

Ukrainian Railways

2020 results

Investor Presentation

April 2021



2020 EXECUTIVE SUMMARY

Substantial negative impact of COVID-19

- ✓ Cargo revenues decreased by 10% y-o-y due to fall in freight transportation volume
- ✓ Passenger revenues decreased 59% due to a 62% slump y-o-y in passenger turnover
- ✓ UAH 11.9 bn net loss in 2020, including FX differences of UAH 5.5 bn

Anti-crisis measures saved UAH 4.5 bn of liquidity

- ✓ Additional revenues from accelerated sale of metal scrap
- ✓ Payroll: idle regime and shortened working week implemented
- ✓ Anti-crisis program was launched
- ✓ OPEX: extra savings in energy by improving energy efficiency, materials & goods consumption
- ✓ CAPEX: limited to mandatory maintenance investment
- ✓ Termination of maintenance of 5 ths km of inactive rail tracks
- ✓ Compensation for passenger traffic from local budgets

Financial stability remained key priority for 2020

- ✓ Company's debt obligations were executed in full according to maturity schedule due to the effective liquidity management
- ✓ Consent solicitation process for LPN 2021 and LPN 2024 was successfully completed in order to amend certain covenants and to increase flexibility to actively manage debt portfolio

2020 OPERATIONAL RESULTS

Transportation volumes in 2020 were hit by the outbreak of COVID-19

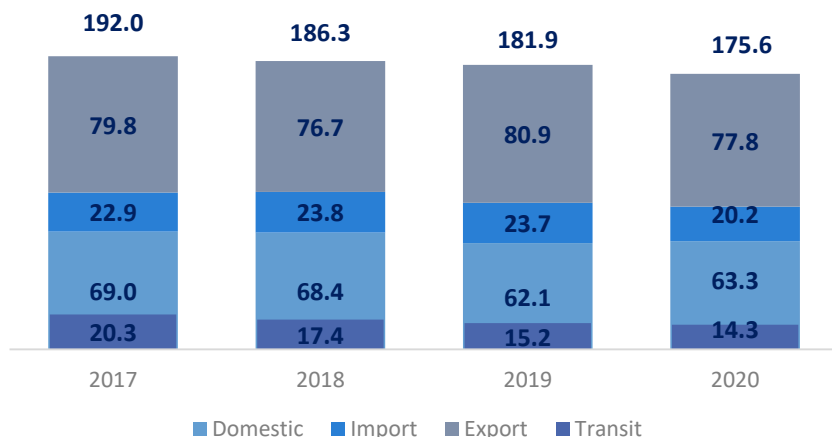
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In March 2020, Ukraine and other countries, has been significantly affected by COVID-19. Measures taken to prevent the spread of Coronavirus disease have significantly changed both the nature of economic development at the macro and micro level.

Cargo segment: turnover decreased by 3.5%

- During the 2020 consolidated index of production in Ukraine dropped by 4,4%; GDP decreased by 4.2%
- In 2020, the transport sector suffered the negative impact, caused by quarantine restrictions. The decline in transport sector was 3.5% y-o-y.

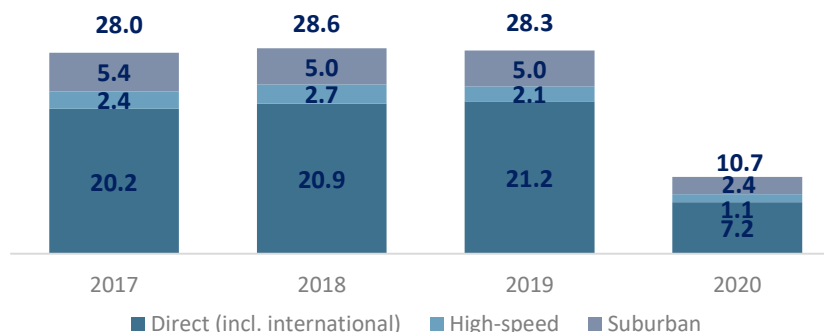
bn tkm



Passenger segment: turnover decreased by 62%

- From March 18, 2020 till May 31, 2020 the domestic passenger transportation of all types (suburban, urban, regional and long-distance) has been temporarily suspended
- During the year, quarantine restrictions and epidemiological zoning were applied in Ukraine

bn pkm



FINANCIAL RESULTS

Key financials, in UAH bn

	2017	2018	2019	2020
Revenue	74	83.4	90.4	75.3
% growth ⁽¹⁾	11.0%	12.9%	8.3%	(16.7%)
EBITDA	20.1	16.3	17.3	10.1
% margin ⁽²⁾	27.2%	19.5%	19.2%	13.4%
OPEX	68.6	79.9	85.5	78.1
CF Operations ⁽³⁾	14.0	12.6	12.3	10.4
% of sales	18.9%	15.1%	13.6%	13.8%
CF Operations/CAPEX	1.3x	0.8x	1.3x	1.1x
CAPEX	10.9	15.0	9.3	9.2
CAPEX/Revenue	14.7%	18.0%	10.3%	12.2%
Net Debt ⁽⁴⁾	29.0	32.2	28.0	34.2
Net Debt ⁽⁴⁾ / EBITDA	1.7x	2.3x	1.9x	3.4x

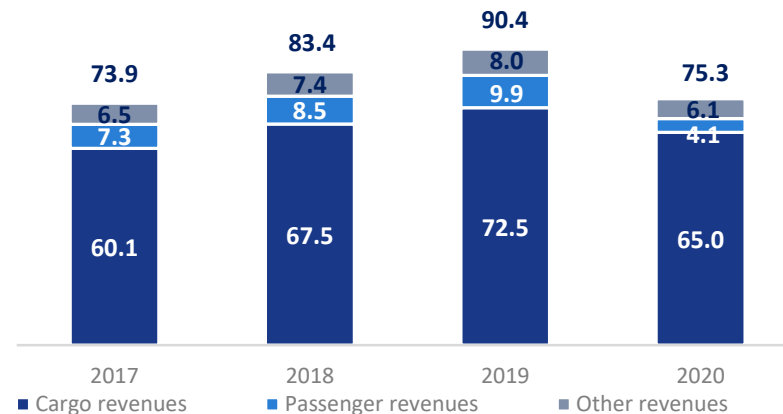
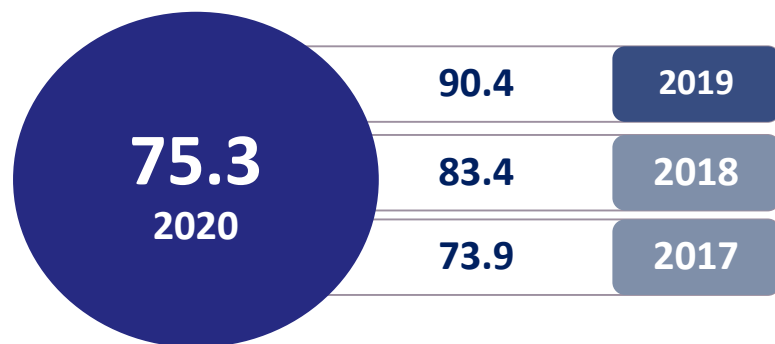
(1) Growth in comparison with previous similar period

(2) EBITDA margin, % calculated on the basis of indicators in UAH (to eliminate FX effect)

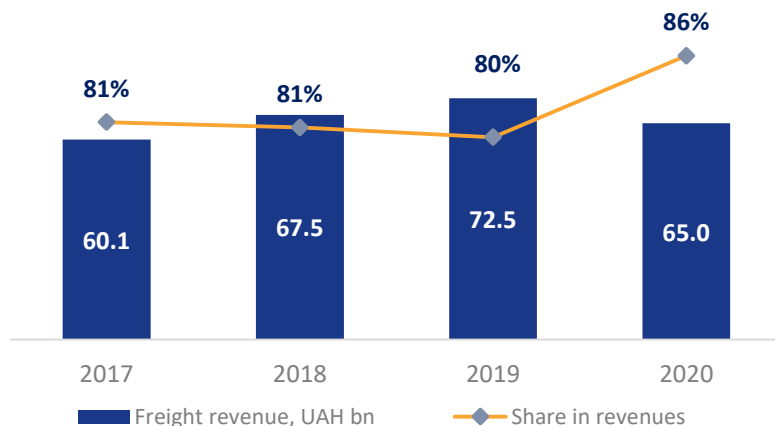
(3) CF Operations means net cash flows from operating activities

(4) Net Debt calculated as Loans and borrowings, plus Finance lease liabilities, less Cash and cash equivalents (excluding the occupied territories debt)

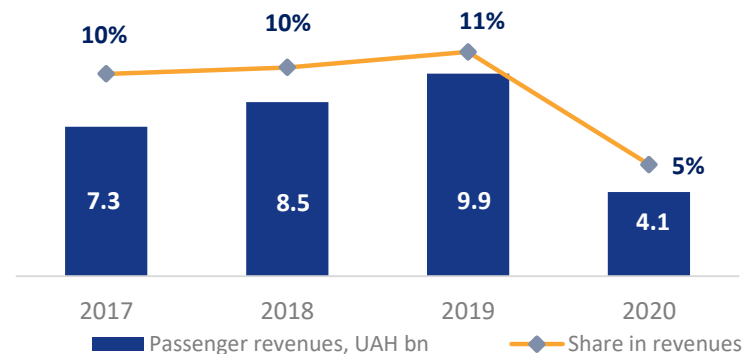
16.7% revenue decline in 2020 explained by rail transportation traffic decrease as a result of COVID-19 outbreak



10.3% decline in freight revenues...



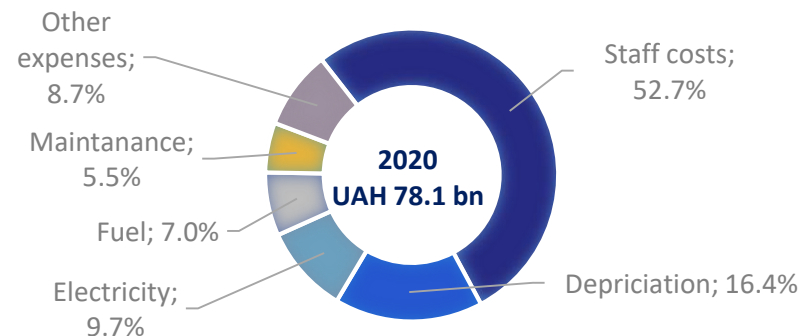
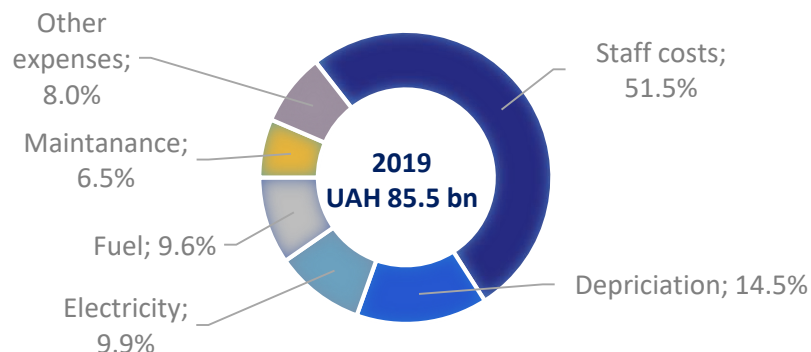
... and 58.6% decline in passenger revenues



Expense structure and development

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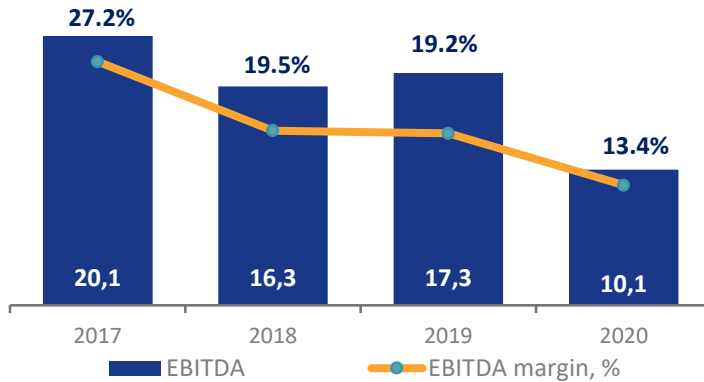
OPEX structure



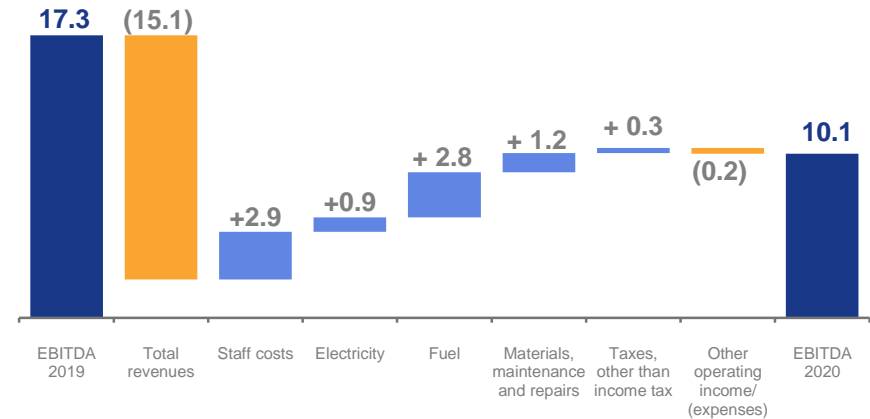
UAH, bn	2019	2020	%	Comments
Staff costs	44.1	41.1	(6.8)	Austerity measures adopted due to the outbreak of COVID-19
Depreciation	12.4	12.8	3.2	Increase is due to depreciation of new fixed assets, which were put into operation and with the revision of the terms of use of freight cars, as well as changes in liquidation value
Electricity	8.5	7.6	(10.6)	Vol. of railway turnover decreased, extra savings by improving energy efficiency
Fuel	8.2	5.5	(32.9)	Vol. of railway turnover decreased, extra savings by improving energy efficiency
Maintenance	5.5	4.3	(21.8)	Vol. of railway turnover decreased, efficiency measures
Tax expenses*	4.2	3.9	(7.1)	Decrease is due to exemption of land tax in March 2020 in accordance with Covid-related amendments to the Tax Code of Ukraine
Other expenses	2.6	2.9	11.5	The allowance to net realizable value of inventories and the allowance for taxes receivable
Total OPEX	85.5	78.1	(8.7)	

EBITDA dynamics

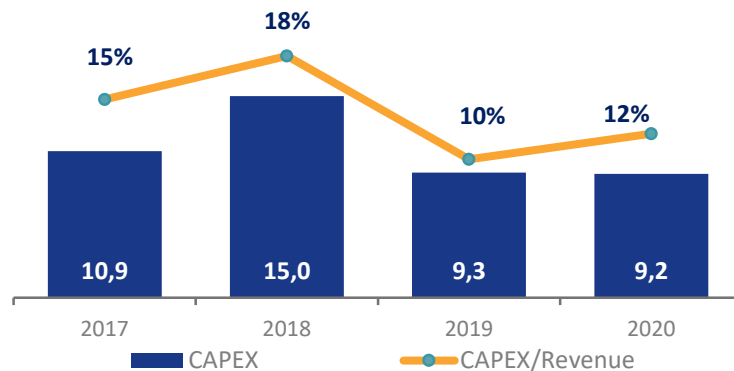
EBITDA⁽¹⁾, UAH bn



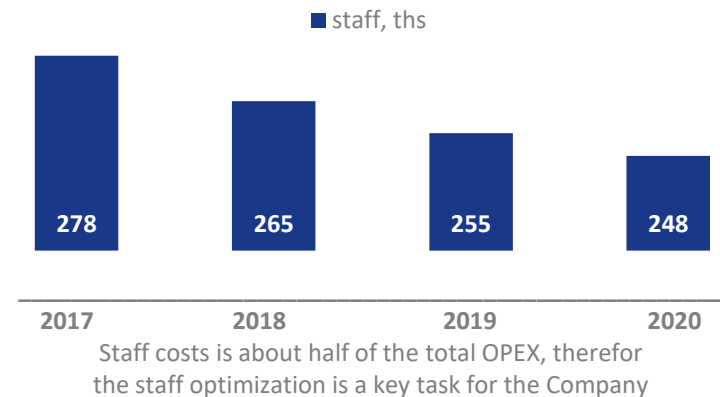
EBITDA bridge 2019 vs 2020, UAH bn



CAPEX to Revenue, %



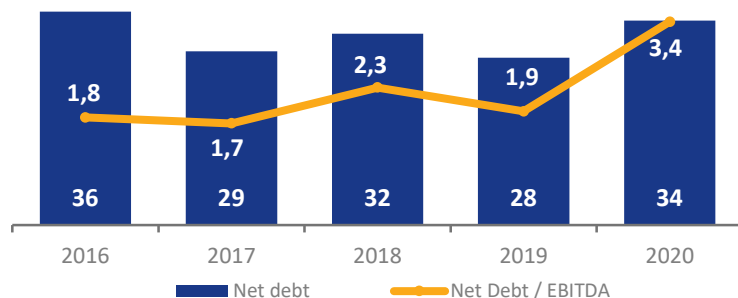
UZ continues to optimize its operating costs, in particular staff costs



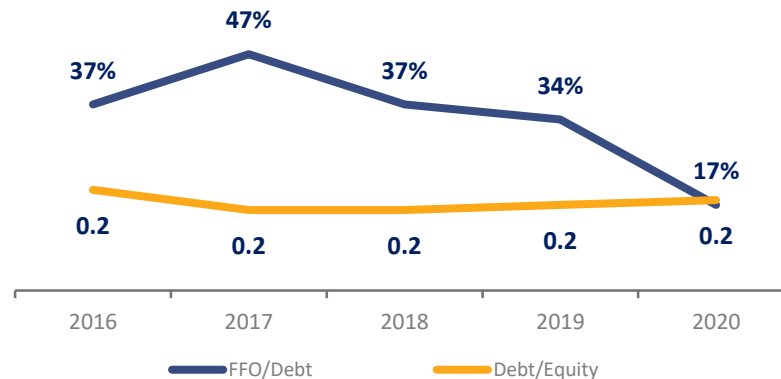
Debt position adversely impacted by the crisis

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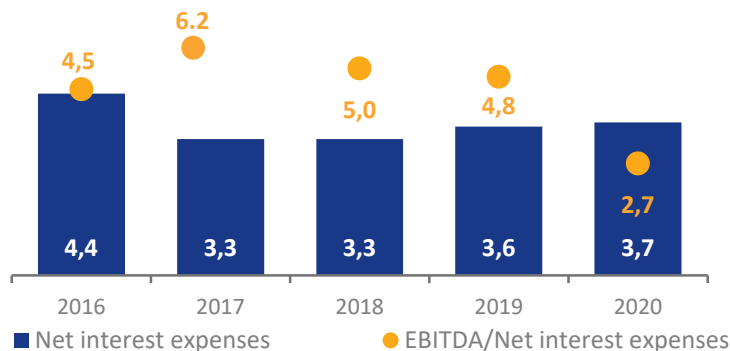
2020 Net Debt and Net Debt/EBITDA increasing⁽¹⁾ (UAH bn)



While Debt/Equity remains constant, FFO/Debt deteriorated in 2020



Interest coverage negatively impacted although interest expense in UAH remained stable (UAH bn)



Ukrainian Railway debt metrics vs. regional peers in 2020⁽²⁾

COVID-19 had a negative impact on performance of all regional peers, at the same time Ukrainian Railway's leverage remains on moderate levels compared to other regional peers

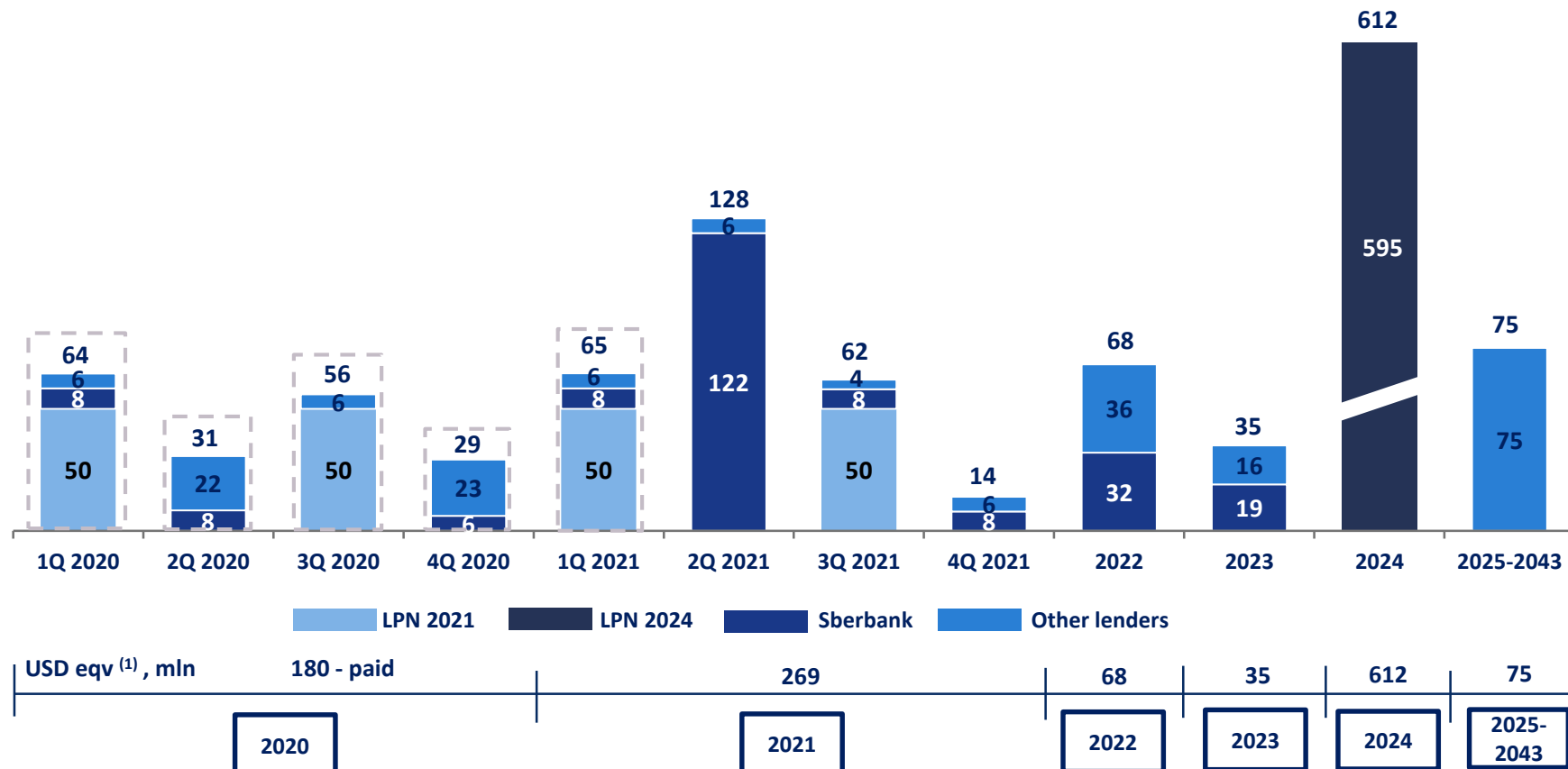


Net Debt/EBITDA	2.9x	3.5x	4.5x	6.8x
EBITDA/ Net Interest expenses	3.8x	5.0x	1.6x	6.8x

- (1) Net Debt calculated as Loans and borrowings, plus Finance lease liabilities, less Cash and cash equivalents (excluding the occupied territories debt), for Net Debt/EBITDA ratio, the Net debt is calculated as Loans and borrowings, plus Finance lease liabilities, less Cash and cash equivalents (including the occupied territories debt for period 2016-2019); The Company' debt 2019 vs 2020 was increased due to FX difference (UAH/USD 23.69 vs 28.27 accordingly). FFO calculated as EBITDA, less Income tax expense, plus Finance income, less Finance costs. Net interest expenses calculated as Finance costs less Finance income (with additional adjustments)

Debt maturity schedule

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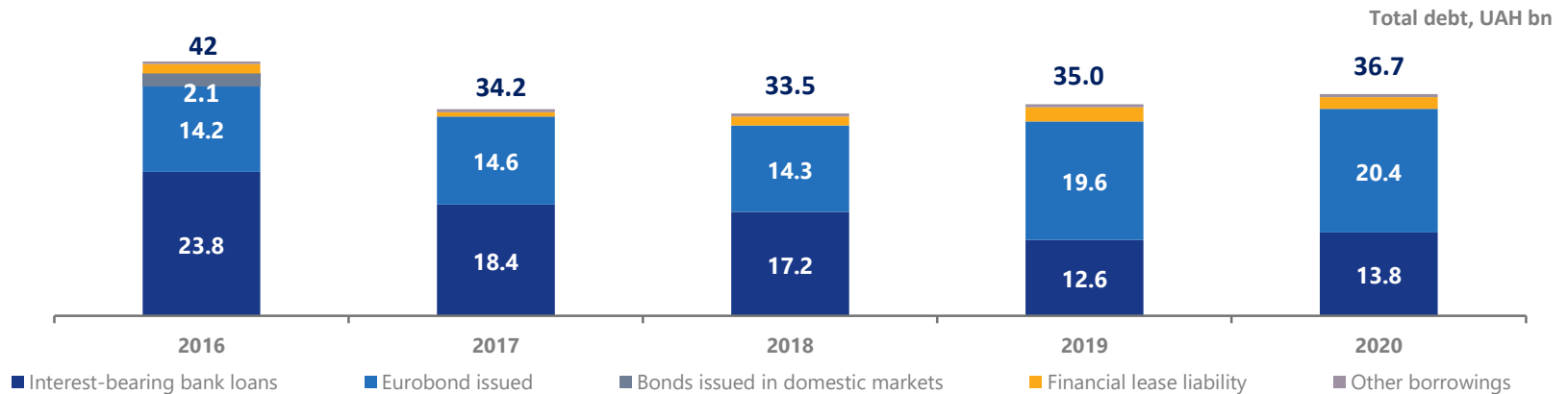
Highlighted contractual obligations were fully executed for the period

Main assumptions:

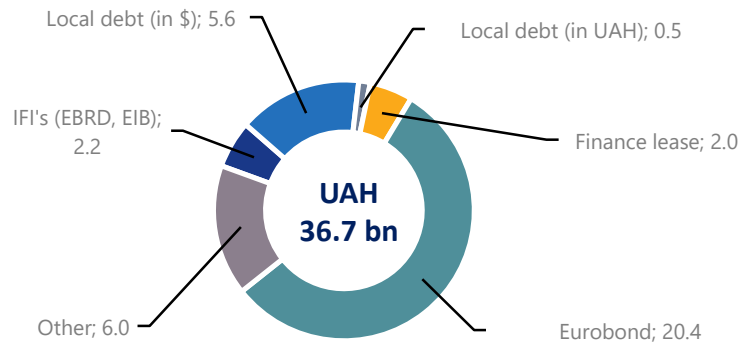
- ✓ Working capital lines are not included due to its roll, drawdown as of 31.12.2020 UAH 17 mln; WC lines limits was the following:
 - Oshchadbank – UAH 3.0 bn
 - Alfa-Bank – eqv USD 30 mln
 - Ukrgasbank – UAH 1.4 bn
- ✓ Debt for the VR Global Partners, L.P. (ex-Prominvestbank debt) and the occupied territories debt not included in the schedule (carved-out from LPNs)

Loan portfolio structure

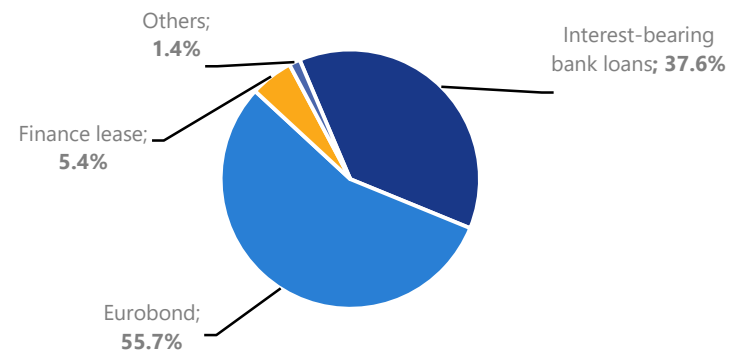
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Debt structure as of 31.12.2020, UAH bn



Debt structure by facility as of 31.12.2020



All necessary waivers were received by the Company from the Lenders in time according to contractual obligations due to higher level of leverage caused by COVID-19 negative impact

Current trends and outlook 2021

■ Signs of recovery

- ✓ Ukraine's grain and iron ore exports positive outlook (1)
- ✓ Domestic crushed stone transportation driven by large-scale Govt road construction

■ Anti-crisis measures continue

- ✓ Continued OPEX optimization and prioritization (staff cost, energy & fuel, good&services)
- ✓ CAPEX in critical cash-generative assets (capital repairs in locomotives and freight railcars)

■ Debt and cash management for securing stable liquidity

- ✓ Revolving WC lines opened with local banks (total limit secured > UAH 6 bn (2))
- ✓ Intra-group cash pooling and payment factory projects implemented
- ✓ Light amortization schedule in 2H 2021

■ Discussions for shareholder support continue (land tax, tariffs, non-core asset sales, dividends deferral)

- ✓ UAH 4 bn of direct budget financing is provided in the Company's Financial plan and State budget for 2021

Annex

Ukrainian Railways – one of the largest railways in Europe and the only rail transportation operator in Ukraine

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One of the largest railways in Europe

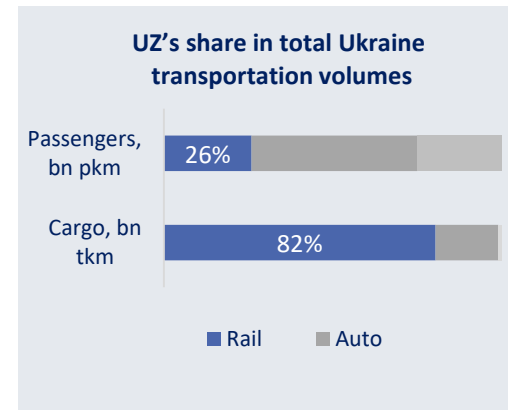


#1 railway by freight turnover

#3 largest railway by railway lines in use

One of the largest company in Ukraine

- ✓ #1 employer in Ukraine – 248 324 employees in 2020
- ✓ #2nd largest state-owned enterprise in Ukraine by assets and #3rd by revenue
- ✓ One of the largest taxpayers in Ukraine – over UAH 25.1 bn paid in taxes in 2020
- ✓ One of the key assets of Ukraine – generated about 2.6% of GDP of Ukraine in 2020
- ✓ Backbone of cargo transportation in Ukraine – 82% of total cargo turnover*
- ✓ One of the key assets for the population mobility – 26% of passengers transportation**



World

THE SHOCKS THE WORLD HAS FACED	MEASURES TAKEN TO REDUCE IMPACT OF COVID-19 AND SUPPORT ECONOMY	MEASURES TO SUPPORT COUNTRIES IN POST-PANDEMIC PERIOD
<ul style="list-style-type: none"> ✓ slowdown in domestic economies around the world ✓ a sharp reduction in trade and capital flows ✓ a blow to global supply chains ✓ falling external demand ✓ sectors such as tourism, transport, and the oil industry are particularly hard hit ✓ slowdown in world GDP growth 	<ul style="list-style-type: none"> ✓ tightening economic policies ✓ many countries provided liquidity as needed to keep the market functioning and to ease monetary policy ✓ easing fiscal policy ✓ containing prices and imposing trade restrictions 	<ul style="list-style-type: none"> ✓ adopted programs of economic stimulus ✓ public investment to help revive economic activity after the sharpest and deepest decline in the global economy in modern history ✓ most important investments in health, digital and green infrastructure which can improve lives, connect markets and make countries more resilient to future pandemics

Ukraine

<ul style="list-style-type: none"> ✓ the industrial output in Ukraine dropped ✓ falling prices for exported goods ✓ reduction of exports / imports ✓ outflow of investment ✓ UAH devaluation against the foreign currencies 	<ul style="list-style-type: none"> ✓ special grace period for loan servicing during the quarantine period ✓ legislation was amended and tax preferences were granted 	<ul style="list-style-type: none"> ✓ incentives for Ukraine's investment attractiveness have been adopted ✓ the State program of stimulation of economy for overcoming of negative consequences of COVID-19 was developed and is being implemented
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Ukrainian Railways

<ul style="list-style-type: none"> ✓ since 17 March 2020, the Company temporarily suspended international railways passenger traffic. ✓ since 18 March 2020, the Company temporarily suspended domestic passenger railways traffic of all types (suburban, urban, regional and long-distance) ✓ decrease in revenue ✓ reduction of liquidity 	<ul style="list-style-type: none"> ✓ limitation and spending on maintenance priorities only ✓ introduction of a special mode of work for employees: reduced working week, downtime system ✓ work with banks to provide financing to ensure an adequate level of liquidity and restructuring of current debt ✓ Consent solicitation in respect of the 2021 and 2024 Notes to amend certain covenants and increase flexibility to actively manage its debt portfolio were initiated by the Company and approved by bondholders 	<ul style="list-style-type: none"> ✓ ERP system development ✓ reduction of non-core assets ✓ work to find support from the state, in particular in terms of taxation and payment of dividends ✓ IT and security systems development
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Direct budget financing is provided in the Company's Financial plan and State budget for 2021

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UAH 4 bn of budget financing



UAH 3 bn in renewal of rolling

stock for passenger transportation (100 units):

- ✓ passenger compartment sleeping cars – 51 units
- ✓ passenger compartment cars equipped for transportation of passengers with disabilities in a wheelchair and compartment of the train chief – 17 units
- ✓ passenger compartment cars equipped for transportation of passengers with disabilities in a wheelchair – 20 units
- ✓ cars passenger compartment sleeping type SV– 12 units



UAH 1 bn in modernization of railway infrastructure for the development of passenger transportation



UAH 5 mln for design and execution of works on restoration of railway track wide 1435 from station Chop to station Uzhgorod

Note: Final volumes of rolling stock procurement and works on modernization of railway infrastructure for the development of passenger transportation at the expense of budget funds will be determined after the adoption of the resolution of the Cabinet of Ministers of Ukraine on the use of budget funds and passports of budget programs.

BALANCE SHEET, UAH mln

	2017	2018	2019	2020
Non-current assets	249 079	253 491	249 402	245 125
Current assets, incl.	15 366	12 018	19 608	12 489
Cash and cash equivalents	5 189	1 252	6 981	2 498
Total assets	264 445	265 509	269 010	257 710
Loans and borrowings, incl.	33 511	32 005	32 648	34 735
Eurobonds issued	14 583	14 320	19 551	20 442
Bank loans ⁽¹⁾	18 446	17 185	12 596	13 787
Bonds issued in domestic markets	-	-	-	-
Other borrowings	482	500	501	506
Finance lease liabilities	721	1 445	2 366	1 965
Other non-current liabilities	7 230	7 896	8 414	8 845
Other current liabilities	12 205	14 044	13 765	12 776
Total liabilities⁽¹⁾	53 668	55 391	57 194	58 321
Total equity	210 777	210 118	211 816	211 184
Total equity and liabilities	264 445	265 509	269 010	257 710
Net Debt⁽²⁾	29 044	32 199	28 033	34 202
Net Debt / EBITDA⁽³⁾	1.7x	2.3x	1.9x	3.4x
Foreign exchange gain / (loss), net	(1 140)	539	4 326	(5 486)

(1) Liabilities of SE "Donetsk Railway" are excluded from Loans and borrowings, which are under moratorium for servicing according to Ukrainian legislation (starting from 2017).

(2) Net Debt calculated as Loans and borrowings, plus Finance lease liabilities, less Cash and cash equivalents (excluding SE "Donetsk Railway")

(3) Net debt is calculated as Loans and borrowings, plus Finance lease liabilities, less Cash and cash equivalents (including SE "Donetsk Railway" for period 2016-2019);

EBITDA calculated as Operating profit, plus Depreciation and amortization, less Gain (plus Loss) from revaluation or disposal of PP&E, plus Change in provisions

Sources: Consolidated financial statements for 2017, 2018, 2019 and 2020 audited by EY

INCOME STATEMENT, UAH mln

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	2017	2018	2019	2020
Total Revenues, incl.	73 938	83 402	90 352	75 292
Cargo revenues	60 113	67 520	72 489	65 019
Passenger revenues	7 318	8 468	9 906	4 133
Other revenues	6 507	7 414	7 957	6 140
EBITDA⁽¹⁾	20 097	16 298	17 326	10 123
Margin (%)	27.2%	19.5%	19.2%	13.4%
Operating profit / loss	5 335	3 502	4 820	-2 759
Margin (%)	7.2%	4.2%	5.3%	3.7%
Finance income	555	203	260	190
Finance costs	(3 811)	(3 464)	(3 845)	(4 237)
Foreign exchange gain / loss, net	(1 140)	539	4 326	(5 486)
Net profit/(loss)	115	204	2 988	(11 900)
Margin (%)	0.2%	0.2%	3.3	15.8%
EBITDA / Net interest expenses ⁽²⁾ , coverage	6.2x	5.0x	4.8x	2.7x

(1) EBITDA calculated as Operating profit, plus Depreciation and amortization, less Gain (plus Loss) from revaluation or disposal of PP&E, plus Change in provisions

(2) Net interest expenses are calculated as the difference between adjusted Finance costs (excl. effect from discounting long-term accounts payable) and adjusted Finance income (excl. effect from discounting long-term accounts receivable).

Sources: Consolidated financial statements for 2017, 2018, 2019 and 2020 audited by EY

CASH FLOW STATEMENT, UAH mln

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	2017	2018	2019	2020
Net cash flows from operating activities	13 992	12 621	15 165	10 402
Net cash flows used in investing activities, incl.	(10 315)	(14 837)	(10 994)	(6 796)
Acquisition of property, plant and equipment	(10 872)	(15 034)	(9 285)	(9 221)
Net cash flows used in financing activities, incl.	(4 820)	(1 719)	1 572	(8 346)
Proceeds from loans and borrowings	-	18 071	35 965	23 521
Repayment of loans and borrowings	(2 718)	(19 450)	(31 069)	(28 050)
Proceeds/(Repayment), net of finance lease obligations	(382)	(339)	(422)	(395)
Net (decrease)/increase in cash and cash equivalents	(1 143)	(3 935)	5 743	(4 740)
Cash and cash equivalents, opening balance	6 420	5 189	1 252	6 981
Cash and cash equivalents, closing balance	5 189	1 252	6 981	2 498
Funds from operations (FFO)⁽¹⁾	16 184	12 300	11 866	6 076
FFO / Debt ⁽²⁾	47%	37%	34%	17%
FFO / Interest (net) ⁽³⁾ , coverage	5.0x	3.8x	3.3x	1.5x

CFO stands for Net cash flows from operating activities

(1) FFO calculated as EBITDA, less Income tax expense, plus Finance income, less Finance costs

(2) Debt calculated as Net Debt plus Cash and cash equivalents

(3) Interest (net) calculated as Finance costs less Finance income

Sources: Consolidated financial statements for 2017, 2018, 2019 and 2020 audited by EY

S&P Global Ratings in March 2021 confirms Ukrainian Railways' Long-Term Issuer Credit Rating 'B-', Outlook Negative

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Summary

- ✓ S&P Global Ratings has confirmed UR's Long-Term Issuer Credit Rating (ICR) and Issue Rating on its notes due 2021 at 'B'. The Outlook is Negative.
- ✓ The transaction extended UR's maturity profile and reflected its immediate liquidity pressure, prompting S&P to positively reassess the company's liquidity assessment to less than adequate from weak.
- ✓ The negative outlook reflects the uncertainty of the magnitude, duration, and overall impact of the COVID-19 pandemic and economic recession on UR's ability to generate cash flow or refinance to meet upcoming financial obligations.

Key Rating Drivers

- ✓ COVID-19-related setbacks may continue to hamper UR's performance, leading to significantly less cash flows. The company generates essentially all of its EBITDA in freight transportation, while the passenger segment is largely loss-making. S&P expects funds from operations (FFO) to debt will in 2021, following almost full recovery of cargo volumes in 2021 after an expected 10% decline in 2020 versus 2019. Still, the actual performance will hinge on the length on severity of the pandemic and the company's mitigating measures to reduce capex and operating expenditure.
- ✓ S&P continues to see UR as a government-related entity (GRE) and understands that the government could prefer different forms of support, varying from direct financial aids to dividend reduction, tax flexibility, or participation in negotiations with banks.

Outlook

- ✓ S&P's negative outlook reflects uncertainties regarding recovery in the wake of the pandemic and the company's ability to generate sufficient funds in the currently volatile environment. The base-case assumption is that UR's management will manage refinancing by end-2020 or will develop a credible refinancing plan.

Fitch Ratings in February 2021 affirms Ukrainian Railways' ²³ Long-Term Issuer Rating at 'B', Outlook Stable

Summary

- ✓ Fitch Ratings has affirmed UR's Long-Term Issuer Default Rating (IDR) at 'B'. The Outlook is Stable.
- ✓ The affirmation of ratings reflects Fitch's unchanged view on UR's strong linkage to Ukraine (B/Stable) and the latter's ability and willingness to provide support to the company under Fitch's Government Related Entities (GRE) Criteria. Using a top-down approach, which combined with UR's 'b-' SCP, leads to rating equalization with the Ukrainian sovereign's IDR.

Key Rating Drivers

- ✓ UR's score under Government-Related Entity (GRE) Criteria is unchanged at 27.5 and reflects the combination of a 'Very Strong' assessment of the company's legal status, ownership and support due to full state ownership and control, 'Moderate' support track record expectations and socio-political implications of default, and 'Strong' financial implications of default.
- ✓ UR, as a strategically important transportation company for Ukraine, will continue to manage the national railway infrastructure, and provide dispatch services, passenger transportation, and dominant freight services even under financial distress. Nonetheless, a default of UR could lead to some service disruptions, but not of an irreparable nature. In this case company's hard assets will still be operational and alternative modes of transportation remain available.
- ✓ UR's operating costs and resource management are assessed as 'Midrange', based on fairly well-defined costs with predictable expected changes. Its cost structure is fairly stable and dominated by staff costs averaging at 47% of operating spending in 2015-2019, followed by maintenance costs and goods and services at 30%.
- ✓ UR's financial profile remains exposed to commodity-market and foreign-exchange risks, along with the geo-political risks associated with Ukraine's bilateral relations with Russia. UR is moderately exposed to domestic competition in passenger transportation, while its financial profile is supported by sizeable operations in freight, where it benefits from its monopolistic position.
- ✓ The company's net adjusted debt/Fitch-calculated EBITDA - a key financial metric - averaged 1.8x in 2015-2019. Fitch's revised rating case envisages deterioration in net adjusted debt/EBITDA, but on a lesser scale than projected in April 2020, to an average of 6.5x for 2020-2024. This scenario assumes substantial stress on both operating revenue and operating expenditure due to disruptions from the coronavirus pandemic.

UZ is 100% owned by the Government of Ukraine

Supervisory Board

Independent Supervisory Board members:



Sevki Acuner
Chairman
Head of EBRD in
Ukraine (2013-2018)



Andreas Matje
Board Member
Consultant, Trainer, former
CFO of OMV Person



Adomas Audickas
Board Member
Ukrainian academy of
corporate governance



Oleh Zhuravliov
Board Member
The Ministry of
Infrastructure of Ukraine



Serhii Leschenko
Board Member
Ukrainian Parliament

Government representatives:

Management Board



Ivan Yuryk
Acting CEO, CFO
Experience: UkraineInvest (Deputy Chairman), Chief
of Staff to Minister of Finance, Country
Representative at Blackstone Group



Oleksandr Pertsovskiy
Acting Member of the Management Board
Experience: Deutsche Post DHL Group in USA and Singapore (various
managerial positions), 1st Deputy Director General of JSC "Ukrposhta",
Director of "Passenger Company" Branch of JSC "Ukrainian Railways"



Ivan Synyakov
Acting Member of the Management Board, HR
Experience: Deputy Director of the
Business Reform and Development
Department, Director of the Personnel
and Social Management Department at
Naftogaz of Ukraine, Adviser to the
Chairman of the Management Board at
UKREXIMBANK



Frantisek Bures
Member of the Management Board, Rolling stock
Experience: Skoda Holding
Group, Skoda Electric,
Sibeltropivod (managerial
positions), DPOV (CEO)



Roman Chernitskyy
Acting Member of the Management Board
Experience: JSC "Ukrainian Railways" - track fitter, road master doubler,
road master, head of the production site, Chief Engineer, head of the
track machine station, deputy head of the directorate, Head of the Lviv
Center for Mechanization of Track Works, Chief Engineer of a separate
division "Track Service", Head of the Track Service, Deputy Head of the
Regional Branch for Infrastructure of the Lviv Railway



Thank You!

УКРЗАЛІЗНИЦЯ 