



Private & Confidential
Without prejudice

11 September 2019

To: Mr Yevgen Kravtsov
Chief Executive Officer
Public Joint Stock Company "Ukrainian Railway"

Cc: Members of the Supervisory Board

RE: CREDIT FACILITY AGREEMENTS BETWEEN VR CAPITAL AND UKRAINIAN RAILWAYS

Dear Mr Kravtsov,

We are writing to you to follow up on the meeting between the representatives of VR Global Partners, L.P. ("**VR**") and Public Joint Stock Company "Ukrainian Railway" ("**UZ**" or the "**Company**") that took place in Kyiv on 24 July 2019.

While we do not believe that the revised commercial proposal presented by UZ on 24 July 2019 is a balanced compromise between the parties, we were encouraged by the overall results of the meeting, including the fact that we managed to narrow down the number of legal issues identified by UZ as impediments to a potential restructuring of a portfolio of loans extended by Public Stock Company "Joint-Stock Commercial Industrial & Investment Bank" ("**Prominvestbank**") to UZ (together, the "**Loans**") that VR acquired in February 2019.

The two main legal issues that appear to be outstanding both relate to the risk of a potential invalidation of the sale and purchase agreement between Prominvestbank and VR pursuant to which VR acquired the Loans (the "**SPA**") on the following bases:

- (i) That the SPA may be reclassified as a factoring agreement under Ukrainian law and, as VR is not licensed as a "factoring company" in Ukraine, it could be argued that it could not have validly entered into the SPA under Ukrainian law; or
- (ii) Should temporary administration be commenced with respect to Prominvestbank by the National Bank of Ukraine, the temporary administrator might challenge transactions concluded by Prominvestbank within the twelve-month period preceding the commencement of temporary administration with respect to Prominvestbank, including the SPA.

UZ also proposed to resolve these issues by a combination of a bank guarantee that would be issued for UZ's benefit covering any amounts paid by UZ to VR under the terms of the restructured Loans and a proposal that VR and UZ would proactively and voluntarily open legal

proceedings in Ukrainian courts to litigate the “factoring company” issue all the way up to the Supreme Court of Ukraine.

As we already stated during our meeting, it is completely out of question for us to even consider a request of a borrower that a bank guarantee be issued by its creditor to cover amounts paid by the borrower in discharge its financial obligations.

We have given careful consideration to your second proposal. However, following our extensive review of the proposal with legal counsel and more detailed discussions between our counsel and UZ, we do not believe it is in the interests of either party to pursue this approach. Firstly, such process would substantially delay the timeframe for restructuring of the Loans (as it would take the parties at the very least one year to achieve the final verdict of the Supreme Court on the “factoring company” issue). Secondly, this strategy would introduce the risk that third parties seeking for their own purposes to interfere in the commercial relations between VR and UZ might attempt to join the proceedings or otherwise delay them.

As we noted during our prior meetings, we are fully confident that any challenge to the validity of the SPA would fail and this continues to be our position. Thus, in order to facilitate implementation of the restructuring of the Loans, we would be willing to include in the terms of the restructured instruments a provision that would guarantee that VR returns any money paid by UZ to VR under restructured Loans in the following circumstances:

- (i) The SPA is determined to be invalid by the final decision of a court of competent jurisdiction which is not subject to appeal either on the basis of: a) a successful claim to set-aside the SPA by a temporary administrator of Prominvestbank, or b) that the SPA is invalid on the basis that VR was not licenced as a “factoring company” at the time of entry into the SPA; and
- (ii) The funds that VR paid under the SPA to Prominvestbank have been returned to VR in full by Prominvestbank (or its temporary administrator, if applicable).

This provision would fall away after one year after the date of the SPA with respect to the temporary administration risk and three years after the date of the SPA with respect to the “factoring company” risk.

In combination with the removal of an option for VR to exchange the restructured Loans for the Company’s Eurobonds, we believe that our proposal fully insulates UZ from any risk (however remote) of UZ incurring double liability with respect to the Loans.

As we highlighted to you during our last meeting in Kyiv, the process of Loans restructuring has turned out to be significantly more complex, lengthy and costly compared to the initial assessment of VR at the time of extending to you our first restructuring proposal to you in the letter dated 28 February 2019. These delays and complexities have arisen from the myriad legal and risk mitigation issues raised by UZ.

In the light of the complexities and delays, and taking into account the additional risks that UZ seeks to transfer to VR, we can now make the following economic proposal to UZ for

restructuring of the Loans. This proposal supersedes our prior proposals, which are hereby withdrawn:

- 1) Full write-off of all penalties and fines;
- 2) Write-off of 10% of the outstanding amount of Loans or US\$15,325,000;
- 3) Capitalisation of interest accrued at contractual rates until the restructuring date; and
- 4) Restructuring of the resulting debt balance into a five-year bilateral loan with 20 equal quarterly amortisations and an interest rate of 8.75%.

The implementation of the restructuring proposal set out above is subject to negotiation, and entry into, of appropriate legal documentation. Nothing in this letter shall be construed as a waiver of any of our rights and all of our rights are hereby reserved in full.

I look forward to your reply.

Sincerely yours,



Richard Deitz
President