

*APPROVED
by the Oversight Board
24 January 2017
Minutes No. 11*

*Chairman of the Board
_____ S.V. Shklyar*

REQUIREMENTS AND RECOMMENDATIONS OF THE REPORT ON THE REVIEW OF FINANCIAL AND COMMERCIAL ACTIVITY OF THE DEBTOR

The requirements and recommendations of the report on the review of financial and commercial activity of the debtor have been developed in accordance with Article 11 and Article 14 of the Law of Ukraine "On Financial Restructuring" No. 1414-VIII (hereinafter - the Law).

In accordance with Article 11 of the Law, the report of the independent expert review of financial and economic activity (hereinafter - report) shall reflect, in particular, status of pledged property of the Debtor and/or its property guarantor, operational and financial forecast of the activities of the Debtor's and its related parties for the restructuring period, and also include information on compliance with the requirements specified in part 1 of Article 18 of the Law.

An independent expert shall review the financial and commercial activity of the Debtor and its related parties, the activities of whom shall be a resource for the Debtor to perform its obligations on behalf of the Involved Xreditors. . For the purpose of report, the list of such related parties is agreed by the Involved creditors and together with the Debtor is considered as the Debtor Group.

The main objective of the report is to provide an objective and independent analysis of the financial and commercial activity, aimed at revealing the true reasons for financial distress and finding adequate methods for efficient recovery of the debtor. In the process, the focus should be on short and long-term forecasts (including analysis of assumptions based on the analysis of historical performance), to a greater extent than historical data reporting. The work of the expert shall use all the information that may be relevant to the task, not limited to this document verbatim.

To clarify the above aspects, the work of the independent expert may involve the following stages:

- 1. Overview of the business and management review**
- 2. The analysis of the historical and current financial reporting for the last 3 years**
- 3. Market review**
- 4. Operational and financial projections of the Debtor / Debtor Group**
- 5. Legal assessment**
- 6. Collateral review**
- 7. Conclusions and Recommendations**

The Independent Business Review report should consist of at least the following parts (but not limited to):

1. Overview of the business and management review:

- Analysis of legal and operational structure of the Debtor / Debtor Group;
- Products-cash flow chart of the Debtor / Debtor Group; information on key business partners of the Debtor / Debtor Group, evaluation of their influence on business activity of the Debtor / Debtor Group;
- Information on ultimate beneficiary (ies) / owner (s) / controller (s) of the Debtor / Debtor Group, determination of its/their area of business;
- Review of the Debtor's financial reporting system and comments on its reliability;
- Assessment and comments on the ability of management to manage in the crisis environment; assessment of management's operational and financial strategy;
- Assessment of production capacities and its current utilization;
- Assessment of the products / services range, volumes of production and sales of goods and services (actual and at least for the last 3 years), raw materials base, , etc.

2. Financial analysis of the Debtor / Debtor Group for the last two years (based on BS, P&L, cash flow reports), including, but not limited to:

- Dynamics and structure of: revenues, cost of goods, operating income;
- Analysis of the P&L report, comments on single, exceptional, unusual operations and other adjustments made to the key indicators by management and / or independent expert;
- Analysis of the reports on cash flow for the relevant period;
- Analysis of the indebtedness/interest bearing debt structure, including off – credits, issued securities, warranties, off-balance and other bonds, (their terms and conditions, performance of obligations);
- Review of the currency position and currency results. Short description of assets and obligations, income and costs nominated in foreign currencyLiquidity review, structure of the working capital, net working capital as of the last reporting date, including analysis of current business transactions and payments.
- Analysis of capital expenses (where relevant);
- Analysis of key efficiency indicators of the Debtor / Debtor Group compared to those generally accepted for the Debtor's industry;
- Assessment of non-core assets of the Debtor / Debtor Group;
- Analysis of intragroup transactions and correspondence of such transactions to market conditions;
- Analysis of key factors that led the Debtor / Debtor Group to financial difficulties.

3. Market review.

- Market overview (including local and exports), and its development perspectives during the term provided for by the restructuring plan: annual growth rate, main trends, risks – based on available industry researches and / or appropriate information provided by the Debtor, etc.;
- Review of state regulation of the market (quotas/customs rates and others), if applicable;
- Review of competitiveness of the Debtor's / Debtor Group 's goods / services, principal competitors of the debtor/Group, their market share and the debtor/Group's share based on available industry researches and / or appropriate information provided by the Debtor, etc.

4. Analysis of the operational and financial projections of the Debtor / Debtor Group and the restructuring plan:

- Cash flow projection (financial model) should be developed by the Debtor / Debtor Group for at least 5 years, including operating flows, financial and investment activity, cash available for debt service and repayment;
- Analysis of the model should be done by the independent expert who should comment at least the following issues (but not limited to):
 - completeness of the model;
 - Analysis of the main assumptions underlying the model and plan;
 - Proposals based on risk analysis in key assumptions (if any) on adjustments to cash flow available for debt servicing and repayment of the forecast period;
 - Stress test financial models and cash flow sensitivity analysis to changes in key assumptions and identifying key vulnerabilities in terms of implementation.
- Review of short-term and strategic plans of the Debtor/Group initiatives to reduce costs;
- Analysis of the optimal level of debt burden of the Debtor / Group: analysis of the volume and timing of additional funding requirements (if any), the calculation of the expected financial results from additional funding, the analysis of the maximum level of debt that the Debtor/Group can support within the projected period.

5. Legal assessment of the Debtor /Group and separate issues of its activity.

- Check of the legal status of the Debtor, including compliance with part 1 of Article 18 of the Law;
- Legal due diligence in respect of the title to the core assets of the Debtor / Debtor Group and identification of the related risks. The list of the core assets shall be agreed by the involved creditors;
- Review of licenses, permissions and other regulation documents crucial for the Debtors activity;
- Targeted analysis of the main contracts of the Debtor that may affect the debt restructuring procedure in case of challenge or invalidation of such contracts. The list of the main contracts shall be determined by the involved creditors in each procedure;
- Assessment of the material court disputes between Debtor / Debtor property guarantor (s) and not involved creditors for the potential substantial impact on restructuring procedure or restructuring plan. The materiality criteria shall be determined by the involved creditors in each separate procedure;
- Assessment of encumbrances over the collateral assets (check the public registers) for the purpose of identification of the potential substantial impact on restructuring procedure or restructuring plan.

6. Collateral review.

- Description of the main features of existing and additional collateral;
- Analysis of the latest available collateral evaluation report, including comments concerning the applied methodology, possible shortcomings and their impact on reliability of the valuation results. If the latest available valuation report is older than 12 months, the involved creditors may require the Debtor to renew the report or order a new valuation by themselves.
- As per a separate task of the involved creditors – site visit and / or inventory of collateral or a separate list of collateral / non-collateral asset.

7. CONCLUSIONS AND RECOMMENDATIONS. The report on the review of financial and economic activity of the debtor shall include an opinion on the prospects of economic activity of the debtor, the key risks and conditions for such prospects, conclusions regarding the likelihood of a positive impact of the restructuring plan to restore the business Debtor / Groups if implemented, and recommendations based on the work and goals of the activity.

Separate remarks and recommendations:

Financial reporting of the Debtor / Debtor's Group.

For the purposes of the report on the review of financial and commercial activities, an independent expert shall use financial reports of the Debtor / Debtor's Group (by the decision of the involved creditors) at least for the last 3 years or a period longer than 3 years if reasoned by an independent expert or/and by the decision of the involved creditors. Financial reporting is optimal if prepared and audited according to IFRS. In case there are no IFRS financial reports, the Debtor shall provide its available financial reports for review.

Important assumptions:

- A complete commercial analysis of the business (i.e. detailed assessment of the competitive position of the debtor and the prospects for growth on the market) shall not be a part of the Report. If necessary, pursuant to the decision of the involved creditors, the independent expert shall provide services on detailed operational and strategic diagnostics of the Debtor under a separate arrangement.
- Assumptions for the financial projections of the Debtor / Debtor's Group shall be properly supported by research and analysis, including relevant research of the sector.
- As a part of the work of the independent expert, particularly for the purposes of analysis of the capital expenses, technical experts shall be involved pursuant to a separate decision on this point of the involved creditors.

These requirements and guidelines include main components of the Report, however in each particular case by the decision of the involved creditors each section may be supplemented with additional chapters or the task of the expert may be specified.

Monitoring of the performance of the restructuring plan

If the restructuring plan provides for regular monitoring of the debtor's performance of its obligations during the period of restructuring, the expert may be involved by the creditors for conducting regular monitoring of such performance (after approval of the restructuring plan). In such case, this matter shall be dealt with separately on the basis of a separate decision of the involved creditors, or on a bilateral basis pursuant to a separate agreement between a creditor and the expert.