

УКРЗАЛІЗНИЦЯ

UKRZALIZNYTSIA INTEGRATED REPORT



2017



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Supervisory board chairman's statement

Ladies and Gentlemen!

Today we are witnessing how Ukrzaliznytsia is embarking on a journey of fundamental changes. New standards and procedures to reinforce transparency and business integrity, as well as our responsibility towards and close engagement with business partners, passengers, local communities and the environment, in short with the entire Ukraine, will undoubtedly contribute to the achievement of our mission of supporting Ukraine's economic development and the mobility of its residents in a sustainable, effective and efficient manner.

The positive changes we see in the Company also demonstrate our potential and open up new horizons for further effective steps towards deeper cooperation with European institutions and organisations. In particular, we completed most of the work in 2017 to build Beskyd Tunnel, an essential part of the Pan-European transport corridor across Italy, Slovenia, Hungary, Slovakia, and Ukraine, and opened it for operation in 2018. In addition, the Memorandum of Understanding on further cooperation in the Via Carpatia infrastructure project will facilitate Ukraine's European integration. The new route will connect European countries from North to South, from Klaipeda in Lithuania to Thessaloniki in Greece. To put it in a nutshell, the Company makes Ukraine a key rail, transport and logistics hub in Europe.

Operating in line with applicable laws, Ukrzaliznytsia started purchasing goods, works, and services through a ProZorro public e-procurement system in the reporting period. However, we still have a number of objectives to meet in this area. Among them is the creation of an environment to prevent corruption and avoid political expediency and preferences in

contract awarding. In the meantime, the Company is focusing on higher level of partners' responsibility and promotion of fair competition.

We want the Ukrainian society to see our success through improved services and our business partners to appreciate that the principle of a level playing field is inviolable. Acting so, we create an enabling environment where the effective corporate governance in the Company can enjoy wide public support and other state-owned enterprises can follow on our example and practices.

Our sole shareholder is committed to establishing effective corporate governance values to ensure delivery of higher standards of living for Ukrainians. We are grateful to our Deloitte consultants and the European Bank for Reconstruction and Development for their assistance in driving change in the corporate governance system of the Company. We will do everything we can to ensure that the expertise and dedication of our Supervisory Board members in implementation of reforms contribute to Ukrzaliznytsia's development and that our operations support and stimulate economic growth of the nation.

We are confident that this first Ukrzaliznytsia Integrated Report prepared in accordance with international standards clearly demonstrates Ukrzaliznytsia's transparency and delivers a strong message to both domestic and foreign investors, encouraging them to build their trust in domestic state-owned companies, channel investments and support Ukrzaliznytsia's development.



Sevki Acuner

Chairman of the Supervisory
Board, PJSC Ukrzaliznytsia

Acting board chairman's statement

Dear colleagues and partners!

I am pleased to present you Ukrzaliznytsia's first Integrated Report. This is a solid step for us to build a transparent and effective Company.

Step by step, Ukrzaliznytsia is turning into a leading socially responsible business with high corporate governance standards, into a company that is attractive for employees, investors, and partners.

2017 was the year of effective changes for Ukrzaliznytsia. One of our main achievements last year was a new level of economic stability we reached. We had had a loss of UAH 7.3 billion in 2016, but generated UAH 114.5 million in profit in 2017, almost twice above the target. Year on year, the financial performance of the Company improved by UAH 7.4 billion.

Over 206 million passengers used the railway services in 2017. We work continuously to improve the quality of passenger services. Passenger Company was established as part of the structural transformations and efforts to improve the quality of service. We expanded the geography of journeys for Ukrainians to Poland, the Czech Republic, Slovakia, Hungary, Austria, Romania, and Bulgaria.

A compromise solution for indexing rail freight rates by 15% helped stabilise the industry and allocate additional funds for the modernisation, construction and procurement of rolling stock and the upgrade of infrastructure. In 2017, Ukrzaliznytsia doubled capital investments up to UAH 10.9 billion compared with 2016. This enabled the Company to invest the most in the rolling stock upgrade and equipment purchase over the past four years.

We also had an EBITDA growth of UAH 390 million. Our EBITDA of UAH 20.06 billion contributes to Ukrzaliznytsia's positive perception in international financial markets. In addition, the loan portfolio reduced by 9% over the year.

Crucially, we remain one of the biggest taxpayers in Ukraine, paying UAH 6.6 billion in taxes to the national budget in the reporting period.

I am grateful to the Company's employees making more than 270,000 people in total. All of us showed the ability to work coherently and effectively together and, most importantly, to develop in line with the market requirements. We appreciate the contribution of our employees. Ukrzaliznytsia climbed up to the 13th place in the country by employee salaries, and we intend to continue increasing the remuneration of railwaymen.

Cooperation with the EBRD that started in 2017 to reform the procurement system was among the Company's vital decisions. I am confident that Ukrzaliznytsia will be Ukraine's first joint stock company in the public sector to be certified according to the highest international standards of the Chartered Institute of Procurement and Supply.

Our key objectives for 2018 and a short term are to implement an innovative model of the Company's development, improve the rate-setting policy, build effective vertically integrated structures and a robust social and environmental impact management system, increase the productivity, and improve the procurement and property management practices.



Yevhen Kravtsov

Acting Chairman of the Board,
PJSC Ukrzaliznytsia

Section 1

UKRZALIZNYTSIA TODAY



339.6
MILLION TONNES
OF CARGO

UAH
17.6 BN
PAID IN TAXES

276,100
AVERAGE HEADCOUNT

206.6
MILLION
RAIL SERVICE USERS

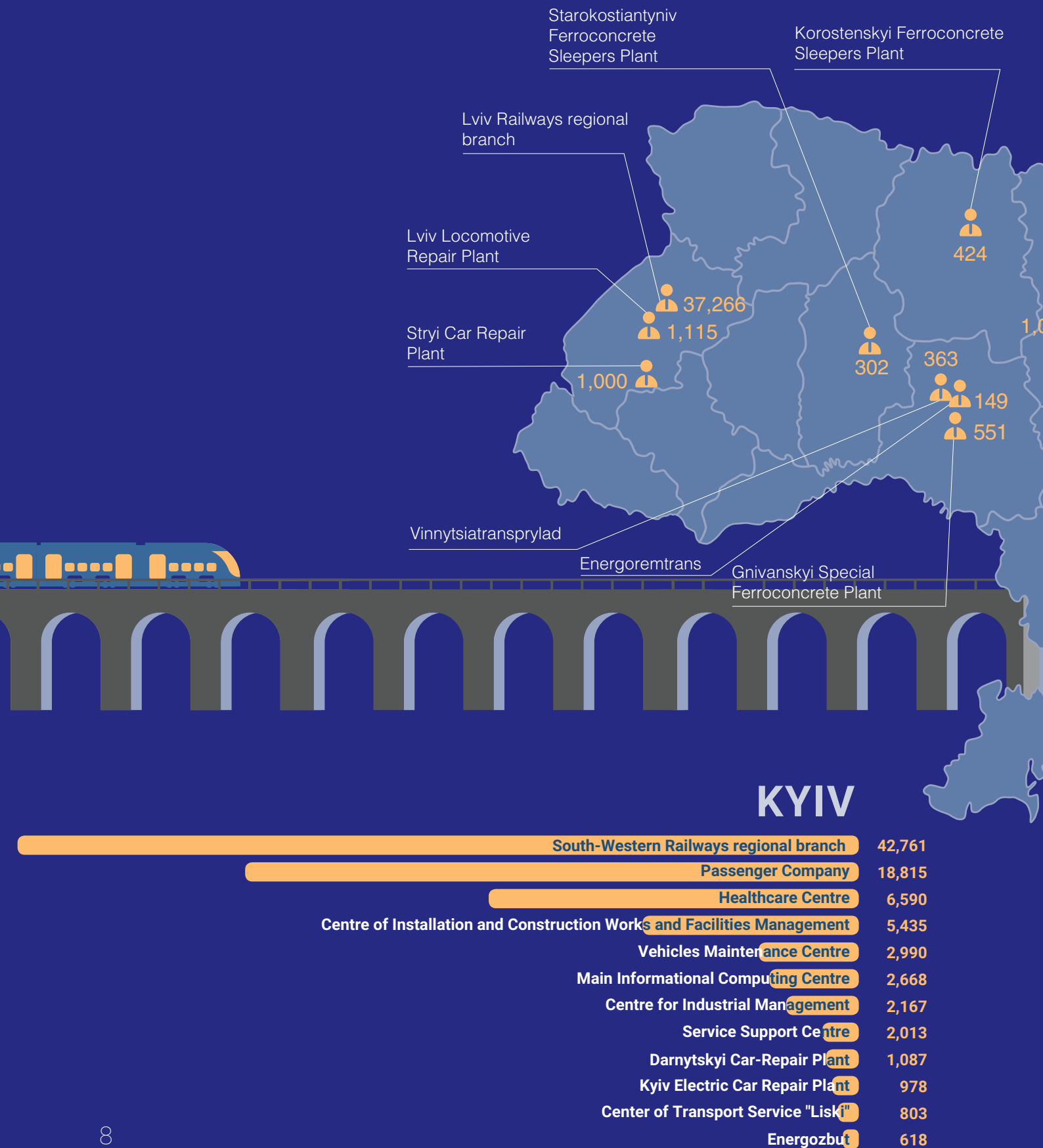
UAH
10.9 BN
CAPITAL INVESTMENT



UAH
26.05 BN
TOTAL PAYROLL
FUND

UAH
434.9 M
ENVIRONMENTAL
EXPENSES

Ukrzaliznytsia Operations and Headcount Map



UKRAINE



KYIV

- 474 ■ Ukrainian Railway High Speed Company
- 362 ■ Unified Payments Centre
- 360 ■ Railway Research Institute
- 278 ■ Centre for Rail Infrastructure Diagnostics
- 243 ■ Design and Survey Institute of Railway Transport
- 240 ■ Production Centre
- 213 ■ R&D Bureau of Information Technology
- 158 ■ Central Telecommunications Office
- 132 ■ Centre for Transport Logistics
- 109 ■ Magistral Media Centre
- 99 ■ Kyiv Electrotechnical Plant "TRANSSYGNAL"
- 15 ■ In-House Paramilitary Security

Mission and Values

Our mission

We build a sustainable future for our business, economy and Ukrainian society by providing quality, safe and competitive transportation services

Our values



Quality

We ensure the quality of our services and the quality of the Company's governance



Unity

We work as a united and cohesive team to achieve common goals and results



Efficiency and effectiveness

We are efficient and effective in business management, personnel development and support to the country's economy



Responsibility

We care for our employees, partners and society, putting safety first



Openness

We are transparent in decision-making and processes and open to a broad public dialogue and engagement

Milestone Events

SEPTEMBER

The Cabinet of Ministers of Ukraine approved the Charter of Public Joint Stock Company "Ukrainian Railways".

Ukrzaliznytsia launched "Stop Corruption" and "Quality and Service" campaigns.

OCTOBER

PJSC Ukrzaliznytsia completed the state registration, the final stage of its corporatisation.

NOVEMBER

Built with investor financing under public-private partnership, a part of the second main line was opened at the 12-18 km running line of the Black Sea-Berehovo section.

DECEMBER

Ukrzaliznytsia started business operations.

2015

2016

An exhibition tour started from Illichivsk along the new Silk Road, Ukraine – Georgia – Azerbaijan – Kazakhstan – China (via the Caspian Sea and the Black Sea).

JANUARY

A Memorandum of Cooperation with General Electric was signed.

The Company announced results of consolidated financial statements for 12 months ended 31 December 2015.

JULY

PJSC Ukrzaliznytsia launched a mobile version of its online rail ticket sale website via booking.uz.gov.ua.

Following the reconstruction, Komysh-Zoria – Volnovakha section resumed the service along a strategic way of Zaporizhia-Mariupol.

NOVEMBER

The Company commissioned the first stage of a software for automated empty freight wagon management system.

DECEMBER

FEBRUARY

Ukrzaliznytsia made 2,604 gondola cars at in-house production facilities, purchased 50 gondola cars and signed a contract for the supply of 450 gondola cars in 2018.

FEBRUARY

An Android mobile application was activated for train ticket booking.

JULY

An iOS mobile application was activated for train ticket booking.

Passenger Company branch started operations, completing establishment of a vertically integrated structure of the long-distance passenger transportation.

SEPTEMBER

The National Securities and Stock Market Commission of Ukraine made a decision to register the issue of shares in Ukrzaliznytsia.

2017

The Management Board of PJSC Ukrzaliznytsia approved Ukrzaliznytsia Development Strategy 2017-2021.

APRIL

Rail service with seven EU countries was established: Poland, Czech Republic, Slovakia, Hungary, Austria, Romania, and Bulgaria.

MAY

CEOs of Ukrzaliznytsia, Azerbaijani Railways and Georgian Railways signed a Memorandum of Cooperation to ensure joint operation of the regular rail-ferry service for the development of freight transportation along the EU – Ukraine – Black Sea – Georgia – Azerbaijan – Caspian Sea – Asian countries route, using Ukrzaliznytsia's ferries.

SEPTEMBER

OCTOBER

After the enactment of the Ministry of Infrastructure Order No. 357 dd. 20 October "On amendments to the coefficients applicable to the rates for freight transportation within Ukraine and related services", the rates were indexed by 15%. The information was published in the Uriadovy Kurier newspaper No. 204 on 31 October 2017.

DECEMBER

The Board of Directors of the European Business Association approved Ukrzaliznytsia's accession to the organisation.

For the first time in its history, the Company published a draft capital investment plan for 2018, IFRS consolidated financial statements, and performance presentations for investors on its website.

2017

Representatives of the Government, ministries, Parliament, EBRD and consultants (Deloitte) were engaged for corporate governance reforms.

The Board of Directors of the European Business Association approved Ukrzaliznytsia's accession to the organisation.

NOVEMBER

The Group made the first payments from a special investment account, which accumulated funds from the indexed rates. The investment account is a way to ensure transparent use of funds for investment activities of the Company.

DECEMBER

Facts and Figures



19,790.90
KM

Length of tracks

half as long as the
Equator

9,349.7
KM

electrified tracks



1,400

**Number
of railway
stations**



105

**Number
of central
terminals**

Lviv Central Terminal
is the oldest



276,119

**Number
of employees**

as many as the population
of Zhytomyr city



Number of freight wagons

104,135



Number of passenger cars

4,463 INCLUDING

2,164 PASSENGER COACHES
1,679 COMPARTMENT COACHES
289 CARS WITH SOFT SEATS
176 INTERREGIONAL CARS
51 DINING CARS
30 LUGGAGE WAGONS
7 POSTAL LUGGAGE CARS



Number of rail traction vehicles

3,551 INCLUDING

1,924 DIESEL LOCOMOTIVES
1,627 ELECTRIC LOCOMOTIVES

8th

PLACE

**in the rankings
of employers**
(data from the
website of the
Cabinet of Ministers
of Ukraine)

6th

PLACE

**in the rankings of taxpayers
among the financial and
industrial groups and the
2nd in the transport
industry**
(data of the Major Taxpayers
Office of the State Fiscal
Service)



206.6

MILLION

**Number of passengers
who used rail service
in 2017**
(almost 2.5 times more than
the population of Germany)



339.6

MILLION TONNES

**Volume of transported
cargoes in 2017**
(as much as
33,600 Eiffel towers)



52

**Number of rest and
recreation facilities**



8

**Number of in-house
hospitals**



32

**Number of in-house
sports facilities**



28

**Number of in-house
science and technology
centres**



70

**Number of in-house
science and technology
centres**



8

**Number of children's
railways**
(incl. one on a temporarily
uncontrolled area)

Transport Market Overview

Ukraine's railways rank fourth in the Eurasian continent in terms of cargo transportation, trailing only the railways of China, Russia and India. The cargo transportation density of Ukrainian railways (the annual tonnage per 1 km) is 3-5 times higher than the corresponding indicator of European developed economies. The rail transport in Ukraine plays even greater role, as the main trans-European transport corridors run across the territory of the country: East-West, Baltic Sea-Black Sea.

The transport industry is a basic economic sector. It operates an extensive network of railways and motorways, seaports and river terminals, airports and a wide network of air services, cargo customs terminals, creating an enabling environment to meet transportation and business needs of transport users.

Ukraine's rail transport plays a significant role in the country's road transport system and accounts for over 80% of the nation's cargo transportation (excluding pipeline) and 33.4% of passenger transportation (excluding urban electric transport). The operational network of Ukrainian railways is one of the largest in Europe, being 19,790.9 km long (excluding non-government controlled areas where the network is currently not used), of which 9,349.7 km (over 47.2%) are electrified.

Ukrainian railways directly border and interact with the railways of Belarus, Moldova, Poland, Russia, Romania, Slovakia, and Hungary. They cooperate with 40 international rail hubs and serve 13 Ukrainian seaports of the Black Sea-Azov basin. Four Pan-European transport corridors go through the territory of Ukraine:

- No. 3 Brussels – Aachen – Cologne – Berlin/Dresden – Wrocław – Katowice – Krakow – Lviv – Kyiv;
- No. 5 Venice – Trieste/Koper – Ljubljana – Maribor – Budapest – Uzhhorod – Lviv – Kyiv;
- No. 7 the Danube River (water): Austria, Hungary, former Yugoslavia, Bulgaria, Romania, Moldova, Ukraine;
- No. 9 Helsinki – Vyborg – St. Petersburg – Pskov – Moscow – Kaliningrad – Kyiv – Liubashivka/Rozdilna – Chişinău – Bucharest – Dimitrovgrad – Alexandroupolis.

Ukrzaliznytsia is responsible for the centralised management of domestic and long-distance rail transportation in Ukraine. The Company delivers the high quality of cargo and passenger transportation services.

Thirteen seaports operate in the Black Sea, the Sea of Azov basins and the Danube delta, with a total throughput making more than 230 million tonnes per year. Interaction with the Pan-European Corridor No. 7, which passes through the Danube River, takes place via the Ukrainian ports of Izmail and Reni. Ukraine has 2,714.5 kilometres of navigable inland waters. There is an advanced network of ferry lines and sea container lines, connecting Ukraine with partner countries in the Black Sea region. The national network of public roads is 169,652 km long. The country plays the role of a transit bridge connecting the countries of Europe and Asia. There is an extensive network of direct transit air services. Boryspil hub accounts mostly for the air transit through Ukraine. A number of international transport corridors

pass through the territory of Ukraine: pan-European transport corridors No. 3, 5, 7, 9; Corridors of the Organisation for Cooperation of Railways No. 3, 4, 5, 7, 8, 10; Trans-European Transport Network (TEN-T), and Europe – Caucasus – Asia Corridor (TRACECA).

2017 marked a landmark event for our country: the Association Agreement between Ukraine and the European Union entered into full force and effect, opening up considerably wider opportunities for the transport industry and setting stricter requirements for the quality of services at the same time. We are facing such challenges as restructuring and modernisation of the railway sector, liberalisation of the transport market, harmonisation of Ukrainian standards with EU standards, and the reduction of border-crossing barriers. At the same time, cooperation between Ukraine and the European Union also provides for a number of obvious advantages. Among them are improvement of transport networks, better conditions for passenger and cargo movement, elimination of administrative, technical and other obstacles and much more.

Important for Ukrzaliznytsia is also the EU's White Paper "Roadmap to a Single European Transport Area – Towards a competitive and resource efficient transport system". It addresses such important objectives as a 50% shift of medium-distance intercity passenger and freight journeys from road to rail and waterborne transport; the majority of medium-distance passenger transport going by rail; deployment of smart mobility systems in all modes of transport; propulsion technologies and alternative fuels, etc.

The overall objective of European transport policy is to set the stage for the development of a high-quality transport system based on technical, economic and technological characteristics of certain modes of transport and the principles of competition with due regard to economic and social impacts, as well as the environmental and health footprint.

Global Competitiveness Index¹

	2015-2016	2016-2017	2017-2018
Ukraine's rank in Global Competitiveness Index	Rank		
Ukraine	79	85	81
Transport infrastructure, in particular	91	91	87
Quality of roads	132	134	130
Quality of railroad infrastructure	28	34	37
Quality of port infrastructure	108	96	93

¹ Including electric commuter train traffic

Ukrzaliznytsia follows important European documents, in particular Europe 2020, the EU's agenda for growth and jobs, which sets ambitious goals in the following areas:

EMPLOYMENT

75% of people aged 20–64 to be in work

RESEARCH AND DEVELOPMENT

3% of the EU's GDP to be invested in R&D

CLIMATE CHANGE

achieving the 20/20/20 goal for climate and energy, including emissions reduction by an additional 30%

POVERTY

at least 20 million fewer people in – or at risk of – poverty/social exclusion

EDUCATION

rates of early school leavers below 10%, while at least 40% of people aged 30–34 having completed higher education

Transport infrastructure

In 2017, Ukraine ranked 87th by the development of transport infrastructure in the Global Competitiveness Index conducted annually by the World Economic Forum. Compared with 2016, Ukraine improved four positions.

Rail infrastructure scored high in the Index, ranking 37th in the world, although it lost three positions over a year. In recent years, the railway infrastructure index has shown a tendency to decline, unlike port and road infrastructure, which rank significantly lower, but improve gradually. A drop in positions results primarily from the inability to use infrastructure facilities in Donetsk and Luhansk Oblasts and the Autonomous Republic of Crimea.

In general, the Index shows that Ukrainian transport infrastructure needs modernisation. According to experts, the depreciation is 70-90%. The total investment need for 2018 is estimated at \$6.5-8 billion. According to the UIF estimates, \$1 invested in infrastructure generates \$2-3 in the growth of nominal GDP, and one job created in the transport sector spurs the creation of six jobs in other sectors.

Ukraine is making a number of important changes to improve and develop transport infrastructure. One of the Company's large infrastructure projects is the completion of Beskyd Tunnel in 2018. Located on the border of Lviv Oblast and Zakarpattia Oblast, this new transport corridor is of strategic importance for Ukraine, as it is used to transport goods to the western border of the country and more than 60% of transit goods in the direction of Western and Central Europe².

In 2017, efforts were taken to integrate Ukraine's transport network into the European transport network. In particular, following the Eastern Partnership Summit in Brussels, Ukraine was put on the indicative maps of TEN-T, trans-European Transport Network. Ukraine signed a Memorandum of Understanding on further cooperation under the Via Carpatia project. The document provided for the implementation of the international infrastructure project, Via Carpatia transport corridor running from Klaipeda and Kaunas (Lithuania) through Bialystok, Lublin, Rzeszow (Poland), Kosice (Slovak Republic), and Debrecen (Hungary), to Constance (Romania) and Thessaloniki (Greece).

Ukraine's transport sector performance 2017

343,057.1

million tkm cargo turnover

99,277.7

million pkm passenger turnover

² Beskyd Tunnel was officially unveiled on 24 June 2018, seven months earlier than planned.

Cargo transportation

PJSC Ukrzaliznytsia makes a significant influence on the cargo transportation market and plays a role in the wagon operation market. Thanks to the Company's extensive expertise, development of interstate partnership in the area of logistics and competence of employees, we have a considerable potential for business growth both in the national and international markets.

According to the State Statistics Service, Ukraine's cargo turnover grew by 5.8% in 2017 compared to 2016, making 343,057.1 million tkm. At the same time, the growth trend was in place in all modes of transport. The maximum growth took place in the air sector (+20.5%), cargo turnover by rail increased by 2.3%.

Cargo turnover by transport mode, 2015-2017³

	2015	2016	2017		Share of transport mode in total cargo turnover, %		
Mode of transport	million tkm	million tkm	million tkm	percentage against 2016	2015	2016	2017
All modes of transport, incl.	315,341.8	323,473.9	343,057.1	5.8	100.0	100.0	100.0
Rail	194,321.6	187,215.6	191,914.1	2.3	61.6	57.9	55.9
Road	34,431.1	37,654.9	41,178.8	8.4	10.9	11.6	12.0
Water	5,434.1	3,998.6	4,257.1	6.3	1.7	1.2	1.2
Pipeline	80,944.1	94,378.9	105,434.4	11.7	25.7	29.2	30.7
Air	210.9	225.9	272.7	20.5	0.1	0.1	0.1
Note: share of rail transport without pipeline					82.9	81.7	80.8

Ukrzaliznytsia's key market is the transportation of bulk cargoes (coal, iron ore, ferrous and non-ferrous metals, chemicals, petroleum products) in domestic, export-import and transit markets. In 2017, the bulk cargo included iron and manganese ores, coal and minerals. These goods accounted for 60% of the total cargo traffic.

Rail transport remains the basic sector of Ukraine's national economy and the foundation of its transport system. In 2017, the rail sector accounted for 56% of Ukraine's total cargo transportation by all modes of transport and over 80% of total cargo transportation excluding pipelines.

191,914.1
million tkm
rail cargo turnover

339.6
million tonnes
weight of rail cargo

³ Excluding the temporarily occupied territory of the Autonomous Republic of Crimea, Sevastopol and a part of the conflict area (ATO area where the counter-terrorism operation is conducted).

Passenger transportation

According to the State Statistics Service of Ukraine, passenger transportation in the country grew by 7.4% in 2017 compared to 2016, making 99,277.7 million passenger kilometres. The increase in passenger turnover resulted from growth in air service (by 31.0%), rail (by 3.6%), underground (by 2.9%), road (by 2.5%) and trolleybus (by 2%).

Passenger turnover by transport mode, 2015-2017⁴

	2015	2016	2017	Share of transport mode in total passenger turnover, %			
Mode of transport	million pkm	million pkm	million pkm	percentage against 2016	2015	2016	2017
All modes of transport, incl.	97,280.7	102,239.4	99,277.7	7.4	100.00	100.00	100.00
Rail ^{5, 6}	35,425.6	36,954.0	28,043.4	3.6	36.42	36.14	28.25
Road	34,775.6	34,448.0	35,412.4	2.5	35.75	33.73	35.67
Water	22.3	30.4	30.3	-0.2	0.02	0.03	0.03
Air	11,362.4	15,525.1	20,345.7	31.0	11.68	15.19	20.49
Tram	4,238.1	3,994.9	3,922.6	-1.8	4.36	3.91	3.95
Trolleybus	6,092.1	5,896.5	6,016.0	2.0	6.26	5.77	6.06
Underground	5,364.6	5,350.5	5,507.3	2.9	5.51	5.23	5.55

28,043.4

million pkm rail passenger turnover

206.6

million rail passengers

The Company is a reliable national passenger carrier. There is a steadily high demand for Company's services because of poor quality of roads, extensive railway network and low transportation costs. In 2017, the passenger traffic made 28,043.4 million pkm, up by 4.5% against targets and up by 3.6% against 2016.

With a visa-free travel granted by the EU to Ukraine, the country has received a strong impetus to develop highly profitable East-West transportation. In 2017, Ukrzaliznytsia launched new routes to Poland, Austria, and Bulgaria. International connections significantly improve the quality of life of Ukrainians, make it easier for them to plan their travels to Europe, and contribute to the development of tourism.

⁴ Excluding the temporarily occupied territory of the Autonomous Republic of Crimea, Sevastopol and a part of the conflict area.

⁵ Taking into account electric commuter trains.

⁶ Number of passengers.

Moreover, the Company started the biggest upgrade of the passenger car fleet in 2017. We purchased 50 new passenger carriages, 5.5 times more than in 2016. During this period, we also overhauled 50 passenger cars, 1.75 times more than in 2016. All railcars were manufactured and modernised at Ukrainian plants, which was important for Ukrainian economy. The Company created new jobs and contributed to the development of domestic production.

In 2017, Ukrzaliznytsia purchased
50 new passenger cars.



Section 2

OUR BUSINESS



191.91

BILLION TKM

**CARGO
TURNOVER**

53.7

**MILLION
TICKETS**

SOLD ONLINE

2,721

FREIGHT WAGONS

**PURCHASED OR MADE
IN-HOUSE**

28.04

BILLION PKM

PASSENGER TURNOVER

8,066

VEHICLES

**CONVERTED INTO
AUTORACKS**

1,751

KM OF TRACKS

REPAIRED

50

**NEW PASSENGER
CARS**

PURCHASED

73,729

CONTAINERS

**MOVED BY CONTAINER TRAINS
THROUGH UKRAINE**



Capital Map

RESOURCES as of 1 January 2017



SOCIAL
CAPITAL

UAH
6.7 bn
Social
commitments



FINANCIAL
CAPITAL

UAH
54.4 bn
Revenue from cargo
transportation

UAH
6.7 bn
Revenue from
passenger and luggage
transportation

UAH
5.3 bn
Other revenues and
additional services



CARGO
TRANSPORTATION

187.2
billion tkm
Cargo
turnover

343.4
million tonnes
Total cargo
weight

73,720
equivalent units
Number of
containers



PASSENGER
TRANSPORTATION

26,997
million pkm
Passenger
turnover

162.3
million people
Number of
passengers

48.8
million
Tickets sold
online



HUMAN
CAPITAL

280,704
employees
Total
headcount

UAH
5,816
Average monthly
salary

15
Rank in the Salary
Rankings by type of
operations



NATURAL
CAPITAL

UAH
269.8 m
Environmental
protection measures

124,000
tonnes
Waste generated in
operations

181,500
tonnes
CO₂ emissions



INTELLECTUAL
CAPITAL

UAH
45.7 m
Value of intangible
assets

UKRZALIZNYTSIA



COMPETITORS
AND MARKET

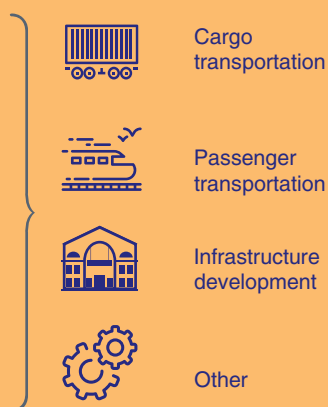


COMPANY'S
SHAREHOLDER



GLOBAL GOALS AND LANDSCAPE

DEVELOPMENT STRATEGY



STAKEHOLDER EXPECTATIONS

RESULTS as of 1 January 2018

▲ 36%
UAH
9.1 bn
Social commitments

▲ 10%
UAH
60.1 bn
Revenue from cargo transportation

▲ 9%
UAH
7.3 bn
Revenue from passenger and luggage transportation

▲ 23%
UAH
6.5 bn
Other revenues and additional services

▲ 3%
191.9
billion tkm
Cargo turnover

▼ 1%
339.6
million tonnes
Total cargo weight

▲ 0.01%
73,729
equivalent units
Number of containers

▼ 4%
28,043
million pkm
Passenger turnover

▼ 3%
158.1
million people
Number of passengers

▲ 10%
53.7
million
Tickets sold online

▼ 2%
276,119
employees
Total headcount

▲ 35%
UAH
7,863
Average monthly salary

▲ 2
13
Rank in the Salary Rankings by type of operations

▲ 61%
UAH
434.9 m
Environmental protection measures

▼ 12%
109,000
tonnes
Waste generated in operations

▼ 0,1%
181,300
tonnes
CO₂ emissions

▲ 0.2%
UAH
45.8 m
Value of intangible assets

Strategic Approach to the Company's Development

The Company employs **almost 280,000 people**, or 1.4% of the total number of employees in Ukraine. In 2016, Ukrzaliznytsia accounted for about 3% of the country's GDP.

Ukrzaliznytsia Development Strategy 2017-2021 seeks to set corporate goals that are clear and accepted by customers, investors and employees and to focus on their achievement through the implementation of strategic initiatives designed to create the environment for the Company's stable development.

PJSC Ukrzaliznytsia is a rail operator, a national cargo and passenger carrier contributing to the strategic function of the country's economic security, and a natural monopoly.

The Company is one of the biggest employers in Ukraine.

At present, the Company accounts for over 80% of the nation's total cargo transportation (excluding pipelines) and almost 33.4% of passenger turnover (excluding the traffic by electric commuter trains) in the country's transportation sector. In terms of cargo transportation, Ukrzaliznytsia ranks 4th on the Eurasian continent, trailing only the railways of China, Russia, and India.

The Company is one of the largest in Ukraine, employing almost 280,000 people, or 1.4% of the total number of employees in Ukraine. In 2016, Ukrzaliznytsia accounted for about 3% of the country's GDP.

The Company started business operations on 1 December 2015. Ukrzaliznytsia is the successor of all rights and obligations of the State Administration of Railway Transport of Ukraine, as well as of subordinate enterprises and organisations that had the status of standalone legal entities.

Decline trends in Ukrainian economy amid political instability and higher role of motor, air and river transport require fundamental changes to be made in the Company. This should be done through identification of key areas for the medium-term development.

Ukrzaliznytsia Development Strategy 2017-2021 (hereinafter referred to as the Strategy) seeks to set corporate goals that are clear and accepted by customers, investors and employees and to focus on their achievement through the implementation of strategic initiatives designed to create the environment for the Company's stable development.

A balanced and compromise approach was used to develop the Strategy in a move to identify objectives with due regard to interests of Ukrzaliznytsia and key stakeholders: the government, customers, investors, and employees of the Company.



Background for setting key strategic goals

The support from the government and the Company's approach to reforms are key to the successful implementation of Ukrzaliznytsia's Strategy. The leadership position maintained in the market of cargo and passenger transportation in Ukraine allows us to predict a stable demand for rail transport in the future. The development of transit potential within the framework of the Euro-Asian partnership, unleashed potential of TEN-T transport corridors, the further development of the logistics market and access to international markets offer opportunities to the Company to improve its efficiency and effectiveness.

We are guided by:



Draft Ukrzaliznytsia Development Strategy 2017-2021 developed by the Company with due regard to National Special-Purpose Railway Reform Programme 2010-2019 approved by Resolution No. 1390 adopted by the Cabinet of Ministers of Ukraine on 16 December 2009; Ukraine's Transport Strategy 2020 approved by the Cabinet's Resolution No. 2174 dd. 20 October 2010; and draft Law of Ukraine On Rail Transport.

Key goals

Implementation of the Company's vision relies on the achievement of strategic goals set in accordance with the analysis of strengths and weaknesses of the Company, problems to be addressed, possible threats, and expectations of key stakeholders.

The key goal is to increase financial and economic stability through sustainable development and growth of business profitability.

Strategic goals and efficiency targets

GOALS SUPPORTING THE COMPANY'S DEVELOPMENT

CORPORATE GOALS

1

STRENGTHENING THE APPEAL OF RAIL CARGO AND PASSENGER TRANSPORTATION BY RAIL IN UKRAINE.

Efficiency targets that show the extent to which the goal is achieved are divided into major groups that characterise the change:

- volume of transportation;
- speed of transportation;
- quality of services;
- availability of transportation services.

Indicators characterising changes in the volume of transportation: the share of rail cargo and passenger traffic in total transportation.

Indicators that characterise changes in speed:

- average annual service speed for cargo transportation;
- journey time for passenger transportation.

Indicators that characterise the quality of services provided:

- share of passenger transportation carried out as scheduled;
- share of fixed assets with an extended or expired service life.

Indicators characterising the availability of transport services: satisfaction of demand for cargo and passenger transportation.

BUILDING AND DEVELOPING AN EFFECTIVE CORPORATE GOVERNANCE SYSTEM BASED ON OPENNESS, TRANSPARENCY AND ACCOUNTABILITY.

The goal achievement will bring an improved quality of operation management and planning characterised by smaller gaps between targets and actual financial and economic indicators.

2

EXPANDING THE PRESENCE IN MARKETS BEYOND UKRAINE THROUGH INCREASED COOPERATION AND DIRECT INVESTMENT.

The efficiency target that show the extent to which the goal is achieved is the income from operations outside Ukraine.

STRENGTHENING THE APPEAL FOR EMPLOYEES AND PARTNERS AND TAKING SOCIALLY RESPONSIBLE APPROACHES TO PERSONNEL MANAGEMENT.

The efficiency targets that show the extent to which the goal is achieved are:

- average monthly salary compared with 2016;
- labour productivity;
- average headcount compared with 2016.

3

EVOLVING INTO AN EFFICIENT LOGISTICS OPERATOR AND INCREASING THE SHARE OF LOGISTICS SERVICES IN THE COMPANY'S OVERALL PORTFOLIO.

The efficiency targets that show the extent to which the goal is achieved are: the share of container traffic income in total transportation services, provision of terminal, warehouse, transport and logistics services.

INCREASING THE COMPANY'S ENERGY AND RESOURCE EFFICIENCY.

The efficiency targets that show the extent to which the goal is achieved are:

- average annual fuel and electricity consumption per 1 million equated tkm;
- productivity of rolling stock utilisation.

4

ENHANCING THE SAFETY OF THE RAIL TRANSPORT SYSTEM.

The efficiency target that show the extent to which the goal is achieved is a number of transport incidents per 1 million equated tkm.



Key challenges:

- A drop in the total demand for transport services, especially for high-margin transit transportation.
- High depreciation of fixed assets.
- No domestic manufacturers of traction vehicle.
- Significant debt burden.
- No possibility to raise sufficient private investment because of legislative restrictions, high political, financial and economic risks.
- Heavy social commitments without the government support.
- Inefficient rate setting amid high inflation and depreciation of the national currency.
- Low customer purchasing power.
- No modern governance standards at the Company and outdated corporate structure.
- Imperfect procurement system.
- Shortage of highly skilled staff because of low salary and low-quality education and vocational training.
- Underfinancing and insufficient measures to increase energy efficiency and reduce the environmental footprint of transport.



Main threats:

- Continued negative tendencies in the Ukrainian economy.
- Political instability and change in development priorities, in particular the adoption of regulatory acts that would contradict the Strategy's objectives and proposed ways to meet them.
- Impossibility to enter new markets and attract additional volumes of transportation, in particular transit cargoes.
- Further inflation and depreciation of the national currency without appropriate compensation by rail rates.
- Underfinancing, in particular underinvestment, and lack of sufficient government support for the renovation of fixed assets and implementation of priority investment projects.
- Stronger competitive advantages of road, river and air transport.
- Internal and external resistance to the policy and structural reforms of the Company.



Priority measures to ensure effective implementation of the Strategy:

- Making a clear division of responsibilities for functions and processes between officials, functional and production units;
- Granting appropriate powers and authority to the Company's bodies and officials responsible for the Strategy implementation; updating regulations on the subdivisions and job descriptions accordingly;
- Ensuring regulatory support and funding for the implementation of the Strategy;
- Working out methods, tools, procedures and information systems for the Strategy implementation;
- Developing and implementing a system of incentives for the implementation of the overarching Strategy, achievement of strategic objectives, operational goals and objectives;
- Developing detailed implementation programmes that are based on the Strategy and strategic initiatives in various areas and contain specific objectives and timing for their implementation;
- Developing indicators and their targets, putting in place a formalised system for the Strategy monitoring and adjustment;
- Building a team of specialists to implement and control the implementation of the Strategy's elements.

Keys to the Strategy's success:

- Every employee, structural and production subdivision knows and shares the purpose, approaches and objectives of the Strategy;
- Unity and coordination of actions in the course of the Strategy implementation;
- Holistic approach to the implementation of the Strategy, coherence of implementation programmes and policies, no discrepancies and contradictions between programmes and strategic goals;
- Centralised system is in place for change management, objective and strategic initiative monitoring and the Strategy adjustment.

The Company is set to develop detailed and interrelated implementation programmes in the following areas:

- Ukrzaliznytsia's restructuring and sustainable development and operations;
- Development of Ukrzaliznytsia's general organisational structure (administration, structural subdivisions, regional branches, affiliates, and related companies) in accordance with the Strategy and strategic initiatives;
- Identification, formalisation and evaluation of business process and sub-process efficiency; calculation and reduction of process cost;
- Rolling stock development programmes, including modernisation and procurement of locomotives, timely maintenance and repair of rolling stock;
- Transportation organisation and planning standard, which includes the development of transport and intermodal services, marketing strategies, new operations and products;
- Employment, social development and efficient use of labour resources;
- Corporate social responsibility;
- Accounting and financial policy;
- Rate-setting policy;
- Procurement and logistics.

The holistic approach to the Strategy implementation relies on:

- Implementation of internal structural changes at Ukrzaliznytsia and the development of business models for five key business verticals;
- Development of indicators and their targets for assessing the efficiency and effectiveness of business models;
- Development of plans for implementation of strategic initiatives (programmes) based on business models;
- Monitoring and control of the achievement of targets for each vertical and Ukrzaliznytsia as a whole.



Principles of the Company's reforms

The Programme seeks to create a new legal and economic model of rail transport management, develop a competitive environment in the market of railway services and increase the efficiency of railway operations.

In 2017, the structure of Ukrzaliznytsia experienced significant changes. The Company realises that its future depends on reforms. Reforms provide and guarantee the right to high quality standards of the railway operations. The Company wants to implement internal changes and participate in the modernisation of the domestic economy and social development of the regions of its presence. This is impossible without the active engagement of communities. The reforms of the Company involve the development and implementation of the reform plans, including a whole range of activities. Senior and mid-level managers act as the drivers of reforms.

Rail transport reform is carried out in accordance with the National Special-Purpose Railway Reform Programme 2010-2019 (hereinafter referred to as the Programme) approved by Resolution No. 1390 of the Cabinet of Ministers of Ukraine dated 16 December 2009 (as amended).

The Company's reforms are designed to adapt it to modern market conditions, improve operational efficiency of its structural divisions and increase the competitiveness of services.

Key objectives of the reforms:

- increase operational efficiency and financial performance by improving the management, ensuring better planning and control systems, business planning, higher productivity, and better financial and economic performance;
- ensure timely fulfilment of obligations, in particular, this refers to budget payments and salaries;
- protect the shareholders' rights and ensure investment attractiveness of the Company.

Overview of the first results of the reforms:



The Company has approved the draft Ukrzaliznytsia Development Strategy 2017-2021 and an investment plan as its integral part.



The Centre of Installation and Construction Works and Facilities Management has been established.



Corporatisation of Ukrzaliznytsia has been completed.



The Project Office has been launched to coordinate Ukrzaliznytsia's reform projects.



The Passenger Company branch has been established.



The reform of the corporate governance system has been launched with engagement of Deloitte.



The freight transportation rate-setting system for the cargo wagons owned by Ukrzaliznytsia has been reformed through relevant changes made in the Guide of the Rates for Freight Transportation and the Related Services.



An effective corporate governance system has been introduced to manage business entities with the equity stakes (participatory interests) contributed to the authorised capital of Ukrzaliznytsia (executive bodies, supervisory boards and audit commissions of the companies have been set up and started operating).

Ukrzaliznytsia's Credit Policy

Ukrzaliznytsia is a responsible borrower, which uses various tools for raising funds both in the domestic and international capital markets. The Company actively cooperates with international financial institutions on financing of infrastructure projects as well as with national banks on refinancing of the existing loan portfolio.

In general, during the year the Company's credit policy was focused on streamlining the structure of the loan portfolio, improving the borrowing conditions, and settling overdue debts as these will later help reduce the existing foreign exchange risks, cut financial expenses, avoid non-fulfilment of loan obligations and provide the necessary financing of capital investments.

Active cooperation with international financial institutions in 2017 served as the foundation for signing strategic agreements with the European Investment Bank and the European Bank for Reconstruction and Development. These agreements will help reduce the depreciation of fixed assets of Ukrzaliznytsia and improve the infrastructure by enjoying concessional financing, as well as improve the investment climate in Ukraine.

A number of other financial projects are being developed now, in particular some initiatives with the European Bank for Reconstruction and Development, the European Investment Bank and Ukrainian banks.

Ukrzaliznytsia continues an on-going dialogue with the existing creditors and potential investors to strengthen its reputation as a responsible borrower and stay in line with the world's practice. The Company's website includes a special section, Investor Relations (<http://www.uz.gov.ua/about/investors/>), which is regularly updated. In addition, Ukrzaliznytsia has regular conference calls and meetings with international lenders and analysts on key performance indicators and prospects of further cooperation.

As of 1 January 2017, our outstanding debt for borrowings made UAH 41.4 billion. In 2017, the Company met its obligations to the amount of UAH 4.8 billion. At the year-end, the outstanding debt was UAH 37.8 billion. In 2017, the Company did not make any borrowings.





Strategic goals:

- Provide a balanced financing (in terms of volume and cost) for the implementation of strategic initiatives of the Company's verticals.
- Strengthen financial stability of Ukrzaliznytsia by changing the maturity of financial obligations and focusing on long-term financing.
- Reduce the Company's currency risks by increasing the share of borrowings in the national currency.
- Reduce financial expenses for servicing of the existing loan portfolio.
- Increase the Company's credit rating to a sovereign level.

Ukrzaliznytsia regularly conducts audits according to international financial reporting standards, in particular with a view to confirm the covenants established by international credit agreements. In addition, internationally recognised rating agencies, Fitch Rating and Standard & Poor's, monitor and update the Company's credit ratings.

Strategic objectives:

1. Continue cooperation with international financial organisations — European Bank for Reconstruction and Development and European Investment Bank — to implement the strategy for renewing the fixed assets and improving the infrastructure at concessional financial terms.
2. Ensure a high level of liquidity management in the Company.
3. Issue domestic bonds, use bonds denominated in the national currency and issued by international financial organisations to provide financing for the Company and use other lending instruments to improve the loan portfolio structure.
4. Continue cooperation with Ukrainian banks both in terms of banking services and the implementation of the strategy for refinancing the Company's loan portfolio.
5. Settle the existing overdue loan indebtedness.
6. Replace term loans in foreign currency with revolving credit lines in national currency.
7. Terminate cooperation with financial institutions that are under sanctions.
8. Extend the list of creditors and financial instruments.
9. Change lending instruments and / or their terms and conditions to reduce the cost of borrowing.
10. Mitigate currency restrictions for Ukrzaliznytsia in terms of removal of the mandatory sale of foreign exchange earnings, which will give an opportunity to increase the share of own foreign exchange earnings to serve foreign currency borrowings.
11. Place loan participation notes (LPNs) in the international capital markets.



Key challenges:

1. Overdue loan indebtedness under loan agreements. The Company has been in active negotiations with a financial institution for a few months now and plans to settle the debt in the near future. At the same time, Consolidated Financial Plan 2018 aims to raise UAH 10 billion to improve the structure of the loan portfolio, in particular to refinance the overdue debt.
2. A high share of the foreign currency loans in the credit portfolio (98%) means significant financial risks associated with possible further depreciation of the national currency (hryvnia).
3. Limited resources available in the financial market.
4. Cancellation of the moratorium on mandatory collection of debts of Donetsk Railways.
5. Non-compliance of acts and statements of Donetsk Railways with the financial obligations to be acquired by the Company after Ukraine gains control over the temporarily occupied territories.



Landmark agreements (events) of the year:

In 2017, Ukrzaliznytsia obtained consent of holders of LPNs issued by ShortLine PLC on the Irish Stock Exchange to change the loan terms. This helped successfully avoid the foreign loan default and any negative financial and legal implications, in particular, the potential loss of liquidity to the amount over UAH 13 billion. According to the changes, the Company's bad loans are excluded from the cross-default provisions and allow it to successfully complete their restructuring in 2018.

On 30 December 2017, Ukrzaliznytsia and EBRD concluded a loan agreement under which the Company will get a credit facility to the amount of €150 million. This is a government-backed loan which will be used to continue the implementation of the project "Electrification of the Dolynska-Mykolaiv-Kolosivka Railway Section".

On 22 June 2017, Ukrzaliznytsia signed a Memorandum of Understanding with EBRD to develop the project "Purchasing New General-Purpose Freight Wagons for Ukrzaliznytsia". The document defined terms and conditions of long-term lending and provided for a \$150 million credit facility for Ukrzaliznytsia to purchase 6,000-6,500 freight wagons. This is not a government-backed loan.

As part of the Memorandum of Understanding between Ukrzaliznytsia and General Electric Transportation, Ukrzaliznytsia conducted preparations with the assistance and support of the Government of Ukraine to sign a framework cooperation agreement with General Electric Transportation, an arm of General Electric transnational corporation. This is a part of the project for renovation of mainline locomotives of Ukrzaliznytsia.

To implement the first stage of this project, the Company finalised a draft financial leasing agreement, as well as technical and commercial terms and conditions, to receive 30 mainline locomotives manufactured by General Electric (with the participation of Ukreximbank).

Corporate Governance

Railway transport takes the lead, helping meet transportation needs of the industry and wide public and is a driver of the social and economic development of Ukraine and its foreign economic relations.

The Company was established in June 2014, evolving from the State Administration of Railway Transport, which had the status of a governing body, and 48 railway enterprises and organisations, in particular six railways, which had been reorganised through merger. The reform was carried out in accordance with the Law of Ukraine On the Peculiarities of Establishment of a Public Joint Stock Company of Public Rail Transportation and the Resolution of the Cabinet of Ministers of Ukraine On the Establishment of a Public Joint Stock Company "Ukrainian Railways". Represented by the Cabinet of Ministers of Ukraine, the Ukrainian government is the founder and sole shareholder of the Company. 100% of the Company's shares are owned by the government. PJSC Ukrzaliznytsia started its business operations on 1 December 2015.

Before 2015, the corporate governance system of Ukrzaliznytsia had had certain disadvantages, in particular:

- fuzzy distribution of management functions;
- selection process for the Supervisory Board members was non-transparent, no mechanisms and tools to recruit highly qualified professionals with impeccable reputation were in place;
- the Company's top management was appointment and dismissed by the Ministry of Infrastructure of Ukraine (remuneration of top managers was established by the government authorities).

To eliminate these shortcomings, Ukrzaliznytsia started implementing the corporate governance system in accordance with international standards and approaches in 2015. The system seeks to create an effective, efficient and transparent company, improve the quality of rail transport to meet the growing needs of the national economy and the wide public.

In 2017, the Company priorities were focused primarily on ensuring the reliability and safety of transport, increasing the efficiency of transportation, optimising costs and developing projects with die regard to the principles of continuous improvement.

The corporate governance reform in the Company will continue next year, with the goal of achieving high

standards of openness, transparency and accountability. PJSC Ukrzaliznytsia is one of the first companies in the public sector, which has attracted independent consultants to conduct the reform. Together with Deloitte, our independent advisor, and the European Bank for Reconstruction and Development, which is a partner in this project, we plan to complete the work on the new governance system during the first and second quarters of 2018 and start its implementation.

We are guided by:



OECD Principles of Corporate Governance (Organisation for Economic Cooperation and Development);

OECD Guidelines on Corporate Governance of State-Owned Enterprises.

Charter of PJSC Ukrzaliznytsia

The Charter of Ukrzaliznytsia was approved by Resolution No. 735 adopted by the Cabinet of Ministers of Ukraine on 2 September 2015 (as restated by the Cabinet's Resolution No. 682 dated 30 August 2017).

General Provisions of the Charter:

1. Public Joint-Stock Company "Ukrainian Railways" is a legal entity established in accordance with the Law of Ukraine On the Peculiarities of Establishment of a Public Joint Stock Company of Public Rail Transportation, the Resolution of the Cabinet of Ministers of Ukraine No. 200 On the Establishment of a Public Joint Stock Company "Ukrainian Railways", dated 25 June 2014 (Official Bulletin of Ukraine, 2014, No. 53, page 1402).
2. The company is established as a public joint stock company with 100% of shares owned by the government, on the basis of Ukrzaliznytsia, enterprises, establishments and organisations of public rail transportation reorganised by merger, in accordance with Annex 1 to Resolution No. 200 On the Establishment of a Public Joint Stock Company "Ukrainian Railways" adopted by the Cabinet of Ministers of Ukraine on 25 June 2014.

The Company is the legal successor of all rights and obligations of Ukrzaliznytsia and railway transport enterprises.

3. Name of the Company:

in Ukrainian: full – публічне акціонерне товариство «Українська залізниця», short – ПАТ «Укрзалізниця»;

in English: full – Public Joint Stock Company “Ukrainian Railways”, short – PJSC Ukrzaliznytsia.

4. Location of the Company: 5 Tverska St., Kyiv 03150.

To support operations of Ukrzaliznytsia, the following governing bodies of the Company were set up.



Governing Bodies

General Meeting

In 2017, the highest governing body adopted **12 decisions**, including five related to HR management.

General Meeting is the highest governing body of the Company. Functions of the General Meeting are performed by the Cabinet of Ministers of Ukraine. Functions of the highest governing body established by the laws, the Charter and internal documents of the Company are performed solely by the Cabinet of Ministers of Ukraine⁷.

The matters reserved to the highest governing body:

- cannot be delegated for resolution to other bodies of the Company;
- are formalised in a corresponding act of the Cabinet of Ministers of Ukraine upon submission by the Ministry of Economic Development and Trade.

On 20 June 2018, the Cabinet of Ministers of Ukraine elected a new Supervisory Board consisting of: Anders Aslund, an independent member of the Supervisory Board; Christian Kuhn, an independent member of the Supervisory Board; Mathieu Andreas, an independent member of the Supervisory Board; Sevki Acuner, an independent member of the Supervisory Board; Daniel E. Bilak, a government representative in the Supervisory Board; Kostiantyn Maryevych, a government representative in the Supervisory Board; Ivan Yuryk, a government representative in the Supervisory Board.

Supervisory Board

The Supervisory Board exercises control over the activities of the Board and is responsible for the protection of shareholders' rights. The Supervisory Board acts on the basis of the Charter of the Company and the Regulations on the Supervisory Board approved by Order No. 258 of the Ministry of Infrastructure, dated 29 July 2016.

Before August 2017, the Supervisory Board of the Society had consisted of six members representing the government (government officials). From August 2017, there were five of them. Approval of the number and composition of the members of the Supervisory Board falls within the exclusive competence of the Cabinet of Ministers of Ukraine.

The Supervisory Board decides on matters that fall within its exclusive competence. These matters cannot be resolved by other bodies of the Company, except for the highest governing body.

During 2017, three meetings of the Supervisory Board were held on the following key matters:

- election of an auditor of the Company, establishment of the amount of fees for the services;
- a corporate secretary;
- a report on performance of the Board chairman and members in 2016;
- annual financial statements of the Company for 2016 and the results of the audit by an independent auditor;
- consideration of the Board's proposals regarding the distribution and allocation of the Company's profits, the amount of dividend;
- a report of the Supervisory Board, etc.

The number and membership of the Board is approved by the Cabinet of Ministers of Ukraine. The Board is headed by the Chairman appointed and dismissed by the Cabinet of Ministers of Ukraine.

Management Board

The Board is a collegial executive body of the Company and is responsible for day-to-day operations of Ukrzaliznytsia. The Board is accountable to the highest governing body and the Supervisory Board and ensures the implementation of their decisions. The Board's activities are governed by the principles of economic feasibility and are aimed at obtaining profits and increasing the value of the Company's assets.

From the beginning of the reporting period until August 2017, the Board had the following composition:

Chairman, Wojciech Balczun, and six members of the Board: Oleksandr Buzhor, Ireneusz Wasilewski, Serhii Mykhalchuk, Marcek Zeljko, Remigiusz Paszkiewicz, and Marek Robert Zalesny. Wojciech Balczun was dismissed

⁷ The matters of competence of the governing bodies of Ukrzaliznytsia are set forth in the Charter of the Company.



from the post of Chairman of the Board by Order No. 509-r of the Cabinet of Ministers of Ukraine, dated 9 August 2017. Since August 2017, the Board has consisted of seven members, with one of them authorised to be acting Chairman of the Board (Resolution No. 551 On the Change of the Board of the Public Joint Stock Company “Ukrainian Railways” adopted by the Cabinet of Ministers of Ukraine on 9 August 2017).

The agendas included 872 items with 759 decisions made. The main issues considered at the meetings included:

- Temporary control objectives for the utilisation of capital investments by sources of financing;
- free transportation of children of the military who participated in the counter-terrorism operation (ATO)⁸ and their accompanying persons;
- approval of plans to road equipment and rolling stock repairs;
- reorganisation of the current system of corporate control over the traffic safety of trains and vehicles;
- changes in staff schedules;
- improvement of the procedure of settlements with affiliated companies;
- Rates Commission issues;
- approval of organisational structures;
- some issues of the affiliates;
- specific issues of corporate governance organisation;
- approval of a list of prices for the performance of works (services) provided at free rates;
- some issues of the activity of the executive bodies of private joint stock companies with 100% of shares contributed to the statutory capital of Ukrzaliznytsia;
- availability of operating fleet of freight locomotives and spare parts procurement;
- HR issues, etc.

Audit Committee

The financial and economic operations of the Company are controlled by the Audit Committee. The Audit Committee of Ukrzaliznytsia consists of five members representing the government (public officials). Approval of the number and composition of the members of the Audit Committee fall within the exclusive competence of the Cabinet of Ministers of Ukraine.

During 2017, the Audit Committee held no meetings.

In 2017, the Board held
128 meetings.

Three branches were set up
during the year:

1. Passenger Company, which allowed to achieve a 12% increase in passenger traffic and reduce idle time of passenger rolling stock;
2. Centre for Railway Infrastructure Diagnostics, which helped centralise the functions of inspection, establishment and control of the technical condition of railway tracks, engineering structures, operation and repair of measurement and testing equipment;
3. Centre of Installation and Construction Works and Facilities Management, which allowed the headcount optimising by transferring the function to the newly created branch and eliminating the structural subdivisions of regional branches.

⁸ In 2018, the ATO format was replaced with JFO (Joint Forces Operation).

Members of the Management Board

Yevhen Kravtsov



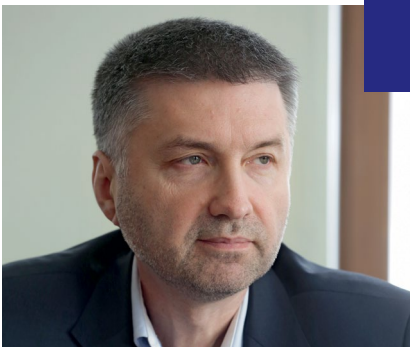
Acting Chairman of the Board since 8 October 2017 (Order of the Cabinet of Ministers On Imposing Duties of the Board Chairman of Public Joint Stock Company "Ukrainian Railways" on a Temporary Basis on Yevhen P. Kravtsov, No. 512-r, dated 9 August 2017). Born on 31 May 1986 in Odessa, Ukraine. In 2008, he graduated from European University, a private higher educational institution, in 2010 from Taras Shevchenko National University of Kyiv. Specialisations: law, transport industry management.

Ireneusz Wasilewski



He took office on 2 August 2016. Ireneusz Wasilewski was born on 5 May 1957 in Poznan, Poland. In 1983, he graduated from Kazimierz Pułaski University of Technology and Humanities in Radom. Specialisation: railway transport.

Oleksandr Buzhor



He took office on 7 June 2016. Oleksandr Buzhor was born on 4 September 1963 in Kharkiv, Ukraine. In 1988, he graduated from Karazin National University of Kharkiv (formerly known as Gorky State University of Kharkiv). Specialisations: economics and banking.

Serhiy Mykhalchuk

He took office on 1 December 2015. Serhiy Mykhalchuk was born on 17 May 1973 in Ostapkivtsi village, Kolomyia District, Ivano-Frankivsk Oblast. In 1997, he graduated from Dnipropetrovsk State Technical University of Railway Transport, in 2003 from Lazarian National University of Railway Transport in Dnipropetrovsk. Specialisation: railway transport.



Zeljko Marcek

He took office on 24 June 2016. Zeljko Marcek was born on 11 July 1969 in the Republic of Serbia. In 2012, he graduated from DOBA, Maribor. Specialisations: business administration.



Remigiusz Paszkiewicz

He took office on 5 July 2016. Remigiusz Paszkiewicz was born on 29 December 1970 in the city of Gabin, Poland. In 1994, he graduated from Warsaw University of Technology. Specialisation: railway transport.



Marek Robert Zalesny

He took office on 24 June 2016. Marek Robert Zalesny was born on 26 June 1963 in the city Bogatynia, Lower Silesian Voivodeship, Poland. In 1991, he graduated from the University of Silesia (Katowice, Poland). Specialisation: logistics management.



Structure of the Company

Ukrzaliznytsia has 34 subsidiaries, including SIX regional branches and 28 functional affiliates, as well as two representative offices (in the Russian Federation and Belarus, as well as in the Republic of Poland).

In accordance with the Resolution of the Cabinet of Ministers of Ukraine No. 1390 On Approval of the State Target Program for the Reform of Railway Transport for 2010-2019, dated 16 December 2009 (as amended), the following objectives, inter alia, were set forth for Ukrzaliznytsia:

- creation of vertically integrated structures by type of operations;
- optimisation of the organisational structure of the railway transport.

Organisational structure of Ukrzaliznytsia⁹

To support its operations, the Company established governing and executive bodies, as well as the administration in accordance with the Charter of the Public Joint Stock Company "Ukrainian Railways" approved by Resolution No. 735 of the Cabinet of Ministers of Ukraine dated 2 September 2015 (as amended by Resolution No. 682 of the Cabinet of Ministers of Ukraine dated 30 August 2017).

The organisational structure of PJSC Ukrzaliznytsia includes the Supervisory Board, the Management Board and the administration.

The structural subdivisions are departments, offices, inspections and units such as regional branches, affiliates and representative offices. In addition, the administration includes directors, the corporate secretary, Compliance Office and Project Office and the corporate secretary's office.

The rights and duties of the chairman and members of the Management Board of the Company are established by the laws, the Charter of the Company and the employment contract. The activities of the Chairman and the members of the Board are regulated by the laws of Ukraine, the Charter of Ukrzaliznytsia, decisions of the highest governing body, decisions of the Supervisory Board of the Company, and internal documents of the Company.

The rights and duties of the functional directors of the Company are established by the applicable laws, collective bargaining agreements, the Company's regulations and employment contracts. The powers and responsibilities of the functional directors of the Company are stipulated by Order No. 285 On Approval of Procedures to Segregate Competences of Directors of PJSC Ukrzaliznytsia, dated 14 April 2016. Pursuant to the Order, the directors are subordinate to the chairman or a member of the Board, directly provide and bear personal responsibility for coordination of the operations of subdivisions under their direct mandate. Functional directors form the administration.

Management roles

The administration of Ukrzaliznytsia is responsible for strategic planning, establishment of methodology, general coordination of work of regional branches and affiliates, their structural divisions, creation of conditions for increasing the competitiveness of the industry.

The Charter of the Company stipulates that the Company shall establish branches, representative offices, and other separate divisions without the status of a legal entity, both in the territory of Ukraine and abroad, acting on the basis of the regulations.

Acting through its regional branches and affiliates, the Company meets needs of the government, legal entities and individuals in safe and quality rail transportation in domestic and international services, in works and

⁹ The organisational structure of Ukrzaliznytsia as of 1 January 2018.

services provided by regional branches and affiliates, ensures the efficient operation and development of the production and technological facilities of public railway transport, operational coordination of the work of the functional verticals.

The structural units of regional branches and affiliates manage production units of regional branches. They are directly subordinated to the heads of the regional branches administrations in accordance with the division of competences and functional structural subdivisions of the administration of Ukrzaliznytsia.

Production subdivisions of regional branches carry out

their activities in accordance with the regulations approved by orders of regional branches and affiliates.

Business entities and subsidiaries with the shares contributed to the statutory capital of PJSC Ukrzaliznytsia operate to gain profits through production, business, commercial and other op and thus meet social and economic needs of the society, improve the welfare of the Company's employees and the shareholder.

The Board of the Company establishes and approves the organisational structure of the Company, establishment of structural units of Ukrzaliznytsia (administration and separate units) and approves the regulations on them.



HIGHEST GOVERNING BODY (THE CABINET OF MINISTERS OF UKRAINE)

SUPERVISORY BOARD

Corporate
Secretary

Yevhen Kravtsov, acting Chairman of the Board

Marek Robert
Zalesny, Board
Member, Cargo
Transportation
vertical

UKRZALIZNYTSIA GOVERNANCE STRUCTURE

Corporate
Secretary
Office

IT Director

Director of
Legal Issues
and Property
PolicyDirector of
Strategic
Development
and
Investment
PolicySecurity
DirectorCorporate
Secretary
Office
ManagementIT Director
OfficeLegal
DepartmentReforms and
Corporate
Development
DepartmentSecurity
DepartmentAdministrative
Support
Department

Project Office

Compliance
OfficeCommercial
Operations
DepartmentSpecial
DirectorateH&S
DepartmentProperty
Policy
DepartmentInvestment
Policy
DepartmentParamilitary
Security
HeadquartersFirst
DirectorateInternational
Cooperation
DepartmentCorporate
Governance
DepartmentStrategic
Development
and Planning
DepartmentDepartment
of
Information
Policy and
Public
RelationsInternal Audit
and Control
DepartmentSpecial
Communi-
cations
DepartmentMarketing
and
Advertising
Department

SEPARATE DIVISIONS OF UKRZALIZNYTSIA

R&D
Bureau of
Information
TechnologyParticipatory
interests in
12 business
entitiesIn-House
Paramilitary
SecurityService
Support
CentreMagistral
Media CentreProduction
CentreRefrigerated
Wagons
CompanyMain
Informational
Computing
CentreRepresentative
Offices of
Ukrzaliznytsia in
Russia & Belarus
and in PolandCenter of
Transport
Service
"Liski"Centre of
Transport
Logistics

Donetsk Railways regional branch

Lviv Railways regional branch

Prydniprovye Railways regional branch

South-Western Railways regional branch

South Railways regional branch

Odessa Railways regional branch

Vinnytsia-
transpyriad

PRIVATE JOINT STOCK COMPANIES OF UKRZALIZNYTSIA

Remigiusz Paszkiewicz, Board Member, Infrastructure vertical			Oleksandr Buzhor, Board Member, Economy and Finance vertical		Ireneusz Wasilewski, Board Member, Production, Maintenance and Service vertical		Serhiy Mykhalchuk, Board Member, Passenger Transportation and Services vertical	Zeljko Marcek, Board Member, HR Management and Social Policy vertical	
Infrastructure Director	Operations director		Chief Accountant	Economy and Finances Director	Director of engineering and Technical Support	Rolling Stock Director	Director of Passenger Transportation and Services	Director of HR Management and Social Policy	
Track and Structures Department	Traffic Control Department	Buildings and Structures Department	Department of Bookkeeping, Tax Accounting, Reporting and Methodology	Treasury Department	Department of Development and Technical Policy	Wagons Department	Department of Long-Distance Passenger Transportation	Department of Employee Remuneration and Motivation	Department of Corporate Social Responsibility
Electrification and Electric Power Supply Department	Traffic Safety Department			Department of Economy, Planning and Budgeting	Department of Product and Service Quality Management	Locomotives Department	Department of Suburban Transportation	Organisational Development Department	
Department of Automation and Telecommu- nications	Operational Monitoring Department			Price Policy Department	Energy Management Department	Department of Material and Technical Support		Department of Employee Development and Personnel Policy	
Capital Investment Department				Statistics Office	Environmental Management Department			Social Policy Department	
Centre for Industrial Management		Center of Installation and Construction Works and Facilities Management		Unified Payments Centre	Railway Research Institute	Darnytskyi Car-Repair Plant	Ukrainian Railways High Speed Company	Personnel Development Center	Health Care Centre
Starokos- tiantyniv ferroconcrete sleepers plant									
Central Telecommu- nications Office					Design and Survey Institute of Railway Transport	Paniutyn Car-Repair Plant	Passenger Company		
Energobut									
Energoremtrans						Stryi Car-Repair Plant			
Vehicles Maintenance Center									
Centre for Rail Infrastructure Diagnostics									
Korostenskyi Ferroconcrete Sleepers Plant					Dnipropetrovsk Diesel Locomotive Repair Plant				
Gnivanskyi Special Ferroconcrete Plant					Zaporizhia Electric Locomotive Repair Plant				
Kyiv Electrotechnical Plant "TRANSSYGNAL"					Lviv Locomotive Repair Plant				
					Kyiv Electric Car Repair Plant				

Reward programmes are one of the methods to motivate employees. They are important not only to meet the financial needs of employees, but also to create the enabling environment for self-development, development of potential and offer opportunities to do favourite job and enjoy it. Ukrzaliznytsia follows fair, consistent and transparent approaches to assess the work of every employee. The remuneration system ensures a decent and competitive pay for the performance. This may be a regular or one-time remuneration in addition to the basic salary.

Bonuses for Employees

The entire system of additional incentives for the Company's employees is based on the efficiency and effectiveness of the Company's operations and depends on its business performance.

One-time incentives, bonuses, rewards, etc. are established and paid to the employees of regional branches and affiliates in accordance with the regulations in the relevant branches.

We are guided by:



Regulations on bonuses for managers, professionals, specialists and technical staff of the State Administration of Railway Transport of Ukraine;

Regulations on bonuses for the employees of the State Administration of Railway Transport, where the bonuses are awarded independently of Ukrzaliznytsia's performance;

Regulations on bonuses for personnel of the in-house paramilitary security of the State Administration of Railway Transport of Ukraine;

Regulations on payment of compensation based on the year performance (Ukrzaliznytsia Order On Approval of the Regulations on Payment of Performance-Based Remuneration (as amended);

Regulations on Ukrzaliznytsia employee remuneration which establish terms, conditions, grounds, procedures for incentives (one-time incentives, bonuses, rewards) and procedures for making decisions on these issues;

Sectoral Agreement between the State Administration of Railway Transport of Ukraine and trade unions;

Collective bargaining agreements.

Bonuses for Top Management

In accordance with Ukrzaliznytsia's Charter, the approval of the terms of employment contracts and conclusion of the contracts with the members of the Board of the Company fall within the exclusive competence of the Supervisory Board of the Company.

The Chairman and members of the Board shall be remunerated under the terms and conditions stipulated in their contracts made with due regard to Resolution No. 859 of the Cabinet of Ministers of Ukraine On the Terms, Conditions and Amounts of Remuneration for the Heads of State-owned and Community-Owned Enterprises and of Associations of State-Owned Enterprises, dated 19 May 1999 (as amended).

The bonuses and one-time incentives for the directors of Ukrzaliznytsia, directors of departments and their deputies are paid in accordance with the

current Sectoral Agreement between the State Administration of Railway Transport of Ukraine and trade unions, the Collective Bargaining Agreement between the management of the State Administration of Railway Transport of Ukraine and the trade union committee of Ukrzaliznytsia, Regulations on bonuses for managers, professionals, specialists and technical staff of the State Administration of Railway

Transport of Ukraine and under the terms and conditions of employment contracts with them.

One-time incentives, bonuses, rewards, etc. to the employees of regional branches and affiliates are established and paid in accordance with the regulations of the corresponding branches.

Key bonus payment indicators

Nº	Bonus payment indicator	For meeting targets (%)	For every % in excess
1.1	Meeting a revenue target:from freight transportation	10	0.5, but not more than 5.0%
	from passenger transportation	10	
1.2	Ensuring planned prime cost of transportation (in comparative conditions)	10	
1.3	Meeting the transportation volume target in equated tkm	10	
1.4	Profit from auxiliary production services against the targets	10	0.5, but not more than 5.0%
1.5	Year-on-year growth of labour productivity		0.5, but not more than 5.0%



Our awards and recognitions

The Company ranked 6th among Ukraine's TOP 100 financial and industrial groups by the amount of taxes to the Consolidated Budget of Ukraine as of 1 January 2018 and 2nd in the transport industry. Ukrzaliznytsia accounts for 2% of all general-purpose revenues of the Big Taxpayers Office of Ukraine's Fiscal Authority.

During the year, Ukrzaliznytsia employees received multiple awards from the President, the Cabinet of Ministers of Ukraine, and local authorities.

Odessa Railway regional branch won the Enterprise of the Year nomination in 17th People's and Events Popularity Rankings covering the south of Ukraine.

According to the results of the National Quality Rating of Goods and Services Selection in November 2017, Ukrainian Railways High Speed Company was awarded the title "The Best Enterprise of the Country 2017" and received the Star of Quality. The award is given to leading companies for their significant contribution to the Ukrainian economy.

The Choice of Ukraine 2017 was awarded to Ukrainian Railways High Speed Company in December 2017 for hard work and merits for passengers and partners.



**Best Enterprise in
Ukraine 2017**



Choice of Ukraine 2017



Star of Quality



Association of Nurses of Ukraine

Risk Management

Risk management is an integral part of the Company's operations and seeks to achieve its strategic goals. One of the most important objectives of Ukrzaliznytsia is to project, identify and assess risks that may affect the Company's operations in a short to long term and the implementation of its Strategy. The responsibility for the risks and risk management in the Company currently is distributed among all departments, is carried out in the course of business and belongs to the mandate of the persons responsible for achieving the goals associated with these risks. In the near future, it is planned to create an appropriate organisational unit responsible for this area. Risk assessment ensures stable business operations.

Impact assessment is a key component of effective risk management. A key tool for assessing the impact and probability of risks is a risk assessment matrix (mapping) which helps identify the impact degree of risks, manage them appropriately, and classify the consequences.



Risk category	Risks
 <p>MACROECONOMIC</p>	<p>External risks</p> <ul style="list-style-type: none"> ■ Economic and financial crises and fluctuations that can negatively affect the operations of the Company, continued negative trends in the economy. ■ Currency risks. ■ Inflation, i.e. unpredictable changes in the price growth rate. ■ Risk of inconvertibility. ■ Price uncertainty in the country's main commodity markets (grain cargoes, metals and metal products). ■ Expansion and tightening of trade and transport restrictions by the Russian Federation and Russian Railways. ■ Impossibility to enter new markets and attract additional volumes of transportation, in particular, transit cargoes. ■ Violation of the throughput of the railway areas in the proximity to the conflict area. ■ Because of limited financial resources of local budgets, the executive authorities may not fully fulfil their obligations under concluded contracts for the carriage of passengers or, in general, refuse to conclude contracts by changing the financing model, which in turn can lead to a significant reduction in the volume of suburban transportation.
 <p>POLITICAL</p>	<ul style="list-style-type: none"> ■ Instability of the political situation in the country, changes in development priorities, in particular the adoption of normative legal acts that would contradict the specific objectives of the Company's Development Strategy and the proposed ways to achieve them. ■ Deterioration of foreign-policy relations with other states. ■ Counter-Terrorism Operation in Donetsk and Luhansk oblasts and related local military operations. ■ Preservation of government regulation in rate-setting.
 <p>MARKET-BASED</p>	<ul style="list-style-type: none"> ■ Drop in production in certain industries, mainly steel plants and energy companies in 2017, both through direct losses of companies operating in the occupied territory and because of the inability to obtain resources from Donbas. ■ Growth of competition within the industry and the transport market in general, the emergence of new competitors. ■ Development of alternative modes of transport and creation of international transport corridors bypassing Ukraine. ■ Reduction of Company's revenues from passenger transportation because of reduced solvency of the wide public or search of alternative travelling means. ■ Shortage of production capacities at enterprises supplying products for Ukrzaliznytsia to fulfil the required volume of orders. ■ Risks of the cost growth for equipment, technical devices, components, energy resources and works forming the prime cost of Ukrzaliznytsia services. ■ Shortage of rolling stock and inappropriate use by cargo owners.
 <p>FINANCIAL</p>	<ul style="list-style-type: none"> ■ Risk of the Company's financial stability reduction. ■ Lack of sufficient funds, in particular, investors' funds, and appropriate government support for the renovation of fixed assets and the implementation of priority investment projects. ■ Credit risks. ■ Investment risk. ■ Interest rate risks. ■ Liquidity risk. ■ Increase of tax rates or change of taxation system. ■ Reduction in the value of the net assets of the Company.
 <p>LABOUR</p>	<ul style="list-style-type: none"> ■ Deterioration of the Company's position in the labour market. ■ Decrease in the level of employees' skills. ■ Changes in the demographic situation in Ukraine, a decrease in the number of able-bodied population in remote settlements because of the outflow to large cities or abroad. ■ Risk of lower image and profile of rail occupations.



NATURAL AND MAN-CAUSED

- Fires, explosions, and natural disasters in the areas of the Company's operations.
- Major accidents at facilities related to the operations of Ukrzaliznytsia.

Internal risks

TECHNICAL,
PRODUCTION AND
TECHNOLOGY

- Risk of main equipment failure.
- Shortage and inappropriate use of rolling stock and traction vehicles.
- Reduction in production targets because of lower labour productivity, equipment downtime, loss of working time.
- Preservation of high level of equipment wear, use of outdated equipment and technical means which do not meet modern requirements and regulations for technical equipment.
- Reduction of the rolling stock utilisation efficiency.
- Low supply discipline, fuel and power supply interruptions.
- Shortage of skilled employees.
- Inconsistency of the current technological processes of transportation organisation with the requirements of the transport services quality.
- Inconsistency of technological processes with traffic safety requirements.
- Deterioration of the reliability of the rolling stock and the overall condition of the railway infrastructure (roads, structures, etc.).
- Risk of loss and damage to the assets of the Company (theft of the tracks, equipment, etc.).
- Risk of losses because of a low technological capabilities of production, which does not allow to master new developments.
- Wear and tear of rolling stock.
- Higher payroll expenses.



PERSONNEL

- Low level of employees' skills.
- High employee churn.
- Outflow of highly skilled personnel.
- Irreplaceable older staff.
- Risk of weaker motivation.
- Low discipline, resistance, failure to fulfil objectives, non-compliance with rules and instructions.
- Risks caused by inappropriate behaviour of staff (occupational injuries, mistakes, accidents, etc.).
- Lack of corporate culture.



MANAGERIAL

- Weak or lack of vision when making managerial decisions.
- Insufficient consistency between strategic and operational planning and management.
- No clear segregation of powers and responsibilities among units of Ukrzaliznytsia during implementation of their functions.
- Lack of a mechanism to increase the interest of every structural unit in the quality of products or services.
- Internal and external resistance to the implementation of the chosen policy and structural reforms of the Company.



REPUTATIONAL

- Worse attitude towards the Company from key stakeholders (shareholders, employees, and customers).
- Loss of Company's business reputation among existing and future lenders and suppliers.

In 2017, the Company continued to analyse risks on a regular basis, improve the processes needed to prevent risks and minimise their consequences. In 2018, Ukrzaliznytsia plans to continue the development of an effective risk management system.

Risk Management System

The risk management system is a reliable tool to control the achievement of the goals set by the Company. It involves identification and prevention of possible risks, minimising the consequences of their occurrence, planning risk reduction measures, analysing the efficiency of the implemented measures, and developing control mechanisms. In this case, it is very important to maximise the coverage of all types of risks.



Key objectives of the risk management system of Ukrzaliznytsia:

- Ensure the Company's sustainable development within the framework of Ukrzaliznytsia Development Strategy.
- Preserve financial reliability, increase the efficiency of the Company's operations, and ensure the Company's quick response to changes in the internal and external environment.
- Increase the efficiency and effectiveness of strategic planning, taking into account and preventing possible risks.

Principles for building and operating the risk management system:

Coverage of all types of operations (introduction of a risk management system across all operations of Ukrzaliznytsia);

Balance (objective balance of the criteria when deciding on ways to influence risks: the choice between probable losses and opportunities, between the cost of risk management and possible losses in case of risk realisation);

Awareness (risk management is accompanied by the availability of relevant and reliable information);

Integrated approach (identification of factors and objects of risk based on a comprehensive analysis of all business processes, adherence to the principles of unity of methodological approaches to the solution of risks assessment and management objectives);

Continuity (the risk management process is carried out on a permanent basis);

Timeliness (implementation of risk management procedures at the time scheduled).

Risk management methods:

Under the influence of various external and internal risk factors, different ways of risks reduction are used. The possible occurrence of risks must be monitored constantly and maximum efforts must be made to neutralise them. For this purpose, risk management methods are applied. Each method offers specific solutions for risky situations.

Methods to avoid risks:

- Refusal to take steps which can lead to negative consequences, including rejection of unreliable partners, risky projects, economic risks, the dismissal of incompetent workers, etc.

Methods to reduce risks:

- Development of measures to control and reduce the negative consequences

of risks, including differentiation, duplication of important facilities that are at risk, etc.

Risks transfer methods:

- Transfer of responsibility for risks to other entities, including insurance, outsourcing, etc.

Methods to assume risks:

- Readiness to cover possible losses at own expense.

Risks localisation method:

- Is used when it is possible to clearly and specifically identify risk sources.

Risk management process

Risk management cannot be a combination of instantaneous actions. This is a set of targeted activities that involve several procedures:

- identification of risks — i.e. the process of risk identification at all levels of management, identification of risk sources, causes and possible consequences — is conducted regularly with the participation of as many participants as possible;

- qualitative and quantitative risk assessment — identification of risk degree;

- risk management — a systemwide process to develop, implement and review identification methods, risk assessment, response to risks, and mitigation of their negative impact;

- risk monitoring and control — a process of risk monitoring, in particular, risk level, assessment of mitigation effectiveness.



Ukrzaliznytsia strives to operate responsibly and transparently, in accordance with high international standards of business ethics and requirements of Ukrainian laws. Good business conduct is key to long-term success, creation of values and the culture of business ethics in the Company.

Ukrzaliznytsia as a socially responsible Company depends on the understanding and continued compliance with the principles set forth in the Code.

Corporate Ethics

Ukrzaliznytsia Code of Business Ethics

During 2017, we worked tirelessly to develop a Code Business Ethics of PJSC Ukrzaliznytsia (hereinafter referred to as the Code), which will determine the principles of ethics and rules of conduct for employees to follow when performing their duties. This Code is expected to be adopted in 2018.

The purpose of the Code is introduce standards and traditions of corporate behaviour in the daily operations of the Company. These standards and traditions are based on corporate governance standards, international practices, requirements of the applicable laws of Ukraine, ethical norms of conduct and usual business practices.

The implementation of the Code is aimed at:

- achieving mutual understanding among all persons interested in efficient and effective operations of the Company: partners, employees, contractors, etc.;
- ensuring transparency of the Company's operations;
- increasing the value of the Company's assets, supporting its financial stability and profitability.

The Code is developed in line with key corporate values of the Company, in particular: quality, efficiency and effectiveness, unity, responsibility, openness.

The Code is primarily based on the presumption that all employees of the Company adhere to the applicable laws of Ukraine, internal job descriptions, rules of labour regulations and are committed to their duties. The Code applies to all employees of the Company, including officials at all levels, the Management Board, as well as to all business entities (branches, subdivisions) under its control. One of the principles of the Code is zero tolerance to corruption at all levels of Ukrzaliznytsia's operations.

The Company expects that employees should comply with the established standards in good faith and considers unfair or illegal achievement of results by its employees unacceptable. Regardless of the difficulties we encounter in our daily work, no circumstances can justify a deliberate violation of the Code. The reputation of

Transparency

PJSC Ukrzaliznytsia adheres to the principles of information openness and applies a consistent approach to increasing transparency and accountability. To this end, the Company seeks to communicate as honestly as possible with all stakeholders and provides them with complete and reliable information about its operations. An open dialogue is critical to achieving the goals of Ukrzaliznytsia. We are confident that this is the only way to maintain the reputation of a reliable partner and supplier of affordable and quality services.

The Company attempts to manage its operations and procurements in line with the principles of openness and transparency. In particular, we intend to become Ukraine's first joint-stock company in public sector to have a procurement system in place certified internationally according to the methodology of the Chartered Institute of Procurement and Supply. Ukrzaliznytsia follows the Law of Ukraine On Public Procurement and purchases goods, works and services through a ProZorro electronic procurement system. Today, everyone can monitor the status of the purchases. Now, the implementation of the project on the publication of information on payment transactions of Ukrzaliznytsia has been launched on E-Data, a unified web portal of public money utilisation.

The construction and development of the Company's effective corporate governance system is based on openness, transparency and accountability. The Company takes fair, consistent and transparent approaches to assessing the work and performance of each employee, creating conditions for the professional and personal growth for everyone. In a move to increase transparency, the Company publishes its annual reports.

In accordance with the requirements of the Law of Ukraine On Prevention of Corruption and within the framework of the Anti-Corruption Programme in the Company, we carry out regular organisational, preventive, awareness-raising and outreach measures to reduce corruption risks in the operations of the Company.

In 2017, 429 inspections were carried out (including 74 official inspections, 135 were initiated by other structural units of the Company, 242 were independent inspections at regional branches and affiliates), materials on 46 inspections were sent to law enforcement agencies

(criminal proceedings initiated in 34 cases). In total, 399 offenders were held disciplinarily liable (65 people were fired, 171 received reprimands, 163 were transferred to a different position or dismissed from work). We conducted 13,151 tender procedures, found 3,006 violations and thus prevented losses of more than UAH 1.8 billion.

Over the year, 2,725 requests from law enforcement agencies were processed, resulting in 309 criminal proceedings filed against railroad workers. In the field of information security, administrative orders were issued regarding the disclosure of open data, as well as the protection of commercial secrets and confidential information.



In a move to prevent economic and corruption offenses and improve the quality of passenger transportation, the Company launched a contact centre with the Stop Corruption hotline and e-mail anticor@uz.gov.ua. During the year, the contact centre received **365 messages and requests**.

The Anti-Corruption Programme is developed in accordance with the requirements of the Law of Ukraine On Prevention of Corruption and establishes standards and requirements stipulated by the Law and the Standard Anti-Corruption Programme approved by the National Agency on Corruption Prevention.

The Anti-Corruption Programme is published on the official site of Ukrzaliznytsia at uz.gov.ua in the Regulatory Framework section.

The Anti-Corruption Programme of Ukrzaliznytsia was developed and implemented by the Company in pursuance of the Company's Order No. 476 dated 28 July 2016. The Programme is a set of rules, standards and procedures to identify, counteract and prevent corruption in the operations of the Company. Following the approval of methodological recommendations on the preparation and implementation of anti-corruption programmes of legal entities, Ukrzaliznytsia prepared a new version of the Anti-Corruption Programme according to Decision No. 734 of the National Agency on Corruption Prevention, dated 22 September 2017.

The Anti-Corruption Programme is based on the analysis of corruption risks in business operations of Ukrzaliznytsia and is binding on all employees of the Company, including officials at all levels, the Management Board, the Supervisory Board, as well as for all business entities (affiliates, subdivisions, subsidiaries) under its control. In particular, it contains the rights and obligations of the employees of Ukrzaliznytsia and mechanisms to resolve conflict of interests in the operations of the Company's employees. Ukrzaliznytsia also follows the Programme in its legal relations with business partners, in particular, central and local government authorities.

The purpose and main objectives of the Anti-Corruption Programme:

- Implement effective mechanisms to prevent corruption offenses at Ukrzaliznytsia, outline the range of causes and conditions that give rise to corruption.
- Prevent corruption offenses, minimise corruption, instil zero tolerance and negative attitude towards corruption as a socially dangerous phenomenon.
- Build an effective system to prevent and detect corruption across all rail transport operations.
- Ensure openness and public awareness of the anti-corruption measures of the Company.

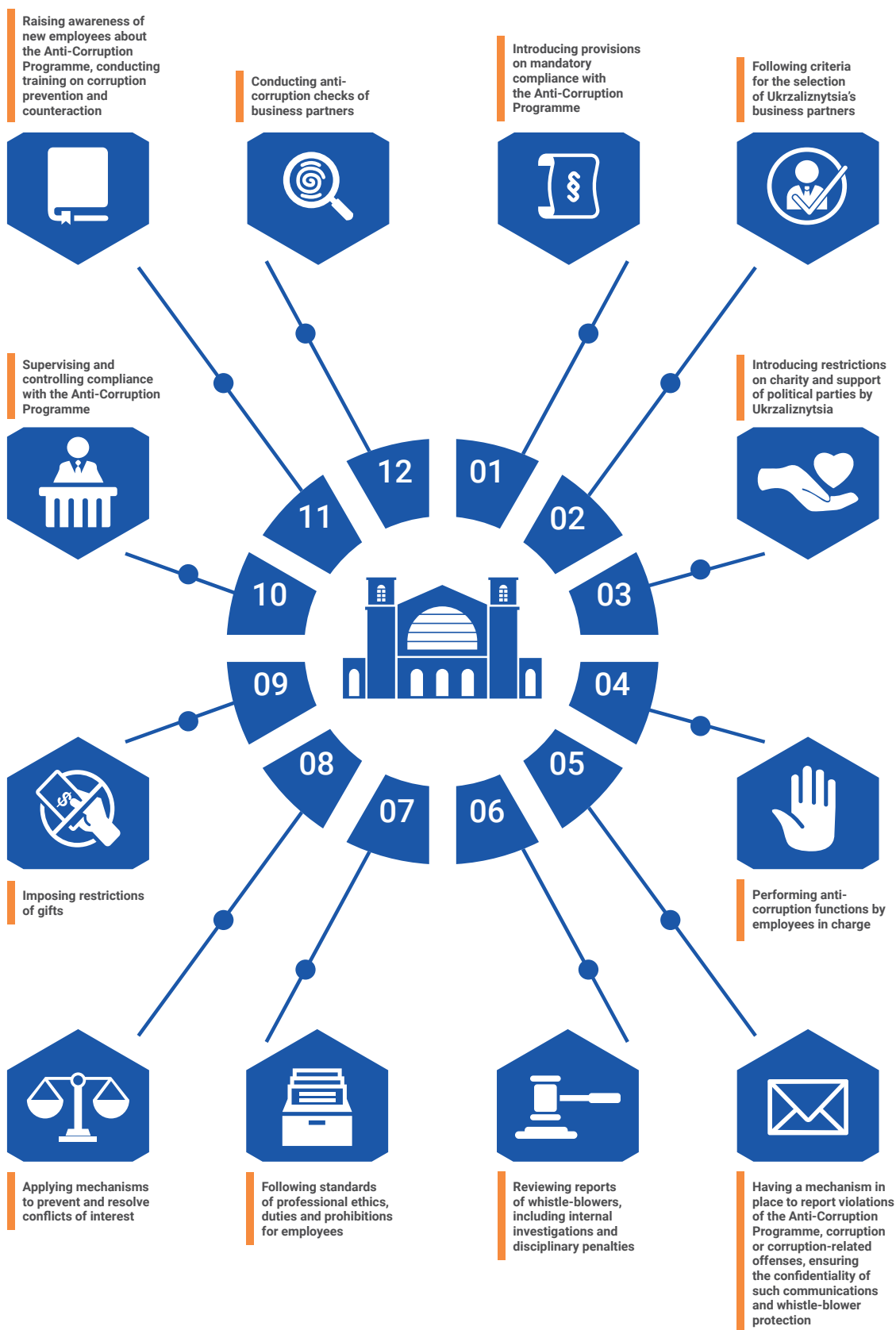
Anti-corruption measures at Ukrzaliznytsia

PJSC Ukrzaliznytsia develops and implements measures that are necessary and sufficient to prevent, detect and counteract corruption in its operations. In particular, all members of the Company confirmed in writing that they had read about the anti-corruption policy and prepared and provided by the Security Department.

Anti-corruption measures include:

- 1) Regular assessment of corruption risks in the operations of Ukrzaliznytsia.
- 2) Anti-corruption standards and procedures in the operations of Ukrzaliznytsia.

The main anti-corruption measures, standards and procedures at Ukrzaliznytsia:



Project Office

Olena Diachenko, Head of the Project Office:

"Our Project Office seeks not only to formally obtain a certificate of supply and supply management and thus to certify that the procurements at Ukrzaliznytsia meet the world's best practices. We give an impetus to deep processes: transformation of the Company's philosophy of procurement. From now on, the approaches to quality (qualifications) of staff should change. After all, every employee who has expertise can in a short time and with less effort really contribute to the creation of higher added value through efficient and effective procurements".

In 2017, Ukrzaliznytsia launched the Project Office. The new division seeks to support projects, evaluate their effectiveness and risks, and implement the world's best practices at their planning, implementation and control.

The Company has already started comprehensive efforts to improve procurement and transparency of procurement for market participants. The EBRD financed a loan agreement to assist the analysis and benchmarking of the Company's existing approaches against internationally recognised practices, and the Chartered Institute of Procurement and Supply (UK) provided consultations. The certification will help Ukrzaliznytsia increase the number of bidders (in particular foreign ones) and thus receive products of better quality and reasonable value in the shortest possible time. For example, it is a question of improving the level of service for passengers when the company purchased the necessary services quickly - the consumer immediately felt positive changes.

PJSC Ukrzaliznytsia follows the Law of Ukraine On Public Procurement and purchases goods, works and services through the ProZorro electronic procurement system. Today, everyone can monitor this process.

Effective purchases are not just about working with the ProZorro system, but also about building a robust asset management system. The Company plans to sell extra inventories and offer new services. Currently, preparations for a tender of wagons are in place as part of the construction of a transparent and efficient system of services for the use of Ukrzaliznytsia's wagons, using a ProZorro.Sales electronic trading system. This project will help improve the satisfaction of clients' needs in integrated logistics services and will establish parity cost effective conditions for different owners of the rolling stock. Today, the Company is preparing to sell services for the use of 5% of its own car fleet at the tender. This will allow having a representative market indicator of car utilisation.

Other important objectives performed by Project Office include preparations for a clear separation of freight and passenger transportation. In particular, it is about establishing a wagon company to ensure control that is more effective and development of cargo transportation services.

The Company has already started taking a consistent approach to affiliates of the Company. Since late 2017, management-level changes are underway at the repair facilities of Lviv Locomotive Repair Plant, Dnipropetrovsk Diesel Locomotive Repair Plant and Zaporizhia Electric Locomotive Repair Plant to introduce corporate governance. A system of planning, operational reporting, advanced production planning and procurement planning has been implemented. The sustainable development of enterprises requires market pricing. In 2017, the Company engaged international audit companies for the audit of financial statements for the first time and now applies IFRS.



The Company does not allow violations of human rights in any form while interacting with personnel, local communities, suppliers, contractors and other stakeholders. Strictly adhering to the rules of business conduct, the Company is responsible for ensuring that no actions, directly or indirectly, contribute to the violation of the human rights.



We are guided by:



Universal Declaration of Human Rights;

UN Guiding Principles on Business and Human Rights;

Fundamental Conventions of the International Labour Organization;

European Convention on Human Rights;

UN Global Compact Principles;

Constitution of Ukraine;

National Human Rights Strategy;

Sectoral Agreement;

Collective bargaining agreements.

Key areas

Our approach involves accepting human rights commitments, assessing risks and impacts in this area, interacting with stakeholders, informing staff and contractors, as well as appropriate monitoring and reporting.

The Company has committed itself to observing human rights across all divisions. To this end, procedures and training measures are being developed, and outreach activities are planned to be expanded within the Company.

In the framework of human rights, the Company trains its employees, as well as controls and evaluates achievements in this field. Human rights requirements will be included in a series of training courses and a programme of special courses mandatory for all employees and contractors of the Company.

Our cooperation and mutual relations within the Company and with counterparties and third parties are based on mutual respect, transparency and honesty. The Company encourages partners to comply with and respect human rights, build and maintain long-term relationships based on trust. PJSC Ukrzaliznytsia expects suppliers to share the ethical principles of the Company and that their operations comply with the applicable laws. We seek to cooperate only with the suppliers that adhere to the principles of legality, corruption prevention, human rights respect, and protection of health and safety of employees.

Commercial activities are in accordance with the the labour laws of Ukraine, and there are no risks of forced or slave labour, or of violations affecting the rights of indigenous and minorities.

PJSC Ukrzaliznytsia enters into employment contracts with persons who meet the minimum age requirements established by the applicable laws. Child labour prohibited by law is not used.

Our staff mix reflects the diversity in society, languages and cultures. We respect and sustain this diversity, because it is key to our proximity to society and clients, as well as to the openness to new ideas. We disallow any form of discrimination against individuals, in particular discrimination based on race, religion, sexual identity, nationality, origin, political or trade union activities, age, gender or disability. Corporate culture rests on mutual trust and respect for one another.

Employees of different gender and age groups have equal opportunities. Discrimination is disallowed when managerial decisions are made.

Any prosecution or pressure on employees who reported violations of human rights or are involved in the investigation of such violations is prohibited. The Company does not violate the right to the freedom of association and collective bargaining. In the next reporting period, the Company is set to conduct human rights training for security personnel. Upon completion of the training, we will check the compliance with the human rights principles across the Company.

Key Performance Indicators

Operational performance



¹⁰ Tonne kilometre (tkm) is a unit of measurement used in cargo transportation. It combines two indicators: the number of tonnes of cargo and the distance in kilometres.

Financial performance

Employees

UAH 76.9
BILLION

in revenues from operations
less than targets by
UAH 3.6 billion, a 4.5% decrease

UAH 67.4
BILLION

in revenues
from
transportation

UAH 9.5
BILLION

in other
revenues

UAH 4.1
BILLION

up by 115.1%
against targets.

**financial result
from cargo
transportation**

UAH 60.1
BILLION

from cargo
transportation

UAH 7.3
BILLION

from
passenger
transportation

27.1
%

**EBITDA
margin**

UAH 17.6
BILLION

in taxes

up by UAH 0.5 billion against
targets:

taxes to the
national
budget

UAH 6.6
BILLION

up by
UAH 324 million
against 2017
targets

taxes to local
budgets

UAH 5.2
BILLION

up by
UAH 45.5 million
against 2017
targets

in single
social tax

UAH 5.7
BILLION

up by
UAH 160.5 million
against 2017
targets

**ALMOST
UAH 5
BILLION**

**in financial
liabilities were
repaid**

reducing the loan
portfolio by 9%

276,119
EMPLOYEES

**the Company average
headcount accounting**

for over 1% of the able-bodied population of
Ukraine. Of them:

8

%
managers

7

%
professionals

13

%
specialists

6

%
technical
staff

66

%
workers

**UKRZALIZNYTSIA
RANKED**

13TH

**among other
sectors by
average
monthly salary**

In December 2016, the
Company ranked 13th
by this indicator.

UAH 7,863.1

average monthly salary

up by 11% against the national average.
The salary consists of:

49

%
basic
salary

44

%
additional
salary

(monthly
bonus,
additional
payments and
surcharges
established
by laws and
the Sectoral
Agreement)

7

%
other
incentives
and
compensation

Key Operating Results

One of Ukrzaliznytsia's objectives is to increase the Company's operating efficiency. We strive to achieve sustainable results and generate high revenues by improving the quality of services, upgrading infrastructure, optimising costs and implementing new technologies.

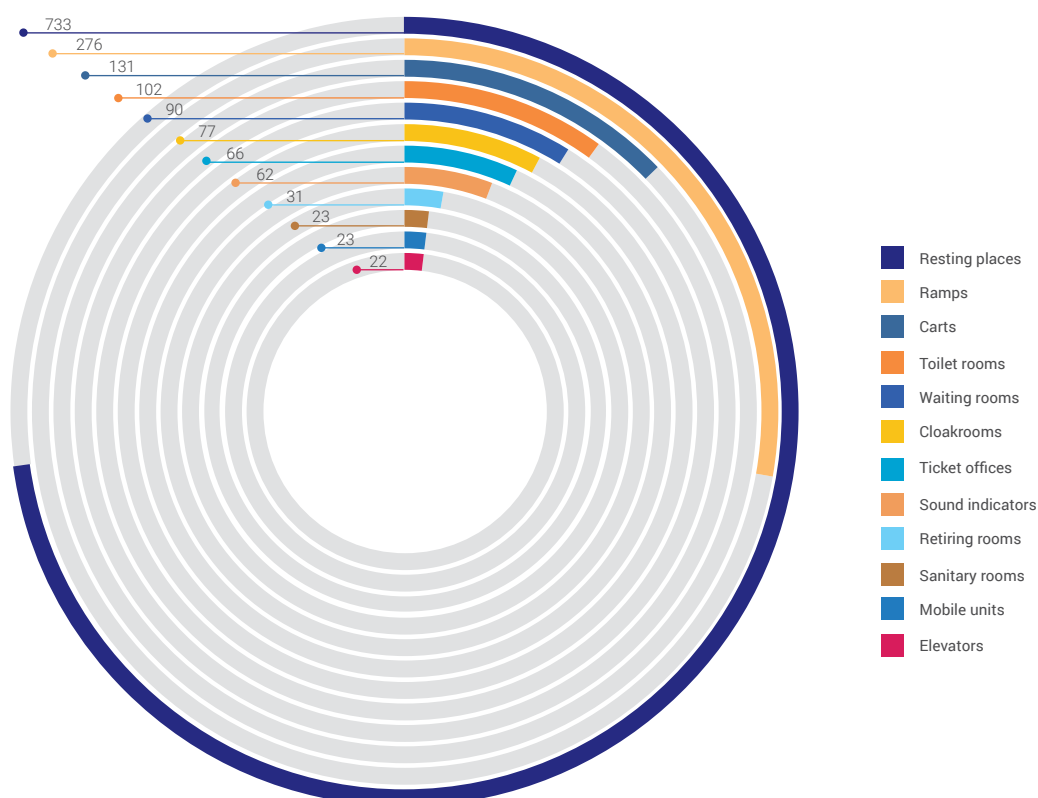
Long-Distance Passenger Transportation

53.7 million reservations were made online, representing 41% of total sales, 1.3 times more than in 2016.

Passenger transportation plays a special role in the activities of Ukrzaliznytsia. It is driven by their high social and economic significance in the life of society and implementation of one of the most important governmental guarantees of the freedom of movement.

The long-distance passenger transportation responds to the needs of the government, companies, organisations and individuals providing safe and high-quality domestic and international transportations.

The number of new facilities for people with special needs



We are guided by:



Current rules of the passenger, luggage, cargo, and mail transportation outlined in Ukrainian rail transport and international agreements;

Order of the Ministry of Infrastructure On Approval of Rail Rates for Domestic Cargo, Passenger and Luggage Transportation.

20,393.2 tonnes of passenger's luggage were processed, up by 47% against 2016. The proceeds from the service made **UAH 8,442,300** up by 29.7% against 2016.

Goals and objectives:

- Building an effective system of domestic and international passenger transportation in accordance with the current rules of the passenger, luggage, cargo and mail by Ukrainian rail transport and international agreements.
- Introducing a unified technical policy and policy management in the passenger transportation, ensuring its maintenance and development, in particular, rolling stock.
- Ensuring the implementation focus areas of the Ukrzaliznytsia development in terms of domestic (except for suburban) and international passenger transportation by rail, passenger service and quality services delivery at railway stations and in trains.

8,066 wagons costing **UAH 6,132,000** were transformed into car carriers.

In an effort to offer high-quality services and a convenient schedule to passengers and to increase the economic efficiency, 190 pairs of passenger trains were to be driven, including 131 year-round pairs, 19 seasonal pairs, and 40 one-time pairs in 2017. Besides, we operated 15 pairs of IC+ and IC high-speed trains and 19 international passenger trains.

The Company pays particular attention to people with special needs. In 2017, the Company transported 4,433 individuals with disabilities in special wagons. In addition, 197 measures were taken to ensure their free access to the rail transport facilities.

Ukrzaliznytsia introduced coefficients of flexible rate regulation for thirteen calendar periods of the year to attract passengers from alternative modes of transport and to provide transportation for socially vulnerable groups of population with reduction coefficients of 0.7-0.97 and increase coefficients of 1.01-1.10. At the same time, adjustments were made for days of the week: a decrease by 10% on Tuesday and Wednesday, an increase by 10% on Friday and Sunday, while Monday, Thursday, and Saturday remained without changes.

In 2017, **50 new passenger cars** were purchased and **50 passenger cars** overhauled.

Rates for the domestic passenger transportation are differentiated depending on the type of car (general, couchette, compartment coach, luxe class carriage, 3rd class, 2nd class, 1st class), train category by speed (passenger, fast, accelerated, high-speed), the level of service (premium and common train). Using the differentiation of rates for the period of the year and days of the week, the passenger has the opportunity to choose the most convenient route for a reasonable fee.

In international transportation, economically reasonable discounts on the cost of tickets and couchettes for trains, directions, days of the week, as well as the periods of the year established in accordance with the protocols of international meetings, agreements, contracts, etc. were provided to attract passengers from alternative transport modes.

In order to expand the network of high-speed service and increase the intensity of existing routes in the traffic schedule for 2017/2018, we launched new train runs No. 37/38, No. 737/738 Kyiv – Zaporizhzhya – Kyiv, No. 7/8, No. 749/750 Kyiv – Ivano-Frankivsk – Kyiv in the overnight express and intercity categories.

Ukrzaliznytsia held a tender to select a single supplier of food products for long-distance trains. The main criterion for choosing a supplier was the guaranteed high quality of products. Currently, work is underway to conclude a contract between our Passenger Company branch and the winner of the competition.

In the nearest future, we are set to roll out a pilot project on the provision of catering services in trains (with the possibility to do it through ticket offices and train crews).



Key challenges

Written requests by passengers, calls to the hotline and requests registered at the official site of Ukrzaliznytsia are monitored to resolve and regulate problematic issues concerning the service delivery to passengers at railway stations and trains. According to the results of the request and application monitoring by the experts of the Long-Distance Passenger Transportation Department, the proposals are being made for amending the internal rules for the passenger and luggage transportation and international documents regulating the passenger transportation.

The key challenge faced by passenger rail transport is the wear and tear of the rolling stock. In the period from 1992 through 1 January 2018, the fleet of cars decreased more than twice. The fleet made 10,776 cars in 1992 and 4,463 cars as of 1 January 2018. Currently, the operational fleet is kept at the level of 3,000 units.

No less critical is a sharp drop in passenger car fleet over the year because of the expiration of the service life (41 years since construction). By the end of 2018, 146 cars of main types (two-berth compartment, compartment, couchette cars) will be removed from the fleet. In 2019, this figure will reach 393 cars.

In order to maintain the fleet at the level of 3,000 cars, it is necessary to renew the car fleet by 300 units annually.

Amid underfinancing for the renovation of passenger cars (overhauls and acquisition), the car fleet will gradually decrease to 950 cars by 2025, which will not satisfy the passenger transportation needs.

One of the solutions to the issue is the implementation of new types of rolling stock, in particular, convertible compartment passenger cars manufactured by Kriukiv Rail Car Building Works. The furniture in the compartment of these cars can be transformed in several ways: a couchette compartment (four persons in a compartment), a couchette luxe class (two persons in a compartment), the first-class compartment with sitting places (four persons in a compartment), the second-class compartment with sitting places (six people in a compartment).

This innovative rolling stock has several advantages:

- Possibility to organise routes using berths at night and places for sitting in the daytime;
- Trains with these cars can carry three runs on routes of up to 500 km, two runs of up to 800 km per day, allowing more efficient use of the rolling stock;
- In the prompt response to the demand of passengers, the compartment furniture can transform into four positions;
- The equipment, junctions, parts and aggregates of the car are identical to existing types of rolling stock and do not require the retraining of train crews, as well as of specialists on repair and operational depots.

Completed projects and programmes:

A new schedule of passenger trains was developed;



The service of registration of travel documents through electronic channels of service was improved;



Mobile application for the purchase of online rail tickets for mobile-based operating systems was implemented;



The registration of electronic travel documents for international routes was launched at booking.uz.gov.ua, as well as the formation of financial reporting on the results of issuance/return of electronic travel documents in the East-West international service;



A catalogue of passenger cars was developed and approved, and new types of car models were developed;



The actual visual representation of the train charts were posted on booking.uz.gov.ua;



The software was developed for booking.uz.gov.ua for the route choice and the registration of a passage with a transfer (complex route of travel), acceptance tests were made;



The software for establishing the sign of registration of electronic travel documents for a separate car of train was developed;



The software for registration/return of travel documents in the East-West international service with payment by a bank card through POS-terminals of Oshchadbank was developed;



Amendments and additions to the Rate Guide No.4 concerning the opening of new stations and hubs for luggage and cargo handling operations have been made;



The technology of passenger car overhaul with the use of new under-roof air conditioning systems, environmentally friendly toilets, power supply systems for passenger cars was developed and implemented;



The technical requirements and directions of modern interiors of a passenger car were developed;



New types of all-season composite brake blocks with cast-iron inserts of longer service life were put into operation.

Suburban Passenger Transportation

In 2017, Ukrzaliznytsia's regional branches carried **114.4 million passengers** by suburban trains.

Suburban transportation plays an important role in the passenger transportation market. This type of public transport is essential for ensuring people's mobility, optimising the transportation distribution between different modes of transport, facilitating the road congestion relief.

Ukrzaliznytsia's Suburban Passenger Transportation Department is responsible for meeting the needs of suburban passenger transportation.

Goals and objectives:

- Building an efficient system of suburban passenger transportation in accordance with the applicable Rules for the passenger, luggage, cargo and mail transportation by Ukrainian rail and with international agreements;
- Developing and implementing an effective suburban transportation policy, provision of quality services for passengers in suburban trains.

In 2017, improvements of the interiors and exteriors of five electric trains (25 sections) and other works that significantly improved the operation of motor-vehicle rolling stock and conditions of passenger transportation were completed at Kyiv Electric Car Repair Plant.

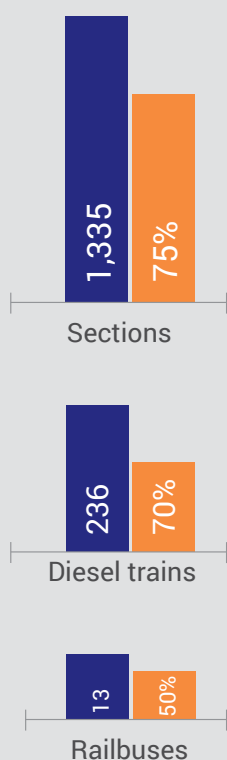
In general, the plant made major repairs and upgrades with an extension of service life of 66 sections of electric trains (14 electric trains) during the overhaul reconditioning.

In 2017, we launched the service by ticket cashiers and passenger car attendants (motor-car trains) of suburban trains on the basis of one cashier (attendant) per one car using video recorders at the districts: Kharkiv – Shebelynka (Lykhachove), Kharkiv – Kozacha Lopan, Poltava – Ogultsi (Romodan) of Southern Railways regional branch; Izium – Kramatorsk – Slovyansk, Lyman – Kurdiuvivka of Donetsk Railways regional branch, Dnipro – Mezhyva, Zaporizhia – Novooleksiivka, Zaporizhia – Dnipro of Prydniprovye Railways regional branch, Lviv – Ternopil (Truskavets, Zdolbuniv) of Lviv Railways regional branch, Odessa – Vapniarka (Kolosiivka, Rozdilna) of Odessa Railways regional branch, and Kyiv – Yahotyn, Kyiv – Nizhyn, Kyiv – Koziatyn of South-Western Railways regional branch. The train crews of these routes work with the support of paramilitary security guards. As a result, passengers became more disciplined, and proceeds from a run have significantly increased, sometimes even more than doubled.

For closer cooperation with the EU countries, and taking into account the implementation of a visa-free regime, the international railbus run in the Kovel – Chelm (Poland) direction has been organised since 12 June 2017. To ensure the train run on the specified route, the timetable of the train No.751/752 in the Kovel – Chelm direction, the border crossing, train traffic safety, ticket sales, and other issues were coordinated with the Polish side.

In order to improve the service and quality of suburban passenger transportation and reduce the time on the route to the Teteriv – Sviatoshyn – Teteriv district, the shuttle traffic suburban trains on the Sviatoshyn – Klavdiievo – Sviatoshyn route have been launched with two modernised and more comfortable 10-car electric trains since 12 December 2017.

Total Fleet of Multiple-Unit Rolling Stock in 2017



■ Total number
■ In operation

We are guided by:



Programmes for equipment (upgrading) of multiple-unit rolling stock sanitary clean-up points, where the programmes were developed and approved by Ukrzaliznytsia's regional branches.

An average of **1,400** suburban trains run daily to meet the suburban transportation needs.

In 2017, we started equipping 15 wet cleaning points (in particular, at stations Vapniarka, Kharkiv, Hrebinka, Chaplyne, Korosten, Vorozhba, Yahotyn), for which the capital investment plan allocated a total of UAH 10,652,000, the acquisition amounted to UAH 1,192,000. The planned works were performed in full, with wet cleaning points at the stations of Vapniarka of the Odessa Railway regional branch, Dnipro, Chaplyne, Zaporizhzhia-2 of the Prydniprovye Railway regional branch, Vorozhba of the South-Western Railways regional branch organised. In carrying out the works, construction of sewage and drainage systems, electrical supply systems, installation of wells for filling of electric and diesel trains with water, carrying out of shut-off valves audit, installation of counters was performed. Works to equip wet cleaning points at other stations will continue in 2018.

In 2017, the Ukrzaliznytsia regional branches transported 114.4 million passengers by suburban trains. With the help of suburban rail transport, the population makes daily trips to their study, work, country houses, rest & recreation places. This ensures high reliability and regularity of the service in all seasons.

Suburban trains carry 16 preferential categories of passengers, with about 45% of suburban passengers being benefit-entitled.

In 2017, the regional branches of PJSC Ukrzaliznytsia carried 39.3 million of suburban benefit-entitled passengers, and losses of the branches should be reimbursed by local executive authorities. The total amount of this transportation services amounted to UAH 409.8 million in 2017. Local governments compensated UAH 72 million, or 17.6 %. Among the outsider regions, which almost do not compensate for the rail transportation costs, are the city of Kyiv and Volyn Oblast (0% compensation), Ivano-Frankivsk Oblast (4.3%), and Chernivtsi Oblast (1.6%).

Compensation for the carriage of suburban benefit-entitled passengers in 2015-2017

Year	Cost of services, UAH million	Compensation received, UAH million	Debt, UAH million
2015	402.4	159.6	242.8
2016	417.6	43.6	374.0
2017	409.8	72.0	337.8



Key challenges

The main issues of suburban passenger transportation include:

- 1,022 sections (73%) of electric trains (533 sections, or 107 AC trains (81%), 489 sections, or 101 DC trains (66.5%), and 139 diesel trains (97%) were fully depreciated.
- Multiple units are completely outdated; the wear of multiple units of Ukrzaliznytsia regional branches is 86.7% for electric trains (91% for AC trains current and 82.8% for DC trains), 97% for diesel trains, and 23.8% for rail buses.
- 263 sections or 54 DC trains (more than 50 years old) and 29 sections, or 13 diesel trains (more than 40 years) are operated over the extended service life.
- Insufficient amount of financial resources for maintenance of multiple-unit rolling stock.
- Lack of funds for the purchase of new rolling stock.
- Lack of sufficient governmental support in resolving issues of suburban rail transportation, in particular, the need to compensate for rail transport losses incurred for suburban transportation, including transportation of benefit-entitled categories.
- Lack of modern approaches to the suburban transportation financing (service contracts).
- People's low income and habit to use suburban trains for free.

Targeted cash payments to benefit-entitled passengers by the government are the best option for Ukrzaliznytsia. This will give the carrier the opportunity to receive the full fare, regardless of the social status of passengers.

Problematic issues in rate-setting policy are the lack of a mechanism for compensation of the difference between the actual cost of transportation and revenues from transportation based on approved rates, as well as the negative attitude of the regional state administration authorities to the proposals of Ukrzaliznytsia's regional branches regarding the increase of suburban passenger transportation rates.

Completed projects and programmes:



Improvements of the interior, exterior and other works at five electric trains (25 sections) at Kyiv Electric Car Repair Plant were completed.



Major repairs and upgrades were completed to lengthen the service life of 66 sections of electric trains (14 electric trains).



Railbus run was launched in the international service of Kovel-Chelm (Poland).



There was an increase of rates for passenger transportation in coordination with the relevant regional administrations.

Commercial Household

PJSC Ukrzaliznytsia transports cargo between the stations that are open to relevant commercial transactions. The commercial household (cargo facilities) plays a key role in the cargo transportation.

The commercial household meets the needs of the government, legal entities, and individuals with safe and high-quality transport services of cargo transportation by rail.



Goals and Objectives:

- Building relations with the clients of the Company in terms of cargo transportation by rail, developing and controlling the marketing strategy implementation in the field of cargo transportation.
 - Developing and implementing government-controlled, international (transit) and regional rates for cargo transportation, monitoring cargo transportation, establishment of rate-based distances, opening and closing stations.
- For the purposes of retaining existing customers and attracting new ones, the Company has made the following:
- Amendments to regulatory and legal documents on international and domestic transportation.
 - Implementation of the Single Contract on a single payer code and settlements through the Unified Settlement Centre branch.
 - Pilot distribution of empty cement carriers, covered railroad cars, and grain carriers.
 - Purchase for 45 20-foot containers and 65 container flatcars.

Cargo Transportation

In 2017, Ukrzaliznytsia transported 339.6 million tonnes of cargo, and the cargo turnover reached 191.9 billion tkm.

We saw a tonnage rise in all segments: up by 16.3% (+6.1 million tonnes) in imports and up by 1.4% (+1.7 million tonnes) in exports. Transit grew by 15.5% (+2.6 million tonnes) as well to reach 19.6 million tonnes.

Key rail cargo transportation indicators in 2017

Indicator	Million tonnes
Transported, incl.	339.6
transit	19.6
imports	43.9
exports	116.1
domestic service	160.00

The volume of transits amounted to 19,554,100 tonnes, up by 2,624,100 tonnes or 15.5% compared with 2016. The main cargo flows were with the Russian Federation (76.5%), the Republic of Belarus (11.2%), and the Republic of Kazakhstan (6.3%).

The volume of materials handling at terminals was 2,841,000, up by 8.8% or 229,000 tonnes against targets. Compared with 2016, the indicator grew by 3.8% or 103,000 tonnes.

Transported cargo, million tonnes

Cargo	Million tonnes
coal	67.1
coke	6.6
oil and oil products	13.9
iron ore and manganese ore	74.8
ferrous metals	22.4
ferrous scrap	3.1
chemical and mineral fertilisers	12.5
chemicals	3.6
salt	1.8
cement	6.4
timber cargo	3.7
grain and ground products	36.8
mineral building materials	62.7
other	24.1

In the reporting year, we took measures to analyse the cargo transportation market, advance cooperation with cargo consignors, forwarders, and controlling agencies, further develop combined transportation, infrastructure, stimulate electronic document practices and their harmonisation, improve the rate-setting policy, expand international activities, update regulatory framework, and improve the image of Ukrainian railways.

Container Transportation

In 2017, the large-tonnage container transportation grew 10% against 2016 in Ukraine, in particular:

- by 17% in exports
- by 14% in imports
- by 5% in the domestic service.

In 2017, 291,900 TEUs (20-foot equivalent) were transported by rail within the territory of Ukraine. It was 10% more than the container transportation in 2016 and made 1% of the total cargo transported by rail.

For the purposes of increasing the transportation volume, delivery speed-up, and safety of cargo in containers, Ukrzaliznytsia launched eleven container trains, including five transit trains, in 2017.

In 2017, 73,729 TEUs, were transported within the territory of Ukraine, representing 25% of the total volume of containers transported across the territory of Ukraine, quite at the level of 2016.

We launched a container train on the route China (Changsha) – Mongolia (Zamyn-Üüd-Sukhbaatar) – Russia (Naushki – Suzemka) – Ukraine (Zernove – Chop) – Slovakia (Dobra terminal) – Hungary (Budapest), transporting 40-foot containers with assorted cargo.

Container transportation by container trains in 2017

Train	Total containers in TEUs		% against 2016
	2016	2017	
Total containers transported by rail	73,702	73,729	0%
Integrated train "Viking"	4,354	8,221	+89%
Land Bridge (China – Hungary)	1,546	82	95%
China – Slovakia/Hungary (from June 2017)	0	2,410	–
Slovakia (Kosice) – Russia	12,664	5,468	-57%
"ZUBR"	1,499	1,596	+6%
Romania – Togliatti	6,182	7,388	+20%
Khreshchatyk (Odessa – Kyiv-Lisky)	3,514	4,184	+19%
Dniprovets (Odessa – Dnipro-Lisky)	5,113	5,404	+6%
Podillia (Odessa – Khmelnytsky)	1,676	1,796	+7%
Nikopol – Chornomorsk	29,926	23,680	21%
Odessa – Kharkiv-Lisky (from July 2016)	3,070	6,794	increase by 2.1 times
Nyzhniodniprovs'k – Odessa/Black Sea	4,158	6,706	+61%

Container forwarding increased by 17.2 %, or 26,089 containers, against targets and by 7.3 %, or 12,074 containers, against 2016 and made **177,841** containers.

117,464 large-tonnage containers were processed at the terminals, up by 4.5 %, or 5,039 units, against targets.

In a move to preserve the existing rate of container transportation and to attract additional volumes, the following efforts are taken:

- Launch of container trains in the areas of the cargo flow concentration in order to ensure the compliance with their time-schedule to increase the speed of container cargo delivery.
- Control of the time when container trains pass through the territory of Ukraine to improve the services provided to users of rail transport.
- Cargo stations are opened for commercial operations with large-tonnage containers, among them on access roads with the purpose of cargo flow redirection from other types of transport, in particular, automobile one.
- Development of new logistic arrangements of cargo transportation, particularly, with the use of Trans-Caspian International Transport Route (the EU countries – China and vice versa, using ferry crossings in the Black Sea and Caspian Sea) and the international transport route South – West (Poland – Iran and vice versa, using the ferry crossings in the Black Sea). Regular meetings are conducted with potential shippers to discuss key issues of cargo transportation in a move to create a shared integrated logistics product on the specified routes.

To reduce the car time on access roads:

- The heads of regional branches at all levels hold joint meetings with the representatives of enterprises that face the tendency of increasing time for the use of cars on the access roads.
- Letters about the inefficient use of freight wagons on the access roads are sent to regional state administrations and other executive authorities.
- An on-going control is in place over the maintenance of access roads, proper technical condition of existing cargo handling equipment, maintenance and repair by the owners of their locomotives for their stable operation.

Completed projects and programmes:



We launched a container train on the route of China (Changsha) – Mongolia (Zamyn-Üüd - Sukhbaatar) – Russia (Naushki – Suzemka) – Ukraine (Zernove – Chop) – Slovakia (Dobra terminal) – Hungary (Budapest) to transport 40-foot containers with assorted cargo (mostly fast-moving consumer goods). 2,410 TEUs were transported by these trains;



The distribution of empty cement carriers and covered railroad cars according to the agreed electronic requests through the Automated Control System of Empty Carriage Forwarding was put into pilot operation;



The distribution of empty grain-carriers through the automated system was put into pilot operation;



The Single Contract on a single payer code and settlements through the Unified Settlement Centre branch was introduced.



Ukrzaliznytsia's grain-carriers were transferred to the ownership of the Centre of Transport Logistics branch.



Modernisation, major and current repairs of cranes were carried out.



The construction of a grain terminal with a processing capacity of 1,000 tonnes per day was underway;



Ukrzaliznytsia received two ferries, Heroi Plievny and Heroi Shypky, into its ownership from the State Enterprise "Illichivsk Commercial Seaport".



Plans for 2018 and a medium term:

- Improving the transport logistics
- Increasing transportation volumes
- Improving and expanding rail services
- Enhancing Ukrainian rail transport image
- Creating favourable conditions to attract potential and target users of transport services.

Infrastructure

The Infrastructure vertical is responsible for the organisation and uninterrupted operation of the railway lines, engineering structures, track and special construction machinery, automation devices and telecommunications in the railway transport of local electric networks, technological electric networks directly used for the transportation process, organisation and improvement of management transportation processes, establishment and development of a traffic schedule, supervision (control), and compliance with the requirements of regulatory legal acts to ensure the safety of railway transport.

The Infrastructure vertical includes the track facilities, signalling and communication facilities, power supply facilities, transportation sector, and a traffic safety sector.



Goals and Objectives:

- Developing railway transport infrastructure and ensuring the effective use of the technical facilities;
- Ensuring the proper condition of the infrastructure;
- Ensuring the reliable operation and maintenance of infrastructure in a technically sound condition;
- Ensuring the safe and uninterrupted movement of trains with set speeds;
- Improving the quality and maintaining tracks;
- Developing and improving the technical basis of the track units;
- Reducing costs associated with track repairs and construction;
- Upgrading and repairing the power supply, signalling and communication facilities;
- Conducting the licensed activities in the area of telecommunications and electricity supply;
- Coordination works to implement the Company's Development Strategy in the process of structural industry reform;
- Organising and improving the transportation management;
- Establishing and developing traffic schedules and train composition plans.

"The new Beskyd Tunnel is a symbol of cooperation between Ukrzaliznytsia, the Ukrainian government, European Bank for Reconstruction and Development, and European Investment Bank. Joining our efforts, we have demonstrated the ability to implement large-scale projects amid aggression and war," the President of Ukraine Petro Poroshenko.

In 2017, Donetsk Railways regional branch continued upgrading the station Komysh-Zoria – Volnovakha. After the reconstruction of the Rosivka-Zachativska second running line (17.1 km long), the traffic capacity of the sections and route speed are expected to increase, as well as an increase in the cargo, empty, general and local cars turnover.

On 29 March 2017, Energoremtrans branch was established for the repair and construction of traction energy facilities. The branch operates road electromechanical shops and construction trains and is responsible for the construction, technical re-equipment, refurbishment and overhaul of electrification facilities and electrical supply.

In October 2017, the construction and finishing of a double-track railway tunnel on the Beskyd – Skotarske running line (Lviv Railways regional branch) were completed. With the length of 1,764 metres, it accounts for up to 60% of transit cargo in the direction of the Western and Central Europe. The new facility will be able to pass up to 100 pairs of trains per day at speeds of 60-70 km/h, while the capacity of a single-track tunnel is up to 47 trains at a speed of 15-40 km/h. The total estimated cost of the project construction is UAH 3 billion. Operation warranty is 100 years.

In December 2017, the Centre for Railway Infrastructure Diagnostics branch was officially launched. It included road diagnostic laboratories with mobile diagnostic tools, a railway diagnostic centre, a bridge test station, a test car for the overhead system testing, test cars of automation, telemechanics, and communications. Based on the received data, Ukrzaliznytsia will be able to effectively plan repairs and maintenance of railway infrastructure, rational use of financial and material resources.

Ukrzaliznytsia prepared a draft Resolution on reconstruction of the railway transport district of Dolynska-Mykolaiv with the increase of the carrying capacity of the Znamianka-Dolynska-Mykolaiv direction for the Cabinet of Ministers of Ukraine. Primarily, ore, oil and petroleum products, grain cargoes, and fertilisers are transported in this direction. The reconstruction will increase the service speed of cargo trains by 20-25%, reduce the cargo delivery time, and significantly reduce operating costs. The project's total cost is about EUR 300 million.

In general, 11,830 km of overhead contact system was adjusted in 2017, 78.4 km of worn contact wire, 56.8 km of corrosive carrier cable, and 4 km of steel cable lines of load compensation devices, 959 defective overhead supports, 20,331 obsolete insulator types of the overhead system contact-wires (replaced for polymeric), 189 track section insulators were replaced, and 344 aerial frogs upgraded.

During the reporting period, 75.4% of the cable construction project was completed in the direction of Kovel – Izov – National Border (86 km) of Lviv Railways. The development of this infrastructure will ensure digital telecommunications with the Polish railways.

As for other networks, 27.7 km of physically worn overhead lines were replaced with cables at the district of Romny – Blotnytsia in the direction of Pryluky – Bakhmach – Romny of Southern Railways regional branch.

Main repairs and roadworks in 2017:

- reconstruction of the track — 141.8 km;
- track overhaul — 265.4 km;
- middle-level track repairs — 955.4 km;
- minor track repairs — 388.8 km;
- installation of new switchers — 299 sets;
- middle-level repair of switchers — 688 sets;
- installation of used, but suitable switchers — 197 sets.

The operational length of public railways was **19,790.9 km** in 2017, including **9,349.7 km** of electrified tracks.

Completed projects and programmes



We continue our Programme for installation of traffic safety facilities and Programme 2016-2020 to upgrade and install automatic controls for technical condition of the rolling stock.



Locomotive Facility

The total traction fleet is

3,551 units, including:

■ 1,627 electric locomotives (46%),

■ 1,924 mainline and shunting diesel locomotives (54%).

In the reporting period, the fleet of locomotives increased to 2,250 units, which exceeded the 2016 figure by 189 units.

In total, 7,696 current repairs of locomotives were carried out, including 6,016 electric locomotive repairs and 1,680 diesel locomotive repairs in locomotive depots. In addition, 381 major current repairs were performed, particularly, 215 repairs of electric locomotives and 166 repairs of diesel locomotives, up by 70 units against 2016, as well as 6 overhauls.

The Locomotive Fleet Operation Reconstruction Programme 2017 was implemented, with 315.5 locomotives reconstructed, including 262.5 locomotives restored by production departments of regional branches.

The efficiency of locomotive repair plants was increased, which made it possible to increase the implementation of major repairs to 129 locomotives, up by 50% against 2016. In total, 2,416 wheel pairs were repaired by the wheel pair repairing units of regional production departments; including 2,045 pairs for locomotives, up by 1,267 against 2016.

The proper condition of the locomotive fleet is a guarantee of a stable and safe operation of the railway transport. The locomotive facility of Ukrzaliznytsia provides the constantly growing transportation of cargo and passengers with traction vehicles and locomotive brigades, guarantees the safety and the accurate traffic schedule fulfilment.

The structure of this facility includes the main locomotive depots, specialised workshops for the repair of separate locomotive junctions, maintenance depots, locomotive equipment and change of brigades, locomotive reserve base.



Goals and Objectives:

- Ensuring the reliable operation, technical maintenance, and repair of diesel locomotives, electric locomotives, diesel trains, rail motor cars, railway cranes and depot equipment;
- Improving the production management through the implementation of advanced technologies;
- Cooperating with the R&D centres specialising in the projects aimed at the development of the Ukrzaliznytsia's locomotive facility, improving the quality of service and repair of traction vehicles;
- Ensuring and supervising the energy saving and efficient use of fuel and energy resources (FER) in the locomotive facility, establishing fuel and energy consumption rates and controlling their implementation in the facility.



Completed Projects and Programmes:



A management procedure for the traction vehicles fleet within a single technological complex (operation within several regional branches) was introduced.



A system of internal cooperation for the repair of traction linear equipment was implemented between the production departments of the locomotive facilities of regional branches and affiliated enterprises (25 locomotives were repaired).



Technological requirements for the advanced traction vehicles were developed: the double-system electric cargo locomotives, direct-current electric cargo locomotives, alternating-current electric locomotives, double-system electric passenger locomotives, and diesel cargo locomotives.



In cooperation with General Electric, ToR for the modern TEZZAS (TE33AC) main-line cargo locomotive were updated in accordance with the normative and technical documentation and national standards of Ukraine.



New equipment and systems were implemented: stands for testing the radio stations and traffic safety devices, water treatment plants for diesel locomotive cooling systems, etc.



Rail Car Facility

ROLLING STOCK DEPARTMENT

	Darnytskyi Car-Repair Plant	Stryi Car Repair Plant	Paniutyn Car Repair Plant	Refrigerated Wagons Company	
Rolling Stock Service of Lviv Railways	Rolling Stock Service of Southern Railways	Rolling Stock Service of Odessa Railways	Rolling Stock Service of Southern- Western Railways	Rolling Stock Service of Donetsk Railways	Rolling Stock Service of Prydniprovy Railways
7 Carriage and Wagon Depots	6 Carriage and Wagon Depots	8 Carriage and Wagon Depots	8 Carriage and Wagon Depots	6 Carriage and Wagon Depots	11 Carriage and Wagon Depots
Klepariv C&W Repair Depot	Kharkiv-Sort C&W Repair Depot	Odessa-Zastava Wagon Wheel Workshop	Darnytsia C&W Repair Depot	Krasnoarmiisk C&W Repair Depot	N-D-Vuzol C&W Depot
Drohobych C&W Repair Depot	Osnova C&W Repair Depot	Odesa-Zastava C&W Repair Depot	Zhmerynka C&W Repair Depot	Krasnyi Lyman C&W Repair Depot	N-D-Vuzol C&W Repair Depot
Uzhgorod C&W Repair Depot	Poltava C&W Repair Depot	Taras Shevchenko C&W Repair Depot	Zhmerynka C&W Depot	Kostiantynivka C&W Repair Depot	Baturynske C&W Depot
Zdolbuniv C&W Repair Depot	Kremenchuk C&W Repair Depot	Kherson C&W Repair Depot	Koziatyn C&W Depot	Popasna C&W Repair Depot	Baturynske C&W Repair Depot
Kolomyia C&W Depot	Kupiansk C&W Depot	Znamianka C&W Depot	Koziatyn C&W Repair Depot	Volnovakha C&W Depot	Pology C&W Repair Depot
Kovel C&W Depot	Kupiansk C&W Repair Depot	Pomichna C&W Repair Depot	Shepetivka C&W Repair Depot	Sloviansk C&W Repair Depot	Melitopol C&W Repair Depot
Ternopil C&W Depot		Kotovsk C&W Repair Depot	Konotop C&W Repair Depot		Mudriona C&W Repair Depot
		Znamianka C&W Repair Depot	Korosten C&W Repair Depot		Zaporizhia Live C&W Repair Depot
26 Maintenance Depots	18 Maintenance Depots	29 Maintenance Depots	29 Maintenance Depots	34 Maintenance Depots	40 Maintenance Depots

The direct responsibility of the rolling stock units is in-house repairs and overhauls of freight wagons, their maintenance on the route, as well as the preparation of freight wagons for shipping.

Goals and Objectives:

- Implementing a unified technical and regulatory policy on the operation of the rolling stock, strategy for its development and restructuring;
- Maintaining the freight wagon fleet operational condition, quality control of freight wagons, their junctions and components repair, storage of freight rolling stock, certification of wagon repair enterprises and their departments (workshops) and compliance with the H&S requirements of and fire safety in the rolling stock of Ukrzaliznytsia regional branches and affiliates;

- Interacting with research and development organisations for the plan formation for the research and development works (R&D) on issues of wagon construction, repair and maintenance of wagons, technological processes, automation and mechanisation of technological and production processes; considering and approving ToRs, concepts of new types of wagons, taking test results into account; preparing proposals for the improvement of wagon structures and their parts, as well as safety arrangements in line with requirements and achievements of the advanced industrial engineering.

In 2017, 2,721 freight cars were purchased and built at own production facilities (1,048 freight cars in 2016). This was the best result over the past 20 years.

With the target of 24,320 units, we repaired 24,828 freight wagons in line with planned repair procedures at the car depots and branches, including 18,739 cars of industrial enterprises that had major repairs at carriage and wagon depots: 3,512 had overhauls and 15,227 had roundhouse maintenance.

More than 30 types of mechanisms and technological equipment were purchased and put into operation by car repair companies, and more than 35 mechanisms were upgraded.



Completed projects and programmes:

Technical documentation was developed and 15 service and technical wagons (refrigerators) were reassembled to ensure the transportation of military guards.

Works were carried out to obtain certificates for new products: a platform car for large-tonnage containers (model 13-6961) and a universal eight-wheel gondola car (model 12-9911-01).

The efforts were taken for the development, implementation, and certification of the Environmental Management System (EMS) of the branches for compliance with the requirements of the national standard DSTU ISO 14001:2015. Ukrzaliznytsia received the Environmental Management System Certificate.

Ten regulatory and technical documents were developed.

Engineering and Technical Support

Design and survey works of UAH 65.2 million were completed, with a total financing need of UAH 211.4 million.

Design and survey works for third-party organisations generated UAH 1.4 million.

The number of R&D works grew by 41.9 % compared with 2016, with savings making about UAH 2.6 million.

In total, 25 bearing structures (currently not manufactured) for traction vehicles were restored. The savings amounted to about UAH 15 million.

The specific consumption of electricity in the traction network decreased by 0.35% (from 8.66% to 8.31%), which reduced the electricity consumption by 14 million kW/h per year and generated about UAH 24 million in savings.

More than 120 energy audits were carried out at the production departments of regional branches, and real energy saving possibilities were found of more than 19,900 tonnes of fuel equivalent worth about UAH 187 million.

Final inspections found ineligible products to the amount of UAH 260.3 million were detected and not allowed to operate, 3.2 times more than in 2016.

The progressive development of rail transport is possible on the basis of engineering and technological development under the influence of scientific and technological progress. Currently, Ukrzaliznytsia will gradually transform engineering and technical support of the Company.

The activities of the engineering sector are focused on the development and implementation of a uniform policy of the Company to devise programmes for development, modernisation of infrastructure and technical facilities, the implementation of modern rolling stock, as well as a uniform policy in the area of intellectual property, metrological activity, and technical regulation.

Goals and Objectives:

- Developing measures and proposals on the development of the railway industry, preparing and supporting R&D projects;
- Interacting with R&D organisations on research and development;
- Organising and coordinating capital construction projects, the development of R&D programmes, introducing new equipment and technologies, providing metrological support, ensuring environmental protection, and international technical assistance.

In November 2017, the throughput of the Zaporizhia – Pology – Komish-Zorya – Volnovakha – Mariupol direction was increased. It has become possible to pass 21 cargo trains on the Mariupol route daily. By that time, there were only 18 trains per day. The works are underway to implement the first stage of the investment project on the Pology – Komysh-Zoria district reconstruction aimed at increasing the capacity of the Mariupol direction. The main goal is to fully meet the rail transportation demand of steel mills in the region.

In 2017, the volume of technical diagnostics of freight wagons increased by 57.2% compared with 2016. The savings amounted to about UAH 11.6 million. Besides, the volume of technical diagnostics of traction and the motor-vehicle rolling stock was increased by 2.4 times, compared with 2016. This saved about UAH 4.3 million.

During the year, a streamlined system of inter-repair runs of freight wagons was put into operation. This made it possible to reduce the number of roundhouse maintenance for 15,000 cars. Annual savings will make UAH 750 million.

During the reporting period, the energy intensity of rail transport was reduced by 0.06 tonnes of fuel equivalent for the given million tkm, or by 0.6 % (from 8.47 to 8.41 tonnes of fuel equivalent for the given million tkm) to the level of 2016. It enabled the reduction of the energy resources consumption to 14,300 tonnes of fuel equivalent costing about UAH 110 million.

Completed projects and programmes:

We developed a project of reconstruction of bearing structures for grain carriers. The expected economic effect is UAH 1.4 billion.



Ukraine's Energy Saving Programme on the Railway Transport saved 13,500 tonnes of fuel equivalent, or 115.1% of the target, in particular: 25.5 million kW/h of electricity, 1,418 tonnes of diesel fuel, 2.1 million cubic metres of natural gas, 388 tonnes of coal, 2,300 Gcal of thermal energy.



The Company developed Product Requirements automated information system.



Ukrzaliznytsia's draft policy of quality was developed.

Information Technology Sector

Efficient management of any production process, especially as complex as rail transportation, can only be realised on the basis of comprehensive, reliable, and prepared for analytical processing information. The information technology sector of PJSC Ukrzaliznytsia provides continuous informational support on the organisation of the transportation process, the adoption of management decisions, and the servicing of rail transport customers.



Goals and Objectives:

- Developing the Company's IT strategy;
- Implementing, developing and upgrading information systems and automation of business processes of the Company;
- Developing a unified technical policy for IT development based on the requirements of the Company's reforms and ensuring the balanced development of various areas of management and production activities of Ukrzaliznytsia;
- Developing and controlling the compliance with corporate standards in the area of unification and integration of technological support, software, and hardware;
- Building relations with strategic partners, interacting with ministries and departments of Ukraine, as well as with international organisations on IT issues;
- Ensuring uninterrupted operations of information and technology systems;
- Ensuring the IT security.

Key IT resources:

- Hardware and software complexes of Ukrzaliznytsia and regional branches (railways) - 17 units;
- Functional servers (Phobos, Lotus-Notes, Larbig and others) – 1,616 units;
- Number of automated workstations (PCs) – 40,006 units;
- Equipment of networks of data transmission and local area networks (routers, switches) – 10,440 units;
- Equipment for railway ticket sales points – 2,453 units.

Operation and support are carried out for:

- Centralised AMS and complexes – more than 40
- Functional subsystems of the centralised complexes – more than 200
- Line-level AMS – more than 50
- Functional models of automated workstations – more than 500.

Completed projects and programmes:



A pilot project was implemented to develop and approve a plan of the project for creating a business analytics system at Ukrzaliznytsia.



A project of publication of information on payment transactions of Ukrzaliznytsia was implemented on the Single E-Data Public Internet Use Portal.



An audit was conducted to evaluate the need to launch a corporate data storage centre, a business case was developed.



A cooperation programme with Oshchadbank of Ukraine was drafted for the projects to arrange self-service zones at railway stations and cashless payments in trains.

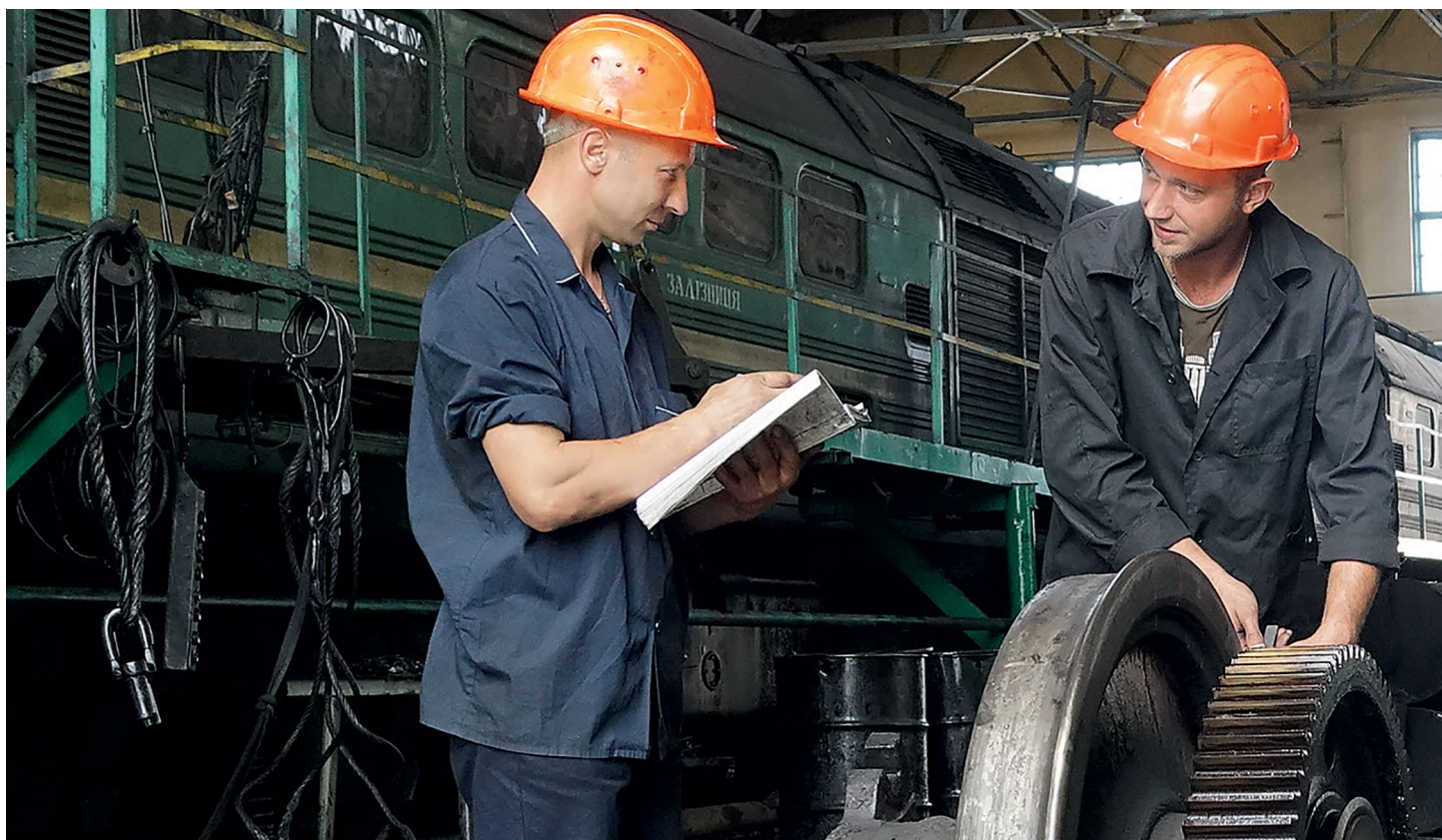


An overarching programme of digital transformation of the Freight and Logistics business vertical was developed, with the following projects under its umbrella:

- Commission of software for integrated payments through the Unified Settlements Centre under a single contract for domestic and international (import-export) cargo transportation.
- Rates were calculated where the wagon component of the rate was deregulated.
- Introduction of an electronic contract for the transportation arrangements.
- Implementation of the first-priority testing ground for modelling the results of changes in the rate policy.



Information is regularly published on the portal of open data in accordance with Resolution No. 1100 of the Cabinet of Ministers of Ukraine dated 20 December 2017.





Measures are being taken to upgrade the information system for ticket booking and sale. Functional and technical requirements were approved. The analysis of the best practices in the digital platform use was conducted.



A Memorandum was signed with the Ministry of Social Policy of Ukraine and a protocol of interaction was implemented to ensure the online sale of tickets for benefit-entitled categories of passengers.



Priority measures for the information security were implemented.



A function was launched at booking.uz.gov.ua and in the mobile application to make payments using the Masterpass and Visa Checkout digital wallets.



Life Cycle of Information Systems procedure were developed.



The re-accreditation of the key certification centre was conducted.



Workplace standards were approved.



Technology and software were developed for the locomotive depot operation on a single platform of Ukrzaliznytsia Unified Automated Management System of Cargo Transportation and the maintenance of a single test run of the AMS.



The Project Management Procedures were developed.





Plans for 2018-2020:

- Implementation of the Enterprise Resource Planning (ERP) system;
- Creation of the Company's business analytics information system;
- Implementation of application integration system and corporate bus;
- Building a centralised data storage centre;
- Digital transformation of the Cargo Transportation and Logistics business vertical;
- Digital transformation of the Passenger Transportation business vertical;
- Digital transformation of business verticals of wagon and locomotive facilities, infrastructure, and transportation management;
- Upgrade of electronic document circulation system;
- Implementation of the Medicine system;
- Upgrade of unified corporate data transmission network;
- Upgrade of software and hardware for passenger and cargo transportation;
- Optimisation and virtualisation of the data centre server infrastructure;
- Implementation of the IT infrastructure monitoring and management systems;
- Upgrade and implementation of basic IT services;
- Implementation of the workplace virtualisation project;
- Centralised guide system implementation;
- Introduction of GIS and GPS systems;
- Implementation of video conferencing systems;
- Development and upgrade of information security systems;
- Upgrade of the network and engineering structures of data transmission centres.

Material and Technical Support

One of the factors of increasing the efficiency of rail transport is its availability of material and technical resources in the required quantity. The timeliness, rhythm, quality, and efficiency of the transportation process depend on logistical support. The uninterrupted operation of rail transport requires the functioning of a well-organised logistics vertical of material and technical support that meets the goals and objectives.



Goals and Objectives:

- Ensuring modern and regular supplies;
- Effective planning within the allocated budgets in line with real needs;
- Reducing economic risks with a unified and balanced pricing policy;
- Targeted and rational use of financial resources;
- Timely provision of material and technical resources in the required quantity and quality.

Analysis of Ukrzaliznytsia's logistical support plan implementation for 2016-2017, UAH million, VAT incl.

Logistical support	2016			2017		
	plan	fact	%	plan	fact	%
Total	18,638	14,969	80	24,282	20,023	83
Materials, in particular:	10,871	8,188	75	15,106	11,652	77
Spare parts	2,778	1,775	64	3,708	3,028	82
Materials	2,498	1,949	78	4,503	3,377	75
Food	92	65	70	174	75	43
Equipment	823	632	77	1,210	1,049	87
Track superstructure materials	4,240	3,445	81	5,019	3,615	72
Oil and lubricants	440	322	73	492	508	103
Fuel	7,767	6,781	87	9,176	8,371	91



Creating values for Ukrainian society



PASSENGER TRANSPORTATION

PASSENGER TRANSPORTATION

All six regional branches¹
Affiliates: URHSC², PC branch³

MATERIAL AND TECHNICAL RESOURCES

All six regional branches¹
Affiliates: SSC⁴, PC⁵

ROLLING STOCK REPAIR

All six regional branches¹
Affiliates: PCR⁶, DCRP⁷, SCR⁸
PrJSCs: KECP⁹, ZELRP¹⁰, DDLRP¹¹, LLRP¹²



CARGO TRANSPORTATION

CARGO TRANSPORTATION AND LOGISTICS SERVICES

All six regional branches¹
Affiliates: Liski¹³, RWC¹⁴, CTL¹⁵, UPC¹⁶

MATERIAL AND TECHNICAL RESOURCES

All six regional branches¹
Affiliates: SSC⁴, PC⁵

EQUIPMENT MANUFACTURE

Affiliates: Vinnytsiatranspyrlad¹⁷
PrJSCs: Transsygnal¹⁸

ROLLING STOCK REPAIR

All six regional branches¹
Affiliates: PCR⁶, DCRP⁷, SCR⁸
PrJSCs: KECP⁹, ZELRP¹⁰, DDLRP¹¹, LLRP¹²

FULL NAME OF BRANCHES, AFFILIATES, ENTERPRISES AND PRIVATE JOINT-STOCK COMPANIES:

- 1) Regional affiliates:
Southern Railways
South-Western Railways
Lviv Railways
Prydniprovyie Railways
Odessa Railways
Donetsk Railways
- 2) URHS – Ukrainian Railway High Speed Company
- 3) PC branch – Passenger Company branch
- 4) SSC – Service Support Centre
- 5) PC – Production Centre
- 6) PCR – Paniutyn Car-Repair Plant
- 7) DCRP – Darnytskyi Car-Repair Plant
- 8) SCR – Stryi Car-Repair Plant
- 9) KECP – Kyiv Electric Car Repair Plant
- 10) ZELRP – Zaporizhia Electric Locomotive Repair Plant
- 11) DDLRP – PrJSC Dnipropetrovsk Diesel Locomotive Repair Plant
- 12) LLRP – PrJSC Lviv Locomotive Repair Plant
- 13) Liski – Centre of Transport Service "Liski"
- 14) RWC – Refrigerated Wagons Company
- 15) CTL – Centre for Transport Logistics,
- 16) UPC – Unified Payments Center

- 17) Vinnytsiatranspyrlad
- 18) Transsygnal – PrJSC Kyiv Electrotechnical Plant "TRANSSYGNAL"
- 19) RDB IT – R&D Bureau of Information Technology
- 20) RRI – Railway Research Institute
- 21) DSIRT – Design and Survey Institute of Railway Transport
- 22) Energozbut
- 23) Energoremtrans
- 24) CICFM – Centre of Installation and Construction Works and Facilities Management
- 25) SFSP – Starokostiantyniv Ferroconcrete Sleepers Plant
- 26) CIM – Centre for Industrial Management
- 27) CRID – Centre for Railway Infrastructure Diagnostics
- 28) VMC – Vehicles Maintenance Center
- 29) KFSP – PrJSC Korostenskyi Ferroconcrete Sleepers Plant
- 30) GSFP – PrJSC Gnivanskyi Special Ferroconcrete Plant
- 31) PDC – Personnel Development Centre
- 32) HC – Healthcare Centre
- 33) CTO – Central Telecommunications Office
- 34) MICC – Main Informational Computing Centre
- 35) IPS – In-house Paramilitary Security
- 36) Magistral Media Centre

6

REGIONAL
BRANCHES

28

AFFILIATES

7

PRIVATE
JOINT-STOCK
COMPANIES

UKRZALIZNYTSIA

INFRASTRUCTURE
DEVELOPMENTMATERIAL AND TECHNICAL
RESOURCESAll six regional branches¹
Affiliates: SSC⁴, PC⁵PROJECT
ENGINEERINGAffiliates: RDB IT¹⁹, RRI²⁰, DSIRT²¹ELECTRICITY SUPPLY
AND TRANSMISSIONAffiliates: Energozbut²²,
Energoremtrans²³BUILDING AND FACILITY
OPERATION AND REPAIRAffiliates: CICFM²⁴TRACK SUPERSTRUCTURE
MANUFACTURE AND REPAIRAll six regional branches¹
Affiliates: SFSP²⁵, CIM²⁶, CRID²⁷, VMC²⁸
PrJSCs: KFSP²⁹, GFSP³⁰OTHER RELATED
SERVICESMATERIAL AND TECHNICAL
RESOURCESAll six regional branches¹
Affiliates: SSC⁴, PC⁵

EQUIPMENT MANUFACTURE

Affiliates: Vinnytsiatranspylad¹⁷
PrJSCs: Transsygnal¹⁸

PROJECT ENGINEERING

Affiliates: RDB IT¹⁹, RRI²⁰, DSIRT²¹ELECTRICITY SUPPLY
AND TRANSMISSIONAffiliates: Energozbut²²,
Energoremtrans²³BUILDING AND FACILITY
OPERATION AND REPAIRAffiliates: CICFM²⁴

PERSONNEL TRAINING

All six regional branches¹
Affiliates: PDC³¹

HEALTH CARE SERVICES

Affiliates: HC³²COMMUNICATIONS, IT,
SECURITY AND MEDIAAffiliates: CTO³³, MICC³⁴, IPS³⁵, Magistral³⁶

Investment Activities

In 2017, capital investments made **UAH 10,904.1 million**.

The priority of the Company's investment activity is the renovation of the railway rolling stock (acquisition of new vehicles, modernisation of the existing fleet). Over the past three years, more than UAH 10,650.5 million has been channelled to the rolling stock renovation, which made about 48% of the targets, in particular, the rolling stock was purchased and manufactured to the amount of UAH 4,584.1 million, namely:

- 59 passenger cars produced by Kriukiv Railway Car Building Works;
- 3,795 freight cars made by domestic manufacturers or Ukrzaliznytsia's in-house car repair plants;
- one diesel train.

Ukrzaliznytsia's branches construct and reconstruct production facilities. The works are carried out by structural units and subcontractors. Capital construction works amounted to UAH 7,925.4 million.

Purchased and produced facilities:

- 50 passenger cars of UAH 926.9 million manufactured by Kriukiv Railway Car Building Works;
- 50 domestically produced gondola cars;
- 65 container flatcars to the amount of UAH 52.1 million;
- 2,604 gondola cars and 2 trenchers to the total amount of UAH 2,328.9 million were manufactured by Ukrzaliznytsia's car repair facilities.

Rolling stock upgrade to the amount of UAH 2,171.4 million, namely:

- traction vehicles (passenger and cargo) to the amount of UAH 778.2 million, or 58 locomotives and 52 sections of motor-vehicle rolling stock at affiliated enterprises of the Company;
- freight wagons on railroad car repair plants of Ukrzaliznytsia to the amount of UAH 787.3 million, or 7,981 unit;
- passenger cars to the amount of 572.8 million, or 52 units;
- track rolling stock and other rolling stock of UAH 33.1 million.

The works performed on site of the capital construction projects amounted to UAH 2,405.3 million, in particular:

- construction of Beskyd Tunnel – UAH 675.8 million (incl. UAH 538.9 million in funds borrowed from international financial organisations);
- the reconstruction of 141.7 km of roads, crossings, switcher, artificial structures, and land cover, replacement of switchers with new ones to the total amount of UAH 1,091.2 million, which was 10% of the total capital investment target;
- construction of the second track on the Rozivka-Zachativska running line (17.1 km) to the total amount of UAH 74.2 million;
- technical retrofitting of the electric system at the Nyzhniodniprovsk-Vuzol station with the relay-processor centralisation of switches and signals to the amount of UAH 38.7 million;
- reconstruction of communication lines on the Kovel – Izov – National Border area of electrification to the amount of UAH 46.3 million;
- reconstruction of the bridge over the Apshytsia river on the 129 km of the Korolevo-Solotvyno district to the amount of UAH 17.6 million;
- equipment of tracks at passenger train formation points with external electric power columns for air-conditioning and power supply systems to the amount of UAH 7.4 million to provide a comfortable passenger carriage.

Capital Investments

Capital investment by area	2016 fact	2017			Implementation against 2016
		target	fact	implementation against targets	
		UAH million		%	% or times
Capital construction, in particular	2,977.9	4,163.5	2,405.3	57.8	80.8
Track reconstruction	210.5 km	188.4 km	141.7 km	75.2	67.3
	1,253.6	1,293.9	844.0	65.2	67.3
Acquisition of fixed assets, in particular	1,338.8	4,568.0	3,891.0	85.2	2.9 times
Rolling stock	1,118.0	3,730.3	3,357.9	90	3 times
Other assets	220.8	837.7	533.1	63.6	2.4 times
Acquisition of non-current tangible assets	210.2	406.2	262.0	64.5	124.6
Acquisition of intangible assets	17.6	124.5	69.7	56	4 times
Modernisation, modification of fixed assets, in particular	2,341.3	4,163.7	2,461.5	59.1	105.1
Modernisation of rolling stock	2,071.6	3,493.8	2,171.4	62.2	104.8
Modernisation of other fixed assets	347.1	669.9	290.1	43.3	83.6
Overhaul, in particular		2,574.1	1,814.6	70.5	
Overhaul of rolling stock		1,240.3	651.5	52.5	
Overhaul of buildings and structures		1,230.2	1,079.3	87.7	
Overhaul of other fixed assets		103.6	83.8	80.9	
Total	6,885.8	16,000.0	10,904.1	68.2	158



Ukrzaliznytsia medium-term priority investment areas:

- Improvement of railway station management: the transformation of railway stations into modern transport hubs to promote business development along with the quality improvement of passenger service;
- Development of terminal complexes: the construction of transit terminals for attracting transit flows, which will serve as the basis for the further development of the most profitable segment of rail transport and will form a long-term international partnership with major rail companies;
- Implementation of measures for the further reconstruction of tracks;
- Upgrade of gondola cars fleet;
- Upgrade of passenger car fleet;
- Renovation of traction vehicles;
- Development of Ukrzaliznytsia infrastructure in the framework of the Eastern Partnership, namely:

During a visit to the United States, meetings were held with representatives of Fairbanks Morse Engine, Cargill, General Electric Transportation, and CSIS, who showed their interest in Ukraine's infrastructure projects. The Company reached an agreement with leading international investors to cooperate in rolling stock construction. With the support of the Ministry of Infrastructure, an agreement was signed between Ukrzaliznytsia and General Electric, which will help identify production facilities in Ukraine for localisation of locomotive production in Ukraine. The renovation of traction vehicles will encourage the development of the country's economic potential.

- Electrification of Kovel – Izov – National Border direction in order to increase the economic efficiency of transportation because of the transition from diesel traction to electric traction in the specified direction. The estimated cost of construction is EUR 63.2 million, the design of the project is being developed, the implementation period is 2017-2018, the project payback period is six years;
- Electrification of the Korosten – Ovruch – National Border direction. The estimated cost of work is EUR 69.2 million, the design of the project is being developed, the implementation period is two years, and the payback period is eight years;
- Electrification of the Lviv – Khodoriv – Ivano Frankivsk district. The estimated cost of the project is EUR 93.2 million, the implementation period is three years, and the payback period is seven years;
- Electrification of the Zhytomyr - Novohrad-Volynskyi district. The estimated cost of the project is EUR 35.6 million, the implementation period is three years, and the payback period is twelve years;
- Ensuring the passage of trains of Polish Railways on the Lviv – Rava Ruska – National border line of 42 km long; the estimated cost of works is EUR 33 million;
- Reconstruction of the Mukacheve – National Border line of 47 km long, the estimated cost of works is EUR 5.1 million;
- Ensuring the passage of Polish trains on the Khyriv-Starzhava – National Border line of 33 km long, the estimated cost of works is EUR 3.7 million;

- Electrification of the direction Potoky – Zolotnyshyne with a length of 12 km to increase the economic efficiency of transportation because of the transition from diesel traction to electric traction in the specified direction;
- Increasing the capacity of the Zaporizhia – Komyshe-Zoria – Volnovakha – Mariupol direction through the application of measures to increase the capacity of the route during 2017-2020;
- Implementation of the passenger transportation service Mukacheve – Chop – Záhony (Hungary) / Čierna nad Tisou (Slovakia). The estimated cost of the project is EUR 6.4 million. It can be potentially implemented at the expense of borrowings from the European Investment Bank;
- Raising private investments, leading technologies, and management experience of the private sector in infrastructure facilities in the terms of the public-private partnership, which will allow unlimited access to investment resources without increasing the volume of the existing debt burden of Ukrzaliznytsia and solving the objectives for achieving the strategic development goals of Ukrzaliznytsia.

Ukrzaliznytsia rolls out some investment projects in the field of rail transportation in cooperation with international partners. It helps the Company to receive not only financing, but also R&D assistance and adopt modern international practices.

PJSC Ukrzaliznytsia cooperates with the following key international partners:

- European Bank for Reconstruction and Development;
- European Investment Bank;
- General Electric.

The implementation of investment projects with the participation of international financial organisations and partners contributes to the solution of the short-term and medium-term objectives of Ukrzaliznytsia, the Company's development, increase in the provision level of high-quality and affordable transport and logistics services.



In 2017, active works were in place in the following major investment projects:

Preparation stage:

- Reconstruction with electrification of the Dolynska-Mykolaiv-Kolosivka direction
- Purchase of new general-purpose cargo open gondola cars
- Purchase of new rolling stock for regional and suburban rail transportations
- Modernisation of the railway track of 1435 mm in the Kovel – Yahodyn -National Border district followed by electrification.

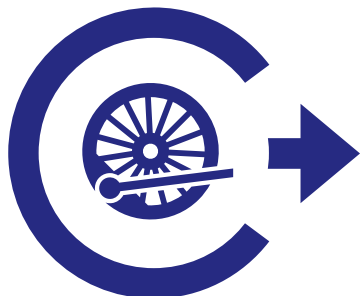
Implementation stage:

- Modernisation of traction vehicles in partnership with General Electric
- Implementation of high-speed passenger trains on Ukrainian railways consisting of investment projects for the purchase of track engineering equipment and construction of Beskyd Tunnel.



Key Investment Projects

HIGH-SPEED PASSENGER TRAINS ON UKRAINIAN RAILWAYS



PURCHASE OF TRACK EQUIPMENT

Implementation period: 2004–2009

Project objectives: Maintenance and repair of the railway infrastructure requiring the use of appropriate track vehicles for implementing the high-speed trains.

Works/events that took place in the framework of the implementation of the project:

Purchased new track equipment. With the use of track equipment, track repair and construction and assembly works were carried out on the directions of implementation of high-speed passenger trains: Lviv-Kyiv, Kyiv-Odessa, Kyiv-Dnipropetrovsk, Kyiv-Kharkiv, Kyiv-Poltava-Krasnohrad-Lozova-Donetsk (Kostiantynivka) to separate cargo transportation from passenger transportation.

Investment amount: USD 80 million (EBRD loan).

The effect achieved: Improved traffic safety in the directions by ensuring high quality of track repair, the labour costs during repairs was reduced.

CONSTRUCTION OF BESKYD TUNNEL

Implementation period: 2007-2018

Project objectives: Addressing limited capacity of railway lines in the direction of Hungary and Slovakia by building a new two-track tunnel.

Works/events that took place in the framework of the implementation of the project: In 2017, the contractor completed the two-track tunnel construction. In 2018, Ukrzaliznytsia carried out the final-stage works of the tunnel and infrastructure arrangement.

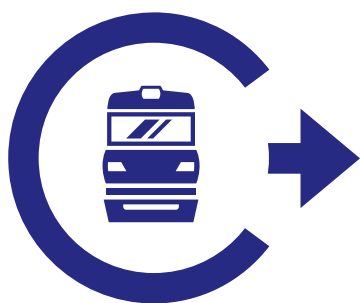
Investment amount:

The total construction cost is EUR 163 million, in particular:

- USD 40 million (EBRD loan);
- EUR 55 million (EIB loan);
- EUR 68 million (Ukrzaliznytsia funds).

The expected effect of project implementation: Increasing the capacity of railway lines by 40%.

Additional important information on the project: The payback period is eight years.



MODERNISATION OF TRACTION VEHICLES IN PARTNERSHIP WITH GENERAL ELECTRIC

Implementation period: 2018-2034 (preparation of the project started in 2016)

Project objectives: Solving the problem of upgrading and modernizing the cargo diesel locomotives. It is planned to receive 225 new locomotives and upgrade 75 diesel locomotives.

Works/events that took place in the framework of the implementation of the project:

A Memorandum of Cooperation, a framework agreement, and agreement of purchase and sale between Ukrzaliznytsia and GE were signed. The project is planned to be implemented in the following stages:

Stage 1:

- purchase and production of 30 new locomotives;

- modernisation of 75 outdated locomotives;
- maintenance of 30 new and 75 upgraded locomotives.

Stage 2:

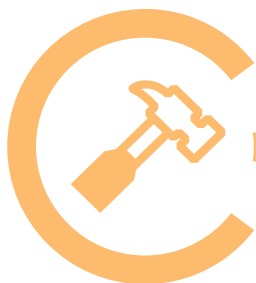
- production of 195 new locomotives;
- application of the locomotive service agreement to 195 new locomotives.

Investment amount: The total project cost is USD 1 billion. At the first stage, it is planned to allocate USD 140.4 million to purchase 30 diesel locomotives under a financial leasing agreement with Ukreximbank.

The expected effect of project implementation: Increasing the volume of cargo rail transportation, efficient and environmentally friendly transportation process (20% saving of diesel fuel).

Among the priority objectives of 2018 are the completion of the key investment projects that saw considerable progress in 2017, and the development and implementation of new mid-term and long-term investment initiatives.

Priority projects that require borrowings from international financial institutions and preparations are underway:



RECONSTRUCTION WITH ELECTRIFICATION OF THE DOLYNSKA-MYKOLAIV-KOLOSIVKA DIRECTION

Project objectives: increasing the capacity and volume of traffic in the direction of the Black Sea basin by electrifying, modernising the track, and signalling systems and telecommunications.

Investment amount: project cost is EUR 300 million, including EUR 150 million in EBRD loan, EUR 150 million in EIB loan.

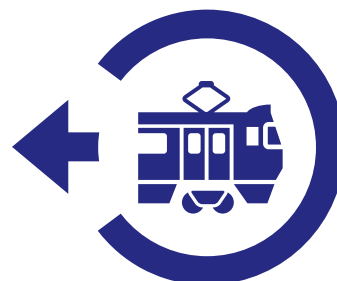
The expected effect of project implementation: The expected effect of the project implementation: increase of the district traffic speed of trains by 20-25%, saving of diesel fuel, improvement of the ecological situation, emission reduction.

PURCHASE OF NEW GENERAL-PURPOSE GONDOLA CARS FOR UKRZALIZNYTSIA

Project objectives: planned updating of the cargo gondola fleet as a priority area of activity of Ukrzaliznytsia (wear of cargo gondola is more than 85%).

Investment amount: the cost of the project is USD 256.7 million, including USD 150 million in EBRD loan and USD 106.7 million in Ukrzaliznytsia funds.

The expected effect of project implementation: it is planned to purchase more than 6,500 gondola cars; the renovation of the gondola fleet, a partial solution of the gondola deficit, which will have a positive impact on the economy of Ukraine; improvement of rolling stock productivity; higher rail safety; assistance in raising the macroeconomic and social performance of related industries.



SUBURBAN RAILWAY TRANSPORTATION

Project objectives: identification of priority directions of the suburban railway traffic; purchase of new rolling stock; implementation of a new organisational model of suburban rail transportation to achieve the break-even through the compensation from local budgets.

Investment amount: EUR 100 million (EIB loan).

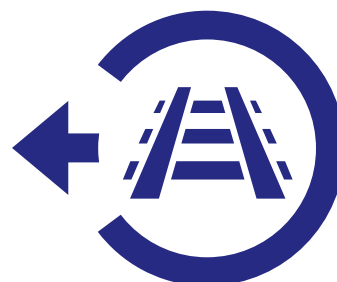
The expected effect of project implementation: higher comfort for suburban passengers.

MODERNISATION OF THE RAILWAY TRACK OF 1435 MM ON THE KOVEL – YAHODYN – NATIONAL BORDER DISTRICT OF 94 KM LONG, FOLLOWED BY ELECTRIFICATION

Project objectives: Improvement of the existing railway infrastructure at the Kovel - Yahodyn - National Border district and its electrification. The increase of economic efficiency of transportations because of the transition from diesel traction to electric traction.

Investment amount: Estimated cost of the project is EUR 50 million (EIB loan).

The expected effect of project implementation: increase in volumes of cargo transportation, uninterrupted passenger traffic between Ukraine and the European Union, switch to cheaper types of fuel for cargo, passenger and suburban transportation, and, accordingly, saving of fuel and energy resources and operating costs.



International Cooperation

Ukrainian railway transport is one of the key drivers of the country's economy. Because of its specific nature, it has never been locked within a single state. The close relationship of the European railways has historically developed and is now becoming more dynamic amid technological progress and economic liberalisation, expanding the horizons of management based on new communication means. Ukrainian railways are building their own development strategy in the 21st century and seek to become a reliable link in the international transport system. The international projects of the Company discover Ukraine for the world and the world for Ukraine.

The transit is the most profitable and beneficial type of international transport.

In a view of this, the attraction of additional volumes of transit cargoes is one of Ukrzaliznytsia's priorities.

A UK-based Institute for Transport Studies assigned the highest transit rate in Europe to Ukraine, as our country not only creates, but also provides favourable conditions for transit growth.

The international cooperation of Ukrzaliznytsia in the field of rail transport is based on bilateral and multilateral intergovernmental agreements, agreements on cooperation in the area of rail transport, bilateral partnership agreements, regulatory documents of international transport organisations to which Ukraine or Ukrzaliznytsia is a participant, international programmes and projects, memorandums and commercial contracts.

Areas of international cooperation:

- The increase of the transit potential (creation of conditions for free cargo movement, compliance of the national legal framework with international standards, development of transport corridors);
- Participation in events of legislative, technical and informational nature to ensure unimpeded cargo transportation across the border;
- Simplified cargo control at the borders;
- Development of international logistics;
- Wider participation in international organisations, associations, coordination boards on railway transport, etc.;
- Integration of the Ukrainian railways network with the Pan-European transport system.

Given that Ukraine is an active player of the global socioeconomic processes (in particular, it has joined the World Trade Organization), the strategic goal is to obtain associate membership in the European Union. As an infrastructure industry, rail transport must develop at a

faster pace and contribute to rapid economic and social development of the country.

In the transit sector, integration into the EU requires the creation of conditions for the free cargo movement, the compliance of the national legal framework with international norms, and the development of transport corridors.

The infrastructure of almost all corridors can provide much more traffic flow. After all, the total length of the Ukrainian network of transport corridors is 3,162 km (6,080 km in total). It consists mainly of two-track lines (92.3%), electrified lines (95.6%), main-line highways with high throughput equipped with an automatic block signal system (90%).

Annex XXXII to the Association Agreement between Ukraine and the European Union which was signed in 2014 and entered into force in full from 1 September 2017, provides 12 EU legal acts (directives, regulations) in the field of rail transport for the implementation into the Ukrainian legislation.

According to the Agreement, the deadline for the implementation of the above documents is 2022. In 2017, Ukrzaliznytsia carried out a number of appropriate measures on the way to the European integration of the Ukrainian rail transport.

The enactment of a new edition of the Law On Rail Transport of Ukraine will set the stage for the implementation of six directives and four EU regulations in the field of rail transport. The draft law was submitted to the Verkhovna Rada (registration number 7316 dd. 17 November 2017) by MPs Ostapchuk, Burbak, Korchyk and others. The letter of Ukrzaliznytsia dated 4 December 2017 No. Ts/2-23/4757-17 (L/2-23/4757-17) to the Verkhovna Rada of Ukraine provided comments and suggestions to the aforementioned draft law.

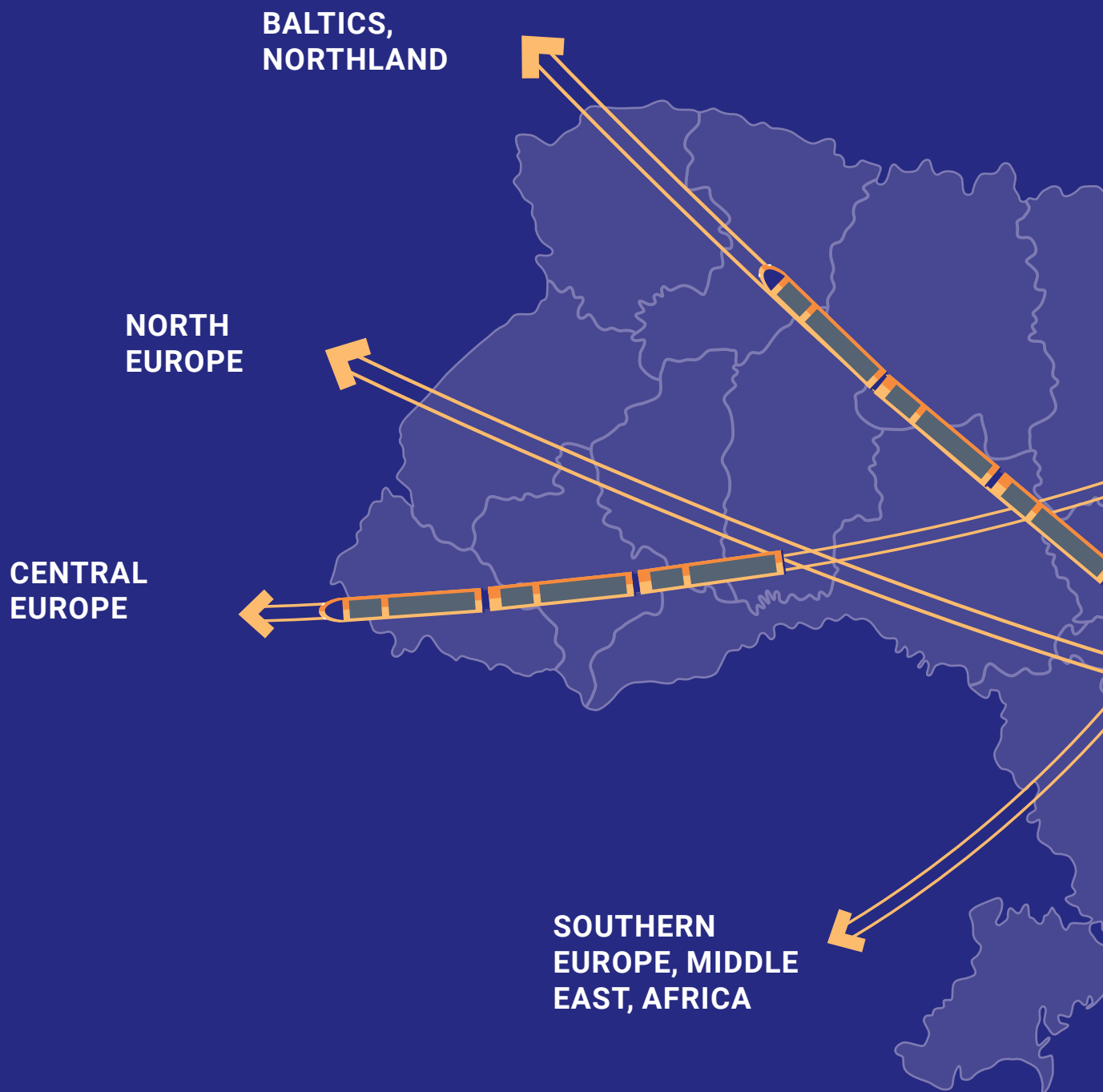
There were ongoing consultations with European experts in EU projects: Twinning "Providing institutional support to the Ministry of Infrastructure of Ukraine on improving the efficiency of work and competitiveness of Ukrainian rail transport"; Association4U, Support for the implementation of the Association Agreement between Ukraine and the EU; Support for the implementation of the Association Agreement and the National Transport Strategy; a workshop of the European Community of Railways and Infrastructure international association.

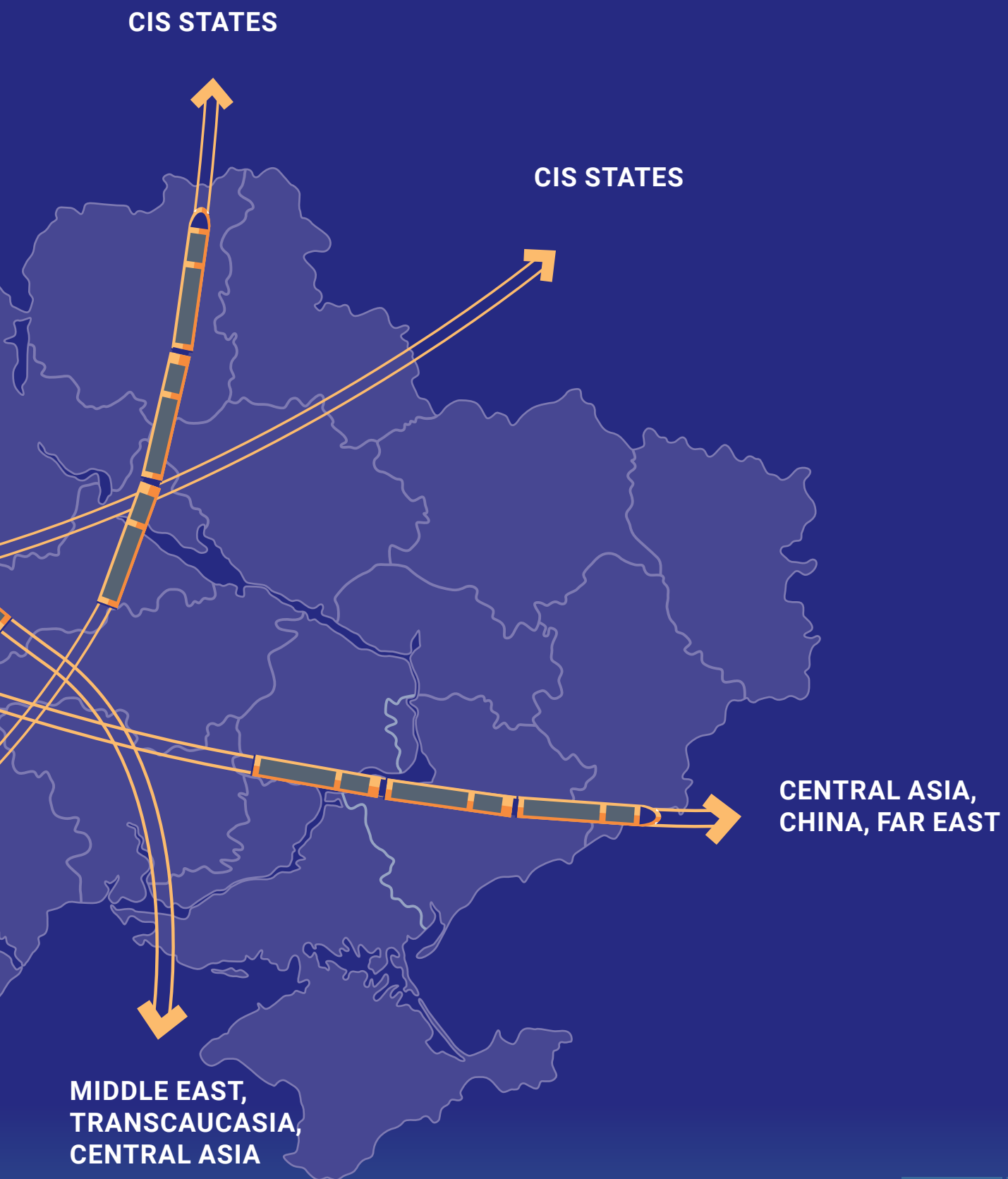


For Ukrainian railways, transit accounts for one-fifth of all revenues from cargo transportation, while the share of transit does not exceed 8% in the total rail transportation.

Four out of ten Pan-European transport corridors go across Ukraine: No. 3, 5, 7 and 9. The rail transportation plays a leading role and is responsible for **more than 80%** of the total freight turnover among all modes of transport (excl. pipelines).

Ukraine's key transport corridors







In a view of the fact that the border between neighbouring Ukraine and Eastern European countries has become a frontier between the European Union (EU) and the CIS countries, the Company takes the necessary legislative, technical, and informational measures to ensure unhindered cargo transportation across borders.

The accession of Ukraine to international conventions in the rail transport field creates preconditions for simplification of cargo control at the borders, which, in turn, positively affects the work of Ukrainian railways and allows reaching a higher level of joint work, in particular, with the railways of Europe and Asia.

Currently, Ukraine has already joined a number of international conventions, including the Convention concerning International Carriage by Rail (COTIF) of 9 May 1980. As a result of the joint work of railway specialists with the support of the EU and international organisations, such as the CIT (International Rail Transport Committee), OSJD (Organization for Cooperation Between Railways), IOIRC (Intergovernmental Organization for International Rail Carriage), a consignment note was presented, a synthesis of the CIM (Uniform Rules Concerning the Contract of International Carriage of Goods by Rail) and SMGS (the Agreement on International Goods Transport by Rail). The transportation services confirm that the application of a uniform waybill is a common future for the railways of Europe and Asia. After all, in addition to saving time and money, when switching to a single waybill, errors are eliminated when reissuing documents, which significantly reduces the cost of transportation.

In addition, the work on the improvement of the OSJD legal base, which establishes the conditions and rules of international transportation. Ukrzaliznytsia experts are regularly involved to review SMGS. It allows bringing this document closer to the requirements and present time realities, accommodating all the changes taking place in the system of economic relations of the OSJD member states.

In an effort to improve the situation in 2018, Ukrzaliznytsia developed and implemented the following measures for Ukraine's transit potential development:

- The legal regulation of international cargo transportation is being improved.
- An information exchange with neighbouring railway administrations was organised, empty wagon transportation was organised using the paperless technology.
- Measures regarding the possibility of using the electronic bills of SMGS, CIM/SMGS, and CIM as declarations and documents controlling the delivery of cargoes, the container train traffic and the work on their information support (currently more than ten container trains run in transit across Ukraine) are being taken.
- All freight forwarders have identical transparent rate conditions; meetings with sea trading ports, forwarding organisations, cargo owners are held to solve the issues related to the organisation of transit and the coordination of optimal logistics schemes with rolling stock operators.
- At the Rates Council of the Ministry of Infrastructure and the Rates Commission of PJSC Ukrzaliznytsia, the requests of cargo owners, forwarding organisations, railway administrations, ports for the establishment of preferential rates for the transit of goods is constantly considered; privileged rates for container transportation have been put into action.
- Rates of additional charges of rate policy for overloading of transit cargoes have been reduced; Ukrzaliznytsia was granted the authority to introduce preferential rates with a discount of up to 50%, and so on.

The management of the Company realises the importance of international logistics development for the Company and for Ukraine as a whole. That is why PJSC Ukrzaliznytsia moves in two ways in this direction: traditionally participates in international transport organisations and develops additional tools that will create the advantages in

the market of international transportations.

The Company joined the Association of Legal Entities of the Trans-Caspian International Transport Route and became a full member of the Association. For Ukrzaliznytsia, this is the main route from Asia to Europe today. It will allow a coordinated rate policy to represent Ukraine at the high level in the international transport services market and offer convenient and competitive freight delivery routes to its customers.

One of the priorities of the Company's cooperation with international organisations is the integration of the Ukrainian rail network into the Pan-European transport system.

To maximise the transit potential and improve international passenger and cargo transportations, Ukrzaliznytsia extensively participates in the work of international rail transport organisations.

Ukrzaliznytsia is considering construction of terminal facilities. One of the first promising places is a railway junction in Kovel located 65 km from the border with Poland. This is one of the most powerful hubs in Western Ukraine with a unique advantage of a so-called narrow gauge line linking Ukraine with the European Union. There are all the conditions for building a strong logistics hub, and investors show a great interest in the project.

Ukrzaliznytsia is one of key players in the South-West transport corridor connecting Europe and Iran through the Black Sea.

A list of international organisations and activities involving the experts of Ukrzaliznytsia

- The Rail Transport Council of the Commonwealth Member States (Certification Authority of Rail Transport Facilities, Moscow, the Russian Federation).
- Organization for Cooperation between Railways (OSJD, Warsaw, Poland). There are five standing commissions, two permanent working groups, and one temporary working group.
- Intergovernmental Organization for International Carriage by Rail (OTIF, Bern, Switzerland).
- International Rail Transport Committee (CIT, Bern, Switzerland) – Comité international des transports ferroviaires.
- International Railway Union (IRU, Paris, France) – Union Internationale des Chemins de fer (UIC).
- United Nations Economic Commission for Europe Inland Transport Committee (UNECE ITC, Geneva, Switzerland). Ukrzaliznytsia experts work in the SC2 and WP30 Working Groups on rail transport. The specialists of the Company take part in the meetings as part of the delegation of the Ministry of Infrastructure of Ukraine.

- Forum Train Europe (FTE, Bern, Switzerland). The General Assembly is held annually, and the professionals of Ukrzaliznytsia participate in the work of the Commission on passenger transportations.
- The Community of European Railways and Infrastructure Companies (CER, Brussels, Belgium). The General Assembly meets twice a year.
- Coordinating Committee for the South-West route. The meetings of the Coordination Committee are held at least twice a year.
- Union of Legal Entities "Trans-Caspian International Transport Route" (Association of TCITR).
- The Board of Directors on the joint operation of the ferry service between the ports of Varna-Poti/Batumi-Illichivsk, the Board meets twice a year.
- Meetings on the coordination of volumes and conditions of foreign cargo transportation between the railways of Ukraine, the Russian Federation, Hungary, Serbia, Montenegro, Slovakia, Bulgaria, and Moldova. They are held on schedule.
- Border conferences (commissions) are held once a year.

Section 3

SOCIAL AND ENVIRONMENTAL RESPONSIBILITY



UAH
9.1 BN

SPENT TO IMPLEMENT
THE SECTORAL
AGREEMENT

UAH
324.2 M

EXPENSES ON SOCIAL
INFRASTRUCTURE
MAINTENANCE

UAH
26.05 BN

TOTAL PAYROLL FUND

UAH
552.34 M

H&S EXPENSES

UAH
434.9 M

ENVIRONMENTAL
EXPENSES



UAH
108.3 M

ENERGY SAVING
THROUGH ENERGY
EFFICIENCY EFFORTS

120

ENERGY AUDITS

Social Policy

PJSC Ukrzaliznytsia is one of the largest domestic employers, employing almost 280,000 people in 2017. We are grateful to our employees for their responsible work and commitment. Only joint efforts pave the way to a common success.

The Company consistently adheres to the Labour Code of Ukraine (Labour Code), guarantees the social focus of the HR policy and seeks to create favourable conditions for work and professional development of its employees.

We are guided by:



- ILO Convention concerning Forced or Compulsory Labour (No. 29).
- Freedom of Association and Protection of the Right to Organise Convention (No. 87).
- Right to Organise and Collective Bargaining Convention (No. 98).
- Equal Remuneration Convention (No. 100).
- Abolition of Forced Labour Convention (No. 105).
- Convention concerning Discrimination in Respect of Employment and Occupation (No. 111).
- Minimum Age Convention (No. 138).
- Worst Forms of Child Labour Convention (No. 182).
- National laws.
- Sectoral Agreement and collective bargaining agreements.

HR Management Approaches

Quality services for the transportation of passengers and goods requires a high level of employee qualifications. PJSC Ukrzaliznytsia sets the highest requirements for their competence, constantly improving the personnel management system.

Effective human resources management is key to business success. Now, the emphasis is on operational management and short-term planning. Gradually, this vector will shift to the identification of future human needs and the development of the talent potential. Today, the focus is on the development of recruitment policies in general, helping managers recruit, develop and make staff redundant. In future, the focus will be on career modelling, engagement of employees in career planning, their adaptation and training at all stages of career development.



Ukrzaliznytsia's Social Policy Objectives:

- Developing and implementing a unified human resources management system in the Company for:
 - Systems to recruit, accept, adapt and train Company employees of all categories and levels, plan their replacement.
 - Measures to improve the personnel records system, strengthen work discipline.
 - Systems for employee performance evaluation for the Company's employees of all categories and levels based on KPIs and individual development plans.

- Systems to train and develop senior management.

- Systems to train and develop managers, specialists and blue-collar employees in the Company.

- Planning and effective use of funds, technical means (in particular, equipment) for the personnel training system in the Company.

- Developing, implementing and maintaining a unified effective transparent system of social relations for employees and retired employees of the Company.

- Implementing projects for the development of personnel motivation, remuneration system and headcount planning.

- Controlling the compliance with the requirements of laws and regulations on organisation, regulation, payment, incentives, working hours and resting time rules, assessment and motivation of the personnel.

- Streamlining and improving efficiency of the Company's business processes, organisation and coordination of work on bringing the system of business processes and structural subdivisions of the Company in line with international quality standards.

- Establishing functions, objectives, powers of structural subdivisions of the Company, regional branches, affiliates, directors, heads of structural units and other officials, except for the governing bodies of the Company.

- Interacting with trade unions on the principles of social contract.

- Implementing an effective system for the development and support of entry-level employees.

- Implementing a housing policy, improving living conditions and providing housing purchase assistance.

- Implementing a single effective and transparent system of awards, criteria and approaches to awarding and recognising the achievements of the Company's employees.

- Increasing the attractiveness of the Company for employees and partners, implementing socially responsible approaches to HR management.

- Increasing the positive influence of the Company and the effectiveness of interaction with the society.

- Building internal and external communications in order to create a positive socially responsible image of the Company.

In the next reporting period, we will continue focusing on improving the effectiveness of the motivation instruments. In particular, steps will be taken to develop and implement:

- Regulations on bonuses in structural units of the Company (to achieve individual KPIs of the divisions).

- A system to plan and control expenses for the payroll fund of regional branches and affiliates.

- Measures to rank at least 10th by the salary levels for employees of PJSC Ukrzaliznytsia among Ukrainian industries.

The Company will continue to enhance its attractiveness for its employees and partners, to implement a socially responsible approach to personnel management. Ukrzaliznytsia creates comfortable working conditions and provides a favourable social and psychological climate in its subdivisions. Partnership relations are being established between management and employees. Ukrzaliznytsia looks for a balance between the interests of the Company and those of its employees. Railway workers are strongly encouraged: employees receive remuneration for work depending on the performance of Ukrzaliznytsia, a structural unit or a separate unit. The Trade Union of Railway Workers and Transport Constructors of Ukraine set up Magistral, a professional non-governmental pension fund.

Collective Bargaining Agreement

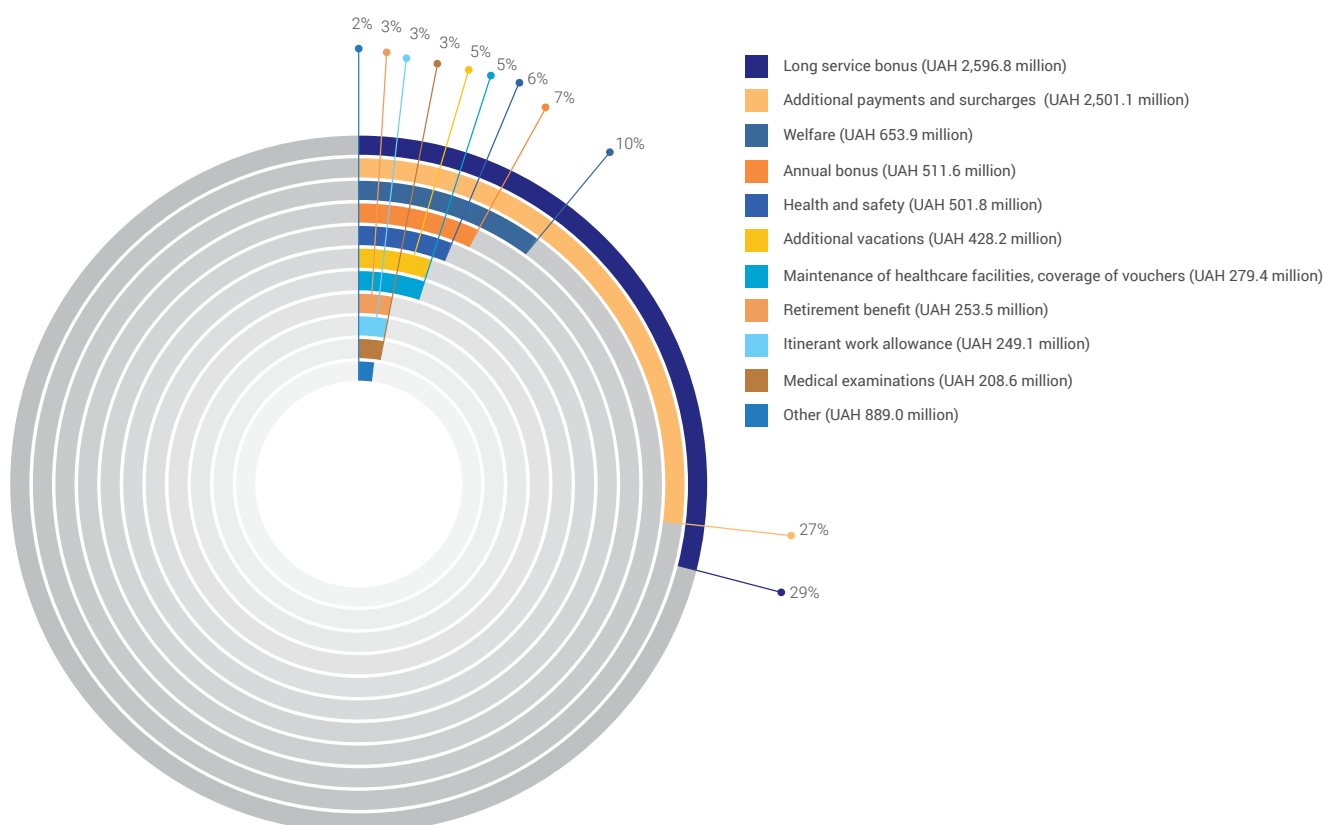
In 2017, Ukrzaliznytsia's social payments **exceeded UAH 9 billion.**

Ukrzaliznytsia strives to be an employer of choice.

In a move to regulate production, labour, social and business relations and reconciliation of the Company employees and management interests, the Company has entered into the Sectoral Agreement and collective bargaining agreements with the structural divisions of the Company. Collective bargaining agreements protect all employees of Ukrzaliznytsia. These documents establish that a minimum notice period in case of significant changes in the Company's operations is not less than two months.

The Company is improving an employee social protection system. By the end of 2018, a single collective bargaining agreement of Ukrzaliznytsia should be made through a constructive dialogue between PJSC Ukrzaliznytsia and a joint representative body of trade unions. The document will be in line with applicable laws and regulate the industrial, labour, social, business and legal relations at the level of the Company, sets standards of benefits and compensations for employees and pensioners of the Company. We will also approve a single standardised approach to collective bargaining agreements at the level of regional branches and affiliates. This will help make quicker analysis of the implementation of the document provisions, offer the best social benefits for workers in the country, and ensure social stability in the teams.

UAH 9.1 billion was spent on the implementation of the Sectoral Agreement in 2017



Social Infrastructure

The structure of Ukrzaliznytsia includes many social infrastructure facilities providing services that are part of the social benefits for the employees of the Company. It consists of healthcare institutions, centres for professional development, boarding houses, health resorts, healthcare centres, health camps for children, children's railways, sports clubs, recreational facilities, housing stock and other social and cultural facilities. The following categories (groups) of social infrastructure facilities of PJSC Ukrzaliznytsia have similar features: health improvement, sports and other (houses of science and technology, cultural centres, etc.).

Ukrzaliznytsia's strategic objective in the social area is to create an effective model of management and development of social infrastructure facilities. To this end, Social Infrastructure Management Centre was set up to be responsible for proper implementation of the social policy of the Company in terms of improving social benefits for the employees through the efficient use of the social infrastructure facilities, which in turn will improve the employees' motivation and loyalty significantly, ensure operations of these facilities in line with market principles, and improve the quality of non-core assets of the Company.



Ukrzaliznytsia operates
112 social infrastructure
facilities employing

2,137
PEOPLE



income

201,532,500
UAH



including

66,759,500
UAH



loss reached

100,016,800
UAH

301,549,400 UAH

In 2016, Ukrzaliznytsia's total expenditures on maintenance of
social infrastructure made



In 2017, the total expenditures on the social infrastructure
maintenance was

324,238,600 UAH



income dropped

177,849,500
UAH



including

34,269,000
UAH



loss grew

146,389,100
UAH



Some social infrastructure facilities of Ukrzaliznytsia

Fedorovych Sport Club "Locomotive" in Kolomyia

Ivano-Frankivsk Oblast, Kolomyia,
28 Yavornytskoho St.



4,347,000 UAH

Maintenance
expenses in 2017

External Communications Methodology Centre of Uzhgorod Railway Transportation Directorate

Zakarpattia Oblast, Velykoberezhnianskyi District,
village Kostrino, 215



3,406,000 UAH

Maintenance
expenses in 2017

Soniachnyi recreational centre for children

Kharkiv, Belhorodske Shosse

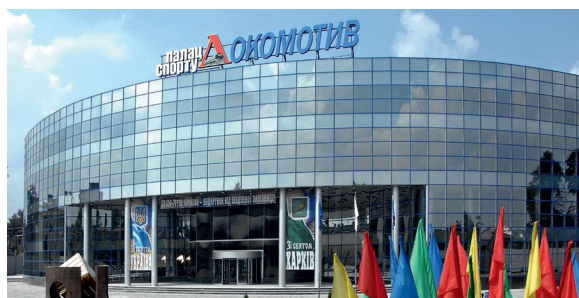


1,080
27,864,000 UAH

Children
were treated
Maintenance
expenses in 2017

Hero of Ukraine Heorhiy Kirpa Sports Club "Locomotive"

Kharkiv, 90-1 Velyka Panasivska St.

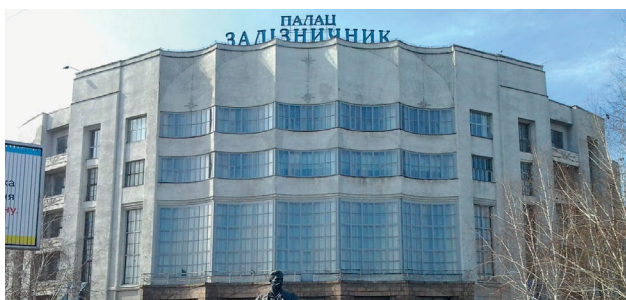


41,999,000 UAH

Maintenance
expenses in 2017

Science and Technology Centre of Kharkiv Railway Transportation Directorate

Kharkiv, 83A Velyka Panasivska St.



9,743,000 UAH

Maintenance
expenses in 2017

Medical centre for railway worker rehabilitation

Khmilnyk, 20 Shevchenka St.



7,012
23,751,000 UAH

People
were treated
Maintenance
expenses in 2017

**Medical and rehabilitation centre in
village Klubivka**

Khmelnytskyi Oblast, Iziaslav District,
Village Klubivka, 108A Kirpy St.

**976****3,574,000** UAH

People
were treated
Maintenance
expenses in 2017

**Svitiazianka Healthcare
Centre**

Lviv Oblast, Truskavets, 23 Sukhovola St.

**1,267****3,654,000** UAH

People were treated
Maintenance
expenses in 2017

**Science and Technology Centre of Konotop
Railway Transportation Directorate**

Sumy Oblast, Konotop, 2 Klubna St.

**3,507,000** UAH

Maintenance
expenses in 2017

**Locomotive Sports Club
in Kryvy Rih**

Kryvy Rih, 19 Kyrylenko St.

**4,355,000** UAH

Maintenance
expenses in 2017

Zorka recreation camp for children

Sumy Oblast, Konotop District,
Taranske village, 1 Lisna St.

**782****9,289,000** UAH

Children
were treated
Maintenance
expenses in 2017

Dubky recreation camp for children

Vinnitsia Oblast, Zhmerinka District,
Serbino Village Council, Dubky

**633****5,249,000** UAH

Children
were treated
Maintenance
expenses in 2017

Human Resources Policy

Implementation of reforms in the global context requires the engagement of managers with international experience and business approach. Therefore, we launched an open contest for the positions of regional branch directors in 2017. Ukrzaliznytsia plans to apply the same procedure in the future.

HR policy of PJSC Ukrzaliznytsia rests on strong business principles. The Company adheres to the principles of openness and awareness. Currently, the monitoring and feedback system is being improved.

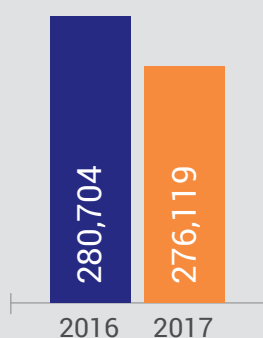
Ukrzaliznytsia constantly provides public access to actual vacancies. The corresponding information is posted on the official website of Ukrzaliznytsia (www.uz.gov.ua) in the Railway Jobs section. Thus, anyone who wants to have free access can see requirements to the applicants.

Ukrzaliznytsia develops its own resources for successful development and implements effective directions of personnel policy. The management of the Company builds a team of professionals capable to manage production successfully and meet management objectives. While developing and maintaining its own intellectual capital, Ukrzaliznytsia is at the same time working on the implementation of modern systems of personnel recruitment. In addition, optimisation of functional and organisational structures of units, rationalisation of the number of personnel continues. Amid formation of a global innovative society, a competence assessment and development system is being implemented. The management pays the most attention to this aspect, when identifying the employee's potential.

The Company pays special attention to the development and implementation of motivational mechanisms to increase interest and satisfaction with labour. The company studies and distributes the most effective world experience in the use of material and non-material incentives. The appropriate order and frequency are determined in the application of different types of motivation. In particular, the development and implementation of professional development programmes (talent pool, mentoring, career development, advanced training and retraining) is underway. At the same time, the Company considers optimal management of personnel costs and the formation of marketing activities in the industry to be an important component of effective personnel policy. The development of the corporate culture of Ukrzaliznytsia, traditions of railway workers help increase the involvement of the employees. The company longs to create a positive, attractive image for prospective employees.

All our managers implement personnel policy. The efficiency of personnel policy is ensured by the heads of the personnel vertical units. Ukrzaliznytsia actively promotes its personnel policy among employees and potential employees of the Company. The compliance of the principles and directions of the personnel policy with the goals and strategy of the Company development is overseen by Ukrzaliznytsia's top management.

Ukrzaliznytsia average headcount, 2016-2017, persons



Personnel Headcount and Structure

The Company has a significant economic impact on the areas where it operates, as it creates a large number of skilled jobs and ensures not only the employment, but also increases remuneration on a regular basis.

The average headcount of staff members of the Company in 2017 amounted to 276,119 people, including 219,119 persons (80%) in regional branches, 50,734 (18%) in affiliates and 6,266 persons (2%) in affiliated public joint stock companies.

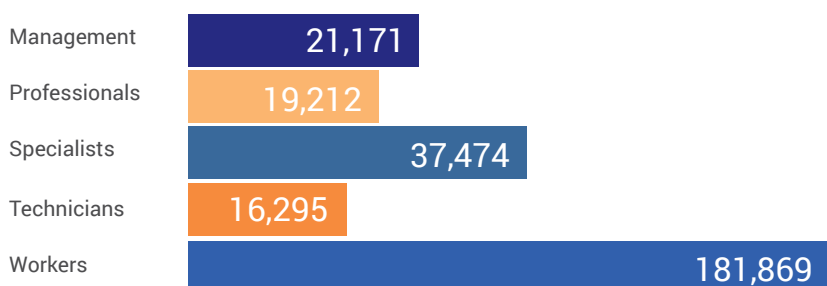
In terms of gender, we employed 171,417 men and 108,242 women (i.e. 38.7%) during the reporting period

By 2016, the headcount reduced by 4,585 persons, or 1.6%, due to employee churn and a decrease in the number of employees of Donetsk Railways regional branch because of the counter-terrorism operation in the Eastern Ukraine.

In 2017, the personnel qualifications and skills pattern was as follows: managers – 8%, professionals, specialists and technical staff – 26% and blue-collar workers – 66%.

In 2017, Ukrzaliznytsia's total payroll fund made **UAH 26,053.9 million**, up by 25% year on year.

Breakdown of Ukrzaliznytsia employees by category, 2017, persons

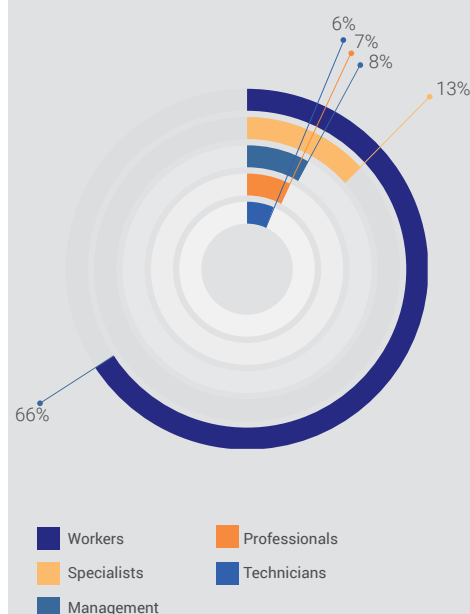


Employee Remuneration

Remuneration is an important aspect of the interaction between the Company and its employees. The intention to become an employer of choice implies, inter alia, the implementation of a transparent and equitable approach to the assessment of work and the corresponding payment. Therefore, Ukrzaliznytsia works to introduce a competitive remuneration and personal development system.

Since 1 March 2017, the monthly rates and salaries of Ukrzaliznytsia employees have increased by 25%.

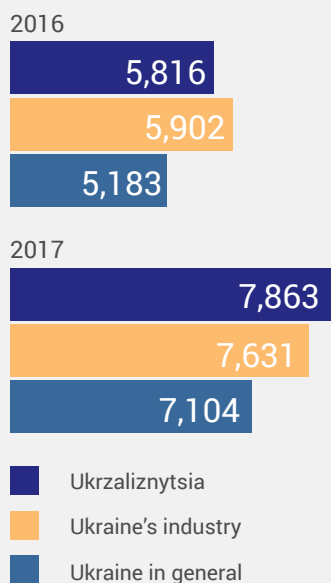
Breakdown of Ukrzaliznytsia employees by category, 2017, %



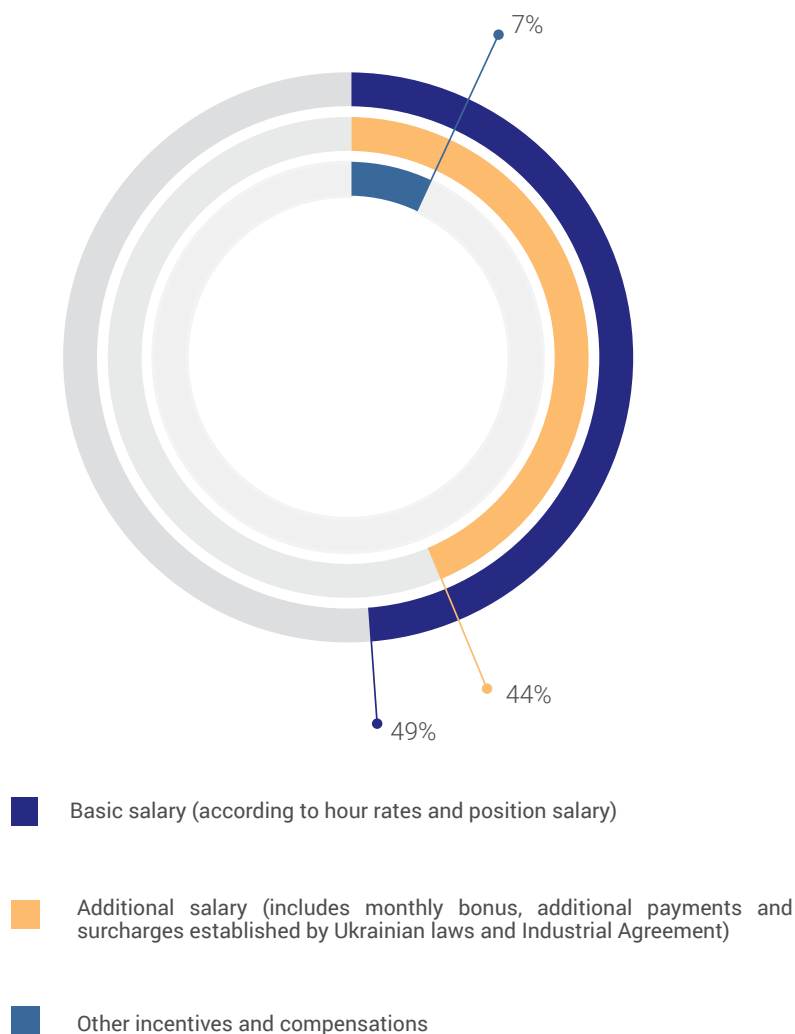
On 1 December 2017, a new system of remuneration was introduced in the Company. The provisions on the payment to Ukrzaliznytsia employees are aimed at ensuring decent remuneration (depending on the qualifications and importance of the professions in the Company operation). According to the decision of the Board dated 22 December 2017, this provision will be implemented in several stages. At the first stage, starting from December 2017, remuneration was introduced for workers, whose work is rated. The system of remuneration of other workers, including professionals, specialists, technical staff, and other categories was implemented gradually during Q1 2018.

In general, the growth of the average monthly salary at Ukrzaliznytsia made 35% in 2017 compared with 2016.

Average monthly salary at Ukrzaliznytsia against industry average and Ukraine's average, 2016-2017, UAH



Structure of average monthly salary at Ukrzaliznytsia, 2017



Appendix 1 to the current Sectoral Agreement between the State Administration of Railway Transport of Ukraine and trade unions introduced a system of remuneration and defined a list and amounts of additional payments and surcharges to the tariff rates and salaries that are established for Ukrzaliznytsia employees.

Additional payments and surcharges include additional payments, paid by regional affiliates and branches over long service years, combining occupations, expanding the service area or increasing work volumes, working in difficult and harmful working conditions, at night, for the management of the brigade, etc. These also include allowances for the categories of locomotive drivers, vehicles drivers, for the right to control the locomotive assistant machinists, for high achievements in work, the implementation of particularly important works during their implementation.

The payment system for Ukrzaliznytsia employees specifies the size of the minimum salary rate for the employee for the simplest unskilled work in the ratio of 1.65 to the subsistence minimum for able-bodied persons in Ukraine as of 01 January 2018. At the same time, the remuneration system does not provide for the distribution of wage levels according to the staff category, but on the contrary, the equal conditions are created.

Handling Work-Related Complaints

In 2017, 80 complaints and requests from the Company employees and external stakeholders were received through various channels of the corporate complaint mechanism, including 41 requests from citizens, 33 calls to the government hotline, 5 letters via electronic reception and 1 request for public information on labour disputes. All 80 complaints were settled.



Ukrzaliznytsia will encourage young professionals and employees of shortage occupations to remain in the railway industry. To enhance their social protection, a housing program will be implemented. This should be a significant factor helping retain employees in the industry. Thus, **more than UAH 100 million** was allocated for the housing construction for railway workers in 2017, and it is planned to double this amount in 2018. The corresponding programme has already been developed for 2018-2021. During this period, we will invest **UAH 1.7 billion** in housing construction.

Housing Provision Programme

The Company is making every effort to get rid of the negative effects in this area. As of 01 January 2018, 9,012 families of railway workers were on housing records, including 1,723 families on a preferential basis and 496 on a priority basis.

In 2017, for the first time after a long break, the first stage of a 100-apartment residential complex was put into operation on Chekhov Street in Sinelnikove town, Dnipropetrovsk Oblast. This allowed to provide new and modern apartments to the Company's employees.

Also, Ukrzaliznytsia Dormitory Procedures were developed in 2017.

The Company often hires highly skilled professionals, who come from different locations. We made a decision to provide material reimbursement for relocation to improve the system of social support for Ukrzaliznytsia employees. In 2017, we developed a unified approach to compensating Ukrzaliznytsia employees for the lease of housing in accordance with the Collective Bargaining Agreement and regulatory acts. This practice will be in place from 2018.





Plans for 2018 and a medium term:

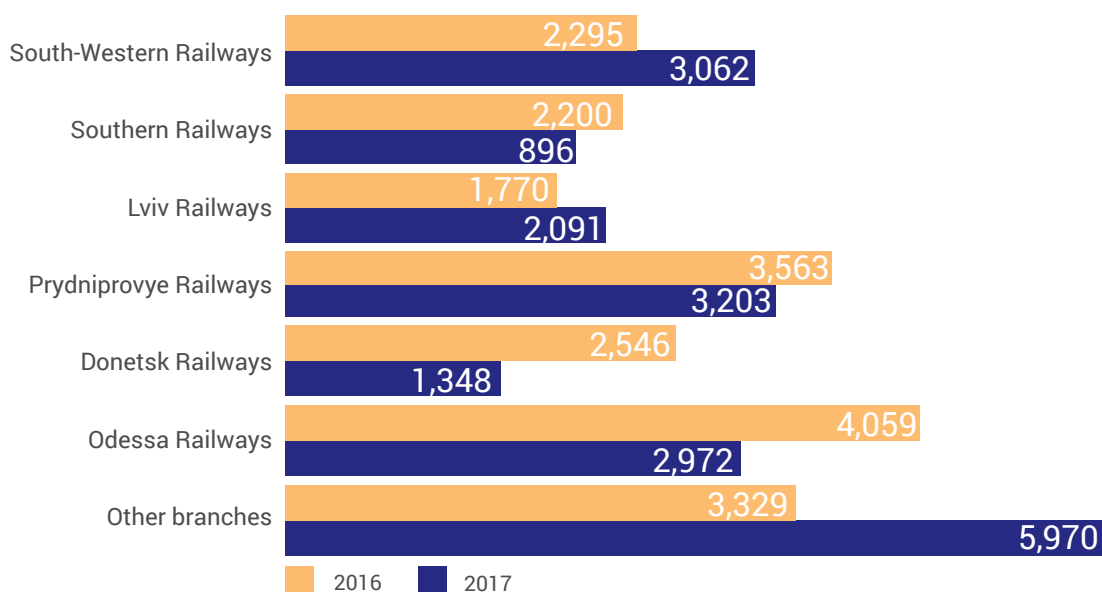
1. Develop standard regulatory documents for automating search and recruitment at regional branches and affiliates of the Company. Build a recruitment planning system.
2. Establish cooperation and joint activities with all representative offices with the State Employment Service and sign a memorandum of cooperation.
3. Create sites in a social network for specialists of the personnel departments of the Company.
4. Develop and approve regulations on disciplinary penalties, holidays, appointment and dismissal of the top management of the Company.
5. Create competency models (managerial and functional).
6. Create a system of annual evaluation of managers (KPI maps, competencies, individual development plans).
7. Draft occupational standards for three core occupations of the Company and a sectoral qualifications framework together with the Ministry of Education and Science of Ukraine. Involve the representatives of the European foundations.
8. Implement the system of dual training in the network of special vocational schools in Prydniprovye Railways and Odessa Railways regional branches.
9. Implement measures for housing construction and refurbishment of facilities into residential premises. We are set to update and approve regulations for the house rental compensation. Special committees will become operational at the level of regional branches and affiliates. Candidates will be compensated for house rental.

Training, Retraining and Recruitment

In the absence of skilled workforce, the main objective of the Company is to train a replacement for the older generation of skilled workers. The main sources of search for young professionals are vocational schools and colleges, cooperation with which has strategic importance for the Company. In addition, universities specialising in railway transportation also train specialists for the Company. The cooperation with such institutions continues. Candidates for positions in the popular railway professions have the opportunity to be have on-the-job training. Corresponding training programmes have been developed.

The recruitment quality improves with an optimal deployment of traditional resources available to the HR function of the Company and the individual approach to every vacancy. The main goal is to modernise the transport industry by attracting talented employees and giving everyone the opportunity for self-fulfilment. The quantitative analysis of personnel recruitment was as follows in 2017:

Number of employees by Ukrzaliznytsia branch, 2016-2017, persons



Thus, 20,542 people were employed by branches of Ukrzaliznytsia in 2017 (i.e. up by 4% against 2016).

In a move to ensure a consistent approach, a draft procedure for Ukrzaliznytsia senior executive appointment and dismissal was developed in 2017. In addition, draft Regulations on employee recruitment for regional subsidiaries of the Company was developed. These efforts introduce a consistent and shared approach to work with future employees across the regional branches.



As to the staffing in popular occupations (with due regard to the traffic safety and occupational health and safety), Ukrzaliznytsia began building a system of personnel planning and searching for employees in regional branches. A corresponding Vacancy Staffing Programme was developed, which included effective HR tools.

Ukrzaliznytsia HR policy is based on the principles of providing the Company with highly skilled specialists and workers, raising the level of the system of personnel professional development (with the continuous training of employees and the acquisition of new competence and new professions).

We place a high emphasis on building capacity with skilled personnel who account for about 70% of the total headcount.

During 2017, almost 2,200 employees were trained in regional branches and affiliates, which made 209% of the annual targets:

- 218 persons were trained in the professional development centres, making 182% of the annual targets;
- 1,900 employees attended on-the-job training, or 226% of the annual targets;
- 100 persons attended other educational institutions, or 296% of the annual targets.

Retraining covered almost 5,500 employees, which was 126% of the annual targets:

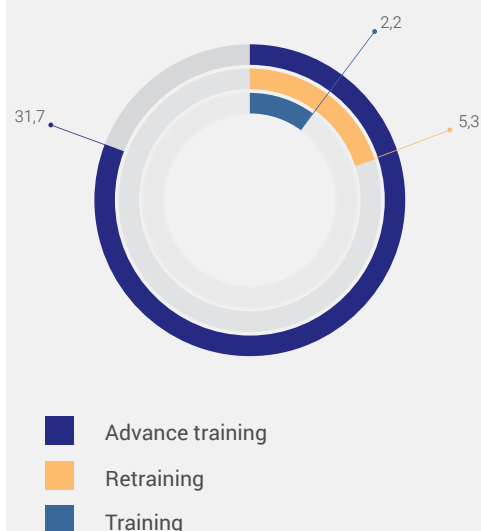
- 2,900 persons were retrained in the professional development centres, or 112% of the annual targets;
- 2,400 employees attended on-the-job training, or 177% of the annual targets;
- 200 workers attended other educational institutions, or 59% of the annual targets.

Meeting today's production needs depends on the development of professional education, the efficiency and quality of employees training. The main objective of the sectoral training is to create appropriate conditions for training skilled employees, deeply educated, creative, able to adapt quickly to the new environment. The sector has a system of in-house educational institutions and training centres in place. The system consists of ten professional development centres. These centres lay foundations for training, retraining, and advanced training for 59 occupations.

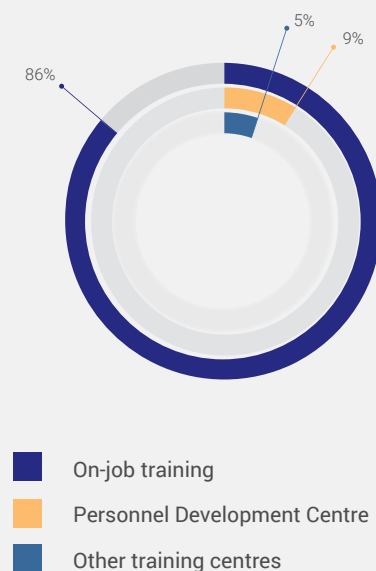
In today's environment, the most effective form of professional development is the improvement of professional skills, which promotes proper performance of the duties by the employees, expansion of the limits of competence, the possibility of mastering new functional responsibilities. In 2017, more than 31,000 employees were promoted, which was 147% of the annual targets:

- 5,000 employees in the professional development centres, or 156% of the annual targets;

Total employee training, '000 persons



Employee training, 2017, %





- 25,500 workers had on-the-job training, or 150% of the annual targets;
- 300 workers attended other educational institutions, or 52% of the annual targets.

Every year, about 80% of workers who completed professional training had on-the-job training and 16-18% were trained in industry-specific educational institutions.

In particular, more than 80% of the total number of employees who had attendance courses were trained at professional development centres or in centres for postgraduate studies.

During 2017, 1,079 managers and railway specialists were trained under long-term programmes in higher educational institutions, and 31,000 managers and specialists attended dedicated training courses. In 2018, we plan to introduce an additional indicator: an average number of hours per employee per year broken down by gender and employee category.

Also, in 2017, special training on the transportation of dangerous goods was attended by 5,300 employees, or 61% compared with the previous reporting period (8,700 in 2016).

Every year, the railway transport enterprises provide the first jobs to young people: graduates of schools, vocational schools and higher educational establishments.

Ukrzaliznytsia implements innovative technologies in the educational processes of professional training of railway workers, improves the system of professional development of managers and specialists in the industry and forms the continuity and individual approach to personnel professional development of the. In particular, we are set to cooperate with Deutsche Bahn AG in the field of personnel management, engineering system and innovation development in 2018.

The Company checks the efficiency of training with a special system of assessments.

At Ukrzaliznytsia, a knowledge assessment system is the system of multi-level tests, a standardized set of objectives for a particular occupation or position, which determines the level of professional knowledge and skills.

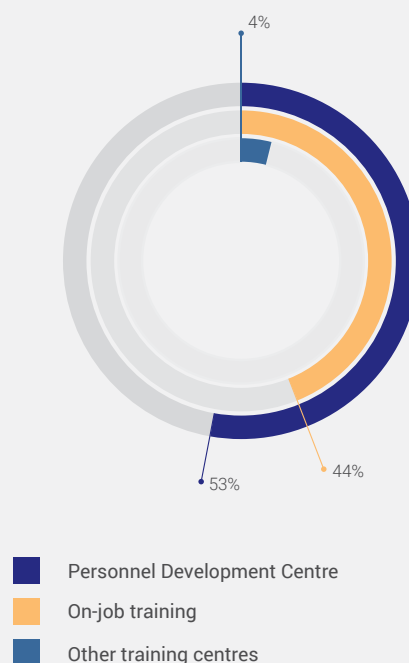
A multi-specialisation testing system is designed to check:

- professional knowledge;
- business and managerial knowledge;
- knowledge of the operation rules;
- knowledge of occupational safety issues;
- knowledge of traffic safety;
- knowledge of modern IT technologies.

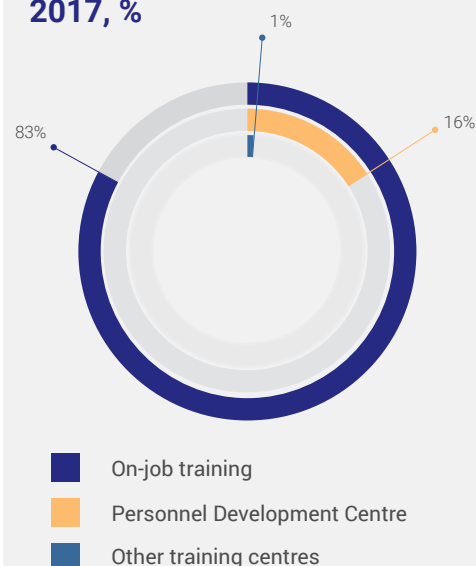
In 2017, measures were not developed for the quick onboarding of new employees. However, innovations in this area are planned for the end of 2017 and early 2018 as part of the development of a consistent HR policy.

Employee training expenses recognised in the 'Other' expense line amounted to **UAH 22,440,000** in 2017, including **UAH 8,329,000** paid to third-party providers.

Employee retraining, 2017, %



Employee advanced training, 2017, %





LEADER OF INNOVATIONS

The Leader of Innovations is an innovative project contest initiated by the Ukrzaliznytsia Board of Directors

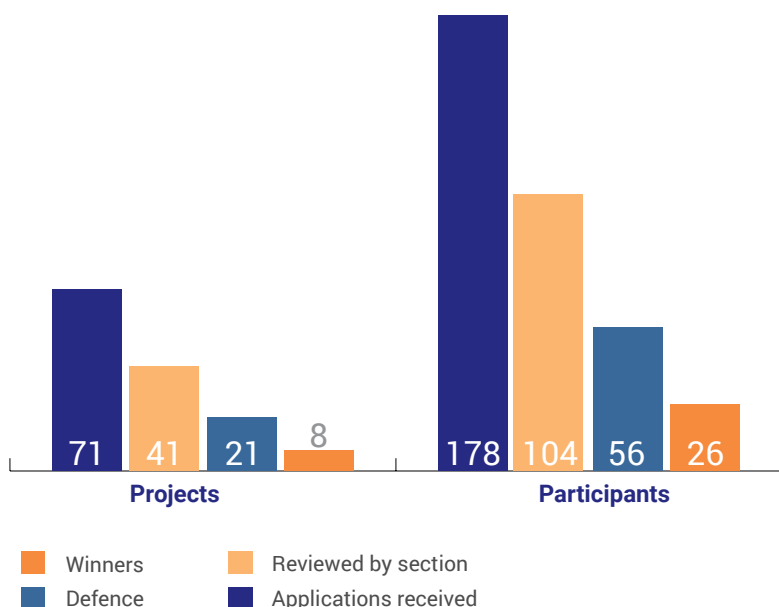
PURPOSE: building social, business, organisational and legal conditions for the effective reproduction, development and use of the R&D potential of the Company, to ensure the implementation of modern technologies and production, to encourage workers to work creatively and efficiently, and to increase efficiency.

IMPLEMENTATION TERM: 2016 – 2018.

In 2016, the Board of PJSC Ukrzaliznytsia initiated to support and provide opportunity for practical implementation of the ideas of railway workers who wish to participate actively in transformations of the Company.

On February 1, 2017, Ukrzaliznytsia launched the Leader of Innovation competition. The purpose of the competition was to search, develop and present the Company's new areas of work and perspective plans aimed at fulfilling strategic objectives, generating profit, and achieving social results. Thanks to the creative approach, creativity, commitment, desire to contribute effectively to the transformations of the railway industry, 178 employees of Ukrzaliznytsia presented 71 ideas and developments in 2017, seeking to introduce advanced technologies, improve efficiency and quality of labour, generate profit in the industry in general, and improve the welfare of each railway worker. Eight business plans made by 26 employees reached the final and won.

Leader of Innovations



In 2018, the implementation of a KPI project is planned. Under the initiative, the performance indicators will have a significant impact on employee promotion. It is expected that the efficiency and productivity of each employee will be enhanced by concentration of efforts on priority actions that will have the maximum effect. The first stage will be to develop KPI maps for senior executives.

“The world has seen many victories, which originated almost out of nothing — out of fantasy, curiosity and intuition. I am glad that these feelings have prompted many of you to participate in the competition, discover your talents, thirst for creativity and change. We have announced this competition to find people among the railway workers who can become drivers of technological progress in our Company. The Company faces the challenge to implement promising and innovative solutions in the production processes. Along with the best world practices, we have to take care of our own designs and ideas. I am confident that this competition has helped us find really valuable ideas that will improve the operation of the railway industry.”
Yevhen Kozak, Human Resources and Social Policy Director, PJSC Ukrzaliznytsia.

Cooperation with Universities and Vocational Schools

PJSC Ukrzaliznytsia is interested in attracting young and gifted workers to build an external talent pool. The Company cooperates with specialised higher educational establishments. We regularly organise internships and industrial placement for students with the possibility of further employment. Every year, young people receive their first jobs: graduates of schools, vocational schools and higher educational establishments.

Thus, Ukrzaliznytsia employed 567 entry-level specialists in 2017, 19% down against 2016 (700 people in 2016). This tendency is explained mainly by the situation in the labour market: a decrease in the motivation of young people to have blue-collar occupations, workforce migration, etc.

One of the stages of training of young professionals is to offer internship and industrial placement opportunities to students from vocational schools and universities. Thus, every year more than 3,000 students have internship and industrial placement at our railways.

The Company plans to develop a youth movement concept and establish an association of entry-level railway workers. The goal is to support progressive ideas and promote the effective advancement in social lifts.

Given the current trends, we plan to improve conditions for self-development and self-fulfilment of youth, social establishment and full development of personality, create an enabling environment to encourage interest in production among the youth, and expand career guidance efforts in 2018. In particular, the development and implementation of a system of internship and mentoring of entry-level employees is planned.

Considerable attention is paid to the issue of training the younger generation of railway workers. Thus, more than 5,000 students from different schools were involved in vocational guidance work at eight children's railways (more than 300 groups of young railway workers).

Conditions for development and career growth are created for entry-level employees who come to work in the Company. Ukrzaliznytsia strongly opposes corruption. Professional growth in the industry is driven not by family ties or requests over telephone, but solely by actual knowledge, skills, and willingness to work harder and take responsibility.

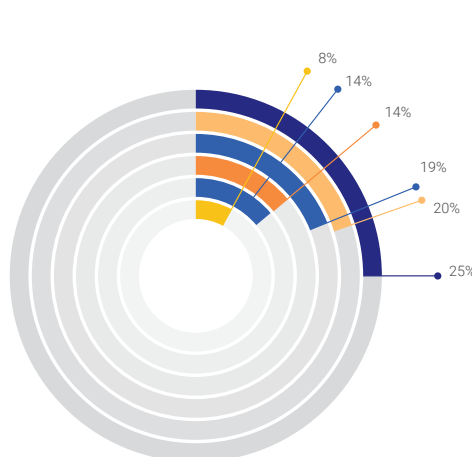
Industrial placement of vocational school students, 2017, persons

Donetsk Railways	93
Southern Railways	281
Odessa Railways	139
Prydniprovye Railways	122
South-Western Railways	1,022
Lviv Railways	458

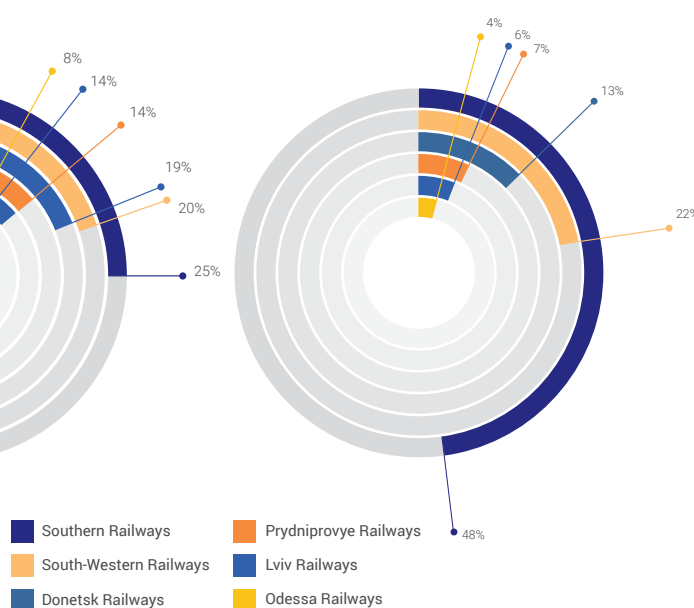
Industrial placement of university students, 2017, persons

Donetsk Railways	636
Southern Railways	817
Odessa Railways	259
Prydniprovye Railways	449
South-Western Railways	675
Lviv Railways	472

Industrial placement of vocational school students, 2017, persons in %



Industrial placement of university students, 2017, persons in %



The main goal of all comprehensive outreach activities with young people is to provide railway companies with skilled specialists who can respond quickly to different production challenges, be mobile, promising and creative thinking.

The Company is developing measures to identify some educational institutions as basic (on mutually beneficial grounds). Enterprises in the industry will participate in the formation of student groups, offer them internship and industrial placement opportunities, provide jobs after graduation, and help update the training base.

Successful implementation of these transformations will allow us to implement the mission and strategic objectives of the Company and demonstrate successful teamwork in the long term.

Ukrzaliznytsia is interested in attracting young and talented specialists. Therefore, we cooperate with specialised universities. Our goal is to build an external talent pool. We also make every effort to encourage and retain experienced staff. For example, we provide extra payment for long service and the opportunity to relax in in-house health resorts.



Traffic Safety and Occupational Health & Safety

Traffic safety and operational health and safety (H&S) are among top priorities for Ukrzaliznytsia. Being one of the largest national carriers of goods and passengers, the Company is aware of the nature and extent of the impact of its operations, products and services and understands its responsibility for ensuring safe operation of the industry, safe working conditions and the preservation of employee health. The Company follows the best global industry practices in traffic safety and occupational health and safety, including healthcare, railway infrastructure integrity, emergency prevention and response.

Traffic Safety

Ukrzaliznytsia conducts regular work aimed at ensuring the safe movement of trains, preserving the life and health of people, property, environment and identifying and evaluating factors that affect the safety level.

We are guided by:



Regulation on the Railway Operation Safety Management System approved by Order No. 27 of the Ministry of Infrastructure dated 01 April 2011 and registered in the Ministry of Justice on 17 June 2011 under No. 729/19467.

Ensuring traffic safety is one of the most important quality indicators of railway transport. Safe traffic management enables us to operate the transport in a way that ensures proper train operation and shunting works, prevents or minimises deviations that pose potential or actual threat, and enables changes in their parameters in case of a potential threat to prevent risks.

Traffic Safety Principles and Approaches

- Ensuring priority of traffic safety over business and other interests;
- Providing proper technical condition of rolling stock and technical infrastructure facilities;
- Introducing technical means and technologies aimed at increasing the safety of operation, adopting the best international practices of passenger and cargo transportation management where the safety is No.1 priority;
- Organising technical training on traffic safety;
- Increasing the responsibility of employees and railway transport managers for ensuring compliance with the safety requirements, and widespread use of the encouragement of employees for accident-free work and taking measures to improve traffic safety;
- Ensuring compliance with the requirements of the current traffic safety laws;
- Improving the Rail Safety Management System.

Traffic safety indicators

At Ukrzaliznytsia, the traffic safety indicators have been stable for many years. The total number of traffic accidents has been decreasing every year, making 541 cases in 2017 compared with 550 in 2016.



During 2017, there were 541 traffic accidents, including 1 crash and 540 incidents, of which 32 were serious. In 2016, we had 550 incidents, including 16 serious ones. The total number of accidents dropped by 9, while the total number of serious accidents grew by 16 cases. The following regional branches are responsible for the most traffic accidents: Lviv Railways (36 accidents, or 28%) and South-Western Railways (31 accidents, or 24%). Traffic accidents injured twelve people.

Traffic accidents are classified as follows:

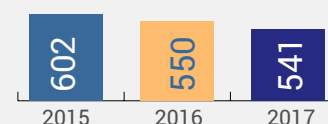
A crash is a traffic accident with severe consequences that has led to a collision of a passenger train or freight train with other trains or rolling stock and/or derailment of rolling stock on sections and stations that leaves one or more persons killed or six or more persons injured and/or three or more rail transport vehicles damaged to the extent that they are decommissioned.

An accident is a traffic accident that causes a collision of a passenger train or freight train with other trains or rolling stock and/or derailment of rolling stock on sections and stations that leaves one to five persons injured and/or rail transport vehicles damaged to the extent that they are decommissioned.

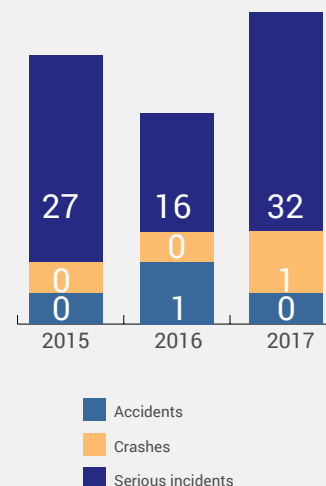
A serious incident is a traffic accident that occurs during the movement of rolling stock, which can lead to an accident and/or damages rail transport to the extent that it needs major repairs.

An incident is a traffic accident that occurs during the movement of rolling stock, but did not end with a serious incident.

Total number of traffic accidents at Ukrzaliznytsia, 2015-2017

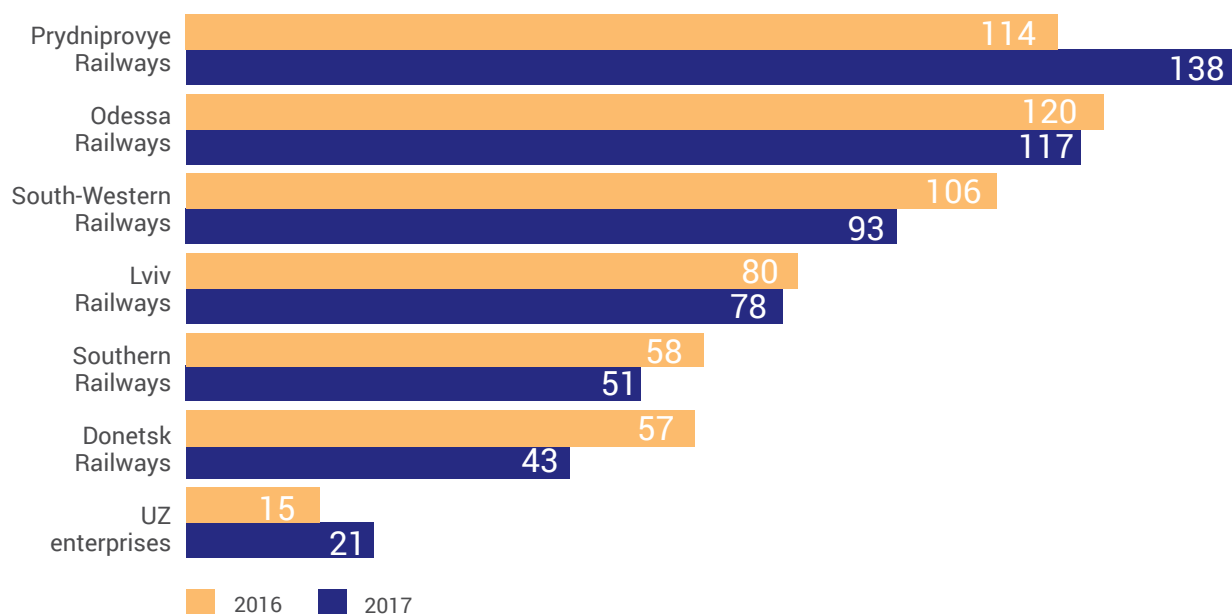


Traffic accidents by category

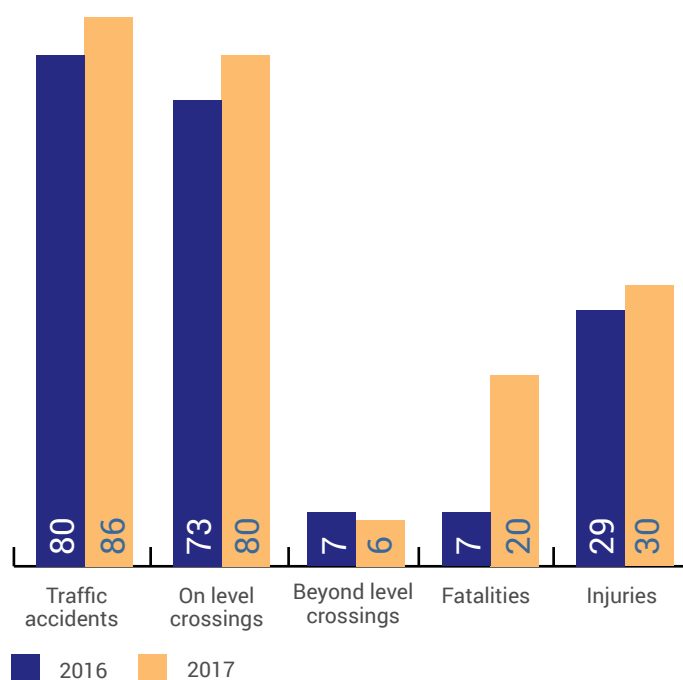


In 2017, most of the traffic accidents occurred at Prydniprovyie Railways (138 cases) and Odessa Railway (117 cases). Twenty-one traffic accidents were caused through employee faults.

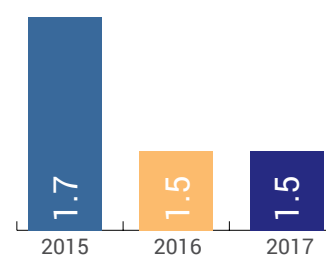
Breakdown of traffic accidents by regional branch



Number of traffic accidents on level crossings and tracks



Average number of incidents per day



In addition, there were 130 traffic accidents (24%) with passenger trains in 2017, leaving 12 people injured.

In 2017, the number of traffic accidents increased:

- Collision of trains with other trains or rolling stock, derailment of rolling stock during operation and shunting – from 46 to 90 cases;
- Passing a prohibition signal, limit of shunt or the station limit sign – from 4 to 12 cases;
- Switch cutting – 3 cases;
- Malfunction of the rolling stock and the elements of the infrastructure, which caused the delay of the train for more than two hours – from 303 to 314 cases;
- Falling of parts from rolling stock onto the rails – from 6 to 9 cases;
- Failure of the signalling and interlocking arrangements, communication and power supply equipment – from 8 to 9 cases;
- Movement of rolling stock beyond the limit of shunt at the station – 2 cases through the fault of railway employees;
- Presence of severely defective rails – 2 cases.

The main reasons of 469 traffic accidents (85.3%) or include:

- Malfunction of the rolling stock and the elements of the infrastructure, which caused the delay of the train for more than two hours – 314;
- Derailment and collision of rolling stock during operation and shunting – 90;
- Wrong actions of railway workers – 69.

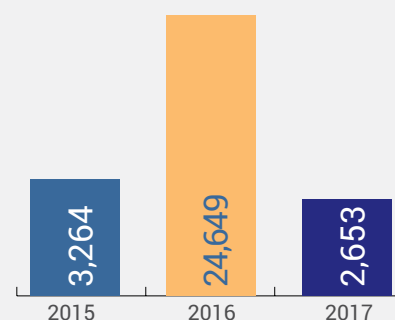
An average of 1.48 traffic accidents occurred every day. In 2016, this figure was 1.51.

Of the total number of traffic accidents, 394 cases, or 72.8%, were caused by a human factor. As a result, 2,077 employees were held liable for violations of rail safety regulations. Out of them, 20 were fired, and 2,057 workers were reprimanded. In addition, 890 employees were held disciplinarily liable for traffic accidents, in particular, they were dismissed from the railways (nine persons), dismissed from office (132), and reprimanded (749).

In 2017, the Company suffered material losses of UAH 2,653,000 because of the traffic accidents. The amount of compensation paid was UAH 1,237,000 or 46.6%.

Human factor was a cause of **72.8%** of traffic accidents.

Ukrzaliznytsia's total losses, 2015-2017, '000 UAH



Unlawful Interferences

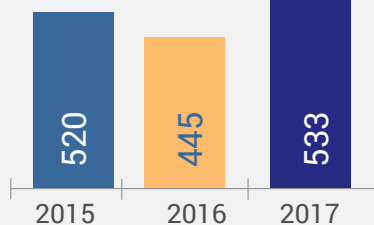
During 2017, 553 cases of unlawful interference occurred in the regional branches, resulting in 1,320 trains delayed by 1,045 hours. The damages were UAH 4,254,840 against 445 cases in 2016, resulting in a delay of 751 trains by 750 hours and losses of UAH 4,614,000.

During 2017, reports and papers on 126 cases of unlawful interference were submitted to law enforcement agencies. Four responses were received. Fifteen unlawful interference cases were registered in the Unified Register of Pre-Trial Investigations. Ukrzaliznytsia does everything it can to reduce the unlawful interference in the operation of rail transport.

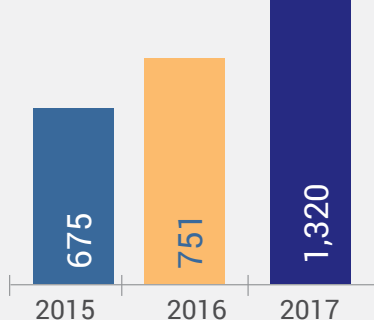
Every year Ukrzaliznytsia conducts a series of measures aimed at ensuring a corresponding level of safety and security and preventing accidents. In 2017, the Company implemented 55 measures to improve traffic safety.

Unlawful interferences and their consequences

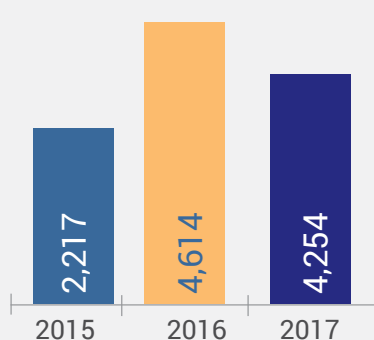
Unlawful interferences



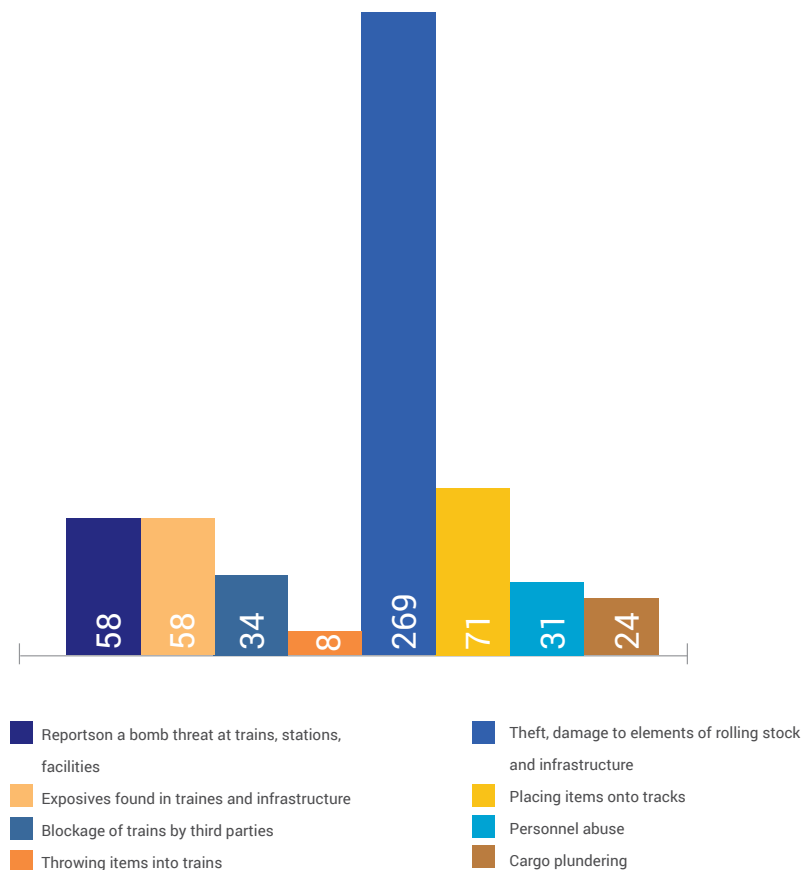
Trains delayed



Losses, '000 UAH



Unlawful interference by category





Major traffic safety measures 2017:

- Introduction of systems of documented registration of conversations, software and hardware at stations;
- Replacement of outdated portable radio stations with modern devices;
- Installation of modern element-based automatic locomotive signalling;
- Installation of stands for setting up and testing of safety devices and radios;
- Introduction of computer-aided means of technical training and knowledge testing of locomotive crews using personal computers;
- Automatic control of the technical condition of the rolling stock undercarriage, fault detectors with electronic recorder;
- Upgrade of semiconductor transducers on DC traction substations;
- Replacement of contact network elements with excessive average life cycle;
- Replacement of heating control devices for axle boxes;
- Installation of strain gauge balances;
- Installation of automated video control systems to check the condition of cargoes and integrity of cars in motion.

Ukrzaliznytsia implements a projection-based programme to introduce rail safety equipment and systems across the Company in 2014-2018. The programme was approved by Order No. 432-Ts/od (432-Ц/од) dated 05 December 2013.



Occupational Health & Safety

The draft Occupational Health and Safety and Management model of the Company is in line with the Law of Ukraine On Labour Protection and ISO 45001, the international standard for health and safety management systems, and Ukrzaliznytsia's key H&S principles and covers all stages of planning, implementation, operation, control, analysis, and continuous improvement. The system is based on the Plan - Do - Check - Act methodology.

The issue of occupational H&S is always at the heart of the Company's attention, because the work and life of the Company employees, passengers and ordinary citizens, who in one way or another relate to the activity of the railway, depend on how the work in this direction is carried out. The organisation of proper, safe and healthy working conditions in the process of work will increase the level of protection of the life and health of workers, build a culture of safe behaviour at work, and increase the efficiency of production.

We are guided by:



Laws of Ukraine On Labour Protection, On Compulsory State Social Insurance, the Code of Labour Laws of Ukraine and other national H&S regulations.

Principles and Approaches

With the transformations taking place in Ukrzaliznytsia and according to Ukrainian laws and international standards, the Company currently is taking great efforts to develop and implement a unified corporate H&S management system (hereinafter referred to as the System).

The implementation of the System will allow determining the main principles and objectives in the field of health and safety in the Company, the functioning of the H&S service, the organisation and conduction of exercises on health and safety, the procedure for monitoring the H&S practices in separate units of the Company, identifying hazards and assessing risks, etc.

Before rolling out the corporate System, the regional branches and affiliates have individual systems of health and safety management in place introduced by administrative orders of the heads of regional branches and affiliates.



Key goals

Ukrzaliznytsia's main H&S goals and objectives are based on identified hazards and occupational risks and on the results of analysis of occupational injuries and occupational diseases. These include:

- Creating safe and comfortable working conditions;
- Preserving the life, health and efficiency of an employee at work;
- Ensuring compliance with the requirements of the current laws on health and safety and regulations in the field of occupational safety;
- Preventing occupational injuries, occupational diseases and industrial accidents;

- Improving the effectiveness of the health and safety management;
- Instilling a corporate health and safety culture;
- Organising H&S training.

In 2017, Ukrzaliznytsia H&S
expenses made
UAH 552,337,940.

In 2017, Ukrzaliznytsia's health and safety expenses made UAH 552,337,940, which was 0.77% of the cost of the goods sold, or 2.18% of the payroll fund for the previous year. Pursuant to Article 19 of the Law of Ukraine On Labour Protection, the H&S expenses should be not less than 0.5% of the payroll fund for the previous year.

Ukrzaliznytsia's major health and safety expenses

Роки	2015	2016	2017
Overalls, special footwear and other PPE for employees	UAH 127,393,480	UAH 153,770,930	UAH 186,553,860
Mandatory medical examinations of employees	UAH 74,627,520	UAH 91,585,360	UAH 119,500,000
Providing milk, equivalent food and special food	UAH 13,622,870	UAH 14,350,260	UAH 18,306,120
Providing detergents to employees	UAH 7,812,060	UAH 8,792,180	UAH 9,625,240

To prevent accidents at work, occupational diseases and other types of hazards to the worker's health and create proper, safe and healthy working conditions, Ukrzaliznytsia is constantly working to increase H&S financing.

Years	2015	2016	2017
Expenses, UAH million	367.65	396.52	552.34
Total 2015 - 2017			UAH 1,316,510,000

Since 2013, the Automated Registration System for High-Hazard Rail Equipment has been in place in the Company to provide the proper control of the technical conditions of high-risk equipment in the Company.

To monitor and evaluate the health and safety practices, an ongoing control of H&S has been introduced in the Company, which includes:

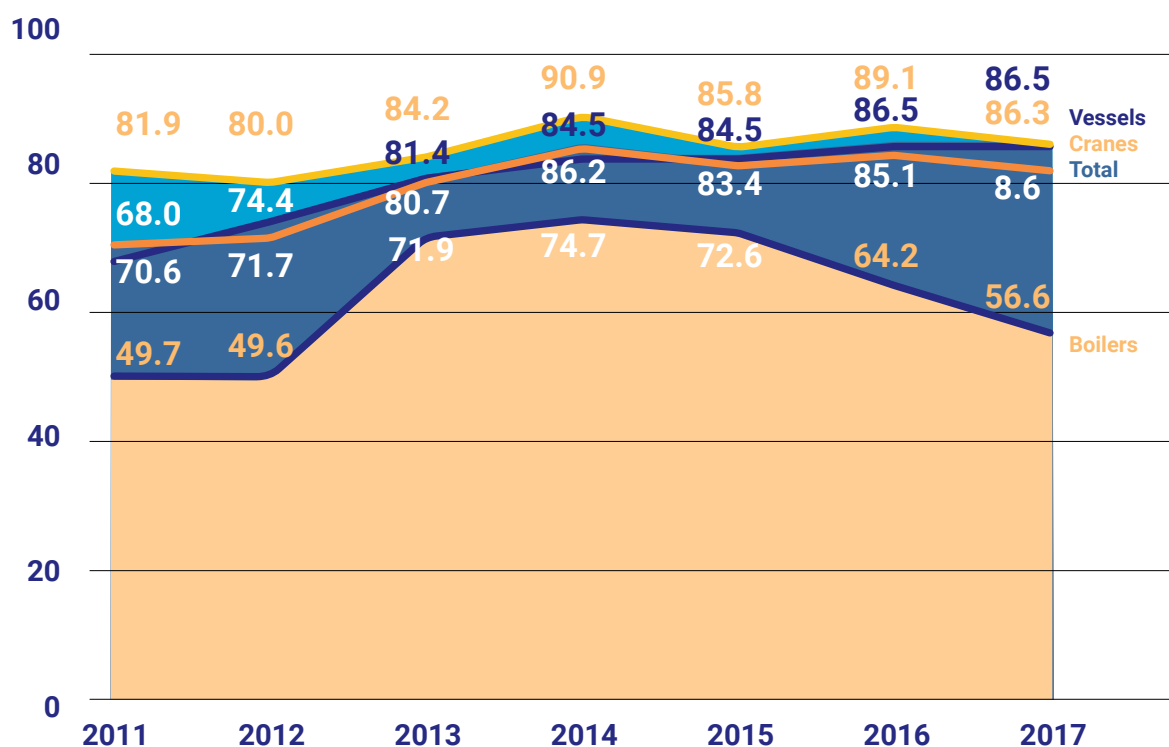
- H&S practices control (operational, step-by-step);
- H&S tests (selective (targeted), integrated).

Ukrzaliznytsia operates 14,272 units of high-risk equipment (lifting cranes, lifts, elevators, escalators, steam and hot water boilers, pressure vessels, etc.), namely:

- lifting constructions – 9,216 units, including 8,534 lifting cranes (railway – 1,120, overhead travellers – 1,359, gantries – 1,054, automobiles – 459, towers – 52, other cranes – 4,490), elevators – 225 units, escalators – 39 units, lifts – 487 units;
- boiler inspection facilities – 4,987 units, including 3,785 pressure vessels and 1,202 steam and hot water boilers.

The Company operates six high-risk facilities. At the same time, the number of equipment with the expired the term of operation increases every year.

Availability of high-risk equipment with the expired service life





Approaches to H&S

The Company constantly carries out training and checking of knowledge on occupational safety issues of officials and other employees of the Company in the professional activity process, as well as students of educational establishments during internships and professional training.

In particular, the Company has developed and approved the corresponding provisions, plans are drawn up to conduct exercises and check knowledge on occupational safety issues, educational-thematic plans and programmes are being developed, educational documents are being formed, etc.

We are guided by:



Typical regulations on the procedure for conducting health and safety training and checking knowledge approved by Order No. 15 of the State Committee of Ukraine on Occupational H&S Supervision dated 26 January 2005.

Ukrzaliznytsia's senior management was trained and tested on occupational H&S at the Main Educational and Methodological Centre of the State Labour Service of Ukraine.

There were also 454 H&S workshops held by the employees and officials of the regional branches and affiliates of Ukrzaliznytsia; 24,626 H&S meetings, including 8,616 conference calls.

In total, 13,020 employees attended out-of-schedule training and knowledge test after violations of the requirements of H&S regulatory acts.

In September 2017, a sectoral H&S workshop was organised and held with the participation of the representatives of the State Labour Service and the Ministry of Infrastructure of Ukraine.

In 2017, the Occupational H&S Training and Methodology Centre of the Department of Occupational Health and Safety conducted H&S training and knowledge testing officials and other employees of Ukrzaliznytsia's regional branches and affiliates without engagement of third-party training centres. In particular, regional branches trained and tested H&S knowledge of **more than 6,000 officials and specialists, including 1,000 employees** trained through a distance course.

Number of employees who attended H&S training

№	Indicators	Years		
		2015	2016	2017
1	Total number of employees who had H&S training in the corresponding year	185,758	195,874	201,757
1.1	IN PARTICULAR, OFFICIALS	9,787	10,606	10,930

Health and Safety at Work

The Company's health and safety policy is based on the principles that take into account the peculiarities of the railway industry production activity and are aimed at creating proper, safe and healthy working conditions, preventing accidents and occupational diseases among the Company's employees, namely:

- Priority of life and health of Ukrzaliznytsia employees over production objectives, full responsibility of managers at all levels;
- Social protection and material support to employees who have suffered from accidents at work;
- Universal H&S requirements at Ukrzaliznytsia;
- Alignment of operational processes with employees' capabilities, health and psychological condition;
- Compliance with the requirements of national laws, international treaties, other normative legal acts containing national regulatory requirements on H&S, requirements of Ukrzaliznytsia H&S regulations, implementation of Sectoral Agreements and collective bargaining agreements, as well as programmes for improving working conditions and safety;
- Promotion of public control over the observance of the rights and legitimate interests of employees, awareness raising about occupational safety issues;
- Coordination of actions of regional branches and affiliates of PJSC Ukrzaliznytsia, as well as their production (structural) divisions, interaction on health and safety issues among them;
- Development and use of advanced and safe technical means, equipment and technological processes,

mechanisation and automation means to remove workers from hazardous areas and eliminate manual labour;

- Organisation of R&D activities, implementation of their achievements;
- Prevention (timely detection and elimination) of negative factors that can lead to accidents;
- Use of best cross-sectoral and international practices to improve conditions and safety;
- Identification of hazards and assessment of industrial risks of accidents, occupational diseases and accidents; development and implementation of risk mitigation measures;
- Occupational H&S audits.

The basic principles of health and safety at Ukrzaliznytsia are regularly reviewed by the H&S service, adjusted, documented, agreed by the Ukrzaliznytsia Board and notified to all employees. They are specified in the Working Conditions and H&S section of the collective bargaining agreement, as well as reflected in numbers in the programmes and plans for measures to improve the working conditions and safety. The required funding is allocated for their implementation.

Health and Safety in Agreements with Trade Unions

Ukrzaliznytsia has a Sectoral Agreement extended for 2017 and a collective bargaining agreement, which contains an H&S section that covers:

- Provision of workers with overalls, special footwear and other PPE in accordance with the applicable regulations;
- Free delivery of milk or other equivalent products to employees working in harmful working conditions as provided for by applicable regulations;
- Supporting medical stations and other healthcare departments;
- Investigation of occupational injuries and accidents, as well as non-occupation injuries in accordance with the current laws on occupational safety;
- Proper condition of amenities;
- Preliminary (upon employment) and regular medical checkups of employees in accordance with the regulations in force, etc.

The Company closely interacts with trade unions and constantly engages them in:

- Public control over compliance with laws on health and safety;
- Investigations of occupational accidents;
- Primary and regular tests of workers' knowledge of occupational H&S issues;
- Approval of comprehensive measures to achieve the established standards of safety, occupational health and working environment, increase of the current level of H&S, prevention of occupational injuries, diseases and accidents in the Company.

Caring about the Health of Company's Employees

PJSC Ukrzaliznytsia operates Healthcare Centre, a specialized branch responsible for increasing the efficiency and accessibility of medical care. The Healthcare Centre provides medical services to railway workers, members of their families, railroad passengers and all Ukrainian citizens. The branches include eight clinical hospitals in Kyiv, Kharkiv, Odessa, Lviv, and Dnipro.

The departments of leading medical universities and medical academies operate in railway hospitals. Healthcare facilities are constantly updating medical equipment and introducing modern medical technologies to provide quality and comprehensive medical care.

Ukrzaliznytsia finances and organises at its own expense the preliminary (during recruitment) and regular (during employment) medical examinations of workers engaged in heavy work, work in harmful or dangerous conditions of work or those where there is a need for professional recruitment, an annual compulsory medical examination of persons under 21.

The purpose of employee's medical examination (checkup) is to determine his or her health condition, in particular, the ability to perform certain duties, timely detection of acute or chronic occupational diseases, the establishment of medical contraindications in case of necessity for certain types of work, and also the prevention of the emergence and spread of infectious diseases.

Medical examinations for certain categories of employees of the Company shall be conducted in accordance with the Procedure for Medical Examinations of Certain Categories of Workers approved by Ministry of Health of Ukraine Order No. 246 dated 21 May 2007 and registered with the Ministry of Justice of Ukraine on 23 July 2007 under No. 846/14113 (as amended) and the Procedure for medical examinations of certain categories of workers of railway transport, subways and enterprises, cross-sectoral industrial railway transport of Ukraine approved by Ministry of Transport and Communication's Order No. 240, dated 29 April 2010 and registered with the Ministry of Justice of Ukraine on 16 July 2010 under No. 537/17832 (as amended).

In 2017, Ukrzaliznytsia spent **UAH 119,500.000** on mandatory medical examinations of employees.

During the certification, the Company follows Workplace Certification Procedure of approved by the Cabinet of Ministers Resolution No. 442 dated 1 August 1992 (as amended).

According to the results of regular medical examinations, the Company ensures appropriate response measures if necessary.

The Company carries out certification of worksites in structural (production) divisions according to working conditions requirements. The certification is conducted to identify the need to improve the working conditions of workers, to develop and implement measures that will promote the creation of favourable working conditions. In addition, the evaluation is a way to monitor the working conditions.

The workplaces are certified by a certification attestation commission. Its membership and powers are established by a subdivision-level order within the period that is established by the collective bargaining agreement, but not less than once every five years.



Ukrzaliznytsia will continue to promote and maintain a healthy lifestyle, provide access to high-quality health care services and increase the level of prevention and diagnosis of the employees' health. To this end, the following activities are planned at the Healthcare Centre:

- Certification of the structural subdivisions of the Healthcare Centre and obtain the corresponding certificates for operations of the structural units of the Healthcare Centre.
- To carry out quality certification according to DSTU ISO 9001 in the structural subdivisions of the Healthcare Centre.
- To introduce payment for medical services via POS terminals in the structural subdivisions of the Healthcare Centre. Develop ToRs for automation of medical processes.
- Implement a healthcare classifier and healthcare cost calculation methodology.

In 2017, Ukrzaliznytsia
certified **2,277 workplaces**
spending
UAH 1,946.000 on these
efforts.

Indicator	2016	2017	Plan for 2018
Average length of stay in bed	11.52	10.27	11.5
Load on 1 medical job in outpatient clinic department	4,444	3,254	2,000.00
Number of medical examinations	3,856,999	4,341,339	4,042,420
Preliminary and regular	61,544	61,833	51,336
Before and after run	3,795,455	4,279,506	3,991,084
Number of people who has surgeries in hospitals	25,561	25,520	Keep at the 2017 level
Surgeries	65.66	64.78	Keep at the 2017 level

In 2017, a fundamentally new, transparent and equitable system of remuneration will be introduced for the employees of the Healthcare Centre, the treatment and recreation centres of the regional branches of Ukrzaliznytsia. The corresponding Regulation will come into effect.

H&S Complaints

In 2017, 14 complaints, reports and requests were received for the investigation of occupational accidents, inappropriate working conditions, issues of benefits and compensations for work in difficult and harmful working conditions, etc. All of them were processed and settled during the reporting period.

Ukrzaliznytsia received
16 complaints in 2016
and **18 complaints in**
2015.



Occupational Injuries

In 2017, the Company had 79 accidents leaving 85 employees injured, including 17 fatalities.

Parts of the territory of the structural (production) units of the Company and stations, where vehicles are moving, shunting, loading and unloading, are high-risk locations where the high-risk equipment is used, and the majority of employees of the Company are involved in dangerous works.

The main causes of accidents are:

- Violation of work and production discipline.
- Incomplete provision of workers with overalls, special footwear and other PPE, employee negligence.
- Excess of established lifecycles of the high-risk equipment, injuries caused by unlawful actions of other persons.
- Violation of safety rules.

Preventing occupational Injuries

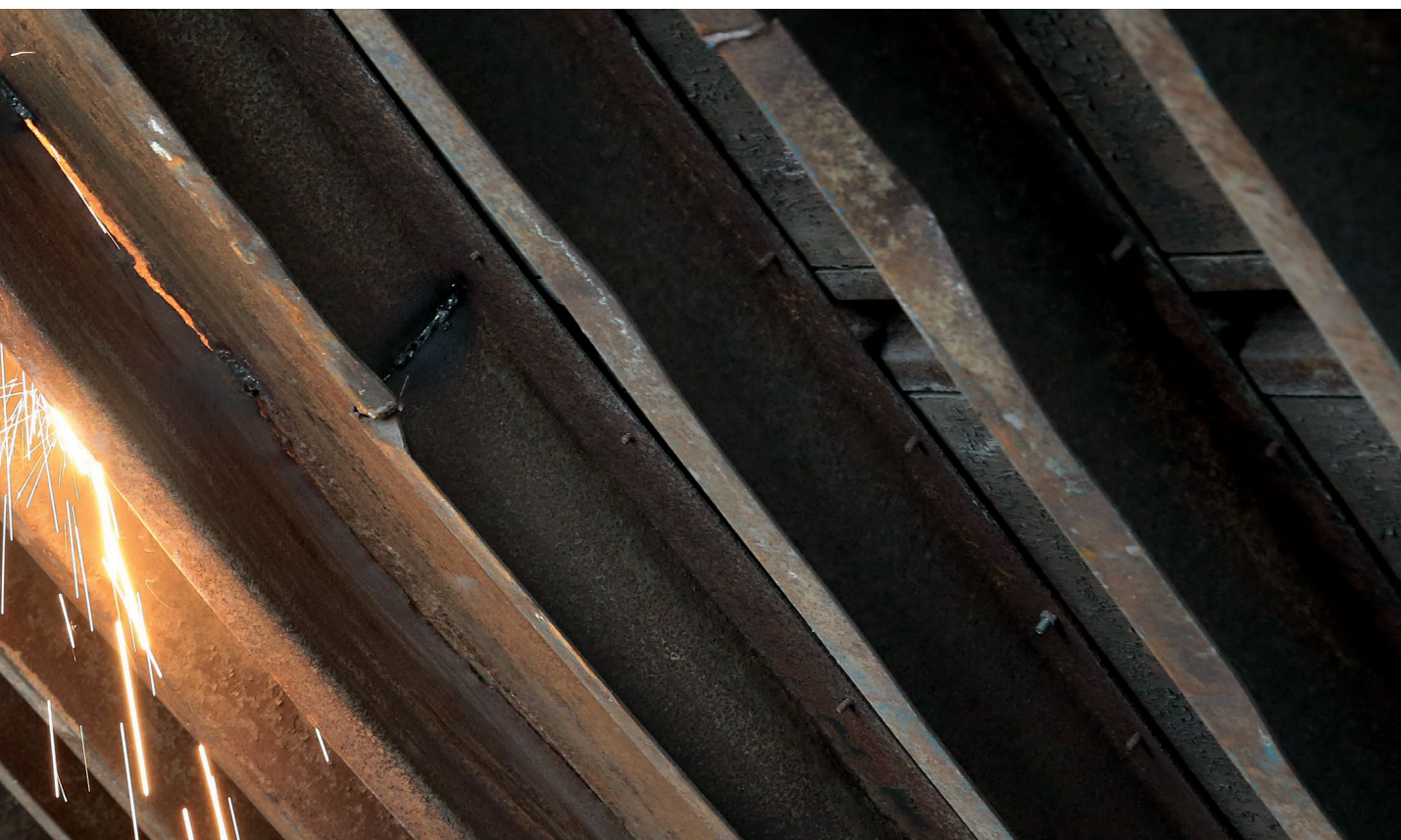
In a move to prevent occupational injuries, the Company analyses causes of such injuries on a quarterly basis and develops response measures.

In connection with the unsatisfactory situation with occupational injuries in certain regional branches and business units of the Company in 2017 special conditions for monitoring the level of occupational safety were declared.

In addition, regional branches and affiliates of the Company shall, in the event of any accident with a fatal outcome and other accidents, send corresponding information to take into account the risk factors in the future.

In order to prevent the deterioration of the health or injury of workers who spend most of their working time in the open air with high (or low) ambient temperatures, the Company develops and sends a list of measures and instructions to all subordinate units.

In 2017, the injury rate (per 1000 workers) was $K_r = 0.315$, the injury severity (per 1000 workers) - $K_s = 20$, the average severity factor - $K_s \text{ av} = 79.35$. In the accidents, 15 women and 70 men were injured.



Number of accident victims

	2015	2016	2017
Number of incidents	69	71	79
Injuries	86	75	85
Fatalities	17	15	17

In order to better manage and control issues in the field of health and safety, it is planned to introduce the calculation of the disability coefficient, the coefficient of absence in the workplace, the coefficient of occupational disease rate, the coefficient of disability because of occupational diseases, and also the registration of the number of accidents related to works by third-party contractors working on facilities subordinated to the structural units of the Company.

All structural and production subdivisions of Ukrzaliznytsia's regional branches and affiliates took part in the World H&S Day on 28 April 2017. In the course of the H&S Day events, the Company took a set of measures aimed at improving working conditions at the workplace, improving the psychological climate in the teams and contributing to the reduction of annual mortality, occupational injuries and occupational diseases.

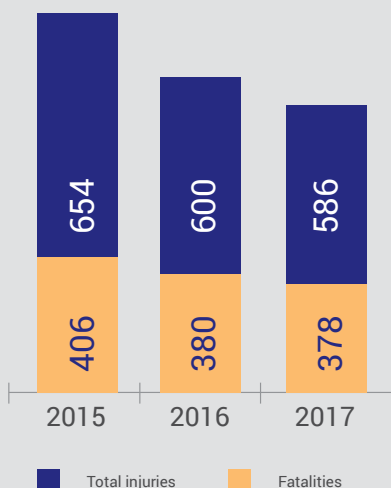


Non-occupation injuries

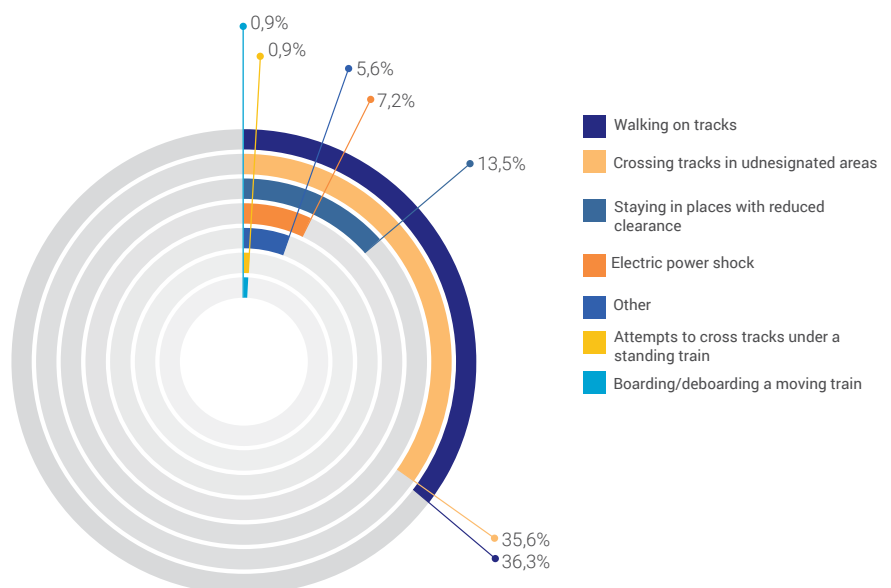
During 2017, 586 people suffered injuries of various degree of severity, including 378 fatalities, at stations, running lines, territories of the Company units because of violations of the Rail Conduct Rules and/or as a collision, falls from rolling stock vehicles or other types of impact.

Walking on tracks and crossing track in undesignated areas are key violations of the rail safety rules.

Total number of injured, persons



Causes of non-occupation injuries



Non-occupation injuries Prevention

In order to prevent injuries of citizens and maintain a positive image of the Company, Ukrzaliznytsia conducted outreach activities with the population living in the areas adjacent to the railways in 2017:

- 1,413 railway stations made regular announcements about rail safety, passenger train arrival/departure, shunting operations, and cargo train movements near platforms via PA/GA systems;
- 10,812 briefings and lectures in companies, schools, and kindergartens to promote rail safety as part of outreach activities;
- 187 articles were published to tell civilians about dangers of staying or walking close to the rolling stock;
- 44 radio broadcasts were made about rail safety and rules of customer conduct on rail transport;
- 46 television appearances were made to show statistics of injuries and attract more public attention to this pressing problem;
- 5,686 trespassers were arrested by the paramilitary guard for crossing tracks in undesignated areas and travelling by freight trains, with 5,059 of them held administratively liable;
- 4,685 checks were conducted jointly with traffic police officers to see compliance with rail crossing maintenance rules and observance of level crossing rules for drivers.

In addition, technical measures were taken:

- 9,735 inspections were carried out to check lighting at stations and passageways;
- 35 level crossings were repaired;
- visibility was improved (by clearing woods) at 240 level crossings;
- 54 pedestrian crossings were repaired;
- 206 entrances and approaches to level crossings were repaired;
- 181 passenger platform and transition deck were repaired;

- 342 stairs, pavements of pedestrian bridges, tunnels were repaired and replaced;
- 2,146 additional information stands with warnings and safety signs were installed;
- 101 floors of the carriageway of level crossings were repaired;
- 24,270 warning posters on electrical safety were restored on bridges, fences of traction substations, supports of transmission lines;
- 25 facilities were fenced in the territories of stations, depots, distances;
- Fences at 24 transformer substations and complex transformer substations were restored.

Working with Contractors on H&S

During performance of work on the territory of the Company units, contractors shall comply with the requirements of the current laws of Ukraine on labour protection and regulations on H&S operating in the Company.

At the same time, contracts with third-party contractors performing works at the Company facilities contemplate measures to ensure compliance with the requirements of health and safety during the performance of work by these organisations in the territory of the Company units and the procedure for interaction on these issues between the customer (a unit of the Company) and a third-party organisation. In addition, the contracts provide for the personal responsibility for organising and conducting H&S training. Safety measures that are not regulated by the contracts must meet the requirements of the Ukrainian laws on occupational health and safety. The above-mentioned requirements are envisaged in a draft standard Ukrzaliznytsia Occupational Health and Safety Management System.

In 2017, Ukrzaliznytsia spent **UAH 60.3 million** to implement the Non-Occupational Injury Prevention Programme against UAH 38.7 million in 2016. In 2018, more than UAH 69 million will be spent on the programme measures.



Projects and Programmes

To enhance rail safety, specialised programmes are developed, approved and implemented on the annual basis. In particular, in 2017:



The Company established corresponding functions and appointed officials.



Advanced technologies, achievements in science and technology, automation means and best European H&S practices were implemented.



With the participation of the parties to the collective bargaining agreement, the comprehensive measures were developed and implemented to achieve standards of occupational health and safety, working environment, improve current health and safety practices, prevent occupational injuries, diseases and accidents in the Company.



Measures were taken to ensure the proper maintenance of buildings and facilities, production equipment and tools, etc.



Preventive measures were taken to eliminate the causes of occupational diseases and accidents.



Annually, measures are approved to improve prevention of occupational injuries at Ukrzaliznytsia and non-occupational accidents on rail transport.



Plans for 2018 and a medium term:

With a view to increase employees' health and safety, Ukrzaliznytsia plans to take the following measures in 2018:

- Develop and implement of a companywide H&S Management System at Ukrzaliznytsia;
- Create of an automated work station (AWS) of an H&S specialist, which will allow to reduce time and resources used to plan measures and organise current work on health and safety, receive reports on the level of occupational safety, improve the efficiency of the Occupational Health And Safety Management System, improve the organisation and control over H&S training, establish ongoing control over certification of working conditions, etc.;
- Introduce distance learning in all in-house H&S training and methodology.



Environmental Protection

Environmental Protection Approaches

Caring for the environment and ensuring a high level of environmental safety lie at the core of the Company's operations and lay foundations for its sustainable development. Ukrzaliznytsia is making significant efforts to protect the environment, minimise the negative footprint on the environment, preserve and restore natural resources, implement the steps aimed at protecting the air, water and land resources, and apply effective innovative technologies. The Company seeks to operate, ensuring the balance of ecological and business interests in the areas of its presence and rational use of natural resources. Ukrzaliznytsia pursues its environmental policy in line with the laws and implements initiatives in the field of environmental protection.

Main Principles of the Company's Environmental Policy:

- Strengthening the role of environmental management in the system of administrative and business management of PJSC Ukrzaliznytsia in order to achieve the equality of three development pillars: business, environment and social area;
- Taking into account possible ecological consequences when making managerial decisions, developing documents containing policy principles of sectoral and/or regional or local significance;
- Minimising the consequences of natural and man-caused emergencies, which involves the analysis and forecasting of environmental risks based on the results of strategic environmental assessment, materials of environmental impact assessment, as well as monitoring of the environment;
- Complying with requirements, standards and rules of environmental safety;
- Bearing responsibility for environmental protection, restoration and reproduction of natural resources;
- Engaging with civil society organisations and/or the broad public, as well as officials, in particular the management of

the Company, in the development and implementation of environmental policy, taking into account their proposals to improve the efficiency of supervision (control) in the field of environmental protection and the implementation of environmental laws;

- Imposing strict liability for violations of environmental protection laws, rational use and reproduction of natural resources;
- Supporting and encouraging modernisation, retrofitting or reconstruction of production to reduce environmental footprint.

We are guided by:



Key objectives of the public environmental protection policy are outlined in the Constitution of Ukraine, the Laws of Ukraine On Fundamentals of National Security of Ukraine, On Environmental Protection, On Air Protection, On the Basic Principles (Strategy) of the State Environmental Policy of Ukraine till 2020, as well as the Land Code, Water Code, Forestry Code of Ukraine, the Code of Ukraine on Subsoil, etc.

Ukraine signed a number of international conventions on cooperation in the field of environmental protection such as:

The Framework Convention on the Protection and Sustainable Development of the Carpathians; Convention on the Access to Information, Public Participation in Environmental Decision-Making and Access to Justice in Environmental Matters (Aarhus Convention); Convention on Environmental Impact Assessment in a Transboundary Context (Espoo Convention); Stockholm Convention on Persistent Organic Pollutants; the United Nations Framework Convention on Climate Change; Basel Convention on the Control of Transboundary Movements of Hazardous Wastes; the Convention on Long-range Transboundary Air Pollution and a number of others.

To implement the Conventions ratified by the Verkhovna Rada of Ukraine, environmental specialists of the Company cooperate with railways of the member states of the the Organisation for Cooperation between Railways (OSJD) to develop Technical Solutions and Organisational Measures to eliminate the environmental consequences of emergencies during transportation of dangerous goods; Recommendations on Utilisation of Alkaline and Acid Batteries; Recommendations on Common Standards for the Classification, Placement and Storage of Waste for Railway Enterprises; Recommendations on the Assessment of the Railway Noise Impact on the Environment; Methods of Environmentally-Friendly Application of Chemical Technologies to Remove Vegetation on a Railway Track; Operational and Technical Requirements for Electromagnetic Safety, etc.

These recommendations were approved by a corresponding OSJD Committee and issued in the form of Guides and Recommendations for all the railways in the member countries of the Organisation for Cooperation between Railways.



Main Objectives of the Company's Environmental Management:

- Reduce the harmful impact of rail transport on air, water resources and land, as well as impact of industrial and domestic waste of rail transport on the environment.
- Comply with laws and international treaties of Ukraine in the field of environmental protection.
- Conduct methodology, regulation and standardisation of environmental activities.
- Manage natural resources.
- Plan and implement investment environmental projects.
- Ensure prudent use of natural and energy resources.
- Ensure environmental risk management.

Objectives within the Framework of Ukrzaliznytsia Development Strategy 2017-2021:

1. Air protection:
 - reduce emissions of harmful substances into the atmosphere from stationary sources, including emissions of greenhouse gases;
 - reduce emissions of harmful substances into the atmosphere from mobile sources, including emissions of greenhouse gases.
2. Noise prevention:
 - reduce the noise impact on the environment in residential areas.
3. Protection and rational use of water resources:
 - prevent or reduce the discharge of contaminated waste water (in violation of permissible dumping standards) in surface water bodies, on the relief of the area and in communal sewage systems.
4. Protection and rational use of land resources:
 - take measures to prevent negative (harmful) footprint of the Company's business operations, eliminate the consequences of land contamination.
5. Waste management:
 - recycle waste as additional sources of raw materials;
 - implement the best environmental technologies of waste management.
6. Remove accumulated waste associated with the business operations of the past years.
7. Conservation of resources:
 - improve energy efficiency, reduce the material intensity of the technological processes, and increase labour efficiency.
8. Environmental management:
 - introduce unified corporate principles and standards of environmental management in PJSC Ukrzaliznytsia that meet the requirements of the national environmental laws, international standards of ISO 14000 series;
 - reduce the risk of emergencies and increased efficiency in the elimination of the environmental consequences of emergencies;
 - increase ecological requirements for rolling stock, fuel, transport infrastructure;
 - ensure production environmental control, and improve procedure of internal environmental audits.

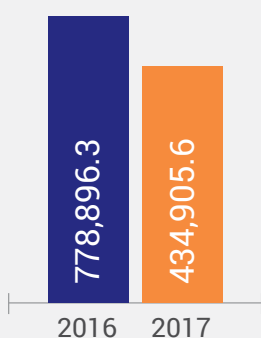


№	Major innovative events	Expected results	Tentative development and implementation period
1	2	3	4
1.	Establishment of the Environmental Management Department		
2.	Development and approval the Company's environmental protection and environmental safety programme after the Cabinet approves the Ukrzaliznytsia Development Strategy 2017-2021. The programme should comply with the decree of the Cabinet of Ministers of Ukraine No. 1147, On the Approval of the List of Environmental Protection Activities, dated 17 September 1996, (as amended)	Reduction of environmental pollution, rational use and reproduction of natural resources, preservation of public health, awareness raising about environmental protection activities, implementation Ukrzaliznytsia Development Strategy 2017-2021	2018
3.	Establishment of Design Scientific and Production Ecological Centre	<p>Increase the business and ecological efficiency of the main activity by means of:</p> <ul style="list-style-type: none"> ■ organising and saving of funds at instrumental and laboratory control of the environment. <p>Saving money when:</p> <ul style="list-style-type: none"> ■ developing and obtaining permits for water use and wastewater discharges, emissions into the atmosphere, waste management; ■ developing environmental impact assessment (EIA); ■ developing company standards and other regulatory acts of the Company. <p>Conduct training to improve the qualifications of the Company employees</p>	2018-2019
4.	Development and introduction of the AIS "Ecology" system in the rail transport operation	<p>Increase the business and ecological efficiency of the main activity by means of:</p> <ul style="list-style-type: none"> ■ improve the ecological management system; ■ reduce the loss of working time to process environmental information and draft the national and departmental statistical reports 	2018
5.	Implementation of biological testing and automatic laboratory control systems in the sewage treatment facilities	Increase business and ecological efficiency of the main activity by means of reduction of working time losses on laboratory control, pay ecological tax, monitor operation of structures	2019-2021
6.	Organisation and monitoring of soil contamination in the railway strip	Protect life and health of people	2019-2021
7.	Installation of equipment and materials on repair (firefighting) trains to eliminate consequences of dangerous goods-related accidents that lead to environmental pollution	Operational support for the elimination of the emergencies consequences and, accordingly, reducing the size of possible economic sanctions by state control bodies in the sphere of environmental protection to rail transport for the environmental pollution	2018-2021
8.	Implementation of separate collection of household waste at Ukrzaliznytsia facilities	Saving funds on waste disposal, waste recycling	2018-2019

Investing in the Environmental Protection

According to the national statistics (Form No.1), in 2017 Ukrzaliznytsia's environmental expenses made **UAH 434.906 million**, including UAH 25.739 million on air protection, UAH 90.623 million on treatment of sewage and return water, UAH 29.945 million on waste management, UAH 73.426 million on protection and reclamation of soil, underground and surface water, UAH 23.228 million on reduction of noise and vibrational impact, UAH 183.058 million on biodiversity and habitat conservation, UAH 0.319 million on radiation safety, and UAH 8.568 million on other environmental measures.

Ukrzaliznytsia's total capital investments and current expenses on environmental protection, '000 UAH



The capital investments amounted to UAH 40.983 million, including UAH 27.823 million for capital repairs of the main environmental protection facilities.

The capital environmental protection investments include the costs of construction of new, expansion, reconstruction, restoration, technical re-equipment of existing facilities, major repairs and the purchase of environmental protection equipment of long-term use in the reporting year.

Key Investments:

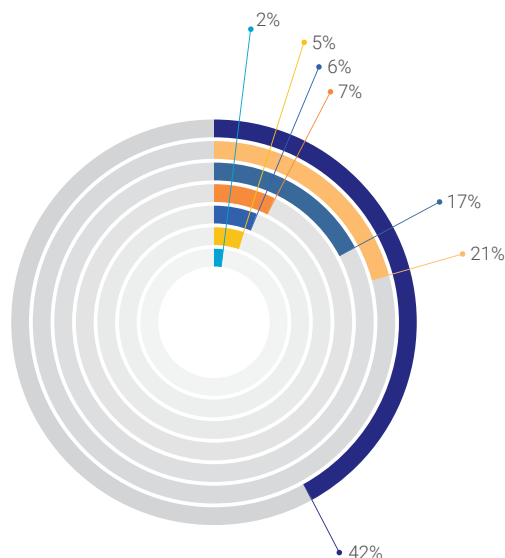
- Modernisation of motor transport with the installation of gas equipment – UAH 393,800;
- Heliosystems – UAH 1.212 million;
- Switch to electric heating – UAH 1.452 million;
- Repair of treatment facilities and equipment, connection networks, flotation installations – UAH 1.052 million;
- LED lighting and replacement of fluorescent lamps with energy-saving lamps – UAH 4.2 million;
- Continuous welded railway track – UAH 20.480 million;
- Protection of soils from lubricants (use of RM cars), design of the Major Repair of Railbed – UAH 6.699 million;
- Measures to protect forestation, including the purchase and repair of bush cutters, etc. – UAH 2.619 million.

Current expenditures on environmental protection include costs incurred to maintain (maintenance and operation) the facility (main means of environmental protection) in working condition and included in the expenses for the current period.

The costs of other environmental measures include the Company's general (operational) expenses according to expense categories related to the maintenance of environmental units, consultancy fees, general education or environmental education training and distribution of environmental information.

The payment for the environmental protection services includes the payment for environmental protection services provided in the corresponding areas, which include payments to specialised organisations (enterprises) for the removal and treatment of return water, removal, acceptance, preservation, processing and disposal of waste, land reclamation, removal, storage, use of fertile soil layer, payment for consultancy services, etc.

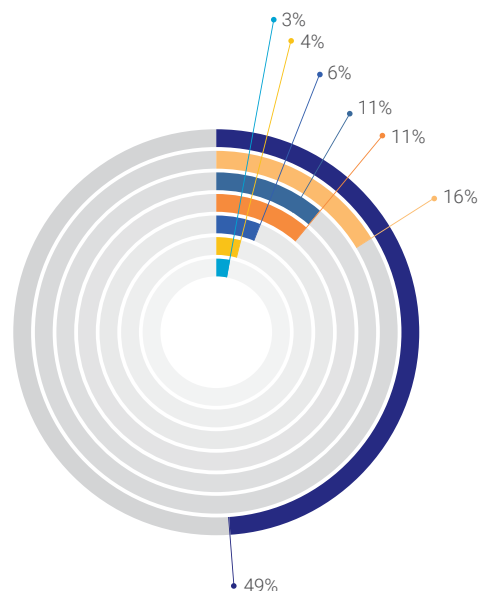
Ukrzaliznytsia environmental protection expenditure pattern, 2017



Total capital investments and current expenses on environmental protection, including:

- Conservation of biological diversity and habitats
- Air protection and climate change
- Return water treatment (including prevention and treatment of discharges into surface water)
- Reduction of noise and vibration impact (excluding H&S measures)
- Protection and recovery of soil, underground and surface water (including all kinds of pollution elimination)
- Other measures
- Waste management (garbage composting, recycling)
- Radiation safety (excluding measures for accident and crash prevention)

Ukrzaliznytsia environmental protection expenditure pattern, 2016



Total capital investments and current expenses on environmental protection, including:

- Other measures
- Reduction of noise and vibration impact (excluding H&S measures)
- Conservation of biological diversity and habitats
- Waste management (garbage composting, recycling)
- Protection and recovery of soil, underground and surface water (including all kinds of pollution elimination)
- Air protection and climate change
- Return water treatment (including prevention and treatment of discharges into surface water)
- Radiation safety (excluding measures for accident and crash prevention)

The Company takes environmental education effort to raise awareness of the younger generation

For example, approximately 1,500 children aged 12-14 study at Zaporizhia Children's Railways of Prydniprovye Railways regional branch. The facility operates a 9.4 km light railroad with a station and seven passenger platforms. Many rare species of trees and shrubs, flowers and other plants are planted there. The facility also has a winter garden and a cactus garden, a terrarium and an aquarium hall, a pet's corner with more than a hundred of different animals and birds. Mala Southern Children's of Southern Railways regional branch offers an extracurricular course "Fundamentals of native land and railroad ecology" for students of 6-9 grades.

On November 10-11, 2017, the 13th All-Ukrainian Ecological Festival "Railroad Transport and Ecology" was organised and conducted by Zaporizhia Children's Railways where Mala Southern Children's Railway presented a project on utilisation of fallen leaves to receive fuel and fertilizer materials.

In pursuance of the Decree of the President of Ukraine On the Environment Day, the Government's decision to hold the annual All-Ukrainian event on the improvement of clean environment and the instructions of Ukrzaliznytsia No. Ts/4-25/769/17 (Л/4-25/769/17), dated 6 April 2017, in April-May 2017 railroad workers contributed significantly to improve the state of the environment on the territories of production units and adjacent settlements. Over 127,000 railroad workers took part in these works and improved 739 hectares of lawns, eliminated about 2,000 unauthorized dumps, most of which were located in the territories of settlements adjacent to the rail transport lands, planted about 21,000 trees and shrubs. The area of the cleaned territories exceeded 7,180 hectares. Children's, sports and household grounds were arranged, roadside curbs and fences were painted, trees were painted white, monuments and obelisks for the warriors of the Great Patriotic War were cleaned, infrastructure facilities were repaired and improved.

Land Use and Protection

As of 31 December 2017, the regional branches and affiliates of PJSC Ukrzaliznytsia occupy an area of 236,134 hectares, including 80,329 hectares occupied by protective afforestation.

The area of the land for which state certificates have been received is 198,084 hectares.

The fee for the use of land was based on the annual reports of regional branches and affiliates and was UAH 1,223.6 million.

One of the important factors is pollution and clogging of soils in the territories of production units and soils of adjacent agricultural land with chemicals during transportation and storage of mineral fertilizers, coal and ores, emergency situations during transportation of petroleum products, spills of fuel and lubricants and other hazardous substances, the use of pesticides to destroy vegetation, the placement of industrial and domestic waste in unauthorized locations, mainly by the local population, as well as by discharges of the household sewage from passenger cars.



Land use in 2017

Name of the regional branch (affiliate)	Area of occupied lands, ha		Land area covered by transfer certificates of title, ha	Payment for land, UAH
	Total	including areas covered with forestation		
Donetsk Railways	42,801.4168	8,916.4800	42,202.2988	85,778,587.92
Lviv Railways	35,304.3489	11,176.1368	4,488.4843	232,420,094.6
Odessa Railways	43,333.7183	17,440.1730	43,197.8113	310,362,230.00
Southern Railways	28,608.9545	12,045.5100	28,608.9545	181,276,354.20
South-Western Railways	49,582.5131	20,443.1491	43,335.9635	483,303.67
Prydniprovy Railways	33,918.3547	10,293.9600	33,734.3217	342,390,865.54
Total for regional branches	233,549.3063	80,315.4089	195,567.8341	1,152,711,436
Darnytskyi Car-Repair Plant	58.7478	0	52.7652	9,898,100.37
Stryi Car-Repair Plant	28.09	0.8	28.09	740,443.15
Paniutyn Car-Repair Plant	54.5429	0	54.5429	2,338,951.86
Refrigerated Wagons Company	22.0628	0	22.0628	1,266,100
Vehicles Maintenance Centre	85.6436	0	66.5795	676,074.69
Centre for Industrial Management	1381.6218	11.2	1391.9805	10,778,324.45
Starokostiantyniv Ferroconcrete Sleepers Plant	4.9829	0	4.9829	147,000
Vprylad	3.19	0	3.19	363,295
Liski	172.5929	1.2	170.6231	11,020,987.81
Central Telecommunications Office	10.5099	0	10.5099	243,553.10
Ukrainian Railway High Speed Company	0	0	0	0
Production Centre	8.7731	0	8.2073	826,491.91
Service Support Centre	2.32	0	2.32	3,257,000
Main Informational Computing Centre	1.1704	0	0.8504	372,408.62
Personnel Development Centre	4.4745	0	4.4745	36,100.00
Design and Survey Institute of Railway Transport	3.5525	0	0	370,596.08
Railway Research Institute	0.6494	0	0.6494	117,105.00
Centre of Installation and Construction works and Facilities Management	0	0	0	0
Passenger Company	495.422	0	452.911	18,764,308.40
Energoremtrans	210.1109	0	210.1109	0
Healthcare Centre	35.53942	0	31.42382	9,453,365.80
Unified Payments Centre	0.301	0	0.2783	190,233.40
Energobut	0	0	0	0
Total for branches	2,584.29782	13.2	2,516.55242	70,860,439.64
Ukrzaliznytsia total	236,133.6041	80,328.6089	198,084.3865	1,223,571.876

To reduce the impact on the soils, in 2017 the Company operated the rolling stock with a closed, ecologically clean system of household wastewater collection, without direct discharging into the environment. In particular: Passenger Company operated 596 passenger cars, Lviv Railways – 6 units of rolling stock, Ukrainian Railway High Speed Company: 14 electric trains, and 2 trains with 5 locomotive traction cars equipped with vacuum toilets.

Use and Protection of Water Resources

According to annual reports, there are 741 artesian wells on the balance sheet of the regional branches and affiliates of the Company.

Surface water intakes are equipped with special fish protection devices in accordance with the design documentation.

In total, 24.652 million cubic metres of water was collected in 2017, of which 14.971 million cubic metres from its own sources, down by 1.605 million m³, or 6.5%, against 2016; 4.696 million cubic metres were lost, which is 19% of the total amount of water taken. The value of current industry losses is provided for in the Procedure for the development and approval of technological standards for the use of drinking water by enterprises that provide services for centralised water supply and/or drainage, approved by Order of the Ministry of Regional Development, Construction and Housing and Communal Services of Ukraine № 179, dated 25 June 2014 and registered with the Ministry of Justice of Ukraine on 03 September 2014 under No. 1062/25839.

In 2017, water consumption by the regional branches and affiliates of Ukrzaliznytsia was 10,940,230 cubic metres, up by 22% than in the previous period, including: for production needs – 5,456,065 cubic metres (50% of all water used), drinking and household – 5,484,165 cubic metres (50%).

The increase in the use may be due to the water use data provided by the Centre of Installation and Construction Works and Facilities Management. According to the 2016 annual reports of regional branches, 1.991 million cubic metres were used by construction and facility management units, while the Centre reported 3.633 million cubic metres. The increase for some reason happened despite unchanged surface water intake and reduction of groundwater collection and transportation losses.

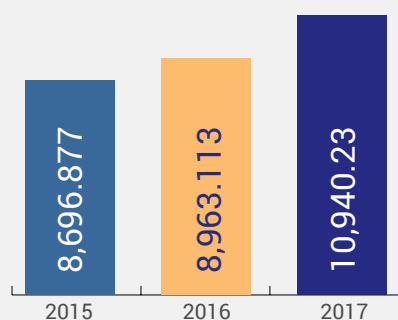
The volume of water consumption by regional branches amounted to 3.384 million cubic metres, down by 4.57 million cubic metres less than in 2016. In total, 1.659 million cubic metres (49% of all water used) were used for the production needs, while 1.725 million cubic metres (51%) were used for drinking and household needs.

Lower use of water by regional branches is mainly down to the establishment of Passenger Company and the Centre of Installation and Construction Works and Facilities Management, as their production units withdrew from the regional branches, but the percentage of water use across railways did not change much.

Water is taken on the basis of permits for special water use.

In 2017, total volumes of water consumption in circulation and return water supply systems of regional branches and affiliates amounted to 3.943 million cubic metres (3.730 million cubic metres in circulation systems and 213 cubic metres in return systems), down by 1.489 million cubic metres (by 28%) year on year.

**Total water consumption,
'000 m³**



According to the annual reports, the Company branches operate:

■ 45 reservoirs (Centre of Installation and Construction Works and Facilities Management – 43 (of which 2 are not operated), Centre for Industrial Management – 2);

■ 741 artesian wells.

The volume of water consumption in 2017 by Ukrzaliznytsia branches was 7,556,332 cubic metres, which is 7.5 times more than in the previous period, including: for production needs – 3,796,948 cubic metres (50% of all water used), drinking and household – 3,759,374 cubic metres (50%). The increase in the volume of water consumption was due to the establishment of the Centre of Installation and Construction Works and Facilities Management and passenger Company branches in 2017 and their reports on the environmental protection activities in 2017.

Total water consumption in circulation and return water supply systems by branches was 1,446,800 cubic metres, of which 1,158,800 cubic metres, or 80.1%, are in the circulation systems of Darnytskyi Car-Repair Plant.

Stationary Emission Sources

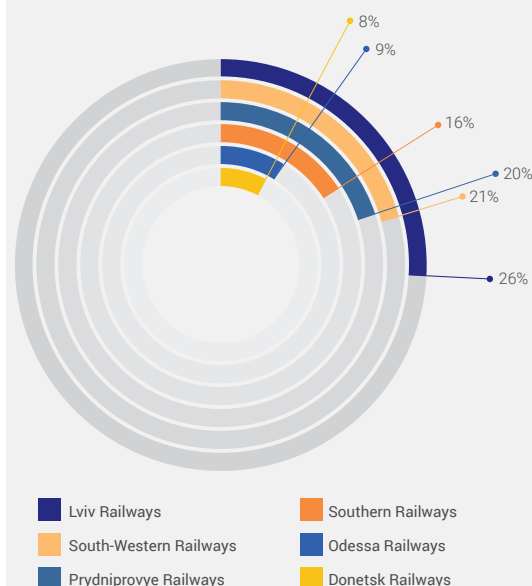
According to the annual reports of the regional branches and affiliates of the Company, 16,173 units of stationary emissions sources are registered in the production units (in 2016 - 15,672 units), of which 10,568 units are organised, (in 2016 - 10,446 units) 943 units are equipped with gas treatment plants (GTP) (in 2016 - 1,016 units). In total, the Company has 953 GTPs, including 39 faulty units; 104 idled units, and 3 inefficiently working GTPs (in Odessa Railways, South-Western Railways and the Centre for Industrial Management). 370 facilities of the production units were registered for air protection purposes (387 facilities in 2016). The number of stationary sources compared with 2016 increased due to the reconstruction of boilers and heating systems by regional branches and affiliates, followed by inventory of the environmental pollution sources and the development of substantiating documents for obtaining permits for the emission of pollutants into the atmosphere by stationary sources.

Emissions of pollutants from stationary sources in 2017 were 3,246 tonnes and reduced by only 1% compared with the last year.

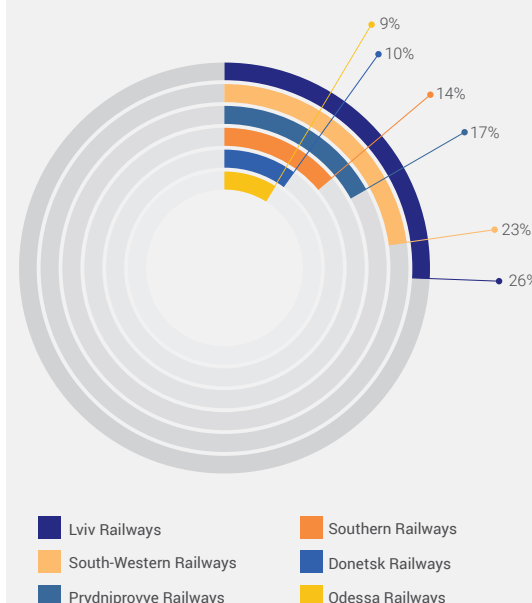
The main substances emitted from stationary sources into the air are: substances in the form of suspended solids – 1,031 tonnes (37.7% of total emissions); carbon monoxide – 879 tonnes (27.1%); non-methane volatile organic compounds – 515 tonnes (15.9%); sulphur dioxide and other sulphur compounds – 406 tonnes (12.5%); nitrogen compounds – 321 tonnes (9.9%). In comparison with 2016, the emissions of carbon monoxide and methane grew by 1.9% and 30%, respectively, emissions of sulphur dioxide and nitrogen compounds decreased by 14.9% and 6.9%, respectively.

In addition, carbon dioxide emissions made 181,349 tonnes (down by 0.1% compared with 2016). CO₂ is the biggest contributor to the climate change.

Water consumption by regional branch, 2017, %



Water consumption by regional branch, 2016, %



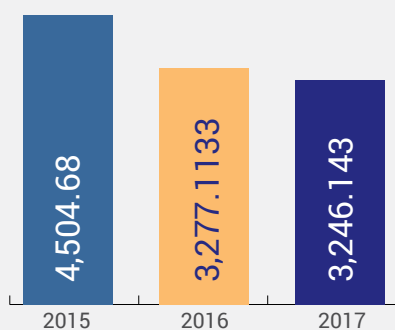
Passenger Company, Odessa Railways, Centre for Industrial Management, Centre of Installation and Construction Works and Facilities Management and Donetsk Railways are the biggest emitters.

Compared with 2016, air emissions decreased by only 1% because of higher emissions by Darnytskyi Car-Repair Plant, Vehicles Maintenance Centre, Centre for Industrial Management, Liski, Ukrainian Railway High Speed Company, and Personnel Development Centre for objective reasons (increase in the production of new cars, production volumes, commissioning solid fuel boilers for providing heat supply to the facilities of Liski's Dnipro-based branch, increasing the use of natural gas by the branches of the Ukrainian Railway High Speed Company, Personnel Development Centre).

The total volume of emissions partially decreased due to the continuation of works on modernisation of boiler houses, heating systems, conversion of boilers to electric heating, conducting of ecological and heat engineering boilers, as well as modernisation, repair of gas and dust treatment plants and other measures.

№ з/п	Name of the pollutant	2016		2017	
		Total emissions tonne/ year	%	Total emissions tonne/year	%
1	Metals and their compounds	40.045	1.2	39.400	1.2
2	Substances in the form of suspended solids	1,000.624	30.5	1,031.313	31.7
3	Nitrogen compounds	345.04	10.5	321.268	9.9
4	Dioxide and other sulphur compounds	476.732	14.6	405.535	12.5
5	Carbon oxide	862.047	26.3	878.613	27.1
6	Non-methane volatile organic compounds	519.152	15.9	515.072	15.9
7	Methane	27.315	0.8	35.610	1.1
8	Others	6.158	0.2	19.332	0.6
Total		3,277.113	100	3,246.143	100

Pollutant emissions from Ukrzaliznytsia stationary sources, tonnes

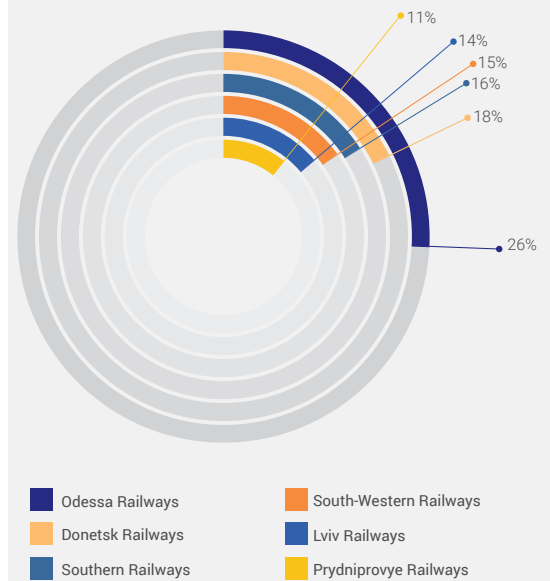


To reduce air emissions from passenger car coal-fired heating, Passenger Company implements the following steps:

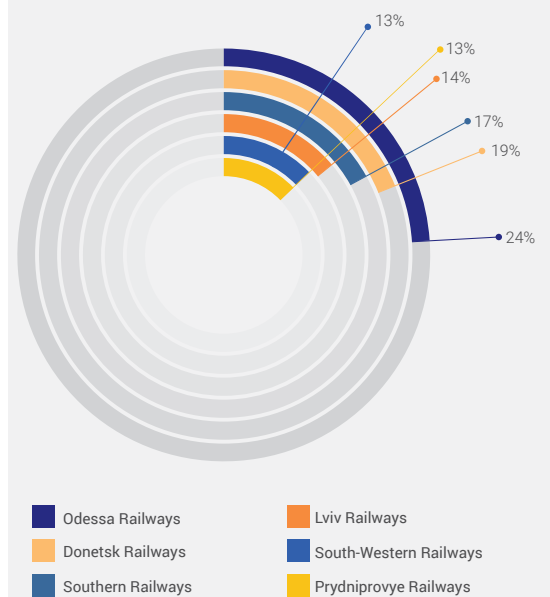
- in 2017, 50 passenger cars were purchased, 50 passenger cars were repaired in the amount of capital repairs, with the transfer to a combined system of electric heating in accordance with the renewal programme for Ukrzaliznytsia rolling stock;
- On 29 December 2017, a system of 3000 V electric heating for passenger cars was put into operation on Kyiv Pasazhyrsky Station, which allowed reducing the number of trains using coal-fired heating by 27 trains (353 cars).



**Air pollutant emissions
by regional branch, 2017 , %**



**Air pollutant emissions
by regional branch, 2016 , %**



Wastewater discharge

According to the annual reports of regional branches and affiliates, the production units of the Company have 69 sources of sewage discharges into water bodies.

The total drainage of return water to the water bodies was 6,417 million cubic metres, up by 131,000 cubic metres, or 2%, year on year due to weather conditions that caused a large inflow of water at production units of Behiv quarry, Klesiv quarry, Tomashgorodsky quarry, etc.

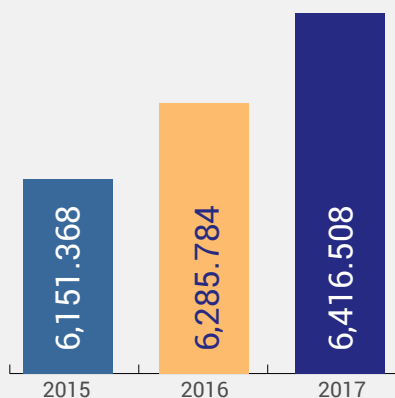
To reduce pollution of sewage water and prevent pollution of water resources, structural units of regional branches performed the following works throughout the year:

- repair, revision and cleaning of sewage networks and wells (Donetsk Railways);
- repair of sewage networks (Odessa Railways);
- preventive repair of RPC-3, DN-3, TCh-1 and TCh-7 oil catchers; ongoing repair of sewage networks in RPCh-3 and RPCh-2 (Lviv Railways);
- washing of filters, sewage network and drainage grates on KMS-213; continuous review of the network and equipment to monitor the sustainable operation of the drainage system (Southern Railways);
- cleaning of primary tanks, maintenance of local treatment facilities, cleaning and maintenance of sewage networks (Southwest Railways).

Logs of waste water quality are kept in accordance with Order No. TsTsTekh-4/266 (ЛЛТех-4/226) On the Organisation of Primary Water Records and Use dated 6 June 2016.

The regional branches and affiliates register waste water with the help of metering devices to record daily pump performance (order No. TsTsTekh-4/266 (ЛЛТех-4/226) dated 6 June 2016).

Ukrzaliznytsia discharge of return water into water bodies, '000 m³



Analysis of Wastes Generated

We are guided by:



In accordance with Article 2 of the Law of Ukraine On Waste, waste laws consists of the laws of Ukraine On Environmental Protection, On Metal Scrap, etc. However, the Law of Ukraine On Metal Scrap establishes that the Law of Ukraine On Waste does not apply to relations arising from operations with scrap metal. Thus, there are inconsistencies in the interpretation of certain provisions of the above-mentioned legislative acts.

The specific feature of the production units of the Company is the versatility of the performed production processes associated with the carriage of goods and passengers, repair of rolling stock and highways, the construction of new railways and facilities, auxiliary business activities. Their diverse work causes a significant range of waste generated during the implementation of this activity.

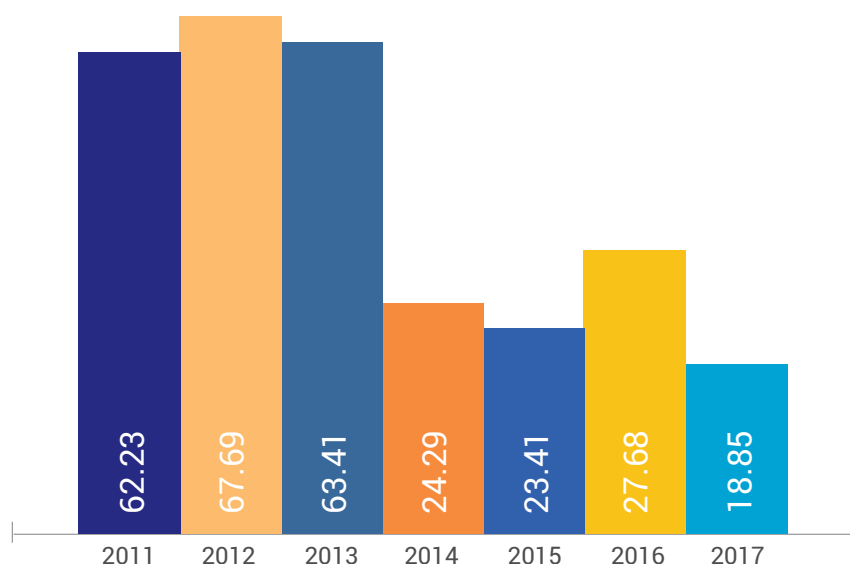
During 2017, the Company generated 109,416 tonnes of waste as compared with 124,024 tonnes in 2016, down by 12%:

■ by regional branches – 62,593 tonnes as compared with 90,005 tonnes in 2016, down by 30% against 2016;

■ by affiliates – 46,823 tonnes as compared with 34,019 tonnes in 2016, up by 37% against 2016.

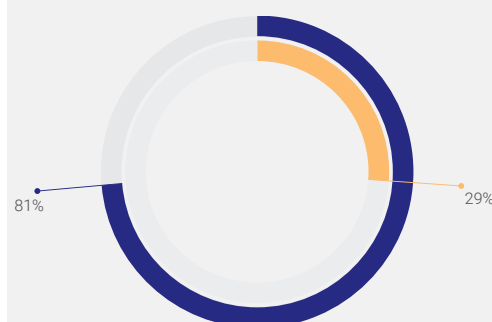
Wastes of hazard classes 1-3 pose significant risks to health and the environment.

Wastes of class 1-3 generated by regional branches, 2011-2017, '000 tonnes



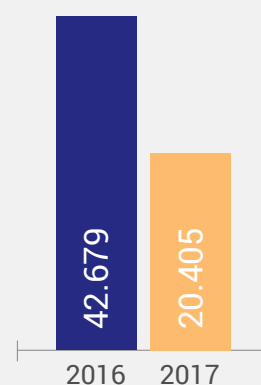
In the course of the Company's reforms, Passenger Company and the Centre of Installation and Construction Works and Facilities Management were established. As a result, some sources of waste generation were transferred from the regional branches to these entities.

Percentage of generated waste by hazard class, 2017

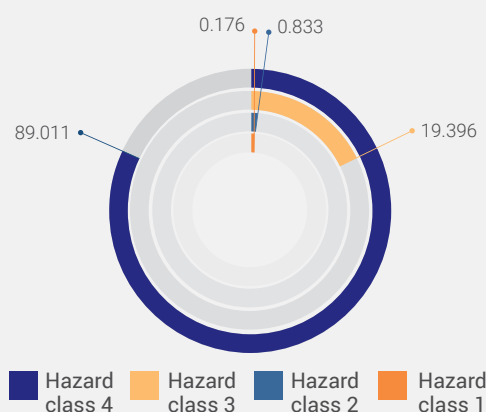


■ Wastes of hazard class 4
■ Wastes of hazard class 1-3

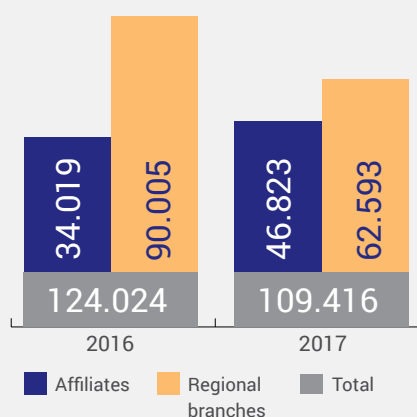
Waste of class 1-3 generated at Ukrzaliznytsya, 2016-2017, '000 tonnes



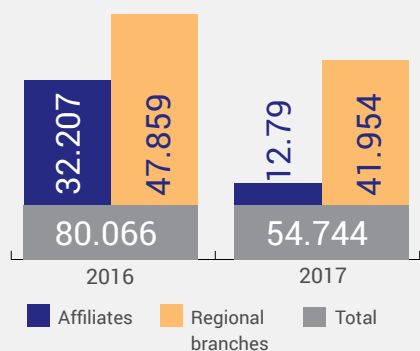
Waste of class 1-4 generated at Ukrzaliznytsia, 2017, '000 tonnes



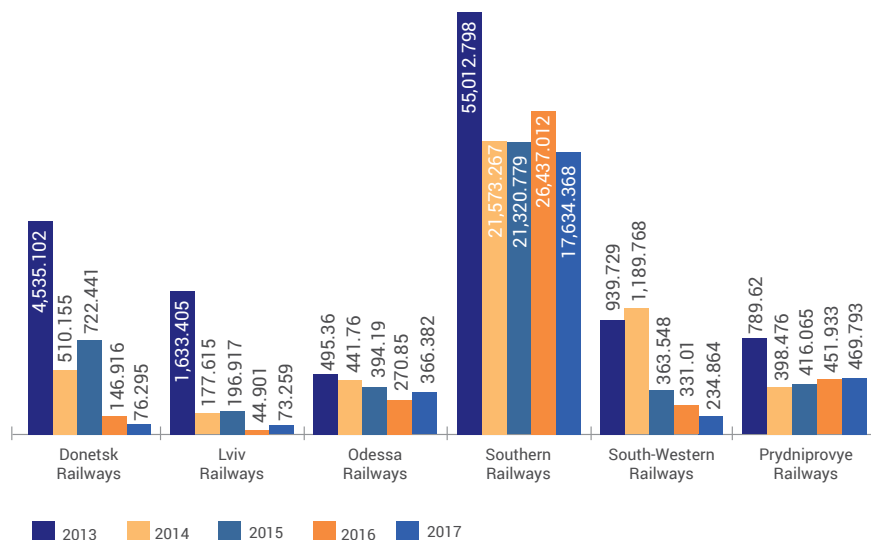
Waste generated at Ukrzaliznytsia, '000 tonnes



Waste accumulated at Ukrzaliznytsia, '000 tonnes



Waste of class 1-3 generated by regional branch, 2013-2017, tonnes



In general, the volume of waste generation decreased, a positive factor for the Company.

The total waste of 109,416 tonnes included:

- hazard class 4 – 89,011 tonnes (81,345 tonnes in 2016), of which solid household waste made 42,945 tonnes (43,876 tonnes in 2016);
- hazard class 3 – 19,396 tonnes (41,806 tonnes in 2016);
- hazard class 2 - 833 tonnes (731 tonnes in 2016);
- hazard class 1 - 176 tonnes (143 tonnes in 2016).

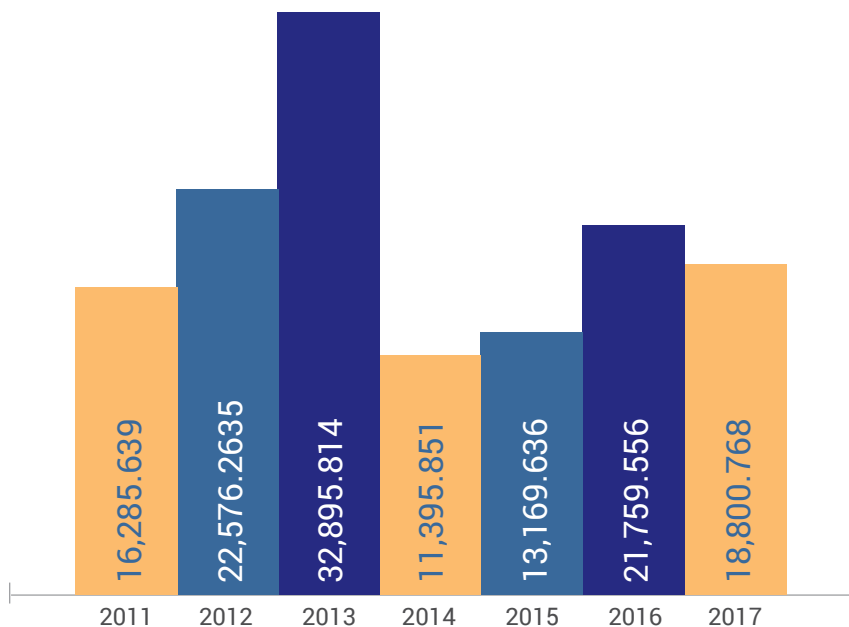
The generation of wastes of hazard classes 1 and 2 increased by 13% and 23% respectively.

Analysis of Accumulated Wastes

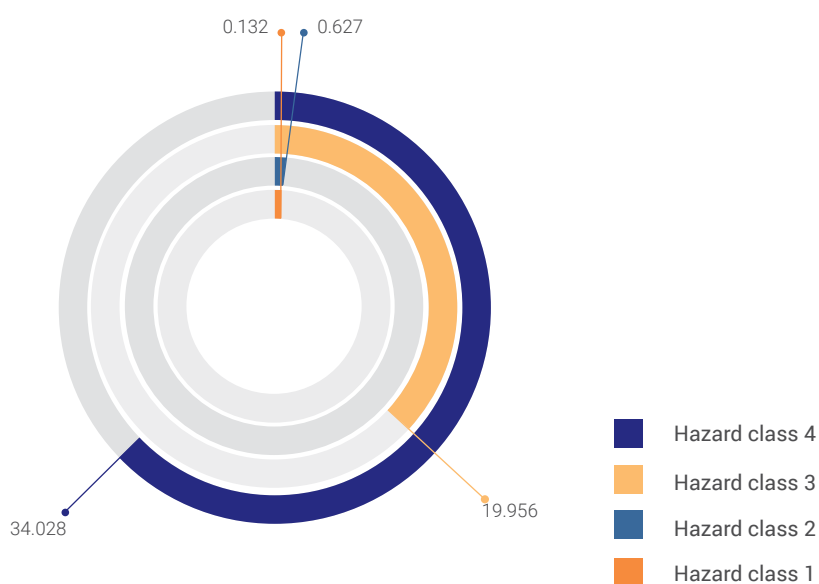
The total weight of accumulated waste by hazard class:

- hazard class 4 – 34,028 tonnes, of which solid household waste made 50 tonnes;
- hazard class 3 – 19,956 tonnes;
- hazard class 2 – 627 tonnes;
- hazard class 1 – 132 tonnes.

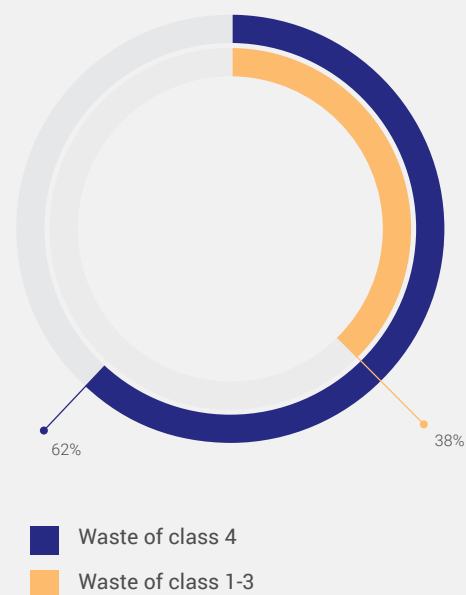
Waste of class 1-3 accumulated by regional branches, 2011-2017, tonnes



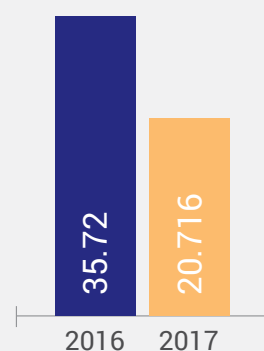
Waste of class 1-4 accumulated at Ukrzaliznytsia, 2017, '000 tonnes



Percentage of accumulated waste by hazard class, 2017



Waste of class 1-3 accumulated at Ukrzaliznytsia, 2016-2017, '000 tonnes



Penalties in the reporting period:

In general, the environmental safety performance in the industry has tended to show the reduction in the negative environmental footprint over the past years. At the same time, the environmental measures implemented annually by the industry help meet objectives to reduce environmental footprint against the 2010 baseline, as established by the Law of Ukraine On the Basic Principles (Strategy) of the State Environmental Policy of Ukraine until 2020. In particular, we planned to reduce the air emissions by 10% by 2015 and cut down discharges of insufficiently treated return water by 20% by 2020. Up to date, reduction of CO2 emissions and a 1.5-time increase in the waste recycling has remained unaddressed.

In the reporting year, 19 officials (169 in 2016) were fined at a total of UAH 2,958 (UAH 40,324 in 2016). Claims were laid to the amount of UAH 3.645 million (UAH 3.903 million in 2016), of which UAH 1.152 million (UAH 182,000 in 2016) was paid, while the remaining sum is pending, because it does not have a corresponding court decision.





Plans for 2018-2021

Air Protection:

- Replacing outdated engines with modern, energy efficient and environmentally friendly engines during overhauls of locomotives;
- Switching boilers to environmentally friendly fuels and construction of new boiler-houses on alternative fuels;
- Ensuring higher efficiency in use of thermal energy for heating industrial premises;
- Equipping gravel cars with local water spraying units with a dust suppression factor of not less than 90-95%;
- Equipping road, transport and earthmoving machines with catalytic filters with a coefficient of harmful substances neutralisation of at least 80%;
- Purchasing modern diesel locomotives with environmentally friendly engines;
- Purchasing modern diagnostic equipment for the ecological control over diesel engine emissions;
- Switching 210 cars with coal-fired boiler-houses to electric heating;
- Introducing state-of-the-art dust extraction systems for the core equipment;
- Using continuous welded railway track, shock-absorbing rail pads, and modern spring mechanisms.

Protection and use of water resources:

- Introducing water-saving technologies, systems of return water supply;
- Building facilities to treat return water discharged without treatment or into the environment;
- Reconstructing and upgrading plumbing facilities;
- Retrofitting pumping stations and building flotation facilities;
- Developing projects, creating and protecting sanitary areas.

Protection and use of land resources:

- Introducing modern toilet facilities in passenger trains and stations;
- Procuring rolling stock (freight wagons), which excludes liquid spills and the discharge of loose materials on railway tracks and soils.

Waste management:

- Upgrading lighting systems by replacing mercury-containing fluorescent lamps with LEDs;
- Purchasing containers for solid domestic wastes storage;
- Developing a waste management strategy.

Flora protection:

- Improving forest belts and rights-of-way.

Other measures:

- Reconstructing railway infrastructure through electrification of stations;
- Improving the environment monitoring system;
- Conducting internal environmental audits at structural subdivisions of regional branches and affiliates of Ukrzaliznytsia to implement the international environmental standard of ISO 14000;
- Using environmentally friendly materials during construction, modernisation and retrofitting of railway transport facilities;
- Purchasing and operating a mobile environmental laboratory;
- Establishing Railway Transport Production Centre for Environmental Protection at Ukrzaliznytsia to develop environmental authorisations and approvals;
- Publishing environmental protection materials in printed media, developing printed products;
- Introducing a course, Environmental Protection Management and Control, Environmental Safety in

the Railway Transport, in an industry-specific institute of advanced studies for managers and engineers.

The Environmental Management Unit's plans 2018 cover the following steps:

- Developing a strategy (concept) of Ukrzaliznytsia environmental policy;
- Holding the Day of the Environment in the units of PJSC Ukrzaliznytsia;
- Developing Guidelines for industrial environmental monitoring (control) procedures at Ukrzaliznytsia structural units to check compliance with the environmental protection laws;
- Registering illegal landfills located in the territory of railways;
- Developing a risk management system in the sphere of environmental protection in the ordinary course of business;
- Implementing planned measures to supervise (control) compliance by regional branches and their structural units with environmental protection and safety laws;
- Setting up an Environmental Protection Department and building the Environmental Safety Management vertical.



Energy Efficiency and Energy Saving

Energy efficiency and energy saving are among the priority dimensions of the Company's operations. As a government monopoly in the railway transportation market, the Company recognises its responsibility before the future generations. PJSC Ukrzaliznytsia strives to implement extensively the latest technologies for lighting, heating and air conditioning of production and administrative buildings. This becomes possible due to the use of the most successful international and national practices in the management of fuel and energy consumption. A steady improvement in energy efficiency indicators contributes to reducing energy consumption, saving resources, and reducing carbon dioxide emissions. The Company understands that the reduction of energy consumption will be beneficial not only for the environment and society, but will also help reduce the cost and price of products, and thus increase the competitiveness and profitability. Energy efficiency and energy saving activities are key to the development of sustainable business in the country and in line with the requirements of ISO 50001:2011 international standard.

Energy Efficiency Principles at Ukrzaliznytsia:

- Providing enterprises, structural subdivisions, branches, PJSC with operational, analytical and forecast data on FER (fuel and energy resources) consumption to make management decisions on energy efficiency and rational use of energy resources;
- Creating an enabling environment to meet the information needs of the employees, enterprises, structural subdivisions, affiliates, Private JSCs on energy saving issues, FER consumption, efficiency of the implemented energy saving measures, equipment, technologies, materials, etc.;
- Monitoring energy efficiency practices at production enterprises, structural subdivisions, branches, and the Company as a whole;
- Ensuring automation, collection and processing of energy indicators in terms of energy efficiency;
- Providing informational and analytical support to units engaged in energy audits, energy saving promotion and awareness raising among employees about the prudent use of energy resources;
- Increasing the share of renewable energy technologies;
- Ensuring an integrated approach to reducing greenhouse gas emissions (CO₂) and reduce the negative impact on the environment;
- Implementing the requirements of ISO 50001 in the energy management system.

Energy management is an ongoing activity aimed to save energy resources and ensure their efficient use. It goes beyond pilot projects and is based on audits and inspections that include monitoring and measurement, internal audits and corrective actions, as well as the development and implementation of new energy-saving measures.

Seeking to efficient FER consumption Ukrzaliznytsia introduces advanced technologies, state-of-the-art equipment and organisational measures and plans to promote further the transportation services and reduce the cost of transportation, as well as to ensure the competitiveness of the Company, particularly amid increasing energy prices.



Key Approaches to Energy Resources Saving and Rational Use:

- Implementing the Company's common policy of the efficient use of fuel and energy resources;
- Analysing factors contributing to electricity losses in DC/AC traction network, implement a system standards calculations for process losses, monitoring and control of compliance with regulatory indicators;
- Analysing the technical condition of electricity metering systems at traction substations and rolling stock;
- Monitoring electricity metering systems for heating and cooling of passenger cars;
- Developing programmes for the effective use of fuel and energy resources and ensure their financing;
- Improving a unified standardisation system of specific FER consumption rates;
- Developing and controlling the implementation of measures based on the results of energy audits;
- Building a FER use monitoring system and introduce a company-wide automated reporting form;

- Increasing the share of renewables on an ongoing basis (depending on the financing);
- Arranging training for in higher education institutions for employees responsible for the use of fuel and energy resources;
- Holding events (seminars, meetings, sessions, briefings) on energy saving issues to maintain a high level of awareness among the Company's specialists.

Key Objectives of Energy Management

- Implementation of the Company's corporate policy in the field of energy efficiency:
 - monitor energy consumption;
 - ensure prudent energy consumption;
 - project the use of fuel, lubricants, heat and electricity;
 - calculate the need for fuel and energy resources (FER);
 - accept and store fuel and lubricants;
 - develop measures for the efficient use of FER and control over their implementation.
- Control, compliance and analysis of FER consumption rates depending on targets and actual scope of works:
 - for traction;
 - for machinery and mechanisms;
 - in thermal power generation;
 - in electric power generation.
- Analysis of the efficiency of the energy management system operating at enterprises, preparation of specifications and proposals of improvements in accordance with ISO 50001:2011.
- Promotion of energy and resource-saving programmes developed and implemented by the head office, regional branches and affiliates.
- Energy audits at production and structural units to provide recommendations to the heads of the departments of the administration, regional branches, affiliates and head office on improving the efficiency of energy resources use on the basis of the audit finding.
- Control over the reliability of FER consumption metering and statistical reporting.
- Provide suggestions to review regulatory and technical framework. Development of relevant regulatory documents.
- Analysis of the production unit efficiency. Estimation of current levels of energy consumption, finding resource-saving opportunities.
- Automation of energy use metering and analysis.

In 2017, Ukrzaliznytsia held about
120 energy audits.

Today, the Energy Management Department works to implement the corporate policy for new energy-saving technologies and materials, ensure control over the implementation of future and current energy-saving programmes, standards and avoid unreasonable overconsumption of energy resources to reduce the financial burden on fuel and energy resources procurements by Ukrzaliznytsia and the influence of harmful emissions on the environment.

■ Consideration and approval of ToRs, objectives and proposals for the use (purchase) of energy-intensive consuming equipment, machines, technologies, in particular during capital construction.

■ Cooperation with the European Bank for Reconstruction and Development on energy efficiency.

■ Organise professional training, retraining and advanced training of managers of the head office, production departments of regional branches and affiliates responsible for rate-setting, analysis and control of the FER use.

■ Monitor the use of diesel fuel for locomotives with BIS-R and Delta-SU electronic systems.

Project and programmes

In November 2017, the Energy Management Department initiated cooperation with the Ukrainian State University of Railway Transport to develop a regulatory document "Procedures for Documentary and Electronic Support to the Acceptance, Transportation, Storage, Disposal and Registration of Oil and Petrochemicals at Structural Units of Ukrzaliznytsia". The document is already approved by the corresponding structures and its implementation is pending.

The search for energy resources saving opportunities is carried out on an ongoing basis through energy audits and analysis of fuel and energy consumption in accordance with statistical and operational reporting. The Energy Management Strategy and Energy Management Information System are being developed with the support of the European Bank for Reconstruction and Development.

The results of the assessment of energy efficiency and energy efficiency approaches are reflected in monthly, quarterly, six-month and annual reports, highlighting the efficiency of all energy consumption directions of all structural and production subdivisions of Ukrzaliznytsia. The results of the work are distributed for all regional branches, affiliates and head office in order to obtain complete information about weaknesses in the work and its further improvement in order to achieve the best results.

Issues of resources saving and implementation of modern energy-efficient equipment, systems, technologies, etc. are included in the annual energy saving programmes. The programmes fully describe the expenses on energy-saving measures and the amount of energy saving. In addition, the Energy Management Department uses Ukraine's laws

on energy efficiency and energy saving, use of alternative energy sources, Ukraine Energy Strategy 2030, as well as orders and regulations of Ukrzaliznytsia while developing and implementing energy saving programmes.

Energy Saving Programme for Railway Transport:

1. Is developed and implemented annually;
2. Provides measures for the storage of diesel fuel, electricity, boiler-burning fuel distributed in the following areas:
 - technical measures: implementation of energy-saving technologies and new energy-saving equipment, introduction of non-traditional and renewable energy sources, etc.;
 - organisational measures: energy-efficient train traffic, rational use of traction vehicles, etc.;
 - other technical measures: modernisation of self-propelled rolling stock, improvement of metering and control over energy consumption, use of renewables, etc.





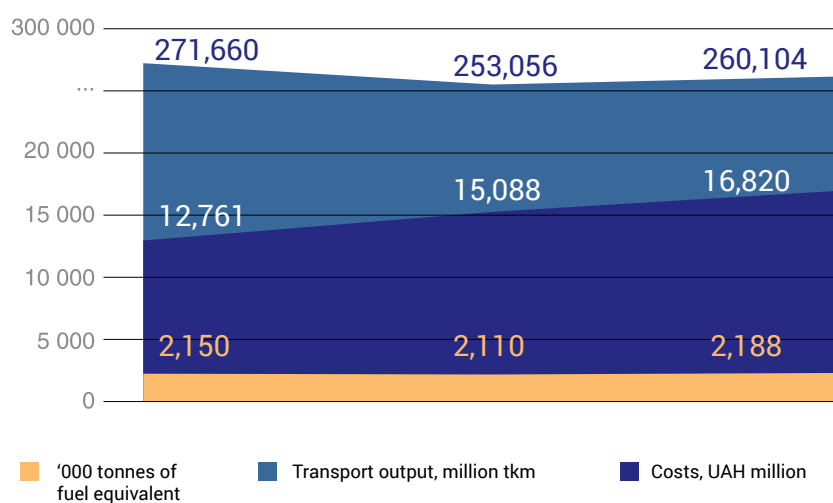
In 2017, the Company met the following objectives under the Energy Saving Programme:

- 13,500 tonnes of fuel equivalent were saved;
- approximately 98 systems of fuel consumption control at traction vehicles were repaired;
- reduced number of energy-intensive out-of-schedule stops, reserve runs of locomotives, train speed limits;
- 8 locomotives were modernised with recovery systems;
- 120 systems of external illumination automatic control were installed;
- approximately 1,400 energy-saving LED lamps were purchased and installed;
- 19 compressor units were upgraded and repaired;
- obsolete heating devices were replaced with modern electric heating equipment;
- additional renovation of buildings, modern window systems were installed, as well as thermal insulation of heating mains was carried out to prevent heat losses.



Compared with 2016, the actual total costs for the implementation of the Energy Saving Programme increased by 30% in 2017. The funding was increased for the upgrade and replacement of energy-intensive equipment with more cost-effective, modern lighting installation, providing enterprises with metering equipment with a high degree of accuracy, etc.

Ukrzaliznytsia output, energy consumption and costs, 2015-2017



The chart shows a steady upward trend of energy prices and positive changes in the Company's energy intensity activities against 2016. The activities increased by 2.8% (from 253.1 to 260.1 billion tkm), while energy consumption dropped by 2.1% (from 2,110,000 to 2,188,000 tonnes of fuel equivalent).



About **120 energy audits** resulted in recommendations of more efficient use of energy resources and energy consumption reduction opportunities.

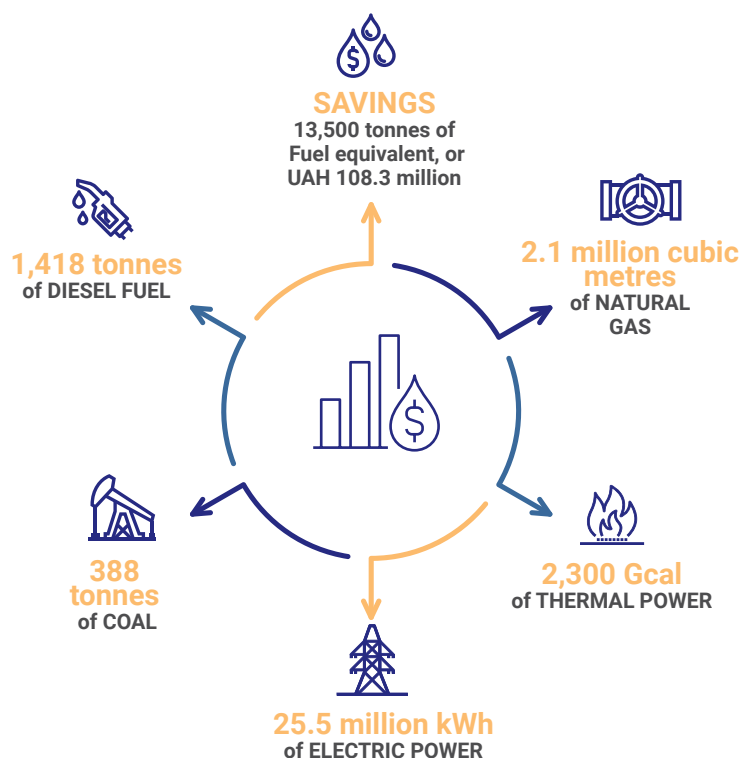
Measures were developed to reduce the level of specific losses and process losses, in particular by streamlining electricity metering procedures.

The Company's representatives participated in meetings of the R&D Council on energy saving issues, a workshop on metering and statistical reporting, and Energy Efficiency, Renewable Energy 2017 international exhibition.

Company's representatives participated in the review of energy efficiency projects and implementation of automation systems.

The Company continued cooperation with the European Bank for Reconstruction and Development on energy efficiency issues, etc.

Energy saved through the energy saving programme in 2017



Use of renewables at Ukrzaliznytsia

The energy of the sun and land is a key alternative source of energy currently used by the Company.

In summer 2017, 19 production units used water heaters operated by solar panels, allowing to decommission boilers for a long time from May through September.

A heliosystem is an excellent example of the use of solar water heaters. The system was commissioned by Ukrainian Railway High Speed Company in 2017 and consisted of 50 solar arrays.

Odessa Railways use solar heating systems at Odessa-Sortuvalna (TD Artsis) and Odessa-Zastava-1.

In total, 13 heat pumps are used in heating, hot water supply and technological processes, which convert the low potential energy accumulated in natural reservoirs, soil, air, technological emissions and discharges into the thermal power suitable for practical use.

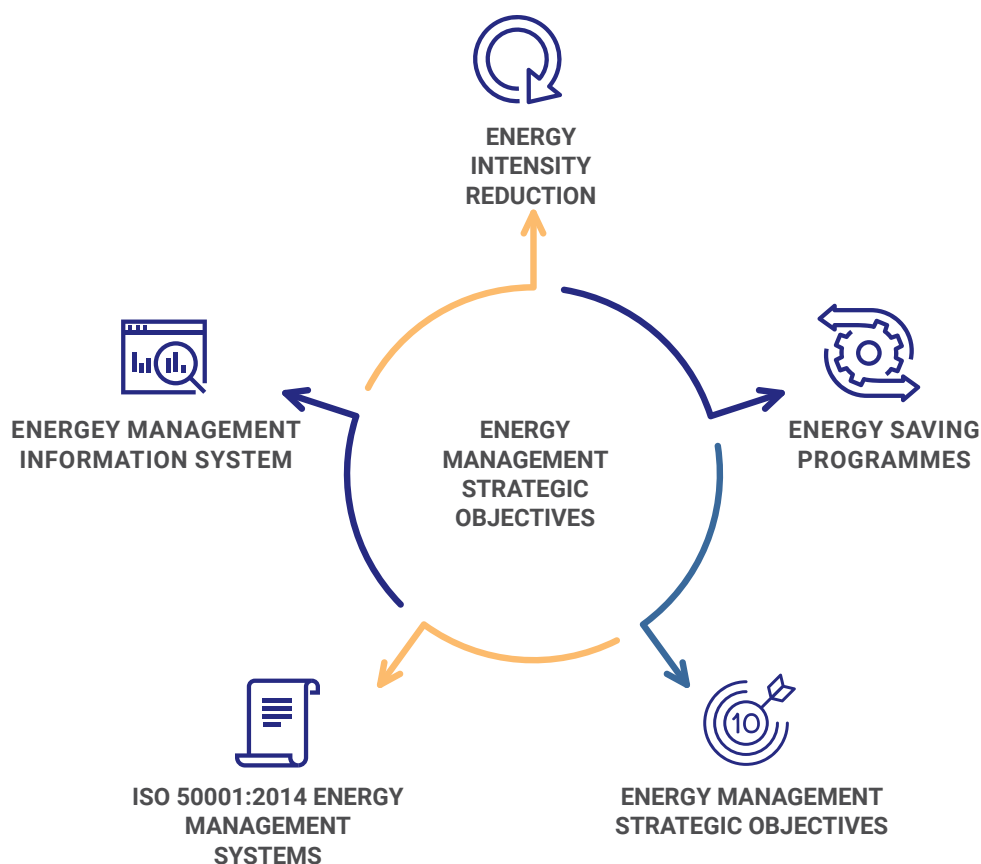
For example, the Centre of Installation and Construction Works and Facilities Management operates heat pumps at production departments of Kharkiv and Lviv. In Poltava motor-car depot, two heat pumps have been used since December 2013. They provide heating and hot water supply to the building of the maintenance facility and operation shop, replacing a gas boiler room at the depot.



Plans for 2018 and a Medium Term:

1. Conducting in-depth analyses of the consumption of FER and lubricants by regional branches, affiliate, and head office of Ukrzaliznytsia, meeting qualitative targets for the use of traction vehicles, etc.
2. Calculating and coordinating specific FER consumption rates standards depending on the planned and actual works related to traction, machinery and mechanisms, in stationary thermal power and electric power generation.
3. Organising efforts of regional branches, affiliates and the head office to develop and implement energy and resource-saving programmes. Overseeing the implementation of the measures.
4. Conducting energy audits to check the efficiency of energy consumption by production and structural units, as well as providing follow-up recommendations to the senior managers of the head office, regional branches and affiliates.
5. Implementing a vertically integrated energy management system at Ukrzaliznytsia.
6. Cooperating with the European Bank for Reconstruction and Development in line with ToRs for the development of an energy management strategy (as approved by letter Ts-2/4-24/985-18 (Л-2/4-24/985-18) dated 28 March 2018); developing and implementing an energy management information system.

Besides, since 2015, Ukrzaliznytsia's R&D Council has held quarterly meetings of the Control Headquarters and Energy Saving Section to review practices of FER consumption.



Section 4

SUSTAINABLE DEVELOPMENT AND STAKEHOLDER ENGAGEMENT



500+
**WRITTEN
MEDIA
INQUIRIES
PROCESSED**

100,000+
**MENTIONS IN MEDIA
ABOUT UKRZALIZNYTSIA
OPERATIONS**

30+
**EVENTS
ORGANISED FOR
MEDIA AND OTHER
STAKEHOLDERS**

**STRATEGIC
APPROACH TO
THE COMPANY'S
SUSTAINABLE
DEVELOPMENT
HAS BEEN
DEVELOPED**

**UKRZALIZNYTSIA'S
FIRST INTEGRATED
REPORT HAS BEEN
PUBLISHED**



**UN SDGS HAVE
BEEN INTEGRATED
INTO THE
COMPANY'S
STRATEGY**

**UKRZALIZNYTSIA
STAKEHOLDER
MAP HAS BEEN
DEVELOPED**

Our Approach to the Sustainable Development

Sustainable development is a harmonious development of society and surrounding environment. Ukrzaliznytsia's sustainability principles are an integral part of our corporate values.

"Ensuring sustainable development of mankind is the most significant issue faced by the world community," the UN General Assembly statement, 1987.

Sustainable development is one of the global missions of the humanity. The Company's contribution to the sustainable development of both business and society is of strategic importance. Ukrzaliznytsia is a socially responsible company and recognises its role and impact on the employees, service users and the environment. For us, sustainable development means the development, which meets the needs of the present without compromising the ability of future generations to meet their own needs. Integrating environmental and social aspects into the process of adopting and implementing management decisions can expand the boundaries of planning, take into account a wider range of risks and opportunities that create the enabling environment for the sustainable business development.

Sustainable development is inextricably linked with CSR projects seeking to:

- improve the quality of life of employees and members of their families;
- contribute to sustainable development of regions and growth of people's welfare in the areas of the Company's operations;
- maintain the environmental sustainability and energy efficiency;
- improve the corporate image, ensure the growth of intangible assets, and build trust.

Ukraine has developed a national system of sustainable development goals. It includes 86 national development objectives and 172 indicators for their monitoring. The national SDGs 2030 are in four areas: fair social development; sustainable economic growth and employment; effective governance; ecological balance and sustainable development.

At the national level, Ukrzaliznytsia has committed to promoting sustainable economic growth and employment, in particular:

- contribute to the GDP growth through the creation and development of high-tech competitive industries;
- increase domestic demand by increasing employee income and intensifying investment processes;
- support exports with high gross value added;
- implement infrastructure projects (building high-speed tracks and rail vehicles).



These efforts by Ukrzaliznytsia will be based on main principles:

- focusing on the use of in-house resources,
- cutting external borrowings and using raised capital exclusively for development purposes,
- giving full support to entrepreneurship,
- rooting out corruption at all levels,
- contributing to the economy unshadowing.

Sustainable transport means any way or form of movement that minimises the burden for the environment and human health.

"Sustainable transport drives inclusive growth and access to local, regional and global markets, and powers growth of trade and tourism. The transport sector also makes a significant contribution to national GDP, employment and local and national revenues." Statement of Global Sustainable Transport Conference 2016.

Intermodal transport is a strong foundation of the effective international trade, economic growth and sustainable development.

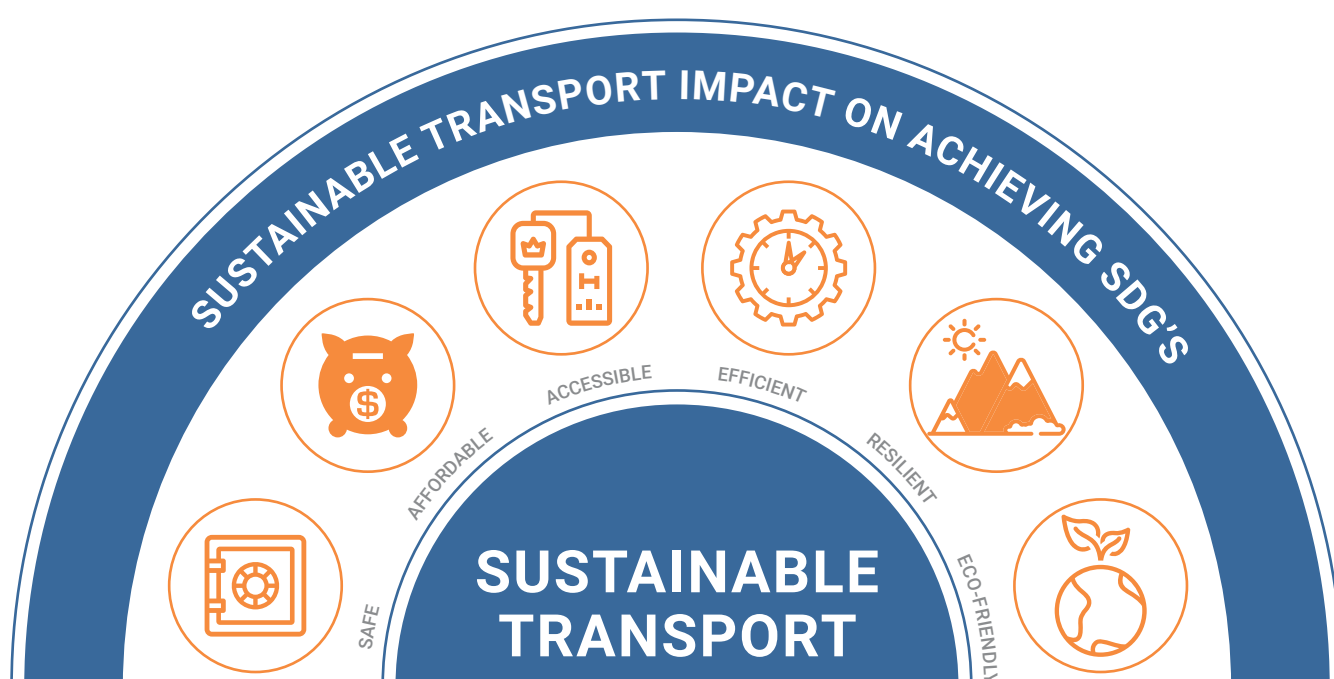
We recognise that sustainable economic growth is contingent only on full and productive employment, decent work for women and men, as well as protection of labour rights: safe and secure working conditions for all working people. Ensuring gender equality is important for Ukrzaliznytsia. Gender equality in governing bodies remains a priority. We have made a definite progress towards sustainable development of the environment, primarily in terms of energy efficiency.

Economic growth will be based on the green economy model involving energy saving and energy efficiency practices. This will result in a significant reduction of the energy intensity in the gross domestic product. Supporting the production of clean energy, we contribute to reducing greenhouse gas emissions. Thus, we create the conditions for improving the quality of life and life expectancy.

Transport for sustainable development

It is widely recognised that sustainable transport plays a critical role in economic and social development and is gaining recognition as an enabler of sustainable development. Transport facilitates the movement of people and goods, creating market opportunities for both consumers and producers. It enables the expansion of supply chains across the globe.

The high capacity offered by rail systems can serve the high transport demand generated within and between cities. The World Bank (2013) concluded that compact, mixed-use, pedestrian-friendly development organised around a mass transit station is one of the most effective strategic initiatives to address the negative effects of motorisation and industrialisation in general. The role of sustainable transport is extremely important. There are also enormous





opportunities presented by sustainable transport: saving hundreds of thousands of lives every year through improved road safety and reduced air pollution, reducing carbon emissions, etc. Railways play a great role in the sustainable transport, as they are more energy efficient than other modes of transport and have a great potential for further increase of energy efficiency. Sustainable transport is accessible, operates efficiently, encourages economic competitiveness, uses renewable resources and minimises the use of non-renewables, cares about the noise reduction. Rail transport can play a very important role in the implementation of a wide range of the United Nations Sustainable Development Goals and achievement of their targets and greatly contributes to adaptation to climate change. The electrification of railway transport has a double benefit for reducing carbon intensity: it increases energy efficiency and provides access to low emission factors associated with electric power. With the development of renewable electricity sources, the electric emission factor has the potential to be reduced to zero. In the context of sustainable transport, intermodal transport plays an important role.

The integrated intermodal transport and logistics system is a transport system that optimises the transportation of goods

and passengers; minimises consumption of energy, land and other resources; generates low emissions of greenhouse gases, ozone-depleting substances and other pollutants; and minimises the adverse social impacts arising from transport operations. The system uses an intermodal/multimodal network of well-balanced, well-designed, well-built, well-maintained and interconnected highways, railways, inland waterways, seaports, river ports, airports or dry ports (inland terminals that are not far from a port and have road or rail connections).

The environmental dimension of this issue encourages countries to develop actively the intermodal transportation. After all, it helps reduce the traffic at motorways and minimise the negative impact of cars on the environment. For Ukrzaliznytsia, it is also an opportunity to raise additional container transportation. Such transportations become an integral part of the goods shipping and warehouse system, which ensures the uninterrupted delivery of various products to retail chains or industrial customers. At the same time, it achieves a high effect by improving the safety of cargoes, significantly accelerating their delivery, and increasing the competitiveness and environmental friendliness of transport products.



Sustainable development and CSR at Ukrzaliznytsia

In September 2015, world leaders from 193 countries committed to 17 goals and 169 associated targets for a better world by 2030. These goals have the power to end poverty, fight inequality and stop climate change.



END POVERTY IN ALL ITS FORMS EVERYWHERE

The Company is one of the biggest Ukrainian employers with over 270,000 employees and one of the major taxpayers. In 2017, Ukrzaliznytsia paid UAH 17.6 billion to the national budget, which was UAH 0.5 billion more than planned.

The pay system at Ukrzaliznytsia offers a decent and competitive remuneration for the results of work and a wide range of social benefits for its employees. In addition, the Company invests in the social and economic development of the regions where it operates.

For more, please see the Social Policy and Financial Performance sections of the Report.



ENSURE INCLUSIVE AND EQUITABLE QUALITY EDUCATION AND PROMOTE LIFELONG LEARNING OPPORTUNITIES FOR ALL

The Company pays considerable attention to the training, retraining, and career development of specialists. The rail industry operates a system of educational institutions, including ten professional development centres that offer training, retraining and upskilling courses for 59 occupations. Throughout 2017, almost 2,200 employees attended training in regional branches and affiliates (209% of the annual plan for 2017) and almost 5,500 employees were retrained (126% of the plan).

For more, please see the Training, Retraining and Recruitment subsection in the Social Policy section.



END HUNGER, ACHIEVE FOOD SECURITY AND IMPROVED NUTRITION AND PROMOTE SUSTAINABLE AGRICULTURE

PJSC Ukrzaliznytsia is one of the largest carriers of agricultural products from the country's most remote areas, which encourages rapid development of rural territories and agribusinesses.

For more, please see the Commercial Household subsection in the Key Operating Results section and the Analysis of Financial Results subsection in the Financial Performance section.



ACHIEVE GENDER EQUALITY AND EMPOWER ALL WOMEN AND GIRLS

The Company's employees of different gender and age groups have equal opportunities. In the reporting period, we employed 171,417 men and 108,242 women. We respect fundamental human rights.

For more, please see the HR Policy subsection in the Social Policy section and Human Rights subsection in the Corporate Governance section.



ENSURE HEALTHY LIVES AND PROMOTE WELL-BEING FOR ALL

Caring for the health and wellbeing of its employees is a priority of Ukrzaliznytsia's social policy. The Company has a dedicated unit, Healthcare Centre, responsible for higher efficiency and availability of medical care. The Company operates 112 social infrastructure facilities providing services that are a part of the social benefits offered to its employees. In 2017, the Company's social benefits amounted to over UAH 9 billion.

For more, please see the Social Policy section, Appendix 2. 'List of Social Infrastructure Facilities' and Human Rights subsection in the Corporate Governance section.



ENSURE ACCESS TO WATER AND SANITATION FOR ALL

Ukrzaliznytsia takes great effort to protect the environment, minimise the negative environmental footprint, preserve and restore natural resources, and takes measures to protect air, water and land resources. In 2017, the Company spent UAH 434.906 million on the environmental protection.

For more, please see the Environmental Protection section.



7 AFFORDABLE AND CLEAN ENERGY

ENSURE ACCESS TO AFFORDABLE, RELIABLE, SUSTAINABLE AND MODERN ENERGY FOR ALL

Energy efficiency and energy saving are among our priorities. In particular, we saved 13,500 tonnes of fuel equivalent (115.1% of the target) due to the Programme for the Rail Transport of Ukraine in 2017, namely: 25.5 million kWh of electricity, 1,418 tonnes of diesel fuel, 2.1 million cu m of natural gas, 388 tonnes of coal, and 2,300 Gcal of thermal energy.

For more, please see the Energy Efficiency and Energy Saving section.

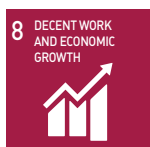


10 REDUCED INEQUALITIES

REDUCE INEQUALITY WITHIN AND AMONG COUNTRIES

The Company pursues a policy that provides equal access and development opportunities for all. We pay equal pay for work of equal value and use a uniform salary bill to determine salaries throughout the country.

For more, please see the Social Policy section.



8 DECENT WORK AND ECONOMIC GROWTH

PROMOTE INCLUSIVE AND SUSTAINABLE ECONOMIC GROWTH, EMPLOYMENT AND DECENT WORK FOR ALL

In 2017, the Company climbed two position up in the average monthly salary ranking among other sectors of the economy and ranks 13th in the country.

Ukrzaliznytsia's regional branches and affiliates concluded collective bargaining agreements to ensure broader staff engagement based on social partnership and protect social and labour interests.

For more, please see the Social Policy and Key Performance Indicators sections.



11 SUSTAINABLE CITIES AND COMMUNITIES

MAKE CITIES INCLUSIVE, SAFE, RESILIENT AND SUSTAINABLE

Ukrzaliznytsia is aware of its crucial role for the entire country, as well as for cities and towns where the Company is a major employer and taxpayer. We play an important role in the social development of the regions of our presence and make a significant economic impact by creating many skilled jobs, supporting the employment, increasing the level of remuneration on the ongoing basis and paying taxes to the national and local budgets.

For more, please see the Environmental Protection, Social Policy and Key Performance Indicators sections.



9 INDUSTRIAL INNOVATION AND INFRASTRUCTURE

BUILD RESILIENT INFRASTRUCTURE, PROMOTE SUSTAINABLE INDUSTRIALISATION AND FOSTER INNOVATION

In support of economic development and people's welfare, the Company builds a quality, reliable and sustainable infrastructure, develops and implements innovative services. In particular, one of our biggest infrastructure projects is Beskyd Tunnel located on the border of the Lviv Oblast and Zakarpattia Oblast and completed in 2018. This new transport corridor is used to transport goods to the western border of the country and more than 60% of transit goods in the direction of Western and Central Europe. In 2018, we are set to start construction of tracks from Kyiv to Boryspil airport.

Initiated by Ukrzaliznytsia's Board, the Leader of Innovations competition was launched to create conditions for the effective development and use of the R&D potential of the Company.

For more, please see the Transport Market Overview, Our Business and Social Policy sections.



12 RESPONSIBLE CONSUMPTION AND PRODUCTION

ENSURE SUSTAINABLE CONSUMPTION AND PRODUCTION PATTERNS

The Company has developed technological requirements for promising traction vehicles and introduced new equipment and systems: stands for testing radio stations and traffic safety devices, water treatment plants for diesel locomotive cooling systems, etc. We plan to purchase modern diesel locomotives with more environmentally friendly engines and take other measures.

For more, please see the Energy Efficiency and Energy Saving, Environmental Protection and Capital Investments sections.



TAKE URGENT ACTION TO COMBAT CLIMATE CHANGE AND ITS IMPACTS

Railways are one of the most environmentally friendly modes of transport and thus contributes to the fight against climate change. On average, transport is responsible for 20-30% of CO2 emissions across the globe, with railways accounting for the least emissions. The Company continues improving the rail infrastructure for broader electrification.

For more, please see the Environmental Protection, Social Policy, Transport Market Overview and Sustainable Development of the Company sections.



SUSTAINABLY MANAGE FORESTS, COMBAT DESERTIFICATION, HALT AND REVERSE LAND DEGRADATION, HALT BIODIVERSITY LOSS

At Ukrzaliznytsia, the minimisation of the rail transport's footprint on the air, water resources and land, as well as the reduction of industrial and domestic waste are priority objectives of the environmental management system. In particular, in 2017 the Company used the rolling stock with a closed-circuit and environmentally friendly system of domestic waste water collection that operated without direct discharge of waste water into the environment. This measure was aimed at reducing the impact on soils. In addition, we allocated UAH 2.619 million in 2017 for forest protection measures.

For more, please see the Land Use and Protection subsection in the Environmental Protection section.



CONSERVE AND SUSTAINABLY USE THE OCEANS, SEAS AND MARINE RESOURCES

Irrelevant.





16 PEACE, JUSTICE AND STRONG INSTITUTIONS



PROMOTE JUST, PEACEFUL AND INCLUSIVE SOCIETIES

Openness is one of the Company's core values. We pursue a policy of zero tolerance to any form of discrimination and violence. The Company is continuing its corporate governance reform aimed at achieving high standards of openness, transparency and accountability. In 2018, we are set to adopt the Code of Business Ethics at Ukrzaliznytsia, which will determine the principles of ethics and rules of conduct of employees.

For more, please see the Corporate Governance section.

17 PARTNERSHIPS FOR THE GOALS



REVITALISE THE GLOBAL PARTNERSHIP FOR SUSTAINABLE DEVELOPMENT

PJSC Ukrzaliznytsia actively cooperates with professional international organisations for achievement and promotion of sustainable development. We are considering the cooperation with the UN Global Compact and other sustainability champions.



Ukrzaliznytsia's strategic approach to sustainable development and CSR

The Company started operations in June 2014 and is currently extensively working out and updating its own approach to activities and operations. In 2017, the Company continued developing the Sustainable Development and CSR Strategy (hereinafter referred to as the Strategy). It is expected to be finalised and approved in 2018.

The Strategy seeks to identify and streamline Ukrzaliznytsia's CSR and sustainable development activities. Developing and deploying its sustainable development strategy, the Company acts on global trends and practices in this area.

Ukrzaliznytsia sustainable development: strategic initiatives



EMPLOYEES

Being one of the country's largest employers, the company applies responsible HR management approaches, implements projects and programmes that are designed to enhance motivation, attract staff, support the key values, creates decent working conditions for employees, and takes care of their health and safety. The Company is taking efforts to create a corporate culture that is based on universal values. It attracts and retains talented and skilled specialists, and seeks to increase staff loyalty and motivation. For more information, please see the Social Policy section.



H&S

Among Ukrzaliznytsia's top priorities are traffic safety and H&S. The Company understands its responsibility for safe operation of the industry, safe working conditions for workers and health maintenance and is guided by the world's best health and safety industry practices. Every year Ukrzaliznytsia undertakes a series of measures to ensure proper H&S level and prevent accidents. For more information, please see the Traffic Safety and Occupational Health & Safety section.



ENVIRONMENTAL PROTECTION

Being a national passenger and cargo rail company, the Company is aware of its environmental footprint and pays special attention to environmental safety. The Company is constantly working to improve energy and resource efficiency, and reduce emissions and waste. Ukrzaliznytsia regularly analyses the impact of its operations on the environment and adheres to international standards of environmental management systems. For more information, please see the Environmental Protection section.



ENERGY EFFICIENCY

The Company puts a great emphasis on energy efficiency, a driver of the competitiveness and energy independence of the country. Reducing energy consumption is a priority task on Ukrzaliznytsia's agenda. The Company has witnessed positive changes in the energy intensity of rail transport, but the lack of reforms in the previous years has led to ineffective use of energy resources in the industry. The system of energy management can change this trend and help reduce the annual energy costs as a result. For more information, please see the Energy Efficiency and Energy Saving section.

Ukrzaliznytsia sustainable development objectives:



Build an effective CSR and sustainable development management system, develop measures to prevent non-financial risks.



Implement projects and programmes that are designed to form a socially responsible model of HR management and development, enhance motivation and support the Company's key values.



Implement transparency, accountability and open engagement with key stakeholders on the basis of international standards.



Engage in wide cooperation with international initiatives in the areas of sustainable development and CSR, in particular, with UN Global Compact, CSR Europe, Global Reporting Initiative (GRI), World Business Council on Sustainable Development (WBCSD), etc.



Issue integrated annual (including non-financial) reporting in accordance with international standards.



Implement a set of projects and programmes aimed at ensuring sustainable development of Ukraine.

The world's leading companies set up dedicated units responsible for sustainable development and assessment of social and environmental impacts of their operations. To this end, a relevant unit responsible for CSR and sustainable development was set up at Ukrzaliznytsia, the Department of Corporate Social Responsibility.

In 2018, the Company has published its first Integrated

Report for 2017. This Report will cover both financial and non-financial information about the Company's strategy, achievements, and management in the economic, environmental and social areas. Our Report highlights our desire to be as transparent and predictable as possible in our activities. In addition, it will help Ukrzaliznytsia stand out from its competitors and demonstrate business integrity and willingness to build partnerships.



Stakeholder Engagement

Principles of stakeholder mapping and prioritisation

Ukrzaliznytsia's stakeholder engagement is based on the following principles:

- **Materiality** – the Company understands clearly who its stakeholders are, as well as which interests of the stakeholders are material for the Company.
- **Openness** – the Company provides the exhaustive and reliable information about its operations and uses different forms and ways of information provision and feedback receipt.
- **Completeness** – the Company understands information needs and concerns of the stakeholders and provides full information for understanding material issues and development prospects.
- **Response** – the Company responds timely (by providing information or changing its operations accordingly) to material issues, which both the stakeholders and the Company are faced with.

Consideration of reasonable interests of key stakeholders is one of the most significant approaches for Ukrzaliznytsia, which helps the Company understand the operating environment, current challenges and perspectives better, to take them into account during its operations and to achieve strategic goals. We respect the right of stakeholders to obtain information about the Company's operations and guarantee an open, active and constructive dialogue.

We are governed by:



GRI non-financial reporting standards, group of international standards AA1000SES AccountAbility (social reporting standards developed by the Institute of Social and Ethical AccountAbility), the International Integrated Reporting Framework.

The stakeholders are organisations, companies, and groups of persons whose interests are related to the Company, i.e. those affected by Ukrzaliznytsia or can affect its operations. They include the shareholder, personnel, government authorities, customers, suppliers and contractors, international organisations, nations NGOs, mass media, etc.

Stakeholder engagement is a part of the ordinary course of business (according to the functional duties of departments). In the reporting period, setting up out of a separate subdivision responsible for this area was underway. In future, we plan to develop a stakeholder engagement, in particular, to establish procedures and a structure.

In the course of the stakeholder engagement, Ukrzaliznytsia seeks to use the most effective communication channels aimed at provision of information for the stakeholders, as well as receipt of feedback from them. Cooperation is carried out with the help of information channels, including the official Internet portals and Company's accounts in social media, as well as in-house publications.

Communication channels

Organisation	Website	Social media page
Ukrzaliznytsia	http://www.uz.gov.ua	www.facebook.com/JSCUkrzaliznytsia
Trade Union of Railway Workers and Transport Constructors of Ukraine	http://zalp.org.ua	https://www.facebook.com/zalporg
Lviv Railways	http://railway.lviv.ua	https://www.facebook.com/lviv.railway
Odessa Railways	http://www.odz.gov.ua	https://www.facebook.com/Odessarailway
Southern Railways	www.pz.gov.ua	
Prydniprovye Railways	https://dp.uz.gov.ua	https://www.facebook.com/dp.uz.gov.ua
South-Western Railways	http://www.swrailway.gov.ua	
Donetsk Railways		https://www.facebook.com/Донецька-Залізниця-регіональна-філія-ПАТ-Укрзалізниця-191404724736464
Centre of Transport Service "Liski"	www.liski.ua www.liski.dp.ua www.liski.od.ua	
Centre for Transport Logistics	http://www.uz-cargo.com	
Ukrainian Railway High Speed Company	http://intercity.uz.gov.ua	www.facebook.com/dpuzshk
Vinnysiatransprylad	www.vtranspibor.com.ua	
Starokostiantyniv Ferroconcrete Sleepers Plant	www.starzbs.at.ua	www.facebook.com/rwk.com.ua
Personnel Development Centre	www.tehscool.org.ua	
Refrigerated Wagons Company	www.rwk.com.ua	
Stryi Car-Repair Plant	http://swrz.com.ua	
Design and Survey Institute of Railway Transport	http://ndkti.uz.gov.ua http://ztu.ndkti.uz.gov.ua	
Darnytskyi Car-Repair Plant	http://www.dvrz.com.ua	
Production Centre	www.czv.com.ua	
Main Informational Computing Centre	http://givc.uz.gov.ua http://csk.uz.gov.ua http://booking.uz.gov.ua	
Central Telecommunications Office	www.cssuz.net.ua	
Railway Research Institute	http://www.ukrzp.com.ua	
Magistral Media Centre	https://info.uz.ua	
Ukrainian Railway international technical and economic journal	http://ukrrailways.com	https://www.facebook.com/uaukrailways
Ukrzaliznytsia's sustainability portal	http://sustainability.uz.gov.ua	https://www.facebook.com/sustainability.uz

In 2017, Ukrzaliznytsia's Department of Information Policy and Public Relations:

- processed more than **500** written requests from mass media;
- organised more than **30** mass media events (press conferences, briefings, media tours).



Key challenges

Challenges that adversely affect the Company's operations:

- A drop in the total demand for transport services, especially for high-margin transit transportation.
- High depreciation of fixed assets.
- No domestic manufacturers of traction vehicles.
- Significant debt burden.
- No possibility to raise sufficient private investment because of legislative restrictions, high political, financial and economic risks.
- Heavy social commitments without the government support.
- Inefficient rate setting amid high inflation and depreciation of the national currency.
- Low customer purchasing power.
- No modern governance standards at the Company and outdated corporate structure.
- Imperfect procurement system.
- Shortage of highly skilled staff because of low salary and low-quality education and vocational training.
- Underfinancing and insufficient measures to increase energy efficiency and reduce the environmental footprint of transport.

In 2017, there were more than **100,000** mentions of the Company's operations in mass media, including 1,431 on TV, 1,312 on radio, 1,886 in print media and 99,215 on the web.



Key threats

Main threats for the Company's development:

- Persistent adverse trends in Ukrainian economy.
- Political instability and change in development priorities, in particular the adoption of regulatory acts that would contradict the Strategy's objectives and proposed ways to meet them.
- Impossibility to enter new markets and attract additional volumes of transportation, in particular transit cargoes.
- Further inflation and depreciation of the national currency without appropriate compensation by rail rates.
- Underfinancing, in particular underinvestment, and lack of sufficient government support for the renovation of fixed assets and implementation of priority investment projects.
- Stronger competitive advantages of road, river and air transport.
- Internal and external resistance to the policy and structural reforms of the Company.

Ongoing cooperation with the stakeholders helps the Company to determine effectively the key points both in economic and social spheres, as well as the themes related to environmental protection. Revealed issues were taken into account in Ukrzaliznytsia Development Strategy 2017-2021 and disclosed in this Report.

For higher transparency, accountability and compliance with requirements of international standards, the Company plans to continue considering expectations of the stakeholders in its strategic planning, projects and public accounting.



Stakeholder Map

High					Users of cargo transportation services	Passengers	Shareholders
	Government authorities		Competitors	Investors	Management and Personnel		
Impact on Ukrzaliznytsia		Financial and credit institutions		Transportation partners			
	Mass media	Broad public			Contractors and suppliers		
	NGOs	Families of employees					
	International organisations						
Low	Impact by Ukrzaliznytsia						High

In an effort to identify our key stakeholders, we have taken into account the affiliation (parties related to the Company through legal, financial, operating regulation and contracts), direct and indirect impact (those who can influence the opportunity of the Company to achieve its specific goals – both internal and external), dependence (those on whom the Company depends in its daily operations, as well as local communities in the regions of Ukrzaliznytsia operations; those who depend on our services the most, or the suppliers for whom the Company is a significant customer), representativeness (those who legally represent the interests of basic groups of the stakeholders with whom the Company cooperates: representatives of trade unions, leaders of local communities, etc.)

In 2017, the Company developed Ukrzaliznytsia Stakeholder Map for the first time: the instrument, enabling to make the identification of stakeholders and to take the assessment of materiality. The Company plans to extend and systematize the cooperation process during the following years.

Stakeholder Engagement

Key stakeholders	Main expectations / interests of stakeholders	Cooperation mechanisms
 SHAREHOLDER	<ul style="list-style-type: none"> ■ Implementation of the Strategy ■ Economic efficiency ■ High level of financial development in the competitive market ■ Increase of shareholder value ■ Openness and transparency of business processes ■ Corporate development and reforming of the branch 	<ul style="list-style-type: none"> ■ Information disclosure on external website (publication of press releases, presentations) ■ Provision of regular reporting (annual financial statements and other materials based on the results of the accounting period) ■ Holding of general meeting
 GOVERNMENT AUTHORITIES	<ul style="list-style-type: none"> ■ Statutory compliance ■ Contribution to the social and economic development of the country ■ Contribution to the transition of country to innovation development ■ Compliance with high standards of business ethics ■ Sustainable development of the Company over a long term ■ Increase of business value and as budget revenue ■ Increase of railway transportation accessibility ■ Minimisation of environmental effect ■ Increase of employment and social responsibility 	<ul style="list-style-type: none"> ■ Holding of meetings with the chiefs of regions and towns of presence regions ■ Active participation in work of advisory boards and task expert (working) groups
 MANAGEMENT AND PERSONNEL	<ul style="list-style-type: none"> ■ Competitive remuneration rate ■ Safe and comfortable working environment ■ Equitable remuneration and social programs for employees ■ Observance of human rights ■ Opportunities for professional development and career progress ■ Establishment of system of decent labour remuneration depending on the results of executed work ■ Understanding the Company's goals and role in their achievement, as well as availability of a precise list of functional duties ■ Increase of social welfare 	<ul style="list-style-type: none"> ■ Organisation of regular occupational safety training and advanced training ■ Entering into collective agreements for guarantee of social support of employees and their family members, pensioners (former employees) ■ Consideration of requests submitted to hotline
 TRANSPORTATION PARTNERS	<ul style="list-style-type: none"> ■ Transparent rules of cooperation ■ Increase of speed and timeliness of cargo delivery ■ Decrease of railway cargo delivery value 	<ul style="list-style-type: none"> ■ Agreements
 USERS OF CARGO TRANSPORTATION SERVICES	<ul style="list-style-type: none"> ■ Increase of speed and timeliness of cargo delivery ■ Increase of railway transportation accessibility ■ Transparent rules of cooperation ■ Improvement of service performance ■ Decrease of railway cargo delivery value 	<ul style="list-style-type: none"> ■ Agreements
 COMPETITORS	<ul style="list-style-type: none"> ■ Openness and transparency ■ Honesty of business operations 	<ul style="list-style-type: none"> ■ Agreements ■ Working meetings ■ Partnership
 PASSENGERS	<ul style="list-style-type: none"> ■ Competitive cost ■ Decrease of journey time and guarantee of compliance with traffic schedule ■ Higher comfort and cleanness ■ Higher integration of transport system 	<ul style="list-style-type: none"> ■ Research of consumers' expectations

Stakeholder Engagement

Key stakeholders	Main expectations / interests of stakeholders	Cooperation mechanisms
 INVESTORS	<ul style="list-style-type: none"> ■ Management of financial and non-financial risks ■ Good position on competitive market ■ Effective corporate management ■ Compliance with high standards of business ethics ■ Openness and transparency ■ Clear structure of the Company and transparent rules of cooperation ■ Investment security ■ High yield of investments ■ Reliability and timeliness of performance of Ukrzaliznytsia obligations 	<ul style="list-style-type: none"> ■ Information disclosure on external website (publication of press releases, presentations) ■ Memos, agreements
 FINANCIAL AND CREDIT INSTITUTES	<ul style="list-style-type: none"> ■ Crediting available cash to deposit accounts, special accounts service 	<ul style="list-style-type: none"> ■ Agreements. Qualification and professional behaviour of employees
 CONTRACTORS AND SUPPLIERS	<ul style="list-style-type: none"> ■ Transparent and competitive procurement of goods and services ■ Sustainable development of business ■ Commercial interests 	<ul style="list-style-type: none"> ■ Working meetings ■ Agreements
 BROAD PUBLIC	<ul style="list-style-type: none"> ■ Company's operations with due regard to the interests of local communities ■ Company's contribution to address problems of local communities. Implementation of social programs ■ Transparent operations 	<ul style="list-style-type: none"> ■ Dialogues with representatives of local population with a purpose to inform about the ■ Company's operations in presence regions ■ Carrying out of public consultations with representatives of local population ■ Information disclosure of Company's operations on external website (publication of press releases, presentations)
 NGOS	<ul style="list-style-type: none"> ■ Social reporting ■ Achievement of objectives and goals of non-governmental organisations 	<ul style="list-style-type: none"> ■ Company's Charter, contractual obligations under concluded agreements ■ Meetings, seminars, conferences, etc.
 MASS MEDIA	<ul style="list-style-type: none"> ■ Transparent business processes ■ Guarantee of immediate access to information about Company's operations 	<ul style="list-style-type: none"> ■ Publications and provision of information about operations ■ Immediate updates on the website, in social media platforms ■ Work with enquires and requests from mass media ■ Public reporting
 FAMILIES OF EMPLOYEES	<ul style="list-style-type: none"> ■ Equitable remuneration for employees ■ Guarantee of social protection of employees and their family members, pensioners (former employees) 	<ul style="list-style-type: none"> ■ Publications in mass media, social media platforms and provision of information about Company's operations ■ Collective bargaining agreements to guarantee the social protection of employees and their family members, pensioners (former employees)
 INTERNATIONAL ORGANISATIONS	<ul style="list-style-type: none"> ■ Open and transparent information about the Company's operations 	<ul style="list-style-type: none"> ■ Publications in mass media, social media, rankings, impact on international public opinion



Cooperation with government agencies

In an effort to create a fair and level playing field for business and comply with laws, Ukrzaliznytsia extensively cooperates with the central and local government agencies. The Company regularly informs the authorities about its development plans.

Key goals of cooperation:

- Protecting interests of the railroad industry and the Company when new draft laws are prepared;
- Supporting the strategic initiatives of the Company at the national level in the regions where the Company operates;
- Meeting social commitments;
- Ensuring the transparency of the Company's operations;
- Building the reputation and trust;
- Ensuring the stable growth of the industry and the entire country.

The Company recognises its social function in the sphere of passenger transportation and expects the corresponding response from the local authorities. We

call local authorities for partnership and responsibility in addressing issues of suburban train traffic and for a full compensation of the expenses for transporting the benefit-entitled passengers.

Guaranteeing the utilisation of funds from local budgets merely for the rolling stock renovation and modernisation, Ukrzaliznytsia has opened a special account to accumulate funds from the compensation for benefit-entitled passenger transportation. Besides, the Company actively takes part in addressing other socially pressing issues in cooperation with government authorities. For example, on 28 September 2017 a dedicated roundtable meeting took place at Kyiv City department of the National Police to discuss a fashionable but dangerous hobby of the students. To prevent the children's rail traumatism, the Company representatives together with National Police decided to hold in December a month-long outreach activities in response to train hitching and extreme selfies. The pupils of the kindergartens, students of schools and higher educational institutions located in district neighbouring the railway tracks in Kyiv Oblast were told about the rail safety.

Cooperation with Non-Governmental Organisations

Cooperation with the expert community

Ukrzaliznytsia enhances its openness and cooperation with investment community, making its best to correspond the best world practice of disclosing information. The Company expands the list of services domestically and internationally.

Cooperation with business and non-governmental organisations and participation in initiatives to support and ensure sustainable development are among actions we take in this sphere. Ukrzaliznytsia extensively builds a dialogue to be informed and to organise joint efforts to address important issues.

The Company is committed to a constructive and socially responsible business dialogue. In 2017, Ukrzaliznytsia signed a Memorandum of Understanding and Cooperation in relation to regulation of cargo transportation rates. A significant progress was made jointly with the representatives of:

- Federation of Employers of Ukraine
- European Business Association
- Ukrainian Union of Industrialists and Entrepreneurs
- Union of Chemists of Ukraine
- Ukrainian Association of Manufacturers of Ferroalloys and Other Electrometallurgical Products
- Union of Metalware Enterprises of Ukraine.

Cooperation with international NGOs

The Company supports the initiatives aimed at improving the communications of Ukrainians with the nationals of other countries and supporting the cultural dialogue. In the reporting period, the GoCamp2017 project, which became the biggest Ukrainian project of foreign language studies with the help of volunteers all over the world, was successfully implemented with the cooperation of Global Office NGO and Ukrzaliznytsia. The Company provided the carriage of more than 350 foreign volunteers to different localities in Ukraine, where they worked in 600 school language camps. The volunteers from 53 countries taught English in an interesting and entertaining format to 60,000 children. In addition, the volunteers taught skills of leadership, critical thinking and overcoming the cultural barriers. During the project, language camps were organised for children of railway workers. International volunteers visited five health improvement camps GoGlobal Ukrzaliznytsia 2017, where about 30 Global Office representatives organised activities for children of railway employees.

**Cooperation principles:
partnership in addressing
common issues, information
openness and transparency of
operations.**

Preserving and using the historical heritage

Preserving the historical heritage is a special area where Ukrzaliznytsia carries out substantial work. This way the Company supports the career guidance of young people (by demonstrating the options of professional and personal fulfilment), strengthens the internal corporate communications and uses the representation function. The events using the historical heritage help enhance the cultural level of the population in the regions where the Company operates and encourage tourism development in the country.

Together with local authorities, non-governmental organisations and travel agencies, Ukrzaliznytsia plans to promote journeys by retro trains and narrow-gauge tracks and make them profitable.

In late May 2016, Ukrzaliznytsia set up a unit for retro railway equipment. In August 2017, the decision was taken to expand operations of the unit by creating a division of historical heritage of Ukrainian railways instead.

Goals and Objectives

- Building an effective structure and management system of all the processes to maintain and operate historical heritage rail facilities.
- Using the historical heritage facilities to develop and motivate the personnel.
- Generating revenues for the Company and improving the reputation of the Company with the historical heritage facilities.
- Keeping the rail heritage (rolling stock, locomotives, retro cars, special equipment), architecture and infrastructure as historical facilities and reminders of architecture, science and technics.



Areas of focus

After the dedicated division was set up, the Company took a holistic approach to the history and heritage of the railway transport for the first time in Ukraine:

- Twenty-five potential new routes of the retro train were developed in negotiations with several local administrations and travel agencies. A preliminary agreement were reached to finance repair works and operational expenses of historical rolling stock for the expense of local authorities.
- An interactive map of railway history facilities was created at the web site of Ukrzaliznytsia. The map contains the list of historical equipment on bases, working and conserved, railway museums, children's and light railways and ancient railway architecture.
- A YouTube channel about railway history was launched.
- The analysis of performance of children's railways is underway to position them not only as educational centres, but also as social facilities where commercial operations can be performed, such as filming, trains on a by-order basis, launching railbikes, motor trolleys, etc.
- A gamut of services to be offered in retro trains is being developed.
- Tours and film demonstration in retro cars are being prepared.
- Souvenirs for retro trains, museums, children's and light railways are being developed.
- It is planned to provide historical heritage facilities (locomotives, retro cars, old stations, etc.) for making movies on a commercial basis.

From 28 September to 1 October 2017, Ukrzaliznytsia organised a locomotive tour requested by the railway history fans from Germany, Switzerland, UK, France, Italy, Denmark and Japan. A cargo train consisting of a locomotive, additional locomotive and eight cargo cars cruised on the Yasynia – Deliatyn and Zalizhchyky – Kolomyia routes. Tourists could take pictures of the magnificent landscapes of the western Ukraine. For the trip, a ER 797-86 locomotive was prepared. These trips were organised to carry participants of the Unique Routes of Lviv Railways campaign as part of an international conference, Preserving Historical Railway Heritage is a gateway to Europe". The projects generated UAH 440,204.00 in revenues for Ukrzaliznytsia, with the net profit making UAH 84,654.62

Children's railways play a special role in developing and motivating the personnel. Students aged from 10 to 17 study and work as locomotive drivers and helpers, heads and station duty officers, car inspectors, attendants, shift foremen, train foremen, etc. at the light railways. The alumni of these sub-departments usually enter the industry-specific universities and colleges. After graduation they seek employment at Ukrzaliznytsia enterprises. Currently, the children's railways operate in Kyiv, Kharkiv, Zaporizhia, Dnipro, Lviv, Uzhgorod, Lutsk, Rivne and in the temporarily occupied territory in Donetsk.

From 4 October 2017 to 6 October 2017, a three-day tour was organised on light railway line Antonivka – Zarichne (Rivne Oblast), For the trip, a locomotive was brought from Haivoronske depot, and two cars were painted historically green. For the first two days, foreign and Ukrainian tourists were travelling on the Antonivka – Zarichne – Antonivka route as they wished. On the third day, everybody wishing to do the same could do it. The project generated **UAH 117,951.44** in revenues for Ukrzaliznytsia, with the net profit making **UAH 19,293.07**.

Section 5

FINANCIAL PERFORMANCE



UAH
264.4 BN

UKRZALIZNYTSIA
ASSETS

UAH
67.4 BN

TRANSPORTATION
REVENUES

UAH
114.5 M

COMPANY'S FIRST
PROFIT OVER THE PAST
FOUR YEARS

27.13%

EBITDA MARGIN

UAH
17.6 BN

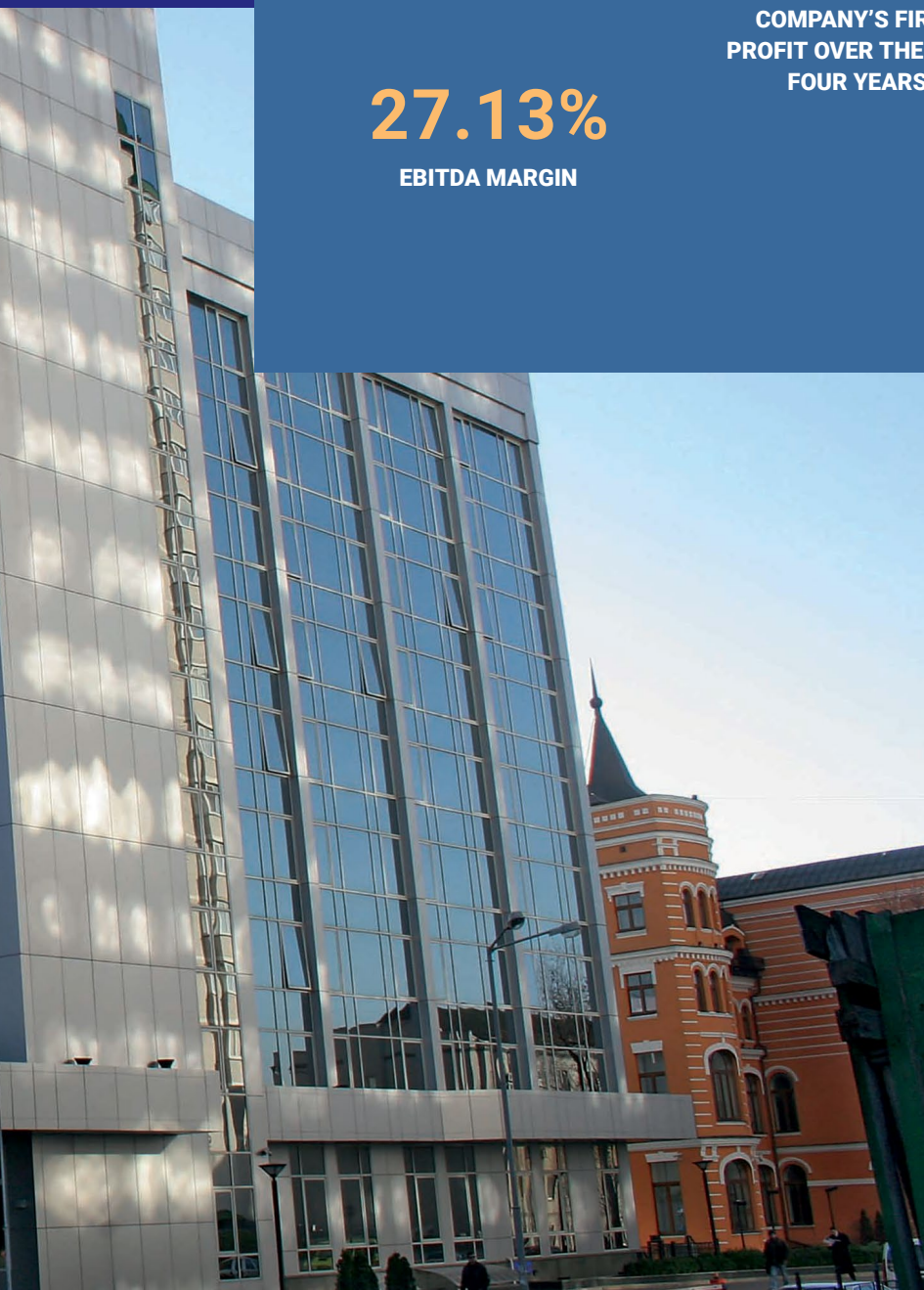
PAID IN TAXES

UAH
10.9 BN

CAPITAL INVESTMENT

UAH
4.8 BN

FINANCIAL LIABILITIES
DISCHARGED



Statement of Financial Position

Consolidated statement of financial position

As of 31 December 2017
(‘000 UAH)

	Notes	2016	2017
Assets			
Non-current assets			
Fixed assets	9	248,022,035	235,741,862
Investment in associate	10	760,591	632,366
Financial assets	11	178,882	93,247
Taxes receivable, other than corporate income tax	15	888,602	849,024
Prepaid corporate income tax		702,715	590,618
Deferred tax asset	20	555,722	376,484
Assets of non-government controlled area (NGCA)	2	-	10,795,149
		251,108,547	249,078,750
Current assets			
Inventories	12	6,125,854	8,417,920
Trade and other receivables	13	2,043,899	879,122
Prepayments	14	321,766	203,999
Prepaid corporate income tax		274,579	215,752
Taxes receivable, other than corporate income tax	15	557,625	460,132
Cash and cash equivalents		6,419,746	5,188,988
		15,743,469	15,365,913
Total assets		266,852,016	264,444,663

Consolidated statement of financial position (continuation)

	Notes	2016	2017
Equity and liabilities			
Equity			
Statutory capital	16	229,879,115	229,879,115
Additional capital		19,597,430	18,899,383
Uncovered loss		- 38,668,315	- 38,006,503
		210,808,230	210,771,995
Uncontrolled interest		4,889	4,983
		210,813,119	210,776,978
Long-term liabilities			
Interest-bearing loans and borrowings	17	23,832,509	22,620,904
Finance lease liability	18	459,852	116,087
Established payment liability	19	2,532,957	2,232,420
Deferred tax liability	20	24,948	24,772
Liabilities of NGCA	2	-	4,972,904
		26,850,266	29,967,087
Short-term liabilities			
Interest-bearing loans and borrowings	17	16,679,238	10,890,635
Finance lease liability	18	1,186,599	605,292
Trade and other payables	21	6,912,116	7,791,010
Advances received from customers		2,709,998	2,467,817
Corporate income tax payable		84	630
Other tax liabilities, other than corporate income tax	22	480,171	656,425
Maintenance	23	1,220,425	1,288,789
		29,188,631	23,700,598
Total liabilities		56,038,897	53,667,685
Equity and liabilities		266,852,016	264,444,663

Financial Analysis

Ukrzaliznytsia's prudent financial policy has helped us increase the inventories of the Company and reduce its current liabilities that had led to a positive impact on the financial condition of the Company.

In addition, there is a decrease in the share of short-term liabilities of Ukrzaliznytsia in favour of long-term liability total structure, which provides the Company with increased financial stability in a medium term.

Besides, there was a steady increase in the share of current assets, positively influencing the liquidity ratio.

ASSETS

Ukrzaliznytsia amounted to UAH 264,444.7 million as of 31 December 2017, falling by UAH 2,407.3 million (-1%) compared with the assets as of 31 December 2016.

FIXED ASSETS

have decreased by UAH 12,280.1 million during 2017 and made UAH 235,741.9 million as of 31 December 2017 (UAH 248,022.0 million as of 31 December 2016).

THE ASSETS OF NON-GOVERNMENT CONTROLLED AREAS (NGCA)

are presented in a separate line and amounted to UAH 10,795.1 million as of 31 December 2017.

INVENTORIES

In 2017, inventories rose by UAH 2,292.0 million to reach UAH 8,417.9 million as of 31 December 2017. The increase in inventories was driven by the necessity to create the inventories of fuel, spare parts, and raw materials for the smooth functioning of Ukrzaliznytsia, provision of repairs, and construction of new wagons.

CASH AND CASH EQUIVALENTS

were UAH 5,189.0 million as of 31 December 2017, decreasing by UAH 1,230.8 million in 2017. The decrease occurred because of the repayment of a part of the financial liabilities and the purchase of inventories for the needs of Ukrzaliznytsia.

EQUITY AND LIABILITIES

of Ukrzaliznytsia amounted to UAH 264,444.7 million as of 31 December 2017, and compared with the assets as of 31 December 2016, fell by UAH 2,407.3 million (-1%).



Statutory capital

During 2017 and 2016, the Company's statutory capital amounted to UAH 229,879,115,000 and was divided into 229,879,115 ordinary registered shares, each having the nominal value of UAH 1,000.

The contribution of the equity rights of PrJSC Kyiv Electrotechnical Plant "TRANSSYGNAL" with the book value of UAH 103,481,000 (Note 13) to the Company's statutory capital was registered in July 2017. Thus, the statutory capital has become fully paid up. According to the applicable laws of Ukraine, the Company's share issue was registered on 7 September 2017.

The additional capital was UAH 18,899.4 million as of 31 December 2017 (UAH 19,597.4 million as of 31 December 2016) and decreased by UAH 698 million during the reporting period.

Because of the objective impossibility to carry out all necessary regulatory measures on reorganisation (inventory of assets and liabilities, their valuation and official transfer and acceptance by the Company), net assets related to the territory of the temporarily occupied Autonomous Republic of Crimea and NGCA of Donetsk and Luhansk oblasts could not be contributed to the statutory capital. Instead, the transfer of such net assets to the Company was carried out in correspondence with

additional capital. Financial information on temporarily occupied Autonomous Republic of Crimea and NGCA of Donetsk and Luhansk oblasts is given in Note 2.

Besides, the additional capital was formed at the expense of the public housing stock and civil defence facilities, which, because of legal restrictions, cannot be transferred to the statutory capital of the Company. However, these facilities are included in the assets of the Company. Also, the additional capital was formed with financial leasing facilities, fixed assets acquisition and modernisation that took place from the date of valuation on 31 July 2014 until the end of the Reorganisation on 30 November 2015.

In early 2016, Ukrzaliznytsia re-registered 65.62% of the equity rights in PJSC Insurance Company Tast-Garantia within the framework of the Reorganisation process. The main activities of PJSC Insurance Company Tast-Garantia are insurance services, other than life insurance. The value of assets of the subsidiary amounted to UAH 14,854,000 as of 31 December 2016. The Group's total loss for 2016 included UAH 147,000 of the subsidiary's profit.

In 2017, the Group conducted a reclassification of UAH 745,690,000 into the additional capital to ensure compliance with the regulatory documents of the Reorganisation.

Additional information is given in the Notes to the financial statements.

Profit and Loss Statement

Consolidated statement of comprehensive income

For the year ended 31 December 2017
('000 UAH)

	Notes	2016	2017
Sales income			
Cargo transportation income		54,460,057	60,112,590
Passenger and luggage transportation income		6,720,345	7,318,542
Other incomes and additional services		5,389,762	6,507,019
Total sales income		66,570,164	73,938,151
Operating expenses			
Personnel expenses		- 25,665,850	- 31,973,995
Depreciation		- 17,910,127	- 14,662,305
Electricity		- 7,813,910	- 7,865,933
Fuel		- 5,877,363	- 7,307,862
Repair and maintenance		- 5,316,235	- 5,809,691
Taxes, except for corporate income tax	24	- 1,093,293	- 1,803,000
Welfare expenditure		- 283,186	- 470,130
Provision change	23	- 318,615	- 100,243
Other incomes	25	559,075	2,451,001
Other expenses		- 1,008,650	- 1,061,392
Total operating expenses		- 64,728,154	- 68,603,550

Consolidated statement of comprehensive income (continuation)

	Notes	2016	2017
Operating profit		1,842,010	5,334,601
Financial income	26	364,872	554,799
Financial expenses	26	- 4,803,518	- 3,810,903
Net loss from a difference in exchange	27	- 4,505,516	- 1,139,624
Share of loss of associates	10	- 13,597	- 166,780
Profit/(loss) before tax		- 7,115,749	772,093
Corporate income tax expenses	20	- 206,292	- 657,544
Profit/(loss) for the year		- 7,322,041	114,549
Profit/(loss) for the year, which refers to:			
The owner of the parent company		- 7,322,101	114,424
Uncontrolled interests		60	125
		- 7,322,041	114,549
Other comprehensive (loss)/income			
Other comprehensive (loss)/income which cannot be reclassified to profit and loss in the following periods after corporate income tax			
Expenses from the recount of established payment liabilities	19	- 224,801	- 136,378
Share of other comprehensive (loss)/income of associates	10	116,827	- 55,411
Other comprehensive loss for the year after corporate income tax		- 107,974	- 191,789
Total comprehensive (loss)/income for the year, which refers to:			
The owner of the parent company		- 7,430,075	- 77,365
Uncontrolled interests		60	125
Total comprehensive loss for the year, after corporate income tax		- 7,430,015	- 77,240

Analysis of Financial Results

Our stable and well-coordinated operations enabled the improvement of performance and financial condition of Ukrzaliznytsia. Compared with 2016, there was an increase in the cargo and passenger transportation and improvement of financial results in 2017.

The volume of cargo transportation (cargo turnover) increased by 2.3% and reached the level of 191,914.1 million tkm in 2017. The growth occurred mainly because of the increase in transportation of mineral building materials, grain cargoes, and an increase in the average transport distance by 19.1 km.

However, negative factors affected the volume of cargo transportation.

On 15 March 2017, the National Security and Defence Council ordered to stop cargo transportation across the contact line. This resulted in a significant drop in cargo traffic in the eastern Ukraine.

Transit cargo turnover made 20,272.6 million tkm in 2017, up by 3.1% against 2016. The increase in transit was observed mainly for iron and manganese ores, oil and oil products. In order to improve the transit potential of Ukraine, a container train pilot run on route China (Chángshā) – Mongolia – Russia – Ukraine – Slovakia (Dobra terminal) with groupage cargo (mostly fast-moving consumer goods) was organised in June 2017.

The import shipments amounted to 22,873.7 million tkm in 2017, up by 21.2% against 2016. Primarily, the transportations of the coal, chemicals, fertilizers, mineral building materials, and cement increased in the import. The volumes of coal transportations in the reporting period was the largest for the past 20 years. It is associated with the reduction in supply at the domestic market because of the termination of the transportation services from the certain areas of Donetsk and Luhansk oblasts.

The export shipments amounted to 79,817.3 million tkm in 2017, up by 2.4% against 2016. The transportations of grain cargoes, iron ore, and mineral building materials eminently increased in the export. The increase in transportation volumes of mineral building materials took place against the background of low indicators last year, mainly because of the transport of crushed stone to Belarus.

The transportations of grain cargoes were record-breaking. The increase in rail shipments was caused by traffic ban for

vehicles weighing over 40 tonnes adopted by the Cabinet of Ministers of Ukraine. The Ministry of Infrastructure of Ukraine issued a separate order regarding the prohibition of vehicles with weight parameters exceeding the norm to the territory of the state-owned enterprise seaports. Rail accounted for 80% of the total exported grain transported via ports.

However, there was a significant reduction in the transportations of ferrous metals and timber cargo.

In 2017, the export of ferrous metals was the lowest for the last 20 years. The main reason was the production reduction because of the termination of supplies across the contact line in Donetsk and Luhansk oblasts and the loss of facilities in Alchevsk, Yenakieve, Makiivka, and Donetsk steel mills.

The volume of timber cargo transportations was the lowest for the previous years. The decrease occurred because of the 10-year ban to export pines beyond the customs territory of Ukraine to restore the wood-working and furniture industry from 1 January 2017 (the export of unprocessed timber tree species, except for pine, was banned from 1 November 2015).

Generally, in 2016-2017, Russia applied a number of discriminatory restrictions and prohibitions on cargo transportation that led to a decline in Ukraine's trade with Russia, as well as third countries, and violated the commitments of the Russian Federation under the WTO and Free Trade Zone Agreement.

The domestic transportations amounted to 68,950.5 million tkm in 2017, down by 4.5% than the planned target and down by 3.0% year on year. The volumes of transportation of coal, iron and manganese ores, coke, and ferrous metals decreased in the inland traffic.

There has been a significant decrease in the transportations of coal because of the blockade and further termination of the transportations from the certain areas of Donetsk and Luhansk oblasts since February 2017. Assuming that Ukrainian energy sector purchased 11.6 million tonnes of coal for domestic needs from the enterprises based in the certain areas of Donetsk and Luhansk oblasts in 2016, these supplies stopped substantially after the blockade.

Besides, the lack of rolling stock and traction vehicles negatively affected the cargo traffic.





In addition, the volumes of transportations of mineral building materials and grain cargoes significantly increased in the domestic traffic. The increase in mineral building materials transportation was impacted by the growth in construction. The restoration of the state road industry was defined as one of the priorities to the budget for 2017. As a result, more than 2,000 kilometres of roads were reconstructed and built in Ukraine, twice as much as last year's figures. One of the reasons in grain rail transportation was the traffic ban for vehicles weighing over 40 tonnes adopted by the Cabinet of Ministers of Ukraine.

In 2017, 339,550,500 tonnes of cargoes were transported, down by 1.1% than in 2016.

The passenger turnover made 28,001.3 million pkm, up by 3.7% against in 2016 because of the increase in the number of long-distance trains in the Western and Southern directions.

The domestic passenger turnover amounted to 18,435.7 million pkm, up by 7.8% against 2016 because of the increase in the number of long-distance trains to the Western and Southern directions.

In the international service, the passenger turnover amounted to 1,150.3 million pkm, down by 8.5% against 2016, because of the reduction of international train departure (to the eastern direction, particularly).



The suburban passenger turnover amounted to 5,443.5 million pkm, down by 5.3% against 2016. The reduction in transportation was caused by a range of economic, social, and demographic factors, the development of suburban motor vehicles and the decrease in a number of suburban trains caused by rolling stock depreciation.

206,636,300 passengers were transported in 2017, down by 0.2% against 2016.

PJSC Ukrzaliznytsia received a net profit of **UAH 114.5 million** for 2017.

Because of the recent reforms, the Company's incomes were

growing at a higher rate (+12.9%) than expenses (+1.8%) during 2017. It helped the Company improve the financial result by UAH 7.4 billion (the profit was UAH 0.1 billion in 2017, while the loss was UAH 7.3 billion in 2016).

The income was UAH 76.9 billion for 2017, including the net sales income of UAH 73.9 billion.

Incomes from transportation accounted for UAH 67.4 billion in the net income.

Compared with the 2016 report, **the income from transportation** (UAH 67.4 billion) increased by UAH 6.3 billion, or 10.2%, mainly because of the indexation of cargo transportation rates within Ukraine from May 1, 2016 by 15% (respectively to the order of the Ministry of Infrastructure of 26.04.2016 No.161), indexation of cargo transportation rates within Ukraine from October 31, 2017 by 15% (in accordance with the order of the Ministry of Infrastructure of 20.10.2017 No.357) and the growth of volumes of transportation by 2.8%.

Ukrzaliznytsia incurred expenses of UAH 76.8 billion, including the cost of sold products of UAH 67.3 billion.

Transportation expenses amounted to UAH 63.3 billion, up by UAH 4.0 billion (+6.7%) compared with the previous year, including:

- cargo transportation – UAH 46 billion (72.7% of the total), up by UAH 2.3 billion (+5.2%) compared with the previous year;
- passenger transportation – UAH 17.3 billion, up by UAH 1.7 billion (+10.8%) compared with the previous year.

The increase in expenses until 2016 had been mainly caused by rising prices for energy and key raw materials (industrial producer price index in December 2017 was 116.5% from December 2016).

The financial result from transportation was UAH 4.1 billion.

According Ukrzaliznytsia's performance in 2017, EBITDA grew by UAH 390 million (+2%), reaching UAH 20.06 billion, which had a positive impact on the Company's perception in the western financial markets.

The Company's high performance in the reporting period is showcased by EBITDA margin of 27.13%.

Additional information is given in the Notes to the Financial Statements.

Cash Flow Statement

Consolidated cash flow statement

For the year ended 31 December 2017
(‘000 UAH)

	Notes	2016	2017
Cash flow from operating activities			
Profit/(loss) before tax		- 7,115,749	772,093
Adjustments for a reconciliation of profit/(loss) before tax and net cash flows from operating activities			
Depreciation		17,910,127	14,662,305
Net financial expenses	26	4,438,646	3,256,104
Profit from the disposal of fixed assets		- 3,201	-
Changes in defined benefit and security liabilities		408,026	- 291,814
Provision for doubtful debts		249,743	100,486
Unrealised net loss from exchange rate differences		4,479,346	896,694
Share of loss of associates	10	13,597	166,780
Profit from operating activities before changes in working capital		20,380,535	19,562,648
Changes in working capital			
Trade and other receivables		- 1,384,545	- 369,827
Prepayments		- 68,116	78,371
Inventories		- 1,077,279	- 2,538,250
Taxes receivable, other than corporate income tax		- 309,968	57,087
Trade and other payables		1,129,592	841,154
Advances received from customers		844,826	- 18,423
Other tax liabilities, other than corporate income tax		- 100,617	244,021
Cash provided from operating activities		19,414,428	17,856,781
Corporate income tax paid		- 557,501	- 360,359
Interest paid		- 4,054,202	- 3,437,303
Dividends paid	16	- 166,480	- 6,513
Used amount of security	23	-	- 60,328
Net cash generated from operating activities		14,636,245	13,992,278

Consolidated cash flow statement (continuation)

	Notes	2016	2017
Cash flow from investing activities			
Acquisition of fixed assets		- 6,799,448	- 10,872,454
Proceeds from sale of fixed assets		5,282	-
Expenditure on financial investments		- 53,095	-
Dividends received from associates	10	-	7,988
Interest received		357,765	548,968
Cash received as a result of Reorganisation		881	-
Net cash used in investing activities		- 6,488,615	- 10,315,498
Cash flow from financing activities			
Receiving interest-bearing loans and borrowings		982,145	-
Repayment of interest-bearing loans and borrowings		- 5,377,703	- 2,718,312
Proceeds from the placement of domestic bonds		269,000	-
Repayment of domestic bonds		- 1,775,625	- 1,720,000
Repayment of liabilities under financial lease agreements		- 749,376	- 381,786
Dividends paid to uncontrolled interests		-	- 31
Net cash used in financial activities		- 6,651,559	- 4,820,129
Net (decrease)/increase in cash		1,496,071	- 1,143,349
Reclassification of cash in assets of the NGCA	2	-	- 103,594
Impact of changes in exchange rates on cash and cash equivalents		38,767	16,185
Cash and cash equivalents, as of 1 January		4,884,908	6,419,746
Cash and cash equivalents, as of 31 December		6,419,746	5,188,988

Analysis of Cash Flow

Cash and cash equivalents amounted to UAH 5,189 million as of 31 December 2017, dropping by UAH 1,230.8 million over the year. The change in cash was because of a substantial increase in expenditures for investment activity in 2017 compared with 2016, a decrease in net cash flow from operating activities as a result of increased operating expenses and inventory purchases, as well as a decrease in expenditures for financial activities.

Budget Settlements

PJSC Ukrzaliznytsia pays current taxes and mandatory payments to the budget and government special-purpose funds in a timely manner and in accordance with the applicable laws.

For 2017, taxes to the budgets of all levels and government special-purpose funds made UAH 17,565.8 million:

- the national budget – UAH 6,619.7 million;
- local budgets – UAH 5,204.9 million;
- government special-purpose funds (Pension Fund and social insurance funds) – UAH 5,741.2 million.

Compared with 2016, taxes and mandatory payments grew by UAH 2,409.4 million (+15.9%). The growth in tax payments and mandatory payments was because of an increase in employee salaries, which led to an increase in the personal income tax (employees) and a single social tax (deductions to the pension Fund and social insurance funds).

During 2017, Ukrzaliznytsia's subsidiaries paid a share of the profits to the amount of UAH 6,513,000 directly to the national budget (2016: UAH 794,000).



Credit Policy and Obligations

PJSC Ukrzaliznytsia is a responsible borrower that uses a variety of tools to raise financial resources in the domestic market and international capital markets, as well. The Company actively cooperates with the international financial organisations on infrastructure projects financing and Ukrainian state-owned banks on the Company's current operation financing.

In 2017, the credit policy of Ukrzaliznytsia is aimed at minimising the risks associated with borrowing:

- absence of overdue interest-bearing loans;
- decrease in the foreign currency share in the credit portfolio;
- reduction in the share of loans from banks having Russian capital.

As of 31 December 2017, the interest-bearing loans and borrowings of Ukrzaliznytsia amounted to UAH 33,511 million:

- interest-bearing bank loans – UAH 18,446 million
- Eurobonds – UAH 14,583 million
- other borrowings – UAH 482 million.

As of the end of 2017, the foreign currency share of the Group's credit portfolio amounted to UAH 32,813 million (98% of the Group's credit portfolio), which carries currency risks.

In 2017, interest-bearing loans and borrowings decreased by UAH 7,000 million. The reduction of these liabilities is related to the reclassification of loans and credit of SE Donetsk Railways to liabilities of NGCA, repayment of domestic bonds, interest-bearing loans, and borrowings.

Bonds issued in the domestic market (denominated in Ukrainian hryvnias at an interest rate of 18% - 23.5%) were fully repaid in 2017.

Eurobonds relate to a loan of US\$500,000,000 raised as a result of placement of Shortline PLC Eurobonds on the Irish stock exchange in May 2013. In March 2016, the Group restructured the loan, which included a prolongation of maturity date by 15 September 2021, an annual interest rate increase from 9.5% to 9.875% as of 21 November 2015, and a change in the repayment schedule of the principal amount of the loan: 60% to be paid in 2019, 20% in 2020 and 20% in 2021.

In 2017 and 2016, the Group violated the liabilities under an amendment agreement between PJSC Ukrzaliznytsia and Shortline PLC of 19 February 2016, as the Group was not able to restructure part of its loan liabilities in a timely manner. The Group has rectified the breach by the end of the relevant reporting years by amending the agreement with Shortline PLC.

Some loan agreements included financial and non-financial constraints on certain transactions and financial ratios, including limitations on the level of indebtedness and profitability of the Group. According to the results of 2017, there was a positive change of the covenants:

- EBITDA / Net Financial Expenses: 6.84 (4.89 for the first six months of 2017);
- Net borrowing / EBITDA: 1.65 (1.57 for the first six months of 2017).

As of 31 December 2017, Ukrzaliznytsia had liabilities under financial lease agreements to the amount of UAH 721 million, which had decreased by UAH 925 million from the beginning of 2017. Liabilities under financial lease agreements are amounts payable under contracts for the purchase of freight and passenger cars, locomotives and equipment. Ukrzaliznytsia did not receive fixed assets under financial lease agreements during 2017.



Notes to the Financial Statements

Notes to the Financial Statements

The Establishment and Operation of the Company and the Group

Public Joint Stock Company "Ukrainian Railways" (hereinafter referred to as Ukrzaliznytsia or the Company) was registered on 21 October 2015 and commenced operations on 1 December 2015.

PJSC Ukrzaliznytsia evolved as a result of reorganisation through the merger of enterprises and public rail transportation institution (hereinafter referred to as the Reorganisation). Almost all assets and liabilities of enterprises managed and controlled by Public Administration of Railway Transport of Ukraine had been transferred to the Company.

These consolidated financial statements include the financial statements of Ukrzaliznytsia and its subsidiaries (hereinafter together referred to as the Group). The list of companies included in the Group is below.

The core operations of the Group are transportation of goods and passengers by rail, services for access to railway infrastructure, logistics services, repair and maintenance of rolling stock, etc.

The Company is recognised as a natural monopoly in terms of services for the use of infrastructural assets that operate the public rail transportation and operations control services in the territory of Ukraine.

Corporate Information

The only shareholder of Ukrzaliznytsia is the state of Ukraine represented by the Cabinet of Ministers of Ukraine. The Cabinet of Ministers of Ukraine is responsible for the management of the Company's corporate affairs.

The registered address of Ukrzaliznytsia is at: 5 vul. Tverska, Kyiv, 03150, Ukraine.

Enterprises included in the Consolidated Statements

The following are the names of the enterprises having their financial statements included in the consolidated financial statements as of 31 December:

	2016	2017
1 PJSC Ukrzaliznytsia	The parent company	The parent company
2 PrJSC Dnipropetrovsk Diesel Locomotive Repair Plant	100 %	100 %
3 PrJSC Zaporizhia Electric Locomotive Repair Plant	100 %	100 %
4 PrJSC Lviv Locomotive Repair Plant	100 %	100 %
5 PrJSC Kyiv Electric Car Repair Plant	100 %	100 %
6 PrJSC Korostenskyi Ferroconcrete Sleepers Plant	100 %	100 %
7 PrJSC Gnivanskyi Special Ferroconcrete Plant	100 %	100 %
8 PrJSC Kyiv Electrotechnical Plant TRANSSYGNAL	–	100 %
9 PrJSC Tast-Garantia insurance company (Note 16)	65.62 %	65.62 %

PJSC Ukrzaliznytsia consists of 6 regional branches and 28 affiliates whose data were included in these consolidated financial statements. The Company continues its internal reorganisation and is building its target structure with market-oriented divisions. During 2017, the newly established branches of the Company become operational: Passenger Company, Energoremtrans, Centre for Rail Infrastructure Diagnostics, and Centre of Installation and Construction Works and Facilities Management.



Pricing Policy

Transportation of cargo and passengers by rail is a regulated activity determined by the transportation rates:

Cargo transportation rates within Ukraine (hereinafter referred to as the “rates”) are established by the Ministry of Infrastructure of Ukraine in agreement with the Ministry of Economic Development and Trade of Ukraine and the Ministry of Finance of Ukraine. The rates shall be subject to an annual indexation before the beginning of the new fiscal year. The rates were indexed by 15% from 31 October in 2017 and by 15% from 30 April in 2016.

Rates for the transportation of passengers, luggage, and cargo-luggage in internal connection are determined by the Ministry of Infrastructure of Ukraine in agreement with the Ministry of Economic Development and Trade of Ukraine and are set in Ukrainian hryvnia. During 2017, there was no increase in rates for the transportation of passengers, luggage, and cargo in domestic services, except for a slight increase in rates for some suburban destinations. During 2016, the increase of the specified rates was made by 5% only for the Intercity+ first class trains.

General cargo rates in international services (transit) are approved as part of the Rate-Setting Policy of the Railways of the members of the Commonwealth of Independent States for the international cargo transportation (the rate-setting policy), which represents an international inter-agency agreement and is adopted by the Rate-Setting Conference for each freight year and set in Swiss francs. In the period between 2017 and 2016, there was no increase in these rates.

Rates for the passenger and luggage transportation in international connection are approved by the Ministry of Infrastructure of Ukraine on the basis of certain intergovernmental agreements. They are set in Swiss francs for trips to the Commonwealth of Independent States, as well as Latvia, Lithuania, Estonia; they are set in euros for the trips to other countries. In the period between 2017 and 2016, there was no increase in these rates.



Operating Environment, Risks and Economic Conditions in Ukraine

The Group operates in Ukraine. Despite the fact that Ukraine's economy is considered market-oriented, it continues showing certain peculiarities typical for a developing economy. Such peculiarities are characterised, but not limited to, the low levels of liquidity in the capital markets, high inflation, and a significant deficit in the balance of public finances and external trade.

After a significant deterioration in 2014 and 2015, the current political and economic situation remains unstable in Ukraine. Against the background of challenging bilateral relations with the Russian Federation because of its role in the temporary occupation of the Autonomous Republic of Crimea in April 2014 and continued armed confrontation

with separatists in certain parts of the Donetsk and Luhansk oblasts (ATO, the counter-terrorism operation), the Ukrainian government perseveres in its attempts to carry out complex structural reforms aimed at elimination of the existing imbalances in the economy, public finances and governance, fight against corruption, improvement of the judicial system, etc., and ultimately, the creation of the conditions for the economic growth in the country.

The weakness of the national currency of hryvnia (UAH), which has seen a devaluation of more than three times against the US dollar and a 2.5-fold devaluation against the euro since the beginning of 2014, coupled with restrictions on international settlements, a negative foreign trade

balance, continuing instability on the country's traditional export commodity markets, high inflation rate and significant external debt are the key risks for stabilizing the operating environment in Ukraine in the nearest future. The further support from the International Monetary Fund (IMF) and other international lenders, which would provide more opportunities for macroeconomic stabilisation and external debt management, depends on the pace of the above-mentioned structural reforms.

The known and estimated effects of the aforementioned factors on the financial position and results of the Group's operations during the reporting period were taken into account during the preparation of these consolidated financial statements. The management monitors the development of the current situation and takes all possible measures to minimise any negative consequences where necessary. The further negative developments in the political situation, macroeconomic conditions and/or external trade conditions may negatively affect the financial position and performance of the Group in a way that cannot be currently projected.

After the temporary occupation of the Autonomous Republic of Crimea by the Russian Federation in April 2014, the Group ceased its operations in the region. Following the Reorganisation, the assets and liabilities related to the temporarily occupied Autonomous Republic of Crimea were transferred to the Company at the accounting value as of 31 March 2014. As of 31 December 2016, the book value of the assets and liabilities of the Group located or otherwise connected with the temporarily occupied Autonomous Republic of Crimea (including buyers, borrowers, etc.), amounted to UAH 1,182,515,000 and UAH 185,104,000 respectively. In the financial statements of the Group for 2017 and 2016, no incomes and/or expenses related to the Autonomous Republic of Crimea were reported.

In the second six months of 2014, as a result of hostilities, the Ukrainian government temporarily lost control of certain areas of Donetsk and Luhansk oblasts, where certain structural divisions of the State Enterprise "Donetsk Railways" (SE Donetsk Railways) operated. As a result of the Reorganisation, the assets and liabilities of the structural units of SE Donetsk Railways located in the temporarily NGCA of Donetsk and Luhansk oblasts were transferred to the Company according to the financial reporting data of SE Donetsk Railways as of 30 June 2014 and are accounted on the balance sheet of Donetsk Railways regional branch (Donetsk Railways).

After the temporary occupation of the Autonomous Republic of Crimea and after the restoration of control over the NGCA of the Donetsk and Luhansk oblasts, the assets and liabilities related to these regions (referred to

as the non-government controlled areas (NGCA)) will be revalued and registered as a contribution to the statutory capital, and some of the fixed assets will be considered as property operated on the basis of the right of economic management.

Despite the loss of control over the assets of temporarily occupied and temporarily NGCA, and in spite of the moratorium on foreclosure of related liabilities, the Group continues accounting them in the consolidated statement of financial position as stated above, as it complies with the regulatory requirements related to the Reorganisation. It also corresponds to the official position of the Government of Ukraine that the government authorities of Ukraine will restore control over the NGCA. The Group has only made adjustments for interest-bearing loans and liabilities, as well as financial lease commitments where the Group acted as a party to a contractual relationship or had sufficient historical information as of 1 January 2016. No adjustments to these financial liabilities were made after that date (Note 17). As mentioned in Note 10, the assets, liabilities, and performance results of PJSC Ukrtransleasing associate together with its three subsidiaries are also related to the NGCA.

Despite the counter-terrorism operation (ATO), the Group was able to provide rail transportation with the involvement of the NGCA throughout 2016. The freight transportation services to/from the NGCA has been terminated since 15 March 2017. Under the Decree of the President of Ukraine No.62/2017 dd. 15 March 2017, the decision of the National Security and Defence Council of Ukraine On urgent additional measures to counter hybrid threats to the national security of Ukraine was enacted to stop carriage of cargoes across the contact line in Donetsk and Luhansk oblasts with a few exceptions. Following the measures, the freight transportation from/to the temporarily occupied territories of Donetsk and Luhansk oblasts was completely suspended.

As of 31 December 2017, the management completed the division of assets and liabilities of the Donetsk Railways between controlled and uncontrolled interests. Assets and liabilities of the NGCA were separated into the following lines of the consolidated statement of financial position: the assets of the NGCA and liabilities of the NGCA in the form of non-current assets and long-term liabilities, respectively. These lines also include the assets and liabilities related to the Autonomous Republic of Crimea. This approach provides a clearer presentation of the Group's assets and liabilities. The Group finds it practically inappropriate to reclassify comparative information, as in previous periods, economic operations were carried out with the involvement of the NGCA. In addition, the contact line could change as a result of the armed conflict.

The Assets and Liabilities of the NGCA

	NGCA of Donetsk and Luhansk oblasts	Autonomous Republic of Crimea	Total
Assets			
Non-current assets			
Fixed assets	6,799,881	1,948,787	8,748,668
Financial assets	34,951	1,559	36,510
Prepaid corporate income tax	27,605	–	27,605
	6,862,437	1,950,346	8,812,783
Current assets			
Inventories	191,817	69,089	260,906
Trade and other receivables	1,527,954	8,879	1,536,833
Prepayments	30,705	8,691	39,396
Prepaid corporate income tax	11	1,220	1,231
Taxes receivable, other than corporate income tax	37,983	2,423	40,406
Cash and cash equivalents	99,841	3,753	103,594
	1,888,311	94,055	1,982,366
Total assets of NGCA	8,750,748	2,044,401	10,795,149
Short-term liabilities			
Interest-bearing loans and borrowings	3,724,995	–	3,724,995
Finance lease liability	553,467	–	553,467
Trade and other payables	402,917	–	402,917
Advances received from customers	223,758	–	223,758
Tax liabilities, except for corporate income tax	67,767	–	67,767
	4,972,904	–	4,972,904
Total liabilities of the NGCA	4,972,904	–	4,972,904

The consolidated financial information of Donetsk Railways regional branch included in the consolidated financial statements of the Group as of 31 December is presented below (information for 2017 is presented after the NGCA data were excluded):

Assets and Liabilities of Donetsk Railways regional branch

	2016	2017
Assets		
Non-current assets		
Fixed assets	12,147,415	4,647,805
Financial assets	34,302	8,424
Prepaid corporate income tax	29,519	–
Assets of NGCA	–	8,750,748
	12,211,236	13,406,977
Current assets		
Inventories	696,190	596,411
Trade and other receivables	1,542,722	11,205
Trade and other accounts payable from the Group's companies	5,614	–
Prepayments	28,260	4,059
Taxes receivable, other than corporate income tax	12,824	16,220
Cash and cash equivalents	108,686	1,807
	2,394,296	629,702
Total assets	14,605,532	14,036,679
Long-term liabilities		
Finance lease liability	6,014	–
Established payment liability	310,930	174,456
Liabilities of NGCA	–	4,972,904
	316,944	5,147,360
Short-term liabilities		
Interest-bearing loans and borrowings	3,909,603	–
Finance lease liability	622,444	74,793
Trade and other payables	978,231	434,859
Trade and other accounts payable to the Group's companies	1,175,369	1,986,656
Advances received from customers	171,507	6,026
Other tax liabilities, other than corporate income tax	119,818	56,231
	6,976,972	2,558,565
Total liabilities	7,293,916	7,705,925
Net assets	7,311,616	6,330,754

The comprehensive income of Donetsk Railways regional branch

	2016	2017
Sales income		
Cargo transportation income	4,219,395	4,062,706
Passenger and luggage transportation income	91,418	84,800
Other incomes and additional services	193,106	206,516
Income from the Group's companies	190,986	92,643
Total sales income	4,694,905	4,446,665
Operating expenses		
Personnel expenses	(2,629,582)	(2,869,077)
Depreciation	(392,934)	(366,736)
Electricity	(412,890)	(361,184)
Fuel	(586,356)	(804,632)
Repair and maintenance	(474,788)	(355,271)
Taxes, except for corporate income tax	(67,773)	(86,788)
Welfare expenditure	(16,204)	(31,779)
Other incomes	34,383	170,463
Other expenses	(138,073)	(22,278)
Total operating expenses	(4,684,217)	(4,727,282)
Operating (loss)/profit	10,688	(280,617)
Financial income	1,950	18,794
Financial expenses	(55,819)	(27,277)
Net loss from a difference in exchange	(110,568)	(1,044)
Loss before tax	(153,749)	(290,144)
Corporate income tax expenses	–	–
Loss for the year	(153,749)	(290,144)
Total comprehensive loss for the year, after tax	(153,749)	(290,144)

Cash Flows of Donetsk Railways regional branch

	2016	2017
Cash flow from operating activities		
Loss before tax	(153,749)	(290,144)
Adjustments for a reconciliation of profit/(loss) before tax and net cash flows from operating activities		
Depreciation	392,934	366,921
Net financial expenses	53,869	27,277
Profit from the disposal of fixed assets	(124)	–
Unrealised net loss from exchange rate differences	110,568	–
Profit from operating activities before changes in working capital	403,498	104,054
Changes in working capital		
Trade and other receivables	443,010	(13,312)
Prepayments	13,610	(6,630)
Inventories	(125,549)	(131,459)
Taxes receivable, other than corporate income tax	(4,166)	(41,061)
Trade and other payables	178,881	388,786
Advances received from customers	(89,913)	58,346
Other tax liabilities, other than corporate income tax	26,121	4,180
Cash provided from operating activities	845,492	362,904
Interest paid	(33,901)	(16,420)
Net cash generated from operating activities	811,591	346,484
Cash flow from investing activities		
Acquisition of fixed assets	(201,679)	(163,261)
Proceeds from sale of fixed assets	1,602	–
Net cash used in investing activities	(200,077)	(163,261)
Cash flow from financing activities		
Repayment of interest-bearing loans and borrowings	(615,511)	(190,261)
Net cash used in financial activities	(615,511)	(190,261)
Net decrease in cash	(3,997)	(7,038)
Reclassification of cash in assets of the NGCA	–	(99 841)
Cash and cash equivalents, as of 1 January	112,683	108,686
Cash and cash equivalents, as of 31 December	108,686	1,807

The Group's Ability to Continue as a Going Concern

Net profit for the year ended 31 December 2017 amounted to UAH 114,424,000 (2016: net loss UAH 7,322,101,000). As of 31 December 2017, the current liabilities of the Group exceeded current assets by UAH 8,334,686,000 (2016: UAH 13,445,162,000).

As mentioned in Note 17, as of 31 December 2017 and 2016, there was a breach of certain liabilities under long-term loan agreements. This violation caused a cross-default on some other borrowings. During 2017 and 2016, the Group has rectified some of the violations and intends to remedy the remaining violations before 31 December 2018.

As of the end of the reporting period, the unused part of the loans available to the Group amounted to UAH 6,548,251,000. In addition, active preparation for the issue of domestic bonds for the total amount of UAH 2,000,000,000 in 2018 is underway. The possibility of a new issue of Eurobonds under favourable market conditions is also considered in the near future. The funds raised will be used to refinance part of loans and borrowings included in the Group's current liabilities, as well as to finance capital expenditures. The management will continue focusing on attracting long-term financing and improving the Group's liquidity.

If necessary, the Group will be able to re-direct the cash flows between capital investments and repayments of financial liabilities without creating short-term adverse conditions for operating activities.

In 2017, the government approved an increase in freight rates by 15% starting from 31 October 2017. It is expected that these circumstances, along with the implementation of measures to reduce expenses, will further improve the performance and financial position of the Group.

Despite the existence of significant uncertainty about future events, the management believes that the expectations and related measures are realistic and feasible. If necessary, the Group will be able to repay its liabilities and continue as a going concern.

Preparation of the Financial Statements

These consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) as approved by the IAS Board.

Consolidated financial statements are made on the basis of the cost principle excluding the basic methods which are shown at the revalued cost, pension liabilities in accordance with IAS 19 Employee Benefits, some financial instruments, which are evaluated according to the terms of IAS 39 Financial instruments: recognition and measurement. These consolidated financial statements are represented in

thousands of Ukrainian hryvnias ('000 UAH) and all sums are expressed in round thousands except as otherwise expressed.

Preparation of the consolidated financial statements

Financial statements of the Group are prepared as of the same reporting date using the uniform accounting policy. Adjustments were made to bring any possible changes in the accounting policy into compliance.





Control is exercised in the case of the Group undergoing the risks of income adjustments from interests in the investee or it has a right to receive such kind of income as well as a possibility to influence such kind of income by exercising its powers concerning the investee. As well as the Group controls the investee only in the case if the following conditions are conducted:

- the Group has powers concerning the investee (including rights, which provide the current possibility to manage the measurable operations of the investee);
- the Group has risks of adjustments of income from interests in the investee or rights to receive such income;
- the Group has possibilities to use its powers to influence the incomes.

As a rule, the majority of voting rights provides for the presence of control. To confirm this suggestion and when the Group has less than the majority of voting rights or the same rights concerning the investee, the Group takes into account all necessary facts and circumstances when it evaluates the presence of powers concerning the given investee:



- agreement (-s) with the other owners of voting rights in investees;
- rights stipulated by other agreements;
- voting rights and potential voting rights of the Group.

The Group re-analyses the presence of control over an investee when facts and circumstances show a change in one or more of the three control components. Consolidation of subsidiary enterprise starts, when the Group receives control of the subsidiary enterprise and stops when the Group loses control over the subsidiary enterprise. Assets, liabilities, income and expenditures of the subsidiary purchased or disposed during a year are included into consolidated financial statements from the date of receiving the control by the Group and are shown before the date of discontinuation of control over subsidiary by the Group.

Profit or losses and every component of the other comprehensive income concern shareholders of the Group and non-controlled interests even in that case when it leads to negative net in non-controlled interests. Where necessary, financial statements of the subsidiary enterprises are amended for bringing the accounting policy of such kind of organisations into accordance with the accounting policy of the Group. All intragroup balances and operations, as well as unrealised income, which exists as a result of intragroup operations, were fully excluded from the consolidated financial statements.

Change of interests in the subsidiary enterprise without loss of control is taken into account as an operation with equity. If the Group loses control over a subsidiary, it derecognises the related assets including goodwill, liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. The rest of investments is recognised at the fair value.

Amendments in the accounting policy

The Group's accounting policy applied in 2017 is consistent with the accounting policy of the previous financial period except for the new or reviewed Standards and Interpretations that became effective from 1 January 2017.

The nature and influence of these amendments are described below. Although, new standards and amendments introduced in 2017 for the first time, did not have the essential impact on the Group's annual accounting. Character and impact of each new standard or amendment is described below:

Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). These amendments did not have an essential impact on financial reporting or accounting policy of the Group.

Amendments to IAS 12 Income Taxes – Recognition of deferred tax assets for unrealised losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their book value.

Entities are required to apply the amendments retrospectively. However, their implementation did not have an essential impact on the financial statements of the Group.

Annual improvements to IFRS: 2014-2016 Cycle

IFRS 12 Disclosure of Interests in Other Entities – Clarification of the scope of the disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. As the Group does not have interests in other entities which would be classified as held for sale, these amendments did not have impact on the financial statements or accounting policy of the Group.

Usage of judgements, evaluations and assumptions

According to IAS 1 Presentation of financial statement, the Group accounts and presents operations and other events in accordance with their sense and economic circumstances and not only in accordance with the legal form.

While preparing consolidated financial statements, it is demanded from the Group management to make evaluations and assumptions, which have an impact on the amount of reporting. These assumptions are based upon information that was available on the date of consolidated balance. Actual results may differ from data of evaluations. The main evaluations and assumptions concerning the future and other main sources of uncertainty evaluations as of reporting date, which may lead to the necessity of essential adjustment of net assets value of the correspondent assets and liabilities in future, are listed below.

Judgments

Fixed assets assigned on the basis of the right of economic management

Some fixed assets were assigned to the Company on the basis of the right of economic management (Note 9). The right of economic management allows to own, use and manage the property, except property management that may lead to alienation of such property. The Company conducts the separate accounting of the above-mentioned assets, uses them freely in its business operations and bears the risk of their accidental loss or damage. No special restrictions concerning income, received from usage of such assets, are available and the Company supports their proper functional condition by using its equity.

Fixed assets assigned to the Company on the basis of the right of economic management meet the definition of the fixed assets as they are used in business operations during more than one period. The above facilities are included to the correspondent groups of the fixed assets.

Accounting of assets and liabilities not controlled by the Group

Consolidated financial statements include assets and liabilities situated or otherwise connected with the temporarily occupied Autonomous Republic of Crimea as well as with non-government controlled areas in Donetsk and Luhansk oblasts. A method of accounting for the above-mentioned positions is given in more details in Note 2.

The method is based on the regulatory framework for accounting of the assets and liabilities issued by a competent government agency and thus it was taken into account during preparation of these consolidated financial statements.

Decrease of the fixed asset utility

The Group evaluates the presence of factors that may possibly decrease the asset utility by every reporting date. Such evaluation provides for the usage of substantial judgements. The management did not identify the factors that may decrease the fixed asset utility as of 31 December 2017.

Estimates

Provision for doubtful debts

The management of the Group evaluated the provision for doubtful debts using the best available information concerning credit capacity of its consumers on the date of balance sheet. However, the actual possibility of returning of receivables may differ from evaluations made by the management.

Evaluations concerning useful life of fixed assets

Substantial evaluations of the Group's management are necessary for determination of the future useful life of fixed assets. Actual useful life may differ from evaluation of the Group's management.

Liabilities for specific payments

The value of liabilities for specific payments and other retirement payments is determined using actuarial assumptions. Actuarial assumptions include assumptions concerning discount rates, expected gain of salary, employee churn, mortality indexes, future pension increases, etc. All assumptions are revised for every reporting date. While determining the correspondent discount rate, the Group's management takes into account rates of interest of public debt securities because of absence of developed market of private debt securities in Ukraine. With a view to long-term nature of these plans, such assumptions are subject to substantial uncertainty. More information is given in Note 19.

Provisions

The Group recognised provisions of liabilities concerning legal lawsuits. The amount of provisions is based on the best evaluations of the management concerning the future cash payments discounted at a discount rate before tax where it is appropriate. More information is given in Note 23.

Possibility of realisation of deferred tax assets

Deferred tax assets are recognised inasmuch as there is a high probability of their realisation, which depends on the formation of enough income before tax in future. Assumptions concerning formation of income in future depend on management's evaluation concerning the future cash flows. Data on evaluations depend on evaluations of the future rates, sale of services, cost of materials and operational expenditures. Judgements are also necessary for implementation of tax legislation. These judgements and evaluations can be influenced by risks and uncertainties, thus there is a probability of that fact that amendments of circumstances would have an impact on expectation, which changes the amount of deferred tax assets and tax obligations recognised as of the reporting date. In such situation, some or all amounts of recognised deferred tax assets and liabilities may need adjustment, which may result in increasing or decreasing of net income.

Main principles of accounting policy

Recalculation of operations in foreign currency

Ukrainian hryvnia (UAH) is the functional currency and presentation currency of the Group's consolidated financial statements. This is a currency of the main economic environment of the Group's operations. Operations in a currency other than the functional currency (i.e. in a foreign currency) are shown primarily in hryvnias at an exchange rate at the valuation date established by the National Bank of Ukraine ("NBU"), which is considered to be dominant in the market. Monetary assets and liabilities in foreign currency are recalculated in hryvnia at the official currency exchange of NBU as effective on the reporting date. Non-monetary items, which are measured at cost in foreign currency, are recalculated in hryvnia according to currency exchange rate, which were actual on the date of the first operation. Non-monetary items, which are measured at the fair value in foreign currency, are recalculated according to the foreign currency exchange rate, which was actual on the date of determining of fair value. All realised and non-realised income and expenditures, which arise as a result of exchange rates fluctuations, are included into the structure of consolidated statement of the comprehensive income for the period.

Financial assets

According to terms and conditions of IAS 39, financial assets are classified accordingly as financial assets revaluated for the fair value through profit and loss; loans and accounts receivable; held-to-maturity investments; and financial investments available for sale. On initial recognition, financial assets are measured at the fair value plus losses directly relating to conducting of operation, on condition that these are not financial assets being revaluated at the fair value in profit and loss.

After initial recognition of financial assets, the Group refers them to the correspondent category and, if it is possible and practical, at the end of each financial year, the Group conducts analysis of such assets in order to reconsider the correspondence of category, to which they were referred. The Group does not have any financial instruments referred to such category, which are revaluated at the fair value in profit or loss as well as to the category of investments held to maturity.

Credits and accounts receivable

Credits and accounts receivable are non-derivative financial assets with fixed or established benefit plans, which do not have quotations in the active market. Such assets are accounted at the amortised cost using the effective interest rate method with the deduction of provisions for decrease in utility. Above-mentioned calculation is conducted considering all kinds of premiums and discounts for purchase as well as considering all expenditures connected to conducting of operations and payments between parties according to agreement, which are inseparable part of the effective interest rate. Profit and loss arising during disposal, decrease in utility and depreciation of such assets are given in the consolidated statement of comprehensive income.

Evaluation and presentation of financial investments

Investments into associates and joint ventures are measured at cost on the date of the initial recognition of such investments. In case of investment into the subsidiary enterprises, the acquired assets and received liabilities of such enterprises are measured at the fair value as of the date of investments acquiring (receiving the control upon investments facility). The Group evaluates non-controlled interest in the subsidiary enterprise according to the proportional part of the current instruments of property in the recognised amounts of identified net assets.

Fixed assets

In the course of the Reorganisation from a state-owned enterprise into a joint-stock company, assets, including the fixed assets, and liabilities must be measured at the fair value. As the Reorganisation is considered to be the continuation of the Group as one entity, the management decided to show the effect of revaluation of the fixed assets by the way of changing the accounting policy from the cost method to revaluation method. During the year ended on 31 December 2015, the Company adopted the revaluation model for the following reflection of the cost of the fixed assets.

Fixed assets are accounted in consolidated financial statements at their revalued amount, which is the

fair value as of the revaluation date of 31 July 2014. The revaluation was conducted by the professional experts with the deduction of any further accumulated depreciation and the following accumulated losses resulting from impairment.

In case of absence of any market information, the fair value of specialised facilities of the fixed assets is determined on the basis of depreciated replacement cost. The fair value of the other fixed assets is determined based on the market information concerning amounts, for which such assets may be exchanged between interested and informed buyer and seller on the general terms on the date of evaluation. Before revaluation the fixed assets were accounted at the cost or proper cost determined on the date of transition to IFRS (hereinafter – the cost), excluding expenditures for maintenance deducted for accumulated depreciation and accumulated decrease in utility. Such cost includes the cost of change of the fixed assets parts in case of satisfaction of recognition criteria in the function of the fixed assets.

Revaluation is conducted with reasonable regularity in order to prevent existence of significant differences between book value and fair value on the date of consolidated financial statement. Any accumulated depreciation on the date of revaluation is excluded from the prime asset value, and net asset value is corrected to the revaluated asset value.

Growth of fixed assets value because of revaluation is accounted as an increase of revaluation reserve in capital excluding reversing of the earlier amounts written off, which refer to the given specific item and which earlier were recognised as expenditures. In such case, growth of cost is recognised as an income in consolidated statement of profit and loss and other comprehensive income as a part of preceding write-off. Decrease of book value owing to revaluation of the fixed assets is recognised in expenditures at the value, which increase the amount of revaluation reserve (if available), created as a result of previous revaluations of the given asset. Decrease is shown directly in capital in the provisions for revaluation reserve to the amount of the present increase in the value of the given asset.

During the further sale or disposal of the revaluated fixed assets, the correspondent balance of revaluation in the revaluation reserve is written off as retained earnings.

During recognition, fixed assets are divided into components, which are items with the significant value, which could be depreciated individually. Cost of full repairs is also shown in section of the components of

the fixed asset. The majority of spare parts and standby equipment is recognised as assets, when the expected useful life is more than one reporting period.

Repair and technical maintenance expenditures are recognised in the period they were incurred. The substantial full repairs and modernisation are capitalised and the changed facilities are taken out of service. Profit and loss arising during taking of the fixed assets out of service are shown in consolidated statement of the comprehensive income in the period they were incurred.

Evaluation of remaining useful life is conducted on a regular basis with the annual revision of the majority of facilities. Amendments of evaluations are accounted beforehand. Depreciation is to be counted since the date when the facility is ready for operation. Land is not depreciated as an element of the fixed assets.

Depreciation is calculated on a straight-line basis during the established useful life, which is show in table below:

Group of the fixed assets	Useful life
Buildings, structures and infrastructure	9-80 years
Land roadbed and upper superstructure of rail	6-83 years
Locomotives	5-32 years
Rai cars	5-45 years
Machinery, equipment, tools and other fixed assets	3-30 years
Transport vehicles	3-18 years

Derecognition of the fixed assets is conducted during disposal or in case when no economic benefits from the use or sale of a certain asset are expected in future. Profit or loss arising from asset derecognition (calculated as a difference between net proceeds from disposal and book value of the asset) is included into consolidated statement of the comprehensive income in a reporting year when the asset is derecognised.

Social infrastructure facilities

The fixed assets include facilities of social infrastructure and the other non-production assets (so called "social assets"). From the management's perspective, expenditures related to the purchase or construction of



such assets can be recognised as assets, whereas such expenditures may indirectly influence inflow of cash and cash equivalents of the Group because of the decrease in cash outflow connected mainly with expenditures for salaries. Actually, such non-production assets are used by the Group for provision of benefits to its employees in addition to their monetary salaries.

Construction in progress

Facilities of construction in progress are capitalised as a separate component of the fixed assets. During finishing of construction, the value is transferred to the correspondent group of assets. Construction in progress is not depreciated.

Decrease in non-financial asset utility

For each reporting date, the Group conducts evaluation of available indications for possible decrease in asset utility. When such indicators are present or with the

necessity of conducting of annual testing for impairment, the Group recognises the expected value of the asset recovery. The expected value of the asset recovery is more for two figures: the fair value of asset or group of assets generating cash flows, excluding expenditures for realisation. The second figure is the cost of the asset using, unless the asset does not generate cash flows that are substantially independent from cash flows generated by other assets or groups of assets. In cases of the asset book value being higher than its expected recovery value, it is considered that the asset utility is decreased and its book value is written off as expected cost of recovery.

During evaluation of assets value, the expected cash flows are discounted at their current value, using a discount rate before tax, which reflects the current market evaluations of time value of money and risks connected with such asset. Losses from decrease in utility of the assets that were not revaluated and are used in operational activity are recognised in a consolidated statement of the comprehensive income. However, loss from decrease in utility of an asset subject to revaluated



is recognised directly against any increase in the value of the asset to the extent which do not exceed the amount of such increase recognised for this asset.

For every reporting date, it is evaluated whether factors are in place that the loss resulting from decrease in the asset utility recognised in the previous periods exists or has decreased. The value of recovery of asset is revaluated. Preliminarily recognised loss from decreasing of the asset utility is reversed only when present amendments in evaluations used for determination of cost of asset recovery from the moment, when the last loss from decrease in utility was recognised. In such case, the asset book value increases to the value of its recovery. The increased book value of asset cannot be more than book value of asset, which would be determined according to the minus depreciation, if losses from decrease in utility were not recognised in previous years. Reversal of losses from decrease in the asset utility is accounted in a consolidated statement of financial position. As a result of the reversal, depreciation contributions are adjusted in the next periods in order to distribute the revaluated book

value of the asset minus residual value, on the systematic basis during the remaining useful life.

Inventories

To a greater extent, inventories consist of spare parts, materials, tools and fuel. Inventories are accounted at a lesser of two values: cost and net realisable value. Cost is calculated by the FIFO method.

Borrowing expenses

Expenditures on borrowings which directly refer to purchase, construction or production of the qualified asset are included in the value of this asset. In other cases, expenditures on borrowings are accounted as a part of profit and loss in a period when they were incurred. A qualified asset is an asset that needs the significant time for its preparation for use according to its purpose or for realisation.

Cash and cash equivalents

Cash and cash equivalents include cash at the bank accounts, bank deposits, deposits at short notice and short-term high-liquidity investments with the maturity period of up to three months or less, which at any time could be exchanged for a certain amount of cash and which do not have the significant risk of change of their value.

For the purposes of consolidated cash flow statement, cash and cash equivalents include cash and cash equivalents as indicated above, excluding the value of unpaid bank overdrafts.

Trade and other accounts payable

Trade and other accounts payable firstly is recognised and accounted at the fair value net of expenditures directly connected with the correspondent operations. Further trade and other payables are accounted at an amortised cost using the effective interest rate method.

Interest-bearing credits and loans

Interest-bearing credits and loans are primarily recognised at their fair value of the debt net of expenditure. After the initial recognition, the interest-bearing credits and loans are accounted at their amortised cost using the method of effective interest rate. Profit and loss under the liabilities are accounted in a consolidated statement of the comprehensive income in case of liability derecognition, as well as in the process of its depreciation.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where it is appropriate, a part of financial asset or a part of corresponding assets) is derecognised:

- termination of rights to receive cash proceeds from such asset;



- the Group keeps the right to receive cash proceeds from such asset and simultaneously assumes the liability to pay them off in full to the third party without the substantial delays on the conditions of “pass-through” arrangement;
- If the Group transfers its right to receive cash proceeds from asset and/or (a) transfers practically all risks and benefits connected with such asset, or (b) does not transfer nor keep practically all risks and benefits connected with it, but transfers control of such asset.

If the Group transfers its rights to receive cash proceeds from asset, but does not transfer or keep practically all risks and benefits and does not transfer control over such asset, such asset is accounted as part of long-lasting (current) interests of the Group in this asset.

In such case, the Group recognises the related liabilities. The transferred asset and related liabilities are evaluated on the basis reflecting rights and liabilities kept by the Group.

Continued interests in an asset in a form of a guarantee under the transferred asset are measured at the lesser of two values: the prime book value of asset or maximum amount of recovery that may be presented to the Group for payment.

Financial liabilities

A financial liability is derecognised in case of payment, annulment or termination of the correspondent liability.

When one existing financial liability is replaced with another liability by the same creditor on the substantially different conditions, or in case of substantial amendments to the conditions of the present liability, the initial liability is derecognised. New liability is accounted with recognition of the difference in book value of liabilities in a consolidated statement of the comprehensive income.

Decrease in utility of financial assets

The Group establishes if there are objective signs of decrease in utility of financial assets or group of financial assets for every reporting date.

Assets accounted at depreciated value

If there is an objective evidence of that fact that there is a loss resulting from decrease of loans utility and accounts receivable accounted according to amortised cost, than

the amount of loss is evaluated as a difference between book value of asset and the current cost of previously evaluated future cash flows (excluding the future credit losses, which was not sustained), discounted according the primary effective rate of interest of financial asset (i.e. effective interest rate, calculated during the initial recognition). Book value of asset decreases directly or by using the account of inventories. Amount of loss is recognised in a consolidated statement of the comprehensive income.

Firstly, the Group establishes whether there are objective signs of decrease in utility individually for financial assets, which are material, as well as individual or common signs of decrease in the financial asset utility, which are not individually material. If it is determined, that no objective signs of decrease in utility for individually evaluated financial asset are available (irrespective of whether if it is substantial or not), the asset is included into the group of assets with similar characteristics of credit risks. This group of financial assets is evaluated for decrease in utility on the aggregate basis. Assets evaluated individually with respect to the subject of utility decrease and concerning which loss resulting from utility decrease is recognised or continues to be recognised, are not evaluated concerning utility decrease on the aggregate basis.

If in the next period the amount of expected loss resulting from decrease in utility is becoming lesser and such decrease may be objectively connected with the event, which took place after recognition of loss resulting from decrease in utility, so earlier recognised loss from decrease in utility is reversing. The amount of reversing is recognised in consolidated statement of the comprehensive income in the amount providing that book value of asset is not bigger than its amortised cost on the date of reversing.

Financial investments available for sale

For financial investments available for sale, the Group establishes whether there are objective signs of decrease in utility of investment or the complex of investments for each reporting date.

For instruments of capital classified as available for sale, significant or long-lasting decrease of the fair value of investment lower than the cost of its purchase would be the objective indicator. “Significant” decrease is determined comparative to the primary cost of investment, when “Long-lasting” decrease is determined comparative to the period when the fair value was less than its primary cost. When there are indicators of utility decrease in investment, the comprehensive loss,

determined as a difference between the cost of purchase and the current fair value minus any loss resulting from decrease in utility of these investments, earlier recognised as a part of profit and loss, is excluded from the other comprehensive income and are recognised as a part of profit and loss. For debt instruments, which are classified as available for sale, decrease in utility is measured at the amount indicators used for assets, which are accounted according to amortised cost. However, the amount of loss resulting from decrease in utility recognised at the amount of the accumulated loss evaluated as a difference between amortised cost and the current fair value, minus any loss resulting from decrease in utility of these investments, earlier recognised as a part of profit and loss.

Future interest-bearing incomes continues to be accounted at a decreased book value of assets using interest rate used for discounting future cash flows with the aim to determine the amount of decrease in utility. Interest-bearing income is recognised as a part of financial income, if in the next period the fair value of debt instrument is increasing and such increasing might be objectively connected with an event that took place after recognition of loss resulting from decrease in utility as a part of profit and loss. Thus, earlier recognised loss resulting from decrease in utility is reversed through profit and loss.

Provisions

Provisions are recognised when the Group has the current liability (legal or practical) as a result of a previous event, and there is a probability that in order to settle liabilities there would be necessary to dispose of the resources which generate economic benefits and sum of liability might be reasonably evaluated. When influence of change of the time value of money is significant, the amount of provision is determined by the way of discounting using discount rate before tax, which reflects risks, common for the certain liability. When discounting is used, an increase in provisions, which reflect the lapse of time, is recognised as financial expenditures.

Contingent liabilities and assets

Contingent liabilities are not recognised in consolidated financial statements. They are given in the Notes to consolidated financial statements, except when the probability of disposal of resources that generate economic benefits is insignificant.

Contingent assets are not recognised in consolidated financial statements; however, information about them

is given in Notes when there is a significant probability to gain economic benefits.

Rewards to employees

The Group participates in the government pension programme under established benefit plans. The programme is regulated by laws and is binding on all companies providing workplaces with especially harmful and complicated work conditions (List 1 and List 2). Liabilities of the Group according to the given programme of payments are formed gradually during the whole period of employment of employee at the working place certified in the established order, which gives the right to receive the preferential pension.

In addition to that, the Group has another programme in place with established payment, conducted during more than 12 months after the end of an accounting period and they are to be evaluated by the actuarial method. Such programmes of the Group are career termination payments, such as one-time payment for retirement as well as the other long-term payments to employees, such as payments on anniversary dates established by the Sectoral Agreement and collective bargaining agreement.

The Group makes current deductions to the State Pension Fund. Contributions are calculated at an interest rate established by legislation and applied to the total amount of salary. The Group does not have legal or constructive obligations to conduct further contributions concerning salary. Liabilities under contributions arise along with salary liabilities. Defined expenditures under the contributions refer to the same period as a correspondent amount of salary.

Government grants

Government grants issued for the purchase of the fixed assets are calculated out of value of these fixed assets, when there is a reasonable assurance that grants would be received and all conditions would be performed.

Lease

Whether the agreement is a lease agreement or contains provisions about lease depends on the essence of a transaction, not on the form of agreement, and it provides for the evaluation whether the conducting of the correspondent agreement needs the use of the separate asset or assets, and transfer of rights to use asset.



The Group as a lessee

Financial lease under which practically all risks and benefits connected to legal title to a leased asset are transferred to the Group are capitalised on the date of the beginning of lease at the fair value of leased property, or if this amount is less — at the current value of minimum lease payments. Lease payments are divided between financial expenditures and decrease of liability in order to achieve permanent discount rate for outstanding amount of liability. Financial expenditures are recognised as a part of profit and loss.

Capitalised leased assets are depreciated during the shorter of the following periods: useful life of asset or term of lease, if there are no reasonable grounds to believe that the ownership right to the asset would be transferred to the Group at the end of lease term. In other

cases, capitalised leased assets are depreciated during the useful life of asset. Payments under operational agreements are recognised as expenditures that are parts of profit and loss on a straight-line basis during the lease term.

The Group as lessor

Lease under which Group does not transfer all risks and benefits connected with the ownership right to a leased asset is classified as operational lease. Primary direct expenditures during conclusion of agreements for operational lease are included to book value of asset and are written off during the term of lease proportionally to income from lease. Conditional lease payments are recognised as an income in the period when they were received.



Recognition of income

Income is recognised when there is certainty that a transaction will generate economic benefits for the Group and the amount of income can be reasonably established.

Income and expenditures are recognised at the time of an actual transfer of goods and services and transfer of risks and benefits. They are accounted in the period they have occurred, no matter if cash or cash equivalents are received or not.

Transportation services

Income from transportation of commodities (cargoes) and passengers are recognised according to the stage of completion of transportation on the date of balance sheet, if the stage of completing of transportation and the amount of such income might be truly determined. Stage of completion of transportation is determined on the basis of a ratio of the duration of transportation conducted before the date of balance sheet to the total duration of transportation.

Any payments, which were preliminarily received from clients before delivery, which was not practically completed

before the date of the consolidated financial statements, are accounted in a consolidated statement of financial position as advance payments received from clients. Outstanding amount is decreasing by a sum of recognised income, taking into account a stage of transportation.

Income by interests and other similar income and expenditures

Income and expenditures are determined by the method of effective interest rate, which discounts earlier evaluated future payments or cash proceeds during the expected previous of use of financial instruments before the net book value of these instruments, taking into account all contract terms and conditions of these instruments.

Exchange of services of similar nature and value

Transportation services and other services delivered to the foreign carriers by the Group are written off through operations of setoff with counterparties. In total, the setoff is conducted by the means of exchange of service of similar character and cost, which is not considered as operation leading to income. Such operations are accounted on the net-basis.

Taxes

Current corporate income tax

Current tax assets and liabilities for current and previous periods are measured at a value which is expected before refunds by tax authorities or before payments to tax authorities under Ukrainian taxation legislation. Tax rates and taxation laws applied to calculate this amount are those which were officially or actually adopted on a reporting date.

Deferred corporate income tax

Deferred corporate income tax is measured by the liability method on the date of balance sheet according to all temporary differences between taxable income base of assets and liabilities and their book value, shown for the purposes of financial statements.

Deferred tax liabilities are recognised with all taxable temporary differences, except:

- In situations when deferred tax obligation arises as a result of initial recognition of good will or asset or liability in transaction, which is not business combination and which does not influence neither accounting income nor taxable profit or loss at the moment of transaction;
- Taxable temporary differences connected with investments into subsidiary and associate. If parent company might control time of reversing of temporary difference and there is a probability that temporary difference would not be reversed in the nearest future.

Deferred tax assets are recognised with all temporary differences and non-used taxable credit and taxable losses, transferred to the next periods, if there is a probability to receive taxable income concerning which one could use non-taxable temporary difference and also taxable credit and non-used taxable losses, except when:

- Deferred taxable asset relating to non-taxable temporary differences arise as a result of initial recognition of asset or liability in transaction, which is not association of companies and which does not influence neither accounting income nor taxable profit or loss at the moment of operation;
- Concerning taxable temporary differences, connected with investments into subsidiary and associates, deferred taxable assets are recognised only when there is a probability of reversing of temporary differences in the nearest future and taxable income would be received, in relation to this taxable income one could use temporary difference.

Book value of deferred taxable assets is reviewed on the date of balance sheet and it is decreased, if there is no probability of receiving of the enough taxable income, which would allow to realise a part or all amount of such deferred taxable asset. Deferred taxable assets unrecognised earlier are revaluated for the date of balance sheet and are recognised when probability of receiving of taxable income in future arise, which gives a possibility to implement the deferred taxable asset.

Deferred taxable assets and liabilities are determined according to the tax rates expected to be applied during realisation of asset or writing-off of liability, on the basis of tax rates (terms of taxation legislation), which are valid on a reporting date.

Deferred tax on income which relates to other income items or those which are recognised directly in equity is recognised as a part of another comprehensive income or directly in equity, not in profit and loss.

Deferred taxable assets and deferred taxable liabilities are to be set off when there is a full legal right to count current taxable assets into the account of current tax liabilities if they refer to taxes on income assessed by the same tax authority for the same business entity.

Value added tax

Income, expenditures and assets are recognised after deduction of the amount of value added tax (VAT), except when:

- VAT that comes from purchase of assets and services is not to be refunded by tax authorities. In such case VAT is recognised in expenditures for asset purchase or in expenditure item, as the case may be;
- Accounts receivable and accounts payable presented with VAT.

Net value added tax to be refunded by tax authorities or paid to them is included into accounts receivable or accounts payable given in the statement of financial position.

Standards and interpretations issued, but not yet effective

Below are standards, which were issued but are not yet effective as of the date of consolidated financial statements of the Group. These are issued standards and interpretations, which the Group plans to use in future. The Group intends to apply these standards if they are to be applied from their effective date.

IFRS 9 Financial instruments

IFRS 9 Financial Instruments issued in July 2014 is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement. The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The IASB completed its project to replace IAS 39 in phases, adding to the standard as it completed each phase.

The version of IFRS 9 issued in 2014 supersedes all previous versions and is mandatorily effective for periods beginning on or after 1 January 2018 with early adoption permitted (subject to local endorsement requirements). For a limited period, previous versions of IFRS 9 may be adopted early if not already done so provided the relevant date of initial application is before 1 February 2015. Excluding hedge accounting, the standard is retrospectively used, but provision of comparative information is not mandatory. Typically, requirements concerning hedge accounting are used early, with some exceptions. The Group plans to start application of new standard from the effective date. The Group does not expect significant influence of the standard on its balance sheet and assets. The Group plans to continue measurement of all financial assets at fair value, these financial assets are currently measured at fair value.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and it provides for the model, which includes five stages to be used concerning revenue from contracts with customers. According to IFRS 15 revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

New revenue standard will replace all existing requirements of IAS for recognition of revenue. It will demand the full retrospective application or modified retrospective for annual reporting periods beginning on or after 1 January 2018, with earlier application permitted. The Group plans to apply the version of full retrospective application of the new standard from the effective date.

Besides, the Group takes into account amendments issued by IAS Board in April 2016 and will monitor amendments in future. It is expected that application of new standards for contracts with customers, according to which it is established that sale would be the sole obligation for performance, would not have an impact on profit or loss of the Group. The Group expects that recognition of revenue would be at that moment of time, when control on asset is transferred to customer. Now the Group evaluates an influence of IFRS 15 and plans to use it on the date of coming into force.

Amendments to IFRS 10 and IAS 28 Sale or contributions of assets between investor and its associate or joint venture

Amendments consider contradictions between IFRS 10 and IAS 28, in terms of accounting of loss of control over subsidiary sold associate or to joint venture or is transferred to them. Amendments explain that profit or loss, which come as a result of sale or putting of the assets represent them as business according to definition in IFRS 3, in agreement between investor and its associate or joint venture, are recognised in full amount. However, profit or loss, which come as a result of sale or putting of the assets, which are not business, are recognised only in frames of interests, which other have, but not organisation, which investors of associate or joint venture have.

IAS Board postponed the effective date of these amendments for indefinite term, but organisation using these amendments early, must apply them early. It is expected that the given amendments would not have an impact on financial reporting of the Group.

Amendments to IFRS 2 Classification and evaluation of operations of share-based payments

The IASB issued amendments to IFRS 2 Share-based Payment in relation to the classification and measurement of share-based payment transactions. The amendments address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application is permitted.

Amendments are effective for annual periods beginning on or after 1 January 2018. Amendments do not apply to the Group, as the Group does not use share-based payments.

IFRS 16 Leases

IFRS 16 was issued in January 2016 to replace IAS 17 Lease, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Lease—Incentives, and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease. IFRS 16 establishes principles of recognition, evaluation, issuing and release of information about lease. IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. Besides, comparatively to IAS 17, IFRS 16 requires disclosure of wider information from lessees and lessors.

IFRS 16 becomes effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. Now the Group evaluates possible influence of IFRS 16 on financial reporting.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts issued after 1 January 2021 covering recognition and measurement, presentation and disclosure. IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by: a specific adaptation for contracts with direct participation features (the variable fee approach), and a simplified approach (the premium allocation approach) mainly for short-duration contracts. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts. IFRS 17 will result in a profound change to the accounting in IFRS financial statements for insurance companies. This will have a significant impact on data, systems and processes used to produce information for financial reporting purposes. The new model is likely to have a significant impact on the profit and total equity of some insurance entities, resulting in increased volatility compared to today's models. Key performance indicators will also likely be affected. Now the Group evaluates the possible influence of IFRS 17 on financial reporting.

Transfers of Investment Property – Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

Amendments become effective for annual accounting periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed. As the Group does not have significant investment property, these amendments would not influence financial reporting or accounting policies of the Group.

Annual improvements to IFRS: 2014-2016 Cycle (issued in December 2016)

IFRS 1 First-time Adoption of International Financial Reporting Standards

The amendment Deletes short-term exemptions for first-time adopters of IFRS outlined in E3 - E7 paragraphs. The amendment becomes effective for annual accounting periods beginning on or after 1 January 2018. As the Group is not the first-time adopter of IFRS, this amendment would not have any impact on financial reporting or accounting policies of the Group.

IAS 28 Investments in Associates and Joint Ventures

A venture capital organisation, or a mutual fund, unit trust and similar entities (including investment-linked insurance funds) may choose, on an investment by investment basis, to account for its investments in joint ventures and associates at fair value or using the equity method. The amendment also makes it clear that method chosen for each investment is to be made on initial recognition.

If an entity other than an investor holds an interest in a joint venture or associate that is an investor, such an entity may, by applying the equity method, elect the fair value accounting applied by the joint venture or the associate that is an investor to account for its interest in the subsidiary. The election is made separately for each joint venture or associate that is an investor as of the later of the two dates: (a) the date of initial recognition of an investment in the joint venture or the associate that is an investor; (b) the joint venture or associate becomes an investor, and (c) the joint venture or associate that is an investor becomes a parent company for the first time.

This annual improvement must be applied retrospectively for periods beginning on or after 1 January 2018. No transitional relief is available. If an entity uses these amendments retrospectively, this fact should be disclosed in the Notes to financial statements. These amendments will not have an impact on financial reporting of the Group.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption permits such entities to continue to apply IAS 39 Financial Instruments: Recognition and Measurement while they defer the application of IFRS 9 until 1 January 2021 at the latest. The overlay approach is an option for entities that adopt IFRS 9 and issue insurance contracts, to adjust profit or loss for eligible financial assets. The adjustment eliminates accounting volatility that may arise from applying IFRS 9 without the new insurance contracts standard. Entities applying the temporary exemption will be required to make additional disclosures required by IFRS 9.

Amendments become effective for annual accounting periods beginning on or after 1 January 2018. Now the Group evaluates influence of amendments on its consolidated financial reporting.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a nonmonetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or nonmonetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transaction for each payment or receipt of advance consideration.

It becomes effective for annual accounting periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. As the Group has adhered the above approach to accounting, this amendment has no impact on financial reporting or accounting policies of the Group.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

In June 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments which clarifies application of the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. The interpretation is effective for annual accounting periods beginning on or after 1 January 2019, but certain transition reliefs are available. Applying the interpretation could be challenging for entities, particularly those that operate in more complex multinational tax environments. Entities may also need to evaluate whether they have established appropriate processes and procedures to obtain information on a timely basis that is necessary to apply the requirements in the interpretation and make the required disclosures. The interpretation will not have an impact on financial reporting or accounting policies of the Group.

Prepayment Features with Negative Compensation – Amendments to IFRS 9

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. IAS Board also clarified that the gain or loss arising on modification of a financial liability that does not result in derecognition, calculated by discounting the change in contractual cash flows at the original effective interest rate, is immediately recognised in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2019. The amendments must be applied retrospectively; earlier application is permitted. The Group evaluates a potential impact of the amendments on financial reporting of the Group.

Long-term interests in associates and joint ventures – Amendments to IAS 28

The amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests. Amendments are effective for annual periods beginning on or after 1 January 2019. Entities must apply the amendments retrospectively, with certain exceptions. Early application of the amendments is permitted and must be disclosed. The amendments will not have an impact on financial reporting or accounting policy of the Group.

IFRS Practice Statement 2: Making Materiality Judgements

Companies are permitted to apply the guidance in the Practice Statement (PS) to financial statements prepared any time after 14 September 2017. The PS contains non-mandatory guidance to help entities making materiality judgements when preparing general-purpose IFRS financial statements. The PS may also help users of financial statements to understand how an entity makes materiality judgements in preparing such financial statements. Since the PS is a non-mandatory document, it does not change or introduce any requirements in IFRS.

Annual improvements to IFRS: 2015-2017 Cycle (issued in December 2017)

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation. An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. It is expected that these amendments will not have an impact on financial reporting or accounting policies of the Group.

IFRS 11 Joint Arrangements

Party, participating in joint arrangement, but not having common control, might receive common control of joint arrangement, activity of joint arrangement is an enterprise as it is determined in IFRS 3. Amendments explain that earlier retained parts in this joint arrangement are not revaluated. Entity uses these amendments for arrangements, in which it receives common control on the date of beginning or on the date after beginning of the first annual accounting period beginning on 1 January 2019 or after this date. It is allowed to use it earlier. It is expected that amendments will not have impact on financial reporting or accounting policies of the Group.

IAS 12 Corporate income taxes

A party that participates in, but does not have common control of, a joint operation might obtain common control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured. An entity applies those amendments to transactions in which it obtains common control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

Segment Information

For governance purposes, the Group is divided into business units on the basis of services provided. It consists of five operating segments:

- **Cargo transportation** includes cargo transportation services provided by the Group.
- **Long-distance passenger transportation** includes all long-term passenger transportation services provided by the Group.
- **Suburban passenger transportation** includes passenger transportation services within one region.
- **Auxiliary services** include operations of the Group's branches that provide services connected with cargo transportation, suburban passenger transportations, construction, reconstruction and modernisation of railroad bed and transport infrastructure, repairs and technical maintenance of different kinds of railroad equipment and other companies of Group. These operations do not require additional disclosure, as they are insignificant. Because the operations have different economic characteristics, they cannot be included into operating segments listed above.
- **All other segments** include rolling stock repair and technical maintenance services provided to the Group's enterprises.

The management monitors operational results of each unit individually for purposes of decision-making on distribution of resources and evaluation of their performance and it does not monitor balances of assets and liabilities of the segments, as such sums are presented to the management not on a regular basis. Results of segment operations are evaluated on the basis of their operational profit or losses. Evaluation of their performance is conducted according to evaluation of operational profit or losses in management reporting, which differs from consolidated financial statements prepared according to IFRS, as the statements are based on data that do not take into account influence of some IFRS amendments which may be considered as necessary for bringing management reporting in line with IFRS consolidated financial statement according and are managed at the Group level.

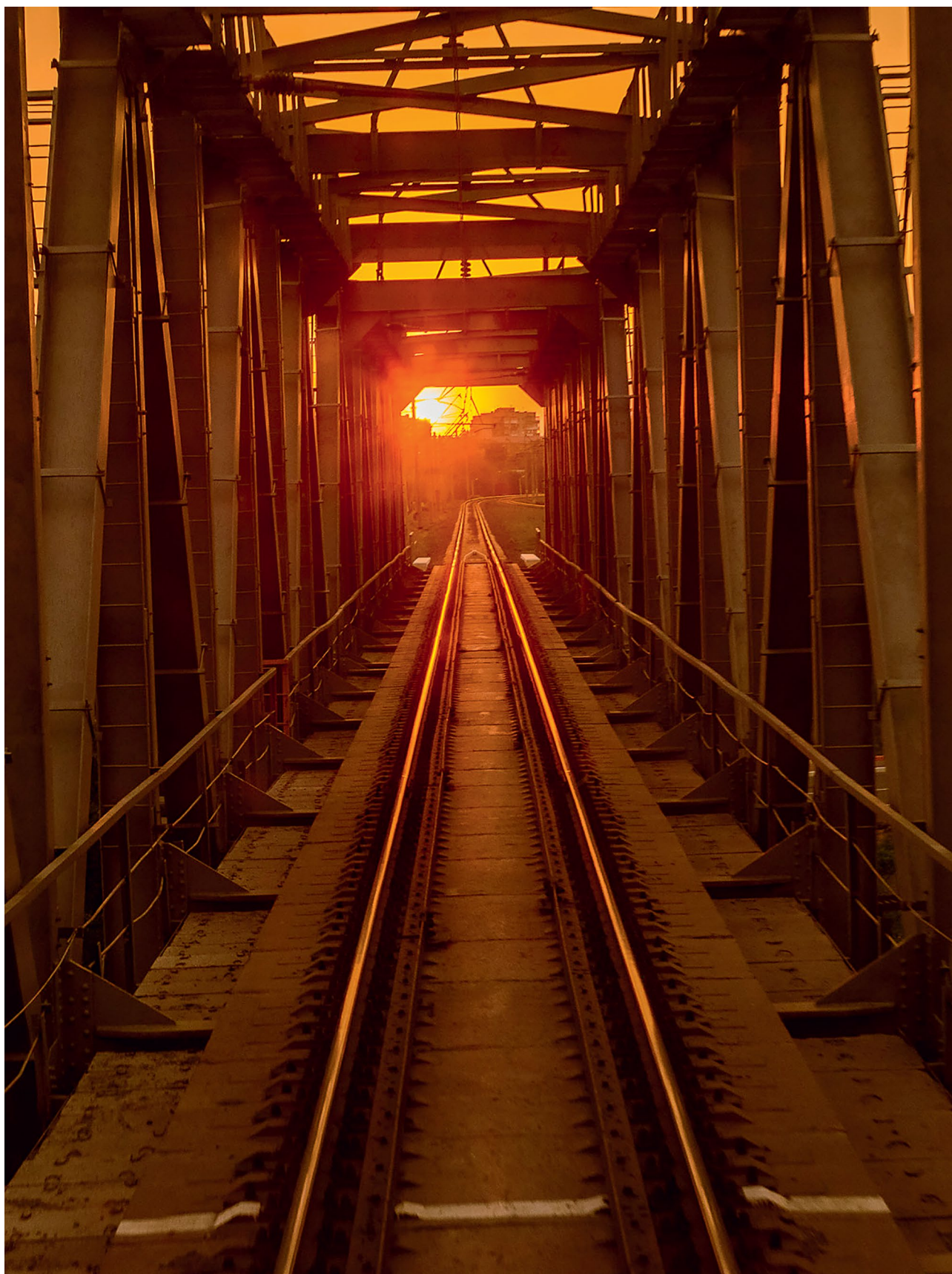
Practically all operational assets of the Group are in the territory of Ukraine and the majority of services provided by the Group are provided in the territory of Ukraine.

Segment income is income, which may directly be attributed to the segment, taking into account sale to third-party customers and operations with other segments. Segment income does not include:

- Income from currency difference;
- Income from disposal, change of fair value and decrease resulting from revaluation of assets/income from discounting of the previously recognised decrease;
- Income from disposal of fixed assets;
- Other income.

Segment expenses are expenses that may be directly attributed to operations of the given segment, and expenditures, which might be divided on a systematic basis taking into account expenditures connected with the sale to third-party customers and operations with other segments. In 2017, repair and maintenance expenditures were included into segment expenditures, which resulted in recalculation of comparative information for 2016.

Operational result of a segment is calculated as a difference between the segment income and segment expenses. Prices of transactions between operating segments are established on an arm's length terms as for transaction with the third parties, excluding electricity transmission transactions.



Segment information (continuation)

For the year ended 31 December 2016	Freight transportation	Intercity passenger transportation	Suburban passenger transportation	Auxiliary services	All other elements	Undistributed elements	Eliminations (A)	Adjustments (B)	Total
Income from sales to third-party customers	55,424,486	6,190,346	527,212	5,388,189	48,777	-	-	(1,008,846)	66,570,164
Income from sales to other segments	-	-	-	6,601,915	1,495,249	-	(8,097,164)	-	-
Comprehensive income from sales	55,424,486	6,190,346	527,212	11,990,104	1,544,026	-	(8,097,164)	(1,008,846)	66,570,164
Expenditures on personnel	(13,479,790)	(4,063,526)	(2,017,104)	(4,858,323)	(436,994)	(339,714)	-	(470,399)	(25,665,850)
Depreciation	(12,806,538)	(2,154,356)	(957,760)	(1,432,393)	(39,405)	(39,100)	-	(480,575)	(17,910,127)
Electricity	(5,158,070)	(1,224,776)	(720,510)	(7,259,902)	(47,727)	(4,840)	6,601,915	-	(7,813,910)
Fuel	(3,946,970)	(734,282)	(506,638)	(643,879)	(38,595)	(6,999)	-	-	(5,877,363)
Repair and maintenance	(3,869,277)	(750,134)	(464,808)	(117,075)	(1,222,687)	(387,503)	1,495,249	-	(5,316,235)
Operational result of segment	16,163,841	(2,736,728)	(4,139,608)	(2,321,468)	(241,382)	(778,156)	-	(1,959,820)	3,986,679

For the year ended 31 December 2016	Freight transportation	Intercity passenger transportation	Suburban passenger transportation	Auxiliary services	All other elements	Undistributed elements	Eliminations (A)	Adjustments (B)	Total
Income from sales to third-party customers	60,990,787	6,745,313	588,844	6,498,480	8,539	-	-	(893,812)	73,938,151
Income from sales to other segments	-	-	-	7,409,197	1,776,779	-	(9,185,976)	-	-
Comprehensive income from sales	60,990,787	6,745,313	588,844	13,907,677	1,785,318	-	(9,185,976)	(893,812)	73,938,151
Expenditures for personnel	(17,408,628)	(5,317,605)	(2,584,647)	(4,052,452)	(617,177)	(1,993,486)	-	-	(31,973,995)
Depreciation	(10,714,216)	(1,633,342)	(870,424)	(1,376,009)	(35,867)	(32,447)	-	-	(14,662,305)
Electricity	(5,306,396)	(1,253,580)	(722,395)	(7,888,936)	(56,356)	(5,094)	7,366,824	-	(7,865,933)
Fuel	(4,970,812)	(955,452)	(604,993)	(716,464)	(47,462)	(12,679)	-	-	(7,307,862)
Repair and maintenance	(3,757,517)	(837,248)	(527,679)	(637,027)	(1,106,424)	(762,948)	1,819,152	-	(5,809,691)
Operational result of segment	(18 833,218)	(3,251,914)	(4,721,294)	(763,211)	(77,968)	(2,806,654)	-	(893,812)	6,318,365

Segment information (continuation)

- (A) Income and margin of intersegment transaction are excluded during consolidation.
- (B) Operational result of each operating segment does not include the following adjustments, which are a difference between management reporting and consolidated financial reporting prepared in accordance with IFRS for the year ended 31 December.

	2016	2017
Recognition of income from sales in the period	14,033	–
Setoffs with foreign railways	(1,022,879)	(893,812)
	(1,008,846)	(893,812)
Adjustments of bonuses and provisions of unused vacations	(380,984)	–
Adjustments of pension liabilities	(89,415)	–
Adjustments of depreciation as a result of differences between book value of the fixed assets according to IFRS and management reporting	(480,575)	–
Adjustments of differences between policies of management reporting and IFRS	(1,959,820)	(893,812)

Reconciliation of income:

	2016	2017
Operational result of segment	6,724,655	10,018,831
Adjustments as a result of differences between policies of management reporting and IFRS	(1,959,820)	(893,812)
Undistributed amounts	(778,156)	(2,806,654)
Items not included into segment expenses		
Taxes, except corporate income tax	(1,093,293)	(1,803,000)
Social security expenditures	(283,186)	(470,130)
Change of provision	(318,615)	(100,243)
Other income	559,075	2,451,001
Other expenditures	(1,008,650)	(1,061,392)
Financial income	364,872	554,799
Financial expenditures	(4,803,518)	(3,810,903)
Loss from currency differences	(4,505,516)	(1,139,624)
Share in loss of associates	(13,597)	(166,780)
Income/(loss) before tax	(7,115,749)	772,093

Fixed assets

	Land plots	Buildings, constructions and infrastructure	Railbed and track superstructure	Locomotives	Railcars	Machinery, mechanisms, tools and other fixed assets	Transportation	Construction in progress and uninstalled equipment	Total
Cost / revalued amount									
As of 1 January 2016	45,647,046	74,520,805	80,608,479	18,435,987	33,727,854	18,287,171	3,769,420	7,318,790	282,315,552
Proceeds	-	-	-	-	-	-	-	6,795,322	6,795,322
Purchase as a result of business combinations (Note 16)	-	-	-	-	-	12,099	-	-	12,099
Transfer	-	301,279	1,955,395	627,922	2,196,755	989,733	25,626	(6,096,710)	-
Disposal	-	-	-	-	-	(9,719)	-	-	(9,719)
Revision of fixed assets classification	-	-	-	732,944	8,918	-	(741,862)	-	-
As of 31 December 2016	45,647,046	74,822,084	82,563,874	19,796,853	35,933,527	19,279,284	3,053,184	8,017,402	289,113,254
Accumulated depreciation									
As of 1 January 2016	-	7,698,454	3,192,516	2,673,987	2,581,950	4,335,408	489,198	2,031,050	23,002,563
Depreciation	-	3,302,893	5,001,928	1,969,605	5,202,349	2,233,817	385,702	-	18,096,294
Disposal	-	-	-	-	-	(7,638)	-	-	(7,638)
Revision of fixed assets classification	-	-	-	558,130	7,830	-	(565,960)	-	-
As of 31 December 2016	-	11,001,347	8,194,444	5,201,722	7,792,129	6,561,587	308,940	2,031,050	41,091,219
Net book value									
As of 1 January 2016	45,647,046	66,822,351	77,415,963	15,762,000	31,145,904	13,951,763	3,280,222	5,287,740	259,312,989
As of 31 December 2016	45,647,046	63,820,737	74,369,430	14,595,131	28,141,398	12,717,697	2,744,244	5,986,352	248,022,035

Fixed assets (continuation)

	Land plots	Buildings, constructions and infrastructure	Railbed and track superstructure	Locomotives	Railcars	Machinery, mechanisms, tools and other fixed assets	Transportation	Construction in progress and uninstalled equipment	Total
Cost / revalued amount									
As of 1 January 2017	45,647,046	74,822,084	82,563,874	19,796,853	35,933,527	19,279,284	3,053,184	8,017,402	289,113,254
Proceeds	-	-	-	-	-	-	-	11,312,881	11,312,881
Transfer	-	298,398	2,122,838	1,270,255	4,674,756	1,162,416	206,133	(9,734,796)	-
Retirement	-	(6)	-	-	-	(746)	(5)	-	(757)
Proceeds as a result of business combinations (Note 16)	-	11,622	1,307	-	-	23,010	456	1,086	37,481
Requalification concerning assets of NGCA areas (Note 2)	(6,493)	(2,799,679)	(1,548,330)	(356,354)	(233,773)	(2,094,823)	(1,208,736)	(500,480)	(8,748,668)
As of 31 December 2017	45,640,553	72,332,419	83,139,689	20,710,754	40,374,510	18,369,141	2,051,032	9,096,093	291,714,191
Accumulated depreciation									
As of 1 January 2017	-	11,001,347	8,194,444	5,201,722	7,792,129	6,561,587	308,940	2,031,050	41,091,219
Depreciation	-	3,175,386	4,676,886	1,619,869	3,917,621	1,155,425	304,377	-	14,849,564
Retirement	-	(6)	-	-	-	(745)	(5)	-	(756)
Proceeds as a result of business combinations (Note 16)	-	9,307	991	-	-	21,548	456	-	32,302
As of 31 December 2017	-	14,186,034	12,872,321	6,821,591	11,709,750	7,737,815	613,768	2,031,050	55,972,329
Net book value									
As of 1 January 2017	45,647,046	63,820,737	74,369,430	14,595,131	28,141,398	12,717,697	2,744,244	5,986,352	248,022,035
As of 31 December 2017	45,640,553	58,146,385	70,267,368	13,889,163	28,664,760	10,631,326	1,437,264	7,065,043	235,741,862

Fixed assets (continuation)

Revaluation of fixed assets

During Reorganisation from a state-owned enterprise into a joint stock company, assets, including the fixed assets and liabilities must be measured at the fair value. Fixed assets were revaluated by independent valuator as of 31 July 2014 in accordance with regulatory requirements. Revaluation effect was reflected as of 30 November 2015, the date of Reorganisation completion for the purposes of consolidated financial reporting, taking into account effect of depreciation of fixed assets before revaluation for the period from 31 July 2014 to 1 December 2015 and history of the fixed assets over the period.

Land plots

Land plots include the value of rights of permanent use to the amount of UAH 45,640,553,000 which was determined on the ground of property valuation for the purposes of statutory capital formation (Note 16) separately from fixed assets, which might be located on these land plots. Results of such evaluation might differ from evaluation conducted for purposes of financial reporting in accordance with IFRS.

The management considers that as accounting of rights of permanent use of land plots separately from the correspondent fixed assets is regulated by laws on reorganisation from a state-owned enterprise into a joint stock company, it is impossible to avoid it during preparations of consolidated financial statements.

Fixed assets assigned on the basis of the right of economic management

Some fixed assets – namely main general-use railroad lines and process facilities located on them, transmitting devices, etc., which are directly used for provision of transportation process – were assigned to the Company as a property operated on the right of economic management (Note 16). Right of economic management allows to own, use and manage property, except the property management which may lead to alienation of such property.

Residual value of assets, which were received on the right of economic management, was UAH 98,640,070,000 as of 31 December 2017 (2016: UAH 102,211,984,000).

Facilities of social infrastructure

Book value of social infrastructure facilities and other non-production assets as of 31 December 2017 was UAH 3,360,681,000 (2016: UAH 3,438,546,000). These assets

generally include dwelling houses, hospitals, canteens and other similar facilities.

Prepayments for the fixed assets

Construction in progress and uninstalled equipment as of 31 December 2017 included prepayments for the fixed assets of UAH 278,159,000 (2016: UAH 20,568,000).

Capitalised expenditures for depreciation

For the year ended 31 December 2017, the Group capitalised expenditures for depreciation of engaged equipment of UAH 19,561,000 (2016: UAH 115,641,000) in the construction in progress line.

Capitalised expenditures on loans

In 2017, expenditures on loans of UAH 16,339,000 were capitalised and attributed to the correspondent qualified assets (2016: UAH 16,097,000). Rates used to determine sums of expenditures subject to capitalisation are LIBOR 6 months +1%-6% and EURIBOR 6 months +0.3% and are the effective interest rate in a specific interest-bearing credit.

Fully depreciated assets

As of 31 December 2017, revalued amount of fully depreciated assets used by the Group was UAH 14,488,757,000 (2016: UAH 10,661,518,000).

Financial leasing

As of 31 December 2017, the book value of fixed assets received under financial lease agreements was UAH 1,077,265,000 (2016: UAH 1,302,650,000).

For years ended 31 December 2017 and 2016, the Group did not receive the fixed assets under financial lease agreements.

Fixed assets pledged

As of 31 December 2017, some part of rolling stock with the book value of UAH 239,726,000 (2016: UAH 249,424,000) was used as a collateral of the Group's bank loans (Note 17).

Investments in associates

On 29 January 2016, the State Property Fund of Ukraine transferred 47.67% of the equity rights of PJSC Ukrtransleasing to PJSC Ukrzaliznytsia as a contribution to the statutory capital within the Reorganisation (Note 16). Starting from this date, the Group's share in PJSC Ukrtransleasing has been accounted for in the consolidated financial statements by the equity method.

PJSC Ukrtransleasing along with three subsidiaries make Ukrtransleasing Group. The Group offers financial leasing services, operational leasing of railway rolling stock, forwarding services and produces railway switchers and junctions. Neither PJSC Ukrtransleasing nor its subsidiaries are listed on stock exchanges. Some Ukrtransleasing Group assets are located or otherwise connected with the Autonomous Republic of Crimea and certain areas of Donetsk and Luhansk Oblasts, which are temporarily not under government control. Results of the group's operations include operations related to the non-government controlled areas (Note 2).

Below is the summary information about Ukrtransleasing, taking into account the adjustments to the compliance with the uniform accounting policies of the group:

	31 December 2016 (adjusted)	31 December 2017 (adjusted)
Current assets	1,258,587	1,010,570
Non-current assets	1,329,056	851,289
Short-term liabilities	(737,064)	(701,015)
Long-term liabilities	(253,704)	(46,859)
Equity	1,596,875	1,113,985
Investment book value	760,591	530,398

Investments in associates (continued)

	For the period from the transfer of the equity rights till 31 December 2016 (adjusted)	31 December 2017 (adjusted)
Sales proceeds	230,367	287,112
Loss before tax	(51,575)	(420,423)
Corporate income tax revenue	26,253	70,529
Loss for the period from continuing operations	(25,322)	(349,894)
(Loss)/income because of asset revaluation	299,146	(134,867)
Corporate income tax recognised as a result of assets revaluation	(53,846)	23,738
Other comprehensive loss for the period	(225)	(5,109)
Total comprehensive (loss)/income for the period from continuing operations	219,753	(466,132)
Adjustment for the compliance with the Group's uniform accounting policies by an associate	(3,201)	–
Total comprehensive (loss)/income for the period from continuing operations, taking into account the adjustment for the compliance with the Group's uniform accounting policies by an associate	216,552	(466,132)
Group's share in the loss for the period	(13,597)	(166,794)

In 2017, the Group received dividends from an associate to the amount of UAH 7,988 (2016: UAH 639,000).

The Group has investments in other associate companies, each of which, taken individually, is not material. One of such associates is PJSC Insurance Company Inter-Polis offering insurance and reinsurance services in Ukraine. The Group has owned 30.965% in the company since 1 February 2017. The other enterprise is Breitspur Planungsgesellschaft mbH incorporated under Austrian laws, which deals with the feasibility study of the construction of a broad-gauge railway line from the Ukrainian border to Vienna. The line is designed to greatly optimise the transportation of goods between the markets of China and Western Europe. It is expected that the feasibility study will continue until the end of 2018, the start of the construction of the track is scheduled for 2022. As of 21 July 2017, the Group has concentrated its share of 25% in the statutory capital of the company, when it received 12.6% of the company's equity rights worth UAH 47,643,000 from the State Property Fund of Ukraine within the framework of the continuing reorganisation process. The equity rights are accounted in the correspondence with additional capital. Below is the general information about other associates, each of which, if taken individually, is not material. The information covers the period from the date the Group has gained material impact till 31 December 2017:

	As of the equity rights transfer date (adjusted)	31 December 2017 (adjusted)
Current assets	194,914	205,130
Non-current assets	232,694	222,134
Short-term liabilities	(20,072)	(22,170)
Long-term liabilities	(8,874)	(7,033)
Equity	398,662	398,061
Investments book value	102,154	101,968

	For the period from the transfer of the equity rights till 31 December 2017 (adjusted)
Sales proceeds	68,323
Income before tax	2,130
Corporate income tax loss	(2,085)
Income for the period from continuing operations	45
Total comprehensive income for the period from continuing operations	45
Total comprehensive income for the period from continuing operations, taking into account the adjustment for the compliance with the Group's uniform accounting policies by an associate	45
Group's share in the income for the period	14

In 2017, UAH 200,000 in dividends were paid to the Group from other associates.

The income of an associate is distributed only after approval by the Group. As of the reporting date, the Group does not intend to grant such approval. As of 31 December 2017 and 2016, associates had no contractual liabilities to make capital investments in the future.

Financial assets

	2016	2017
Equity assets of other entities	127,840	73,546
Long-term loans to employees	50,131	19,701
Other financial assets	911	–
	178,882	93,247

Equity assets of other entities mainly consist of contributions to purchase non-controlling stakes in certain enterprises, where the acquisition of ownership rights has not yet been formalized by the Group by the end of the reporting period. The book value of these financial instruments does not differ materially from their fair value.

The Group provides long-term, interest-free loans to its employees with an average contractual maturity of 3-8 years. The loans are granted at amortised cost with an effective interest rate of 13-23% per annum. Short-term part of loans to the amount of UAH 8,518,000 (2016: UAH 7,061,000) is reported in trade and other accounts receivable (Note 13).



Inventories

	2016	2017
Spare parts, materials and tools (at cost or net realisable value)	3,861,293	6,003,150
Fuels and lubricants (at cost)	785,875	706,715
Other inventories (at cost or net realisable value)	1,478,686	1,708,055
	6,125,854	8,417,920

In 2017, spare parts, materials and tools, fuel and lubricants and other inventories to the amount of UAH 12,678,353,000 (2016: UAH 10,930,837,000) were recognised as expenses of operating inventories.

As of 31 December 2017, the inventories with the book value of UAH 111,251,000 (2016: UAH 111,251,000) were used as collateral for the bank loans of the Group (Note 17).

Trade and other accounts receivable

	2016	2017
Trade receivables	945,193	913,941
Arrears of contributions	103,481	–
Short-term part of long-term financial assets (Note 11)	7,061	8,518
Other accounts receivable	1,717,800	700,516
	2,773,535	1,622,975
Net of provision for impairment of trade and other accounts receivable	(729,636)	(743,853)
	2,043,899	879,122

Arrears of contributions as of 31 December 2016 are represented by arrears regarding the contribution of equity rights of certain enterprises in the statutory capital of the Company (Note 16).

As of 31 December 2017 and 2016, the short-term part of long-term financial assets included only short-term loans to employees (Note 11).

As of 31 December 2017, trade and other accounts receivable to the amount of UAH 743,853,000 (2016: UAH 729,636,000) were impaired and a full-amount provision was created. The impairment losses were included in other expenses of the consolidated statement of comprehensive income. Changes in the provisions for the impairment of trade and other accounts receivable are presented as follows:

	2016	2017
Balance as of 1 January	566,570	729,636
Provision created	172,955	43,597
Written off through provision	(9,889)	(23,165)
Refund during the year	–	(6,215)
Balance as of 31 December	729,636	743,853

Analysis of trade and other accounts receivable by maturity includes:

	Not overdue and not impaired	Overdue, but not impaired				Total
		Less than 3 months	3-6 months	6-12 months	More than 12 months	
31 December 2016	654,595	1,340,296	9,729	39,279	–	2,043,899
31 December 2017	741,012	69,559	47,630	20,921	–	879,122

Advance payments

	2016	2017
Advance payments for materials and services	314,109	203,999
Prepaid dividends (Note 28)	7,657	–
	321,766	203,999

As of 31 December 2017, the advance payments impairment was UAH 9,510,000 (2016: UAH 27,206,000).

Taxes receivable, except corporate income tax

	2016	2017
Added value tax receivable	538,744	443,687
Advance payments from other taxes	18,881	16,445
	557,625	460,132

As of 31 December 2017, part of VAT receivable of UAH 849,024,000 was classified as a long-term asset, as the expected refund period exceeds 12 months (2016: UAH 888,602,000).



Equity

Statutory capital

In 2017 and 2016, the statutory capital of the Company amounted to UAH 229,879,115,000 and was divided into 229,879,115 ordinary registered shares with a nominal value of UAH 1,000 each.

The contribution of equity rights in Kyiv Electrotechnical Plant "TRANSSYGNAL" with a book value of to the statutory capital of the Company was registered in July 2017. The contribution's book value made UAH 103,481,000 (Note 13). Thus, the statutory capital became fully paid. As a result, the issue of Company's shares was registered on 7 September 2017 according to the applicable laws of Ukraine.

Group Reorganisation, additional capital

Public Joint Stock Company "Ukrainian Railways" was established on 21 October 2015, when the state registration of the Company was conducted in accordance with Resolution No. 735 of the Cabinet of Ministers of Ukraine Issues of Public Joint Stock Company "Ukrainian Railway", dated 2 September 2015.

According to Law of Ukraine No.4442-VI On Special Aspects of Establishment of a Public Railway Transport Company, dated 23 February 2012, PJSC Ukrzaliznytsia is the successor of the State Administration of Railway Transport of Ukraine and of enterprises and entities of public railway transport, which were reorganised by merger in accordance with Resolution No.200 of the Cabinet of Ministers of Ukraine On the Establishment of a Public Joint Stock Company "Ukrainian Railway", dated 25 June 2014.

For the purpose of the consolidated financial statements, the end date of the Reorganisation is 30 November 2015. By this date, licenses, permits and other documents were issued, allowing Ukrzaliznytsia to begin its financial and business operations from 1 December 2015.

Because of the objective impossibility to carry out all necessary regulatory measures on reorganisation (inventory of assets and liabilities, their assessment and official transfer and acceptance by the Company), net assets related to the territory of the temporarily occupied Autonomous Republic of Crimea and NGCA of Donetsk and Luhansk oblasts could not be included into the statutory capital. Instead, the transfer of such net assets to the Company was carried out in correspondence with additional capital. Financial information on temporarily occupied Autonomous Republic of Crimea and NGCA of Donetsk and Luhansk oblasts is given in Note 2.

Besides, the additional capital was formed with the facilities of the public housing stock and civil defence facilities, which cannot be transferred to the statutory capital of the Company because of legal restrictions. However, they are included in the assets of the Company. Also, the additional capital was formed with financial leasing facilities, fixed assets acquisition and modernisation occurred from the date of valuation on 31 July 2014 until the end of the Reorganisation on 30 November 2015.

In early 2016, Ukrzaliznytsia re-registered 65.62% of the equity rights of PJSC Insurance Company Tast-Garantia within the framework of the Reorganisation process. The main activities of PJSC Insurance Company Tast-Garantia are insurance services, other than life insurance. The value of assets of the subsidiary amounted to UAH 14,854,000 as of 31 December 2016. The Group's total loss for 2016 included UAH 147,000 in profit of the subsidiary.

In 2017, the Group conducted a reclassification of UAH 745,690,000 into the additional capital to ensure compliance with the regulatory documents of the Reorganisation.

Part of the profit paid to national budget

In 2017, the subsidiaries of Ukrzaliznytsia paid part of their profits, i.e. UAH 6,513,000 (2016: UAH 794,000), directly to the national budget.

Interest-bearing loans and borrowings

As of 31 December 2017, the interest-bearing loans and borrowings were as follows:

	2016	2017
Bank interest-bearing loans	23,804,004	18,446,029
Eurobonds	14,205,504	14,583,106
Bonds issued in the domestic market	2,093,421	–
Other loans	408,818	482,404
	40,511,747	33,511,539

Eurobonds relate to a loan of \$500,000,000 received through placement of Shortline PLC bonds on the Irish stock exchange in May 2013. In March 2016, the Group restructured the loan, which included the maturity extension by 15 September 2021, an annual interest rate increase from 9.5% to 9.875% as of 21 November 2015, and a change in the principal loan repayment schedule, where 60% to be repaid in 2019, 20% in 2020, and 20% in 2021.

Domestically issued bonds were issued and placed in the Ukrainian market. They were denominated in Ukrainian hryvnias at an interest rate of 18% - 23.5% and were fully repaid in 2017.



As indicated in Note 2, the Group accounted the liabilities of SE Donetsk Railways on its balance sheet with the subsequent distribution of the balance sheet data into controlled and uncontrolled interests. In 2016, most creditor banks of SE Donetsk Railways filed lawsuits to recognise Ukrzaliznytsia as the successor of the enterprise and to collect the debt. In February 2017, some changes were made to the Reorganisation Law, which included a moratorium on foreclosure on assets and liabilities of the SE Donetsk Railways till the termination of the counter-terrorism operation and the completion of succession procedures (inventory of assets and liabilities, their valuation and official transfer and acceptance by the Company). Court decisions taken after these amendments to the law found that the Group was not a legal successor of loans and borrowings of SE Donetsk Railways.

Since 1 January 2016, the Group has derecognised financial expenses and losses from exchange rates related to loans and borrowings of SE Donetsk Railways. As of 31 December 2017, it reclassified them to NGCA liabilities (Note 2). Thus, as of 31 December 2017, the NGCA liabilities included interest-bearing loans and borrowings denominated in US dollars to the amount of \$116,340,000 with a fixed interest rate of 10.65% to 12% per annum, and interest-bearing loans and borrowings denominated in UAH to the amount of UAH 932,725,000 at a fixed interest rate of 17.4% to 18.0% per annum.

The effective interest rate and the currency of loans and borrowings were as follows:

	Interest rate	2016	Interest rate	2017*
USD				
Floating rate	LIBOR 6 months + 1%-6%	5,363,114	LIBOR 6 months + 1%-6%	4,132,705
Fixed rate	9.5%-12%	30,652,598	9.9%-12%	27,507,731
		36,015,712		31,640,436
Euro				
Floating rate	EURIBOR 6 months + 0.4%	994,791	EURIBOR 6 months + 0.3%	1,172,340
		994,791		1,172,340
UAH				
Fixed rate	17.4 %-23.5%	3,501,244	18.9%-20.75%	698,763
		3,501,244		698,763
Total interest-bearing loans and borrowings		40,511,747		33,511,539
Net of: short-term parts		(16,679,238)		(10,890,635)
Total long-term part		23,832,509		22,620,904

* - after reclassification into NGCA liabilities (Note 2)

Some loan agreements include financial and non-financial constraints on certain transactions and financial ratios including limitations on the Group indebtedness and profitability level.

In 2017 and 2016, the Group violated the liabilities under an amendment agreement between PJSC Ukrzaliznytsia and Shortline PLC of 19 February 2016, as the Group was not able to restructure part of its loan liabilities in a timely manner. The Group has rectified the breach by the end of the relevant reporting years by amending the agreement with Shortline PLC.

As of 31 December 2017 and 2016, breaches of long-term loan agreements not restructured by the Group in time caused a cross-default on some other loans. Thus, creditors were entitled to demand early repayment of interest-bearing loans with a book value of UAH 3,926,119,000 as of 31 December 2017 (2016: UAH 4,549,891,000). In accordance with the requirements of IAS 1 Presentation of Financial Statements, the long-term portion of the loan under these contracts to the amount of UAH 3,003,375,000 as of 31 December 2017 was accounted in these consolidated financial statements as part of the short-term liabilities (2016: UAH 3,649,075,000). In 2017 and 2016, the Group completed the negotiation process and agreed restructuring terms and conditions with some creditors. The management expects that the restructuring negotiations will complete or debt refinancing will be carried out by 31 December 2018.

As of 31 December 2017, the undisbursed part of the loans available to the Group amounted to UAH 6,548,251,000 (2016: UAH 6,468,685,000). Because of the breach of the liabilities as of December 31, 2017, the Group's access to the credit facilities was limited. Assuming that the Group did not violate certain obligations, the undisbursed part available to the Group would have been UAH 7,218,160,000 as of December 31, 2017 (2016: UAH 7,037,137,000).

Interest-bearing loans and borrowings were secured in the following manner:

Security type	2016	2017
Fixed assets (Note 9)	249,424	239,726
Inventories (Note 12)	111,251	111,251
Future cash proceeds in sales profits	22,984,535	18,042,411
Guaranteed by the Government of Ukraine (Note 29)	6,357,905	4,813,240

Liabilities under capital lease agreements

Liabilities under financial lease agreements are amounts payable under contracts for the purchase of freight wagons and passenger cars, locomotives and equipment. Most lease payments are pegged to the hryvnia exchange rate against the US dollar, and the average lease period is seven years. As of 31 December 2017, the effective rates ranged from 11% to 17% per annum.

During the years ended on 31 December 2017 and 2016, the Group did not receive fixed assets under financial lease agreements. The liabilities under finance leases to Ukrainian creditors (unlike foreign creditors) are subject to VAT at the rate of 20% as of the date of payment. Interest payments are not subject to VAT.

In 2017, the NGCA liabilities (Note 2) included liabilities under financial lease agreements pegged to the US dollar to the amount equivalent to \$19,719,000.

Below is the information on minimum lease payments and current cost of the financial lease liabilities:

	Minimal payments		Current value	
	2016	2017	2016	2017
Amounts to be paid under financial lease agreements				
Not more than one year	1,307,690	654,892	1,186,598	605,292
More than one year, but less than five years	521,645	129,197	459,853	116,087
	1,829,335	784,089	1,646,451	721,379
Net of: future financial expenses	(182,884)	(62,710)	–	–
	1,646,451	721,379	1,646,451	721,379
Classified as:				
Current	1,186,599	605,292	1,186,599	605,292
Long-term	459,852	116,087	459,852	116,087

Liabilities under established benefit plans

The Group is obliged to reimburse the State Pension Fund for supplementary pensions paid to certain categories of its current and former employees entitled to early retirement because of work in harmful and/or hazardous conditions. In accordance with the collective bargaining agreement, the Group also has a contractual liability to make one-off payments on retirement to long-service employees, certain benefits to retirees, allowances upon completion of employment, as well as other long-term benefits such as jubilee and other long-term employment payments. These programmes correspond to the established payment plans.

Liabilities under established benefit plans

The Group's liabilities under established benefit plans were as follows:

	2016	2017
Payments upon termination of employment and retirement under the collective bargaining agreement	1,325,671	1,545,503
Government programme for additional pensions paid to employees working in harmful and dangerous conditions	445,649	341,522
Other long-term liabilities under the collective bargaining agreement	761,637	345,395
	2,532,957	2,232,420

The changes in the net present value of liabilities under established benefit plans are presented below:

	2016	2017
As of 1 January	1,899,361	2,532,957
Interest expenses under the plan	270,033	340,497
Current services cost	93,477	108,592
Services cost for the previous periods	–	(30,175)
Remunerations paid	(307,409)	(415,293)
Losses/(profits) from recalculation in the comprehensive income from:		
■ changes in financial assumptions	199,592	152,148
■ changes in demographic assumptions	(8,786)	(21,453)
■ experience-based changes	83,342	35,621
Recalculation of other long-term liabilities to employees	303,347	(470,474)
As of 31 December	2,532,957	2,232,420

The amounts recognised in the consolidated statement of income and loss was:

	2016	2017
Current services cost	93,477	108,592
Interest expenses under the plan (Note 26)	270,033	340,497
Services cost for the previous periods	–	(30,175)
Recalculation of other long-term liabilities to employees (note 25)	303,347	(470,474)
	666,857	(51,560)

The cost of current services, the recognised value of previously provided services for the previous periods is included in personnel expenses in the statement of the comprehensive income. Interest expense under the plan is included in the financial expenses.

Significant actuarial assumptions used in the calculation of liabilities under established benefit plans are as follows:

	2016	2017
Discount rate	16.00%	15.30%
Employee churn	6.94%	10.56%
Expected salary increase	6.35%	7.00%
Expected pension increase	6.35%	5.50%



The sensitivity analysis of the established liabilities is given in the table below:

2016	Change in the assumptions	Increase/ (decrease) of the obligation
Discount rate	+1%	(117,764)
Discount rate	-1%	129,526
Expected salary increase	+1%	82,730
Expected salary increase	-1%	(76,354)

2017	Change in the assumptions	Increase/ (decrease) of the obligation
Дисконтна ставка	+1%	(110,434)
Дисконтна ставка	-1%	99,871
Очікуваний приріст заробітної плати	+1%	102,358
Очікуваний приріст заробітної плати	-1%	(112,186)

Mandatory deductions under established benefit plans

For the year ended 31 December 2018, the Group expects to pay UAH 450,898,000 under established benefit plans.

For the year ended 31 December 2017, the total cost of participation in the programme of mandatory state pension insurance amounted to UAH 5,524,867,000 (2016: UAH 4,569,491,000). For the year ended 31 December 2018, the Group expects to make payments to mandatory state pension insurance to the amount of UAH 6,513,430,000.

Corporate income tax

The main components of corporate income tax expense in the consolidated Statement of Financial Position were as follows:

	2016	2017
Current corporate income tax expenses	246,176	440,475
Specification of the corporate income tax expenses	(80,625)	8,069
Deferred corporate income tax expenses	40,741	209,000
Corporate income tax expenses	206,292	657,544

In 2017 and 2016, the corporate income tax rate was 18% for enterprises in Ukraine.

The specification of corporate income tax expenses for 2017 and 2016 occurred as a result of the revised tax returns on corporate income tax for the previous periods.

Reconciliation of profit/(loss) before tax as multiplied by the specified tax rate and corporate income tax expense:

	2016	2017
Profit/(loss) before tax	(7,115,749)	772,093
At the established tax rate (18%)	(1,280,835)	138,977
Tax impact		
Impact of the temporary differences revision	1,527,725	840,566
Change in the unrecognised portion of deferred tax assets	(1,614,254)	(585,240)
Other permanent differences	1,573,656	263,241
Corporate income tax loss	206,292	657,544



Deferred tax assets and liabilities were presented as follows:

	Consolidated statement of financial position		Consolidated statement of comprehensive income	
	2016	2017	2016	2017
Fixed assets (i)	(33,304)	(124,683)	(60,670)	91,379
Inventories (ii)	89,483	12,543	(2,132)	76,940
Advances received from clients (iii)	(30,832)	–	12,732	(30,832)
Trade and other accounts receivable (iv)	(3,234)	142,858	33,347	(146,092)
Trade and other accounts payable (v)	6,593	–	(145)	6,593
Liabilities under capital lease agreements (vi)	199,310	–	32,341	199,310
Liabilities under established benefit plans (vii)	420,469	336,435	(64,700)	84,034
Interest-bearing loans and borrowings (viii)	512,908	–	1,704,222	512,908
	1,161,393	367,153	1,654,995	794,240
Net of unrecognised deferred tax assets	(666,082)	(80,842)	(1,614,254)	(585,240)
Deferred corporate income tax loss			40,741	209,000
Impact of the actuarial gains recognised in the statement of comprehensive income regarding deferred taxes	35,463	65,401	(49,347)	(29,938)
Net deferred tax assets	530,774	351,712		
Recognised in the consolidated financial statements				
Deferred tax assets	555,722	376,484		
Deferred tax obligation	(24,948)	(24,772)		
Net deferred tax assets	530,774	351,712		

Reconciliation of the net deferred tax asset:

	2016	2017
Balance as of 1 January	522,168	530,774
Deferred tax liability recognised in profit and loss	(40,741)	(209,000)
Refund of deferred tax recognised in comprehensive income	49,347	29,938
Balance as of 31 December	530,774	351,712

The nature of the temporary tax differences is as follows:

- (i) Fixed assets – differences between depreciation methods, useful service lives, differences in the principle of recognition of repairs and modernisation, different valuation bases;
- (ii) Inventories – differences in valuation and inventory recognition period;
- (iii) Prepayments and advances received from clients – differences in the recognition period and valuation principles;
- (iv) Trade and other receivables – differences in the valuation, including provision for doubtful debts, differences in the recognition period;
- (v) Trade and other payables – differences in the principles of valuation and recognition;
- (vi) Liabilities under capital lease agreements – differences in recognition principles;
- (vii) Liabilities under established benefit plans – differences in the recognition principles;
- (viii) Interest-bearing loans and borrowings – differences in the principles of recognition of unrealised net loss from foreign exchange differences.

As of 31 December 2017 and 2016, deferred tax assets arising from the foreign currency component of interest-bearing loans and borrowings and financial leases (as a result of the Ukrainian hryvnia devaluation) were not recognised, as the probability of realisation of these deferred tax assets is uncertain.

Trade and other accounts payable

	2016	2017
Trade payables	2,740,065	3,666,007
Wage arrears and related deductions	2,482,097	2,396,794
Provision for unused vacation	886,258	1,021,695
Debt for fixed assets purchase	426,490	437,331
Debt for dividends payment (Note 28)	201	39
Other accounts payable	377,005	269,144
	6,912,116	7,791,010

The average settlement period for accounts payable is 60 days.

Other deferred tax liabilities

	2016	2017
Personal income tax payable	270,189	314,847
Land tax	94,708	168,454
VAT liabilities	80,520	107,839
Other taxes payable	34,754	65,285
	480,171	656,425

Security

Changes in security were presented as follows:

	2016	2017
As of 1 January	816,008	1,220,425
Accrued during the period	367,461	100,243
Impact of the foreign exchange change	85,802	28,449
Amounts used	–	(60,328)
Unused sums reversed during the year	(48,846)	–
As of 31 December	1,220,425	1,288,789

In the ordinary course of business, the Group participates in a number of legal proceedings as a claimant or defendant. Security under legal claims is the management's assessment of the probable outflow of the Group's resources that may arise in the event of a negative (unfavourable) court decision and arbitration procedures with foreign and domestic counterparties and government authorities. The Group's security mainly consists of security for litigations. The Group recognised the security in foreign currency for a court decision regarding the breach of a construction contract with a foreign contractor to the amount of UAH 781,317,000 as of 31 December 2017 (2016: UAH 752,868,000).

Taxes, excl. corporate income tax

	2016	2017
Land tax	995,613	1,692,440
Other taxes	58,617	83,649
VAT on non-refundable transit traffic	32,142	24,809
Impairment of refundable VAT balances	6,921	2,102
	1,093,293	1,803,000

Other income

Other income for 2017 included revenues from adjusted provision for financial incentives of UAH 663,393,000, revenues from the recalculation of other long-term liabilities to employees of UAH 470,474,000 (Note 19) and revenues from the sale of scrap of UAH 177,810,000. The adjustment related to the provision for financial material incentives created as of 31 December 2016. It will not be realised in the future because of a change in the estimates regarding the actual amount of the incentive payment.

Financial expenses and income

	2016	2017
Interest expense on interest-bearing loans and borrowings	(4,328,779)	(3,361,127)
Expenses under financial lease agreements	(196,064)	(106,990)
Interest expense under defined benefit liabilities		
(Note 19)	(270,033)	(340,497)
Other financial expenses	(8,642)	(2,289)
Total financial expenses	(4,803,518)	(3,810,903)

	2016	2017
Interest-bearing income on current accounts balances	357,765	548,968
Other financial incomes	7,107	5,831
Total financial incomes	364,872	554,799
Net financial expenses	(4,438,646)	(3,256,104)

Net loss from foreign exchange differences

Profits/(losses) on foreign exchange differences appeared in the following items:

	2016	2017
Income		
Cash and equivalents	12,598	35,630
	12,598	35,630
Losses		
Interest-bearing loans and borrowings	(4,144,355)	(1,092,752)
Liabilities under capital lease agreements	(180,253)	(10,181)
Trade and other accounts payable	(191,698)	(63,432)
Net loss on foreign currency purchase/sale	(1,808)	(8,889)
	(4,518,114)	(1,175,254)
Net loss from foreign exchange differences	(4,505,516)	(1,139,624)

Conditional and contractual obligations

Taxation

The Group carries operates mostly in Ukraine and therefore has to comply with the requirements of the Ukrainian tax laws. The Ukrainian tax legislation and regulatory framework, as well as the regulatory framework on other issues, in particular currency control and customs legislation, continue to evolve. Legislation and regulations are not always clearly defined. Their interpretation depends on the point of view of local and central authorities and other government agencies. Inconsistent interpretation is not rare. The management believes that the interpretation of provisions of the legislation governing the Group's operations is correct and the Group has complied with all the regulations, and all taxes established by law have been paid or assessed.

The management hopes that it has substantial arguments to successfully prevent possible complications and does not consider the risk to be more significant than the risks of similar enterprises in Ukraine. If it is not considered probable that material requirements will arise, provisions are not made in this consolidated financial statement.

Court proceedings

In the ordinary course of business, the Group acts as a defendant in various court and arbitration proceedings. As of 31 December 2017, the Group participated in court proceedings with Ukrainian fiscal authorities regarding additional liabilities imposed on corporate income tax, VAT and other taxes to the amount of UAH 2,860,911,000 (2016: UAH 1,042,709,000). As of 31 December 2017, the Group's potential loss under the third-party claims in other court and arbitration proceedings amounted to UAH 752,968,000 (2016: UAH 388,796,000).

According to the management, the Group's case in the above court proceedings is sufficiently grounded from the legal view point and therefore the final decisions on such issues will have no adverse effect on the financial position or performance of the Group and the probability of their occurrence is unlikely. Therefore, no provisions were created in this consolidated financial statement. Provisions have been created for potential liabilities where the resource retirement is probable (Note 23).

Contractual investment liabilities

As of 31 December 2017, the Group had a contractual obligation to purchase fixed assets of UAH 3,701,998,000 (2016: UAH 4,105,722,000).



Related party transactions

Balances and operations with enterprises under the common control of the government were:

	2016	2017
Balances as of 31 December		
Advance payments for fixed assets	2	2,712
Other financial assets	9,537	–
Trade and other accounts receivable	73,195	24,977
Advances (excluding dividends)	101,202	140,119
Cash and equivalents	6,140,126	5,080,382
Trade and other accounts payable (excluding dividends)	12,402	8,501
Advances, received from the clients	26,916	31,166
Interest-bearing loans and borrowings and liabilities under financial leases	969,371	574,780
Operations during the year		
Profits from cargo transportation	63,805	641,304
Electric power expenses	7,424,154	7,662,452
Repair and maintenance	101,594	192,679
Financial income	19,040	544,368
Financial expenses	113,554	215,694
Other expenses	215,348	54,382

Terms and conditions of related party transactions

Sale and purchase transactions with related parties are carried out at arm's length prices, mostly the same as transactions with unrelated suppliers and buyers. Unpaid balances at the end of the reporting period are unsecured, interest-free, and have cash settlements. No guarantees were given or received in respect of related party receivables or payables. In 2017, the Group recognised losses from impairment of other financial assets from the entity under common control. The impairment losses of UAH 9,537,000 are included in other expenses of the consolidated statement of the comprehensive income.

Security provided by the Government of Ukraine

As of 31 December 2017, the book value of the loans secured by the Government of Ukraine was UAH 4,813,240,000 (2016: UAH 6,357,905,000).

Remuneration for the top management

The top management personnel is the Board of Ukrzaliznytsia consisting of seven persons and the Supervisory Board which was not staffed and was undergoing a competitive member selection as of 31 December 2017. In 2017 and 2016, remuneration expenses for the top management consisted mainly of wages, corresponding surcharges and bonuses and amounted to UAH 36,608,000 and UAH 19,240,000, respectively. The remuneration of the Supervisory Board members is not envisaged.

Dividends

No dividends were paid to the government as of 31 December 2017 (2016: UAH 7,657,000 included in the prepayments line) (Note 14). The dividends to be paid to the government were included into the trade and other payables and amounted to UAH 39,000 as of 31 December 2017 (2016: UAH 201,000) (Note 21). No dividends were accrued for the year ended 31 December 2017 (2016: UAH 794,000).

Government subsidies

The Group receives government subsidies for the carriage of certain benefit-entitled categories of passengers. In 2017, the compensation of UAH 75,005,000 (2016: UAH 63,600,000) was included in the income from passenger transportation.

Financial instrument disclosures

A comparison of the book value and fair value of all financial instruments owned by the Group is presented below, and the instruments are shown in the Consolidated Statement of Financial Position:

	Fair value		Book value	
	2016	2017	2016	2017
Financial assets				
Trade receivables	2,043,899	879,122	2,043,899	879,122
Other financial assets	178,882	93,247	178,882	93,247
Cash and equivalents	6,419,746	5,188,988	6,419,746	5,188,988
Financial liabilities				
Interest-bearing loans and borrowings	39,185,208	33,884,246	40,511,747	33,511,539
Liabilities under capital lease agreements	1,646,451	721,379	1,646,451	721,379
Trade payables	6,912,116	7,791,010	6,912,116	7,791,010

When assessing the fair value of financial instruments, the Group uses a variety of methods and assumptions based on market conditions that exist at the end of the reporting period. Market quotes or dealer quotes for specific or similar instruments or discounted future cash flows are used for financial assets. The nominal value of financial assets and liabilities with maturity of up to one year, less any adjustments, is considered their fair value.

Fair value of financial instruments (continued)

Hierarchy of fair value sources

All assets and liabilities with the fair value measured or disclosed in the financial statements are classified by the fair value source hierarchy below. The fair value measurement is categorised in its entirety in the level of the lowest level input that is significant to the entire measurement:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. They have a significant impact of the fair value and belong to the lowest level inputs.
- Level 3 inputs are unobservable inputs for the asset or liability. They have a significant impact of the fair value, belong to the lowest level inputs and are not in the public domain.

The tables below show the fair value of financial assets and financial liabilities as of 31 December 2017 and 2016.

31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets				
Assets evaluated at amortised cost				
Trade receivables	-	-	2,043,899	2,043,899
Financial liabilities				
Liabilities evaluated at amortised cost				
Interest-bearing loans and borrowings	14,972,506	-	24,212,702	39,185,208
Liabilities under capital lease agreements	-	-	1,646,451	1,646,451
Trade payables	-	-	6,912,116	6,912,116

31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets				
Assets evaluated at amortised cost				
Trade receivables	-	-	879,122	879,122
Financial liabilities				
Liabilities evaluated at amortised cost				
Interest-bearing loans and borrowings	14,953,936	-	18,930,310	33,884,246
Liabilities under capital lease agreements	-	-	721,379	721,379
Trade payables	-	-	7,791,010	7,791,010

In 2017 and 2016, no transfers between Level 1 and Level 2 took place, as well as no transfers related to Level 3 occurred.

Changes in liabilities arising from financial activities

Changes in liabilities arising from financial activities as of 31 December 2017 and 2016 are shown in the tables below

	01 January 2016	Cash flow	Net loss from foreign exchange differences	Other	31 December 2016
Short-term interest-bearing loans and borrowings	20,810,905	(6,373,407)	1,241,899	999,841	16,679,238
Short-term liabilities under capital lease agreements	1,077,380	(349,593)	133,787	325,025	1,186,599
Long-term interest-bearing loans and borrowings	21,168,088	202,224	2,902,456	(440,259)	23,832,509
Long-term liabilities under capital lease agreements	960,331	(399,783)	46,466	(147,162)	459,852
Dividends	167,621	(166,480)	–	(940)	201
Total liabilities from financial activities	44,184,325	(7,087,039)	4,324,608	736,505	42,158,399

	01 January 2017	Cash flow	Net loss from foreign exchange differences	Other	Separation of NGCA (Note 2)	31 December 2017
Short-term interest-bearing loans and borrowings	16,679,238	(4,438,312)	481,171	1,893,533	(3,724,995)	10,890,635
Short-term liabilities under capital lease agreements	1,186,599	(144,861)	10,167	106,854	(553,467)	605,292
Long-term interest-bearing loans and borrowings	23,832,509	–	611,581	(1,823,186)	–	22,620,904
Long-term liabilities under capital lease agreements	459,852	(236,925)	14	(106,854)	–	116,087
Dividends	201	(31)	–	(131)	–	39
Liabilities of NGCA	–	–	–	–	4,278,462	4,278,462
Total liabilities from financial activities	42,158,399	(4,820,129)	1,102,933	70,216	–	38,511,419

In the “Other” column, the amounts received from the reclassification of some long-term interest-bearing loans and borrowings, including liabilities under financial leases, are in the category of short-term liabilities over time. The “Other” column also includes accrued but unpaid interest on interest-bearing loans and borrowings. The Group classifies interest paid as cash from operating activities.

Goals and objectives of financial risk management

Financial risk management goals and objectives

The Group's financial instruments include bank loans, cash and cash equivalents and other financial assets. The Group has other different financial instruments, such as receivables and payables arising directly from operating activities.

The Group does not participate in material transactions with derivative financial instruments, because the Group policy does not provide for such transactions. The Group's overall risk management programme focuses on mitigating the effects of the unpredictability and inefficiency of the Ukrainian financial market and is aimed at reducing its potential negative impact on the Group's financial performance.

Financial departments of the Group are responsible for the risk management. The main risks of the Group's financial instruments include currency risk, liquidity risk, credit risk and interest rate risk. The approaches to managing each of these risks are outlined below.

Liquidity risk

The Group's objective is to maintain a balance between continuous financing and flexibility in the use of cash from operating activities of the Group and terms and conditions of loans provided by suppliers and banks. The essential aspects of the Group's management of working capital are disclosed in Note 2.

The Group analyses its assets, the ability to receive cash and liabilities by maturity date and plans the cash flows depending on the expected maturity of the liabilities under the corresponding instruments.

The table below provides information about non-discounted payments under the Group's financial liabilities as of 31 December 2017 and 2016:

	Up to 3 months	3-12 months	1-5 years	More than 5 years	Minus: Depreciation effect	Book value
For the year ended 31 December 2016						
Interest-bearing loans	15,088,756	4,439,727	31,681,274	416,788	(11,114,798)	40,511,747
Liabilities under capital lease agreements	885,119	422,571	521,645	–	(182,884)	1,646,451
Trade and other accounts payable	6,250,583	661,533	–	–	–	6,912,116

	Up to 3 months	3-12 months	1-5 years	More than 5 years	Minus: Depreciation effect	Book value
For the year ended 31 December 2017						
Interest-bearing loans	10,206,582	2,907,581	24,860,982	–	(4,463,606)	33,511,539
Liabilities under capital lease agreements	339,762	315,130	129,197	–	(62,710)	721,379
Trade and other accounts payable	7,371,151	419,859	–	–	–	7,791,010

Currency risk

Like in many other areas of business activity in Ukraine, foreign currency, namely the US dollar, Euro, Swiss franc, and Russian rouble, plays an important role in the Group's commercial operations. Below are the rates of foreign exchange to the Ukrainian hryvnia used to denominate the financial assets and liabilities of the Group. The rates were established by the NBU at relevant dates.

	USD	EURO	Swiss franc	10 RUB
31 December 2016	27.1909	28.4226	26.5285	4.5113
Average rate in 2016	25.5513	28.2919	25.9546	3.8314
31 December 2017	28.0672	33.4954	28.6188	4.8703
Average rate in 2017	26.6016	30.0283	27.0093	4.5608
26 March 2017	26.2655	32.4274	27.7086	4.5993

The operational exchange rate risk refers to the Group's monetary assets and liabilities denominated in foreign currencies and is the result of fluctuations in the currency market rates. Such a risk arises in transactions of purchase and sale by the Group in currencies other than the functional currency. The Group does not conduct operations to hedge currency risks.

The table below provides information on the sensitivity of the Group's income before tax to the likely change in the foreign exchange (because of changes in the fair value of monetary assets and liabilities), with the constant value of all other variables.

31 December 2016	Weakening "+"/ strengthening "-" of the exchange rate	Increase/(decrease) of income before tax	Increase/(decrease) of equity
Hryvnia / USD	+53.00 %	(20,117,818)	(20,117,818)
Hryvnia / USD	-13.00 %	4,934,559	4,934,559
Hryvnia / Swiss franc	+53.00 %	(21,305)	(21,305)
Hryvnia / Swiss franc	-13.00 %	5,226	5,226
Hryvnia / EURO	+53.00 %	(289,269)	(289,269)
Hryvnia / EURO	-15.00 %	81,868	81,868
Hryvnia / RUB	+58.00 %	949	949
Hryvnia / RUB	-22.00 %	(360)	(360)

31 December 2017	Weakening "+"/ strengthening "-" of the exchange rate	Increase/(decrease) of income before tax	Increase/(decrease) of equity
Hryvnia / USD	+14.00 %	(4,525,310)	(4,525,310)
Hryvnia / USD	-10.00 %	3,232,364	3,232,364
Hryvnia / Swiss franc	+14.00 %	(16,295)	(16,295)
Hryvnia / Swiss franc	-10.00 %	11,639	11,639
Hryvnia / EURO	+53.00 %	(530,778)	(530,778)
Hryvnia / EURO	-15.00 %	150,220	150,220
Hryvnia / RUB	+25.00 %	1,498	1,498
Hryvnia / RUB	-16.50 %	(989)	(989)

Credit risk

Financial instruments that potentially expose the Group to significant credit risks include, in particular: cash and cash equivalents, deposits, trade and other receivables, loans granted. The Group's credit risk is monitored and analysed on a case-to-case basis. The Group's management believes that credit risk is adequately accounted in the inventories for the impairment of assets usefulness. The maximum credit risk in place on 31 December 2017 and 2016 equals the book value of the financial instruments.

The cash of the Group is mainly deposited in big reliable banks of Ukraine.

The Group does not require collateral for its financial assets. The management has developed a credit policy and potential credit risks are constantly monitored. Credit risks are estimated for all clients in need of a loan or a delay in payment exceeding a certain limit.

Interest risk

The risk of changes in market interest rates mainly relates to interest-bearing loans and borrowings with floating interest rates made by the Group.

In 2017 and 2016, the Group took loans at fixed and floating interest rates linked to the London Interbank Lending Rate (LIBOR) and the European Interbank Lending Rate (EURIBOR).

The table below provides information on the sensitivity of the Group's income before tax to the likely change in interest rates (because of the impact on floating interest rates), with the constant value of all other variables. Such changes do not affect the Group's equity.

31 December 2016	Weakening "+"/ strengthening "-" of the exchange rate	Increase/(decrease) of income before tax	Increase/(decrease) of equity
LIBOR	+0.60 %	(31,968)	(31,968)
LIBOR	-0.08 %	4,262	4,262
EURIBOR	+0.12 %	(1,194)	(1,194)
EURIBOR	-0.08 %	796	796

31 December 2017	Weakening "+"/ strengthening "-" of the exchange rate	Increase/(decrease) of income before tax	Increase/(decrease) of equity
LIBOR	+0.70 %	(28,747)	(28,747)
LIBOR	-0.08 %	3,142	3,142
EURIBOR	+0.25 %	(2,931)	(2,931)
EURIBOR	-0.01 %	117	117

According to Ukrainian legislation, the Group's ability to hedge currency risks is limited; therefore, the Group does not hedge its currency risk.

Capital management

The Group considers borrowed capital and equity as appropriate components of capital financing, and thus as part of its capital management. The Group's objective in managing capital is to ensure the Group's ability to continue as a going concern to provide revenue for the government and benefits to other stakeholders, as well as to secure financing of its operational needs, investments, and Group development strategies. The Capital Management Policy of the Group is aimed at providing and maintaining an optimal capital structure to reduce the total capital expenditures and ensure flexibility of the Group's access to capital markets.

The capital structure is shown below:

	2016	2017
Interest-bearing loans and borrowings	40,511,747	33,511,539
Liabilities under capital lease agreements	1,646,451	721,379
	42,158,198	34,232,918
Cash and cash equivalents	(6,419,746)	(5,188,988)
Net debt	35,738,452	29,043,930
Total equity	210,813,119	210,776,978
Total capital	246,551,571	239,820,908

The management constantly monitors the structure of Group's capital and may adjust its capital management policy and objectives, taking into account changes in the operating environment, market trends and the Group development strategy. Significant aspects of uncertainty that also relate to capital management are described in Note 2.

Events after the reporting period

In February 2018, the Group signed an agreement with General Electric (United States) on a long-term partnership to upgrade and modernise the rolling stock. Within the framework of the first stage, which includes the supply of 30 mainline locomotives by February 2019, a financial leasing agreement with Ukreximbank was made to the amount of USD 140,400,000, incl. VAT, with a maturity date in February 2026.



Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT

To the Shareholder and the Supervisory Board of Public Joint-Stock Company Ukrzaliznytsia

Report on the Audit of Consolidated Financial Statements

Qualified Opinion

We have audited the consolidated financial statements of Public Joint-Stock Company Ukrzaliznytsia and its subsidiaries (hereinafter together referred to as "the Group") which comprise the consolidated statement of financial position as at 31 December 2017, consolidated statement of comprehensive income, consolidated statement of equity, consolidated statement of cash flow for the year then ended, and Notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in paragraphs (i) and (ii) in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements give a true and fair view, in all material aspects, of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS).

Basis for qualified opinion

- (i) As stated in Note 2 to the consolidated financial statements, certain assets and liabilities of the Group are located or otherwise connected with the Autonomous Republic of Crimea and areas in Donetsk and Luhansk oblasts, which are currently not under Ukraine's government control. Besides, the Group is not considered a legal successor of these assets and liabilities before required regulatory procedures of legal succession are completed. There is some uncertainty regarding the legal succession timelines and final sums of the assets and liabilities that would be accepted by the Group as the successor. We did not have the opportunity to receive sufficient appropriate audit evidence of the following: the book value of assets of UAH 16,611,478,000 and UAH 15,788,047,000 as at 31 December 2017 and 31 December 2016 accordingly; the liabilities of UAH 7,705,925,000 and UAH 7,479,020,000 as at 31 December 2017 and 31 December 2016 accordingly; the sales income of UAH 4,446,665,000 and UAH 4,694,905,000 for 2017 and 2016 accordingly; the share of loss of associates of UAH 166,794,000 and UAH 13,597,000 for 2017 and 2016, and losses to the amount of UAH 290,144,000 and UAH 153,749,000 for year 2017 and 2016 accordingly.
- (ii) As stated in Notes 6 and 9 to the consolidated financial statements, the Group changed its accounting policy for fixed assets, switching from the cost model to revaluation model since 1 December 2015. The book value of the fixed assets was determined following the revaluation performed as at 31 July 2014 in accordance with the statutory requirements. Also, the book value was adjusted for the depreciation and movements of fixed assets during the periods from the valuation date. These cannot be considered as the fair value as at 01 December 2015. This approach is in conflict with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, as well as with IAS 16 Fixed Assets. We did not have the opportunity to determine the effect of these errors on the book value of the fixed assets and the amount of related deferred tax assets and liabilities as at 31 December 2017 and 31 December 2016, as well as the related effect on the expenses from depreciation, impairment and corporate income tax expenses for 2017 and 2016.

We have conducted our audit in accordance to International Standards on Auditing (ISAs). Our responsibilities under these standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for

Accountants' Code of Ethics for Professional Accountants (IESBA Code) and ethical requirements relevant to our audit in Ukraine. We have fulfilled our other ethical requirements in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

Key Audit Matters (KAM) are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. In addition to the matters described in the Basis for Qualified Opinion section of our report, we have determined that the matters described below are KAM to be outlined in our report. These matters have been considered in the context of our audit of the consolidated financial statements in general and were considered in our judgment. Although, we do not express a separate opinion on these matters. Our description of how the matters were examined during our audit reflects this context and is given below.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report, including responsibilities these matters. Therefore, our audit included procedures developed as a response to our assessment of risks of material misstatement to the consolidated financial statement. The results of our audit procedures, including procedures done to consider these matters mentioned below, provide a basis for expression of our auditor opinion on the accompanying consolidated financial statements.

KAM

How the key audit matter was considered during our audit

Compliance with terms and conditions of loan agreements

In accordance with some loan agreements and bond placement agreements, the Group is to comply with certain financial and non-financial terms and conditions. Compliance with terms and conditions of the loan agreements was a key audit matter, because breaches of the terms of the loan agreements took place in the previous periods and continued in 2017, as well as because of the possible effect of the potential early discharge of obligations because of the loan agreement breaches on the classification of the interest liabilities in the consolidated statement of financial performance and on the estimation of the going concern principle of the Group applied to the consolidated financial statements. The information about the compliance with loan agreements is given in Note 17 to the consolidated financial statements.

We have checked the terms and conditions of the loan agreements, including financial coefficients and events causing the default on obligations. We have analysed the terms of conditions of the debt restructuring and the letters of the Group's creditors waiving right to claim early discharge of obligations. We have assessed the management calculations of the financial coefficients, paying special attention to the classification of elements and components, as well as the specific and exceptional elements and components included or excluded from the financial coefficient calculations. We have assessed the classification of the interest-bearing credits and loans included in the short-term or long-term liabilities.

Curtailed intragroup balances and operations

The Group has a significant scope of intragroup operations between the components located all over Ukraine. In 2017 and 2016, the Group's internal legal structure saw changes which caused the changes in the financial information flows within the Group. Curtailment of intragroup balances and operations was one of the most significant for our audit because of the scope, number of operations and changes in the internal financial information flows in 2017 and 2016.

We have analysed the process of identification, exception handling and curtailment of intragroup operations and balances, as well as changes in these procedures that took place during the year. We have analysed the preparations of the consolidated information about the intragroup balances and operations at the level of the Group's components, examined unusual positions and repeated the curtailment procedures at the consolidation level.

Other Information Included in the Annual Issuer Information for 2017

The other information comprises the information included in the Annual Issuer Information for 2017 but does not include consolidated financial statements and our auditor's report thereon. The management is responsible for the other information. We expect to obtain the Annual Issuer Information for 2017 after the date of this independent auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information mentioned above after it is made available to us and, in doing so, consider whether the other information is materially inconsistent with consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of the Management and the Supervisory Board for the Consolidated Financial Statements

The management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with the IFRS and for such internal control as the management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities of the for the Audit of the Consolidated Financial Statement

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management;

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the Group's entities or business operations to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the statement to the Supervisory Board that we have fulfilled the ethical requirements related to the independence and communicate with the Supervisory Board regarding all the relationships and other issues that could be reasonably considered as matters influencing our independence, and, where applicable, regarding corresponding preventive measures.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report about the Additional Financial Information

Our audit sought to express an opinion about the consolidated financial statements in general. The statutory forms of financial statements accompanying the consolidated financial statements are provided as additional financial information are submitted to ensure compliance with the regulatory requirements of financial reporting. We have performed the audit procedures for the consolidated financial statements and, in our opinion, except for the possible effect of the matters described in paragraphs (i) and (ii) in the Basis for Qualified Opinion section of our report, the additional financial information was duly prepared in all material aspects in accordance with the consolidated financial statements of the Group in general.

Oleksiy Kredisov was a partner of the audit engagement that resulted in this independent auditor's report.



Ernst & Young Audit Services LLC
Kyiv, Ukraine
26 March 2018

Analysis of the Auditor's Opinion

The consolidated financial statements give a true and fair view of the consolidated financial position of PJSC Ukrzaliznytsia as at 31 December 2017 and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with the International Financial Report Standards.

The auditor's comments about the absence of the possibility to obtain the sufficient and appropriate audit evidence of the book value of assets and liabilities as at 31 December 2017 and 31 December 2016, the sales income and losses assets and liabilities of the Group located or otherwise connected with the Autonomous Republic of Crimea and areas in Donetsk and Luhansk oblasts, which are currently not under Ukraine's government control.

According to Law of Ukraine No.4442-VI On Special Aspects of Establishment of a Public Railway Transport Company, dated 23 February 2012, (hereinafter referred to as Law No. 4442-VI), the Cabinet of Ministers issued Resolution No. 200 dd. 25 June 2014 "On Establishment of Public Joint Stock Company "Ukrainian Railway" (hereinafter referred to as Resolution No.200) to establish PJSC Ukrainian on the basis of Ukrzaliznytsia and railway transport entities reorganised by merger as outlined in Appendix 1.

The list in the Appendix includes enterprises which maintain balance sheets featuring assets and liabilities located in the territories of the Autonomous Republic of Crimea, Donetsk and Luhansk oblasts that are temporarily not under government control.

Laws of Ukraine, particularly Article 1 of the Law of Ukraine On Ensuring Rights and Freedoms of the Citizens and Legal Regime on the Temporarily Occupied Territory of Ukraine, establish that the temporarily occupied territory of Ukraine is an integral part of Ukraine, the Constitution and laws of Ukraine apply to it.

The following territories are considered to be temporarily occupied in accordance with the Law:

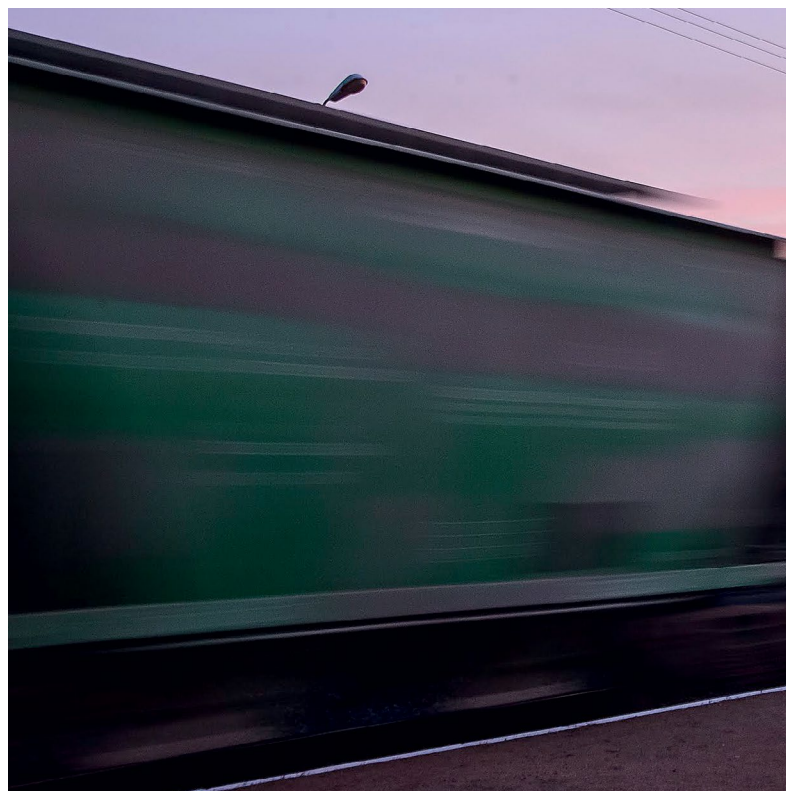
- the land territory of the Autonomous Republic of Crimea and the city of Sevastopol, inland waters of these territories of Ukraine;
- inland and territorial sea of Ukraine around the Crimean peninsula, territory of the exclusive (marine) economic zone of Ukraine along the shore of Crimean peninsula

and the continental shelf of Ukraine bordering the shore under the jurisdiction of Ukraine in accordance with the international law, Constitution and laws of Ukraine;

- soils under the territories mentioned in paragraphs 1 and 2 above and the air space over these territories.

Laws of Ukraine, particularly Article 1 of the Law of Ukraine On Special Aspects of Public Policy and Ensuring the National Sovereignty of Ukraine on the Temporarily Occupied Territory in Donetsk and Luhansk Oblasts, establish that the parts of the territory of Ukraine controlled by the arms groups and occupation administration of the Russian Federations are recognised as the temporarily occupied territories in Donetsk and Luhansk oblasts as at the date of adoption of this law, namely:

- the land territory and its inland waters within certain districts, cities, settlements and villages of Donetsk and Luhansk oblasts;
- inland sea bordering the land territory outlined in paragraph 1 above;



- soils under the territories mentioned in paragraphs 1 and 2 above and the air space over these territories .

Within its mandate and to amend paragraph 5 of Resolution No. 200, the Cabinet of Ministers of Ukraine adopted on 12 November 2014 Resolution No. 604 "Certain Aspects of the Inventory of the Property of Public Railway Transport Enterprises and Organisations Located in the Temporarily Occupied Territory and the Territory of the Counterterrorism Operation. The resolution established that the property (assets, equity and obligations) of the public railway transport enterprises and organisations, as well as their structural units located in the temporarily occupied territory and territory of the Counterterrorism Operation (the "Property") was not included in the inventory lists and consolidated inventory statements approved by the Ministry of Infrastructure in accordance with this paragraph. However, the Property is accounted in the balance (other than the liabilities of public railway transport enterprises and organisations, as well as their structural units located in the temporarily occupied territory) and is attributed to the part of assets of Public Joint-Stock Company "Ukrainian Railways" on the basis of the right of economic management before its inventory and valuation according to paragraph 2 of this resolution.

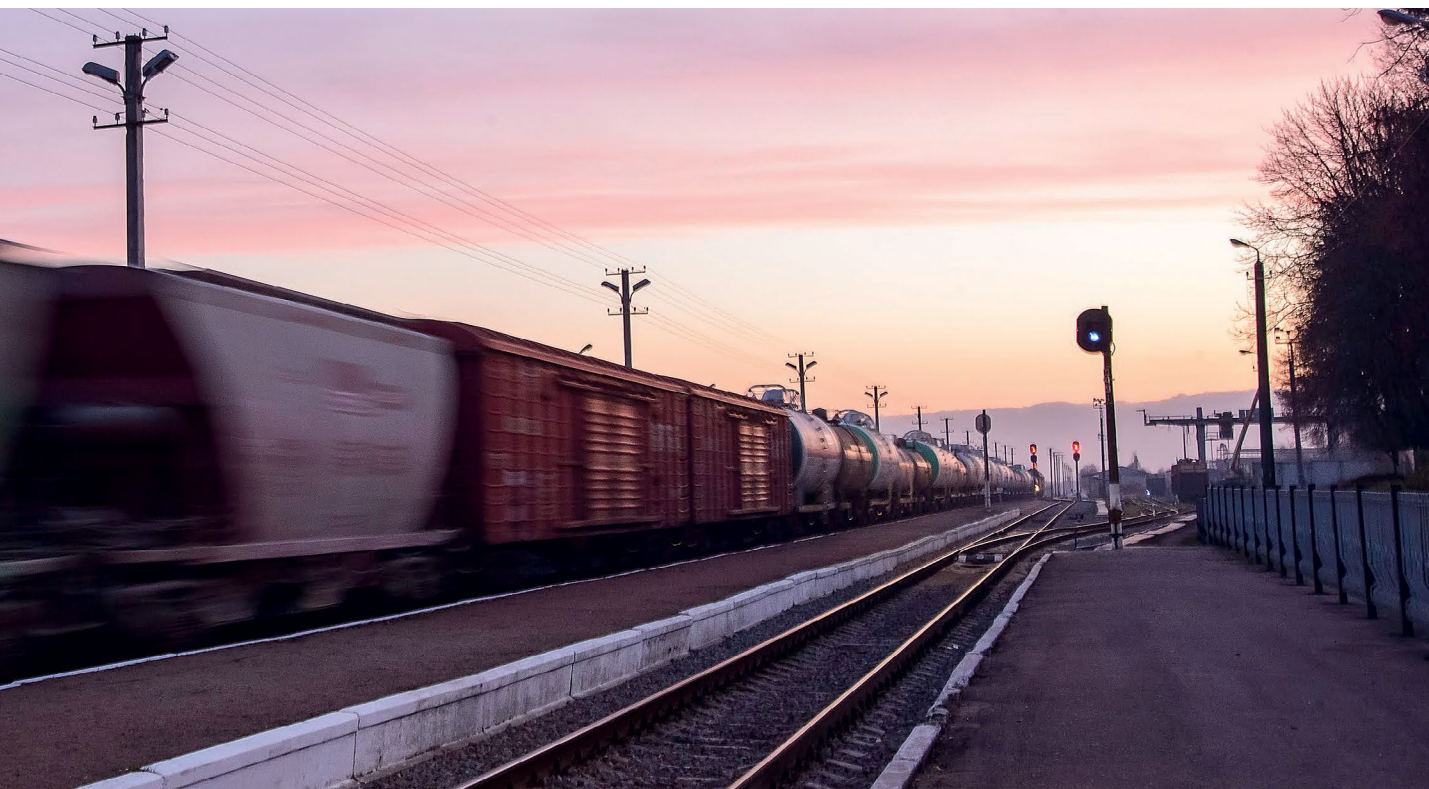
In accordance with paragraph 2 of Resolution No. 604, the Commission for Ukrzaliznytsia's establishment and the Ministry of Infrastructure were tasked to perform the

inventory and valuation of the Property after the temporary occupation of the territory of Autonomous Republic of Crimea and the town of Sevastopol end, as well as the counterterrorism operation end. The agencies should submit proposals about changing the statutory capital of Public Joint-Stock Company "Ukrainian Railways" in accordance with the laws.

The auditor's comments about the inconsistency of the approach to determination of the fair value of Ukrzaliznytsia's fixed assets as at 01 December 2015 (book value of the fixed assets was determined on the basis of the revaluation performed as of 31 July 2014 in order to fulfil the statutory requirements and adjusted for the depreciation and movements of fixed assets for the periods from the valuation date) with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, as well as with IAS 16 Fixed Assets.

The expenses of UAH 25 million are earmarked in Ukrzaliznytsia's consolidated financial plan 2018 approved by the Cabinet of Ministers of Ukraine. The expenses will cover the valuation of Ukrzaliznytsia's property and establish fair value of the fixed assets.

Valuation of Ukrzaliznytsia's property is expected to be completed by the end of 2018. The valuation will help establish Ukrzaliznytsia's fair value and resolve the auditor's comments.



Section 6

APPENDICES





Appendix 1. About the Report

Ukrzaliznytsia Integrated Report 2017 (hereinafter referred to as the Report) has been prepared on a voluntary basis and is intended for all stakeholders of the Company: government authorities, employees, partners, wide public, investors, NGOs, mass media and others.

The Report discloses both financial and non-financial indicators that provide a broad picture of the Company's operations and impact. In line with the Company's pursuit of openness and transparency, the Report gives key information on the economic, environmental and social aspects of its operations.

The Report presents the following information in a multidimensional way:

- Implementation of Ukrzaliznytsia Development Strategy.
- Management approaches to the corporate governance.
- Major financial, economic and production plans and results of core operations, as well as the Company's environmental and social impacts.
- Performance in traffic safety, environmental protection, contribution to the local development, implementation of social policy and other aspects of sustainable development.
- International cooperation of the Company.

The Report discloses short-term and medium-term plans and targets across material aspects identified by key stakeholders.

In the Report, the words and expression "PJSC Ukrzaliznytsia", "Company", "we", and "Group" mean Public Joint-Stock Company "Ukrzaliznytsia" and its subsidiaries.

Standards and regulations

The Report has been prepared in line with:

- IFRS International Financial Reporting Standards
- International <IR> Framework
- Global Reporting Initiative standards (Core)
- AA1000 International Stakeholder Engagement Standard (Institute of Social and Ethical AccountAbility)
- ISO 26000: 2010 Guidance on Social Responsibility.

Scope of the Report

The scope of the Report corresponds to the financial statements of Ukrzaliznytsia and its subsidiaries: 6 regional branches, 28 affiliates, and 7 Private JSCs (Dnipropetrovsk Diesel Locomotive Repair Plant, Zaporizhia Electric Locomotive Repair Plant, Lviv Locomotive Repair Plant, Kyiv Electric Car Repair Plant, Korostenskyi Ferroconcrete Sleepers Plant, Gnivanskyi Special Ferroconcrete Plant, and Kyiv Electrotechnical Plant "TRANSSYGNAL").

The Report covers the Company's operations from 01 January 2017 to 31 December 2017. Moreover, the Report may mention events occurring before or after this period if they give readers a more complete understanding of the information disclosed in the Report. The previous annual report was published in a summary format in April 2018. This Report in an integrated format has been prepared for the first time. In future, the Company plans to publish only integrated reports.

Principle for Defining Report Content

While preparing the Report, Ukrzaliznytsia focused on defining information and data essential for the Company and key stakeholders. These data inform decisions that are of significant importance for the Company. The procedures to define material aspects for disclosure in the Report were conducted in accordance with the International <IR> Framework and Global Reporting Initiative standards.

Stakeholder Engagement

In a move to define material aspects to be disclosed in the Report, the Company continues an ongoing dialogue with stakeholders (for more information, please see Section 4). The Report takes into account key recommendations and requests made by the stakeholders in the course of the dialogue.

We are guided by:



AA1000 International Stakeholder Engagement Standards and GRI Sustainability Reporting Standards.

The following methods were used to collect and systematise data:

- indirect or direct stakeholder engagement;
- analysis of the life cycle of the Company's services, production processes and operating results;
- analysis of key performance indicators and major events in the reporting period: the impact of various changes in the Company, which were related, among other things, to corporate governance and implementation of the Strategy, on the structure, content and scope of aspects that may be considered material;
- analysis of open information sources.

Using the above methods, the Company has developed a list of material aspects. Following the aspect prioritisation procedure conducted in compliance with the leading international methodologies, we have defined a short list of material aspects recommended for disclosure in the Report.

Business dimension

- Fixed assets renovation (acquisition and upgrade of rolling stock).
- Transparent and effective governance.
- More and better services.
- Reduced travel time for goods and passengers.
- Streamlined non-profitable assets and areas.
- Modern management models in place (KPIs, financial capital management, social and environmental impacts).
- Innovative projects with a high market value.
- Transparent system of reimbursements from the national and local budgets.
- Investment protection and high return.
- Reliable and timely fulfilment of the Company's obligations and commitments.

Economic dimension

- Transparent system of procurement and corporate governance to prevent corruption and abuses of the single corruption reduction system.
- Reliable and timely fulfilment of the Company's obligations and commitments.
- Economic activity (increase in incomes).
- Adoption of advanced technologies, digitalisation of the Company.
- Improved quality of services.

Social dimension

- Competitive salaries.
- Higher level of social security.
- Workforce optimisation and development.
- Safe and comfortable working conditions.

Environmental dimension

- Energy saving and energy efficiency.
- Improved environmental performance (water, air, land).

The above topics have priority. Other aspects are also considered important, but were not included into the Report. In case of interest, questions and requests can be processed in the normal course of business.

Principles for Defining Report Quality

The quality of the Report is ensured by the following principles:

■ Balance

The Report has been drafted with due regard to events in the reporting period, regardless of their positive or negative nature. The Company has tried to provide an unbiased picture of its operations and performance and reported both achievements and issues to be addressed.

■ Comparability

The information in the Report allows stakeholders to evaluate the Company's operations over time and benchmark them against operations of other organisations.

■ Clarity

The information is presented in a way easily understandable to the widest possible audience.

■ Accuracy

The data disclosed in the Report are accurate and detailed to the extent enabling stakeholders to evaluate operations and performance of the Company in each material aspect. All data in the Report are officially recognised by the Company and confirmed by internal and open sources.

The Company's structural subdivisions have carried out internal compliance audits of public reporting processes.

■ Timeliness

The Company's Integrated Report is published for the first time as scheduled. Further on, Ukrzaliznytsia plans to publish annual accounts in the first six months of a financial year.

In this Report, there is no significant rewording of indicators and data of previous periods. The reliability of the data disclosed in the Report is ensured during the collection and consolidation of information in line with standard assurances and verifications and is confirmed by units responsible for the preparation of relevant information. If public documents are used, the Report gives a reference to the source.

Assurance of the Report

Ernst & Young Audit Services has been selected as an independent party to audit the Group's consolidated statement of financial position, consolidated statement of comprehensive income, equity statement, and cash flow statement for 2017, as well as the Notes to the consolidated financial statements, including a summary of significant accounting policies. No formal data assurance was applied to non-financial indicators.

Statement of limitation of liability for publication of projection data

The Report may contain statements based on projected data or forecasts. These statements are not historical facts, but show Ukrzaliznytsia's expectations, intentions or views regarding future performance, financial position, liquidity, efficiency, prospects, growth rates, strategies of the Company and the sector where it operates.

Statements containing forecasts of future events include, but are not limited to, the following information:

- Plans to improve the corporate governance practices of the Company.
- Future position of the Company in the transport market.
- Economic projections and expected industry trends.
- Possible regulatory changes and impact of regulations on the Company's operations.
- Estimation of future operational and financial indicators of the Company.
- Company's plans to renovate and modernise the infrastructure and rolling stock.
- Changes in the demand for the Company's services and Ukrzaliznytsia's plans for the existing and new services, as well as pricing projections.

The statements based on projected data or forecasts involve risks and uncertainty, as their realisation depends on numerous factors, with many of them beyond the Company's control or influence (economic and political situation inside and outside Ukraine, changes in tax, environmental and other laws, etc.).

The Company informs that statements based on projections or forecasts are not a guarantee of future results and that the Company's actual performance, financial position and liquidity may differ significantly from projections and targets.

Ukrzaliznytsia assumes no obligation to review and confirm expectations and estimates, as well as to update any information based on projections or forecasts.

Appendix 2. List of Social Infrastructure Facilities

Nº	Name	Address	Type
1	Medical Centre for Railway Worker Rehabilitation	20 Shevchenka St, Khmilnyk	Recreation
2	Mykola Gogol Health Centre	22 Myrhorodskykh Dyviziiv, Myrhorod, Poltava Oblast	Recreation
3	Soniachnyi Children's Recreation Camp	Belhorodske Shosse, Kharkiv	Recreation
4	Prybiy Recreation and Retreat Centre	42 Naberezhna, Henicheska Hirka, Shchaslyvtseve village council, Henichesk District, Kherson Oblast	Recreation
5	Hero of Ukraine Heorhiy Kirpa Locomotive Sports Club	90/1 Velyka Panasivska St, Kharkiv; 15 Pecherytsia St, Kupiansk-Vuzlovy, Kharkiv Oblast	Sports
6	Bila Akatsia Health Centre, building Nº 1	59 Frantsuzky Boulevard, Odessa	Recreation
7	Zorka Children's Recreation Camp	1 Lisna St, Taranske, Konotop District, Sumy Oblast	Recreation
8	Dubky Children's Recreation Camp	Serbynivtsi village council, Zhmerynka District, Vinnytsia Oblast	Recreation
9	Medical and Rehabilitation Centre in Klubivka Hospital	108A Heorhiya Kirpy St, Klubivka, Iziaslav District, Khmelnytsky Oblast	Recreation
10	Svitiazianka Health Centre	23 Sukhovoliva St, Truskavets, Lviv Oblast	Recreation
11	Moloda Hvardiya Children's Recreation Camp	46 Zyhina St, Tereshky, Poltava District, Poltava Oblast	Recreation
12	Locomotive Stadium	38 Chokolivsky Boulevard, Kyiv	Sports
13	Locomotive Physical Training and Sports Club, Locomotive Sports Complex	10/2 Stadionny Lane, Kyiv	Sports
14	Locomotive Physical Training and Sports Centre in Chernivtsi, Ivano-Frankivsk Railway Transportation Directorate	27B Biloruska St, Chernivtsi, Chernivtsi Oblast	Sports
15	Fedorovych Locomotive Physical Training and Sports Centre in Kolomyia, Ivano-Frankivsk Railway Transportation Directorate	28 Dmytra Yavornytskoho St, Kolomyia, Ivano-Frankivsk Oblast	Sports
16	Science and Technology Centre, Kharkiv Railway Transportation Directorate	83A Velyka Panasivska St, Kharkiv	Other
17	Locomotive Recreation Centre	69/3 Prydniprovska St, Sokyrna, Cherkasy District Cherkasy Oblast	Recreation
18	Haidarovets Children's Recreation Camp	39 Shevchenka St, Blahodatne (Chapaivka), Zolotonosha District, Cherkasy Oblast	Recreation
19	Shchurove Health Centre	Shchurove, Lyman, Donetsk Oblast	Recreation

Nº	Name	Address	Type
20	Maiak Recreation Centre	93 Pryozerna St, Brusivka, Lyman District, Donetsk Oblast	Recreation
21	Orlenia Children's Recreation Camp	3 Lisna St, Velykomykhailivka, Pokrovske District, Dnipropetrovsk Oblast	Recreation
22	Prelesne Children's Recreation Camp	2 Radianska St, Prelesne, Sloviansk District, Donetsk Oblast	Recreation
23	Recreation Centre	Sudova Vyshnia, Lviv Oblast	Recreation
24	Zaporizhia Recreation and Retreat centre	33 Naberezhna, Henicheska Hirka, Shchaslyvtseve village council, Henichesk District, Kherson Oblast	Recreation
25	Sokil Children's Recreation Camp	47 Naberezhna, Henicheska Hirka, Shchaslyvtseve village council, Henichesk District, Kherson Oblast	Recreation
26	Kashtan Recreation Centre	Chornomorska St, Bilshovyk, Hola Prystan District, Kherson Oblast	Recreation
27	Bahriani Vitryla Children's Recreation Camp	7B Kvartal 3 St, Rybakivka, Mykolaiv Oblast	Recreation
28	Sosnovy Health Centre	1 Richna St, Makarove, Stanytsia-Luhanska District, Luhansk Oblast	Recreation
29	Sosnovy Hai Children's country recreation institution	27 Sanatorna St, Kreminna, Luhansk Oblast	Recreation
30	Strilka Recreation Centre	41A Naberezhna, Henicheska Hirka, Henichesk District, Kherson Oblast	Recreation
31	Urzuf Health Centre (Urzuf Recreation and Retreat Centre and Urzuf-2 Rest and Recreation Centre)	64 Tsentralna St, Urzuf, Manhush District, Donetsk Oblast	Recreation
32	Burevisnyk Children's Recreation Camp	64 Tsentralna St, Urzuf, Manhush District, Donetsk Oblast	Recreation
33	Burevisnyk Health Centre	99 Pryozerna St, Brusivka, Lyman, Donetsk Oblast	Recreation
34	Oster Recreation Centre	63 Komunariv St, Oster, Kozelets District, Chernihiv Oblast	Recreation
35	Shevtsova Children's Recreation Camp	6 Zaliznychna St, Zatoka, Bilhorod-Dnistrovsky District, Odessa Oblast	Recreation
36	Yuny Zaliznychnyk Children's Recreation Camp	3 Yalynkova St, Kyiv District, Odessa	Recreation
37	Bila Akatsia Health Centre, building No. 2	8 Zaliznychna St, Zatoka, Bilhorod-Dnistrovsky District, Odessa Oblast	Recreation
38	Locomotive Recreation Centre	214 Kosa Fedotova St, Kyrlyivka, Yakymivka District, Zaporizhia Oblast	Recreation
39	Uzlovchanka Recreation Centre	42 Naberezhna St, Henicheska Hirka, Henichesk District, Kherson Oblast	Recreation
40	Puteyets Recreation Centre	50G Naberezhna St, Henicheska Hirka, Henichesk District, Kherson Oblast	Recreation
41	Magistral Recreation Centre	20 Berehova St, Strilkove, Henichesk District, Kherson Oblast	Recreation
42	Zviazkivets Recreation Centre	50A Naberezhna St, Henicheska Hirka, Henichesk District, Kherson Oblast	Recreation

Nº	Name	Address	Type
43	Zaliznychnyk Health Centre	Babadzhaniana St, Zhmerynka	Recreation
44	Recreation Centre	125 Prydesnianska St, Avdiivka, Kulykivka District, Chernihiv Oblast	Recreation
45	Prolisok Recreation Centre	Kopachevo, Seredynka village council, Chernihiv District, Chernihiv Oblast	Recreation
46	Halychyna Recreation and Retreat Centre	2 Budivelnikiv St, Lazurne, Skadovsk District, Kherson Oblast	Recreation
47	Vagonnyk Recreation Centre	Chornomorska St, Bilshovyk, Hola Prystan District, Kherson Oblast	Recreation
48	Lisnyk House, Novaya Volna Recreation Centre, Lazurne (6 units)	Lazurne, Skadovsk District, Kherson Oblast	Recreation
49	Krasnaya Gvozdika	28 Zoloty Bereh St, Zatoka, Bilhorod-Dnistrovsky District, Odessa Oblast	Recreation
50	Chaika Health Centre	89 Pryozerna St, Brusivka, Lyman, Donetsk Oblast	Recreation
51	Svitanok Health Centre	96 Pryozerna St, Brusivka, Donetsk Oblast	Recreation
52	Svitliachok Recreation Centre	100-101 Pryozerna St, Brusivka, Lyman, Donetsk Oblast	Recreation
53	Berizka Children's Countryside Recreation Centre	3 Nakhimova St, Saryi Karavan, Lyman District, Donetsk Oblast	Recreation
54	Sich Recreation Centre	134 Naberezhna St, Hrushivka, Apostolove District, Dnipropetrovska Oblast	Recreation
55	Orliatko Children's Recreation Camp	1 Pionerska, Kamianka village council, Trostianets District, Sumy Oblast	Recreation
56	Zmina Children's Recreation Camp	1 Klenova St, Katerynivka, Lozova District, Kharkiv Oblast	Recreation
57	Lisova Kazka Children's Recreation Camp	Zhovtneve, Dvorichna District, Kharkiv Oblast	Recreation
58	Yunist	2 Moskovska St, Vysoky, Kharkiv District, Kharkiv Oblast	Recreation
59	Locomotive Physical Training and Sports Club	23B Hasieva (Chapaeva) St, Lyman, Donetsk Oblast	Sports
60	Haivoronsk Rowing Club	66A Marata St, Haivoron, Kirovohrad Oblast	Sports
61	Facilities on Locomotive Water Sports Complex	3X Naberezhna Peremohy St, Dnipro	Sports
62	Locomotive Specialised Children's and Youth Olympic School of Kayaking and Canoeing	20a Parkova Doroha St, Kyiv	Sports
63	Swimming pool	47A Umanska St, Kyiv	Sports
64	Locomotive Stadium	77D Pushkina St, Dnipro	Sports
65	Boxing Gym	3A Pryvokzalna St, Dnipro	Sports
66	Locomotive Stadium, Nyzhnodniprovs'k-Vuzol Station	23 Semafora St, Dnipro	Sports

Nº	Name	Address	Type
67	Physical Training, Health and Fitness Centre of Nyzhnodniprovsk-Vuzol Station	3 Konduktorska St, Dnipro	Sports
68	Sports Centre	15 Zaliznychna St, Zaporizhia	Sports
69	Locomotive Stadium	26 Bashkyska St, Kryvyi Rih	Sports
70	Sports Centre	19 Kyrylenka St, Kryvyi Rih	Sports
71	Koziatyn Gym	14 Pryvokzalna St, Koziatyn, Vinnytsia Oblast	Sports
72	Shepetivka Gym	79 Zaliznychna St, Shepetivka, Khmelnytsky Oblast	Sports
73	Swimming pool	26 Heroiv Nebesnoi Sotni St, Korosten, Zhytomyr Oblast	Sports
74	Locomotive Sports Complex	58 Shevchenka St, Korosten, Zhytomyr Oblast	Sports
75	Locomotive Physical Training and Sports Centre	30 Fedkovycha St, Lviv	Sports
76	Locomotive Children's and Youth School of Cycling	30 Fedkovycha St, Lviv	Sports
77	Locomotive Physical Training and Sports Centre in Zdolbuniv, Rivne Railway Transportation Directorate	1/1 Vily St, Zdolbuniv, Rivne Oblast	Sports
78	Locomotive Physical Training and Sports Centre, Uzhhorod Railway Transportation Directorate	8 Myru St, Chop, Zakarpattia Oblast	Sports
79	Odessa Physical Training Centre	19 Zankovetskoi St, Odessa	Sports
80	Locomotive Physical Training and Sports Centre of Shevchenko Station	21A Volhohradska St, Smila, Cherkasy Oblast	Sports
81	Odessa Sports Complex	32B Melnytska St, Odessa	Sports
82	Podilsk Physical Training Centre	7 Zaslonoza Boulevard, Podilsk, Odessa Oblast	Sports
83	Odessa Rowing Club	14 km Ovidiopol'ska Doroha, Nova Dolyna village council, Ovidiopol District, Odessa Oblast	Sports
84	Shevchenko Rowing Club	2A Pivnichnovokzalna St, Smila, Cherkasy Oblast	Sports
85	Locomotive Sports Centre	1 Sportyvna St, Solidarne, Kosivshchyna village council, Sumy District, Sumy Oblast	Sports
86	Library Building of Kryvyi Rih-Holovny Station	81A Serafymovycha St, Kryvyi Rih, Dnipropetrovsk Oblast	Other
87	House of Railway Veterans	Chop, Zakarpattia Oblast	Other
88	Zaporizhia Library	6 Instytut'ska St, Zaporizhia	Other
89	Polohy Library	3 Naftovy Lane, Polohy	Other
90	Melitopol Library	71 Hetmana Sahaidachnoho St, Melitopol	Other

№	Name	Address	Type
91	Science and Technology Centre	42 Pershotravneva St, Popasna, Luhansk Oblast	Other
92	Library of Nyzhnodniprovsk-Vuzol Station	42 Semafora St, Dnipro	Other
93	Nizhyn Station Club	168 Shevchenka St, Nizhyn, Chernihiv Oblast	Other
94	Science and Technology Centre of Synelnykove Locomotive Depot	27 Gogolia St, Synelnykove, Dnipropetrovsk Oblast	Other
95	Science and Technology Centre of Apostolove Signalling and Communications Division	51 Vokzalna St, Apostolove, Dnipropetrovsk Oblast	Other
96	Koziatyn Science and Technology Centre	18 Pryvokzalna St, Koziatyn, Vinnytsia Oblast	Other
97	Shepetivka Science and Technology Centre	1 Pryvokzalna St, Shepetivka, Khmelnytsky Oblast	Other
98	Science and Technology Library	1/1 Poluboiarova St, Shepetivka, Khmelnytsky Oblast	Other
99	Health Centre	12 Pryvokzalna St, Koziatyn	Other
100	Science and Technology Centre	2 Borysa Oliynyka St, Zhmerynka	Other
101	Science and Technology Library of Zhmerynka Station	1 Borysa Oliynyka Ave., Zhmerynka	Other
102	Science and Technology Library of Hrechany Station	10 Volochynska St, Khmelnytsky	Other
103	Community Centre	38/2 Shevchenka St, Korosten, Zhytomyr Oblast	Other
104	Science and Technology Centre	2 Klubna St, Konotop, Sumy Oblast	Other
105	Technology Library	20 Vaskovskoho St, Koziatyn, Vinnytsia Oblast	Other
106	Science and Technology Library	19 Ivana Franka St, Kyiv	Other
107	Science and Technology Centre of Poltava Railway Transportation Directorate	3B Slavy Square, Poltava	Other
108	Science and Technology Centre of Kupiansk Railway Transportation Directorate	33 Darvina St, Kupiansk-Vuzlovy, Kharkiv Oblast	Other
109	Occupational Safety Methodology Centre of Rivne Railway Transportation Directorate	Hushchovo, Svitiav village, Shatsk District, Volyn Oblast	Other
110	Methodology and Information Bureau in Sukhovolia village, General Service Unit	20 Yahidna St, Sukhovolia, Horodok District, Lviv Oblast	Other
111	Krasyia Methodology Centre of External Relations Sector, Uzhhorod Railway Transportation Directorate	Kostryno, Velykyi Berezny District, Zakarpattia Oblast;	Other
112	Science and Technology Centre	27A Pryvokzalna St, Lyman, Donetsk Oblast	Other

Appendix 3.

Table of GRI Disclosures

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		Transport Market Overview
GRI 102-3	Location of headquarters	OUR BUSINESS
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		Transport Market Overview
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GRI 102-6	Markets served	UKRZALIZNYTSIA TODAY
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GRI 102-8	Information on employees and other workers	SOCIAL AND ENVIRONMENTAL RESPONSIBILITY
GRI 102-10	Significant changes to the organization and its supply chain	OUR BUSINESS
		Key Performance Indicators
GRI 102-13	Membership of associations	UKRZALIZNYTSIA TODAY
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GRI 102-14	Statement from senior decision-maker	SUPERVISORY BOARD CHAIRMAN'S STATEMENT
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GRI 102-15	Key impacts, risks, and opportunities	Corporate Governance
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GRI 102-16	Values, principles, standards, and norms of behavior	UKRZALIZNYTSIA TODAY
		Mission and Values
GRI 102-17	Mechanisms for advice and concerns about ethics	OUR BUSINESS
		Corporate Governance
Governance		
GRI 102-18	Governance structure	OUR BUSINESS
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GRI 102-19	Delegating authority	OUR BUSINESS
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		Corporate Governance
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GRI 103-2	The management approach and its components	OUR BUSINESS Transparency
GRI 103-3	Evaluation of the management approach	OUR BUSINESS Transparency
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GRI 103-2	The management approach and its components	SOCIAL AND ENVIRONMENTAL RESPONSIBILITY Energy Efficiency and Energy Saving
GRI 103-3	Evaluation of the management approach	SOCIAL AND ENVIRONMENTAL RESPONSIBILITY Energy Efficiency and Energy Saving
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Indicator	Definition	Report section
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GRI 103-2	The management approach and its components	SOCIAL AND ENVIRONMENTAL RESPONSIBILITY Environmental Protection
GRI 103-3	Evaluation of the management approach	SOCIAL AND ENVIRONMENTAL RESPONSIBILITY Environmental Protection
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GRI 103-1	Explanation of the material topic and its Boundary	SOCIAL AND ENVIRONMENTAL RESPONSIBILITY Environmental Protection
GRI 103-2	The management approach and its components	SOCIAL AND ENVIRONMENTAL RESPONSIBILITY Environmental Protection
GRI 103-3	Evaluation of the management approach	SOCIAL AND ENVIRONMENTAL RESPONSIBILITY Environmental Protection
GRI 305-1	Direct (Scope 1) GHG emissions	SOCIAL AND ENVIRONMENTAL RESPONSIBILITY Environmental Protection
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GRI 103-2	The management approach and its components	SOCIAL AND ENVIRONMENTAL RESPONSIBILITY Environmental Protection
GRI 103-3	Evaluation of the management approach	SOCIAL AND ENVIRONMENTAL RESPONSIBILITY Environmental Protection
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Indicator	Definition	Report section
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GRI 307-1	Non-compliance with environmental laws and regulations	SOCIAL AND ENVIRONMENTAL RESPONSIBILITY Environmental Protection
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GRI 103-3	Evaluation of the management approach	SOCIAL AND ENVIRONMENTAL RESPONSIBILITY
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GRI 401-2	Benefits provided to full-time employees that are not provided	SOCIAL AND ENVIRONMENTAL RESPONSIBILITY
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GRI 403: Occupational Health and Safety		
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GRI 103-2	The management approach and its components	SOCIAL AND ENVIRONMENTAL RESPONSIBILITY Traffic Safety and Occupational Health & Safety
GRI 405: Diversity and Equal Opportunity		
GRI 103-3	Evaluation of the management approach	SOCIAL AND ENVIRONMENTAL RESPONSIBILITY Traffic Safety and Occupational Health & Safety
GRI 403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	SOCIAL AND ENVIRONMENTAL RESPONSIBILITY Traffic Safety and Occupational Health & Safety
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Indicator	Definition	Report section
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GRI 103-3	Evaluation of the management approach	SOCIAL AND ENVIRONMENTAL RESPONSIBILITY
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GRI 103-2	The management approach and its components	OUR BUSINESS Corporate Governance
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GRI 410-1	Security personnel trained in human rights policies or procedures	OUR BUSINESS Corporate Governance
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GRI 103-1	Explanation of the material topic and its Boundary	SOCIAL AND ENVIRONMENTAL RESPONSIBILITY
GRI 103-2	The management approach and its components	SOCIAL AND ENVIRONMENTAL RESPONSIBILITY
GRI 103-3	Evaluation of the management approach	SOCIAL AND ENVIRONMENTAL RESPONSIBILITY



Appendix 4. Key Terms and Abbreviations

Automated empty car management system — a system that automates the distribution of empty cars for loading in accordance with agreed electronic applications of consignors without involvement of railway workers.

Cargo turnover — actual cargo carriage measured in tonne-kilometres.

Global Reporting Initiative (GRI) — an internationally accepted framework of reporting on economic, environmental and social performance.

Energy efficiency — rational use of energy resources, achievement of economically feasible and efficient use of existing fuel and energy resources at the actual level of technological development and in compliance with environmental regulations.

Energy intensity — a ratio of the total energy consumed (all kinds) to the scope of works performed.

European Bank for Reconstruction and Development (EBRD) — an international financial and credit institution that provides assistance to countries from Central Europe to Central Asia in market reforms and active integration of these economies into the international economic relations.

European Investment Bank (EIB) — a European Union's public financial and credit institution extending long-term

loans to finance the development of European regions.

Stakeholders — individuals and/or legal entities, as well as groups of persons having impact on, and/or being impacted by, the Company's operations and performance.

Integrated report — a report that consolidates all essential data about the organisation's strategy, corporate governance, performance indicators and prospects in a way that fully demonstrates its economic, social and environmental impacts. The report gives a clear picture of how the organisation creates value now and in the future.

Material aspects — economic, environmental and social aspects that have an impact on the creation of added value by the organisation for society in a short, medium and long-term perspective.

Transmission line — one of the components of the electrical network intended for the electricity transmission. There are cable and overhead transmission lines.

AA1000 International Stakeholder Engagement Standards — standards for measurement of the companies' performance in accountability, responsibility and sustainability. They offer procedures and criteria to conduct social and ethical audits of organisations' operations and actions.

International Bank for Reconstruction and Development (IBRD) — one of the five institutions of the World Bank Group. Founded in 1945, it has 188 member countries now. Ukraine has been a member since 1992.

Motor-driven rolling stock— a common name for rolling stock that has rail motor cars and trailing cars.

Gondola car — a freight open-topped railcar with high flanges, intended for transportation of bulk cargoes (ore, coal, fluxes, timber etc.), containers and other goods. Gondola cars have unloading hatches in the floor and end walls that can be opened. Gondola cars can be box cars.

Certain regions of Donetsk and Luhansk Oblasts — a territory of Donetsk and Luhansk Oblasts where special local administration procedures are in place according to the Law of Ukraine On Special Order of Local Self-Government in Certain Regions of Donetsk and Luhansk Oblasts.

Organisation for Economic Co-operation and Development (OECD) — an international organisation that unites 34 countries, with most of them being advanced and high-income economies.

Fuel and energy resources (FER) — natural and produced energy resources available for use in economic activities at the existing level of technological development.

Greenhouse gas — gas that absorbs thermal radiation from the Earth's surface and clouds and reflects it back to Earth. The main greenhouse gases are water vapour (H₂O), carbon dioxide (CO₂), nitrous oxide (N₂O), methane (CH₄), ozone (O₃), sulphur hexafluoride (SF₆), hydrofluorocarbon (HFC), and perfluorocarbons (PFCs).

Passenger turnover — actual passenger carriage measured in passenger-kilometres.

Passenger carriage (transportation) — works performed to carry passengers. It is determined by a number of tickets sold and issued free of charge in a reporting period, taking into account group passenger journeys in this period.

Signalling and interlocking (signalling arrangements) — technical facilities that provide the required capacity of railway sections and safe train traffic. Signalling arrangements control the condition of railway sections and transmit data to locomotive crews and other railway workers.

ProZorro public procurement system — a public procurement system, a core element of the tender reform in electronic public procurements in Ukraine.

SMART approach (SMART) — a modern approach to set goals and objectives. SMART stands for Specific, Measurable, Achievable, Relevant, and Time-bound.

Special self-propelled rolling stock — rolling stock (motor locomotives, trolleys, railcars, self-propelled vehicles) to carry materials necessary for the performance of works or crews to the workplaces, as well as track construction machines with a self-contained engine and a pulling drive.

ISO 26000:2010 — an international standard that explains what the social responsibility is. It helps companies and organisations improve their operational efficiency and implement methods to enhance their social responsibility.

Traction vehicles — mechanical facilities (locomotives) intended for moving non-self-propelled vehicles (freight and passenger cars, special vehicles) on the railway network.

Risk management — a process of making and implementing management decisions to reduce the probability of adverse outcomes and minimise possible losses caused by risk realisation.

Sustainable Development Goals (SDGs) — future global development targets adopted by the United Nations (also known as Global Goals). They replaced the Millennium Development Goals, which expired in late 2015.

Appendix 5. Senior Management

Full Name	Position	Phone
Yevhen Kravtsov	Acting Chairman of the Board	(044) 465-00-00
Marek Robert Zalesny	Board Member	(044) 465-00-01
Remigiusz Yan Paszkiewicz	Board Member	(044) 465-00-02
Oleksandr Buzhor	Board Member	(044) 465-00-03
Ireneusz Stanislav Wasilewski	Board Member	(044) 465-00-04
Serhiy Mykhalchuk	Board Member	(044) 465-00-05
Zeljko Marcek	Board Member	(044) 465-00-06
Hryhoriy Boiko	Director of Engineering and Technical Support	(044) 465-00-25
Viacheslav Yeromin	Operations Director	(044) 465-00-12
Anton Sabolevsky	Director of Strategic Development and Investment Policy	(044) 465-00-14
Oleksandr Tolkachov	Director of Passenger Transportation and Services	(044) 465-00-15
Roman Chernitsky	Infrastructure Director	(044) 465-00-16
Artem Morkovkin	Security Director	(044) 465-00-17
Yevhen Kozak	Director of HR Management and Social Policy	(044) 465-00-18
Andriy Riazantsev	Economy and Finances Director	(044) 465-00-19
Artur Reznik	Director of Legal Issues and Property Policy	(044) 465-00-21
Svitlana Katkova	IT Director	(044) 465-00-22
Tamara Riabchun	Chief Accountant	(044) 465-00-20
Olena Diachenko	Head of Project Office	(044) 465-39-44
Myroslav Molnar	Director of Corporate Secretary Office	(044) 406-96-70
Maryna Potetueva	Head of Corporate Secretary Office Management	(044) 406-93-94
Dmytro Parobok	Director of Administrative Support Department	(044) 406-95-30

Full Name	Position	Phone
Kateryna Rakova	Press Secretary	(044) 465-11-99
Kostiantyn Zhura	Director of Information Policy and Public Relations	(044) 309-65-38
Volodymyr Kuzio	Director of Investment Policy Department	(044) 465-37-70
Volodymyr Kovtun	Security Director	(044) 406-90-60
Natalia Shaiduk	Deputy Director of Marketing and Advertising Department	(044) 465-03-28
Rostyslav Kurinko	Director of Corporate Social Responsibility Department	(044) 309-70-70
Yuriy Pavlyshynets	Director of Corporate Governance Department	(044) 309-73-00
Maksym Bilousov	Deputy Director of Price Policy Department	(044) 465-37-75
Oleksandr Panasenko	First Deputy Director of Traffic Safety Department	(044) 465-00-51
Vasyl Kryliuk	Head of Environmental Management Department	(044) 406-90-46
Vitaliy Melnyk	Acting Director of Traffic Control Department	(044) 465-01-00
Oleksandr Krasnoshtan	Director of Domestic and International Passenger Transportation	(044) 465-02-00
Oleksandr Ivanko	Director of Suburban Passenger Transportation	(044) 465-13-40
Andriy Miroshnikov	Deputy Director of Commercial Operations Department	(044) 465-12-00
Serhiy Pavlov	Director of Locomotives Department	(044) 465-02-50
Oleh Motin	Director of Wagons Department	(044) 465-03-00
Oleksiy Vinnichuk	Director of Track and Structures Department	(044) 465-03-50
Natalia Kotil	Head of Statistics Office	(044) 465-06-22
Oleh Bunchukov	Director of Automation and Telecommunications Department	(044) 465-05-00
Yuriy Tverdokhlib	Acting Director of Electrification and Electric Power Supply Department	(044) 465-05-25
Olha Skarlat	Director of Employee Remuneration and Motivation Department	(044) 406-91-90
Valeriy Suslenko	Director of Occupational Health & Safety Department	(044) 465-13-03
Volodymyr Zubko	Acting Director of Reforms and Corporate Development Department	(044) 465-14-04

Full Name	Position	Phone
Olha Udovichenko	Deputy Director of Organisational Development Department	(044) 309-71-51
Oleksandr Malakov	First Deputy Director of Strategic Development and Planning Department	(044) 406-97-70
Liudmyla Vasyleha	Director of Employee Development and Personnel Policy Department	(044) 309-71-00
Olha Bezpalko	Deputy Director of HR Management and Social Policy	(044) 465-04-32
Eduard Stupak	Director of Operational Monitoring Department	(044) 309-79-40
Volodymyr Shysh	Acting Director of Development and Technical Policy Department	(044) 465-04-00
Viacheslav Shapovalov	Director of Property Policy Department	(044) 465-17-75
Olha Klochok	Director of Bookkeeping, Tax Accounting, Reporting and Methodology Department	(044) 465-05-51
Andriy Malakhov	Acting Director of Treasury Department	(044) 465-24-74
Volodymyr Kulachok	Acting Director of Economy, Planning and Budgeting Department	(044) 465-36-00
Tamara Tytoruk	Acting Director of Legal Department	(044) 465-04-33
Volodymyr Parashchuk	Head of Paramilitary Security Headquarters	(044) 465-06-50
Viktor Ivanenko	Head of Special Directorate	(044) 465-04-40
Oleh Tsukanov	Head of First Directorate	(044) 465-04-50
Yuriy Voznichenko	Acting Head of Special Communications Department	(044) 465-06-62
Roman Bilousov	Director of International Cooperation Department	(044) 465-04-20
	Director of Product and Service Quality Management Department	(044) 309-79-57
Lidia Kalashnykova	Director of Capital Investment Department	(044) 465-14-40
Oleh Troian	Director of Internal Audit and Control Department	(044) 465-06-76
Viktor Slobodanuk	Director of Buildings and Structures Department	(044) 465-06-70
	Director of Material and Technical Support Department	(044) 465-08-00
Vladyslav Krasynnikov	Head of Energy Management Department	(044) 309-69-76

Appendix 6. Contacts

Contacts of regional branches:

Donetsk Railways	22 Pryvokzalna Street, Lyman 84404
Lviv Railways	1 Gogolia Street, Lviv 79000
Odessa Railways	19 Panteleimonivska Street, Odessa 65012
Southern Railways	7 Yevhena Kotliara Street, Kharkiv 61052
South-Western Railways	6 Lysenka Street, Kyiv 01601
Prydniprovyie Railways	108 Dmytra Yavornytskoho Avenue, Dnipro 49038

Private joint stock companies

PrJSC Dnipropetrovsk Diesel Locomotive Repair Plant	7 Akademika Beleliubskoho Street, Dnipro 49038
PrJSC Kyiv Electric Car Repair Plant	2 Polzunova Street, Kyiv 03049
PrJSC Zaporizhia Electric Locomotive Repair Plant	2 Zaliznychna Street, Zaporizhia 69095
PrJSC Lviv Locomotive Repair Plant	1A Zaliznychna Street, Lviv 79018
PrJSC Korostenskyi Ferroconcrete Sleepers Plant	78 Mayakovskoho Street, Korosten 11500
PrJSC Gnivanskyi Special Ferroconcrete Plant	15 Promyslova Street, Gnivan, Vinnytsia Oblast 23310
PrJSC Kyiv Electrotechnical Plant "TRANSSYGNAL"	97 Zhylianska Street, Kyiv 01135

Contacts of affiliates:

Vinnytsiatranspyrlad	1 Pryvokzalna Square, Vinnytsia 21100
Centre for Industrial Management	32 Ivana Fedorova Street, Kyiv 03038
Vehicles Maintenance Centre	7 Kachalova Street, Kyiv 03126
Central Telecommunications Office	5 Lypynskoho Street, Kyiv 01030
In-House Paramilitary Security	39 Ivana Fedorova Street, Kyiv 03038
Energozbut	97 Zhylianska Street, Kyiv 01135
Centre of Transport Service "Liski"	22 Dovbusha Street, Kyiv 02092
Refrigerated Wagons Company	1B Andria Sheptytskoho Street, Fastiv, Kyiv Oblast 08502
Centre for Transport Logistics	32 Ivana Fedorova Street, Kyiv 03038
R&D Bureau of Information Technology	97 Zhylianska Street, Kyiv 01135
Main Informational Computing Centre	21 Ivana Franka Street, Kyiv 01030
Railway Research Institute	39 Ivana Fedorova Street, Kyiv 03038
Design and Survey Institute of Railway Transport	39 Ivana Fedorova Street, Kyiv 03038
Personnel Development Centre	14 Cherkaska Street, Zolotonosha, Cherkasy Oblast 19700
Magistral Media Centre	6 Lysenka Street, Kyiv 01601
Service Support Centre	31A Ivana Fedorova Street, Kyiv 03038
Unified Payments Centre	5 Umaska Street, Kyiv 03049
Ukrainian Railway High Speed Company	3 Pryvokzalna Street (Darnytsia), Kyiv 02096
Production Centre	11/15 Povitroflotsky Avenue, Kyiv 03049
Darnytskyi Car-Repair Plant	74 Alma-Atynska Street, Kyiv 02092
Paniutyn Car Repair Plant	5 Zavodska Street, Paniutyne, Lozova town, Khrakiv Oblast 64660
Stryi Car Repair Plant	2 Zubenka Street, Stryi, Lviv Oblast 82400
Starokostiantyniv Ferroconcrete Sleepers Plant	22 Honchara Street, Starokostiantyniv 31103
Healthcare Centre	9 Povitroflotsky Avenue, Kyiv 03049
Passenger Company	2A Symona Petliury Street, Kyiv 01032
Energoremtrans	10 Stantsia Vinnytsia Street, Vinnytsia 21034
Centre of Installation and Construction Works and Facilities Management	61 Lva Tolstoho Street, Kyiv 03035
Centre for Rail Infrastructure Diagnostics	13 Sviatoshynska Street, Kyiv 03115

Letter for notes

[illegible]

Feedback Form

Dear Reader!

You have just read Ukrzaliznytsia Annual Integrated Report 2017.

We are committed to establishing a transparent and honest dialogue with all our stakeholders and we would highly appreciate it if you help us improve the quality of the Company's reporting by answering several simple questions.

Please, specify your stakeholder group:

- ☐ Management and personnel
- ☐ Shareholders
- ☐ Government authorities
- ☐ Partners in transportation sector
- ☐ Users of cargo transportation services
- ☐ Passengers
- ☐ Investors
- ☐ Financial and credit institutions
- ☐ Contractors and suppliers
- ☐ Wide public
- ☐ NGOs
- ☐ Mass media
- ☐ Employee families
- ☐ International organisations
- ☐ Other:

1. Have you found material information related to your concerns in this Report?

- ☐ Fully
- ☐ Partially
- ☐ No
- ☐ Looked through the Report

2. What information presented in the Report was the most interesting to you?

3. What information was the least interesting to you?

4. Please, indicate pressing issues for you, which were not disclosed in the Report:

5. Please, evaluate this Report against the following criteria:

General impression	<input type="checkbox"/> excellent	<input type="checkbox"/> good	<input type="checkbox"/> satisfactory	<input type="checkbox"/> bad	<input type="checkbox"/> difficult to answer
Completeness of disclosure of information interesting to you	<input type="checkbox"/> excellent	<input type="checkbox"/> good	<input type="checkbox"/> satisfactory	<input type="checkbox"/> bad	<input type="checkbox"/> difficult to answer
Reliability and integrity of the information	<input type="checkbox"/> excellent	<input type="checkbox"/> good	<input type="checkbox"/> satisfactory	<input type="checkbox"/> bad	<input type="checkbox"/> difficult to answer
Clarity and presentation of information	<input type="checkbox"/> excellent	<input type="checkbox"/> good	<input type="checkbox"/> satisfactory	<input type="checkbox"/> bad	<input type="checkbox"/> difficult to answer
Structure and ease of reference	<input type="checkbox"/> excellent	<input type="checkbox"/> good	<input type="checkbox"/> satisfactory	<input type="checkbox"/> bad	<input type="checkbox"/> difficult to answer
Format and design	<input type="checkbox"/> excellent	<input type="checkbox"/> good	<input type="checkbox"/> satisfactory	<input type="checkbox"/> bad	<input type="checkbox"/> difficult to answer

6. What recommendations would you like to give to improve the Company's operations?

7. Other comments and recommendations about the Report:

8. If you would like to receive feedback to your comments, please leave your contact details:

Name

Organisation

Position

Tel./e-mail

You can also fill in the feedback form online at www.report2017.uz.gov.ua

or using the QR code



THANK YOU FOR YOUR FEEDBACK!



Ukrzaliznytsia Head Office

Address: 5 Tverska Street, Kyiv 03150

Front Office:

Press Centre: Tel. +38 (044) 465 24 28, Fax +38 (044) 465 24 39

Email: uz@uz.gov.ua

Help Desk: Tel. +38 (044) 465 21 11

For information contained in the Report:

CSR Department: Tel. +38 (044) 309 70 74

Email: sustainability@uz.gov.ua

Online version of the Report is available at report2017.uz.gov.ua

