

8 April 2010

To: The Bank of New York Mellon ("BNYM")  
One Canada Square  
London  
E14 5AL  
Attention: Mark Jeanes

Gallery Capital Scheme Creditors  
(as defined in paragraph 1.4(a) below)

GMG Scheme Creditors  
(as defined in paragraph 1.4(b) below)

Cc: Gallery Out of Home Media Limited ("GOHML")  
10 Connaught Close  
London  
W2 2AD

Wilmington Trust F.S.B. ("Wilmington")  
c/o Wilmington Trust Company  
Rodney Square North  
1100 North Market Street  
Wilmington, DE 19890-1605  
Attention: Patrick Healy

Lucid Issuer Services Limited (the "Information Agent")  
Leroy House  
436 Essex Road  
London  
N1 3QP  
Attention: Sunjeev Patel/ Thomas Choquet

Dear Sirs,

**PROPOSED SCHEMES OF ARRANGEMENT IN RELATION TO GALLERY CAPITAL S.A. AND GALLERY MEDIA GROUP LTD.**

**THIS LETTER CONCERNS MATTERS WHICH MAY AFFECT YOUR LEGAL RIGHTS AND ENTITLEMENTS. YOU MAY THEREFORE WISH TO TAKE APPROPRIATE LEGAL ADVICE ON ITS CONTENTS.**

**1. PURPOSE OF THIS PRACTICE STATEMENT LETTER**

- 1.1 As explained in paragraph 10 below, this Practice Statement Letter is written pursuant to the Practice Statement issued by the High Court of England and Wales in relation to schemes of arrangements under the Companies Act 2006. This Practice Statement Letter relates specifically to the proposed schemes of arrangement referred to above.
- 1.2 We write to BNYM in its capacity as the Trustee under the indenture dated 12 May 2006 (as subsequently amended, restated and supplemented from time to time) entered into by Gallery Capital S.A. ("Gallery Capital"), Gallery Media Group Ltd. ("GMG"), certain of GMG's subsidiaries as guarantors, and BNYM as Trustee, Principal Paying Agent and Transfer Agent (each as defined therein) (the "Old Notes Indenture").

1.3 Capitalised terms used without definition in this letter have the meanings assigned to them in the Old Notes Indenture unless a contrary indication appears.

1.4 This letter is also addressed to:

- (a) the “**Gallery Capital Scheme Creditors**” being the creditors of Gallery Capital in respect of liabilities owed by Gallery Capital in connection with the notes issued under the Old Notes Indenture (the “**Old Notes**”). This includes all persons with a beneficial interest in the Old Notes held in global form through Clearstream Banking, Euroclear Banking S.A./N.V. or the Depository Trust Company (together the “**Clearing Systems**”) at 5.00pm (New York City time) on 14 May 2010 (the “**Record Time**”) but excluding GMG; and
- (b) the “**GMG Scheme Creditors**” being holders of the guarantee claims against GMG pursuant to the Old Notes Indenture,

(the Gallery Capital Scheme Creditors and the GMG Scheme Creditors together are further referred to as the “**Scheme Creditors**”).

## 2. PROPOSED SCHEMES

2.1 Gallery Capital (a joint stock company (*société anonyme*) incorporated under the laws of Luxembourg with registered number B-115913) and GMG (a limited liability company incorporated under the laws of the British Virgin Islands with registered number 629380) (the “**Scheme Companies**”) are each proposing to enter into a scheme of arrangement (the “**Schemes**”). The Schemes are to be entered into with, respectively, the Gallery Capital Scheme Creditors and the GMG Scheme Creditors under Part 26 of the Companies Act 2006. The Schemes are intended to effect the financial restructuring of the Scheme Companies (the “**Restructuring**”) contemplated by the term sheet (the “**Term Sheet**”) finalised by the steering committee currently representing approximately 80% by value of the holders of such of the Old Notes as are not held by GMG (the “**Bondholder Steering Committee**”) on 6 October 2009, a summary of which is set out in Appendix 1 (the “**Deal Summary**”).

2.2 GOHML and all of its direct and indirect subsidiaries prior to the implementation of the proposed Schemes are referred to herein as the “**Existing Group**”.

2.3 In addition to this Practice Statement Letter being sent to BNYM by post, an electronic copy of it shall also be made available by the Information Agent to all Scheme Creditors.

2.4 The purpose of this letter is to give notice to the Scheme Creditors that the Scheme Companies intend to apply to the High Court of Justice of England and Wales at the Royal Courts of Justice, Strand, London WC2A 2LL (the “**Court**”) at a court hearing (the “**First Court Hearing**”) currently expected to be held on or soon after 21 April 2010 for an order granting each of the Scheme Companies certain directions in relation to the Schemes including permission for each Scheme Company to convene meetings of:

- (a) the Gallery Capital Scheme Creditors; and
- (b) the GMG Scheme Creditors;

(the “**Scheme Meetings**”) for the purpose of considering and, if thought fit, approving the Schemes.

Details of the precise date, time and location of the First Court Hearing will be available from the Information Agent (using the contact details set out in paragraph 12.4 below) as soon as the details have been finally fixed by the Court.

### 3. BACKGROUND TO THE EXISTING GROUP

- 3.1 The business conducted by the Existing Group was established in 1994. The business is to provide clients with advertising opportunities on billboards, street furniture and transport displays. The Existing Group is the second largest out-of-home media operator in Russia and Ukraine. The Existing Group owns and operates a network of more than 46,000 advertising panels in more than 30 cities across Russia and Ukraine, with approximately 28,000 advertising “faces” in Moscow alone. The Existing Group generates revenues from sales on its proprietary advertising structures, as well as from structures subcontracted from third party operators.
- 3.2 GOHML is the parent company of the Existing Group. The Existing Group’s operating subsidiaries are all held through GMG, which is a holding company. Gallery Capital was established as the issuer of the Old Notes.
- 3.3 In 2006, the Existing Group decided that a significant amount of additional capital was required in order to fund expansion opportunities that presented themselves in the markets in which the Existing Group operated. Accordingly, in May 2006, Gallery Capital issued the Old Notes in an amount of \$175 million. The Old Notes bear interest at an annual rate of 10.125%, payable semi-annually on 15 May and 15 November. The principal amount of the Old Notes is payable by Gallery Capital at their stated maturity of 15 May 2013, or earlier if accelerated. The net proceeds from the Old Notes were on-lent by Gallery Capital to GMG in an amount of \$74.1 million (the “**GMG Bond Proceeds Loan**”) and to Gallery Service LLC (a Russian subsidiary of GMG) in an amount of \$100.9 million (the “**GS Loan**”). In November 2008 GMG purchased a proportion of the Old Notes with a face value of \$13.5 million at a net cost of \$5.9 million.

### 4. THE EXISTING GROUP’S FINANCIAL DIFFICULTIES

- 4.1 As indicated in its most recent annual audited accounts for the year ended 31 December 2008, the Existing Group performed well for the first nine months of 2008. However, the fourth quarter, which is traditionally the busiest quarter for the Existing Group, was extremely challenging. The global financial crisis created a deteriorating outlook for outdoor advertising. The slowdown experienced by the Existing Group in the fourth quarter of 2008 has continued and, as a result, revenues for the Existing Group for 2009 were significantly down on previous years. The Existing Group therefore took the decision to focus on expense reduction, cash preservation and liquidity management.
- 4.2 In light of the above, the shareholders and management of the Existing Group started to review the capital structure of the Existing Group to determine whether the difficult trading conditions might create any difficulties in respect of the Existing Group’s ability to service its debt obligations. The Existing Group spoke to a number of financial advisors in December 2008 before entering into detailed discussions with J.P. Morgan plc (“**JPM**”) in London in early 2009.
- 4.3 During the first quarter of 2009, management of the Existing Group created a five year business plan reflecting the latest trading conditions and future prospects envisaged for the Existing Group. The five year business plan projected severe declines in revenue as a result of the continuation of the difficult trading conditions already experienced by the Existing Group. In addition, the Existing Group had limited ability to implement further cost savings, as most of its costs were fixed in nature.
- 4.4 The result was that the Existing Group was forecast to come under cash flow constraints in its ability to service its debts. On 8 May 2009, JPM summarised the consequences of these pressures on the capital structure in a presentation given to the board of GOHML. It showed that, while the Existing Group currently enjoyed apparently significant positive cash reserves of approximately \$30 million, these were rapidly being, and projected to continue to be, depleted by the cash outflows required by the Existing Group (including paying semi-annual

interest on the Old Notes) without being replenished by the Existing Group's trading revenues. The presentation showed the Existing Groups' cash-flows diminishing in this fashion to the point where the Existing Group would be unable to meet the interest payment due on the Old Notes on or about 15 May 2010 from its own funds.

- 4.5 JPM analysed the implications of the five year business plan on the Existing Group's enterprise value. JPM employed two methods: a valuation based on discounted cash flow ("DCF") analysis of the Existing Group's projected future cash flows as per the business plan, and a valuation based on comparable trading multiples (being where the Enterprise Value (as defined below) is calculated as a multiple of estimated EBITDA) found in comparable companies in the same line of business.
- 4.6 Based on DCF analysis of the management business plan, the preliminary, indicative enterprise value of the business activities of the Existing Group (the "**Enterprise Value**") was estimated to be between \$60-70 million. Based on comparable trading multiples, the Enterprise Value was estimated to be between \$60-80 million. By adding the Existing Group's then cash reserves of approximately \$30 million to this figure, the value of all assets of the Existing Group on a going concern basis ("**Total Asset Value**") was estimated between \$90-110 million. This was significantly less than the then principal amount outstanding under the Old Notes, of \$161.5 million (excluding the \$13.5 million of Old Notes owned by GMG).
- 4.7 In March 2010, the Existing Group engaged JPM to undertake an updated valuation analysis. For the purpose of this analysis the management provided JPM with an updated five year business plan reflecting the current business environment and management expectations.
- 4.8 JPM analysed the implications of the updated five year management business plan on the Existing Group's enterprise value. It employed three methods: (i) a valuation based on a DCF of the Existing Group's projected future cash flows as per the updated management business plan; (ii) a valuation based on comparable trading multiples (being where the Enterprise Value is found in comparable companies in the same line of business); and (iii) given the lack of precedent transactions outside Russia, comparable to the Existing Group, JPM also used a valuation based on EV/EBITDA multiple paid in past acquisitions in Russia by the Existing Group as a cross-reference.
- 4.9 The analysis was delivered to the board of directors of GMG on 7 April 2010 and it indicates that based on the updated management business plan and the current market conditions, the Enterprise Value is not materially higher than what JPM estimated the Total Asset Value of the Existing Group in May 2009. Although there has been a slight increase in the range of valuation estimates provided by JPM, it is not a significant increase and the Scheme Companies are of the view that this does not affect their analysis as to who the Scheme Creditors should be.

## **5. THE EXISTING GROUP'S BREACHES OF FINANCIAL OBLIGATIONS**

- 5.1 The board of directors of each of GOHML and GMG judged it to be in the interests of the respective companies that the Existing Group conserve its cash resources so as to survive any protracted negotiations for a restructuring, and so that those resources could be applied in the right manner if and when a restructuring was eventually agreed. Accordingly, on 8 May 2009, the board of directors of GMG resolved not to pay the interest of \$3.8 million due from it to Gallery Capital on 12 May 2009 under the GMG Bond Proceeds Loan. Then, on 12 May 2009, the general director of Gallery Service LLC resolved not to pay the interest of \$5.1 million due from it to Gallery Capital on 12 May 2009 under the GS Loan.
- 5.2 As a consequence of this failure to pay, Gallery Capital was unable to make the interest payment due on 15 May 2009 to the holders of the Old Notes. The non-payment of that interest constituted an event of default under the Old Notes Indenture if it remained unpaid for a period of 30 days. The last day of that grace period expired on 15 June 2009. As at the date



of this Practice Statement Letter, Gallery Capital has not made payment of that interest or any subsequent interest due on the Old Notes, nor has it received funds from GMG or Gallery Service LLC or any other person to enable it to do so.

- 5.3 Accordingly, on 15 June 2009, an event of default arose pursuant to the terms of the Old Notes Indenture, and that event of default, amongst others, is continuing.

## **6. THE STANDSTILL AGREEMENT**

- 6.1 Given the current financial position of the Existing Group and the level of support of the Scheme Creditors for the Restructuring (as set out at paragraph 6.2 below), each of the Scheme Companies considers it appropriate to implement the Restructuring via the Schemes. In this regard, in October 2009, each of the Scheme Companies was advised by the Bondholder Steering Committee that the Schemes had the support of a significant number of the Scheme Creditors and that a sufficient number of such Scheme Creditors were prepared to enter into a lock-up and standstill agreement with the Scheme Companies in order to support the Restructuring and the Schemes (the “**Standstill Agreement**”).
- 6.2 On 6 October 2009, the Standstill Agreement was signed by members of the Bondholder Steering Committee, which currently represents approximately 80% (by value) of the Old Notes (not held by GMG).
- 6.3 The terms of such Standstill Agreement include an agreement from each of the Gallery Capital Scheme Creditors party thereto: (i) to vote and to take all other action as may be necessary under the Old Notes Indenture to give effect to the Restructuring; (ii) not to take, encourage, assist or support (or procure that any other person takes, encourages, assists or supports) any action which would, or would reasonably be likely to, breach or be inconsistent with the Restructuring, or delay, impede or prevent the implementation and consummation of the Restructuring, including (without limitation) opposing the making of any temporary restraining order, or other similar injunctive relief, necessary to implement, the Restructuring; and (iii) not to assign or sub-participate any of its rights or transfer any of its rights or obligations in respect of, or declare or create any trust of any of its rights, title or interests in respect of, its Old Notes to, or in favour of, any person unless and until that person delivers a duly completed and executed deed of accession to the Standstill Agreement.
- 6.4 The Standstill Agreement contained a long-stop date of 5 March 2010 which has since been extended to 31 May 2010. The Bondholder Steering Committee is entitled to terminate the Standstill Agreement in certain circumstances, including the opening of any formal insolvency proceedings against any material company of the Existing Group (including, without limitation, Gallery Service LLC), or the breach of any term under the Standstill Agreement by the Russian Sponsors or any relevant company of the Existing Group.

## **7. SCHEME CREDITORS WILL BE AFFECTED BY THE SCHEMES**

- 7.1 From the date on which the Schemes become effective (the “**Effective Date**”), all Scheme Creditors will be bound by the terms of the Schemes, along with Gallery Capital, which will agree to be bound by the terms of the GMG Scheme, and GMG, which will agree to be bound by the Gallery Capital Scheme (and various other entities which will undertake to be bound by the Schemes). It is important to note that the effectiveness of each Scheme is conditional upon the effectiveness of the other and the provision of the ancillary undertakings.
- 7.2 The precise terms of each Scheme (including the documentation referred to in paragraph 9.1(d) below) will be included with the Scheme Documentation (as defined below) or will otherwise be made available to Scheme Creditors for review.

## **8. WHAT IS THE PURPOSE OF THE SCHEMES?**

- 8.1 The primary objectives of the Schemes are to:

- (a) implement the Restructuring in order to create a new corporate structure for the business in the form of a newly restructured group (the “**Restructured Group**”) which, following certain proposed transfers of assets contemplated by the Schemes, will possess a strengthened balance sheet and a more appropriate capital structure compared to the Existing Group, and a level of debt that is serviceable moving forward;
  - (b) attempt to avoid placing certain companies within the Existing Group into administration or liquidation (or another insolvency process) at some point in the near future, and prior to the completion of the Restructuring, as a result of which the recoveries for Scheme Creditors would be significantly less than if the Restructuring were to be successfully completed;
  - (c) reduce the total indebtedness of the Existing Group (including both principal and accrued interest as at the date of this letter) from \$328 million to the amount of the new notes (being \$95 million plus the amount of interest deemed to have accrued on such amount in the period from 1 February 2010 until the Effective Date (the “**New Notes Amount**”)); and
  - (d) issue equity to the current holders of \$161.5 million face value of the Old Notes who will, following the completion of the Restructuring, own 68% of the equity in a new company which will hold the assets of the Restructured Group (“**NewCo**”).
- 8.2 A newly formed orphan company (the “**New Issuer**”) will issue new notes equal to the New Notes Amount (the “**New Notes**”) of which 90% will be issued to the Gallery Capital Scheme Creditors. The New Notes will have a 10% annual interest rate (payable quarterly in arrears, and at the option of the New Issuer, such interest may be paid in cash or paid-in-kind until 1 February 2011 and shall be cash payable thereafter) and a 5 year maturity term. As noted above, pursuant to the terms of the Standstill Agreement, interest on the \$95 million of New Notes will be deemed to accrue from 1 February 2010 and will capitalize as principal on the Effective Date and form part of the New Notes Amount.
- 8.3 Gallery Capital as the issuer under the Old Notes Indenture has been selected as a Scheme Company. GMG has also been selected as a Scheme Company because: (i) it holds the shares in the principal assets of the Existing Group (being the shares in its direct subsidiaries) which will be transferred to NewCo in consideration for the compromise of all of the claims of the Scheme Creditors (including any claim under the guarantees given by GMG under the Old Notes Guarantees) pursuant to the terms of the Schemes; (ii) it is a guarantor of Gallery Capital’s obligations under the Old Notes Indenture; and (iii) it is a borrower under the GMG Bond Proceeds Loan Agreement.
- 8.4 In connection with the implementation of the Schemes, Gallery Capital will be soliciting consent from the holders of the Old Notes to transfer the role of Trustee under the Old Notes Indenture from BNYM to Wilmington on the Effective Date. Pursuant to the terms of the Old Notes Indenture, the Trustee can be replaced by notice in writing from a majority of the holders of the Old Notes. Holders of the Old Notes will be requested to vote in favour of the transfer of the trustee role in the Account Holder Letter (as defined below) to be returned to the Information Agent prior to the Account Holder Deadline (as defined in the Account Holder Letter). Wilmington will also act as Trustee for the New Notes subject to its acceptance of such appointment through its execution of a ‘New Notes Indenture’.
- 8.5 The Schemes proposed by Gallery Capital and GMG remain the only viable option available to the Existing Group to implement the consensual restructuring agreed with the majority of its creditors. If the Schemes are not sanctioned and the Restructuring is not implemented, the directors of the Existing Group companies are of the view that they would likely have to seriously consider whether each of the companies would need to file for bankruptcy or liquidation in their jurisdiction of incorporation. The Gallery Capital board of directors and the GMG board of directors are both of the view that the Restructuring, as it is proposed to be

implemented pursuant to the terms of the Schemes, is in the best interests of the Scheme Companies and their stakeholders.

## **9. THE NATURE OF THE SCHEMES**

9.1 The Schemes will bind the Scheme Creditors to the Restructuring contemplated by the Term Sheet (subject to the comments in paragraph 7.2 above), and will, amongst other matters, require:

- (a) Wilmington as successor trustee under the Old Notes Indenture acting without discretion and solely pursuant to the authorisations given under the Schemes and on behalf of the Scheme Creditors, to fully release the issuer of the Old Notes, the chargors and the guarantors from all liabilities under the Old Notes, the Old Notes Guarantees and the Old Notes Security Documents;
- (b) Gallery Capital to release GMG from all claims under the GMG Bond Proceeds Loan;
- (c) in consideration of such releases; (i) Gallery Capital to transfer to the New Issuer and Dagimel International Ltd all amounts outstanding under the GS Loan pursuant to the terms of each of the 'Novation Agreements'; and (ii) GMG shall transfer Westdia Media Limited, Radiodepot Limited and Dagimel International Ltd (holders, directly or indirectly, of the shares of the operating companies of the Existing Group) and all other assets of the Existing Group to NewCo pursuant to the terms of the 'GMG Transfer Agreement'; and
- (d) the Scheme Creditors to enter into and be bound by (amongst others) the following definitive agreements:
  - (i) the 'New Notes Indenture';
  - (ii) the 'Scheme Guarantee and Security Documents';
  - (iii) the 'Shareholders' Agreement'; and
  - (iv) the 'Deed of Release'.

These agreements are, broadly speaking, contemplated by, or required to implement the Restructuring. Summaries of the terms of these documents will be made available to the Scheme Creditors for review. A structure chart setting out a summarised overview of the group following the completion of the Restructuring is set out at Appendix 2.

9.2 As a consequence of the Schemes, the realisable value in the Existing Group will be held through NewCo for the benefit of the Scheme Creditors in accordance with the terms of the Schemes. Following the Restructuring, the entities which were part of the Existing Group but are not transferred to the NewCo will have no (or *de minimus*) value and will be placed into an appropriate form of insolvency process or dissolved, provided that Gallery Capital and GMG will not be placed into liquidation proceedings for a period of three months following the Effective Date.

## **10. CLASSES OF SCHEME CREDITORS**

10.1 On 15 April 2002, the High Court of Justice of England and Wales issued a Practice Statement that requires any company proposing to implement a scheme of arrangement to notify those affected by it: (i) that a scheme is being promoted; (ii) the purpose that the scheme is designed to achieve; (iii) the meetings of creditors the company believes are required for the purposes of voting on the scheme; and (iv) the constitution of those meetings. Points (i) and (ii) have been covered above.

10.2 In order to become effective, each scheme of arrangement must be approved by a majority in number representing not less than 75% by value of those creditors who vote at each of the

meetings of creditors convened for the purposes of considering each of the relevant schemes. The law requires that, where scheme creditors have rights which are so dissimilar as to make it impossible for them to consult together with a view to their common interest, they must be split into separate classes and a separate meeting (and vote) must be held for each class of scheme creditor for each Scheme Company. Each separate class must vote in favour of the relevant scheme of arrangement by the requisite majority before such scheme is capable of being sanctioned (at the discretion of the court) and becoming effective.

- 10.3 Each Scheme Company is proposing a scheme to bind only those creditors who are Scheme Creditors and the specific parties who are to undertake to be bound by the Schemes. It is not proposed that any other persons who may have claims against, or an interest in, the Scheme Companies will be bound by or indeed affected by the Schemes. This is because the Scheme Companies do not believe that any other stakeholders have an economic interest in the Scheme Companies in light of their current financial position, and the security provided by the Scheme Companies to the Scheme Creditors.
- 10.4 It is the responsibility of the person promulgating the relevant scheme to formulate the classes of creditors. Each of the Scheme Companies has considered the rights of the Scheme Creditors against it as they stand, and the rights that the Scheme Creditors would have under the Schemes if they become effective, and has taken legal advice in that respect.
- 10.5 Gallery Capital has considered the existing rights of the Gallery Capital Scheme Creditors and the way in which those rights will be compromised under the Gallery Capital Scheme and has concluded that the existing rights of those creditors, and the rights they will enjoy if the Gallery Capital Scheme becomes effective, are not so dissimilar as to make it impossible for them to consult together with a view to their common interest – in fact, they are broadly the same. Accordingly, Gallery Capital has been advised that the Gallery Capital Scheme Creditors fall into a single class of creditors and the Court should convene a single meeting at which they can vote on the Gallery Capital Scheme.
- 10.6 Similarly, GMG has considered the existing rights of the GMG Scheme Creditors and the way in which those rights will be compromised under the GMG Scheme and has concluded that the existing rights of those creditors, and the rights they will enjoy if the GMG Scheme becomes effective, are not so dissimilar as to make it impossible for them to consult together with a view to their common interest – in fact, they are broadly the same. Accordingly, GMG has also been advised that the GMG Scheme Creditors fall into a single class of creditors and the Court should convene a single meeting at which they can vote on the GMG Scheme.
- 10.7 Therefore, in respect of the Gallery Capital Scheme, there will be one meeting of the Gallery Capital Scheme Creditors and, in relation to the GMG Scheme, there will be one meeting of the GMG Scheme Creditors for the purposes of considering and, if the relevant Scheme Creditors think fit, approving the relevant Schemes. In order for the Schemes to become effective, each must be approved by a majority in number representing not less than 75% in value present and voting of each of the class meetings convened.
- 10.8 **IMPORTANT: If any Scheme Creditor has comments as to the constitution of the Scheme Meetings that are proposed, or any other issues which it considers should, at this stage of the process be raised with the Court and which relate to the jurisdiction of the Court to sanction the Schemes should they proceed, that Scheme Creditor should in the first instance contact the Information Agent using the contact details set out in paragraph 12.4 below.**

## **11. FIRST COURT HEARING**

- 11.1 As noted above, the First Court Hearing is currently expected to take place on or soon after 21 April 2010. The Scheme Companies will draw any issue (of the type described in paragraph 10.8 above) raised by the Scheme Creditors to the Court's attention at the First Court Hearing. Scheme Creditors have the right to attend in person or through counsel and make



representations in relation to such issues at the First Court Hearing, the date of which will, as stated above, be notified to the Scheme Creditors by the Information Agent once it is known.

- 11.2 This letter is intended to put Scheme Creditors on notice that, if they wish to raise issues that relate to the jurisdiction of the Court to sanction the Schemes if they were to proceed or argue that the proposals outlined above for convening the Scheme Meetings are inappropriate, or to raise any other issue in relation to the constitution of the Scheme Meetings or which might otherwise affect the conduct of such Scheme Meetings, they may attend and be represented before the Court at the hearing of the relevant applications for orders to convene the Scheme Meetings.
- 11.3 Scheme Creditors should be aware that the English Courts have indicated that issues which may arise as to the constitution of meetings of creditors or which otherwise affect the conduct of those meetings (“**Creditor Issues**”) or which affect the jurisdiction of the Court to sanction a scheme of arrangement should be raised at the First Court Hearing. If they do not do so, while creditors will still be able to appear and raise objections at later court hearings to sanction the relevant schemes, the Court would expect them to show good reason why they did not previously raise any Creditor Issues or jurisdictional issues in respect of the proposals for convening of the Scheme Meetings. Scheme Creditors should therefore raise such issues at the First Court Hearing.

## **12. NEXT STEPS**

- 12.1 If leave to convene the Scheme Meetings is granted by the Court, then BNYM (on behalf of the Scheme Creditors) will be sent a letter enclosing (amongst other things) the following important documents:
- (a) notices convening each of the Scheme Meetings (the “**Notices**”);
  - (b) an explanatory statement relating to the Schemes (the “**Explanatory Statement**”);
  - (c) the account holder letter for the Scheme Creditors (the “**Account Holder Letter**”) which contains, amongst other things, a form of proxy and voting form for the Scheme Creditors in relation to the Schemes; and
  - (d) the terms of the Schemes,
- (together, the “**Scheme Documentation**”).
- 12.2 The Scheme Documentation will also be made available to the Scheme Creditors by the Information Agent.
- 12.3 As already explained above, the Scheme Companies are of the view that the Schemes are the most effective method of implementing the Restructuring in the shortest practicable time and avoiding the need to place the Existing Group (or certain strategic companies within the Existing Group) into administration or liquidation (or other insolvency process) at some point in the near future. For this reason, all Scheme Creditors are encouraged to support each of the Schemes.
- 12.4 If you have any questions in relation to this letter or the Schemes, please contact the Information Agent:

**Lucid Issuer Services Limited**  
**Attention: Sunjeev Patel/ Thomas Choquet**  
**Tel: + 44 20 7704 0880**  
**Fax: + 44 20 7067 9098**  
**E-mail: [gallery@lucid-is.com](mailto:gallery@lucid-is.com)**

Yours faithfully,

  
**GALLERY CAPITAL S.A.**

  
**GALLERY MEDIA GROUP LTD.**

## **APPENDIX 1**

### **DEAL SUMMARY**

#### **1. Definitions:**

**“Existing Noteholders”**: Holders of the Existing Notes not owned by Gallery Media Group Ltd.

**“Existing Notes”**: means the \$175 million senior secured notes due 2013 and issued 12 May 2006 by Gallery Capital S.A..

**“Newco”**: New entity (incorporated in the British Virgin Islands) for the purposes of the restructuring.

**“New Issuer”**: New entity (to be incorporated in Luxembourg as an orphan company) for the purposes of the restructuring.

**“New Notes”**: \$95 million senior secured notes to be issued by the New Issuer.

**“Russian Sponsors”**: Baring Vostok Private Equity Fund III and Ferlon Assets Limited (controlled by Anatoly Mostovoy).

#### **2. Newco Equity:**

Existing Noteholders: 70%.

Russian Sponsors: 30%.

The Ad Hoc Committee (whose members in aggregate beneficially own more than 75% of the Existing Notes outstanding) has agreed to reallocate 2% of the 70% overall allocation of Newco equity granted to Existing Noteholders to a third party who assisted the Ad Hoc Committee in negotiations leading to the restructuring.

Shares: One class of ordinary shares ranking pari passu with each other in all respects.

#### **3. Newco board composition, CEO and CROs**

**Newco Board**: 3 board members, including one member nominated by the largest holder of the Existing Notes as at the date of the term sheet, one member nominated by the Russian Sponsors and one member nominated by a majority of the remaining shareholders. Decisions to be taken by simple majority.

**CROs**: Two chief restructuring officers to be appointed by members of the Ad Hoc Committee pending completion of the restructuring.

**CEO**: Chief executive officer of the Group to be appointed by a simple majority of the board of directors of Newco, with the Russian Sponsors benefiting from certain veto rights.

#### **4. Other shareholder terms**

**Shareholder documentation**: Customary shareholder arrangements to be negotiated and agreed.

**Mandatory Bid**: Any person who acquires 33% or more of the shares in Newco, and/or who acquires any further shares having obtained 33%, shall be required to make an offer to acquire all of the remaining shares in Newco not already owned by it, at the higher of the price to be paid pursuant to

such acquisition and the highest price paid for any shares in Newco during the 12 months prior to the date of such acquisition.

**Drag-along rights:** Customary drag-along rights will apply in respect of Newco shares on any bona fide sale of at least two thirds of the shares in Newco to a party unrelated to the existing shareholders of Newco.

**Restricted Transferees:** Agreed list of persons that are not permitted to become shareholders in Newco.

## **5. New Notes:**

Issued by: New Issuer.

Amount: \$95 million.

Holders of New Notes: \$85.5 million – Existing Noteholders and \$9.5 million – Russian Sponsors.

Coupon: 10% per annum payable quarterly in arrears. Payable in Kind during year 1 and in cash thereafter .

Maturity: 5 years.

Optionable redemption: Callable at par on and after the second anniversary of issuance.

Ranking: Senior secured obligations of the New Issuer.

Guarantee and security: Guarantee and security package on substantially the same terms as the Existing Notes.

Amendments: Consent of 90% of the holders of the New Notes to vary economic terms and majority consent for non-economic terms.

Change of Control: Put option at 101% .

Listing: Jurisdiction to be agreed.

## **6. Russian Sponsor Consideration:**

30% of equity in Newco and \$9.5 million of New Notes in exchange for \$5 million cash investment and the provision of certain management and support services for the Group.

In the event of an IPO of Newco or any of its affiliates, or a sale of all or a substantial amount of Newco shares to a third party (an “**Exit Event**”) where the enterprise value of Newco on such Exit Event exceeds US\$384 million, the Russian Sponsors shall be entitled to 21.428% of the amount by which the enterprise value of Newco on such Exit Event exceeds US\$384 million.

## **7. Lock-Up and Standstill Agreement:**

Certain members of the Group, the Russian Sponsors and the Ad Hoc Committee have entered into a lock-up and standstill agreement providing that the parties thereto will support the implementation of the restructuring and negotiate in good faith to agree the necessary documentation to give effect to the agreed terms. Each member of the Ad Hoc Committee agrees that they will not assign, sub-participate or transfer any of their rights, title or interest in the Existing Notes unless such assignee, sub-participant or transferee agrees to be bound by the terms of the lock-up and standstill agreement.



## 8. Defaults

The Group has disclosed to the Ad Hoc Committee the following existing breaches of the indenture dated 12 May 2006 in respect of the Existing Notes (the “**Indenture**”):

- (a) breaches arising by virtue of a failure to pay the 15 May 2009 interest payment due in respect of the Existing Notes;
- (b) that there are certain members of the Group that have not provided guarantees to guarantee payment of the Existing Notes in breach of the future guarantor provisions of the Indenture; and
- (c) the merger of Outdoor One LLC and Gallery Service LLC in breach of the guarantee and impairment of security provisions of the Indenture.

The Group has also disclosed to the Ad Hoc Committee that the Group did not meet the interest payment on the Existing Notes, due 15 November 2009 and does not intend to meet the next interest payment on the Existing Notes, due 15 May 2010.

Note: The description herein is qualified in its entirety by reference to the definitive documentation agreed to implement the restructuring.

## APPENDIX 2

### RESTRUCTURED GROUP SUMMARISED STRUCTURE CHART

