

Ukrainian Railways

2019 results, 2020 outlook
Investor Presentation



29 April 2020

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Operational

- Company started to lease its own wagons to the market via e-trading auction platforms achieving revenue increase
- Started own production of grain hoppers and obtained an interstate operation license for it
- A pilot project of regulated block-train routes for grain transportation launched, record grain volume transported for export
- Company continued to develop its container business and launched new routes
- Locomotive fleet availability and wagon turnover rates significantly improved

Financial

- Successfully placed \$500m 5y Eurobond (with subsequent \$100m tap earmarked for infra project)
- Credit rating agencies S&P and Fitch Ratings upgraded Ukrzaliznytsia's rating to B and B-, respectively in 2019
- UZ is one of the largest taxpayers in Ukraine
- UZ, Ministry of Infrastructure and the EBRD signed a memorandum of cooperation to prepare UZ for IPO in long-term process
- Net profit in 2019 posted UAH 3.0 bn against UAH 0.2 bn in 2018

Awards & Recognitions

- UZ's Eurobonds 2024 was awarded 2019 CEEMEA Corporate Bond of the Year
- Sustainable Ukraine 2019, professional corporate sustainability rating, called UZ a leader in corporate governance among Ukrainian companies and ranked UZ in the TOP 10 Resilient Businesses with high score (BBB)
- UZ was among leaders for its environmental action in Ukraine
- UZ's Integrated Report 2018 won international MarCom Awards organized by the American Association of Marketing and Communication Professionals

Corporate Governance

- A number of internal action documents setting the institutional framework for UZ's development was adopted in 2019, among them Company's 5-year Strategy for 2019-2023, revised Charter according to OECD best standards, Code of Ethics and Anti-Corruption Policy
- Deloitte & Touche LLC, assessed UZ's efforts and concluded that the corporate governance reform of the Company being implemented intensively, dynamically and in accordance with the schedule

OPERATIONAL RESULTS

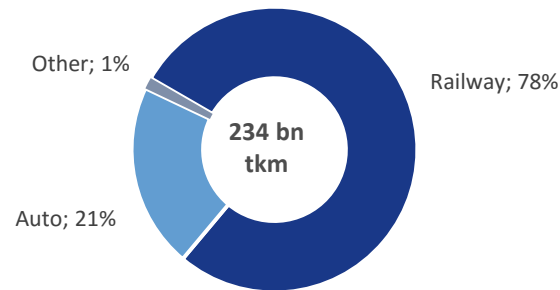
Important economic and social impact

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Ukrainian Railways plays key role in supporting economic growth in Ukraine and performs an important social function in addition

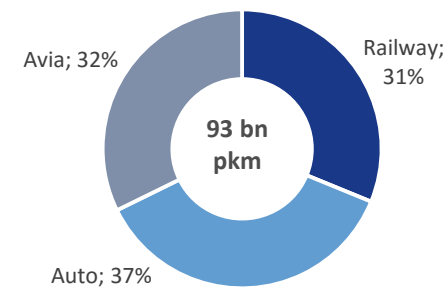
Backbone of cargo transportation in Ukraine – 78% of total cargo turnover

Cargo turnover in Ukraine, 2019*



One of the key assets for the population mobility – over 30% of passengers transported by rail

Passenger transportation volume, 2019 **



One of the largest companies in Ukraine

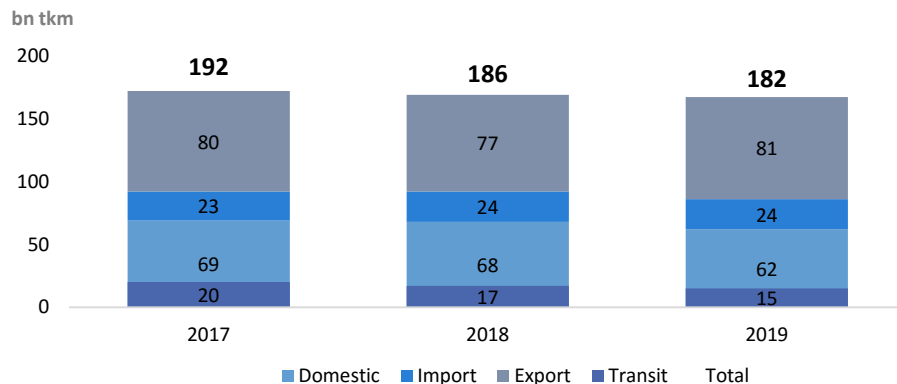
- **#1 employer in Ukraine** – 256,572 employees in 2019
- **#2nd largest SOE in Ukraine by assets and #3rd by revenue**
- **One of the largest taxpayers in Ukraine** – over UAH 29.1 bn paid in taxes in 2019

Cargo segment update

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Traffic volume insignificantly lower than in 2018 with some structural changes within traffic destinations

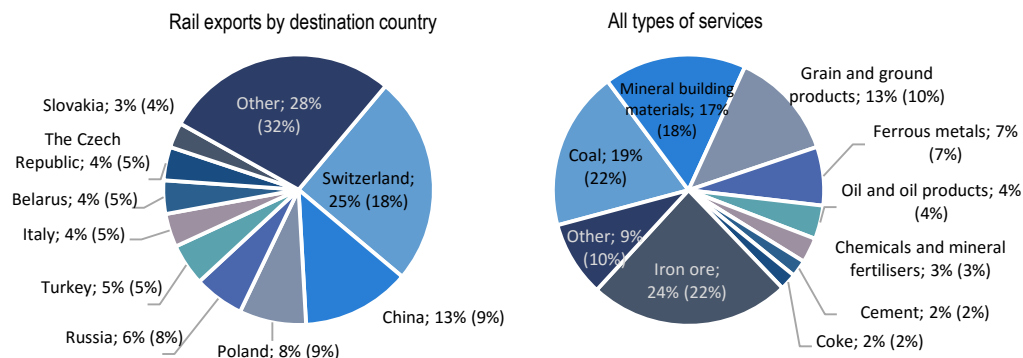
Dynamics/breakdown of railway cargo turnover



Reasons for the decrease in cargo transportation:

- Decrease in demand and prices for ferrous metals in the key global markets (EU, MENA, and Turkey)
- Protectionism in foreign markets, trade wars (EU tariff quotas, protective duty on billet exports to Egypt, anti-dumping duties on exports of galvanized steel to countries in the Eurasian Economic Union (EAEU), tariff quotas on imports of hot-rolled flat steel to EAEU countries)
- Hryvnia appreciation (Ukrainian industrial companies experienced a rise dollar-denominated expenses due to appreciation).
- Crisis in Ukrainian coal industry Anti-dumping measures on imports from Russia.

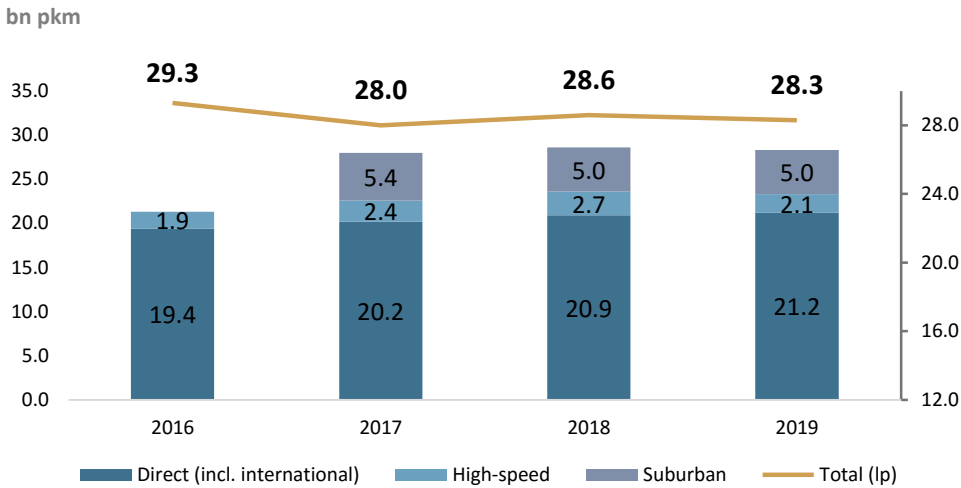
Cargo transportation structure*



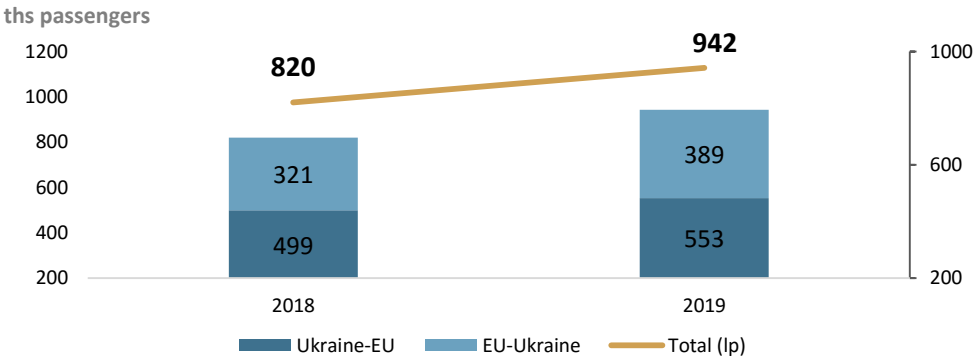
Company's focus is to increase quality of services having limited resources:

- Improved booking and information services
- New domestic and international services and destinations
- Fleet modernized by investing UAH 9,3 bn into overhauling and purchasing new cars, locomotives and trains

Passenger traffic remained stable



Ukraine - EU - Ukraine passenger traffic has grown



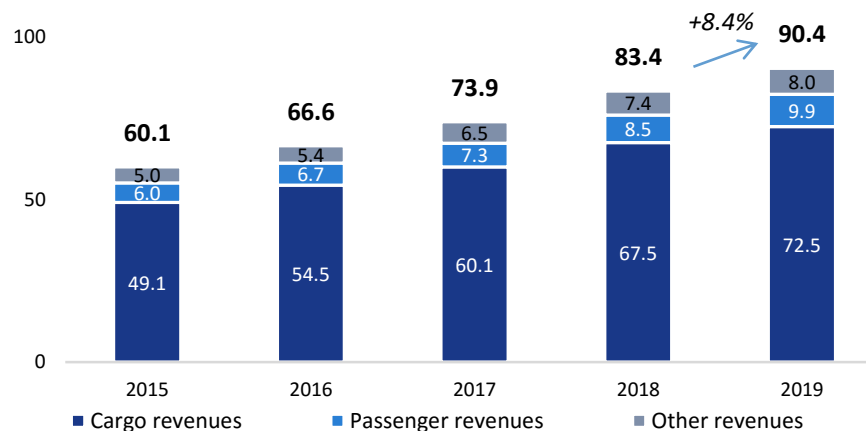
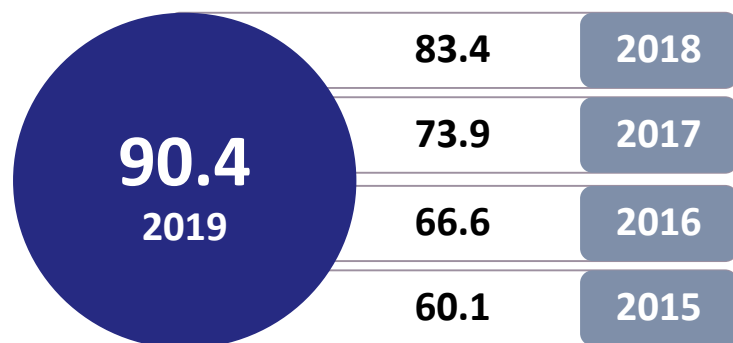
Sources: Company estimates

FINANCIAL RESULTS

Revenue development

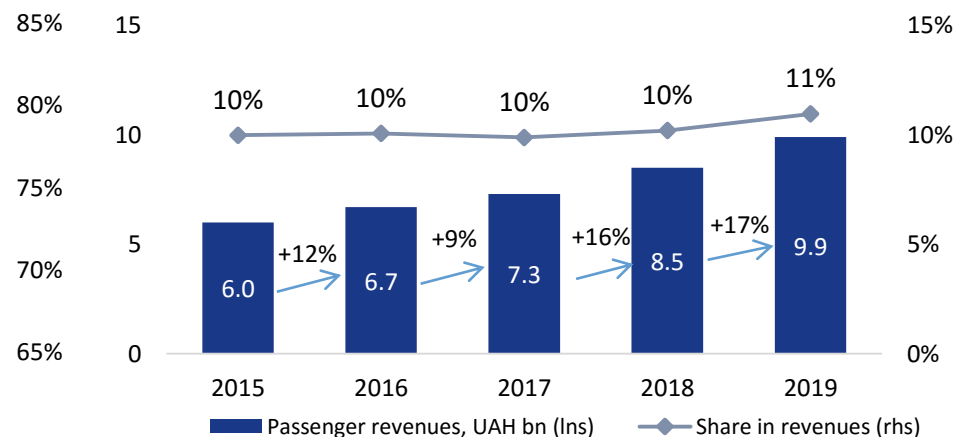
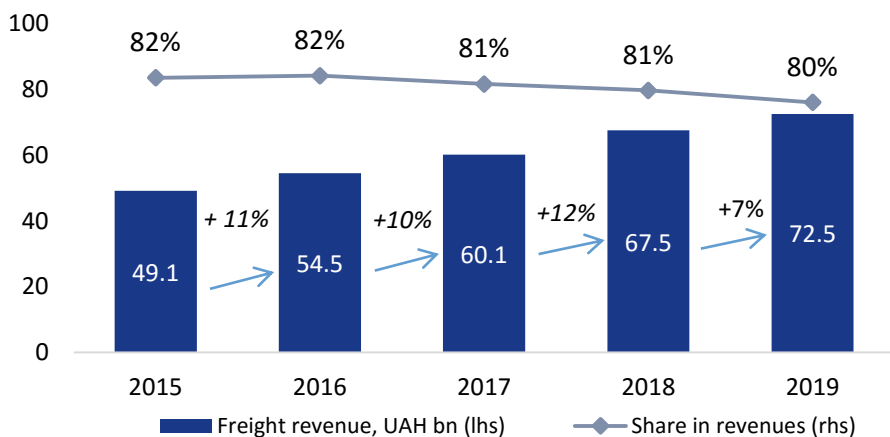
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Approx. 11% average annual revenue growth since 2015 (values in UAH bn)



Cargo accounts for 80% of UZ revenue

Passenger revenue: 11% of total



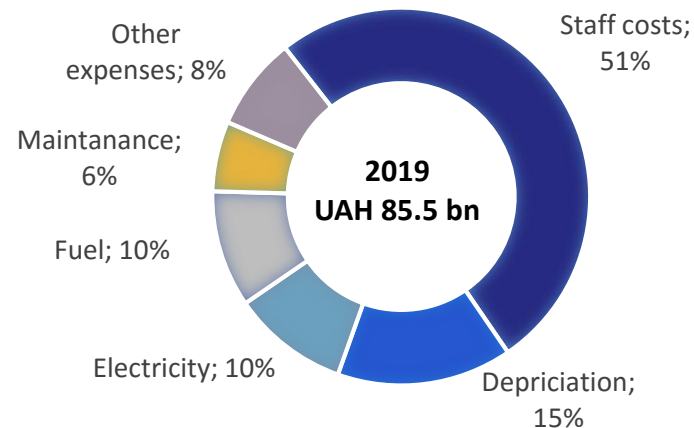
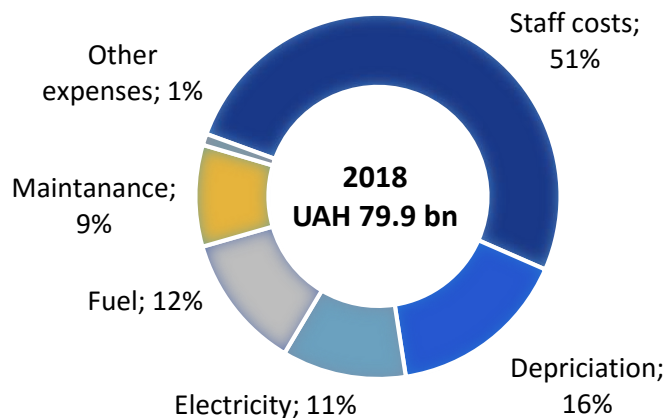
Key financials (in USD bn)

	2016	2017	2018	2019
Revenue, \$ bn	2.6	2.8	3.1	3.4
EBITDA, \$ bn	0.8	0.8	0.6	0.7
EBITDA margin, %	30.1	27.2	19.5	19.2
Net Debt/EBITDA	1.8	1.7	2.3	1.9
OPEX, \$ bn	2.5	2.6	2.9	3.2
CF Operations/CAPEX	2.9	1.7	1.0	1.3

(1) Net Debt calculated as Loans and borrowings, plus Finance lease liabilities, less Cash and cash equivalents (including SE “Donetsk Railway”)

(2) EBITDA margin, % calculated on the basis of indicators in UAH

OPEX structure

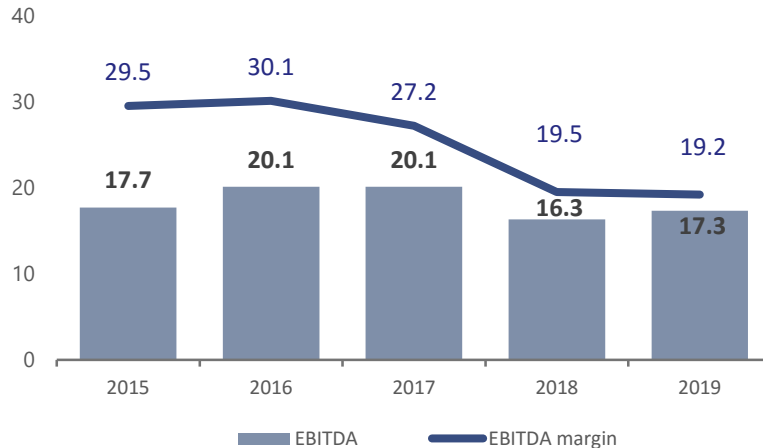


	2018	2019	%		
Staff costs	40 585	44 056	+8.6	Wage increase	(mln UAH)
Depreciation	12 548	12 403	-1.2	Actual CPEX less than planned	
Electricity	9 156	8 485	-7.3	Actual level of volumes of transportation by electric power less than planned, also consumption of all types of fuel is optimized	
Fuel	9 406	8 238	-12.4	Reduction of fuel consumption	
Maintenance	7 030	5 530	-21.3	Limited and spent on maintenance priorities only due to tight liquidity in 1H 2019	
Other expenses	1 176	6 821	+480	Increase in land tax and amount of provision on doubtful accounts receivables	
Total OPEX	79 901	85 533	+ 7.0		

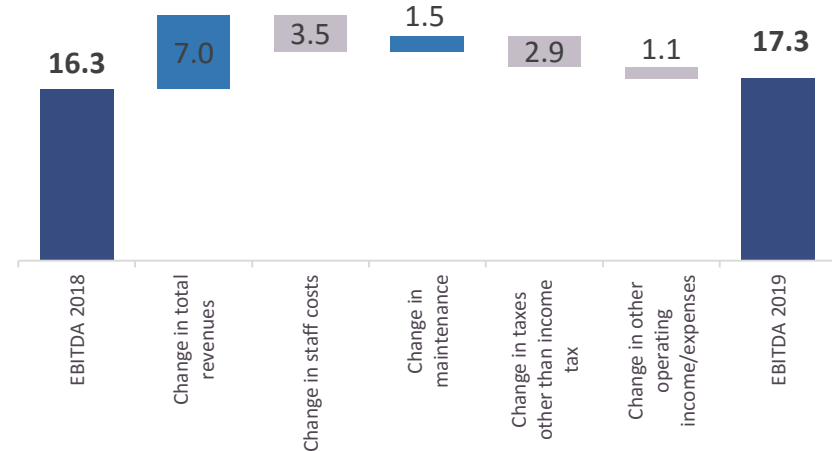
Note: Increase in share of Staff Costs caused by significant one-off salaries increase in 2018 (beyond regular indexation, not to be recurrent) to catch up with real economy average salary dynamics and maintain railroad profession paygrade position, also due to postponed effect of cost-saving from ongoing staff optimization

EBITDA dynamics

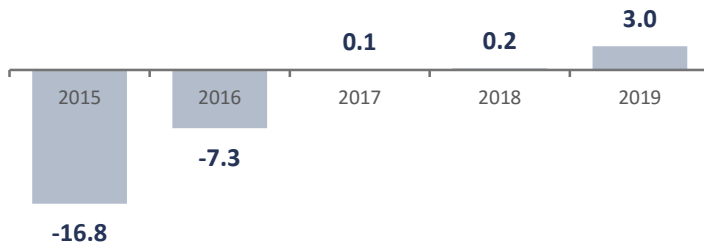
EBITDA⁽¹⁾, UAH bn



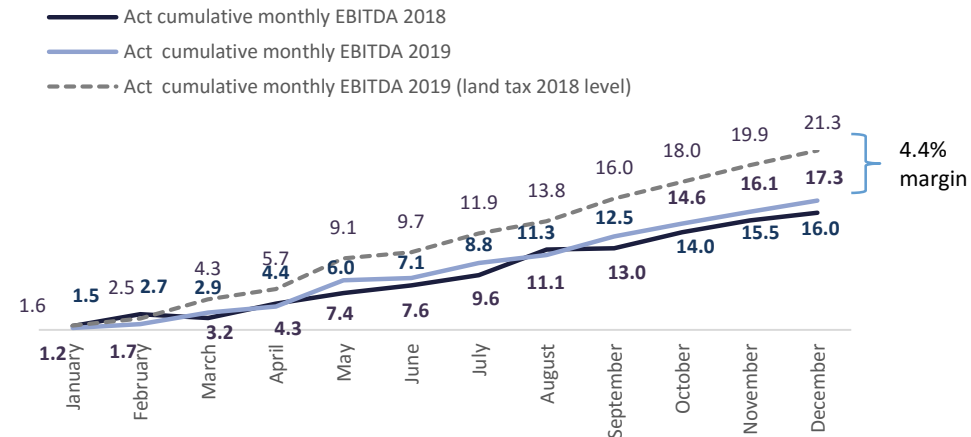
EBITDA bridge 2019 vs 2018, UAH bn



Net profit, UAH bn

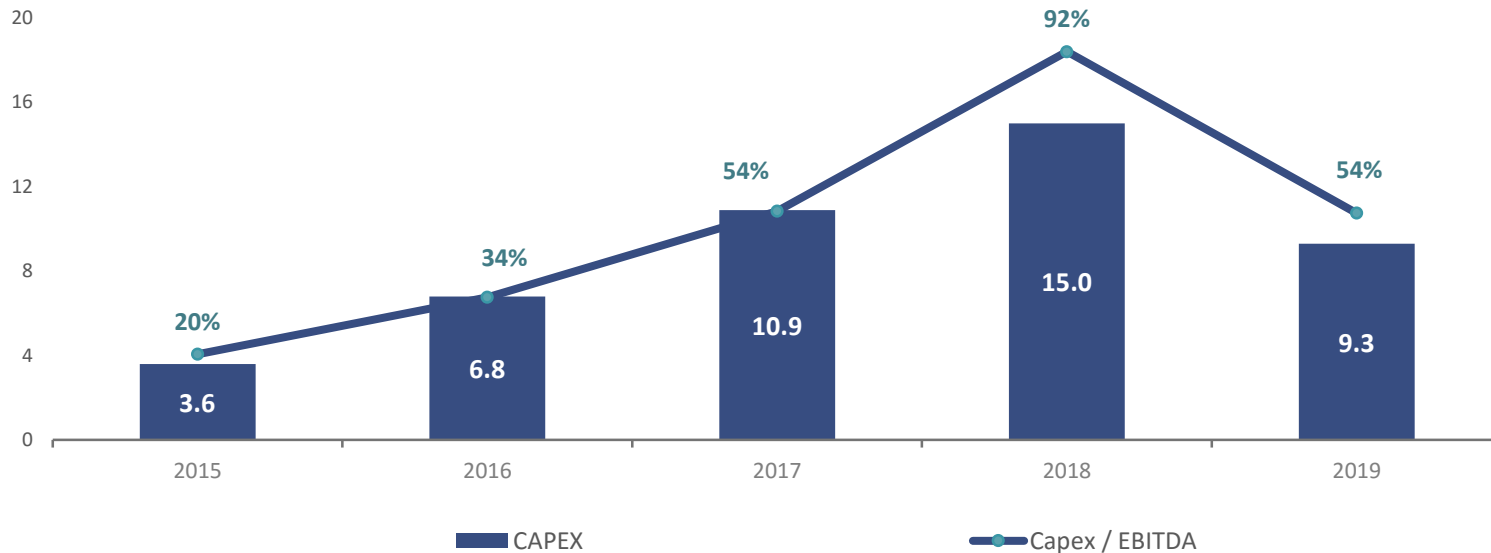


Increased land tax weighs heavy on EBITDA



(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
 Sources: Consolidated financial statements for 2015, 2016, 2017, 2018 and 2019 audited by EY, Company estimates

CAPEX (cash-based), UAH bn



Key projects

- 15 units of General Electric locomotives
- 8,271 units of freight railcars renovated
- 21 units of freight railcars built
- 616 units passenger railcars renovated
- 169 units locos (passenger & freight) renovated
- 18 units of new passenger railcars purchased
- 113 units of other rolling stock renovated
- 133.8 km of rail tracks reconstructed
- 87 sets of switches installed

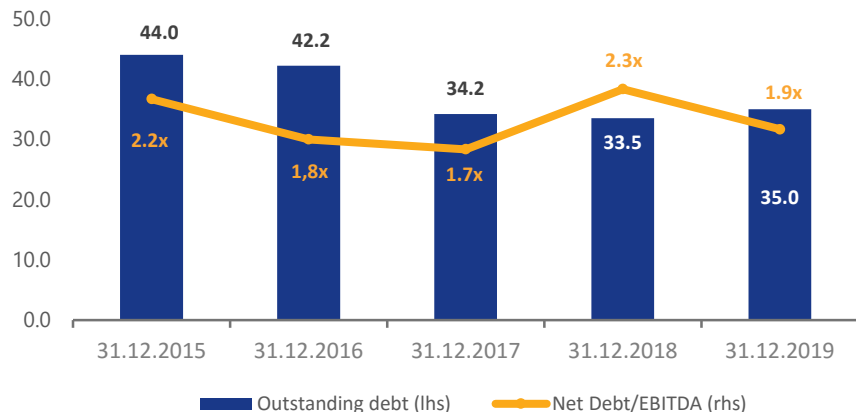
Note: EBITDA calculated as operating profit, plus depreciation and amortization, less gain (plus loss) from revaluation or disposal of PP&E, plus change in provisions, plus litigation reserves.

Sources: Consolidated financial statements for 2015, 2016, 2017, 2018 and 2019 audited by EY, Company estimates

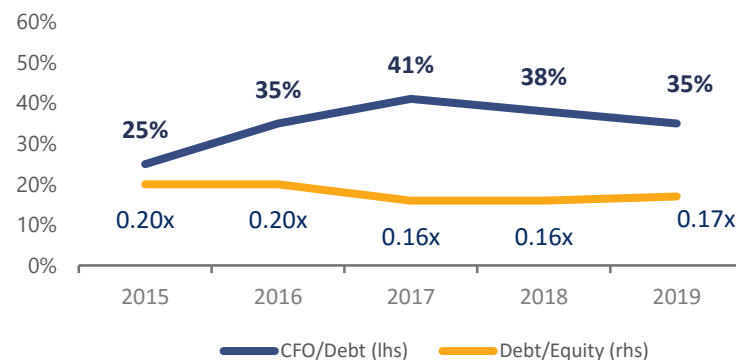
Debt service: capacity metrics

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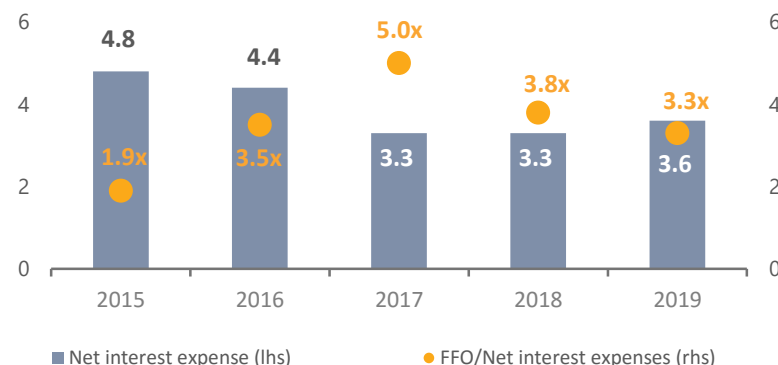
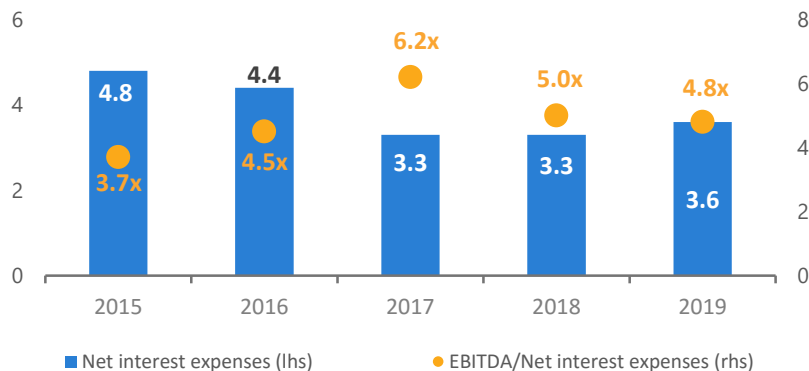
Steady reduction of debt⁽¹⁾ (UAH bn)



Improving debt coverage ratios



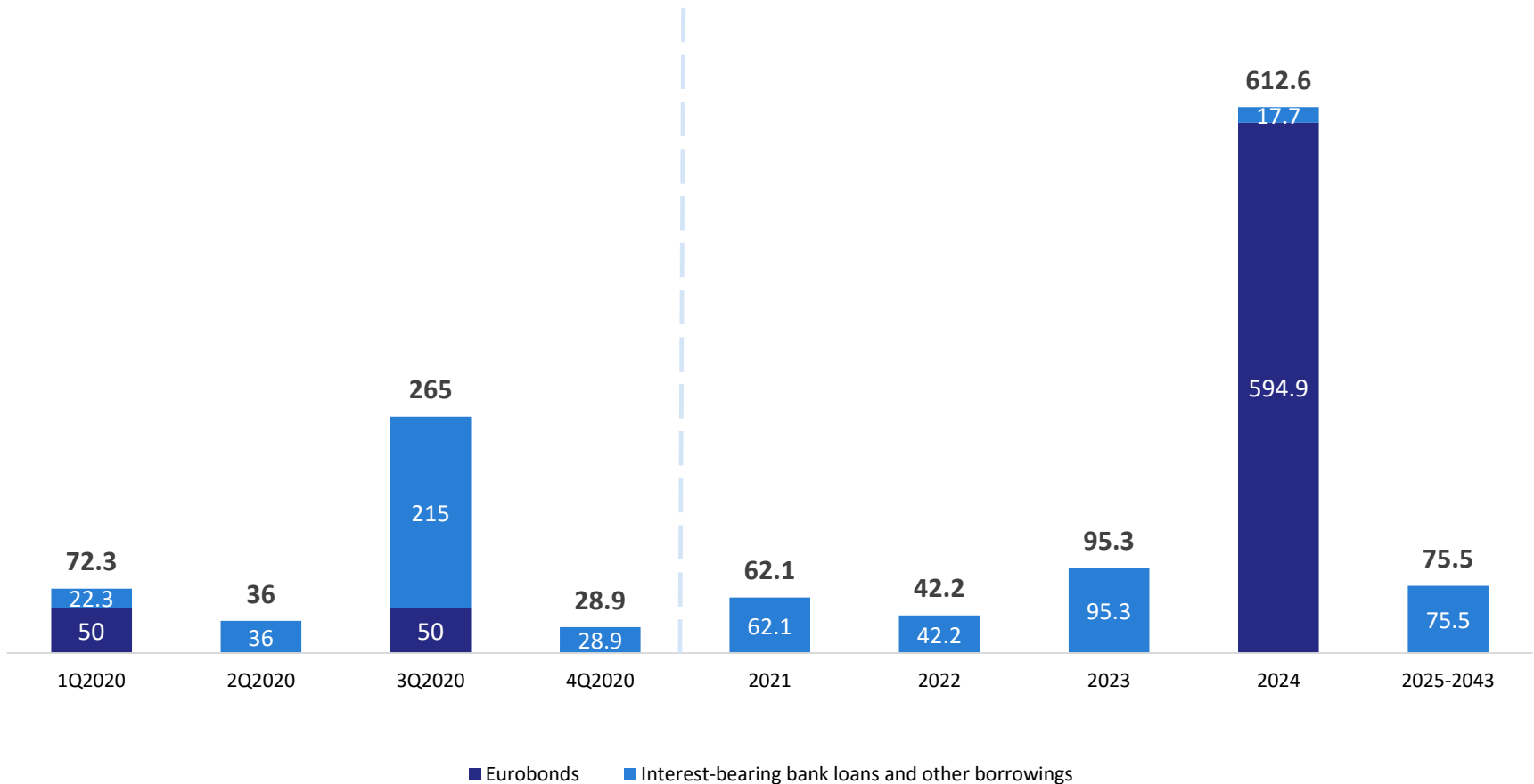
Followed by decreasing amount of interest expense (UAH bn)



(1) Debt = long-term and current loans and borrowings plus financial lease (excluding liabilities of SE "Donetsk Railway", which are under moratorium according to Ukraine Law). FFO calculated as EBITDA, less Income tax expense, plus Finance income, less Finance costs. CFO = Net cash flows from operating activities. Interest income/(expense), net calculated as Finance costs less Finance income (with additional adjustments)

Debt maturity schedule

USD eqv., mln



- Covid-2019 impact is being assessed in number of scenarios: optimistic, realistic and pessimistic
- Passenger operations being discontinued since March 18 (different options prepared to re-start it in phases, UAH 250 mln was refunded for returned tickets)
- Cargo volume operations are on decreasing trend (iron ore, crushed stone and grain are robust)
- Cost optimization measures put in place on OPEX and CAPEX sides:
 - Labor cost: idle regime introduced, 4-days working week planned
 - Fuel/Electricity: variable cost decreased with passenger operations halt and cargo decrease
 - Goods & Services: only critical components procured for sustaining uninterrupted operations
 - Capex: halt on all non-critical components and equipment procurement, only capital repairs
- Debt and liquidity management:
 - Agreed to extend Fininpro UAH 500 mln maturity till next March 2021
 - New revolving credit lines: Oschadbank UAH 2.3 bn, Alfa-bank USD 20 mln, Ukrgasbank UAH 1.4 bn
 - Intra-group cash pooling implemented providing increased single corporate account liquidity
 - Centralization of payments (Payments Factory project) underway
- In constructive discussion with Government on various support mechanisms

Company has confidence in preserving its financial fundamentals through Covid-2019 triggered period of economic & financial turbulence in light of its present strong cash position, pro-active cost optimization measures and unwavering Government support.

Outlook 2020: Weathering the COVID-19 storm

- I. Active cost optimization program (reflective of the depth of cargo traffic decrease)**
- II. Debt and liquidity management**
- III. Constructive discussions with Government on various support mechanisms**

Annex

BALANCE SHEET, UAH mln

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	2016	2017	1H 2018	2018	1H 2019	2019
Non-current assets	251,109	249,079	248,808	253,491	251,315	249,402
Current assets, incl.	15,743	15,366	11,870	12,018	11,695	19,608
Cash and cash equivalents	6,420	5,189	1,539	1,252	2,201	6,981
Total assets	266,852	264,445	260,678	265,509	263,010	269,010
Loans and borrowings, incl.	40,512	33,511	30,852	32,005	28,156	32,648
Eurobonds issued	14,206	14,583	13,577	14,320	9,464	19,551
Bank loans ⁽¹⁾	23,804	18,446	16,775	17,185	16,691	12,596
Bonds issued in domestic markets	2,093	-	-	-	-	-
Other borrowings	409	482	500	500	2,001	501
Finance lease liabilities	1,646	721	501	1,445	2,566	2,366
Other non-current liabilities	2,558	7,230	7,230	7,896	7,868	8,415
Other current liabilities	11,323	12,205	10,895	14,044	13,236	13,765
Total liabilities	56,039	53,668	49,478	55,391	51,826	57,194
Total equity	210,813	210,777	211,200	210,118	211,184	211,816
Total equity and liabilities	266,852	264,445	260,678	265,509	263,010	269,010
Net Debt⁽²⁾	35,738	29,044	29,814	32,199	28,521	28,033

(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 (including SE "Donetsk Railway")

Sources: Consolidated financial statements for 2016, 2017, 2018 and 2019 audited by EY

INCOME STATEMENT, UAH mln

	2016	2017	1H 2018	2018	1H 2019	2019
Total Revenues, incl.	66,570	73,938	39,969	83,402	44,207	90,352
Cargo revenues	54,460	60,113	32,731	67,520	36,066	72,489
Passenger revenues	6,720	7,318	3,725	8,468	4,396	9,906
Other revenues	5,390	6,507	3,513	7,414	3,745	7,957
EBITDA⁽¹⁾	20,068	20,097	7,065	16,298	7,495	17,326
Margin (%)	30.1%	27.2%	17.7%	19.5%	17.0%	19.2%
Operating profit	1,842	5,335	99	3,502	1,657	4,820
Margin (%)	2.8%	7.2%	0.2%	4.2%	3.7%	5.3
Finance income	365	555	140	203	74	260
Finance costs	-4,804	-3,811	-1,831	-3,464	-1,869	-3,845
Foreign exchange gain / loss, net	-4,506	-1,140	2,299	539	1,677	4,326
Net profit/(loss)	-7,322	115	468	204	1,065	2,988
Margin (%)	-11.0%	0.2%	1.2%	0.2%	2.4%	3.3
Funds from operations (FFO)⁽²⁾	15,423	16,184	5,364	12,300	5,231	11,866
Net Debt / EBITDA	1.8x	1.7x	2.0x	2.3x	2.0x	1.9x
FFO / Debt ⁽³⁾	37%	47%	14%	37%	23%	34%
EBITDA / Interest (net) ⁽⁴⁾ , coverage	4.5x	6.2x	7.0x	5.0x	5.4x	4.8x
FFO / Interest (net) ⁽⁴⁾ , coverage	3.5x	5.0x	3.3x	3.8x	3.3x	3.3x

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

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

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

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

Sources: Consolidated financial statements for 2016, 2017, 2018 and 2019 audited by EY

CASH FLOW STATEMENT, UAH mln

	2016	2017	1H 2018	2018	1H 2019	2019
Net cash flows from operating activities	14,636	13,992	4,243	12,621	7,195	12,263
Net cash flows used in investing activities, incl.	(6,489)	(10,315)	(7,037)	(14,837)	(3,781)	(10,994)
Acquisition of property, plant and equipment	(6,799)	(10,872)	(7,173)	(15,034)	(3,853)	(9,285)
Net cash flows used in financing activities, incl.	(6,652)	(4,820)	(841)	(1,719)	(2,491)	4,474
Proceeds from loans and borrowings	982	-	5,250	18,071	15,374	35,965
Repayment of loans and borrowings	(5,378)	(2,718)	(5,902)	(19,450)	(17,640)	(31,069)
Proceeds/(Repayment), net of finance lease obligations	(749)	(382)	(190)	(339)	(225)	(422)
Net (decrease)/increase in cash and cash equivalents	1,496	(1,143)	(3,636)	(3,935)	923	5,743
Cash and cash equivalents, opening balance	4,885	6,420	5,189	5,189	1,252	1,252
Cash and cash equivalents, closing balance	6,420	5,189	1,539	1,252	2,201	6,981

CFO stands for Net cash flows from operating activities

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

Sources: Consolidated financial statements for 2016, 2017, 2018 and 2019 audited by EY

Rating Action Overview

DOWNGRADE AND OUTLOOK REASONS:

- Ability to generate cash flow from operations / access to capital markets limited due to tough market conditions caused by the COVID-19 pandemic
- Maturity schedule in the next 12 months is tight, especially in third-quarter 2020
- Company might need to refinance or restructure some loans
- Because of high degree of uncertainty about the rate of spread and peak of the coronavirus outbreak the domestic banks may limit the company's access to already committed credit lines

Base-Case Scenario

- 10% decline in cargo volumes in 2020, recovering to average annual numbers in 2021
- 25% decline in passenger transportation volumes due to lockdown measures imposed by the government
- A revenue decline of 6% - 10% in 2020, compared with 2019, and a 10% recovery in 2021
- An exchange rate of UAH 27.5 per \$1 in 2020
- Full capex of UAH 10 - 12 bn, which could be reduced to maintenance capex of UAH 5 - 6 bn

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)



Anders Åslund
Board Member

Senior Fellow at the Atlantic Council



Christian Kuhn
Board Member

Chairman of Board of Kazakhstan Railway and Board Member at Lithuanian Railway



Andreas Matje
Board Member

Senior adviser to OMV, former OMV Petrom CFO



Adomas Audickas
Board Member

Ukrainian academy of corporate governance

Government representatives:



Oleh Zhuravliov
Board Member

The Ministry of Infrastructure of Ukraine



Serhii Leschenko
Board Member

Ukrainian Parliament

Management Board



Ivan Yuryk
Acting CEO, CFO

Experience: UkraineInvest (Deputy Chairman), Chief of Staff to Minister of Finance, Country Representative at Blackstone Group



Marcin Celejewski
Passenger transportation

Experience: LOT Airlines (CEO), PKP Intercity (CEO)



Remigiusz Pashkewicz
Infrastructure

Experience: Polish Railways (Chairman), PKN ORLEN, Polish National Bank and the Ministry of Finance of Poland



Serhii Kushnir
Government relations

Experience: Deputy Minister, Deputy State Secretary of CMU



Frantisek Bures
Rolling stock

Experience: Skoda Holding Group, Skoda Electric, Sibelktroprivod (managerial positions), DPOV (CEO)



Thank You!

УКРЗАЛІЗНИЦЯ 