigura (and for which the Nyrstar group will not be liable) to replace the EUR 955 million of unsecured notes currently owed by the Nyrstar group (i.e. EUR 340 million notes due in 2019, EUR 115 million convertible bonds due 2022 and EUR 500 million notes due 2024) plus accrued interest
- EUR 1,594 million of post-transaction debt balances that will be within the restructured operating group owned by NN2 NewCo Ltd secured by a corporate guarantee issued by Trafigura
- Up to EUR 160 million new third party RCF to be made available to the restructured operating group secured by a corporate guarantee issued by Trafigura

**Q14: How much are the assets worth?**

A14: The Company has received independent expert valuations from Duff & Phelps (“D&P”) and Grant Thornton (“GT”). D&P and GT have performed separate, independent valuations of the group pre-restructuring and have, although based on different valuation methods, both reached the conclusion that the equity value of the group pre-restructuring is EUR 0. D&T has also valued the restructured group post-restructuring, the outcome of which is that the total equity value of the restructured operating group equals approximately EUR 746 million, of which the Company will hold 2%. The Company has also done its own valuation, which is consistent with the valuation exercises undertaken by D&P and GT.

There are two principal factors which give rise to the differences in value assessed by D&P and GT.

Firstly, the approach chosen in order to assess the enterprise value of the business before adjusting for cash and debt.

D&P adopted an adjusted balance sheet approach, using the subsidiary balance sheets, and replaced book values of certain assets and liabilities used in the operations of the business with the fair values of those assets and liabilities to give an indicative equity value for each subsidiary and the Nyrstar group.

D&P determined the fair value of the operations in each of the subsidiaries by valuing the relevant subsidiary’s business using the income approach (discounted cash flow) looking specifically at the value derived from cash flows. D&P then adjusted the Company’s latest thinking forecast (“LTF”) using their own macro assumptions as at 30 April 2019. Similarly D&P calculated working capital investment using a combination of market-based assumptions and Nyrstar group historical results around stock, receivables and payable days common to a business in the same sector.

Using a nominal discount rate (to match to the inflation adjusted forecasts) D&P derived the net present value of each of the group operations separately, giving the fair value of each mine and smelting operation individually, incorporated in the adjusted balance sheet .

GT, as part of the procedure in accordance with article 524 of the Belgian Companies Code, independently assessed the market value of the equity in the Company pre-restructuring on a group basis assuming a sale as a going concern.

GT used the income approach (discounted cash flow) using a real discount rate applied to the Company's unadjusted real LTF and also the market approach (market multiples) to assess the value of the equity, on a consolidated basis, having considered the smelting and mining parts of the Group. GT derived an enterprise value for the total business and then deducted net debt to derive the value of the equity.

The second key area of difference is in the adjustment for cash and debt.

D&P considered outstanding indebtedness and working capital position as at 31 March 2019. GT's assessment deducted all amounts drawn as at the valuation date being the 4 June 2019 and therefore included the bridge finance.

Whilst adopting different approaches and making different assumptions, D&P's assessed enterprise value of the Nyrstar group, in the current scenario, was at the top end but within the range assessed by GT. Both parties concluded that after adjusting for net debt outstanding there was no value in the Company's equity pre-restructuring.

**Q15: Please provide an explanation of how the funding agreement post-restructuring will work (tranches, repayment, etc.)**

A15: The EUR 13.5 million facility is split into two tranches: the operating costs tranche of EUR 8.5 million (which can be used to meet the day to day ordinary course operating costs of the Company, i.e. Nyrstar NV) and the litigation defence costs tranche of EUR 5 million. The facility is available for 5 years from the restructuring effective date (subject to agreed early termination events). The operating costs tranche has been sized based on the Company's forecast operating costs for a 5 year period, taking into account the ongoing services which NN2 NewCo Ltd is obliged to provide at no charge for a maximum of 3 years (subject to agreed early termination triggers).

Drawings under the operating costs tranche of this funding agreement will be capped at EUR 3.7 million during the first year following the restructuring and at EUR 1.2 million p.a. thereafter (with any unutilised balance in one year rolled over to the subsequent year).

Drawings accrue interest at EURIBOR + 0.5% per annum and the interest is added to the principal borrowed.

There is no fixed repayment date. However, the Company has mandatory repayment obligations in certain circumstances:

(i) Prior to the disposal of the Company's shares in NN2 NewCo Ltd, there is an excess cash sweep. This is in place from 12 months after the restructuring if the Company holds more than EUR 1.5 million in cash at any one time.

(ii) Following the disposal of the Company's shares in NN2 NewCo Ltd, the Company must use the sale proceeds to repay (i) first, any drawings under the litigation defence costs tranche; and (ii) second, any amounts in excess of EUR 5 million under the operating costs tranche. Then, if following a disposal, the Company pays a dividend to shareholders, the Company must repay the operating costs tranche in an equal amount to the aggregate amount paid to shareholders.

**Q16: Have the existing commercial agreements with Trafigura been subject to independent review?**

A16: The Company has received an opinion letter from KPMG AG dated 10 May 2019 as independent expert advisor to the Board of Directors in respect of certain of the agreements with Trafigura as applicable in 2018. KPMG AG has given the following opinion (all capitalised terms are defined in KPMG AG's report):

*“Based upon and subject to the foregoing and such other matters KPMG considered to be relevant, as at the date hereof, it is our opinion that the major terms and conditions of the Zinc Agreements, together with their addendums covering the calendar year 2018, reflect normal commercial terms and conditions and can be considered altogether as arm's length.*

*Not all terms are in favour of Nyrstar in 2018, in particular the ones regarding the TC and the quotational period. It is however our opinion that the effect from the TC is due to abnormal market developments in 2018, and can therefore still be considered as arm's length terms. Other unfavourable effects such as the quotational period are, at least partially, balanced by other terms in favour of Nyrstar, such as the payment terms.”*

In reaching this opinion, KPMG AG has taken into account various matters, including general circumstances described as follows in KPMG AG's report:

*“Long term sales and purchase agreements for commodities such as the Contracts are generally very complex and cover a lot of different aspects such as quantities, regional differences, quality of concentrates, transportation and freight terms, financing needs or supply and demand in the market at the time of negotiation. Thus, there is no standard set of terms and conditions for those agreements which can be used as a benchmark for an assessment of the arm's length nature of such terms and conditions. Further, as in any contract, individual terms and conditions may not (fully) qualify as arm's length agreements. However, individual negative terms for one party might be compensated by other terms and conditions with the opposite effect. Thus, the Contracts need to be assessed as a whole and individual terms and conditions should not be assessed in isolation only.*

*As mentioned earlier, Trafigura is the largest supplier of zinc concentrate for Nyrstar which needs to be considered when assessing the terms and condition of the Contracts. Also the fact that the Century mine, a large volume source of zinc concentrate supplies for Nyrstar, closed its operations beginning of 2016, impacted the negotiations of the Zinc Concentrate Agreement between Nyrstar and Trafigura at the end of 2015 when the closure of the Century mine has been already known.*

*As a reasonably good comparison for the Contracts, Nyrstar has identified contracts between [another major supplier] and Nyrstar. These contracts (“[major supplier] Contracts”) have a similar set up with Nyrstar committing to purchase zinc concentrate from [major supplier] and selling zinc metal to [major supplier]. The [major supplier] Contracts have also three framework agreements and annual amendments/addendums. [Major supplier] is Nyrstar's second largest supplier of zinc concentrate with 325'000 metric tons zinc concentrate per annum. The quantities for zinc metal are kept flexible. [Major supplier] is a producer (and trader) whereas Trafigura is only a trader, which impacts the terms and conditions as well.*

*Negotiations of long term commodity sales and purchase agreements are impacted by the current market conditions and market expectations at the time when the negotiation takes place. In volatile markets the actual pricing can be impacted significantly. 2018 has shown a*



*high volatility and a significant decrease for zinc metal prices (see appendix 4) which has to be considered in the assessment of the Contracts.*

*In 2015 as well as in 2018 Nyrstar's financial situation was not strong, thus, Nyrstar was not in a strong negotiation position. This is a relevant consideration also for an arm's length assessment as this is a general condition impacting the negotiation power of a party and does not represent a particular pressure or duress from the other party."*

Current shareholders and Nyrstar NV bondholders are also invited to review KPMG AG's opinion letter as made available via an Online Data Room, to which access can be obtained as set out in the Company's press release of 1 July 2019. The information provided in the Online Data Room will remain available until 30 August 2019.

**7 July 2019**