26 August 2015

Indicative Heads of Terms

- Franklin Advisers, Inc. (as investment manager), BTG Pactual Europe LLP, TCW Investment Management Company and T. Rowe Price Associates, Inc. (as investment manager) (together the "**Ad Hoc Committee**") and Ukraine, represented by the Minister of Finance of Ukraine ("**Sovereign**") (together, the "**Parties**"), agree to negotiate in good faith the terms of a lock up and restructuring agreement (the "**Lock Up Agreement**") detailing certain matters in respect of the English law exchange offers (the "**Exchange Offers**") to be undertaken pursuant to the debt operation of Ukraine (the "**Debt Operation**"). The instruments subject to the Debt Operation include fourteen series of Eurobonds issued by Ukraine or FinInPro (guaranteed by Ukraine) as set out in the CMU Resolution No.318-p dated 4 April 2015 (the "**Existing Notes**"). Pursuant to the Exchange Offers, holders of the Existing Notes will be invited to exchange their Existing Notes for new notes ("**New Notes**") and GDP-linked securities ("**GDP-Linked Securities**") (and either one a "**New Instrument**"), on the terms set out in the following pages.
- The Exchange Offers will be fully set out in an offering memorandum (the "**Exchange Offer Memorandum**") to be delivered to the holders of the Existing Notes. The Exchange Offers, the Exchange Offer Memorandum and all associated documentation will be subject to the final approval of each member of the Ad Hoc Committee. This term sheet is an expression of intent only and is subject to the approval of all documentation and relevant Ukrainian legislation by the Ad Hoc Committee. It is a summary of terms that White & Case LLP for Ukraine and Weil, Gotshal & Manges for the Ad Hoc Committee will use to implement the Exchange Offers in respect of the Debt Operation.
- The Lock Up Agreement will provide for the terms of the Exchange Offers, New Notes and GDP-Linked Securities and key implementation matters and will include, amongst others, the key terms and features set out in the following pages.

- These pages are a statement of the Parties' intentions, are governed by English Law (including all non-contractual obligations in connection with or arising out of it), and are not intended to be legally binding and shall not give rise to any legal relations or consequences in any respect on any Party.
- None of the Parties shall be bound or obliged with respect to the following unless and until definitive and legally binding documents have been executed by the Parties and then only in accordance with the terms and conditions thereof.

General Matters	
Restrictions and Lock-up	Members of Ad Hoc Committee will agree in the Lock Up Agreement to vote in favour of the Exchange Offer(s) (provided (i) Bond Protection and Implementation Legislation enacted is in a form satisfactory to the Ad Hoc Committee and (ii) the terms of the Exchange Offer are either suitably advanced and pre-agreed with the Ad Hoc Committee or such terms remain subject to the approval of the Ad Hoc Committee). Members of Ad Hoc Committee's ability to trade after date of Lock Up Agreement subject to appropriate provisions binding transferees to the terms of the Lock Up Agreement. Parties to enter into the Lock Up Agreement prior to the launch of the Exchange Offers.
Bond Protection and Implementation Legislation	Sovereign to enact legislation to provide for: (i) mandatory priority as a matter of Ukrainian law for New Instruments as against Existing Notes; and (ii) all other authorities and capacity required to validly implement the Exchange Offers including, without limitation, legal authority and capacity to validly issue the New Instruments (in particular, the GDP-Linked Securities) The proposed wording of such legislation to be agreed by the Parties prior to it being presented to parliament. Such legislation must be enacted in form satisfactory to both Parties before the launch of the Exchange Offers
Compliance with applicable US securities laws	The Exchange Offers will be conducted in compliance with applicable US securities laws.
Implementation Steps	Parties to agree detailed implementation steps before launch of Exchange Offers. The Parties may agree to adjust the allocation of New Notes in the Exchange Offers to the shorter dated Sovereign debt to improve transaction deliverability (if they believe it is required and at no additional cost to the Sovereign).
Treatment of Non-Exchanged Existing Notes	The Parties will develop appropriate provisions to incentivise exchange and parameters for subsequent settlement of Non-Exchanged Existing Notes. Any agreed incentives would be made available to all holders of Existing Notes including Ad Hoc Committee members.
Condition Precedents of Exchange Offer	Settlement of the Exchange Offers will be subject to certain conditions to be agreed by the Parties, including minimum acceptance conditions and the enactment and continuing validity of the Bond Protection and Implementation Legislation
Launch of Exchange Offers	The Exchange Offers are targeted to be launched no later than 15 September (and in all events prior to 23 September unless otherwise agreed by the Parties)
Expiration Date of the Exchange Offers	The Exchange Offers will remain open for the periods required under contractual documentation for the Existing Notes (and at least 20 business days for the FinInPro Eurobonds)
PR and Cleansing	The Parties will agree a suitable PR statement following the finalization of this Indicative Term Sheet, including the contents of material to be disclosed to the market in order to fully cleanse the Ad Hoc Committee. The Parties will agree a suitable PR statement following the agreement of the Lock Up Agreement, including the contents of material to be disclosed to the market in order to fully cleanse the Ad Hoc Committee.
Ad Hoc Committee's costs	Ukraine will ensure payment of reasonable legal costs of Ad Hoc Committee from the date agreement is reached in relation to these Indicative Heads of Terms, subject to a cap to be agreed by the Parties and approved by Lazard Frères SAS ("Lazard"). It is noted that such payment will (i) be made by Lazard, as payment agent in the name and on behalf of Ukraine, out of the fee payable to Lazard by Ukraine, and (ii) be made upon a successful completion of the Exchange Offers consistent with any minimum conditions or other terms to be agreed.
Local Law	All terms to be compliant with local legal requirements

New Notes	
Exchange	The Issuer will exchange each USD $1,000 in principal amount of Existing Notes for USD $800 of New Notes, with no reduction on accrued interest, such accrued interest up to the deemed date of issue of the New Notes to be capitalised in the form of New Notes (deemed date of issue to be agreed by the Parties) (the "Deemed Issue Date"). All Existing Notes exchanged will also receive a GDP Linked-Security[1]
Currency	USD
Maturity Dates and Principal Amounts of New Notes	The New Notes will be issued in nine separate series of approximately equal principal amount (subject to de minimis rounding). The respective series of New Notes will have a single principal payment at maturity, and will mature on the anniversary of the Deemed Issue Date falling in 2019, 2020, 2021, 2022, 2023, 2024, 2025, 2026 and 2027.
Coupon	Interest on each series of the New Notes shall be payable in cash, twice yearly on the anniversary and semi-anniversary of the Deemed Issue Date, commencing six months from the Deemed Issue Date. The coupon on each series of New Notes, regardless of maturity, will be 7.75% per annum.
Continuation of interest payments in event of default on payment	Market standard provisions
Day count convention	Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months
Non-Call	Not redeemable before maturity
Listing and Admission to Trading	Application will be made to list the New Notes on the Irish Stock Exchange within three months after closing
Transfer	Market standard transfer provisions

[1] Allocation of GDP-Linked Securities TBD.

New Notes		
Class Voting	Voting thresholds and collective action clauses ("CACs") in each of the New Instruments to be discussed. New Notes and GDP-Linked Securities will include cross-series CACs, that will enable: • The New Notes to bind other notes (but not the GDP-Linked Securities) • The GDP-Linked Securities to bind other GDP-linked securities (but not the New Notes)	
Pari Passu	Market standard pari passu provisions to be included relating to new bond issuances (not Non-Exchanged Existing Notes). This provision shall not be drafted so as to require the Issuer to make payments under the New Instruments ratably with payments being made under any other external indebtedness (including the Non-Exchanged Existing Notes) but shall otherwise follow the Existing Notes.	
Payments	Payment provisions to protect payments to holder of New Instruments to be agreed.	
Negative pledge	Market standard negative pledge	
Additional Amounts, Taxes, Withholding Amounts, Gross-Ups, Currency conversion re collection	Market standard provisions	
No Payment to Non-Exchanged Existing Notes	See "*Treatment of Non-Exchanged Existing Notes*" above and obligations regarding settlement of Non-Exchanged Existing Notes to be reflected in New Notes	
Bond Protection and Implementation Legislation	The Sovereign shall enact and maintain in full force and effect the Bond Protection and Implementation Legislation	
Events of Default	**Customary Events of Default**	Customary Events of Default, including in respect of non-payment of principal, interest and/or other relevant indebtedness (including failure to make required payments and failure to comply with Put Option under GDP-Linked Securities), lack of authorization, moratorium, suspension of payment, enforceability, unlawfulness or invalidity (under governing or local law) etc. Customary Events of Default modified so that holders of the New Notes are appropriately protected so that defaulted Non-Exchanged Existing Notes do not cross-default into the New Notes. Certain breach of covenants in GDP-Linked Securities to cross default into the New Notes, including failure to maintain required authorisations, issuance of a moratorium or suspension of payments in relation to the GDP-Linked Securities, unenforceability, illegality and invalidityand breach of Value Protection Covenants. Remedies for, cure periods and steps to establish breach for cross default to be agreed.
	Breach of other obligations	Market standard provisions (including for breach of the specific obligations set out above)
	Acceleration and Enforcement on Event of Default	Market standard provisions
Governing Law/Dispute Resolution and Sovereign Immunity	English law, with courts of England to have exclusive jurisdiction, provided that the Trustee and failing which the noteholders may bring proceedings against the Issuer in any other court of competent jurisdiction; Trustee may refer any dispute to arbitration in London under the Rules of the London Court of International Arbitration; and Sovereign will waive its immunity to the fullest extent permitted by law (subject to agreed exceptions consistent with Existing Notes) and submit to the jurisdiction of English courts	

GDP-Linked Securities	
Principal	Will not evidence any principal, but the GDP-Linked Securities delivered at settlement of the Exchange Offers will have a notional amount equal to the corresponding original face amount of Existing Notes written off (precise mechanism TBD)
Currency	USD
Payment Period	20 years
Payment Date	No payment is made before January 2021. First Payment Date is 15 January 2021 (with payment on that date referring to 2019 GDP), then annually (e.g. on 15 January) at least one year after GDP figures released (to accommodate any restatement of those figures)
Default Interest in event of default on payment	Market standard provisions
Non-Call	Not redeemable before maturity
Detached	Yes; Detached from New Notes from outset.
Payment Trigger (Cash)	All payments in cash (USD) On each Payment Date, if (i) Real GDP Growth exceeds 3% in the relevant reference year (namely the calendar year preceding the year of the Payment Date) <u>and</u> (ii) Nominal GDP is above $125.4bn (being the current IMF forecast for 2019 GDP in USD equivalent to UAH3,183bn at the current forecast exchange rate) holders would be entitled to receive payments in an amount equal to: • 0% of any excess GDP if Real GDP Growth is between 0-3% • 15% of the excess GDP if Real GDP Growth is between 3-4%; and • 40% of the excess GDP if Real GDP Growth is above 4% This shall be calculated based on the following formula: • If $3\% \leq$ Real GDP Growth$_{t-2} \leq 4\%$, Payment$_t$ = 15% x UAH Nominal GDP$_{t-3}$ x (1 + GDP Deflator$_{t-2}$) x (Real GDP Growth$_{t-2}$ - 3%) • If Real GDP Growth$_{t-2} > 4\%$, Payment$_t$ = 15% x UAH Nominal GDP$_{t-3}$ x (1 + GDP Deflator$_{t-2}$) x 1% + 40% x UAH Nominal GDP$_{t-3}$ x (1 + GDP Deflator$_{t-2}$) x (Real GDP Growth$_{t-2}$ - 4%) Payments under GDP-Linked Securities to be made in USD by converting UAH amounts into USD at an exchange rate to be agreed (for example, on the basis of an average and from an agreed source). Maximum 20 annual payments. Payments capped for the period 2021-2025, so that for each payment in the period 2021-2025, the payment in year$_t$ is capped at 1% of Nominal GDP for year$_{t-2}$. Such payment cap to be measured in UAH. Methodology to allocate GDP-Linked Securities process to be agreed.

GDP-Linked Securities	
Definition of GDP	GDP definition, process and compliance standard to be agreed, in particular, parties to agree definition of what comprises GDP, Real GDP Growth, Nominal GDP, GDP Deflator and GDP calculation – such definitions cannot be changed without consent. Annual publication of GDP information on agreed basis through IMF World Economic Outlook or other similar public source. Any dispute in relation to the calculation of the payment formula under the GDP-Linked Security including the use of the correct data and metrics for such purpose to be referred to arbitration.
Value Protection	Parties to agree GDP definition and suitable covenants to protect value, including (without limitation): (i) arbitration provisions, (ii) suitable covenants to protect value of the GDP-Linked Securities (see below); and (iii) provisions relating to the operation of GDP-Linked Securities including, methodology of calculation and allocation of Payment Amount to holders of GDP-Linked Securities (allocated pursuant to this Exchange Offer) ensuring that amounts payable to such holders of GDP-Linked Securities are not without the approval of such holders diluted below the agreed percentage of GDP on account of the issuance or incurrence of any other Sovereign debt or liability, including any other GDP-linked instrument, or any other analogous act by Ukraine
Listing, Transfer, Voting and other clauses	As per New Notes
Covenants	Covenants to publish information required for calculation of payment amounts under GDP-Linked Securities, maintenance of all authorizations required, no moratorium issued in respect of the GDP-Linked Securities, no suspension of payment in relation to the GDP-Linked Securities, maintenance of enforceability, lawfulness and validity and to ensure that no breach of other obligations under GDP-Linked Securities takes place. Covenant to to comply with arbitration requirements pursuant to the terms of the GDP-Linked Securities. Value Protection Covenants Remedies for, cure periods and steps to establish breach of such covenants to be agreed.
Put Option	Put option (described below) if: (i) a breach of covenant as outlined above occurs at any time (except moratorium); or (ii) moratorium related covenant breach during IMF-supported EFF programme dated 12 March 2015 (any one a "**Relevant Breach of Covenant**") In the event of a Relevant Breach of Covenant, holders of the GDP-Linked Securities may, at their option, put such securities to Ukraine at a price equal to the face amount of the original notional converted debt without deduction for any amounts already paid under any GDP-Linked Security (the "**Put Option**") (failure of Ukraine to honour the Put Option will be a cross-default under the New Notes)
Enforcement	Market standard provisions
Governing Law/Dispute Resolution and Sovereign Immunity	As per New Notes. Arbitration provisions to cover calculations of the payment formula under the GDP-Linked Security as described above.

Signed by the following as an acknowledgment of the Indicative Terms, without creating any legal obligation, binding offer or relationship between any Party

MINISTRY OF FINANCE OF UKRAINE

By: ______________________________

Name: Natalie Jaresko

Title: Minister of Finance

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FRANKLIN ADVISERS, INC., AS INVESTMENT MANAGER

By: ______________________________
Name: Alison Baur
Title: Assistant Secretary

BTG PACTUAL EUROPE LLP

By: ______________________________
Name:
Title:

TCW INVESTMENT MANAGEMENT COMPANY

By: ______________________________
Name:
Title:

T. ROWE PRICE ASSOCIATES, INC., as investment adviser to certain funds and accounts

By: ______________________________
Name.
Title:

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FRANKLIN ADVISERS, INC., AS INVESTMENT MANAGER

By: ______________________________
Name:
Title:

BTG PACTUAL EUROPE LLP

By: ______________________________
Name: Antoine Estier
Title: Managing Partner

TCW INVESTMENT MANAGEMENT COMPANY

By: ______________________________
Name:
Title:

T. ROWE PRICE ASSOCIATES, INC., as investment adviser to certain funds and accounts

By: ______________________________
Name:
Title:

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FRANKLIN ADVISERS, INC., AS INVESTMENT MANAGER

By: ______________________________
Name:
Title:

BTG PACTUAL EUROPE LLP

By: ______________________________
Name:
Title:

TCW INVESTMENT MANAGEMENT COMPANY

By: Penelope D. Foley
Name: Penelope D Foley
Title: Group Managing Director

T. ROWE PRICE ASSOCIATES, INC., as investment adviser to certain funds and accounts

By: ______________________________
Name:
Title:

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FRANKLIN ADVISERS, INC., AS INVESTMENT MANAGER

By: ______________________________

Name:
Title:

BTG PACTUAL EUROPE LLP

By: ______________________________

Name:
Title:

TCW INVESTMENT MANAGEMENT COMPANY

By: ______________________________

Name:
Title:

T. ROWE PRICE ASSOCIATES, INC., as investment adviser to certain funds and accounts

By: ______________________________

Name: MICHAEL CONELIUS
Title: V.P

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