SHORTLINE PLC
(the "**Issuer**" or the "**Lender**")
(*incorporated in the United Kingdom*)

acting in conjunction with

PUBLIC JOINT STOCK COMPANY "UKRAINIAN RAILWAY"
(the "**Company**" or the "**Borrower**")
(*incorporated in Ukraine*)

U.S.$500,000,000 9.875 per cent. Loan Participation Notes due 2021 issued by, but with limited recourse to, the Issuer for the sole purpose of financing a loan made to the Borrower

Regulation S Notes
ISIN: XS1374118658
Common Code: 137411890

Rule 144A Notes
ISIN: XS1374118906
Common Code: 137411890

(the "**Notes**")

Terms used herein and not otherwise defined have the meaning ascribed to them in "*Definitions"*.

The Notes are limited recourse obligations of the Issuer and were issued in connection with a loan extended pursuant to the amended and restated loan agreement dated 19 February 2016 (the "**Amended and Restated Loan Agreement**") entered into between the Issuer and the Company. The Notes were issued pursuant to the Trust Deed (as defined herein) between the Issuer and BNY Mellon Corporate Trustee Services Limited as trustee (the "**Trustee**", which expression includes all persons for the time being appointed as trustee for the holders of the Notes under the Trust Deed). In the Trust Deed, the Issuer has charged, in favour of the Trustee, by way of a first fixed charge as security for its payment obligations in respect of the Notes and under the Trust Deed, certain of its rights and interests under the Amended and Restated Loan Agreement and the Account (as defined in the Trust Deed). In addition, the Issuer has assigned absolutely certain of its administrative rights under the Amended and Restated Loan Agreement to the Trustee.

In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received and retained (net of tax) from the Company by, or for the account of, the Issuer pursuant to the Amended and Restated Loan Agreement excluding, however, any amounts paid in respect of Reserved Rights (as defined in the New Trust Deed). The Issuer will have no other financial obligations under the Notes.

Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any provisions in the Amended and Restated Loan Agreements or have direct recourse to the Company except through action by the Trustee under any of the Security Interests (as defined in the "*Schedule 1 - Terms and Conditions of the Notes*"). On each Interest Payment Date (as defined herein), the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received and retained by or for the account of the Issuer pursuant to the Amended and Restated Loan Agreement.

The Terms and Conditions of the Notes are set out in Schedule 1 (*Terms and Conditions of the Notes*). The forms of the Amended and Restated Loan Agreement is set out in Schedule 2 (*Amended and Restated Loan Agreement*).

Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on the credit and financial standing of the Company in respect of the payment obligations of the Company under the Amended and Restated Loan Agreement and the Issuer under the Notes.

The Notes involve a high degree of risk. See "*Risk Factors*".

The Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**") as the competent authority under Directive 2003/71/EC, as amended (the "**Prospectus Directive**"). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive. Application has been made to The Irish Stock Exchange plc (the "**Irish Stock Exchange**") for the Notes to be admitted to the Official List and trading on its regulated market (the "**Main Securities Market**"). This Prospectus constitutes a "Prospectus" for purposes of the Prospectus Directive as implemented in Ireland by the Prospectus (Directive 2003/71/EC) Regulations 2005 (the "**Prospectus Regulations**"). References in this Prospectus to the Notes being "listed" (and all related references) shall mean that the Notes have been admitted to the Official List and have been admitted to trading on the Main Securities Market. The Main Securities Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments. There is no assurance that a trading market in the Notes will develop or be maintained.

Delivery of the Notes was made on 14 March 2016 (the "**Closing Date**"). The Notes were delivered in book-entry form through the facilities of Euroclear and Clearstream, Luxembourg and each series is represented by one or more global notes in registered form registered in the name of a common depositary for Euroclear and Clearstream, Luxembourg, or a nominee thereof.

Notes distributed outside the United States in reliance on Regulation S to persons who are not U.S. Persons are represented by interests in an Regulation S Global Note, in definitive fully registered form, without interest coupons attached, which was registered in the name of a nominee of, and deposited with, a common depositary for Euroclear and Clearstream, Luxembourg. Notes allocated to Eligible Investors (who are U.S. Persons) are represented by interests in a Rule 144A Global Note, in fully registered form, without interest coupons attached, which was registered in the name of a nominee of, and deposited with, a common depositary for Euroclear and Clearstream, Luxembourg. Each Rule 144A Global Note (and any Note Certificates issued in exchange therefor) is subject to certain restrictions on transfer contained in a legend appearing on the face of such Note as set forth under paragraph (4) in "*Issuance and Transfer Restrictions*". The Notes have not been and will not be registered under the Securities Act of 1933, as amended (the "**Securities Act"**).

No person has been authorised by the Company to give any information or make any representation other than those contained in this Prospectus and the accompanying documents and, if given or made, such information or representation must not be relied upon as having been so authorised. This Prospectus will be published on the website of the Central Bank of Ireland (www.centralbank.ie).

21 March 2016

IMPORTANT NOTICE

THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITY. NONE OF THE NOTES SHALL BE SOLD, ISSUED OR TRANSFERRED IN ANY JURISDICTION IN CONTRAVENTION OF APPLICABLE LAW.

THE ISSUER AND THE COMPANY ACCEPT RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS PROSPECTUS. TO THE BEST OF THE KNOWLEDGE OF THE ISSUER AND THE COMPANY, HAVING TAKEN ALL REASONABLE CARE TO ENSURE THAT SUCH IS THE CASE, THE INFORMATION CONTAINED IN THIS PROSPECTUS IS IN ACCORDANCE WITH THE FACTS AND CONTAINS NO OMISSION LIKELY TO AFFECT ITS IMPORT.

THIS PROSPECTUS CONSTITUTES A PROSPECTUS FOR THE PURPOSE OF THE PROSPECTUS DIRECTIVE AND FOR THE PURPOSE OF GIVING INFORMATION WITH REGARD TO THE COMPANY, THE ISSUER AND THE NOTES. THE COMPANY AND THE ISSUER CONFIRM THAT THIS PROSPECTUS CONTAINS ALL INFORMATION WHICH, ACCORDING TO THE PARTICULAR NATURE OF THE COMPANY, THE ISSUER AND THE NOTES, IS NECESSARY TO ENABLE INVESTORS TO MAKE AN INFORMED ASSESSMENT OF THE ASSETS AND LIABILITIES, FINANCIAL POSITION, PROFITS AND LOSSES AND PROSPECTS OF THE COMPANY AND THE ISSUER AND OF THE RIGHTS ATTACHING TO THE NOTES.

The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except in accordance with the Securities Act and other applicable securities laws, pursuant to registration or an exemption therefrom. See "*Issuance and Transfer Restrictions*".

This Prospectus does not constitute an offer of securities to the public in the United Kingdom. No prospectus has been or will be approved in the United Kingdom in respect of the Notes. Consequently this document is being distributed only to, and is directed at (a) persons who have professional experience in matters relating to investments falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (b) high net worth entities falling within article 49(2)(a) to (d) of the Order, and other persons to whom it may be lawfully communicated, falling within article 49(1) of the Order (all such persons together being referred to as "**relevant persons**"). Any person who is not a relevant person should not act or rely on this document or any of its contents. Persons into whose possession this Prospectus may come are required by the Company to inform themselves about and to observe such restrictions.

The Notes are only available to persons in member states of the European Economic Area (the "**EEA**") who are "Qualified Investors" within the meaning of Article 2(1)(e) of the Prospectus Directive, unless in any instance the Company otherwise agrees. This Prospectus and its contents should not be acted upon or relied upon in any member state of the EEA by persons who are not Qualified Investors. The expression "**Prospectus Directive**" means Directive 2003/71/EC, as amended.

The distribution of this Prospectus and the distribution of Notes may be restricted by law in certain jurisdictions. The Company makes no representation that this Prospectus or the Notes may be lawfully distributed in any jurisdiction or assumes any responsibility for facilitating any such distribution. Accordingly, neither this Prospectus nor any other offering material may be distributed or published, and none of the Notes may be distributed, in any jurisdiction, except under circumstances that will result in compliance with all applicable laws and regulations. Persons into whose possession this Prospectus may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the distribution of the Notes. Further information with regard to restrictions on offers, sales and deliveries of the Notes and the distribution of this Prospectus and other material relating to the Notes is set out under "*Issuance and Transfer Restrictions*" and "*Summary of Provisions Relating to the Notes in Global Form*".

The information contained in this Prospectus has been prepared based upon information available to the Issuer and the Company. To the best of the Issuer's and the Company's knowledge, information and belief, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. The Issuer and the Company have taken all reasonable steps to ensure that this Prospectus contains the information reasonably necessary in the context of the issue of Notes. None of the Issuer's or the Company's legal, financial or tax advisers, the Trustee or the Trustee's legal advisors have authorised the contents of this Prospectus or any part of it, nor do they accept any responsibility for the accuracy, completeness or reasonableness of the statements contained within it.

None of the Issuer's or the Company's legal, financial or tax advisers, the Trustee or the Trustee's legal advisors have verified that the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information and each of those persons expressly disclaims any responsibility for such information.

Nothing contained in this Prospectus shall be deemed to be a forecast, projection or estimate of the Issuer's or the Company's future financial performance except where otherwise specifically stated. This Prospectus contains certain statements, statistics and projections that are, or may be, forward-looking. The accuracy and completeness of all such statements, including, without limitation, statements regarding the Issuer's and the Company's future financial position, strategy, plans and objectives for the management of future operations, is not warranted or guaranteed. These statements typically contain words such as "intends", "expects", "anticipates", "estimates" and words of similar import. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Although the Issuer and the Company believe that the expectations reflected in such statements are reasonable, no assurance can be given that such expectations will prove to be correct. There are a number of factors which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These factors include, but are not limited to, future revenues being lower than expected; increasing competitive pressures in the industry; general economic conditions or conditions affecting demand for the products offered by the Issuer or the Company in the markets in which they operate being less favourable than expected.

The statistical information and other data contained in this Prospectus has been extracted from publicly available data (such as information contained on official websites and in publications of governmental agencies of Ukraine, including the NBU and other governmental or mass media sources). Each of the Issuer and the Company confirms that such information has been accurately reproduced and that, as far as the Issuer and the Company are aware and are able to ascertain from information published by the relevant source, no facts have been omitted which would render the reproduced information inaccurate or misleading. Where such third-party information is used in this Prospectus, the relevant source is stated.

DEFINITIONS

In this Prospectus, the following capitalised terms shall, unless otherwise defined or the context otherwise requires, have the meanings ascribed to them below:

"**Accountholder**"	A direct accountholder with the Clearing Systems.
"**Accredited Investor**"	An accredited investor, as defined in Rule 501(a) of Regulation D.
"**Agency Agreement**"	The agency agreement between the Issuer, the Trustee, the Registrar and the Principal Paying Agent named therein in relation to the Notes.
"Amended and Restated Loan Agreement"	The amended and restated loan agreement dated 19 February 2016 between the Issuer and the Company in the form set out in Schedule 2 hereto.
"**Company**" or "**Borrower**"	Public Joint Stock Company "Ukrainian Railway".
"**Beneficial Owner**"	Has the meaning set out in "*Summary of Provisions Relating to the Notes in Global Form*".
"**Business Day**"	Any day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets settle payments (including dealings in foreign currencies) in the principal financial centre for such currency.
"**Clearing Systems**"	The clearing and settlement systems operated by Euroclear and Clearstream, Luxembourg, respectively.
"**Clearstream, Luxembourg**"	Clearstream Banking, *société anonyme*, Luxembourg.
"**Conditions**"	The terms and conditions of the Notes and the term "Condition" shall be construed accordingly.
"**Eligible Investor**"	A Noteholder residing in the United States who is a QIB that is also a QP (or a person acting on behalf of a Noteholder who is residing in the United States and is a QIB and a QP), a Noteholder residing in the United States who is an Accredited Investor that is also a QP (or a person acting on behalf of a Noteholder who is residing in the United States and is an Accredited Investor and a QP) or a Noteholder who is residing outside the United States and is not a U.S. Person (or a person acting on behalf of a Noteholder residing outside the United States who is not a U.S. Person).
"**Euroclear**"	Euroclear Bank SA/NV.
"**Government**"	The government of Ukraine.
"**Group**"	In respect of any period up to 21 October 2015, the Original Group and in respect of any period from and including 21 October 2015, the Company and its subsidiaries.
"**Issuer**"	Shortline plc.
"**Loan**"	U.S.$500,000,000 loan due 2021 between the Issuer and the Company made under the Amended and Restated Loan Agreement.
"**Loan Agreements**"	The loan agreements dated 16 May 2013 entered into between the Issuer, Ukrzaliznytsia and the Original Borrowers.

"**NBU**"	National Bank of Ukraine.
"**New Lender**"	Shortline plc.
"**Noteholders**"	Persons with ultimate economic beneficial interest in any of the Notes and holding such interest through one of the Clearing Systems from time to time, unless specifically stated otherwise.
"**Notes**"	The notes having the terms and conditions set out in Schedule 1 hereto.
"**Original Borrowers**"	Each of State Enterprise "Donetsk Railway" (Derzhavne pidpryiemstvo "Donetska zaliznytsia"), State Regional Specialised Association "Lviv Railway" (Derzhavne terytorialno-galuzeve obiednannya "Lvivska zaliznytsia"), State Enterprise "Odesa Railway" (Derzhavne pidpryiemstvo "Odeska zaliznytsia"), State Enterprise "Prydniprovska Railway" (Derzhavne pidpryiemstvo "Prydniprovska zaliznytsia"), State Enterprise "South Railway" (Derzhavne pidpryiemstvo "Pivdenna zaliznytsia") and State Regional Specialised Association "Southwest Railway" (Derzhavne terytorialno-galuzeve obiednannya "Pivdenno-Zakhidna zaliznytsia").
"**Original Group**"	(i) Ukrzaliznytsia and any Person under control of Ukrzaliznytsia at the relevant time, (ii) the Sureties (as defined in the Loan Agreements) from time to time and (iii) any Person under control of any Surety from time to time, taken as a whole.
"**Original Sureties**"	Each of the Original Borrowers, Ukrzaliznytsia, State Enterprise "Ukrainian State Centre for Special Carriages Service" (Derzhavne Pidpryiemstvo "Ukrayinskyi Derzhavnyi Tsentr Po Ekspluatatsii Spetsializovanykh Vagoniv"), State Enterprise "Ukrainian State Center of Railway Refrigerator Transportations 'Ukrreftrans'" (Derzhavne Pidpryiemstvo "Ukrayinskyi Derzhavnyi Tsentr Zaliznychnyh Refryzheratornyh Perevezen' 'Ukrreftrans'"), State Company "Ukrainian State Center of Transport Service 'Liski'" (Derzhavne Pidpryiemstvo "Ukrayinskyi Derzhavnyi Tsentr Transportnogo Servisu 'Liski'"), State Enterprise for Material and Technical Support of Railway Transport of Ukraine "Ukrzaliznychpostach" (Derzhavne Pidpryiemstvo Materialno-Tehnichnogo Zabezpechennya Zaliznychnogo Transportu Ukrayiny "Ukrzaliznychpostach"), and State Enterprise "Administration of Industrial Enterprises of State Administration of Railway Transport of Ukraine" (Derzhavne Pidpryiemstvo "Upravlinnia Promyslovyh Pidpryiemstv Derzhavnoi Administracii Zaliznychnogo Transportu Ukrayiny").
"**Principal Paying Agent**"	The Bank of New York Mellon, London Branch.
"**Prospectus**"	This prospectus dated 21 March 2016.
"**QIB**"	A qualified institutional buyer, as defined in Rule 144A under the Securities Act.
"**QP**"	A qualified purchaser, as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940, as amended.
"**Registrar**"	The Bank of New York Mellon (Luxembourg) S.A.
"**Tabulation Agent**"	The Bank of New York Mellon, London Branch.

"**Trust Deed**"	The trust deed between the Issuer and the Trustee constituting the Notes.
"**Trustee**"	BNY Mellon Corporate Trustee Services Limited acting in its capacity as trustee under the Trust Deed.
"**U.S. Person**"	A U.S. person as defined in Regulation S.
"**U.S.$**"	The U.S. dollar, the legal tender of the United States.
"**UAH**"	The Ukrainian hryvnia, the legal tender of Ukraine.
"**UAS**"	Accounting principles generally accepted and consistently applied in Ukraine.
"**Ukrzaliznytsia**"	The State Administration of Railway Transport of Ukraine (Ukrzaliznytsia).

PRESENTATION OF FINANCIAL INFORMATION

Financial Information

The financial information relating to The State Administration of Railways Transport of Ukraine "Ukrzaliznytsia" and certain entities under its control set forth herein, has been derived from its audited combined financial statements as of and for the year ended 31 December 2014 (the "**2014 Audited Financial Statements**") and the combined financial statements as of and for the year ended 31 December 2013 (the "**2013 Audited Financial Statements**" and together with the 2014 Audited Financial Statements, the "**Audited Financial Statements**"), and its unaudited interim condensed combined financial statements as of and for the six months ended 30 June 2015 (the "**Reviewed Interim Condensed Combined Financial Statements**") or accounting records or the Group's analysis as the case may be. The Audited Financial Statements and the Reviewed Interim Condensed Combined Financial Statements have been prepared in accordance with International Financial Reporting Standards.

The Audited Financial Statements have been audited, and the Reviewed Interim Condensed Combined Financial Statements have been reviewed by, the Group's independent auditors, Ernst & Young Audit Services LLC in accordance with International Standards on Auditing and International Standard on Review Engagements 2410, respectively.

The address of Ernst & Young Audit Services LLC is 19A Khreschatyk Street, 01001 Kyiv, Ukraine.

Currency

In this Prospectus, all references to "**hryvnia**", "**Ukrainian hryvnia**" and "**UAH**" are to the currency of Ukraine, all references to "**dollars**", "**U.S. dollars**", and "**U.S.$**" are to the currency of the United States of America and all references to "**euro**", "**EUR**" or "**€**" are to the currency introduced at the start of the third stage of European Economic and Monetary Union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro as amended.

Translations of amounts from hryvnia to dollars are solely for the convenience of the reader and are made at exchange rates established by NBU and effective as at the dates of the respective financial information presented elsewhere in this Prospectus in respect of both statements of financial position and income statement items. No representation is made that the hryvnia or dollar amounts referred to herein could have been converted into dollars or hryvnia, as the case may be, at any particular exchange rate or at all. The official hryvnia/U.S. dollar exchange rate of the NBU was UAH 24.0007 to U.S.$1 as at 31 December 2015, UAH 15.7686 to U.S.$1 as at 31 December 2014 and UAH 7.9930 to U.S.$1 as at 31 December 2013. As at 14 March 2016, the NBU's hryvnia/dollar exchange rate was UAH 26.0200 to U.S.$1.00.

Rounding

Some numerical figures included in this Prospectus have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be arithmetic aggregation of the figures that preceded them. Unless otherwise specified, all percentages have been rounded to the nearest one-tenth of one per cent.

EXCHANGE RATES

The following table sets forth, for the periods indicated, the highest, lowest, average and period-end official rates set by the NBU, in each case for the purchase of Ukrainian hryvnia, all expressed in Ukrainian hryvnia per U.S. Dollar.

	High	**Low**	**Average**	**As at 31 December in each year (unless indicated otherwise)**
			(Ukrainian hryvnia per U.S. Dollar)	
2006	5.050	5.050	5.050	5.050
2007	5.050	5.050	5.050	5.050
2008	7.880	4.840	5.270	7.700
2009	8.010	7.610	7.790	7.990
2010	8.010	7.886	7.936	7.962
2011	7.990	7.930	7.968	7.990
2012	7.993	7.984	7.991	7.993
2013	7.993	7.993	7.993	7.993
2014	15.854	7.993	11.967	15.769
2015	30.010	15.750	21.812	24.001
January 2016	25.152	23.267	24.316	-
February 2016	27.249	25.448	26.382	-
March 2016 (through 18 March 2016)	27.095	25.519	26.478	-

The Group has translated certain financial data from hryvnia into U.S. Dollars at the rates of UAH 7.9930, UAH 15.7686, UAH 24.0007 to U.S.$1.00, the official rates set by the NBU on 31 December 2013, 31 December 2014 and 31 December 2015, respectively. These translations should not be construed as representations that Ukrainian hryvnia amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the rate indicated as of any at the dates mentioned in this Prospectus or at all. As at 18 March 2016, the NBU's hryvnia/dollar exchange rate was UAH 26.7000 to U.S.$1.00.

FORWARD-LOOKING STATEMENTS

Certain statements included herein may constitute forward-looking statements that involve a number of risks and uncertainties. Such forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "are expected to", "intends", "will", "will continue", "should", "would be", "seeks", "approximately" or "anticipates" or similar expressions or the negative thereof or other variations thereof or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Prospectus and include statements regarding the Group's intentions, beliefs or current expectations concerning, amongst other things, the Group's results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which it operates. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future.

Noteholders should be aware that forward-looking statements are not guarantees of future performance and that the Group's actual results of operations, financial condition and liquidity, and the development of the industry in which it operates may differ materially from those statements made in or suggested by the forward-looking statements contained in this Prospectus. In addition, even if the Group's results of operations, financial condition and liquidity and the development of the industry in which it operates are consistent with the forward-looking statements contained in this Prospectus, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause those differences include, but are not limited to:

- the Group's ability to successfully reprofile its indebtedness;
- the global macroeconomic environment and economic conditions in Ukraine and its neighbouring countries;
- the level of regulatory tariffs on freight and passenger transportation;
- the evolution of the conflict in eastern Ukraine and developments in respect of the annexation of Crimea by the Russian Federation, including trade and transit policies enacted by the Russian Federation, that impact the Group's business.
- the level of state compensation that the Group received from the state budget and local budgets for losses resulting from preferential passenger transportation tariffs; and
- the seasonality of the Group's revenues.

Factors that could cause actual results to differ materially from the Group's expectations include, among other things, the following:

- overall economic and business conditions;
- the level of demand for the Group's services;
- the continued support of the state for the Group's business;
- competitive factors in the industries in which the Group and its customers operate;
- changes in Government regulations and in the Government's;
- changes in tax requirements, including tax rate changes, new tax laws and revised tax law interpretations;
- interest rate fluctuations and other changing conditions in the capital markets;
- exchange rate fluctuations;
- economic and political changes in international markets, including governmental changes;

- hostilities and restrictions on the ability to transfer capital across borders; and
- the impact of valuation of property and equipment.

The sections of this Prospectus entitled "*Risk Factors*", "*Business*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" contain a more complete discussion of the factors that could affect the Group's future performance and the industry in which it operates. In light of these risks, uncertainties and assumptions, the forward-looking statements described in this Prospectus may not occur.

The Group is not obliged to, and does not undertake any obligation to, update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to the Group or to persons acting on its behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Prospectus.

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RISK FACTORS

The Issuer and the Company believe that the following factors may affect their ability to fulfil their obligations under the Notes. All of these factors are contingencies which may or may not occur and none of the Issuer or the Company is in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuer and the Company believe may be material for the purpose of assessing the market risks associated with the Notes are also described below.

The Issuer and the Company believe that the factors described below represent the principal risks inherent in investing in the Notes, but the Issuer and the Company may be unable to pay interest, principal or other amounts on or in connection with the Notes for other reasons, and the Issuer and the Company do not represent that the statements below regarding the risks of holding the Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Risks Relating to the Group

The Group is heavily dependent on the continued support of the State and may be adversely affected by any changes in State policy.

The Group is a natural monopoly under the supervision of the Ministry of Infrastructure of Ukraine ("**MIU**") regulated under the Law "*On Natural Monopolies*". See "*The Company—Competition*". The Group is a state-owned enterprise which operates under the full control of the State. The Group plays a strategic role as the State arm responsible for the operation of the rail transportation industry in Ukraine.

The Group is subject to regulation of tariffs for passenger transportation and certain freight transportation. The MIU determines the tariffs for long-haul domestic and international passenger transportation, as well as freight transportation other than transit. The MIU's tariff proposals, in respect of passenger transportation, are subject to approval of the Ministry of Economic Development and Trade and, in respect of freight transportation, are subject to approvals of the Ministry of Economic Development and Trade and the Ministry of Finance of Ukraine. Tariffs may be subject to annual, and occasionally supplemental, indexation and may be based on factors other than the Group's economic interest. For instance, in 2015 the issue related to the increase in tariffs for passenger transportation due to social, economic and political reasons was not settled. The tariff regulatory approval process limits the Group's ability to control its tariffs and plan its budget expectations for future years. If the State does not approve tariff increases at the level requested by the Group, the Group may be unable to charge economically reasonable prices for its services. The Group's lack of control over its pricing policies could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

In addition, the Group currently receives financing from the state budget and local budgets in the form of compensation for preferential passenger transportation services provided to certain categories of passengers (including pensioners, veterans and students, among others) at reduced tariffs, as well as for certain capital expenditures. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Significant Factors Affecting Results of Operations—State Compensation*". Compensation from the State Budget and local budgets has typically covered approximately 30-35 per cent. of the total cost to the Group of providing preferential passenger transportation services. Such compensation has been consistent and sustained during the last several years, including throughout the global economic downturn. According to Ukrainian state and local budgets, in the first six months of 2015 and during 2014, 2013 and 2012 the Group received compensation of UAH 672.1 million, UAH 88.0 million, UAH 165.6 million and UAH 204.3 million, respectively. However, such compensation does not cover the total cost of preferential passenger transportation, and the Group's overall passenger transportation segment is regularly loss-making. To offset losses not covered by State compensation, the Group cross-subsidises its passenger transportation operations from its cargo revenues.

The strategic transportation priorities adopted in Ukraine may be changed by relevant State authorities at any time. For example, the State requires the Group to provide preferential passenger transportation services which are not profitable, and may in the future require it to provide other services that the Group does not consider to be in its commercial interests and/or that are unprofitable but are aimed at the public good. In particular, directly targeted funding may be implemented (i.e., funds provided directly to the preferential passengers rather than in the form of compensation to the Railways) or other types of transportation (e.g., automobile transport) may be designated as strategic priorities for various State agencies, including the Ministry of Defence of Ukraine, the Ministry of Internal Affairs of Ukraine and other bodies, where rail is currently designated as the strategic priority. Any such changes to the State's policies could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

In addition, the Group could be forced by the State to engage in activities outside its core businesses and/or acquire assets for its business in transactions that are not on an arm's length basis. The interests of the Group may differ significantly from the interests of the Noteholders, which may cause the Group to engage or expand in business areas that may materially and adversely affect the Group's ability to operate on a commercial basis or may cause the Group to operate in a way that is inconsistent with the best interests of the Noteholders.

The Group's results of operations and financial position could be adversely affected by deterioration in economic conditions in Ukraine and neighbouring countries.

The Group carries out its activity in the territory of Ukraine. Although Ukraine is continuing to transition into a full market economy, it continues to show certain features inherent to a developing economy. Those features include, but are not limited to, the low levels of liquidity in the domestic capital markets, high inflation and a substantial imbalance of state finances and foreign trade. In 2014-2015, social and political instability, military conflict in the eastern part of Ukraine and annexation of Crimea by the Russian Federation had a material adverse effect on the country's economy. The Ukrainian economy has suffered high inflation, devaluation of the national currency by over 300 per cent., some international companies leaving the Ukrainian market, sanctions imposed by Ukraine on Russia and vice versa, significant destruction in the eastern part of Ukraine, rising migration flows into the central part of Ukraine, growth of a socially vulnerable layer of the population requiring the protection and support of the State and a rise in unemployment. The Crimean authorities announced the withdrawal of the Crimean management of Prydniprovska Railway State-Owned Enterprise into a separate legal entity titled State Enterprise "Crimean Railway". In the latter half of 2014, after armed conflict, the state authorities of Ukraine lost control over part of the Donetsk and Lugansk regions (which had previously been covered by Donetsk Railway). The deterioration of its operational environment has had a significant impact on the Group's activity, which the Group's management expects may continue for the foreseeable future.

All those factors have caused a fall in the principal economic indicators and significantly affected the Group's activity. In particular, these general economic, political and social conditions are likely to make it more difficult for the Group to have access to capital and increase the cost of capital for the Group and its counterparties.

Moreover, the Group is vulnerable to market downturns and economic slowdowns elsewhere in the world, particularly in neighbouring countries, as four of the ten Pan-European Transport Corridors pass through Ukraine's territory. For example, a decline in Ukraine's Gross Domestic Product ("**GDP**") caused by the current political and economic situation in the country, instability in the capital markets, tight credit conditions and reduced demand for railway freight and passenger transportation services may have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

In addition, although as of the date of the Prospectus the Company is not subject of any material court proceedings, court proceedings may be commenced against the Company in the future, which may negatively affect the Group's financial performance if a judgment is awarded against the Company and enforcement proceedings are initiated.

Ongoing negative developments in the current political, macroeconomic and/or foreign trade circumstances may have a further adverse effect on the results of the Group's operations in a way which cannot be clearly determined.

The Group's operations could be adversely affected by a decline in railway freight transportation turnover resulting from reduced demand and production capacity for key commodities.

Freight rail transportation in Ukraine is largely comprised of transportation of commodities such as iron and manganese ore, coal, construction materials, grain, ferrous metals, oil and oil products and other freight, for which demand can be volatile. For instance, rail transportation of coal accounted for 17 per cent. of the Group's total freight transportation turnover as of 30 June 2015, compared to 19.4 per cent., 20.0 per cent. and 20.2 per cent. in the years ended 31 December 2014, 2013 and 2012, respectively. The correlation of rail freight transportation turnover with both GDP and industrial output levels in Ukraine is directly proportional largely due to the volume of commodities transported domestically and exported by the Group.

The main factor that significantly reduced traffic volume was a strained situation in the Donbass region of eastern Ukraine. This region is where the majority of business consumers and forwarders of raw materials exist and the control of it by militants impedes normal operations in the area. In particular, the operation of the steel and coal industry is significantly complicated by the risk that the freighted goods may not be kept safe, disruptions to the financial system and logistics problems. In the course of armed hostilities the infrastructure which makes transport possible was damaged and its normal operation was made impossible. In this situation, there was a substantial decline in industrial production which led to a decrease in traffic volumes.

Demand for freight rail transportation services in Ukraine is also dependent on demand for key commodities in countries adjacent to Ukraine. Since the Group relies on the shipment of key commodities for its freight turnover, decreased domestic or global demand for key commodities could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group is conducting a reorganisation pursuant to the Reform Programme, which may have unintended consequences that could materially affect business.

In accordance with the Reform Programme, the Group has recently undergone and continues to undergo significant reorganisation, consolidation and reform. In particular, the entities which formerly composed the Original Group are being consolidated by merger into a newly incorporated entity, Public Joint Stock Company "Ukrainian Railway" (the "**Company**"). See "*The Company—Reform Programme*".

The laws and regulations stipulate that after the establishment of the Group, the documents confirming its title to the real property contributed to its charter capital shall be re-issued within two years from the date of its state registration. During this transition period, the ability of the Group to sell or otherwise transfer its real property may potentially be restricted.

At the second stage of the Reform Programme, the Group plans to introduce, inter alia, a vertically integrated production and technological system structured by activity type, with an automated accounting and management system. The success of the Group will depend on its ability to adapt its management structure and managerial personnel to reflect the significant change in the operational structure. The Group's management may not be able to adapt to this change effectively or to capture the desired level of market share or revenues from its operations given the State's intentions to foster competition in the freight and passenger transportation sectors. If the Group is unable to implement this reorganisation successfully and efficiently, it may result in disruptions, difficulties and discrepancies between management and operations, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

One of the tasks of the restructuring is the enhancement of competition in the railway services market by providing all business entities with equal access to the infrastructure and the creation of organisational and legal grounds for the enhancement of competition levels, and legal regulation of the activities of forwarding and carrier companies and their interaction with the railway infrastructure.

As a result of this, the Group may lose its monopoly position in the railway transportation market and there is a risk that there will be a reduction in revenues, first and foremost in the freight transportation (railcar use and hauling services) segment.

In addition, the Reform Programme has been and continues to be developed based on certain assumptions about Ukraine's economic growth, international trade, technological advancement, commodity price levels, inflation, demographics, geopolitical developments, and similar factors that are inherently susceptible to uncertainty and changes in circumstances. Furthermore, the reform programme can be adjusted in light of military events taking place in the eastern part of Ukraine and taking into account temporarily occupied territories, such as the Autonomous Republic of Crimea, where a significant part of the railway business is located. These factors may adversely impact the level of funding received from the State and/or the Group's overall profitability. As a result, the State may be required to revise certain business expansion and capital expenditure plans, which may result in significant sunk costs or loss of opportunity.

Any such costs could have a material adverse effect on the Group's business, results of operations, financial position and prospects.

In addition, it should be noted that financial information presented in this Prospectus is based on combined financial statements relating to the Original Group and pre-dating the date of implementation of the reorganisation. Accordingly, such financial information does not reflect any transactions undertaken as part of the reorganisation or assets which have become part of the Group as part of the reorganisation.

The Group could incur significant costs for violations of applicable environmental laws and regulations.

Like other transportation companies, the Group's operations are subject to extensive environmental laws and regulations as the Group operates in a sphere which influences the environment (air, water resources, soils, flora and fauna) and produces different types of wastes. In carrying out its environmental policies, the Group seeks to adhere to international standards and best practices. In particular, the Group seeks to comply with the international standard ISO 14001 for environmental protection to the extent possible.

In 2014 and 2015, the controlling bodies imposed administrative fines and penalties for the breach of environmental legislation. The main violations included the mixing of wastes and wastewater discharge in excess of permitted levels; and the release of pollutants into the atmosphere.

However, compliance with environmental regulations is an on-going process. New laws and regulations, or the imposition of stricter regulatory requirements, may require the Group to modify its operations, incur substantial unbudgeted compliance costs, or incur fines or penalties for environmental violations. Any of these could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group may be subject to competition from competitor transit routes.

Ukraine is the second largest country in Europe (after Russia), bordering the Russian Federation, Belarus, Poland, Slovakia, Hungary, Romania and Moldova. Its large size and central position make Ukraine a key transportation hub for transit and trade logistics between Europe and Russia and between Europe and Central Asia. However, one part of Ukraine is in the "anti-insurgent operations zone" in eastern Ukraine and another part is temporarily occupied. Ukraine currently faces trade and transit route competition particularly from neighbouring countries, such as Belarus, Russia, Romania and Moldova. Competition from other countries or transit routes may increase as the economies and infrastructure of these neighbouring countries continue to develop. Such additional competition could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Railway transportation may become subject to increasing competition from other providers and modes of transportation in Ukraine.

According to the State Statistics Service of Ukraine, in 2014, the Group accounted for 82.9 per cent. of all freight transported in Ukraine by turnover (based on all modes of land, air and sea transportation except pipelines and excluding the temporarily occupied territory of the Autonomous Republic of Crimea and the city of Sevastopol) and 40.6 per cent. of all domestic passenger transportation by turnover (excluding inner city transport, the temporarily occupied territory of the Autonomous Republic of Crimea, the city of Sevastopol and the part of the territory in the "anti-insurgent operations zone") in Ukraine. The Group is the sole operator of all of locomotives operating in Ukraine, as well as all passenger rail transportation using Ukrainian railway infrastructure and also provides freight transportation and the private use of the Group's rolling stock.

However, the Group is currently undergoing a structural reorganisation under the Reform Programme to achieve its longer term objectives of increased efficiency of operations and greater involvement by private companies in railway transportation in Ukraine by 2019, and the Group may thus become subject to greater competition once the Reform Programme is implemented. Therefore, within the next five years, the Group expects to witness real competition on the part of private rail carriers. See "*The Company—Reform Programme*".

Railway transport in Ukraine is also subject to increasing competition from other types of transportation. For instance, roads are the most utilised mode of domestic passenger travel, especially in the anti-insurgent operations zone and the temporarily occupied territories. Therefore, the increased use of roads and pipelines as Ukraine's economy and infrastructure continue to develop could further increase competition for freight transportation. Any loss of market share resulting from such additional competition could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Ukraine's railway infrastructure requires significant investment in maintenance and modernisation.

Ukraine's rail infrastructure and related assets under the Group's operation have generally not been adequately modernised since the break-up of the Soviet Union in the early 1990s. In particular, the Group's rail networks, tracks, power generation and transmission, communication systems and buildings are in need of renovation. However, implementation of maintenance and modernisation projects involves many potential risks, including work stoppages and interruptions resulting from inclement weather, unforeseen engineering difficulties, environmental and geological problems and unanticipated cost increases and claims, any of which could give rise to delays or cost overruns. Moreover, most of these modernisation and construction projects are capital-intensive and may be possible only in favourable market conditions and/or with the support of the State.

The Group anticipates being able to raise funds for its Investment Programme (as defined below in "*Business—Investment Programme*"). See "*The Company—Investment Programme*" and "*The Company—Investment Programme— Lviv-Chop Route (Beskyd Tunnel)*".

If the Group is unable to obtain financial support from the State and conduct maintenance and modernisation of railway infrastructure, its operations may be adversely affected by equipment failures and accidents attributable to insufficient modernisation of the rail infrastructure and related assets. Such accidents may significantly increase expenditures relating to upkeep and repair of railway infrastructure and related assets. Moreover, insufficient modernisation may also result in declining transportation turnover and hinder the Group's ability to grow its transportation services. Further deterioration of rail infrastructure and related assets may cause revenues to decrease and the Group to incur unexpected expenditures or disruption of business operations, all of which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

A significant increase over a short period of time in the prices of assets required by the Group for its operations, as well as overall domestic inflation, could increase the Group's costs.

The Ukrainian economy has been negatively affected by the global economic downturn which began in 2008, a slowdown in the real economy and a lack of liquidity in the financial sector. The economic crisis also contributed to an increase in prices for, inter alia, fuel, commodity stocks and supplies, and electricity in Ukraine. As the Group is subject to tariff regulation by the State, it may be unable to pass on any increases in its costs, such as increases in prices for fuel and commodity stocks and supplies, to its end customers. See "*—The Group is heavily dependent on the continued support of the State and may be adversely affected by any changes in State policy*". The Group includes considerations of the Ukrainian wholesale price index ("**WPI**") and consumer price index ("**CPI**") in its annual financial plan, which is subject to approval by the Government. If the Government were to reject the Group's tariff proposals or approve tariff increases less than the overall rate of inflation, any increases in the Group's costs could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group's operating cash flows or ability to obtain outside funding may be insufficient to finance its investment projects.

The Group's financial plans aim to diversify funding sources, lengthen its debt maturity profile and access new sources of funding to support the substantial capital investment required under the Investment Programme, in addition to funds generated from the Group's operating cash flows through its transportation and auxiliary operations.

The Group's operating cash flows are dependent on macroeconomic conditions, tariffs and other internal and external factors, which may adversely affect the availability of funds from its operating cash flows to finance the Group's planned investment projects. In addition, the terms and conditions of certain of the Group's existing financings contain certain financial covenants (see "*The Company—Financial Policy and Risk Management*"). Such covenants could limit the Group in terms of obtaining new financing. As a result, the Group may not be able to successfully implement its Investment Programme in the timetable, which, in turn, could adversely affect the Group's ability to realise the expected benefits and improvements of the Investment Programme as well as its overall profitability, growth or development.

If the Group fails to generate sufficient funds from its operating cash flows or obtain adequate outside debt financing, it may have to partially delay the modernisation of its production facilities, and it may be unable to invest in new projects or meet financial requirements to maintain the safety of freight and passenger transportation. As a consequence, the Group's fixed costs could increase substantially, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

In addition, this Prospectus contains certain information about the Group's anticipated expenditures in relation to its Investment Programme and potential sources and amounts of third party financing, which may not materialise if the Group fails to generate sufficient funds from its operating cash flows or obtain outside debt financing for any reason.

The Group's customer base is relatively concentrated and a decrease in shipments and/or loss of certain customers could have a negative impact on the Group's operations.

The largest freight shippers in Ukraine comprise major industrial and raw material suppliers, including metallurgic plants, coal mining companies, ore-dressing and processing enterprises. In particular, the Group's ten largest customers include Ingulets'kyi Ore Mining and Processing Plant, DTEK Pavlogradvugillia, Northern Ore Mining and Processing Plant, Southern Ore Mining and Processing Plant, Poltavskyi Ore Mining and Processing Plant, ArcelorMittal Kryvyi Rih, Zaporizhya Ore-Mine Plant, Kryvyi Rih Iron-Ore Plant, Ilyich Iron and Steel Works of Mariupol and Ivano-Frankivsktcement PJSC. Together, these ten largest customers comprise 26.6 per cent. of Ukrzaliznytsia's total freight transportation volumes. See "*The Company—Freight Transportation—Freight Customers, Sales and Marketing*". The loss of any of these customers or a decline in the volume of its shipments could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Fluctuations in the foreign currency exchange rates may expose the Group to translation foreign currency exchange rate risks.

Foreign currency translation risks are the result of translating assets and liabilities denominated in any currency other than the hryvnia into hryvnia amounts for financial reporting purposes, as the Combined Financial Statements apply the hryvnia as the functional and reporting currency. While the Group generated 7 per cent. of its total cash flow in foreign currencies in 2014 (in particular, the U.S. dollar, Euro and Swiss Franc), such funds may not be sufficient to cover the Group's foreign currency-denominated expenses.

In addition, to the extent the Group incurs expenses in one currency and generates revenues for its services in another currency, its profit margins may be affected by exchange rate fluctuations. Also, where the Group seeks financing from non-hryvnia-denominated sources, the Group will be subject to further foreign currency exchange rate risk on borrowings that are denominated in a currency other than the hryvnia.

Any such loss resulting from a fluctuation in foreign currency exchange rates could have a material adverse effect on the Group's business, results of operations, financial position and prospects.

Accounting for high degree of wear of physical assets will continue to require significant capital expenditures.

A significant portion of the Group's assets, including rolling stock, such as locomotives, and other equipment, has been approaching the end of its useful economic life. Therefore, the Group will be required to undertake significant expenditures for the acquisition of replacement assets or the refurbishment of the aging assets between 2015 and 2025.

The implementation of investment projects associated with modernisation of the Group's equipment is subject to a variety of potential uncertainties, including delays in completion, cost overruns and defects in reconstruction and development, all of which may prevent the Group from upgrading its rolling stock within the planned timeframe. If the Group is unable to upgrade its equipment within the planned timeframe, or at all, the Group's existing operations may be negatively impacted due to a number of factors including higher maintenance and fuel costs, or the potential risk of breakdowns. Any of these factors could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

The Group's Investment Programme has two components: (i) discretionary expenditures invested in new projects, which could be reduced or redirected as necessary depending on the Group's financial position; and (ii) expenditures required to maintain the safety of freight and passenger transportation, which the Group must implement to be able to continue its operations. Excessive delay of discretionary expenditures on the modernisation of the Group's equipment could result in further, more costly expenditures required to maintain the safety of the Group's operations, which may be at a higher cost due to the age of the rolling stock. If the Group is forced to redirect the discretionary component of the Investment Programme in the future, the Group may not be able to realise gains to its profitability through additional discretionary upgrades to its equipment.

Insufficient supply of, or increases in the price of, rolling stock may adversely affect the operations of the Group.

A significant part of the Group's rolling stock fleet is approaching the end of its useful economic life and will require replacement. In the period from 2016 to 2020, approximately 82 per cent. of the freight railcars owned by the Group will reach the end of their current useful economic lives. While approximately 65 per cent. of freight railcars and 30 per cent. of passenger railcars may be returned to operation for up to ten years (freight) and five years (passenger) following diagnostic and technical inspection, the remaining railcars are likely to be removed from service.

Ukraine has a relatively sufficient number of quality rolling stock manufacturers, except for hauling stock. However, prices for the railcars are constantly changing, first of all, due to the change in the prices for principal components and materials used in the manufacture of rolling stock.

The Group may not be able to arrange for sufficient supplies of new rolling stock on commercially acceptable terms, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group faces numerous operating risks that may result in losses and additional expenditures, which may not be fully covered by insurance.

The Group is the operator of the Ukrainian railway infrastructure as well as the largest operator of passenger and freight rolling stock, including locomotives. All assets operated by the Group are property of the State. The Group's infrastructure and transportation services may be adversely affected by many factors, including the breakdown or failure of equipment or processes, natural disasters or sabotage of the Group's extensive infrastructure and related assets. An accident, derailment or other incident involving the Group's railway operations could result in damage or loss of the Group's track network, locomotives and railcar fleet and also temporarily suspend the Group's services and give rise to potential claims by freight shippers, injured passengers and others. In addition, such an incident could have a material adverse effect on the profitability of the Group's services in the future.

As a provider and operator of rolling stock, the Group may also incur liability for spillage or leakage from railcars transporting environmentally sensitive materials, which may exceed the Group's compulsory insurance coverage for such materials. In the event of a serious accident involving passengers, the Group may also need to provide additional assistance to the affected passengers, in excess of insurance payouts. If an event were to occur that were uninsured or underinsured, it would cause the Group to incur additional expenditures, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group is dependent on highly qualified personnel and may also be adversely affected by wage increases and labour disruptions.

The Group is one of the largest employers in Ukraine with 295,628 employees as at 30 June 2015. The Group currently employs managers and other personnel with significant industry experience. Because the Group's business requires specific knowledge of the industry, it is dependent on the current management and other highly qualified personnel. Competition in Ukraine for such personnel with relevant expertise is intense due to the small number of qualified individuals with suitable practical experience in the rail industry.

Although wages across the Group decreased during the recession, the Group raised wages each of the years 2012 through 2015 and may be required to raise wages further in the future subject to the State's employment policy. If the Group continues to increase employee compensation considerably, the Group may be unable to effect commensurate increases in the efficiency and productivity to justify the extra costs. If the Group's wages are not competitive, the Group may find it difficult to recruit graduates and retain a skilled workforce, which could hinder its ability to maintain the current market position or execute its strategic goals.

The Group has a branch agreement with the trade unions that represent approximately 95 per cent. of the Group's employees. Labour disputes, which have arisen periodically concerning employee compensation and benefits, may occur again at any point in the future. At present, there are no labour disputes pending. However, any labour disruptions resulting from such disputes could cause the Group to reduce or suspend its operations, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group relies heavily on IT systems to operate its business and any failure of these systems or delays in planned upgrades could have an adverse effect on its business.

The Group relies heavily on its telecommunications network and computer systems for coordination of scheduling, dispatching and other aspects of its railway operations as well as accounting, ticket sales for passenger trains, tracking freight deliveries and numerous other functions. Hardware and software used by the Group may be damaged by human error, natural disasters, power loss, sabotage, computer viruses and other internal or external events. The Group's operations may also be vulnerable to system failures of other companies with whom such operations are closely linked, such as utility providers, telecommunication service providers and automated payment systems. Problems that may occur as a result of system failures include:

- disruptions in the coordination of transportation operations, which could cause congestion or delays in the management and execution of the Group's transportation services;
- incorrect recognition of train schedule or route control data, which could delay or disable railway operations;
- system failures in ticketing, reservations and sales functions, which could cause significant confusion and inconvenience to passengers; and
- difficulties in repairing systems over a very large network that includes many remote areas, which could delay the re-establishment of operations.

System failures could also reduce the attractiveness of the Group's services and could cause its customers to choose alternative means of transportation or alternative transportation providers. If such a system failure were to occur, the Group's passenger and freight transportation services would be operated by a manual system. System-related problems could lead to increased expenses and decreased revenues, which in turn could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Certain covenants in the Group's debt agreements restrict its operations and any failure of the Group to comply with such covenants may have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

The Group is obliged to comply with various covenants and restrictions contained in its financing arrangements, including the Loans. Examples of the Group's restrictive covenants include requirements to maintain certain ratios of financial borrowings relative to EBITDA and/or EBITDA relative to net financial expenditures.

The Group had payment defaults and covenant breaches in the past. In 2009, the Group's financial position was significantly affected by the global economic downturn and a resulting drop in freight transportation. The Group implemented a number of cost-saving measures to offset the impact of the downturn, but its revenues were still insufficient to continue to service indebtedness. As a result, the Group requested to restructure a facility agreement dated 6 August 2007 with Barclays Bank PLC and Barclays Capital (the "**Barclays Facility**"), thereby defaulting on its scheduled quarterly repayment in 2009 and subsequent scheduled repayments in 2010. The Group remedied the breach after the Group's financial condition improved and negotiated a rescheduled repayment schedule under the Barclays Facility in 2011. The Group subsequently fully repaid the Barclays Facility in 2012.

Financial results of the Group in the 2014 financial statements caused the breach of certain financial requirements (particularly the default of covenants to maintain certain financial ratios) under the Loan Agreements. According to the interim combined financial statements as at 30 June 2015, such financial ratios were in compliance with requirements of the Loan Agreements.

In addition, in April 2015, the Government of Ukraine put the Eurobond debt onto the list of the foreign debts which are subject to restructuring according to the agreements with the International Monetary Fund ("**IMF**").

Any subsequent failure by the Group to comply with these or other restrictions under the terms of its financings and lack of final settlement of the issues with local creditors as regards the restructuring of internal debt could constitute a default under certain of its international borrowings and could result in a cross-default under other agreements to which a Group-entity is a party (the Company as a legal successor). In the event of such a default, the Group's obligations under one or more of these agreements could, under certain circumstances, become immediately due and payable, which would have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

In addition, it is uncertain how successful the steps planned by the management board to attain further profitability in operations with a sufficient amount of funds, as well as the restructuring/reprofiling, will be. These conditions indicate that there is significant uncertainty which could result in doubts about the Group's ability to continue its activity in perpetuity.

Certain of the Group's indebtedness is treated differently under Ukrainian national auditing standards and IFRS, which may not reflect the current state of the Group's financial position.

On 12 May 2015, the Group informed its creditors that it had not been able to make payments of the principal under some bilateral loan agreements concluded with the Ukrainian creditors; the breach also resulted in a cross-default with respect to several other loans. The Group initiated debt restructuring negotiations in May 2015, but remained in default in respect of certain long-term loan obligations and was not able to cure such default prior to 30 June 2015. As a result, part of the Original Group's long-term borrowings was reflected in short-term loans as at 30 June 2015, and a provision for interest-bearing loans in the amount of UAH 35,925,790 thousand was included under current liabilities in the Reviewed Interim Condensed Combined Financial Statements (see Note 8 to the Reviewed Interim Condensed Combined Financial Statements). Certain of those loans have since been reprofiled, and those that remain payable are included in the Group's Designated Local Indebtedness (as defined in the Amended and Restated Loan Agreement).

As of the date of this Prospectus, discussions with creditors to reschedule the Group's Designated Local Indebtedness are currently ongoing, but uncertainty remains as to how successful the reprofiling plans of the Company's Management Board will be. As of the date of this Prospectus, none of the Group's creditors has taken any enforcement action with respect to the amounts due. The Group requested a waiver letter from the EBRD and the European Investment Bank (the "**EIB**"), and will request a waiver letter from Export-Import Bank of Korea, and based on the results of their negotiations, the Group considers that such waivers are to be received.

Although the relevant amounts of liabilities were already included as current liabilities as at 30 June 2015 under IFRS (and amounts that have not yet been restructured will be included in the Group's IFRS financial statements for the year ended 31 December 2015), under national accounting standards the long-term liabilities would only be reclassified as current liabilities in certain cases (e.g. if the default continues for one year). Accordingly, the amount of current liabilities determined under national accounting standards is not directly comparable to the same item under the IFRS financial statements. In order to make the amounts based on national accounting standards comparable to the amounts determined on the basis of IFRS, certain part of the long-term liabilities would have to be added to the amount of current liabilities. Such differences between IFRS and national accounting standards could result in uncertainty as to the status of the Group's financial position.

The Group has not independently verified information it has sourced from third parties.

In preparing this Prospectus, the Group has relied on and referred to information from various third-party sources, including certain private companies and institutes, international organisations and governmental agencies, and it has relied on the accuracy of this information without independent verification. For example, a significant portion of the information concerning the Group's competitors and the freight rail industry has been derived from publicly available sources published by third parties. This information and statistics may at times be less complete or reliable than those of some of the more developed market economies of North America and Europe, as well as be produced on a basis that differs from those used in Western countries. Any discussion of matters relating to Ukraine herein is therefore subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

Risk Factors Relating to Ukraine

The ongoing crisis in eastern Ukraine has had, and may continue to have, negative humanitarian, economic and political consequences for Ukraine.

Humanitarian consequences

Following the Euro-Maidan Revolution which led to the removal from power of President Yanukovych in February 2014, demonstrations by pro-Russian separatists and anti-Government groups took place in several major cities across eastern and southern Ukraine. Armed groups took over government buildings, seized military and other state assets and prevented the exercise of lawful government authority in parts of the Donetsk and Luhansk regions (in Ukrainian, *oblasts*). The breakdown of law and order in the affected regions prompted the Ukrainian authorities to launch anti-insurgent operations against the armed groups.

According to the United Nations, over 6,300 people have been killed and over 15,700 people wounded in eastern Ukraine since the beginning of military operations in April 2014. The Ministry of Social Policy of Ukraine has registered more than 1.3 million internally displaced persons ("**IDPs**") as a result of the violence in eastern Ukraine, placing a great strain on government resources. According to the UN, 60 per cent. of IDPs are pensioners. The IDPs commonly flee their homes with very few possessions and few financial resources and thus remain constantly reliant on the assistance provided by the government, international and national humanitarian agencies and volunteers. The UN has also estimated that more than 850,000 Ukrainian have sought asylum, residence permits or other forms of legal stay in neighbouring countries due to the ongoing crisis.

The humanitarian crisis in the affected regions shows no signs of abating. Heavy civilian tolls of dead and wounded have resulted from shelling of residential areas in both Government- and terrorist-controlled areas. The fighting and shelling have caused heavy damage to civilian property and vital infrastructure, leaving civilians in highly precarious situations, often in the underground shelters and often without electricity, gas, heating water, food or medical care. Hospitals, schools and kindergartens have been hit by shelling in residential areas, including in Avdiivka, Donetsk, Horlivka, Luhansk and Mariupol. Many civilians, especially the elderly and those with movement difficulties have been trapped in conflict zones lacking the capacity, resources or assistance to leave such areas voluntarily.

According to the UN, the arbitrary detention of civilians remains a feature of the conflict. In areas controlled by the armed groups, "parallel structures" have been established and the breakdown in law and order in these areas accommodated persistent violations of the rights of civilians, including abductions, arbitrary detention, beatings and alleged torture. Access to education in conflict-affected areas has been severely curtailed. The conflict has also caused significant destruction of infrastructure and housing, leading to the almost total economic and infrastructure breakdown in some of the worst affected localities.

Increased defence costs, industrial decline and effect on the FDI

The Government's attempts to retake control of eastern Ukraine have resulted in a significant increase in Ukraine's defence expenditure. If the conflict re-escalates, such expenditure will continue to strain the general resources of the Government and the Government's finances and negatively affect Ukraine's economy. Furthermore, the conflict has led to a significant loss of industrial production in the industrial heartland of Ukraine, with industrial output declining 31.5 per cent. in Donetsk and 42 per cent. in Luhansk regions in 2014. The conflict has also had far-reaching adverse effects on foreign direct investment in these regions in particular and Ukraine in general, as well as the Government's economic reform programmes.

Political consequences

Although an agreement calling for an immediate ceasefire was reached on 5 September 2014 between delegates from Ukraine, the Russian Federation and the Organisation for Security and Co-operation in Europe ("**OSCE**") as well as separatist representatives from the self-proclaimed Donetsk People's Republic and Luhansk People's Republic, the sporadic heavy fighting continued and conflict again escalated in January 2015 as the fighting intensified over the control of the Donetsk International Airport. By the end of January 2015, the ceasefire collapsed entirely with renewed fighting across the conflict zone with the armed Russian-backed separatists and Russian forces mounting a new offensive against Ukraine forces along the line of control in the Donetsk and Luhansk regions. On 12 February 2015, the Minsk Protocol, a new ceasefire agreement brokered by France and Germany with Russia's participation was agreed in Minsk by Ukrainian President Poroshenko and separatist representatives from the Donetsk and Luhansk regions. The parties agreed (amongst other things) to: a bilateral ceasefire with effect from 15 February 2015; monitoring and verification by the OSCE of the withdrawal of heavy weapons; withdrawal of illegal armed groups, military equipment, militants and mercenaries from Ukraine; a general amnesty and release of prisoners; and constitutional reforms which will grant special status to the Donetsk and Luhansk regions within Ukraine. Russian-supported armed groups operating in eastern Ukraine, supported by Russian forces, have violated the ceasefire regularly since the date of the agreement, seizing additional territory and threatening further escalation of violence.

There can be no assurance that the Minsk Protocol will lead to a long term solution to the crisis in eastern Ukraine, which may result in a risk of a "frozen conflict" in this area, a situation in which active armed conflict has been brought to an end, but no peace treaty or other political framework resolves the conflict to the satisfaction of the combatants. Similar situations exist in other areas of former Soviet influence, including in South Ossetia and Abkhazia (separatist-controlled territories of Georgia, which were recognised by the Russian Federation as independent states, but are not recognised internationally), Nagorno-Karabakh (a region of Azerbaijan occupied by Armenia, governed by the Nagorno-Karabakh Republic, a de facto independent but internationally unrecognized state) and Trans-Dniester (the separatist region in Moldova, which proclaimed independence in 1990 with a view to joining the Russian Federation, but remains unrecognised internationally). If a "frozen conflict" situation were to occur in eastern Ukraine, it would have a long-term military and economic effect, as well as unpredictable political consequences in Ukraine, any or all of which could have a material adverse effect on Ukraine's economy. In particular, this situation would be likely to compound the current contraction in the Ukrainian economy, discourage further inbound investment in Ukraine and increase capital flight, restrict the

Government's access to the international capital markets and borrowing from multilateral organisations and put pressure upon the stability of the hryvnia, any or all of which could have a material adverse effect on Ukraine's economy which could in turn adversely impact the Group's business, results of operations, financial condition and prospects.

Additionally, as at the date of this Prospectus, there is no clarity as to how the 16 September 2014 Law of Ukraine "On Special Regime of Local Self-Government in Certain Regions of Donetsk and Luhansk Oblasts" will be implemented. On 17 March 2015, the Parliament of Ukraine amended the above law to provide that the special regime for self-government in certain regions of Donetsk and Luhansk Oblasts is conditional upon successful elections of local self-government authorities in such regions. Such elections are required to be held in accordance with Ukrainian law, democratic principles and subject to certain other conditions, including, *inter alia*, withdrawal of all illegal military groups and weaponry from Ukraine. As such, any adverse political and economic consequences of the granting of special status to these regions remain unknown, as does whether the new status in the future may present a threat to Ukraine's sovereignty or territorial integrity, any or all of which could have a material adverse effect on Ukraine's economy which could in turn adversely impact the Group's business, results of operations, financial condition and prospects. See "*Recent Developments in Ukraine—Geopolitical Developments—Eastern Ukraine*".

The occupation of Crimea has created significant political and economic uncertainty in Ukraine and put further strains on Ukraine's relationship with the Russian Federation.

In late February 2014, following the Euro-Maidan Revolution which led to the removal from power of President Yanukovych, masked Russian soldiers without insignias appeared at strategic military and governmental locations across Crimea and the City of Sevastopol. On 27 February 2014 these Russian forces occupied the Crimean parliament and other government buildings, under which conditions a vote was held in the Crimean parliament replacing the lawful Crimean government with a pro-Russian regime. On 6 March 2014, the Crimean parliament, in violation of Ukrainian law, voted in favour of joining the Russian Federation and holding an all-Crimean referendum to approve this decision. Based on the reported results of the referendum that took place on 16 March 2014, the President of the Russian Federation, Mr Vladimir Putin, and representatives of the de facto government of Crimea executed an agreement on the annexation of Crimea to the Russian Federation. On 21 March 2014, Mr Putin signed legislation to annex Crimea and the City of Sevastopol to the Russian Federation.

The legitimacy and results of the referendum have been widely questioned around the world. The Ukrainian Parliament declared the referendum unconstitutional. The referendum has been declared illegitimate by many countries, including all EU members, the United States and Canada. On 15 March 2014, 13 members of the UN Security Council voted in favour of a resolution declaring the referendum invalid, however the resolution was vetoed by the Russian Federation. On 27 March 2014, a UN General Assembly resolution was adopted, which declared the referendum invalid and affirmed Ukraine's territorial integrity. On 10 April 2014, the Council of Europe also adopted a resolution condemning the Russian military aggression and annexation of Crimea as being in violation of international law.

Ukraine does not recognise the results of the illegal referendum conducted on 16 March 2014, does not recognise Crimea as a sovereign state or as part of the Russian Federation and considers Crimea to form an indivisible part of Ukraine as an autonomous region in accordance with the 2004 Constitution of Ukraine. In April 2015, the Ukrainian Parliament reaffirmed the status of Crimea as part of Ukraine's sovereign territory by adopting the Occupied Territory Law which, among other things, includes a provision that Ukraine treat Crimea as an integral part of its territory. Ukraine considers Crimea to be, as at the date of this Prospectus, under occupation by Russia. While Ukraine is committed to reaching a peaceful settlement of the Crimean crisis, currently there is no indication as to when or if the Russian occupation will end.

The occupation of Crimea may continue to adversely affect Ukraine's economic and political stability, including through its impact on the following:

- Ukraine's domestic trading market, as the loss of trade with Crimea reduces the overall volume of trade significantly;

- Ukraine's finances, as the anticipated costs of reconstruction and resettlement as well as the loss of tax revenue from the region are significant;
- the Ukrainian economy, which has lost the benefit of a large number of private and state-owned assets and property (including Sevastopol Naval Base and local oil and gas assets) in the region, with losses reportedly estimated at UAH 1,180 billion;
- Ukraine's GDP;
- reducing domestic gas supply, as Ukraine currently has no access to gas production assets located in Crimea or gas stored there, as well as oil reserves onshore and in the Black Sea; and
- Ukraine's relations with Russia, as Russia's occupation of Crimea has been a source of conflict between Russia and Ukraine since the crisis began, further complicating their relationship (see "*—Ukraine's economy has traditionally been heavily dependent on trade with Russia and certain other CIS countries and any significant prolongation of the crisis in relations with Russia, absent a material increase in financial support and long term trade with the European Union and other Western economies, would be likely to have adverse effects on the economy as well as the political stability of the country.*")

At the date of this Prospectus the occupation continues and could further strain the general resources of Ukraine and so have a material adverse effect on Ukraine's economy which could in turn adversely impact the Group's business, results of operations, financial condition and prospects. See "*Recent Developments in Ukraine—Geopolitical Developments—Crimea*".

Ukraine's economy is vulnerable to fluctuations in the global economy and is contracting.

Ukraine's economy is dependent to a large extent on the fluctuations of the global economy, in particular in relation to Ukraine's ability to rely on revenues of foreign currency from the export of goods and raw materials to counteract its dependence on foreign imports as well as its reliance on financing in the international markets.

Exports form a large part of the GDP of Ukraine, accounting for 50.9 per cent., 46.9 per cent. and 49.2 per cent. of GDP in 2012, 2013 and 2014, respectively. Ukraine's ability to export goods and raw materials is dependent on global demand and prices and therefore any decrease or fluctuations in such demand or prices may have a significant adverse effect on Ukraine's economy and finances. Exports of metals and metal products form a significant part of all exports from Ukraine (27.5, 27.8, and 28.3 in 2012, 2013 and 2014, respectively) and recent decreases in global demand and prices in this sector and in particular iron ore alone have had a significant effect on Ukraine's economy. In 2014, the export of steel and metals from Ukraine decreased by 13.1 per cent. (7 per cent. in 2013), machines and equipment by 17.1 per cent. (0.7 per cent. in 2013), chemical products by 23.8 per cent. (14.5 per cent. in 2013) and mineral products by 15.1 per cent. (2.0 per cent. in 2013). Total exports of goods and services from Ukraine decreased by 19.5 per cent. in 2014 (5.1 per cent. in 2013), while imports decreased by 26.6 per cent. (3.1 per cent. in 2013). During the January-March 2015 period, the decrease in exports of goods and services reached 32.6 per cent. on a year-on-year basis, and the decrease in imports of goods and services reached 35.6 per cent. on a year-on-year basis.

Additionally, the global economy has an important effect on Ukraine's state budget deficit and inflation levels. Domestic inflation is affected by world prices for metal products and grain as well as natural gas and oil. This causal relationship has led to significant fluctuations in the budget deficit and domestic inflation over recent years and continued pressure on global energy and food prices and prices of industrial products may lead to higher deficits and/or an increase in the levels of inflation in the future. Furthermore, inflation levels can directly impact Ukraine's state budget performance as Ukraine subsidises the cost of certain basic food items, electricity and gas and any increase in the real costs of these items would be likely to increase Ukraine's state budget expenditure and decrease its revenues.

Many of the key sectors of Ukraine's economy have contracted in recent years. In 2014, Ukraine's GDP declined by an estimated 6.8 per cent., with a similar annual rate of decline expected by the IMF for 2015. In the first quarter of 2015, Ukraine's GDP declined by 17.2 per cent. compared to the same period in

2014. (see — "*Positive developments in the economy may not be achieved if certain important economic and financial structural reforms are not made*.")

The recent volatility in the Ukrainian economic and geopolitical situation has significantly limited Ukrainian corporate borrowers' access to funding in the international capital and syndicated loan markets. In 2012 and 2013 after the effects of the global financial crisis had subsided, relatively easy access to liquidity, both from within Ukraine and internationally, was a significant factor facilitating growth in Ukraine's GDP. The reduced availability of external financing for Ukrainian companies in 2014 and 2015 has contributed to a decrease in industrial production (as described above), investment projects and capital expenditure generally. Any further deterioration of the current economic and geopolitical crisis may lead to a worsening of the economic and financial condition of Ukraine. Changing external or internal conditions could intensify and widen any external funding gap. Continued widening of the current account deficit or significant net capital outflows could cause the stock of international reserves to continue to fall or prompt a further devaluation of the hryvnia. Any such developments, including any prolonged unavailability of external funding and increases in world prices for goods imported to Ukraine or decreases in world prices for goods exported from Ukraine, may put pressure on the hryvnia exchange rate and may have or continue to have a material adverse effect on the economy, which could in turn adversely impact the Group's business, results of operations, financial condition and prospects.

Ukraine's Government may be unable to sustain political consensus, which may result in political instability.

Historically, a lack of political consensus in the Verkhovna Rada, or Parliament, of Ukraine has made it difficult for the Government to secure the necessary support to implement policies intended to foster liberalisation, privatisation and financial stability. As at the date of this Prospectus, as a result of the rapid political developments in Ukraine in recent years, the procedures and rules governing the political process in Ukraine may be subject to change through the normal process of political alliance building or through constitutional amendments and decisions of the Consitutional Court of Ukraine ("**CCU**"). Recent political developments have also highlighted potential inconsistencies between the Constitution and various laws and presidential decrees. Furthermore, such developments have raised questions regarding the judicial system's independence from economic and political influences. See "*Recent Developments in Ukraine—Recent Political Developments*".

The political landscape of Ukraine remains uncertain; see "*Recent Developments in Ukraine—Recent Political Developments*". It remains to be seen if the coalition government has the political support necessary to follow the challenging policies required to address the serious issues facing Ukraine (including the constitutional reforms guaranteed by the 12 February 2015 ceasefire agreement) and to meet the IMF and other multilateral organisations' criteria for further financial support. If these criteria are not met, the Ukrainian economy would potentially lose its prime source of liquidity and would be unlikely to be able to cope with its significant debt service requirements leading to a possible sovereign default. Such a default would be likely to have very severe effects on the economy which could in turn adversely impact the Group's business, results of operations, financial condition and prospects. See "—*Changes in relations with Western governments, the EU and multinational institutions may adversely affect the development of the Ukrainian economy*; *Positive developments in the economy may not be achieved if certain important economic and financial structural reforms are not made*; and "*—The Ukrainian banking system may be vulnerable to stress due to fragmentation, undercapitalisation and a potential increase in non-performing loans, all of which could have a material adverse effect on the real economy*".

A number of additional factors could adversely affect political stability in Ukraine, including:

- lack of agreement within the factions and between individual deputies;
- disputes between factions within the parliamentary majority coalition and opposition factions on major policy issues, including Ukraine's foreign, energy policy and over the issue of the timing and implementation of closer political and economic ties with the EU;
- court action taken by opposition politicians against decrees and other actions of the President and Government; and

- court action taken by the President against parliamentary or governmental resolutions or actions.

Any continued or increased political instability due to the factors listed above or for any other reason could have a material adverse effect on the Ukrainian economy which could in turn adversely impact the Group's business, results of operations, financial condition and prospects.

Ukraine's economy has traditionally been heavily dependent on trade with Russia and certain other CIS countries and any significant prolongation of the crisis in relations with Russia, absent a material increase in financial support and long term trade with the European Union and other Western economies, would be likely to have adverse effects on the economy as well as the political stability of the country.

Ukraine's economy has traditionally been heavily dependent on trade with Russia and other Commonwealth of Independent States ("**CIS**") countries, largely because Ukraine imports a large proportion of its energy requirements, especially from Russia (or from countries that transport energy related exports through Russia), and as a result of its geographic proximity to and historical relationship with Russia. In addition, a large share of Ukraine's services receipts comprises transit charges for oil, gas and ammonia from Russia, which are delivered to the European Union ("**EU**") via Ukraine.

The Russian involvement in the conflict in eastern Ukraine (see "*Recent Developments in Ukraine—Geopolitical Developments*") represents the culmination of the deterioration of Russian-Ukrainian relations. Russian support for the separatists has had a significant effect on the current situation in that conflict. The Government reportedly estimates that Russian activities during the conflict to date have decreased Ukraine's economic potential by 20 per cent. The export of goods and services to Russia from Ukraine declined by 33.7 per cent. in 2014 and by 61.3 per cent. in the first quarter of 2015. It is likely that Russian support for the separatists will continue for the foreseeable future, thereby improving the likelihood of resumed hostilities or at the very least a standstill whereby the separatists retain control of the disputed areas. See "*Recent Developments in Ukraine—Economy—Relationship with Russia*".

Despite Western financial support designed to cushion Ukraine from the economic effects of current events, the existing situation is currently having a material adverse effect on Ukraine's economy, and unless the situation is resolved amicably between Ukraine and Russia in the near future, is likely to continue to have an increasingly adverse effect on the Ukrainian economy which could in turn adversely impact the Group's business, results of operations, financial condition and prospects.

Large-scale economic sanctions by the EU and US against Russia over its actions in Ukraine and reciprocal sanctions by Russia against the Ukraine, EU and US may have a material adverse effect on Ukraine's economy.

As a result of the ongoing tension between Russia and Ukraine, the EU and the United States have each authorised and imposed sanctions, targeting parties responsible for pro-separatist activities in eastern Ukraine, misuse of Ukraine state funds and human rights violations in relation to the crisis in Ukraine, including "asset-freezes" targeting these individuals imposed by the EU, the implementation of visa bans and the blocking of property and interests in property that are in the United States or that come within the possession or control of any United States person (including any foreign branch), of individuals and entities who the United States government considers to have misappropriated funds and threatened or undermined the peace, security, stability and sovereignty or territorial integrity of Ukraine. In addition, the United States has imposed sectoral sanctions targeting persons and entities operating within the defence, energy and financial sectors of the Russian economy. The United States has also restricted the provision, exportation or re-expropriation, directly or indirectly, of goods, services (except for financial services), or technology in support of exploration or production for deepwater, Arctic offshore, or shale projects that have the potential to produce oil in the Russian Federation, for entities designated on the Sectoral Sanctions Identifications List. Additionally, the US has imposed export sanctions with respect to Russia and Crimea and has suspended the issuance of US export credit and financing for economic development projects in Russia. Executive Order 13685 broadly prohibits transactions involving persons located within the "Crimea region of Ukraine", unless authorised by the US Department of the Treasury's Office of Foreign Assets Control ("**OFAC**").

The EU also introduced a number of trade and investment restrictions on Crimea, which involve an EU ban on most new investments by EU parties relating to entities in Crimea and Sevastopol, including: acquisition, or extension of participation in ownership, or real estate or any entity located in Crimea and Sevastopol; providing financing to any entity in Crimea and Sevastopol; the creation of joint ventures in these territories or with any entity in these territories, or the provision of investment services related to such transactions. The EU also bans the direct or indirect sale, supply, transfer or export of specified key equipment and technology suited for use in the sectors of transport, telecommunications and energy, as well as the exploitation of oil, gas or mineral resources in Crimea and Sevastopol. The EU has further imposed sectorial sanctions targeting Russia including: restriction of access to the EU capital markets for five major Russian state-owned banks and six Russian defence/energy companies; suspension of services for deep water and arctic oil exploration and production and shale oil projects in Russia and a ban or authorisation requirement on supply (and related financing, technical assistance etc.) for key listed items used in the oil sector; as well as, ban on exporting dual use goods and technology for military use in Russia.

Such large-scale economic sanctions imposed on Russia by the EU and United States combined with the effect of the sharp fall in oil prices in 2014-2015 have had a negative impact on Russia's economy, which contracted by 2.0 per cent. between January and March 2015 compared with the same period in 2014. The IMF expects the Russian economy to contract by 3.8 per cent. in 2015 and by 1.1 per cent. in 2016. A recession in Russia, as Ukraine's largest trading partner, could have a negative impact on Ukraine's export industries and economy.

In 2014, in response to the sanctions imposed on it, Russia has imposed reciprocal sanctions on the EU, US, Canada, Australia, Norway and Ukraine banning the import of various agricultural and other food products. In particular, in the period from July to August 2014, Russia introduced restrictions on imports of Ukrainian confectionery, dairy, meat, canned vegetables and other agricultural products. Ukraine estimates that restrictions introduced by Russia have, as of the date of this Prospectus, lead to a 44.5 per cent. decline in trade with Russia and further expected sanctions are anticipated to further reduce the levels of trade. For the year ended 31 December 2014, exports of goods from Ukraine to Russia decreased by 33.7 per cent. compared to the year ended 31 December 2013 due to decreases in exports of food products (decreased by 52.8 per cent.), machinery (decreased by 40.3 per. cent), articles of stone, plaster and cement (decreased by 32.0 per cent.) and metallurgical products (decreased by 30.9 per cent.). In the first quarter of 2015, exports of goods from Ukraine to Russia decreased by 61.3 per cent.

It is not yet possible to accurately predict the political and diplomatic consequences of the sanctions imposed by the EU and the United States and the reciprocal sanctions imposed by Russia in the context of the current crisis, or the potential impact of the imposition of sanctions on Foreign Direct Investment ("**FDI**") and other inbound capital flows. It is also not possible to predict whether or to what extent the imposition of sanctions could adversely affect the market price or liquidity of Ukrainian sovereign debt. It is possible that further sanctions may be imposed on Russia by the EU and the United States in the future and that Russia may respond with retaliatory sanctions against the EU, the United States and Ukraine.

Changes in relations with Western governments, the EU and multinational institutions may adversely affect the development of the Ukrainian economy.

Ukraine's relationship with governments in the EU and with multinational institutions is of great importance, particularly given the current significant reduction in trading volumes with Russia. For the year ended 31 December 2014, the EU became Ukraine's largest external trade partner, accounting for 31.5 per cent. of all Ukrainian exports. In the same period exports of Ukrainian goods to Russia decreased by 33.7 per cent. In the first quarter of 2015, the EU accounted for 34.6 per cent. of all Ukrainian exports. The perception of the EU and multinational institutions of the commitment to and nature of legislative and regulatory reform programmes in Ukraine, the improvement and continued independence of the judicial system and political developments in Ukraine could significantly impact those relations.

In addition, following recent events and statements of intention to reform on behalf of the Government, Ukraine is also currently benefitting from vital financial support from international financial institutions such as the IMF and the World Bank as well as Western nations such as the United States and Canada. Ukraine also benefits from significant practical and diplomatic support from the international community particularly in relation to events in eastern Ukraine and Russia's involvement therein. This financial and political support is crucial to the economic and political survival of Ukraine and is built on the promises of deep-seated and systemic reform of the country's economic and political systems. See also "*Recent Developments in Ukraine—IMF and other Multilateral Assistance*".

Any negative effects on relations with Western countries and organisations as a result of internal political changes, events or failure to comply with foreign requirements would be likely to have a significant negative effect on the successful implementation of the Ukraine–European Union Association Agreement that established a political and economic association between the two parties signed on 21 March 2014 (the "**Association Agreement**") and may lead to a suspension of financial support/aid packages. On 16 September 2014, the Parliament of Ukraine ratified the Association Agreement, with bilateral implementation of free trade with the EU scheduled for 1 January 2016. Any negative change in the perceptions of Ukraine's commitment to the implementation of the Association Agreement could have a material adverse effect on trade and other economic relations (including access to financial support) with the EU and its members, which, in turn, could have a material adverse effect on the Ukrainian economy which could in turn adversely impact the Group's business, results of operations, financial condition and prospects.

The Ukrainian Government has declared a moratorium on payments on certain state and state-guaranteed debt owed to international commercial creditors and the consequences of a declaration of any such moratorium and actions which the relevant creditors may take as a result are difficult to predict.

On 19 May 2015, Parliament adopted the Law of Ukraine "On Certain Aspects of Transactions with State, State-Guaranteed Debt and Local Debt". The Law is aimed at ensuring economic security of the state, protection of public interests and interests of the state in connection with repayment and servicing of state, state-guaranteed debt and local debt. It gives a right to the Cabinet of Ministers of Ukraine to adopt a decision on suspension of payments under state foreign borrowings and state-guaranteed debt described in the schedule to the law and a right to the local council to adopt a decision on suspension of payments under relevant debt obligations described in the schedule to the law in connection with entering into transactions with such debt by means of exchange (change of terms and conditions of existing loans) and issue and sale of relevant debt obligations. Suspension of payments is introduced under each debt obligation for a period prior to execution of such transaction (transactions) and change of terms and conditions of relevant borrowing with respect to all creditors. The law became effective on 13 June 2015.

On 27 August 2015, it was announced that the Government reached an agreement in principle with the ad hoc committee of creditors on restructuring the Government's Eurobonds and state-guaranteed Eurobonds of the State Enterprise "Financing of Infrastructural Projects". See also "*Recent Developments in Ukraine—IMF and other Multilateral Assistance*".

On 12 November 2015, the Ministry of Finance of Ukraine announced the settlement of Ukraine's debt restructuring operation in respect of thirteen series of the Government's Eurobonds and state-guaranteed Eurobonds. Following the successful passing of extraordinary resolutions for each of those series of Eurobonds at bondholder meetings held on 14 October 2015, the holders of such Eurobonds who submitted valid and timely participation instructions received distributions of new Ukrainian securities on 12 November 2015 in accordance with the terms of the exchange offer. Only one series of eligible debt instruments did not participate in the exchange offer, being the U.S.$3 billion 5 per cent. notes due 20 December 2015 (the "**2015 Ukraine Bonds**"). In November 2015, the Ministry of Finance of Ukraine stated that the Government of Ukraine remained open to finding a solution with the holders of the aforesaid 2015 Ukraine Bonds. On 18 December 2015, the Cabinet of Ministers of Ukraine declared a moratorium on the payments under the 2015 Ukraine Bonds. As a result, no payment was made in respect of the 2015 Ukraine Bonds on 20 December 2015. The moratorium also applies to certain state-guaranteed loans provided to Ukravtodor and Yuzhnoye by third-party lenders. As of the date of this Prospectus, a lawsuit against Ukraine has been filed with the High Court of Justice in London for non-payment of a U.S.$3 billion loan. Ukraine is expected to defend all of the claims brought against it.

Official statistics and other data published by Ukrainian State authorities may not be reliable

Official statistics and other data published by Ukrainian State authorities (including the NBU and the State Statistics Service of Ukraine) may not be as complete or reliable as those of more developed countries. Official statistics and other data may also be produced on a different basis than those criteria used in more developed countries. The Group has not independently verified such official statistics and other data, and Noteholders should be aware that any discussion of matters relating to Ukraine in this Prospectus is, therefore, subject to uncertainty due to questions regarding the completeness or reliability of such information and may not be fully in accordance with international standards. Furthermore, standards of accuracy of statistical data may vary from agency to agency and from period to period due to application of different methodologies. Since the first quarter of 2003, Ukraine has produced data in accordance with the IMF Special Data Dissemination Standard. It is possible, however, that this IMF standard has not been fully implemented or correctly applied. The existence of a sizeable unofficial or shadow economy may also affect the accuracy and reliability of statistical information. In addition, Ukraine has experienced variable rates of inflation, including periods of hyperinflation. Unless indicated otherwise, the macroeconomic data presented in this Prospectus has not been restated to reflect such inflation and, as a result, period-to-period comparisons may not be meaningful. As a result of recent events since February 2014, there has been significant additional difficulty in obtaining reliable statistical information, particularly in relation to Crimea and eastern Ukraine. Therefore, certain statistics for 2014 may include unverifiable information or may not include any data at all from those areas of Ukraine; this may make a comparison of recent data to previous periods much less meaningful. For example, the Crimean contribution to GDP has been frozen as at February 2014 and included at that level in statistical data used throughout this Prospectus. If Crimea were to be removed from the State Budget the figures shown therein would be materially different. Noteholders should also be aware that certain statistical information and other data contained in this Prospectus have been extracted from official governmental sources in Ukraine and were not prepared or independently verified by any person in connection with the preparation of this Prospectus. The Group only accepts responsibility for the correct extraction and reproduction of such information.

Inability to obtain financing from external sources (or obtaining them at a significant cost) could affect Ukraine's ability to meet financing expectations in its budget.

Ukraine's domestic debt market remains illiquid and underdeveloped compared with markets in most Western countries. Accordingly, Ukraine is highly reliant on external sources for financing its state budget and is becoming more and more dependent as a consequence of the current ongoing crisis in Crimea and eastern Ukraine. As a result of the current critical status of the Ukrainian economy, the international capital markets are shut to the sovereign as well as corporate and quasi-corporate borrowers. Accordingly, Ukraine's reliance on official creditors and multilateral organisations has increased significantly. See "*Recent Developments in Ukraine—IMF and other Multilateral Assistance*".

If Ukraine is unable to meet stringent criteria set out in the various support programmes provided by multilateral organisations such as the IMF, the World Bank and the EU, the multilateral organisations may withhold or suspend funding. In the current circumstances, a failure by official creditors and multilateral organisations to grant adequate financing would put severe pressure on Ukraine's budget and foreign exchange reserves and have a material adverse effect on the Ukrainian economy which could in turn adversely impact the Group's business, results of operations, financial condition and prospects.

Ukraine has experienced liquidity difficulties in the past and continues to be subject to a significant liquidity risk, which may be exacerbated by Ukraine's higher debt service obligations and higher cost of funding over the next several years compared to the recent past.

According to the Budget Code of Ukraine (the "**Budget Code**") the volume of total State debt and State guaranteed debt at the end of the budget period (31 December of each year) should not exceed 60 per cent. of the annual nominal gross domestic product of Ukraine. Pursuant to recent amendments to the Budget Code, if the ratio of total State debt to GDP is expected to exceed 60 per cent. as of any year end, the Government is required to apply to Parliament for approval of such excess and submit an action plan on how the ratio will be returned to the required level. On 17 September 2015, upon application of the Government of Ukraine, the Parliament of Ukraine approved the temporary excess of the aforesaid ratio and required the Government of Ukraine to submit not later than on 1 March 2016 an action plan on how the said ratio would be returned to the required level.

Ukraine's external debt service has been rising over the past several years. The amount of State external debt service payments (including principal and interest payments but excluding debt owed to the IMF by the NBU) is expected to continue to increase throughout 2015 and 2016. Additionally, while debt service on contingent liabilities is difficult to anticipate, debt guaranteed by the State is also significant. The total outstanding State debt of Ukraine as at 31 December 2014 amounted to approximately U.S.$69.8 billion (including the IMF debt owed by the NBU). Furthermore, the substantial payment obligations of some State-owned companies falling due from 2014 to 2016 (including debt repayments and payments for natural gas supplied for domestic consumption to Ukraine) are likely to exert additional pressure on Ukraine's liquidity. Furthermore, on 19 May 2015 the Parliament of Ukraine approved the Law of Ukraine "*On Amendments to the Budget Code of Ukraine*" and the Law of Ukraine "*On Certain Aspects of Transactions with State, State-Guaranteed and Local Debt*", authorising the Government of Ukraine to suspend payments to creditors on designated foreign sovereign, guaranteed by the State and local debts for the purposes of debt restructuring. The laws took effect on 31 May 2015 and 13 June 2015. It remains uncertain whether the Government of Ukraine would exercise the aforesaid authorities.

In addition to these factors, Ukraine is vulnerable to the effect of any potential increases in interest rates in the Eurozone and the United States, as and when the monetary authorities in those jurisdictions decide to pursue more restrictive monetary policies, as Ukraine's reliance on external financing to fund its current account deficit and refinance existing external debt stocks means that any such increases may result in a higher cost of funding and could put further pressure on the hryvnia.

The devaluation of the hryvnia has made foreign debt service considerably more expensive for the Government, and any failure to stabilise the currency and stop the devaluation will put significant additional pressure on Ukraine's ability to service national and international debt.

The external pressure on Ukraine's liquidity is intensified by the State's regular failure to meet its budgeted revenue targets or stay within its expenditure targets. Given the current economic and political upheaval in Ukraine, it is very likely that the budget deficit will be significant for 2015 and 2016, and, unless covered by international financial support, this is likely to put severe pressure on Ukraine's budget and foreign exchange reserves.

In addition, it should be noted that many Ukrainian companies have significant levels of indebtedness and as a result of the financial crisis have and may continue to experience difficulty accessing new financing. Although private sector debt, unlike State debt, does not have a direct negative effect on the Government's foreign exchange liquidity, high levels of indebtedness of, and limited availability of new credit to, the private sector may complicate economic recovery and pose a significant risk in an already challenging economic environment.

Continued adverse changes in global or domestic political or economic conditions or in the international capital markets may place renewed pressure on Ukraine's foreign exchange reserves which would be likely to have a material adverse effect on the Ukrainian economy, which could in turn adversely impact the Group's business, results of operations, financial condition and prospects.

The downgrades of Ukraine's sovereign credit rating may negatively affect the economy.

As Ukraine's economic performance deteriorated amid the global recession and worsening domestic conditions, the ability of the state to meet its external debt obligations was increasingly being called into question. Credit default swaps on Ukrainian Government-issued Eurobonds at one stage made Ukraine's debt the most expensive sovereign debt in the world to insure. On 28 January 2014, Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**")[1] downgraded the long-term foreign

[1] Standard & Poor's is established in the European Union and registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the "**CRA Regulation**").

currency sovereign credit rating of Ukraine to CCC+ (with negative outlook). According to Standard & Poor’s press release, this was due primarily to the increased political instability in the country as evidenced by current events described above. On 21 February 2014, Standard & Poor’s further downgraded the long-term foreign currency sovereign credit rating of Ukraine to CCC due to the substantial deterioration of the political situation. On 19 December 2014, Standard & Poor’s further downgraded the rating to CCC-, citing a delay in IMF disbursements in 2014 coupled with significantly reduced foreign currency official reserves increasing the risk that the Ukrainian Government might not be able to meet its obligations. On 10 April 2015, Standard & Poor’s downgraded Ukraine’s long-term foreign currency sovereign credit rating from CCC- to CC. On 25 September 2015, Standard & Poor's further lowered the long-term foreign currency sovereign credit rating on Ukraine to SD (selective default) from CC, and short-term foreign currency sovereign credit rating on Ukraine to D (default) from C.

According to Standard & Poor's, following the completion of Ukraine's distressed debt exchange on 14 October 2015, Standard & Poor's decided to raise its long- and short-term foreign currency sovereign credit ratings on Ukraine to B-/B from SD/D on 19 October 2015.

On 7 February 2014, Fitch Ratings Limited (“**Fitch**”)[2] downgraded the long-term foreign currency sovereign credit rating of Ukraine to CCC. According to the Fitch press release, this was due primarily to the ongoing political instability and fears over Ukraine’s ability to refinance a heavy external debt repayment schedule; in addition, according to Fitch, the political uncertainty has contributed to a weakening in confidence in the UAH and in the exchange rate policy. On 13 February 2015, Fitch downgraded Ukraine’s long-term foreign currency sovereign credit rating to CC from CCC. According to the Fitch press release, this was due primarily to deterioration of the sovereign’s creditworthiness, increase of the fiscal deficit and escalation of the conflict in the Donetsk and Luhansk regions. On 27 August 2015, Fitch downgraded Ukraine’s long-term foreign currency sovereign credit rating to C on external debt restructuring announcement of Ukraine.

On 6 October 2015, Fitch downgraded Ukraine's long-term foreign currency issuer default rating to RD (restricted default) from C, and on 18 November 2015, the rating was upgraded to CCC. According to Fitch, reasons for the rating upgrade include, *inter alia*, that (i) Ukraine has emerged from default on commercial external debt, issuing new bonds on 12 November 2015 to holders of U.S.$15 billion in defaulted Eurobonds, and (ii) Ukraine's public debt sustainability has improved.

On 31 January 2014, Moody's Investors Service, Inc. (“**Moody’s**”)[3] downgraded the long-term foreign currency sovereign credit rating of Ukraine to Caa2 (with negative outlook). On 4 April 2014, Moody’s further downgraded the long-term foreign currency sovereign credit rating of Ukraine to Caa3 (negative outlook). According to the Moody’s press release, this decision was driven by the following factors: the escalation of Ukraine's political crisis, which led to a regime change in late February, followed by the annexation of Crimea by Russia; a risk of political instability, given upcoming presidential elections in May and the risk of early parliamentary elections later in the year, as well as a significant risk of destabilization in eastern and southern Ukraine, which have large ethnic Russian populations; Ukraine’s stressed external liquidity position, in light of a continued decline in foreign-currency reserves, the withdrawal of Russian financial support and a rise in gas import prices; the decline in Ukraine’s fiscal strength and an expected increase in the debt-to-GDP ratio to 55-60 per cent. by the end of 2014 (from 40.5 per cent. at year-end 2013) due to a sizable fiscal deficit, a significant GDP contraction and sharp currency depreciation. Furthermore, Moody’s expressed concern that Ukraine may be required to repay its outstanding Eurobonds early. The terms and conditions of the 2015 Bonds include a covenant to maintain the debt-to-GDP ratio (state and state-guaranteed debt) below 60 per cent. Moody’s based that rating on the probability of Ukraine’s debt-to-GDP ratio increasing to 60 per cent. and thereby triggering

[2] Fitch is established in the European Union and registered under the CRA Regulation.
[3] Moody's is not established in the European Union and has not applied for registration under the CRA Regulation. However, Moody's Investors Service Ltd. (an entity which is established in the European Union and registered under the CRA Regulation) has endorsed the ratings of Moody's, in accordance with the CRA Regulation.

an acceleration of the 2015 Bonds, which in turn could trigger a cross–default in all other Eurobonds and ultimately lead to a liquidity crisis and a payment default by Ukraine.

On 24 March 2015, Moody's downgraded Ukraine's long-term issuer and government debt ratings to Ca from Caa3 (outlook negative). The key driver of the downgrade was the likelihood of external private creditors incurring substantial losses as a result of the government's plan to restructure the majority of its outstanding Eurobonds. Also included in the restructuring is the external debt of state-guaranteed entities and selected other state-owned enterprises, and the Eurobonds issued by the capital city of Kyiv. The negative outlook reflected Moody's expectation that Ukraine's government and external debt levels would remain very high, in spite of the debt restructuring and plans to introduce reforms. Moody's also lowered Ukraine's country ceiling for long-term foreign currency debt to Caa3 from Caa2, and its country ceiling for long-term domestic currency debt and deposits to Caa2 from Caa1. Ukraine's country ceiling for foreign-currency bank deposits remained unchanged at Ca. All short-term country ceilings also remained unchanged at Not Prime (NP).

On 19 November 2015, Moody's upgraded Ukraine's Government issuer rating to Caa3 from Ca. The rating outlook was changed to stable from negative. According to Moody's, the decision to upgrade the sovereign rating of Ukraine's Government to Caa3 is based on the following key drivers: (i) settlement of the restructuring of U.S.$15 billion in privately-held Eurobonds issued or guaranteed by the Government of Ukraine, which eases Ukraine's debt-service requirements and strengthens the country's external liquidity, and (ii) progress in political and economic reform under the auspices of the IMF-led programme, supporting a rebalancing of the economy and a meaningful reduction in public and external financial deficits.

Furthermore, any downgrading of Ukraine's sovereign credit rating would likely result in a deterioration of the condition of the banking sector through an increase in borrowing costs for Ukrainian financial institutions. Any default by Ukraine on its debt obligations would be likely to have a negative effect on the ability of Ukrainian entities to raise funds as well as potentially triggering, *inter alia*, a damaging currency crisis. Such events may in turn have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Positive developments in the Ukrainian economy may not be achieved if certain important economic and financial structural reforms are not made.

The negative impact of the global economic and financial downturn has been compounded by weaknesses in the Ukrainian economy. The negative trends in the Ukrainian economy may continue unless Ukraine undertakes certain important economic and financial structural reforms, including those required by the IMF as conditions to the release of funding to the country under the four-year U.S.$17.5 billion Extended Fund Facility for Ukraine approved by the IMF Executive Board on 11 March 2015 (the "**2015 EFF**"), which replaced the earlier U.S.$17 billion stand-by agreement with the IMF dated 30 April 2014 (the "**2014 SBA**").

The 2015 EFF requires, amongst other things, that Ukraine conduct a debt operation that will achieve three targets: (i) generate $15 billion in public sector financing over the program period (2015-2018); (ii) bring the public and publicly guaranteed debt/GDP ratio under 71 per cent. by 2020 and (iii) keep the budget's gross financing needs at an average of 10 per cent. of GDP (maximum of 12 per cent. annually) in the period 2019-2025. The successful restructuring of certain debt obligations of the Group will contribute toward the satisfaction of the first target described above.

The 2015 EFF is premised on implementation by Ukraine of an ambitious, deep and comprehensive economic reform program aimed at restoring macroeconomic and financial stability, achieving and sustaining fiscal and external sustainability and laying the foundation for robust medium-term growth. Specifically, policies will be geared towards:

(i) a flexible and sustainable exchange rate policy to support adjustment and a gradual restoration of adequate reserves accompanied by a prudent monetary policy aiming to bring inflation to single digits;

(ii) financial sector policies to support the rehabilitation of the Ukrainian banking system, and strengthen its ability to intermediate and support economic activity;

(iii) fiscal adjustment based on expenditure consolidation to place public finances on a sound footing and restore debt sustainability with high probability, supported also by donor financing and a debt operation that would help alleviate the debt servicing burden in the coming years; and

(iv) deep and broad structural reforms to improve Ukraine's business climate, attract sizable domestic and foreign investment, and boost Ukraine's growth potential through deregulation, governance, and state-owned enterprise reforms, including of Naftogaz.

In particular, certain critical structural reforms that may need to be implemented or continued include: (i) further reform of the Ukrainian tax legislation (including the development and approval of legislation implementing the Tax Code (as defined below)) with a view to broadening the tax base by bringing a substantial portion of the shadow economy into the reporting economy; (ii) reform of the energy sector through the introduction of uniform market-based energy prices and improvement in collection rates (and, consequently, the elimination of the persistent deficits in that sector); and (iii) reform of social benefits and pensions.

If Ukraine is unable to meet the conditions under the 2015 EFF, the IMF and other multilateral organisations may withhold or suspend their funding. A failure by official creditors and multilateral organisations such as the EBRD, the World Bank or the IMF to grant adequate financing combined with any inability to access the international capital markets and syndicated loan markets will put pressure on Ukraine's budget and foreign exchange reserves.

If the political initiatives necessary to achieve these reforms or any other reforms do not continue, are reversed or fail to achieve their intended aims, then Ukraine's economy may suffer. Rejection or reversal of reform policies favouring privatisation, industrial restructuring and administrative reform may have negative effects on the Ukrainian economy which could in turn adversely impact the Group's business, results of operations, financial condition and prospects.

Ukraine's achievement of the above targets is subject to exceptional risks, especially those arising from the conflict in eastern Ukraine, which may affect Ukraine's ability to sustain the stabilisation efforts and deliver the structural overhaul needed to resume growth. Other factors, which may heavily impact the current macro-economic framework for Ukraine include:

- potential social resistance to austerity measures;
- economic recovery proving more difficult than initially expected;
- real exchange rate shocks;
- a larger than expected financial burden emanating from either the banking and/or the energy sectors;
- crisis of confidence in the banking system; and
- external factors.

Any of the above events would in turn adversely impact the Group's business, results of operations, financial condition and prospects.

The Ukrainian banking system may be vulnerable to stress due to fragmentation, undercapitalisation and a potential increase in non-performing loans, all of which could have a material adverse effect on the real economy.

The recent global financial crisis led to the collapse or bailout of some Ukrainian banks and to significant liquidity constraints for others. The floating of the hryvnia which commenced in February 2014 puts additional strain on the Ukrainian banking system, as the high dollarisation in the Ukrainian financial system could contribute to a worsening in bank asset quality. Non-performing loans are another factor affecting the asset quality of Ukrainian banks. A failure by the government and the NBU to address this situation sufficiently will put significant additional pressure on the Ukrainian banking system as a whole.

The fragile condition of the Ukrainian banking system has also been the main factor in restricting the availability of domestic credit required by domestic businesses to continue to grow their operations. Troubled domestic banks are in many cases unwilling or unable to lend to domestic businesses in need of renewed or increased funding. A continuing stagnation of credit conditions within Ukraine, resulting from bank profitability remaining low and the anticipated recovery being slow to materialise, is likely to continue to have a negative effect on Ukraine's GDP growth. Furthermore, increased domestic borrowing by the Government is likely to reduce the availability of domestic credit for Ukrainian businesses, exacerbating the effect on GDP levels. In addition, the recent significant depreciation of the hryvnia is likely to have a material adverse effect on the balance sheet of the banking system.

Other recent factors which have had exacerbated the weak position of the Ukrainian banking sector include (i) significant outflows of deposits from accounts held with Ukrainian banks in recent months; (ii) the effect on the banking sector of the loss of income and branches in Crimea following the occupation; and (iii) the effect on revenues and banking business as a result of the disturbances in eastern Ukraine.

Failure by the Government to implement reforms required for future funding from the IMF may call into question future drawdowns under the 2015 EFF, which would be likely to also have a material adverse effect on the Ukrainian economy, and the Ukrainian banking sector would remain fragile and highly susceptible to external shocks.

Further insolvencies of Ukrainian banks, increased liquidity constraints, growth in the proportion of "high risk" and "default" loans, the need for the Government to inject more capital into the banking system and the failure to adopt and implement a system of banking regulation that achieves an increased degree of soundness and stability in the nation's banks could all have a material adverse effect on the Ukrainian economy which in turn could adversely impact the Group's business, results of operations, financial condition and prospects.

The Ukrainian currency is subject to volatility and depreciation.

As a result of the high dollarisation of the Ukrainian economy and the reliance of Ukrainian borrowers on external markets, Ukraine has become increasingly exposed to the risk of the hryvnia exchange rate fluctuations. As at 31 December 2013, immediately prior to the Euro-Maidan Revolution, the NBU official UAH/ U.S.$ exchange rate was pegged at UAH 7.9930 per 1.00 U.S. Dollar. In February 2014 the NBU allowed the exchange rate to float, and as at 31 December 2014, the NBU official UAH/U.S.$ exchange rate was UAH 15.7686 per 1.00 U.S. Dollar. As of 31 December 2015, the NBU official UAH/U.S.$ exchange rate was UAH 24.0001 per 1.00 U.S. Dollar, and as of 14 March 2016, the NBU official UAH/U.S.$ exchange rate was UAH 26.0200 per 1.00 U.S. Dollar. See also "*Recent Developments in Ukraine —Currency Depreciation*".

The NBU has recently modified its discount rate to stabilise the currency. Any abnormally high discount rate of the NBU may lead to lower liquidity and instability of the money markets, volatility in the local financial system, an increase in borrowing costs, deterioration in corporate creditworthiness and consumer confidence, as well as other negative impacts on the economic environment.

Government borrowing in the international markets has increased markedly over the last several years. The increases in both external debt and U.S. dollar and euro-denominated domestic debt, as well as the declining level of Ukrainian foreign exchange reserves, expose the Government to heightened foreign exchange risk.

Expected future beneficial effects of the flexible exchange rate regime may not occur, or interim support for banks to protect themselves from this depreciation may not have the desired effect. In addition, the current depreciation may affect the Government's ability to continue to service its external debt if support from the international community is not sufficiently extensive. Any attempt to restructure or refinance such external debt would also be made more difficult by the increased size of the debt and the larger number of lenders and sources of credit involved. While the NBU has started preparations to adopt inflation targeting, the ability of the NBU to stabilise the currency is dependent on many factors (including political stability and the crisis in eastern Ukraine) which cannot be predicted with any degree of certainty.

It is possible that the current crisis in Ukraine may put pressure on the UAH exchange rate to the extent that the population loses confidence in the local currency and seeks to acquire foreign currencies as a hedge against political and economic risk.

Any failure to stabilise current currency fluctuations and to rebuild the value of the hryvnia to a viable level may negatively affect the Ukrainian economy in general which could in turn adversely impact the Group's business, results of operations, financial condition and prospects.

Recent currency control restrictions may negatively impact Ukrainian entities.

During 2014 and 2015, the NBU has introduced a number of currency control restrictions aimed at stabilising the foreign exchange market and preventing foreign currency outflow from Ukraine.

In August 2014, the NBU increased the share of foreign currency proceeds subject to compulsory sale by legal entities and individual entrepreneurs (excluding banks and certain other entities) from 50 per cent. to 100 per cent. Subsequently, in September 2014 this requirement was decreased to 75 per cent. The period of its effectiveness was extended several times with the most recent extension being until 8 June 2016. Notwithstanding the temporary nature of the mandatory sale requirement, given its regular extensions in the past, there can be no assurance that the NBU will not extend the period of effectiveness of this requirement beyond the current date of its expiration.

Starting from 23 September 2014, the NBU has introduced a temporary restriction on cross-border payments of dividends by Ukrainian companies, currently expressed to expire on 8 June 2016. Further restrictions on the payment of dividends to foreign shareholders may be applied in the future, particularly in the light of the current shortage of foreign currency in Ukraine. It is not possible to predict the nature of such additional restrictions, but there can be no assurance that they would not affect the ability of Ukrainian entities to remit funds to foreign affiliates or shareholders, which may have an adverse effect on their ability to effectively meet their obligations or conduct their operations.

Additionally, in February 2015, the NBU adopted a resolution which, with some exceptions, imposed restrictions on advance import payments and prohibited purchase of foreign currency with borrowed funds. Importers which structured their operations through borrowing in UAH and purchasing foreign currency to make payments under their import contracts and then repaying the UAH loan with goods sale proceeds in Ukraine will currently not be able to use this structure. As a result, importers relying on such structures will now become subject to currency risk.

Such NBU restrictions may make it more difficult for Ukrainian corporations to obtain necessary financing and conduct their operations, which could lead to a decline in their credit quality and in turn adversely impact the Group's business, results of operations, financial condition and prospects.

The Ukrainian tax system is undeveloped and subject to frequent change, which may create an uncertain environment for investment and business activity.

Historically, Ukraine has had a number of laws related to various taxes imposed by both central and regional governmental authorities. These taxes include value added tax, corporate income tax (profits tax), personal income tax, customs duties and payroll (social) taxes. The tax legislation in Ukraine is not always clearly written or explained and is subject to the interpretation of the tax authorities and other government bodies. Unlike the tax laws of more developed market economies, Ukraine's tax laws have not been in force for a significant period of time, often resulting in unclear or non-existent implementing regulations. See also "*Recent Developments in Ukraine —Tax*".

Although the Tax Code (as defined below in "*Recent Developments in Ukraine —Tax*") was viewed by the Government as substantial progress in the implementation of the tax reform aimed at modernising and simplifying the Ukrainian tax system, the Tax Code attracted wide public criticism and protests from private entrepreneurs throughout Ukraine. The Tax Code was significantly amended by Parliament on 28 December 2014 (the majority of such amendments becoming effective on 1 January 2015) as a part of the tax reforms announced by the Government. The amendments provide for a decrease in the total number of taxes from 22 to 11, some increases in personal income tax rates, significantly revise the corporate income tax calculation rules and broaden the tax base of certain taxes.

Differing opinions regarding legal interpretations often exist among and within governmental ministries and organisations, including tax authorities, creating uncertainties and areas of conflict in relation to taxation. Tax declarations or returns, together with other matters of legal compliance (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which may impose fines, penalties and interest charges for non-compliance. These circumstances generally create tax risks in Ukraine that are more significant than those typically found in countries with more developed tax systems. Generally, the Ukrainian tax authorities may only re-assess tax liabilities of taxpayers within three years after the filing of the relevant tax declarations. Re-assessment of tax liabilities in connection with violation of transfer pricing rules may be carried out within seven years.

The Ukrainian transfer pricing rules were significantly amended with effect from September 1, 2013, and established new methods and procedures for determining arm's length prices, based on Transfer Pricing Guidelines of Organization for Economic Cooperation and Development, introduced the significant reporting obligations and additional compliance burdens in order to facilitate implementation of the rules by tax authorities. Ukrainian transfer pricing rules apply to a wide range of cross-border transactions, most typically regulating pricing for goods and services sold or purchased to or from related parties and, in certain cases, unrelated parties. Further, effective as of January 1, 2015, the transfer pricing rules envisaged by the Tax Code of Ukraine were amended, in particular with regard to the list of transactions which are subject to transfer pricing regulation. Based on taxpayer's reporting, as well as their own monitoring and tax audits, the Ukrainian tax authorities can make transfer pricing adjustments and impose additional tax liabilities in respect of transactions subject to transfer pricing regulations if the conditions of such transactions are not at the arm's length. Since the practice of implementation of the new transfer pricing rules has not been yet developed, the legal implications on the transfer pricing rules application to the business of the Group cannot be reliably estimated.

The Group believes that its interpretation of relevant tax legislation is appropriate and that the Group has complied with all regulations and paid or accrued all taxes and withholdings that are applicable. However, if the Group is incorrect in this belief, the Group could be liable to pay taxes and penalties, which could adversely impact the Group's business, results of operations, financial condition and prospects.

These factors negatively impact the predictability of Ukraine's taxation system and therefore have an adverse effect on business activity, reducing the attractiveness of the national economy for foreign investors.

Risks Relating to the Notes

Noteholders' rights to receive payment on the Notes will be limited to payments received from the Issuer under the Amended and Restated Loan Agreement.

The Issuer is obliged to make payments under the Notes to Noteholders only to the extent of the amount of principal, interest and additional amounts, if any, actually received by or for the account of the Issuer under the Amended and Restated Loan Agreement.

Consequently, if the Company fails to fully meet its obligations under the Amended and Restated Loan Agreement, Noteholders may, on the relevant due date, receive less than the scheduled amount of principal, interest and/or additional amounts (if any) due and payable under the Notes.

Future ratings of the Notes not assured and limited in scope.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal by any rating agency at any time. Credit ratings represent a rating agency's opinion regarding the credit quality of an asset but are not a guarantee of such quality.

There is no assurance that any rating that may be accorded to the Notes will not be lowered or withdrawn entirely by a rating agency if, in its judgment, circumstances so warrant. There can be no assurance that the ratings anticipated to be accorded to the Notes will be given by the rating agencies and, should they be so accorded, that such rating will not be lowered or withdrawn entirely by a rating agency if, in its judgment, circumstances in the future so warrant. In the event that a rating assigned to the Notes is subsequently lowered for any reason, no person or entity is required to provide any additional support or credit enhancement with respect to the Notes and the market value of the Notes is likely to be adversely affected.

Temporary currency control restrictions introduced by the NBU limit the Company's ability to make prepayment of principal, interest and other amounts under the Amended and Restated Loan Agreement, and any future restrictions may further affect the Company's ability to make payments under the Amended and Restated Loan Agreement.

During 2014 and 2015, the NBU introduced a number of interim measures aimed at stabilising the foreign exchange market and preventing foreign currency outflow from the country. In particular, on 28 March 2014, the NBU prohibited early repayment of principal and prepayment of interest and other amounts (including upon acceleration in case of default) by Ukrainian borrowers on foreign currency loans from non-resident lenders (currently subject to limited exceptions). Originally, such restriction was to remain in effect until 1 May 2014. However, the NBU has extended the period of effectiveness multiple times and currently the restriction is expressed to remain in effect until 8 June 2016. No assurance can be given that the NBU will not extend the term of the restriction beyond the currently established termination date. Any such restrictions may constrain the Company's ability to make prepayment of principal, interest and other amounts under the Amended and Restated Loan Agreement.

Noteholders have no direct recourse to the Company.

Except as otherwise expressly provided in the Terms and Conditions of the Notes and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Amended and Restated Loan Agreement exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder can enforce any provision of the Amended and Restated Loan Agreement or have direct recourse to the Company except through an action by the Trustee pursuant to the rights granted to the Trustee in the Trust Deed. Under the Trust Deed and the Terms and Conditions of the Notes, the Trustee shall not be required to take proceedings to enforce payment under the Amended and Restated Loan Agreement unless it has been indemnified and/or secured and/or pre-funded by the Noteholders to its satisfaction. In addition, neither the Issuer nor the Trustee is required to monitor the Group's financial performance. See "*Terms and Conditions of the Notes*".

Payment in full of the principal and interest by the Company pursuant to the Amended and Restated Loan Agreement, to, or to the order of, the Trustee or the Principal Paying Agent will satisfy the Issuer's obligations in respect of the Notes. Consequently, Noteholders will have no further recourse against the Issuer or the Company after such payment is made in full.

The Issuer is an orphan special purpose vehicle, incorporated under the laws of England and Wales as an English public limited company that has no revenue-generating operations or business of its own and will depend solely on cash received from the Borrower in order to make payments on the Notes.

The Issuer is an orphan special purpose vehicle, incorporated under the laws of England and Wales as an English public limited company. The Issuer conducts no revenue-generating operations. The ability of the Issuer to make interest and principal payments on the Notes is therefore entirely dependent on its rights to receive such payments under the Amended and Restated Loan Agreement. The Notes are issued on a limited recourse basis. Under the Conditions, the Issuer will be obliged to make payments to Noteholders only to the extent of the amount of principal interest, Additional Amounts (as defined in the Amended and Restated Loan Agreement), if any, and Indemnity Amounts (as defined in the Amended and Restated Loan Agreement), if any, actually received by or for the account of the Issuer in its capacity as Lender under the Amended and Restated Loan Agreement, less any amount in respect of Reserved Rights (as defined in the Amended and Restated Loan Agreement). If these payments are not made by the Company, for whatever reason, the Issuer will not have any other sources of funds available to it that would permit it to make payments on the Notes and under the Trust Deed and, to the extent no amounts are received from the Company, has no obligation to make any payment to Noteholders. In such circumstances, Noteholders would have to rely upon claims for payment as a result of enforcing the security under the Trust Deed, which is subject to conditions on enforcement as well as the risks and limitations thereon.

RECENT DEVELOPMENTS IN UKRAINE

Geopolitical Developments

Crimea

In late February 2014, following the Euro-Maidan Revolution which led to the removal from power of President Yanukovych, masked Russian soldiers without insignias appeared at strategic military and governmental locations across Crimea and the City of Sevastopol. On 27 February 2014 these Russian forces occupied the Crimean parliament and other government buildings, under which conditions a vote was held in the Crimean parliament replacing the lawful Crimean government with a pro-Russian regime. On 6 March 2014, the Crimean parliament, in violation of Ukrainian law, voted in favour of joining the Russian Federation and holding an all-Crimean referendum to approve this decision. Based on the reported results of the referendum that took place on 16 March 2014, the President of the Russian Federation, Mr Vladimir Putin, and representatives of the de facto government of Crimea executed an agreement on the annexation of Crimea to the Russian Federation. On 21 March 2014, Mr Putin signed legislation to annex Crimea and the City of Sevastopol to the Russian Federation.

The Ukrainian Parliament declared the aforementioned referendum unconstitutional. It has also been declared illegitimate by many other countries, including all EU members, the United States and Canada. On 15 March 2014, 13 members of the United Nations ("**UN**") Security Council voted in favour of a resolution declaring the referendum invalid. However, the resolution was vetoed by the Russian Federation. On 27 March 2014, the UN General Assembly passed a non-binding Resolution 68/262 that declared the Crimean referendum invalid and the incorporation of Crimea into Russia as illegal. On 10 April 2014, the Council of Europe also adopted a resolution condemning the Russian military aggression and annexation of Crimea as being in violation of international law.

Ukraine does not recognise the results of the illegal referendum conducted on 16 March 2014, does not recognise Crimea as a sovereign state or as part of the Russian Federation and considers Crimea to form an indivisible part of Ukraine as an autonomous region in accordance with the 2004 Constitution of Ukraine. On 15 April 2014, the Ukrainian Parliament reaffirmed the status of Crimea as part of Ukraine's sovereign territory by adopting a law governing certain aspects of the legal status of Crimea as an occupied territory (the "**Occupied Territory Law**"). The Occupied Territory Law includes the provision that Ukraine treat Crimea as an integral part of its territory. The law further established a restricted regime for visiting the territory of Crimea and provided for recognition by Ukrainian authorities of transactions with real estate located in Crimea only in cases where they are executed in accordance with the requirements of Ukrainian law. The Occupied Territory Law entered into effect on 27 April 2014.

While Ukraine is committed to reaching a peaceful settlement of the Crimean crisis, there is no indication as to when or if the Russian occupation will end. See also "*Risk Factors—The occupation of Crimea has created significant political and economic uncertainty in Ukraine and put further strains on Ukraine's relationship with the Russian Federation*".

Since September 2015, groups of activists have been carrying out a blockade of deliveries to Crimea by preventing trucks from entering the peninsula. Those groups are demanding an economic boycott of Crimea as a protest against Russia's persecution of pro-Ukrainian Crimean ethnic Tatars in Russia-annexed Crimea. Furthermore, at the end of November 2015, unknown attackers undermined power transmission towers in southern Ukraine at the border with the Crimean peninsula. As a result, Crimea's population has been hit by widespread blackouts. Power supplies from Ukraine to Crimea were partially restored on 8 December 2015.

Eastern Ukraine

Following the Euro-Maidan Revolution which led to the removal from power of President Yanukovych in February 2014 (see "*—Recent Political Developments*" below), demonstrations by pro-Russian separatists and anti-Government groups took place in several major cities across eastern and southern Ukraine. Armed groups took over government buildings, seized military and other state assets and prevented the exercise of lawful government authority in parts of the Donetsk and Luhansk regions (in

Ukrainian, *oblasts*). The breakdown of law and order in the affected regions prompted the Ukrainian authorities to launch anti-insurgent operations against the armed groups.

On 7 April 2014, armed groups occupying public buildings in Donetsk announced the creation of the so-called Donetsk People's Republic and stated their intention to hold a referendum on independence by 11 May 2014. On 27 April 2014, other armed groups occupying the building of the Security Service of Ukraine in the Luhansk region declared the formation of the so-called Luhansk People's Republic. On 11 April 2014, the Ukrainian Prime Minister Arseniy Yatsenyuk offered to devolve more powers to the eastern regions, as pro-Russia occupations in Donetsk and Luhansk regions continued. On 17 April 2014, pursuant to talks in Geneva between the foreign ministers of Ukraine, Russia, the United States and the European Union, further steps were agreed in order to de-escalate tensions and restore the security situation in Ukraine. In particular, it was agreed that all sides will refrain from any violence, intimidation or provocative actions, all illegal armed groups in Ukraine shall be disarmed, illegally occupied buildings, streets and other public places shall be vacated, with amnesty to be granted to the protestors. An OSCE Special Monitoring Mission was to play a leading role in assisting with the implementation of the agreed de-escalation measures. However, pro-Russian separatists refused to leave the occupied buildings in the two regions, and violent clashes continued in May (including in Odessa, where more than 40 people were killed in violent street clashes and a fire at a trade union building on 2 May 2014) Based on the results of the referenda held on 11 May 2014, the self-proclaimed Donetsk People's Republic and Luhansk People's Republic declared themselves independent from Ukraine. However the referenda have no validity or legal effect under the Ukrainian Constitution and the independence of the two regions from Ukraine has not been recognised internationally (including by Russia).

On 28 August 2014, following a marked escalation of violence in response to anti-insurgent operations being conducted by Ukrainian armed forces in eastern Ukraine, President Poroshenko called an emergency session of Ukraine's National Security and Defence Council on the basis that Russian military, including tanks and heavy weaponry had directly entered Ukraine. Russian officials denied this and have stated repeatedly, both at that time and subsequently and despite extensive evidence to the contrary, that no Russian troops have crossed the Ukrainian border.

On 5 September 2014, in Minsk, Belarus, delegates from Ukraine, the Russian Federation and the OSCE as well as separatist representatives from the Donetsk and Luhansk regions signed an agreement, providing, *inter alia*, for an immediate ceasefire. However, the ceasefire broke down days after signing of this agreement, with anti-insurgent activities continuing into early 2015 fuelled by the provision of large quantities of armaments and sophisticated military assistance from Russia to the armed groups operating in the region.

On 16 September 2014, during a closed session Parliament passed Law of Ukraine "On Special Regime of Local Self-Government in Certain Regions of Donetsk and Luhansk Oblasts" (the "**Regional Governance Law**") establishing, for a three-year period, a special regime of local self-government in certain districts, towns and villages of Donetsk and Luhansk regions, determined by the decision of Parliament. On 17 March 2015, Parliament amended the above law to provide that the special regime for self-government in certain regions of Donetsk and Luhansk Oblasts is conditional upon successful elections of local self-government authorities in such regions. Such elections are required to be held in accordance with Ukrainian law, democratic principles and subject to certain other conditions, including, *inter alia*, withdrawal of all illegal military groups and weaponry from Ukraine. The law entered into force on 21 March 2015. Along with the amendments to the Regional Governance Law, the Parliament also adopted a resolution identifying the relevant territories within the Donetsk and Luhansk regions to which the Regional Governance Law would apply.

On 12 February 2015, a new ceasefire agreement (the "**Minsk Protocol**") brokered by France and Germany with Russia's participation was agreed in Minsk by Ukrainian President Poroshenko and separatist representatives from the Donetsk and Luhansk regions. The parties agreed (amongst other things) to: a bilateral ceasefire with effect from 15 February 2015; monitoring and verification by the OSCE of the withdrawal of heavy weapons; withdrawal of illegal armed groups, military equipment, militants and mercenaries from Ukraine; a general amnesty and release of prisoners; and constitutional reforms which will grant special status to the Donetsk and Luhansk regions within Ukraine. Russian-supported armed groups operating in eastern Ukraine, supported by Russian forces, have violated the ceasefire regularly since the date of the agreement, seizing additional territory and threatening further escalation of violence.

According to the United Nations, over 6,300 people have been killed and over 15,700 people wounded in eastern Ukraine since the beginning of military operations in April 2014. The Ministry of Social Policy of Ukraine has registered more than 1.3 million IDPs as a result of the violence in eastern Ukraine, placing a great strain on government resources. According to the UN, 60 per cent. of IDPs are pensioners. The IDPs commonly flee their homes with very few possessions and few financial resources and thus remain constantly reliant on the assistance provided by the government, international and national humanitarian agencies and volunteers. The UN has also estimated that more than 850,000 Ukrainians have sought asylum, residence permits or other forms of legal stay in neighbouring countries due to the ongoing crisis.

The humanitarian crisis in the affected regions shows no signs of abating. Heavy civilian tolls of dead and wounded have resulted from shelling of residential areas in both Government- and terrorist-controlled areas. The fighting and shelling have caused heavy damage to civilian property and vital infrastructure, leaving civilians in highly precarious situations, often in the underground shelters and often without electricity, gas, heating water, food or medical care. Hospitals, schools and kindergartens have been hit by shelling in residential areas, including in Avdiivka, Donetsk, Horlivka, Luhansk and Mariupol. Many civilians, especially the elderly and those with movement difficulties have been trapped in conflict zones lacking the capacity, resources or assistance to leave such areas voluntarily.

According to the UN, the arbitrary detention of civilians remains a feature of the conflict. In areas controlled by the armed groups, "parallel structures" have been established and the breakdown in law and order in these areas accommodated persistent violations of the rights of civilians, including abductions, arbitrary detention, beatings and alleged torture. Access to education in conflict-affected areas has been severely curtailed. The conflict has also caused significant destruction of infrastructure and housing, leading to the almost total economic and infrastructure breakdown in some of the worst affected localities.

Recent Political Developments

Following the election of Viktor Yanukovych as President in 2010, the CCU declared the amendments to the Constitution of Ukraine passed in 2004 which removed the President's ability to exercise direct executive powers over the decisions and actions of the Government (the "**2004 Constitutional Amendments**") to be unconstitutional. Following the "Euro-Maidan" protests in late 2013 and early 2014 in favour of closer integration with Europe, the removal from power of former President Yanukovych and the appointment of the interim Government on 21 February 2014, Ukraine's Parliament passed a law which reinstated the 2004 Constitutional Amendments, returning the country to a more democratic, parliamentary form of government.

On 22 February 2014, following mass protests and civil unrest in Kyiv and throughout Ukraine (including the death of more than 80 protesters in Kyiv at the hands of elements of the securities forces loyal to President Yanukovych), it was reported that President Yanukovych had fled from Kyiv and that his location was unknown. On the same day, Parliament adopted a resolution declaring that President Yanukovych had removed himself from discharging his constitutional powers and duties and scheduled a new presidential election for 25 May 2014.

In accordance with the provisions of the 2004 Constitution, on 23 February 2014, Parliament appointed its speaker Mr Oleksandr Turchynov as acting President of Ukraine, and, on 27 February 2014, Mr Arseniy Yatsenyuk was appointed as Prime Minister of Ukraine and a new Cabinet of Ministers of Ukraine was formed. Presidential elections were held on 25 May 2014 resulting in the election of Mr. Petro Poroshenko as President.

In July 2014, deputies from the Svoboda and UDAR parties and 19 independent Members of Parliament announced their departure from the ruling coalition "European Choice". This coalition, comprising 250 deputies, was formed in Parliament on 27 February 2014 by the factions of Batkivschyna, UDAR, Svoboda, Economic Development, Sovereign European Ukraine parties, as well as independent Members of Parliament. According to Ukrainian law, if a new coalition comprising at least 226 Members of

Parliament is not formed within 30 days following the dissolution of the previous coalition, the President is entitled to dissolve Parliament and call early parliamentary elections. On 27 August 2014, President Poroshenko adopted a decree on the early dissolution of Parliament and the holding of Parliamentary elections which took place on 26 October 2014. The Petro Poroshenko Bloc gathered more total seats than any party (132), though it did not obtain the 226 seats required for a Parliamentary majority. The Petro Poroshenko Bloc subsequently entered into a coalition agreement with four other political parties (People's Front (*Narodnyi Front*), Self-Reliance (*Samopomich*), Fatherland (*Batkivshchyna*) and the Radical Party of Ukraine), amounting to a total of 302 seats. The coalition re-appointed the sitting Prime Minister, Arseniy Yatsenyuk (head of the People's Front) as Prime Minister of Ukraine on 27 November 2014.

The Minsk Protocol provided for constitutional reform with the adoption of a new constitution of Ukraine by the end of 2015.

On 16 July 2015, the Parliament voted in favour of sending a draft law on amendments to the Constitution of Ukraine regarding power decentralisation (the "**Draft Law**") to the CCU. The number of votes in favour of sending the Draft Law to the CCU was 288, with 226 votes being the required minimum. In accordance with the parliamentary procedures, members of the Parliament are first required to send a draft law on the proposed amendments to the Constitution of Ukraine for review by the CCU. According to the conclusion of the CCU No.2-B/2015, dated 30 July 2015, the Draft Law is in compliance with the Constitution of Ukraine. The Draft Law was preliminarily approved by the Parliament on 31 August 2015 and requires a minimum of 300 votes in favour to be passed into law.

The Draft Law envisages granting local communities powers to collect taxes and allocate budgets themselves. The oblast (region) and raion (district) state administrations would be dissolved and prefects representing the state on a local level would be appointed. Powers of the dissolved regional and district state administrations would be transferred to the level of village, town, and city authorities. The Draft Law also provides that prefects will oversee compliance by the local self-governing authorities with the Constitution of Ukraine and laws of Ukraine.

Along with the reform of the status of local government, the Draft Law restates certain provisions of the Constitution of Ukraine on administrative and territorial structures. In particular, the Draft Law contains a requirement according to which the terms and procedures for the creation, liquidation, changes in boundaries of and the naming and re-naming of administrative units must be regulated by law. Additionally, the proposed amendments provide for a specific procedure for the implementation of local self-government in several districts of the Donetsk and Luhansk regions, which will be regulated by a separate law.

Economy

The political and geopolitical events discussed above have had a severe negative impact on Ukraine's economy. Industrial production declined by 10.1 per cent. in 2014 (4.3 per cent. in 2013). The machine-building industry declined by 20.6 per cent. in 2014 (13.6 per cent. in 2013), the metallurgy industry by 14.5 per cent. (5.3 per cent. in 2013) and the chemical industry by 14.2 per cent. (19.3 per cent. in 2013). Industrial output declined 31.5 per cent. in Donetsk and 42 per cent. in the Luhansk region in 2014. During January-July 2015, industrial production in Ukraine decreased by 19.5 per cent. on a year-on year basis.

The total value of construction activities in Ukraine decreased by 21.7 per cent. in 2014. During January-July 2015, construction in Ukraine decreased by 26.7 per cent. on a year-on-year basis. Retail trade declined by 8.6 per cent. in 2014. During January-July 2015, retail trade in Ukraine decreased by 23.6 per cent. on a year-on-year basis. Agricultural output increased by 2.8 per cent. in 2014 and by 13.6 per in 2013. However, during January-July 2015 agricultural output decreased by 3.5 per cent. year-on-year.

In 2012 and 2013 the GDP of Ukraine increased by 0.2 per cent. and 0.0 per cent. respectively, and in 2014 it decreased by 6.8 per cent. as compared to the previous year. According to the Ministry of Economic Development and Trade of Ukraine, the GDP of Ukraine for the first nine months of 2015 declined by 12.6 per cent. compared to the same period in 2014. In 2014, the manufacturing, wholesale and retail trade and agricultural, forestry and fishing sectors comprised 11.4 per cent., 14.2 per cent. and 10.2 per cent. of GDP, respectively.

Exports form a large part of the GDP of Ukraine (accounting for 50.9 per cent., 46.9 per cent. and 49.2 per cent. of GDP in 2012, 2013 and 2014, respectively). In 2014, the export of steel and metals from Ukraine decreased by 13.1 per cent. (7 per cent. in 2013), machines and equipment by 17.1 per cent. (0.7 per cent. in 2013), chemical products by 23.8 per cent. (14.5 per cent. in 2013) and mineral products by 15.1 per cent. (2.0 per cent. in 2013). Total exports of goods and services from Ukraine decreased by 19.5 per cent. in 2014 (5.1 per cent. in 2013), while imports decreased by 26.6 per cent. (3.1 per cent. in 2013). During January-September 2015, the decrease in exports of goods and services reached 30.8 per cent. on a year-on-year basis and the decrease in imports of goods and services reached 32.3 per cent. on a year-on-year basis.

The deterioration of the Ukrainian economy has significantly impacted the Group's business.

Relationship with Russia

Due to factors discussed elsewhere in this "*Recent Developments in Ukraine*" section, the export of goods and services to Russia from Ukraine declined by 33.7 per cent. in 2014. The relationship between the two countries was complicated by the removal from power of former President Yanukovych in February 2014 and the establishment of the interim Government in Ukraine, developments which the government of the Russian Federation stated to be illegal. This development led to the suspension of a proposed U.S.$15 billion support package from Russia of which U.S.$3 billion had already been provided in December 2013.

In addition, the finalisation and signing of the Ukraine–European Union Association Agreement (the "**Association Agreement**") following the Euro-Maidan Revolution triggered a further set of economic, gas and trade issues between Ukraine and Russia. In particular, in 2014 and 2015 Russia introduced restrictions on imports of Ukrainian confectionery, agricultural products (such as dairy, meat, canned vegetables) as well as railcars and machinery, which has reduced trade between Russia and Ukraine. On 16 September 2014, the Parliament of Ukraine ratified the Association Agreement, with bilateral implementation of free trade with the EU scheduled for 1 January 2016.

Following the annexation of Crimea and the City of Sevastopol by Russia, in April 2014 Russia unilaterally terminated the lease arrangements that had previously existed between the two countries pursuant to which Russia leased the naval base at Sevastopol in return for, amongst other things, concessions on the price of natural gas sold by Gazprom to Naftogaz. Consequently, as a result of such termination, Russia cancelled Ukraine's gas price concessions and refused to renegotiate gas prices. These actions culminated in the cessation of gas supplies by Russia to Ukraine on 16 June 2014. Gas supplies resumed on 30 October 2014 after the conclusion of an EU mediated agreement, but frictions remain between the two sides.

Additionally, in June 2014, Russia's state oil and gas company, Gazprom, brought arbitration proceedings against Ukraine's state-owned oil and gas company, Naftogaz, to collect an alleged unpaid debt for natural gas and accrued interest amounting to over U.S.$4.5 billion. Naftogaz has filed its own arbitration proceedings against Gazprom in June and October 2014 to oblige Gazprom to pay a compensation of U.S.$ 6.2 billion to Naftogaz for alleged failure to provide gas for transit and abuse of gas pricing, and has initiated additional arbitration proceedings against Gazprom in early 2015 seeking up to $10 billion in historical compensation for alleged abuse of gas transit pricing. Arbitration proceedings in respect of these matters between Gazprom and Naftogaz remain pending, the case is expected to be decided by the end of 2016.

As a result of the ongoing tension between Russia and Ukraine, the EU and the United States have each authorised and imposed sanctions, including the implementation of visa bans and the blocking of property and interests in property that are in the United States or that come within the possession or control of any United States person (including any foreign branch), of individuals and entities who the United States government considers to have misappropriated funds and threatened or undermined the peace, security, stability and sovereignty or territorial integrity of Ukraine. In addition, the United States has imposed sectoral sanctions targeting persons and entities operating within defence, energy and financial sectors of the Russian economy. The EU also introduced a number of trade and investment restrictions on Crimea, including an import ban on goods originating in Crimea or Sevastopol and prohibition of direct or indirect financing or (re)insurance related to such imports. The EU restrictions involve an EU ban on new investments relating to infrastructure in the sectors of transport, telecommunications and energy, as well as to the exploitation of oil, gas or mineral resources in Crimea or Sevastopol. In response to the sanctions imposed on it by the EU and US, Russia has imposed reciprocal sanctions on the EU, US and Ukraine banning the import of various agricultural and other food products.

IMF and other Multilateral Assistance

Following the fall of the Yanukovych regime and the formation of an interim Government in late February 2014, the Ukrainian authorities reached agreement with the International Monetary Fund ("**IMF**") on the terms of a new US$17 billion stand-by agreement on 30 April 2014 (the "**2014 SBA**") On 6 May 2014, Ukraine received the first tranche under the 2014 SBA of approximately U.S.$3.2 billion and a second tranche was disbursed on 4 September 2014 in the amount of approximately U.S.$1.4 billion. However, the NBU's foreign exchange reserves continued to decline, from U.S.$20.4 billion at the start of 2014 to U.S.$7.5 billion at the start of 2015. By the end of February 2015, the NBU's foreign exchange reserves were down to U.S.$5.6 billion. As at 31 July 2015, the NBU's foreign exchange reserves amounted to U.S.$10.38 billion.

As a consequence of the deteriorating financial situation in Ukraine, on 11 March 2015 the IMF Executive Board approved a four year U.S.$17.5 billion Extended Fund Facility for Ukraine (the "**2015 EFF**") replacing the 2014 SBA. The 2015 EFF requires, amongst other things, that Ukraine conduct a debt operation that will achieve three targets: (i) generate $15 billion in public sector financing over the program period (2015-2018); (ii) bring the public and publicly guaranteed debt/GDP ratio under 71 per cent. by 2020 and (iii) keep the budget's gross financing needs at an average of 10 per cent. of GDP (maximum of 12 per cent. annually) in the period 2019-2025. The successful restructuring of certain debt obligations of the Group contributed toward the satisfaction of the first target described above.

The 2015 EFF is premised on implementation by Ukraine of an ambitious, deep and comprehensive economic reform program aimed at restoring macroeconomic and financial stability, achieving and sustaining fiscal and external sustainability and laying the foundation for robust medium-term growth. Specifically, policies will be geared towards:

(i) a flexible and sustainable exchange rate policy to support adjustment and a gradual restoration of adequate reserves accompanied by a prudent monetary policy aiming to bring inflation to single digits;

(ii) financial sector policies to support the rehabilitation of the Ukrainian banking system, and strengthen its ability to intermediate and support economic activity;

(iii) fiscal adjustment based on expenditure consolidation to place public finances on a sound footing and restore debt sustainability with high probability, supported also by donor financing and a debt operation that would help alleviate the debt servicing burden in the coming years; and

(iv) deep and broad structural reforms to improve Ukraine's business climate, attract sizable domestic and foreign investment, and boost Ukraine's growth potential through deregulation, governance, and state-owned enterprise reforms, including of Naftogaz.

Please see also "*Risk Factors—Risk Factors Relating to Ukraine—Positive developments in the economy may not be achieved if certain important economic and financial structural reforms are not made.*"

If Ukraine is unable to meet the conditions under the 2015 EFF, the IMF and other multilateral organisations may withhold or suspend their funding. A failure by official creditors and multilateral organisations such as the EBRD, the World Bank or the IMF to grant adequate financing combined with any inability to access the international capital markets and syndicated loan markets will put pressure on Ukraine's budget and foreign exchange reserves.

Other multilateral organisations such as the World Bank and the EU are providing financial support to Ukraine which is also conditional on Ukraine's satisfaction of various requirements. These requirements may include:

(i) implementation of strategic, institutional and structural reforms;

(ii) reductions of subsidies for electricity and gas;

(iii) limits on the consolidated budget deficit;

(iv) reduction of overdue tax arrears;

(v) absence of increases of budgetary arrears;

(vi) improvement of sovereign debt credit ratings; and

(vii) reduction of overdue indebtedness for electricity and gas.

Notwithstanding strong support from IMF and other multilateral organisations, access for Ukrainian borrowers including the Group to foreign capital markets has been severely restricted as foreign investors have significantly reduced their exposure to Ukrainian credits.

On 27 August 2015, it was announced that the Government reached an agreement in principle with the ad hoc committee of creditors on restructuring the Government's Eurobonds and state-guaranteed Eurobonds of the State Enterprise "Financing of Infrastructural Projects". According to the Ministry of Finance of Ukraine, such agreement in principle provides, *inter alia*, for a 20 per cent. nominal haircut, an increase in coupon to 7.75 per cent. *per annum*, extension of the maturities of the notes to fall in the period of 2019-2027, and introduction of GDP-linked securities providing potential value recovery to holders from 2021 to 2040 conditional on real-GDP growth reaching certain thresholds.

On 12 November 2015, the Ministry of Finance of Ukraine announced the settlement of Ukraine's debt restructuring operation in respect of thirteen series of the Government's Eurobonds and state-guaranteed Eurobonds. Following the successful passing of extraordinary resolutions for each of those series of Eurobonds at bondholder meetings held on 14 October 2015, the holders of such Eurobonds who submitted valid and timely participation instructions received distributions of new Ukrainian securities on 12 November 2015 in accordance with the terms of the exchange offer. Only one series of eligible debt instruments did not participate in the exchange offer, being the 2015 Ukraine Bonds (as defined below). In November 2015, the Ministry of Finance of Ukraine stated that the Government of Ukraine remained open to finding a solution with the holders of the aforesaid 2015 Ukraine Bonds. On 18 December 2015, the Cabinet of Ministers of Ukraine announced the imposition of a moratorium on the payments under the 2015 Ukraine Bonds until a solution on restructuring is found. The moratorium also applies to certain state-guaranteed loans provided to Ukravtodor and Yuzhnoye by third-party lenders.

Currency Depreciation

As at 31 December 2013, immediately prior to the Euro-Maidan Revolution, the NBU official UAH/U.S.$ exchange rate was pegged at UAH 7.9930 per 1.00 U.S. Dollar. In February 2014 the NBU allowed the exchange rate to float, and as at 31 December 2014, the NBU official UAH/U.S.$ exchange rate was UAH 15.7686 per 1.00 U.S. Dollar. As of 14 December 2015, the NBU official UAH/U.S.$ exchange rate was UAH 23.8601 per 1.00 U.S. Dollar.

The NBU has frequently sought to address volatility in the UAH exchange rate by taking administrative measures (including imposing certain foreign exchange market restrictions), and selling foreign exchange reserves to support the Ukrainian currency. The NBU has also adopted measures to limit foreign currency transactions in the shadow economy.

As a contingency measure aimed at the stabilisation of the Ukrainian currency market, the NBU has temporarily (originally from 23 September until 2 December 2014, and subsequently extended several times until and including 8 June 2016) prohibited the carrying out of payments in foreign exchange by Ukrainian residents pursuant to almost all types of the NBU's individual licences, including the cross-border payment licence. The NBU has also imposed regulations temporarily requiring certain entities to dispose of a percentage of their foreign currency revenues. In August 2014, the NBU increased these compulsory sale requirements to 100 per cent. of foreign currency proceeds, and this was subsequently decreased to 75 per cent. in September 2014. The NBU has extended this requirement several times, and on 3 September 2015 the duration of the 75 per cent. compulsory sale requirement was extended through to 4 December 2015 and thereafter to 4 March 2016 and 8 June 2016. Although such requirements are temporary, the NBU is authorised at any time to modify or extend them for another period of up to six months.

On 30 May 2014, the NBU passed a Resolution entitled "*On regulation of operation of financial institutions and performance of currency transactions*" that was in force initially until 1 September 2014 which introduced, among other regulations, a limitation on withdrawals of cash assets in foreign currency from current and deposit accounts via cash desks and ATMs in Ukraine to UAH 15,000 (on 3 September 2015 increased to UAH 20,000, and on 4 March 2016 – to UAH 50,000) or the equivalent in foreign currency per day at the NBU's official exchange rate. As of the date of this Prospectus, these withdrawal limits have been extended to at least 8 June 2016.

The NBU has also recently adopted the following measures to stabilise the currency: (i) raised its discount rate from 14 per cent. to 19.5 per cent. (with effect from 6 February 2015) to 30 per cent. (with effect from 4 March 2015) which was subsequently decreased to 27 per cent. (with effect from 28 August 2015) and to 22 per cent. (with effect from 25 September 2015) and (ii) suspended daily foreign currency auctions to allow Ukrainian banks to determine the hryvnia foreign currency exchange rates on the basis of market supply and demand.

Following the NBU's adoption of a flexible exchange rate policy for the hryvnia in February 2015, the hryvnia's official value has depreciated significantly from UAH 16.15 to the U.S. dollar as at 2 February 2015, reaching a high of UAH 30.01 to the U.S. dollar by the end of February before stabilising at around UAH 23 in the first week of March. The NBU has started preparations to adopt inflation targeting.

The NBU's Resolution No. 124 was adopted with application from 24 February 2015 to contracts satisfying the following criteria:

(i) the contract provides for import of goods, works, services or intellectual property rights;

(ii) payments under the contract (in full or in part) are made in advance of the delivery; and

(iii) the total price of the contract exceeds U.S.$50,000 or U.S.$500,000 (depending on the thresholds, different restrictions apply).

If the above conditions are met and the total contract price exceeds U.S.$50,000, any advance payment (excluding letters of credit confirmed by a bank with an investment grade rating which meets certain other requirements set out in Resolution No. 124) will be subject to the following restrictions:

- the servicing bank may not make the transfer of an advance payment before the fourth banking day after receipt of the client's payment instruction and submission of payment information to the NBU;
- the NBU may prohibit transfer of an advance payment within the four day period (Resolution No. 124 does not provide for any criteria for the NBU's decision on whether or not to prohibit such transfer); and
- in case of several payments to the same non-resident entity under one or several contracts, the payment processing period may be further increased, as the servicing bank may only submit information on one payment transaction between the same parties to the NBU during any one day.

If the U.S.$500,000 threshold is exceeded then any advance settlements under the contract may only be carried out through the use of letters of credit confirmed by a bank with an investment grade rating which meets certain other requirements set out in Resolution No. 124.

The NBU's Resolution No. 130 imposed a temporary (from 25 February until 27 February 2015) ban on the purchase of foreign currency by banks' clients. However, the ban was effective on 25 February only, as the NBU subsequently lifted the ban by Resolution No. 131 with effect from 26 February 2015. Resolution No. 130 also increased the period of "freezing" UAH funds transferred by banks' clients for purchasing foreign currency from three to four days. This will increase the time required for foreign currency purchase transaction by Ukrainian importers.

With effect from 24 February 2015, the NBU prohibited the purchase of foreign currency with borrowed funds (subject to a limited exception). While this restriction appears to be aimed at limiting speculative demand for foreign currency on the Ukrainian foreign exchange market, it is likely to affect regular commercial transactions.

Additionally, with effect from 23 September 2014, the NBU restricted cross-border payments of dividends by Ukrainian companies until and including 2 December 2014, and subsequently extended several times to 8 June 2016.

As a result of the aforementioned factors, the volume of transactions on the local foreign exchange market has dropped significantly. In 2014, daily foreign exchange volume in the interbank markets decreased approximately 70 per cent. and remained low into the first quarter of 2015. Decreases in the volume of export proceeds, NBU restrictions and increased demand for foreign currency in the market have resulted in a shortage of supply of foreign currency in Ukraine. Ukrainian banks are therefore frequently unable to purchase sufficient amounts of foreign currency for their funding and operational needs.

Tax

On 2 December 2010, Parliament adopted a new Tax Code of Ukraine (the "**Tax Code**"). The majority of the Tax Code provisions took effect from 1 January 2011. The Tax Code aims to create a comprehensive legal framework for tax reform and provides for a wide range of changes to the previously existing tax system in the areas of tax collection and administration. Among other things, the Tax Code provided for a gradual decrease in the rate of the corporate income tax from the previously applied 25 per cent. to 16 per cent. in a period from 2011 to 2014 as well as for a value added tax rate decrease from 20 per cent. to 17 per cent. from 1 January 2014. However, due to the deteriorating economic situation in Ukraine, on 27 March 2014 Parliament introduced amendments to the Tax Code whereby the corporate income tax rate was increased to 18 per cent. and the value added tax to 20 per cent. The amendments also introduced a real estate tax in respect of commercial real estate located in Ukraine (in addition to the previously existing residential real estate tax introduced on 1 January 2013). The Tax Code also introduced personal income tax on interest accrued on bank deposits, which took effect from 1 July 2014 with further amendments effective as of 1 August 2014, 1 January 2015 and 1 January 2016. Currently the base rate for personal income tax on interest accrued on bank deposits is 18 per cent.

On 24 December 2015, the Parliament of Ukraine adopted a number of amendments to the Tax Code which were necessary, according to the Ministry of Finance of Ukraine, to secure balanced budget revenues in 2016 and adopt the state budget of Ukraine for 2016. Currently the base rate for personal income tax on interest accrued on bank deposits is 18 per cent.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the Group's financial position and results of operations contain certain financial information derived from the Combined Financial Statements. It should also be read in conjunction with the report of the Group's auditors on the Combined Financial Statements included elsewhere in this Prospectus, as well as the section entitled "Risk Factors".

The following discussion contains forward-looking statements. The Group's actual results could differ materially from those that are discussed in these forward-looking statements. The results of the Group's operations and its year-to-year comparability are affected by various external factors. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this Prospectus, particularly under the sections entitled "Risk Factors" and "Forward-Looking Statements". The results of the Group's operations and their year-to-year comparability are further affected by certain internal factors. These effects should be taken into account when reviewing the Group's results of operations and financial position from year to year. See "—Significant Factors Affecting Results of Operations".

Overview of the Group

The Group is the monopoly provider of rail transport in Ukraine. The Group owns Ukraine's approximately 21 thousand kilometre-long rail track network (and related infrastructure), which is the fourth largest rail network in Europe as measured by passenger turnover and the second largest by freight turnover. The Group is one of the largest single contributors to Ukraine's GDP. According to the State Statistics Service of Ukraine, for the six months ended 30 June 2015 and the years ended 31 December 2014, 2013 and 2012, the Group represented an estimated 3.54 per cent., 3.16 per cent., 3.51 per cent., and 3.74 per cent. of Ukraine's GDP, respectively. See "*Business—The Rail System*". During the six months ended 30 June 2015, the Group was also one of the largest employers in Ukraine, with an average of 295,628 employees.

The Group derives the bulk of its revenues from freight transportation, but also engages in passenger transportation, provides locomotive traction services, performs infrastructure operations, rolling stock repair and maintenance, logistics and engineering, research and development, and construction. The Group accounted for 83.4 per cent. of all freight transported in Ukraine by turnover (which included all types of freight, except for transportation by pipeline) and 42.4 per cent. of all domestic passenger transportation by turnover (excluding inner city transport) in the first half of 2015.

The Group's cargo revenues represented 82.4 per cent., 79.5 per cent., 76.0 per cent. and 77.7 per cent. of its total revenues for the six months ended 30 June 2015 and the years ended 31 December 2014, 2013 and 2012, respectively. The Group's passenger revenues represented 9.5 per cent., 10.6 per cent., 13.8 per cent. and 12.4 per cent. of its total revenues for the six months ended 30 June 2015 and the years ended 31 December 2014, 2013 and 2012, respectively. Passenger revenues include compensation from the State Budget and local budgets to cover a portion of the recurring expenses incurred in the Group's preferential passenger transportation services (i.e. discounted fares for pensioners, veterans and students, among others), which are not profit-making.

The Group's other revenues (i.e. industrial production facilities and services, research and development and other non-core operations) represented 8.1 per cent., 9.9 per cent., 10.2 per cent. and 9.9 per cent. of its total revenues for the six months ended 30 June 2015 and for the years ended 31 December 2014, 2013 and 2012, respectively.

Recent Developments

As of 1 January 2016 pursuant to an order signed by the President of the Russian Federation (and a notice of the CIS Railway Transport Council adopted under the implementation of aforementioned order) the transit of cargo designated for Kazakhstan from Ukraine through Russian territory has been blocked. Such transit can be made exclusively through Belarus. The reason for such restrictions, according to the order, is the suspension of a free trade zone agreement among the CIS in relation to Ukraine. In accordance with the above documents the Group issued a notice (No. ЦДЗ-1/3 dated 2 January 2016) on the established restrictions being effective from 2 January 2016 to present. The information on the restrictions is public and can be found on the Group's official website; available in the Ukrainian language only. The restrictions will be cancelled from the Group's side upon their cancellation by the CIS Railway Transport Council when the situation is stabilised.

However, in part due to the strained relations between Ukraine and the Russian Federation resulting from the Crimea occupation in 2014-2015, rail cargo transit through Russian territory has gone down by approximately 80% since 2014. As a result of the overall decrease of transit through Russia, as well as the opening of other transit routes to Kazakhstan, the Group's management believes that the restrictions on transit through Russian territory of goods designated for Kazakhstan has not had a material effect on the Group's financial position and results of operations as of the date of this Prospectus. However, while these restrictions remain in place, there can be no assurance that these restrictions will not have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

As of the date of this Prospectus, certain amounts payable under the Company's Designated Local Indebtedness are currently overdue. Discussions with creditors to reschedule the Company's Designated Local Indebtedness are ongoing. As of the date of this Prospectus, none of the Company's creditors has taken any enforcement action with respect to the amounts due.

Significant Factors Affecting Results of Operations

The Group's results of operations have been, and will continue to be, affected by a number of factors, some of the more significant of which are set out below. See also the notes to the Combined Financial Statements, the report of the Group's auditors thereto, and "*Risk Factors*".

Global Macroeconomic Environment and Economic Conditions in Ukraine and its Neighbouring Countries

Historically, the Group's freight transportation turnover has correlated with changes in GDP and industrial output in Ukraine and with the macroeconomic environment of the countries neighbouring Ukraine. The correlation of rail freight transportation turnover with both GDP growth and industrial output growth in Ukraine is relatively high largely due to the volumes of domestic and export-import commodities transportation provided by the Group. In addition, the Group's transit transportation services are significantly affected by the economic environment of the countries neighbouring Ukraine as four of the ten Pan-European Transport Corridors pass through Ukraine's territory.

Ukraine's economy has been severely impacted by the macroeconomic downturn in recent years. Real GDP recorded 0.0 per cent. growth in 2013 and in 2014 it decreased by 6.8 per cent., before further declining by 17.2 and 14.6 per cent. during the first and second quarters of 2015, respectively. As a result of a decline in business activity caused by the weak macroeconomic conditions, the Group substantially reduced its capital expenditures in 2014 and implemented other cost reduction measures, such as energy saving programmes, labour optimisation and other operating costs, and improvements to rolling stock usage and passenger service efficiency. In particular, the Group began optimising its workforce through the requalification and reallocation of its personnel to fulfil the staffing requirements of various business segments and the introduction of a part-time working week. The Group's headcount reduced from 352,321 employees as at 31 December 2012 to 295,628 employees as at 30 June 2015. As at 30 June 2015, the Group also breached certain obligations under long-term loan agreements and was not able to remedy the breach by the permitted deadline. The breach also resulted in a cross-default with respect to several other loans. In May 2015 the Group reported a suspension on the repayment of the main amount of the loan to local lenders and initiated the debt restructuring negotiations. As of the date of financial accounts approval, certain agreements were reached with respect to restructuring the major part of the debt to local lenders. See "*Risk Factors—Risks Relating to the Group*".

Tariffs

In the periods under review, the overwhelming majority of the Group's revenue was derived from state regulated tariffs on freight and passenger transportation. The tariffs on freight and passenger transportation by railways are set by the Ministry of Infrastructure with the approval of, in particular:

- the Ministry of Economic Development and Trade and the Ministry of Finance – for domestic freight transportation; and

- the Ministry of Economic Development and Trade – for domestic passenger, luggage and cargo-luggage transportation.

Tariffs for freight transportation are based on weight, freight class, type of rolling stock, distance, rolling stock ownership (i.e. whether belonging to the carrier or the client's own railcar), and speed of transportation. Tariffs for passenger transportation are based on the quality level of services, distance, and the speed of the train. See "*Business—Tariff Regulation and Pricing*". Because freight and passenger tariffs differ according to, among other factors, the distance and class of the transportation service, changes in average transport distances and class of service can lead to higher or lower revenues, operating profits and margins for the Group.

Tariff setting is a key feature of Government involvement in the railway transportation industry. In setting the tariffs, the Government may consider wider economic, political and social factors, particularly in the passenger transportation segment. To offset the consequences of the economic downturn, for social, economic and political reasons the Government did not raise tariffs on domestic and import-export freight transportation by rail in 2012. In 2013 and 2014, the Group's domestic and import-export freight transportation tariffs increased by 10.6 and 13.4 per cent., respectively (from December in the previous year to December in the current one). The Government increased passenger tariffs for domestic rail transportation by coupe railcars by 14.3 per cent. in 2012, by 21 per cent. for all types of railcars (except for sleeping railcars and Intercity+ trains) in 2013, by 21 per cent. for all types of railcars (except for Intercity+ trains) in 2014, and there was no increase in tariffs in the first half of 2015.

State Compensation

The Group receives compensation from the state budget and local budgets for losses resulting from preferential passenger transportation tariffs being set below the cost to the Group of providing the service.

The Group's recurring expenses associated with preferential passenger transportation are expected to be wholly compensated from budgets at all levels, and the Group does not expect this to change as a result of the Reform Programme.

However, compensation from the state budget and local budgets has typically covered approximately 30-35 per cent. of the total cost to the Group of providing preferential passenger transportation services. Such compensation has been sustained during the last several years. In the six months ended 30 June 2015 and 30 June 2014, the Group received compensation of UAH 88 million and UAH 165.6 million, respectively. However, such compensation does not cover the total cost of preferential passenger transportation, and the Group's overall passenger transportation segment is regularly loss-making. To offset losses not covered by State compensation, the Group cross-subsidises its passenger transportation operations from its cargo revenues.

Seasonality

For the year ended 31 December 2013, the Group's freight transportation turnover peaked during the fourth quarter primarily due to an increase in the transportation of grain, beets and other agricultural products, which comprise the largest portion of the Group's seasonal freight. The Group's freight turnover in the fourth quarter represented 26.7 per cent. of the total freight turnover in 2013.

For the year ended 31 December 2014, the Group's freight transportation turnover peaked in the second quarter of the year but, due to the beginning of the anti-insurgent operation in the East of the country, transportation turnover did not reach the expected results. The Group's freight turnover in the second quarter represented 25.8 per cent. of the total freight turnover in 2014.

Conversely, passenger transportation turnover peaks in the summer months as long-haul passenger travel increases due to the summer holiday season, and the revenues for passenger services in the period from June to August of 2015 accounted for approximately 32.3 per cent. of the annual passenger revenues. Therefore, due to the seasonal nature of passenger transportation revenue, higher revenues are generally expected in the second half of each year rather than in the first half. However, due to passenger transportation revenues comprising a relatively small share of total revenues, the peak in the summer months does not have a significant impact on the Group's total revenues.

To balance the effects of seasonality, the Group plans its primary expenditures based on projections of quarterly revenues and transportation.

Inflation and Commodities Prices

A significant portion of the Group's operating expenses are affected by the level of consumer price inflation, particularly in fuel prices, electricity prices, wages and salaries. Ukraine experienced an annual CPI decrease of 0.2 per cent. in 2012 and CPI increases of 0.5 per cent. in 2013, 24.9 per cent. in 2014 and 40.7 per cent. in the first six months of 2015. As the Group is subject to tariff regulation by the Government, it may be unable to pass on any increases in its costs to its end customers.

The Group employs detailed monitoring of expenses to ensure adherence to budgeted figures and attempts to restrict increases in its costs to levels below the rate of inflation through productivity and efficiency improvements. In addition, the rate of inflation is taken into account in calculating tariff indexation each year. See "*Business—Tariff Regulation and Pricing*".

The Group's freight operations are also heavily dependent on commodity prices, particularly coal, metals and other material costs, demand for which can be volatile. For example, in 2014, world prices of metals and their products decreased by 14.9 per cent., which resulted in a 37.3 per cent. decline in prices for metal products in Ukraine, as well as a 50 per cent. increase in the price for iron ore and 56.4 per cent. increase in the cost of coal. If commodity production levels decline as a result of higher prices, the Group's freight transportation turnover may be adversely impacted. The Group does not currently hedge its exposure to inflation or commodity price increases.

Key Accounting Issues

Basis of combination

As of the most recent reporting date according to IFRS (as defined below), Ukrzaliznytsia was an entity subordinated to the MIU and represented the ultimate management company for the group of entities engaged in railway transportation services and the support of railway infrastructure in Ukraine (the "**Combined Entities**"). The companies within the Original Group were under the full control of the Government, which was the common ultimate shareholder of the Original Group.

The initial combination of Ukrzaliznytsia and the Combined Entities has been made using the pooling of interests method as if Ukrzaliznytsia and the Combined Entities have always been consolidated but not before the Combined Entities came under the common control of the Original Group (as designated by the MIU).

The authorised capital of the Group combines the registered capital of Ukrzaliznytsia and the Combined Entities. All intra-group balances, income and expenses and unrealised gains and losses resulting from the intra-group transactions were eliminated in full.

The Combined Financial Statements of Ukrzaliznytsia and the Combined Entities were prepared for the same reporting period and using the unified methodology of financial statement preparation.

It should be noted that from 1 December 2015, the Company commenced its commercial operations.

Property, plant and equipment

The Group began transition of its financial statements from Ukrainian Accounting Standards to International Financial Reporting Standards ("**IFRS**") from 1 January 2007, and property, plant and equipment are stated at cost as at the date of relevant financial statements prepared under Ukrainian Accounting Standards (hereinafter referred to as "**the cost**"). The accounting policy of the Company is updated for each reporting period under IFRS (i.e., every six months).

Upon recognition, items of property, plant and equipment are divided into components, which represent items with a significant value that can be allocated to a separate depreciation period. Overhaul costs also represent a component of an asset. Major spare parts and stand-by equipment qualify as property, plant and equipment when they are expected to be used during more than one period.

Repair and maintenance expenditure is expensed as it is incurred. Major renewals and improvements are capitalised, and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the comprehensive income statement as they are incurred.

Estimates of an asset's remaining useful life are made on a regular basis with annual reassessments for major items. Changes in estimates are accounted for prospectively. Depreciation commences when an item is available for use. Freehold land is not depreciated.

Depreciation is calculated on a straight-line basis over the estimated remaining useful life of the asset as follows:

Group	Useful life
Buildings, constructions and infrastructure	9-76 years
Subgrade and superstructure	6-83 years
Locomotives	5-32 years
Railway cars	5-30 years
Plant, equipment, tools and other	3-17 years
Vehicles	3-12 years

An item of property, plant and equipment is no longer recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset or disposal. Any gain or loss arising when the asset is no longer recognised (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss within the statement of operations in the year the item is no longer recognised.

Objects of Social Infrastructure

Included in property, plant and equipment are social infrastructure and other non-production assets. The Group's management believes that expenditures incurred in respect of acquisition or construction of such assets qualify for recognition as an asset on the premise that such expenditures are capable of indirectly impacting the flow of cash and cash equivalents to the Group through a reduction of cash outflows related primarily to wages and salaries. As such, non-production assets are employed by the Group to provide benefits to its employees in addition to wages and salaries paid in cash.

Construction in progress

Assets in the course of construction are capitalised as a separate component of property, plant and equipment. On completion, the cost of construction is transferred to the appropriate category. Construction in progress is not depreciated.

Impairment of Non-Financial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's, or cash-generating asset group's, fair value less costs to sell and its value in use, unless the asset does not generate cash inflows that are largely independent of those from other assets, or groups of assets. Where the carrying amount of an asset exceeds its expected recoverable value, the asset is considered impaired and is written down to its expected recoverable value. In assessing the asset's value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks related to the asset. Losses from impairment of the assets used in operations are recognised in the statement of comprehensive income.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable value is revised. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable value from the moment when the most recent impairment loss was recognised. In such a case the carrying amount of the asset shall be increased to amount to its expected recoverable value. The increased carrying amount of the asset shall not exceed the carrying amount of the asset that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal of the asset's impairment loss is reflected in the combined comprehensive income statement. After such a reversal, the depreciation charges are adjusted in future periods to allocate the asset's revised carrying values, less any residual value, on a systematic basis over its remaining useful life.

Impairment of Financial Assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables, that are accounted at amortised cost, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced directly through the use of an account of reserves. The amount of the loss is recorded in the combined comprehensive income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individual or cumulative indications of impairment of financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in the cumulative assessment of impairment.

If, in a subsequent period, the amount of the expected impairment loss decreases and the decrease can be related objectively to an event that occurred after the impairment loss was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortised cost that would have been at the reversal date, had the impairment not been recognised.

Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Combined Financial Statements requires the Group's management to make judgments, estimates and assumptions that affect the reported amounts, such as estimates of the useful life of property, plant and equipment, underlying assumptions for defined benefit liability calculations, and judgments as to expected tax risks, outcomes of legal claims, impairment of property, plant and equipment. These estimates are based on information available at the end of the reporting period. Actual results could differ from these estimates. For a full description of the Group's key judgments, estimates and assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, see Note 5 to the Combined Financial Statements for the years ended 31 December 2014 and 2013.

Significant Accounting Policies

The preparation of the Combined Financial Statements in conformity with IFRS requires the Group's management to select appropriate accounting policies that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. For a full description of the Group's significant accounting policies, see Note 6 to the Combined Financial Statements for the years ended 31 December 2014 and 2013.

Results of Operations for the Six Months Ended 30 June 2015 and 2014

Revenues

The following table sets forth the breakdown of the Group's total revenue for the six months ended 30 June 2015 and 2014:

	Six Months ended 30 June		Change
	2015	2014	2015/2014
	(UAH thousands)		*(percentages)*
Cargo revenues	23,827,858	18,898,401	26.1
Passenger revenues	2,738,780	2,345,354	16.8
Other revenues[(1)]	2,355,427	2,194,861	7.3
Total revenues	**28,922,065**	**23,438,616**	**23.4**

Notes:

(1) Other revenues comprised rolling stock and locomotive repairs, locomotive traction services, catering services provided to passengers provided at the territory of other countries and other supporting services.

The Group's total revenues increased by UAH 5,483,449 thousand, or 23.4 per cent. to UAH 28,922,065 thousand for the six months ended 30 June 2015 from UAH 23,438,616 thousand for the six months ended 30 June 2014. This increase was primarily driven by growth in cargo revenues.

Cargo Revenues

Cargo revenues increased by UAH 4,929,457 thousand, or 26.1 per cent. to UAH 23,827,858 thousand for the six months ended 30 June 2015 from UAH 18,898,401 thousand for the six months ended 30 June 2014. This increase was primarily driven by the increase in freight transportation tariffs by 30 per cent. from 1 February 2015. As a percentage of total revenues, cargo revenues increased to 82.4 per cent. for the six months ended 30 June 2015 from 80.6 per cent. for the six months ended 30 June 2014.

Passenger Revenues

Passenger revenues increased by UAH 393,426 thousand, or 16.8 per cent. to UAH 2,738,780 thousand for the six months ended 30 June 2015 from UAH 2,345,354 thousand for the six months ended 30 June 2014. This increase was primarily driven by the depreciation of the hryvnia. As a percentage of total revenues, passenger revenues decreased to 9.5 per cent. for the six months ended 30 June 2015 from 10.0 per cent. for the six months ended 30 June 2014.

Other Revenues

Other revenues increased by UAH 160,566 thousand, or 7.3 per cent. to UAH 2,355,427 thousand for the six months ended 30 June 2015 from UAH 2,194,861 thousand for the six months ended 30 June 2014. This increase was primarily driven by the revision of the prices for additional services that are provided to third party customers by railway enterprises. Prices for auxiliary operations are not subject to tariff regulation by the Government and are set by the Group at market level. Prices for auxiliary operations are adjusted regularly, primarily in line with overall inflation or to follow market trends. As a percentage of total revenues, the share of other revenues decreased to 8.1 per cent. for the six months ended 30 June 2015 from 9.4 per cent. for the six months ended 30 June 2014.

Operating Expenses

The Group's key operating expenses are staff costs, fuel and electricity costs, depreciation and maintenance expenses. The Group is one of the largest employers in Ukraine with an average number of 295,628 employees as at 30 June 2015. The Group also includes employee wage adjustments in its annual plans in accordance with increases in CPI.

Fuel and electricity are the other significant expense of the Group. The Group's fuel requirement has historically comprised a significant portion of these expenses (and the Group's fuel expenses have recently increased in line with rising fuel prices), but the Group's continuing electrification of rail tracks aims to reduce its dependency on fuel usage. Fuel prices in Ukraine are largely driven by world oil prices and generally grow faster than the Group's fuel requirements reduce. The Group's electric energy requirements grow as the electrification of rail tracks progresses; however, electricity prices have not been growing as fast and are less volatile compared to fuel prices.

The following table sets forth a breakdown of the Group's operating expenses for the six months ended 30 June 2015 and 2014:

	Six Months ended 30 June		Change
	2015	2014	2015/2014
	(UAH thousands)		*(percentages)*
Operating expenses			
Staff costs	(10,444,843)	(11,883,217)	(12.1)
Depreciation	(2,423,729)	(2,868,233)	(15.5)
Repair and maintenance	(1,890,748)	(1,971,571)	(4.1)
Fuel	(3,113,159)	(2,100,277)	48.2
Electricity	(2,961,083)	(2,528,989)	17.1
Taxes, other than income tax	(653,868)	(419,682)	55.8
Social expenses	(209,641)	(252,061)	(16.8)
Change in provisions for expenses related to risks associated with tax issues and legal proceedings	(158,204)	(324,023)	(51.1)
Other expenses/income, net	(410,566)	122,633	(434.8)
Total operating expenses	**(22,265,841)**	**(22,225,420)**	**0.2**

The Group's total operating expenses increased by UAH 40,421 thousand, or 0.2 per cent. to UAH 22,265,841 thousand for the six months ended 30 June 2015 from UAH 22,225,420 thousand for the six months ended 30 June 2014. This increase was primarily driven by an increase in fuel and electricity costs, which were partly offset by a decline in staff costs.

Staff Costs

During the six months ended 30 June 2014, the Group increased employees' wages by 5 per cent. starting 1 January 2014, and there was no increase in salaries across the industry in the six months ended 30 June 2015. Staff costs decreased by UAH 1,438,374 thousand, or 12.1 per cent. to UAH 10,444,843 thousand for the six months ended 30 June 2015 from UAH 11,883,217 thousand for the six months ended 30 June 2014. This decrease was primarily driven by the introduction of a part-time working week and holiday leave without pay. As a percentage of total revenues, the share of staff costs decreased to 46.9 per cent. for the six months ended 30 June 2015 from 53.5 per cent. for the six months ended 30 June 2014.

Depreciation

Depreciation decreased by UAH 444,504 thousand, or 15.5 per cent., to UAH 2,423,729 thousand for the six months ended 30 June 2015 from UAH 2,868,233 thousand for the six months ended 30 June 2014. This decrease was primarily attributable to the increased number of fully depreciated items and that no significant new items were put into operation in the six months ended 30 June 2015. As a percentage of total operating expenses, depreciation decreased to 10.9 per cent. for the six months ended 30 June 2015 from 12.9 per cent. for the six months ended 30 June 2014.

Maintenance

Maintenance expenses decreased by UAH 80,823 thousand, or 4.10 per cent., to UAH 1,890,748 thousand for the six months ended 30 June 2015 from UAH 1,971,571 thousand for the six months ended 30 June 2014, primarily due to the decrease in the volume of maintenance works as a result of the drop in transportation volumes, as well as an increase in the cost of repair parts and insufficient working capital. As a percentage of total operating expenses, maintenance expense decreased to 8.5 per cent. for the six months ended 30 June 2015 from 8.9 per cent. for the six months ended 30 June 2014.

Fuel

Fuel expense increased by UAH 1,012,882 thousand, or 48.2 per cent., to UAH 3,113,159 thousand for the six months ended 30 June 2015 from UAH 2,100,277 thousand for the six months ended 30 June 2014 due to a 66.5 per cent. increase in the price of motor oil. As a percentage of total operating expenses, the share of fuel expense increased to 14.0 per cent. for the six months ended 30 June 2015 from 9.5 per cent. for the six months ended 30 June 2014.

Electricity

Electricity expense increased by UAH 432,094 thousand, or 17.1 per cent., to UAH 2,961,083 thousand for the six months ended 30 June 2015 from UAH 2,528,989 thousand for the six months ended 30 June 2014, primarily due to an increase in electricity costs. As a percentage of total operating expenses, the share of electricity expense increased to 13.3 per cent. for the six months ended 30 June 2015 from 11.4 per cent. for the six months ended 30 June 2014.

Taxes, other than Income Tax

Taxes, other than income tax, expensed by the Group comprise primarily non-recoverable VAT attributable to transit transportation. Such taxes increased by UAH 234,186 thousand, or 55.8 per cent., to UAH 653,868 thousand for the six months ended 30 June 2015 from UAH 419,682 thousand for the six months ended 30 June 2014. As a percentage of total operating expenses, the share of taxes, other than income tax, increased to 2.9 per cent. for the six months ended 30 June 2015 from 1.9 per cent. for the six months ended 30 June 2014.

Social Expenses

Social expenses comprise funding provided to sports, cultural and educational enterprises in the amounts set out in the relevant industry agreements, catering costs at enterprises within the Group and maintenance costs of labour unions. The Group is extending the term of its branch agreement with the trade unions to ensure the constant functioning of the railway sector in Ukraine which will remain effective until the execution of any subsequent branch agreement. The branch agreement, among other things, provides for certain guarantees for the Group's employees, including competitive salary, regular vacations, social contributions and industrial safety. In accordance with the agreement, the railway sector makes contributions in an amount not less than 0.3 per cent. of the Group's salary budget for the funding of sport, cultural and other recreation activity. Social expenses decreased by UAH 42,420 thousand, or 16.8 per cent., to UAH 209,641 thousand for the six months ended 30 June 2015 from UAH 252,061 thousand for the six months ended 30 June 2014 in accordance with the terms of the industry agreements and due to the economic turmoil caused by the increasing debt load resulting from depreciation of the hryvnia. As a percentage of total operating expenses, the share of social expenses remained stable with a slight decrease to 0.9 per cent. for the six months ended 30 June 2015 from 1.1 per cent. for the six months ended 30 June 2014.

Change in Provisions for Expenses Related to Risks Associated with Tax Issues and Legal Proceedings

Change in provisions, which included provisions for payments in legal proceedings and provisions for tax related risks, decreased by UAH 165,819 thousand, or 51.2 per cent., to an expense of UAH 158,204 thousand for the six months ended 30 June 2015 from an expense of UAH 324,023 thousand for the six months ended 30 June 2014, largely due to the fact that no additional provisions accrued during the period, and only the provisions accrued in 2014 were re-evaluated.

Other Expenses, net

Net other expenses include gains and losses of property, plant and equipment, inventory disposal, costs of banking services, income and expenses from operating leases, fines and penalties received and paid, and other items. Net other expenses amounted to a net expense of UAH 410,566 thousand for the six months ended 30 June 2015, as compared to a net gain of UAH 122,633 thousand for the six months ended 30 June 2014.

Finance Income and Finance Costs

The following table sets forth the Group's finance income and finance costs for the six months ended 30 June 2015 and 2014:

	Six Months ended 30 June		Change
	2015	2014	2015/2014
	(UAH thousands)		*(percentages)*
Finance income, finance costs and foreign exchange (loss)/gain, net			
Finance income	226,344	31,370	621.5
Finance costs	(2,627,723)	(1,765,942)	48.8
Foreign exchange (loss)/gain, net	(8,738,032)	(7,245,026)	20.6
Total	**(11,139,411)**	**(8,979,598)**	**24.1**

Total finance income, finance costs and foreign exchange (loss)/gain, net increased by UAH 2,159,813 thousand, or 24.1 per cent. to an expense of UAH 11,139,411 thousand for the six months ended 30 June 2015 from an expense of UAH 8,979,598 thousand for the six months ended 30 June 2014. This increase was primarily driven by a rise in finance costs and foreign exchange losses.

Finance Income

Finance income increased by UAH 194,974 thousand, or 621.5 per cent. to UAH 226,344 thousand for the six months ended 30 June 2015 from UAH 31,370 thousand for the six months ended 30 June 2014.

Finance Costs

Finance costs primarily comprise interest accrued on the Group's loans and financing under financial leasing arrangements. Finance costs increased by UAH 861,781 thousand, or 48.8 per cent. to UAH 2,627,723 thousand for the six months ended 30 June 2015 from UAH 1,765,942 thousand for the six months ended 30 June 2014. This increase was primarily driven by the rise in the sum of loan and financial leasing debts compared to the same period in the preceding year, as a result of the depreciation of the hryvnia (particularly against the U.S. dollar).

Foreign Exchange (Loss)/Gain, net

The Group's results partly depend on fluctuations in foreign exchange rates, since the Group's revenue in foreign currencies does not cover the Group's borrowings denominated in U.S. dollars. For the six months ended 30 June 2015 and 2014, the Group recorded net foreign exchange losses of UAH 8,738,032 thousand and UAH 7,245,026 thousand, respectively, as a result of the decline in the hryvnia-U.S. dollar exchange rate.

Income Taxes

In December 2010, the new Tax Code was adopted in Ukraine, which became effective on 1 January 2011 and which made the calculation of the value of assets for tax purposes closer to the calculation for accounting purposes. According to the Tax Code, the statutory income tax rate was reduced from 23 per cent. to 21 per cent. beginning 1 January 2012. The statutory income tax rate was reduced to 19 per cent. beginning 1 January 2013 and to 18 per cent. beginning 1 January 2014.

For the six months ended 30 June 2015 and 2014, the Group recorded income tax expenses of UAH 223,999 thousand and UAH 409,828 thousand, respectively. See Note 21 to the Combined Financial Statements for the years ended 31 December 2014 and 2013.

(Loss)/Profit for the Period

The Group's net loss decreased by UAH 3,469,044 thousand or 42.43 per cent. to UAH 4,707,186 thousand for the six months ended 30 June 2015 from UAH 8,176,230 thousand for the six months ended 30 June 2014. This decrease was principally attributable to growth in the Group's total revenues, primarily cargo revenues, which was partially offset by additional foreign exchange loss.

Results of Operations for the Year Ended 31 December 2014 compared to 31 December 2013 and 31 December 2012

Revenues

The following table sets forth the breakdown of the Group's total revenue for the years ended 31 December 2014, 2013 and 2012:

	Year ended 31 December			Change	
	2014	2013	2012	2014/2013	2013/2012
		(UAH thousands)		*(percentages)*	
Cargo revenues	39,308,797	38,805,356	40,956,071	1.3	(5.3)
Passenger transportation revenues	5,254,805	7,058,611	6,527,657	(25.6)	8.1
Other revenues[1]	4,892,017	5,185,867	5,241,580	(5.7)	(1.1)
Total revenues	**49,455,619**	**51,049,834**	**52,725,308**	**(3.1)**	**(3.2)**

Notes:

(1) Other revenues comprised rolling stock and locomotive repairs, catering services provided to passengers, locomotive traction services provided at the territory of other countries and other supporting services.

The Group's total revenues decreased by UAH 1,594,215 thousand, or 3.1 per cent., to UAH 49,455,619 thousand for the year ended 31 December 2014 from UAH 51,049,834 thousand for the year ended 31 December 2013. The decrease was primarily driven by a decline in passenger revenues.

The Group's total revenues decreased by UAH 1,675,474 thousand, or 3.2 per cent., to UAH 51,049,834 thousand for the year ended 31 December 2013 from UAH 52,725,308 thousand for the year ended 31 December 2012. The decrease was primarily driven by a decline in cargo revenues.

Cargo Revenues

Cargo revenues increased by UAH 503,441 thousand, or 1.3 per cent., to UAH 39,308,797 thousand for the year ended 31 December 2014 from UAH 38,805,356 thousand for the year ended 31 December 2013, primarily as a result of an increase in tariffs and changes in foreign currency exchange rates. As a percentage of total revenues, cargo revenues increased to 79.5 per cent. for the year ended 31 December 2014 from 76.0 per cent. for the year ended 31 December 2013.

Cargo revenues decreased by UAH 2,150,715 thousand, or 5.3 per cent., to UAH 38,805,356 thousand for the year ended 31 December 2013 from UAH 40,956,071 thousand for the year ended 31 December 2012. This decrease was primarily attributable to the decrease in transportation volumes. As a percentage of total revenues, cargo revenues decreased to 76.0 per cent. for the year ended 31 December 2013 from 77.7 per cent. for the year ended 31 December 2012.

Passenger Revenues

Passenger revenues decreased by UAH 1,803,806 thousand, or 25.6 per cent., to UAH 5,254,805 thousand for the year ended 31 December 2014 from UAH 7,058,611 thousand for the year ended 31 December 2013. The decrease in passenger revenues was primarily attributable to the decrease in transportation volumes caused by the political unrest in Ukraine and resulting macroeconomic impact. Additionally, passenger transportation tariffs did not increase during 2014. As a percentage of total revenues, passenger revenues decreased to 10.6 per cent. for the year ended 31 December 2014 from 13.8 per cent. for the year ended 31 December 2013.

Passenger revenues increased by UAH 530,954 thousand, or 8.1 per cent., to UAH 7,058,611 thousand for the year ended 31 December 2013 from UAH 6,527,657 thousand for the year ended 31 December 2012. The increase in passenger revenues was primarily driven by the increase in passenger transportation tariffs during 2013. As a percentage of total revenues, passenger revenues increased to 13.8 per cent. for the year ended 31 December 2013 from 12.4 per cent. for the year ended 31 December 2012.

Other Revenues

Other revenues decreased by UAH 293,850 thousand, or 5.7 per cent., to UAH 4,892,017 thousand for the year ended 31 December 2014 from UAH 5,185,867 thousand for the year ended 31 December 2013, primarily due to the decrease in transportation volumes and, as a result, a decrease in line rental revenues and ticket sales (commission). Prices for auxiliary operations are not subject to tariff regulation by the Government and are set by the Group at market level. Prices for auxiliary operations are adjusted regularly, primarily in line with overall inflation or to follow market trends. As a percentage of total revenues, the share of other revenues decreased to 9.9 per cent. for the year ended 31 December 2014 from 10.2 per cent. for the year ended 31 December 2013.

Other revenues decreased slightly by UAH 55,713 thousand, or 1.1 per cent., to UAH 5,185,867 thousand for the year ended 31 December 2013 from UAH 5,241,580 thousand for the year ended 31 December 2012, primarily due to the decrease in international passenger transportation volumes and the resulting decrease in revenues from services provided to the passengers. As a percentage of total revenues, other revenues increased to 10.2 per cent. for the year ended 31 December 2013 from 9.9 per cent. for the year ended 31 December 2012.

Operating Expenses

The Group's key operating expenses are staff costs, fuel and electricity costs, depreciation and maintenance expenses. The Group is one of the largest employers in Ukraine with an average of 295,628 employees during the six months ended 30 June 2015. The Group also includes employee wage adjustments in its annual plans in accordance with increases in CPI.

Fuel and electricity are the other significant expense of the Group. The Group's fuel requirement has historically comprised a significant portion of these expenses, but the Group's continuing electrification of rail tracks aims to reduce its dependency on fuel. Fuel prices in Ukraine are largely driven by world oil prices, but the Group's electric energy usage is growing as the electrification of the rail tracks progresses. Electricity prices also grow, but are generally less volatile compared to fuel prices.

The following table sets forth a breakdown of the Group's operating expenses for the years ended 31 December 2014, 2013 and 2012:

	Year ended 31 December			Change	
	2014	2013	2012	2014/2013	2013/2012
	(UAH thousands)			*(percentages)*	
Operating expenses					
Staff costs	(22,754,713)	(22,286,077)	(22,521,829)	2.1	(1.0)
Depreciation	(5,630,858)	(5,970,709)	(6,413,949)	(5.7)	(6.9)
Maintenance	(5,339,710)	(6,064,716)	(6,722,280)	(12.0)	(9.8)
Electricity	(5,189,089)	(5,043,707)	(4,845,462)	2.9	4.1
Fuel	(4,943,837)	(4,413,567)	(4,749,159)	12.0	(7.1)
Taxes, other than income tax	(1,076,716)	(1,263,481)	(1,343,461)	(14.8)	(6.0)
Social expenses	(508,250)	(644,561)	(509,472)	(21.1)	26.5
Impairment of Property, plant and equipment	—	(427,648)	—	—	—
Change in provisions for expenses related to risks associated with tax issues and legal proceedings	(414,840)	12,901	542	(103.2)	2,280.3
Other expenses, net	(382,485)	14,018	(365,580)	(2,828.5)	(103.8)
Total operating expenses	**(46,240,498)**	**(46,087,547)**	**(47,470,650)**	**0.3**	**(2.9)**

The Group's total operating expenses increased slightly by UAH 152,951 thousand or 0.3 per cent., to UAH 46,240,498 thousand for the year ended 31 December 2014 from UAH 46,087,547 thousand for the year ended 31 December 2013. This overall increase was primarily attributable to increases in staff, fuel, and electricity costs, which were partially offset by a decline in maintenance expenses.

The Group's total operating expenses decreased by UAH 1,383,103 thousand, or 2.9 per cent., to UAH 46,087,547 thousand for the year ended 31 December 2013 from UAH 47,470,650 thousand for the year ended 31 December 2012. This decrease was principally attributable to declines in depreciation and maintenance expenses, which were partially offset by a one-time impairment expense in property, plant and equipment.

Staff Costs

During the years ended 31 December 2014, 2013 and 2012, the Group increased employees' wages. Wages increased by 10 per cent. in 2012 (by 5 per cent. from 1 May and by 5 per cent. from 1 October), by 10 per cent. in 2013 (by 5 per cent. from 1 June and by 5 per cent. from 1 August), and by 5 per cent in

2014 starting from 1 January. Staff costs increased by UAH 468,636 thousand, or 2.1 per cent., to UAH 22,754,713 thousand for the year ended 31 December 2014 from UAH 22,286,077 thousand for the year ended 31 December 2013, primarily due to the increase in wages by 5 per cent. starting from 1 January 2014. As a percentage of total operating expenses, the share of staff costs increased to 49.2 per cent. for the year ended 31 December 2014 from 48.4 per cent. for the year ended 31 December 2013.

Staff costs decreased by UAH 235,752 thousand, or 1.0 per cent., to UAH 22,286,077 thousand for the year ended 31 December 2013 from UAH 22,521,829 thousand for the year ended 31 December 2012, primarily due to cost cutting resulting from the introduction of holiday leave without pay. As a percentage of total operating expenses, staff costs increased to 48.4 per cent. for the year ended 31 December 2013 from 47.4 per cent. for the year ended 31 December 2012.

Depreciation

Depreciation decreased by UAH 339,851 thousand, or 5.7 per cent., to UAH 5,630,858 thousand for the year ended 31 December 2014 from UAH 5,970,709 thousand for the year ended 31 December 2013. This decrease was primarily attributable to the increased number of fully depreciated items in 2014 and the fact that no significant new items were put into operation. As a percentage of total operating expenses, depreciation decreased slightly to 12.2 per cent. for the year ended 31 December 2014 from 13.0 per cent. for the year ended 31 December 2013.

Depreciation decreased by UAH 443,240 thousand, or 6.9 per cent., to UAH 5,970,709 thousand for the year ended 31 December 2013 from UAH 6,413,949 thousand for the year ended 31 December 2012. The decrease was caused by the increased number of fully depreciated items in 2013 and the fact that no new items were put into operation. As a percentage of total operating expenses, depreciation decreased to 13.0 per cent. for the year ended 31 December 2013 from 13.5 per cent. for the year ended 31 December 2012.

Maintenance

Maintenance expense decreased by UAH 725,006 thousand, or 12.0 per cent., to UAH 5,339,710 thousand for the year ended 31 December 2014 from UAH 6,064,716 thousand for the year ended 31 December 2013, primarily due to the decrease in maintenance work volumes as a result of the drop in transportation volumes, as well as an increase in the cost of repair parts and insufficiency of working capital. As a percentage of total operating expenses, maintenance expense decreased to 11.5 per cent. for the year ended 31 December 2014 from 13.2 per cent. for the year ended 31 December 2013.

Maintenance expense decreased by UAH 657,564 thousand, or 9.8 per cent., to UAH 6,064,716 thousand for the year ended 31 December 2013 from UAH 6,722,280 thousand for the year ended 31 December 2012, primarily due to the decrease in maintenance work volumes as a result of the drop in transportation volumes, as well as an increase in the cost of repair parts and insufficiency of working capital. As a percentage of total operating expenses, maintenance expense decreased to 13.2 per cent. for the year ended 31 December 2013 from 14.2 per cent. for the year ended 31 December 2012.

Fuel

Fuel expense increased by UAH 530,270 thousand, or 12.0 per cent., to UAH 4,943,837 thousand for the year ended 31 December 2014 from UAH 4,413,567 thousand for the year ended 31 December 2013 due to a 34.7 per cent. increase in the cost of diesel fuel. As a percentage of total operating expenses, the share of fuel expense increased to 10.7 per cent. for the year ended 31 December 2014 from 9.6 per cent. for the year ended 31 December 2013.

Fuel expense decreased by UAH 335,592 thousand, or 7.1 per cent., to UAH 4,413,567 thousand for the year ended 31 December 2013 from UAH 4,749,159 thousand for the year ended 31 December 2012 due to the decrease in transportation volumes by 8.8 per cent. As a percentage of total operating expenses, fuel expense decreased to 9.6 per cent. for the year ended 31 December 2013 from 10.0 per cent. for the year ended 31 December 2012.

Electricity

Electricity expense increased by UAH 145,382 thousand, or 2.9 per cent., to UAH 5,189,089 thousand for the year ended 31 December 2014 from UAH 5,043,707 thousand for the year ended 31 December 2013, primarily due to an increase in the cost of electricity. As a percentage of total operating expenses, the share of electricity expense increased to 11.2 per cent. for the year ended 31 December 2014 from 10.9 per cent. for the year ended 31 December 2013.

Electricity expense increased by UAH 198,245 thousand, or 4.1 per cent., to UAH 5,043,707 thousand for the year ended 31 December 2013 from UAH 4,845,462 thousand for the year ended 31 December 2012, primarily due to an increase in the cost of electricity. As a percentage of total operating expenses, the share of electricity expense increased slightly to 10.9 per cent. for the year ended 31 December 2013 from 10.2 per cent. for the year ended 31 December 2012.

Taxes, Other than Income Tax

Taxes, other than income tax, expensed by the Group comprise primarily non-recoverable VAT attributable to transit transportation. Such taxes decreased by UAH 186,765 thousand, or 14.8 per cent., to UAH 1,076,716 thousand for the year ended 31 December 2014 from UAH 1,263,481 thousand for the year ended 31 December 2013. As a percentage of total operating expenses, the share of taxes, other than income tax, decreased slightly to 2.3 per cent. for the year ended 31 December 2014 from 2.7 per cent. for the year ended 31 December 2013.

Taxes, other than income tax, expensed by the Group decreased by UAH 79,980 thousand, or 6.0 per cent., to UAH 1,263,481 thousand for the year ended 31 December 2013 from UAH 1,343,461 thousand for the year ended 31 December 2012. As a percentage of total operating expenses, taxes, other than income tax, remained stable with a slight decrease to 2.7 per cent. for the year ended 31 December 2013 from 2.8 per cent. for the year ended 31 December 2012.

Social Expenses

Social expenses comprise funding provided to sports, cultural and educational enterprises (in the amounts set out in the relevant industry agreements), catering costs at enterprises within the Group and maintenance costs of labour unions. The Group is extending the term of its branch agreement with the trade unions to ensure the constant functioning of the railway sector in Ukraine. The branch agreement, among other things, provides for certain guarantees for the Group's employees, including competitive salaries, regular vacations, social contributions and industrial safety. In accordance with the agreement, the railway sector makes contributions in an amount not less than 0.3 per cent. of the Group's salary budget for the funding of sport, cultural and other recreation activity. Social expenses decreased by UAH 136,311 thousand, or 21.1 per cent., to UAH 508,250 thousand for the year ended 31 December 2014 from UAH 644,561 thousand for the year ended 31 December 2013 in accordance with the terms of the industry agreements and due to the Group's volatile financial situation caused by the decline in transportation volumes and the political situation in the country (particularly the military actions in eastern Ukraine and the annexation of Crimea). As a percentage of total operating expenses, the share of social expenses remained stable with a slight decrease to 1.1 per cent. for the year ended 31 December 2014 from 1.4 per cent. for the year ended 31 December 2013.

The Group's social expenses increased by UAH 135,089 thousand, or 26.5 per cent., to UAH 644,561 thousand for the year ended 31 December 2013 from UAH 509,472 thousand for the year ended 31 December 2012, primarily attributable to a possibility to enhance work morale by increasing indexation of freight and passenger transportation. As a percentage of total operating expenses, social expenses remained stable with a slight increase to 1.4 per cent. for the year ended 31 December 2013 from 1.1 per cent. for the year ended 31 December 2012.

Impairment of property, plant and other equipment

The Group recorded a one-time impairment loss of property, plant and other equipment of UAH 427,648 thousand for the year ended 31 December 2013, largely as a result of the general economic downturn and revision of the Group's performance in future periods. As a percentage of total operating expenses, impairment of property, plant and other equipment was 0.9 per cent. for the year ended 31 December 2013.

Change in Provisions for Expenses Related to Risks Associated with Tax Issues and Legal Proceedings

Change in provisions, which included provisions for legal claims and provision for tax risks, amounted to a gain of UAH 12,901 thousand for the year ended 31 December 2013 as compared to a loss of UAH 414,840 thousand for the year ended 31 December 2014. This increase was primarily attributable to the recognition as at 31 December 2014 of a provision for litigation in the amount of UAH 430,048 thousand in respect of a breach of a construction contract with one of the suppliers.

Change in provisions increased by UAH 12,359 thousand, or 2,280.3 per cent., to a gain of UAH 12,901 thousand for the year ended 31 December 2013 from a gain of UAH 542 thousand for the year ended 31 December 2012. This increase was primarily attributable to a reversal in unused amounts of reserves.

Other Expenses, net

Net other expenses include gains and losses of property, plant and equipment, inventory disposal, costs of banking services, income and expenses from operating leases, fines and penalties received and paid, and other items. Net other expenses amounted to a loss of UAH 382,485 thousand for the year ended 31 December 2014 as compared to a gain of UAH 14,018 thousand for the year ended 31 December 2013.

Net other expenses amounted to a gain of UAH 14,018 thousand for the year ended 31 December 2013 as compared to a loss of UAH 365,580 thousand for the year ended 31 December 2012.

Finance Income and Finance Costs

The following table sets forth the Group's finance income and finance costs for the years ended 31 December 2014, 2013 and 2012:

	Year ended 31 December			Change	
	2014	2013	2012	2014/2013	2013/2012
		(UAH thousands)		*(percentages)*	
Finance income, finance costs and foreign exchange (loss)/gain, net					
Finance income	50,082	55,057	47,087	(9.0)	16.9
Finance costs	(3,703,546)	(3,261,924)	(3,220,736)	13.5	1.3
Foreign exchange (loss)/gain, net	(14,243,398)	128,007	(30,167)	–	–
Total	**(17,896,862)**	**(3,078,860)**	**(3,203,816)**	**481.3**	**(3.9)**

Total finance income, finance costs and foreign exchange (loss)/gain, net increased by UAH 14,818,002 thousand, or 481.3 per cent., to an expense of UAH 17,896,862 thousand for the year ended 31 December 2014 from an expense of UAH 3,078,860 thousand for the year ended 31 December 2013. The increase was primarily attributable to additional foreign exchange losses resulting from the depreciation of the hryvnia.

Total finance income, finance costs and foreign exchange (loss)/gain, net decreased by UAH 124,956 thousand, or 3.9 per cent., to an expense of UAH 3,078,860 thousand for the year ended 31 December 2013 from an expense of UAH 3,203,816 thousand for the year ended 31 December 2012. The decrease was primarily attributable to a foreign exchange gain in 2013 relating to the Group receiving income from foreign currency sale/purchase operations.

Finance Income

Finance income decreased by UAH 4,975 thousand, or 9.0 per cent., to UAH 50,082 thousand for the year ended 31 December 2014 from UAH 55,057 thousand in the year ended 31 December 2013, primarily due to declines in both interest income on deposits and in interest income on loans and receivables with related parties.

Finance income increased by UAH 7,970 thousand, or 16.9 per cent., to UAH 55,057 thousand for the year ended 31 December 2013 from UAH 47,087 thousand in the year ended 31 December 2012, primarily due to an increase in interest income on loans and receivables with related parties.

Finance Costs

Finance costs primarily comprise interest accrued on the Group's loans and financing under financial leasing arrangements. Finance costs increased by UAH 441,622 thousand, or 13.5 per cent., to UAH 3,703,546 thousand for the year ended 31 December 2014 from UAH 3,261,924 thousand in the year ended 31 December 2013, mainly due to a rise in interest expense on loans and borrowings.

Finance costs increased slightly by UAH 41,188 thousand, or 1.3 per cent., to UAH 3,261,924 thousand for the year ended 31 December 2013 from UAH 3,220,736 thousand in the year ended 31 December 2012, primarily due to an overall increase in interest expense on loans and borrowings, which was partially offset by a decline in finance lease charges.

Foreign Exchange (Loss)/Gain, net

The Group's results partly depend on fluctuations in foreign exchange rates, since the Group's revenue in foreign currencies does not cover the Group's borrowings denominated in U.S. dollars. For the year ended 31 December 2014, the Group recorded a net foreign exchange loss of UAH 14,243,398 thousand as a result of depreciation of the hryvnia against the U.S. dollar, and a net foreign exchange gain for the year ended 31 December 2013 of UAH 128,007 thousand, respectively. For the year ended 31 December 2012, the Group recorded a net foreign exchange loss of UAH 30,167 thousand due to a relatively inflexible hryvnia-U.S. dollar exchange rate.

The Group has been using overdrafts to meet regular funding needs that are required to be processed by the seventh day of each month following the monthly reporting period. The amount of the Group's overdraft capabilities ranges from approximately UAH 60-100 million. Currently, the Group does not attract short-term financing**.**

Income Taxes

For the years ended 31 December 2014 and 2013, the Group recorded income tax expenses of UAH 762,061 thousand and UAH 1,325,856 thousand, respectively. For the year ended 31 December 2012, the Group recorded an income tax expense of UAH 1,217,017 thousand. This income tax expense was primarily attributable to amendments to the tax legislation in effect from 1 January 2013, which included changes in the methodology of income tax calculation. Payments based on quarterly results were substituted with monthly advance payments in the amount of 1/12 based on the sum of the tax charged in the previous year. In the year-based declaration, the sum of advance payments that were made during the year is deducted from the amount of the income tax liability accrued. The decrease in the amount of income tax paid was also caused by the drop in transportation revenues and change in the tax rate from 21 per cent. in 2012 to 19 per cent. in 2013. See Note 21 to the Combined Financial Statements for the years ended 31 December 2014 and 2013.

(Loss)/Profit for the Year

The Group recorded a net loss of UAH 15,443,802 thousand for the year ended 31 December 2014, as compared to profit of UAH 557,571 thousand for the year ended 31 December 2013. This change was principally attributable to the substantial foreign exchange loss in 2014 as a result of the depreciation of the hryvnia.

The Group's profit decreased by UAH 276,254 thousand or 33.1 per cent. to UAH 557,571 thousand for the year ended 31 December 2013 from UAH 833,825 thousand for the year ended 31 December 2012. The decrease in profit was primarily attributable to lower operating expenses, despite a reduction in revenues.

Liquidity and Capital Resources

The Group's operations, including maintenance and repair of the rail system and related infrastructure, as well as maintenance and repair of the locomotives and rolling stock and other types of property, plant and equipment, are capital intensive activities. The Group requires funds primarily for, among other things, working capital purposes, to meet its short-term financial obligations as they fall due, as well as for expanding and upgrading the rail system, constructing high-speed passenger tracks, purchasing high-speed passenger rolling stock, and modernising and expanding its rolling stock and locomotive fleet.

As at 30 June 2015, the Group's current liabilities exceeded its current assets by UAH 36,794,001 thousand, representing a 23.1 per cent. increase from UAH 29,880,159 thousand as at 31 December 2014. The increase was primarily attributable to an increase in current liabilities, particularly interest-bearing loans and borrowings.

As at 31 December 2014, the Group's current liabilities exceeded its current assets by UAH 29,880,159 thousand, representing a 207.7 per cent. increase from UAH 9,709,889 thousand as at 31 December 2013, which was primarily attributable to an increase in current liabilities, particularly interest-bearing loans and borrowings (mainly due to the increase in the U.S dollar-hryvnia exchange rate). As at 31 December 2013, the Group's current liabilities exceeded its current assets by UAH 9,709,889 thousand, representing a 22.1 per cent. decrease from UAH 12,463,769 thousand as at 31 December 2012. This decrease was primarily attributable to a decrease in interest-bearing loans and borrowings, which was partially offset by increases in inventories, cash and cash equivalents. During the periods discussed in this section, the Group financed investment activities through cash generated from commercial operations, cash received as proceeds from additional domestic bond issues and current and non-current borrowings.

The Group's management is currently addressing the Group's liquidity needs by implementing the following measures:

- diversifying financing resources through the international capital markets;
- signing long-term agreements with domestic bank institutions and international financial institutions for necessary reserves to cover liquidity needs if necessary;
- improving working capital management by reviewing the terms of payments with key suppliers and improving inventory management; and
- optimising the Group's cost structure.

Cash Flows

The following table sets forth the Group's cash flows for the years ended 31 December 2014, 2013 and 2012:

	Year ended 31 December			Change	
	2014	2013	2012	2014/2013	2013/2012
		(UAH thousands)		*(percentages)*	
Operating profit before working capital changes	9,397,075	11,260,114	11,364,585	(16.5)	(0.9)
Net cash flows from operating activities	6,072,795	8,107,066	7,121,016	(25.1)	13.8
Net cash flows used in investing activities	(3,818,409)	(6,812,102)	(9,739,594)	(43.9)	(30.1)
Net cash flows from/(used in) financing activities	(874,811)	(895,617)	503,130	(2.3)	(278.0)
Net (decrease)/increase in cash and cash equivalents	**1,379,575**	**399,347**	**(2,115,448)**	**245.5**	**(118.9)**
Net foreign exchange differences	14,874	3,389	813	338.9	316.9
Cash and cash equivalents at 1 January	**643,559**	**240,823**	**2,355,458**	**167.2**	**(89.8)**
Cash and cash equivalents at 31 December	**2,038,008**	**643,559**	**240,823**	**216.7**	**167.2**

Net Cash Flows from Operating Activities

Net cash flows from operating activities decreased by UAH 2,034,271 thousand, or 25.1 per cent., to a cash inflow of UAH 6,072,795 thousand in the year ended 31 December 2014 from a cash inflow of UAH 8,107,066 thousand in the year ended 31 December 2013. This decrease was primarily attributable to a cash outflow in trade and other payables in 2014.

Net cash flows from operating activities increased by UAH 986,050 thousand, or 13.8 per cent., to a cash inflow of UAH 8,107,066 thousand in the year ended 31 December 2013 from a cash inflow of

UAH 7,121,016 thousand in the year ended 31 December 2012. This increase was primarily due to a cash inflow in taxes receivable and prepaid in 2013.

Net Cash Flows used in Investing Activities

Net cash flows used in investing activities decreased by UAH 2,993,693 thousand, or 43.9 per cent., to a cash outflow of UAH 3,818,409 thousand in the year ended 31 December 2014 from a cash outflow of UAH 6,812,102 thousand in the year ended 31 December 2013. This was primarily due to a decline in the acquisition of property, plant and equipment.

Net cash flows used in investing activities decreased by UAH 2,927,492 thousand, or 30.1 per cent., to a cash outflow of UAH 6,812,102 thousand in the year ended 31 December 2013 from a cash outflow of UAH 9,739,594 thousand in the year ended 31 December 2012. This was primarily due to a decline in the acquisition of property, plant and equipment.

Net Cash Flows from Financing Activities

Net cash flows from financing activities decreased by UAH 20,806 thousand, or 2.3 per cent., to a cash outflow of UAH 874,811 thousand in the year ended 31 December 2014 from a cash outflow of UAH 895,617 thousand in the year ended 31 December 2013. This decrease was primarily attributable to declines in the repayment of interest-bearing loans, domestic bonds and finance lease obligations, which were partially offset by lower proceeds from interest-bearing loans, Eurobonds and domestic bonds.

Net cash flows from financing activities amounted to a cash outflow of UAH 895,617 thousand in the year ended 31 December 2013, as compared to a cash inflow of UAH 503,130 thousand in the year ended 31 December 2012. This change resulted from the issuance of the Group's Eurobond in 2013, and the resulting increase in the repayment of interest-bearing loans.

Capital Expenditures

The Group's capital expenditures relate primarily to investments in the rail industry and related infrastructure and purchases of locomotives, rolling stock and operating equipment.

The Group's cash paid for acquisition of property, plant and equipment decreased by UAH 3,007,681 thousand, or 42.0 per cent. to UAH 4,145,903 thousand in the year ended 31 December 2014 from UAH 7,153,584 thousand in the year ended 31 December 2013. This decrease was primarily attributable to insufficient working capital caused by the decline in transportation volumes (due to the strained situation in Donbass and the annexation of Crimea), depreciation of the hryvnia, and a significant rise in output prices and prices for energy supplies. Cash paid to acquire property, plant and equipment decreased by UAH 3,182,657 thousand, or 30.8 per cent., to UAH 7,153,584 thousand in the year ended 31 December 2013 from UAH 10,336,241 thousand in the year ended 31 December 2012. This decrease was primarily attributable to insufficient working capital available to the Group.

The following table sets forth estimates of the Group's capital expenditures for the periods indicated.

	Year ended 31 December				
	2012(1)	**2013**(1)	**2014**(1)	**2015E**(2)	**2016E**(2)
			(UAH thousands)		
Cash paid for acquisition of property, plant and equipment	10,336,241	7,153,584	4,145,903	4,374,280	15,638,135

Notes:

(1) Presented in the Combined Financial Statements as Acquisition of property, plant and equipment in the Group's Net cash flows used in investing activities.

(2) Capital expenditures estimates for 2015 and 2016 are taken from the Group's Investment Programme and remain subject to change in the future as the Group revises the Investment Programme.

Debt Obligations

The Group finances its activities through a combination of long-term bank loans from Ukrainian and foreign banks, hryvnia-denominated bond issues and financial leasing arrangements.

Bank Finance

Overview

The Group has banking relationships with a number of Ukrainian and foreign banks. Most of the borrowings from Ukrainian banks are denominated in U.S. dollars and are fixed rate. Loans from foreign banks tend to be long term and are also denominated in foreign currency. Pledges are required as a type of loan security by Ukrainian banks and are the standard of the NBU.

In 2012 the average interest rate paid by the Group under its long-term U.S. dollar-denominated loans was approximately 11 per cent., and in each of 2013 and 2014 the average interest rate was approximately 12 per cent.

The Group primarily relies on long-term loans to fund the Investment Programme and to support the development of railway transportation. Development planning is included within the Investment Programme, but is approved annually. The term of the Group's existing long-term domestic loans varies between three and five years. Loans from international sources vary, on average, from 10 to 15 years. Long-term financings are typically secured by a pledge and charges over the Group's freight transportation contracts. Other mechanisms are also used, including State guarantees, sureties and pledges of fixed assets, which are purchased from loan funds. All future long-term loans will be incurred for the further support and development of railway transportation.

The Group maintains and develops relationships with several development banks, such as the EBRD and the EIB. Under the EBRD's terms of business, the EBRD usually provides funding for 85 per cent. of the project value, to purchase the necessary equipment, and the Group funds the remaining 15 per cent. Under the terms of loan agreements with the EBRD (which are generally secured by State guarantees), the EBRD transfers the funds directly to the supplier of the equipment.

In 2004, Ukrzaliznytsia executed a loan agreement with the EBRD, which included a sovereign guarantee from the Government, in the amount of U.S.$120 million. The loan agreement provides for the acquisition of modern track equipment and designs (tranche A), and the construction of a new twin-track tunnel in the Beskyd-Skotars'ke section of Lviv railway (part of the international transportation corridor No. 5) (tranche B). Using the loan, 24 track machines were purchased for the amount of U.S.$80.17 million, which were transferred to central Ukraine for the mechanisation of track works.

As of 1 March 2016, loan funds in the amount of U.S.$39.86 million were used for the construction of the Beskyd tunnel, as well as for the technical supervision.

Going forward, construction of the Beskyd tunnel is expected to be financed from loan funds of the EIB. On 7 May 2014 the EIB and Ukrzaliznytsia entered into a financing agreement FI No.81.421 Serapis No.2011-0053 "Project "Beskyd railway tunnel" (Construction of Beskyd tunnel)" for EUR55 million secured by the Government. As of the date of this Prospectus, the Group is formalising the drawdown of the EIB loan's first tranche.

The following table sets forth the Group's interest-bearing loans and borrowings as at 31 December 2014, 2013 and 2012:

		As at 31 December		
	Interest rate	**2014**	**2013**	**2012**
			(UAH thousands)	
USD				
Floating rate	LIBOR 6 month + 1% - 7.83%	4,490,537	2,564,428	3,012,539
Fixed rate	9.65% - 16%	19,537,131	9,666,925	3,607,371
		24,027,668	**12,231,353**	**6,619,910**
EUR	EURIBOR 6 month	766,831	–	–
Floating rate	+6.55%	766,831	–	–
UAH				
Fixed rate	10% - 30%	6,293,197	5,680,635	10,190,432
		6,293,197	**5,680,635**	**10,190,432**

Total interest bearing loans and borrowings	31,087,696	**17,911,988**	**16,810,342**
Less: Current portion	(25,358,013)	(5,574,045)	(7,500,126)
Interest bearing loans and borrowings, non-current	5,729,683	**12,337,943**	**9,310,216**

For more information, please see Note 18 to the Combined Financial Statements for the years ended 31 December 2014 and 2013.

Available Facilities

Available facilities of the Group include long-term loans as well as the possibility to place long-term registered interest-bearing bonds.

Maturities

The Group's objective is to maintain the continuity of funding through the use of cash generated through the Group's operations, credit terms provided by suppliers, and interest-bearing loans and borrowings. The Group analyses the aging of its assets and cash generation ability versus the maturity of its liabilities and plans its liquidity depending on the expected repayment under various debt obligations.

The following table sets forth the maturity profile of the Group's financial liabilities as at 31 December 2014, 2013 and 2012 based on contractual undiscounted payments, assuming no breaches occurred:

	Year ended 31 December 2014					
	Less than 3 month	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	***Less*: Effect of amortisation**	**Carrying Value**
Interest bearing loans and borrowings	5,874,906	8,085,471	22,931,337	1,067,355	(6,871,373)	31,087,696
Finance lease liability	1,080,122	869,436	2,190,997	98,386	(824,501)	3,414,440
Trade and other payables	5,744,957	274,295	114,960	79	—	6,134,291

	Year ended 31 December 2013					
	Less than 3 month	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	***Less*: Effect of amortisation**	**Carrying Value**
Interest bearing loans and borrowings	632,207	6,912,489	14,500,660	2,754,129	(6,887,497)	17,911,988
Finance lease liability	432,260	1,091,755	1,220, 447	165,719	(540,501)	2,369,680
Trade and other payables	6,265,558	168,860	353,452	321,759	—	7,109,629

	Year ended 31 December 2012					
	Less than 3 month	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	***Less*: Effect of amortisation**	**Carrying Value**
Interest bearing loans and borrowings	1,303,727	8,041,712	9,444,887	1,852,418	(3,832,402)	16,810,342
Finance lease liability	619,093	1,261,308	2,072,788	79,110	(746,105)	3,286,194
Trade and other payables	5,752,206	1,048,983	—	—	—	6,801,189

Financial Leasing

The Group entered into several financial leasing arrangements with PE VTB Leasing, PJSC Ukrtransleasing, CJSC MTEK, PLC Premier-Leasing and other providers to finance purchases of railcars, locomotives and other rail maintenance equipment. As at 30 June 2015, the carrying value of finance lease payables under the Group's financial leasing arrangements was UAH 2,787,845 thousand.

The majority of the Group's financial leasing arrangements are for seven year terms, although some are longer. The interest rate paid by the Group under these arrangements is approximately 11-21 per cent. on average. The Group is not required to provide a pledge or other forms of security under these arrangements. In addition, the purchased equipment is recorded on the Group's balance sheet from the date of the relevant leasing agreement and is amortised throughout its term, thus reducing the Group's taxable profit. The equipment can also be used straight away and generate revenues to the Group.

Hryvnia-Denominated Bonds

During 2012-2014 the Group has been regularly issuing bonds on the domestic stock market predominantly for the term of three years to support capital investments, repayment of loans and replenishment of cash. Approximately UAH 3,918 million was outstanding as at 30 June 2015.

The interest rates on these hryvnia-denominated bonds range from 14.5 per cent. to 23.5 per cent.

Commitments

As at 30 June 2015, the Group had contractual commitments regarding the acquisition of fixed assets totalling UAH 2,014,554 thousand (compared to UAH 1,971,931 thousand, UAH 1,876,145 thousand and UAH 1,317,031 thousand as at 31 December 2014, 2013 and 2012, respectively. The Group has set priorities for future capital expenditure decisions, which aim to promote further modernisation and development of railway transportation.

Contingencies

The Group is subject to various lawsuits, claims and proceedings related to matters incidental to its business activities. Accruals of probable cash outflows are made based on an assessment of a combination of litigation and settlement strategies. It is possible that results of operations in any future period could be materially affected by changes in assumptions or by the effectiveness of these strategies.

Taxation

Ukrainian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. The interpretation of such legislation by the Group's management as applied to the transactions and activities of the Group may be challenged by the relevant authorities. As a result, significant additional taxes, penalties and interest may be assessed. The most recent scheduled tax audit of the Group's activities was performed by the tax authorities in 2012. There were no scheduled tax audits since 2013 and the Group entities were subject only to cross-audits

Environmental Liabilities

The enforcement of environmental regulation in Ukraine is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations and, as obligations are determined, they are recognised as an expense immediately if no future benefit is discernible. Potential liabilities which might arise as a result of a change in interpretation of existing regulations, civil litigation or changes in legislation cannot be estimated. Under existing legislation, the Group's management believes that there are no probable liabilities which will have a material adverse effect on the Group's financial position, statement of income or cash flows.

Legal Contingencies

The Group is the subject of, or party to, a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of the Group's management, the Group's legal position in the mentioned court proceedings is sufficiently substantiated and, thus, final court rulings are not expected to have a material adverse effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in the Combined Financial Statements.

Discussion and Analysis of Market Risk

In the ordinary course of business the Group is exposed to a variety of market risks that are typical for the industry and business sectors in which the Group operates.

Credit Risks

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The risk arises primarily in cases where a customer is unable to perform its obligation to pay for services that are sold. The Group minimises credit risk by operating on a prepayment basis with the majority of its customers.

Interest Rate Risk

Interest rates on the Group's debt financing are either fixed or variable, at a fixed spread over LIBOR and other variable rates, for the duration of each contract. At the time of raising additional debt financing, the Group uses its judgment to decide whether a fixed or variable rate would be more favourable over the expected term.

Foreign Currency Exchange Rate Exposure

The Group is exposed to currency risk on selected receivables, payables and borrowings that are denominated in currencies other than the hryvnia. The currencies in which these transactions are denominated are primarily the U.S. dollar, the Euro, the Swiss Franc and the Russian Rouble.

The Group's principal exchange rate risk involves changes in the value of the U.S. dollar relative to the hryvnia and, to a lesser extent, relative to other currencies. Increases in the value of the U.S. dollar relative to the hryvnia will increase the value of the Group's U.S. dollar denominated liabilities when measured in hryvnia.

Liquidity Risk

As at 30 June 2015, the Group's current liabilities exceeded its current assets by UAH 36,794,001 thousand, which leaves risks as to the Group's liquidity. Liquidity risk is the risk that the Group will not be able to meet its financial obligations when they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to its reputation. The Group manages liquidity risk by maintaining adequate cash reserves and borrowing facilities, continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities. For more information, please see Note 2 to the Combined Financial Statements for the six months ended 30 June 2015 and the years ended 31 December 2014 and 2013 and Note 31 to the Combined Financial Statements for the years ended 31 December 2014 and 2013.

BUSINESS

Overview

The Group is the monopoly provider of rail transport in Ukraine. The Group operates Ukraine's over 21,000 kilometre-long rail track network (and related infrastructure), which is the fourth largest rail network in Europe as measured by passenger turnover and the second largest by freight turnover. The Group is one of the largest single contributors to Ukraine's GDP. According to the State Statistics Service of Ukraine, the Group represented an estimated 3.54 per cent. of Ukraine's GDP for the six months ended 30 June 2015 compared to 3.16 per cent., 3.51 per cent. and 3.74 per cent. for the years ended 31 December 2014, 2013 and 2012, respectively. See "—*The Rail System*" below. The Group is also one of the largest employers in Ukraine, with an average of 295,628 employees during the six months ended 30 June 2015.

The Group derives the bulk of its revenues from freight transportation but also engages in passenger transportation, locomotive traction, infrastructure operations, rolling stock repair and maintenance, logistic operations, machine-building, research and construction. According to the State Statistics Service of Ukraine, in the six months ended 30 June 2015, the Group accounted for 83.4 per cent. of all freight transported in Ukraine by turnover (including all types of transportation except for transport by pipeline) and for 42.4 per cent. of all domestic passenger transportation by turnover (excluding inner city transport).

The Group's cargo revenues represented 82.4 per cent. of its total revenues for the six months ended 30 June 2015 compared to 79.5 per cent., 76.0 per cent. and 77.7 per cent. for the years ended 31 December 2014, 2013 and 2012, respectively. In the six months ended 30 June 2015, the Group had an overall freight turnover (including empty runs) of 114.4 billion tonne-kilometres (the measurement of transport of one tonne of goods over a distance of one kilometre), a 9.1 per cent. decrease compared to an overall freight turnover of 125.9 billion tonne-kilometres for the six months ended 30 June 2014. In the year ended 31 December 2014, the Group had an overall freight turnover (including empty runs) of 247.3 billion tonne-kilometres, a 4.8 per cent. decrease compared to an overall freight turnover of 259.7 billion tonne-kilometres in the year ended 31 December 2013, which in turn was a 6.8 per cent. decrease compared to an overall freight turnover of 278.7 billion tonne-kilometres in the year ended 31 December 2012.

The Group's passenger revenues represented 9.5 per cent. of its total revenues for the six months ended 30 June 2015 and 10.6 per cent., 13.8 per cent. and 12.4 per cent. for the years ended 31 December 2014, 2013 and 2012, respectively. In the six months ended 30 June 2015, the Group had an overall passenger turnover of 17.0 billion passenger-kilometres (the measurement of transport of one passenger over a distance of one kilometre), a 4.9 per cent. decrease compared to an overall passenger turnover of 17.9 billion passenger-kilometres in the six months ended 30 June 2014. In the year ended 31 December 2014, the Group had an overall passenger turnover of 37.1 billion passenger-kilometres, a 24.2 per cent. decrease compared to an overall passenger turnover of 48.9 billion passenger-kilometres in the year ended 31 December 2013, which in turn was a 0.7 per cent. decrease compared to an overall passenger turnover of 49.2 billion passenger-kilometres in the year ended 31 December 2012.

The Group implements the Government's social support programme (including through provision of reduced tariffs to certain categories of persons such as pensioners, veterans and students, among others) and the Group's passenger revenues include compensation from the state budget and local budgets to cover a portion of the recurring losses incurred in the Group's preferential passenger transportation services.

The Group's other revenues (which include industrial production facilities and services, research and development and other non-core operations) represented 8.1 per cent. of its total revenues for the six months ended 30 June 2015, compared to 9.9 per cent., 10.2 per cent. and 9.9 per cent. for the years ended 31 December 2014, 2013 and 2012, respectively.

The Group has recently undergone and continues to undergo significant reorganisation, consolidation and reform pursuant to the Reform Programme. In particular, the entities which formerly composed the Group have been consolidated by merger into a newly incorporated entity, the Company. See "*—Reform Programme*".

The Group has made, and intends to continue to make, substantial investments to modernise and expand its rail infrastructure and related assets. The Group paid UAH 22.8 billion for the acquisition of property, plant and equipment in 2012 through 30 June 2015 according to its IFRS accounts and has planned capital expenditures of UAH 15.6 billion in 2016 and UAH 14.5 billion in 2017. These capital expenditures are part of the Group's investment projects to continue the development of high-speed passenger transportation in Ukraine, complete construction of the Beskyd tunnel (a new two-way rail tunnel to replace the existing single track rail tunnel in the Beskyd-Skotarske district along the Lviv-Chop route), and further implement the electrification and reconstruction of rail tracks and the upgrading of rolling stock. The Group plans to finance the Investment Programme from external debt financing, including capital markets and funds from international financial institutions, as well as from cash flows generated from its operations.

Relationship with the State

The Company was incorporated pursuant to the Law of Ukraine "On the Peculiarities of Incorporation of a Public Joint Stock Company for Railway Transports of General Use", Resolution of the Cabinet of Ministers of Ukraine, dated 25 June 2014, No. 200 On Incorporation of Pubic Joint-Stock Company "Ukrainian Railway".

The Group is wholly owned by the State and, under current law, the State may not transfer or sell any of its stake or privatise the Group. Although by law the State and local authorities may not interfere in the business activities of Ukrainian companies, the State has substantial influence over and may exercise certain powers with respect to the Group. In particular, the Government approves the Group's annual financial plans, appoints its management (see "*Management*") and determines its tariff policy.

Competitive Strengths

The Group believes that it is well placed to continue to grow and develop for the following reasons:

Sustainable Natural Monopoly Market Position. The Group is the exclusive State-owned provider of railway transportation services in Ukraine and is the sole operator of all of Ukraine's rail track network and related infrastructure, freight and passenger rail transportation. The Group's status as a natural monopoly is codified under Ukrainian law. See "*Regulation*". As a result of the existing regulatory framework, it is extremely difficult for other Ukrainian or foreign companies to enter the railway transportation market and successfully compete with the Group. However, the Reform Programme provides for the implementation of measures aimed at enhancing competition in the freight and passenger rail transportation market. A draft law which allows private operators' access to the rail transportation market has been submitted to the Parliament of Ukraine.

In addition, with the exception of electricity, fuel and certain specialised infrastructure and equipment, the Group's key business needs are serviced by various entities of the Group. This inner production minimises the Group's reliance on suppliers or market competition. For instance, supplies and maintenance of sleepers and rail track equipment are provided by the Starokonstantinovsky sleeper plants, the Rava-Rusky sleeper treating factory, Novomoskovsk factory and the Ukrainian Centre for Railroad Works Mechanization; locomotive and rolling stock maintenance is performed by the State Enterprise "Ukrainian State Centre for Special Carriages Service", Darnytsky, and Stryysky State Railcar Construction Repair Plants; and freight logistics services are provided by the Ukrainian transport logistics centre. In addition, a number of sectoral programmes were developed and implemented that include measures aimed at reducing the overall usage of fuel and electricity.

Strategic Importance to the Ukrainian Economy as a Key Infrastructure Industry. The Group plays a strategic role in freight and passenger transportation in Ukraine. The Group operates the State-owned railway system, which is the primary mode of freight transportation in Ukraine for all major types of freight by freight turnover. The overall freight turnover on the rail system was 114.4 billion and 125.9 billion tonne-kilometres in the six months ended 30 June 2015 and 2014, respectively, 247.3 billion tonne-kilometres in 2014, 259.7 billion tonne-kilometres in 2013, and 278.7 billion tonne-kilometres in

2012, which represented 83.4 per cent. and 83.6 per cent. of total freight shipments in Ukraine by turnover (excluding transportation by pipeline) in the six months ended 30 June of 2015 and 2014, respectively, compared to 82.9 per cent., 83.2 per cent. and 84.1 per cent. in the years ended 31 December 2014, 2013 and 2012, respectively.

Rail transport is the second most used means of transportation for domestic passengers (after automotive vehicles) in Ukraine. The total passenger-kilometres travelled by rail in Ukraine (as a percentage of all passenger-kilometres by all forms of transportation) exceeded 42.9 per cent. and 39.9 per cent. (or 17 billion and 17.9 billion passenger-kilometres) in the six months ended 30 June 2015 and in the year ended 31 December 2014, respectively, compared to 40.6 per cent., 44.2 per cent. and 43.2 per cent. (or 37.1 billion, 48.9 billion and 49.2 billion passenger-kilometres) for the years ended 31 December 2014, 2013 and 2012, respectively.

The Group transports a significant share of international transit and gross export turnover and the Group expects to benefit from the growth of the Ukrainian economy in the medium- to long-term. Growth in freight turnover historically has been strongly correlated with growth in GDP and industrial production in Ukraine. The Cabinet of Ministers of Ukraine has projected an annual GDP growth of 2-4 per cent. from 2016 to 2019 . The Group expects to benefit from the anticipated growth in industrial production, foreign trade expansion and the population's increasing mobility, which together are expected to translate into increases in freight and passenger traffic. The Group also plans to develop and exploit new trade routes both domestically and internationally, which the Group expects will increase the rail system's throughput capacity and efficiency by reducing the volume of empty runs.

Predictable Revenue Streams and Prudent Financial Policy. Due to the nature of railway transportation operations, the Group is able to project its revenue streams from both freight and passenger transportation. Prices for most of the Group's services to customers are regulated by the Government under various categories of railway transportation tariffs and are set in advance. See "*—Tariff Regulation and Pricing*". The terms of the Group's customer service require both freight customers and passengers to pay for the transportation in advance. While there may be additional unexpected costs incurred in the course of transporting certain types of freight or passengers, the vast majority of the Group's revenues are highly projectable.

The Group does not run a significant risk of non-receipt of earnings from its transportation services due to the fact that it requires customers to prepay for freight and passenger transportation services. While there are certain categories of freight customers that are allowed by the Government in emergency situations to use the Group's services without making any prepayment, such emergency situations are infrequent and account for a relatively small proportion of the overall freight transportation.

Although the Group incurs significant capital expenditure to upgrade and maintain its infrastructure, the Investment Programme provides for certain flexibility enabling the Group to postpone or reallocate certain expenditures depending on the overall economic environment and financial condition of the Group. Based on previous years' experience, such discretionary expenditures account for approximately U.S.$100 million to U.S.$200 million per year.

Strong Relationship with the State. The Group is wholly owned by the State and may not be privatised under current Ukrainian law. The fact that railway transport enterprises within the Group may not be privatised reflects its critical role as the entity which is, with the State's support, responsible for the operation of the railway system in Ukraine. The State is committed to improving Ukraine's railway network and to improving the Group's efficiency to international standards. The Group is also a major taxpayer and paid UAH 392,959 thousand and UAH 602,433 thousand in corporate income tax in the six months ended 30 June 2015 and in the year ended 31 December 2014, respectively, making its value to the State and the Ukrainian economy critically important.

Advantageous Geographical Position. Ukraine borders Russia, Belarus, Poland, Slovakia, Hungary, Romania and Moldova. Given its location and size, Ukraine is a key transportation hub for domestic, transit and trade logistics between Europe and Russia and between Europe and Central Asia. In the six months ended 30 June 2015, freight transit turnover via Ukraine was 14.9 million tonne-kilometres. Geographic reach, high density of rail track and flexibility of service allow the Group to take advantage of expanding regional centres and to establish itself as a leading provider of freight and passenger transportation in the interregional trade relationship with Europe and Asia. Four of the 10 Pan-European Transport Corridors pass through Ukraine's territory.

Strategy

Certain key elements of the Group's strategy are as follows:

Benefit from Group Reorganisation. The Group has recently been reorganised and consolidated pursuant to the Reform Programme. The Group's new special purpose vehicle model, in which all Group entities have been consolidated (merged) into a single entity – the Company, which enables the Group to more efficiently and effectively develop and implement its strategy. According to the Establishment Law, the Company was established under the decision of the Cabinet of Ministers of Ukraine specifying the exact list of railway transport enterprises subject to a merger. The Establishment Law and the Charter of the Company expressly provide that the Company is a legal successor of all rights and obligations of the list of railway transport enterprises, which included, among others, the Original Borrowers and the Original Sureties. In accordance with Resolution 200, 100% of the shares of seven joint-stock companies, which previously were not under control of Ukrzaliznytsia and were not part of the Original Group, as well as defined percentage of shareholdings in several other legal entities (less than 50% of shares in each case), are to be contributed to the charter capital of the Company.

Developing Infrastructure and Investing in the Rail System to Reduce Fixed Costs. The Group makes investments to modernise and expand its rail infrastructure, locomotive fleet, rolling stock and related assets and plans to continue such investments. The Group expects that these investments will allow it to achieve significant savings in maintenance and other fixed costs, as well as potentially increasing the efficiency and profitability of its operations, and it intends to leverage its State ownership to achieve maximum efficiency in its infrastructure investments.

The Group views infrastructure development as a key pillar of its growth plans. As part of this infrastructure development, the Group plans to implement a number of measures, including ongoing electrification of railway tracks, allocation of dedicated routes for high-speed passenger transportation and re-allocation of freight transportation to other routes, construction of supporting infrastructure facilities and setting up a business unit for maintenance and operation of railroad engines. Freeing up selected routes for high-speed transportation is expected to reduce maintenance costs, increase the speed of transportation and allow the Group to increase transportation turnover and enhance revenues. The Group also made significant infrastructural improvements, such as the bridge over Dnipro River, which the Group expects will provide long-term gains in operational efficiency. See "*—Investment Programme*". The Group has plans for the reconstruction and technical re-equipment of at least 5,000 kilometres of main line tracks, capital renovation of at least 8,000 kilometres of railway tracks, reconstruction of stations, and installation of at least 6,000 design sets for new railroad switches.

The Group's modernisation programme aims to achieve savings in the consumption of diesel fuel, increase the speed of rolling stock, and also the Group's throughput capacity, and reduce the frequency of required equipment technical checks and overall maintenance costs. New high-speed trains are better equipped and more advanced, and have a longer service life, which would allow the Group to reduce operating expenses and provide more comfort and better facilities to its passengers (including those for disabled persons). However, the fleet of shunting locomotives will remain a part of the Group's infrastructure complex.

Group experts, together with the Ministry of Infrastructure of Ukraine, are currently drafting a programme for renewal of the rolling stock in the railway industry between now and 2025. The Group's projected budget for purchasing and upgrading rolling stock is approximately UAH 1.2 billion in 2015, approximately UAH 7.5 billion in 2016 and approximately UAH 6 billion in 2017.

Simplifying Tariff Structure to Promote Greater Transparency. According to the State Target Programme for Reform of Railway Transport for 2010-2019, new tariff regulations will be adopted to implement open pricing in the competitive sectors of the rail transportation services market (i.e., those sectors of the railway transportation industry that are not natural monopolies) (the "**New Tariff Regulations**"). The Group expects that the New Tariff Regulations will help promote transparency in the Group's tariff policy by taking into account the Group's planned transportation turnover, expense forecasts, tax and duties, and expected profits, which will provide customers with greater predictability in the cost of transport. Such predictability is designed to lead to a more attractive product offering and greater competitiveness, which could potentially increase sales, improve the Group's portfolio of services offered, and thereby enable the Group to continue to invest in upgrades to its asset base.

Improving Logistics Services to Increase Profitability. The Group is aware of the significant challenges facing the rail freight sector in the coming years. Growth rates for freight turnover by automotive transport are expected to significantly outpace the growth rates for freight turnover by rail transport, which will accentuate competition in the sector. Additionally, competition by private rail carriers is expected to increase significantly in the next several years due to regulatory changes. To combat this trend, the Group plans to improve logistics services offered to customers, enhance railway traffic control and reduce the need for empty runs. These improvements will allow the Group to better coordinate the movement of freight trains through relevant transportation routes and make the tracing of freight easier for both the shipper and the recipient, thereby potentially increasing profitability in the Group's freight transportation segment. Through these improvements, the Group aims to increase annual volumes of freight transportation up to 69 million tonnes by 2025 and to increase the share of transportation and logistical services in the Group's consolidated business portfolio to 20 per cent.

Corporate IT development. The Group's strategy for corporate IT development is aimed at unifying and improving existing IT systems and automating as many processes as possible. By 2018, the Group aims for its IT infrastructure to include the Analytical Information Systems ("**AIS**") which will enable the optimisation and efficient utilisation of available resources, as well as back-up Data Processing Centres ("**DPC**") to ensure the disaster tolerance of the IT systems. Over the longer term, the Group aims to increasingly utilise cloud-based technologies and further automate data collection and resource management, establish high-tech "situation rooms" to address urgent systems problems, and improve the interface of the Group's IT systems with those of key partners and clients.

Reducing Losses in Passenger Transportation. The Group's passenger transportation services are loss-making and are not likely to become profitable in the short- to medium-term. The Group plans to decrease the gap between the cost of the service and the price charged to passengers by introducing new services to passengers in the long-haul domestic segment, such as improving the quality and comfort of existing passenger trains and replacing traditional sleepers with daytime high-speed trains. High-speed trains can operate journeys more frequently and at higher occupancy capacity than traditional sleepers. By 2025, the Group aims for 15 per cent. of passenger turnover to be via high-speed or express trains. Certain passenger services, such as first-class railcars of high-speed trains "InterCity+", are not subject to tariff regulation by the Government and are priced at profitable levels. In suburban transportation, the Group has also installed turnstiles in its busiest stations and has partially implemented ticket controls at the entrance of railcars in order to reduce the number of non-paying customers.

Through these policies, the Group aims to ameliorate the general trend of the decline of passenger travel by rail (both in absolute terms and as a percentage of all passenger travel). The Group aims for a reduction of passenger turnover of no more than 4 per cent. on long-distance trains and 7 per cent. on commuter trains between now and 2025.

The Group's passenger transportation strategy is flexible to accommodate any changes in State policy aimed at enhancement of territorial mobility of population, transportation of preferential passengers and regulation of competition, all of which will have a direct effect on this business line of the Group.

Diversifying sources of funding to support the Group's investment programme. The Group is focusing on attracting funding from local and international markets, in addition to using its cash from operations to support its Investment Programme. Additionally, the State has provided support to the Group for its strategic infrastructure projects, such as financing the construction of the road-rail bridge across the Dnipro River, export credit financing to fund the purchase of high-speed passenger trains in 2012 and State guarantees to attract funds from the EBRD and EIB for the Beskyd Tunnel construction project.

The Group is also focused on continuing its cooperation with international financial institutions such as the EBRD and EIB. The Group expects to finance a portion of its Investment Programme with funds provided by these institutions.

Developing Human Resources. The Group's personnel are its most important asset. Key strategic human resources development priorities include the implementation of a social responsibility policy, maintaining a balanced approach towards worker replenishment and retention with respect to personnel, and the creation of a motivated team of qualified and highly efficient workers.

Reform Programme

In 2006, the Cabinet of Ministers of Ukraine approved the "Concept of the State Programme for Reformation of Railway Transport" (the "**Reform Programme**"). The State Target Programme was adopted in 2009 and further restated in 2011.

The Reform Programme aims to improve the management of the Group and services provided in the railway transportation sector, to increase the efficiency of railway transportation, and also to develop a competitive market in railway transportation in Ukraine by 2019. According to the State Target Programme, measures envisaged for the reform of railway transport during the period from 2010 through 2019 are expected to be implemented in several stages, as follows.

Stage I

Within the framework of the first stage of the State Target Programme, the Law of Ukraine "On the Peculiarities of Incorporation of a Public Joint Stock Company for Railway Transports of General Use" (the "**Establishment Law**") dated 23 February 2012 N 4442-VI set out the legal, economic and organisational details for the incorporation of the Company. Provisions of the Establishment Law and Resolution of the Cabinet of Ministers of Ukraine, dated 25 June 2014, No. 200 "On Incorporation of Pubic Joint-Stock Company "Ukrainian Railway"" ("**Resolution No. 200**"), provide that the Company be incorporated as a public joint stock company fully owned by the State, which will assume the rights and obligations of the entities of the pre-reorganisation Group, with such entities being re-organised via merger into the Company.

None of the shares comprising the State's 100 per cent. ownership of the Company may be disposed of, transferred, pledged or used for authorised capital of business entities, and no other transactions may be carried out with respect thereto which may result in the alienation of any shares in the Company from State ownership. As of the date of this Prospectus, registration of the shares is currently pending.

In order to comply with Section 5 of Resolution No. 200, during the second half of 2014 and 2015, the Ministry of Infrastructure implemented measures to reorganise the Group and the enterprises that comprised it (49 legal entities), which are currently being dissolved. Pursuant to the Establishment Law, Resolution No. 200 and the Charter of the Company, the Company holds all rights and obligations of the Group, which also is evidenced by the transfer certificates. As of 1 December 2015, the previous companies of the Group no longer carry out any business and have transferred all assets and liabilities to the Company.

In accordance with Resolution No. 735 of the Cabinet of Ministers of Ukraine "Matters Pertaining to Pubic Joint-Stock Company "Ukrainian Railway", dated 2 September 2015, whereby the Charter of the Company was approved, the State registration of the Company (which constituted the Company as a legal entity) was carried out on 21 October 2015.

In compliance with Section 99 of the Charter of the Company, on 21 October 2015, the management board of the Company adopted a resolution whereby 1 December 2015 was approved as date for commencement of financial and business operations of the Company. The balance sheet of the Company was drawn up as of 1 December 2015 which set out that all assets and liabilities of the pre-reorganisation Group were transferred to the Company.

The following table sets out the list of the entities that constituted the Original Group and whose assets and liabilities have been transferred to the Company as part of the reorganisation:

Number	Name of the Entity
1.	STATE ADMINISTRATION OF RAILWAY TRANSPORT OF UKRAINE *(ДЕРЖАВНА АДМІНІСТРАЦІЯ ЗАЛІЗНИЧНОГО ТРАНСПОРТУ УКРАЇНИ);*
2.	STATE ENTERPRISE "DONETSK RAILWAY" (DERZHAVNE PIDPRYIEMSTVO "DONETSKA ZALIZNYTSIA")

(ДЕРЖАВНЕ ПІДПРИЄМСТВО "ДОНЕЦЬКА ЗАЛІЗНИЦЯ");

3. STATE REGIONAL SPECIALISED ASSOCIATION "LVIV RAILWAY" (DERZHAVNE TERYTORIALNO-GALUZEVE OBIEDNANNYA "LVIVSKA ZALIZNYTSIA") *(ДЕРЖАВНЕ ТЕРИТОРІАЛЬНО-ГАЛУЗЕВЕ ОБ'ЄДНАННЯ "ЛЬВІВСЬКА ЗАЛІЗНИЦЯ");*

4. STATE ENTERPRISE "ODESA RAILWAY" (DERZHAVNE PIDPRYIEMSTVO "ODESKA ZALIZNYTSIA") *(ДЕРЖАВНЕ ПІДПРИЄМСТВО "ОДЕСЬКА ЗАЛІЗНИЦЯ");*

5. STATE ENTERPRISE "PRYDNIPROVSKA RAILWAY" (DERZHAVNE PIDPRYIEMSTVO "PRYDNIPROVSKA ZALIZNYTSIA") *(ДЕРЖАВНЕ ПІДПРИЄМСТВО "ПРИДНІПРОВСЬКА ЗАЛІЗНИЦЯ");*

6. STATE ENTERPRISE "SOUTH RAILWAY" (DERZHAVNE PIDPRYIEMSTVO "PIVDENNA ZALIZNYTSIA") *(ДЕРЖАВНЕ ПІДПРИЄМСТВО "ПІВДЕННА ЗАЛІЗНИЦЯ");*

7. STATE REGIONAL SPECIALISED ASSOCIATION "SOUTHWEST RAILWAY" (DERZHAVNE TERYTORIALNO-GALUZEVE OBIEDNANNYA "PIVDENNO-ZAKHIDNA ZALIZNYTSIA") *(ДЕРЖАВНЕ ТЕРИТОРІАЛЬНО-ГАЛУЗЕВЕ ОБ'ЄДНАННЯ "ПІВДЕННО-ЗАХІДНА ЗАЛІЗНИЦЯ");*

8. STATE ENTERPRISE "POPASNIA RAILWAY-CAR REPAIR PLANT" *(ДЕРЖАВНЕ ПІДПРИЄМСТВО "ПОПАСНЯНСЬКИЙ ВАГОНОРЕМОНТНИЙ ЗАВОД");*

9. STATE ENTERPRISE "STRYI RAILWAY-CAR REPAIR PLANT" *(ДЕРЖАВНЕ ПІДПРИЄМСТВО "СТРИЙСЬКИЙ ВАГОНОРЕМОНТНИЙ ЗАВОД");*

10. STATE ENTERPRISE "DARNYTSKYI RAILWAY-CAR REPAIR PLANT" *(ДЕРЖАВНЕ ПІДПРИЄМСТВО "ДАРНИЦЬКИЙ ВАГОНОРЕМОНТНИЙ ЗАВОД");*

11. STATE ENTERPRISE "RAVA-RUSSIAN SLEEPER PLANT" *(ДЕРЖАВНЕ ПІДПРИЄМСТВО "РАВА-РУСЬКИЙ ШПАЛОПРОСОЧУВАЛЬНИЙ ЗАВОД");*

12. STATE ENTERPRISE "STAROKOSTIANTYNIV REINFORCED CONCRETE RAILWAY SLEEPERS PLANT" *(ДЕРЖАВНЕ ПІДПРИЄМСТВО "СТАРОКОСТЯНТИНІВСЬКИЙ ЗАВОД ЗАЛІЗОБЕТОННИХ ШПАЛ");*

13. STATE ENTERPRISE "VINNYTSIATRANSPRYLAD" *(ДЕРЖАВНЕ ПІДПРИЄМСТВО "ВІННИЦЯТРАНСПРИЛАД");*

14. STATE ENTERPRISE "UKRAINIAN STATE CENTRE FOR TRANSPORT SERVICE CENTRE "LISKY" *(ДЕРЖАВНЕ ПІДПРИЄМСТВО "УКРАЇНСЬКИЙ ДЕРЖАВНИЙ ЦЕНТР ТРАНСПОРТНОГО СЕРВІСУ "ЛІСКИ");*

15. STATE ENTERPRISE "UKRAINIAN STATE CENTRE FOR SPECIAL SERVICE" *(ДЕРЖАВНЕ ПІДПРИЄМСТВО "УКРАЇНСЬКИЙ ДЕРЖАВНИЙ ЦЕНТР ПО ЕКСПЛУАТАЦІЇ СПЕЦІАЛІЗОВАНИХ ВАГОНІВ");*

16. STATE ENTERPRISE "UKRAINIAN RAILWAY REFRIGERATOR TRANSPORTATION CENTRE "UKRREFTRANS" *(ДЕРЖАВНЕ ПІДПРИЄМСТВО УКРАЇНСЬКИЙ ДЕРЖАВНИЙ ЦЕНТР ЗАЛІЗНИЧНИХ РЕФРИЖЕРАТОРНИХ ПЕРЕВЕЗЕНЬ "УКРРЕФТРАНС");*

17. STATE ENTERPRISE "INDUSTRIAL ENTITIES UNIT OF STATE ADMINISTRATION OF RAILWAY TRANSPORT OF UKRAINE" *(ДЕРЖАВНЕ ПІДПРИЄМСТВО "УПРАВЛІННЯ ПРОМИСЛОВИХ ПІДПРИЄМСТВ ДЕРЖАВНОЇ АДМІНІСТРАЦІЇ ЗАЛІЗНИЧНОГО ТРАНСПОРТУ УКРАЇНИ");*

18. STATE ENTERPRISE FOR MATERIAL AND TECHNICAL MAINTENANCE OF RAILWAY TRANSPORT OF UKRAINE "UKRZALIZNYCHPOSTACH" *(ДЕРЖАВНЕ ПІДПРИЄМСТВО МАТЕРІАЛЬНО-ТЕХНІЧНОГО ЗАБЕЗПЕЧЕННЯ ЗАЛІЗНИЧНОГО ТРАНСПОРТУ УКРАЇНИ "УКРЗАЛІЗНИЧПОСТАЧ");*

19. STATE ENTERPRISE "UKRAINIAN CENTRE FOR MECHANIZATION OF TRACK WORKS" *(ДЕРЖАВНЕ ПІДПРИЄМСТВО "УКРАЇНСЬКИЙ ЦЕНТР МЕХАНІЗАЦІЇ КОЛІЙНИХ РОБІТ");*

20. STATE ENTERPRISE "DNIPROPETROVSK STATE DESIGN-SURVEY INSTITUTE OF RAILWAY TRANSPORT OF UKRAINE" *(ДЕРЖАВНЕ ПІДПРИЄМСТВО "ДНІПРОПЕТРОВСЬКИЙ ПРОЕКТНО-ВИШУКУВАЛЬНИЙ ІНСТИТУТ ЗАЛІЗНИЧНОГО ТРАНСПОРТУ УКРАЇНИ ");*

21. STATE ENTERPRISE "DONETSK STATE DESIGN-SURVEY INSTITUTE OF RAILWAY TRANSPORT OF UKRAINE" *(ДЕРЖАВНЕ ПІДПРИЄМСТВО "ДОНЕЦЬКИЙ ПРОЕКТНО-ВИШУКУВАЛЬНИЙ ІНСТИТУТ ЗАЛІЗНИЧНОГО ТРАНСПОРТУ УКРАЇНИ");*

22. STATE ENTERPRISE "LVIV STATE DESIGN-SURVEY INSTITUTE OF RAILWAY TRANSPORT OF UKRAINE "LVIVTRANSPROEKT" *(ДЕРЖАВНЕ ПІДПРИЄМСТВО "ЛЬВІВСЬКИЙ ПРОЕКТНО-ВИШУКУВАЛЬНИЙ ІНСТИТУТ ЗАЛІЗНИЧНОГО ТРАНСПОРТУ УКРАЇНИ "ЛЬВІВТРАНСПРОЕКТ");*

23. STATE ENTERPRISE "ODESA STATE DESIGN-SURVEY INSTITUTE OF RAILWAY TRANSPORT OF UKRAINE" *(ДЕРЖАВНЕ ПІДПРИЄМСТВО "ОДЕСЬКИЙ ПРОЕКТНО - ВИШУКУВАЛЬНИЙ ІНСТИТУТ ЗАЛІЗНИЧНОГО ТРАНСПОРТУ УКРАЇНИ");*

24. STATE ENTERPRISE "STATE DESIGN-SURVEY INSTITUTE OF RAILWAY TRANSPORT OF UKRAINE "UKRZALIZNYCHPROEKT" *(ДЕРЖАВНЕ ПІДПРИЄМСТВО "ПРОЕКТНО-ВИШУКУВАЛЬНИЙ ІНСТИТУТ ЗАЛІЗНИЧНОГО ТРАНСПОРТУ УКРАЇНИ "УКРЗАЛІЗНИЧПРОЕКТ");*

25. STATE ENTERPRISE "STATE SCIENTIFIC RESEARCH CENTRE OF RAILWAY TRANSPORT OF UKRAINE" *(ДЕРЖАВНЕ ПІДПРИЄМСТВО "ДЕРЖАВНИЙ НАУКОВО-ДОСЛІДНИЙ ЦЕНТР ЗАЛІЗНИЧНОГО ТРАНСПОРТУ УКРАЇНИ");*

26. DESIGN AND TECHNOLOGY BUREAU FOR CARS REPAIR *(ПРОЕКТНО-КОНСТРУКТОРСЬКО-ТЕХНОЛОГІЧНЕ БЮРО ПО РЕМОНТУ ЛОКОМОТИВІВ);*

27. STATE ENTERPRISE "SCIENCE DESIGN AND TECHNOLOGY BUREAU FOR SLEEPERS OF UKRZALIZNYTSIA" *(ДЕРЖАВНЕ ПІДПРИЄМСТВО "НАУКОВО-КОНСТРУКТОРСЬКЕ ТЕХНОЛОГІЧНЕ БЮРО КОЛІЙНОГО ГОСПОДАРСТВА УКРЗАЛІЗНИЦІ");*

28. STATE COMPANY "ROLLING-STOCK PROJECT-DESIGN AND TEHNOLOGICAL BUREAU UKRZALIZNYTSI" *(ДЕРЖАВНЕ ПІДПРИЄМСТВО "ПРОЕКТНО-КОНСТРУКТОРСЬКЕ ТА ТЕХНОЛОГІЧНЕ БЮРО РУХОМОГО СКЛАДУ*

ДЕРЖАВНОЇ АДМІНІСТРАЦІЇ ЗАЛІЗНИЧНОГО ТРАНСПОРТУ УКРАЇНИ (УКРЗАЛІЗНИЦІ)");

29. STATE ENTERPRISE "PROJECT-DESIGN AND TEHNOLOGICAL BUREAU FOR AUTOMATION CONTROL SYSTEMS OF RAILWAY TRANSPORT OF UKRAINE" *(ДЕРЖАВНЕ ПІДПРИЄМСТВО "ПРОЕКТНО-КОНСТРУКТОРСЬКЕ ТЕХНОЛОГІЧНЕ БЮРО З АВТОМАТИЗАЦІЇ СИСТЕМ УПРАВЛІННЯ НА ЗАЛІЗНИЧНОМУ ТРАНСПОРТІ УКРАЇНИ");*
30. STATE ENTERPRISE "MAIN INFORMATION AND COMPUTING CENTRE OF STATE ADMINISTRATION OF RAILWAY TRANSPORT OF UKRAINE" *(ДЕРЖАВНЕ ПІДПРИЄМСТВО "ГОЛОВНИЙ ІНФОРМАЦІЙНО-ОБЧИСЛЮВАЛЬНИЙ ЦЕНТР ДЕРЖАВНОЇ АДМІНІСТРАЦІЇ ЗАЛІЗНИЧНОГО ТРАНСПОРТУ УКРАЇНИ");*
31. STATE ENTERPRISE "CENTRAL COMMUNICATIONS STATION" OF STATE ADMINISTRATION OF RAILWAY TRANSPORT OF UKRAINE *(ДЕРЖАВНЕ ПІДПРИЄМСТВО "ЦЕНТРАЛЬНА СТАНЦІЯ ЗВ'ЯЗКУ" ДЕРЖАВНОЇ АДМІНІСТРАЦІЇ ЗАЛІЗНИЧНОГО ТРАНСПОРТУ УКРАЇНИ);*
32. STATE ENTERPRISE "UKRAINIAN STATE CALCULATION CENTRE OF INTERNATIONAL CARRIAGE" *(ДЕРЖАВНЕ ПІДПРИЄМСТВО "УКРАЇНСЬКИЙ ДЕРЖАВНИЙ РОЗРАХУНКОВИЙ ЦЕНТР МІЖНАРОДНИХ ПЕРЕВЕЗЕНЬ");*
33. STATE ENTERPRISE "UKRAINIAN TRANSPORT LOGISTICS CENTRE" *(ДЕРЖАВНЕ ПІДПРИЄМСТВО "УКРАЇНСЬКИЙ ТРАНСПОРТНО-ЛОГІСТИЧНИЙ ЦЕНТР");*
34. STATE ENTERPRISE "CALCULATION CENTRE OF THE MINISTRY OF INFRASTRUCTURE OF UKRAINE" *(ДЕРЖАВНЕ ПІДПРИЄМСТВО "РОЗРАХУНКОВИЙ ЦЕНТР МІНІСТЕРСТВА ІНФРАСТРУКТУРИ УКРАЇНИ");*
35. STATE ENTERPRISE "UKRAINIAN HIGH-SPEED RAIL COMPANY" *(ДЕРЖАВНЕ ПІДПРИЄМСТВО "УКРАЇНСЬКА ЗАЛІЗНИЧНА ШВИДКІСНА КОМПАНІЯ");*
36. STATE ENTERPRISE "MAGISTRAL PUBLISHING HOUSE" *(ДЕРЖАВНЕ ПІДПРИЄМСТВО "РЕДАКЦІЯ ГАЗЕТИ "МАГІСТРАЛЬ");*
37. STATE ENTERPRISE "UKRTRANSFARMATSIA" *(ДЕРЖАВНЕ ПІДПРИЄМСТВО "УКРТРАНСФАРМАЦІЯ");*
38. STATE INSTITUTION "ZOLOTONOSHA TECHNICAL SCHOOL OF UKRZALIZNYTSIA" *(ДЕРЖАВНИЙ ЗАКЛАД "ЗОЛОТОНІСЬКА ТЕХНІЧНА ШКОЛА УКРЗАЛІЗНИЦІ");*

Pursuant to the resolutions adopted by the management board of the Company within the scope of its powers determined by its Charter, as at 8 December 2015, 29 branches were incorporated and re-organised via merger, including 6 regional branches (using property complexes owned by railways).

The property of the Group following its reorganisation includes fixed capital stock, current assets, proprietary rights (including a management right over property transferred to the Group and the right of permanent use of land plots provided to the Group for the purpose of placing property of railway transport companies thereon), shares (participatory, equity interests) in the authorised capital of certain businesses, other tangible and intangible assets, securities, as well as other assets as reflected in the audited financial statements of the Group.

The following table sets out the list of 11 entities operating hospitals in Ukraine whose assets and liabilities have been transferred to the Company as part of the reorganisation:

Number	Name of the Entity
1.	STATE INSTITUTION "STATE ROAD HOSPITAL OF STATION DNIPROPETROVSK OF SE "PRYDNIPROVSKA RAILWAY" *(ДЕРЖАВНИЙ ЗАКЛАД "ДОРОЖНЯ КЛІНІЧНА ЛІКАРНЯ СТАНЦІЇ ДНІПРОПЕТРОВСЬК ДП "ПРИДНІПРОВСЬКА ЗАЛІЗНИЦЯ");*
2.	STATE INSTITUTION "STATE ROAD HOSPITAL OF STATION YASYNUVATA OF SE "DONETSK RAILWAY" *(ДЕРЖАВНИЙ ЗАКЛАД "ДОРОЖНЯ ЛІКАРНЯ СТАНЦІЇ ЯСИНУВАТА ДП "ДОНЕЦЬКА ЗАЛІЗНИЦЯ");*
3.	STATE INSTITUTION "STATE ROAD HOSPITAL OF STATION DONETSK OF SE "DONETSK RAILWAY" *(ДЕРЖАВНИЙ ЗАКЛАД "ДОРОЖНЯ КЛІНІЧНА ЛІКАРНЯ СТАНЦІЇ ДОНЕЦЬК ДП "ДОНЕЦЬКА ЗАЛІЗНИЦЯ");*
4.	STATE INSTITUTION "STATE HOSPITAL OF SRSA "LVIV RAILWAY" *(ДЕРЖАВНИЙ ЗАКЛАД "КЛІНІЧНА ЛІКАРНЯ ДТГО "ЛЬВІВСЬКА ЗАЛІЗНИЦЯ");*
5.	STATE INSTITUTION "STATE ROAD HOSPITAL OF SE "ODESA RAILWAY" *(ДЕРЖАВНИЙ ЗАКЛАД "ДОРОЖНЯ ЛІКАРНЯ ДП "ОДЕСЬКА ЗАЛІЗНИЦЯ");*
6.	STATE HEALTH CARE INSTITUTION "CENTRAL HOSPITAL OF UKRZALIZNYTSIA" *(ДЕРЖАВНИЙ ЛІКУВАЛЬНО-ПРОФІЛАКТИЧНИЙ ЗАКЛАД "ЦЕНТРАЛЬНА КЛІНІЧНА ЛІКАРНЯ УКРЗАЛІЗНИЦІ");*
7.	STATE INSTITUTION "STATE ROAD HOSPITAL OF STATION KHARKIV OF CRSA "SOUTH RAILWAY" *(ДЕРЖАВНИЙ ЗАКЛАД "ДОРОЖНЯ КЛІНІЧНА ЛІКАРНЯ СТАНЦІЇ ХАРКІВ СТГО "ПІВДЕННА ЗАЛІЗНИЦЯ");*
8.	STATE INSTITUTION "STATE ROAD HOSPITAL NO.1 OF STATION KYIV OF SRSA "SOUTHWEST RAILWAY" *(ДЕРЖАВНИЙ ЗАКЛАД "ДОРОЖНЯ КЛІНІЧНА ЛІКАРНЯ №1 СТАНЦІЇ КИЇВ ДТГО "ПІВДЕННО-ЗАХІДНА ЗАЛІЗНИЦЯ")*;
9.	STATE INSTITUTION "STATE ROAD HOSPITAL NO.2 OF SRSA "SOUTHWEST RAILWAY" *(ДЕРЖАВНИЙ ЗАКЛАД "ДОРОЖНЯ КЛІНІЧНА ЛІКАРНЯ №2 СТАНЦІЇ КИЇВ ДТГО "ПІВДЕННО-ЗАХІДНА ЗАЛІЗНИЦЯ");*
10.	STATE INSTITUTION "VYZLOVA HOSPITAL NO.1 OF STATION DARNYTSIA OF SRSA "SOUTHWEST RAILWAY" *(ДЕРЖАВНИЙ ЗАКЛАД "ВУЗЛОВА ЛІКАРНЯ № 1 СТ.ДАРНИЦЯ ДТГО "ПІВДЕННО-ЗАХІДНА ЗАЛІЗНИЦЯ");*
11.	STATE INSTITUTION "VIDDILKOVA HOSPITAL OF STATION SIMFEROPOL OF SE "PRYDNIPROVSKA RAILWAY" *(ДЕРЖАВНИЙ ЗАКЛАД "ВІДДІЛКОВА КЛІНІЧНА ЛІКАРНЯ СТАНЦІЇ СІМФЕРОПОЛЬ ДП "ПРИДНІПРОВСЬКА ЗАЛІЗНИЦЯ").*

The following table sets out the list of seven entities operating railway car repair businesses in Ukraine the 100% of shares in which have been transferred to the Company as part of the reorganisation:

Number	Name of the Entity
1.	PRIVATE JOINT-STOCK COMPANY "DNIPROPETROVSK DIESEL LOCOMOTIVE REPAIR PLANT" (*ПрАТ "ДНІПРОПЕТРОВСЬКИЙ ТЕПЛОВОЗОРЕМОНТНИЙ ЗАВОД");*
2.	PRIVATE JOINT-STOCK COMPANY "ZAPORIZHZHYA ELEKTRIC LOCOMOTIVE REPAIR PLANT" (*ПрАТ "ЗАПОРІЗЬКИЙ ЕЛЕКТРОВОЗОРЕМОНТНИЙ ЗАВОД"*);
3.	PRIVATE JOINT-STOCK COMPANY "LVIV LOCOMOTIVE REPAIR PLANT" (*ПрАТ "ЛЬВІВСЬКИЙ ЛОКОМОТИВОРЕМОНТНИЙ ЗАВОД");*
4.	PRIVATE JOINT-STOCK COMPANY "KYIV ELECTRICAL CARRIAGE-REPAIR PLANT" *(ПрАТ "КИЇВСЬКИЙ ЕЛЕКТРОВАГОНОРЕМОНТНИЙ ЗАВОД");*
5.	PRIVATE JOINT-STOCK COMPANY "TRANSSIGNAL KYIV ELECTRICAL ENGINEERING PLANT" (*ПрАТ "КИЇВСЬКИЙ ЕЛЕКТРОТЕХНІЧНИЙ ЗАВОД "ТРАНССИГНАЛ"*);
6.	PRIVATE JOINT-STOCK COMPANY "KOROSTEN PLANT OF RAILWAY SLEEPERS" (*ПрАТ "КОРОСТЕНСЬКИЙ ЗАВОД ЗАЛІЗОБЕТОННИХ ШПАЛ");*
7.	PRIVATE JOINT-STOCK COMPANY "HNIVAN SPECIAL REINFORCED CONCRETE PLANT" (*ПрАТ "ГНІВАНСЬКИЙ ЗАВОД СПЕЦЗАЛІЗОБЕТОНУ").*

The following table sets out the list of minority stakes in six entities which have been transferred to the Company as part of the reorganisation:

Number	Name of the Entity	Shares/Ownership Interest
1.	Moldromukrtrans Public Joint-Stock Company (2 Decebal St., Chisinau, the Republic of Moldova)	33.33%
2.	ETRANSA Speditions AG (Argentinienstrasse 29/1.OG, Vienna 1040, Austria)	25.72%
3.	Breitspur Planungsgesellschaft mbH (Opernring 9/7, Vienna 1010, Austria)	25%
4.	PrJSC UKRTRANSLEASING (identification code 30674235)	47.67%
5.	PrJSC "INTERNATIONAL TRANSPORT COMPANY "UKRZOVNISHTRANS" (identification code 32000106)	25.1%
6.	PrJSC INSURANCE COMPANY "INTER-POLIS" (identification code 19350062)	8.16%

(the assets of the 11 entities that operating hospitals in Ukraine listed above, the 100% shares in each of seven entities operating railway car repair businesses in Ukraine and the minority stakes in the six entities listed above, together, the "**Additional Assets**")

The Company believes that the Additional Assets which were not part of the Original Group and became part of the Group as a result of the completion of the reorganisation (which consist of assets of 11 enities operating hospitals in Ukraine, 100% stakes in seven entities operating railway car repair busineses and the minority stakes in the entities listed above) constituted approximately 1 per cent. of new Group's assets (estimated on the basis of the national accounting standards). The Company believes that as at 1 December 2015 the assets of the 38 entities that previously constituted the Original Group represented approximately 99 per cent. of the Group's assets, among which assets of the Original Borrowers constituted approximately 88 per cent. of the Group's assets (estimated on the basis of the national accounting standards). The Company also believes that as at 1 December 2015 the liabilities relating to the Additional Assets constituted approximately 2.7% of the total liabilities of the Group (estimated on the basis of the national accounting standards).

Stage II

Stage II of the Reform Programme provides, among other things, for the establishment of a vertically integrated production and technological system of railway transport, which will include the introduction of an automated record and management system. In addition, Stage II contemplates the improvement of the tariff policy, ensuring market based pricing in the competitive sectors of the transportation services; establishment of central and regional transportation management centres; introduction of financial support mechanisms to passenger transportation; and the creation of the legal and organisational conditions for private passenger transportation operators to enter the market. Stage II also provides for the establishment of commercial companies (*gospodarski tovarystva*) in the sectors of suburban and regional passenger transportation to be owned by local authorities, the Company and other legal entities.

Stage III

Stage III of the Reform Programme sets out longer term objectives in the railway industry in Ukraine, such as the introduction of a financial support mechanism to eliminate cross-subsidies of passenger transportation losses from freight transportation profits. Stage III also provides, among other things, for an increase in the number of private companies owning passenger railcars. Local railways are also expected to be established on the basis of industrial railway transport, low density areas and narrow gauge rail tracks. In addition, Stage III provides for the development of a network of logistics facilities and storage and distribution terminals.

The Rail System

Overview

Following the breakup of the USSR, Ukraine inherited a vast transport infrastructure, including six railway operators, 41 industrial enterprises, 32 railway support enterprises, 12 research centres and four underground networks. Ukrzaliznytsia was established in 1991 according to the Resolution of the Cabinet of Ministers of Ukraine of 14 December 1991 to centralise the management of the railway transportation system in Ukraine.

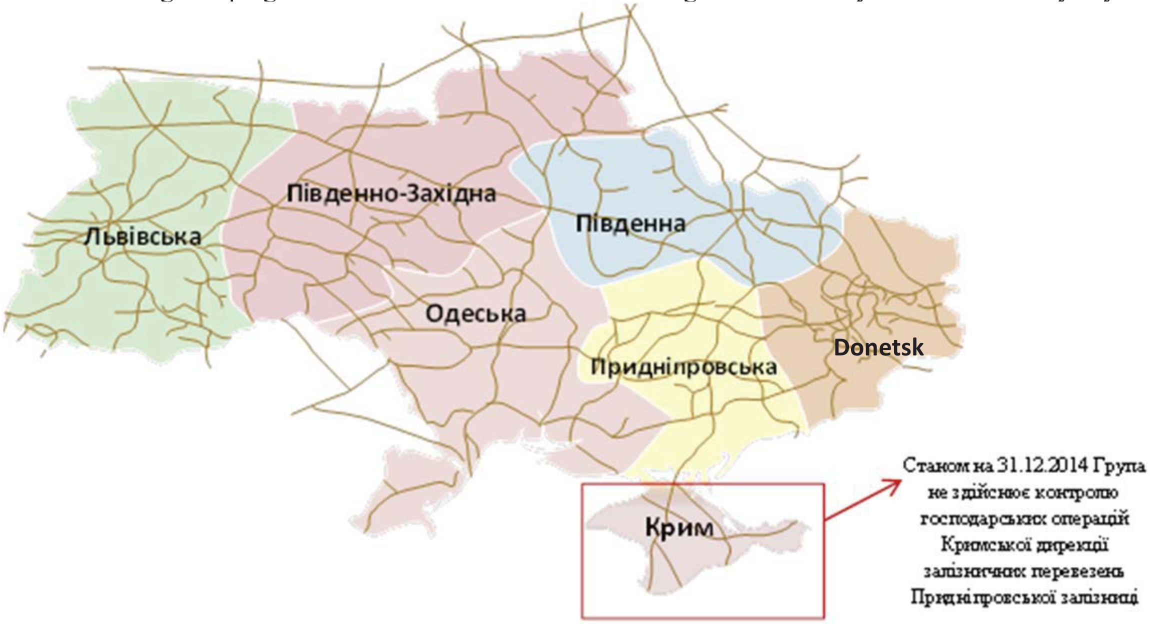
The Group currently operates Ukraine's State-owned integrated national passenger and freight railway network, including all its infrastructure assets such as rail track, bridges, tunnels, buildings, yard facilities, rail terminals and signalling points. As at 30 June 2015, the railway system had an operational length of over 21,000 kilometres, of which approximately 47.6 per cent. was electrified. The Group plans to increase the length of electrified tracks and developed a programme of electrification for 2015 to 2020 to increase the Group's efficiency, improve the standards of transportation services and decrease emissions, thus improving environmental standards. See "*—Strategy*". As at 30 June 2015, 34.3 per cent. of the total operational tracks were double track and the remaining tracks are single track.

The railway system is currently connected to the railway network of seven neighbouring countries (Russia, Belarus, Moldova, Poland, Romania, Slovakia and Hungary), via 40 international railway junctions. The railway system is also connected to 18 Ukrainian merchant seaports in the Black Sea and Azov Sea, allowing it to serve various export and import sea shipping routes. Of these seaports five are located within the occupied territory of the Autonomous Republic of Crimea and have been closed in accordance with Order of the Ministry of Infrastructure No. 255 dated 16 June 2014.

The total operational length of the track is approximately 21,000 kilometres, over 98.4 per cent. of which has a broad gauge of 1,520 millimetres (which is used throughout Ukraine, the other CIS states, China and Mongolia). The standard gauge used throughout most of Europe is 1,435 millimetres. As at 30 June 2015, the Group had eight servicing stations where locomotives and rolling stock are shifted to the wheels of the appropriate standard. The Group is currently developing a system of changing the gauge of locomotives and rolling stock, which would allow it to simplify the process of changing the gauge, reduce time and improve overall cost effectiveness. As part of its strategy to modernise the railway infrastructure in Ukraine, the Group in the course of 2012-2015 purchased 10 high speed trains from Hyundai and two high speed trains from Škoda Vagonka, two high speed electrical trains and one diesel train manufactured by Kryukiv Railcar Plant, two diesel trains manufactured by Luganskteplovoz PJSC and two rail buses manufactured by Pojadzy Szynowe PESA Bydgoszcz SA Holding (Poland). As at the date of this Prospectus, all trains have been delivered to Ukraine and used on routes connecting Kyiv, Kharkiv, Dnipropetrovsk, Odesa, Zaporizhia, Lviv, Truskavets, Ternopil, Krasnoarmiisk, and Kostiantynivka. These high speed trains currently use the same tracks as existing freight and passenger transportation services.

In June 2014, two two-system inter-regional electrical trains of model EKp-1 manufactured by Kryukiv Railcar Plant PJSC were purchased by the Group for State Enterprise "Ukrainian High-Speed Railway Company" for a total amount of UAH 400 million and in December 2014 one passenger car of total value of UAH 18.7 million was purchased by the Group for State Enterprise "Ukrainian High-Speed Railway Company".

The following map gives an overview of the coverage and density of the railway system:



Land Use Rights from the State

The Group holds rights of permanent use of all land underneath the rails in the corridors along which the tracks run, as well as the land under railway stations and other infrastructure facilities. Under Ukrainian law, the ownership of this land cannot be transferred into private ownership. The Group's right of permanent use of this land is more economically advantageous than typical land leases used in Ukraine, and is therefore viewed as a cost efficient mechanism to deal with land use. See "*Regulation*".

Rail System Infrastructure

The Group operates the entire State-owned railway system of Ukraine, including all track and other related infrastructure such as railway stations, terminals, signal points and other property and equipment which are essential to providing operational support for freight and passenger transportation. As at 30 June 2015, the Group's rail system comprised the following assets:

- approximately 21,000 kilometres of operational track, including approximately 9,990 kilometres of electrified tracks (approximately 47.5 per cent.);
- 1,602 railway stations;
- 1,510 interstations;
- 125 passenger railway stations;
- 188 railway terminals
- 5,259 railway crossings, including 4,167 with automatic signalling;
- 111,113 freight railcars; and
- 2,152 diesel locomotives.

Locomotives

The following table sets forth the locomotives owned by the Group as at the periods indicated.

	As at 30 June	As at 31 December		
	2015	2014	2013	2012
Electric locomotives	**1,721**	**1,720**	**1,765**	**1,824**
Freight	1,223	1,180	1,207	1,263
Passenger	498	540	558	511
Dual use				50
Diesel locomotives	**2,152**	**2,152**	**2,277**	**2,378**
Freight	614	613	660	776
Passenger	106	106	105	71
Shunting	1,432	1,433	1,512	1,531
Total	**3,873**	**3,872**	**4,042**	**4,202**

As at 30 June 2015, the Group had 1,721 electric locomotives in its fleet. The average age of electric locomotives as at 30 June 2015 was approximately 38 years, which the Group aims to reduce to 30 years as a result of modernisation. As at 30 June 2015, the Group also had 648 mainline diesel locomotives and 1,433 shunting diesel locomotives in its fleet. The average age of such locomotives as at 30 June 2015 was approximately 28 years and 33 years, respectively. The Group plans to reduce the average age of its electric locomotives by purchasing new electric locomotives. In addition to the modernisation of the locomotive park, the Group plans to increase the useful economic life of its existing diesel locomotives by replacing them with more modern engines, increasing their fuel efficiency by 35 per cent. and up to 20 per cent. for shunting and mainline locomotives, respectively.

Modernisation of the locomotive fleet is to be performed in accordance with the requirements of applicable laws in the field of public procurements through tenders.

In 2014, the Group purchased 7 DC electric ВЛ11М6 freight locomotives. These were acquired primarily to replace locomotives that had reached the end of their useful economic lives, rather than adding to the locomotive fleet. By 2025, the Group plans to purchase approximately 200 new electric locomotives and conduct modernisation exercises in order to increase the useful life of 380 mainline locomotives, and the replacement of existing engines with more modern engines in 300 shunting and 200 mainline locomotives.

In the passenger segment, the Group is not currently planning to upgrade its locomotives primarily because of the Group's strategy to develop high-speed passenger transportation. *See "—Strategy—Developing Infrastructure and Investing in the Rail System to Reduce Fixed Costs" and "—Strategy—Reducing Losses in Passenger Transportation".* The new high speed trains purchased by the Group include built-in locomotives, thereby gradually diminishing the need for separate passenger locomotives as the Group purchases further high speed passenger trains.

Rolling Stock

The Group operates its own fleet of railcars as well as freight railcars owned by private Ukrainian operators and both freight and passenger railcars owned by railways of other CIS states and private railcars of certain Russian companies. As at 30 June 2015, private Ukrainian operators had a fleet of 63,411 railcars.

The following table sets forth rolling stock owned by the Group as at the periods indicated:

	As at 30 June	As at 31 December		
	2015	**2014**	**2013**	**2012**
Freight Transportation	**110,194**	**111,251**	**116,063**	**125,351**
Gondola	49,798	50,381	52,774	58,206
Closed box cars	7,344	7,526	7,969	9,942
Platforms	5,628	5,733	6,152	6,882
Tank cars	9,723	9,814	10,144	10,505
Hoppers	-	19,928	20,581	20,915
Other	36,764	17,869	18,443	18,901
Passenger Transportation	**5,289**	**5,362**	**6,216**	**6,767**
Sleeping railcars	243	245	279	298
Coupe railcars	1,889	1,894	2,150	2,267
Couchette railcars	2,692	2,744	3,221	3490
Interregional	186	197	234	327
Other	279	282	332	385
Total	**115,483**	**116,613**	**122,279**	**132,118**

Regional Railways

The Group's railway system, consisting of the six regional railways, runs throughout Ukraine. Each regional railway manages freight and passenger transportation and all related infrastructure assets, passenger transportation, rolling stock maintenance, and logistical and communication services. The entire network operates as one mechanism. Freight and passenger transportation, regardless of the departure point, is transported to the point of destination independently from the territorial assignment of the railway track boundaries under the specific railway. The Group determines revenues of each railway based on its involvement in the transportation process and each route may traverse the network of multiple railways. The Group therefore reallocates revenues among the railways depending on the various costs each Railway has incurred.

The table below sets forth the principal operating data for each of the railways as at and in the six months ended 30 June 2015:

Railway	**Operating Length**		**Principal Hubs**	**Electrification**	**Turnover**	
	(km)	*(% of total network)*		*%*	*Freight (Million tonne-km)*	*Passenger (Million passenger-km)*
Donetsk	2,798.3	13.3	Donetsk – Lugansk – Debaltseve – Krasnoarmiisk – Krasnyi Lyman	45.6	5,582.7	886.7
Lviv	4,453.6	21.2	Lviv – Zdolbuniv – Chop – Ternopil	31.7	14,172.2	2,009.0
Odesa	3,978.3	19.0	Odesa – Mykolayiv – Kherson – Znamianka – Shevchenko	43.4	10,637.0	2,118.8
Prydniprovska	2,572.2	12.3	Dnipropetrovsk – Zaporizhia – Dzhankoi – Kryvyi Rih	59.2	20,870.1	6,545.8
Southwest	4,352.1	20.8	Kyiv – Kozyatyn – Zhmerynka – Korosten – Konotop – Shepetivka	52.7	32,920.4	2,682.4
South	2,814.2	13.4	Kharkiv – Kupyansk – Kremenchuk – Lozova – Poltava – Osnova	58.0	10,029.9	2,732.2

Source: Ukrzaliznytsia information

Tariff Regulation and Pricing

The Group is a natural monopoly for freight and passenger transportation in Ukraine and is subject to tariff regulation by the Government. In setting tariffs, the Government's objective is two-fold: to set economically justifiable tariffs enabling the Group to cover its costs and generate profits and ensure that railways transportation remains competitive and affordable to end users. See "*Regulation—Tariff Regulation*".

The MIU sets the tariffs for freight and passenger (both domestic and international) transportation, which, in respect of passenger transportation, are subject to approval by the Ministry of Economic Development and Trade and, in respect of freight, except for transit transportation, are subject to approvals by the Ministry of Economic Development and Trade and the Ministry of Finance of Ukraine. Tariffs are to be adjusted on an annual basis.

Tariffs for domestic freight and passenger transportation are set in hryvnia, and tariffs for transit freight transportation and international passenger transportation are set in Swiss Francs, U.S. dollars and Euros. Tariffs set in hryvnia may be subject to adjustment based on the performance of Ukraine's economy and the macroeconomic indicators and are reflective of the changes in transportation volumes. The setting of the tariffs is based on the Group's proposal which is submitted for the approval of the respective ministries. The tariffs for suburban passenger transportation are not subject to Government regulation and are set by the individual Railways with the approval of the local authorities. Tariffs for transit freight transportation are approved by the MIU on the basis of the Tariff Policy of the Railways of the CIS Member States for the relevant year (the "**CIS Tariff Policy**"), under the Tariff Agreement of the Railway Administration (Railways) of the CIS Member States, dated 17 February 1993 (the "**CIS Tariff Agreement**"), with no more than two increases per annum permitted for transportation rates or additional duties. See "*Regulation—Tariff Regulation*".

At present, the financial plan of the Company for 2016 as preliminary approved by the Government provides for domestic freight transportation tariffs to increase by 10 per cent. in average for year 2016. The financial plan for 2016 will be further adjusted and approved.

Freight Transportation

Freight Tariffs

Tariffs for Domestic Freight Transportation

The industrial producer price index is one of the important criteria for setting freight railway tariffs. When such tariffs are changed, the need of funds for the implementation of railway investment programmes is taken into consideration. Final decisions on the setting of freight tariffs are made by the Ministry of Infrastructure jointly with the Ministry of Economic Development and Trade and the Ministry of Finance.

In accordance with Order No. 317 of the Ministry of Transport and Communications of Ukraine, dated 26 March 2009, the calculation of the charge for freight transportation is carried out pursuant to the tariffs as specified in the Compendium of the Tariffs for Domestic Freight Railway Transportation and Related Services (the "**Compendium of the Tariffs**").

In 2013, the average annual increase of freight tariffs pertaining to domestic transportation amounted to 4.6 per cent. In 2014, the average annual increase of freight tariffs pertaining to domestic transportation amounted to 5.2 per cent. In 2015, the freight tariffs were increased in average on 27.5 per cent.

The tariffs are determined according to the class of freight, its weight, the type of rolling stock, rolling stock ownership (whether owned by the Group or a private carrier) and the speed of the transportation. Additionally, expected profit margins and compensation from the State for passenger services is included in the calculation.

Class of Freight

The MIU, in consultation with the Ministry of Economic Development and Trade, determines the tariff classes of freight depending on the transport component of the relevant product's overall price. In general, the First Tariff Class includes basic industrial and construction materials that the Government regulates at a lower tariff, with a 1.112 coefficiency (from 31 January 2015) applied to the tariffs specified in the Compendium of the Tariffs. The Second Tariff Class receives a slightly higher tariff, with a 1.602 coefficiency (from 31 January 2015), and the Third Tariff Class receives the highest tariff, with a 2.464 coefficiency (from 31 January 2015). These coefficiencies are applied to the tariffs specified in the Compendium of the Tariffs. Non-classified freight (including gravel, slag, liquefied gas, container freight, fast expiry food and non-standard size freight) provides for the application of variable coefficiencies between 0.891 and 2.464 (from 31 January 2015).

The table below sets forth some examples of goods allocated to each class:

Class 1	Class 2	Class 3
Mineral coal, chemical and mineral fertilisers, cement, iron and manganese ore, salt, limestone, sugar beet	Oil and oil products, walling materials, grain, coke, timber, food products	Ferrous and non-ferrous metals, acid and oxides, machinery and equipment, vehicles and parts, gas, alcohol products, light oil products

Distance

To determine the transportation charge, the distance of transportation is factored into the calculation in addition to the class of freight, its weight, speed of transportation and other criteria.

Tariff Evolution

In 2009, 2010 and 2012, no adjustments to railway freight tariffs were made. According to the State Statistics Service, the increase in tariffs for freight transportation by railway transport totalled 23.8 per cent in 2011, 10.6 per cent. in 2013, 13.4 per cent. in 2014, and 30.5 per cent. in 2015.

The following table sets forth the annual tariff increase set by the MIU, together with a comparison to the Ukrainian WPI:

	Six months ended 30 June		Year ended 31 December		
	2015	2014	2014	2013	2012
	(% change to previous year)				
Annual tariff increase	130.5	100	113.4	110.61	100.0
WPI	123.4	118.0	131.8	101.7	100.3

Source: Ukrainian State Statistics Index

Under the Group's annual financial plan for 2016, preliminary approved by the Cabinet of Ministers of Ukraine, tariff for railway freight transportation is scheduled to increase by 10 per cent. on average for 2016.

Tariffs for Transit Freight Transportation

Tariffs for transit freight transportation are established by the MIU based on the regulation of the Ministry of Infrastructure of Ukraine. Tariffs for such transportation are regulated by the CIS Tariff Policy for the relevant year. These tariffs are denominated in Swiss Francs and approved annually at the tariff conference of the railway administrations of the CIS states that are party to the CIS Tariff Agreement. According to the Order of the MIU No. 490, dated 23 November 2015, the CIS Tariff Policy for 2016 will become effective from 1 January 2016. The rules for establishing tariffs for freight transportation are also set out in the Decision of the Council of the Heads of Governments of CIS Member States of 18 October 1996, which approved the Concept of the Implementation of the Coordinated Tariff Policy on Railway Transport of the CIS Member States.

Tariffs for freight transit shipments through Ukraine are set in accordance with the rules and provisions of the CIS Tariff Agreement. Such tariffs may not be raised more than twice during one calendar year. The Group is permitted to decrease rates under the CIS Tariff Policy. By Order No. 589 of the MIU, dated 4 October 2012 (as amended), the "Procedure for Establishing Coefficiencies to Basic Rates of the CIS Tariff Policy for Domestic Freight Railway Transportation and Tariff Rates in US Dollars for Transportation by Specific Directions" was approved with respect to which the Group was granted the right to establish reduced tariffs (by no more than 50 per cent.) as compared with the tariffs set forth in the CIS Tariff Policy.

To remain competitive with Belorussian, Russian and Baltic railways, the Group pursues a moderate tariff policy and participates in the drafting of respective legislation aimed at increasing the attractiveness of tariffs of the Group for existing and prospective freight customers.

Future Developments

It is expected that by 2017 the New Tariff Regulations will be adopted. The New Tariff Regulations will set out rules for payment for use of the railway infrastructure. This methodology would include economically justified tariffs. The new tariff methodology is expected to include an infrastructure component (adjusted for inflation indexation), which would reflect costs associated with the use of railway infrastructure. The new tariff methodology is also expected to include an investment component, through which a portion of the tariff would be budgeted to help the Group to modernise its existing infrastructure and current assets. The implementation of the tariff methodology would also lead to a review of the freight tariffs structure, including the mechanisms for compensation to railway carriers for lost revenue. Certain products that are designated as "socially significant" (such as salt) will be given preferential tariffs, which will be compensated by higher tariffs for other goods. The Group expects that the New Tariff Regulations will make tariff calculations more transparent and predictable, as well as reduce the requirement for individualised approval processes. A draft of a new Law of Ukraine "On Railway Transport", which would establish new approaches to tariff policy, has been approved by all relevant ministries and has been submitted to the Parliament.

Freight Operations

The Group's freight revenues represented 82.4 per cent. and 80.6 per cent. of its total revenues for the six months ended 30 June 2015 and 2014, respectively, compared to 79.5 per cent., 76.0 per cent. and 77.7 per cent. for the years ended 31 December 2014, 2013 and 2012, respectively. The freight transportation segment is the most profitable division of Ukrzaliznytsia. As at 30 June 2015, the Group had entered into more than 134 contracts to supply freight transit services via its operated rail network during the course of 2015. As the operator of the entire railway infrastructure in Ukraine, the Group benefits from natural monopoly status which prevents potential competitors such as private railways or foreign companies from entering the market. The Group runs its freight operations on a prepayment basis with its customers, thereby mitigating potential counterparty exposure and related credit risk on the Group's freight segment.

The Group continually improves and introduces new transportation routes (both domestic and international), it approves the terms of export, import and transit freight transportation, and applies the freight transportation tariffs set by the MIU across the territory of Ukraine.

Freight Composition

The following table sets forth freight transportation volumes measured in tonnes and turnover measured in tonne-kilometres (exclusive of transit and import freight transportation) of selected types of freight for each class, transported by the Group for the six months ended 30 June 2015 and 2014, and the years ended 31 December 2014, 2013 and 2012:

	Six months ended 30 June				**Year ended 31 December**					
	2015	**2015**	**2014**	**2014**	**2014**	**2014**	**2013**	**2013**	**2012**	**2012**
	Volume, thousand tonnes	*Turnover, million tonne-kilometres*	*Volume, thousand tonnes*	*Turnover, million tonne-kilometres*	*Volume, thousand tonnes*	*Turnover, million tonne-kilometres*	*Volume, thousand tonnes*	*Turnover, million tonne-kilometres*	*Volume, thousand tonnes*	*Turnover, million tonne-kilometres*
Coal	24,020	10,023	47,948	16,684	72,205	27,038	99,618	32,777	100,187	33,045
Iron and Manganese Ore	36,099	22,734	37,896	23,914	73,261	45,760	75,914	46,051	72,715	44,339
Construction Materials	24,108	10,847	27,349	12,926	61,519	29,183	66,170	28,533	67,884	29,626
Ferrous Metals	10,961	5,153	15,447	7,608	26,418	12,639	30,429	14,444	29,158	13,984
Oil and petroleum Products	2,282	1,281	2,739	1,565	5,432	3,039	7,992	4,086	10,464	5,667
Grain	12,845	8,212	10,288	6,223	25,099	15,209	22,458	13,394	22,883	14,088
Coke	2,737	922	4,951	1,474	7,647	2,327	10,865	3,204	11,257	3,529
Chemical and Mineral Fertilisers	2,818	1,480	3,221	1,732	6,034	3,181	7,307	4,194	8,456	5,240
Cement	2,452	1,132	2,606	1,224	5,513	2,571	6,235	2,923	6,076	2,844
Scrap Metal	1,806	1,021	1,880	1,089	3,729	2,188	4,722	2,649	4,701	2,921
Timber Freight	2,568	1,636	2,475	1,619	4,909	3,163	4,817	3,139	4,348	2,801
Chemicals	601	369	1,290	770	2,014	1,212	2,868	1,872	3,472	2,361
Non Ferrous Ore and Scrap	1,406	857	1,612	922	3,185	1,834	3,393	1,924	3,390	2,002
Salt	491	465	592	399	1,497	1,115	2,008	1,686	1,793	1,340
Machinery and Equipment	40	20	69	39	123	72	187	98	232	117
Non Ferrous Metals	2	1	3	2	8	4	11	7	16	8
Cars	4	3	4	3	9	7	7	5	13	8
Other	7,918	3,999	13,400	5,746	25,382	11,126	29,641	11,698	33,159	12,976
Total	**133,157**	**70,156**	**173,770**	**83,941**	**323,985**	**161,667**	**374,641**	**172,685**	**380,473**	**176,895**

Source: Ukrzaliznytsia information

Total freight transportation turnover (including empty runs) on the rail system was 144.4 billion and 125.9 billion tonne-kilometres in the six months ended 30 June 2015 and 2014, respectively, and 247.3 billion tonne-kilometres, 259.7 billion tonne-kilometres and 278.7 billion tonne-kilometres in 2014, 2013 and 2012, respectively.

The following table sets forth the total freight turnover (including empty runs) on the rail system by destination or origin for the six months ended 30 June 2015 and 2014, and the years ended 31 December 2014, 2013 and 2012.

	Six months ended 30 June		Year ended 31 December		
	2015	**2014**	**2014**	**2013**	**2012**
			(billion tonne-kilometres)		
Domestic	39.6	47.3	90.0	97.2	103.8
Exports	43.1	48.7	96.5	96.9	93,297.4
Imports	11.8	12.2	26.4	25.0	18,527.2
Transit	19.9	17.7	34.4	40.6	42,350.3
Total	**114.4**	**125.9**	**247.3**	**259.7**	**278.7**

Source: Ukrzaliznytsia information

The decline in turnover which began in the second half of 2014 was mainly the result of destabilisation and armed hostilities at the “anti-insurgent operations area” (i.e. the territory of Ukraine, including locations mostly situated in the Donetsk and Luhansk regions in which anti-insurgent operations are taking place). Individual companies located outside the anti-insurgent operations area face problems in terms of obtaining raw materials formerly provided from within the anti-insurgent operations area which have not been replaced in sufficient quantities by foreign imports. From March 2015, the situation at the anti-insurgent operations area has stabilised and as such the Group expects the volumes of domestic transportation to increase.

Related Commercial Services

The Group offers a number of services to its customers related to freight and passenger transportation, such as customs clearance procedures, arranging for freight insurance, compliance with other documentation requirements and others. The Group also provides security and notification of delivery services, which are charged separately and are not regulated by the Government. Such additional services comprised 1.0 per cent. of the Group’s total revenues in the six months ended 30 June 2015.

Certain Railways have their own specific features. For instance, Southwest Railway primarily serves as a transit railway (i.e., with relatively little loading or unloading), while Odesa Railway regularly provides loading and unloading services into sea and river ports. The Lviv and South Railways carry the most traffic into the European Union and Russia, respectively. The Prydniprovska Railway provides the greatest amount of loading services for mining customers.

Freight Customers, Sales and Marketing

The largest freight shippers are industrial and raw material suppliers, including metallurgic plants, coal mining companies, iron ore-dressing and processing enterprises. Coal, iron ore raw materials, ferrous metals, grain and mineral construction materials make up the majority of freight transported by the Group. The Group’s 10 largest customers include DTEK Pavlogradvugillia, Northern Ore Mining and Processing Plant, Southern Ore Mining and Processing Plant, Ingulets’kyi Ore Mining and Processing Plant, Poltavskyi Ore Mining and Processing Plant, ArcelorMittal Kryvyi Rih, Central Ore Mining and Processing Plant, Zaporizhzhya Ore Mining Plant, Kryvyi Rih Iron-Ore Plant, and Ilyich Iron and Steel Works of Mariupol. The Group’s freight services generally require prepayment, thereby minimising counterparty risk in the Group’s freight segment. The Group enjoys a dominant position with respect to the transportation of commodities and other heavy goods within Ukraine and to export points such as the sea and river ports and neighbouring countries. The Group’s key freight transportation customers, particularly commodity producers, have limited alternative means of transportation at the commercial terms offered by the Group, hence the Group’s ability to foster favourable and long-standing relationships with its key freight transportation customers.

Freight accepted for transportation is based on the respective agreements and orders of freight forwarders, and is subject to the existing monthly plans. Payments for freight transportation may be made in cash or by wire transfer at the stations, or by advanced payments in the regional offices.

The following table sets forth the Group's largest customers and their respective percentages of the Group's total freight transportation turnover:

Customer	**Percentage of the Group's total freight transportation turnover**
	(percentages)
DTEK Pavlogradvugillia	4.9
Northern Ore Mining and Processing Plant	3.6
Southern Ore Mining and Processing Plant	3.5
Ingulets'kyi Ore Mining and Processing Plant	3.4
Poltavskyi Ore Mining and Processing Plant	3.3
ArcelorMittal Kryvyi Rih	2.6
Central Ore Mining and Processing Plant	1.7
Zaporizhzhya Ore Mining Plant	1.3
Kryvyi Rih Iron-Ore Plant	1.2
Ilyich Iron and Steel Works of Mariupol	1.1

Source: Ukrzaliznytsia information

Passenger Transportation

Passenger Tariffs

The setting of tariffs for the transportation of passengers, baggage and freight baggage by railroad (except for suburban passenger rail transportation and transportation of passengers by first class rail cars of Intercity+ category trains) in Ukraine is carried out pursuant to the budget and pricing policy procedure established by the Cabinet of Ministers of Ukraine.

The tariffs for transportation of passengers by first class rail cars of Intercity+ category trains are made by the Group independently without direct regulation by the Cabinet of Ministers pursuant to Resolution No. 1548 of the Cabinet of Ministers of Ukraine "On Price (Tariff) Regulation Powers of Executive State Authorities and Executive Bodies of Municipal Councils", dated 25 December 1996.

Tariffs for suburban passenger and freight transportation are not subject to Government regulation and are established by the Group upon the approval of the local authorities.

Tariffs for international passenger transportation are established according to inter-governmental and inter-agency agreements, and vary depending on the participating states.

Tariffs for Long-Haul Domestic Transportation of Passengers and Baggage

The tariffs for transportation of passengers by railroad are subject to approval pursuant to Resolution No. 1548 of the Cabinet of Ministers of Ukraine "On Price (Tariff) Regulation Powers of Executive State Authorities and Executive Bodies of Municipal Councils", dated 25 December 1996, specifically by the Ministry of Infrastructure with the approval of the Ministry of Economy. The tariffs are also subject to approval by the Federation of Employers of Ukraine, the Federation of Trade Unions of Ukraine, the All-Ukrainian Association of Employers of Ukraine and the Union of Lessees and Entrepreneurs of Ukraine, and come into effect following the registration thereof by the Ministry of Justice of Ukraine.

Order No. 170 of the Ministry of Infrastructure of Ukraine "On Approval of the Tariffs for Domestic Transportation of Passengers, Baggage, and Freight Baggage by Railroad" ("**Order 170**") has introduced coefficiencies of flexible tariff regulation in accordance with thirteen calendar periods, with coefficiencies 0.7 through 1.1. Concurrently, price regulation based on the day of a week was introduced with a decrease on Tuesday and Wednesday by 10 per cent., an increase on Friday and Sunday by 10 per cent., and no change on Monday, Thursday and Saturday.

The fare tariffs are differentiated depending on the distance travelled, the type of a railcar used (Sitting, Couchette, Coupe, Sleeping, Third Class, Second Class, and First Class), speed category of the train (Intercity+, Intercity, Regional Express, Night High-Speed Train, Night Express, Night Slow Passenger train) and quality level of services.

In 2013-2014, Order 170 was amended so that tariffs for domestic passenger transportation in 2013 increased by 21 per cent. in all types of railcars (excluding sleeping cars and Intercity+ trains). In 2014, the 21 per cent. increase was applied to all types of railcars (excluding Intercity+ trains).

In 2015, no tariffs for domestic transportation of passengers were increased.

Tariffs for passenger transportation are subdivided into the "ticket tariff" (i.e., the cost of haulage of railcars) and the "seat tariff" (in Ukrainian: "*platskarta*") (i.e., the cost of preparing railcars for journeys). Current law provides that if tariffs are set below the economically justifiable tariff level (intended to cover the costs of passenger transportation and to earn a predetermined profit margin), the Government must provide compensation to cover a substantial portion of the difference between the economically justifiable tariffs and the actual tariffs.

Revenues of the Group from long-haul domestic passenger and baggage transportation services are not sufficient to cover the costs of these services. The Group's passenger transportation tariffs for 2015 and 2016 would need to be three times higher than the current tariffs to recuperate the losses. Operating losses from passenger transportation services are partially subsidised by freight transportation revenues.

The Group's preferential passenger transportation services are partially financed directly by the State budget and local budgets, which typically cover approximately 30 to 35 per cent. of the total cost of providing such preferential passenger transportation.

Classes of Long-Haul Domestic Passenger Service

The Group offers four classes of long-haul domestic passenger services, with each class being served using a designated type of a railcar. SV railcars (sleeping railcars) have nine (or occasionally ten) enclosed compartments with sleeping facilities for two passengers. Coupe railcars have nine (or occasionally ten) enclosed compartments with sleeping facilities for four passengers. Couchette railcars (in Ukrainian: "*platskart*") have nine sections with open sleeping facilities for six passengers on each side of the railcar. Sitting railcars have nine sections on each side of the railcar and no sleeping facilities. A large number of trains do not contain sitting railcars. Discounted fares are also available to pensioners, veterans and students, among others, losses for which are partially covered by compensation from the State budget and local budgets. In total, in 2015, the Group offered discounted fares to 25 categories of passengers, and from the end of the first half of 2015 the number of categories was reduced to 17.

In 2014 and the six months ended 30 June 2015, 64,135,799 and 31,338,440 long-haul domestic passengers, respectively, travelled on discounted fare tickets.

Tariffs for Suburban Passenger Service

Tariffs for suburban passenger transportation are not subject to Government regulation and are established by the respective Railways upon the approval of the local authorities. Tariffs are set on the basis of the calculation of expenditures for suburban transportation of passengers, average trip distance per passenger, level of inflation and results of financial performance. Historically, tariffs are set below the Group's costs of providing suburban transportation. To cover the shortfall, the Group relied on compensation from the State Budget and local budgets and cross-subsidies from cargo revenues.

Each Railway is entitled to increase its tariffs for suburban passenger services independent of the other branches. There were 10 increases of suburban passenger tariffs in total from 2012 to 2015. The tariffs for suburban passenger transportation are expected to be increased by 20-30 per cent. in 2016.

Tariffs for International Transportation of Passengers and Baggage

Tariffs for international transportation of passengers and baggage are approved by the MIU. The tariffs are denominated in Swiss Francs for the countries of the CIS, Latvia, Lithuania, and Estonia, and in Euro for transportation in other countries.

Travelling within the CIS and the Baltic states is regulated by the Agreement on International Passenger Tariff. Pursuant to this agreement, the tariffs are established by each country's domestic railway administration with respect to the portion of the infrastructure and locomotive traction located within the territory of the country, and with respect to the railcar for the whole route of the train. The total travel cost is the sum of the travel costs of each country travelled through during the relevant journey. The tariffs are set in Swiss Francs taking into account the indexing coefficients for each country, which were announced by the railway administrations of those countries.

Travel in the East-West direction is regulated according to the "Special Conditions of International Transportation – for the travel according to the travel tickets in the East-West direction". The total travel cost is the sum of travel costs by each country travelled through during the relevant journey. The tariffs are set in Euro. Changes to the tariffs may be announced once a year (not later than 15 September). During the year the tariffs may change upon agreement between the countries involved in the transportation.

Tariff Evolution

The following table sets forth the average annual increase of tariffs set by the MIU compared with the previous year, together with a comparison to CPI:

	Six months ended 30 June	**Year ended 31 December**		
	2015	**2014**	**2013**	**2012**
Average annual increase by type of railcars		*(% change to previous year)*		
Sleeping railcar	0.0	0.0	0.0	0.0
Coupe railcar	0.0	121.0	121.0	114.3
Couchette railcar	0.0	121.0	121.0	0.0
Sitting railcar	0.0	121.0	121.0	0.0
CPI	140.7	124.4	100.5	99.8

Source: State Statistics Index

Future Developments

A new draft of the Law of Ukraine "On Railway Transport of Ukraine" has been developed, which takes into account the requirements of the EU - Ukraine Association Agreement in terms of implementation of EU directives. This draft law stipulates that tariffs for support services are subject to State regulation, the methodology of which is to be approved by an independent authority, the National Commission for State Regulation of Transport. The tariffs for transportation of passengers in the socially important suburban railway passenger transportation and long-haul passenger transportation segment (by trains and railcars of certain categories as established by the national commission responsible for the state regulation of transportation activities) are established pursuant to the terms and conditions of agreements between the central or local authority and the carrier.

Certain works (services) which are not subject to State regulation are to be made with free tariffs. These free tariffs are set by individual agreements.

The draft Law of Ukraine "On Railway Transport of Ukraine" dated 2 December 2015 was approved by the Cabinet of Ministers of Ukraine and, as of 14 December 2015, it has been submitted to the Parliament of Ukraine.

State Compensation

The Group is one of the core strategic assets of the State. The Group often obtains compensation from the State Budget and local budgets for preferential passenger transportation. The Group expects such compensation to remain in place.

Passenger Operations

The Group's passenger revenues accounted for 9.5 per cent. and 10.0 per cent. of the Group's total revenues in the first six months of 2015 and 2014, respectively, and for 10.6 per cent., 13.8 per cent. and 12.4 per cent. in the years ended 31 December 2014, 2013 and 2012, respectively. The Group provides international, long-haul domestic and suburban railway passenger transportation services. Each Railway uses its own criteria to distinguish domestic and suburban passenger routes in its geographic area. Passenger services tend to peak during summer months, with revenues for passenger services accounting for approximately 32 per cent. of annual passenger revenues in the third quarter of 2014.

The Group's passenger transportation segment remains unprofitable on a stand-alone basis as tariffs are set below economically reasonable levels. The Government sets out tariffs for long-haul domestic and international transportation services at the level affordable to end users, which does not cover the cost of the service to the Group. Tariffs for suburban transportation are not regulated by the Government but require approval of the relevant local authorities. The local authorities are in turn constrained by social and economic implications and would not agree to raise tariffs beyond the level affordable to the commuting population. In addition, a large number of customers, particularly in suburban transportation, do not purchase tickets for the transportation service. The Group has installed turnstiles at certain of its busiest stations to reduce the number of non-paying customers.

The Group operates 100 per cent. of the passenger railcar fleet in Ukraine. As at 30 June 2015, the Group's passenger railcar fleet consisted of 4,954 railcars.

Long-Haul Domestic Transportation

In the six months ended 30 June 2015 and the year ended 31 December 2014, the Group's long-haul domestic passenger traffic volume was 8,110.7 million passenger-kilometres and 17,879.1 million passenger-kilometres, respectively, as compared to 25,010.8 million passenger kilometres and 25,407.0 million passenger-kilometres in the years ended 31 December 2013 and 2012, respectively. This overall decline in long-haul domestic passenger traffic volumes has largely been driven by Ukraine's ongoing macroeconomic turmoil.

International Transportation

The Group offers international passenger transportation services to ten countries in Europe and Asia, including five countries in the CIS. In the six months ended 30 June 2015 and the year ended 31 December 2014, total international passenger traffic volume was 631.7 million and 2,715.0 million passenger-kilometres in the year ended 31 December 2014 as compared to 7,338.2 million passenger-kilometres and 7,404.6 million passenger-kilometres in the years ended 31 December 2013 and 2012, respectively.

Total long-haul passenger traffic volume in the six months ended 30 June 2015 was 35.6 million journeys as compared to 82.4 million journeys, 131.9 million journeys and 124.9 million journeys in the years ended 31 December 2014, 2013 and 2012, respectively.

Suburban Transportation

Commuter or suburban passenger transportation services are provided in suburban areas without any identification of seats in the railcar. The Group's suburban passenger transportation segment dispatched a total of 229,494 and 252,528 suburban trains in the six months ended 30 June 2015 and 2014, respectively, and 491,206 suburban trains in 2014, as compared to 534,678 in 2013. As at 30 June 2015, in suburban passenger transportation, Donetsk Railway operated 27 electrical trains and 25 diesel trains, Prydniprovska Railway operated 44 electrical trains and one rail bus, South Railway operated 61 electrical trains, 12 diesel trains and eight rail buses, Odesa Railway operated 25 electrical trains and 21 diesel trains, Southwest Railway operated 71 electrical trains, 17 diesel trains (and one rail bus currently under repair), and Lviv Railway operated 39 electrical trains and 38 diesel trains.

The Group carried 178.5 million and 179.4 million passengers in the six months ended 30 June 2015 and 2014, respectively, and 358.5 million, 360.9 million and 360.4 million passengers in the years ended 2014, 2013 and 2012, respectively. All six Railways provide suburban transportation services. The following table sets forth the total passenger turnover on suburban transportation for the six months ended 2015 and 2014, and the years ended 31 December 2014, 2013 and 2012.

	Six months ended 30 June		Year ended 31 December		
	2015	2014	2014	2013	2012
	(billion passenger kilometres)				
Railway					
Donetsk	0.80	0.86	1.7	1.8	1.8
Prydniprovska	1.30	1.30	2.6	2.7	2.8
South	1.19	1.13	2.3	2.3	2.3
Southwest	2.88	2.89	5.8	5.7	5.6
Odesa	0.70	0.69	1.4	1.4	1.3
Lviv	1.37	1.35	2.7	2.7	2.6
Total	**8.23**	**8.22**	**16.5**	**16.5**	**16.4**

Source: Ukrzaliznytsia Report on Passengers' Transportation and Revenue by Type of Traffic

For the convenience of passengers, each of the Railways offers several types of suburban passenger ticketing options: single-use one-way and round-trip tickets and a range of subscription tickets. The duration and type of subscription tickets depend on the frequency of use of railway services. There are tickets which are valid for several months or only at the weekends, student, children, discounted, or full-price tickets. In addition, passengers entitled to receive State-sanctioned social benefits and employees of the Group pursuant to the Group's branch agreement, are permitted to use suburban passenger services free of charge. The substantial majority of tickets sold are single-use rail tickets purchased in cash transactions. The Group sold 29.5 million and 28.8 million single-use tickets in the six months ended 30 June 2015 and 2014, respectively, and 58.0 million, 60.0 million and 58.7 million single-use tickets in 2014, 2013 and 2012, respectively. The Group sold for 0.1 million subscription tickets in each of the first six months of 2015 and 2014, and for 0.3 million subscription tickets in each of the years ended 31 December 2014, 2013 and 2012.

Passenger Customers, Sales and Marketing

The Group's marketing strategy in the long-haul passenger segment is to increase its attractiveness by offering new services to passengers, such as electronic and online ticket sales, and to encourage passengers to upgrade their class of travel to the first- and second-class passenger high-speed trains. The Group has also undertaken extensive initiatives to encourage and improve payment and collection relating to the suburban passenger service. The Group's marketing efforts include seasonal discounts, second-class discount tickets, volume discounts, and discounted children's tickets.

Auxiliary Operations

The Group's other revenues, including industrial production facilities and services, research and development and other non-core operations, accounted for 8.1 per cent. and 9.4 per cent. of the Group's total revenues in the first six months of 2015 and 2014, respectively, and 9.9 per cent., 10.2 per cent. and 9.9 per cent. in the years ended 31 December 2014, 2013 and 2012, respectively.

Industrial Production Facilities and Services

As at the date of this Prospectus, the Group operates three wagon repair plants, one concrete sleeper factory, two sleeper treating factories, 19 quarry management enterprises and one specialised plant producing goods for all of the Railways. The three wagon repair plants (Stryi, Darnytsia and State Enterprise "Ukrainian State Centre for Special Carriages Service") produce repair parts, provide overhaul, modernisation and manufacturing services for freight rolling stock, and also lease certain rolling stock to private parties. The Starokonstiantyniv sleeper factory primarily manufactures concrete sleepers. Rava-Ruskyi sleeper treating factory and Novomoskovskyi sleeper treating factory treat wooden sleepers with protective coating. The quarry management enterprises extract and process stones, sand and gravel from quarries for decorative or construction use. These facilities provide additional revenue opportunities for the Group, as they also have production and supply contracts for freight railcars with foreign clients.

Research and Development

As at the date of this Prospectus, the Group has five research and development institutes, as follows: Research and Development Institute for the Railway Transport of Ukraine, Donetsk Research and Development Institute for the Railway Transport of Ukraine, Lviv Research and Development Institute for the Railway Transport of Ukraine, Odesa Research and Development Institute for the Railway Transport of Ukraine and Dnipropetrovsk Research and Development Institute for the Railway Transport of Ukraine.

The Group entities also include several scientific institutions and specialised engineering centres:

- The Planning and Design Technological Bureau of Rolling Stock Planning and Modernisation provides technical design and manufacture of special equipment and accessories for wagon repair businesses.

- The Planning and Design Technological Bureau of Locomotive Repair provides design and technical documentation development for the maintenance and repair of hauling rolling stock and spare parts repairs.

- The Planning and Design Technological Bureau for Information Technologies ensures that information-related requirements of the Group are met.

- The State Research Centre for the Railway Transport System of Ukraine offers scientific and technical support to the railway transport system of Ukraine.

- The Scientific and Design Technological Bureau of Track Facilities of Ukrzaliznytsia provides technical and engineering and design documentation services for operation, repairs and maintenance of all railway track facilities and mechanisms.

Other Non-Core Services

Other non-core services include various entities within the Group engaged in the provision of social services to the Group's employees and the public generally, such as academic and medical institutions and other services. In particular, the Group supervises 8 medical institutions, which provide periodic medical examinations to certain categories of the Group's employees (e.g., employees involved in transportation safety control, hazardous work environments, etc.), as well as pre- and post-travel exams for locomotive personnel. Such medical institutions also deliver medical care to all the Group's employees and their families, as well as the Group's pensioners and other citizens.

Zolotonosha Technical School provides training and re-qualification courses, as well as other skills training to current and future employees of the Group. The Group also produces a weekly "Magistral" newspaper, which is a specialised publication on the latest developments in the railway industry of Ukraine.

International Cooperation

The Group is a member of various international organisations such as the Commonwealth of Independent States Railway Transport Council (the "**Council**"), the Organisation for Cooperation of Railways ("**OSJD**"), the Intergovernmental Organisation for International Carriage by Rail ("**OTIF**"), and the International Rail Transport Committee ("**CIT**").

The application of unified railway transportation rules by the above-mentioned organisations provides for unified railway regulation and helps avoid inconsistencies in the application of EU Directives. Ukraine's accession to the Convention concerning International Carriage by Rail ("**COTIF**") of 9 May 1980, as amended by the Vilnius Protocol of 3 June 1999, was a huge step towards Ukraine's integration into the EU and considerably simplified railroad transportation between Ukraine and the European Union. The cooperation frameworks adopted by the above-mentioned organisations proved to be beneficial for their participants and resulted in an increase in transportation turnover among member states.

Council

The Council was established in 1992 to coordinate rail transportation at the intergovernmental level, agree common procedures and regulations, and assist the development of transportation and economic ties between the members of the CIS, together with Bulgaria, Estonia, Latvia, Lithuania, Georgia and Finland. The Council examines and resolves issues relating to the daily operations of the railways, joint use and maintenance of freight railcars and containers, passenger and freight transportation conditions, safety in the movements of trains on international routes, developing systems for accounting and settlements, scientific and technical cooperation and other issues. Participation in the Council enables participating countries to develop mutually-beneficial cooperation, which enables them to introduce balanced tariff policies, largely unified approaches to technical regulations, transportation planning, operation of border crossings, and settlements between the railway administrations of CIS and Baltic states for international transportation services.

OSJD

The OSJD was established in 1956 and unites transportation ministries and central state authorities administering railway transport. The OSJD is dedicated to developing and improving international rail transportation between Europe and Asia, including combined sea/rail transportation, developing operational practices in railway transport activities, improving international transport law, including the Agreement on International Passenger Traffic, the Agreement on International Rail Freight Transport, and other legal instruments related to international rail transportation. The OSJD also encourages cooperation on issues related to economic, informational, scientific, technological and environmental aspects of rail transportation and promotes the competitiveness of railways compared with other modes of transportation.

The OSJD currently has 27 active members. Railways of the OSJD member states are characterised by and serve different climatic zones and two track gauge changes on a single route (1435/1520/1435 mm). Participation in the OSJD provides the Group with the opportunity to further develop cooperation in the field of freight and passenger transportation with neighbouring European countries.

COTIF Convention

The primary goal of the Intergovernmental Organization for International Carriage established by the COTIF Convention of 9 May 1980 is to elaborate and improve international laws and regulations governing the procedure for international carriage by rail. It currently has 48 member states from Europe, the Middle East and North Africa, and one associate member state. On 1 July 2011, the EU joined the COTIF Convention. Ukraine joined the COTIF Convention in 2003, and in 2005 also joined the Vilnius Protocol of 3 June 1999 amending the COTIF Convention.

CIT

The CIT's primary purpose is to promote the implementation of international railway law at the branch level. In particular, the CIT prepares legal publications and other documents for railways with international operations, standardises customer form contracts, and represents the interests of railways vis-à-vis legislators and authorities of the participating member states.

136 railway transport enterprises are active member of the CIT and 80 more enterprises participate in the work of the CIT as its associated members.

The CIT protects the interests of railway carriers in their relations with other countries' legislative and other official bodies.

Other

The Group has several bilateral agreements on cross-border freight transportation with the railways of four neighbouring countries (Poland, Slovakia, Romania and Hungary). These agreements establish common procedures for border crossings, coordinate the work of controlling bodies during the provision of transportation services, and set forth the payment rules and rates for the use of railcars.

Payments for such transportation are made through the State Enterprise "Ukrainian State Processing Centre of International Transportation".

Within the framework of the "Programme for Renewal of the Locomotive Fleet of Ukrzaliznytsia in 2012/2016", adopted by the resolution of the Cabinet of Ministers of Ukraine, dated 1 August 2011 No. 840, the State Enterprise for Material and Technical Support of Railway Transport of Ukraine "Ukrzaliznychpostach" ("**Ukrzaliznychpostach**") and Novocherkassk Electric Locomotive Plant entered into two contracts on 29 December 2011. A contract in the amount of RUB 8.96 billion for the production and supply of 70 AC electric locomotives of the 2ES5K type and a contract in the amount of RUB 29.44 billion for the production of 230 DC electric locomotives of the 2ES4K type.

In 2011, the Group signed an agreement of understanding with Elektrovozstroitel (Georgia), whereby the latter is obliged to supply to the Group 141 electric locomotives from 2012 to 2017.

Procurement

As a natural monopoly, the Group procures material and technical resources on a competitive basis in accordance with the requirements of the applicable laws related to the area of public procurements, specifically the Law of Ukraine "On Public Procurement" and "On the Peculiarities of Public Procurement in Certain Businesses" subject to compliance with the principles of (amongst others) bona fide competition among the parties, maximum savings and efficiency and non-discrimination.

To ensure greater transparency of procurement at the "pre-threshold level" that is within the limits set forth in the aforementioned Laws, the Group takes part in the pilot project on the implementation of electronic procurement at the sites of the ProZorro electronic system. This project was developed with the participation of the Ministry of Economic Development and Trade of Ukraine and representatives of business and international donors, and aims to improve the ability of all stakeholders to carry out open procurement processes at reasonable prices.

The Group manages its procurement function through the "Centre for Ensuring Production", the former Ukrzaliznychpostach SC which is now a branch of the Group following the reorganization pursuant to the Reform Programme.

The Group's principal purchases are fuel (54 per cent. of all purchases in 2013, 66 per cent. of all purchases in 2014 and 89 per cent. of all purchases in the six months ended 30 June 2015), including diesel fuel (46 per cent. of all purchasers in 2013, 58 per cent. of all purchases in 2014 and 79 per cent. of all purchases in the six months ended 30 June 2015); ferrous industry products (17 per cent. of all purchases in 2013, 13 per cent. of all purchases in 2014 and 3 per cent. of all purchases in the six months ended 30 June 2015), and repair parts for locomotives and rolling stock (11 per cent. of all purchases in 2013, 8 per cent. of all purchases in 2014 and 2 per cent. of all purchases in the six months ended 30 June 2015).

The Group has purchased its locomotives and rolling stock from Luganskteplovoz (Ukraine) until 2011, Elektrovozmash (Russia) until 2010, Novocherkask (Russia) until 2010, and Elektrovozostroitel (Tbilisi) from 2010-2014. In the passenger segment, the Group has currently halted passenger wagon purchases as part of its strategy and only purchases trains for long-haul domestic transportation. The Group's main suppliers in this segment are Kryukiv Railcar Plant (Ukraine), Škoda (Czech Republic), Pojadzy Szynowe PESA Bydgoszcz SA Holding (Poland) and Hyundai Rotem (South Korea).

On 16 December 2010, South Railway entered into an agreement with the Korean companies "Hyundai Corporation" and "Hyundai Rotem" for the purchase of 10 dual-system high-speed/long-haul domestic passenger trains. The agreement provides for the subsequent manufacture of similar vehicles in Ukraine in the future. Costs for these purchases are expected to be funded from the Group's funds, along with a 10-year credit facility with the Export-Import Bank of Korea, dated 29 December 2010, in the amount of U.S.$261 million. In January 2011, South Railway entered into an agreement on the purchase of two double-storey long-haul domestic trains with Škoda Vagonka (Czech Republic) for the Euro 2012 Championship. In April 2012, the first national high-speed/long-haul domestic passenger train, manufactured by Kryukiv Railcar Plant (Ukraine), was launched into operation on the Kyiv-Kharkiv route. In May 2012, the high-speed service was expanded to the Kharkiv-Simferopol route. As at the date of this Prospectus, all trains are being operated.

In June 2014, two nine-car two-system inter-regional electrical trains (model EKp-1) manufactured by Kryukiv Railcar Plant PJSC, with a total value of UAH 400 million, were purchased by the Group for Ukrainian High-Speed Railway Company State Enterprise (an entity of the Group), and, in December 2014, one passenger car manufactured by Kryukiv Railcar Plant PJSC, with a total value of UAH 18.7 million, was purchased by the Group for Ukrainian High-Speed Railway Company State Enterprise.

In August 2011, the Cabinet of Ministers of Ukraine approved the Locomotive Programme for the period from 2012-2016 to address aging of locomotive stock utilised by the Group to ensure uninterrupted passenger and freight transportation. In particular, 75 per cent. of electric locomotives were operating beyond their projected service life as of August 2011.

The Locomotive Programme envisages the technical modernisation and development of the locomotive fleet, the design and construction of new types of locomotives, the purchase of new types of locomotives, the optimisation of energy and maintenance costs, and the strengthening Ukraine's technical and scientific capabilities in locomotive design and construction. The Locomotive Programme envisages a total investment of UAH 28,674.63 million which is expected to be funded primarily from the Group's revenues as well as from borrowed funds and other sources.

Pursuant to the Locomotive Programme, in 2012-2015 the Group received 21 electric locomotives at a total cost of UAH 931.7 million, funded from external financing sources.

Currently, experts of the Group, under the supervision of the Ministry of Infrastructure of Ukraine, are developing a draft programme for the renewal of rolling stock in the railway industry between 2015 and 2025.

The following table sets forth the Group's locomotive purchase plan for 2015 to 2019:

		Years ended 31 December				
	Total	**2015**	**2016**	**2017**	**2018**	**2019**
The number of locomotives, units	30	0	0	1	10	19
Approximate costs, UAH millions	6,601	0	100(1)	121	2,200	4,180

Source: Ukrzaliznytsia information

Notes:
(1) Although no additional locomotives are scheduled to be purchased for the year ended 31 December 2016, the Group has allocated a budget of UAH 100 million for development of a prototype locomotive during 2016.

Investment Programme

The Group's Investment Programme comprises a portfolio of investment projects with pre-approved budgets and completion deadlines. Key investment projects include projects relating to the development of port infrastructure, the reconstruction of certain railway stations, the establishment of high speed transport corridors, the continuation of railway electrification, the improvement of railway transportation on the Lviv-Chop route and the Kosice-Bratislava-Vienna route, construction of the Beskyd tunnel, and a programme for locomotive and rolling stock acquisition.

The following table sets forth the Group's key investment projects, which are discussed in more detail below:

Project(1)	**Actual 2012**	**Actual 2013**	**Actual 2014**	**Budget 2015**	**Budget 2016**
			(UAH thousands)		
Euro 2012 Championship	6,390,000	-	-	-	-
Port Infrastructure	93,200	195,000	345,000	13,500	48,379
Railway Stations					
Reconstruction of Darnytsia station	14,562	7,295	2,885	-	-
Transport Corridors	864,900				
Railway Electrification		76,380	40,801	16,420	1,514,383
Dolynska Mykolaiv Kherson Dzhankoi	8,423	8,052	14,843	0	700,000
Volnovakha Kamysh Zoria Zaporizhia	11,803	28,759	1,978	-	-
Mykolaiv Kolosivka	11,096	564	-	-	-
Lviv-Chop Route (Beskyd Tunnel)	27,579	114,008	272,079	192,073	753,918
Kosice Bratislava Vienna Route	-	-	-	-	-
Total	**7,421,563**	**430,058**	**677,586**	**221,993**	**3,016,680**

Notes:
(1) Budgeted expenditures are subject to change.

Port Infrastructure

Investment projects in port infrastructure include the development of railway infrastructure of port processing facilities, port stations and approaches to them (construction, repair and reconstruction). The Group envisages that annual export and transit traffic of modernised ports will increase by 18 to 25 million tonnes.

The industry programme for the development of railway infrastructure of port processing facilities, port stations and approaches to ports for the period until 2015 was approved in 2009 and completed in 2015. However, a number of the programme's proposals were not implemented for reasons including:

- changes in the economic situation and market conditions;

- the fact that certain partners, including the commercial seaports, did not plant to implement certain elements of the proposals; and
- the impossibility, under the circumstances of economic downturn and a lack of investor interest, of invoking the appropriate incentive mechanisms due to certain peculiarities of the legislation on public-private partnerships.

The programme is expected to require a total investment of UAH 10.2 billion, of which the Group is expected to contribute UAH 764.6 million. In 2012 the Group spent UAH 93.2 million, in 2013 UAH 39.31 million and in 2014 UAH 17.1 million on the project, and planned to spend UAH 93.0 million in 2015. Despite the programme expiring in 2015, in 2016 the Group plans to continue efforts aimed at increasing the capacity of railway infrastructure in relation to ports, and plans to spend UAH 43.5 million in 2016 on these efforts.

Railway Stations

Modernisation of Darnytsia railway station complex in Kyiv was launched in 2004 and is managed by Southwest Railway. The Cabinet of Ministers of Ukraine approved the feasibility study of the project on 19 September 2007 (through the instruction of the Cabinet of Ministers of Ukraine No. 758).

The project is expected to increase throughput capacity of the Kyiv railway station - Darnytsia railway station route in line with the constant growth in passenger traffic on that section, and is expected to stimulate related auxiliary businesses such as hotels, parking and entertainment centres.

The project required a total investment of UAH 2,207.9 million according to prices approved by technical and economic reasoning in 2007. Due to a change in the economic situation, the concept of the project and project documentation required revision. For the period from 1 January 2012 until 30 June 2015, the Group spent UAH 24.7 million on this, including UAH 7.3 million in 2013 and UAH 2.9 million in 2014. The completion of the project depends on the Group’s financial position and investors.

Transport Corridors

The Group plans to further continue improving the infrastructure of its transport corridors related to freight and passenger transportation, including high-speed passenger transportation in 2016 in order to increase competitiveness and economic efficiency of freight and passenger railway transportation. The Group plans to allocate UAH 300.0 million in 2016 towards this initiative, which it expects to fund from internal sources.

The MIU initiated development of the “Concept of Programme for National (Priority) Transportation Network Development for the Period of 2016 through 2026”, which was drafted by various parties, including the Group. This concept proposes to include additional routes connecting the eastern borders of Ukraine (checkpoint Topoli) with the Black Sea ports, as well as the corridor “Black Sea - Belarus - Baltic Sea”, within the State list of priority transport corridors, in order to increase the volume of freight transportation to the sea ports of Ukraine. In the course of the next five years (until 2020) the project is expected to require additional funding in the amount of UAH 11,171.3 million, including UAH 4,500.0 million of the Group’s funds and UAH 6,671.3 million of borrower funds.

Railway Electrification

The Group’s railway electrification projects involve automation and modernisation of all related equipment. As a result, freight and passenger routes will be separated, which is expected to increase throughput capacity and allow the use of larger and longer trains. Under the plan, freight routes will be diverted to make room for dedicated high-speed passenger lines, which is expected to increase throughput capacity for both freight and passenger services.

The Group is currently working on the following electrification projects:

Dolynska-Mykolaiv electrification project

The project requires a total investment of UAH 3,124 million, of which the Group expects to pay UAH 1,453.9 million in 2016. To cover this cost, the Group is seeking to obtain funding from the EIB. In 2012, at the request of Odesa Railway, Odesazaliznychproekt State Enterprise and Kyivdniprotrans State Enterprise prepared the feasibility study for this project and developed stage "P" and stage "R" for electrification of the section of railway and obtained approval from the Kyiv City State Expert Organization. Currently, stage "P" is being updated to include comments provided by the Ministry of Regional Development and Construction of Ukraine. The total value of the project is EUR 443.2 million.

The project has been discussed with the EBRD and the EIB. On 26 January 2015, the European Investment Bank published information regarding the project on its official website. As of the date of this Prospectus, the EBRD has almost completed the assessment of the financial condition of the Group to determine the possibility of funding the project.

At this stage, the EIB has engaged a consulting company to determine the construction cost, correctness of the design and technical solutions, as well as to prepare tender documentation.

As of the date of this Prospectus, the design documentation for work performance has been prepared for this project. Draft orders of the Cabinet of Ministers of Ukraine regarding the Dolynska - Mykolaiv electrification project were prepared and submitted for consideration and approval by the relevant ministries. The Group expects these orders to be approved by the Cabinet of Ministers of Ukraine in February 2016.

Volnovakha-Kamysh-Zorya-Zaporizhzhya electrification project

The project requires a total investment of UAH 3,837.4 million. To cover this cost, the Group is seeking to obtain funding from the EIB. In 2012-2013, at the request of Prydniprovska Railway, Dniprodiprotrans Institute OJSC prepared the feasibility study for this project and developed stage "P". The Group aims to complete the project by 2020.

Lviv-Chop Route (Beskyd Tunnel)

The Group plans to construct a new two-way rail tunnel to replace the existing single-track rail tunnel in the Beskyd-Skotarske district along the Lviv-Chop route. The length of the tunnel will be about 1.8 km.

Currently, Ukrzaliznytsia has jointly implemented (with the EBRD) the "Introduction of High-Speed Operation of Passenger Trains at Ukrainian Railways" project. The loan agreement related to this project in the amount of U.S.$120 million was executed on 31 August 2004. The related guarantee agreement was ratified by the Parliament of Ukraine on 1 December 2006. The loan agreement provides for the purchasing of up-to-date railroad equipment and design (tranche A) and construction of a new two-way rail tunnel in the Beskyd - Skotarske district of the Lviv Railway (a part of International Transport Corridor No. 5) (tranche B).

Using these loan funds, the Group bought 24 track machines for U.S.$78.65 million, which were place in commission during 2007-2009 and were transferred to State Enterprise "Ukrainian Centre for Mechanization of Rail Works" (a Group company). Within a frame of the loan, the Group engaged advisers and paid for respective advisory services in the amount of U.S.$1.55 million. The contractor who was engaged to design and construct the Beskyd tunnel, was paid using the EBRD loan funds in the amount of U.S.$38.51 million.

In the future, the construction of the Beskyd tunnel will be funded by the European Investment Bank. On 7 May 2014, under a government guarantee the European Investment Bank and the Group entered into financial agreement FI No. 81.421 Serapis No. 2011-0053 "Project "Beskyd Tunnel" (Construction of the Beskyd Tunnel)" in the amount of EUR 55 million.

As of 5 February 2016, the Group drew down the first tranche of funds from the European Investment Bank in the amount of EUR 5 million, the EUR 1.599 million of which on 8 February 2016 were paid to the contractor for construction of the Beskyd tunnel. In total it is planned to draw down EUR 25 million loan funds in 2016.

Kosice – Bratislava - Vienna Route

The Kosice – Bratislava - Vienna Route project goal is the development and enhancement of the effectiveness of transportation and economic relations between Central Europe and Asian countries. The railway companies of four countries (Ukraine, Slovakia, Austria, and Russia) agreed to arrange for direct railway communication between Western Europe countries, the CIS and China using a track gauge of 1520 mm on the Chop - Kosice - Bratislava - Vienna route by expanding existing rail tracks in Slovakia. Work commenced in 2007 and a joint venture company, Limited Liability Company Breitspur Planungsgesellschaft mbH, was established in 2008, with each of the Austrian, Russian and Slovakian participants holding 28.54 per cent. shares and the Group holding a 14.38 per cent. share.

A feasibility study by independent experts in 2010 concluded the project was technically and legally viable.

In 2014, an international tender for the performance of the engineering work was carried out in pursuance of the feasibility study project, which was won by Austrian-Slovakian-German "Bernard-Valbek-Obermaier" Consortium. The management of the joint venture company planned to carry out the second international tender for substantiation of the project business model and funding model in the second quarter of 2015. As of the date of this Prospectus, the international tender documentation has been prepared in accordance with the laws of the Austrian Republic; applications from Western companies intending to participate in the tender have been filed; and the international procedure for selectition of the winner of the tender is currently under review. The funds for the second part of the project have to be received by the participants of the joint venture company by way of an increase in its authorised capital by the end of June 2016.

The project requires total investments in the amount of EUR 6.3 billion. These funds are planned to be raised from international organisations, banking institutions and interested railway carriers in the Central Asia and EU countries. No additional funds from the Group are expected to be required, except for EUR 1.5 million of funds for the purposes of capital increase. At the end of 2016, the results of the feasibility study will be presented to the participants of the joint venture company (including the Group), as well as to relevant authorities of the four participating countries.

The Group expects the project to be complete by 2018.

Rolling Stock Upgrade

The Group, Donetsk Railway and the EBRD executed a loan agreement on 20 January 2009 for the acquisition of general-purpose gondola wagons for Donetsk Railway as part of the "Renewal of the Rolling Stock of Ukrzaliznytsia" project. The loan funds are provided without government guarantee.

Pursuant to the terms and conditions of the agreement, the EBRD pays for 85 per cent. of the wagons' value, with Donetsk Railway paying the remaining 15 per cent. plus VAT. The amount of loan totals U.S.$125 million. The amount of withdrawn funds totals U.S.$34.21 million.

Within the framework of the project, 640 gondola wagons manufactured by Kryukiv Railcar Plant (the winning bidder) were purchased.

In the context of the situation in the east of Ukraine and risks associated with military operations in the eastern regions of Ukraine, the Group applied to the EBRD to consider the possibility of amending the loan agreement to include State Enterprise "Darnytskyi Railcar Plant" (a Group entity) as the coborrower, taking into account the fact that Darnytskyi Railcar Plant already acts as a surety under the loan agreement. The negotiations are currently in progress.

Competition

As the sole operator of the national railway network and as the primary provider of suburban and long-haul passenger rail transportation in Ukraine, the Group is not generally subject to competition in these areas of its operations by other rail operators due to high barriers to entry and its status as a natural monopoly in Ukraine. The Group believes that due to the Group's natural monopoly status under the current regulatory regime, the environment of limited competition in these markets will remain for the foreseeable future. In addition, the substantial capital expenditures required by any company that intends to construct competing rail infrastructure poses a high barrier to entry for potential competitors.

Competition between railway transport and other types of transport has currently strengthened. However, the Group is strong both in technical capacity and in transportation capacity, including a broad railway network, versatility in the transportation of all types of freight, relatively low costs of transportation, reliability and safety. In addition, the Group has strong throughput capacity and meets the needs of the industrial and passenger sectors at any time of year in practically all climate conditions.

Freight transportation is irreplaceable for such types of freight as coal, ore, ferrous metals, crushed stone, etc. However, the Group's main competitor is automobile transport, due in large part to its manoeuvrability, high speed, and the ability to deliver freight to practically any location. As at the date of this Prospectus, many types of high-value freight are transported by automobile transport, while raw materials and commercial products with a low degree of processing are transported by the Group. Water transport is also a competitor of the Group, especially during the summer shipping season, and the pipeline network is usually used for the transportation of crude oil and liquefied gas.

The Group expects that as the Reform Programme opens up the market for privately-owned railway companies, these railways are likely to enter the market for freight transportation. Freight tariffs depend on the type of freight being carried and it is likely that private carriers would focus on transporting high-value goods with an expectation to generate higher returns. In such a scenario, the Government may impose a requirement on private carriers to accept all types of freight (as the Group is already required to do), which the Group believes would not have an adverse impact on its ability to compete with private carriers.

The table below sets forth the market share of the private railway operators (excluding the Group), by freight turnover, for main classes of freight representing more than 6.8 per cent. of total freight turnover for the six months ended 30 June 2015:

	Six months ended 30 June 2015
	(percentages)
Oil and petroleum products	51.7
Coke	43.1
Coal	7.4
Construction materials	45.8
Ores, iron and manganese	59.3
Ferrous metals	51.7

Source: Ukrzaliznytsia Information Statements of Main Information and Computing Centre

Financial Policy and Risk Management

The Group's annual financial planning and budgeting process involves the MIU, the Ministry of Finance of Ukraine, the Ministry of Economic Development and Trade of Ukraine and is approved by the Cabinet of Ministers of Ukraine. The Group, in turn, determines revenue and expenditure allocations among the Railways, oversees the financial performance of the Group entities and consolidates the Group's financial results. The Group has a goal of maintaining a financial profile consistent with a solid credit quality by maintaining regular and reliable revenue projections and appropriately budgeting for and managing its cost base. The Group's financial policy stipulates that it must ensure a timely payment of interests under its debt obligations, while strictly adhering to its internal and external financial ratios. The Group's management continues to focus on developing risk a management policy comparable to international standards.

The Group's financing strategy aims to diversify funding sources, extend its debt maturity profile and access new external sources of funding to support the Investment Programme. Currently, the Group funds its capital expenditure and operating assets through a combination of its own cash flows from operations, bilateral loans, domestic bonds, Eurobonds and credit lines from international financial organisations (the EBRD and the EIB).

Some of the Group's current financing documents include restrictive covenants to maintain certain ratios of net financial borrowings of the Group to EBITDA, EBITDA to net financial expenditures, current ratio, passenger service coverage ratio and the Group's accounts receivable repayment period.

The Group's risk management policy aims to identify potential risks and take prompt measures to minimise their adverse effect on the Group's financial performance. Key risks monitored by the Group's risk management are economic risks, inflation and commodity prices, foreign exchange risk, and interest rate and refinancing risk, etc. See also "*Risk Factors*" for further discussion of these and other risks.

Environmental Protection, Health and Safety

The Group's operations are subject to various laws and regulations relating to the environment and health and safety. The Group is committed to environmental protection and has sought to reduce the environmental impact of its operations. For instance, replacing diesel locomotives with electric equivalents dramatically reduces environmental impact, and also saves up to 40 per cent. of the cost of operation.

In 2008 and 2009, the Group developed an energy savings programme focusing on energy savings in transport and communications to be implemented between 2010 and 2014, which was subsequently approved by the MIU in 2009, confirmed by Resolution of the Panel of Ministry of Transport and Communication of Ukraine No. 18 dated 17 September 2009 and approved by Letter of the National Agency of Ukraine for Efficient Usage of Energy Resources No. 1753-01/13/2-09, dated 28 October 2009.

The programme envisages the introduction of the latest scientific developments for energy efficiency in the transportation industry. Specifically, the programme sets forth measures to increase energy efficiency in the railway transportation sector, including reconstruction of the rail network using jointless rails, purchase of modern rolling stock (such as electric locomotives and specialised railcars), optimisation of railcar traffic, and introduction of automatic systems of lighting. The Group expects that, once implemented, the programme will achieve energy savings of UAH 80 to 100 million per year.

By implementing the measures set out in this programme, the Group achieved the following energy consumption reduction rates (in thousands of tonnes of reference fuel): 25.4 in 2010, 22.5 in 2011, 22.8 in 2012, 18.7 in 2013, 13.8 in 2014. The Group expects to save 14.5 thousand tonnes of reference fuel in 2015.

The Group believes the following are most promising of the Ukrainian rail industry's activities to reduce its environmental impact:

- renovation of rolling stock in accordance with scientific and technical innovations;
- improvement of transportation technologies aimed at optimisation of passenger and freight traffic flows;

- enhancement of performance ratings in utilisation of rolling stock, aimed at energy efficiency;
- replacement of obsolete electro-technical and electric light equipment, with the up-to-date energy-saving equipment;
- enhancement of performance indexing for boiler stations and heat-supplying systems, due to introduction of advanced energy-saving technologies and equipment, and transitioning to the most efficient types of fuel and energy; and
- transition to alternative types of fuel and renewable energy sources.

Security

Ensuring the safety of passengers and freight on the railways and infrastructure facilities is a key element of the Group's long-term development and modernisation strategy. The Group uses its own security services, transport police and private security enterprises to ensure the safety of its passengers, freight and infrastructure facilities. All elements of railway infrastructure at stations, warehouses and administrative and management buildings are equipped with fire alarm systems. To ensure the safety of passengers on passenger trains, agents of the transport police and private security organisations are present on all long-distance and commuter trains. Passenger safety and the protection of railway transport infrastructure have been increased by introducing modern security measures.

To ensure the safety of passengers, the Group established the Rules for Safety of Individuals on the Railway Transport of Ukraine. However, most accidents happen as a result of breaking these rules. The Railways have implemented actions to minimise such accidents, including organisational and technical measures for accident prevention. The protection of the most important railway transportation objects from criminal interference has been transferred to a departmental security sub-division for railway transportation. Other facilities which do not affect transport safety are guarded by various private security organisations which are selected on a tender basis.

Employees

As at 30 June 2015, the Group had 295,628 employees. The Group fulfils a strategic purpose for the Government as one of the largest employers in the country. Maintaining this important role implies that no material redundancies are expected as part of the reform process (except for an expected general reduction in the Group's staff due to usual personnel turnover, and the automisation and electrification of manufacturing processes), in line with the Government's employment policy. Nevertheless, the Group has gradually reduced its total headcount between 2012 and the six months ended 30 June 2015 due to natural attrition, automation and electrification of production, and expects a similar natural reduction in its personnel in the remainder of 2015 and throughout 2016 of approximately 8,600 people.

The Group has a branch agreement with trade unions operating within the branch, which was executed by the Union of Railway Workers and Construction Workers in the Transportation Industry. Collective bargaining agreements are maintained by the Group, each of the Railways, and at the local level. Each agreement is adopted or amended annually. Certain agreements, such as the Lviv Railway Branch collective bargaining agreement, specify additional fringe benefits for employees working in more difficult conditions (e.g., through mountainous terrain). The Group also conducts quarterly hearings to ensure compliance with all collective bargaining agreements.

In 2009, to address the impact of the global economic downturn, the Group began to optimise its workforce by requalification and reallocation of its personnel to fulfil staffing requirements of various business segments, without significant headcount reduction. While the Group's headcount reduced from 350,798 employees in 2012 to 308,684 employees in 2014, the reduction was attributable to retirement, job changes, automation and electrification of operations, and other ordinary course of business reasons. In order to continue to effectively operate its business, the Group has provided its employees with professional training to enable them to perform multiple functions and assume broader responsibilities. In the six months ended 30 June 2015, and in the years ended 31 December 2014, 2013 and 2012, respectively, 15,319, 44,410, 49,529 and 61,901 employees received additional training.

The Group's payroll plan is based on headcount, salary amounts fixed for certain positions and changes in productivity. On average, the Group has contained payroll growth within the rate of inflation. The Group expects its labour costs, such as salary expenses and social taxes, to grow above CPI/WPI levels between 2016 and 2019. The Group's staff costs amounted to UAH 10.4 billion for the six months ended 30 June 2015, and the Group expects the staff costs to decline gradually in the short- to medium-term.

The Group's social policy aims at protecting veterans and other vulnerable categories of employees and envisages a number of measures, such as subsidies on medication, subsidies on fuel, free health insurance and free train tickets.

As at the date of this Prospectus, the Group does not have any unresolved employee disputes.

Pension Plans

As at 30 June 2015, the Group's defined retirement benefit plan covered 303,866 employees, compared to 308,684 and 334,754 employees as at 31 December 2014 and 2013. As at 30 June 2015, the defined retirement benefit plan also covered 5,931 former employees who had reached the pension age but continued working, compared to 8,041 employees as at 31 December 2014, and 11,548 employees as at 31 December 2013.

Insurance

The Group maintains a comprehensive set of insurance policies, which are usually renewed annually. These include insurance cover for civil liabilities insurance for the Group as a freight transporter and proprietor of infrastructure (covering third-party claims against the Group), insurance for employee accident insurance and medical insurance. The Group also carries a number of forms of compulsory insurance, such as passenger insurance and liability insurance for companies transporting freight designated as "hazardous". The maximum amount insured under the Group's insurance agreements executed in the six months ended 30 June 2015 totalled over UAH 6,000 billion.

In the event of a serious accident involving passengers, the insurance company pays 100 per cent. of the liability to a passenger's family or heirs in the event of death, and between 50 and 90 per cent. of the liability in the event of permanent disability. Under the Resolution of the Cabinet of Ministers of Ukraine of 14 August 1996 No. 959, if the total amount paid by the Railways in insurance premiums exceeds the amount received in pay-outs, those insurance companies that received the premiums must return to the Railways up to 50 per cent. of the initial premium payments during the relevant year to be spent on safety measures aimed at reducing transport injuries. Under this resolution, the Railways received a total of UAH 40.9 million and UAH 3.8 million in 2014 and the six months ended 30 June 2015, respectively, from its insurers (including commissions to railway companies that act as agents on passenger insurance agreements), which was spent primarily on measures to improve safety of train traffic, including repairs of tracks, turnstiles and stations.

In 2014 and the six months ended 30 June 2015, the Railways paid UAH 224.7 million and UAH 84.6 million, respectively, in insurance premiums and received total pay-outs of UAH 42.2 million and UAH 4.2 million, respectively.

Legal Proceedings

From time to time, the Group is involved in litigation and arbitration in the ordinary course of its business activities. The group's exposure to third party claims with less than probable risk was UAH 232,054 thousand as at 30 June 2015. This ordinary course litigation and arbitration has not had a material adverse effect on the Group's operating results or financial position.

As at 30 June 2015, the Group was involved in litigation with tax authorities with respect to additional accruals of liabilities for corporate income tax, VAT and other taxes (as claimant or defendant) in the total amount of UAH 666,269 thousand, including additional charges and penalties.

In October 2010, Odesa Railway challenged certain actions of the Control and Audit Authority (now the State Financial Inspection) in the Odesa Region in conducting an audit with respect to the economic activity of Odesa Railway in 2008 through the first quarter of 2010 and inclusion in the audit report of certain findings of violations in the total amount of UAH 138 million and certain actions of the controlling audit body (now the State Fiscal Inspection) taken during the audit. Pursuant to the decision of the local administrative court, the claim of Odesa Railway was partially sustained. Both parties filed appeals to the court of appeals, which adopted a new decision on partial satisfaction of Odesa Railway's claim. The State Financial Inspection then filed a cassation appeal to the Higher Administrative Court of Ukraine. On 14 May 2013, the High Administrative Court ruled in favour of the cassation appeal and awards delivered by the first instance and appellate courts were reversed. The Odessa Railway then initiated a new court proceeding seeking acknowledgement that claims lodged by the State Fiscal Inspection were invalid. Hearings in this case are currently being conducted at the cassation court (the courts of first instance and appeal having upheld Odessa Railway's claim).

As at 31 December 2014, the Group had acknowledged *cautio judicatum solvi* with respect to a violation of a construction services agreement with a supplier in the amount of UAH 430,048 thousand (in the foreign currency equivalent). As at 30 June 2015, such amount provided to the court as *cautio judicatum solvi* was adjusted up to UAH 588,252 thousand, based on the then-official Hryvnia/foreign currency exchange rate.

Principal Licences

Law of Ukraine "On Licensing Types of Business Activities", No. 222 – VIII, dated 2 March 2015, which entered into full force and effect on 28 June 2015, governs licensing in Ukraine.

This law resulted in a reduction in the types of activities carried out by the Group which require licensing. The Group needs to possess 13 licenses for performance of certain types of its business activities, compared to the 15 licenses required before.

The passenger, hazardous freight and wastes rail transportation licence is the most significant licence available to the Group. As at the date of this Prospectus, this licence is issued in perpetuity. In addition, the Group holds a number of other licences, authorising it to carry out a full range of railway-related business activities. Among others, these licences include various construction and communications licences, licences for automobile transportation, and special permits for subsoil use. In addition, the Group also holds other licences which do not directly relate to the transportation services provided by the Group.

In compliance with Section 4 of Article 15 of the Law of Ukraine On Licensing Types of Business Activities, upon incorporation of the Company, all available licenses are subject to re-registration during time limits set by this law. In compliance with requirements set out in Section 1 of Article 5 of the Law of Ukraine "On the Peculiarities of Incorporation of a Public Joint Stock Company for Railway Transports of General Use" (The Official Bulletin of the Verkhovna Rada of Ukraine (OBVRU), 2012, No. 49, Article 553), the available permissive documents will continue to be valid until their respective expiry dates or re-registration.

Information Technology

The importance and complexity of the service components provided by the Group, including freight transportation logistics, dispatch and optimisation of the transportation process (including rolling stock and freight tracking), provision of modern services to customers and passengers, and management of financial, property and human resources, require the employment of advanced information technology systems and software that are sufficient for the current needs of the Group and are scalable to support the growth in turnover of its operations.

The Group employs the latest information technology to ensure its systems provide the best service for its railway transportation customers, including monitoring trains and processing electronic documents required for transportation. These systems include:

- automated systems for freight transportation management;
- automated systems for passenger transportation management;
- automated systems for financial, property and human resources management;
- automated systems for corporate electronic workflow;
- modern information and telecommunication structure, including a data processing centre and a single data transmission network;
- electronic signatures software;
- software and hardware systems for the protection of information resources;
- software for control and dislocation of locomotives and locomotive crews; and
- software for accounting the use of fuel and energy resources.

REGULATION

Set forth below is a summary of material issues relating to the railway industry and of material Ukrainian law provisions regulating the Group's principal business that are effective as at the date of this Prospectus.

Overview

Status

The Group is the monopoly provider of rail transport in Ukraine and the Ukrainian railways are the second largest, by scope and volume, transportation service which runs on a broad gauge of 1,520 millimetres. The total length of the Ukrainian railways is approximately 21,000 km, which places it fourth in Europe after the railways of Germany, Poland and France. About 47.6 per cent. of the Ukrainian railway network is electrified compared to 51 per cent. in Russia, 47 per cent. in China, and 29 per cent. in India. In terms of traffic flow the Ukrainian railways are fourth in Eurasia behind the railways of China, Russia and India. The Ukrainian railway working capacity (annual traffic flow per 1 kilometre) is three to five times larger than the corresponding figures of developed European countries. By passenger traffic Ukraine is second in the CIS and fourth in Europe.

The Group is one of the largest single contributors to Ukrainian GDP. According to the State Statistics Service of Ukraine, the Group represented an estimated 3.54 per cent., 3.16 per cent., 3.51 per cent. and 3.74 per cent. of Ukraine's GDP as at 30 June 2015 and 31 December 2014, 2013 and 2012, respectively. See "*The Company—The Rail System*". As at 30 June 2015, the Group was also one of the largest employers in Ukraine, with 295,628 employees.

Ownership

Assets

The Law of Ukraine "*On Railway Transport*" and the Establishment Law stipulate that all assets classified as railway lines of general use, technical constructions located on such railway lines and transmission equipment directly used in the transportation process, such as railway stations, tracks of general use, traction substations, other technological power devices, train control systems and property designated specifically for the implementation of repair works, are state-owned and the Group only performs the management of such assets under the title of "economic administration" ("gospodarske vidannya") within the powers granted to it by the law. Such assets are not subject to privatisation.

The Economic Code of Ukraine (the "**Economic Code**") sets forth that the assets are held by state commercial entities based on the specific title, "economic administration" ("*gospodarske vidannya*"). Under the regime of economic administration, the ownership of the assets is vested in the State, while the state commercial entities are granted rights to use the assets allocated to them. Furthermore, the state commercial entities may only dispose of such assets with the prior consent of the relevant authority and on a competitive basis unless otherwise prescribed by law.

Pursuant to the Economic Code, and the Establishment Law, the Group has no right to alienate, transfer into use, lease, concession, place in trust, pledge, contribute to the charter capital of business entities, as well as perform any other transactions which may result in alienation of, any property owned by the state and contributed to the charter capital of the Company on the basis of "economic administration". The procedure of any of the above in relation to the above mentioned property, as well as the writing off or disposal of other property contributed to the charter capital of the Company and assets acquired by the Company shall be determined by the Cabinet of Ministers of Ukraine. All funds received by the Company as result of the operation of property shall be used solely for the statutory activities of the Group.

The Economic Code envisages that the disposal of real estate, railway rolling stock and other fixed assets by state entities also requires the approval of the State Property Fund of Ukraine (the "**SPF**").

The Law of Ukraine "*On Management of State-Owned Objects*" provides that the SPF is responsible for the management of the Unified State Register of State-Owned Objects in order to keep a record of such objects.

Land

The Land Code of Ukraine (the "**Land Code**"), the Law of Ukraine "*On Transport*" and the Law of Ukraine "*On Railway Transport*" specify the land which can be used by railways. Railway land is comprised of the land plots under railroad tracks and their construction, railway stations with all buildings and structures of energy locomotive, wagon, travel, freight and passenger households, alarm and communication systems, water supply, sewerage, plantings, service, cultural and community buildings and other structures necessary for the operation of railway transport. The land owned by municipalities or the State may be transferred into permanent use of the Company, and such right of permanent land use may be contributed to its charter capital. Ukrainian law explicitly prohibits any transfer of the land under railways into private ownership.

Competitive Strengths

Natural Monopoly Law

The Company is on the list of nationwide natural monopolies maintained by the Antimonopoly Committee of Ukraine (the "**AMCU**").

Certain services provided by the Group, such as transmission of electrical power through local power supply networks, use of railway tracks, operation of the dispatching departments, management of domestic and international passenger and freight transportation railway stations and other infrastructure objects that ensure the uninterrupted operation of railway services, are also included on the list of natural monopolies regulated by the Natural Monopoly Law.

Pursuant to the Natural Monopoly Law, a natural monopoly is a market condition in which a single provider satisfies consumer demand more efficiently than multiple competitors as a result of technical peculiarities of production (i.e., due to the significant decrease of production expenses with an increase of production volumes), and the goods or services produced by natural monopolies cannot be replaced by other goods or services. As a result, the demand in such market conditions is less dependent on the prices for such goods or services as compared to other goods or services.

Other services provided by the Group are not considered services of a natural monopoly and are not included in the list of nationwide natural monopolies. Pursuant to the Natural Monopoly Law, the prices of goods and services supplied or sold by the natural monopolies are subject to state regulation. Each of the natural monopolies must (i) comply with the established pricing procedures and quality standards; (ii) not impede the operations of businesses involved in related markets; and (iii) report to the respective authorities and allow access by the representatives of the authorities to documentation, real estate and movable property used by such natural monopolies in their business. The Natural Monopoly Law also prohibits natural monopolies from refusing to provide the services or sell the goods.

Competition Law

The Law of Ukraine "*On Protection of Economic Competition*" prohibits certain behaviour by market participants with a dominant position, such as the Group, that results or may result in the prevention, limitation or elimination of competition, or violation of the other market participants' interests that would not be possible if there was competition in the market.

Government Support

The State exercises substantial influence over the Group through (i) share ownership, (ii) tax benefits, (iii) tariff regulation, (iv) compensation policies, (v) financing of state infrastructure projects,

(vi) granting sureties (guarantees) under Group loans, and (vii) exercise of regulatory and legislative powers in respect of the Group's business activities.

The compensation policy includes compensation from the State and local budgets of the expenses incurred from the transportation of certain categories of passengers. In accordance with the Resolution of the Cabinet of Ministers of Ukraine "*On Procedure for Financing of Allocations from the Local Budgets on the Implementation of the State Program of Social Protection of Population at the Expenses of the Subventions from the State Budget*" dated 4 March 2002, the expenses incurred from the transportation of preferential passenger transportation categories should be compensated from local budgets. However, as part of the State programmes of social protection of the population, the compensation of the expenses incurred from the transportation of certain categories of passengers may be financed from the State budget by means of subventions from the State budget to local budgets.

Prohibition of Privatisation

Pursuant to the Establishment Law, 100 per cent. of the shares of the Company are owned by the State and it is prohibited to alienate, place in trust or pledge those shares and any transaction in respect of those shares, which may result in their exclusion from State property, is also prohibited. The Law of Ukraine "*On the Introduction of Moratorium for Forced Sale of Property*" imposes a temporary moratorium on enforcement against the property of State entities with the State shareholding not less than 25 per cent. The property under the moratorium includes real estate and other fixed assets necessary for the continued operation of such entities. The moratorium covers the Group's assets and infrastructure network, including rail tracks.

The Establishment Law contains the list of property of the Group which cannot be leased, transferred to concession, placed in trust, pledged, granted for use free of charge, contributed to charter capital or disposed of in any other way. In addition, such property cannot be subject to privatisation, sold within bankruptcy proceedings, or enforced or attached.

Tariff Regulation

State regulation of tariffs for freight and passenger railway transportation is set forth by the Laws of Ukraine "*On Natural Monopolies*", "*On Prices and Pricing*", "*On Transport*" and "*On Railway Transport*", by the Resolution of the Cabinet of Ministers of Ukraine of 25 December 1996 "*On Establishing the Powers of the Executive State Bodies and the Executive Bodies of Municipal Councils for Regulation of Prices (Tariffs)*", and the Order of the Ministry of Infrastructure on 8 October 2013 "*On Approval of the Procedure of Revision of Tariffs for Freight Transportation by Railway Transport*".

According to Article 9 of the Law of Ukraine "*On Railway Transport*", the establishment of tariffs for railway transportation of freight, passengers, baggage and freight cargo (except suburban passenger transportation) within Ukraine is to be carried out in accordance with budgetary, pricing and tariff policies under the procedure established by the Cabinet of Ministers of Ukraine.

The Resolution of the Cabinet of Ministers of Ukraine of 25 December 1996 "*On Establishing the Powers of the Executive State Bodies and the Executive Bodies of Municipal Councils for Regulation of Prices (Tariffs)*" as amended and supplemented, provides that tariffs for freight and passenger rail transportation are established by the MIU. The MIU establishes the tariffs for domestic, export and import freight transportation with the approval of the Ministry of Finance of Ukraine and the Ministry of Economic Development and Trade, and establishes tariffs for domestic and international rail transportation of passenger, baggage and freight cargo (except suburban transportation and transportation by high-speed trains Intercity+ in first class cars) with the approval of the Ministry of Economic Development and Trade.

Tariffs for freight and passenger transportation by suburban rail transport are established by Ukrzaliznytsia with the approval of the respective municipal executive bodies.

According to Article 12 of the Law of Ukraine "On Prices and Pricing", revision of prices subject to state regulation is carried out in accordance with the procedure and within the period determined by the relevant body carrying out the State regulation of such prices. Pursuant to the Order of the Ministry of Infrastructure on 8 October 2013 "*On Approval of the Procedure of Revision of Tariffs for Freight Transportation by Railway Transport*" the revision of the tariffs for railway transportation shall be made based on the main macroeconomic indicators of economic and social development of Ukraine, approved by the respective regulations of the Cabinet of Ministers of Ukraine.

Annual tariff policies for transit freight transportation are set in accordance with the agreement on the performance of coordinated policy in determination of transport tariffs, which was signed in Moscow on 17 January1997 and further ratified by Parliament and in accordance with Tariff Agreement of Railway Administrations of the CIS of 17 February 1993, and the Concept of the Establishment of Harmonised Tariff Policy on Railways of the CIS adopted by the Board of Heads of Governments of the CIS on 18 October 1996.

Public Procurement

The public procurement procedure is stipulated by the Law of Ukraine "*On Public Procurement*" (the "**Public Procurement Law**").

The Public Procurement Law provides for the legal and economic principles for the public procurement process and aims to create a competitive environment in the sphere of public procurement, to prevent corruption in this sphere, to develop fair competition and to ensure reasonable and effective use of the allocated funds. Public procurement in Ukraine is provided on the following principles: fair competition between participants, maximum economy and efficiency, transparency and non-discrimination of the participants, unprejudiced assessment of the procurement's offers.

The Public Procurement Law applies to all procurements of goods, works and services made by the Group provided that the cost of goods or services equals or exceeds UAH 200,000 and that the cost of works equals or exceeds UAH 1,500,000. Pursuant to the Public Procurement Law, procurement is made on the basis of annual plans. The public may access such annual plans and amendments thereto free of charge on the website of the authorized procurement body. The authorized procurement body is responsible for the regulation and coordination of public procurement within the powers granted by the Public Procurement Law. The Audit Chamber, AMCU and the central executive body which implements the state policy on state financial control, control the sphere of public procurement within the powers stipulated by the Constitution and the laws of Ukraine.

The Group performs its activities in the specific area of business and is subject to the rules for the procurement of certain goods, works and services established under the Law of Ukraine "*On Peculiarities of Procurement Implementation in Certain Fields of Business Activities*" (the "**Public Procurement Peculiarities Law**"). The Public Procurement Peculiarities Law applies to all procurements of goods, works and services made by the Group companies if financed either by state funds (provided that the cost of goods or services equals or exceeds UAH 200,000 and that the cost of works equals or exceeds UAH 1,500,000), or at its own cost (provided that the cost of goods or services equal or exceed UAH 1,000,000, and that the cost of works equals or exceeds UAH 5,000,000).

Licenses and Permits

Licensing and Certification

The Law of Ukraine "*On Licensing of Business Activities*" dated 2 March 2015, as amended, sets out the requirements for obtaining licences for certain activities carried out by the Group including construction of objects of IV and V categories of complexity, railway transportation of freight (including hazardous freight and hazardous waste), baggage and passengers etc. The construction licence is issued for the term of five years (three years for a first-time licence), and railway transportation licences are issued for an indefinite period of time.

Railway transportation licences may be reissued due to a change of name or address of its holder or changes related to the major activity of the holder (including extension). Licences may be revoked: (i) upon request of the licence holder, (ii) by the decision of the licencing authority, (iii) in the event of a failure to cure a violation of licence terms upon demand by the licencing authority or in the event of repeated violations by the licence holder of the licence terms, (iv) in the event of revocation of the state registration or death of the licence holder, (v) if the documents submitted while applying for the licence contain misleading information, (vi) if there is documentary evidence of control (defined as "decisive influence") over the activity of the licensee by the residents of other states which perform armed aggression against Ukraine and/or take action that creates conditions provoking armed conflict or the use of military force against Ukraine, (vii) if the licence holder does not allow the licensing authority to conduct an inspection, (viii) in the event of a failure of a licence holder to remedy the violations of the terms of the licence, and (ix) a failure to pay for the licence.

Under the Establishment Law, the Company acts under the existing licences of the Group until the validity of such licences expires or the Company obtains the necessary licences itself.

For more information on the licences available to the Group see "*The Company—Principal Licences*".

Environmental Matters

The current system of environmental permits in Ukraine is based on a focused approach with separate regulations for air and water protection and waste management. All sources of air and water pollution are required to have valid permits which stipulate maximum allowable values of specific parameters of emissions into the air and discharges into the water, as well as monitoring requirements. There are also separate permits for performing of operations in the sphere of waste treatment. The new waste treatment regulations are still at the stage of drafting by the state authorities.

Health and Safety

Ukrainian employers are subject to various Ukrainian laws governing workplace safety. Their operations are monitored by the State Labour Service of Ukraine (the "**Labour Service**") created on the basis of the former State Service for Mining Supervision and Industrial Safety of Ukraine and State Inspectorate of Ukraine on Labour Matters. According to the Law of Ukraine "*On Labour Protection*" (the "**Labour Protection Law**"), the Labour Service has the power to inspect, at any time, the condition of the Group's equipment and to monitor dangerous manufacturing processes. The Labour Service also has powers to take remedial measures (including through application to the courts where required by law), including stopping any equipment and processes not in compliance with applicable laws and regulations or deemed to be dangerous to the health and safety of employees. The Labour Service is authorised to impose fines for violations of applicable labour regulations.

Pursuant to the Labour Protection Law, permits are required for the performance of certain types of dangerous works and the exploitation (or use) of dangerous machines, mechanisms, appliances. The Group's operations include the use of storage and transportation facilities, work with dangerous substances, gas-hazardous work and work with objects under high pressure, which can increase the risk of accidents. Failure to comply with the requirement to obtain permits for the performance of the relevant types of dangerous works, the exploitation of dangerous machines or failure to comply with permit requirements may result in cancellation of the state registration of a company, as well as administrative and criminal liability of the Group's officers.

Taxation

Corporate Income Tax

The Group is subject to corporate income tax at the standard rate for Ukrainian companies, which is currently 18 per cent.

In accordance with Section III "*Corporate income tax*" of the Tax Code of Ukraine, the taxable profit shall be calculated as a profit before tax accounted for based on the National Accounting Standards ("**NAS**") or IFRS adjusted (increased or decreased) for applicable differences (e.g. royalty payments or evaluation surpluses) starting from 1 January 2015. No specific corporate income tax exemptions apply to the Group.

VAT

The Tax Code provides for VAT to be charged on import and sales transactions in Ukraine at a rate of 20 per cent.

With regard to the Group, the Tax Code provides a zero rate of VAT for the export of goods, international railway transportation and passenger transportation.

The free-of-charge transfer of rolling stock from one railway or railway enterprise of general use to another railway or railway enterprise of general use is exempt from VAT, as are transit transportation across the territory of Ukraine and related services.

Land taxation

Owners of land and those with the right of permanent use of the land must pay a land tax on a monthly basis. Currently, the land tax rate depending on the land plot category varies from 1 per cent to 12 per cent per year of the statutory valuation of the land, which is updated periodically and adjusted for indexation. The statutory valuation of the land is carried out by authorised licensed organisations in accordance with the methodology adopted by the Cabinet of Ministers of Ukraine.

MANAGEMENT

The Public Joint Stock Company "Ukrainian Railway" was established in accordance with the Law of Ukraine "*On Peculiarities of Establishment of a Public Joint Stock Company of Railway Transport of General Use*" dated 23 February 2012 N4442-VI and pursuant to Resolution No. 200 "*On Establishment of Public Joint Stock Company "Ukrainian Railway*", dated 25 June 2014.

The Charter of the Company, approved by Resolution No.735 "*The Issues Related to Public Joint Stock Company "Ukrainian Railway"*" of the Cabinet Ministers of Ukraine, dated 2 September 2015, appoints the State of Ukraine represented by the Cabinet of Ministers of Ukraine as founder and sole shareholder of the Company.

The governing body of the Company is the general shareholders' meeting, the function of which is fulfilled by the Cabinet of Ministers of Ukraine. The Charter also provides for the establishment of certain other bodies which ensure the day-to-day operation of the Company. These other bodies include, *inter alia*, a supervisory board, management board and an audit commission.

Order No. 952-p of the Cabinet of Ministers of Ukraine, dated 2 September 2015, appointed Oleksandr Viktorovych Zavgorodnii to the position of acting chairman of the management board of the Company and Resolution No. 815 "*On Certain Issues Related to the Management of Public Joint Stock Company "Ukrainian Railway"*" of the Cabinet of Ministers of Ukraine, dated 7 October 2015, established the rest of the management board's composition.

Order No. 1239-p "*On Approval of the Composition of the Supervisory Board and the Audit Committee of Public Joint Stock Company "Ukrainian Railway"*", dated 25 November 2015, as amended, approved the composition of the supervisory board and the audit committee of the Company.

At present, 29 branches of the Group have been established pursuant to resolutions of the management board. The head of each branch acts on the basis of a power of attorney granted to him/her.

The six largest branches of the Group (comprising 90 per cent. of its property) and their heads are:

Lviv Railway Regional Branch

Bogdan Petrovych Pikh is Acting Manager of Lviv Railway Regional Branch. He holds a graduate degree in Management of Railway Transportation Processes from Dnipropetrovsk Institute of Railway Engineers (1987), qualification – engineer for control of railway transportation processes and obtained a post-graduate degree in Accounting and Audit from Dnipropetrovsk State Technical University (2002), qualification – economist.

Bogdan Pikh embarked on his career in the railway sector in 1975 as a station duty officer of Mostyska-2 station, and was employed at stations, the administration of Lviv Railway Division and at the Lviv Railway Transportation Service. He was appointed Head of Transportation Service in 1993 and was promoted to the position of First Deputy Railway Manager in 1994. From 2000 to 2006, he acted as Manager of Lviv Railway and, from 2006 to 2010, as First Deputy Manager of Lviv Railway. In July 2010, he was appointed as Manager of State Territorial-Sectoral Association "Lviv Railway", and on 1 December 2015, was appointed as Acting Manager of Lviv Railway Regional Branch pursuant to a resolution of the management board of the Company. From 2010 to 2015, Bogdan Pikh has been a deputy of Lviv Regional Council.

South Railway Regional Branch

Mykola Hryhorovych Umanets is Acting Manager of South Railway Regional Branch. He obtained his degree in Railway Electrification from Kharkiv Institute of Railway Engineers in 1991 and obtained a master's degree in Locomotives from Kharkiv State Academy of Railway Transport in

1997. In 2012, he was awarded a PhD in Technical Sciences (Railway Rolling Stock and Hauling Operations).

Mykola Umanets started his career in the railway sector in July 1983 as an assistant locomotive operator at Kharkiv-Sortuvalnyi Locomotive Depot of the South Railway. He has occupied the positions of assistant locomotive operator, locomotive operator, diesel-powered locomotive operator, operator for the supervision of locomotive brigades, deputy head for locomotive repair at Kharkiv-Sortuvalnyi Locomotive Depot of the South Railway, deputy head of locomotive service for locomotive repair, first deputy head of locomotive service, head of procurement service, and head of rolling stock management service. From November 2003 to April 2011, he occupied the position of Deputy Manager of South Railway for Rolling Stock and Procurement. From April 2011 to August 2012, he was employed as Chief Engineer and First Deputy Head of State Enterprise "Pivdenna Zaliznytsia" (South Railway). In June 2014, Mr. Umanets was appointed as Head of State Enterprise "Pivdenna Zaliznytsia" (South Railway), and now occupies the position of Acting Manager of South Railway Regional Branch of the Group, pursuant to an order of the management board dated 1 December 2015.

Prydniprovska Railway Regional Branch

Ivan Petrovych Fedorko is Acting Manager of Prydniprovska Railway Regional Branch. In 1993, he obtained his degree in Management of Railway Transportation Processes from Kharkiv Institute of Railway Engineers and was qualified as an engineer for control of railway transportation processes.

Ivan Fedorko started his career in the railway sector in August 1985 as duty officer for rail car fleet at Bakhmach station of the Southwest Railway. From 1986 to 1992, he worked as a station duty officer and then manager of Dubovyazivka station and as deputy manager of Konotop station of Southwest Railway. From 1992 to 2000 he worked as head of railway transportation and service department of small state enterprise "TransNOT" of the Konotop Branch of the Southwest Railway, as train traffic controller of transportation department, as deputy head of transportation department, and as the head of the loading and commerce department. From 2000 to 2001, he was appointed as deputy head of the Konotop Branch of the Southwest Railway and head of the transportation department, head of transportation and Deputy Manager of Konotop Railway Transportation Directorate and First Deputy Manager of Konotop Railway Transportation Directorate of Southwest Railway. In the latter half of 2001, he was employed as 1st category engineer of Technical Department and as Acting Head of Passenger Service Division of Konotop Railway Transportation Directorate of Southwest Railway.

From 5 December 2001, he was appointed as Head of Transportation Department and Acting Manager of Odessa Railway Transportation Directorate of Odessa Railway, and on 14 October 2002 as First Deputy Manager of Odessa Railway Transportation Directorate of Odessa Railway. From 1 August 2005, Ivan Fedorko was appointed to the position of Deputy Railway Manager and Head of Sectoral Transportation Service of Southwest Railway and from 19 March 2013 as First Deputy Manager of Southwest Railway. On 14 April 2015, Ivan Fedorko was appointed as Deputy General Director of Ukrzaliznytsia, and on 28 July 2015 as Head of Reorganization Committee and Acting Manager of Prydniprovska Railway State Enterprise.

Southwest Railway Regional Branch

Volodymyr Hryhorovych Tiagulskyi obtained his graduate degree from Dnipropetrovsk Institute of Railway Engineers in 1976, specialising in Bridges and Tunnels.

Volodymyr Tiagulskyi started his railway career in August 1976 as senior engineer at the bridge testing station of Southwestern Railway. Later he worked as a senior engineer at the engineering structures department of the rail track service, head of the production planning department of bridge building train No. 36 of Shlyahbudtrest and head of the engineering structures department of rail track service of Southwest Railway. Since December 1993, he has occupied the following positions: assistant chief of Southwest Railway, chief engineer of rail track service, deputy railway manager for rail track and construction, administrative service manager, and deputy railway manager for rail track.

From September 2001 to November 2002, he acted as Chief Engineer of Main Administration of Rail Track Facilities of Ukrzaliznytsia. In November 2002 he was transferred to Southwest Railway, where he held the positions of chief of administrative service, chief railway engineer, and chief engineer and First Deputy Railway Manager. From September 2012, he acted as Deputy Chairman of the Supervisory Board of Mostobud PJSC, and from November 2012 as Chairman of the Supervisory Board of Mostobud PJSC. In August 2014, he was appointed as Director for Infrastructure of Ukrzaliznytsia. In March 2015, he was appointed as Acting Manager of State Territorial-Sectoral Association "Southwest Railway", and in December 2015 as Acting Manager of Southwest Railway Regional Branch.

Odessa Railway Regional Branch

Hryhoriy Anatoliyovych Boyko obtained his degree in Management of Railway Transportation Processes from Dnipropetrovsk Institute of Railway Engineers.

Hryhoriy Boyko started his career in railway transportation in 1984 as a duty officer at the Odessa-Sortuvalna station of the Odessa Railway, and further worked as a chief engineer of Odessa-Sortuvalna station and Deputy Manager of Transportation Department of Odessa Railway. In 2005, he headed Odessa Railway and then occupied the positions of chief railway engineer, supervisor of the department for reformation of railway transport and railway transportation safety (Odessa Road Trade Union), Acting Manager of Odessa Railway, Acting Manager of Transportation Service and Acting Chief Engineer. In 2011, he was appointed as Chief Engineer and First Deputy Head of Odessa Railway and, since 17 March 2015, he has headed State Enterprise "Odessa Railway" and currently occupies the position of Acting Manager of Odessa Railway Regional Branch.

Donetsk Railway Regional Branch

O. O. Zarodov obtained his degree from Kharkiv Institute of Railway Engineers in 1986, specialising in Diesel-Powered Locomotives and Management of Locomotives.

Mr. Zarodov career in the railway sector started in 1972 at Yasynuvata-Skhidne Locomotive Depot where he was employed as a rolling stock repairman, assistant of diesel-powered locomotive operator, foreman and chief foreman of the locomotive depot, deputy manager of the locomotive depot, and chief engineer of the locomotive depot. In 2000, he was employed at the Locomotive Management Service of Donetsk Railway as chief service engineer, first deputy service manager, and head of locomotive management service. In 2005, he was appointed as Deputy Manager of Donetsk Railway State Enterprise for Rolling Stock and Procurement. In the period from July 2014 to May 2015, Mr. Zarodov occupied the position of Deputy General Director of Ukrzaliznytsia and was dismissed from office due to retirement. Since 2015, he has been working as Chief Engineer at Ukrzaliznytsia's State Scientific Research Centre, and was appointed as Acting Manager of Donetsk Railway Regional Branch under an order of the management board dated 9 December 2015.

The following is information regarding officials holding management positions at the Company:

Oleksandr Viktorovych Zavgorodnii graduated from Dnipropetrovsk National University of Railway Transport as an electrical engineer in 1993 and obtained a master's degree in 2011, majoring in interoperability, safety and certification of railway transport. Mr. Zavgorodnii started his career as Senior Electric Mechanic of the overhead line at the Prydniprovska Railway State-Owned Enterprise, Zaporizhzhya Electricity Supply Division. He was promoted to the position of First Deputy Head at the same enterprise and then became the Head of Zaporizhzhya Electric Supply Division. Later Mr. Zavgorodnii was the head of electrification and electric supply service, and then Chief Engineer of Prydniprovska Railway.

From 2005, Mr. Zavgorodnii held executive positions at companies engaged in the construction of public and industrial buildings. From November 2012 to March 2015, he acted as Head of the Administration of Ukrainian State Inspection on the matter related to safety of surface transport in Zaporizhzhya Region. On 2 September 2015, the Cabinet of Ministers of Ukraine appointed Mr.

Zavgorodnii as acting Chairman of the Management Board of the Company and, on 7 October 2015, as a member of the management board.

Oksana Yuriivna Marina graduated from Kyiv Institute of Engineers of Civil Aviation majoring in Automated Management Systems. She then studied at the International Business Institute and Grant MacEwan College (Canada), where she completed the Human Resource Management Course.

Ms. Marina started her career as an HR Officer at Svitoch CJSC and in 1997 she filled the position of HR Director at Oil Concern CJSC. Since 2003 she has worked in different companies in the position of HR Director. In particular, from 2004 to 2014, she held the position of HR Director at Interpipe. In February 2015 Oksana Marina joined Ukrzaliznytsia in the position of Adviser to the General Director and in May became Director for Corporate Governance and Staff Motivation. On 7 October 2015, through a resolution of the Cabinet of Ministers of Ukraine, Ms. Marina became a member of the management board of the Company.

Sergiy Dmytrovych Mykhalchuk completed higher education in 1997 graduating from Dnipropetrovsk National University of Railway Transport and gaining a civil engineering qualification in Railway Constructions and Track Facilities

Sergiy started his career as a lineman at the Kolomyia Division of Lviv Railway. After Mr. Mykhalchuk moved to Dnipropetrovsk, he worked as a master lineman, engineer and deputy head of the continuous welded railway track distance at the Dnipropetrovsk line division. Until 2009 he held different positions at Prydniprovska Railway, in particular, the position of Deputy Head of the railway for track facilities and construction. From 2009 to 2011 he worked as a Deputy to General Director of Kyivpastrans CE, and since June 2015 as Director for infrastructure at the Group. Pursuant to a resolution of the Cabinet of Ministers of Ukraine, dated 7 October 2015, Mr. Mykhalchuk became a member of the management board of the Company

Yevgen Pavlovych Kravtsov graduated from Taras Shevchenko National University of Kyiv with a degree in Jurisprudence and European University Private Higher Educational Institution with a degree in International Business Management. In addition, he studied at the Centre for International Trade Development and Fulbright International, where he obtained the Certificate on International Commercial Law.

Yevgen started his career in 2008 as associate at Asters, leading Ukrainian law firm. Later on he was promoted to the position of Senior Associate and Partner. In January 2015 Mr. Kravtsov became the Adviser to the General Director at the Company, and in May of the same year he was appointed Director for reforms, property and legal policy at the Company. Pursuant to a resolution of the Cabinet of Ministers of Ukraine, dated 7 October 2015, Yevgen Kravtsov was appointed as a member of the management board of the Company

Stefan Voltner Hofsaess graduated from the Technical University of Berlin, gaining an engineering qualification

Mr. Hofsaess started his career in 1989 in the UK as an advisor on logistics project management at Siemens AG. From 1994 to 1996, he was the Chief Manager of the Olympic Metro in Athens, Greece. From 1997 to 2008, he held different executive positions at Siemens AG and from 2008 he was the CEO at Tewet AG. Pursuant to a resolution of the Cabinet of Ministers of Ukraine, dated 7 October 2015, Mr. Hofsaess became a member of the management board of the Company.

None of the member of the Management Board have any conflicts, or any potential conflicts, between their duties to the Company and their private interests or other duties.

The following is information regarding members of the supervisory board of the Company:

Yuriy Hvozdev, director of the public ownership department of the Ministry of Infrastructure.

Yuliia Kovaliv, First Deputy Economic Development and Trade Minister.

Yuriy Miskiv, the director of the department of finances for industry at the Ministry of Finance.

Oleh Parakuda, First Deputy Minister of the Cabinet of Ministers.

Dmytro Parfenenko, born on 22 May 1964, is First Deputy Head of the State Property Fund of Ukraine. He graduated from the Taras Shevchenko State University of Kyiv in 1986 (mechanic) and obtained his degree in law from the Taras Shevchenko National University of Kyiv in 2004. Dmytro Parfenenko is a Candidate of Physical and Mathematical Sciences and an Honoured Economist of Ukraine. He was awarded the medal "For Labour and Valour". From 1995 to 2000 he was Assistant Deputy Head of the State Property Fund of Ukraine, Assistant Head of the State Property Fund of Ukraine and Department Director of the State Property Fund of Ukraine, becoming Deputy Head of the State Property Fund of Ukraine in 2000. In 2011 he was Head of Central Administration of Communal Property of Kyiv and in 2012, Director of the Department of Communal Property of Kyiv, an executive body of the Kyiv City Council (Kyiv City State Administration), both of which are executive bodies of the Kyiv City Council (Kyiv City State Administration). From 20 June 2014 until 25 May 2015 he was Acting Head of the State Property Fund of Ukraine.

Source: http://www.spfu.gov.ua/userfiles/files/1ParfenenkoDM_sajt.pdf

Volodymyr Omelian, the Deputy Infrastructure Minister – the Head of Office.

Mykola Snitko, born on 26 September 1961, is the Deputy Minister of Infrastructure of Ukraine. He obtained his degree in railway mechanical engineering from Kharkiv Institute of Railway Engineers in 1992, specialising in Diesel-Powered Locomotives and Management of Locomotives. He began as an assistant locomotive operator at Darnytsia Locomotive Depot between July 1980 and October 1980, returning to the position in January 1983. From 1989 to 1993 he worked in a number of positions at Darnytsia Locomotive Depot, including secretary of party committee, locomotive operator, third category engineering technologist and Head of the Technical Department. He began working at Ukrzaliznytsia in June 1993 reaching the positions of deputy head of Main Locomotive Management Administration and Head of Production. He returned in June 2000 and became Deputy General Director of State Administration. In May 2010, he joined the government of Ukraine working in the Ministry of Transport and Communications and then the Ministry of Infrastructure as Director of the Railway Transport Department. He has worked extensively in the Ministry of Infrastructure and since April 2015 has been Deputy Minister of Infrastructure of Ukraine.

Source: http://mtu.gov.ua/content/snitko-mikola-petrovich.html

The business address of each member of the Supervisory Board is Tverska str. 5, 03680 MSP Kyiv-150, Ukraine.

The following is information regarding members of the audit commission of the Company:

Ruslan Dorosh, head of the transport and industrial complex oversight department of the State Financial Inspectorate of Ukraine

Yuriy Matiushenko, head of the financial planning department for pubic economic sector of the secretariat of the Cabinet of Ministers

Viktor Sanalatiy, deputy head of the oversight and internal audit department of the State Property Fund of Ukraine

Oleksandr Fedorenko, director of the state policy department in the railway transport area of the Ministry of Infrastructure, and

Roman Khmil, director of the road market and transportation strategic development department of the Ministry of Infrastructure

RELATED PARTY AND GOVERNMENT RELATED TRANSACTIONS

The following is a summary of the Group's most significant transactions with related parties for the six months ended 30 June 2015 and the years ended 31 December 2014, 2013 and 2012 For further details of these and other transactions see Note 29 to the Combined Financial Statements for the years ended 31 December 2014 and 2013.

According to IFRS, parties are considered to be related if one party has the ability to control the other party, is under common control with, or exercises significant influence over, the other party's financial or operational decisions, as defined by International Accounting Standard 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Group is wholly owned by the State, and all members of the management of the Group were nominated by the Government. See "*Management*".

The Group's transactions with the State authorities, with other entities directly or indirectly controlled by the State, with affiliates (being entities over which the Group has significant influence), with entities that share common directors, and other related parties occur in the ordinary course of business and include, but are not limited to, the provision of freight and passenger transportation, the purchase of fuel and electricity for operational needs, the purchase of rolling stock, transactions with state-controlled banks, and transactions with pension funds.

The Group believes that these transactions will continue in the foreseeable future.

Transactions with Related Parties

The Group undertook transactions with related parties resulting in the following impacts on the Group's results of operations in the six months ended 30 June 2015 and the years ended 31 December 2014, 2013 and 2012:

- Income from cargo transportation totalling UAH 49,126 thousand in the six months ended 30 June 2015 and UAH 190,846 thousand, UAH 326,806 thousand and UAH 281,540 thousand in the years ended 31 December 2014, 2013 and 2012 respectively;
- Repair and maintance services totalling UAH 611,098 thousand in the six months ended 30 June 2015 and UAH 1,174,456 thousand, UAH 981,534 thousand and UAH 1,706,398 thousand in the years ended 31 December 2014, 2013 and 2012, respectively;
- Finance income totalling UAH 3,105 thousand in the six months ended 30 June 2015 and UAH 44,784 thousand, UAH 719 thousand and UAH 25,935 thousand in the years ended 31 December 2014, 2013 and 2012, respectively;
- Finance costs totalling UAH 68,990 thousand in the six months ended 30 June 2015 and UAH 63,525 thousand, UAH 75,032 thousand and UAH 172,832 thousand in the years ended 31 December 2014, 2013 and 2012, respectively; and
- Other expenses totalling UAH 62,543 thousand in the six months ended 30 June 2015 and UAH 44,579 thousand, UAH 47,300 thousand and UAH 79,917 thousand in the years ended 31 December 2014, 2013 and 2012, respectively.

THE ISSUER

The Issuer, Shortline plc, was incorporated in the United Kingdom on 15 March 2013 (registered number 8446967), as a public company with limited liability under Section 1115 of the Companies Act 2006. The registered office of the Issuer is at 5th Floor, 6 St. Andrew Street, London EC4A 3AE, United Kingdom. The telephone number for the Issuer is + 44 (0) 20 7 832 4900. The Issuer has no subsidiaries.

Principal Activities

The Issuer is a special-purpose vehicle established for the purpose of issuing debt securities. The Issuer was established to raise funds by the issuance of debt securities and to use the proceeds of each such issuance to make loans to the Borrowers.

The Issuer has no specified purpose or objects in its articles of association. As a result there is no restriction on the objects of the Issuer.

Directors and Secretary

The directors of the Issuer and their respective business addresses are:

Name	Business Address	Position
Michael Charles Adams	5th Floor 6 St. Andrew Street London EC4A 3AE United Kingdom	Director
Joint Corporate Services Limited	5th Floor 6 St. Andrew Street London EC4A 3AE United Kingdom	Director
Praxis Mgt Limited	5th Floor 6 St. Andrew Street London EC4A 3AE United Kingdom	Director

None of the directors have any conflicts, or any potential conflicts, between their duties to the Issuer and their private interests or other duties.

The company secretary of the Issuer is Joint Secretarial Services Limited, a company registered in the United Kingdom (registered number 3570682), whose business address is 5th Floor, 6 St. Andrew Street, London EC4A 3AE, United Kingdom.

Capitalisation and Indebtedness

The capitalisation and indebtedness of the Issuer as at the date of this Prospectus, adjusted to take account of the issue of the Notes, is as follows:

Share Capital

Authorised Share Capital	Issued Share Capital	Nominal Value of each Share	Fully Paid Up Shares	Quarter Paid Up Shares	Paid Up Share Capital
£50,000	£50,000	£1.00	1	49,999	£12,500.75

The Issuer has issued its shares to TMF Trustee Limited under the terms of declaration of trust dated 15 March 2013 under which TMF Trustee Limited holds the shares as a share trustee beneficially for charitable purposes. TMF Trustee Limited has no beneficial interest in and derives no benefit (other than any fees for acting as a share trustee) from its holding of the shares. The rights of TMF Trustee Limited as a shareholder in the Issuer are contained in the articles of association of the Issuer, and the Issuer will be managed in accordance with those articles and with the provisions of English law.

Although the Borrower does not have any direct ownership interest in the Issuer, it is considered to be the ultimate controlling party in accordance with IFRS 10.

On the 14 March 2016 the Issuer issued the Notes. The Notes are listed on the Irish Stock Exchange.

Loan Capital

Save for the Notes, the Issuer has no outstanding loan capital, borrowings, indebtedness or contingent liabilities and the Issuer has not created any mortgages or charges, nor has it given any guarantees as at the date hereof.

Loans

As at 31 December 2014, the Issuer recognised and impairment loss of U.S.$173,750,000 against U.S.$500,000,000 of loans advanced to the Borrower. See note 8 to the Issuer's audited financial statements for the year ended 31 December 2014 for further information.

Financial Statements

The financial year of the Issuer ends on 31 December in each year.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The following information relates to the form and transfer of the Notes. Terms defined in the Trust Deed are used in this section as so defined.

The Global Note Certificates

The Notes will be evidenced by Global Note Certificates deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg.

Beneficial interests in the Global Note Certificates may be held only through Euroclear or Clearstream, Luxembourg at any time. See "*—Book-Entry Procedures for the Global Note Certificates*".

On acquisition of a beneficial interest in a Regulation S Note, as represented by a Regulation S Global Note Certificate, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. Person (as defined in Regulation S) and that, prior to the expiration of 40 day distribution compliance period (as defined in Regulation S), it will not offer, sell, pledge or otherwise transfer such interest except to a person whom the seller reasonably believes (i) to be a non-U.S. Person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S; or (ii) to be a person who is eligible to take delivery in the form of an interest in the Rule 144A Global Note Certificate. See "*Issuance and Transfer Restrictions*".

By acquisition of a beneficial interest in a Rule 144A Global Note Certificate, the purchaser thereof will be deemed to represent, among other things, that it is a QIB or an Accredited Investor that is also a QP in each case and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Agency Agreement. See "*Issuance and Transfer Restrictions*".

Beneficial interests in the relevant Global Note Certificate will be subject to certain restrictions on transfer set forth in such relevant Global Note Certificates and in the New Agency Agreement, and with respect to the Rule 144A Global Note Certificate, as set forth in Rule 144A. The Rule 144A Global Note Certificate will bear the legends regarding such restrictions set forth under "*Issuance and Transfer Restrictions*". A beneficial interest in the Regulation S Global Note Certificate may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note Certificate, in denominations greater than or equal to the minimum denominations applicable to interests in the Rule 144A Global Note Certificate, and only upon receipt by the Registrar of a written certification (in the form provided in the New Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB or an Accredited Investor that is also a QP in each case and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in the Rule 144A Global Note Certificate may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note Certificate only upon receipt by the Notes Registrar of a written certification (in the form provided in the New Agency Agreement) from the transferor to the effect that the transfer is being made to a non-U.S. Person and in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Note Certificate that is transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note Certificate will, upon transfer, cease to be an interest in the Regulation S Global Note Certificate and become an interest in the Rule 144A Global Note Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Note Certificate for as long as it remains such an interest. Any beneficial interest in the Rule 144A Global Note Certificate that is transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note Certificate will, upon transfer, cease to be an interest in the Rule 144A Global Note Certificate and become an interest in the Regulation S Global Note Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note Certificate for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Except in the limited circumstances described below, owners of beneficial interests in either of the Global Note Certificates will not be entitled to receive physical delivery of Individual Note Certificates. The Notes are not issuable in bearer form.

Exchange for Individual Note Certificates

Exchange

Each Global Note Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Individual Note Certificates if: (i) Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or the Transfer Agent; (ii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) which would not be suffered were the Notes evidenced by Individual Note Certificates and a notice to such effect signed by two directors of the Issuer is delivered to the Trustee, by the Issuer giving notice to the Registrar or the Transfer Agent and the Noteholders, of its intention to exchange the relevant Global Note Certificate for Individual Note Certificates on or after the date specified in the notice; or (iii) upon the occurrence of a Relevant Event (as defined in in Condition 13 (*Enforcement*)).

The holder of the relevant Global Note Certificate may surrender such Global Note Certificate to or to the order of the Registrar or the Transfer Agent. In exchange for the relevant Global Note Certificate, as provided in the Agency Agreement, the Registrar will deliver, or procure the delivery of, an equal aggregate amount of duly executed and authenticated Individual Note Certificates in or substantially in the form set out in the relevant schedule to the Trust Deed.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note Certificate for interests evidenced by Individual Note Certificates for a period of 15 calendar days ending on the date for any payment of principal or interest in respect of the Notes.

If only one of the Global Note Certificates (the "**Exchange Global Note Certificate**") becomes exchangeable for Individual Note Certificates in accordance with the above paragraphs, transfers of Notes may not take place between, on the one hand, persons holding Individual Note Certificates issued in exchange for beneficial interests in the Exchange Global Note Certificate and, on the other hand, persons wishing to purchase beneficial interests in the other Global Note Certificate.

Delivery

After the circumstances set out above have occurred, the relevant Global Note Certificate shall be exchanged in full for Individual Note Certificates and the Issuer will, at the cost of the Borrower (but against such indemnity as the Registrar or the Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Individual Note Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note Certificate must provide the Registrar with: (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes; and (b) in the case of the Rule 144A Global Note Certificate, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a purchaser that the transferor reasonably believes to be a QIB or an AI that is also a QP in each case. Individual Note Certificates issued in exchange for a beneficial interest in the Rule 144A Global Note Certificate shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "*Issuance and Transfer Restrictions*."

Legends

The holder of an Individual Note Certificate may transfer the Notes evidenced thereby in whole or in part (subject to the applicable minimum denomination) by surrendering it at the specified office of the Registrar or the Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of an Individual Note Certificate representing Rule 144A Note (the "**Rule 144A Individual Note Certificate**") bearing the legend referred to under "*Issuance and Transfer Restrictions*", or upon specific request for removal of the legend on a Rule 144A Individual Note Certificate, the Issuer will deliver only Rule 144A Individual Note Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

Notices

Notwithstanding Condition 15 (*Notices*), so long as the Global Note Certificate is held by or on behalf of DTC, Euroclear, Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**"), notices to Noteholders represented by the Global Note Certificate may be given by delivery of the relevant notice to DTC, Euroclear, Clearstream, Luxembourg or, as the case may be, such Alternative Clearing System and such notices shall be deemed to have been given on the day of delivery to the relevant clearing systems, *provided that* whilst the Notes are listed on the Irish Stock Exchange and the rules of such stock exchange so require, all notices to Noteholders shall be deemed to be duly given if they are filed with the Companies Announcements Office of the Irish Stock Exchange.

Record Date

Notwithstanding Condition 7 (*Payments*), "**Record Date**" shall mean the Clearing System Business Day before the relevant due date for payment, where "**Clearing System Business Day**" means a day when Euroclear and Clearstream, Luxembourg is open for business.

Payment

Payments of principal and interest in respect of the Global Note Certificates shall be made to the person who appears at the relevant time on the register of Noteholders as holder of Global Note Certificates against presentation (in the case of payment of principal) and (if no further payment falls to be made on it) surrender thereof to or to the order of the Principal Paying Agent (or to or to the order of such other Paying Agent as shall have been notified to the Noteholders for this purpose) which shall endorse such payment or cause such payment to be endorsed in the relevant schedule thereto (such endorsement being *prima facie* evidence that the payment in question has been made).

No person shall, however, be entitled to receive any payment on the Global Note Certificates falling due after the exchange date, unless the exchange of the Global Note Certificate for the Individual Note Certificates is improperly withheld or refused by or on behalf of the Issuer.

Meetings

The holder of the Global Note Certificate will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of each Note for which the Global Note Certificate may be exchangeable.

Trustee's Powers

In considering the interests of Noteholders whilst the Global Note Certificate is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Note Certificate and may consider such interests as if such accountholders were the holders of the Global Note Certificate.

Cancellation

Cancellation of any Note required by the Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the Global Note Certificate by a record made in the Register.

Book-Entry Procedures for the Global Note Certificates

Custodial and depository links are to be established between Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See "*—Book-Entry Ownership—Settlement and Transfer of Notes*" below.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders ("**direct participants**") or indirectly ("**indirect participants**" and, together with direct participants, "**participants**") through organisations which are accountholders therein.

Book-Entry Ownership

The Global Note Certificates will have ISINs and Common Codes and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg. The address of Euroclear is 1 Boulevard du Roi Albert II, B1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855, Luxembourg.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a Note evidenced by a Global Note Certificate must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under the Global Note Certificate, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note Certificate, the common depositary by whom such Global Note Certificate is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or account holders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global

Note Certificate as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by direct participants in any clearing system to owners of beneficial interests in any Global Note Certificate held through such direct participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note Certificate and the obligations of the Issuer will be discharged by payment to the registered holder of such Global Note Certificate in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through direct participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the direct and indirect participants' records.

Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participant through which such Beneficial Owner entered into the transaction. Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note Certificate held within a clearing system are exchanged for interests evidenced by Individual Note Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the direct participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Although Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in a Global Note Certificate among participants and accountholders of Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have the responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective direct or indirect participants of their respective obligations under the rules and procedures governing their operations.

ISSUANCE AND TRANSFER RESTRICTIONS

United States

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold, pledged or otherwise transferred except (i) to a person who is located outside the United States and is not a U.S. Person, in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act or (ii) in a transaction exempt from, or not subject to, the registration requirements of the Securities Act, in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States. Any future sale, offer, pledge or transfer of the Notes will also be subject to (i) and (ii) above.

Therefore, by electing to receive Notes, a Noteholder will be required, unless in any instance the Company otherwise agrees, to represent, acknowledge and agree that:

(1) the Notes have not been and will not be registered under the Securities Act or any other securities laws and are being offered in transactions not involving any public offering in the United States within the meaning of Section 4(2) of the Securities Act;

(2) unless so registered, the Notes may not be offered, sold or otherwise transferred except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws;

(3) it is either:

  (i) not a U.S. Person or acting for the account or benefit of a U.S. Person, it is located outside the United States and it acknowledges that until the expiration of the period which expires on and includes the 40th day after the later of the commencement of the offering of the Notes and the Effective Date (the "**distribution compliance period**"), any offer or sale of these Notes shall not be made by it except (a) to a person whom it reasonably believes is a QIB, in a transaction meeting the requirements of Rule 144A or (b) to a person that is not a U.S. Person or acting for the account or benefit of a U.S. Person in an offshore transaction in accordance with Rule 903 or 904 of Regulation S; and, in each case, accordance with any applicable securities laws of any state or other jurisdiction of the United States; or

  (ii) an Accredited Investor or a QIB and, if it is participating on behalf of one or more investor accounts, each of these investor accounts is an Accredited Investor or a QIB, and it:

    (a) is acquiring the Notes for investment, in the normal course of its business, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the Securities Act;

    (b) invests in or purchase securities similar to the Notes and it has such knowledge and experience in financial and business matters that makes it capable of evaluating the merits and risks of acquiring the Notes; and

    (c) is aware that it (or any of these investor accounts) may be required to bear the economic risk of an investment in the Notes for an indefinite period of time and it (or that investor account) is able to bear this risk for an indefinite period; or

(4) it understands that the Notes offered pursuant to an exemption from the Securities Act other than Regulation S will bear a legend to the following effect:

THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. BY ACCEPTANCE OF THE SECURITY REPRESENTED HEREBY, EACH BENEFICIAL OWNER HEREOF REPRESENTS AND AGREES, FOR THE BENEFIT OF THE ISSUER THAT (A) IT IS EITHER (I) NOT A U.S. PERSON AND IS LOCATED OUTSIDE THE UNITED STATES AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT OR (II) AN ACCREDITED INVESTOR AS DEFINED IN RULE 501(a) OF REGULATION D UNDER THE SECURITIES ACT (AN "**ACCREDITED INVESTOR**") OR (III) A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT ("**QIB**"). (B) THE SECURITY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (I) TO THE ISSUER, (II) OUTSIDE THE UNITED STATES TO PERSONS THAT ARE NOT U.S. PERSONS AS DEFINED IN, AND IN ACCORDANCE WITH, REGULATION S, (III) WITHIN THE UNITED STATES IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QIB THAT IS PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QIB, OR (IV) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (C) THE BENEFICIAL OWNER WILL, AND EACH SUBSEQUENT BENEFICIAL OWNER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS SECURITY (OR INTEREST HEREIN) FROM IT OF THE RESTRICTIONS REFERRED TO (A) AND (B) ABOVE. TRANSFERS IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID AB INITIO, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE.

THIS SECURITY AND ALL RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFERS OF RESTRICTED SECURITIES GENERALLY. BY THE ACCEPTANCE OF THIS SECURITY THE HOLDER HEREOF SHALL BE DEEMED TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT.

(5) if it is a QIB or an Accredited Investor, it understands that the Notes offered pursuant to an exemption from the Securities Act other than Regulation S will be represented by a Restricted Global Note. Before any interest in the Restricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Note, it will be required to provide the Registrar with a written certification (in the form provided in the relevant New Agency Agreement) as to compliance with applicable securities laws;

(6) if it has elected to participate in compliance with Regulation S, it understands that the Notes will be represented by an Unrestricted Global Note. Prior to the expiration of the distribution compliance period, before any interest in the Unrestricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest the a Restricted Global Note, it will be required to provide the Registrar with a written certification (in the form provided in the relevant New Agency Agreement) as to compliance with applicable securities laws; and

(7) the Company, the Registrar, the Trustee and the Principal Paying and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Transfer Restrictions

The Notes issued to persons in the United States are transferable in the United States only to QIBs in a transaction meeting the requirements of Rule 144A or pursuant to another available exemption from the registration requirements of the Securities Act or outside the United States under Regulation S. Because of the following restrictions, such persons are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such Notes.

Each subsequent purchaser or transferee of the Notes in the United States or that is a U.S. Person will be deemed to have represented, agreed and acknowledged as follows:

(i) in respect of transfers pursuant to Rule 144A, the purchaser (a) is a QIB, (b) is acquiring the Notes for its own account or for the account of such a QIB,(c) such person is aware that the sale of the Notes to it is being made in reliance on Rule 144A and (d) if it is receiving such Notes for the account of one or more QIBs, it has sole investment discretion with respect to each such amount and it has full power to make (and does make) the acknowledgements, representations and agreements herein on behalf of each such account;

(ii) in respect of a transfer otherwise than pursuant to Rule 144A, the purchaser and the transferor shall have complied with such procedures (including delivery of legal opinions) as may be required by the Registrar in accordance with the New Agency Agreement;

(iii) the Notes have not been and will not be registered under the Securities Act or any other securities laws and are being offered in transactions not involving any public offering in the United States and are restricted securities within the meaning of the Securities Act;

(iv) unless so registered, the Notes may not be reoffered, resold or otherwise transferred except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, except in accordance with the restrictions set forth above;

(v) it understands that the Notes offered pursuant to an exemption from the Securities Act will be represented by a Restricted Global Note. Before any interest in any Restricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Note, it will be required to provide the Registrar with a written certification (in the form provided in the New Agency Agreement) as to compliance with applicable securities laws;

(vi) each Restricted Global Note and any Restricted Note Certificates issued in exchange for an interest in a Restricted Global Note will bear the same legend as set forth in above, unless the Company determines otherwise in accordance with applicable law;

(vii) the Prospectus in respect of the Notes is solely for the benefit of Noteholders and no reliance may be placed on by the purchaser; and

(viii) the Company, the Registrar, the Trustee and the Principal Paying Agent and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Each subsequent purchaser or transferee of the Notes in re-sales in reliance on Regulation S under the Securities Act during the distribution compliance period will be deemed to have represented, agreed and acknowledged as follows (terms used in this paragraph that are defined in Regulation S are used herein as so defined):

(i) it is, or at the time the Notes are purchased will be, the beneficial owner of such Notes and it is not a U.S. Person and it is located outside the United States (within the meaning of Regulation S);

(ii) it understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell pledge or otherwise transfer such Notes, except (a) to a person whom it reasonably believes is a QIB, in a transaction meeting the requirements of Rule 144A or (b) to a person that is not a U.S. Person or acting for the account of benefit of a U.S. Person in an offshore transaction in accordance with Rule 903 or 904 of Regulation S; and, in accordance with any applicable securities laws of any state of the United States or any other jurisdiction;

(iii) it understands that the Notes will be represented by an Unrestricted Global Note. Prior to the expiration of the distribution compliance period, before any interest in any Unrestricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Restricted Global Note, it will be required to provide the Registrar with a written certification (in the form provided in the New Agency Agreement) as to compliance with applicable securities laws;

(iv) the Prospectus in respect of the Notes is solely for the benefit of Noteholders and no reliance may be placed on by the purchaser; and

(v) the Issuer, the Company, the Registrar, the Trustee and the Principal Paying Agent and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

ADDITIONAL INFORMATION

The Company

On 25 October 2015, the Company was established as in accordance with the Law of Ukraine "*On Peculiarities of Establishment of a Public Joint Stock Company of Railway Transport of General Use*" dated 23 February 2012 N4442-VI and pursuant to Resolution No. 200 "*On Establishment of Public Joint Stock Company "Ukrainian Railway*".

In accordance with Resolution No. 735 of the Cabinet of Ministers of Ukraine "Matters Pertaining to Pubic Joint-Stock Company "Ukrainian Railway", dated 2 September 2015, whereby the Charter of the Company was approved, the State registration of the Company (which constituted the Company as a legal entity) was carried out on 21 October 2015.

As of the date of this Prospectus, the Company operates under the Laws of Ukraine "On Transport", "On Railway Transport", "On the Peculiarities of Incorporation of a Public Joint Stock Company for Railway Transports of General Use" and Resolutions of the Cabinet of Ministers of Ukraine No. 200 "On Incorporation of Pubic Joint-Stock Company "Ukrainian Railway"" and No. 735 "Matters Pertaining to Public Joint-Stock Company "Ukrainian Railway"", as well as under other applicable Ukrainian laws and regulations.

The rights of the Cabinet of Ministers of Ukraine as a shareholder in the Company are contained in the Charter of the Company and the Company will be managed in accordance with its Charter and with the provisions of the Law of Ukraine "*On Peculiarities of Establishment of a Public Joint Stock Company of Railway Transport of General Use*" dated 23 February 2012 N4442-VI.

The telephone number of the Company is +38 044 465 00 00.

Authorisations

The Company has obtained all necessary consents, approvals and authorisations in connection with its participation in the Amended and Restated Loan Agreement, other than the registration by the Company of the Amended and Restated Loan Agreement with the NBU to be performed following execution of the Amended and Restated Loan Agreement. The execution by the Company of the Amended and Restated Loan Agreement and the other documents was approved by the decision of the Management Board dated 19 February 2016.

The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes and the other documents (including the Amended and Restated Loan Agreement) entered into by the Issuer. The issue of the Notes and their listing were approved by the Issuer's Board of Directors on 18 February 2016.

Listing

Application has been made to the Irish Stock Exchange for the Notes to be admitted to listing on the official list of the Irish Stock Exchange and admitted to trading on the Main Securities Market of the Irish Stock Exchange. It is expected that admission to the official list and trading on the Main Securities Market will be granted on or about 21 March 2016.

Admission Expenses

The estimated total expenses relating to the admission of the Notes to trading are approximately EUR 5,000.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg under the following Common Codes: Reg S ISIN 137411865; Rule 144A ISIN 137411890. The

International Securities Identification Numbers for the Notes is as follows: Reg S ISIN XS1374118658; Rule 144A ISIN XS1374118906.

Material Adverse Change

Except as described in this Prospectus under "*Risk Factors*" and "*Business*", there was no material adverse change in the prospects of the Original Group from 31 December 2014 to (but excluding) 1 December 2015, and no significant change in the financial or trading position of the Original Group from 30 June 2015 to (but excluding) 1 December 2015.

Except as described in this Prospectus under "*Risk Factors*" and "*Business*", there has been no material adverse change in the prospects of the Company and its subsidiaries since (and including) 1 December 2015, and no significant change in the financial or trading position of the Company and its subsidiaries since (and including) 1 December 2015 (such date being the commencement of financial and business operations of the Company).

Since 31 December 2014, there has been no material adverse change in the financial position or prospects of the Issuer.

Financial Statements and Auditors

The Group's Combined Financial Statements have been audited in accordance with International Standards on Auditing by the Group's independent auditors, Ernst & Young Audit Services LLC, who have expressed an unqualified opinion on the 2013 Audited Financial Statements (with an emphasis of matter on the operating environment), and qualified opinions on the 2014 Audited Financial Statements and the Reviewed Interim Condensed Combined Financial Statements (qualified as to the matters stated in "Basis for qualified conclusion" in the auditor's reports relating to the 2014 Audited Financial Statements and the Reviewed Interim Condensed Combined Financial Statements).

The address of Ernst & Young Audit Services LLC is 19A Khreschatyk Street, 01001 Kyiv, Ukraine. Ernst & Young is registered in the register of audit firms of the Audit Chamber of Ukraine.

Litigation

Save as disclosed on page 103 under the title "*Legal Proceedings*" of this Prospectus, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Group is aware), which may have, or have had, during the 12 months prior to the date of this Prospectus, a significant effect on the Group's combined financial position or profitability.

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), which may have, or have had, during the 12 months prior to the date of this Prospectus, a significant effect on the Issuer's combined financial position or profitability.

Documents Available for Inspection

Copies of certain documents are available for inspection by any person during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this Prospectus for the life of this Prospectus in physical form at the registered office of the Company. These documents include:

- the Combined Financial Statements;
- the audited financial statements of the Issuer and the notes thereto as at and for the years ended 31 December 2014 and 31 December 2013;
- the Memorandum and Articles of Association of the Issuer;

- the Charter of the Company;
- this Prospectus;
- the Amended and Restated Loan Agreement;
- the Trust Deed; and
- the Agency Agreement in respect of the Notes.

Material Contracts

Neither the Issuer nor the Company is a party to any material contract outside the ordinary course of business, which could result in the Issuer or the Company being under an obligation or entitlement that is material to their respective obligations under the Notes or the Amended and Restated Loan Agreement.

Foreign Text

The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

Listing Agent

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission of the Notes to the Official List of the Irish Stock Exchange or to trading on the regulated market of the Irish Stock Exchange for the purposes of the Prospectus Directive.

Post-Issuance Information

Neither the Issuer nor the Company intends to provide any post-issuance information.

SCHEDULE 1 — TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes, which will be endorsed on each Note in definitive form. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes in Global Form" above.

The U.S.$500,000,000 9.875 per cent. Amortising Loan Participation Notes due 2021 (the "**Notes**", which expression shall in these Terms and Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 14 (*Further Issues*) and consolidated and forming a single series with the then outstanding Notes) of Shortline plc (the "**Issuer**") are constituted and secured by, and are subject to, and have the benefit of, a trust deed (such trust deed as modified and/or restated and/or supplemented from time to time, the "**Trust Deed**") dated 14 March 2016 between the Issuer and BNY Mellon Corporate Trustee Services Limited as trustee (the "**Trustee**", which expression shall include its successor(s)) for the holders of the Notes (the "**Noteholders**").

The Issuer has authorised the creation, issue and sale of the Notes relating to a loan (the "**Loan**") made to the Public Joint Stock Company "Ukrainian Railway" (the "**Borrower**") pursuant to a loan agreement dated 19 February 2016 (the "**Loan Agreement**") between the Issuer and the Borrower.

The Borrower may enter into a Surety Agreement (the "**Surety Agreement**") with the Issuer and one or more Sureties (as defined in the Trust Deed) pursuant to which the Sureties will (unconditionally and irrevocably) guarantee on a joint and several basis the obligations of the Borrower under the Loan Agreement (the "**Suretyships**"). Each of the Suretyships (if any) shall constitute a suretyship (in Ukrainian: "*poruka*") for the purposes of Ukrainian law and shall not constitute a guarantee obligation (in Ukrainian: "*garantiya*") as that term is interpreted under Ukrainian law.

In each case where amounts of principal, interest and additional amounts (if any) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer from the Borrower pursuant to the Loan Agreement and/or the Sureties pursuant to the Surety Agreement (less any amounts in respect of the Reserved Rights (as defined in Condition 3 (*Security*))). Noteholders must therefore rely solely and exclusively on the Borrower's covenant to pay under the Loan Agreement and the credit and financial standing of the Borrower in respect of its obligations under the Loan Agreement and the Sureties in respect of their obligations under the Surety Agreement, respectively. Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer. None of the Noteholders, the Trustee or the other creditors (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors or the Trustee for so long as the Notes are outstanding, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

In certain circumstances, the Trustee can (subject to it being indemnified and/or secured and/or pre-funded to its satisfaction) be required by Noteholders holding at least one-quarter of the principal amount of the Notes outstanding (as defined in the Trust Deed) or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including any rights arising under the Loan and Surety Administration Assignments (as defined in the Trust Deed)). It may not be possible for the Trustee to take certain actions in relation to the Notes and, accordingly, in such circumstances the Trustee will be unable to take action, notwithstanding the provisions of an indemnity to it, and it will be for the Noteholders to take action directly.

The statements in these terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of, and definitions in, the Trust Deed. Copies of the Trust Deed and an agency agreement (such agreement as modified and/or restated and/or supplemented from time to time, the "**Agency Agreement**") dated 14 March 2016 between the Issuer, The Bank of New York Mellon (Luxembourg) S.A. (the "**Registrar**"), (which expression includes any successor registrar appointed from time to time in connection with the Notes), The Bank of New York Mellon, London Branch, as principal paying agent (the "**Principal Paying Agent**") and transfer agent (the "**Transfer Agent**") and any other paying agents named therein or appointed thereunder (such agents, together with the Principal Paying Agent, the "**Paying Agents**", which expressions shall include any successors) and the Trustee are available for inspection and collection during normal business hours by Noteholders at the specified office for the time being of the Trustee, being at the date hereof at One Canada Square, Canary Wharf, London, E14 5AL, United Kingdom, and at the Specified Office (as defined in the Agency Agreement) of each Paying Agent. References herein to the "**Agents**" are to the Registrars, the Principal Paying Agent, the Transfer Agents and the Paying Agents and any reference to an "**Agent**" is to any one of them. The Noteholders are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Trust Deed and those applicable to them of the Agency Agreement. Terms defined in the Trust Deed (including the Schedules thereto) shall have the same meaning when used herein, except as otherwise provided.

1. Form, Denomination and Title

1.1 Form and Denomination

The Notes are issued in registered form in the denominations of U.S.$200,000 each and integral multiples of U.S.$1,000 in excess thereof up to and including U.S.$399,000. Notes may be held in holdings in the aggregate principal amount of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each, an "**Authorised Holding**").

1.2 Register

The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "**holder**" or "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each, an "**Individual Note Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Individual Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

1.3 Title

The holder of any Note will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no person will be liable for so treating the holder.

2. Status, Limited Recourse and Transfers

2.1 Status

The Notes constitute secured, limited recourse obligations of the Issuer. Recourse in respect of the Notes is limited in the manner described in Condition 2.2 (*Limited Recourse*) below. The Notes are secured in the manner described in Condition 3 (*Security*) and shall at all times rank *pari passu* and without any preference amongst themselves.

2.2 Limited Recourse

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. In each case where amounts of principal, interest and additional amounts (if any) are stated in these Conditions or in the Trust Deed to be payable in respect of the Notes, the Issuer shall pay to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, an amount equivalent to sums of principal, interest or additional amounts (if any) actually received by or for the account of the Issuer from the Borrower pursuant to the Loan Agreement and/or the Sureties pursuant to the Surety Agreement less any amount in respect of Reserved Rights (as defined in Condition 3 (*Security*) below) and any shortfall shall remain due and shall be payable on such later date as is provided for under these Conditions. If or to the extent that the aggregate amounts received by the Issuer pursuant to the Loan Agreement and the Surety Agreement on or prior to the earlier of the Redemption Date, the date on which the Notes are redeemed pursuant to Condition 6 (*Redemption and Purchase*) or Condition 13 (*Enforcement*) or the date on which a Relevant Event (as defined in Condition 13 (*Enforcement*)) has occurred less any amount in respect of Reserved Rights, together with any amounts recovered on realisation of the Security Interests (as defined in Condition 3 (*Security*)), are insufficient to pay or discharge amounts of principal, interest and additional amounts (if any) that are stated in these Conditions or in the Trust Deed to be payable in respect of the Notes in full for any reason, the Issuer will have no liability to pay or otherwise make good any such insufficiency.

Without prejudice to the foregoing, if the Issuer receives any amount (a "**relevant amount**") under the Loan Agreement and/or the Surety Agreement in a currency other than U.S. dollars, the Issuer shall make any corresponding payment under these Conditions or the Trust Deed by paying such sum as the Issuer receives having converted the relevant amount into U.S. dollars (after deducting any costs of exchange) at the rate or rates of exchange at which the Issuer may in the ordinary course of business purchase U.S. dollars with the currency so received.

Any payment in respect of the Notes equivalent to the sums actually received (and not required to be repaid pursuant to appropriate Ukrainian bankruptcy legislation) by or for the account of the Issuer by way of principal, interest or additional amounts (if any) from the Borrower pursuant to the Loan Agreement and/or from the Sureties pursuant to the Surety Agreement (less any amounts in respect of the Reserved Rights) will be made *pro rata* among all Noteholders (as the case may be), on or as soon as practicable after the date of the receipt of, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Loan Agreement and/or the Surety Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided in these Conditions and in the Trust Deed. The Issuer shall not be under any obligation to exercise in favour of the Noteholders any rights of set-off or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and the Borrower or the Issuer and the Sureties.

It is a condition of the Notes that:

(a) neither the Issuer nor the Trustee makes any representation or warranty in respect of, and shall at no time have any responsibility for or liability or obligation in respect of, or, save as otherwise expressly provided in the Trust Deed or in Condition 2.2(f) below, the performance and observance by the Borrower of its obligations under the Loan Agreement or by the Sureties in respect of their respective obligations under the Surety Agreement or the recoverability of any sum of principal or interest (or any additional amounts) due or to become due from the Borrower under the Loan Agreement and/or from the Sureties under the Surety Agreement;

(b) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial, operational or otherwise), creditworthiness, affairs, status, nature or prospects of the Borrower or the Sureties;

(c) neither the Issuer nor the Trustee shall at any time be liable for any misrepresentation or breach of warranty or any act, default or omission of the Borrower under, or in respect of, the Loan Agreement or by the Sureties under, or in respect of, the Surety Agreement;

(d) neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Principal Paying Agent or any Paying Agent of their respective obligations under the Agency Agreement or by the Sureties under, or in respect of, the Surety Agreement;

(e) the financial servicing and performance of the terms of the Notes depend solely and exclusively upon performance by the Borrower of its obligations under the Loan Agreement and/or by the Sureties of their respective obligations under the Surety Agreement, the Borrower's covenant to pay under the Loan Agreement, the Sureties' undertaking to pay under the Surety Agreement and the credit and financial standing of the Borrower and the Sureties. The Borrower has represented and warranted to the Issuer in the Loan Agreement, and each of the Sureties has represented and warranted to the Issuer in the Surety Agreement that the Loan Agreement and the Surety Agreement, respectively, constitute legal, valid and binding obligations of the Borrower or the Sureties, as the case may be. The representations and warranties given by the Borrower in Clause 11 (*Representation and Warranties of the Borrower*) of the Loan Agreement are given by the Borrower and the representations and warranties to be given by the Sureties in Clause 14 (*Representation and Warranties of the Sureties*) of the Surety Agreement will be given by the Sureties to the Issuer for the benefit of the Issuer and neither the Trustee nor any Noteholder shall have any remedies or rights against the Borrower or the Sureties that the Issuer may have with respect to such representations or warranties, other than any right the Trustee may have pursuant to the Loan and Surety Administration Assignments (as defined in Condition 3 (*Security*) below);

(f) the Issuer and, pursuant to the Loan and Surety Administration Assignments, the Trustee will and are entitled to rely on self-certification by the Borrower and the Sureties and, where applicable, certification by third parties as a means of monitoring whether the Borrower and the Sureties are complying with their obligations under the Loan Agreement or the Surety Agreement, as the case may be, and shall not otherwise be responsible for investigating any aspect of the Borrower's performance in relation to the Loan Agreement or the Sureties' performance in relation the Surety Agreement and, subject as further provided in the Trust Deed, neither the Issuer nor the Trustee will be liable for any failure to make any investigation which might be made by a lender, a creditor or a security holder in relation to the Loan, the Suretyships or the property which is the subject of the Security Interests (as defined in Condition 3 (*Security*) below) and held by way of security for the Notes, as applicable, and the Trustee shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the property which is the subject of the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry and whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether or not as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee will have no responsibility for the value of such security;

(g) if the Borrower or the Sureties are required by law to make any withholding or deduction for or on account of certain taxes from any payment under the Loan Agreement or the Surety Agreement (as the case may be) or if the Issuer is required by law to make any withholding or deduction for or on account of any tax from any payment in respect of the Notes, the sole obligation of the Issuer will be to pay to the Noteholders sums equivalent to the sums actually received (net of any tax) from the Borrower pursuant to the Loan Agreement and/or the Sureties pursuant to the Surety Agreement in respect of such payment, including, if applicable, additional amounts in respect of the tax required to be so withheld or deducted; the Issuer shall not be obliged to take any actions or measures as regards such deductions or withholdings other than those set out in Clause 8 (*Taxes*) of the Loan Agreement and in Clause 2 (*Surety*) of the Surety Agreement; and

(h) neither the Issuer nor the Trustee shall at any time be required to expend or risk their own funds or otherwise incur any financial liability in the performance of their obligations or duties or the exercise of any right, power, authority or discretion pursuant to these Conditions until they have received the funds from the Borrower and/or the Sureties that are necessary (in its opinion) to cover the costs and expenses in connection with such performance or exercise.

Save as otherwise expressly provided in these Conditions and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement, the Loan, the Surety Agreement or the Suretyships exists (or will exist) for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions in the Loan Agreement or the Surety Agreement or have direct recourse to the Borrower or the Sureties except through action by the Trustee in respect of the Security Interests. Neither the Issuer nor the Trustee (as the case may be) shall be required to take proceedings to enforce payment under the Loan Agreement or the Surety Agreement unless, subject to the more detailed provisions of the Trust Deed, it has been indemnified and/or secured and/or pre-funded to its satisfaction against all liabilities, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

Payments made by the Borrower under the Loan Agreement or by the Sureties under the Surety Agreement to, or to the order of, the Trustee or (subject to the provisions of the Trust Deed) the Principal Paying Agent, will satisfy *pro tanto* the obligations of the Issuer in respect of the Notes.

Notwithstanding any other provisions of these Conditions and the provisions in the Trust Deed, the Trustee and the Noteholders shall have recourse only to the property subject to the Security Interests in accordance with the provisions of the Trust Deed. After realisation of the Security Interests which have become enforceable, the obligations of the Issuer with respect to the Trustee and the Noteholders in respect of the Notes shall be satisfied and none of the foregoing parties may take any further steps against the Issuer to recover any further sums in respect thereof and the right to receive any such sums shall be extinguished. In particular, neither the Trustee nor any Noteholder shall petition or take any other step for the winding-up of the Issuer.

Noteholders are deemed to have accepted and agreed that they will be relying solely and exclusively on the performance of the Borrower of its obligations under the Loan Agreement and on the performance of the Sureties of their respective obligations under the Surety Agreement which depend on the credit and financial standing of the Borrower and the Sureties, as the case may be, in respect of the financial servicing of the Notes.

2.3 Transfers

Subject to Conditions 2.6 (*Closed periods*) and 2.7 (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Individual Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the relevant Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided*, *however*, *that* a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Holdings. Where not all the Notes represented by the surrendered Individual Note Certificate are the subject of the transfer, a new Individual Note Certificate in respect of the balance of the Notes will be issued to the transferor.

2.4 Registration and Delivery of Individual Note Certificates

Within five business days of the surrender of an Individual Note Certificate in accordance with Condition 2.3 (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Individual Note Certificate of a like principal amount to the Notes transferred to each relevant holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the relevant Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

2.5 No Charge

The transfer of a Note will be effected without charge by or on behalf of the Issuer, the relevant Registrar or any Transfer Agent but against such indemnity as the relevant Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

2.6 Closed Periods

Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

2.7 Regulations Concerning Transfers and Registration

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

3. Security

The obligations of the Issuer under the Notes and all other moneys payable under the Trust Deed are secured by the following security (together referred to as the "**Charge**"):

(a) a charge by way of first fixed security in favour of the Trustee of all its rights, title, interests and benefits in and to principal, interest and other amounts paid and payable by the Borrower to the Issuer in respect of the Loans under the Loan Agreement or by the Sureties in respect of the Suretyships under the Surety Agreement;

(b) a charge by way of first fixed security in favour of the Trustee of the rights, title, interest and benefit in and to all amounts which may be or become payable by the Borrower or the Sureties under or in respect of any claim, award or judgment relating to the Loan Agreement or the Surety Agreement, as the case may be; and

(c) a charge by way of first fixed security in favour of the Trustee of all its rights, title, interest and benefit in and to all sums of money now or in the future deposited in an account in the name of the Issuer with the Principal Paying Agent, account number 5071758400 (with payment details as follows: Correspondent bank: The Bank of New York Mellon, New York, SWIFT: IRVTUS3N, Account Number 8900285451, for further credit to account 5071758400 Beneficiary: Shortline plc, Account name: Shortline Lender Account), together with the debts represented thereby (other than interest from time to time earned thereon) (the "**Account**"),

(other than Reserved Rights (as defined below)) (the "**Charged Property**").

"**Reserved Rights**" means the Issuer's right to amounts in respect of any rights, interests and benefits of the Issuer under:

(a) Clause 6.3 (*Calculation of Additional Interest*), Clause 7.3 (*Prepayment upon Illegality*) and Clause 7.4 (*Prepayment in the event of a Change of Control*) (other than the right to receive any amounts payable under such Clauses 7.3 and 7.4), Clause 7.6 (*Costs of Prepayment/Repayment*), Clause 8.1 (*Additional Amounts*) (penultimate sentence thereof) and, to the extent it does not relate to a withholding or deduction in respect of a payment to a Noteholder, Clause 8.3(b) (*Tax Indemnity*), Clause 8.5 (*Tax Credits and Tax Refunds*), Clause 8.7 (*Delivery of Forms*), Clause 10 (*Change in Circumstances*), Clause 11 (*Representations and Warranties of the Borrower*), Clause 16 (*Accrual of Interest and Indemnity*) and Clause 19 (*Costs and Expenses*) of the Loan Agreement; and

(d) Clause 2 (*Surety*) of the Surety Agreement (to the extent that the Sureties shall reimburse the Issuer on demand for any amount paid by the Issuer in respect of any present or future taxes).

The Issuer, pursuant to the Trust Deed, with full title guarantee will assign absolutely by way of security to the Trustee for the benefit of itself and the Noteholders all the rights, interests and benefits, both present and future, which have accrued or may accrue to the Issuer as lender under or pursuant to the Loan Agreement (including, without limitation, the right to declare the Loan immediately due and payable and to take proceedings to enforce the obligations of the Borrower thereunder) and as a beneficiary under or pursuant to the Surety Agreement, other than and excluding the rights subject to the Charge described in Condition 3(a) above and the Reserved Rights (the "**Loan and Surety Administration Assignments**", and together with the Charge, the "**Security Interests**").

4. Issuer's Covenant

As provided in the Trust Deed, so long as any of the Notes remain outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution, agree to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, or give any consent under, the terms of the Loan Agreement or the Surety Agreement and (to the extent reasonably practicable) will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement or the Surety Agreement, except as otherwise expressly provided in the Trust Deed, the Loan Agreement or the Surety Agreement. Any such amendment, modification, waiver, consent or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 15 (*Notices*).

5. Interest

The Notes shall carry interest at a rate equal to 9.875 per cent per annum (the "**Rate of Interest**") which is equal to the Interest Rate under the Loan Agreement as set out in Clause 6.2 (*Calculation of Interest*) of the Loan Agreement.

Interest shall accrue on the Notes from and including 21 November 2015 to, but excluding, the Final Redemption Date (as defined in Condition 6.1 (*Scheduled Redemption*)).

The amount of interest payable on an Interest Payment Date shall be calculated by applying the Rate of Interest to the aggregate outstanding principal amount of the Notes, dividing the product by two and rounding the resultant figure to the nearest cent (half a cent being rounded upwards). If interest is required to be calculated for any other period, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

In respect of the Interest Payment Date falling on 15 March 2016, the amount of interest payable shall be calculated from 21 November 2015 (including) to 15 March 2016 (excluding) on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

In this Condition 5, "**Interest Payment Date**" means 15 March and 15 September in each year, commencing on 15 March 2016.

On each Interest Payment Date (or such later date as amounts equivalent to amounts of interest are received from the Borrower and/or the Sureties) the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to Clause 6.2 (*Calculation of Interest*) of the Loan Agreement and/or pursuant to the Surety Agreement, *provided that* any interest payable under this Condition 5 not previously paid shall become due and payable on the earliest of the Final Redemption Date, the date on which the Notes are redeemed pursuant to Condition 6 (*Redemption and Purchase*) or Condition 13 (*Enforcement*) or the date on which a Relevant Event (as defined in Condition 13 (*Enforcement*)) has occurred, in each case subject to Condition 2.2 (*Limited Recourse*).

6. Redemption and Purchase

6.1 Scheduled Redemption

Unless previously redeemed pursuant to this Condition 6 or Condition 13 (*Enforcement*): (i) U.S.$300 for each U.S.$1,000 of the initial principal amount of the Notes will be redeemed on 15 March 2019 and on 15 September 2019; (ii) U.S.$100 for each U.S.$1,000 of the initial principal amount of the Notes will be redeemed on 15 March 2020 and on 15 September 2020; and (iii) U.S.$100 for each U.S.$1,000 of the initial principal amount of the Notes will be redeemed on 15 March 2021 and on 15 September 2021 (the "**Final Redemption Date**").

6.2 Mandatory Redemption

The Notes will be redeemed in whole, but not in part, at any time, on giving not less than 30 days' nor more than 60 days' notice to the Noteholders in accordance with Condition 15 (*Notices*) (which notice shall be irrevocable) (and the Issuer shall give the Registrars notice of any such redemption not less than 45 days (or such shorter period as agreed by the relevant Registrar) prior to the date fixed for redemption) at the outstanding principal amount thereof, together with interest accrued to the date fixed for redemption if, immediately before giving such notice, the Issuer satisfies the Trustee as set out below in this Condition 6.2 that:

(a) the Issuer has received a notice of prepayment from the Borrower pursuant to Clause 7.2 (*Prepayment for Tax Reasons and Change in Circumstances*) of the Loan Agreement; or

(b) the Issuer has delivered a notice to the Borrower requiring the Borrower to repay the whole (but not part only) of the Loan in accordance with the provisions of Clause 7.3 (*Repayment upon Illegality*) of the Loan Agreement.

Prior to the publication of any notice of redemption referred to in this Condition 6.2, the Issuer shall deliver to the Trustee a certificate signed by two officers of the Issuer stating (i) that the Issuer is entitled to effect such redemption in accordance with this Condition 6.2; (ii) the text of the Borrower's notice of prepayment or details of the circumstances contemplated by Clause 7.2 (*Prepayment for Tax Reasons and Change in Circumstances*) or Clause 7.3 (*Repayment upon Illegality*) of the Loan Agreement, as the case may be; and (iii) the date fixed for redemption of the Notes. The Trustee shall accept the certificate of the Issuer as sufficient evidence of the satisfaction of the applicable condition set out above without liability to any person for so doing, which shall be conclusive and binding on all parties and the Noteholders.

Upon the expiry of any such notice as is referred to in this Condition 6.2, the Issuer shall be bound to redeem the Notes in accordance with this Condition 6, subject as provided in Condition 7 (*Payments*).

6.3 Redemption in the Event of a Change of Control

On the occurrence of a Change of Control (as defined in the Loan Agreement), the holder of a Note will have the option (the "**Change of Control Put Option**") to require the Issuer to redeem such Note on the Change of Control Put Settlement Date (as defined below) at 101 per cent. of its principal amount together with accrued but unpaid interest (if any) to the Change of Control Put Settlement Date.

Promptly upon the Issuer becoming aware (either by receiving written notice from the Borrower or otherwise) that a Change of Control has occurred, the Issuer shall give notice (a "**Change of Control Put Event Notice**") to the Noteholders in accordance with Condition 15 (*Notices*), specifying (i) that a Change of Control has occurred (ii) the details, circumstances and relevant facts, giving rise to such Change of Control, (iii) the Change of Control Put Period (iv) the procedure of exercising the Change of Control Put Option and (v) that any Note not properly tendered or not tendered at all prior to the Change of Control Put Option Settlement Date will remain outstanding and continue to accrue interest and additional amounts (if any).

In order to exercise the Change of Control Put Option, the holder of a Note must deliver no later than 60 calendar days after the Change of Control Put Event Notice is given (the "**Change of Control Put Period**"), to the Specified Office of the Principal Paying Agent, evidence satisfactory to the Principal Paying Agent of such holder's entitlement to such Note and a duly completed change of control put option notice (a "**Change of Control Put Option Notice**") specifying the principal amount of the Notes in respect of which the Change of Control Put Option is exercised, in the form obtainable from the Principal Paying Agent. The Principal Paying Agent will provide such Noteholder with a non-transferable receipt. Pursuant to the Agency Agreement, on the Business Day (as defined in the Loan Agreement) following the end of the Change of Control Put Period, the Principal Paying Agent shall notify in writing the Issuer and the Borrower of the exercise of the Change of Control Put

Option specifying the aggregate principal amount of the Notes to be redeemed in accordance with the Change of Control Put Option *provided that* the Notes that are the subject of any such Change of Control Put Option Notice have been delivered to the Principal Paying Agent prior to the expiry of the Change of Control Put Period, then the Issuer shall (subject (i) to the receipt of sufficient funds to do so from the Borrower pursuant to the Loan Agreement or, as the case may be, from the Sureties pursuant to the Surety Agreement and (ii) as provided in Condition 7 (*Payments*) redeem all such Notes on the date falling ten Business Days after the expiration of the Change of Control Put Period (the "**Change of Control Put Settlement Date**"). No Change of Control Put Option Notice, once delivered to the Principal Paying Agent in accordance with this Condition 6.3, may be withdrawn.

6.4 No other Redemption

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in this Condition 6.

6.5 Purchase

The Borrower, the Sureties or any of their respective subsidiaries may at any time purchase or otherwise acquire Notes in the open market or otherwise and at any price. Such Notes may be held, reissued, resold or surrendered by the purchaser through the Issuer to the Registrar for cancellation.

7. Payments

7.1 Payments

Payments of principal shall be made by U.S. dollar cheque drawn on or, upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with a bank in New York City and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Individual Note Certificates at the Specified Office of any Paying Agent.

Payments of interest shall be made by U.S. dollar cheque drawn on, or upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Individual Note Certificates at the Specified Office of any Paying Agent.

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment or other laws to which the Issuer agrees to be subject and the Issuer will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements, but without prejudice to the provisions of Condition 8 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by U.S. dollar cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Individual Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent; and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day; or (B) a cheque mailed in accordance with this Condition 7 (*Payments*) arriving after the due date for payment or being lost in the mail. In this paragraph, "**business day**" means any day on which banks are open for general business (including dealings in foreign currencies) in New York City and, in the case of surrender (or, in the case of part payment only, endorsement) of an Individual Note Certificate, in the place in which the Individual Note Certificate is surrendered (or, as the case may be, endorsed).

If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of an Individual Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Individual Note Certificate.

Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

7.2 Initial Paying Agents

The name of the Principal Paying Agent and its initial Specified Office is set out at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Principal Paying Agent, or any of the Agents, and appoint additional or other agents *provided that* it will, subject to Condition 2.2(h), at all times maintain:

(a) a paying agent with a Specified Office in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to (or to any law implementing) European Council Directive on the Taxation of Savings Income in the form of Interest Payments (Directive 2003/48/EC) or any other Directive implementing or complying with, or introduced to conform to, the conclusions of the ECOFIN Council meeting of 26-27 November 2000;

(b) a Principal Paying Agent having a Specified Office in a major European city approved by the Trustee; and

(c) a United States Paying Agent, Registrar and Transfer Agent having a Specified Office in a major United States city approved by the Trustee.

Notice of any termination or appointment and of any changes in Specified Offices will be given to the Noteholders in accordance with Condition 15 (*Notices*).

7.3 Payment Obligations Limited

Subject to and as further provided in Condition 2 (*Status, Limited Recourse and Transfers*), the obligations of the Issuer to make payments of principal, interest and additional amounts (if any) in respect of the Notes shall constitute an obligation only to account to the Noteholders on each Interest Payment Date or such other date upon which a payment is due in respect of the Notes for an amount equivalent to and in the same currency as amounts of principal, interest and/or additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement and/or the Surety Agreement less any amounts in respect of the Reserved Rights.

8. Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature ("**Taxes**") imposed or levied by or on behalf of the United Kingdom or Ukraine or any political subdivision or any authority thereof or therein having power to tax (in each case, the "**Relevant Jurisdiction**"), unless such withholding or deduction of Taxes is required by law. In that case, the Issuer shall, subject as provided below, pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction, except that no additional amounts shall be payable in respect of any Note:

(a) held by a holder which is liable to Taxes in respect of such Note by reason of his having some connection with the United Kingdom or Ukraine other than the mere holding of the Note; or

(b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to (or to any law implementing) European Council Directive on the Taxation of Savings Income in the form of Interest Payments (Directive 2003/48/EC) or any other Directive implementing or complying with, or introduced in order to conform to, the conclusions of the ECOFIN Council meeting of 26-27 November 2000; or

(c) held by a holder who would be able to avoid such withholding or deduction by presenting the relevant Individual Note Certificate to another Paying Agent in a Member State of the European Union; or

(d) where the relevant Individual Note Certificate is surrendered (or, in the case of part payment, endorsed) for payment by or on behalf of a holder more than 30 days after the Relevant Date (as defined below) except to the extent that the relevant holder would have been entitled to such additional amounts if it had surrendered (or, in the case of part payment, endorsed) the relevant Individual Note Certificate on the last day of such period of 30 days.

Notwithstanding the foregoing provisions, the Issuer shall only make such payments to the Noteholders to the extent and at such time as it shall have actually received an equivalent amount from the Borrower under the Loan Agreement and/or the Sureties under the Surety Agreement subject always to the provisions of Condition 2 (*Status, Limited Recourse and Transfers*).

Notwithstanding anything to the contrary in the preceding paragraph, none of the Issuer, any paying agent or any other person shall be required to pay any additional amounts with respect to any withholding or deduction imposed on or in respect of any Note pursuant to Section 1471 to 1474 of the U.S. Internal Revenue Code of 1986, as amended ("**FATCA**"), any treaty, law, regulation or other official guidance enacted by a Relevant Jurisdiction implementing FATCA, or any agreement between the Issuer or a paying agent and the United States, a Relevant Jurisdiction, or any authority of any of the foregoing implementing FATCA.

To the extent that the Issuer does not receive from the Borrower or the Sureties such equivalent amount in full, the Issuer shall account to each Noteholder for an additional amount equivalent to a *pro rata* proportion of such additional amount (if any) as is actually received (net of any tax) by, or for the account of, the Issuer pursuant to the provisions of the Loan Agreement and/or the Surety Agreement, (as the case may be) on or as soon as may be practicable after the date of the receipt of, in the currency of, and subject to any conditions attaching to the payment of, such additional amount by the Issuer.

In these Conditions, "**Relevant Date**" means the date on which the payment in question first becomes due except that, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which (the full amount of the money having been so received) notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 15 (*Notices*).

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 8 or any undertaking given in addition to or in substitution for this Condition pursuant to the Trust Deed, the Loan Agreement or the Surety Agreement.

If any of the Issuer, the Borrower or the Sureties becomes subject at any time to any taxing jurisdiction other than the United Kingdom or Ukraine, as the case may be, references in these Conditions to the United Kingdom and/or Ukraine shall be construed as references to the United Kingdom and/or Ukraine and/or such other jurisdiction.

9. Prescription

Individual Note Certificates will become void unless presented for payment within periods of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect thereof, subject to the provisions of Condition 7 (*Payments*).

10. Replacement of Individual Note Certificates

If any Individual Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may, subject to all applicable laws and regulations and requirements of the Irish Stock Exchange, be replaced at the Specified Office of the Principal Paying Agent upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Individual Note Certificates must be surrendered before replacements will be issued.

11. Trustee and Paying Agents

11.1 Indemnification of the Trustee

The Trust Deed and the Fees Indemnity Letter (as defined in the Trust Deed) contain, *inter alia*, provisions for the indemnification of the Trustee, provisions for its relief from responsibility, including relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction, and provisions entitling it to be paid its costs and expenses in priority to the claims of the Noteholders.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Loan Agreement, the Surety Agreement or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed or by the Borrower in respect of the Loan Agreement or by the Sureties in respect of the Surety Agreement. The Trustee is entitled to assume that the Borrower is performing all of its obligations pursuant to the Loan Agreement and that no Event of Default, Potential Event of Default, Change of Control (as each such term is defined in the Loan Agreement) or Relevant Event has occurred (and shall have no liability for doing so) until it has actual knowledge to the contrary.

The Trustee shall have no liability to Noteholders for any shortfall they may suffer if it is liable for tax in respect of any payments received by it or as a result of the Security Interests being held or enforced by it.

11.2 Trustee Contracting with the Issuer, the Borrower and the Sureties

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (i) to enter into business transactions with the Issuer and/or the Borrower and/or the Sureties and/or any subsidiary of the Issuer and/or the Borrower and/or the Sureties and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or the Borrower and/or the Sureties and/or any subsidiary of the Issuer and/or the Borrower and/or the Sureties; (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, (as the case may be), any such trusteeship without regard to the interests of, or consequences for, the Noteholders; and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

11.3 Trustee to have Regard to Interests of Noteholders as one Class

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political subdivision thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 8 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 8 (*Taxation*) pursuant to the Trust Deed.

11.4 Agents

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

11.5 Trustee Determinations and Disclosure

The Trustee may, in making any determination under these Conditions, the Trust Deed, the Loan Agreement or the Surety Agreement, act on the opinion or advice of, or information obtained from, any lawyer, banker, valuer, surveyor, broker, auctioneer, accountant, auditor or other expert and will not be responsible for any loss, liability, cost, claim, action, demand, expense or inconvenience which may result from it so acting or not acting notwithstanding that such opinion or advice (or the engagement letter relating thereto) contains a limitation on liability (monetary or otherwise) or, in the case of the auditors, disclaims all liability.

Unless ordered to do so by a court of competent jurisdiction, the Trustee shall not be required to disclose to any Noteholder any confidential financial or other information made available to the Trustee by the Issuer, the Borrower or the Sureties.

12. Meetings of Noteholders, Modification, Waiver, Substitution and Appointment

12.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes or the Trust Deed. Noteholders will, in respect of any vote by poll, be entitled to one vote per U.S.$1,000 in principal amount of Notes held by them. Special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, *inter alia*, the amount payable on, and the currency of payment in respect of, the Notes and the amounts payable and currency of payment under the Loan Agreement or the Surety Agreement.

Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all holders of Notes then outstanding who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more holders of Notes then outstanding.

12.2 Modification

The Trustee may agree, without the consent of the Noteholders, subject to the provisions of the Trust Deed, (a) to any modification of these Conditions and the Trust Deed, the Loan Agreement or the Surety Agreement (other than in respect of a Reserved Matter) which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Noteholders; or (b) to any modification of these Conditions and the Trust Deed, the Loan Agreement or the Surety Agreement which, in the opinion of the Trustee, is of a formal, minor or technical nature or is made to correct a manifest error. The Trustee may also, subject to the provisions of the Trust Deed, waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of these Conditions or the Trust Deed, or by the Borrower of the terms and conditions of the Loan Agreement, or by the Sureties of the terms and conditions of the Surety Agreement, or determine that any event which would or might otherwise give rise to (i) a right of acceleration under the Loan Agreement; or (ii) a Relevant Event shall not be treated as such, if, in the opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be promptly notified to the Noteholders.

12.3 Substitution of the Issuer

The Trust Deed contains provisions to the effect that the Issuer may, having obtained the consent of the Trustee (which consent may be given without the consent of the Noteholders) and having complied with such requirements as the Trustee may direct in the interests of the Noteholders, substitute any entity in place of the Issuer as issuer and principal obligor in respect of the Notes and as principal obligor under the Trust Deed, subject to the relevant provisions of the Trust Deed and the substitute's rights under the Loan Agreement and the Surety Agreement being charged and assigned, respectively, to, and to the satisfaction of, the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes. Such substitution shall be notified to the Noteholders as soon as practicable thereafter and in accordance with Condition 15 (*Notices*).

12.4 Appointment or Removal of Trustee

The Trust Deed contains provision for the appointment or removal of a Trustee by a meeting of Noteholders passing an Extraordinary Resolution (as defined in the Trust Deed), *provided that* in the case of the removal of a Trustee, at all times there remains a trustee in office in respect of the Notes. Any appointment or removal of a Trustee shall be notified to the Noteholders in accordance with Condition 15 (*Notices*). The Trustee may also resign such appointment giving not less than three months' notice to the Noteholders *provided that* such resignation shall not become effective unless there remains a Trustee in office after such resignation.

13. Enforcement

13.1 Enforcement by the Trustee

At any time after an Event of Default (as defined in the Loan Agreement) shall have occurred and be continuing, or a Relevant Event (as defined below) shall have occurred, the Trustee may, at its discretion and without notice, institute such steps, actions or proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

(a) it has been so requested in writing by the holders of at least one-quarter in principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

(b) it has been indemnified and/or provided with security and/or pre-funded to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

In the case of an Event of Default or a Relevant Event, the Trustee may, and shall if requested to do so by Noteholders holding at least one-quarter in principal amount of the Notes outstanding or if directed to do so by an Extraordinary Resolution and, in either case, subject to its being secured and/or indemnified and/or pre-funded to its satisfaction, (a) (in the case of an Event of Default) declare or require the Issuer to declare all amounts payable under the Loan Agreement by the Borrower to be due and payable; or (b) (in the case of a Relevant Event) subject to Condition 2.2 (*Limited Recourse*), enforce the security created in the Trust Deed in favour of the Trustee. Subject to Condition 2.2(h) upon repayment of the Loans following an Event of Default, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

For the purposes of these Conditions, "**Relevant Event**" means any of (a) the failure by the Issuer to make any payment of principal or interest on the Notes when the same is due to be made by the Issuer and such failure is not remedied with five (5) Business Days (as defined in the Loan Agreement) of the due date for that payment; (b) the making of an order in proceedings in the United Kingdom in respect of the winding up or dissolution of the Issuer or for a composition with the Issuer's creditors; and (c) the passing of an effective resolution for the winding up or dissolution of the Issuer.

13.2 Enforcement by the Noteholder

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and the failure is continuing.

14. Further Issues

The Issuer may from time to time, without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the issue price, issue date and/or first payment of interest on such further notes) so as to be consolidated and form a single series with the Notes ("**Further Notes**"). Such Further Notes shall be issued under a deed supplemental to the Trust Deed. In relation to any issue of Further Notes (i) the Issuer will enter into a supplemental loan agreement with the Borrower on substantially the same terms as the Loan Agreement (or on the same terms except for the first payment of interest) subject to any modifications which, in the sole opinion of the Trustee, would not materially prejudice the interests of the Noteholders; (ii) to the extent the Surety Agreement has been entered into, the Issuer will enter into a supplemental surety agreement with each of the Sureties on substantially the same terms as the Surety Agreement subject to any modification which, in the sole opinion of the Trustee, would not materially prejudice the interest of the Noteholders; and (iii) the Security Interests granted in respect of the Notes will be amended or supplemented so as to secure amounts due in respect of such Further Notes also and/or the Issuer will provide a further fixed charge in favour of the Trustee in respect of certain rights and interests under the Loan Agreement, the Surety Agreement or any further loan agreement or surety agreement and will assign absolutely certain of its rights and interests under the Loan Agreement, the Surety Agreement or any further loan agreement or surety agreement and any loan assignment equivalent to the rights charged and assigned as security in relation to the Issuer's rights under the original Loan Agreement and the Surety Agreement to secure amounts due on the Notes and such Further Notes.

15. Notices

Notices to Noteholders will be valid (a) if published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) or, if in the opinion of the Trustee such publication shall not be practicable, in an English language newspaper of general circulation in Europe or (b) if and for so long as the Notes are admitted to trading on, and listed on the official List of the Irish Stock Exchange and the guidelines of the Irish Stock Exchange so require, filed with the Companies Announcement Office of the Irish Stock Exchange. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made. So long as the Notes are represented by the Global Note Certificates and the Global Note Certificates are held on behalf of Euroclear or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg for communication by it to entitled Noteholders in substitution for notification as required by the Conditions.

16. Governing Law

The Trust Deed, the Loan Agreement, the Surety Agreement, the Notes and any non-contractual obligations arising out of or in connection with them shall be governed by, and shall be construed in accordance with, English law.

17. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

There will appear at the foot of the Conditions endorsed on or (as the case may be) attached to each Individual Note Certificate the names and Specified Offices of the Registrar, the Paying Agents and the Transfer Agents.

SCHEDULE 2 — AMENDED AND RESTATED LOAN AGREEMENT

This Agreement was made on 16 May 2013 and was amended and restated on 19 February 2016

Between:

(1) **Public Joint Stock Company "Ukrainian Railway"**, a company registered under the laws of Ukraine with identification code 40075815, whose registered office is at 5 Tverska Street, Kyiv, 03680 Ukraine (the "**Borrower**"); and

(2) **Shortline plc**, a public company limited by shares incorporated under the laws of England, whose registered office is at 5th Floor, 6 St. Andrew Street, London EC4A 3AE, United Kingdom, as lender (the "**Lender**" and the "**Issuer**").

Whereas:

(A) The Lender, at the request of the Original Borrowers (as defined below), agreed to make available to the Original Borrowers six term loans in an aggregate principal amount of U.S.$500,000,000 on the terms and subject to the conditions set out in the Original Loan Agreements (as defined below);

(B) Pursuant to the Reorganisation (as defined below), the Borrower is the universal legal successor of the Original Borrowers and the Original Sureties (as defined below) and, as a result, the Borrower has acquired the rights and obligations of the Original Borrowers under each of the Original Loan Agreements as a matter of applicable law prior to the date hereof; and

(C) On 19 February 2016, the parties entered into the Amendment and Restatement Deed (as defined below) pursuant to which the Original Loan Agreements were amended and restated on the terms and subject to the conditions set out herein and the six loans made pursuant to the Original Loan Agreements were consolidated into a single loan.

It is agreed as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement the following terms have the meanings given to them in this Clause 1.1:

"**Account**" means a non-interest bearing account in the name of the Lender with the Principal Paying Agent, account number 5071758400 (with payment details as follows: Correspondent bank: The Bank of New York Mellon, New York, SWIFT: IRVTUS3N, Account Number 8900285451, for further credit to account 5071758400 Beneficiary: Shortline plc, Account name: Shortline Lender Account);

"**Affiliate**" of any specified Person means (i) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person; (ii) any other Person who is a director or officer (A) of such specified Person; (B) of any Subsidiary of such specified Person; or (C) of any Person described in Clause (i) above provided that, for the avoidance of doubt, each Unrestricted Subsidiary shall be treated as an affiliate of each member of the Restricted Group;

"**Agency Agreement**" means the paying agency agreement relating to the Notes dated on or about the date of issuance of the Notes between, *inter alios*, the Issuer, the Trustee and the Principal Paying Agent;

"**Agency**" means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body;

"**Amendment and Restatement Deed**" means the amendment and restatement deed dated 19 February 2016 entered into between the Borrower and the Lender pursuant to which the Original Loan Agreements were amended and restated on the terms set out in this Agreement;

"**Anti-Terrorist Operation Area**" means the anti-terrorist operation territory as defined in the Law of Ukraine "On Temporary Measures for the Period of Conducting Anti-Terrorist Operation" dated 2 September 2014 No. 1669-VII;

"**Auditors**" means Ernst & Young Audit Services LLC, or any other internationally recognised firm of accountants;

"**Authorised Signatory**" means, in the case of the Borrower, any of the persons referred to in the relevant certificate delivered by the Borrower and, in the case of the Lender, a duly authorised officer of the Lender, from time to time;

"**Balance Sheet Date**" means each 31 December, in relation to the annual Financial Statements, or each 30 June, in relation to the semi-annual Financial Statements, or any other date as at which the Group prepares its Financial Statements;

"**Business Day**" means a day (other than a Saturday or Sunday) on which banks generally are open for business in New York City, London and Kyiv;

"**Cash**" means, as at a Transaction Date, the amount of cash and cash equivalents shown in the balance sheet as at such Transaction Date contained in the Financial Statements but excluding any cash and cash equivalents held by an Unrestricted Subsidiary;

A "**Change of Control**" shall be deemed to have occurred if at any time (i) the State of Ukraine directly or through any governmental authority ceases to own, directly or indirectly, 100 per cent. of the share capital or, as the case may be, statutory fund of the Borrower or otherwise ceases to control, directly or indirectly, the Borrower or (ii) the Borrower is included into the list of entities to be privatised, as may be adopted by the competent Ukrainian governmental authority. For the purpose of this definition only, the State of Ukraine will be deemed to "**control**" the Borrower if (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract, trust or otherwise) it or its government has the power to appoint and/or remove the majority of the members of the board of directors or other governing body of the Borrower or otherwise controls, or has the power to control, the affairs and policies of the Borrower.

"**Conditions**" has the meaning set out in the Trust Deed.

"**Debt Restructuring Period**" means the period commencing on the Effective Date and ending on the date falling six months after the Effective Date.

"**Designated Local Indebtedness**" means:

(i) a U.S.$55,000,000 loan made initially to State Enterprise "Donetsk Railway" (*Derzhavne pidpryiemstvo "Donetska zaliznytsia"*) under a loan agreement dated 29 December 2011;

(ii) a U.S.$3,750,000 loan made initially to State Enterprise "Donetsk Railway" (*Derzhavne pidpryiemstvo "Donetska zaliznytsia"*) under a loan agreement dated 21 September 2012;

(iii) a U.S.$91,250,000 loan made initially to State Regional Specialised Association "Southwest Railway" (*Derzhavne terytorialno-galuzeve obiednannya "Pivdenno-Zakhidna zaliznytsia"*) under a loan agreement dated 30 December 2011;

(iv) a U.S.$105,000,000 loan made initially to State Enterprise "South Railway" (*Derzhavne pidpryiemstvo "Pivdenna zaliznytsia"*) under a loan agreement dated 7 March 2012;

(v) a UAH 40,000,000 loan made initially to State Enterprise "South Railway" (*Derzhavne pidpryiemstvo "Pivdenna zaliznytsia"*) under a loan agreement dated 27 December 2012;

(vi) a U.S.$5,000,000 loan made initially to State Enterprise "Donetsk Railway" (*Derzhavne pidpryiemstvo "Donetska zaliznytsia"*) under a loan agreement dated 11 July 2012;

(vii) a UAH 150,000,000 loan made initially to State Enterprise "Prydniprovska Railway" (*Derzhavne pidpryiemstvo "Prydniprovska zaliznytsia"*) under a loan agreement dated 22 August 2012;

(viii) a UAH 100,000,000 loan made initially to State Regional Specialised Association "Southwest Railway" (*Derzhavne terytorialno-galuzeve obiednannya "Pivdenno-Zakhidna zaliznytsia"*) under a loan agreement dated 31 August 2012;

(ix) a UAH 50,000,000 loan made initially to State Enterprise "South Railway" (*Derzhavne pidpryiemstvo "Pivdenna zaliznytsia"*) under a loan agreement dated 19 October 2012;

(x) a U.S.$24,088,827.72 loan made initially to State Enterprise "Odesa Railway" (*Derzhavne pidpryiemstvo "Odeska zaliznytsia"*) under a loan agreement dated 20 September 2012;

(xi) bonds due 9 November 2015 with an aggregate principal amount of UAH 100,000,000 issued initially by State Enterprise "Odesa Railway" (*Derzhavne pidpryiemstvo "Odeska zaliznytsia"*) on 30 October 2012;

(xii) bonds due 9 November 2015 with an aggregate principal amount of UAH 160,000,000 due 9 November 2015 issued initially by State Enterprise "Prydniprovska Railway" (*Derzhavne pidpryiemstvo "Prydniprovska zaliznytsia"*) on 30 October 2012;

(xiii) bonds due 9 November 2015 with an aggregate principal amount of UAH 410,000,000 issued initially by State Regional Specialised Association "Southwest Railway" (*Derzhavne terytorialno-galuzeve obiednannya "Pivdenno-Zakhidna zaliznytsia"*) on 30 October 2012;

(xiv) bonds due 9 November 2015 with an aggregate principal amount of UAH 330,000,000 issued initially by State Enterprise "South Railway" (*Derzhavne pidpryiemstvo "Pivdenna zaliznytsia"*) on 30 October 2012;

(xv) leasing agreements entered into by Public Joint Stock Company "Ukrtransleasing" with an aggregate contractual price of UAH 122,163,000;

(xvi) leasing agreements entered into by Private Enterprise "VTB Leasing Ukraine" with an aggregate contractual price of UAH 29,202,000; and

(xvii) a leasing agreement entered into by Limited Liability Company "Premier Leasing" with contractual price of UAH 60,865,600.

"**Double Tax Treaty**" means the Convention of 10 February 1993 between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Ukraine for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital Gains, as amended from time to time;

"**Drawdown Date**" means 21 May 2013;

"**EBITDA**" means in relation to any Relevant Period, the total combined Net Income of the Restricted Group for that Relevant Period:

(a) without taking into account:

(i) income tax expense;

(ii) Net Finance Charges (inclusive of amortisation of deferred finance fees and other original issue discount and banking fees, charges and commissions (e.g. letter of credit fees and commitment fees));

(iii) any share of the results of any associated company or undertaking;

(iv) extraordinary, non-recurring, one-off or exceptional items;

(v) gains and/or losses arising on foreign currency exchange differences;

(vi) gains and/or losses arising on disposals of non-current assets; and

(vii) any other non-cash expenses;

(b) adjusted by adding thereto (in each case to the extent deducted in determining Net Income for such Relevant Period) without duplication all amounts provided for depreciation, amortisation and impairment of assets of the Restricted Group for that Relevant Period, as determined from the Financial Statements delivered under Clause 14.3 (*Financial Statements*);

"**Effective Date**" means the "Effective Date" under and as defined in the Amendment and Restatement Deed.

"**Event of Default**" means any circumstances described as such in Clause 15 (*Events of Default*);

"**Fair Market Value**" means the price that would be paid in an arm's length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the management body of the relevant Person, as the case may be, *provided that*, if such transaction involves an aggregate value in excess of U.S.$50,000,000 (or its U.S. dollar equivalent), the transaction will be deemed to be entered into for Fair Market Value only if the same is confirmed by a certificate or report of the Auditors or of another independent appraiser acceptable to the Trustee provided to the Issuer and the Trustee;

"**Fees Letter**" means the fees letter dated 19 February 2016 entered into by and between the Borrower and the Lender;

"**Final Repayment Date**" means 15 September 2021;

"**Financial Indebtedness**" means, as at a Transaction Date, the aggregate amount shown in the balance sheet contained in the Financial Statements, for or in respect of:

(a) moneys borrowed;

(b) any amount raised by acceptance under any acceptance credit facility;

(c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;

(d) the amount of any liability in respect of any lease or hire purchase contract, which would in accordance with IFRS be treated as a finance or capital lease;

(e) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);

(f) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of borrowing, which is treated as an obligation in accordance with IFRS; and

(g) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in items (a) to (f) inclusive above,

provided that, for the avoidance of doubt, "Financial Indebtedness" shall not include (i) any amounts and/or liabilities of or in respect of the Unrestricted Subsidiaries, except that to the extent any member of the Restricted Group provides any guarantee or indemnity in respect of any liability of an Unrestricted Subsidiary the amount of such liability shall be included, and (ii) any amounts or items treated as "Trade and other payables" in accordance with the relevant Financial Statements;

"**Financial Statements**" means IFRS annual audited or, as the case may be, semi-annual reviewed combined or consolidated financial statements of the Group;

"**Financial Year**" means the annual accounting period of the Group ending on or about 31 December in each year;

"**First Interest Payment Date**" means 15 March 2016;

"**Funding Documents**" means this Agreement, any Surety Agreement, the Fees Letter, the Trust Deed and the Agency Agreement entered into in connection with the issue of the Notes and the Notes themselves and each a "**Funding Document**";

"**Group**" means (i) in relation to any period prior to (but excluding) 21 October 2015, the Original Group, and (ii) in relation to any period from (and including) 21 October 2015, the Borrower and its Subsidiaries;

"**IFRS**" means International Financial Reporting Standards, including International Accounting Standards and Interpretations, issued by the International Accounting Standards Board as amended, supplemented or re-issued from time to time;

"**Incur**" means issue, assume, guarantee, incur or otherwise become liable for;

"**Indebtedness**" means any present or future indebtedness, in respect of any Person for, or in respect of, moneys borrowed or raised including, without limitation, any amount raised by acceptance under any acceptance credit facility; any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument; any amount raised pursuant to any issue of shares which are expressed to be redeemable; any amount raised under any other transaction (including any forward sale or purchase agreement) having the economic effect of a borrowing; and the amount of any liability in respect of any guarantee or indemnity for any of the items referred to above, *provided that* such defined term does not include any indebtedness owed to the state budget, local budget and non-budgetary funds on account of taxes which are not overdue. For the avoidance of doubt, "Indebtedness" shall not include any amounts or items treated as "Trade and other payables" under the relevant Financial Statements;

"**Interest Payment Date**" means 15 March and 15 September in each year in which the Loan remains outstanding with the last Interest Payment Date falling on the Final Repayment Date;

"**Interest Period**" means any of those periods mentioned in Clause 5 (*Interest Periods*);

"**Interest Rate**" means (i) 9.500 per cent. in respect of any Interest Period up to (but excluding) 21 November 2015, and (ii) 9.875 per cent. in respect of any Interest Period from (and including) 21 November 2015;

"**Loan**" has the meaning set forth in Clause 3.1 (*Grant of the Loan*);

"**Loan and Surety Administration Assignments**" means the assignment by the Lender to the Trustee of the Transferred Rights pursuant to the Trust Deed;

"**Local Indebtedness Reorganisation Default**" means a default under any agreement or instrument evidencing any Indebtedness of the Borrower (other than the Loan) as a result of the occurrence of the Reorganisation;

"**Local Indebtedness Restructuring Default**" means a default under any agreement or instrument evidencing any Indebtedness of the Borrower (other than the Loan, but including any Designated Local Indebtedness) as a result of the failure by the Borrower (or the Original Borrowers and/or Original Sureties prior to the transfer of their rights and obligations under the Original Loan Agreements to the Borrower pursuant to the Reorganisation) to pay when due or within the originally applicable grace period any amount under any Designated Local Indebtedness;

"**Loan Servicing Account**" means an account of the Borrower with Public Joint Stock Company "State Savings Bank of Ukraine" (JSC "Oschadbank") with the following details: Recipient Bank: Public Joint Stock Company "State Savings Bank of Ukraine" (JSC "Oschadbank"), 12G Hospitalna Street, 01001 Kyiv, Ukraine (Recipient Bank), Recipient Bank Account: 001-1-194057, Recipient's Bank SWIFT: COSBUAUK, Borrower's (JSC "Ukrzaliznytsia") Account Number: 260093011661;

"**Material Adverse Effect**" means a material adverse effect on: (a) the financial condition or operations of the Borrower or the Restricted Group; (b) the Borrower's ability to perform its obligations under the Funding Documents; or (c) the validity, legality or enforceability of the Funding Documents or the rights or remedies of the Lender under the Funding Documents;

"**Material Subsidiary**" means, at any given time, any Restricted Subsidiary of the Borrower (a) whose total assets exceed 10 per cent. of the consolidated or combined total assets of the Restricted Group; or (b) whose total revenues exceed 10 per cent. of the consolidated or combined total revenues of the Group and, for these purposes (i) the total assets or the total revenues of such Restricted Subsidiary shall be determined by reference to the then latest annual audited consolidated or combined financial statements of the relevant Restricted Subsidiary (in the case of a Restricted Subsidiary preparing consolidated or combined financial statements) or the then latest annual audited financial statements of the relevant Restricted Subsidiary (in the case of a Restricted Subsidiary preparing non-consolidated financial statements) or, as the case may be, the then latest annual unaudited financial statements of the relevant Restricted Subsidiary (in the case of a Restricted Subsidiary not preparing audited financial statements); and (ii) the total assets and total revenues of the Group shall be determined by reference to the then latest annual audited consolidated or combined Financial Statements of the Group, in each case prepared in accordance with IFRS, but shall exclude any assets or revenues of any Unrestricted Subsidiary. Upon a Material Subsidiary transferring all or substantially all of its assets or business to another Restricted Subsidiary, the transferor shall cease to be a Material Subsidiary on the effective date of such transfer and thereupon the transferee shall be deemed to be a Material Subsidiary until the date on which its next annual audited consolidated or combined financial statements or, as the case may be, annual audited financial statements are prepared after which whether it is or is not a Material Subsidiary shall be determined in accordance with paragraphs (a) and (b) above. Subject to the immediately preceding sentence, if, as a result of any transfer, reconstruction, amalgamation, reorganisation, merger or consolidation, a company, which satisfied either of the tests set forth in paragraphs (a) or (b) above immediately before such transfer, reconstruction, amalgamation, reorganisation, merger or consolidation, but, which no longer satisfies either such test immediately after such transfer, reconstruction, amalgamation, reorganisation, merger or consolidation, shall immediately cease to be a Material Subsidiary. Within 10 Business Days of a request by the Lender or the Trustee, the Borrower shall provide a certificate signed by at least two officers of the Borrower (at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Borrower) that, in their opinion, a Restricted Subsidiary of the Borrower is or is not a Material Subsidiary, accompanied by a report by the Auditors addressed to the management of the Borrower as to proper extraction of the figures used by such officers of the Borrower in determining the Material Subsidiaries of the Borrower and mathematical accuracy of the calculations shall, in the absence of manifest error, be conclusive and binding on all parties and the Trustee;

"**NBU**" means the National Bank of Ukraine;

"**Negative Effect**" means any change, effect, event, occurrence, circumstance or state of facts resulting in a reduction in the consolidated or combined total assets or the total revenues of the Restricted Group such that the total assets or the total revenues, as the case may be, fall below 90 per cent. of the level at which they were on the Balance Sheet Date immediately preceding the relevant transaction;

"**Net Assets**" means the consolidated or combined total assets less the consolidated or combined total liabilities, not including any deductions for intra-group transactions or balances;

"**Net Book Value**" means the net book value as shown in the then latest annual audited or, as the case may be, semi-annual reviewed consolidated or combined Financial Statements of the Group, in each case prepared in accordance with IFRS;

"**Net Finance Charges**" means, in relation to any Relevant Period, the aggregate amount of interest and any other finance charges (whether or not paid, payable or capitalised) accrued by the Restricted Group in that Relevant Period in respect of Financial Indebtedness including:

(a) the interest element of leasing and hire purchase payments;

(b) commitment fees, commissions, arrangement fees and guarantee fees,

adjusted (but without double counting) by deducting:

(i) interest income of the Restricted Group in respect of that Relevant Period; and

(ii) interest income of the Restricted Group from any Cash for the Relevant Period,

as determined (except as needed to reflect the terms of this definition) from the Financial Statements of the Group delivered under Clause 14.3 (*Financial Statements*);

"**Net Financial Indebtedness**" means Financial Indebtedness less Cash;

"**Net Income**" means, in relation to any Relevant Period, the positive difference (if any) that remains after deducting the total expenses (including, for the avoidance of doubt, all expenses relating to income tax) from the gross income, in each case, of the Restricted Group, for that Relevant Period as determined from the Financial Statements of the Group delivered under Clause 14.3 (*Financial Statements*);

"**Notes**" means the U.S. dollar denominated amortising loan participation notes due 2021 to be issued by the Issuer pursuant to the Trust Deed;

"**Officers' Certificate**" means a certificate signed on behalf of the Borrower by at least two officers of the Borrower (at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Borrower) and in the appropriate form set out in Schedule 1 hereto;

"**Original Borrowers**" means (i) State Enterprise "Donetsk Railway" (*Derzhavne pidpryiemstvo* "*Donetska zaliznytsia*"), (ii) State Regional Specialised Association "Lviv Railway" (*Derzhavne terytorialno-galuzeve obiednannya* "*Lvivska zaliznytsia*"), (iii) State Enterprise "Odesa Railway" (*Derzhavne pidpryiemstvo* "*Odeska zaliznytsia*"), (iv) State Enterprise "Prydniprovska Railway" (*Derzhavne pidpryiemstvo* "*Prydniprovska zaliznytsia*"), (v) State Enterprise "South Railway" (*Derzhavne pidpryiemstvo* "*Pivdenna zaliznytsia*") and (vi) State Regional Specialised Association "Southwest Railway" (*Derzhavne terytorialno-galuzeve obiednannya* "*Pivdenno-Zakhidna zaliznytsia*");

"**Original Group**" means in respect of any time prior to (but excluding) 21 October 2015 (the "**Relevant Time**"), Ukrzaliznytsia and those entities that were combined or consolidated as the case may be into the most recent Financial Statements as at the Relevant Time, provided that if, at the Relevant Time, the results and financial position of any Original Borrower were not required to be combined or consolidated, as the case may be, into the consolidated or combined Financial Statements of Ukrzaliznytsia in accordance with the accounting standards then applied, the results and financial positions of such Original Borrower shall nevertheless be counted as part of the results and financial position of the Original Group on a pro forma basis for the purpose of any relevant calculation to be made hereunder;

"**Original Loan Agreements**" means the loan agreements entered into between the Lender, Ukrzaliznytsia and each of the Original Borrowers dated 16 May 2013.

"**Original Loans**" has the meaning given to it in Clause 3.1.

"**Original Sureties**" has the meaning attributed to the terms "Sureties" pursuant to the Original Loan Agreements.

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, trust, organisation, state or agency of a state or any other entity, whether or not having separate legal personality;

"**Potential Event of Default**" means any event, which would become (with the passage of time, the giving of notice and/or the making of a determination under this Agreement), an Event of Default;

"**Principal Paying Agent**" means The Bank of New York Mellon, London Branch, as principal paying agent under the Agency Agreement and any successor thereto as provided thereunder;

"**Principal Subsidiary**" means, at any given time, any Restricted Subsidiary of the Borrower (a) whose total assets exceed 5 per cent. of the consolidated or combined total assets of the Group; or (b) whose total revenues exceed 5 per cent. of the consolidated or combined total revenues of the Group and, for these purposes (i) the total assets or the total revenues of such Restricted Subsidiary shall be determined by reference to the then latest annual audited consolidated or combined financial statements of the relevant Restricted Subsidiary (in the case of a Restricted Subsidiary preparing consolidated or combined financial statements) or the then latest annual audited financial statements of the relevant Restricted Subsidiary (in the case of a Restricted Subsidiary preparing non-consolidated financial statements) or, as the case may be, the then latest annual unaudited financial statements of the relevant Restricted Subsidiary (in the case of a Restricted Subsidiary not preparing audited financial statements); and (ii) the total assets and total revenues of the Restricted Group shall be determined by reference to the then latest annual audited consolidated or combined Financial Statements of the Group, in each case prepared in accordance with IFRS, but shall exclude any assets or revenues of any Unrestricted Subsidiary. Upon a Principal Subsidiary transferring all or substantially all of its assets or business to another Restricted Subsidiary, the transferor shall cease to be a Principal Subsidiary on the effective date of such transfer and thereupon the transferee shall be deemed to be a Principal Subsidiary until the date on which its next annual audited consolidated or combined financial statements or, as the case may be, annual audited financial statements are prepared after which whether it is or is not a Principal Subsidiary shall be determined in accordance with paragraphs (a) and (b) above. Subject to the immediately preceding sentence, if, as a result of any transfer, reconstruction, amalgamation, reorganisation, merger or consolidation, a company, which satisfied either of the tests set forth in paragraphs (a) or (b) above immediately before such transfer, reconstruction, amalgamation, reorganisation, merger or consolidation, but, which no longer satisfies either such test immediately after such transfer, reconstruction, amalgamation, reorganisation, merger or consolidation, shall immediately cease to be a Principal Subsidiary. Within 10 Business Days of a request by the Lender or the Trustee, the Borrower shall provide a certificate signed by at least two officers of the Borrower (at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Borrower) that, in their opinion, a Restricted Subsidiary of the Borrower is or is not a Principal Subsidiary, accompanied by a report by the Auditors addressed to the management of the Borrower as to proper extraction of the figures used by such officers of the Borrower in determining the Principal Subsidiaries of the Borrower and mathematical accuracy of the calculations shall, in the absence of manifest error, be conclusive and binding on all parties and the Trustee;

"**Profit Account**" means a non-interest bearing unsecured account in the name of the Lender with the Principal Paying Agent, account number 5071768400 (with payment details as follows: Correspondent bank: The Bank of New York Mellon, New York, SWIFT: IRVTUS3N, Account Number 8900285451, for further credit to account 5071768400, Beneficiary: Shortline plc Account Name: Shortline plc Fees Account Issuer);

"**Qualifying Assets**" means any locomotives, railway cars, plant, equipment, tools and Cash, as such terms are classified in the latest consolidated Financial Statements of the Group prepared in accordance with IFRS;

"**Quarterly Balance Sheet Date**" means 31 March and 30 September in each year;

"**Relevant Event**" has the meaning given thereto in the Trust Deed;

"**Relevant Period**" means the two most recent semi-annual consecutive periods immediately preceding the relevant Transaction Date for which the Financial Statements have been published or delivered pursuant to Clause 14.3;

"**Reorganisation**" means the reorganisation of the Original Group and certain other entities of public railway transportation of Ukraine under the Law of Ukraine "On Peculiarities of Establishment of a Public Joint Stock Company of General Use" dated 23 February 2012, No. 4442-VI and the Resolution of the Cabinet of Ministers of Ukraine "On the Establishment of Public Joint Stock Company "Ukrainian Railway" dated 25 June 2014, No. 200 as a result of which, among other things, all assets and liabilities of the Original Borrowers and the Original Sureties were transferred to the Borrower;

"**Repayment Date**" means two Business Days prior to each of 15 March 2019, 15 September 2019, 15 March 2020, 15 September 2020, 15 March 2021 and the Final Repayment Date.

"**Repayment Instalment**" means on any Repayment Date, such percentage of the initial outstanding principal amount of the Loan as is required to be repaid on that Repayment Date under Clause 7.1.

"**Restricted Group**" means the Borrower and its Restricted Subsidiaries from time to time.

"**Restricted Subsidiary**" means a Subsidiary of the Borrower other than an Unrestricted Subsidiary.

"**Same-Day Funds**" means U.S. dollar funds settled through the New York Clearing House Interbank Payments System or such other funds for payment in U.S. dollars as the Lender may at any time determine to be customary for the settlement of international transactions in New York City of the type contemplated hereby;

"**Security Interest**" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof, any sale with recourse against the seller or any Affiliate of the seller, any agreement to give any security interest or any finance lease whereby the leased property is reflected as an asset in the Financial Statements) securing any obligation of any Person;

"**Social Assets**" means the assets of the Borrower and/or its Restricted Subsidiaries which comprise nurseries, schools, hospitals, canteens and other similar properties and any related utilities;

"**Specified Expropriation Default**" means any default, Potential Event of Default or Event of Default which may have occurred or may occur at any time on or before the Effective Date under the Original Loan Agreements (including, without limitation, pursuant to Clause 15.10 (*Government Intervention*) of the Original Loan Agreements) as a result of or in connection with any expropriation, seizure or loss of control over any assets of any member of the Group located in the Temporarily Occupied Territory or the Anti-Terrorist Operation Area;

"**Specified Local Indebtedness Restructuring Default**" means any Event of Default or Potential Event of Default which may have occurred or may occur at any time on or before the Effective Date under the Original Loan Agreements (including, without limitation, pursuant to Clause 15.3 (*Cross Acceleration and Cross Default*) of the Original Loan Agreements) as a result of a failure by the Borrower (or the Original Borrower and/or Original Sureties prior to the transfer of their rights and obligations under the Original Loan Agreements to the Borrower pursuant to the Reorganisation) to pay when due or within the originally applicable grace period any amount under any Designated Local Indebtedness;

"**Specified Reorganisation Default**" means any default, Potential Event of Default or Event of Default which may have occurred or may occur at any time on or before the Effective Date under the Original Loan Agreements (including, without limitation, pursuant to Clause 14.2 (*Reorganisation etc.*) and Clause 15.2 (*Obligations*) of the Original Loan Agreements) as a result of or in connection with the Reorganisation;

"**Stock Exchange**" means the EEA Regulated Market of the Irish Stock Exchange plc;

"**Subsidiary**" means a company or corporation ("A"):

(a) which is controlled, directly or indirectly, by another company or corporation ("B"); or

(b) more than half the issued share capital of which is beneficially owned, directly or indirectly, by B,

and, for these purposes, A shall be treated as being controlled by B if B is able to direct A's affairs and/or to control the composition of A's board of directors or equivalent body;

"**Surety**" means any Person who executes a Surety Agreement;

"**Surety Agreement**" means a surety agreement in the form set out in Schedule 2 (*Form of Surety Agreement*) or a surety agreement in such other form as the Trustee, the Lender and the Borrower may agree;

"**Taxes**" means any taxes, levies, duties, imposts, assessments, governmental charges or other charges or withholding of a similar nature (including interest and penalties thereon);

"**Temporarily Occupied Territory**" means the temporarily occupied territory of Ukraine as defined in the Law of Ukraine "On Securement of the Rights and Freedoms of Citizens and Legal Regime on Temporary Occupied Territory of Ukraine" dated 15 April 2014 No. 1207-VII;

"**Transaction Date**" has the meaning given to it in Clause 14.4 of this Agreement;

"**Trust Deed**" means the trust deed relating to the Notes to be dated on or about the date of issuance of the Notes between the Issuer and the Trustee as amended from time to time;

"**Trustee**" means BNY Mellon Corporate Trustee Services Limited, as trustee under the Trust Deed and any successor thereto as provided thereunder;

"**U.S. dollar Equivalent**" means with respect to any amount denominated in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such other currency involved into U.S. dollars at the spot rate for the purchase of U.S. dollars with such other currency as most recently published under "Currency Rates" in the section of the Financial Times entitled "Currencies, Bonds & Interest Rates".

"**Ukraine**" means Ukraine and any province or political sub-division thereof or therein;

"**Unrestricted Subsidiaries**" means, as long as the Borrower has control over such entities and/or holds more than half of the issued share capital in such entities, each of the following entities which were not part of the Original Group and the shares in which were transferred to the Borrower pursuant to the Reorganisation: Private Joint-Stock Company "Dnipropetrovsk Diesel Locomotive Repair Plant" (Private Joint-Stock Company "Dnipropetrovskyi Teplovozoremontnyi Zavod"; identification number: 00659101), Private Joint-Stock Company "Zaporizhzhya Elektric Locomotive Repair Plant" (Private Joint-Stock Company "Zaporizkyi Elektrovozoremontnyi Zavod"; identification number: 01056273), Private Joint-Stock Company "Lviv Locomotive Repair Plant" (Private Joint-Stock Company "Lvivskyi Lokomotyvoremontnyi Zavod"; identification number: 00740599), Private Joint-Stock Company "Kyiv Electrical Carriage-Repair Plant" (Private Joint-Stock Company "Kyivskyi Elektrovahonoremontnyi Zavod"; identification number: 00480247), Private Joint-Stock Company "Transsignal Kyiv Electrical Engineering Plant" (Private Joint-Stock Company "Kyivskyi Elektrotekhnichnyi Zavod "Transsygnal"; identification number: 00260652), Private Joint-Stock Company "Korosten Plant of Railway Sleepers" (Private Joint-Stock Company "Korostenskyi Zavod Zalizobetonnyh Shpal"; identification number: 00282406) and Private Joint-Stock Company "Hnivan Special Reinforced Concrete Plant" (Private Joint-Stock Company "Hnivanskyi Zavod Spetszalizobetonu"; identification number: 00282435); and

"**Ukrzaliznytsia**" means the State Administration of Railways Transport of Ukraine.

1.2 Interpretation

Any reference in this Agreement to:

(a) the "**Borrower**" or "**Lender**" includes its and any subsequent successors, assignees and chargees in accordance with their respective interests, including, without limitation, in the case of the latter, any entity substituted in place of the Lender as issuer of the Notes pursuant to the Trust Deed;

(b) "**control**" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise and the terms "**controlling**" and "**controlled**" have meanings correlative to the foregoing;

(c) the "**equivalent**" on any given date in one currency (the "**first currency**") of an amount denominated in another currency (the "**second currency**") is a reference to the amount of the first currency which could be purchased with the amount of the second currency at the spot rate of exchange quoted for the purchase of the first currency with the second currency on the relevant Reuters page or, where the first currency is hryvnia and the second currency is U.S. dollars (or vice versa), by the NBU, at or about 10.00 a.m. (New York City time) or, as the case may be, 1.00 p.m. (Kyiv time) on such date;

(d) a "**month**" means a period starting on one day in a calendar month and ending on the numerically corresponding day in the next succeeding calendar month save that, where any such period would otherwise end on a day which is not a Business Day, it shall end on the next succeeding Business Day, unless that day falls in the next calendar month, in which case it shall end on the immediately preceding Business Day, *provided that*, if a period starts on the last Business Day in a calendar month or if there is no numerically corresponding day in the month in which that period ends, that period shall end on the last Business Day in that later month (and references to "months" shall be construed accordingly);

(e) "**repay**" (or any derivative form thereof), subject to any contrary indication, includes prepay (or, as the case may be, the corresponding derivative form thereof); and

(f) "**VAT**" means:

  (i) any tax imposed in compliance with the Council Directive of 28 November 2006 on the common system of value added tax (EC Directive 2006/112); and

  (ii) any other tax of a similar nature, whether imposed in a member state of the European Union in substitution for, or levied in addition to, such tax referred to in paragraph (i) above or imposed elsewhere.

1.3 Currency References

"**U.S.$**" and "**U.S. dollars**" denote the lawful currency of the United States of America and "**UAH**" or "**hryvnia**" denotes the lawful currency of Ukraine.

1.4 Statutes

Any reference in this Agreement to a statute shall be construed as a reference to such statute as the same may have been, or may from time to time be, amended or re-enacted.

1.5 Headings

Clause and Schedule headings are for ease of reference only.

1.6 Amended Documents

Save where the contrary is indicated, any reference in this Agreement to this Agreement, the Fees Letter or any other agreement or document shall be construed as a reference to this Agreement, the Fees Letter or, as the case may be, such other agreement or document as the same may have been, or may from time to time be, amended, varied, novated or supplemented.

2. THE AGREEMENT

Pursuant to the terms of the Amendment and Restatement Deed, the Original Loan Agreements are amended and restated on the terms hereof with effect from the Effective Date.

3. THE LOAN

3.1 Grant of the Loan

On the Drawdown Date, the Lender granted to the Original Borrowers and the Original Borrowers borrowed from the Lender upon the terms and subject to the conditions of the Original Loan Agreements, the following six term loan facilities with an aggregate principal amount of U.S.$500,000,000: (i) U.S.$146,215,000 to State Enterprise "Donetsk Railway"; (ii) U.S.$49,945,000 to State Regional Specialised Association "Lviv Railway"; (iii) U.S.$77,680,000 to State Enterprise "Odesa Railway"; (iv) U.S.$94,190,000 to State Enterprise "Prydniprovska Railway"; (v) U.S.$52,995,000 to State Enterprise "South Railway"; and (vi) U.S.$78,975,000 to State Regional Specialised Association "Southwest Railway" (together, the "**Original Loans**").

With effect from the Effective Date, the Original Loans shall be consolidated into a single term loan facility in an amount of U.S.$500,000,000 (the "**Loan**") upon the terms and subject to the conditions of this Agreement.

The Borrower intends to service the Loan using the Loan Servicing Account.

3.2 Purpose and Application

The Original Borrowers applied all amounts borrowed by them under the Original Loans in accordance with the terms of the Original Loan Agreements.

4. AVAILABILITY OF THE LOAN

The Original Loans were made available to the Original Borrowers on the Drawdown Date.

5. INTEREST PERIODS

(a) Subject to paragraph (b), the period for which the Loan is outstanding shall be divided into successive semi-annual periods, each of which shall start on (and shall include) an Interest Payment Date and shall end on (but shall exclude) the first, or the next following, Interest Payment Date (each an "**Interest Period**").

(b) The first Interest Period following the Effective Date (the "**First Interest Period**") shall be deemed to have commenced on (and shall include) 21 November 2015 and shall end on (but shall exclude) the First Interest Payment Date.

6. PAYMENT AND CALCULATION OF INTEREST

6.1 Payment of Interest

As set out in Clause 18.1 (*Payments to the Lender*), the Borrower shall, not later than 10.00 a.m. (New York City time) two Business Days prior to each Interest Payment Date (except for the interest due on the First Interest Payment Date which shall be paid on such interest payment date), in respect of the relevant Interest Period, pay (a) to the Account accrued interest (calculated to the last day of the relevant Interest Period) on the outstanding principal amount of the Loan calculated in accordance with Clause 6.2; and (b) to the Profit Account additional interest calculated in accordance with Clause 6.3.

6.2 Calculation of Interest

(a) The Borrower will pay interest in accordance with Clause 6.1 in U.S. dollars to the Account on the outstanding principal amount of the Loan at the Interest Rate. Interest shall accrue from day to day, starting from (and including) the Drawdown Date to (but excluding) the Final Repayment Date.

(b) Subject to paragraphs (c) and (d) below, the amount of interest payable in respect of the Loan for any Interest Period shall be calculated by applying the applicable Interest Rate to the outstanding principal amount of the Loan, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

(c) In respect of the First Interest Period, interest shall be calculated from (and including) 21 November 2015 to (but excluding) the First Interest Payment Date on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed and, for the avoidance of doubt, the outstanding principal amount of the Loan in respect of the First Interest Period will be equal to the sum of the principal amounts of the loans extended under the Original Loan Agreements.

(d) If interest is required to be calculated for any period other than a semi-annual Interest Period, interest shall be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

(e) For the avoidance of doubt the Lender shall not be required to make any calculations with respect to interest under this Agreement.

6.3 Calculation of Additional Interest

(a) The Borrower will pay additional interest in accordance with Clause 6.1 in U.S. dollars to the Profit Account on the outstanding principal amount of the Loan at the rate of 0.0031 per cent. per annum. Additional interest shall accrue from day to day, starting from (and including) the Drawdown Date to (but excluding) the Final Repayment Date.

(b) Subject to paragraphs (c) and (d) below, the amount of additional interest payable in respect of the Loan for any Interest Period shall be calculated by applying 0.0031 per cent. to the outstanding principal amount of the Loan, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

(c) In respect of the First Interest Period, the amount of additional interest shall be calculated from (and including) 21 November 2015 to (but excluding) the First Interest Payment Date on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed and, for the avoidance of doubt, the outstanding principal amount of the Loan in respect of the First Interest Period will be equal to the sum of the principal amounts of the loans extended under the Original Loan Agreements.

(d) If additional interest is required to be calculated for any other period, it shall be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

(e) For the avoidance of doubt the Lender shall not be required to make any calculations with respect to interest under this Agreement.

6.4 Assumption when Calculating Interest

Whenever under this Agreement interest is to be calculated to the last day of an Interest Period and the calculation is required to be made before such last day, the parties shall assume that the amount of the Loan outstanding on the day of the calculation is also the amount of the Loan outstanding on the last day of the relevant Interest Period.

7. REPAYMENT AND PREPAYMENT

7.1 Repayment

(a) As set out in Clause 18.1 (*Payments to the Lender*) but subject to Clause (b) below, the Borrower shall:

(i) not later than 10.00 a.m. (New York City time) two Business Days prior to 15 March 2019, repay 30 per cent. of the initial outstanding principal amount of the Loan;

(ii) not later than 10.00 a.m. (New York City time) two Business Days prior to 15 September 2019, repay 30 per cent. of the initial outstanding principal amount of the Loan;

(iii) not later than 10.00 a.m. (New York City time) two Business Days prior to 15 March 2020, repay 10 per cent. of the initial outstanding principal amount of the Loan;

(iv) not later than 10.00 a.m. (New York City time) two Business Days prior to 15 September 2020, repay 10 per cent. of the initial outstanding principal amount of the Loan;

(v) not later than 10.00 a.m. (New York City time) two Business Days prior to 15 March 2021, repay 10 per cent. of the initial outstanding principal amount of the Loan;

(vi) not later than 10.00 a.m. (New York City time) two Business Days prior to the Final Repayment Date, repay in full the remaining outstanding principal amount of the Loan and, to the extent not already paid in accordance with Clause 6.1 (*Payment of Interest*) pay all interest accrued in respect of the last Interest Period (calculated to the Final Repayment Date) to the Account.

(b) If the Loan is repaid or prepaid otherwise than pursuant to Clause 7.1, the initial outstanding principal amount of the Loan used for the calculation of the amount of each Repayment Instalment due on each Repayment Date falling after such repayment or prepayment will be reduced by the amount of such repayment or prepayment.

7.2 Prepayment for Tax Reasons and Change in Circumstances

If, as a result of any amendments to or change in the Double Tax Treaty or the laws or regulations of Ukraine or the United Kingdom or of any political sub-division thereof or any authority therein having power to tax (the "**Taxing Jurisdiction**") or any amendments to or change in the application thereof or the enforcement of the security provided for in the Trust Deed, the Borrower would thereby be required to increase the payment of principal or interest or any other payment due hereunder as provided in Clause 8.1 (*Additional Amounts*) or to pay additional amounts as provided in Clause 8.3 (*Tax Indemnity*), or, if (for whatever reason) the Borrower would have to or has been required to pay additional amounts pursuant to Clause 10 (*Changes in Circumstances*), and, in any such case, such obligation cannot be avoided by the Borrower taking reasonable measures available to it, then the Borrower may, upon not less than 30 days' prior written notice to the Lender (and, following the execution of the Loan and Surety Administration Assignments, the Trustee) to that effect, providing the documentary evidence specified in the next sentence in a form reasonably satisfactory to the Lender (and, following the execution of the Loan and Surety Administration Assignments, satisfactory to the Trustee without regard to the Lender) and specifying the date of prepayment, prepay the whole (but not part only) of the outstanding principal amount of the Loan, together with any amounts then payable under Clauses 8.1 (*Additional Amounts*), 8.3 (*Tax Indemnity*) or 10 *(Changes in Circumstances)* and accrued and unpaid interest, and any other amounts outstanding hereunder. Prior to the delivery of any notice of prepayment pursuant to this Clause 7.2, the Borrower shall deliver to the Lender (and, following the execution of the Loan and Surety Administration Assignments, the Trustee) an Officers' Certificate, confirming that the Borrower would be required to increase the amount payable or to pay additional amounts in each case as provided in this Clause 7.2, and such obligation cannot be avoided by the Borrower taking reasonable measures, supported by an opinion of an independent tax adviser of recognised standing in the relevant tax jurisdiction.

7.3 Prepayment upon Illegality

If, at any time after the date of this Agreement, it is or would be unlawful or contrary to any applicable law or regulation or regulatory requirement or directive of any agency or any state or otherwise for the Lender to allow all or part of the Loan or the Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with this Agreement and/or to charge or receive or to be paid interest at the rate applicable in relation to the Loan (an "**Illegality**"), then upon notice by the Lender to the Borrower and the Trustee in writing (setting out in reasonable detail the nature and extent of the relevant circumstances), the Borrower and the Lender shall, to the extent reasonably practicable in the circumstances and at the expense of the Borrower, consult in good faith as to a basis which eliminates the application of such Illegality; *provided, however, that* the Lender shall be under no obligation to continue such consultation if, in the sole opinion of the Lender, acting reasonably, it is not possible to eliminate the application of such Illegality. If such a basis has not been agreed, then the Borrower shall prepay the Loan in whole together with all accrued and unpaid interest and any other amounts outstanding hereunder on the date which is 90 days from the date of such notification or such earlier date as may be required by law.

7.4 Prepayment in the event of a Change of Control

(a) Promptly, and in any event within 15 calendar days after the date of any Change of Control, the Borrower shall deliver to the Lender and the Trustee a notice in the form of an Officers' Certificate:

(i) stating that a Change of Control has occurred; and

(ii) stating the circumstances and relevant facts giving rise to such Change of Control.

(b) If, following a Change of Control, a Change of Control Put Option (as defined in the Conditions) is exercised, the Borrower shall on the Business Day before the Change of Control Put Settlement Date (as defined in the Conditions), prepay the relevant proportion of the Loan, as notified to the Borrower by the Lender in relation to which the Change of Control Put Option has been duly exercised at 101 per cent. of such relevant proportion's principal amount, together with accrued and unpaid interest to the Change of Control Put Settlement Date, and any other amounts outstanding hereunder (if any).

7.5 Notice of Prepayment/Repayment

Any notice of prepayment given by the Borrower pursuant to Clause 7.2 (*Prepayment for Tax Reasons and Change in Circumstances*) or by the Lender pursuant to Clause 7.4 (*Prepayment in the event of a Change of Control*) or Clause 7.3 (*Prepayment upon Illegality*) shall be irrevocable, shall specify the date upon which such prepayment is to be made and shall oblige the Borrower to make such prepayment or repayment on such date. No such notice pursuant to Clause 7.2 (*Prepayment for Tax Reasons and Change in Circumstances*) shall be given earlier than 90 calendar days prior to the earliest date on which the Borrower would be obliged to pay such amounts under Clause 8.1 (*Additional Amounts*), Clause 8.3 (*Tax Indemnity*) or Clause 10 *(Changes in Circumstances)*.

7.6 Costs of Prepayment/Repayment

The Borrower shall indemnify the Lender on demand against any costs and expenses properly incurred and properly documented by the Lender on account of any prepayment or repayment made in accordance with this Clause 7 (*Repayment and Prepayment*).

7.7 No Reborrowing

No amount prepaid or repaid under this Agreement may subsequently be reborrowed.

8. TAXES

8.1 Additional Amounts

All payments to be made by the Borrower hereunder shall be made in full without set off or counterclaim, free and clear of and without deduction or withholding for or on account of any present or future Taxes imposed or levied by or on behalf of any taxing authority of or in, or having authority to tax in, the United Kingdom or Ukraine or any country or state from or through which the Borrower makes payment hereunder in connection herewith ("**Relevant Taxes**"), unless such withholding or deduction of Relevant Taxes is required by law, in which case, the Borrower shall, on the due date for such payment, increase the amounts payable as may be necessary to ensure that the Lender receives a net amount in U.S. dollars which, following any such deduction or withholding on account of Relevant Taxes, shall be equal to the full amount which it would have received had the payment not been made subject to Relevant Taxes so withheld or deducted and shall deliver to the Lender without undue delay, evidence satisfactory to the Lender of such deduction or withholding and of the accounting therefor to the relevant authority. If the Lender pays any amount in respect of such Relevant Taxes, the Borrower shall reimburse the Lender in U.S. dollars on demand an amount equal to such payment(s). If the Borrower becomes subject at any time to any taxing jurisdiction other than the United Kingdom or Ukraine, as the case may be, references in this Clause 8.1 to the United Kingdom and/or Ukraine shall be construed as references to the United Kingdom and/or Ukraine and/or such other jurisdiction.

8.2 Double Tax Treaty Relief; Deductions or Withholdings

The Borrower shall use reasonable and timely efforts to assist the Lender in ensuring that all payments of interest by the Borrower to the Lender under this Agreement may be made without deduction on account of the generally applicable withholding tax established by applicable Ukrainian legislation. The Lender shall use reasonable and timely efforts to assist the Borrower, to the extent reasonably practicable in the circumstances, to obtain relief from Ukrainian income tax pursuant to the Double Tax Treaty.

8.3 Tax Indemnity

Without prejudice to the provisions of Clause 8.1 (*Additional Amounts*), if the Lender notifies the Borrower that:

(a) the Lender (as issuer of the Notes) is obliged to make any deduction or withholding for or on account of any Taxes from any payment which the Lender (as issuer of the Notes) is obliged to make under or in respect of the Notes, and the Lender (as issuer of the Notes) is required under the Conditions to pay additional amounts to the holders of the Notes in connection therewith, the Borrower agrees to pay to the Lender, at least two Business Days prior to the date on which payment is due on the Notes (and otherwise in accordance with the terms of this Agreement), such additional net amounts as are equal to the additional payments which the Lender would be required to make under the Conditions in order that the net amount received by each holder of Notes is equal to the amount which such holder would have received had no such withholding or deduction been required to be made under or in respect of the Notes;

(b) the Lender (as issuer of the Notes) is required to pay any Tax (other than UK corporation tax on its retained profit as defined for the purposes of the Taxation of Securitisation Companies Regulations 2006 (SI 2006/3296)) in relation to any payment received by it under this Agreement or any Funding Document, or if any liability in respect of any such payment is at any time asserted, imposed, levied or assessed against the Lender, the Borrower shall, as soon as reasonably practicable following, and in any event within 60 calendar days of, written demand made by the Lender, indemnify the Lender against such properly documented payment or liability, together with any interest, penalties, costs and expenses payable or incurred in connection therewith; and

(c) the Lender (as issuer of the Notes) is obliged to make any withholding or deduction for or on account of any Taxes imposed by any taxing authority in the United Kingdom or Ukraine under or in respect of any Funding Document, the Borrower agrees to pay to the Lender, as soon as reasonably practicable following, and in any event within 60 calendar days of, a written demand made by the Lender, such additional net amounts as are equal to the additional payments which the Lender would be required to make under the terms of such Funding Documents in order that the net amount received by each payee is equal to the amount which such payee would have received had no such withholding or deduction been required to be made under or in respect of the relevant Funding Document.

Provided, however, that the Lender shall upon the receipt of any reimbursement of the sums paid pursuant to Clause 8.3(a) or 8.3(c) (including, without limitation, in any case falling within Clause 8.3(a), in the event that the holders of the Notes are not entitled to such additional payments under the Conditions and excluding any credit, relief, remission or repayment which is subject to Clause 8.5 *(Tax Credits and Tax Refunds)*) pay such amounts so reimbursed to the Borrower to the extent that the Lender determines in its absolute discretion (acting in good faith) that to do so will leave it (after the payment) in no worse an after-Tax position than it would have been in had no such deduction or withholding been made or required to be made (it being understood that the Lender shall have no obligation to determine whether any holder of Notes or any payee is entitled to such additional amount).

For the avoidance of doubt, the provisions of this Clause 8.3 shall not apply to any withholding or deductions of Taxes with respect to the Loan which are subject to payment of additional amounts under Clause 8.1 (*Additional Amounts*).

8.4 Tax Claims

If the Lender intends to make a claim pursuant to Clause 8.3 (*Tax Indemnity*), it shall notify the Borrower thereof as soon as reasonably practicable after the Lender becomes aware of any obligation to make any such withholding or deduction or to pay any such Tax.

8.5 Tax Credits and Tax Refunds

(a) If an additional amount is paid under Clause 8.1 (*Additional Amounts*) or 8.3 (*Tax Indemnity*) by the Borrower for the benefit of the Lender and the Lender subsequently obtains or uses any tax credit against a relief or remission for, or a repayment of, any Tax, then, if and to the extent that the Lender, in its absolute discretion (acting in good faith), determines that such credit, relief, remission or repayment is in respect of or calculated with reference to the deduction or withholding giving rise to such additional payment or, in the case of an additional payment made or indemnity payment pursuant to Clause 8.3 (*Tax Indemnity*), with reference to the liability, expense, cost or loss to which the payment giving rise to the additional payment or indemnity payment relates, the Lender shall, to the extent that it can do so without prejudice to the retention of the amount of such credit, relief, remission or repayment, pay to the Borrower such amount as the Lender shall, in its absolute discretion (acting in good faith), have concluded to be attributable to such deduction or withholding or, as the case may be, such liability, expense, cost or loss, *provided that* the Lender shall not be obliged to make any payment under this Clause 8.5 in respect of such credit, relief, remission or repayment until the Lender is, in its absolute discretion (acting in good faith), satisfied that its tax affairs for its tax year in respect of which such credit, relief, remission or repayment was obtained have been finally settled and *provided that* the Lender shall not be obliged to make any such payment if and to the extent that the Lender determines in its absolute discretion (acting in good faith) that to do so would leave it (after the payment) in a worse after-tax position than it would have been in had the increased or additional or indemnified amount not been required under Clauses 8.1 (*Additional Amounts*) or 8.3 (*Tax Indemnity*). Any such payment shall, in the absence of manifest error and subject to the Lender specifying in writing in reasonable detail the calculation of such credit, relief, remission or repayment and of such payment and providing relevant supporting documents evidencing such matters, be conclusive evidence of the amount due to the Borrower hereunder and shall be accepted by the Borrower in full and final settlement of its rights of reimbursement hereunder in respect of such deduction or withholding.

(b) The Lender shall use its reasonable endeavours to obtain any credits or refunds available to it and shall notify the Borrower of any tax credit or allowance or other reimbursement it receives.

(c) If as a result of a failure to obtain relief from deduction or withholding of any tax imposed by Ukraine or the United Kingdom (i) such tax is deducted or withheld by the Borrower and pursuant to this Clause 8.5 an increased amount is paid by the Borrower to the Lender in respect of such deduction or withholding; and (ii) following the deduction or withholding of tax as referred to above the Lender (upon instructions by the Borrower) applies to the relevant Ukrainian or United Kingdom tax authorities for a tax refund and such tax refund is credited by the Ukrainian or United Kingdom tax authorities to a bank account of the Lender, the Lender shall as soon as reasonably possible notify the Borrower of the receipt of such tax refund and (upon instructions by the Borrower) promptly transfer the entire amount of the tax refund actually received by the Lender to a bank account of the Borrower specified for that purpose by the Borrower.

(d) If as a result of a failure to obtain relief from deduction or withholding of any Tax imposed by the Ukrainian tax authorities (a) such Tax is deducted or withheld by the Borrower and pursuant to Clause 8.1 (*Additional Amounts*) an increased amount is paid by the Borrower to the Lender in respect of such deduction or withholding, and (b) following the deduction or withholding of Tax as referred to above, the Borrower applies on behalf of the Lender to the relevant Ukrainian tax authorities for a tax refund and such tax refund is credited by the Ukrainian tax authorities to a bank account of the Lender, the Lender shall as soon as reasonably possible notify the Borrower of the receipt of such tax refund actually received and promptly transfer such amount of the tax refund actually received as the Lender determines in its absolute discretion (acting in good faith) will leave it (after the payment) in no worse an after-tax position than it would have been in had no such withholding or deduction been made or required to be made to a bank account of the Borrower *provided that* such an account has been specified for that purpose by the Borrower.

(e) Nothing contained in this Clause 8.5 (*Tax Credits and Tax Refunds*) shall interfere with the right of the Lender to arrange its tax affairs generally in whatever manner it thinks fit nor oblige the Lender to disclose confidential information or any information relating to its tax affairs generally or any computations in respect thereof.

8.6 Tax Position of the Lender

The Lender represents that as at the date of this Agreement it (i) is a resident of the United Kingdom for the purposes of the Double Tax Treaty and is subject to taxation in the United Kingdom on the basis of its registration as a legal entity, location of its management body or another similar criterion (rather than merely on income from sources in the United Kingdom or connected with property located in the United Kingdom), and that it will be able to receive certification to this effect from the United Kingdom tax authorities, (ii) does not have a permanent establishment in Ukraine; and (iii) does not have any current intentions to effect, during the term of the Loan, any corporate action or reorganisation or change of taxing jurisdiction that would result in the Lender ceasing to be a resident of the United Kingdom. The Lender also represents that pursuant to its constitutional documents, the Lender may lend money to any persons for any purpose whatsoever and carry on business as a financial institution.

8.7 Delivery of Forms

The Lender shall within 10 days of the request of the Borrower (to the extent that the Lender is able to do so under applicable law) and at the Borrower's cost, apply for a certificate issued by the competent taxing authority in the United Kingdom confirming that the Lender is a tax resident in the United Kingdom (the "**Certificate**") and shall deliver to the Borrower (i) such duly completed Certificate as soon as practicable after the receipt thereof and (ii) (as soon as, and to the extent, reasonably practicable) such other information or forms, including a power of attorney in form and substance acceptable to the Borrower authorising it to file the Certificate on behalf of the Lender with the relevant tax authority, as may need to be duly completed and delivered by the Lender to enable the Borrower to apply to obtain relief from deduction or withholding of Ukrainian tax or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Ukrainian tax has not been obtained on the basis of the relevant provisions of the Double Tax Treaty. The Certificate shall be duly signed by the Lender and the Lender shall use its reasonable endeavours to procure the stamping or other approval thereof by the competent tax authority in the United Kingdom and apostilled or legalised as may be expressly required by law. If a relief from deduction or withholding of Ukrainian tax or a tax refund under this Clause 8.7 has not been obtained and further to an application of the Borrower to the relevant Ukrainian tax authorities the latter requests the Lender's hryvnia bank account details, the Lender shall (subject to it determining that such action is not adverse to its interests, such determination to be made reasonably) at the request of the Borrower (i) use reasonable efforts to procure that such hryvnia bank account of the Lender is duly opened and maintained; and (ii) thereafter furnish the Borrower with the details of such hryvnia bank account. The Borrower shall pay for all costs associated, if any, with opening and maintaining such hryvnia bank account. Nothing contained in this Clause 8.7 shall interfere with the right of the Lender to arrange its affairs generally in whatever manner it thinks fit nor oblige the Lender to disclose confidential information or any information relating to its affairs generally.

9. TAX RECEIPTS

9.1 Notification of Requirement to Deduct Tax

If, at any time, the Borrower is required by law to make any deduction or withholding from any sum payable by it hereunder (or if thereafter there is any change in the rates at which or the manner in which such deductions or withholdings are calculated), the Borrower shall promptly notify the Lender.

9.2 Evidence of Payment of Tax

If the Borrower makes any payment hereunder in respect of which it is required to make any deduction or withholding, it shall pay the full amount required to be deducted or withheld to the relevant tax or other authority (subject to any right which the Borrower may have to contest such payment) within the time allowed for such payment under applicable law and shall deliver to the Lender, within 45 days after it has made such payment to the applicable authority, an original receipt (or a certified copy thereof) issued by such authority evidencing the payment to such authority or, if such receipts are not obtainable, other evidence of such payments by the Borrower reasonably acceptable to the Lender, of all amounts so required to be deducted or withheld in respect of such payment. The Borrower shall also provide an English translation of such receipts.

10. CHANGES IN CIRCUMSTANCES

10.1 Increased Costs

If, by reason of (i) any change in, repeal of or introduction of any Tax, law (including any statute, treaty, order, decree, ordinance or similar legislative or executive action), regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted accounting or financial practice of financial institutions in the country concerned), letter, instruction, request, notice, guideline, policy or practice statement (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted accounting or financial practice of financial institutions in the country concerned) or in the decision or ruling on, or the interpretation or application thereof by any other person charged with the administration thereof or other competent authority in Ukraine or the United Kingdom, which, in each case, occurs on or after the date of this Agreement; and/or (ii) any compliance by the Lender in respect of the Loan with any request, policy or guideline (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted accounting or financial practice of financial institutions in the country concerned) from or of any central or other fiscal, monetary or other authority, agency or any official of any such authority:

(a) the Lender incurs or will incur an additional or increased cost as a result of the Lender entering into or performing its obligations (including the obligation to advance the Loan) under this Agreement (other than UK corporation tax on its retained profit as defined for the purposes of the Taxation of Securitisation Companies Regulations 2006 (SI 2006/3296)); or

(b) the Lender becomes or will become liable to make any additional payment on account of tax or otherwise (other than UK corporation tax on its retained profit as defined for the purposes of the Taxation of Securitisation Companies Regulations 2006 (SI 2006/3296)) on or calculated by reference to the amount of the Loan and/or to any sum received or receivable by the Lender hereunder, or the rate of return from the Loan or the Lender's (or its Affiliate's) overall capital or the amount of principal, interest or other amount payable to or received by the Lender hereunder is reduced; or

(c) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from the Borrower hereunder or makes any payment or forgoes any interest or other return on or calculated by reference to the gross amount of the Loan,

then, subject in each case to Clause 10.2 (*Increased Costs Claims*), upon demand by the Lender to the Borrower:

(i) (in the case of Clauses 10.1(a), 10.1(b) and 10.1(c)) the Borrower shall on demand pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased costs, payment or foregone interest or other return; and

(ii) (in the case of Clause 10.1(b)) the Borrower shall, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction;

provided, however, that in each case the amount of such increased cost, reduced amount or payment made or foregone shall be deemed not to exceed an amount equal to the proportion which is directly attributable to this Agreement and *provided further that* the Lender will not be entitled to such payment where such increased costs, payment or foregone interest arises as a result of the gross negligence, fraud or wilful default of the Lender.

10.2 Increased Costs Claims

If the Lender intends to make a claim pursuant to Clause 10.1 (*Increased Costs*), it shall promptly notify the Borrower thereof and provide (to the extent reasonably practicable) a description in writing in reasonable detail of the relevant reason (as described in Clause 10.1 (*Increased Costs*) above) including a description of the relevant affected jurisdiction or country and the date on which the change in circumstances took effect. This written description shall (to the extent reasonably practicable) demonstrate the connection between the change in circumstance and the additional costs and shall be accompanied by relevant supporting documents evidencing the matters described therein.

10.3 Mitigation

If circumstances arise which would result in any payment being required to be made by the Borrower pursuant to Clauses 8.1 (*Additional Amounts*), 8.3 (*Tax Indemnity*) or 10 (*Changes* *in Circumstances*), then, without in any way limiting, reducing or otherwise qualifying the rights of the Lender or the Borrower's obligations under any of the above mentioned provisions, the Lender shall as soon as reasonably practicable upon becoming aware of the same notify the Borrower thereof and, in consultation with the Borrower and to the extent it can lawfully do so and without prejudice to its own position, take reasonable steps (at the Borrower's expense) to remove such circumstances or mitigate the effects of such circumstances including (without limitation) by the transfer of its rights or obligations under this Agreement to another financial institution, *provided that* the Lender shall be under no obligation to take any such action if it would breach of any provisions of any Funding Document.

11. REPRESENTATIONS AND WARRANTIES OF THE BORROWER

On the Effective Date, the Borrower makes the representations and warranties set out in Clause 11.1 (*Status*) to Clause 11.23 (*OFAC*) (inclusive) and acknowledges that the Lender has entered into the Amendment and Restatement Deed in reliance on those representations and warranties.

11.1 Status

The Borrower and each of its Restricted Subsidiaries, where applicable, is organised and registered and validly existing under Ukrainian law, is not in liquidation, temporary administration or bankruptcy or subject to pre-trial rehabilitation or termination proceedings, has full power and authority to own, lease and/or operate its properties and conduct its business as currently conducted, and that the Borrower is able lawfully to execute and perform its obligations under this Agreement and the Funding Documents.

11.2 Material Subsidiaries

The Borrower does not have any Material Subsidiaries.

11.3 Governmental Approvals

All actions or things required to be taken, fulfilled or done by the laws and regulations of Ukraine (including without limitation, authorisation, order, licence or qualification of or with any court or governmental agency), and all registrations, filings or notarisations required by the laws and regulations of Ukraine in order to ensure:

(a) that the Borrower and each of its Restricted Subsidiaries is able to own, lease and/or operate its assets and carry on its business as currently conducted and, if not, the absence of which could not reasonably be expected to have a Material Adverse Effect; and

(b) the due execution, delivery, validity and performance by the Borrower of this Agreement, have been obtained, fulfilled or done and are in full force and effect (other than the registration of this Agreement with the NBU).

11.4 Pari passu Obligations

Under the laws of Ukraine in force at the date of this Agreement, the claims of the Lender against the Borrower under this Agreement will rank at least *pari passu* in right of payment with the claims of all its other unsecured and unsubordinated creditors save those whose claims are preferred by any bankruptcy, insolvency, liquidation, moratorium or similar laws of general application.

11.5 No Deduction

Without prejudice to the provisions of Clause 8.1 (*Additional Amounts*), under the laws of Ukraine in force at the date of this Agreement, subject to delivery by the Lender of such forms and information as provided in Clause 8.7 (*Delivery of Forms*), payments of principal and/or interest by the Borrower to the Lender under this Agreement may be made without deduction or withholding for or on account of Taxes imposed, levied, collected, withheld or assessed by or on behalf of Ukraine or any political subdivision or authority thereof or therein having the power to impose, collect or assess Tax.

11.6 Governing Law

Under the laws of Ukraine in force at the date of this Agreement, in any proceedings taken in Ukraine in relation to this Agreement and the Fees Letter, the choice of English law as the governing law of this Agreement and any arbitral award with respect to this Agreement obtained in the United Kingdom will be recognised and enforced in Ukraine after compliance with the applicable procedural rules in Ukraine.

11.7 Admissibility in Evidence

All acts, conditions and things required to be done, fulfilled and performed (other than by the Lender) to make this Agreement and the Fees Letter to which it is party admissible in evidence in Ukraine (whether in arbitration proceedings or otherwise) have been done, fulfilled and performed (other than the registration of this Agreement with the NBU).

11.8 Valid and Binding Obligations

Upon the registration of this Agreement with the NBU, the obligations expressed to be assumed by the Borrower in this Agreement and the Funding Documents will constitute legal, valid and binding and, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally and to general principles of equity, enforceable against it in accordance with their terms.

11.9 No Stamp Taxes

Under the laws of Ukraine in force at the date of this Agreement, the execution and delivery of this Agreement and the Fees Letter is not subject to any Taxes in Ukraine (including, without limitation, any registration or transfer tax, stamp duty or similar levy).

11.10 No Default

(a) No event or circumstance has arisen and is continuing which would constitute an Event of Default or Potential Event of Default other than (i) any Specified Reorganisation Default, (ii) any Specified Local Indebtedness Restructuring Default or (iii) any Specified Expropriation Default.

(b) No event or circumstance has arisen and is continuing which would constitute a default under any agreement or instrument evidencing any Indebtedness of the Borrower or any of its Restricted Subsidiaries other than (i) any Local Indebtedness Reorganisation Default and (ii) any Local Indebtedness Restructuring Default.

11.11 No Material Proceedings

There are no lawsuits, litigation or other legal or administrative or arbitration proceedings (including, without limitation, with respect to the Reorganisation) current or pending or, to the best of the knowledge of the Borrower having made all reasonable inquiries, threatened before any court, tribunal, arbitration panel or Agency which might (a) prohibit the execution and delivery of this Agreement, the Funding Documents to which the Borrower is a party or the Borrower's compliance with its obligations thereunder or (b) adversely affect the right and power of the Borrower to enter into this Agreement or the Funding Documents; or (c) have a Material Adverse Effect.

11.12 Execution of Agreement

Its execution and delivery of this Agreement and the Funding Documents to which the Borrower is a party and its exercise of its rights and performance of its obligations under these agreements do not and will not:

(a) conflict with or result in a breach of any of the terms of, or constitute a default under, any instrument, agreement or order to which the Borrower or any of its Restricted Subsidiaries is a party or by which it or its properties is bound;

(b) conflict with the provisions of the constitutional documents of the Borrower or any resolution of its management bodies; or

(c) give rise to any Event of Default or Potential Event of Default or moratorium in respect of any of the obligations of the Borrower or any of its Restricted Subsidiaries or the creation of any lien, encumbrance or other security interest (howsoever described) in respect of any of the assets of the Borrower or any of its Restricted Subsidiaries.

11.13 Compliance with Laws

Neither the entry into nor the performance by the Borrower of its obligations under this Agreement or the Funding Documents to which the Borrower is a party will violate any laws or regulations of Ukraine or any directives of governmental authorities therein having the force of law, and (a) the Borrower is in compliance in all respects with all applicable provisions of the law and regulations of Ukraine; and (b) no Restricted Subsidiary is in violation in any material respect of any applicable provision of the laws and regulations of Ukraine.

11.14 Reorganisation

(a) All assets and liabilities of the Original Borrowers and the Original Sureties have been transferred to the Borrower as a result of the Reorganisation, and the Original Borrowers and the Original Sureties are not entitled to use or dispose of any such assets.

(b) The Reorganisation and all related procedures have been performed in full compliance with all applicable laws.

11.15 No Immunity

Neither the Borrower nor its property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to this Agreement or the Funding Documents to which the Borrower is a party, other than pursuant to the Law of Ukraine "On Introducing of Moratorium for Forced Sale of Property" and the Law of Ukraine "On Peculiarities of Establishment of a Public Joint Stock Company of Railway Transport of General Use" dated 23 February 2012, No. 4442-VI.

11.16 Strikes

There are no strikes or other employment disputes against the Borrower or any of its Restricted Subsidiaries which are pending or, as far as the Borrower is aware after having made all reasonable inquiries, threatened, except in each case, as would not have a Material Adverse Effect.

11.17 Tax Liabilities

The Borrower has no overdue tax liabilities other than those which it is contesting in good faith by appropriate proceedings and for which the adequate reserves have been made.

11.18 Insurance

The Borrower maintains insurance of the types and in amounts that are, in the judgment of the management of the Borrower, adequate for its business; and the Borrower has no reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business.

11.19 Intellectual Property

The Borrower owns or possesses adequate trademarks, trade names and other rights to inventions, know-how, patents, copyrights, confidential information and other intellectual property necessary to conduct the business now operated by it, or presently employed by it.

11.20 Anti-Bribery

Neither the Borrower nor any of the members of the Group or their respective Subsidiaries, nor any director, officer, or employee, nor, to the Borrower's knowledge, any agent or representative of the Borrower or any of the members of the Group, has taken or will take any action in furtherance of an offer, payment, promise to pay, or authorisation or approval of the payment or giving of money, property, gifts or anything else of value, directly or indirectly, to any person while knowing that all or some portion of the money or value will be offered, given or promised to anyone to improperly influence official action, to obtain or retain business or otherwise to secure any improper advantage.

11.21 Anti-Corruption

The Borrower and the members of the Group and their respective Subsidiaries have conducted their businesses in compliance with applicable anti-corruption laws and have instituted and maintained, and will continue to maintain, policies and procedures reasonably designed to promote and achieve compliance with such laws and with the representations and warranties contained herein.

11.22 Anti-Money Laundering

The operations of the Borrower and any members of the Group and their respective Subsidiaries are and have been conducted at all times in compliance with all applicable financial recordkeeping and reporting requirements and the applicable anti-money laundering statutes of jurisdictions where the Borrower, and any members of the Group and their respective Subsidiaries conduct and have conducted business, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any governmental agency (collectively, the "**Anti-Money Laundering Laws**"), and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Borrower or any members of the Group or any of their respective Subsidiaries with respect to the Anti-Money Laundering Laws is pending or threatened.

11.23 OFAC

(a) Neither the Borrower nor any of its Subsidiaries or any director, officer, or to the best of the knowledge of the Borrower having made all reasonable inquiries, employee, agent or representative of the Borrower nor any of its Subsidiaries, is a Person that is, or is owned or controlled by a Person that is:

(i) the subject of any sanctions administered or enforced (a) by the U.S. Department of Treasury's Office of Foreign Assets Control, the U.S. Department of State, the United Nations Security Council, the European Union, Her Majesty's Treasury, Ukraine or other applicable sanctions authority or (b) pursuant to the Iran Sanctions Act as amended by the Comprehensive Iran Sanctions Accountability and Divestment Act, the Iranian Financial Transactions Regulations, and Section 1245 of the National Defense Authorization Act of 2012 (collectively, "**Sanctions**"), nor

(ii) located, organised, operating or resident in a country or territory that is the subject of Sanctions (including, without limitation, Burma/Myanmar, Cuba, Iran, North Korea, Sudan and Syria).

(b) Neither the Borrower nor any of its Subsidiaries has engaged in, is now engaged in, or will engage in, (i) any dealings or transactions with any Person that at the time of the dealing or the transaction is or was the subject of Sanctions, or (ii) any dealings or transactions with any country or territory, that at the time of the dealing or transaction is or was the subject of Sanctions where to do so would be in violation of such Sanctions.

12. REPRESENTATIONS AND WARRANTIES OF THE LENDER

As at the date of this Agreement the Lender makes the representations and warranties set out in Clause 8.6 (*Tax Position of the Lender*) and this Clause 12 and acknowledges that the Borrower has entered into this Agreement in reliance on those representations and warranties.

12.1 Status and Capacity

The Lender is duly incorporated under the laws of the United Kingdom and has full power and capacity to execute this Agreement, the Trust Deed and the Agency Agreement and to undertake and perform the obligations expressed to be assumed by it herein and therein.

12.2 Execution of Agreement

The execution of this Agreement, the Trust Deed and the Agency Agreement and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of England or any agreement or instrument to which it is a party or by which it is bound or in respect of indebtedness in relation to which it is a surety.

12.3 Valid and Binding Obligations

This Agreement, the Trust Deed and the Agency Agreement, constitute legal, valid and binding obligations of the Lender enforceable in accordance with their terms, subject to applicable bankruptcy, insolvency, liquidation, administration, moratorium, re-organisation and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity.

12.4 Consents and Approvals

All authorisations, consents, approvals and actions required by the Lender for or in connection with the execution of this Agreement, the Trust Deed and the Agency Agreement and the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect.

13. INFORMATION

The Borrower shall supply or procure to be supplied to the Lender (in sufficient copies as may reasonably be required by the Lender) (and, following the execution of the Loan and Surety Administration Assignments, as may be required by the Trustee) all such information as the Lender (or as the case may be, the Trustee) reasonably requires for the purposes of the discharge of the duties and discretions vested in it under this Agreement or the Trust Deed, including providing, without limitation (i) an Officers' Certificate certifying (a) those Restricted Subsidiaries which would be treated as Material Subsidiaries pursuant to this Agreement and (b) as to the Notes held by the Borrower and its Subsidiaries or are held by any Person for the benefit of the Borrower and its Subsidiaries; and (ii) all such information as the Stock Exchange (or any other or further stock exchange or stock exchanges or any other relevant authority or authorities on which the Notes may, from time to time, be listed or admitted to trading) may require in connection with the listing or admittance to trading of the Notes, *provided that* the Borrower shall not be required to disclose any such information (i) if it relates to operations which are subject to state secrecy under the laws of Ukraine or (ii) if such disclosure would breach any law or applicable regulation.

The Borrower consents that any information provided to the Lender pursuant to this Clause 13 may also be provided to the Trustee, if so requested by the Trustee, without violating any duty of confidentiality or secrecy that the Lender may owe to the Borrower.

14. COVENANTS

The covenants in this Clause 14 remain in force from and including the date on which this Agreement takes effect as provided in Clause 26 (*Ukrainian Regulatory Requirements*) for so long as the Loan or any part of it is or may be outstanding.

14.1 Negative pledge

(a) The Borrower shall not, and shall procure that each of its Restricted Subsidiaries do not, create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Indebtedness, or any guarantee of or indemnity in respect of any Indebtedness, unless, at the same time or prior thereto, the Borrower's obligations under the Loan are secured equally and rateably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto.

(b) Clause 14.1(a) above does not apply to any Security Interest listed below:

(i) any Security Interest of the Borrower or any of its Restricted Subsidiaries existing on the Drawdown Date;

(ii) any Security Interest arising out of any extension, renewal or replacement of any Security Interest (including any replacement in accordance with Ukrainian procurement laws, *provided* such replacement Security Interest shall have been created within 60 days of the original Security Interest being released) described in paragraph (i) above and paragraphs (iii)-(viii) below, *provided that* (x) such extension, renewal or replacement shall be no more restrictive to the relevant Person in any material respect than the original Security Interest, (y) the amount of Indebtedness secured by such Security Interest is not increased and (z) if the property, income, assets or revenues securing the Indebtedness subject to such Security Interest are changed in connection with such refinancing, extension or replacement, the Fair Market Value of such property, income, assets or revenues is not increased;

(iii) any Security Interest securing any Indebtedness the principal amount of which (when aggregated with the principal amount of any other outstanding Indebtedness secured by a Security Interest other than any Security Interest that is otherwise permitted under this Clause 14.1(b)) does not exceed U.S.$300,000,000 (or equivalent in the relevant currency), provided that Indebtedness in an aggregate principal amount of U.S.$250,000,000 secured pursuant to this Clause 14.1(b)(iii) may only be secured over future revenues of the Borrower and/or its Restricted Subsidiaries;

(iv) any netting or set-off arrangement entered into by the Borrower in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances;

(v) any Security Interest granted upon or with regard to any property or assets to secure the purchase price thereof or the cost of construction, improvement or repair of all or any part of such property or assets or to secure Indebtedness Incurred solely for the purpose of financing the acquisition, construction, improvement or repair of all or any part of such property or assets and transactional expenses related thereto (so long as such Security Interest was not created in contemplation thereof), *provided that*, in relation to (i) the improvement or repair of any property or assets which are subject to a moratorium pursuant to the Law of Ukraine "On Introducing of Moratorium for Forced Sale of Property", or (ii) the construction of any property or assets, any such Security Interests may be granted over the whole or any part of its present or future undertaking, assets or revenues not limited to such property or assets, *provided that* the maximum amount of Indebtedness thereafter secured by such Security Interest does not exceed the purchase price or cost of construction, improvement or repair of such property or assets (including transactional expenses) or the Indebtedness Incurred solely for the purpose of financing the acquisition, construction, improvement or repair of such property or assets;

(vi) any Security Interest arising by operation of law;

(vii) any Security Interest arising in the ordinary course of business and not arising as a result of a default (howsoever described); or

(viii) any Security Interest arising under any retention of title, hire purchase or conditional sale arrangement or arrangements having similar effect in respect of goods supplied to the Borrower in the ordinary course of trading and on the supplier's standard or usual terms and not arising as a result of any default or omission by the Borrower.

(c) Except as may be permitted by Clauses 14.1(b)(ii) and 14.1(b)(iii), the Borrower shall not, and shall procure that each of its Restricted Subsidiaries do not, create any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Indebtedness, or any guarantee of or indemnity in respect of any Indebtedness, if, immediately following the creation of such Security Interest:

(i) the value of the Security Interest created over such undertaking, asset or revenue is greater than 1.5 times the amount of the relevant Indebtedness being secured; or

(ii) the total value of Qualifying Assets of the Restricted Group over which no Security Interest has been created is less than the total of the aggregate principal amount of the outstanding Indebtedness of the Restricted Group over which no Security Interest has been created.

For the purpose of this Clause 14.1(c), any applicable value shall be measured by reference to the Net Book Value.

14.2 Merger

The Borrower shall not, and shall ensure that none of its Material Subsidiaries will, without the prior written consent of the Lender and the Trustee, enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation, as these terms are construed under applicable Ukrainian legislation), or participate in any other type of corporate reconstruction, if any such reorganisation or other type of corporate reconstruction would result in a Material Adverse Effect, provided that, the Borrower may in a single transaction or a series of related transactions, directly or indirectly, consolidate or merge with or into, or convey, transfer, lease, or otherwise dispose of, all or substantially all of the Borrower's properties or assets (determined on a consolidated basis), to any Restricted Subsidiary of the Borrower, where the resulting, surviving or transferee Person (the "**Successor Entity**"), shall be the Borrower or, if not the Borrower, shall be a Person organised and validly existing under the laws of Ukraine and such Successor Entity, if not the Borrower, shall expressly assume, by an agreement supplemental to this Agreement in form and substance satisfactory to the Lender and the Trustee, executed and delivered to the Lender and the Trustee, the due and punctual payment of the principal and interest under this Agreement and the performance and observance of every covenant of the Borrower under this Agreement.

14.3 Financial Statements

(a) The Borrower shall send to the Lender and the Trustee:

(i) a copy of the annual Financial Statements within six months of the relevant Balance Sheet Date;

(ii) a copy of the semi-annual Financial Statements within four months of the relevant Balance Sheet Date,

in the case of the annual Financial Statements, together with the report thereon by the Group's independent auditors; in the case of the semi-annual Financial Statements, together with the review report thereon by the Group's independent auditors; and, in each case, prepared and presented in accordance with IFRS, consistently applied.

(b) If any merger, accession, division, separation or transformation is carried out pursuant to Clause 14.2 within the period between 1 January and 31 March (inclusive) or 1 July and 30 September (inclusive) in any year, the Borrower shall, in addition to the requirements set out in Clause 14.3(a) above, prepare and send to the Lender and the Trustee the Group's quarterly financial statements (as at, and for the three month period ended, 31 March or 30 September, as applicable) within four months of the relevant Quarterly Balance Sheet Date, together with a review report thereon by the Group's independent auditors.

(c) The Borrower shall send to the Lender and the Trustee without undue delay, such additional information regarding the financial position or the business of the Borrower as the Lender (and, following the execution of the Loan and Surety Administration Assignments, the Trustee) may reasonably request including for the purposes of providing certification to the Trustee pursuant to the Trust Deed.

14.4 Ratio of Net Financial Indebtedness to EBITDA

The Borrower will not, and will not permit any of its Restricted Subsidiaries to, Incur, directly or indirectly, any Indebtedness, unless (i) no Potential Event of Default nor Event of Default shall have occurred at the time, or would occur as a consequence, of the Incurrence of such Indebtedness and (ii) on the date of such Incurrence (the "**Transaction Date**") and after giving effect on a pro forma basis to the Indebtedness then being Incurred, the amount of the Net Financial Indebtedness as of the Transaction Date does not exceed three times the EBITDA for the Relevant Period, in which case the Borrower and/or the Restricted Subsidiaries, may subject to Clause 14.13(b), Incur such Indebtedness.

14.5 Disposals

The Borrower shall not, and shall procure that none of its Restricted Subsidiaries shall, sell, lease, transfer or otherwise dispose of (each such action, a "**disposal**") by one or more transactions or series of transactions (whether related or not), the whole or any part of its revenues or its assets to any person, except where:

(a) such disposal is made to a person that is either the Borrower or another member of the Restricted Group, as the case may be; or

(b) (i) the consideration received by the Borrower or the relevant Restricted Subsidiary in relation to such disposal, as the case may be, is at least equal to the Fair Market Value of the assets subject to such disposal; and (ii) an amount equal to the proceeds of such disposal is, within 180 days of the date when such disposal proceeds are received, invested in assets of a nature or type that is used or usable in the ordinary course of the business of the Restricted Group, as at the Drawdown Date, or the disposed assets are exchanged for other assets comparable, or superior, as to type, value and quality; or

(c) such disposal is of obsolete or unserviceable vehicles, plant and equipment; or

(d) where the higher of the Fair Market Value or consideration receivable (when aggregated with the higher of the Fair Market Value or consideration receivable for any other sale, lease, transfer or other disposal, other than any permitted under Clauses 14.5(a) to 14.5(c) above) does not exceed U.S.$60,000,000 (or its U.S. dollar equivalent) in any Financial Year; or

(e) such disposal is of an asset comprising the Social Assets which is not of a nature or type that is used or usable in the ordinary course of the business of the Restricted Group, *provided that* the higher of the balance sheet value, Fair Market Value or consideration receivable (when aggregated with the higher of the balance sheet value, Fair Market Value or consideration receivable for any other sale, lease, transfer or other disposal of such Social Assets) does not exceed U.S.$60,000,000 (or its U.S. dollar equivalent) in any Financial Year; or

(f) such disposal is of any shares or ownership interest in any Unrestricted Subsidiary.

14.6 Maintenance of Legal Validity

Save as provided in the proviso to the next sentence, the Borrower shall obtain, comply with the terms of and do all that is necessary to maintain in full force and effect all authorisations, approvals, licences and consents and make or cause to be made all registrations, recordings and filings required in or by the laws and regulations of Ukraine to enable it lawfully to enter into and perform its obligations under this Agreement and to ensure the legality, validity, enforceability or admissibility in evidence in Ukraine of this Agreement. The Borrower shall promptly pay all amounts payable in respect of fees, expenses and payments under indemnities as required by this Agreement ("**Relevant Payments**"), *provided that*, in the event that the Borrower is prevented from paying such amounts by virtue of any requirement of applicable law, of the NBU or of any other relevant authority, the Borrower undertakes that it will use all reasonable efforts to promptly obtain and maintain in full force any necessary licences or other authorisation to enable it to make the Relevant Payments and shall, as soon as practicable thereafter, make all Relevant Payments under this Agreement.

14.7 Notification of Default

The Borrower shall promptly inform the Lender (and, following the Loan and Surety Administration Assignments, the Trustee) of the occurrence of any Event of Default or Potential Event of Default and, upon receipt of a written request to that effect from the Lender (or, following the Loan and Surety Administration Assignments, the Trustee), confirm to the Lender or, as the case may be, the Trustee that, save as previously notified to the Lender or as notified in such confirmation, no Event of Default or Potential Event of Default has occurred in the form of the Officers' Certificate set out in Schedule 1.

14.8 Claims Pari passu

The Borrower shall ensure that at all times the claims of the Lender against it under this Agreement rank at least *pari passu* with the claims of all other unsecured and unsubordinated creditors of the Borrower, save for those claims that are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application.

14.9 Transactions with Affiliates

The Borrower shall not, and shall ensure that none of its Restricted Subsidiaries, directly or indirectly, will, conduct any business, enter into or permit to exist any transaction or series of related transactions (including the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an "**Affiliate Transaction**") including intercompany loans unless the terms of such Affiliate Transaction are no less favourable to the Borrower or such Restricted Subsidiary, as the case may be, than those that could be obtained in a comparable arm's-length transaction with a Person that is not an Affiliate of the Borrower or any of its Restricted Subsidiaries.

This Clause 14.9 shall not apply to (i) any Affiliate Transaction made pursuant to a contract existing on the date of this Agreement (excluding any amendments or modifications thereof made after the date of this Agreement); (ii) transactions between or among all or any of the Borrower and/or any member of the Restricted Group or (iii) any Affiliate Transaction arising by operation of law or otherwise at the instruction of a competent or regulatory authority of Ukraine and which, in itself, or when combined with the effects of all other Affiliate Transactions undertaken pursuant to this Clause 14.9(iii), does not result in a Material Adverse Effect or a Negative Effect.

14.10 Payment of Taxes

The Borrower shall, and shall ensure that its Restricted Subsidiaries will, pay or discharge or cause to be paid or discharged, before the same shall become overdue all Taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of the Borrower and its Restricted Subsidiaries; *provided, however, that* none of the Borrower nor any Restricted Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such Tax, assessment or charge or claim (a) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS or other appropriate provision has been made; or (b) whose amount, together with any other unpaid or due and payable undischarged Taxes, assessments and governmental charges does not in the aggregate exceed U.S.$30,000,000 (or its U.S. dollar equivalent).

14.11 Withholding Tax Exemption

The Borrower shall give to the Lender all assistance it requires to ensure that, upon the Borrower's request and as early as practically possible in each calendar year, the Lender can provide the Borrower with the documents required under Ukrainian law for the relief of the Lender from Ukrainian withholding tax.

14.12 Limitation on Restrictions on Distributions from Restricted Subsidiaries

The Borrower shall not, and shall procure that its Restricted Subsidiaries shall not, create or otherwise cause or permit to exist or become effective any consensual encumbrance or consensual restriction on the ability of any such Restricted Subsidiary to pay dividends or make any other distributions on its share capital; make any loans or advances or pay any Indebtedness owed to the Borrower or its Restricted Subsidiaries, as the case may be; or transfer any of its property or assets to the Borrower or any Restricted Subsidiary, as the case may be, other than encumbrances or restrictions existing under (i) applicable law; (ii) the Notes and/or the Trust Deed and (iii) any other agreement in effect prior to the date of this Agreement and advised in writing to the Lender (or, following the execution of the Loan and Surety Administration Assignments, the Trustee).

14.13 Sureties

(a) In the event that a Restricted Subsidiary of the Borrower that is not a Surety becomes a Material Subsidiary, the Borrower will, within 90 days of the date of the relevant determination, cause such Material Subsidiary to become a Surety and enter into a Surety Agreement and deliver to the Trustee and the Lender (who will enter into such Surety Agreement upon written request and at the expense of the Borrower) such Surety Agreement and such other documents as may be required by the Trustee and the Lender, including an opinion of counsel in a form and substance satisfactory to the Trustee, to the effect that the Surety Agreement constitutes legal, valid, binding and enforceable obligations of such Surety. The Borrower will promptly give notice in writing to the Lender and the Trustee of any Restricted Subsidiary that is to become a Surety. For the avoidance of doubt and notwithstanding due receipt of the Financial Statements pursuant to Clause 14.3, the Trustee shall not be obliged to monitor or enquire whether additional Sureties are or may be required under the terms of this Agreement, and shall bear no liability to any person in respect thereof.

(b) The Borrower will not permit any Restricted Subsidiary which is not at the relevant time a Surety, directly or indirectly, to Incur any Indebtedness or guarantee any Indebtedness which Indebtedness so Incurred, when aggregated with any other Indebtedness of each of the non-Material Subsidiaries of the Borrower would exceed 10 per cent. of the total Indebtedness of the Restricted Group at such time.

(c) The Borrower may from time to time appoint any Subsidiary or any other Person as a Surety, subject to satisfaction of the conditions set out in Clause 14.13(a).

(d) The Borrower shall ensure that if, on any Balance Sheet Date, the Net Assets or the consolidated or combined total revenues of the Borrowers and the Sureties at such time, taken together, shall account for less than 85 per cent. of the Net Assets or the consolidated or combined total revenues of the Restricted Group as a whole (and, for these purposes the Net Assets and the total revenues of the Group shall be determined by reference to the then latest annual audited or, as the case may be, semi-annual reviewed consolidated or combined Financial Statements of the Group, in each case prepared in accordance with IFRS, but shall exclude any assets or revenues of any Unrestricted Subsidiary), then, within the 30 days following the earlier of (i) the publication of such Financial Statements or (ii) delivery of the relevant Financial Statements pursuant to Clause 14.3, the Borrower shall cause such of its Restricted Subsidiaries to become Additional Sureties as shall be necessary to ensure that, immediately thereafter, each of the Net Assets or the consolidated or combined total revenues of the Borrower and the Sureties, taken together, shall account for at least 85 per cent. of the Net Assets or the consolidated and combined total revenues, respectively, of the Restricted Group as a whole. Such Restricted Subsidiaries shall not be deemed to have become Additional Sureties and the Borrower shall not have complied with its obligations under this clause until the conditions set out in Clause 14.13(a) shall have been satisfied with respect to such appointment.

14.14 Anti-Corruption and Sanctions

Neither the Borrower nor any of its Subsidiaries will, directly or indirectly, use the proceeds of the offering, or lend, contribute or otherwise make available such proceeds to any Subsidiary, joint venture partner or other Person:

(i) to fund or facilitate any activities or business of or with any Person or in any country or territory that, at the time of such funding or facilitation, is the subject of Sanctions; or

(ii) in any other manner that will result in a violation of Sanctions by any Person (including any Person participating in the offering, whether as lender, advisor, investor or otherwise).

The Borrower will not directly or indirectly use the proceeds of the Loan or lend, contribute or otherwise make available all or part of such proceeds to any Subsidiary, member of the Group, joint venture partner or other Person or entity for the purpose of financing or facilitating any activity of any person currently subject to any Sanctions or operating in any country or territory that is the subject of Sanctions where such operations are in violation of such Sanctions or in any other manner that would result in a violation by any Person of Sanctions or any applicable anti-corruption laws and regulations.

14.15 Officers' Certificate

At the same time as delivering the annual Financial Statements pursuant to sub-Clause 14.3(a)(i) and also within 10 days of any request by the Lender or the Trustee, the Borrower shall deliver to the Lender (and, following the execution of the Loan and Surety Administration Assignments, the Trustee), written notice in the form of an Officers' Certificate stating (i) whether any Event of Default or Potential Event of Default or Change of Control has occurred and, if it has occurred and shall be continuing, what action the Borrower is taking or proposes to take with respect thereto and (ii) whether any Restricted Subsidiaries have become Material Subsidiaries which will accede as Sureties in accordance with the terms of this Agreement and what action the Borrower is taking or proposes to take in respect thereof. Neither the Lender nor the Trustee shall be under any obligation to verify the authenticity of any Officers' Certificate or any other certificate received by it or be responsible for determining the existence of any Potential Event of Default or any Event of Default or Change of Control or whether any Restricted Subsidiaries have become Material Subsidiaries. The Lender and the Trustee shall each be at liberty to accept any aforementioned Officers' Certificate as sufficient evidence of any fact or matter stated in any such Officers' Certificate and neither the Lender nor the Trustee shall be bound to call for further evidence or be responsible for any loss that may be occasioned by acting on, such Officers' Certificate or selection or failure to determine the existence of any Event of Default or Potential Event of Default or Change of Control.

15. EVENTS OF DEFAULT

Each of Clause 15.1 (*Failure to Pay*) to Clause 15.12 (*Analogous Events*) describes circumstances which constitute an Event of Default for the purposes of this Agreement. If one or more Event of Default shall occur, the Lender (and, following the Loan and Surety Administration Assignments, the Trustee without regard to the Lender) shall be entitled to the remedies set forth in Clause 15.13 (*Acceleration*).

15.1 Failure to Pay

The Borrower or any Surety fails to pay any amount of interest, principal or any other amount due from it under this Agreement or any Surety Agreement at the time, in the currency and in the manner specified herein or therein, and such failure is not remedied within five Business Days (in the case of interest or any other amount due) or five Business Days (in the case of principal) of the due date for payment *provided that* no such grace period shall apply to a failure to pay under Clause 7.5 (*Notice of Prepayment/Repayment*).

15.2 Obligations

The Borrower or any Surety defaults in the performance of any of its other obligations under this Agreement or any Surety Agreement and such default (where such is capable of remedy) is not remedied within thirty days after the Lender (and, following the Loan and Surety Administration Assignments, the Trustee) has given notice of it to the Borrower or the relevant Surety as the case may be, requiring the same to be remedied.

15.3 Cross Acceleration and Cross Default

(i) Any Indebtedness of the Borrower, any of its Principal Subsidiaries or any Surety becomes due and payable prior to the stated maturity thereof (other than at the option of the debtor) following a default of the Borrower, any of its Principal Subsidiaries or any Surety, or the Borrower, any of its Principal Subsidiaries or any Surety shall fail to make any payment when due or within the originally applicable grace period in respect of any Indebtedness of the Borrower, any of its Principal Subsidiaries or any Surety *provided that* (i) the aggregate amount of the relevant Indebtedness in respect of which one or more of the events mentioned in this Clause 15.3 shall have occurred equals or exceeds U.S.$40,000,000 (or its U.S. dollar equivalent); and/or (ii) the individual amount of the relevant Indebtedness in respect of which one or more of the events mentioned in this Clause 15.3 shall have occurred equals or exceeds U.S.$20,000,000 (or its U.S. dollar equivalent).

(ii) No Event of Default under Clause (i) above will occur during the Debt Restructuring Period as a result of a Local Indebtedness Restructuring Default *provided that* an Event of Default under Clause (i) above will occur if any Designated Local Indebtedness becomes due and payable prior to the stated maturity thereof.

15.4 Validity and Illegality

(i) The validity of this Agreement or any Surety Agreement is contested by the Borrower or any Surety, or the Borrower or any Surety shall deny any of their respective obligations under this Agreement or any Surety Agreement, as the case may be; or

(ii) it is, or will become, unlawful for the Borrower or a Surety to perform or comply with any of their respective obligations under or in respect of this Agreement or the Surety Agreement, as the case may be; or

(iii) any of such obligations shall become unenforceable or cease to be legal, valid and binding in a manner which has a Material Adverse Effect on the rights or claims of the Lender under this Agreement or the Surety Agreement.

15.5 Authorisations

Any regulation, decree, consent, approval, licence or other authority necessary to enable the Borrower to enter into or perform its obligations under this Agreement or for the validity or enforceability thereof shall expire or be withheld, revoked or terminated or otherwise cease to remain in full force and effect or shall be modified in a manner which adversely affects any rights or claims of the Lender under this Agreement.

15.6 Insolvency, etc.

(i) The Borrower or any of its Principal Subsidiaries or any Surety becomes insolvent or is unable to pay its debts as they fall due; (ii) an administrator or liquidator of the Borrower or any of its Principal Subsidiaries or any Surety or the whole or a substantial part of the undertaking and assets of the Borrower or any of its Principal Subsidiaries or any Surety is appointed (or application for any such appointment is made), or the Borrower or any of its Principal Subsidiaries or any Surety becomes subject to pre-trial rehabilitation proceedings; (iii) the Borrower or any of its Principal Subsidiaries or any Surety makes a general assignment of a general arrangement or general composition with or for the benefit of its creditors or it or a court declares a moratorium in respect of any of the Indebtedness; or (iv) the Borrower or any of its Principal Subsidiaries or any Surety ceases or threatens to cease to carry on all or any substantial part of the principal business that it carried on as at the date hereof.

15.7 Winding up, etc.

An order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Borrower or any of its Principal Subsidiaries or any Surety (otherwise than, in the case of a Principal Subsidiary of the Borrower or any Surety, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent).

15.8 Enforcement proceedings

A distress, attachment, execution or other legal process is levied, enforced or sued out on or against all or any material part of the property, assets or revenues of the Borrower, any Surety or any Restricted Subsidiary where the aggregate value of such property, assets or revenues subject to such distress, attachment, execution or other legal process exceeds U.S.$10,000,000 and is not discharged or stayed within 90 days.

15.9 Security enforced

Any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by any member of the Restricted Group over all or any material part of the property, assets or revenues of any member of the Group, as the case may be, becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person) where the aggregate value of such property, assets or revenues subject to such mortgage, charge, pledge, lien or other encumbrance exceeds U.S.$20,000,000 and is not discharged within 60 days.

15.10 Government Intervention

(i) All or a substantial part of the undertaking and/or assets of any member of the Restricted Group is condemned, seized or otherwise appropriated by any person acting under the authority of any Agency, national, regional or local government; or (ii) any member of the Restricted Group is prevented by any such person from exercising normal control over all or a substantial part of its undertaking and assets.

15.11 Judgments

The aggregate amount of unsatisfied judgments, decrees or orders of courts or other appropriate law enforcement bodies for the payment of money against any member of the Restricted Group exceeds U.S.$10,000,000 or the U.S. dollar equivalent thereof and there is a period of 60 days (or, if longer, the period therein specified for payment or on which such judgment, decree or order otherwise becomes enforceable) following the entry thereof during which all such judgments, decrees or orders are not discharged, waived or the execution thereof stayed and such default continues for ten days.

15.12 Analogous Events

Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in Clauses 15.6 (*Insolvency, etc.*) to 15.10 (*Government Intervention*).

15.13 Acceleration

If an Event of Default has occurred and is continuing, the Lender (and, following the Loan and Surety Administration Assignments, the Trustee and not the Lender) may by written notice to the Borrower declare the outstanding principal amount of the Loan to be immediately due and payable (whereupon the same shall become immediately due and payable together with accrued interest thereon and any other sums then owed by the Borrower hereunder) or declare the outstanding principal amount of the Loan to be due and payable on demand of the Lender (and, following the Loan and Surety Administration Assignments, the Trustee and not the Lender).

15.14 Amounts Due on Demand

If, pursuant to Clause 15.13 (*Acceleration*), the Lender (and, following the Loan and Surety Administration Assignments, the Trustee and not the Lender) declares the outstanding principal amount of the Loan to be due and payable on demand of the Lender (and, following the Loan and Surety Administration Assignments, the Trustee and not the Lender), then, and at any time thereafter, the Lender (and, following the Loan and Surety Administration Assignments, the Trustee and not the Lender) may by written notice to the Borrower require repayment of the outstanding principal amount of the Loan on such date as it may specify in such notice (whereupon the same shall become due and payable on such date together with accrued interest thereon and any other sums then owed by the Borrower hereunder) or withdraw its declaration with effect from such date as it may specify in such notice.

16. ACCRUAL OF INTEREST AND INDEMNITY

16.1 Borrower's Indemnity

The Borrower undertakes to the Lender that if the Lender, any of its Affiliates, or any director, officer, employee or agent of the Lender or any such Affiliate or the Trustee (each an "**indemnified party**") incurs any loss, liability, cost, claim, charge, expense (including without limitation, (i) any amount payable by the Lender under the Trust Deed and/or Agency Agreement, where such amount is subject to receipt by the Lender of the relevant amount from the Borrower; (ii) Taxes (including for the avoidance of doubt and without limitation, any applicable stamp duties, stamp duty reserve tax or other duties payable), legal fees and expenses and demands or damages together with in each case any VAT thereon (in accordance with Clause 19.4 *(VAT)*); and (iii) interest on late payment (where the Lender is required to pay interest as a result of a payment being made by the Lender after the due date for payment), and in respect of such loss an indemnified party shall exercise reasonable endeavours to provide any relevant documentation to the Borrower) (a "**Loss**") as a result of or in connection with any Event of Default or Potential Event of Default, the Loan, this Agreement (or enforcement thereof), or the issue, constitution, sale, listing or enforcement of the Notes or the Notes being outstanding or any combination of any of the foregoing or (in the case of interest on late payment) as a result of any sum due and payable by the Borrower hereunder (other than any amount of interest) not being paid on the due date therefor in accordance with the provisions of Clause 18 (*Payments*), the Borrower shall pay to the Lender, the Affiliate or the Trustee on demand an amount equal to such Loss and all properly incurred costs, charges and expenses which it or any indemnified party may pay or incur in connection with investigating, disputing or defending any such action or claim as such costs, charges and expenses are incurred, unless such loss was caused by such indemnified party's fraud, gross negligence, wilful default or wilful misconduct or, in the case of the Lender or its Affiliates being indemnified parties, arises out of a breach of the representations and warranties of the Lender under this Agreement. Except as expressly provided in the Trust Deed, the Lender shall not have any duty or obligation, whether as fiduciary or trustee, for any indemnified party or otherwise, to recover any such payment or to account to any other person for any amounts paid to it under this Clause 16.1.

16.2 Independent Obligation

Clause 16.1 (*Borrower's Indemnity*) constitutes a separate and independent obligation of the Borrower from its other obligations under or in connection with this Agreement or any other obligations of the Borrower in connection with the issue of the Notes by the Lender and shall not affect, or be construed to affect, any other provisions of this Agreement or any such other obligations.

16.3 Evidence of Loss

Subject as provided in Clause 18.3 (*Documents Evidencing Payment or Indemnification*), a certificate of the Lender (or the Trustee, as the case may be) setting forth the amount of the Loss, costs, charges and expenses described in Clause 16.1 (*Borrower's Indemnity*) and specifying the basis therefor and calculations thereof shall be conclusive evidence of the amount of such Loss, cost, charges and expenses.

16.4 Survival

The obligations of the Borrower pursuant to Clauses 8.1 (*Additional Amounts*), 16.1 (*Borrower's Indemnity*) and 18 (*Payments*) shall survive the execution and delivery of this Agreement, the drawdown of the Loan and the repayment of the Loan, in each case by the Borrower.

17. CURRENCY OF ACCOUNT AND PAYMENT

17.1 Currency of Account

The U.S. dollar is the currency of account and payment for each and every sum at any time due from the Borrower hereunder.

17.2 Currency Indemnity

If any sum due from the Borrower under this Agreement or any order or judgment given or made in relation hereto has to be converted from the currency (the "**first currency**") in which the same is payable hereunder or under such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Borrower; (b) obtaining an order or judgment in any court or other tribunal; or (c) enforcing any order or judgment given or made in relation hereto, the Borrower shall indemnify and hold harmless the Lender (and, following the execution of the Loan and Surety Administration Assignments, the Trustee) from and against any loss suffered or incurred as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency; and (ii) the rate or rates of exchange at which the Lender (and, following the execution of the Loan and Surety Administration Assignments, the Trustee) may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

18. PAYMENTS

18.1 Payments to the Lender

On each date on which this Agreement requires an amount denominated in U.S. dollars to be paid by the Borrower, the Borrower shall make the same available to the Lender by payment in U.S. dollars and in Same-Day Funds (or in such other funds as may for the time being be customary in London for the settlement in London of international banking transactions in U.S. dollars) not later than 10.00 a.m. (New York City time) on (i) the First Interest Payment Date (in the case of interest due on the First Interest Payment Date), (ii) two Business Days prior to the relevant Interest Payment Date (in the case of any interest payments other than the payment of interest due on the First Interest Payment Date), (iii) each Repayment Date or (iv) such other date as may be specified in relation to any other payment in each case to the Account, other than amounts (i) payable under the Fees Letter; and (ii) payable in relation to Clause 16.1 (*Borrower's Indemnity*) which the Borrower shall pay to such account or accounts as the Lender and/or the Trustee shall notify to the Borrower from time to time; *provided that*, if at any time after the execution of the Loan and Surety Administration Assignments, the Trustee notifies the Borrower that a Relevant Event has occurred, the Borrower shall make all subsequent payments which would otherwise be made to the Account, to such other account as shall be notified by the Trustee to the Borrower. Without prejudice to its obligations under Clause 6.1 (*Payment of Interest*), the Borrower shall procure that, before 10.00 a.m. (New York City time) on the Banking Day before the due date of each payment made by it under this Clause 18.1, the bank effecting payment on its behalf confirms to the Lender or to such person as the Lender may direct by tested telex or authenticated SWIFT message the payment instructions relating to such payment. For these purposes, "**Banking Day**" means a day on which banks are open for general business in New York City and London.

18.2 No Set-off

All payments required to be made by the Borrower or the Lender hereunder shall be calculated without reference to any set-off or counterclaim and shall be made free and clear of and without any deduction for or on account of any set-off or counterclaim.

18.3 Documents Evidencing Payment or Indemnification

When a demand for payment or indemnification is made on the Borrower under Clause 7.6 (*Costs of Prepayment/Repayment*), Clause 16 (*Accrual of Interest and Indemnity*), Clause 17.2 (*Currency Indemnity*) or Clause 19 (*Costs and Expenses*), then, upon request by the Borrower, and to the extent necessary under Ukrainian legislation to enable the Borrower to make any such payment or indemnification, the Lender or the Trustee, as the case may be, shall (to the extent practicable) provide the Borrower with documents evidencing the amount to be paid or indemnified, together with a statement containing the calculation of such amount *provided that* nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its or any other Person's affairs.

19. COSTS AND EXPENSES

19.1 Transaction Expenses and Fees

The Borrower agrees that it shall pay (i) the upfront fees and expenses of the Lender and (ii) the ongoing fees and expenses of the Lender as specified in the Fees Letter.

19.2 Preservation and Enforcement of Rights

The Borrower shall, from time to time on written demand of the Lender reimburse the Lender (and following the execution of the Loan and Surety Administration Assignments, the Trustee) for all properly documented costs and expenses (including legal fees and expenses) together with any VAT thereon (in accordance with Clause 19.4 (*VAT*)) properly incurred in or in connection with the preservation and/or enforcement of any of the Lender's or as the case may be the Trustee's rights under this Agreement (except where the relevant claim is successfully defended by the Borrower).

19.3 Stamp Taxes

The Borrower shall pay all stamp, registration and other similar duties or taxes (including any interest or penalties thereon or in connection with) to which this Agreement or any judgment given against the Borrower in connection herewith is or at any time may be subject and shall, from time to time on written demand of the Lender or the Trustee, indemnify the Lender and, as the case may be, the Trustee against any properly documented liabilities, losses, costs, expenses (including, without limitation, properly incurred legal fees and any applicable VAT (in accordance with Clause 19.4 (*VAT*))) and claims, actions or demand resulting from any failure to pay or any delay in paying any such duty or tax.

19.4 VAT

(a) All amounts expressed to be payable under this Agreement by the Borrower which (in whole or in part) constitute the consideration for any supply for VAT purposes are deemed to be exclusive of any VAT which is chargeable on that supply, and accordingly, if VAT is or becomes chargeable on any supply made by a person to the Borrower under this Agreement and such person is required to account to the relevant tax authority for the VAT, the Borrower must pay to such person (in addition to and at the same time as paying any other consideration for such supply) an amount equal to the amount of the VAT.

(b) Where this Agreement requires the Borrower to reimburse or indemnify a person for any loss, liability, cost, claim, charge or expense, the Borrower shall reimburse or indemnify (as the case may be) such person for the full amount of such loss, liability, cost, claim, charge or expense, including such part thereof as represents VAT, save to the extent that such person reasonably determines that it is entitled to credit or repayment in respect of such VAT from the relevant tax authority.

(c) Any reference in this Clause 19.4 to any party to this Agreement shall, at any time when such party is treated as a member of a group or unity (or fiscal unity) for VAT purposes, include (where appropriate and unless the context otherwise requires) a reference to the person who is treated at that time as making the supply, or (as appropriate) receiving the supply, under the grouping rules (provided for in Article 11 of Council Directive 2006/112/EC (or as implemented by the relevant member state of the European Union) or any other similar provision in any jurisdiction which is not a member state of the European Union) so that a reference to a party shall be construed as a reference to that party or the relevant group or unity (or fiscal unity) of which that party is a member for VAT purposes at the relevant time or the relevant representative member (or head) of that group or unity (or fiscal unity) at the relevant time (as the case may be).

(d) In relation to any supply made by a person to the Borrower under this Agreement, if reasonably requested by such person, the Borrower must promptly provide the person with details of the Borrower's VAT registration and such other information as is reasonably requested in connection with such person's VAT reporting requirements in relation to such supply.

19.5 Costs relating to Amendments and Waivers

The Borrower shall, from time to time on written demand of the Lender (and, as the case may be, the Trustee) (and without prejudice to the provisions of Clause 16.1 (*Borrower's Indemnity*) and Clause 19.2 (*Preservation and Enforcement of Rights*)) compensate the Lender (and, as the case may be, the Trustee) at such daily and/or hourly rates as the Lender (or, as the case may be, the Trustee) shall from time to time reasonably determine for all amounts payable by the Lender to the Trustee or the corporate services provider for the Lender for their time expended and for all properly documented costs and expenses (including telephone, fax, copying, travel and personnel costs and legal costs) the Lender (or, as the case may be, the Trustee) may properly incur, in connection with the Lender (and, as the case may be, the Trustee) taking such action as it may consider appropriate in connection with:

(a) any meeting of the holders of the Notes or the granting or proposed granting of any waiver or consent requested under this Agreement by the Borrower;

(b) any actual, potential or suspected breach by the Borrower of any of its obligations under this Agreement;

(c) the occurrence of any event which is an Event of Default or a Potential Event of Default; or

(d) any amendment or proposed amendment to or the granting or proposed granting of any waiver, determination or consent under this Agreement or any Funding Document requested by the Borrower.

20. ASSIGNMENTS AND TRANSFERS

20.1 Binding Agreement

This Agreement shall be binding upon and enure to the benefit of each party hereto and its or any subsequent successors and assigns.

20.2 No Assignments and Transfers by the Borrower

The Borrower shall not be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder.

20.3 Assignments by the Lender

Subject to the provisions of Clause 4 of the Trust Deed, the Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement except for (i) the charge by way of first fixed charge granted by the Lender in favour of the Trustee; (ii) the absolute assignment by way of security by the Lender to the Trustee of certain rights, interests and benefits under this Agreement, in each case, pursuant to Clause 4 of the Trust Deed; and (iii) pursuant to a substitution under the Trust Deed.

21. CALCULATIONS AND EVIDENCE OF DEBT

21.1 Evidence of Debt

The Lender shall maintain in accordance with its usual practice, accounts evidencing the amounts from time to time lent by and owing to it hereunder; in any legal action or proceeding arising out of or in connection with this Agreement, in the absence of manifest error and subject to the provision by the Lender to the Borrower of written information describing in reasonable detail the calculation or computation of such amounts together with the relevant supporting documents evidencing the matters described therein, the entries made in such accounts shall be conclusive evidence of the existence and amounts of the obligations of the Borrower therein recorded.

21.2 Change of Circumstance Certificates

A certificate signed by two Authorised Signatories of the Lender describing in reasonable detail (a) the amount by which a sum payable to it hereunder is to be increased under Clause 8.1 (*Additional Amounts*); or (b) the amount for the time being required to indemnify it against any such cost, payment or liability as is mentioned in Clause 8.3 (*Tax Indemnity*) or Clause 10.1 (*Increased Costs*) or Clause 16.1 (*Borrower's Indemnity*) shall, in the absence of manifest error, be conclusive evidence of the existence and amounts of the specified obligations of the Borrower in relation to the Lender.

22. REMEDIES AND WAIVERS, PARTIAL INVALIDITY

22.1 Remedies and Waivers

No failure by the Lender (and, following the execution of the Loan and Surety Administration Assignments, the Trustee) to exercise, nor any delay by the Lender or the Trustee in exercising, any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise thereof or the exercise of any other right or remedy. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law.

22.2 Partial Invalidity

If, at any time, any provision hereof is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

23. NOTICES; LANGUAGE

23.1 Written Notice

All notices, requests, demands or other communication to be made under this Agreement shall be in writing and, unless otherwise stated, shall be delivered by fax or post.

23.2 Giving of Notice

Any communication or document to be delivered by one person to another pursuant to this Agreement shall (unless that other person has by 15 days' written notice specified another address) be made or delivered to that other person, addressed as follows:

(a) **If to the Borrower:**

Public Joint Stock Company "Ukrainian Railway"
5 Tverska Street, Kyiv, 03680 Ukraine

Tel:	+38 044 465 00 27
Fax:	+38 044 465 02 49
Attention:	Mr. Yevgen Kravtsov, Member of the Management Board

(b) **If to the Lender:**

Shortline plc
5th Floor, 6 St. Andrew Street
London EC4A 3AE
United Kingdom

Tel:	+44(0) 207 832 4900
Fax:	+44(0) 207 832 4901
Attention:	The Directors

(c) **If to the Trustee:**

BNY Mellon Corporate Trustee Services Limited
One Canada Square
London E14 5AL
United Kingdom

Fax:	+44 207 964 2509
Attention:	Trustee Administration

and shall be deemed to have been delivered at the time when confirmation of its transmission has been recorded by the sender's fax machine at the end of the communication (in the case of any communication by fax) or (in the case of any communication made by letter) upon receipt by the addressee (in each case, if given during normal business hours of the recipient, and, if not given during such hours, on the immediately succeeding business day in the city of the addressee during which such normal business hours next occur).

23.3 English Language

Each communication and document delivered by one party to another pursuant to this Agreement shall be in the English language or accompanied by a translation into English certified (by an officer of the person delivering the same) as being a true and accurate translation. In the event of any discrepancies between the English and Ukrainian versions of such communication or document, or any dispute regarding the interpretation of any provision in the English or Ukrainian versions of such communication or document, the English version of such communication or document shall prevail, unless the document is a statutory or other official document.

23.4 Language of Agreement

This Agreement has been executed in both the English language and the Ukrainian language. In the event of any discrepancies between the English and Ukrainian versions of this Agreement, or any dispute regarding the interpretation of any provision in the English or Ukrainian versions of this Agreement, the English version of this Agreement shall prevail and any question of interpretation shall be addressed solely in the English language.

23.5 Limited Recourse and Non Petition

The Borrower hereby agrees that, notwithstanding any other provisions hereof, it shall have recourse in respect of any claim against the Lender only to sums in respect of principal, interest or other amounts (if any), as the case may be, received by or for the account of the Lender pursuant to this Agreement and/or any Surety Agreement (after deduction or withholding of such taxes as may be required to be made by the Lender by law in respect of each such sum or in respect of the Notes and for which the Lender has not received a corresponding payment (also after deduction or withholding of such taxes or duties as may be required to be made by the Lender) in respect thereof pursuant to this Agreement and/or any Surety Agreement) (the "**Lender Assets**"), subject always to the Security Interests (as defined in the Trust Deed).

Neither the Borrower nor any person acting on behalf of it shall be entitled to take any further steps against the Lender to recover any further sums and no debt shall be owed by the Lender to the Borrower in respect of any such further sum. In particular, neither the Borrower nor any other person acting on behalf of it shall be entitled at any time to institute against the Lender, or join in any institution against the Lender of any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Lender relating to the Loan or otherwise owed to the creditors, save for lodging a claim in the liquidation of the Lender which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Lender.

No party to this Agreement shall have any recourse against any director, shareholder, or officer of the Lender in respect of any obligations, covenants or agreement entered into or made by the Lender in respect of this Agreement, except to the extent that any such person acts fraudulently, in bad faith or is negligent or is wilfully in default in the context of its obligations.

24. LAW AND ARBITRATION

24.1 Governing Law

This Agreement and any non-contractual obligations arising out of or in connection with it shall be governed by, and construed in accordance with, English law.

24.2 Arbitration

The parties irrevocably agree that any dispute arising out of or connected with this Agreement, including a dispute as to the validity, existence or termination of this Agreement or the consequences of its nullity and/or this Clause 24.2 (a "**Dispute**"), shall be resolved, by arbitration in London, England, conducted in the English language by three arbitrators, in accordance with the LCIA Rules, which rules are deemed to be incorporated by reference into this Clause, save that Article 6 shall not apply and Article 5.6 of the LCIA Rules shall be amended as follows: "unless the parties agree otherwise, the third arbitrator, who shall act as chairman of the tribunal, shall be nominated by the two arbitrators nominated by or on behalf of the parties. If he is not so nominated within 30 days of the date of nomination of the later of the two party-nominated arbitrators to be nominated, he shall be chosen by the LCIA". The parties agree to exclude the jurisdiction of the English courts under section 45 of the Arbitration Act 1996.

24.3 Service of Process

The Borrower agrees that the service of process relating to any proceedings commenced in the English courts in support of, or in connection with, an arbitration commenced in accordance with Clause 24.2 may be made by delivery to St James's Corporate Services Limited at Suite 31, Second Floor, 107 Cheapside, London EC2V 6DN. If such person is not or ceases to be effectively appointed to accept service of process, the Borrower shall immediately appoint a further person in the United Kingdom to accept service of process on its behalf and, failing such appointment within 15 days, the Lender (and, following the execution of the Loan and Surety Administration Assignments, the Trustee) shall be entitled to appoint such a person by written notice to the Borrower. Nothing in this Clause 24.3 shall affect the right of the Lender (and, following the execution of the Loan and Surety Administration Assignments, the Trustee) to serve process in any other manner permitted by law.

25. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

Other than the Trustee, a person who is not a party to this Agreement has no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement, but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

26. UKRAINIAN REGULATORY REQUIREMENTS

26.1 Effectiveness Requirement

(a) Each of the Original Loan Agreements became effective on the respective date of its registration with the NBU, which was evidenced by the loan registration notice of the respective Original Borrower, the registration notation and the stamp of the NBU.

(b) This Agreement (as amended and restated pursuant to the Amendment and Restatement Deed) shall become effective on the Effective Date.

26.2 Maximum Interest Rate

Notwithstanding any other provisions hereof to the contrary, if and to the extent required by the mandatory provisions of the regulations of Ukraine governing the registration of loan agreements between Ukrainian borrowers and foreign lenders (and only until such requirement is in effect), the amount of payments for the use of the Loan (calculated by reference to the Interest Rate set out herein, including in case of a floating interest rate, taking into account commissions, default interest and other payments pursuant to this Agreement, including those which are sanctions for improper performance of this Agreement) shall not at any time exceed the amount of payments calculated by reference to the maximum interest rate which is indicated as at the time of registration of this Agreement with the NBU. For the avoidance of doubt, any application of this requirement shall not limit the rights of the Lender (and/or the Trustee, as relevant) under Clause 15.1 (*Failure to Pay*) or Clause 15.13 (*Acceleration*) of this Agreement.

26.3 Assignments, Amendments and Supplements

If and to the extent required by the mandatory provisions of the regulations of the NBU governing the registration of loan agreements between Ukrainian borrowers and foreign lenders (and only until such requirement is in effect) and applicable at the time of making any assignment, amendment or supplement to this Agreement, such assignment, amendment or supplement shall become effective only upon registration thereof with the NBU.

26.4 Waiver of Immunity

The Borrower hereby irrevocably waives any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and irrevocably consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order, award or judgment made or given in connection with any Dispute**.**

Schedule 1

Form of Officers' Certificate

[On the letterhead of the Borrower]

To: Shortline plc

For the attention of: The Directors

[To/cc]: BNY Mellon Corporate Trustee Services Limited

For the attention of: Trustee Administration

[Date]

Dear Sirs:

Re: U.S.$[●] Loan Agreement, dated [●] 2016 (the "Loan Agreement"), between Public Joint Stock Company "Ukrainian Railway" (the "Borrower") and Shortline plc (the "Lender")

1. We refer to Clause [7.2 (*Prepayment for Tax Reasons and Change in Circumstances*)/ 7.3 (*Prepayment upon Illegality*)/ 7.4 (*Prepayment in the event of a Change of Control*)/ Clause 13 (*Information*) /Clause 14.2 (*Merger*) / Clause 14.13 (*Sureties*)/ Clause 14.15 (*Officers' Certificate*)][1] of the Loan Agreement.

2. Capitalised terms used, but not defined herein, have the meanings ascribed to them in the Loan Agreement.

3. We confirm that [up and including the date hereof no Event of Default or Potential Event of Default has occurred and is continuing/*specify any Potential Event of Default or Event of Default which has occurred and is continuing, and if so, what action the Borrower is taking or proposes to take with respect thereto/specify circumstance giving rise to right to prepayment/ a Change of Control has occurred and that the Change of Control Payment Date will be on [●] / specify information to be provided under Clause 13 (Information)]*.[1]

4. We confirm that [up to and including the date hereof no Restricted Subsidiaries have become Material Subsidiaries /Principal Subsidiaries/ specify any Restricted Subsidiaries which have become Material Subsidiaries and what action the Borrower is taking or proposes to take with respect thereto.]

[1]Delete and/or complete as applicable.

Yours faithfully,

For and on behalf of
Public Joint Stock Company "Ukrainian Railway"

By: Authorised Signatory

By: Authorised Signatory

Schedule 2

Form of Surety Agreement

This Surety Agreement is executed as a deed on [●] 2016 by:

(1) **Public Joint Stock Company "Ukrainian Railway"**, a company registered under the laws of Ukraine with identification code 40075815, whose registered office is at 5 Tverska Street, Kyiv, 03680 Ukraine (the "**Borrower**");

(2) **[●]** (together with any entity which accedes to this Surety Agreement pursuant to a Deed of Accession or any amendment or supplement hereto and any entity which has assumed the obligations of any of the Sureties pursuant to this Agreement or a Loan Agreement from time to time, the "**Sureties**", and each of them, a "**Surety**"); and

(3) **Shortline plc**, incorporated under the laws of England, whose registered office is at 5th Floor, 6 St. Andrew Street, London EC4A 3AE, United Kingdom, as lender (the "**Lender**" or the "**Issuer**").

Whereas

(A) The Issuer has authorised the issue of U.S.$500,000,000 9.875 per cent. Amortising Loan Participation Notes due 2021 (the "**Notes**") for the sole purpose of financing a loan (the "**Loan**") in aggregate amount equal to the issue amount of the Notes to be made to the Borrower by the Lender pursuant to the amended and restated loan agreement dated 19 February 2016 (the "**Loan Agreement**") between the Issuer, on the one hand, and the Borrower, on the other hand.

(B) Each of the Sureties, by a resolution of its duly authorised governing body, has approved (or will have approved at the time it becomes Surety under the terms hereof) the issuance of a surety to the Lender to unconditionally and irrevocably guarantee to the Lender on a joint and several basis the performance of all payment and other obligations of the Borrower under the Loan (the "**Suretyships**").

Now this Surety Agreement Witnesses as follows:

1. INTRODUCTION

1.1 In this Surety Agreement the words and expressions set out below bear the following meanings:

"**Amendment and Restatement Deed**" means the amendment and restatement deed which amends and restates the Original Loan Agreement (as defined therein) to be dated on or about 19 February 2016 between the Borrower and the Issuer;

"**Condition**" means the relevant condition in the terms and conditions of the Notes;

"**Losses**" means any and all properly documented claims, losses, liabilities, damages, costs and expenses (including reasonably incurred legal fees and expenses) sustained by a party hereto;

"**Surety Agreement**" means this Surety Agreement (as from time to time amended in accordance with the terms hereof) and includes any instrument which is executed in accordance with the provisions hereof (as from time to time amended as aforesaid) and expressed to be supplemental hereto;

"**Trust Deed**" means the trust deed relating to the Notes to be dated on or about the date of issuance of the Notes between the Issuer and the Trustee as amended from time to time; and

"**Trustee**" means BNY Mellon Corporate Trustee Services Limited, as trustee under the Trust Deed and any successor thereto as provided thereunder.

1.2 Terms defined in the Loan Agreement, the Trust Deed or the Conditions shall, unless the context requires otherwise, have the same meanings when used herein.

1.3 Unless the context requires otherwise, terms importing the singular number only shall include the plural and vice versa and terms importing persons shall include firms and corporations and terms importing one gender only shall include the other gender.

1.4 References in this Surety Agreement to Clauses shall be construed as references to the Clauses of this Surety Agreement and any reference to a sub-clause shall be construed as a reference to the relevant sub-clause of the Clause in which such reference appears.

1.5 References in this Surety Agreement to any statute or a provision of any statute shall be deemed to include a reference to any statute or the provision of any statute which amends, extends, consolidates, re-enacts or replaces the same, or which has been amended, extended, consolidated, re-enacted or replaced by the same, and shall include any orders, regulations, instruments or other subordinate legislation made under the relevant statute.

1.6 The headings to Clauses are inserted for convenience only and shall not affect the construction of this Surety Agreement.

1.7 The obligations of each Surety under this Agreement are joint and several with each other Surety.

1.8 Each Surety confirms that it has been provided with a copy of each of the Amendment and Restatement Deed, the Loan Agreement, the Trust Deed and the Conditions and acknowledges the terms thereof (including, without limitation, definitions, rules of interpretation, currency and funds of payment, manner of appropriation and application of payments, and representations, covenants, undertakings and events of default contained therein).

2. SURETY

To the extent not expressly prohibited by any applicable law, the Sureties unconditionally and irrevocably agree on a joint and several basis that, if the Borrower does not pay any sum payable by it under the Loan Agreement by the time and on the date specified for such payment (whether on the original due date, on acceleration or otherwise), the Sureties will pay that sum to or to the order of the Lender in U.S. dollars in Same-Day Funds before close of business on the date that is two business days after the date specified for such payment in the city to which payment is so to be made. All payments under this Surety Agreement by the Sureties shall be made in full without set off or counterclaim, free and clear of and without deduction for or on account of any present or future Taxes imposed or levied by or on behalf of any taxing authority of or in, or having authority to tax in, the United Kingdom or Ukraine or any country or state from or through which the relevant Surety makes payment hereunder in connection herewith ("**Relevant Taxes**"), unless such withholding or deduction of Relevant Taxes is required by law, in which case, the relevant Surety shall, on the due date for such payment, increase the amounts payable as may be necessary to ensure that the Lender receives a net amount in U.S. dollars which, following any such deduction or withholding on account of Relevant Taxes, shall be equal to the full amount which it would have received had the payment not been made subject to Relevant Taxes so withheld or deducted and shall deliver to the Lender without undue delay, evidence satisfactory to the Lender of such deduction or withholding and of the accounting therefor to the relevant authority. If the

Lender pays any amount in respect of such Relevant Taxes, the relevant Surety shall reimburse the Lender in U.S. dollars on demand an amount equal to such payment(s). If a Surety becomes subject at any time to any taxing jurisdiction other than the United Kingdom or Ukraine, as the case may be, references in this Clause 2 to the United Kingdom and/or Ukraine shall be construed as references to the United Kingdom and/or Ukraine and/or such other jurisdiction.

For the avoidance of doubt, the obligations of each Surety under this Surety Agreement shall not constitute a guarantee obligation (in Ukrainian: "*garantiya"*) as that term is interpreted under Ukrainian law.

The Suretyships constitute direct, unsecured, unsubordinated and unconditional obligations of the Sureties and shall at all times rank *pari passu* and without any preference among themselves, and *pari passu* with all outstanding unsecured and unsubordinated obligations of the Sureties present and future.

3. SURETIES AS PRINCIPAL DEBTORS

To the fullest extent permitted by applicable law, as between each Surety and the Lender (and following the execution of the Loan and Surety Administration Assignments, the Trustee without regard to the Lender), but without affecting the obligations of the Borrower and the other Sureties, each Surety will be liable under this Clause as if it were the sole principal debtor and not merely a surety. Accordingly, each Surety will not be discharged, nor will its liability be affected, by anything which would not discharge it or affect its liability if it were the sole principal debtor (including (1) any time, indulgence, waiver or consent at any time given to the Borrower, the other Sureties or any other person, (2) any amendment to any provisions of this Surety Agreement or the Loan Agreement or to any security or other suretyship, guarantee or indemnity, (3) the making or absence of any demand on the Borrower, the other Sureties or any other person for payment, (4) the enforcement or absence of enforcement of the Loan Agreement, this Surety Agreement or of any security or other suretyship, guarantee or indemnity, (5) the taking, existence or release of any security, suretyship, guarantee or indemnity, (6) the dissolution, amalgamation, reconstruction, reorganisation or liquidation of any of the Borrower, the Sureties or any other person or, (7) to the extent not expressly prohibited by any applicable law, the illegality, invalidity or unenforceability of, or any defect in any provision of, this Surety Agreement, the Loan Agreement or the Borrower's or the Sureties' obligations under any of them).

4. SURETIES' INTENT

Without prejudice to the generality of the foregoing, each of the Sureties expressly confirms that it intends that, to the fullest extent permitted by applicable law, the suretyship constituted by this Surety Agreement and the indemnity set out herein shall extend from time to time to any (however fundamental) variation, increase, extension or addition of or to any terms of this Surety Agreement or the Loan Agreement or amounts made available thereunder, including, for the purposes of, or in connection with, any restructuring or any other variation or extension from time to time, and any fees, costs and/or expenses associated with any of the foregoing.

5. SURETIES' OBLIGATIONS CONTINUING

The Sureties' obligations under this Surety Agreement are and will remain in full force and effect by way of continuing security until no sum remains payable under this Surety Agreement or the Loan Agreement. Furthermore, the obligations of the relevant Surety under this Surety Agreement are additional to, and not instead of, any security or other suretyship, guarantee or indemnity at any time existing in favour of any person, whether from any of the other Sureties or otherwise and may be enforced without first having recourse to the Borrower or the other Sureties or any other person, any security or any other suretyship, guarantee or indemnity. Each of the Sureties irrevocably waives all notices and demands of any kind. Each of the Sureties undertakes to promptly obtain any licences, authorisations, registrations or filings which may be required for the performance of its obligations under this Surety Agreement under any applicable law.

6. EXERCISE OF SURETIES' RIGHTS

To the extent not expressly prohibited by any applicable law, so long as any sum remains payable under the Loan Agreement or this Surety Agreement:

6.1 any right of the relevant Surety, by reason of the performance of any of its obligations under this Surety Agreement, to be indemnified by the Borrower or the other Sureties or to take the benefit of or to enforce any security or other suretyship, guarantee or indemnity will be exercised and enforced by such Surety only in such manner and on such terms as the Lender (and following the execution of the Loan and Surety Administration Assignments, the Trustee without regard to the Lender) may reasonably require or approve (such approval not to be unreasonably withheld or delayed); and

6.2 any amount received or recovered by the relevant Surety (a) as a result of any exercise of any right referred to in Clause 6.1 or (b) in the dissolution, amalgamation, reconstruction, reorganisation or liquidation of the Borrower or the other Sureties will be held in trust for the Lender (and following the execution of the Loan and Surety Administration Assignments, the Trustee without regard to the Lender) and immediately paid to the Lender (and following the execution of the Loan and Surety Administration Assignments, the Trustee without regard to the Lender) or as it or as the Trustee (as applicable) may direct (subject to Clause 7).

7. SUSPENSE ACCOUNTS AND ACCUMULATION

Any amount received or recovered by the Lender or as the case may be, the Trustee (otherwise than as a result of a payment by the Borrower under the Loan Agreement or by any of the Sureties to the Lender in accordance with Clause 2 of this Surety Agreement) may be placed in a suspense account and kept there for so long as the Lender or, as the case may be, the Trustee thinks fit.

8. AVOIDANCE OF PAYMENTS

Each of the Sureties shall on demand indemnify the Lender, on an after tax basis, against any cost, fee, Losses, expense or liability (including any applicable value added, turnover or similar tax charged in respect thereof) sustained or incurred by it as a result of it being required for any reason (including any bankruptcy, insolvency, winding-up, dissolution, or similar law of any jurisdiction) to refund all or part of any amount received or recovered by it in respect of any sum payable by the Borrower under the Loan Agreement or the Sureties under this Surety Agreement and shall in any event pay to it on demand the amount as refunded by it.

The Lender shall within 10 days of the request of the Surety (to the extent that the Lender is able to do so under applicable law) and at the relevant Surety's cost, apply for a certificate to be issued by the competent taxing authority in the United Kingdom confirming that the Lender is a tax resident in the United Kingdom (the "**Certificate**") and shall deliver to the Surety (i) such duly completed Certificate as soon as practicable after the receipt thereof and (ii) (as soon as, and to the extent, reasonably practicable) such other information or forms, including a power of attorney in form and substance acceptable to the Surety authorising it to file the Certificate on behalf of the Lender with the relevant tax authority, as may need to be duly completed and delivered by the Lender to enable the Surety to apply to obtain relief from deduction or withholding of Ukrainian tax or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Ukrainian tax has not been obtained on the basis of the relevant provisions of the Double Tax Treaty. The Certificate shall be duly signed by the Lender and the Lender shall use its reasonable endeavours (as the cost of the relevant Surety) to procure the stamping or other approval thereof by the competent tax authority in the United Kingdom and apostilled or legalised as required.

9. DEBTS OF THE BORROWER

If any moneys become payable by any of the Sureties under this Surety Agreement, the Borrower will not (except in the event of the liquidation of the Borrower) so long as any such moneys remain unpaid, pay any moneys for the time being due from the Borrower to any of the Sureties.

10. INDEMNITY

To the maximum extent not expressly prohibited by any applicable law, as separate, independent and alternative stipulations, each of the Sureties unconditionally and irrevocably agrees (1) that any sum which, although expressed to be payable by the Borrower under the Loan Agreement and the Sureties under this Surety Agreement, is for any reason (whether or not now existing and whether or not now known or becoming known to the Borrower, the other Sureties or the Lender) not recoverable from any Surety on the basis of the Suretyships created by this Surety Agreement will nevertheless be recoverable from such Surety as if it were the sole principal debtor and will be paid by it to the Lender on demand and (2) as a primary obligation to indemnify the Lender on demand, on an after tax basis, against any Losses suffered by it as a result of any sum expressed to be payable by the Borrower under the Loan Agreement or the Sureties under this Surety Agreement not being paid on the date and otherwise in the manner specified in the Loan Agreement, this Surety Agreement or any payment obligation of the Borrower under the Loan Agreement or the Sureties under this Surety Agreement being or becoming void, voidable or unenforceable for any reason (whether or not now existing and whether or not now known or becoming known to the Lender), the amount of those Losses being the amount expressed to be payable by the Borrower or the Sureties in respect of the relevant sum.

11. SURETIES' LIABILITY

Nothing in this Surety Agreement shall be interpreted as requiring any of the Sureties to pay any amount due under the Loan Agreement which, at such time, has already been paid by the Borrower or the other Sureties.

12. SURETIES NOTIFICATION

To enable the Sureties to carry out their respective payment obligations under this Surety Agreement, the Borrower shall, forthwith following the Borrower's payment default under the Loan Agreement, notify the Sureties of the same in writing specifying the amount to be paid with a copy to the Lender and, following the execution of the Loan and Surety Administration Assignments, the Trustee, whereupon the Lender or following the execution of the Loan and Surety Administration Assignments, the Trustee shall provide details to the Sureties of the bank account into which the payment is to be made.

13. COMPLIANCE WITH CROSS-BORDER REQUIREMENTS

The Sureties shall comply with all applicable mandatory legal requirements and procedures when discharging their respective payment obligations hereunder (including, where applicable, the requirements and procedures required by Ukrainian law for the making of cross-border payments).

14. REPRESENTATIONS AND WARRANTIES

14.1 Representations and Warranties of the Sureties

The Sureties represent and warrant to the Lender as follows, with the intent that such shall form the basis of this Surety Agreement at the date hereof with respect to the Sureties executing this Surety Agreement as of the date hereof and provided that any Surety not executing this Surety Agreement as of the date hereof will be deemed to have given the following representations and warranties to the Lender as of the date of its accession to this Surety Agreement pursuant to a Deed of Accession or otherwise:

(a) each of the Sureties is duly incorporated and/or organised and validly existing under the laws of Ukraine and has full power and authority to conduct its business, execute this Surety Agreement and to undertake and perform the obligations expressed to be assumed by it herein and has taken all necessary action to approve and authorise the same;

(b) the execution of this Surety Agreement and the undertaking and performance by the Sureties of their respective obligations expressed to be assumed by such Sureties herein will not conflict with, or result in a breach of or default under, the laws of Ukraine, any agreement or instrument to which any of them is a party or by which any of them is bound or in respect of Indebtedness in relation to which any of them is a surety which conflict, breach or default would have a material adverse effect on the ability of the Sureties to perform their respective obligations hereunder;

(c) this Surety Agreement has been duly authorised, executed and delivered by and constitutes a legal, valid and binding obligation of each of the Sureties enforceable in accordance with its terms;

(d) no action or thing is required to be taken, fulfilled or done (including without limitation the obtaining of any consent or licence or the making of any filing or registration) for the giving of the Suretyships, the carrying out of the other transactions contemplated by this Surety Agreement or the compliance by the Sureties with the terms of this Surety Agreement as the case may be;

(e) all acts, conditions and things required to be done, fulfilled and performed (other than by the Lender) to make this Surety Agreement admissible in evidence in Ukraine (whether in arbitration proceedings or otherwise) have been done, fulfilled and performed;

(f) none of the Sureties is in violation of any requirements of Ukrainian anti-money laundering legislation, and each of the Sureties has completed all relevant procedures required by Ukrainian anti-money laundering legislation, in connection with its entry into, and performance of its obligations under, this Surety Agreement;

(g) neither the Sureties nor their respective properties have any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to this Agreement, [other than [●][2]]; and

(h) none of the Sureties has received, and each of the Sureties undertakes that it shall not receive, any fee, payment or other form of remuneration in connection with its entry into this Surety Agreement and performance of its obligations hereunder.

15. COVENANTS

15.1 Sureties' Covenants

Each of the Sureties undertakes to comply with the obligations expressed to be undertaken by the Borrower under Clause 14 of the Loan Agreement to the extent to which such obligations are purported to extend to the Restricted Subsidiaries.

16. NEW SURETIES

16.1 The Lender and the Sureties acknowledge that:

(a) pursuant to Clauses 14.13(a) and 14.13(d) of the Loan Agreement, the Borrower may from time to time procure the accession of a Material Subsidiary (as defined in the Loan Agreement) or a Subsidiary to this Agreement subject to satisfaction of certain conditions set out in Clause 14.13(a) of the Loan Agreement; and

(b) pursuant to Clause 14.13(c) of the Loan Agreement, the Borrower may from time to time appoint any Subsidiary or any other Person as a Surety (together with a Surety appointed pursuant to Clause 16.1(a) above, the "**New Sureties**" and each of them, a "**New Surety**"), subject to satisfaction of certain conditions set out in Clause 14.13(a) of the Loan Agreement.

16.2 Following the appointment of a New Surety pursuant to Clauses 16.1(a) and 16.1(b) above, the Lender and each of the New Sureties, as the case may be, shall pursuant to Clause 14.13(a) of the Loan Agreement, execute a deed of accession to this Surety Agreement substantially in the form as set out in the Schedule 1 hereto (the "Deed of Accession").

16.3 The Lender and each of the Sureties agree that upon the execution by the New Surety of a Deed of Accession, this Surety Agreement will be deemed amended thereby.

17. EFFECTIVENESS

[This Surety Agreement shall become effective on the date of execution of this Surety Agreement by all parties hereto.][3]

18. NO REMUNERATION

The parties to this Surety Agreement hereby agree that the Sureties are entering into this Surety Agreement and providing the Suretyships in consideration of the Lender agreeing to become the lender under the Loan Agreement. The Sureties agreed to provide the Suretyships free of charge and will not be entitled to claim any fee or any other remuneration for acting as sureties and/or providing the Suretyships under this Surety Agreement.

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[2] [To be completed as appropriate.]
[3] [Subject to further adjustment if any administrative or regulatory approvals are necessary at the time of the signing before the Surety Agreement becomes effective.]

19. COMMUNICATIONS

19.1 Notices

Any communication shall be by letter or fax:

in the case of the Lender, to it at:

Shortline plc
5th Floor, 6 St. Andrew Street
London EC4A 3AE
United Kingdom
Attention: The Directors
Fax: +44(0) 207 832 4901

in the case of the Sureties to:

[●]
Fax no.: [●]

Attention: [●]

in the case of the Trustee, to it at:

BNY Mellon Corporate Trustee Services Limited
One Canada Square
London E14 5AL
United Kingdom

Attention: Trustee Administration
Fax: +44 207 964 2509

and shall be deemed to have been delivered at the time when confirmation of its transmission has been recorded by the sender's fax machine at the end of the communication (in the case of any communication by fax) or (in the case of any communication made by letter) upon receipt by the addressee (in each case, if given during normal business hours of the recipient, and, if not given during such hours, on the immediately succeeding business day in the city of the addressee during which such normal business hours next occur).

19.2 English Language

Each communication and document delivered by one party to another pursuant to this Agreement shall be in the English language or accompanied by a translation into English certified (by an officer of the person delivering the same) as being a true and accurate translation. In the event of any discrepancies between the English and Ukrainian versions of such communication or document, or any dispute regarding the interpretation of any provision in the English or Ukrainian versions of such communication or document, the English version of such communication or document shall prevail, unless the document is a statutory or other official document.

20. GOVERNING LAW AND ARBITRATION

20.1 Governing Law

This Surety Agreement, and any non-contractual obligations arising out of or in connection with it, shall be governed by, and construed in accordance with, English law.

20.2 Service of Process

Each of the Sureties agrees that the service of process relating to any Proceedings commenced in the English courts in support of, or in connection with, an arbitration commenced in accordance with Clause 20.3 may be made by delivery to [●] at [●]. If such person is not or ceases to be effectively appointed to accept service of process, the Sureties shall immediately appoint a further person in the United Kingdom to accept service of process on its behalf and, failing such appointment within 15 days, the Lender shall be entitled to appoint such a person by written notice to the Sureties. Nothing in this Clause shall affect the right of the Lender to serve process in any other manner permitted by law.

20.3 Arbitration

The parties irrevocably agree that any dispute arising out of or connected with this Surety Agreement, including a dispute as to the validity, existence or termination of this Surety Agreement or the consequences of its nullity and/or this Clause 20 (a "**Dispute**"), shall be resolved by arbitration in London, England, conducted in the English language by three arbitrators, in accordance with the LCIA Rules, which rules are deemed to be incorporated by reference into this Clause, save that Article 6 shall not apply and Article 5.6 of the LCIA Rules shall be amended as follows: "unless the parties agree otherwise, the third arbitrator, who shall act as chairman of the tribunal, shall be nominated by the two arbitrators nominated by or on behalf of the parties. If he is not so nominated within 30 days of the date of nomination of the later of the two party-nominated arbitrators to be nominated, he shall be chosen by the LCIA". The parties agree to exclude the jurisdiction of the English courts under section 45 of the Arbitration Act 1996.

20.4 Consent to Enforcement etc.

The Lender and each of the Sureties consent generally in respect of any legal actions or proceedings arising out of, or in connection with, any Disputes (the "**Proceedings**") to the giving of any relief or the issue of any process in connection with such Proceedings, including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgement or award which may be made or given in such Proceedings.

20.5 Waiver of Immunity

Each Surety hereby irrevocably waives any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and irrevocably consent to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order, award or judgment made or given in connection with any Dispute.

21. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

Except for the Trustee, a person who is not a party to this Surety Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Surety Agreement but this does not affect any right or remedy of a third party which exists or is available apart from the Act.

22. ASSIGNMENTS AND TRANSFERS

22.1 Binding Agreement

This Agreement shall be binding upon and enure to the benefit of each party hereto and its or any subsequent successors and assigns.

22.2 No Assignments and Transfers by the Sureties

The Sureties shall not be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder.

22.3 Assignments by the Lender

Subject to the provisions of Clause 4 of the Trust Deed, the Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement except for (i) the charge by way of first fixed charge granted by the Lender in favour of the Trustee (as Trustee); (ii) the absolute assignment by way of security by the Lender to the Trustee of certain rights, interests and benefits under this Agreement, in each case, pursuant to Clause 4 of the Trust Deed; and (iii) pursuant to a substitution under the Trust Deed.

23. COUNTERPARTS

This Surety Agreement may be executed in any number of counterparts, each of which shall be deemed an original. Counterpart copies of this Surety Agreement may be delivered by facsimile, and each such facsimile copy shall have the same effect as an original executed copy thereof.

24. LANGUAGE OF AGREEMENT

This Surety Agreement has been executed in both the English language and the Ukrainian language. In the event of any discrepancies between the English and Ukrainian versions of this Surety Agreement, or any dispute regarding the interpretation of any provision in the English or Ukrainian versions of this Surety Agreement, the English version of this Surety Agreement shall prevail and any question of interpretation shall be addressed solely in the English language.

25. LIMITED RECOURSE AND NON PETITION

The Sureties hereby agree that, notwithstanding any other provisions hereof, they shall have recourse in respect of any claim against the Lender only to sums in respect of principal, interest or other amounts (if any), as the case may be, received by or for the account of the Lender pursuant to this Agreement and/or the Loan Agreement (after deduction or withholding of such taxes as may be required to be made by the Lender by law in respect of each such sum or in respect of the Notes and for which the Lender has not received a corresponding payment (also after deduction or withholding of such taxes or duties as may be required to be made by the Lender) in respect thereof pursuant to this Agreement and/or the Loan Agreement) (the "**Lender Assets**"), subject always to the fact that the Security Interests (as defined in the Trust Deed) shall rank in priority to any claims of the Sureties hereunder or the Borrower and that any such claim by any and all of the Borrower or the Sureties shall be reduced *pro rata* so that the total of all such claims does not exceed the aggregate value of the Lender Assets after meeting claims secured on them.

Neither the Sureties nor any person acting on their behalf shall be entitled to take any further steps against the Lender to recover any further sums and no debt shall be owed by the Lender to the Sureties in respect of any such further sum. In particular, neither the Sureties nor any other person acting on their behalf shall be entitled at any time to institute against the Lender, or join in any institution against the Lender of any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Lender relating to the Loan, the Suretyships or otherwise owed to the creditors, save for lodging a claim in the liquidation of the Lender which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Lender.

No party to this Agreement shall have any recourse against any director, shareholder, or officer of the Lender in respect of any obligations, covenants or agreement entered into or made by the Lender in respect of this Agreement, except to the extent that any such person acts fraudulently, in bad faith or is negligent or is wilfully in default in the context of its obligations.

Schedule 1

Form of Deed of Accession

To: Shortline plc (the "**Lender**" or the "**Issuer**")

From: Public Joint Stock Company "Ukrainian Railway" (the "**Borrower**") and
[●] (the "**New Surety**")

Dated: [●]

Dear Sirs,

U.S.$500,000,000 9.875 per cent. Amortising Loan Participation Notes due 2021 issued by the Issuer for the sole purpose of financing the Loan to the Borrower under the Loan Agreement (the "Notes")

We refer to the following documents:

"**Loan Agreement**" means the loan agreement dated [●] 2016 and made between the Lender and the Borrower; and

"**Surety Agreement**" means the surety agreement dated [●] 2016 and made between, among others, the Issuer and the Borrower.

Terms defined in the Surety Agreement and the Loan Agreement shall bear the same meaning herein, unless the context requires otherwise.

The Borrower requests that the New Surety becomes a New Surety pursuant to Clause 16 of the Surety Agreement and Clause [14.13(a)]/[14.13 (c)]/[14.13(d)] of the Loan Agreement.

The [New Surety] undertakes to unconditionally and irrevocably agree on a joint and several basis with the other Sureties that, if the Borrower does not pay any sum payable by it under the Loan Agreement by the time and on the date specified for such payment (whether on the original due date, on acceleration or otherwise), then it will pay that sum to or to the order of the Lender in U.S. dollars in Same-Day Funds before close of business on the date that is two business days after the date specified for such payment in the city to which payment is so to be made.

The [New Surety] undertakes, upon its becoming a Surety, to perform all obligations expressed to be undertaken under the Surety Agreement[, including but not limited to Clause 15.1 of the Surety Agreement][4] / [, including but not limited to Clause 15.1 of the Surety Agreement with such amendments as the Trustee may require][5] on a joint and several basis with each other Surety and agrees that it shall be bound by the Surety Agreement in all respects as if it had been an original party thereto.

[Amendments to the covenants required by the Trustee to be set out] [●]

Each of the Borrower and [the New Surety] confirms that no Potential Event of Default or Event of Default (as defined in the Loan Agreement) is continuing or would occur as a result of the [New Surety] becoming a Surety under this Deed of Accession.

The [New Surety] makes the representations set out in Clause 14 of the Surety Agreement on the date upon which the [New Surety] signs this Deed of Accession and confirms that all the conditions precedent to its accession to the Surety Agreement have been satisfied.

---

[4] In the case of the New Surety being the member of the Group (as defined in the Loan Agreement).

[5] In the case of the New Surety being a member of a different group.

The [New Surety]'s administrative details are as follows:

Address: [●]

Fax.: [●]

Telephone: [●]

Contact Name: [●]

This Deed of Accession, and any non-contractual obligations arising out of or in connection with it, shall be governed by, and construed in accordance with, English law.

The [New Surety] agrees that the service of process relating to any Proceedings in England and Wales may be made by delivery to [●] at its registered office for the time being, currently at [●]. If such person is not or ceases to be effectively appointed to accept service of process, the [New Surety] shall immediately appoint a further person in the United Kingdom to accept service of process on its behalf and, failing such appointment within 15 days, the Lender shall be entitled to appoint such a person by written notice to the [New Surety]. Nothing in this Clause shall affect the right of the Lender to serve process in any other manner permitted by law.

The parties irrevocably agree that any dispute arising out of or connected with this Deed of Accession, including a dispute as to the validity, existence or termination of this Deed of Accession or the consequences of its nullity and/or this paragraph (a "**Dispute**"), shall be resolved by arbitration in London, England, conducted in the English language by three arbitrators, in accordance with the LCIA Rules, which rules are deemed to be incorporated by reference into this Clause, save that Article 6 shall not apply and Article 5.6 of the LCIA Rules shall be amended as follows: "unless the parties agree otherwise, the third arbitrator, who shall act as chairman of the tribunal, shall be nominated by the two arbitrators nominated by or on behalf of the parties. If he is not so nominated within 30 days of the date of nomination of the later of the two party-nominated arbitrators to be nominated, he shall be chosen by the LCIA". The parties agree to exclude the jurisdiction of the English courts under section 45 of the Arbitration Act 1996.

The Lender and the [New Surety] consent generally in respect of any legal actions or proceedings arising out of, or in connection with, any Disputes (the "**Proceedings**") to the giving of any relief or the issue of any process in connection with such Proceedings, including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgement or award which may be made or given in such Proceedings.

This Deed of Accession has been executed in both the English language and the Ukrainian language. In the event of any discrepancies between the English and Ukrainian versions of this Deed of Accession, or any dispute regarding the interpretation of any provision in the English or Ukrainian versions of this Deed of Accession, the English version of this Deed of Accession shall prevail and any question of interpretation shall be addressed solely in the English language.

The [New Surety] confirms that it has been provided with a copy of each of Surety Agreement, the Amendment and Restatement Deed, the Loan Agreement, the Trust Deed and the Conditions and acknowledges the terms thereof (including, without limitation, definitions, rules of interpretation, currency and funds of payment, manner of appropriation and application of payments, and representations, covenants, undertakings and events of default contained therein).

This Deed of Accession is delivered on the date stated at the beginning.

Executed as a **Deed** by
the duly authorised attorney of
Shortline Plc

____

By:
Title:

Executed as a **Deed** by
the duly authorised attorney of
Borrower

By:
Title:

By:
Title:

Executed as a **Deed** by
the duly authorised attorney of
[New Surety]

By:
Title:

SIGNATURES

Executed as a deed by
Shortline plc
as Issuer

By:______________________________
Name:
Title:

By:______________________________
Name:
Title:

Executed as a deed by

Public Joint Stock Company "Ukrainian Railway"
as Borrower

By:______________________________
Name:
Title:

By:______________________________
Name:
Title:

Executed as a deed by

[*Surety*]
as Surety

By:______________________________
Name:
Title:

By:______________________________
Name:
Title:

SCHEDULE 3 – FINANCIAL STATEMENTS

ANNEX 1 – COMBINED FINANCIAL STATEMENTS OF THE GROUP

The State Administration of Railways Transport of Ukraine ("Ukrzaliznytsia")

Unaudited interim condensed combined financial statements

As at 30 June 2015

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REPORT ON REVIEW OF INTERIM CONDENSED COMBINED FINANCIAL STATEMENTS

To the Management of the State Administration of Railways Transport of Ukraine

Introduction

We have reviewed the accompanying interim condensed combined financial statements of the State Administration of Railways Transport of Ukraine ("Ukrzaliznytsia") and other combined entities listed in Note 1 (collectively referred to as "the Group"), which comprise the interim combined statement of financial position as at 30 June 2015, the interim combined statement of comprehensive income, the interim combined statement of changes in equity and the interim combined statement of cash flow for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed combined financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed combined financial statements based on our review.

Scope of review

Except as explained in Basis for Qualified Conclusion paragraph (ii), we conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim condensed combined financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for qualified conclusion

(i) As disclosed in Notes 1 and 2 to the accompanying interim condensed combined financial statements, as at 30 June 2015, the Group effectively did not have control over the operations of Crimean Direction of Prydniprovska Railway. Therefore, the inclusion of Crimean Direction in the interim condensed combined financial statements as at 30 June 2015 constitutes a departure from International Financial Reporting Standards. The carrying value of the Group's assets and liabilities located in the Autonomous Republic of Crimea or otherwise associated with the Crimean Direction included in the interim condensed combined financial statements was UAH 1,108,565 thousand (1.5% of Group's total assets) and UAH 165,088 thousand, respectively.

(ii) As disclosed in Note 2 to the accompanying interim condensed combined financial statements, certain structural units of Donetsk Railway, a Group entity, including its head office, are located on the territory temporarily not controlled by Ukrainian authorities. We were unable to complete our review of the financial information of Donetsk Railway as at 30 June 2015 and for the six-month period then ended as disclosed in Note 2, as we had no access to relevant underlying accounting records. Had we been able to complete our review of the financial information of Donetsk Railway, matters might have come to our attention indicating that adjustments might be necessary to the interim condensed combined financial statements.

(continued on the next page)

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Qualified Conclusion

Based on our review, with the exception of the matter described in the Basis for Qualified Conclusion paragraph (i) and except for the adjustments to the interim condensed combined financial statements that we might have become aware of had it not been for the situation described in the Basis for Qualified Conclusion paragraph (ii), nothing has come to our attention that causes us to believe that the accompanying interim condensed combined financial statements are not prepared, in all material respects, in accordance with IAS 34.

Emphasis of Matter

Without qualifying our conclusion, we draw attention to Note 2 in the interim condensed combined financial statements which indicates that the Group incurred a net loss of UAH 4,707,186 thousand for the six-month period ended 30 June 2015 and, as of that date, the Group's current liabilities exceeded its current assets by UAH 36,794,001 thousand. We further draw attention to Note 8 in the interim condensed combined financial statements which indicates that the Group breached certain undertakings under its loan arrangements as at 30 June 2015 and as at the date of approval of the interim condensed combined financial statements, the Group has not completed its negotiations with the lenders on reaching a mutually acceptable restructuring agreement with respect to its borrowing facilities. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

Ernst & Young Audit Services LLC

25 September 2015

INTERIM COMBINED STATEMENT OF FINANCIAL POSITION

as at 30 June 2015

(in thousands of Ukrainian Hryvnia)

	Notes	30 June 2015 (unaudited)	31 December 2014 (audited)
Assets			
Non-current assets			
Property, plant and equipment	6	60,768,595	62,352,975
Financial assets		111,924	186,986
Taxes receivable, other than income tax		727,460	544,369
Deferred tax asset		3,945,462	4,024,519
		65,553,441	67,108,849
Current assets			
Inventories		3,043,708	3,012,930
Trade and other receivables		640,030	699,686
Prepayments		207,625	232,663
Prepaid income tax		480,301	309,235
Taxes receivable, other than income tax		122,532	271,375
Short-term deposits		10,535	-
Cash and cash equivalents		3,606,069	2,038,008
		8,110,800	6,563,897
Total assets		73,664,241	73,672,746
Equity and liabilities			
Equity			
Contributed capital	7	18,640,130	18,640,130
Retained earnings		4,332,853	9,129,169
		22,972,983	27,769,299
Non-current liabilities			
Interest-bearing loans and borrowings	8	2,403,337	5,729,683
Finance lease liability	9	1,396,714	1,801,722
Defined benefit liability		1,971,068	1,912,649
Deferred tax liability		15,338	15,337
		5,786,457	9,459,391
Current liabilities			
Interest-bearing loans and borrowings	8	35,925,790	25,358,013
Finance lease liability	9	1,391,131	1,612,718
Trade and other payables		4,613,827	6,134,291
Advances from customers		1,753,754	2,380,542
Income tax payable		-	77,037
Taxes payable, other than income tax		632,047	444,790
Provisions	11	588,252	436,665
		44,904,801	36,444,056
Total liabilities		50,691,258	45,903,447
Total equity and liabilities		73,664,241	73,672,746

Signed and authorised for release on behalf of The State Administration of Railways Transport of Ukraine ("Ukrzaliznytsia") on 25 September 2015 by:

Acting Deputy General Director — Igor B. Breus

Head of Central Finance and Economic Department — Tamara S. Ryabchun

The accompanying notes form an integral part of the interim condensed combined financial statements.

INTERIM COMBINED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2015

(in thousands of Ukrainian Hryvnia)

	Notes	*For the six months 2015 (unaudited)*	*For the six months 2014 (unaudited)*
Revenues			
Cargo revenues		23,827,858	18,898,401
Passenger revenues		2,738,780	2,345,354
Other revenues		2,355,427	2,194,861
Total revenues		28,922,065	23,438,616
Operating expenses			
Staff costs		(10,444,843)	(11,883,217)
Depreciation		(2,423,729)	(2,868,233)
Electricity		(2,961,083)	(2,528,989)
Fuel		(3,113,159)	(2,100,277)
Maintenance		(1,890,748)	(1,971,571)
Taxes, other than income tax		(653,868)	(419,682)
Change in provisions	11	(158,204)	(324,023)
Social expenses		(209,641)	(252,061)
Other income		435,711	338,914
Other expenses		(846,277)	(216,281)
Total operating expenses		(22,265,841)	(22,225,420)
Operating profit		6,656,224	1,213,196
Finance income		226,344	31,370
Finance costs		(2,627,723)	(1,765,942)
Foreign exchange (loss)/gain, net		(8,738,032)	(7,245,026)
(Loss)/profit before income tax		(4,483,187)	(7,766,402)
Income tax expense	10	(223,999)	(409,828)
(Loss)/profit for the period		(4,707,186)	(8,176,230)
Other comprehensive income for the period, net of tax		–	–
Total comprehensive (loss)/income for the period, net of tax		(4,707,186)	(8,176,230)

The accompanying notes form an integral part of the interim condensed combined financial statements.

INTERIM COMBINED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2015

(in thousands of Ukrainian Hryvnia)

	Notes	*Contributed capital*	*Retained earnings*	*Total equity*
1 January 2015 (audited)		18,640,130	9,129,169	27,769,299
Loss for the period		–	(4,707,186)	(4,707,186)
Total comprehensive loss		–	(4,707,186)	(4,707,186)
Dividends accrued	14	–	(89,130)	(89,130)
At 30 June 2015 (unaudited)		18,640,130	4,332,853	22,972,983

for the six months ended 30 June 2014

	Notes	*Contributed capital*	*Retained earnings*	*Total equity*
1 January 2014 (audited)		18,640,806	24,572,762	43,213,568
Loss for the period		–	(8,176,230)	(8,176,230)
Total comprehensive loss		–	(8,176,230)	(8,176,230)
Change in Group composition	7	(676)	(262)	(938)
Dividends accrued	14	–	(49,670)	(49,670)
At 30 June 2014 (unaudited)		18,640,130	16,346,600	34,986,730

INTERIM COMBINED STATEMENT OF CASH FLOW

for the six months ended 30 June 2015

(in thousands of Ukrainian Hryvnia)

	Notes	*For the six months 2015 (unaudited)*	*For the six months 2014 (unaudited)*
Cash flows from operating activities			
(Loss)/profit before income tax		(4,483,187)	(7,766,402)
Adjustments to reconcile profit before income tax to net cash provided by operations			
Depreciation		2,423,729	2,868,233
Finance costs, net		2,401,379	1,734,572
Loss/(income) on disposal of property, plant and equipment		195,826	93,429
Movements in defined benefit liability and provisions		61,790	180,123
Allowance for estimated irrecoverable amounts		9,225	(7,026)
Unrealised foreign exchange gain		8,675,425	7,310,547
Operating profit before working capital changes		9,284,187	4,413,476
Changes in working capital			
Trade and other receivables		144,789	(305,215)
Prepayments		18,703	(16,775)
Inventories		(22,979)	1,151,720
Taxes receivable and prepaid		(34,248)	226,662
Trade and other payables		(1,592,841)	(1,484,254)
Advances from customers		(626,788)	(575,697)
Taxes payable, other than income tax		187,257	166,200
Cash generated from operating activity		7,358,080	3,576,117
Income tax paid		(392,959)	(428,449)
Interest paid		(1,904,016)	(1,349,217)
Dividends paid	14	(87,750)	(93,664)
Net cash flows from operating activities		4,973,355	1,704,787
Cash flows from investing activities			
Acquisition of property, plant and equipment		(1,153,994)	(1,760,770)
Proceeds from disposal of property, plant and equipment		16,049	52,893
Net cash movement on deposit accounts		(10,535)	457
Interest received		16,413	8,752
Net cash flows used in investing activities		(1,132,067)	(1,698,668)
Cash flows from financing activities			
Proceeds from interest-bearing loans		507,033	5,660,663
Repayment of interest-bearing loans		(1,665,615)	(4,986,862)
Proceeds from domestic bonds		–	643,383
Repayment of domestic bonds		(100,000)	(217,500)
Repayment of finance lease obligations		(1,194,497)	(433,657)
Net cash flows from financing activities		(2,453,079)	666,027
Net increase in cash and cash equivalents		1,388,209	672,146
Net foreign exchange difference		179,852	10,075
Cash and cash equivalents at 1 January		2,038,008	643,559
Cash and cash equivalents at 30 June		3,606,069	1,325,780

NOTES TO THE INTERIM CONDENSED COMBINED FINANCIAL STATEMENTS

for the six months ended 30 June 2015

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

1. Description of business and the Group's structure

Formation and operations of the Group

The State Administration of Railways Transport of Ukraine (hereinafter referred to as "Ukrzaliznytsia") was established in December 1991 pursuant to the Decree of the Cabinet of Ministers of Ukraine No. 356 as a managing body for state-owned entities engaged in provision of railways transportation services and support of railway infrastructure in Ukraine. Ukrzaliznytsia operates under the Regulation on the State Administration of Railways Transport of Ukraine approved by the Decree of the Cabinet of Ministers of Ukraine dated 29 February 1996 No. 262.

The registered address of Ukrzaliznytsia is 5, Tverska St., Kyiv 03680, Ukraine.

Combined entities

These interim condensed combined financial statements include interim combined statements of financial position and related interim combined statements of comprehensive income, cash flows and changes in equity of entities (hereinafter referred to as the "Combined Entities"), which, according to the Orders of the Ministry of Infrastructure of Ukraine (before 9 December 2010 Ministry of Transport and Communications of Ukraine) and the Decree of the Cabinet of Ministers of Ukraine, were managed by Ukrzaliznytsia during the six months ended 30 June 2015 and the year ended 31 December 2014 which together form the Ukrzaliznytsia Group (hereinafter collectively referred to as the "Group").

The significant Group's entities as at 30 June 2015 are presented below:

Managing entity		
1	State Administration of Railways Transportation of Ukraine (Ukrzaliznytsia)	State Enterprise
Railways		
2	Donetsk Railway	State Enterprise
3	Lviv Railway	State Regional Specialised Association
4	Odesa Railway	State Enterprise
5	Prydniprovska Railway	State Enterprise
6	South-Western Railway	State Regional Specialised Association
7	Southern Railway	State Enterprise
Auxiliary services		
8	Ukrspetsvagon	State Enterprise
9	Ukrainian State Center for Railways Refrigerator Transportation Ukrreftrans	State Enterprise
10	Ukrainian State Center for Transportation Service "Lisky"	State Enterprise
11	Darnytsky Carriage Repair Plant	State Enterprise
12	Main Information Processing Center of Ukrzaliznytsia	State Enterprise
13	Central Communications Station	State Enterprise
14	Ukrainian State Clearing Center for International Transportation	State Enterprise
15	Ukrzaliznychpostach	State Enterprise
16	Ukrainian Center for Railroad Mechanisation	State Enterprise
17	Rava-Rusky Sleeper Plant	State Enterprise
18	Ukrainian Transport Logistics Center	State Enterprise
19	Ukrainian Railway High-Speed Company	State Enterprise
20	Vinnytsiatransprylad	State Enterprise
21	Stryysky Carriage Repair Plant	State Enterprise
22	Starokonstantinovsky Concrete Sleeper Plant	State Enterprise
23	Administration for Industrial Enterprises	State Enterprise

NOTES TO THE INTERIM CONDENSED COMBINED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2015

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

1. Description of business and the Group’s structure (continued)

During the six month 2015 there were no changes in the structure of the Group.

As further disclosed in Note 2, starting from April 2014 the Group effectively temporary lost control over the operations of Crimean Direction of Prydniprovska Railway and over social infrastructure assets of other Railways located in the Autonomous Republic of Crimea. However, following the requirements of the Law of Ukraine *On Ensuring Citizens’ Rights and Freedoms and Legal Regime on the Temporary Occupied Territory of Ukraine*, the Group still accounts for assets and liabilities located in the Autonomous Republic of Crimea at the carrying values as of 31 March 2014.

In March 2012 a Law of Ukraine No. 4442-VI *On Peculiarities of the Formation of a Public Joint Stock Company for Railway Transportation* was enacted. The Law sets broad principles for the reorganisation of the Group into a single joint stock company with 100% shares to be owned by the State of Ukraine. The Group is in the process of the legal reorganisation which is intended to be completed by 31 December 2015.

Pricing policy

Cargo and passenger transportation in Ukraine is a natural monopoly and is subject to the following tariffs regulations:

Tariffs for domestic cargo transportation – approved by the Ministry of Infrastructure of Ukraine as agreed with the Ministry of Economic Development and Trade of Ukraine and the Ministry of Finance of Ukraine. The tariffs are denominated in Ukrainian Hryvnia and are subject to inflation adjustments in line with a change in consumer prices. There were adjustments to the tariff rates during six months ended 30 June 2015 and in the second half of 2014.

Tariffs for domestic transportation of passengers and baggage – approved by the Ministry of Infrastructure of Ukraine as agreed with the Ministry of Economic Development and Trade of Ukraine. The tariffs are denominated in Ukrainian Hryvnia. During six months ended 30 June 2015 there were no changes to the tariff rate. There were increases in tariffs in the second half of 2014.

Tariffs for international cargo transportation – regulated by special Tariff Policy annually approved by the Ministry of Infrastructure of Ukraine based on intergovernmental agreements. Tariffs are denominated in Swiss Francs.

Tariffs for international transportation of passengers and baggage – approved by the Ministry of Infrastructure of Ukraine, denominated in Swiss Francs for the countries of the Commonwealth of Independent States, Latvia, Lithuania, Estonia and in Euro for transportation in other countries.

NOTES TO THE INTERIM CONDENSED COMBINED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2015

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

2. Operating environment, risks and economic conditions in Ukraine

The Group conducts its operations in Ukraine. The Ukrainian economy while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, high inflation, and significant imbalances in the public finance and foreign trade.

In 2014, Ukrainian political and economic situation deteriorated significantly. The political and social unrest combined with regional tensions has led to the temporary occupation of the Autonomous Republic of Crimea from Ukraine by the Russian Federation, full-fledged armed confrontations with separatists in certain parts of the Donetsk and Lugansk regions and, ultimately, to the significant deterioration of the political and economic relations of Ukraine with the Russian Federation. These factors have contributed to the decline of key economic indices, increase of the state budget deficit, depletion of the NBU’s foreign currency reserves and, as a result, further downgrading of the Ukrainian sovereign debt credit ratings.

From 1 January 2015 and up to the date of the issuance of these interim condensed combined financial statements, the Ukrainian Hryvnia (the “UAH”) depreciated against major foreign currencies by approximately 33% calculated based on the National Bank of Ukraine (the “NBU”) exchange rate of UAH to US Dollar. The NBU imposed certain restrictions on purchase of foreign currencies, cross border settlements (including payment of dividends), and also mandated obligatory partial conversion of foreign currency proceeds into UAH.

The known and estimable effects of the above events on the financial position and performance of the Group in the reporting period have been taken into account in preparing the interim condensed combined financial statements. Specific effects of the secession of the Autonomous Republic of Crimea and the ongoing armed confrontations in certain parts of Donetsk and Lugansk regions are disclosed below in this note.

The Crimean authorities declared Crimean Direction of Prydniprovska Railway a separate State Company “Crimean Railways”. Crimean Direction contributed 0.7% to the Group’s revenues during the year ended 31 December 2014. Besides, social infrastructure assets of other Railways are located in the Autonomous Republic of Crimea. As at 30 June 2015, the carrying value of the Group’s assets and liabilities located in or otherwise associated with the Autonomous Republic of Crimea (including customers, borrowers, etc.) was UAH 1,108,565 thousand (1.5% of total assets) and 165,051 thousand, respectively.

In the second half of 2014 as a result of the armed confrontations the Ukrainian authorities lost control over certain territory of Donetsk and Lugansk regions where Donetsk Railway operates, including Donetsk, where the head office of Donetsk Railway is located. In total, Donetsk Railway contributed 6% to the Group’s revenues during the six months ended 30 June 2015. As at that date the carrying value of the Group’s assets located in or otherwise associated with the Donetsk Railway (including customers, borrowers, etc.) was UAH 10,638,640 thousand (14% of total assets). Management was not able to assess the consequences of armed confrontation on the assets, liabilities and related profit or loss of Donetsk railway.

NOTES TO THE INTERIM CONDENSED COMBINED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2015

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

2. Operating environment, risks and economic conditions in Ukraine (continued)

The summarised financial information of Donetsk Railway included into the interim condensed combined financial statements of the Group as at and for the six months ended 30 June 2015 is presented below:

Statement of financial position

	For the six months 2015 (unaudited)
Assets	
Non-current assets	
Property, plant and equipment	8,391,350
Financial assets	19,415
Deferred tax asset	570,074
	8,980,839
Current assets	
Inventories	463,670
Trade and other receivables	56,620
Trade and other receivables form Group entities	866,961
Prepayments	52,423
Prepaid income tax	82,635
Taxes receivable, other than income tax	15,604
Cash and cash equivalents	119,888
	1,657,801
Total assets	10,638,640
Equity and liabilities	
Equity	
Contributed capital	2,887,853
Retained earnings	(2,213,879)
	673,974
Non-current liabilities	
Interest-bearing loans and borrowings	994,383
Finance lease liability	205,076
Employee benefit liability	335,025
	1,534,484
Current liabilities	
Interest-bearing loans and borrowings	6,823,971
Finance lease liability	497,828
Trade and other payables	411,357
Trade and other payables to Group entities	424,935
Advances from customers	63,516
Taxes payable, other than income tax	208,575
	8,430,182
Total liabilities	9,964,666
Total equity and liabilities	10,638,640

NOTES TO THE INTERIM CONDENSED COMBINED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2015

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

2. Operating environment, risks and economic conditions in Ukraine (continued)

Statement of comprehensive income

	For the six months 2015 (unaudited)
Revenues	
Cargo revenues	1,479,885
Passenger revenues	45,816
Other revenues	121,339
Revenue from Group entities	70,937
Total revenues	1,717,977
Operating expenses	
Staff costs	(1,169,626)
Depreciation	(249,375)
Maintenance	(79,627)
Electricity	(245,835)
Fuel	(352,233)
Taxes, other than income tax	(37,684)
Social expenses	(35,931)
Other income	25,632
Other expenses	(293,529)
Total operating expenses	(2,438,208)
Operating profit	(720,231)
Finance income	35,966
Finance costs	(476,142)
Foreign exchange gain/(loss), net	(1,712,816)
Loss before income tax	(2,873,223)
Income tax benefit	(1,935)
Loss for the six months	(2,875,158)
Total comprehensive loss for the six months, net of tax	(2,875,158)

NOTES TO THE INTERIM CONDENSED COMBINED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2015

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

2. Operating environment, risks and economic conditions in Ukraine (continued)

Statement of cash flow

	For the six months 2015 (unaudited)
Cash flows from operating activities	
Loss before income tax	(2,873,223)
Adjustments to reconcile profit before income tax to net cash provided by operations	
Depreciation	249,375
Finance costs, net	440,176
Loss on disposal of property, plant and equipment	162
Unrealised foreign exchange loss, net	1,718,665
Operating profit before working capital changes	(464,845)
Changes in working capital	
Trade and other receivables	627,268
Prepayments	2,028
Inventories	(17,308)
Taxes receivable and prepaid	13,489
Trade and other payables	142,329
Advances from customers	(22,062)
Taxes payable, other than income tax	94,987
Cash generated from operating activity	375,886
Income tax paid	(3,589)
Interest paid	(227,176)
Dividends paid	–
Net cash flows from operating activities	145,121
Cash flows from investing activities	
Acquisition of property, plant and equipment	(3,404)
Proceeds from disposal of property, plant and equipment	823
Interest received	1,120
Net cash flows used in investing activities	(1,461)
Cash flows from financing activities	
Proceeds from Interest-bearing loans	–
Repayment of Interest-bearing loans	(56,422)
Proceeds from domestic bonds	–
Repayment of domestic bonds	–
Repayment of finance lease obligations	–
Net cash flows used in financing activities	(56,422)
Net increase in cash and cash equivalents	87,238
Cash and cash equivalents at 1 January	32,650
Cash and cash equivalents at 30 June	119,888

Despite the armed confrontations managements was able to assure railway operations involving uncontrolled territories. Management supports the official position of the Ukrainian authorities that the uncontrolled territories will be reintegrated to Ukraine.

The Government has committed to direct its policy towards the association with the European Union, to implement a set of reforms aiming at the removal of the existing imbalances in the economy, public finance and public governance, and the improvement of the investment climate. Stabilisation of the Ukrainian economy in the foreseeable future depends on the success of the actions undertaken by the Government and securing continued financial support of Ukraine by international donors and international financial institutions.

NOTES TO THE INTERIM CONDENSED COMBINED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2015

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

2. Operating environment, risks and economic conditions in Ukraine (continued)

Management is monitoring the developments in the current environment and taking actions, where appropriate, to minimize any negative effects to the extent possible. Further adverse developments in the political, macroeconomic and/or international trade conditions may further adversely affect the Group’s financial position and performance in a manner not currently determinable.

Going Concern

The Group’s operations were significantly impacted by the deterioration of the operating environment. The Group’s net loss for the six months ended 30 June 2015 amounted to UAH 4,707,186 thousand. As at 30 June 2015, the Group’s current liabilities exceeded its current assets by UAH 36,794,001 thousand (31 December 2014: UAH 29,880,159 thousand). As at 30 June 2015 the Group did not comply with certain undertakings under its long-term loan agreements and failed to remediate the breaches before the reporting date. Such default have triggered a cross default of under certain other borrowings. Therefore, the lenders became entitled to request accelerated repayment of interest-bearing borrowings with carrying value of UAH 30,162,015 thousand as at 30 June 2015. The non-current portion of borrowings under these agreements of UAH 19,083,990 thousand as at 30 June 2015 was reported in these interim condensed combined financial statements within current liabilities.

In April 2015 the Government of Ukraine included the debt related to the Eurobonds issue (Note 8) to the list of external debt subject to restructuring with the support of the Government in relation to the arrangements with the International Monetary Fund (Note 8). In May 2015 the Group reported suspension of principal debt repayment to Ukrainian internal lenders and initiated debt restructuring negotiations. In the meantime the Group intends to timely service and repay the debt to foreign creditors. As at the date of the authorisation of the financial statements certain agreements were reached as for the restructuring of a major part of the internal debt.

The Group’s management believes that: (i) negotiations with both internal and external lenders will be successfully completed in the nearest future, as the lenders are not interested in accelerating repayment of debts and due to the support of the Government; (ii) negative impact of the operating environment will decrease in 2015 due to certain stabilization of the political and economic situation, (iii) the Group is able to generate additional cash flows from its operating activities to finance net working capital deficit through cost reduction measures, and (iv) the Group may release additional cash flows by capping capital expenditures in case needed, without short-term negative effects on operations.

The success of the management plan to achieve further profitable operations with sufficient cash flows and the actual outcome of the restructuring of the remaining debt are not virtually certain. These conditions represent a material uncertainty that may cast significant doubt on the Group’s ability to continue as a going concern. The Group may be unable to realize its assets and discharge its liabilities in the normal course of business.

3. Basis of preparation

These interim condensed combined financial statements for the six months ended 30 June 2015 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed combined financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2014, prepared in accordance with International Financial Reporting Standards (“IFRS”).

These interim condensed combined financial statements are presented in UAH thousands and all values are rounded off to the nearest thousand except where otherwise indicated.

Functional and presentation currencies

Functional and presentation currency of each of the Group’s entities is Ukrainian Hryvnia.

NOTES TO THE INTERIM CONDENSED COMBINED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2015

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

4. Changes in accounting policy

The accounting policies adopted in the preparation of the interim condensed combined financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2014, except for the adoption of new standards and interpretations effective as of 1 January 2015. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2015, they do not have a material impact on the annual combined financial statements of the Group or the interim condensed combined financial statements of the Group. The nature and the impact of each new standard or amendment is described below.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual Improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these interim condensed combined financial statements. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions. This amendment is not relevant for the Group as it does not undertake share-based payment transactions.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). The Group did not record any business combination during the current interim period.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are “similar”.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The Group has not applied the aggregation criteria in IFRS 8.12. Segment assets and segment liabilities are not reported for the purpose of decision making.

NOTES TO THE INTERIM CONDENSED COMBINED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2015

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

4. Changes in accounting policy (continued)

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. The Group did not record any revaluation adjustments during the current interim period.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Group as it does not receive any management services from other entities.

Annual Improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these interim condensed consolidated financial statements. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

The Group is not a joint arrangement, and thus this amendment is not relevant for the Group and combined entities.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable). The Group does not apply the portfolio exception in IFRS 13.

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. The Group did not record any business combination during the current interim period.

5. Segment reporting

For management purposes, the Group is organized into business units based on their services, and has five reportable operating segments:

- *Cargo segment* includes cargo transportation services provided by the Group.
- *Long-distance passenger segment* comprises all cross-regional passenger transportation services provided by the Group.
- *Suburban passenger segment* includes intraregional rail passenger transportation services.
- *Auxiliary operations segment* includes repair and maintenance of rolling stock, energy re-sale, construction and other services provided by the Group entities.
- *All other segments* include activities of the Group entities which provide services related to cargo, suburban passenger transportation, construction, reconstruction and modernisation of railways and railway transport infrastructure, repair and maintenance of different railway-related equipment and other companies within the Group. None of these operations are of sufficient size to be reported separately. None of these operations can be aggregated with reportable operating segments described above due to dissimilar economical characteristics.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated on the basis of segment operating profit or loss determined based on management accounts that differ from IFRS interim condensed combined financial statements for the reason that the management accounts are based on Ukrainian GAAP figures. The operating segments results do not include the effects of some adjustments that may be considered necessary to reconcile the management accounts to IFRS interim condensed combined financial statements.

Substantially all of the Group’s operating assets are located and most of the services are provided in Ukraine.

Segment revenue is revenue that is directly attributable to a segment, whether from sales to external customers or from transactions with other segments. Segment revenue does not include:

- interest income;
- foreign exchange gains;
- gain on disposal, change in fair value and recoverable amounts of financial assets;
- gain on disposal of property, plant and equipment;
- other income.

Segment expenses are expenses resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to sales to external customers and expenses relating to transactions with other segments. Segment expense does not include:

- interest expense;
- foreign exchange losses;
- loss on disposal, change in fair value and recoverable amounts of financial assets;
- loss on disposal of property, plant and equipment;
- loss on impairment of property, plant and equipment;
- bank charges;
- income tax expense;
- bad debt expense;
- social expenses;
- other expenses;
- maintenance.

Segment result is measured as segment revenue less segment expense.

NOTES TO THE INTERIM CONDENSED COMBINED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2015

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

5. Segment reporting (continued)

For the six months 2015 (unaudited)	*Cargo*	*Long-distance passenger*	*Suburban passenger*	*Auxiliary activity*	*All other segments*	*Unallocated*	*Eliminations (A)*	*Adjustments (B)*	*Total*
Sales to third parties	24,011,534	2,469,069	265,738	2,872,428	189,899	-	-	(886,603)	28,922,065
Inter–segment sales	-	-	-	772,833	296,036	-	(1,068,869)	-	-
Total revenue	24,011,534	2,469,069	265,738	3,645,261	485,935	-	(1,068,869)	(886,603)	28,922,065
Wages, salaries and related contributions	(5,497,086)	(1,735,754)	(890,458)	(1,523,846)	(230,825)	(570,765)	–	3,891	(10,444,843)
Depreciation	(1,870,357)	(613,268)	(303,655)	(601,349)	(46,639)	(36,767)	–	1,048,306	(2,423,729)
Electricity	(2,057,252)	(482,984)	(291,152)	(123,445)	(13,922)	(15,681)	–	23,353	(2,961,083)
Fuel	(2,047,287)	(398,938)	(272,617)	(377,680)	(23,254)	(3,147)	–	9,764	(3,113,159)
Segment result	12,539,552	(761,875)	(1,492,144)	1,018,941	171,295	(626,360)	(1,068,869)	198,711	9,979,251

For the six months 2014 (unaudited)	*Cargo*	*Long-distance passenger*	*Suburban passenger*	*Auxiliary activity*	*All other segments*	*Unallocated*	*Eliminations (A)*	*Adjustments (B)*	*Total*
Sales to third parties	18,651,422	2,079,136	208,163	2,816,617	209,611	–	–	(526,333)	23,438,616
Inter-segment sales	–	–	–	573,349	319,136	–	(892,485)	–	–
Total revenue	18,651,422	2,079,136	208,163	3,389,966	528,747	–	(892,485)	(526,333)	23,438,616
Wages, salaries and related contributions	(5,832,094)	(2,024,673)	(901,836)	(1,689,082)	(260,547)	(663,989)	–	(510,996)	(11,883,217)
Depreciation	(1,779,846)	(699,627)	(304,195)	(647,870)	(51,147)	(36,424)	–	650,876	(2,868,233)
Electricity	(1,746,119)	(436,522)	(227,128)	(89,808)	(15,810)	(13,602)	–	–	(2,528,989)
Fuel	(1,352,849)	(243,467)	(199,857)	(272,620)	(25,201)	(6,283)	–	–	(2,100,277)
Segment result	7,940,514	(1,325,153)	(1,424,853)	690,586	176,042	(720,298)	(892,485)	(386,453)	4,057,900

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

5. Segment reporting (continued)

(A) Inter-segment revenue are eliminated on consolidation.

(B) The operating results of each operating segment does not include the following adjustments representing differences between management accounts and interim condensed combined financial statements prepared in accordance with IAS 34 for the six months ended 30 June 2015 and 2014:

	For the six months 2015 (unaudited)	*For the six months 2014 (unaudited)*
Recognition of revenue in appropriate period	(244,610)	(190,014)
Settlements with foreign railways	(641,993)	(336,319)
	(886,603)	(526,333)
Correction of bonuses and unused vacation expenses accrual	(85,905)	(654,896)
Defined benefits obligation expenses	89,798	143,900
Adjustment to depreciation expenses as the result of revaluation to deemed cost in IFRS accounting	1,048,303	650,876
Recognition of expenses in appropriate period	33,118	–
	1,085,314	139,880
Total adjustments to segment result	198,711	(386,453)

Reconciliation of profit

	For the six months 2015 (unaudited)	*For the six months 2014 (unaudited)*
Segment results	11,475,769	6,057,136
Total adjustments due to differences in accounting policies adopted for management accounts and IFRS	198,711	(386,453)
Total unallocated amounts	(626,360)	(720,298)
Inter-segment sales (elimination)	(1,068,869)	(892,485)
Items not included in segment expenses		
Maintenance	(1,890,748)	(1,971,571)
Taxes, other than income tax	(653,868)	(419,682)
Change in provisions	(158,204)	(324,023)
Social expenses	(209,641)	(252,061)
Other income	435,711	338,914
Other expenses	(846,277)	(216,281)
Finance income	226,344	31,370
Finance costs	(2,627,723)	(1,765,942)
Foreign exchange gain/(loss), net	(8,738,032)	(7,245,026)
Group profit before tax	(4,483,187)	(7,766,402)

6. Property, plant and equipment

Acquisitions and disposals

During the six months ended 30 June 2015, the Group acquired assets with a cost of UAH 1,233,006 thousand (six months ended 30 June 2014: UAH 1,965,365 thousand).

Assets with a net book value of UAH 377,762 thousand were disposed of by the Group during the six months ended 30 June 2015 (six months ended 30 June 2014: UAH 146,322 thousand).

NOTES TO THE INTERIM CONDENSED COMBINED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2015

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

6. Property, plant and equipment (continued)

During the six months ended 30 June 2015, the Group did not acquire assets under finance lease agreements (Note 9). During the six months ended 30 June 2014 new electric trains of UAH 333,330 thousand were acquired under finance lease agreements.

Capitalised depreciation charge

The Group capitalised UAH 15,895 thousand of depreciation charge for the six months ended 30 June 2015 into construction in progress (the six months ended 30 June 2014: UAH 8,264 thousand).

Fully depreciated assets

The cost of fully depreciated property, plant and equipment which remain in use as at 30 June 2015 amounted to UAH 23,379,559 thousand (31 December 2014: UAH 22,241,981 thousand).

7. Equity

Contributed capital

The contributed capital of the Group combines the statutory capital of the following entities adjusted for effect of hyperinflation under IAS 29 *Financial Reporting in Hyperinflationary Economies*:

	30 June 2015 (unaudited)	*31 December 2014 (audited)*
Lviv Railway	3,319,711	3,319,711
South-Western Railway	3,164,276	3,164,276
Southern Railway	2,956,000	2,956,000
Prydniprovska Railway	2,890,591	2,890,591
Donetsk Railway	2,887,853	2,887,853
Odesa Railway	2,562,567	2,562,567
Ukrspetsvagon	360,000	360,000
Ukrainian State Center for Railways Refrigerator Transportation Ukrreftrans	205,518	205,518
Ukrainian State Center for Transportation Service Lisky	144,166	144,166
Darnytsky Carriage Repair Plant	28,069	28,069
Main Information Processing Center of Ukrzaliznytsia	8,506	8,506
Other entities	112,873	112,873
	18,640,130	18,640,130

Changes in the Group composition

During six months ended 30 June 2015 there were no changes in Group structure. One entity engaged in cattering supply on Prydniprovska Railway was disposed during the six months ended 30 June 2014, the contributed capital and the retained earnings of the entity comprised UAH 676 thousand and UAH 262 thousand, respectively.

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

8. Interest-bearing loans and borrowings

As at 30 June 2015 and 31 December 2014 interest-bearing loans and borrowings consisted of the following:

	30 June 2015 (unaudited)	*31 December 2014 (audited)*
Interest-bearing bank loans	23,476,909	18,790,848
Eurobonds issued	10,615,156	7,966,369
Bonds issued in domestic markets	3,918,297	4,036,818
Other borrowings	318,765	293,661
	38,329,127	31,087,696

On 16 May 2013 the Group issued USD 500,000 thousand (UAH equivalent at the date of issue: 3,996,500 thousand), 9.5% notes maturing in 2018 (the “Eurobonds”) on the Irish Stock Exchange.

Domestic bonds are issued and placed in Ukraine. They are denominated in UAH, bear interest of 18%-23.5% and mature in 2015–2017.

As at 30 June 2015 and 31 December 2014, interest rates and currency split for borrowings were as follows:

	Interest rate	*30 June 2015 (unaudited)*	*31 December 2014 (audited)*
USD			
floating rate	LIBOR 6 month +1%-6%	4,985,649	4,490,537
fixed rate	9.5%-12%	26,259,598	19,537,131
		31,245,247	24,027,668
EUR			
floating rate	EURIBOR 6m + 6.55%	871,786	766,831
		871,786	766,831
UAH			
fixed rate	17.9%-23.5%	6,212,094	6,293,197
		6,212,094	6,293,197
Total interest-bearing loans and borrowings		38,329,127	31,087,696
Less: current portion		(35,975,790)	(25,358,013)
Interest-bearing loans and borrowings, non-current		2,403,337	5,729,683

Some of the loan agreements provide for financial and non-financial covenants, which impose restrictions on certain transactions and financial ratios, including restrictions of the amount of outstanding debt and profitability of the Group.

As at 31 December 2014 as well as at 30 June 2015 the Group was not in compliance with certain undertakings under its long-term loan agreements and failed to remediate the breaches before the reporting date. Such default have triggered a cross default of under certain other borrowings. Therefore, the lenders became entitled to request accelerated repayment of interest-bearing borrowings with carrying value of UAH 30,162,015 thousand as at 30 June 2015 (31 December 2014: UAH 18,234,800 thousand). Pursuant to the requirements of IAS 1 Presentation of Financial Statements the non-current portion of the Group’s borrowings under the above mentioned agreements of UAH 19,083,990 thousand as at 30 June 2015 (31 December 2014: UAH 14,426,435 thousand), were reported in these interim condensed combined financial statements within current liabilities. Subsequent to the reporting date the Group reported the lenders of the occurrence of a technical default on certain debt obligations and initiated restructuring negotiations with external and internal lenders. The Group reached certain agreements as for the restructuring of the internal debt and as at the date of the authorisation of the financial statements the restructuring negotiations with internal lenders were at the completion stage.

NOTES TO THE INTERIM CONDENSED COMBINED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2015

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

8. Interest-bearing loans and borrowings (continued)

As at 30 June 2015 undrawn loan facilities available to the Group were of UAH 1,448,908 thousand (31 December 2014: UAH 2,521,718 thousand). Following the breaches of undertakings as at 30 June 2015 the access to certain undrawn loan facilities was restricted. Assuming there was no breach, undrawn loan facilities available to the Group would comprise UAH 5,005,076 thousand as at 30 June 2015.

As at 30 June 2015 and 31 December 2014 interest-bearing loans and borrowings were secured as follows:

	30 June 2015 (unaudited)	*31 December 2014 (audited)*
Type of collateral		
Property and equipment	264,157	268,819
Inventories	111,251	111,251
Future proceeds from revenue	26,446,401	26,012,970

9. Finance lease liability

The Group leases freight and passenger railway cars, locomotives, electric trains and equipment. The majority of lease payments are pegged to USD; the average lease term is 7 years. As at 30 June 2015 the interest rates implicit in the lease were within the range of 11.0%-21.1827% per annum.

During the six months ended 30 June 2015, the Group did not acquire assets under finance lease agreement During the six months ended 30 June 2014 new electric trains of UAH 333,330 thousand were acquired under finance lease agreement.

In February 2015 a substantial modification of the terms of two existing finance lease agreements occurred. The Group accounted the modification as an extinguishment of the original and recognised new finance lease liability. The difference between the carrying amount of the extinguished finance lease liability and the liabilities assumed in the amount of UAH 110,189 thousand was recognised as finance income in the interim combined statement of comprehensive income.

Principal repayments under finance lease to Ukrainian lessors (unlike foreign lessors) is subject to 20% VAT levied at the payment date. Finance charge is not VAT taxable.

The following are the minimum lease payments and present value of finance lease liability under finance lease agreements:

	Minimum lease payments		*Present value of finance lease liability*	
	30 June 2015 (unaudited)	*31 December 2014 (audited)*	*30 June 2015 (unaudited)*	*31 December 2014 (audited)*
Amounts payable under finance leases				
within one year	1,687,779	1,909,500	1,391,131	1,612,717
in the second to fifth years inclusive	1,665,883	2,218,416	1,354,347	1,720,840
after five years	44,409	111,026	42,367	80,883
	3,398,071	4,238,942	2,787,845	3,414,440
Less: future finance charges	(610,226)	(824,502)	–	–
	2,787,845	3,414,440	2,787,845	3,414,440
Current	1,391,131	1,612,718	1,391,131	1,612,718
Non-current	1,396,714	1,801,722	1,396,714	1,801,722

NOTES TO THE INTERIM CONDENSED COMBINED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2015

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

10. Income tax

The components of income tax expense were as follows:

	For the six months 2015 (unaudited)	*For the six months 2014 (unaudited)*
Current income tax charge	144,856	369,479
Deferred income tax expenses	79,143	40,349
Income tax expense	223,999	409,828

During the six months ended 30 June 2015, the statutory income tax rate in Ukraine was 18% (during the six months ended 30 June 2014: 18%).

11. Provisions

As at 31 December 2014 the Group recognized provision for litigation in the amount of UAH 430,048 thousand (denominated in foreign currency) in respect of breach of the construction agreement with a supplier. As at 30 June 2015 the amount increased to UAH 588,252 thousand due to devaluation of Ukrainian Hryvnia.

12. Contingencies and commitments

Tax matters

Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that its interpretation of the relevant legislation is appropriate and that the Group has complied with all regulations, and paid or accrued all taxes and withholdings that are applicable.

However, where the risk of outflow of resources is probable, the Group has accrued tax liabilities based on management’s best estimate.

The uncertainty of inconsistent enforcement and application of Ukrainian tax laws creates a risk of substantial additional tax liabilities and penalties being claimed by the tax authorities. Such claims, if sustained, could have a material effect on the Group’s financial position, results of operations and cash flows. Management believes that there are strong arguments to successfully defend any such challenge and does not believe that the risk is any more significant than those of similar enterprises in Ukraine. When it is not considered probable that a material claim will arise, no provision has been established in these interim condensed combined financial statements.

In the course of its commercial activities the Group has a necessity to reallocate taxable income among the Group companies. Such reallocation involves a significant degree of management’s judgment. In spite of the fact that relevant government authorities had not historically challenged the management judgment in these matters, it is possible that the authorities may attempt to revise their previous approach to such transactions, equally as to any other aspects of application of tax legislation not challenged in the past, and assess additional income and other taxes and penalties against the Group, although this risk significantly diminishes with passage of time. It is not practical to determine the amount of any potential claims or the likelihood of any unfavourable outcome.

NOTES TO THE INTERIM CONDENSED COMBINED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2015

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

12. Contingencies and commitments (continued)

Litigations

In the normal course of business, the Group is subject to various routine litigation and arbitration related matters. As at 30 June 2015 the Group was involved in litigations with tax authorities with respect to additional accrual of tax liabilities in total amount of UAH 315,181 thousand, including additional charges and penalties (31 December 2014: UAH 322,346 thousand). In addition, the Group’s exposure to various third parties’ claims is UAH 232,054 thousand (31 December 2014: UAH 255,708 thousand).

Management believes that the Group’s position in the litigations stated above has sustainable legal merits, and therefore the ultimate resolution of these litigations will not have adverse effect on the Group’s financial position or the results of its future operations, accordingly, no corresponding accrual was provided in these interim condensed combined financial statements. Probable obligations are accrued for in these interim condensed combined financial statements (Note 11).

Capital commitments

As at 30 June 2015 the Group’s outstanding commitment in respect of purchase of property and equipment amounted to UAH 2,014,554 thousand (31 December 2014: UAH 1,971,931 thousand).

13. Fair value of financial instruments

Set out below is the comparison by category of carrying amounts and fair values of all of the Group’s financial instruments, that are carried in the interim condensed combined statements of financial position:

	Carrying amount		*Fair value*	
	30 June 2015 (unaudited)	*31 December 2014 (audited)*	*30 June 2015 (unaudited)*	*31 December 2014 (audited)*
Financial assets				
Trade and other receivables	640,030	699,686	640,030	699,686
Other financial assets	111,924	114,352	111,924	114,352
Long-term trade receivable	–	72,634	–	72,634
Short-term deposits	10,535	–	10,535	–
Cash and cash equivalents	3,606,069	2,038,008	3,606,069	2,038,008
Financial liabilities				
Interest-bearing loans and borrowings	38,329,127	31,087,696	34,439,936	28,347,910
Finance lease liability	2,787,845	3,414,440	2,787,845	3,414,440
Trade and other payables	4,613,827	6,134,291	4,613,827	6,134,291

In assessing the fair value of financial instruments, the Group uses a variety of methods and makes assumptions based on market conditions existing at the end of the reporting period. Quoted market prices or dealer quotes for the specific or similar instruments or the discounted value of future cash flows are used for financial assets. The face values of financial assets and liabilities with a maturity of less than one year, less any estimated credit adjustments, are assumed to be their fair values. The fair value of interest bearing loans and borrowings is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

NOTES TO THE INTERIM CONDENSED COMBINED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2015

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

14. Related party disclosure

The outstanding balances and transaction with entities under common control of the State comprised:

	30 June 2015 (unaudited)	*31 December 2014 (audited)*
Prepayments for property, plant and equipment	57	–
Long-term receivable	2,173	72,634
Trade and other receivables	50,915	266,647
Prepayments, other than dividends	13,680	9,314
Cash and cash equivalents	1,034,986	916,499
Trade and other payables, other than dividends	18,246	106,208
Advances received	3,637	499,020
Interest-bearing loans	805,828	772,877

	For the six months 2015 (unaudited)	*For the six months 2014 (unaudited)*
Cargo revenues	49,126	146,353
Maintenance services purchased	611,098	632,172
Finance income	3,105	21,716
Finance costs	68,990	39,466
Other expenses	62,543	29,746

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at regular prices, broadly similar to those with other non-related customers and suppliers. Outstanding balances at the reporting date are unsecured, interest-free and settlements occur in cash. There have been no guarantees provided or received for any related party receivables or payables. During the six months ended 30 June 2015 the Group has recorded impairment of long-term and current portion of long-term receivable due from Vugillya Ukrainy. Loss on impairment of UAH 234,850 thousand was included to other expenses in interim combined statement of comprehensive income.

Guarantees issued by the State of Ukraine

The Group’s interest bearing loans with carrying value of UAH 4,960,178 thousand (31 December 2014: UAH 3,990,847 thousand) were guaranteed by the State of Ukraine.

Compensation of key management personnel

Key management personnel consist of 19 members of the Board of Ukrzaliznytsia. During the six months ended 30 June 2015, total compensation to key management personnel amounted to UAH 1,215 thousand (six months ended 30 June 2014: UAH 947 thousand). Compensation includes salaries and salary related taxes.

Dividends to the State

As at 30 June 2015 dividends prepaid to the State in the amount of UAH 15 thousand were included in prepayments (31 December 2014: UAH 15 thousand). Included in trade and other payables are dividends payable to the State of UAH 63,807 thousand as at 30 June 2015 (31 December 2014: UAH 62,427 thousand).

NOTES TO THE INTERIM CONDENSED COMBINED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2015

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

14. Related party (continued)

Dividends accrued for the six months ended 30 June 2015 amounted to UAH 89,130 thousand (six months ended 30 June 2014: UAH 49,670 thousand).

Government subsidies

The Group receives subsidies from the State for carriage of certain categories of preferential passengers. During the six months ended 30 June 2015 such subsidies of UAH 88,000 thousand (six months ended 30 June 2014: UAH 60,800 thousand) were included into passenger revenue.

The State Administration of Railways Transport of Ukraine ("Ukrzaliznytsia")

Combined Financial Statements

As at 31 December 2014
with Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Management of the State Administration of Railways Transport of Ukraine

We have audited the accompanying combined financial statements of the State Administration of Railways Transport of Ukraine ("Ukrzaliznytsia") and other combined entities listed in Note 1 (collectively referred to as "the Group"), which comprise the combined statement of financial position as at 31 December 2014 and the combined statement of comprehensive income, combined statement of changes in equity and combined cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit qualified opinion.

(continued on the next page)

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Basis for qualified conclusion

(i) As disclosed in Notes 1 and 2 to the accompanying combined financial statements, as at 31 December 2014, the Group effectively did not have control over the operations of Crimean Direction of Prydniprovska Railway. Therefore, the inclusion of Crimean Direction in the combined financial statements as at 31 December 2014 constitutes a departure from International Financial Reporting Standards. The carrying value of the Group's assets and liabilities located in the Autonomous Republic of Crimea or otherwise associated with the Crimean Direction included in the combined financial statements was UAH 1,108,565 thousand (1.5% of Group's total assets) and UAH 165,088 thousand, respectively.

(ii) As disclosed in Note 2 to the accompanying combined financial statements, certain structural units of Donetsk Railway, a Group entity, including its head office, are located on the territory temporarily not controlled by Ukrainian authorities. We were unable to obtain sufficient appropriate audit evidence about the financial information of Donetsk Railway as at 31 December 2014 and for the year then ended as disclosed in Note 2 as we had no access to relevant supporting documents and we were unable to satisfy ourselves by alternative means. Consequently, we were unable to determine whether any adjustments to this financial information were necessary.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph (i) and except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph (ii), the combined financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the combined financial statements which indicates that the Group incurred a net loss of UAH 15,443,802 thousand for the year ended 31 December 2014 and, as of that date, the Group's current liabilities exceeded its current assets by UAH 29,880,159 thousand. We further draw attention to Note 18 in the combined financial statements which indicates that the Group breached certain undertakings under its loan arrangements as at 31 December 2014 and as at the date of approval of the combined financial statements, the Group has not completed its negotiations with the lenders on reaching a mutually acceptable restructuring agreement with respect to its borrowing facilities. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

Ernst & Young Audit Services LLC

30 July 2015

COMBINED STATEMENT OF FINANCIAL POSITION
as at 31 December 2014
(in thousands of Ukrainian Hryvnia)

	Notes	2014	2013
ASSETS			
Non-current assets			
Property, plant and equipment	9	62,352,975	63,721,131
Financial assets	10	186,986	213,706
Taxes receivable, other than income tax	14	544,369	506,099
Deferred tax asset	21	4,024,519	4,101,120
		67,108,849	68,542,056
Current assets			
Inventories	11	3,012,930	3,922,904
Trade and other receivables	12	699,686	461,681
Prepayments	13	232,663	300,121
Prepaid income tax		309,235	330,724
Taxes receivable, other than income tax	14	271,375	488,796
Short-term deposits	15	-	2,957
Cash and cash equivalents	16	2,038,008	643,559
		6,563,897	6,150,742
TOTAL ASSETS		73,672,746	74,692,798
EQUITY AND LIABILITIES			
Equity			
Contributed capital	17	18,640,130	18,640,806
Retained earnings	17	9,129,169	24,572,762
		27,769,299	43,213,568
Non-current liabilities			
Interest-bearing loans and borrowings	18	5,729,683	12,337,943
Finance lease liability	19	1,801,722	1,100,560
Employee benefit liability	20	1,912,649	2,164,563
Deferred tax liability	21	15,337	15,533
		9,459,391	15,618,599
Current liabilities			
Interest-bearing loans and borrowings	18	25,358,013	5,574,045
Finance lease liability	19	1,612,718	1,269,120
Trade and other payables	22	6,134,291	7,109,629
Advances from customers		2,380,542	1,684,423
Income tax payable		77,037	7,231
Taxes payable, other than income tax	23	444,790	194,358
Provisions	24	436,665	21,825
		36,444,056	15,860,631
Total liabilities		45,903,447	31,479,230
TOTAL EQUITY AND LIABILITIES		73,672,746	74,692,798

Signed and authorised for release on behalf of The State Administration of Railways Transport of Ukraine ("Ukrzaliznytsia") on 30 July 2015 by:

Deputy General Director	Vitalii O. Zhurakivskyi
Director of Finance and Investment	Oleksiy L. Slipchenko
Head of Central Finance and Economic Department	Tamara S. Ryabchun

COMBINED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2014
(in thousands of Ukrainian Hryvnia)

	Notes	2014	2013
Revenues			
Cargo revenues		39,308,797	38,805,356
Passenger revenues		5,254,805	7,058,611
Other revenues		4,892,017	5,185,867
Total revenues		49,455,619	51,049,834
Operating expenses			
Staff costs		(22,754,713)	(22,286,077)
Depreciation		(5,630,858)	(5,970,709)
Maintenance		(5,339,710)	(6,064,716)
Electricity		(5,189,089)	(5,043,707)
Fuel		(4,943,837)	(4,413,567)
Taxes, other than income tax	25	(1,076,716)	(1,263,481)
Social expenses		(508,250)	(644,561)
Impairment of Property, plant and equipment	9	-	(427,648)
Change in provisions	24	(414,840)	12,901
Other income		701,757	519,186
Other expenses		(1,084,242)	(505,168)
Total operating expenses		(46,240,498)	(46,087,547)
Operating profit		3,215,121	4,962,287
Finance income	26	50,082	55,057
Finance costs	26	(3,703,546)	(3,261,924)
Foreign exchange gain / (loss), net	27	(14,243,398)	128,007
(Loss)/profit before income tax		(14,681,741)	1,883,427
Income tax expense	21	(762,061)	(1,325,856)
(Loss)/profit for the year		(15,443,802)	557,571
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains/(losses) on defined benefit plans, net of tax	20	36,770	(12,267)
Total comprehensive (loss)/income for the year, net of tax		(15,407,032)	545,304

COMBINED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2014

(in thousands of Ukrainian Hryvnia)

	Notes	*Contributed capital*	*Retained earnings*	*Total equity*
At 31 December 2012		18,643,911	24,218,966	42,862,877
Profit for the period		-	557,571	557,571
Other comprehensive income		-	(12,267)	(12,267)
Total comprehensive income		-	545,304	545,304
Changes in the Group composition	17	(3,105)	(6,520)	(9,625)
Transfer of property, plant and equipment to entities under common control	17	-	(4,388)	(4,388)
Dividends	17	-	(180,600)	(180,600)
At 31 December 2013		18,640,806	24,572,762	43,213,568
Loss for the period		-	(15,443,802)	(15,443,802)
Other comprehensive income		-	36,770	36,770
Total comprehensive loss		-	(15,407,032)	(15,407,032)
Changes in the Group composition	17	(676)	(262)	(938)
Transfer of property, plant and equipment from entities under common control	17	-	138,381	138,381
Dividends	17	-	(174,680)	(174,680)
At 31 December 2014		18,640,130	9,129,169	27,769,299

COMBINED STATEMENT OF CASH FLOWS

for the year ended 31 December 2014

(in thousands of Ukrainian Hryvnia)

	Notes	*2014*	*2013*
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before income tax		(14,681,741)	1,883,427
Adjustments to reconcile profit before income tax to net cash provided by operations			
Depreciation		5,630,858	5,970,709
Impairment of property, plant and equipment	9	-	427,648
Finance costs, net	26	3,653,464	3,206,867
Loss on disposal of property, plant and equipment		429,975	61,100
Movements in Defined benefit liability and provisions		(9,107)	(380,564)
Allowance for estimated irrecoverable amounts		161,812	102,545
Unrealised foreign exchange (gain)/loss, net		14,211,814	(11,618)
Operating profit before working capital changes		9,397,075	11,260,114
Changes in working capital			
Trade and other receivables		(339,050)	2,946
Prepayments		61,137	(78,450)
Inventories		921,778	(590,352)
Taxes receivable and prepaid		245,818	293,311
Trade and other payables		(1,365,080)	694,076
Advances from customers		696,119	544,318
Taxes payable, other than income tax		250,432	(175,072)
Cash generated from operating activity		9,868,229	11,950,891
Income tax paid		(602,433)	(1,249,169)
Interest paid		(3,012,111)	(2,474,451)
Dividends paid	17	(180,890)	(120,205)
Net cash flows from operating activities		6,072,795	8,107,066
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(4,145,903)	(7,153,584)
Proceeds from disposal of property, plant and equipment		308,136	306,387
Net cash movement on deposit accounts		2,957	16,357
Interest received		16,401	18,738
Net cash flows used in investing activities		(3,818,409)	(6,812,102)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Interest-bearing loans		9,980,485	16,969,506
Repayment of Interest-bearing loans		(10,814,097)	(20,109,464)
Proceeds from Eurobonds and domestic bonds		3,323,107	6,564,616
Repayment of domestic bonds		(1,760,589)	(2,333,500)
Repayment of finance lease obligations		(1,603,717)	(1,986,775)
Net cash flows from financing activities		(874,811)	(895,617)
Net increase/(decrease) in cash and cash equivalents		1,379,575	399,347
Net foreign exchange difference		14,874	3,389
Cash and cash equivalents at 1 January	16	643,559	240,823
Cash and cash equivalents at 31 December	16	2,038,008	643,559

NOTES TO THE COMBINED FINANCIAL STATEMENTS

for the year ended 31 December 2014

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

1. Description of business and the Group’s structure

Formation and operations of the Group

The State Administration of Railways Transport of Ukraine (hereinafter referred to as "Ukrzaliznytsia") was established in December 1991 pursuant to the Decree of the Cabinet of Ministers of Ukraine No. 356 as a state body with the purpose to organize effective management of provision of railways transportation services and securement of population transportation needs and economy as a whole. Ukrzaliznytsia operates under the Regulation on the State Administration of Railways Transport of Ukraine approved by the Decree of the Cabinet of Ministers of Ukraine dated 29 February 1996 No. 262.

The registered address of Ukrzaliznytsia is 5, Tverska St., Kyiv 03680, Ukraine.

Combined entities

These combined financial statements include statements of financial position and related statements of comprehensive income, cash flows and changes in equity of entities (hereinafter referred to as the "Combined Entities"), which, according to the Orders of the Ministry of Infrastructure of Ukraine (before 9 December 2010 Ministry of Transport and Communications of Ukraine) and the Decree of the Cabinet of Ministers of Ukraine, were managed and effectively controlled by Ukrzaliznytsia during the year ended 31 December 2014 which together form the Ukrzaliznytsia Group (hereinafter collectively referred to as the “Group").

The significant Group’s entities as at 31 December 2014 are presented below:

	Managing entity:	
1	State Administration of Railways Transportation of Ukraine (Ukrzaliznytsia)	State Enterprise
	Railways:	
2	Donetsk Railway	State Enterprise
3	Lviv Railway	State Regional Specialised Association
4	Odesa Railway	State Enterprise
5	Prydniprovska Railway	State Enterprise
6	South-Western Railway	State Regional Specialised Association
7	Southern Railway	State Enterprise
	Auxiliary services:	
8	Ukrspetsvagon	State Enterprise
9	Ukrainian State Center for Railways Refrigerator Transportation Ukrreftrans	State Enterprise
10	Ukrainian State Center for Transportation Service "Lisky"	State Enterprise
11	Darnytsky Carriage Repair Plant	State Enterprise
12	Main Information Processing Center of Ukrzaliznytsia	State Enterprise
13	Central Communications Station	State Enterprise
14	Ukrainian State Clearing Center for International Transportation	State Enterprise
15	Ukrzaliznychpostach	State Enterprise
16	Ukrainian Center for Railroad Mechanisation	State Enterprise
17	Rava-Rusky Sleeper Plant	State Enterprise
18	Ukrainian transport logistics center	State Enterprise
19	Ukrainian railway high-speed company	State Enterprise
20	Vinnytsiatransprylad	State Enterprise
21	Stryysky Carriage Repair Plant	State Enterprise
22	Starokonstantinovsky Concrete Sleeper Plant	State Enterprise
23	Administration for Industrial Enterprises	State Enterprise

NOTES TO THE COMBINED FINANCIAL STATEMENTS
for the year ended 31 December 2014
(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

1. Description of business and the Group’s structure (continued)

During the year ended 31 December 2014, there were changes in the structure of the Group which are further detailed in the Note 17.

As further disclosed in Note 2, starting from April 2014 the Group effectively temporary lost control over the operations of Crimean Direction of Prydniprovska Railway and over social infrastructure assets of other Railways located in the Autonomous Republic of Crimea. However, following the requirements of the Law of Ukraine “On ensuring citizens’ rights and freedoms and legal regime on the temporary occupied territory of Ukraine”, the Group still accounts for assets and liabilities located in the Autonomous Republic of Crimea at the carrying values as of 31 March 2014.

In March 2012 a Law of Ukraine №4442-VI “On peculiarities of the formation of a public joint stock company for railway transportation” was enacted. The Law sets broad principles for the reorganisation of the Group into a single joint stock company with 100% shares to be owned by the State Ukraine. The Group is in the process of the legal reorganisation which is intended to be completed by 31 December 2015.

Pricing policy

Cargo and passenger transportation in Ukraine is a natural monopoly and is subject to the following tariffs regulations:

Tariffs for domestic cargo transportation - approved by the Ministry of Infrastructure of Ukraine as agreed with the Ministry of Economic Development and Trade of Ukraine and the Ministry of Finance of Ukraine. The tariffs are denominated in Ukrainian Hryvnia and are subject to inflation adjustments in line with a change in consumer prices. There were several adjustments to the tariff rates during the years 2014-2013.

Tariffs for domestic transportation of passengers and baggage - approved by the Ministry of Infrastructure of Ukraine as agreed with the Ministry of Economic Development and Trade of Ukraine. The tariffs are denominated in Ukrainian Hryvnia. There were several adjustments to the tariff rate during the years 2014-2013.

Tariffs for international cargo transportation - regulated by special Tariff Policy annually approved by the Ministry of Infrastructure of Ukraine based on intergovernmental agreements. Tariffs are denominated in Swiss Francs.

Tariffs for international transportation of passengers and baggage - approved by the Ministry of Infrastructure of Ukraine, denominated in Swiss Francs for the countries of the Commonwealth of Independent States, Latvia, Lithuania, Estonia and in Euro for transportation in other countries.

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2. Operating environment, risks and economic conditions in Ukraine

The Group conducts its operations in Ukraine. The Ukrainian economy while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, high inflation, and significant imbalances in the public finance and foreign trade.

In 2014, Ukrainian political and economic situation deteriorated significantly. The political and social unrest combined with regional tensions has led to the temporary occupation of the Autonomous Republic of Crimea from Ukraine by the Russian Federation, full-fledged armed confrontations with separatists in certain parts of the Donetsk and Lugansk regions and, ultimately, to the significant deterioration of the political and economic relations of Ukraine with the Russian Federation. These factors have contributed to the decline of key economic indices, increase of the state budget deficit, depletion of the NBU's foreign currency reserves and, as a result, further downgrading of the Ukrainian sovereign debt credit ratings.

From 1 January 2014 and up to the date of the issuance of these financial statements, the Ukrainian Hryvnia (the "UAH") depreciated against major foreign currencies by approximately 172% calculated based on the National Bank of Ukraine (the "NBU") exchange rate of UAH to US Dollar. The NBU imposed certain restrictions on purchase of foreign currencies, cross border settlements (including payment of dividends), and also mandated obligatory partial conversion of foreign currency proceeds into UAH.

The known and estimable effects of the above events on the financial position and performance of the Group in the reporting period have been taken into account in preparing the combined financial statements. Specific effects of the secession of the Autonomous Republic of Crimea and the ongoing armed confrontations in certain parts of Donetsk and Lugansk regions are disclosed below in this note.

The Crimean authorities declared Crimean Direction of Prydniprovska Railway a separate State Company "Crimean Railways". Crimean Direction contributed 0.7% to the Group's revenues during the year ended 31 December 2014. Besides, social infrastructure assets of other Railways are located in the Autonomous Republic of Crimea. As at that date, the carrying value of the Group's assets and liabilities located in or otherwise associated with the Autonomous Republic of Crimea (including customers, borrowers, etc.) was UAH 1,108,565 thousand (1.5% of total assets) and 165,088 thousand, respectively.

In the second half of 2014 as a result of the armed confrontations the Ukrainian authorities lost control over certain territory of Donetsk and Lugansk regions where Donetsk Railway operates, including Donetsk, where the head office of Donetsk Railway is located. In total, Donetsk Railway contributed 13% to the Group's revenues during the year ended 31 December 2014. As at that date the carrying value of the Group's assets located in or otherwise associated with the Donetsk Railway (including customers, borrowers, etc.) was UAH 11,389,129 thousand (15% of total assets). Management was not able to assess the consequences of armed confrontation on the assets, liabilities and related profit or loss of Donetsk railway.

The summarised financial information of Donetsk Railway included into the combined financial statements of the Group as at and for the year ended 31 December 2014 is presented below:

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2. Operating environment, risks and economic conditions in Ukraine (continued)

Statement of financial position:

	2014
ASSETS	
Non-current assets	
Property, plant and equipment	8,639,380
Financial assets	92,286
Deferred tax asset	572,009
	9,303,675
Current assets	
Inventories	446,362
Trade and other receivables	205,693
Trade and other receivables form Group entities	1,238,159
Prepayments	54,451
Prepaid income tax	79,046
Taxes receivable, other than income tax	29,093
Cash and cash equivalents	32,650
	2,085,454
TOTAL ASSETS	11,389,129
EQUITY AND LIABILITIES	
Equity	
Contributed capital	2,887,853
Retained earnings	661,280
	3,549,133
Non-current liabilities	
Interest-bearing loans and borrowings	1,055,004
Finance lease liability	149,210
Employee benefit liability	310,930
	1,515,144
Current liabilities	
Interest-bearing loans and borrowings	4,930,921
Finance lease liability	499,729
Trade and other payables	476,576
Trade and other payables to Group entities	218,461
Advances from customers	85,577
Taxes payable, other than income tax	113,588
	6,324,852
Total liabilities	7,839,996
TOTAL EQUITY AND LIABILITIES	11,389,129

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2. Operating environment, risks and economic conditions in Ukraine (continued)

Statement of comprehensive income:

	2014
Revenues	
Cargo revenues	5,655,775
Passenger revenues	345,004
Other revenues	376,457
Revenue from Group entities	333,529
Total revenues	6,710,765
Operating expenses	
Staff costs	(3,682,507)
Depreciation	(710,034)
Maintenance	(567,978)
Electricity	(674,125)
Fuel	(712,461)
Taxes, other than income tax	(75,296)
Social expenses	(114,630)
Other income	21,688
Other expenses	(151,412)
Total operating expenses	(6,666,755)
Operating profit	44,010
Finance income	36,574
Finance costs	(698,582)
Foreign exchange gain / (loss), net	(3,029,361)
Loss before income tax	(3,647,359)
Income tax benefit	16,217
Loss for the year	(3,631,142)
Total comprehensive loss for the year, net of tax	(3,631,142)

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2. Operating environment, risks and economic conditions in Ukraine (continued)

Statement of cash flow:

	2014
CASH FLOWS FROM OPERATING ACTIVITIES	
Loss before income tax	(3,647,359)
Adjustments to reconcile profit before income tax to net cash provided by operations	
Depreciation	710,034
Finance costs, net	662,008
Loss on disposal of property, plant and equipment	140,240
Unrealised foreign exchange loss, net	2,928,527
Operating profit before working capital changes	793,450
Changes in working capital	
Trade and other receivables	857,924
Prepayments	11,410
Inventories	141,833
Taxes receivable and prepaid	21,099
Trade and other payables	(237,803)
Advances from customers	(112,883)
Taxes payable, other than income tax	86,757
Cash generated from operating activity	1,561,787
Income tax paid	(74,336)
Interest paid	(654,129)
Dividends paid	(18,423)
Net cash flows from operating activities	814,899
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of property, plant and equipment	(177,849)
Proceeds from disposal of property, plant and equipment	29,004
Interest received	2,893
Net cash flows used in investing activities	(145,952)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from Interest-bearing loans	1,455,086
Repayment of Interest-bearing loans	(1,818,670)
Proceeds from domestic bonds	280,000
Repayment of domestic bonds	(500,000)
Repayment of finance lease obligations	(70,368)
Net cash flows used in financing activities	(653,952)
Net increase in cash and cash equivalents	14,995
Cash and cash equivalents at 1 January	17,655
Cash and cash equivalents at 31 December	32,650

Despite the armed confronations managements was able to assure railway operations involving uncontrolled territories. Management supports the official position of the Ukrainian authorities that the uncontrolled territories will be reintegrated to Ukraine.

The Government has committed to direct its policy towards the association with the European Union, to implement a set of reforms aiming at the removal of the existing imbalances in the economy, public finance and public governance, and the improvement of the investment climate. Stabilisation of the Ukrainian economy in the foreseeable future depends on the success of the actions undertaken by the

NOTES TO THE COMBINED FINANCIAL STATEMENTS

for the year ended 31 December 2014

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2. Operating environment, risks and economic conditions in Ukraine (continued)

Government and securing continued financial support of Ukraine by international donors and international financial institutions.

Management is monitoring the developments in the current environment and taking actions, where appropriate, to minimize any negative effects to the extent possible. Further adverse developments in the political, macroeconomic and/or international trade conditions may further adversely affect the Group's financial position and performance in a manner not currently determinable.

Going Concern

The Group operations were significantly impacted by the deterioration of the operating environment. The Group's net loss for the year ended 31 December 2014 amounted to UAH 15,443,802 thousand. As at 31 December 2014, the Group's current liabilities exceeded its current assets by UAH 29,880,159 thousand (2013: UAH 9,709,889 thousand). As at 31 December 2014 the Group did not comply with certain undertakings under its long-term loan agreements and failed to remediate the breaches before the reporting date. Such default have triggered a cross default of under certain other borrowings. Therefore, the lenders became entitled to request accelerated repayment of interest-bearing borrowings with carrying value of UAH 18,234,800 thousand as at 31 December 2014. The non-current portion of borrowings under these agreements of UAH 14,426,435 thousand as at 31 December 2014, was reported in these combined financial statements within current liabilities.

In April 2015 the Government of Ukraine included the debt related to the Eurobonds issue (Note 18) to the list of external debt subject to restructuring with the support of the Government in relation to the arrangements with the International Monetary Fund (Note 32). In May 2015 the Group reported suspension of principal debt repayment to Ukrainian internal lenders and initiated debt restructuring negotiations. In the meantime the Group intends to timely service and repay the debt to foreign creditors. As at the date of the authorisation of the financial statements certain agreements were reached as for the restructuring of a major part of the internal debt.

The Group's management believes that: (i) negotiations with both internal and external lenders will be successfully completed in the nearest future, as the lenders are not interested in accelerating repayment of debts and due to the support of the Government; (ii) negative impact of the operating environment will decrease in 2015 due to certain stabilization of the political and economic situation, (iii) the Group is able to generate additional cash flows from its operating activities to finance net working capital deficit through cost reduction measures, and (iv) the Group may release additional cash flows by capping capital expenditures in case needed, without short term negative effects on operations.

The success of the management plan to achieve further profitable operations with sufficient cash flows and the actual outcome of the restructuring of the remaining debt are not virtually certain. These conditions represent a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. The Group may be unable to realize its assets and discharge its liabilities in the normal course of business.

NOTES TO THE COMBINED FINANCIAL STATEMENTS
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3. Basis of preparation

The combined financial statements have been prepared on a historical cost basis, except for post-employment benefits measured in accordance with the requirements of IAS 19 "Employee benefits" and certain financial instruments measured in accordance with the requirements of IAS 39 "Financial instruments: recognition and measurement". These combined financial statements are presented in Ukrainian Hryvnia ("UAH") thousands and all values are rounded off to the nearest thousand except where otherwise indicated.

Statement of compliance

The combined financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of combination

Ukrzaliznytsia is an entity subordinated to the Ministry of Infrastructure of Ukraine and represents, by substance, the Ultimate Holding Company for the group of entities engaged in provision of railways transportation services and support of railways infrastructure in Ukraine. The companies within the Group are under full control of the State of Ukraine, which is the Common Ultimate Shareholder of the Group.

The initial combination of Ukrzaliznytsia and the Combined Entities has been made using the pooling of interests method as if Ukrzaliznytsia and the Combined Entities have always been together but not earlier the Combined Entities were acquired under common control.

The contributed capital of the Group combines the registered capital of Ukrzaliznytsia and the Combined Entities. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

The financial statements of Ukrzaliznytsia and the Combined Entities are prepared for the same reporting period and using consistent accounting policies.

Subsequent changes in the Group composition

Subsequent changes in the Group composition involving other entities under common control are recognised in the combined financial statements since the date these changes are officially enacted. The components of equity are added to or deducted from the same components within the Group equity.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

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4. Changes in accounting policy

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as at 1 January 2014:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss, These amendments have no impact to the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on Group.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact to the Group as the Group has not novated derivatives during the current or prior periods.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36

These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. The amendment had no significant impact on the Group's financial statements.

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 in prior years.

NOTES TO THE COMBINED FINANCIAL STATEMENTS
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5. Significant accounting judgments, estimates and assumptions

According to IAS 1 *Presentation of Financial Statements*, the Group accounts for and presents transactions and other events in accordance with their substance and economic reality and not merely their legal form.

The preparation of combined financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts. These estimates are based on information available as at the end of the reporting period. Actual results could differ from these estimates. The key judgments, estimates and assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that represents a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year are discussed below:

Judgments
Provisions
The Group has recognised provisions for obligations related to tax risks and legal claims. The amount of the provision represents the management’s best estimates of expected future cash outflows discounted at a current pre-tax rate, where appropriate.

Impairment of property, plant and equipment
At the end of each reporting period the Group assesses whether there is any indication that an asset may be impaired. This assessment implies significant judgment. As at 31 December 2014 the management has identified indicators of impairment of property, plant and equipment and performed an impairment test. The results of impairment test showed that the recoverable amount of the assets approximates the carrying value of such assets as at 31 December 2014 (Note 9).

Estimates
Allowance for doubtful debts
The allowance for doubtful debts is estimated by management using the best information available as to the creditworthiness of its customers as at the end of the reporting period. However, the actual recoverability of receivables may differ from those estimations made by management.

Estimates of the useful lives of property, plant and equipment
Significant management judgment is required to determine the estimated useful lives of items of property, plant and equipment. The actual useful lives may vary from the management estimates.

Defined benefit liability
The cost of defined benefit pension plans and other post employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, staff turnover, mortality rates and future pension increases. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate management considers the yield of government bonds because there is no deep market in corporate bonds in Ukraine. Due to the long term nature of these plans, the estimates are subject to significant uncertainty. Further details are given in Note 20.

Deferred tax asset recoverability
Deferred tax assets are recognised to the extent that it is probable that they will be recovered, which is dependent on the generation of sufficient future taxable profit. Assumptions about the generation of future taxable profits depend on management’s estimates of future cash flows. These depend on estimates of future level of tariffs and sales volumes, prices for consumables and operating costs. Judgments are also required about the application of income tax legislation. These judgments and estimates are subject to risks and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised at the reporting date. In such circumstances, some, or all, of the carrying amount of recognised deferred tax assets and liabilities may require adjustment, resulting in corresponding credit or charge to the income statement.

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6. Summary of significant accounting policies

Foreign currency translation

The functional and presentation currency of the Group is the Ukrainian Hryvnia. This is the currency of the primary economic environment in which the Group operates. Transactions denominated in currencies other than the functional currency (foreign currencies) are initially recorded in the functional currency at the rate at the date of the transaction as established by the National Bank of Ukraine ("NBU"), which is deemed to approximate the prevailing market rate. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange in effect at the end of the reporting period. Non-monetary items that were measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair values were determined. The resulting gains and losses are recognised in the profit of loss within the statement of comprehensive income.

Financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, held-to maturity investments, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets upon initial recognition and, where allowed and appropriate, re-assess this designation at each financial year-end.

The Group has not designated any financial instruments at fair value through profit or loss, neither as held-to-maturity investments.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and impairment losses.

Upon recognition, items of property, plant and equipment are divided into components, which represent items with a significant value that can be allocated to a separate depreciation period. Overhaul costs also represent a component of an asset. Major spare parts and stand-by equipment qualify as property, plant and equipment when they are expected to be used during more than one period.

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised, and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the profit or loss within the statement of comprehensive income as incurred.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

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6. Summary of significant accounting policies (*continued*)

Estimates of remaining useful lives are made on a regular basis with annual reassessments for major items. Changes in estimates are accounted for prospectively. Depreciation commences when an item is available for use. Freehold land is not depreciated.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Group	*Useful lives*
Buildings, constructions and infrastructure	9-76 years
Subgrade and superstructure	6-83 years
Locomotives	5-32 years
Railway cars	5-30 years
Plant, equipment, tools and other	3-17 years
Vehicles	3-12 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss within the statement of comprehensive income in the year the item is derecognised.

Social assets

Included in property, plant and equipment are social infrastructure and other non-production assets (hereinafter referred to as the "social assets"). Management believes that expenditures incurred in respect of acquisition or construction of such assets qualify for the recognition as an asset on the premises that such expenditures are capable of contributing indirectly to the flow of cash and cash equivalents to the Group through a reduction of cash outflows related primarily to wages and salaries expenses. As such non-production assets are employed by the Group to provide in-kind benefits to its employees in addition to wages and salaries paid in cash.

Construction in progress

Assets in the course of construction are capitalised as a separate component of property, plant and equipment. On completion, the cost of construction is transferred to the appropriate category. Construction in progress is not depreciated.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the profit or loss within the statement of comprehensive income.

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6. Summary of significant accounting policies (*continued*)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Inventories

Inventories primarily consist of spare parts, materials, tools and fuel. Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the FIFO (first-in, first-out) method. Net realisable value is determined as the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Borrowing costs

Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset, otherwise they are recognised as an expense when incurred. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short term, highly liquid investments with an original maturity of three months or less that are readily convertible to known amounts of cash and subject to insignificant risks of changes in value.

For the purposes of the combined statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Trade and other payables

Trade and other payables are recognised and initially measured at fair values less directly attributable transaction costs. Subsequently, trade and other payables are carried at amortised cost using the effective interest method.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

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6. Summary of significant accounting policies (*continued*)

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case Group also recognizes an associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss within the statement of comprehensive income.

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6. Summary of significant accounting policies (*continued*)

Impairment of financial assets

The Group assesses at the end of each reporting period whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortised cost that would have been at the reversal date, had the impairment not been recognized.

Available-for-sale financial assets

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. ‘Significant’ is evaluated against the original cost of the investment and ‘prolonged’ against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss – is removed from other comprehensive income and recognised in the profit or loss. Impairment losses on equity investments are not reversed through the profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income. In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the profit or loss.

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6. Summary of significant accounting policies (*continued*)

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation (either based on legal regulations or implied) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Contingent liabilities and assets

Contingent liabilities are not recognised in the combined financial statements. They are disclosed in the notes to the combined financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the combined financial statements but disclosed when an inflow of economic benefits is probable.

Employee benefits

The Group makes defined contributions to the Ukrainian state pension funds at the relevant statutory rates in force during the year, based on gross salary payments. The Group has no legal or constructive obligations to pay further contributions in respect of those benefits. Its only obligation is to pay contributions as they fall due. Such contributions are expensed in the period when the related salaries are earned.

In addition, the Group has a legal obligation to compensate the Ukrainian State Pension Fund for additional pensions paid to certain categories of the current and former employees who are eligible for early retirement benefits due to working in hazardous and/or unhealthy working conditions. The Group has also contractual obligation to pay lump-sum payments to the retiring employees with the long service, certain post retirement and post employment benefits, as well as other long-term employee benefits such as jubilee and long service benefits, etc. according to collective agreements. These obligations fall under definitions of a defined benefit plan.

Government grants

Government grants contributed towards the acquisition of property, plant and equipment are deducted from the cost of those assets where there is reasonable assurance that the grants will be received and all attached conditions will be complied with.

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6. Summary of significant accounting policies (*continued*)

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date, and involves assessment whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Group as a lessee
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease term at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term. In other case capitalised leased assets are depreciated over the useful life of the asset.

Operating lease payments are recognised as an expense in profit or loss on a straight line basis over the lease term.

Group as a lessor
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Revenue recognition

Revenues are recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of revenues can be measured reliably.

Revenues and expenses are accounted for at the time the actual flow of related goods and services occurs and transfer of risks and rewards has been completed, regardless of when cash or its equivalent is received or paid, and are reported in the statement of comprehensive income in the period to which they relate.

Transportation services
In respect of services related to cargo and passenger transportation, revenue is recognised by reference to the stage of completion of the transportation at the end of the reporting period provided that the stage of completion of the transportation and the amount of revenue can be measured reliably. The stage of completion is determined based on a duration or transportation completed to date to total duration of transportation.

Any amounts, which have been collected from the clients in advance to deliveries, initiated and not completed as at the date of these combined financial statements are reported in the combined statement of financial position as advances received for transportation. The amount of these liabilities is reduced for the amount of revenues recognised by reference to the stage of completion of the delivery.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

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6. Summary of significant accounting policies (*continued*)

Interest and similar income and expense

Interest income and expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of such an instrument, taking into consideration all contractual terms of the instrument.

Exchange of services of similar nature and value

The Group's transportation and other services provided to foreign railways are settled through mutual offset arrangements with its counterparties. Generally, the settlement is made in exchange for services of similar nature and value which is not regarded as a transaction which generates revenue. Such transactions are accounted on a net basis.

Taxes

Current income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted by the end of the reporting period.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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6. Summary of significant accounting policies (*continued*)

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted at the end of the reporting period.

Income tax relating to items recognised in other comprehensive income or directly in equity is recognised in other comprehensive income or directly in equity and not in the profit or loss.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value-added tax
Revenues, expenses and assets are recognised net of the amount of Value-added tax ("VAT") except:

- where VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case VAT is recognised as part of the cost of acquisition of the asset or as part of expense item as applicable; and
- receivables, payables and finance lease liability are stated with the amount of VAT included.

The net amount of VAT receivable from, or payable to, the taxation authority is included into the *Taxes receivable, other than income tax/Taxes payable, other than income tax* line items disclosed on the face of the combined statement of financial position.

Events after the reporting period

Events after the reporting period that provide additional information on the Group's position at the end of the reporting period (adjusting events) are reflected in the combined financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

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7. Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group’s combined financial statements are disclosed below. The Group intends to adopt these standards when they become effective. Management currently assesses the impact of adoption of these standards and interpretations on the combined financial statements of forthcoming periods.

Standard	Pronouncement	Effective date
IFRS 2 Share-based Payment	Amendments resulting from Annual Improvements 2010-2012 Cycle: definition of 'vesting condition'	Annual periods beginning on or after 1 July 2014
IFRS 3 Business Combinations	Amendments resulting from Annual Improvements 2010-2012 Cycle: accounting for contingent consideration	Annual periods beginning on or after 1 July 2014
IFRS 3 Business Combinations	Amendments resulting from Annual Improvements 2011-2013 Cycle: scope exception for joint ventures	Annual periods beginning on or after 1 July 2014
IFRS 8 Operating Segments	Amendments resulting from Annual Improvements 2010-2012 Cycle: aggregation of segments, reconciliation of segment assets	Annual periods beginning on or after 1 July 2014
IFRS 9 Financial Instruments	Replacement of IAS 39, applies to classification and measurement of financial assets and financial liabilities, as defined in IAS 39.	Annual periods beginning on or after 1 July 2018 (tentatively)
IFRS 13 Fair Value Measurement	Amendments resulting from Annual Improvements 2011-2013 Cycle: scope of the portfolio exception in paragraph 52	Annual periods beginning on or after 1 July 2014
IFRS 14 Regulatory Deferral Accounts	Original issue. Permits an IFRS first-time adopter to continue to account certain items in accordance with its previous GAAP	Applies to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016
IAS 16 Property, Plant and Equipment	Amendments resulting from Annual Improvements 2010-2012 Cycle: proportionate restatement of accumulated depreciation on revaluation	Annual periods beginning on or after 1 July 2014
IAS 19 Employee Benefits	Amended to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service	Annual periods beginning on or after 1 July 2014
IAS 24 Related Party Disclosures	Amendments resulting from Annual Improvements 2010-2012 Cycle: management entities	Annual periods beginning on or after 1 July 2014
IAS 38 Intangible Assets	Amendments resulting from Annual Improvements 2010-2012 Cycle: proportionate restatement of accumulated depreciation on revaluation	Annual periods beginning on or after 1 July 2014

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7. Standards issued but not yet effective (*continued*)

Standard	Pronouncement	Effective date
IAS 40 Investment Property	Amendments resulting from Annual Improvements 2011-2013 Cycle: interrelationship between IFRS 3 and IAS 40	Annual periods beginning on or after 1 July 2014
IFRS 5 Non-current Assets Held for Sale and Discontinued Opera	Amendments resulting from Annual Improvements 2013-2014 Cycle: changes in methods of disposal	Annual periods beginning on or after 1 January 2016
IFRS 7 Financial Instruments	Amendments resulting from Annual Improvements 2013-2014 Cycle: Disclosures – servicing contracts	Annual periods beginning on or after 1 January 2016
IFRS 7 Financial Instruments:	Amendments resulting from Annual Improvements 2013-2014 Cycle: Disclosures - applicability of the offsetting disclosures to condensed interim financial statements	Annual periods beginning on or after 1 January 2016
IAS 19 Employee Benefits	Amendments resulting from Annual Improvements 2013-2014 Cycle: regional market issue regarding discount rate	Annual periods beginning on or after 1 January 2016
IAS 34 Interim Financial Reporting	Amendments resulting from Annual Improvements 2013-2014 Cycle: disclosure of information 'elsewhere in the interim financial report'	Annual periods beginning on or after 1 January 2016

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8. Segment reporting

For management purposes, the Group is organized into business units based on their services, and has five reportable operating segments:

- *Cargo segment* includes cargo transportation services provided by the Group.
- *Long-distance passenger transportation reportable operating segment* comprises all cross-regional passenger transportation services provided by the Group.
- *Suburban passenger transportation segment* includes intraregional rail passenger transportation services.
- *Auxiliary operations segment* include repair and maintenance of rolling stock, energy re-sale, construction and other services provided by the Group's entities.
- *All other segments* include activities of the Group's entities which provide services related to cargo, suburban passenger transportation, construction, reconstruction and modernisation of railways and railway transport infrastructure, repair and maintenance of different railway-related equipment and other companies within the Group. None of these operations are of sufficient size to be reported separately. None of these operations can be aggregated with reportable operating segments described above due to dissimilar economical characteristics.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated on the basis of segment operating profit or loss determined based on management accounts that differ from IFRS combined financial statements for the reason that the management accounts are based on local GAAP figures. The operating segments results do not include the effects of some adjustments that may be considered necessary to reconcile the management accounts to IFRS combined financial statements.

Substantially all of the Group's operating assets are located and most of the services are provided in Ukraine.

Segment revenue is revenue that is directly attributable to a segment, whether from sales to external customers or from transactions with other segments. Segment revenue does not include:

- interest income;
- foreign exchange gains;
- gain on disposal, change in fair value and reversal of impairment of financial assets;
- gain on disposal of property, plant and equipment;
- other income.

Segment expenses is expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to sales to external customers and expenses relating to transactions with other segments.

NOTES TO THE COMBINED FINANCIAL STATEMENTS
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8. Segment reporting (*continued*)

Segment expense does not include:

- interest expense;
- foreign exchange losses;
- loss on disposal, change in fair value and impairment of financial assets;
- loss on disposal of property, plant and equipment;
- loss on impairment of property, plant and equipment;
- contributions to finance activities of trade union, pension funds; membership in professional organizations;
- bank charges;
- income tax expense;
- provision expenses
- social expenses;
- maintenance;
- other expenses.

Segment result is measured as segment revenue less segment expense.

NOTES TO THE COMBINED FINANCIAL STATEMENTS
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8. Segment reporting (*continued*)

Year ended 31 December 2014	*Cargo*	*Long-distance passenger*	*Suburban passenger*	*Auxiliary activity*	*All other segments*	*Unallocated*	*Eliminations (A)*	*Adjustments (B)*	*Combined*
Sales to third parties	38,558,829	4,766,319	455,820	5,310,096	444,485	-	-	(79,930)	49,455,619
Inter-segment sales	-	-	-	1,122,756	541,018	-	(1,663,774)	-	-
Total revenue	38,558,829	4,766,319	455,820	6,432,852	985,503	-	(1,663,774)	(79,930)	49,455,619
Staff costs	(11,708,581)	(3,954,450)	(1,811,672)	(3,078,850)	(534,000)	(1,326,532)	-	(340,628)	(22,754,713)
Depreciation	(3,748,019)	(1,392,685)	(632,359)	(1,247,533)	(110,915)	(73,958)	-	1,574,611	(5,630,858)
Electricity	(3,557,361)	(902,186)	(463,562)	(207,706)	(30,547)	(27,727)	-	-	(5,189,089)
Fuel	(3,230,421)	(639,472)	(447,179)	(559,805)	(57,953)	(9,007)	-	-	(4,943,837)
Segment result	16,314,447	(2,122,474)	(2,898,952)	1,338,958	252,088	(1,437,224)	(1,663,774)	1,154,053	10,937,122

Year ended 31 December 2013	*Cargo*	*Long-distance passenger*	*Suburban passenger*	*Auxiliary activity*	*All other segments*	*Unallocated*	*Eliminations (A)*	*Adjustments (B)*	*Combined*
Sales to third parties	37,619,058	6,546,592	481,558	6,097,023	411,634	-	-	(106,031)	51,049,834
Inter-segment sales	-	-	-	1,080,583	796,961	-	(1,877,544)	-	-
Total revenue	37,619,058	6,546,592	481,558	7,177,606	1,208,595	-	(1,877,544)	(106,031)	51,049,834
Staff costs	(11,705,603)	(4,349,716)	(1,779,948)	(3,137,675)	(517,720)	(1,439,789)	-	644,374	(22,286,077)
Depreciation	(3,699,793)	(1,525,044)	(614,635)	(1,181,362)	(106,099)	(73,508)	-	1,229,732	(5,970,709)
Electricity	(3,433,205)	(981,438)	(440,783)	(130,828)	(29,266)	(28,187)	-	-	(5,043,707)
Fuel	(2,796,727)	(613,408)	(387,407)	(547,658)	(46,544)	(21,524)	-	(299)	(4,413,567)
Segment result	15,983,730	(923,014)	(2,741,215)	2,180,083	508,966	(1,563,008)	(1,877,544)	1,767,776	13,335,774

NOTES TO THE COMBINED FINANCIAL STATEMENTS

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8. Segment reporting *(continued)*

(A) Inter-segment revenue and margins are eliminated on combination.
(B) The operating results of each operating segment does not include the following adjustments representing differences between management accounts and financial statements prepared in accordance with IFRS for the year ended 31 December:

	2014	*2013*
Recognition of revenue in appropriate period	564,128	(77,683)
Settlements with foreign railways	(644,058)	(28,348)
	(79,930)	(106,031)
Correction of bonuses and unused vacation expenses accrual	83,320	276,411
Correction of defined benefits obligation expenses	(423,948)	367,664
Depreciation expenses adjusted as the result of different carrying values of property, plant and equipment in IFRS and management information	1,574,611	1,229,732
Total adjustments to income before taxation	1,154,053	1,767,776

Reconciliation of profit:

	2014	*2013*
Segment results	12,884,067	15,008,550
Total adjustments due to differences in accounting policies adopted for management accounts and IFRS	1,154,053	1,767,776
Total unallocated amounts	(1,437,224)	(1,563,008)
Inter-segment sales (elimination)	(1,663,774)	(1,877,544)
Items not included in segment expenses:		
Maintenance	(5,339,710)	(6,064,716)
Taxes, other than income tax	(1,076,716)	(1,263,481)
Social expenses	(508,250)	(644,561)
Impairment of property, plant and equipment	-	(427,648)
(Impairment) / Reversal of impairment of trade and other receivables and prepayments	-	(21,417)
Change in provisions	(414,840)	12,901
Other income	701,757	519,186
Other expenses	(1,084,242)	(483,751)
Finance income	50,082	55,057
Finance costs	(3,703,546)	(3,261,924)
Foreign exchange (loss) / gain, net	(14,243,398)	128,007
Group profit before tax	(14,681,741)	1,883,427

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9. Property, plant and equipment

	Buildings, constructions and infrastructure	Subgrade and superstructure	Locomotives	Railway cars	Plant, equipment, tools and other	Vehicles	Construction in progress and uninstalled equipment	Total
Cost								
At 31 December 2013	26,875,781	18,722,653	23,728,975	20,818,785	18,563,409	1,840,167	4,519,771	115,069,541
Additions	-	-	-	-	-	-	5,027,895	5,027,895
Transfers	800,563	927,677	1,313,780	548,365	725,961	77,253	(4,393,599)	-
Disposal	(138,793)	(55,578)	(98,642)	(365,652)	(350,316)	(47,978)	(462,087)	(1,519,046)
At 31 December 2014	27,537,551	19,594,752	24,944,113	21,001,498	18,939,054	1,869,442	4,691,980	118,578,390
Accumulated depreciation								
At 31 December 2013	7,748,210	7,198,692	12,801,120	14,090,742	8,563,105	946,541	-	51,348,410
Depreciation charge	1,103,808	1,014,125	1,212,590	987,907	1,223,216	116,294	-	5,657,940
Impairment	-	-	-	-	-	-	-	-
Disposals	(68,897)	(33,607)	(88,934)	(337,176)	(220,771)	(31,550)	-	(780,935)
At 31 December 2014	8,783,121	8,179,210	13,924,776	14,741,473	9,565,550	1,031,285	-	56,225,415
Net book value								
At 31 December 2013	19,127,571	11,523,961	10,927,855	6,728,043	10,000,304	893,626	4,519,771	63,721,131
At 31 December 2014	18,754,430	11,415,542	11,019,337	6,260,025	9,373,504	838,157	4,691,980	62,352,975

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9. Property, plant and equipment *(continued)*

	Buildings, constructions and infrastructure	*Subgrade and superstructure*	*Locomotives*	*Railway cars*	*Plant, equipment, tools and other*	*Vehicles*	*Construction in progress and uninstalled equipment*	*Total*
Cost								
At 1 January 2013	25,538,197	17,450,553	23,039,802	20,117,960	17,342,357	1,691,572	4,073,268	109,253,709
Additions	3,098	-	-	-	-	-	7,250,693	7,253,791
Transfers	1,495,327	1,327,213	1,142,594	1,238,302	1,422,753	164,913	(6,791,102)	-
Disposal	(160,841)	(55,113)	(453,421)	(537,477)	(201,701)	(16,318)	(13,088)	(1,437,959)
At 31 December 2013	26,875,781	18,722,653	23,728,975	20,818,785	18,563,409	1,840,167	4,519,771	115,069,541
Accumulated depreciation								
At 1 January 2013	6,609,218	6,019,781	11,824,362	13,298,020	7,405,734	830,559	-	45,987,674
Depreciation charge	1,103,259	1,126,307	1,277,734	1,142,221	1,229,639	120,013	-	5,999,173
Impairment	103,966	72,426	91,793	80,535	71,810	7,118	-	427,648
Disposals	(68,233)	(19,822)	(392,769)	(430,034)	(144,078)	(11,149)	-	(1,066,085)
At 31 December 2013	7,748,210	7,198,692	12,801,120	14,090,742	8,563,105	946,541	-	51,348,410
Net book value								
At 1 January 2013	18,928,979	11,430,772	11,215,440	6,819,940	9,936,623	861,013	4,073,268	63,266,035
At 31 December 2013	19,127,571	11,523,961	10,927,855	6,728,043	10,000,304	893,626	4,519,771	63,721,131

NOTES TO THE COMBINED FINANCIAL STATEMENTS

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9. Property, plant and equipment *(continued)*

Social assets

Included in property, plant and equipment are social infrastructure and other social assets carried at UAH 752,557 thousand as at 31 December 2014 (2013: UAH 794,203 thousand), primarily comprising residential buildings and social infrastructure.

Prepayments for property, plant and equipment

As at 31 December 2014 construction in progress contained prepayments for property, plant and equipment in the amount of UAH 183,300 thousand (2013: UAH 404,382 thousand).

Capitalised depreciation charge

The Group capitalised UAH 27,082 thousand of depreciation charge into construction in progress and inventories for the year ended 31 December 2014 (2013: UAH 28,464 thousand).

Fully depreciated assets

As at 31 December 2014 the cost of fully depreciated property, plant and equipment which remain in use amounted to UAH 22,241,981 thousand (2013: UAH 18,287,736 thousand).

Finance lease

As at 31 December 2014 the carrying value of property and equipment held under finance leases amounted to UAH 2,262,590 thousand (2013: UAH 3,240,291 thousand).

During the year ended 31 December 2014 the Group acquired property and equipment of UAH 333,333 thousand (2013: UAH 526,000 thousand) under finance lease agreements.

Pledged property, plant and equipment

As at 31 December 2014 certain rolling stock with the carrying value of UAH 268,819 thousand was pledged as collateral for the Group's interest-bearing loans and borrowings (2013: UAH 321,300 thousand) (Note 18).

Impairment of property, plant and equipment

The Group performed an impairment test as at 31 December 2014. The recoverable amount of property, plant and equipment has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The recoverabale amount of the assets approximates the carrying value of such assets as at 31 December 2014.

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9. Property, plant and equipment *(continued)*

Key assumptions used in value in use calculations
The projected cash flows have reflected the decreased transportation volumes in 2014 and conservative expectations as for the future growth rates. The calculation of value in use for property, plant and equipment is most sensitive to the following assumptions:

- Annual revenue growth rate ranged between 9% and 21% during 2015-2019, terminal growth rate determined at 8.23%. The rates were in line with the publicly available forecasts for freight transportation growth rate in Ukraine adjusted for inflation
- EBITDA margin ranged from 18.2% of revenues in 2015 to 16.2% in 2019 and beyond, calculated based on the Group's historic data.
- Pre-tax discount rate were calculated as weighted average cost of capital of 22.6%.

10. Financial assets

		2014	*2013*
Long-term portion of receivable from state-owned company Vugillya Ukrainy (Note 29)	(i)	72,634	109,405
Loans due from employees	(ii)	38,529	33,734
Long-term deposits		-	-
Other financial assets		75,823	70,567
		186,986	213,706

(i) The receivables from the state-owned company Vugillya Ukrainy were initially recognized in 2009, when transportation services were provided. As a result of several litigations the court established a repayment schedule up to 2014. In 2012 the collection terms were rescheduled to 2018 according to the latest court decision. The receivables are carried at amortised cost using the original effective interest rate of 22% per annum. In 2014 the Group recognised interest income of UAH 29,689 thousand (2013: UAH 36,319 thousand). The current portion of the receivables of UAH 162,216 thousand (2013: UAH 118,286 thousand) is included in trade and other receivables (Note 12).

(ii) The Group provides long-term interest-free loans to its employees with contractual maturity from 3 to 8 years. Loans are carried at amortised cost using the effective interest rate of 13%-23% per annum. The current portion of the loans of UAH 11,755 thousand (2013: UAH 12,854 thousand) is included in trade and other receivables (Note 12).

11. Inventories

	2014	*2013*
Spare parts, materials and tools (at cost or net realizable value)	2,116,188	2,489,657
Fuel and lubricants (at cost)	365,241	963,707
Other (at cost)	531,501	469,540
	3,012,930	3,922,904

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11. Inventories *(continued)*

The amount of write-down of inventories recognised as an expense and included in maintenance expenses in 2014 is UAH 36,815 thousand (2013: UAH 104,908 thousand).

As at 31 December 2014 inventories with carrying value of UAH 111,251 thousand (2013: UAH 111,251 thousand) were pledged as collateral for the Group's interest-bearing loans and borrowings (Note 18).

12. Trade and other receivables

	2014	*2013*
Trade receivables	592,184	309,234
Current portion of long-term financial assets	173,971	131,140
Other receivables	146,804	116,938
	912,959	557,312
Less: allowance for impairment of trade and other receivables	(213,273)	(95,631)
	699,686	461,681

As at 31 December 2014 and 2013 current portion of long-term financial assets included short-term portion of accounts receivable due from Vugillya Ukrainy, short-term portion of loans due from employees (Note 10).

As at 31 December 2014, trade and other receivables of UAH 213,273 thousand (2013: UAH 95,631 thousand) were impaired and fully provided for. Loss on impairment was included to other expenses in combined statement of comprehensive income. The reconciliation of changes in allowance account was as follows:

	2014	*2013*
At 1 January	96,071	116,523
Arising during the year	164,479	24,470
Utilised	(38,274)	(42,309)
Reversed	(9,003)	(3,053)
At 31 December	213,273	95,631

As at 31 December the ageing of the Group's trade and other receivables was as follows:

		Past due, but not impaired				
	Neither past due nor impaired	*Less than 3 months*	*3-6 months*	*6-12 months*	*More than 12 months*	*Total*
2014	311,168	149,867	35,119	203,532	-	699,686
2013	229,014	151,157	14,449	67,061	-	461,681

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13. Prepayments

	2014	*2013*
Prepayments for materials and services, net of impairment	232,648	300,121
Dividends prepaid (Notes 17, 29)	15	-
	232,663	300,121

As at 31 December 2014 prepayments are impaired by UAH 6,336 thousand (2013: nil).

14. Taxes receivable, other than income tax

	2014	*2013*
VAT receivable	257,327	586,243
Other taxes prepaid	14,052	12,080
	271,379	598,323
Less: allowance for impairment	(4)	(109,527)
	271,375	488,796

A portion of VAT receivable amounting to UAH 544,369 thousand was classified as non-current asset as at 31 December 2014 as its expected period of recoverability exceeds 12 months (2013: UAH 506,099 thousand).

15. Short-term deposits

Short-term deposits are placed with Ukrainian banks. They are denominated in UAH, bear fixed interest within the range 7%-17.5% and have original maturity of 3 to 12 months.

16. Cash and cash equivalents

Cash and cash equivalents mainly comprised cash and bank deposits placed with Ukrainian banks. For the purposes of combined statement of cash flows cash and cash equivalents consisted of:

	2014	*2013*
Cash and bank deposits	2,038,008	643,559
	2,038,008	643,559

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17. Equity

Contributed capital

The contributed capital of the Group combines the statutory capital of the following entities adjusted for effect of hyperinflation under IAS 29 *Financial Reporting in Hyperinflationary Economies* for the periods of hyperinflation from December 1991 up to 31 December 2000:

	2014	*2013*
Lviv Railway	3,319,711	3,319,711
South-Western Railway	3,164,276	3,164,276
Southern Railway	2,956,000	2,956,000
Prydniprovska Railway	2,890,591	2,890,591
Donetsk Railway	2,887,853	2,887,853
Odesa Railway	2,562,567	2,562,567
Ukrspetsvagon	360,000	360,000
Ukrainian State Center for Railways Refrigerator Transportation Ukrreftrans	205,518	205,518
Ukrainian State Center for Transportation Service Lisky	144,166	144,166
Darnytsky Carriage Repair Plant	28,069	28,069
Main Information Processing Center of Ukrzaliznytsia	8,506	8,506
Other entities	112,873	113,549
	18,640,130	18,640,806

Changes in the Group composition

One entity engaged in catering supply on Prydniprovska Railway was disposed during the year ended 31 December 2014. At the date of combination, the contributed capital and the retained earnings of the entity comprised UAH 676 thousand and UAH 262 thousand, respectively.

During the year ended 31 December 2013 "Lvivtransfarmacia" and "Odessatransfarmacia" were merged with Ukrtansfarmatsia. Two entities engaged in food activity supply on Odessa railroad and South-Western Railway were terminated during 2013. The contributed capital of these entities comprised UAH 543 thousand and UAH 2,562 thousand, respectively. At the date of termination, the entities retained earnings comprised UAH 120 thousand and UAH 262 thousand, respectively. According to the Order # 546 of the Ministry of Infrustructure of Ukraine dated 26 July 2013 state enterprise "Settlements center of the Ministry of Infrustructure of Ukraine" was added to the list of the Group's entities. At the date of combination the entity reported negative equity of UAH 6,137 thousand.

Transfer of property, plant and equipment from entities under common control

During the year ended 31 December 2014 the Group recognized intangible asset representing the right of permanent use of the land plot of UAH 138,381 thousand. The right was obtained by the Group from the government in the period prior to 2014. In December 2014 the Group performed valuation of the right and recognized it as intangible asset in these combined financial statements.

Transfer of property, plant and equipment to entities under common control

During the year ended 31 December 2013 the Group transferred property, plant and equipment to state-owned entities and organisations, which are not part of the Group, on a free-of-charge basis with the total carrying amount of UAH 4,388 thousand, the result of the transfer was deducted directly from equity.

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17. Equity *(continued)*

Dividends to the State
Pursuant to the Ukrainian legislation, six railways of the Group are required to make quarterly transfers of dividends to the State in the amount representing 30% of statutory net profits for the respective interim period. Other entities of the Group are required to pay dividends at amount of 15% of statutory net profits for the respective interim period. The final year-end amount of dividends to be paid to the State is determined as 15%-30% of statutory net profits for the reporting year (Note 29). Any difference between cumulative balance of interim dividends and the final amount of dividends determined for the reporting year by individual Group entities is reported as dividends prepaid (Note 13) or payable (Note 22).

18. Interest-bearing loans and borrowings

As at 31 December interest-bearing loans and borrowings consisted of the following:

	2014	*2013*
Interest-bearing bank loans	18,790,848	11,092,533
Eurobonds	7,966,369	4,038,940
Domestic bonds	4,036,818	2,531,809
Other borrowings	293,661	248,706
	31,087,696	17,911,988

On 16 May 2013 the Group has issued USD 500,000 thousand (UAH 3,996,500 thousand), 9.5% notes maturing in 2018 (the "Eurobonds") on the Irish Stock Exchange.

Domestic bonds are issued and placed in Ukraine. They are denominated in UAH, bear interest of 18.0% -23.5% and mature in 2015 – 2017.

As at 31 December effective interest rate and currency split for borrowings were as follows:

	Interest rate	*2014*	*2013*
USD			
floating rate	LIBOR 6 month +1% - 7.83%	4,490,537	2,564,428
fixed rate	10% - 12%	19,537,131	9,666,925
		24,027,668	12,231,353
EUR			
floating rate	EURIBOR 6m + 6,55%	766,831	-
		766,831	-
UAH			
fixed rate	13% - 22%	6,293,197	5,680,635
		6,293,197	5,680,635
Total interest-bearing loans and borrowings		31,087,696	17,911,988
Less: Current portion		(25,358,013)	(5,574,045)
Interest-bearing loans and borrowings, non-current		5,729,683	12,337,943

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18. Interest-bearing loans and borrowings *(continued)*

Some of the loan agreements provide for financial and non-financial covenants, which impose restrictions on certain transactions and financial ratios, including restrictions of the amount of outstanding debt and profitability of the Group.

As at 31 December 2014 the Group did not comply with certain undertakings under its long-term loan agreements and failed to remediate the breaches before the reporting date. Such default have triggered a cross default of under certain other borrowings. Therefore, the lenders became entitled to request accelerated repayment of interest-bearing borrowings with carrying value of UAH 18,234,800 thousand as at 31 December 2014. Pursuant to the requirements of IAS 1 Presentation of Financial Statements the non-current portion of the Group’s borrowings under the above mentioned agreements of UAH 14,426,435 thousand as at 31 December 2014, were reported in these combined financial statements within current liabilities. Subsequent to the reporting date the Group reported the lenders of the occurrence of a technical default on certain debt obligations and initiated restructuring negotiations with external and internal lenders. The Group reached certain agreements as for the restructuring of the internal debt and as at the date of the authorisation of the financial statements the restructuring negotiations with internal lenders were at the completion stage

As at 31 December 2014 undrawn loan facilities available to the Group were of UAH 2,521,718 thousand (2013: UAH 5,853,240 thousand). Following the breaches of undertakings as at 31 December 2014 the access to certain undrawn loan facilities was restricted. Assuming there were no breach, undrawn loan facilities available to the Group would comprise UAH 4,145,600 thousand as at 31 December 2014.

As at 31 December interest-bearing loans and borrowings were secured as follows:

Type of collateral	*2014*	*2013*
Property and equipment (Note 9)	268,819	321,300
Inventories (Note 11)	111,251	111,251
Proceeds from future revenue	26,012,970	33,146,712

19. Finance lease liability

The Group leases out freight and passenger railway cars, locomotives and equipment (Note 9). The lease payments are pegged to USD; the average lease term is 7 years. As at 31 December 2014 the interest rates implicit in the lease were within the range of 11.0% -21.1827% per annum.

Principal repayments under finance lease to Ukrainian lessors (unlike foreign lessors) are subject to 20% VAT levied at the payment date. Finance charge is not VAT taxable.

The following are the minimum lease payments and present value of finance lease liability under finance lease agreements:

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19. Finance lease liability (continued)

	Minimum lease payments		*Present value of finance lease liability*	
	2014	*2013*	*2014*	*2013*
Amounts payable under finance leases:				
within one year	1,909,500	1,525,160	1,612,717	1,269,121
in the second to fifth years inclusive	2,218,416	1,217,413	1,720,840	947,205
after five years	111,026	167,611	80,883	153,354
	4,238,942	2,910,184	3,414,440	2,369,680
Less: Future finance charges	(824,502)	(540,504)	-	-
	3,414,440	2,369,680	3,414,440	2,369,680
Classified as:				
Current	1,612,718	1,269,120	1,612,718	1,269,120
Non-current	1,801,722	1,100,560	1,801,722	1,100,560

20. Employee Benefits

The Group's defined benefit obligation relates to:

	2014	*2013*
Post retirement and post employment benefits under collective agreement	987,150	1,133,952
State plan for additional pensions for working in hazardous and unhealthy working conditions	416,094	417,914
Other long-term benefits under collective agreement	509,405	612,697
	1,912,649	2,164,563

Changes in the net present value of the defined benefit obligation were as follows:

	2014	*2013*
At 1 January	2,164,563	2,253,915
Interest cost on benefit obligation	216,875	263,708
Current service cost	64,922	89,958
Benefits paid	(344,858)	(397,286)
Remeasurement gains in other comprehensive income from:		
changes in financial assumptions	(97,332)	(25,921)
changes in demographic assumptions	(2,551)	12,592
experience adjustments	55,041	27,932
Remeasurement of other long-term employee benefits obligation	(144,011)	(60,335)
At 31 December	1,912,649	2,164,563

The amounts recognised in the combined income statement were as follows:

	2014	*2013*
Current service cost	64,922	89,958
Interest cost on benefit obligation (Note 26)	216,875	263,708
Remeasurement of other long-term employee benefits obligation	(144,011)	(60,335)
	137,786	293,331

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20. Employee Benefits (*continued*)

Current service cost, past service cost, including their amortization and recognized actuarial gains are included into the staff costs line item in the statement of comprehensive income. Interest cost on benefit obligation included into finance costs.The principal assumptions used in determining defined benefit obligation are shown below:

	2014	*2013*
Discount rate	15.50%	11.00%
Staff turnover	4.20%	3.91%
Future benefit increase	6.88%	5.05%

The sensitivity analysis is given in the table below:

2014	*Increase /(decrease) in rate*	*Effect on defined benefit obligation*
Discount rate	+1%	(190,447)
Discount rate	-1%	(2,034)
Future benefit increase	+1%	(50,429)
Future benefit increase	-1%	(153,858)

2013	*Increase /(decrease) in rate*	*Effect on defined benefit obligation*
Discount rate	+1%	(150,201)
Discount rate	-1%	174,906
Future benefit increase	+1%	106,233
Future benefit increase	-1%	(93,542)

Defined contribution plan

During the year ended 31 December 2014 the expenses from the participation in obligatory state pension program amounted to UAH 6,537,874 thousand (2013: UAH 6,716,878 thousand).

The Group's estimated employer contributions for the year ended 31 December 2015 amounts to UAH 6 572 396 thousand.

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21. Income tax

The components of income tax expense in the combined statement of comprehensive Income were as follows:

	2014	*2013*
Current income tax charge	693,728	766,134
Deferred income tax expense	68,333	559,722
Income tax expense	762,061	1,325,856

During the year ended 31 December 2014, the statutory income tax rate in Ukraine was 18% (2013: 19%). In December 2013 amendments were made to Tax Code the tax rate of 18% shall be applied starting from 1 January 2014, 17% - from 1 January 2015 and 16% - from 1 January 2016. In April 2014 Tax Code was changed again and single tax rate of 18% shall be applied from 1 January 2014 and thereafter. When estimating deferred taxes the Group used respective rates enacted as at 31 December 2014 and 2013.

Reconciliation between profit before income tax multiplied by the statutory tax rate and income tax expense / (benefit) for the years ended 31 December consisted of the following:

	2014	*2013*
(Loss)/profit before income tax	(14,681,741)	1,883,427
At statutory tax rate	(2,642,713)	357,851
Tax effect of:		
Other permanent differences	1,330,866	701,937
Effect of change in tax rates (period of recoverability of temporary difference)	20,552	310,296
Effect of change in tax base for property, plant and equipment and intangibles	339,991	-
Change in unrecognised deferred tax assets	1,713,365	(44,228)
Income tax expense	762,061	1,325,856

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21. Income tax *(continued)*

Deferred tax assets and liabilities comprised:

	Combined statement of financial position		*Combined statement of comprehensive income*	
	31 December 2014	*31 December 2013*	*2014*	*2013*
Property, plant and equipment (i)	3,213,515	3,474,275	260,760	443,744
Inventories (ii)	71,904	72,803	899	21,106
Prepayments (iii)	61	618	557	(2,941)
Advances from customers (iii)	(7,820)	18,142	25,962	(1,358)
Trade and other receivables (iv)	15,668	1,127	(14,541)	(19,881)
Trade and other payables (v)	217,940	106,557	(111,383)	82,676
Finance lease liability (vi)	204,163	65,748	(138,415)	119,806
Defined benefit liability (viii)	359,847	353,828	(6,019)	18,632
Financial assets	(1,924)	19,233	21,157	(11,924)
Interest-bearing loans and borrowings (vii)	1,729,919	45,910	(1,684,009)	(45,910)
	5,803,273	4,158,241	(1,645,032)	603,950
Less: Unrecognised deferred tax assets	(1,778,521)	(65,156)	1,713,365	(44,228)
Deferred income tax expense			68,333	559,722
Deferred tax effect of actuarial gain recognised in OCI	(15,570)	(7,498)	8,072	(2,336)
Net deferred tax assets /(liability)	4,009,182	4,085,587		
Reflected in the statements of financial position as follows:				
Deferred tax assets	4,024,519	4,101,120		
Deferred tax liabilities	(15,337)	(15,533)		
Deferred tax assets /(liability) net	4,009,182	4,085,587		

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21. Income tax *(continued)*

Reconciliation of net deferred tax assets /(liabilities):

	2014	*2013*
Opening balance as at 1 January	4,085,587	4,642,973
Tax expense recognised in profit or loss	(68,333)	(559,722)
Tax benefit/(expense) recognised in other comprehensive income	(8,072)	2,336
Closing balance 31 December	4,009,182	4,085,587

The nature of the temporary differences is as follows:

(i) Property, plant and equipment – differences in depreciation patterns and estimates of the remaining useful lives, differences in capitalisation principles, different cost basis;
(ii) Inventories - differences in inventories valuation models and the periods of recognition;
(iii) Prepayments and advances from customers – differences in period of recognition and valuation principles;
(iv) Trade and other receivables – differences in valuation, including allowances for doubtful receivables, differences in the period of recognition;
(v) Trade and other payables – differences in valuation and recognition principles;
(vi) Financial lease liability – differences in recognition principles;
(vii) Interest-bearing loans and borrowings - differences in recognition principles;
(viii) Defined benefit liability - differences in recognition principles.

As at 31 December 2014 and 2013 deferred tax assets arising on foreign currency component of finance lease liability (resulting from devaluation of Ukrainian Hryvnia) and on allowance for impairment of financial assets were not recognised since their utilisation was not certain.

22. Trade and other payables

	2014	*2013*
Trade payables	2,952,677	4,782,130
Due to employees	1,408,620	1,057,769
Payables for property, plant and equipment	963,312	489,312
Unused vacation accrual	551,931	473,774
Dividends payable (Notes 17, 29)	62,427	68,622
Other payables	195,324	238,022
	6,134,291	7,109,629

Trade payables are non-interest bearing and are normally settled within 60 days.

23. Taxes payable, other than income tax

	2014	*2013*
Personal income tax payable	86,681	107,722
VAT payable	310,714	57,266
Other taxes payable	47,395	29,370
	444,790	194,358

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24. Provisions

The provisions relate to legal claims. Movement in the provisions for the year was as follows:

	2014	*2013*
At 1 January	21,825	34,726
Arisen during the year	436,665	1,808
Unused amounts reversed during the year	(21,825)	(14,709)
At 31 December	436,665	21,825

As at 31 December 2014 the Group recognized provision for litigation in the amount of UAH 430,048 thousand in respect of breach of the construction contruct with one of the suppliers (31 December 2013: no such provision).

25. Taxes, other than income tax

	2014	*2013*
Non-recoverable VAT attributable to transit transportation	737,066	1,001,398
Other taxes	298,572	180,955
Impairment of VAT receivable	41,078	81,128
	1,076,716	1,263,481

26. Finance income and finance costs

	2014	*2013*
Interest expense on loans and borrowings	(3,052,660)	(2,538,516)
Finance lease charges	(428,040)	(447,287)
Interest cost on defined benefit obligation (Note 20)	(216,875)	(263,708)
Other finance costs	(5,971)	(12,413)
Total finance costs	(3,703,546)	(3,261,924)
Interest income on deposits	16,401	18,738
Interest income on loans and receivables with related parties (Note 29)	33,681	36,319
Total finance income	50,082	55,057
Net finance costs	(3,653,464)	(3,206,867)

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27. Foreign exchange gain / (loss), net

Foreign exchange gains and losses arisen on the following items:

	2014	*2013*
Gains		
Trade and other payables	-	33,008
Cash and cash equivalents	330,222	7,776
Finance lease liability	-	11,155
Net gain on sale/purchase of foreign currencies	-	76,068
	330,222	128,007
Losses		
Finance lease liability	(1,756,013)	-
Interest-bearing loans and borrowings	(12,602,096)	-
Trade and other payables	(156,911)	-
Net loss on sale/purchase of foreign currencies	(58,600)	-
	(14,573,620)	-
Foreign exchange (loss) / gain, net	(14,243,398)	128,007

28. Contingencies and commitments

Tax matters

Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that its interpretation of the relevant legislation is appropriate and that the Group has complied with all regulations, and paid or accrued all taxes and withholdings that are applicable. However, where the risk of outflow of resources is probable, the Group has accrued tax liabilities based on management’s best estimate.

The uncertainty related to enforcement and application of Ukrainian tax laws creates a risk of substantial additional tax liabilities and penalties being claimed by the tax authorities. Such claims, if sustained, could have a material effect on the Group’s financial position, results of operations and cash flows. Management believes that there are strong arguments to successfully defend any such challenge and does not believe that the risk is any more significant than those of similar enterprises in Ukraine. When it is not considered probable that a material claim will arise, no provision has been established in these financial statements.

In the course of its commercial activities the Group has a necessity to reallocate taxable income among the Group companies. Such reallocation involves a significant degree of management’s judgment. In spite of the fact that relevant government authorities had not historically challenged the management judgment in these matters, It is possible that the authorities may attempt to revise their previous approach to such transactions, equally as to any other aspects of application of tax legislation not challenged in the past, and assess additional income and other taxes and penalties against the Group, although this risk significantly diminishes with passage of time. It is not practical to determine the amount of any potential claims or the likelihood of any unfavourable outcome.

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28. Commitments and contingencies *(continued)*

Litigations

As at 31 December 2014 the Group was involved in litigations with tax authorities with respect to additional accrual of liabilities for corporate income tax, VAT and other taxes in the total amount of UAH 322,346 thousand thousand (2013: UAH 77,113 thousand). In addition, in the normal course of business, the Group is subject to various other routine litigation and arbitration related matters. As at 31 December 2014 the Group's exposure to the ascertained third parties' claims is UAH 255,708 thousand (2013: UAH 736,832 thousand).

Management believes that the Group's position in the litigations stated above has sustainable legal merits, and therefore the ultimate resolution of these litigations will not have an adverse effect on the Group's financial position or the results of its future operations, accordingly, no corresponding accrual was provided in these combined financial statements. Probable obligations are accrued for in these combined financial statements (Note 24).

Capital commitments

As at 31 December 2014 the Group's outstanding commitment in respect of purchase of property and equipment amounted to UAH 1,971,931 thousand (2013: UAH 1,876,145 thousand).

29. Related party disclosure

The outstanding balances and transaction with entities under common control of the State, comprised:

	2014	*2013*
Balances at 31 December:		
Prepayments for property, plant and equipment	-	5,012
Long-term receivable (Note10)	72,634	109,405
Trade and other receivables	266,647	310,309
Prepayments, other than dividends	9,314	24,747
Cash and cash equivalents	916,499	290,604
Trade and other payables, other than dividends	106,208	57,704
Advances received	499,020	466
Interest-bearing loans and borrowings	772,877	197,046
Transactions during the year:		
Cargo revenues	190,846	326,806
Maintenance services purchased	1,174,456	981,534
Finance income	44,784	719
Finance costs	63,525	75,032
Other expenses	44,579	47,300

Terms and conditions of transactions with related parties
The sales to and purchases from related parties are made at regular prices, broadly similar to those with other non-related customers and suppliers. Outstanding balances at the year-end are unsecured, interest free, except for interest bearing loans. Settlement occurs in cash, except for advances received and prepayments. There have been no guarantees provided or received for any related party receivables or payables. For the years ended 31 December 2014 and 2013, the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

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29. Related party disclosure *(continued)*

Guarantees issued by the State of Ukraine
The Group’s interest bearing loans with carrying value of UAH 3,990,847 thousand (2013: UAH 2,260,321 thousand) were guaranteed by the State of Ukraine.

Compensation of key management personnel
Key management personnel consist of 19 members of the Board of Ukrzaliznytsia. In 2014, total compensation to key management personnel amounted to UAH 3,007 thousand (2013: UAH 2,047 thousand). Compensation includes salaries and salary related taxes.

Dividends to the State
As at 31 December 2014 dividends prepaid to the State in the amount of UAH 15 thousand are Included in prepayments, no such prepayments as at 31 December 2013 (Note 13). Included in trade and other payables are dividends payable to the State of UAH 62,427 thousand as at 31 December 2014 (2013: UAH 68,622 thousand) (Note 22). Dividends for the year ended 31 December 2014 amounted to UAH 174,680 thousand (2013: UAH 180,598 thousand) (Note 17).

Government subsidies
The Group receives subsidies from the State for carriage of certain categories of preferential passengers. In 2014 such subsidies of UAH 165,600 thousand (2013: UAH 204,300 thousand) were included into passenger revenue.

30. Fair value of financial instruments

Set out below is the comparison by category of carrying amounts and fair values of all of the Group’s financial instruments, that are carried in the combined statement of financial position:

	Fair value		*Carrying value*	
	2014	*2013*	*2014*	*2013*
Financial assets				
Trade and other receivables	699,686	461,681	699,686	461,681
Other financial assets	114,352	104,301	114,352	104,301
Long-term trade receivable	72,634	109,405	72,634	109,405
Short-term deposits	-	2,957	-	2,957
Cash and cash equivalents	2,038,008	643,559	2,038,008	643,559
Financial liabilities				
Interest-bearing loans and borrowings	28,347,910	17,552,303	31,087,696	17,911,988
Finance lease liability	3,414,440	2,369,680	3,414,440	2,369,680
Trade and other payables	6,134,291	7,109,629	6,134,291	7,109,629

NOTES TO THE COMBINED FINANCIAL STATEMENTS
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(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

30. Fair value of financial instruments *(continued)*

In assessing the fair value of financial instruments, the Group uses a variety of methods and makes assumptions based on market conditions existing at the end of the reporting period. Quoted market prices or dealer quotes for the specific or similar instruments or the discounted value of future cash flows are used for financial assets. The fair value of cash and cash equivalents, short-term deposits, trade and other receivables, trade and other payables approximate their carrying amounts largely due to the short-term maturities of these instruments. The fair value of unquoted instruments, other financial assets, interest bearing loans and borrowings, finance lease liability is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

31. Financial risk management policies and objectives

Financial risk management policies and objectives

The Group’s principal financial instruments comprise interest-bearing loans and borrowings, cash in bank, short-term deposits and other financial assets. The Group has various other financial instruments, such as trade and other receivables and payables, which arise directly from its operations.

The Group has not entered into any material derivative transactions. It is the Group’s policy not to trade in financial instruments. The Group’s overall risk management program focuses on the unpredictability and inefficiency of the Ukrainian financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by the Group’s financial departments. The main risks arising from the Group’s financial instruments are liquidity risk, foreign currency risk, credit risk and interest rate risk. The policies for managing each of these risks are summarised below.

Liquidity risk

The Group’s objective is to maintain continuity and flexibility of funding through the use of cash generated from Group’s operations, credit terms provided by suppliers and interest-bearing loans and borrowings. Significant aspects of the liquidity risk management are disclosed in the Note 2.

The Group analyses the aging of its assets and cash generation ability versus the maturity of its liabilities and plans its liquidity depending on the expected repayment of various instruments.

The table below summarizes the maturity profile of the Group’s financial liabilities at 31 December based on contractual undiscounted payments, assuming no breaches occurred:

Year ended 31 December 2014	*Less than 3 month*	*3 to 12 months*	*1 to 5 years*	*More than 5 years*	*Less: Effect of amortisation*	*Carrying value*
Interest bearing loans and borrowings	5,874,906	8,085,471	22,931,337	1,067,355	(6,871,373)	31,087,696
Finance lease liability	1,080,122	869,436	2,190,997	98,386	(824,501)	3,414,440
Trade and other payables	5,744,957	274,295	114,960	79	-	6,134,291

NOTES TO THE COMBINED FINANCIAL STATEMENTS

for the year ended 31 December 2014

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

31. Financial risk management policies and objectives *(continued)*

Year ended 31 December 2013	*Less than 3 month*	*3 to 12 months*	*1 to 5 years*	*More than 5 years*	*Less: Effect of amortisation*	*Carrying value*
Interest bearing loans and borrowings	632,207	6,912,489	14,500,660	2,754,129	(6,887,497)	17,911,988
Finance lease liability	432,260	1,091,755	1,220,447	165,719	(540,501)	2,369,680
Trade and other payables	6,265,558	168,860	353,452	321,759	-	7,109,629

Foreign currency risk

In common with many other businesses in Ukraine, foreign currencies, in particular the US dollar ("USD"), the Euro ("EUR"), the Swiss Franc ("CHF"), the Russian Rouble ("RUB") play a significant role in the underlying economics of the Group's business transactions.

The exchange rates for foreign currencies, in which the Group's financial assets and liabilities were denominated, against the Ukrainian Hryvnia, as established by the NBU as at the dates stated, were as follows:

	USD	*EUR*	*CHF*	*10 RUB*
31 December 2013	7.9930	11.0415	9.0253	2.4497
Average for 2013	7.9930	10.6157	8.6247	2.5116
31 December 2014	15.7685	19.2329	15.9901	3.0304
Average for 2014	11.9096	15.7402	12.9711	3.1090
30 July 2015	22.0735	24.3471	22.9214	3.6933

The Group has transactional currency exposure that relates to monetary assets and liabilities denominated in foreign currencies and are attributable to general volatility in exchange markets. Such exposure arises from sales or purchases by the Group in currencies other than its functional currency. The Group has not entered into transactions designed to hedge against these foreign currency risks.

The following table demonstrates the sensitivity to a reasonably possible change in the corresponding exchange rates, with all other variables held constant, of the Group's loss before tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the Group's equity.

31 December 2014	*Change in UAH rate*	*Effect on the profit before tax*
UAH/USD	+28.93%	(7,892,649)
UAH/USD	-28.93%	7,892,649
UAH/CHF	+28.93%	19,902
UAH/CHF	-28.93%	(19,902)
UAH/EUR	+28.96%	(108,325)
UAH/EUR	-28.96%	108,325
UAH/RUR	+39.92%	1,513
UAH/RUR	-39.92%	(1,513)

31 December 2013	*Change in UAH rate*	*Effect on the profit before tax*
UAH/USD	+2.25%	(308,033)
UAH/USD	-2.25%	308,033
UAH/CHF	+30.00%	1,267
UAH/CHF	-5.00%	(211)
UAH/EUR	+9.59%	(2,059)
UAH/EUR	-9.59%	2,059
UAH/RUR	+10.63%	50
UAH/RUR	-10.63%	(50)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

for the year ended 31 December 2014

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

31. Financial risk management policies and objectives *(continued)*

Credit risk

Financial instruments which potentially expose the Group to significant concentrations of credit risk consist principally of cash and cash equivalents, deposits, trade and other receivables. The Group's credit risk exposure is monitored and analysed on a case-by-case basis, and the Group's management believes that credit risk is appropriately reflected in impairment allowances recognised against assets. The Group's maximum credit risk exposure at 31 December 2014 and 2013 is represented by the carrying amounts of the financial assets.

The Group's cash is primarily held with major reputable Ukrainian banks.

The Group does not require collateral in respect of financial assets. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed of all customers requiring credit over a certain amount.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

In 2013 and 2012, the Group primarily borrowed at both fixed and floating rate pegged to the London Inter Bank Offering Rate ("LIBOR").

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

31 December 2014	*Increase/decrease in basis points*	*Effect on the profit before tax*
LIBOR	+0.02%	979
LIBOR	-0.02%	(979)
EURIBOR	+0.04%	304
EURIBOR	-0.04%	(304)

31 December 2013	*Increase/decrease in basis points*	*Effect on the profit before tax*
LIBOR	+0.03%	(797)
LIBOR	-0.03%	797
EURIBOR	+0.04%	-
EURIBOR	-0.04%	-

The Group has not entered into transactions designed to hedge against the interest rate risk.

Capital management

The Group considers debt and equity as relevant components of funding, hence part of its capital management. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for the State and benefits for other stakeholders as well as to provide financing of its operating requirements, capital expenditures and further the Group's development strategy. The Group's capital management policies aim to ensure and maintain an optimal capital structure to reduce the overall cost of capital and provide flexibility relating to the Group's access to capital markets.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

for the year ended 31 December 2014

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

31. Financial risk management policies and objectives *(continued)*

The structure of capital managed is presented below:

	2014	*2013*
Interest-bearing loans and borrowings	31,087,696	17,911,988
Finance lease liability	3,414,440	2,369,680
	34,502,136	20,281,668
Cash and term deposits	(2,038,008)	(646,516)
Net debt	32,464,128	19,635,152
Total equity	27,769,299	43,213,568
Total capital	60,233,427	62,848,720

Management monitors on a regular basis the Group's capital structure and may adjust its capital management policies and targets following changes in its operating environment, market sentiment or its development strategy. Please, refer to Note 2 which discloses the important uncertainty aspects related to the capital management.

32. Events after the reporting period

On 11 March 2015 the Executive Board of the International Monetary Fund approved a four-year extended arrangement under the Extended Fund Facility for Ukraine amounting to USD 17.5 billion to support the economic program of the Government of Ukraine. Within the framework of agreements with the International Monetary Fund the Government of Ukraine announced its intention to restructure its foreign currency debt. The list of indebtedness also includes debt issued by state-owned entities, comprising the Eurobonds of USD 500 million issued by the Group (Note 18).

On 12 May 2015 the Group announced the suspension of principal payments under certain loan agreements with Ukrainian lenders. Such breach of undertakings have triggered a cross-default under certain other loan agreements. The Group began debt restructuring negotiations with the external and internal lenders. The Group reached certain agreements as for the restructuring of the internal debt and as at the date of the audthorisation of the financial statements the restructuring negotiations with internal lenders were at the completion stage. After the reporting period the Group timely serviced and paid the debt to foreign creditors.

In late December 2014 the Parliament of Ukraine passed a law which significantly revised the tax code effective 1 January 2015. The most significant changes that are expected to impact the Group are:

- Revised corporate tax computation rules, whereby the basis for calculating corporation tax is now an adjusted accounting profit, rather than through a separate calculation of taxable income and deductible expenses. The enacted corporate tax rates were not changed as a result of this revision. The Group is currently estimating the impact of these new changes but does not expect these to result in significant change in the Group's effective tax rate. The Group considered the changes to have been substantively enacted for the purpose of calculating the 31 December 2014 deferred tax balances;
- Revision the rules governing the payment of VAT, which require output VAT to be paid to the tax authorities based on the supply of the good or service, net of input VAT if this VAT is determined to have been paid to the tax authorities by the Group's suppliers. The prior VAT settlement mechanism was based on a monthly payment computed through a VAT return where the net VAT payment was calculated based on accrued net of input and output VAT.

The State Administration of Railways Transport of Ukraine ("Ukrzaliznytsia")

Combined Financial Statements

As at 31 December 2013
with Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Management of the State Administration of Railways Transport of Ukraine

We have audited the accompanying combined financial statements of the State Administration of Railways Transport of Ukraine ("Ukrzaliznytsia") and other combined entities listed in Note 1 (collectively referred to as "the Group"), which comprise the combined statement of financial position as at 31 December 2013 and the combined statement of comprehensive income, combined statement of changes in equity and combined cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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Emphasis of Matter

We draw attention to Note 2 to the combined financial statements, which describes the political unrest in Ukraine that started in November 2013 and escalated in 2014. The events referred to in Note 2 could adversely affect the Group's results and financial position in a manner not currently determinable. Our opinion is not qualified in respect of this matter.

Ernst & Young Audit Services LLC

30 April 2014

COMBINED STATEMENT OF FINANCIAL POSITION

as at 31 December 2013

(in thousands of Ukrainian Hryvnia)

	Notes	2013	2012 (restated)	2011 (restated)
ASSETS				
Non-current assets				
Property, plant and equipment	9	63,721,131	63,266,035	60,955,409
Financial assets	10	213,706	234,275	91,629
Taxes receivable, other than income tax	14	506,099	567,683	-
Deferred tax asset	21	4,101,120	4,651,095	4,830,068
		68,542,056	68,719,088	65,877,106
Current assets				
Inventories	11	3,922,904	3,332,552	3,030,779
Trade and other receivables	12	461,681	459,682	775,543
Prepayments	13	300,121	223,070	296,310
Prepaid income tax		330,724	13,596	18,942
Taxes receivable, other than income tax	14	488,796	696,451	618,625
Short-term deposits	15	2,957	1,200	5,290
Cash and cash equivalents	16	643,559	294,399	2,355,458
		6,150,742	5,020,950	7,100,947
TOTAL ASSETS		74,692,798	73,740,038	72,978,053
EQUITY AND LIABILITIES				
Equity				
Contributed capital	17	18,640,806	18,643,911	18,633,393
Retained earnings	17	24,572,762	24,218,966	24,363,587
		43,213,568	42,862,877	42,996,980
Non-current liabilities				
Interest-bearing loans and borrowings	18	12,337,943	9,310,216	7,461,744
Finance lease liability	19	1,100,560	1,820,189	3,018,632
Employee benefit liability	20	2,164,563	2,253,915	2,321,681
Deferred tax liability	21	15,533	8,122	42,041
		15,618,599	13,392,442	12,844,098
Current liabilities				
Interest-bearing loans and borrowings	18	5,574,045	7,500,126	7,141,653
Finance lease liability	19	1,269,120	1,466,005	1,142,054
Trade and other payables	22	7,109,629	6,801,189	6,712,868
Advances from customers		1,684,423	1,140,105	962,069
Income tax payable		7,231	173,138	824,971
Taxes payable, other than income tax	23	194,358	369,430	318,092
Provisions	24	21,825	34,726	35,268
		15,860,631	17,484,719	17,136,975
Total liabilities		31,479,230	30,877,161	29,981,073
TOTAL EQUITY AND LIABILITIES		74,692,798	73,740,038	72,978,053

Signed and authorised for release on behalf of The State Administration of Railways Transport of Ukraine ("Ukrzaliznytsia") on 30 April 2014 by:

General Director	Borys I. Ostapiuk
First Deputy General Director	Maxim I. Blank
Head of Central Finance and Economic Department	Tamara S. Ryabchun

COMBINED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2013

(in thousands of Ukrainian Hryvnia)

	Notes	*2013*	*2012 (restated)*
Revenues			
Cargo revenues		38,805,356	40,956,071
Passenger revenues		7,058,611	6,527,657
Other revenues		5,185,867	5,241,580
Total revenues		51,049,834	52,725,308
Operating expenses			
Staff costs		(22,286,077)	(22,521,829)
Depreciation		(5,970,709)	(6,413,949)
Maintenance		(6,064,716)	(6,722,280)
Electricity		(5,043,707)	(4,845,462)
Fuel		(4,413,567)	(4,749,159)
Taxes, other than income tax	25	(1,263,481)	(1,343,461)
Social expenses		(644,561)	(509,472)
Impairment of Property, plant and equipment	9	(427,648)	-
Change in provisions	24	12,901	542
Other income		519,186	358,617
Other expenses		(505,168)	(724,197)
Total operating expenses		(46,087,547)	(47,470,650)
Operating profit		4,962,287	5,254,658
Finance income	26	55,057	47,087
Finance costs	26	(3,261,924)	(3,220,736)
Foreign exchange gain / (loss), net	27	128,007	(30,167)
Profit before income tax		1,883,427	2,050,842
Income tax expense	21	(1,325,856)	(1,217,017)
Profit for the year		557,571	833,825
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains/(losses) on defined benefit plans, net of tax	20	(12,267)	51,626
Total comprehensive income for the year, net of tax		545,304	885,451

COMBINED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2013
(in thousands of Ukrainian Hryvnia)

	Notes	Contributed capital	Retained earnings	Total equity
1 January 2012 (as previously reported)		18,633,393	24,995,904	43,629,297
Retrospective application of IAS 19 revised as at 1 January 2012	4	-	(632,317)	(632,317)
1 January 2012 (restated)		18,633,393	24,363,587	42,996,980
Profit for the period		-	833,825	833,825
Other comprehensive income		-	51,626	51,626
Total comprehensive income		-	885,451	885,451
Changes in the Group composition	17	10,518	(3,743)	6,775
Transfer of property, plant and equipment to entities under common control	17	-	(853,033)	(853,033)
Dividends	17	-	(173,296)	(173,296)
At 31 December 2012 (restated)		18,643,911	24,218,966	42,862,877
Profit for the period		-	557,571	557,571
Other comprehensive income		-	(12,267)	(12,267)
Total comprehensive income		-	545,304	545,304
Changes in the Group composition	17	(3,105)	(6,520)	(9,625)
Transfer of property, plant and equipment to entities under common control	17	-	(4,388)	(4,388)
Dividends	17	-	(180,600)	(180,600)
At 31 December 2013		18,640,806	24,572,762	43,213,568

COMBINED STATEMENT OF CASH FLOWS

for the year ended 31 December 2013
(in thousands of Ukrainian Hryvnia)

	Notes	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		1,883,427	2,050,842
Adjustments to reconcile profit before income tax to net cash provided by operations			
Depreciation		5,970,709	6,413,949
Impairment of property, plant and equipment	9	427,648	
Finance costs, net	26	3,206,867	3,173,649
Loss on disposal of property, plant and equipment		61,100	31,891
Movements in Defined benefit liability and provisions		(380,564)	(257,228)
Unrealised foreign exchange (gain)/loss, net		(11,618)	(48,518)
Operating profit before working capital changes		11,157,569	11,364,585
Changes in working capital			
Trade and other receivables		24,363	66,270
Prepayments		(78,450)	74,624
Inventories		(590,352)	(301,778)
Taxes receivable and prepaid		374,439	(645,511)
Trade and other payables		694,076	332,560
Advances from customers		544,318	178,037
Taxes payable, other than income tax		(175,072)	51,338
Cash generated from operating activity		11,950,891	11,120,130
Income tax paid		(1,249,169)	(1,728,283)
Interest paid		(2,474,451)	(2,050,798)
Dividends paid	17	(120,205)	(220,033)
Net cash flows from operating activities		8,107,066	7,121,016
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(7,153,584)	(10,336,241)
Proceeds from disposal of property, plant and equipment		306,387	276,599
Net cash movement on deposit accounts		16,357	4,083
Proceeds from government grants related to assets	9	-	297,000
Interest received		18,738	18,965
Net cash flows used in investing activities		(6,812,102)	(9,739,594)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Interest-bearing loans		16,969,506	13,583,964
Repayment of Interest-bearing loans		(20,109,464)	(12,645,385)
Proceeds from Eurobonds and domestic bonds		6,564,616	1,774,635
Repayment of domestic bonds		(2,333,500)	(670,000)
Repayment of finance lease obligations		(1,986,775)	(1,540,084)
Net cash flows from financing activities		(895,617)	503,130
Net increase/(decrease) in cash and cash equivalents		399,347	(2,115,448)
Net foreign exchange difference		3,389	813
Cash and cash equivalents at 1 January	16	240,823	2,355,458
Cash and cash equivalents at 31 December	16	643,559	240,823

NOTES TO THE COMBINED FINANCIAL STATEMENTS

for the year ended 31 December 2013

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

1. Description of business and the Group's structure

Formation and operations of the Group

The State Administration of Railways Transport of Ukraine (hereinafter referred to as "Ukrzaliznytsia") was established in December 1991 pursuant to the Decree of the Cabinet of Ministers of Ukraine No. 356 as a managing body for state-owned entities engaged in provision of railways transportation services and support of railways infrastructure in Ukraine.

The registered address of Ukrzaliznytsia is 5, Tverska St., Kyiv 03680, Ukraine.

Combined entities

These combined financial statements include statements of financial position and related statements of comprehensive income, cash flows and changes in equity of entities (hereinafter referred to as the "Combined Entities"), which, according to the Orders of the Ministry of Infrastructure of Ukraine (before 9 December 2010 Ministry of Transport and Communications of Ukraine) and the Decree of the Cabinet of Ministers of Ukraine, were managed and effectively controlled by Ukrzaliznytsia during the year ended 31 December 2013 which together form the Ukrzaliznytsia Group (hereinafter collectively referred to as the "Group").

The significant Group's entities as at 31 December 2013 are presented below:

Managing entity:		
1	State Administration of Railways Transportation of Ukraine (Ukrzaliznytsia)	State Enterprise
Railways:		
2	Donetsk Railway	State Enterprise
3	Lviv Railway	State Enterprise
4	Odesa Railway	State Enterprise
5	Prydniprovska Railway	State Enterprise
6	South-Western Railway	State Enterprise
7	Southern Railway	State Enterprise
Auxiliary services:		
8	Ukrspetsvagon	State Enterprise
9	Ukrainian State Center for Railways Refrigerator Transportation Ukrreftrans	State Enterprise
10	Ukrainian State Center for Transportation Service "Lisky"	State Enterprise
11	Darnytsky Carriage Repair Plant	State Enterprise
12	Main Information Processing Center of Ukrzaliznytsia	State Enterprise
13	Central Communications Station	State Enterprise
14	Ukrainian State Clearing Center for International Transportation	State Enterprise
15	Ukrzaliznychpostach	State Enterprise
16	Ukrainian Center for Railroad Mechanisation	State Enterprise
17	Rava-Rusky Sleeper Plant	State Enterprise
18	Ukrainian transport logistics center	State Enterprise
19	Ukrainian railway high-speed company	State Enterprise
20	Vinnytsiatransprylad	State Enterprise
21	Stryysky Carriage Repair Plant	State Enterprise
22	Starokonstantinovsky Concrete Sleeper Plant	State Enterprise
23	Administration for Industrial Enterprises	State Enterprise

NOTES TO THE COMBINED FINANCIAL STATEMENTS

for the year ended 31 December 2013

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

1. Description of business and the Group's structure (continued)

In March 2012 a Law of Ukraine №4442-VI "On peculiarities of the formation of a public joint stock company for railway transportation" was enacted. The Law sets broad principles for the reorganisation of the Group into a single joint stock company with 100% shares to be owned by the State Ukraine. The Group is in the process of preparation for the legal reorganisation.

Pricing policy

Cargo and passenger transportation in Ukraine is a natural monopoly and is subject to the following tariffs regulations:

Tariffs for domestic cargo transportation - approved by the Ministry of Infrastructure of Ukraine as agreed with the Ministry of Economic Development and Trade of Ukraine and the Ministry of Finance of Ukraine. The tariffs are denominated in Ukrainian Hryvnia and are subject to inflation adjustments in line with a change in consumer prices. There were several adjustments to the tariff rates during the years 2013-2012.

Tariffs for domestic transportation of passengers and baggage - approved by the Ministry of Infrastructure of Ukraine as agreed with the Ministry of Economic Development and Trade of Ukraine. The tariffs are denominated in Ukrainian Hryvnia. There were several adjustments to the tariff rate during the years 2013-2012.

Tariffs for international cargo transportation - regulated by special Tariff Policy annually approved by the Ministry of Infrastructure of Ukraine based on intergovernmental agreements. Tariffs are denominated in Swiss Francs.

Tariffs for international transportation of passengers and baggage - approved by the Ministry of Infrastructure of Ukraine, denominated in Swiss Francs for the countries of the Commonwealth of Independent States, Latvia, Lithuania, Estonia and in Euro for transportation in other countries.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

for the year ended 31 December 2013

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

2. Operating environment, risks and economic conditions in Ukraine

The Ukrainian economy while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, high inflation and the existence of currency controls which cause the national currency to be illiquid outside of Ukraine. The stability of the Ukrainian economy will be significantly impacted by the Government's policies and actions with regard to administrative, legal, and economic reforms. As a result, operations in Ukraine involve risks that are not typical for developed markets. The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

In November 2013, the Ukrainian Government declined to sign the association agreement with the European Union, which resulted in protests and signs of political unrest. In January-April 2014, the political unrest escalated. In February 2014, the President and majority of Government officials were dismissed by the Parliament. The Parliament has initiated certain political reforms, has appointed a transitional Government and is forming a set of anti-crisis measures. On 21 March 2014, Ukraine signed a political association with the European Union.

In March 2014, the referendum held in the Autonomous Republic of Crimea supported seceding from Ukraine and becoming a part of the Russian Federation. The Crimean parliament declared the independence. While the referendum and declaration of independence have been ruled unconstitutional by the Ukraine's Constitutional Court, the President of the Russian Federation and the representatives of Crimea signed an agreement on the accession of Crimea to the Russian Federation, which has been ratified by the constitutional court and the Parliament of the Russian Federation. The Crimean authorities declared Crimean Direction of Prydniprovska Railway a separate State Company "Crimean Railways". Crimean Direction contributed 3% to the Group's revenues in 2013. As at 31 December 2013, the carrying value of the Group's assets located in or otherwise associated with the Crimea (including customers, borrowers, etc.) is UAH 948,595 thousand.

Furthermore, from 1 January 2014 to 30 April 2014, the Ukrainian Hryvnia devaluated against major foreign currencies by approximately 43%, and the National Bank of Ukraine imposed certain restrictions on purchase of foreign currencies at the inter-bank market. The international rating agencies have downgraded sovereign debt ratings for Ukraine. The combination of the above events has resulted in a deterioration of liquidity and much tighter credit conditions where credit is available.

Management is monitoring these developments in the current environment and taking actions where appropriate. Further negative developments, including the political unrest, could adversely affect the Group's results and financial position in a manner not currently determinable.

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2. Operating environment, risks and economic conditions in Ukraine (*continued*)

Going Concern

As at 31 December 2013, the Group's current liabilities exceeded its current assets by UAH 9,709,889 thousand (2012: UAH 12,463,769 thousand).

The Group's management believes that: (i) net working capital deficit is typical for service providers with the similar background, (ii) the Group is able to generate sufficient cash flows from its operating activities to finance net working capital deficit during 2014, and (iii) is continuously seeking to raise additional borrowings with period of re-payment longer than one year, (iv) the Group may release additional cash flows by capping capital expenditures in case needed, without short term negative effects on operations. In 2013 the Group had issued Eurobonds for UAH 3,996,500 thousand maturing in 2018 (Note 18) which allowed to refinance its current debt partially.

The Group undertakes significant capital investments in its property, plant and equipment, that are financed through cash generated from operations and current and non-current borrowings. Management is implementing the following measures to address the Group's liquidity needs:

- Diversification of sources of financing by entering international capital markets;
- Negotiation of long-term and medium-term arrangements with local and foreign banks to ensure adequate liquidity reserves for emergency cases.
- Improving working capital management through negotiation of credit terms with key suppliers and more effective inventory management;
- Optimization of the cost structure.

Management believes that in 2014 the Group will obtain sufficient funding from (a) cash generated from operations, (b) debt financing, and (c) cost reduction measures to enable the Group to meet its obligations in the normal course of business as and when they fall due.

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3. Basis of preparation

The combined financial statements have been prepared on a historical cost basis, except for post-employment benefits measured in accordance with the requirements of IAS 19 "Employee benefits" and certain financial instruments measured in accordance with the requirements of IAS 39 "Financial instruments: recognition and measurement". These combined financial statements are presented in Ukrainian Hryvnia ("UAH") thousands and all values are rounded off to the nearest thousand except where otherwise indicated.

Statement of compliance

The combined financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of combination

Ukrzaliznytsia is an entity subordinated to the Ministry of Infrastructure of Ukraine and represents, by substance, the Ultimate Holding Company for the group of entities engaged in provision of railways transportation services and support of railways infrastructure in Ukraine. The companies within the Group are under full control of the State of Ukraine, which is the Common Ultimate Shareholder of the Group.

The initial combination of Ukrzaliznytsia and the Combined Entities has been made using the pooling of interests method as if Ukrzaliznytsia and the Combined Entities have always been together but not earlier the Combined Entities were acquired under common control.

The contributed capital of the Group combines the registered capital of Ukrzaliznytsia and the Combined Entities. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

The financial statements of Ukrzaliznytsia and the Combined Entities are prepared for the same reporting period and using consistent accounting policies.

Subsequent changes in the Group composition

Subsequent changes in the Group composition involving other entities under common control are recognised in the combined financial statements since the date these changes are officially enacted. The components of equity are added to or deducted from the same components within the Group equity.

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4. Changes in accounting policy

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as at 1 January 2013:

IAS 1 Presentation of Items of Other Comprehensive Income - Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affected presentation only and had no impact on the Group's financial position or performance.

IAS 19 Employee Benefits (Revised 2011) (IAS 19R)

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures.

IAS 19R has been applied retrospectively from 1 January 2012. The most fundamental change of the numerous amendments made to IAS 19 is to remove the so-called 'corridor-approach' and to require the recognition of all actuarial gains and losses from the re-measurement of the defined benefit obligation and the fair values of the plan assets in other comprehensive income in the current period.

Also, unvested past service costs can no longer be deferred and recognized over the future vesting period. Instead, all past service costs are recognized at the earlier of when the amendment occurs and when the Group recognizes related restructuring or termination costs. Until 2012, the Group's unvested past service costs were recognized as an expense on a straight-line basis over the average period until the benefits become vested. Upon transition to IAS 19R, past service costs are recognized immediately if the benefits have vested immediately following the introduction of, or changes to, a pension plan.

The adoption of the amendments became effective for financial years beginning on or after 1 January 2013 with the following effect on the Group's financial position and performance as well as presentation of the defined benefit pension liability.

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4. Changes in accounting policy (*continued*)

Impact of transition to IAS 19R:

Impact on equity:

	31 December 2013	*31 December 2012*	*1 January 2012*
Recognition of unrecognised actuarial losses	(625,149)	(642,546)	(740,089)
Recognition of unrecognised past service costs	(10,990)	(11,773)	(12,670)
Deferred tax impact of the above items	101,782	104,690	120,442
Net impact on equity	(534,357)	(549,629)	(632,317)

Impact on combined statement of comprehensive income:

	For the year 2013	*For the year 2012*
Income statement		
Decrease in staff cost	32,784	36,977
Increase in related deferred tax expense	(5,246)	(5,916)
Net increase in profit for the period	27,538	31,061
Statement of other comprehensive income		
Remeasurement (gain) / loss on defined benefit obligation	14,603	(61,460)
Income tax effect on above	(2,336)	9,834
Total comprehensive income for the year	12,267	(51,626)

There was no material impact on the Group's combined statement of cash flows for the year 2013 and 2012.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation – Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be combined, compared with the requirements that were in IAS 27. IFRS 10 does not have significant impact on the Group's combination.

Other standards and interpretations

Adoption of the following new standards, amendments and interpretations had no significant impact on the accounting policies, financial position or performance of the Group:

IFRS 1 First-time adoption of IFRS (amended)
IFRS 7 Financial Instruments: Disclosures (amended)
IFRS 12 Disclosures of Interests in Other Entities
IFRS 11 Joint Arrangements
IFRS 13 Fair Value Measurement
IAS 16 Property, Plant and Equipment (amended)
IAS 28 Investments in Associates and Joint ventures (amended)
IAS 32 Financial Instruments: Presentation (amended)
IAS 34 Interim Financial Reporting (amended)
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine.

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5. Significant accounting judgments, estimates and assumptions

According to IAS 1 *Presentation of Financial Statements*, the Group accounts for and presents transactions and other events in accordance with their substance and economic reality and not merely their legal form.

The preparation of combined financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts. These estimates are based on information available as at the end of the reporting period. Actual results could differ from these estimates. The key judgments, estimates and assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that represents a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year are discussed below:

Judgments

Provisions
The Group has recognised provisions for obligations related to tax risks and legal claims. The amount of the provision represents the management's best estimates of expected future cash outflows discounted at a current pre-tax rate, where appropriate.

Impairment of property, plant and equipment
At the end of each reporting period the Group assesses whether there is any indication that an asset may be impaired. This assessment implies significant judgment. The management has identified indicators of impairment as at 31 December 2013, performed a test for impairment and recorded impairment loss (Note 9).

Estimates

Allowance for doubtful debts
The allowance for doubtful debts is estimated by management using the best information available as to the creditworthiness of its customers as at the end of the reporting period. However, the actual recoverability of receivables may differ from those estimations made by management.

Estimates of the useful lives of property, plant and equipment
Significant management judgment is required to determine the estimated useful lives of items of property, plant and equipment. The actual useful lives may vary from the management estimates.

Defined benefit liability
The cost of defined benefit pension plans and other post employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, staff turnover, mortality rates and future pension increases. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate management considers the yield of government bonds because there is no deep market in corporate bonds in Ukraine. Due to the long term nature of these plans, the estimates are subject to significant uncertainty. Further details are given in Note 20.

Deferred tax asset recoverability
Deferred tax assets are recognised to the extent that it is probable that they will be recovered, which is dependent on the generation of sufficient future taxable profit. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future level of tariffs and sales volumes, prices for consumables and operating costs. Judgments are also required about the application of income tax legislation. These judgments and estimates are subject to risks and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised at the reporting date. In such circumstances, some, or all, of the carrying amount of recognised deferred tax assets and liabilities may require adjustment, resulting in corresponding credit or charge to the income statement.

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6. Summary of significant accounting policies

Foreign currency translation

The functional and presentation currency of the Group is the Ukrainian Hryvnia. This is the currency of the primary economic environment in which the Group operates. Transactions denominated in currencies other than the functional currency (foreign currencies) are initially recorded in the functional currency at the rate at the date of the transaction as established by the National Bank of Ukraine ("NBU"), which is deemed to approximate the prevailing market rate. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange in effect at the end of the reporting period. Non-monetary items that were measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair values were determined. The resulting gains and losses are recognised in the profit of loss within the statement of comprehensive income.

Financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, held-to maturity investments, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets upon initial recognition and, where allowed and appropriate, re-assess this designation at each financial year-end.

The Group has not designated any financial instruments at fair value through profit or loss, neither as held-to-maturity investments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and impairment losses.

Upon recognition, items of property, plant and equipment are divided into components, which represent items with a significant value that can be allocated to a separate depreciation period. Overhaul costs also represent a component of an asset. Major spare parts and stand-by equipment qualify as property, plant and equipment when they are expected to be used during more than one period.

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised, and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the profit or loss within the statement of comprehensive income as incurred.

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6. Summary of significant accounting policies (*continued*)

Estimates of remaining useful lives are made on a regular basis with annual reassessments for major items. Changes in estimates are accounted for prospectively. Depreciation commences when an item is available for use. Freehold land is not depreciated.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Group	*Useful lives*
Buildings, constructions and infrastructure	9-76 years
Subgrade and superstructure	6-83 years
Locomotives	5-32 years
Railway cars	5-30 years
Plant, equipment, tools and other	3-17 years
Vehicles	3-12 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss within the statement of comprehensive income in the year the item is derecognised.

Social assets
Included in property, plant and equipment are social infrastructure and other non-production assets (hereinafter referred to as the "social assets"). Management believes that expenditures incurred in respect of acquisition or construction of such assets qualify for the recognition as an asset on the premises that such expenditures are capable of contributing indirectly to the flow of cash and cash equivalents to the Group through a reduction of cash outflows related primarily to wages and salaries expenses. As such non-production assets are employed by the Group to provide in-kind benefits to its employees in addition to wages and salaries paid in cash.

Construction in progress
Assets in the course of construction are capitalised as a separate component of property, plant and equipment. On completion, the cost of construction is transferred to the appropriate category. Construction in progress is not depreciated.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the profit or loss within the statement of comprehensive income.

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6. Summary of significant accounting policies (*continued*)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Inventories

Inventories primarily consist of spare parts, materials, tools and fuel. Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the FIFO (first-in, first-out) method. Net realisable value is determined as the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Borrowing costs

Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset, otherwise they are recognised as an expense when incurred. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short term, highly liquid investments with an original maturity of three months or less that are readily convertible to known amounts of cash and subject to insignificant risks of changes in value.

For the purposes of the combined statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Trade and other payables

Trade and other payables are recognised and initially measured at fair values less directly attributable transaction costs. Subsequently, trade and other payables are carried at amortised cost using the effective interest method.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

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6. Summary of significant accounting policies (*continued*)

Derecognition of financial assets and liabilities

Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case Group also recognizes an associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss within the statement of comprehensive income.

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6. Summary of significant accounting policies *(continued)*

Impairment of financial assets

The Group assesses at the end of each reporting period whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortised cost that would have been at the reversal date, had the impairment not been recognized.

Available-for-sale financial assets
For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss - is removed from other comprehensive income and recognised in the profit or loss. Impairment losses on equity investments are not reversed through the profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income. In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the profit or loss.

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6. Summary of significant accounting policies (*continued*)

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation (either based on legal regulations or implied) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Contingent liabilities and assets

Contingent liabilities are not recognised in the combined financial statements. They are disclosed in the notes to the combined financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the combined financial statements but disclosed when an inflow of economic benefits is probable.

Employee benefits

The Group makes defined contributions to the Ukrainian state pension funds at the relevant statutory rates in force during the year, based on gross salary payments. The Group has no legal or constructive obligations to pay further contributions in respect of those benefits. Its only obligation is to pay contributions as they fall due. Such contributions are expensed in the period when the related salaries are earned.

In addition, the Group has a legal obligation to compensate the Ukrainian State Pension Fund for additional pensions paid to certain categories of the current and former employees who are eligible for early retirement benefits due to working in hazardous and/or unhealthy working conditions. The Group has also contractual obligation to pay lump-sum payments to the retiring employees with the long service, certain post retirement and post employment benefits, as well as other long-term employee benefits such as jubilee and long service benefits, etc. according to collective agreements. These obligations fall under definitions of a defined benefit plan.

Government grants

Government grants contributed towards the acquisition of property, plant and equipment are deducted from the cost of those assets where there is reasonable assurance that the grants will be received and all attached conditions will be complied with.

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6. Summary of significant accounting policies (*continued*)

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date, and involves assessment whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Group as a lessee
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease term at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term. In other case capitalised leased assets are depreciated over the useful life of the asset.

Operating lease payments are recognised as an expense in profit or loss on a straight line basis over the lease term.

Group as a lessor
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Revenue recognition

Revenues are recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of revenues can be measured reliably.

Revenues and expenses are accounted for at the time the actual flow of related goods and services occurs and transfer of risks and rewards has been completed, regardless of when cash or its equivalent is received or paid, and are reported in the statement of comprehensive income in the period to which they relate.

Transportation services
In respect of services related to cargo and passenger transportation, revenue is recognised by reference to the stage of completion of the transportation at the end of the reporting period provided that the stage of completion of the transportation and the amount of revenue can be measured reliably. The stage of completion is determined based on a duration or transportation completed to date to total duration of transportation.

Any amounts, which have been collected from the clients in advance to deliveries, initiated and not completed as at the date of these combined financial statements are reported in the combined statement of financial position as advances received for transportation. The amount of these liabilities is reduced for the amount of revenues recognised by reference to the stage of completion of the delivery.

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6. Summary of significant accounting policies (*continued*)

Interest and similar income and expense

Interest income and expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of such an instrument, taking into consideration all contractual terms of the instrument.

Exchange of services of similar nature and value

The Group's transportation and other services provided to foreign railways are settled through mutual offset arrangements with its counterparties. Generally, the settlement is made in exchange for services of similar nature and value which is not regarded as a transaction which generates revenue. Such transactions are accounted on a net basis.

Taxes

Current income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted by the end of the reporting period.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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6. Summary of significant accounting policies (*continued*)

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted at the end of the reporting period.

Income tax relating to items recognised in other comprehensive income or directly in equity is recognised in other comprehensive income or directly in equity and not in the profit or loss.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value-added tax
Revenues, expenses and assets are recognised net of the amount of Value-added tax ("VAT") except:

- where VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case VAT is recognised as part of the cost of acquisition of the asset or as part of expense item as applicable; and
- receivables, payables and finance lease liability are stated with the amount of VAT included.

The net amount of VAT receivable from, or payable to, the taxation authority is included into the *Taxes receivable, other than income tax/Taxes payable, other than income tax* line items disclosed on the face of the combined statement of financial position.

Events after the reporting period

Events after the reporting period that provide additional information on the Group's position at the end of the reporting period (adjusting events) are reflected in the combined financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

7. Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's combined financial statements are disclosed below. The Group intends to adopt these standards when they become effective. Management currently assesses the impact of adoption of these standards and interpretations on the combined financial statements of forthcoming periods.

Standard	Pronouncement	Effective date
IFRS 2 Share-based Payment	Amendments resulting from Annual Improvements 2010-2012 Cycle: definition of 'vesting condition'	Annual periods beginning on or after 1 July 2014
IFRS 3 Business Combinations	Amendments resulting from Annual Improvements 2010-2012 Cycle: accounting for contingent consideration	Annual periods beginning on or after 1 July 2014
IFRS 3 Business Combinations	Amendments resulting from Annual Improvements 2011-2013 Cycle: scope exception for joint ventures	Annual periods beginning on or after 1 July 2014
IFRS 8 Operating Segments	Amendments resulting from Annual Improvements 2010-2012 Cycle: aggregation of segments, reconciliation of segment assets	Annual periods beginning on or after 1 July 2014

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7. Standards issued but not yet effective (*continued*)

Standard	Pronouncement	Effective date
IFRS 9 Financial Instruments	Replacement of IAS 39, applies to classification and measurement of financial assets and financial liabilities, as defined in IAS 39.	Annual periods beginning on or after 1 July 2018 (tentatively)
IFRS 10 Consolidated Financial Statements	Amendments for investment entities	Annual periods beginning on or after 1 January 2014
IFRS 12 Disclosure of Interests in Other Entities	Amendments for investment entities	Annual periods beginning on or after 1 January 2014
IFRS 13 Fair Value Measurement	Amendments resulting from Annual Improvements 2011-2013 Cycle: scope of the portfolio exception in paragraph 52	Annual periods beginning on or after 1 July 2014
IFRS 14 Regulatory Deferral Accounts	Original issue. Permits an IFRS first-time adopter to continue to account certain items in accordance with its previous GAAP	Applies to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016
IAS 16 Property, Plant and Equipment	Amendments resulting from Annual Improvements 2010-2012 Cycle: proportionate restatement of accumulated depreciation on revaluation	Annual periods beginning on or after 1 July 2014
IAS 19 Employee Benefits	Amended to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service	Annual periods beginning on or after 1 July 2014
IAS 24 Related Party Disclosures	Amendments resulting from Annual Improvements 2010-2012 Cycle: management entities	Annual periods beginning on or after 1 July 2014
IAS 27 Separate Financial Statements	Amendments for investment entities	Annual periods beginning on or after 1 January 2014
IAS 32 Financial Instruments: Presentation	Amendments relating to the offsetting of assets and liabilities	Annual periods beginning on or after 1 January 2014
IAS 36 Impairment of Assets	Amendments arising from Recoverable Amount Disclosures for Non-Financial Assets	Annual periods beginning on or after 1 January 2014
IAS 38 Intangible Assets	Amendments resulting from Annual Improvements 2010-2012 Cycle: proportionate restatement of accumulated depreciation on revaluation	Annual periods beginning on or after 1 July 2014
IAS 39 Financial Instruments: Recognition and Measurement	Amendments for novations of derivatives	Annual periods beginning on or after 1 January 2014
IAS 40 Investment Property	Amendments resulting from Annual Improvements 2011-2013 Cycle: interrelationship between IFRS 3 and IAS 40	Annual periods beginning on or after 1 July 2014
IFRIC 21 Levies	Clarification of recognition of a liability for a levy	Annual periods beginning on or after 1 January 2014

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8. Segment reporting

For management purposes, the Group is organized into business units based on their services, and has five reportable operating segments:

- *Cargo segment* includes cargo transportation services provided by the Group.
- *Long-distance passenger transportation reportable operating segment* comprises all cross-regional passenger transportation services provided by the Group.
- *Suburban passenger transportation segment* includes intraregional rail passenger transportation services.
- *Auxiliary operations segment* include repair and maintenance of rolling stock, energy re-sale, construction and other services provided by the Group's entities.
- *All other segments* include activities of the Group's entities which provide services related to cargo, suburban passenger transportation, construction, reconstruction and modernisation of railways and railway transport infrastructure, repair and maintenance of different railway-related equipment and other companies within the Group. None of these operations are of sufficient size to be reported separately. None of these operations can be aggregated with reportable operating segments described above due to dissimilar economical characteristics.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated on the basis of segment operating profit or loss determined based on management accounts that differ from IFRS combined financial statements for the reason that the management accounts are based on local GAAP figures. The operating segments results do not include the effects of some adjustments that may be considered necessary to reconcile the management accounts to IFRS combined financial statements.

Substantially all of the Group's operating assets are located and most of the services are provided in Ukraine.

Segment revenue is revenue that is directly attributable to a segment, whether from sales to external customers or from transactions with other segments. Segment revenue does not include:

- interest income;
- foreign exchange gains;
- gain on disposal, change in fair value and reversal of impairment of financial assets;
- gain on disposal of property, plant and equipment;
- other income

Segment expenses is expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to sales to external customers and expenses relating to transactions with other segments.

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8. Segment reporting (*continued*)

Segment expense does not include:

- interest expense;
- foreign exchange losses;
- loss on disposal, change in fair value and impairment of financial assets;
- loss on disposal of property, plant and equipment;
- loss on impairment of property, plant and equipment;
- contributions to finance activities of trade union, pension funds; membership in professional organizations;
- bank charges;
- income tax expense;
- social expenses;maintenance;
- other expenses.

Segment result is measured as segment revenue less segment expense.

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8. Segment reporting (*continued*)

Year ended 31 December 2013	*Cargo*	*Long-distance passenger*	*Suburban passenger*	*Auxiliary activity*	*All other segments*	*Unallocated*	*Eliminations (A)*	*Adjustments (B)*	*Combined*
Sales to third parties	37,619,058	6,546,592	481,558	6,097,023	411,634	-	-	(106,031)	51,049,834
Inter-segment sales	-	-	-	1,080,583	796,961	-	(1,877,544)	-	-
Total revenue	37,619,058	6,546,592	481,558	7,177,606	1,208,595	-	(1,877,544)	(106,031)	51,049,834
Staff costs	(11,705,603)	(4,349,716)	(1,779,948)	(3,137,675)	(517,720)	(1,439,789)	-	644,374	(22,286,077)
Depreciation	(3,699,793)	(1,525,044)	(614,635)	(1,181,362)	(106,099)	(73,508)	-	1,229,732	(5,970,709)
Electricity	(3,433,205)	(981,438)	(440,783)	(130,828)	(29,266)	(28,187)	-	-	(5,043,707)
Fuel	(2,796,727)	(613,408)	(387,407)	(547,658)	(46,544)	(21,524)	-	(299)	(4,413,567)
Segment result	15,983,730	(923,014)	(2,741,215)	2,180,083	508,966	(1,563,008)	(1,877,544)	1,767,776	13,335,774

Year ended 31 December 2012	*Cargo*	*Long-distance passenger*	*Suburban passenger*	*Auxiliary activity*	*All other segments*	*Unallocated*	*Eliminations (A)*	*Adjustments (B)*	*Combined*
Sales to third parties	39,510,834	6,071,548	502,483	6,351,808	799,440	-	-	(510,805)	52,725,308
Inter-segment sales	-	-	-	949,640	1,221,544	-	(2,171,184)	-	-
Total revenue	39,510,834	6,071,548	502,483	7,301,448	2,020,984	-	(2,171,184)	(510,805)	52,725,308
Staff costs	(11,720,613)	(4,259,998)	(1,675,585)	(2,976,371)	(676,825)	(1,409,214)	-	196,777	(22,521,829)
Depreciation	(3,833,643)	(1,480,389)	(616,379)	(1,023,530)	(297,303)	(72,930)	-	910,225	(6,413,949)
Electricity	(3,425,087)	(50,493)	(418,280)	(892,020)	(34,693)	(24,889)	-	-	(4,845,462)
Fuel	(2,982,696)	(689,192)	(382,992)	(616,936)	(53,798)	(23,545)	-	-	(4,749,159)
Segment result	17,548,795	(408,524)	(2,590,753)	1,792,591	958,365	(1,530,578)	(2,171,184)	596,197	14,194,909

NOTES TO THE COMBINED FINANCIAL STATEMENTS

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8. Segment reporting *(continued)*

(A) Inter-segment revenue and margins are eliminated on combination.

(B) The operating results of each operating segment does not include the following adjustments representing differences between management accounts and financial statements prepared in accordance with IFRS for the year ended 31 December:

	2013	2012
Recognition of revenue in appropriate period	(77,683)	(18,768)
Settlements with foreign railways	(28,348)	(492,037)
	(106,031)	(510,805)
Correction of bonuses and unused vacation expenses accrual	276,411	(59,909)
Correction of defined benefits obligation expenses	367,664	256,686
Depreciation expenses adjusted as the result of different carrying values of property, plant and equipment in IFRS and management information	1,229,732	910,225
Total adjustments to income before taxation	1,767,776	596,197

Reconciliation of profit:

	2013	2012
Segment results	15,008,550	17,300,474
Total adjustments due to differences in accounting policies adopted for management accounts and IFRS	1,767,776	596,197
Total unallocated amounts	(1,563,008)	(1,530,578)
Inter-segment sales (elimination)	(1,877,544)	(2,171,184)
Items not included in segment expenses:		
Maintenance	(6,064,716)	(6,722,280)
Taxes, other than income tax	(1,263,481)	(1,343,461)
Social expenses	(644,561)	(509,472)
Impairment of property, plant and equipment	(427,648)	-
(Impairment) / Reversal of impairment of trade and other receivables and prepayments	(21,417)	(2,283)
Change in provisions	12,901	542
Other income	519,186	358,617
Other expenses	(483,751)	(721,914)
Finance income	55,057	47,087
Finance costs	(3,261,924)	(3,220,736)
Foreign exchange (loss) / gain, net	128,007	(30,167)
Group profit before tax	1,883,427	2,050,842

NOTES TO THE COMBINED FINANCIAL STATEMENTS
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9. Property, plant and equipment

	Buildings, constructions and infrastructure	*Subgrade and superstructure*	*Locomotives*	*Railway cars*	*Plant, equipment, tools and other*	*Vehicles*	*Construction in progress and uninstalled equipment*	*Total*
Cost								
At 1 January 2013	25,538,197	17,450,553	23,039,802	20,117,960	17,342,357	1,691,572	4,073,268	109,253,709
Additions	3,098	-	-	-	-	-	7,250,693	7,253,791
Transfers	1,495,327	1,327,213	1,142,594	1,238,302	1,422,753	164,913	(6,791,102)	-
Disposal	(160,841)	(55,113)	(453,421)	(537,477)	(201,701)	(16,318)	(13,088)	(1,437,959)
At 31 December 2013	26,875,781	18,722,653	23,728,975	20,818,785	18,563,409	1,840,167	4,519,771	115,069,541
Accumulated depreciation								
At 1 January 2013	6,609,218	6,019,781	11,824,362	13,298,020	7,405,734	830,559	-	45,987,674
Depreciation charge	1,103,259	1,126,307	1,277,734	1,142,221	1,229,639	120,013	-	5,999,173
Impairment	103,966	72,426	91,793	80,535	71,810	7,118	-	427,648
Disposals	(68,233)	(19,822)	(392,769)	(430,034)	(144,078)	(11,149)	-	(1,066,085)
At 31 December 2013	7,748,210	7,198,692	12,801,120	14,090,742	8,563,105	946,541	-	51,348,410
Net book value								
At 1 January 2013	18,928,979	11,430,772	11,215,440	6,819,940	9,936,623	861,013	4,073,268	63,266,035
At 31 December 2013	19,127,571	11,523,961	10,927,855	6,728,043	10,000,304	893,626	4,519,771	63,721,131

NOTES TO THE COMBINED FINANCIAL STATEMENTS

for the year ended 31 December 2013

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9. Property, plant and equipment *(continued)*

	Buildings, constructions and infrastructure	Subgrade and superstructure	Locomotives	Railway cars	Plant, equipment, tools and other	Vehicles	Construction in progress and uninstalled equipment	Total
Cost								
At 1 January 2012	22,780,794	16,119,008	19,691,799	19,899,968	13,859,796	1,673,565	7,164,175	101,189,105
Additions	-	-	-	-	-	-	9,920,361	9,920,361
Transfers	2,812,413	1,564,088	3,602,659	510,140	3,619,455	46,009	(12,154,764)	-
Disposal	(55,010)	(232,543)	(254,656)	(292,148)	(136,894)	(28,002)	(856,504)	(1,855,757)
At 31 December 2012	25,538,197	17,450,553	23,039,802	20,117,960	17,342,357	1,691,572	4,073,268	109,253,709
Accumulated depreciation								
At 1 January 2012	5,380,832	4,830,726	10,748,209	12,282,562	6,272,705	718,662	-	40,233,696
Depreciation charge	1,251,503	1,280,939	1,305,849	1,269,786	1,205,543	134,592	-	6,448,212
Disposals	(23,117)	(91,884)	(229,696)	(254,328)	(72,514)	(22,695)	-	(694,234)
At 31 December 2012	6,609,218	6,019,781	11,824,362	13,298,020	7,405,734	830,559	-	45,987,674
Net book value								
At 1 January 2012	17,399,962	11,288,282	8,943,590	7,617,406	7,587,091	954,903	7,164,175	60,955,409
At 31 December 2012	18,928,979	11,430,772	11,215,440	6,819,940	9,936,623	861,013	4,073,268	63,266,035

NOTES TO THE COMBINED FINANCIAL STATEMENTS
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9. Property, plant and equipment *(continued)*

Social assets

Included in property, plant and equipment are social infrastructure and other social assets carried at UAH 794,203 thousand as at 31 December 2013 (2012: UAH 987,147 thousand), primarily comprising residential buildings and social infrastructure.

Prepayments for property, plant and equipment

As at 31 December 2013 construction in progress contained prepayments for property, plant and equipment in the amount of UAH 404,382 thousand (2012: UAH 180,671 thousand).

Capitalised depreciation charge

The Group capitalised UAH 28,464 thousand of depreciation charge into construction in progress for the year ended 31 December 2013 (2012: UAH 34,262 thousand).

Fully depreciated assets

As at 31 December 2013 the cost of fully depreciated property, plant and equipment which remain in use amounted to UAH 18,287,736 thousand (2012: UAH 15,349,152 thousand).

Finance lease

As at 31 December 2013 the carrying value of property and equipment held under finance leases amounted to UAH 3,240,291 thousand (2012: UAH 2,422,840 thousand).

During the year ended 31 December 2013 the Group acquired property and equipment of UAH 526,000 thousand (2012: UAH 49,470 thousand) under finance lease agreements.

Pledged property, plant and equipment

As at 31 December 2013 certain rolling stock with the carrying value of UAH 321,300 thousand was pledged as collateral for the Group's interest-bearing loans and borrowings (2012: UAH 321,300 thousand) (Note 18).

Government Grants

The additions to construction in progress for the year ended 31 December 2012 were stated net of received UAH 297,000 thousand of the government grants related to assets. There are no unfulfilled conditions or contingencies attached to these grants. No such grants were received during year ended 31 December 2013.

Impairment of property, plant and equipment

In 2013, the impairment loss of UAH 427,648 thousand represented the write-down of property, plant and equipment to the recoverable amount of as a result of economic impairment. The impairment was mostly attributable to general economic downturn and revision of Group's performance in the future periods. The impairment loss was recognised in profit and loss.

The Group performed the impairment test as at 31 December 2013. The recoverable amount of property, plant and equipment has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period.

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9. Property, plant and equipment *(continued)*

Key assumptions used in value in use calculations
The projected cash flows have reflected the decreased transportation volumes in 2013 and conservative expectations as for the future growth rates. The calculation of value in use for property, plant and equipment is most sensitive to the following assumptions:

- Annual revenue growth rate ranged between 4.5% and 6.3% during 2014-2018, terminal growth rate determined at 6.5%. The rates were in line with the publicly available forecasts for freight transportation growth rate in Ukraine adjusted for inflation
- EBITDA margin ranged from 26% of revenues in 2014 to 22.9% in 2018 and beyond, calculated based on the Group's historic data.
- Pre-tax discount rates were calculated as weighted average cost of capital ranged from 19.3% in 2014 to 18.7% in 2018 and beyond.

10. Financial assets

		2013	*2012*
Long-term portion of receivable from state-owned company Vugillya Ukrainy (Note 29)	(i)	109,405	139,544
Loans due from employees	(ii)	33,734	30,780
Long-term deposits		-	18,114
Other financial assets		70,567	45,837
		213,706	234,275

(i) The receivables from the state-owned company Vugillya Ukrainy were initially recognized in 2009, when transportation services were provided. As a result of several litigations the court established a repayment schedule up to 2014. In 2012 the collection terms were rescheduled to 2018 according to the latest court decision. The receivables are carried at amortised cost using the original effective interest rate of 22% per annum. In 2013 the Group recognised interest income of UAH 36,319 thousand (2012: UAH 25,935 thousand). In 2012 the Group recognised loss from changes in repayment schedule of UAH 121,331 thousand. The current portion of the receivables of UAH 118,286 thousand (2012: UAH 80,227 thousand) is included in trade and other receivables (Note 12).

(ii) The Group provides long-term interest-free loans to its employees with contractual maturity from 3 to 8 years. Loans are carried at amortised cost using the effective interest rate of 13%-23% per annum. The current portion of the loans of UAH 12,854 thousand (2012: UAH 17,851 thousand) is included in trade and other receivables (Note 12).

11. Inventories

	2013	*2012*
Spare parts, materials and tools (at cost or net realizable value)	2,489,657	2,301,942
Fuel and lubricants (at cost)	963,707	629,542
Other (at cost)	469,540	401,068
	3,922,904	3,332,552

NOTES TO THE COMBINED FINANCIAL STATEMENTS
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11. Inventories *(continued)*

The amount of write-down of inventories recognised as an expense and included in maintenance expenses in 2013 is UAH 104,908 thousand (2012: UAH 73,101 thousand).

As at 31 December 2013 inventories with carrying value of UAH 111,251 thousand (2012: UAH 917,827 thousand) were pledged as collateral for the Group's interest-bearing loans and borrowings (Note 18).

12. Trade and other receivables

	2013	*2012*
Trade receivables	309,234	348,707
Current portion of long-term financial assets	131,140	98,078
Other receivables	116,938	129,420
	557,312	576,205
Less: allowance for impairment of trade and other receivables	(95,631)	(116,523)
	461,681	459,682

As at 31 December 2013 and 2012 current portion of long-term financial assets included short-term portion of accounts receivable due from Vugillya Ukrainy, short-term portion of loans due from employees (Note 10).

As at 31 December 2013, trade and other receivables of UAH 95,631 thousand (2012: UAH 116,523 thousand) were impaired and fully provided for. Loss on impairment was included to other expenses in combined statement of comprehensive income. The reconciliation of changes in allowance account was as follows:

	2013	*2012*
At 1 January	116,523	142,120
Arising during the year	24,470	36,390
Utilised	(42,309)	(20,580)
Reversed	(3,053)	(41,407)
At 31 December	95,631	116,523

As at 31 December the ageing of the Group's trade and other receivables was as follows:

		Past due, but not impaired				
	Neither past due nor impaired	*Less than 3 months*	*3-6 months*	*6-12 months*	*More than 12 months*	*Total*
2013	229,014	151,157	14,449	67,061	-	461,681
2012	231,510	50,902	99,204	78,066	-	459,682

NOTES TO THE COMBINED FINANCIAL STATEMENTS
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13. Prepayments

	2013	2012
Prepayments for materials and services, net of impairment	300,121	221,671
Dividends prepaid (Notes 17, 29)	-	1,399
	300,121	223,070

The prepayments were not impaired as at 31 December 2013 (2012: loss on impairment of prepayments was recorded in the amount of UAH 7,300 thousand and included into other expenses of combined statement of comprehensive income).

14. Taxes receivable, other than income tax

	2013	2012
VAT receivable	586,243	716,458
Other taxes prepaid	12,080	8,392
	598,323	724,850
Less: allowance for impairment	(109,527)	(28,399)
	488,796	696,451

A portion of VAT receivable amounting to UAH 506,099 thousand was classified as non-current asset as at 31 December 2013 as its expected period of recoverability exceeds 12 months (2012: UAH 567,683 thousand).

15. Short-term deposits

Short-term deposits are placed with Ukrainian banks. They are denominated in UAH, bear fixed interest within the range 7%-17.5% and have original maturity of 3 to 12 months.

16. Cash and cash equivalents

Cash and cash equivalents mainly comprised cash and bank deposits placed with Ukrainian banks. For the purposes of combined statement of cash flows cash and cash equivalents consisted of:

	2013	2012
Cash and bank deposits	643,559	294,399
Overdrafts (Note 18)	-	(53,576)
	643,559	240,823

NOTES TO THE COMBINED FINANCIAL STATEMENTS

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17. Equity

Contributed capital

The contributed capital of the Group combines the statutory capital of the following entities adjusted for effect of hyperinflation under IAS 29 *Financial Reporting in Hyperinflationary Economies* for the periods of hyperinflation from December 1991 up to 31 December 2000:

	2013	*2012*
Lviv Railway	3,319,711	3,319,711
South-Western Railway	3,164,276	3,164,276
Southern Railway	2,956,000	2,956,000
Prydniprovska Railway	2,890,591	2,890,591
Donetsk Railway	2,887,853	2,887,853
Odesa Railway	2,562,567	2,562,567
Ukrspetsvagon	360,000	360,000
Ukrainian State Center for Railways Refrigerator Transportation Ukrreftrans	205,518	205,518
Ukrainian State Center for Transportation Service Lisky	144,166	144,166
Darnytsky Carriage Repair Plant	28,069	28,069
Main Information Processing Center of Ukrzaliznytsia	8,506	8,506
Other entities	113,549	116,654
	18,640,806	18,643,911

Changes in the Group composition

During the year ended 31 December 2013 "Lvivtransfarmacia" and "Odessatransfarmacia" were merged with Ukrtansfarmatsia. Two entities engaged in food activity supply on Odessa railroad and South-Western Railway were terminated during 2013. The equity of these entities comprised UAH 543 thousand and UAH 2,562 thousand, respectively. According to the Order # 546 of the Ministry of Infrustructure of Ukraine dated 26 July 2013 state enterprise "Settlements center of the Ministry of Infrustructure of Ukraine" was added to the list of the Group's entities. At the date of combination the entity reported negative equity of UAH 6,137 thousand.

According to the Order #116 of the Ministry of Infrastructure of Ukraine "Ukrainian railway high-speed company" with contributed capital of UAH 7,772 thousand was added to the Group during the year ended 31 December 2012.

According to the amendments to the Order #351 of the Ministry of Infrastructure of Ukraine "Ukrtransfarmacia" was added to the Group during the year ended 31 December 2012. At the date of combination, the contributed capital of the entity amounted of UAH 2,746 thousand, negative net assets comprised UAH 997 thousand. The net assets of the above mentioned entity as at the date of the change in the Group composition in 2011 comprised UAH 820 thousand.

Transfer of property, plant and equipment to entities under common control

During the year ended 31 December 2013 the Group transferred property, plant and equipment to state-owned entities and organisations, which are not part of the Group, on a free-of-charge basis with the total carrying amount of UAH 4,388 thousand (2012: UAH 853,033 thousand), the result of the transfer was deducted directly from equity.

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17. Equity *(continued)*

Dividends to the State

Pursuant to the Ukrainian legislation, six railways of the Group are required to make quarterly transfers of dividends to the State in the amount representing 30% of statutory net profits for the respective interim period. Other entities of the Group are required to pay dividends at amount of 15% of statutory net profits for the respective interim period. The final year-end amount of dividends to be paid to the State is determined as 15%-30% of statutory net profits for the reporting year (Note 29). Any difference between cumulative balance of interim dividends and the final amount of dividends determined for the reporting year by individual Group entities is reported as dividends prepaid (Note 13) or payable (Note 22).

18. Interest-bearing loans and borrowings

As at 31 December interest-bearing loans and borrowings consisted of the following:

	2013	*2012*
Interest-bearing bank loans	11,092,533	14,290,074
Eurobonds	4,038,940	-
Domestic bonds	2,531,809	2,309,500
Other borrowings	248,706	210,768
	17,911,988	16,810,342

On 16 May 2013 the Group has issued USD 500,000 thousand (UAH 3,996,500 thousand), 9.5% notes maturing in 2018 (the "Eurobonds") on the Irish Stock Exchange.

Domestic bonds are issued and placed in Ukraine. They are denominated in UAH, bear interest of 14.5% -19% and mature in 2014 - 2015.

As at 31 December effective interest rate and currency split for borrowings were as follows:

	Interest rate	*2013*	*2012*
USD			
floating rate	LIBOR 6 month +1% - 7.83%	2,564,428	3,012,539
fixed rate	9.8% - 12%	9,666,925	3,607,371
		12,231,353	6,619,910
UAH			
fixed rate	10% - 30%	5,680,635	10,190,432
		5,680,635	10,190,432
Total interest-bearing loans and borrowings		17,911,988	16,810,342
Less: Current portion		(5,574,045)	(7,500,126)
Interest-bearing loans and borrowings, non-current		12,337,943	9,310,216

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18. Interest-bearing loans and borrowings *(continued)*

Some of the loan agreements provide for financial and non-financial covenants, which impose restrictions on certain transactions and financial ratios, including restrictions of the amount of outstanding debt and profitability of the Group.

As at 31 December 2013 undrawn loan facilities available to the Group were of UAH 5,853,240 thousand (2012: UAH 2,706,837 thousand).

As at 31 December interest-bearing loans and borrowings were secured as follows:

Type of collateral	*2013*	*2012*
Property and equipment (Note 9)	321,300	321,300
Inventories (Note 11)	111,251	917,827
Proceeds from future revenue	33,146,712	43,498,401

19. Finance lease liability

The Group leases out freight and passenger railway cars, locomotives and equipment (Note 9). The lease payments are pegged to USD; the average lease term is 7 years. As at 31 December 2013 the interest rates implicit in the lease were within the range of 11.0% -20.5% per annum.

Principal repayments under finance lease to Ukrainian lessors (unlike foreign lessors) are subject to 20% VAT levied at the payment date. Finance charge is not VAT taxable.

The following are the minimum lease payments and present value of finance lease liability under finance lease agreements:

	Minimum lease payments		*Present value of finance lease liability*	
	2013	*2012*	*2013*	*2012*
Amounts payable under finance leases:				
within one year	1,525,160	1,880,401	1,269,121	1,466,005
in the second to fifth years inclusive	1,217,413	2,072,788	947,205	1,748,995
after five years	167,611	79,110	153,354	71,194
	2,910,184	4,032,299	2,369,680	3,286,194
Less: Future finance charges	(540,504)	(746,105)	-	-
	2,369,680	3,286,194	2,369,680	3,286,194
Classified as:				
Current	1,269,120	1,466,005	1,269,120	1,466,005
Non-current	1,100,560	1,820,189	1,100,560	1,820,189

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20. Employee Benefits

The Group's defined benefit obligation relates to:

	2013	*2012 (restated)*
Post retirement and post employment benefits under collective agreement	1,133,952	1,209,313
State plan for additional pensions for working in hazardous and unhealthy working conditions	417,914	416,206
Other long-term benefits under collective agreement	612,697	628,396
	2,164,563	2,253,915

Changes in the net present value of the defined benefit obligation were as follows:

	2013	*2012 (restated)*
At 1 January	2,253,915	2,321,681
Interest cost on benefit obligation	263,708	250,380
Current service cost	89,958	88,666
Benefits paid	(397,286)	(327,806)
Remeasurement gains in other comprehensive income from:		
changes in financial assumptions	(25,921)	(58,895)
changes in demographic assumptions	12,592	11,397
experience adjustments	27,932	(13,962)
Remeasurement of other long-term employee benefits obligation	(60,335)	(17,546)
At 31 December	2,164,563	2,253,915

The amounts recognised in the combined income statement were as follows:

	2013	*2012 (restated)*
Current service cost	89,958	88,666
Interest cost on benefit obligation (Note 26)	263,708	250,380
Remeasurement of other long-term employee benefits obligation	(60,335)	(17,546)
	293,331	321,500

Current service cost, past service cost, including their amortization and recognized actuarial gains are included into the staff costs line item in the statement of comprehensive income. Interest cost on benefit obligation included into finance costs.

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20. Employee Benefits (*continued*)

The principal assumptions used in determining defined benefit obligation are shown below:

	2013	*2012*
Discount rate	11.00%	11.70%
Staff turnover	3.91%	5.44%
Future benefit increase	5.05%	5.87%

The sensitivity analysis is given in the table below:

2013	*Increase /(decrease) in rate*	*Effect on defined benefit obligation*
Discount rate	+1%	(150,201)
Discount rate	-1%	174,906
Future benefit increase	+1%	106,233
Future benefit increase	-1%	(93,542)

2012	*Increase /(decrease) in rate*	*Effect on defined benefit obligation*
Discount rate	+1%	(151,246)
Discount rate	-1%	171,210
Future benefit increase	+1%	102,210
Future benefit increase	-1%	(90,904)

Defined contribution plan

During the year ended 31 December 2013 the expenses from the participation in obligatory state pension program amounted to UAH 6,716,878 thousand (2012: UAH 5,844,733 thousand; 2011: UAH 5,233,334 thousand).

The Group's estimated employer contributions for the year ended 31 December 2014 amounts to UAH 6,784,047 thousand.

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21. Income tax

The components of income tax expense in the combined statement of comprehensive Income were as follows:

	2013	*2012 (restated)*
Current income tax charge	766,134	1,081,797
Deferred income tax expense	559,722	135,220
Income tax expense	1,325,856	1,217,017

During the year ended 31 December 2013, the statutory income tax rate in Ukraine was 19% (2012: 21%). In December 2013 amendments were made to Tax Code which changed the tax rate of 16% enacted as at 31 December 2012 for the periods starting 1 January 2014 to the following rates enacted as at 31 December 2013: 18% shall be applied starting from 1 January 2014, 17% - from 1 January 2015 and 16% - from 1 January 2016. When estimating deferred taxes the Group used respective rates enacted as at 31 December 2013 and 2012.

After the reporting period the Tax Code was changed again and single tax rate of 18% shall be applied from 1 January 2014 and thereafter.

Reconciliation between profit before income tax multiplied by the statutory tax rate and income tax expense / (benefit) for the years ended 31 December consisted of the following:

	2013	*2012 (restated)*
Profit before income tax	1,883,427	2,050,842
At statutory tax rate	357,851	430,677
Tax effect of:		
Other permanent differences	701,937	456,331
Effect of change in tax rates (period of recoverability of temporary difference)	310,296	527,685
Change in unrecognised deferred tax assets	(44,228)	(197,676)
Income tax expense / (benefit)	1,325,856	1,217,017

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21. Income tax *(continued)*

Deferred tax assets and liabilities comprised:

	Combined statement of financial position			*Combined statement of comprehensive income*	
	31 December 2013	*31 December 2012 (restated)*	*1 January 2012 (restated)*	*2013*	*2012 (restated)*
Property, plant and equipment (i)	3,474,275	3,918,019	4,061,052	443,744	143,033
Inventories (ii)	72,803	93,909	85,485	21,106	(8,424)
Prepayments (iii)	618	(2,323)	(33,747)	(2,941)	(31,424)
Advances from customers (iii)	18,142	16,784	36,652	(1,358)	19,868
Trade and other receivables (iv)	1,127	(18,754)	5,738	(19,881)	24,492
Trade and other payables (v)	106,557	189,233	185,211	82,676	(4,022)
Finance lease liability (vi)	65,748	185,554	402,600	119,806	217,046
Defined benefit liability (viii)	353,828	372,460	376,489	18,632	4,029
Financial assets	19,233	7,309	1,186	(11,924)	(6,123)
Interest-bearing loans and borrowings (vii)	45,910	-	(25,579)	(45,910)	(25,579)
	4,158,241	4,762,191	5,095,087	603,950	332,896
Less: Unrecognised deferred tax assets	(65,156)	(109,384)	(307,060)	(44,228)	(197,676)
Deferred income tax expense				559,722	135,220
Deferred tax effect of actuarial gain recognised in OCI	(7,498)	(9,834)	-	(2,336)	9,834
Net deferred tax assets /(liability)	4,085,587	4,642,973	4,788,027		
Reflected in the statements of financial position as follows:					
Deferred tax assets	4,101,120	4,651,095	4,830,068		
Deferred tax liabilities	(15,533)	(8,122)	(42,041)		
Deferred tax assets /(liability) net	4,085,587	4,642,973	4,788,027		

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21. Income tax *(continued)*

Reconciliation of net deferred tax assets /(liabilities):

	2013	*2012 (restated)*
Opening balance as at 1 January	4,642,973	4,788,027
Tax expense recognised in profit or loss	(559,722)	(135,220)
Tax benefit/(expense) recognised in other comprehensive income	2,336	(9,834)
Closing balance 31 December	4,085,587	4,642,973

The nature of the temporary differences is as follows:

(i) Property, plant and equipment – differences in depreciation patterns and estimates of the remaining useful lives, differences in capitalisation principles, different cost basis;
(ii) Inventories - differences in inventories valuation models and the periods of recognition;
(iii) Prepayments and advances from customers – differences in period of recognition and valuation principles;
(iv) Trade and other receivables – differences in valuation, including allowances for doubtful receivables, differences in the period of recognition;
(v) Trade and other payables – differences in valuation and recognition principles;
(vi) Financial lease liability – differences in recognition principles.
(vii) Interest-bearing loans and borrowings - differences in recognition principles
(viii) Defined benefit liability - differences in recognition principles

As at 31 December 2013 and 2012 deferred tax assets arising on foreign currency component of finance lease liability (resulting from devaluation of Ukrainian Hryvnia) and on allowance for impairment of financial assets were not recognised since their utilisation was not certain.

22. Trade and other payables

	2013	*2012*
Trade payables	4,782,130	3,573,500
Due to employees	1,057,769	1,539,009
Payables for property, plant and equipment	489,312	1,034,420
Unused vacation accrual	473,774	444,595
Dividends payable (Notes 17, 29)	68,622	9,626
Other payables	238,022	200,039
	7,109,629	6,801,189

Trade payables are non-interest bearing and are normally settled within 60 days.

23. Taxes payable, other than income tax

	2013	*2012*
Personal income tax payable	107,722	122,079
VAT payable	57,266	227,727
Other taxes payable	29,370	19,624
	194,358	369,430

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24. Provisions

The provisions relate to legal claims. Movement in the provisions for the year was as follows:

	2013
At 1 January	34,726
Arisen during the year	1,808
Unused amounts reversed during the year	(14,709)
At 31 December	21,825

25. Taxes, other than income tax

	2013	*2012*
Non-recoverable VAT attributable to transit transportation	1,001,398	1,115,228
Other taxes	180,955	250,126
Impairment / (reversal of impairment) of VAT receivable	81,128	(21,893)
	1,263,481	1,343,461

26. Finance income and finance costs

	2013	*2012*
Interest expense on loans and borrowings	(2,538,516)	(2,220,105)
Finance lease charges	(447,287)	(604,675)
Interest cost on defined benefit obligation (Note 20)	(263,708)	(250,380)
Loss from changes in repayment schedule (Note 10)	-	(121,331)
Other finance costs	(12,413)	(24,245)
Total finance costs	(3,261,924)	(3,220,736)
Interest income on deposits	18,738	18,965
Interest income on loans and receivables with related parties (Note 29)	36,319	25,935
Other finance income	-	2,187
Total finance income	55,057	47,087
Net finance costs	(3,206,867)	(3,173,649)

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27. Foreign exchange gain / (loss), net

Foreign exchange gains and losses arisen on the following items:

	2013	2012
Gains		
Trade and other payables	33,008	-
Cash and cash equivalents	7,776	-
Finance lease liability	11,155	-
Net gain on sale/purchase of foreign currencies	76,068	2,504
	128,007	2,504
Losses		
Finance lease liability	-	(13,254)
Interest-bearing loans and borrowings	-	(4,779)
Cash and cash equivalents	-	(1,371)
Trade and other payables	-	(13,267)
	-	(32,671)
Foreign exchange (loss) / gain, net	128,007	(30,167)

28. Contingencies and commitments

Tax matters

Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that its interpretation of the relevant legislation is appropriate and that the Group has complied with all regulations, and paid or accrued all taxes and withholdings that are applicable. However, where the risk of outflow of resources is probable, the Group has accrued tax liabilities based on management's best estimate.

The uncertainty related to enforcement and application of Ukrainian tax laws creates a risk of substantial additional tax liabilities and penalties being claimed by the tax authorities. Such claims, if sustained, could have a material effect on the Group's financial position, results of operations and cash flows. Management believes that there are strong arguments to successfully defend any such challenge and does not believe that the risk is any more significant than those of similar enterprises in Ukraine. When it is not considered probable that a material claim will arise, no provision has been established in these financial statements.

In the course of its commercial activities the Group has a necessity to reallocate taxable income among the Group companies. Such reallocation involves a significant degree of management's judgment. In spite of the fact that relevant government authorities had not historically challenged the management judgment in these matters, It is possible that the authorities may attempt to revise their previous approach to such transactions, equally as to any other aspects of application of tax legislation not challenged in the past, and assess additional income and other taxes and penalties against the Group, although this risk significantly diminishes with passage of time. It is not practical to determine the amount of any potential claims or the likelihood of any unfavourable outcome.

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28. Commitments and contingencies *(continued)*

Litigations

As at 31 December 2012 the Group was involved in litigations with tax authorities with respect to additional accrual of liabilities for corporate income tax, VAT and other taxes in the total amount of UAH 77,113 thousand, litigation was resolved in 2013. In addition, in the normal course of business, the Group is subject to various other routine litigation and arbitration related matters. As at 31 December 2013 the Group's exposure to the ascertained third parties' claims is UAH 736,832 thousand (2012: UAH 463,645 thousand).

Management believes that the Group's position in the litigations stated above has sustainable legal merits, and therefore the ultimate resolution of these litigations will not have an adverse effect on the Group's financial position or the results of its future operations, accordingly, no corresponding accrual was provided in these combined financial statements. Probable obligations are accrued for in these combined financial statements (Note 24).

Capital commitments

As at 31 December 2013 the Group's outstanding commitment in respect of purchase of property and equipment amounted to UAH 1,876,145 thousand (2012: UAH 1,317,031 thousand).

29. Related party disclosure

The outstanding balances and transaction with entities under common control of the State comprised:

	2013	*2012*
Balances at 31 December:		
Prepayments for property, plant and equipment	5,012	99
Long-term receivable (Note10)	109,405	139,544
Long-term deposits (Note10)	-	18,114
Trade and other receivables	310,309	97,065
Prepayments, other than dividends	24,747	23,232
Cash and cash equivalents	290,604	260,354
Trade and other payables, other than dividends	57,704	75,489
Advances received	466	2,053
Interest-bearing loans and borrowings	197,046	724,532
Transactions during the year:		
Cargo revenues	326,806	281,540
Maintenance services purchased	981,534	1,706,398
Finance income	719	25,935
Finance costs	75,032	172,832
Other expenses	47,300	79,917

Terms and conditions of transactions with related parties
The sales to and purchases from related parties are made at regular prices, broadly similar to those with other non-related customers and suppliers. Outstanding balances at the year-end are unsecured, interest free, except for interest bearing loans. Settlement occurs in cash, except for advances received and prepayments. There have been no guarantees provided or received for any related party receivables or payables. For the years ended 31 December 2013 and 2012, the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

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29. Related party disclosure *(continued)*

Guarantees issued by the State of Ukraine
The Group's interest bearing loans with carrying value of UAH 1,818,053 thousand (2012: UAH 2,609,568 thousand) were guaranteed by the State of Ukraine.

Compensation of key management personnel
Key management personnel consist of 19 members of the Board of Ukrzaliznytsia. In 2013, total compensation to key management personnel amounted to UAH 2,047 thousand (2012: UAH 2,057 thousand). Compensation includes salaries and salary related taxes.

Dividends to the State
In 2012 dividends prepaid to the State in the amount of UAH 1,399 were Included in prepayments, no such prepayments 31 December 2013 (Note 13). Included in trade and other payables are dividends payable to the State of UAH 68,622 thousand as at 31 December 2013 (2012: UAH 9,626 thousand) (Note 22). Dividends for the year ended 31 December 2013 amounted to UAH 180,598 thousand (2012: UAH 173,296 thousand) (Note 17).

Government Grants and subsidies
In addition to the government grants related to assets disclosed in Note 9, the Group receives subsidies from the State for carriage of certain categories of preferential passengers. In 2013 such subsidies of UAH 204,300 thousand (2012: UAH 214,200 thousand) were included into passenger revenue.

30. Fair value of financial instruments

Set out below is the comparison by category of carrying amounts and fair values of all of the Group's financial instruments, that are carried in the combined statement of financial position:

	Fair value		*Carrying value*	
	2013	*2012*	*2013*	*2012*
Financial assets				
Trade and other receivables	461,681	459,682	461,681	459,682
Other financial assets	104,301	94,731	104,301	94,731
Long-term trade receivable	109,405	139,544	109,405	139,544
Short-term deposits	2,957	1,200	2,957	1,200
Cash and cash equivalents	643,559	294,399	643,559	294,399
Financial liabilities				
Interest-bearing loans and borrowings	17,552,303	17,042,846	17,911,988	16,810,342
Finance lease liability	2,369,680	3,286,194	2,369,680	3,286,194
Trade and other payables	7,109,629	6,801,189	7,109,629	6,801,189

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30. Fair value of financial instruments *(continued)*

In assessing the fair value of financial instruments, the Group uses a variety of methods and makes assumptions based on market conditions existing at the end of the reporting period. Quoted market prices or dealer quotes for the specific or similar instruments or the discounted value of future cash flows are used for financial assets. The fair value of cash and cash equivalents, short-term deposits, trade and other receivables, trade and other payables approximate their carrying amounts largely due to the short-term maturities of these instruments. The fair value of unquoted instruments, other financial assets, interest bearing loans and borrowings, finance lease liability is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

31. Financial risk management policies and objectives

Financial risk management policies and objectives

The Group's principal financial instruments comprise interest-bearing loans and borrowings, cash in bank, short-term deposits and other financial assets. The Group has various other financial instruments, such as trade and other receivables and payables, which arise directly from its operations.

The Group has not entered into any material derivative transactions. It is the Group's policy not to trade in financial instruments. The Group's overall risk management program focuses on the unpredictability and inefficiency of the Ukrainian financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by the Group's financial departments. The main risks arising from the Group's financial instruments are liquidity risk, foreign currency risk, credit risk and interest rate risk. The policies for managing each of these risks are summarised below.

Liquidity risk

The Group's objective is to maintain continuity and flexibility of funding through the use of cash generated from Group's operations, credit terms provided by suppliers and interest-bearing loans and borrowings. Significant aspects of the liquidity risk management are disclosed in the Note 2.

The Group analyses the aging of its assets and cash generation ability versus the maturity of its liabilities and plans its liquidity depending on the expected repayment of various instruments.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2013 and 2012 based on contractual undiscounted payments, assuming no breaches occurred:

Year ended 31 December 2013	*Less than 3 month*	*3 to 12 months*	*1 to 5 years*	*More than 5 years*	*Less: Effect of amortisation*	*Carrying value*
Interest bearing loans and borrowings	632,207	6,912,489	14,500,660	2,754,129	(6,887,497)	17,911,988
Finance lease liability	432,260	1,091,755	1,220,447	165,719	(540,501)	2,369,680
Trade and other payables	6,265,558	168,860	353,452	321,759	-	7,109,629

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31. Financial risk management policies and objectives *(continued)*

Year ended 31 December 2012	*Less than 3 month*	*3 to 12 months*	*1 to 5 years*	*More than 5 years*	*Less: Effect of amortisation*	*Carrying value*
Interest bearing loans and borrowings	1,303,727	8,041,712	9,444,887	1,852,418	(3,832,402)	16,810,342
Finance lease liability	619,093	1,261,308	2,072,788	79,110	(746,105)	3,286,194
Trade and other payables	5,752,206	1,048,983	-	-	-	6,801,189

Foreign currency risk

In common with many other businesses in Ukraine, foreign currencies, in particular the US dollar ("USD"), the Euro ("EUR"), the Swiss Franc ("CHF"), the Russian Rouble ("RUB") play a significant role in the underlying economics of the Group's business transactions.

The exchange rates for foreign currencies, in which the Group's financial assets and liabilities were denominated, against the Ukrainian Hryvnia, as established by the NBU as at the dates stated, were as follows:

	USD	*EUR*	*CHF*	*10 RUB*
31 December 2012	7.9930	10.5371	8.7228	2.6316
Average for 2012	7.9910	10.2705	8.5208	2.5743
31 December 2013	7.9930	11.0415	9.0253	2.4497
Average for 2013	7.9930	10,6157	8.6247	2.5116
30 April 2014	11.4016	15.7638	12.9212	3.1939

The Group has transactional currency exposure that relates to monetary assets and liabilities denominated in foreign currencies and are attributable to general volatility in exchange markets. Such exposure arises from sales or purchases by the Group in currencies other than its functional currency. The Group has not entered into transactions designed to hedge against these foreign currency risks.

The following table demonstrates the sensitivity to a reasonably possible change in the corresponding exchange rates, with all other variables held constant, of the Group's loss before tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the Group's equity.

31 December 2013	*Change in UAH rate*	*Effect on the profit before tax*
UAH/USD	+30.00%	(308,033)
UAH/USD	-2.25%	308,033
UAH/CHF	+30.00%	1,267
UAH/CHF	-5.00%	(211)
UAH/EUR	+9.59%	(2,059)
UAH/EUR	-9.59%	2,059
UAH/RUR	+10.63%	50
UAH/RUR	-10.63%	(50)

31 December 2012	*Change in UAH rate*	*Effect on the profit before tax*
UAH/USD	+7.10%	(576,993)
UAH/USD	-7.10%	576,993
UAH/CHF	+25.3%	(74,239)
UAH/CHF	-25.3%	74,239
UAH/EUR	+12.7%	(9,722)
UAH/EUR	-12.7%	9,722
UAH/RUR	+13.6%	228
UAH/RUR	-13.6%	(228)

NOTES TO THE COMBINED FINANCIAL STATEMENTS

for the year ended 31 December 2013

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

31. Financial risk management policies and objectives *(continued)*

Credit risk

Financial instruments which potentially expose the Group to significant concentrations of credit risk consist principally of cash and cash equivalents, deposits, trade and other receivables. The Group's credit risk exposure is monitored and analysed on a case-by-case basis, and the Group's management believes that credit risk is appropriately reflected in impairment allowances recognised against assets. The Group's maximum credit risk exposure at 31 December 2013 and 2012 is represented by the carrying amounts of the financial assets.

The Group's cash is primarily held with major reputable Ukrainian banks.

The Group does not require collateral in respect of financial assets. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed of all customers requiring credit over a certain amount.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

In 2013 and 2012, the Group primarily borrowed at both fixed and floating rate pegged to the London Inter Bank Offering Rate ("LIBOR").

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

31 December 2013	*Increase/decrease in basis points*	*Effect on the profit before tax*
LIBOR	+0.03%	(797)
LIBOR	-0.03%	797

31 December 2012	*Increase/decrease in basis points*	*Effect on the profit before tax*
LIBOR	+5	(1,383)
LIBOR	-5	1,383

The Group has not entered into transactions designed to hedge against the interest rate risk.

Capital management

The Group considers debt and equity as relevant components of funding, hence part of its capital management. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for the State and benefits for other stakeholders as well as to provide financing of its operating requirements, capital expenditures and further the Group's development strategy. The Group's capital management policies aim to ensure and maintain an optimal capital structure to reduce the overall cost of capital and provide flexibility relating to the Group's access to capital markets.

NOTES TO THE COMBINED FINANCIAL STATEMENTS
for the year ended 31 December 2013
(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

31. Financial risk management policies and objectives *(continued)*

The structure of capital managed is presented below:

	2013	*2012 (restated)*
Interest-bearing loans and borrowings	17,911,988	16,810,342
Finance lease liability	2,369,680	3,286,194
	20,281,668	20,096,536
Cash and term deposits	(646,516)	(295,599)
Net debt	19,635,152	19,800,937
Total equity	43,213,568	42,862,877
Total capital	62,848,720	62,663,814

Management monitors on a regular basis the Group's capital structure and may adjust its capital management policies and targets following changes in its operating environment, market sentiment or its development strategy. Please, refer to Note 2 which discloses the important uncertainty aspects related to the capital management.

32. Events after the reporting period

In March 2014 Russian Federation annexed Autonomous Republic of Crimea which is part of Ukraine and the Crimean Direction of Prydniprovska Railway was declared a separate State Company "Crimean Railways" (Note 2). The nature and timing of possible changes in the integrated operations of Crimean Direction within the Group is not currently predictable. Up to the date of authorisation of these combined financial statements the Crimean Direction operated as part of Ukrzaliznytsia assuring cargo and passenger transportation, executing money transfers and completing other integrated functions within the Group.

ANNEX 2 – FINANCIAL STATEMENTS OF THE ISSUER

Company Registration Number 08446967

Shortline Public Limited Company

Strategic report, Directors' report and Financial Statements

For the year ended 31 December 2014

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Company information

The Board of Directors
Joint Corporate Services Limited
Praxis Mgt Limited
Michael Adams

Company Secretary
Joint Secretarial Services Limited

Registered Office
5th Floor
6 St Andrew Street
London, EC4A 3AE

Independent Auditors
Ernst & Young LLP
1 More London Place
London, SE1 2AF

Corporate Service Provider
TMF Management (UK) Limited
5th Floor
6 St Andrew Street
London, EC4A 3AE

Trustee
Deutsche Trustee Company Limited
Winchester House
1 Great Winchester Street
London, EC2N 2DB

Bankers
Deutsche Bank
6 Bishopsgate
London, EC2N 4DA

Company Number
08446967
(England & Wales)

Strategic report for the year ended 31 December 2014

The directors present their Strategic report on the affairs of Shortline Plc (the "Company" or the "Issuer") together with the audited financial statements for the year ended 31 December 2014.

Principal activities, review of business and future developments

The Company was incorporated in England and Wales on 15 March 2013, as a public Company with limited liability under the Companies Act 2006 with the registration number 08446967. The Company is a special purpose entity established in order to issue a fixed rate note, the proceeds from which have been used to grant six five-year loans (the "Loans") on the terms and conditions as set out in the relevant loan agreements dated 16 May 2013 between the Company, each of the six borrowers, being State Enterprise "Donetsk Railway" (Derzhavne Pidpryiemstvo "Donetska Zaliznytsia"), State Regional Specialised Association "Lviv Railway" (Derzhavne Terytorialno-Galuzeve Obiednannya "Lvivska Zaliznytsia"), State Enterprise "Odesa Railway" (Derzhavne Pidpryiemstvo "Oedska Zaliznytsia"), State Enterprise "Prydniprovska Railway" (Derzhavne Pidpryiemstvo "Prydniprovska Zaliznytsia"), State Enterprise "South Railway" (Derzhavne Pidpryiemstvo "Pivdenna Zaliznytsia") and State Regional Specialised Association "Southwest Railway" (Derzhavne Terytorialno-Galuzeve Oviednannye "Pivdenno-Zakhidna Zaliznytsia") (the "Borrowers") and the State Administration of Railways Transport of Ukraine ("Ukrzaliznytsia") existing under the laws of Ukraine, as described in the Offering Circular dated 16 May 2013 (the "Offering Circular").

On 16 May 2013 the Company issued a US$500,000,000 9.5 per cent. loan participation note due in May 2018 (the "Note"). The Note is listed on the Irish Stock Exchange.

Interest on the Note and the outstanding Loan is due at 9.5% per annum payable semi-annually in arrears in May and November. Additional interest is due on the outstanding Loan balance at the rate of 0.0031% per annum which is retained by the Company in line with the offering circular.

Each of the Borrowers shall pay the Company its fixed annual on going and maintenance costs and expenses as noted by the Fee letter dated 16 May 2013.

The Note issued by the Company is unconditionally and irrevocably guaranteed on a senior and unsecured basis by the State Administration Of Railways Transport Of Ukraine ("Ukrzaliznytsia"), the Borrowers, State Enterprise "Ukrainian State Centre For Special Carriages Service" (Derzhavne Pidpryiemstvo "Ukrayinskyi Derzhavnyi Tsentr Po Ekspluatatsii Spetsializovanykh Vagoniv"), State Enterprise "Ukrainian State Center Of Railway Refrigerator Transportations 'Ukrreftrans'" (Derzhavne Pidpryiemstvo "Ukrayinskyi Derzhavnyi Tsentr Zaliznychnyh Refryzheratornyh Perevezen' 'Ukrreftrans'"), State Company "Ukrainian State Center Of Transport Service 'Liski'" (Derzhavne Pidpryiemstvo "Ukrayinskyi Derzhavnyi Tsentr Transportnogo Servisu 'Liski'"), State Enterprise For Material And Technical Support Of Railway Transport Of Ukraine "Ukrzaliznychpostach" (Derzhavne Pidpryiemstvo Materialno-Tehnichnogo Zabezpechennya Zaliznychnogo Transportu Ukrayiny "Ukrzaliznychpostach") And State Enterprise "Administration Of Industrial Enterprises Of State Administration Of Railway Transport Of Ukraine" (Derzhavne Pidpryiemstvo "Upravlinnia Promyslovyh Pidpryiemstv Derzhavnoi Administracii Zaliznychnogo Transportu Ukrayiny") or the "Sureties" as per the Surety Agreement signed on 16 May 2013 as to the payment of principal, interest and additional amounts, if any.

The Company will account to the holders of the Note (the "Noteholders") solely for the amounts equivalent to those (if any) actually received from the Borrowers pursuant to the Loan Agreements and/or the Sureties pursuant to the Surety Agreement.

There is also a negative pledge in place agreed by the Borrowers which restrict the level of security the Borrowers and Ukrzaliznytsia are able to take on over their undertakings, assets and revenue as noted in each Loan Agreement dated 16 May 2013.

No significant change in the Company's business is expected in the foreseeable future.

Political instability in Ukraine

Driven by political instability Ukraine continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, high inflation and significant imbalances in public finances and foreign trade. The stability of the Ukrainian economy will be significantly impacted by the Government's policies and actions with regard to administrative, legal and economic reforms. As a result, operations in Ukraine involve risks that are not typical for developed markets. The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

In 2014, the Ukrainian political and economic situation deteriorated significantly. Political and social unrest combined with regional tensions has led to the secession of the Autonomous Republic of Crimea to the Russian Federation, full-fledged armed confrontations with separatists in certain parts of the Donetsk and Lugansk regions and, ultimately, to the significant deterioration of the political and economic relations between Ukraine and the Russian Federation. These factors have contributed to the decline of key economic indices, increase of the state budget deficit, depletion of the foreign currency reserves of National Bank of Ukraine (NBU) and, as a result, downgrading of the Ukrainian sovereign debt credit ratings.

Of the $500,000,000 loans, $146,215,000 was loaned to Donetsk Railway and $94,190,000 to Prydniprovska Railway accounting for 29.24% and 18.8% respectively of the total loan balance.

From 1 January 2014 and up to date of the issuance of these financial statements, the Ukrainian Hryvnia (the "UAH") depreciated against major foreign currencies by approximately 165% calculated based on NBU exchange rate of UAH to US Dollar. The NBU has imposed certain restrictions on purchase of foreign currencies, cross border settlements, and also mandated obligatory conversion of foreign currency proceeds into UAH.

Strategic report for the year ended 31 December 2014 *(continued)*

Political instability in Ukraine (continued)

Management is monitoring the developments in the current environment and taking actions, where appropriate, to minimize any negative effects to the extent possible. Further adverse developments in the political, macroeconomic and/or international trade conditions may further adversely affect the Company's financial position and performance in a manner not currently determinable.

The known and estimable effects of the above events on the financial position and performance of the Company in the reporting period have been taken into account in preparing these financial statements. However, the continuing impact of the situation described above may adversely affect the company in the future.

The Noteholders will only be paid to the extent that the Borrowers can meet their obligations in respect of the Loans.

Due to the circumstances described above, the directors believe that there is objective evidence that the Loans receivable are impaired as at 31 December 2014. It is therefore possible that the Loans may not be fully paid, which will result in Noteholders not being fully paid. An impairment loss of $173,750,000 has been recognised against the Loans receivable. Please see note 8 for more details.

Principal risks and uncertainties

From the perspective of the Company, its principal risks and uncertainties are integral to the principal risks and uncertainties of the Borrowers and their management is undertaken by the management of the State Administration of Railways Transport of Ukraine, Ukrzaliznytsia. The company's financial risk management objectives and policies are noted below and in note 12.

More detailed principal risks and uncertainties of Ukrzaliznytsia, which include those of the Company, are discussed in the Offering Circular, particularly the section Risk Factors.

It is noted that as at the date of signing the financial statements for Ukrzaliznytsia were not available for review by the Directors.

Financial Instruments

The Company's assets are financed solely through the issuance of the Note. The Company issued such financial instruments to finance the acquisition of the Loans to the Borrowers. The interest on the Loans to the Borrowers and that on the Note is at fixed rates.

The Company's financial instruments comprise the Loans, cash and cash equivalents, and the Note. The main risk arising from the Company's financial instruments is credit risk. Further information regarding the Company's financial risk management is given in note 12 to the financial statements.

Credit risk

The Company is subject to the risk of delays in receipt and risk of defaults on payments due from the Borrowers in respect of the Loans. The directors of the Company review information available to them including the latest financial information published by Ukrzaliznytsia and make due enquiries of Ukrzaliznytsia's management regarding the financial performance and position of the Ukrzaliznytsia group companies and the business environment in which it operates in order to assess the credit risk related to the Loans to the Borrowers.

There is also a negative pledge in place agreed by the borrowers which restrict the level of security the Borrowers and Ukrzaliznytsia are able to take on over their undertakings, assets and revenue as noted in each Loan agreement dated 16 May 2013.

Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. The Company's exposure to interest rate risk is limited as the interest rate characteristics of its assets and liabilities are similar.

Liquidity risk

Liquidity risk is the risk that the Company may be unable to meet the payment obligations associated with its financial liabilities when they fall due. Because the payment and receipt of interest on notes and loans respectively, are matched and the expenses are reimbursed by the borrower, there is limited liquidity risk.

The Note issued by the Company is guaranteed by the Ukrzaliznytsia as per the Surety Agreement signed on 16 May 2013. The Note is a limited recourse debt obligation. The Company's ability to meet its obligations to the Noteholders as they fall due is directly linked to the Borrowers performance of their obligations under the Loans.

Currency risk

All the Company's assets and liabilities are denominated in US dollars except for share capital which is GBP £12,501 translated at the date of issue at US$19,191 and minor administrative expenses. The Company's foreign exchange risk is currently limited to this amount and is not seen as a significant risk.

Capital risk management

The Company's objective is to maintain a sufficient shareholder equity base to support current operations and planned growth in line with relevant forecasts. The Company is not subject to external regulatory capital requirements and manages share capital and reserves as shareholders' equity.

Strategic report for the year ended 31 December 2014 *(continued)*

Results and dividends

The results for the year and the Company's financial position at the end of the year are disclosed on pages 10 and 11. The loss for the year after taxation amounted to US$173,738,877.

Key performance indicators

The main performance indicator is the extent of payments of interest and principal from the Borrowers. There have been no principal repayments on the Loan or the Note to date and these balances held by the Company remain unchanged from inception of the Company.

Other key performance indicators for the Company are net interest income and impairment losses. The net interest income for the year is US$15,500 and no impairment was charged. All interest payment obligations have been met by the Borrowers during and after year end.

For and on behalf of the board

Joint Corporate Services Limited
Director

Michael Adams

Date: 30 June 2015

Praxis Mgt Limited
Director

Michael Adams

Date: 30 June 2015

Directors' report for the year ended 31 December 2014

The directors present their report on the affairs of the Company together with the financial statements for the year ended 31 December 2014.

Please refer to the Strategic report for detailed disclosures relating to financial instruments and related risk management.

Corporate governance

The directors have been charged with governance in accordance with the offering circular describing the structure and operation of the transaction. The governance structure of the Company is such that the key policies have been predetermined at the time of issuance and the operational roles have been assigned to third parties with their roles strictly governed by the transaction documents.

The transaction documents provide for procedures that have been designed for safeguarding assets against unauthorised use or disposition, for maintaining proper accounting records, and for the reliability and usefulness of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives whilst enabling them to comply with their regulatory obligations.

Due to the nature of the securities which have been issued, the Company is largely exempt from the disclosure requirements of the Financial Conduct Authority (previously the Financial Services Authority) pertaining to the Disclosure and Transparency Rules (DTR) as detailed in DTR 7.1 audit committees and 7.2 corporate governance statements (save for DTR 7.2.5 a requiring description of the features of the internal control and risk management systems), which would otherwise require the Company respectively, to have an audit committee in place and include a corporate governance statement in the report of the directors. The directors are therefore satisfied that there is no requirement for an audit committee or a supervisory body entrusted to carry out the functions of an audit committee or to publish a corporate governance statement.

Directors and their interests

The directors of the Company who were in office during the year and up to the date of signing the financial statements, were:

Joint Corporate Services Limited
Praxis Mgt Ltd
Michael Adams

None of the directors have any beneficial interest in the ordinary share capital of the Company. None of the directors had any interest either during or at the end of the year in any material contract or arrangement with the Company.

No dividends were declared or paid by the Company during the current year and the directors do not propose a final dividend.

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity is currently in force.

Company secretary

The Company secretary during the year, and subsequently, was Joint Secretarial Services Limited.

Employees

The Company had no employees during the current year. Joint Secretarial Services Limited performs the Company's secretarial functions. TMF Management (UK) Limited provides corporate and administration services.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance, and its principal uncertainties are set out in the Strategic report. The Note issued by the Company is unconditionally and irrevocably guaranteed by the Sureties, discussed in the Strategic report. The Note is a limited recourse debt obligation. The Company's ability to meet its obligations to the Noteholders as they fall due is directly linked to the Borrowers' performance of their obligations under the Loans.

The directors have undertaken a review and conclude that the Company has adequate resources and suitable arrangements in place for it to be able to continue in operational existence for the foreseeable future. Therefore the directors consider it appropriate for the financial statements to be prepared on a going concern basis.

Directors' report for the year ended 31 December 2014 *(continued)*

Political and charitable donations

The Company made no charitable donations during the year.

Subsequent Events

As noted in the Strategic report, the Company has provided loans to Ukrzaliznytsia and its group of companies which are Ukrainian state owned entities.

On 11 March 2015 the IMF approved a US$17.5 billion loan to the state of Ukraine which is in combination to US$7.5 billion in loans from other international organisations. In addition to this further debt relief in excess of US$15 billion is expected to be negociated with bondholders. The aim is to bring immediate economic stabilisation to Ukraine.

On 10 May 2015, Ukraine announced its intention to restructure its foreign currency commercial debt and debt issued by government-owned entities, including the US$500 million in loan participation notes issued by Ukrzaliznytsia through Shortline Plc, the Note, which is currently due in 2018.

On 12 May 2015, Ukrzaliznytsia announced that Ukrainian Railway companies under the management of Ukrzaliznytsia have failed to make principal payments under certain bilateral loan agreements with Ukrainian lenders. Such defaults have triggered a cross default under certain other financings, including under the loans issued by Shortline Plc to the Borrowers. Further, Ukrzaliznytsia announced that it is planning to commence discussions with creditors in relation to a restructuring of its debt, including the Note issued by Shortline Plc, which is part of the publically announced debt restructuring being pursued by the Ministry of Finance in line with the IMF's debt relief plans noted above.

At the same time, Ukrzaliznytsia announced that it is doubtful whether it continues to exercise management control over Donetsk Railway. Of the $500,000,000 loan $146,215,000 was loaned to Donetsk Railway accounting for 29.24% of the overall liability.

On 15 May 2015, Fitch Ratings downgraded its rating of Ukrzaliznytsia's Long-term foreign currency IDR to C from CC. Fitch has also downgraded the Long-term foreign currency rating on Shortline Plc's USD500m loan participation notes, of which Ukrzaliznytsia is a guarantor, to C from CC.

On 21 May 2015 Standard and Poor's further downgraded its ratings of Ukrzaliznytsia to SD (Selective Default) from CC. At the same time, Standard and Poor's affirmed its rating of Shortline Plc's USD500m loan participation notes at CC.

However, it should be noted that the repayments due post year end from the Borrowers were received in full on the due dates. Interest payments from the Borrowers were made on time on 20 May 2015, in line with the underlying agreements.

Statement of disclosure of information to the auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditors

The auditors, Ernst & Young LLP have expressed their willingness to continue in office until the next Annual General Meeting. In accordance with s.485 of CA 2006, a resolution to reappoint Ernst & Young LLP will be proposed at the forthcoming Annual General Meeting.

For and on behalf of the board

Joint Corporate Services Limited
Director

Michael Adams

Date: 30 June 2015

Praxis Mgt Limited
Director

Michael Adams

Date: 30 June 2015

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

For and on behalf of the board

Joint Corporate Services Limited
Director

Michael Adams

Date: 30 June 2015

Praxis Mgt Limited
Director

Michael Adams

Date: 30 June 2015

Independent Auditors' Report to the Members of Shortline Plc

We have audited the financial statements of Shortline Plc for the year ended 31 December 2014 which comprise the Statement of comprehensive income, the Statement of changes in equity, the Statement of financial position, the Statement of cashflows and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter

In forming our opinion on the financial statements, which is not modified, we have considered the provision made by the directors for the impairment of the Loans. As discussed in Notes 8 and 12 to the financial statements the political and economic situation in Ukraine creates considerable uncertainty as to the recovery of the Loans which may impact the Company's future results and financial position in a manner not currently determinable. Our opinion is not qualified in respect of this matter.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Kenneth Eglinton (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London, United Kingdom
Date: 30 June 2015

Statement of comprehensive income

Company registration number 08446967

for the year ended 31 December 2014

	Note	For the year ended 31 December 2014 US $	For the period ended 31 December 2013 US $
Interest income	4	47,515,500	28,905,263
Interest expense	5	(47,500,000)	(28,895,833)
Net interest income		15,500	9,430
Impairment of Loans to the Borrowers		(173,750,000)	-
Operating expenses	6	(103,819)	(86,229)
Reimbursement for operating expenses		102,542	87,649
(Loss) / profit on ordinary activities for the year before taxation		(173,735,777)	10,850
Income tax expense	7	(3,100)	(1,886)
(Loss) / profit for the year after taxation		(173,738,877)	8,964
Total comprehensive (expense) / income for the year		**(173,738,877)**	**8,964**

The accompanying notes on pages 14 to 23 are an integral part of these financial statements.

Statement of financial position
as at 31 December 2014

Company registration number 08446967

	Note	As at 31 December 2014 US $	As at 31 December 2013 US $
Non-current assets			
Loans to the Borrowers	8	326,250,000	500,000,000
Current assets			
Accrued interest receivable	8	5,147,513	5,147,513
Other debtors	8	209,610	108,260
Cash at bank	9	21,279	7,750
Total current assets		5,378,402	5,263,523
Total assets		**331,628,402**	**505,263,523**
Non-current liabilities			
Loan Note	10	500,000,000	500,000,000
Current liabilities			
Accrued interest payable	10	5,145,833	5,145,833
Accruals		190,191	87,649
Current income tax liability		3,100	1,886
Total current liabilities		5,339,124	5,235,368
Total liabilities		505,339,124	505,235,368
Net assets		(173,710,722)	28,155
Equity			
Share capital	11	19,191	19,191
Retained earnings		(173,729,913)	8,964
Total equity		(173,710,722)	28,155
Total equity and liabilities		**331,628,402**	**505,263,523**

The financial statements are approved and authorised for issue by the Board of Directors on 30 June 2015 and signed on its behalf by:

Joint Corporate Services Limited
Director

Michael Adams

Praxis Mgt Limited
Director

Michael Adams

The accompanying notes on pages 14 to 23 are an integral part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2014

Company registration number 08446967

Attributable to equity holders of the Company

	Note	Share Capital US $	Retained earnings US $	Total US $
2013				
At the date of incorporation - 15 March 2013		-	-	-
Total comprehensive income for the period		-	8,964	8,964
Shares issued during the period	11	19,191	-	19,191
At the end of the period		19,191	8,964	28,155
2014				
Total comprehensive expense for the year		-	(173,738,877)	(173,738,877)
At the end of the year		**19,191**	**(173,729,913)**	**(173,710,722)**

The accompanying notes on pages 14 to 23 are an integral part of these financial statements.

Statement of cash flows

Company registration number 08446967

	Note	As at 31 December 2014 US $	As at 31 December 2013 US $
Cash flows from operating activities			
(Loss) / profit before income tax		(173,735,777)	10,850
Adjustments for:			
Tax paid		(1,971)	-
Movement in interest payable	10	-	5,145,833
Movement in interest receivable	8	-	(5,147,513)
Increase in other debtors	8	(102,542)	(87,649)
Foreign exchange movement		1,277	(1,420)
Increase in accruals		102,542	87,649
Net cash from operating activities		**(173,736,471)**	**7,750**
Investing activities			
Impairment of Loans to the Borrowers		173,750,000	-
Loans to the Borrowers	8	-	(500,000,000)
Net cash generated investing activities		**173,750,000**	**(500,000,000)**
Financing activities			
Issue of Loan Note	10	-	500,000,000
Net cash from financing activities		**-**	**500,000,000**
Net increase in cash and cash equivalents		**13,529**	**7,750**
Cash and cash equivalents at beginning of year		7,750	-
Cash and cash equivalents at 31 December	9	21,279	7,750

The accompanying notes on pages 14 to 23 are an integral part of these financial statements.

Notes to the financial statements

1. GENERAL INFORMATION

Shortline Plc is a special purpose entity incorporated on 15 March 2013 under the laws of the United Kingdom with the registration number 08446967. The Company was established in order to issue a fixed rate Note, the proceeds from which have been used to grant loans to six Ukrainian railway companies under control of the State Administration of Railways Transport of Ukraine and existing under the laws of Ukraine, as described in the Offering Circular dated 16 May 2013. The Offering Circular is available at the Company's registered office. The address of its registered office is given on page 2.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

Basis of preparation
The Company's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs as adopted by the EU"), IFRIC Interpretations and the Companies Act 2006 is applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention. As explained in the Directors' report, the directors consider it appropriate for the financial statements to be prepared on a going concern basis.

Preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Impairment of the loans to Ukrzaliznytsia group companies as explained in the Directors' report and also below is considered an area where assumptions and estimates are significant to the financial statements and a higher degree of judgement and complexity are involved.

The Company's main transactions are in US dollars and therefore, the functional and presentational currency used by the Company is US dollars.

New and amended standards and interpretations
The following standards and interpretations, issued by International Accounting Standards Board (IASB) or the International Financial Reporting Interpretations Committee (IFRIC), are also effective (has been endorsed for use in the EU) for the first time in the current financial year and have been adopted by the Company with no significant impact on its consolidated results or financial position for the current reporting period:

Name of new Standards/amendments	Effective date
- IFRS 10 Consolidated Financial Statements – (Amendments – Investment Entities);	1 January 2014
- IAS 32 Financial Instruments: Presentation – (Amendments – Offsetting);	1 January 2014
- IAS 36 Impairment of Assets (Amendments – Recoverable Amount Disclosures);	1 January 2014
- IAS 39 Financial Instruments: Recognition and Measurement (Amendments – Novation of Derivatives);	1 January 2014
- IFRIC 21 Levies;	1 January 2014
- Annual Improvements 2010-2012 Cycle: Amendments to IFRS 13 – Short-term receivables and payables;	1 January 2014
- Annual Improvements 2011-2013 Cycle: Amendments to IFRS 1 – Meaning of 'effective IFRSs'.	1 January 2014

Standards issued but not yet effective
At the date of authorisation of these financial statements, the following Standards and Interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been adopted by the EU) and are expected to have an impact on the Company's financial position, performance and / or disclosures:

Name of new Standards/amendments	Effective date
- Annual Improvements 2010-2012 Cycle: Amendments to IAS 24 Related Party Disclosures - Key management personnel;	1 July 2014
- IAS 1 Disclosure Initiative - Amendments to IAS 1;	1 January 2016
- IFRS 9: Financial Instruments.	1 January 2018

Notes to the financial statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The directors consider that there are no other new or revised standards relevant to the Company which should be adopted and reported in the 2014 Financial Statements.

The directors considered the potential impact of the adoption of IFRS 9 on the financial statements of the Company, but the Company does not believe that the adoption at any time in the future of the remaining standards above will have any material impact on the amounts reported in these financial statements.

Loans to the Borrowers
The Loans to the Borrowers have been classified as Loans and receivables. They are measured on initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Subsequent increases of the value of the Loan, which can be objectively related to an event occurring after previous impairment losses have been recognised, are recorded in the income statement to the extent previous impairment losses have been taken through the income statement. The reversal shall not result in a carrying amount of the Loan that exceeds the amortised cost had no impairment been recognised.

Segmental Analysis
The whole Company's operations are carried out in the United Kingdom and the results and net assets are derived from its investment in the Loans to the Borrowers, which as stated in Note 8, is due from a related entity in the Ukraine.

Operating expenses
Operating expenses include corporate service fees, accounting fees, audit fees and other professional fees including Trustee and paying agents fees which are recognised on an accruals basis.

Share capital
Share capital is issued in Sterling (GBP) and has been translated at the prevailing rate of US$1.5163 on the date of issuance being 15 March 2013.

Cash and cash equivalents
Cash and cash equivalents comprises of cash at bank.

Loan Note
The Note issued is classified as other financial liabilities and is recognised initially at fair value being the principal issued less attributable transaction costs. Subsequent to initial recognition, the Note is measured at amortised cost with any difference between the initial fair value and the redemption value being recognised in the statement of comprehensive income on an effective interest basis.

Notes to the financial statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest income and expense

Interest income and interest expense are determined using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of financial assets or financial liabilities and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount.

Income tax expense

The charge for taxation is calculated in accordance with "Taxation of Securitisation Companies Regulations 2006 (SI 2006/3296)" and takes into account all deferred taxation adjustments arising from timing differences between the treatment of income and expenditure for taxation and accounting purposes which are likely to crystallise in the foreseeable future.

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Foreign currency

The transactions in foreign currency are recorded at the rate of exchange as at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Non-monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at historical rates. These translation differences are dealt with in the statement of comprehensive income.

3. DIRECTORS AND EMPLOYEES

None of the directors received any emoluments during the year for their services to the Company nor received any benefits from the Company. The directors are employed and remunerated by subsidiaries of the TMF Group in respect of their services to the Company. Subsidiaries of the TMF Group who are the appointed corporate service providers as per the offering document are paid an annual corporate fee. For the year to 31 December 2014, fees of US$34,167 (2013: US$20,968) were accrued in relation to TMF Management UK Ltd in respect of corporate services provided to the Company, including provision of directors. At year end fees of US$55,135 (2013: US$20,968) remained payable. It is considered that there is no appropriate basis on which they can apportion part of this fee applicable to directors' services to the Company.

The Company has no employees (2013: nil) and services required are contracted to third parties.

4. INTEREST INCOME

	2014 US $	2013 US $
Interest income from Loans to the Borrowers	47,500,000	28,895,833
Additional interest income from Loans to the Borrowers	15,500	9,430
	47,515,500	**28,905,263**

The Borrowers pay 'interest' and 'additional interest' semi-annually in May and November of the year in US dollars on the principal outstanding amount of the Loans at the rates of 9.5% and 0.0031% respectively.

Notes to the financial statements

5. INTEREST EXPENSE

	2014 US $	2013 US $
Interest expense on the Note	47,500,000	28,895,833

Interest expense to the Noteholders is calculated on the principal outstanding amount of the Note at the rate of 9.5% payable semi-annually in May and November in arrears in US dollars.

6. OPERATING EXPENSES

	2014 US $	2013 US $
Operating expenses include the following amounts:		
Auditor's remuneration for the audit of the Company's statutory accounts	49,432	46,944
Auditor's remuneration for tax compliance services	7,909	13,301
Management and advisory fees	51,660	20,968
Other expenses	-	6,436
Foreign exchange gain	(5,182)	(1,420)
	103,819	86,229

All ongoing operating expenses including the audit fees and corporate service fees of the Company are borne by Ukrzaliznytsia and the Borrowers where applicable by reimbursing the company for expenses incurred. The reimbursable amounts due are shown as part of the other debtors in note 8 below.

7. INCOME TAX EXPENSE

(a) Analysis of charge for the year

	2014 US $	2013 US $
Current tax:		
Current tax charge for the year	3,100	1,886
Income tax expense	3,100	1,886

(b) Reconciliation of effective tax rate

The charge for the year can be reconciled to the profit per the statement of comprehensive income as follows:

	2014 US $	2013 US $
(Loss) / profit before tax	(173,735,777)	10,850
Tax at the UK corporation tax rate of 20% (2013: 20%)	(34,747,155)	2,170
Effects of:		
Adjustment in accordance with securitisation tax rules	34,747,155	(2,170)
Application of Statutory Instrument No 3296. The Taxation of Securitisation Companies Regulation 2006	3,100	1,886
Total tax expense reported in the income statement	3,100	1,886

The Finance Act 2005 provided that corporation tax for a 'securitisation company' within the meaning of the Act, would be calculated with reference to UK GAAP as applicable up to 31 December 2004, for accounting periods ending by 1 January 2008. Under the powers conferred by the Finance Act 2005, secondary legislation was enacted in November 2006 which ensures that, for periods commencing on or after 1 January 2007, corporation tax for a 'securitisation company' will be calculated by reference to the retained profit of the securitisation company.

Notes to the financial statements

7. INCOME TAX EXPENSE (continued)

The directors are satisfied that this Company meets the definition of a 'securitisation company' as defined by both The Finance Act 2005 and the subsequent secondary legislation and that no incremental unfunded tax liabilities will arise. The directors have elected that this Company be taxed by reference to the profit required to be retained in accordance with the applicable capital market arrangement.

As at 31 December 2014, there are no tax-related contingent assets or contingent liabilities in accordance with International Accounting Standard No. 37 'Provisions, Contingent Liabilities and Contingent Assets' (IAS 37).

The small profits rate of corporation tax in the United Kingdom is 20%. Accordingly, the company's profit for this accounting year is taxed at a standard effective rate of 20%.

8. LOANS, ACCRUED INTEREST INCOME AND OTHER RECEIVABLES

	As at 31 December 2014		As at 31 December 2013	
	Current	Non-current	Current	Non-current
	US $	US $	US $	US $
Loans to the Borrowers	-	500,000,000	-	500,000,000
Impairment of Loans to the Borrowers	-	(173,750,000)	-	-
	-	326,250,000	-	500,000,000

	As at 31 December 2014		As at 31 December 2013	
	Current	Non-current	Current	Non-current
	US $	US $	US $	US $
Accrued interest income	5,147,513	-	5,147,513	-
Other debtors*	209,610	-	108,260	-
	5,357,123	-	5,255,773	-

* Included within Other debtors are amounts due from shareholders being the unpaid balance of the issued and called up share capital of GBP £12,501 (2013: GBP £12,501).

The US$500,000,000 Loans outstanding at 31 December 2014 mature in May 2018 and bear a fixed interest rate of 9.5% per annum. Additional interest is also due at a fixed rate of 0.0031% per annum on the oustanding loan balance which is retained by the company as profit. Accrued interest income pertains to the unreceived interest income for the period 22 November to 31 December 2014 including the additional interest.

Due to the circumstances described in Note 12, the directors believe that there is objective evidence that the Loans to the Borrowers are impaired as at 31 December 2014. It is therefore possible that the Loans may not be fully paid, which will result in Noteholders not being fully paid. An assessment has been performed to determine the amount of the impairment loss as at 31 December 2014.

In the circumstances set out in Note 12, it is not possible to estimate the present value of future cash flows of the Loans. In accordance with IAS 39, the Company may measure impairment of a financial asset measured at amortised cost on the basis of an instrument's fair value using an observable market price. The market price of the Notes has declined significantly at 31 December 2014 compared to its 31 December 2013 value. The directors believe that this decline reflects the market's perception of the future cash flows from the Loans as the Loans and Notes have similar maturities, credit risk and interest rates, and the Noteholders only have recourse to cash generated from the Loans. Based on the limited information available and the correlation of the Loans and Notes, the directors consider it appropriate to estimate the impairment of the Loans based on the observable market price of the Notes as at 31 December 2014. An impairment loss of $173,750,000 has been recognised against the Loans to the Borrowers.

Notes to the financial statements

9. CASH AT BANK

As at 31 December 2014 the Company held US$21,279 (2013: US$7,750) with Deutsche Bank AG London.

10. NON-CURRENT AND CURRENT LIABILITIES.

The US$500,000,000 Note outstanding at 31 December 2014 is listed on the Irish Stock Exchange. The Note matures on 21 May 2018 and bears a fixed interest rate of 9.5% per annum.

	As at 31 December 2014		As at 31 December 2013	
	Current	Non-current	Current	Non-current
	US $	US $	US $	US $
Loan Note	-	500,000,000	-	500,000,000
Accrued interest payable	5,145,833	-	5,145,833	-
	5,145,833	500,000,000	5,145,833	500,000,000

An amount equal to the new proceeds of the issue of the Note was used by the Issuer to finance the Loans to the Borrowers on 16 May 2013. The Note issued by the Company is unconditionally and irrevocably guaranteed on a senior and unsecured basis by the Sureties as to the payment of principal, interest and additional amounts, if any. The company will account to the Noteholders solely for the amounts equivalent to those (if any) actually received from the Borrowers pursuant to the Loan Agreements and/or the Sureties pursuant to the Surety Agreement. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

There have been several rating downgrades of the Company's Note during the year. The Note is currently rated C by Fitch Ratings and CC by Standard and Poor's.

11. SHARE CAPITAL

	2014		
	Number of shares	GBP	US $
Authorised share capital			
Ordinary share capital of GBP £1 each	50,000	50,000	76,760

Issued, allotted and called up	Number of shares	GBP	US $
Fully paid up ordinary share capital of GBP £1	1	1	1.50
Partially paid up share capital at GBP £0.25	49,999	12,500	19,190
	50,000	12,501	19,191

	2013		
	Number of shares	GBP	US $
Authorised share capital			
Ordinary share capital of GBP £1 each	50,000	50,000	76,760

Issued, allotted and called up	Number of shares	GBP	US $
Fully paid up ordinary share capital of GBP £1	1	1	1.50
Partially paid up share capital at GBP £0.25	49,999	12,500	19,190
	50,000	12,501	19,191

The entire issued share capital is held on trust by TMF Trustee Limited.

Notes to the financial statements

12. FINANCIAL RISK MANAGEMENT

The Company's financial instruments comprise of Loans to the Borrowers, cash and cash equivalents and the Note.

Credit risk

The maximum exposure to credit risk arising on the Company's financial assets at the reporting date is disclosed in the table below.

	Carrying value 2014 US$	Maximum exposure 2014 US$	Carrying value 2013 US$	Maximum exposure 2013 US$
Assets:				
Loans to the Borrowers	326,250,000	326,250,000	500,000,000	500,000,000
Accrued interest receivable	5,147,513	5,147,513	5,147,513	5,147,513
Other debtors	209,610	209,610	108,260	108,260
Cash at bank and in hand	21,279	21,279	7,750	7,750
	331,628,402	331,628,402	505,263,523	505,263,523

The Company is subject to the risk of delays in receipt and risk of defaults on payments due from the Borrowers in respect of the Loans. The directors of the Company review information available to them including the latest financial information published by Ukrzaliznytsia and make due enquiries of Ukrzaliznytsia's management regarding the financial performance and position of the Ukrzaliznytsia group companies and the business environment in which it operates in order to assess the credit risk related to the Loans to the Borrowers.

There is also a negative pledge in place agreed by the Borrowers which restrict the level of security the Borrowers and Ukrzaliznytsia are able to take on over their undertakings, assets and revenue as noted in each Loan Agreement dated 16 May 2013.

There have been several downgrades of Ukrzaliznytsia during the year and post year-end.

On 15 May 2015, Fitch Ratings downgraded its rating of Ukrzaliznytsia's Long-term foreign currency IDR to C from CC. Fitch has also downgraded the Long-term foreign currency rating on Shortline Plc's USD500m loan participation notes, of which Ukrzaliznytsia is a guarantor, to C from CC.

On 21 May 2015 Standard and Poor's further downgraded its ratings of Ukrzaliznytsia to SD (Selective Default) from CC. At the same time, Standard and Poor's affirmed its rating of Shortline Plc's USD500m loan participation notes at CC.

Driven by political instability Ukraine continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, high inflation and significant imbalances in public finances and foreign trade. The stability of the Ukrainian economy will be significantly impacted by the Government's policies and actions with regard to administrative, legal and economic reforms. As a result, operations in Ukraine involve risks that are not typical for developed markets. The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

In 2014, the Ukrainian political and economic situation deteriorated significantly. Political and social unrest combined with regional tensions has led to the secession of the Autonomous Republic of Crimea to the Russian Federation, full-fledged armed confrontations with separatists in certain parts of the Donetsk and Lugansk regions and, ultimately, to the significant deterioration of the political and economic relations between Ukraine and the Russian Federation. These factors have contributed to the decline of key economic indices, increase of the state budget deficit, depletion of the foreign currency reserves of National Bank of Ukraine (NBU) and, as a result, downgrading of the Ukrainian sovereign debt credit ratings.

Of the $500,000,000 loans, $146,215,000 was loaned to Donetsk Railway and $94,190,000 to Prydniprovska Railway accounting for 29.24% and 18.8% respectively of the total loan balance.

From 1 January 2014 and up to date of the issuance of these financial statements, the Ukrainian Hryvnia (the "UAH") depreciated against major foreign currencies by approximately 165% calculated based on NBU exchange rate of UAH to US Dollar. The NBU has imposed certain restrictions on purchase of foreign currencies, cross border settlements, and also mandated obligatory conversion of foreign currency proceeds into UAH.

Notes to the financial statements

12. FINANCIAL RISK MANAGEMENT (continued)

Management is monitoring the developments in the current environment and taking actions, where appropriate, to minimize any negative effects to the extent possible. Further adverse developments in the political, macroeconomic and/or international trade conditions may further adversely affect the Company's financial position and performance in a manner not currently determinable.

The known and estimable effects of the above events on the financial position and performance of the Company in the reporting period have been taken into account in preparing these financial statements. However, the continuing impact of the situation described above may adversely affect the company in the future.

The Noteholders will only be paid to the extent that the Borrowers can meet their obligations in respect of the Loans.

Due to the circumstances described above, the directors believe that there is objective evidence that the Loans receivable are impaired as at 31 December 2014. It is therefore possible that the Loans may not be fully paid, which will result in Noteholders not being fully paid. An impairment loss of $173,750,000 has been recognised against the Loans receivable. Please see note 8 for more details.

However, it should be noted that the repayments due post year end from the Borrowers were received in full on the due dates.

Liquidity risk

Liquidity risk is the risk that the Company may be unable to meet the payment obligations associated with its financial liabilities when they fall due. The Note is a limited recourse debt obligation. The Company's ability to meet its obligations to the Noteholders as they fall due is directly linked to the Borrowers performance of their obligations under the Loans. All expenses are covered by Ukrzaliznytsia and the Borrowers as specified in the Fees Letter. The Note issued by the Company is guaranteed by the Ukrzaliznytsia as per the Surety Agreement signed on 16 May 2013.

Because the payment and receipt of interest on the Note and Loans respectively are matched and the expenses are reimbursed by the borrower, there is limited liquidity risk.

The table below reflects the undiscounted cash flows of financial liabilities at the balance sheet date.

	Gross contractual cashflow US $	1 to 3 months US $	3 months to 1 year US $	1-5 years US $	Over 5 years US $
Interest payable	166,250,000	-	47,500,000	118,750,000	-
Loan Note principal	500,000,000	-	-	500,000,000	-
	666,250,000	**-**	**47,500,000**	**618,750,000**	**-**

Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. The Company's exposure to interest rate risk is limited as the interest rate characteristics of its assets and liabilities are similar as noted in note 8 and 10 above.

Currency risk

All the Company's assets and liabilities are denominated in US dollars except for share capital which is GBP £12,501 translated at the date of issue at US$19,191 and minor administrative expenses. The Company's foreign exchange risk is currently limited to this amount and is not seen as a significant risk.

Capital risk management

The Company considers its capital to comprise its ordinary share capital and its accumulated retained earnings. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern. The Company is not subject to any external capital requirements except for the minimum requirement under the Companies Act 2006 which is £50,000. The Company has not breached the minimum requirement.

Notes to the financial statements

12. FINANCIAL RISK MANAGEMENT (continued)

Fair values

The carrying amounts shown on the statement of financial position are considered a reasonable approximation of the fair value of all the Company's financial instruments excluding the following:

	As at 31 December 2014		As at 31 December 2013	
	Carrying	Fair Value	Carrying	Fair Value
	US $	US $	US $	US $
Loans to the Borrowers	326,250,000	326,250,000	500,000,000	455,000,000
Note	500,000,000	326,250,000	500,000,000	455,000,000

The fair value of the Note is based on market prices as at the year end which showed a bid price of 65.25% of face value. The fair value of the Loans to the Borrowers are considered to be the same as the fair value of the Note. The terms of the Loan and Note agreements match in all material respects.

Estimation of fair values

The fair value of the Note is based on market prices as at the year end which showed a bid price of 65.25% of face value. The fair value of the Loans to the Borrowers are considered to be the same as the fair value of the Note. The terms of the Loan and Note agreements match in all material respects. Under IFRS 13, Loans to the Borrowers are considered Level 2 as explained below.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Under IFRS 13 the fair value of the Note is considered to be Level 1.

No fair values have been disclosed for current assets and liabilities because their carrying amount approximates to fair value due to their short-term maturities.

13. RELATED PARTY TRANSACTIONS

The fees payable to the Company's directors for their services for the year ended on 31 December 2014 were US$nil (2013: US$nil). However, Praxis Mgt Limited, Joint Corporate Services Limited and Mr Michael Adams are subsidiaries or employees of TMF Management (UK) Limited, which provides corporate services to the Company. Invoices issued by TMF Management (UK) Limited are paid for by Ukrzaliznytsia, in accordance with the Offering Circular.

For the year to 31 December 2014, fees of US$34,167 (2013: US$20,968) were accrued in relation to TMF Management UK Ltd in respect of corporate services provided to the Company, including provision of directors. At year end fees of US$55,135 (2013: US$20,968) remained payable.

Ukrzaliznytsia is the Company's immediate controlling party. The details of the amounts loaned, interest receivable and interest accrued as at the year-end can be found in notes 4 and 10. Operating expenses are due from or paid by the Borrowers, subsidiary companies of Ukrzaliznytsia, details of which can be found in note 6.

Notes to the financial statements

14. ULTIMATE CONTROLLING PARTY

Shortline Plc is incorporated and registered in the United Kingdom.

The entire share capital of the Company is held by TMF Trustee Limited on a discretionary trust basis for the benefit of certain charities.

Although Ukrzaliznytsia has no direct ownership interest in the Company, it is considered to be the ultimate controlling party in accordance with IFRS 10. The results of the Company are therefore included in the consolidated financial statements of Ukrzaliznytsia. This is the smallest group in which the Company's results are consolidated. Ukrzaliznytsia is registered in the Ukraine and copies of the consolidated financial statements may be obtained from the company's registered address which is at 5 Tverska Street, Kyiv, 03680, Ukraine or via their website: http://www.uz.gov.ua.

15. SUBSEQUENT EVENTS

As noted in the Strategic report, the Company has provided loans to Ukrzaliznytsia and its group of companies which are Ukrainian state owned entities.

On 11 March 2015 the IMF approved a US$17.5 billion loan to the state of Ukraine which is in combination to US$7.5 billion in loans from other international organisations. In addition to this further debt relief in excess of US$15 billion is expected to be negociated with bondholders. The aim is to bring immediate economic stabilisation to Ukraine.

On 10 May 2015, Ukraine announced its intention to restructure its foreign currency commercial debt and debt issued by government-owned entities, including the US$500 million in loan participation notes issued by Ukrzaliznytsia through Shortline Plc, the Note, which is currently due in 2018.

On 12 May 2015, Ukrzaliznytsia announced that Ukrainian Railway companies under the management of Ukrzaliznytsia have failed to make principal payments under certain bilateral loan agreements with Ukrainian lenders. Such defaults have triggered a cross default under certain other financings, including under the loans issued by Shortline Plc to the Borrowers. Further, Ukrzaliznytsia announced that it is planning to commence discussions with creditors in relation to a restructuring of its debt, including the Note issued by Shortline Plc, which is part of the publically announced debt restructuring being pursued by the Ministry of Finance in line with the IMF's debt relief plans noted above.

At the same time, Ukrzaliznytsia announced that it is doubtful whether it continues to exercise management control over Donetsk Railway. Donetsk Railway accounts for US$146,215,000 of the Loans to the Borrowers as at the balance sheet date.

There have also been several rating downgrades post year-end. Please refer to Note 12 for details.

However, it should be noted that the interest payments due post year end from the Borrowers were received in full on the due date, 20 May 2015, in line with the underlying agreements.

Company Registration Number 08446967

Shortline Public Limited Company

Strategic Report, Directors' Report and Financial Statements

For the period ended 31 December 2013

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Company information

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Praxis Mgt Limited
Michael Adams

Company Secretary
Joint Secretarial Services Limited

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London EC2N 4DA

Company Number
08446967
(England & Wales)

Strategic report for the period ended 31 December 2013

The directors have pleasure in presenting their Strategic report and the audited financial statements of Shortline Plc (the "Company" or the "Issuer") for the period ended 31 December 2013.

Incorporation, principal activities, review of business and future developments

The Company was incorporated in England and Wales on 15 March 2013, as a public Company with limited liability under the Companies Act 2006 with the registration number 08446967. The Company is a special purpose entity established in order to issue a fixed rate note, the proceeds from which have been used to grant six five-year loans (the "Loans") on the terms and conditions as set out in the relevant loan agreements dated 16 May 2013 between the Company, each of the six borrowers, being State Enterprise "Donetsk Railway" (Derzhavne Pidpryiemstvo "Donetska Zaliznytsia"), State Regional Specialised Association "Lviv Railway" (Derzhavne Terytorialno-Galuzeve Obiednannya "Lvivska Zaliznytsia"), State Enterprise "Odesa Railway" (Derzhavne Pidpryiemstvo "Oedska Zaliznytsia"), State Enterprise "Prydniprovska Railway" (Derzhavne Pidpryiemstvo "Prydniprovska Zaliznytsia"), State Enterprise "South Railway" (Derzhavne Pidpryiemstvo "Pivdenna Zaliznytsia") and State Regional Specialised Association "Southwest Railway" (Derzhavne Terytorialno-Galuzeve Oviednannye "Pivdenno-Zakhidna Zaliznytsia") (the "Borrowers") and the State Administration of Railways Transport of Ukraine ("Ukrzaliznytsia") existing under the laws of Ukraine, as described in the Offering Circular dated 16 May 2013 (the "Offering Circular").

On 16 May 2013 the Company issued a US$500,000,000 9.50 per cent. loan participation note due in May 2018 (the "Note"). The Note is listed on the Irish Stock Exchange.

Interest on the Note and the outstanding Loan is due at 9.50% per annum payable semi-annually in arrears in May and November. Additional interest is due on the outstanding Loan balance at the rate of 0.0031% per annum which is retained by the Company in line with the offering circular.

Ukrzaliznytsia has agreed with Barclays Bank PLC (Joint Lead Manager), in accordance with the Mandate Letter dated 2 April 2013 entered into between Barclays Bank PLC and Ukrzaliznytsia (the "Mandate Letter"), that Ukrzaliznytsia will pay the upfront fees and expenses relating to the Note issuance (the "Upfront Fees and Expenses"), including: the Lender's initial set up expenses, initial legal fees; and the upfront fees and expenses of the Trustee and the Agents.

In addition to the Upfront Fees and Expenses, each of the Borrowers shall pay the Lender its annual on going and maintenance costs and expenses as noted by the Fee letter dated 16 May 2013.

The Note issued by the Company is unconditionally and irrevocably guaranteed on a senior and unsecured basis by the State Administration Of Railways Transport Of Ukraine ("Ukrzaliznytsia"), State Enterprise "Ukrainian State Centre For Special Carriages Service" (Derzhavne Pidpryiemstvo "Ukrayinskyi Derzhavnyi Tsentr Po Ekspluatatsii Spetsializovanykh Vagoniv"), State Enterprise "Ukrainian State Center Of Railway Refrigerator Transportations 'Ukrreftrans'" (Derzhavne Pidpryiemstvo "Ukrayinskyi Derzhavnyi Tsentr Zaliznychnyh Refryzheratornyh Perevezen' 'Ukrreftrans'"), State Company "Ukrainian State Center Of Transport Service 'Liski'" (Derzhavne Pidpryiemstvo "Ukrayinskyi Derzhavnyi Tsentr Transportnogo Servisu 'Liski'"), State Enterprise For Material And Technical Support Of Railway Transport Of Ukraine "Ukrzaliznychpostach" (Derzhavne Pidpryiemstvo Materialno-Tehnichnogo Zabezpechennya Zaliznychnogo Transportu Ukrayiny "Ukrzaliznychpostach") And State Enterprise "Administration Of Industrial Enterprises Of State Administration Of Railway Transport Of Ukraine" (Derzhavne Pidpryiemstvo "Upravlinnia Promyslovyh Pidpryiemstv Derzhavnoi Administracii Zaliznychnogo Transportu Ukrayiny") or the "Sureties" as per the Surety Agreement signed on 16 May 2013 as to the payment of principal, interest and additional amounts, if any.

The company will account to the holders of the Note (the "Noteholders") solely for the amounts equivalent to those (if any) actually received from the Borrowers pursuant to the Loan Agreements and/or the Sureties pursuant to the Surety Agreement.

There is also a negative pledge in place agreed by the Borrowers which restrict the level of security the Borrowers and Ukrzaliznytsia are able to take on over their undertakings, assets and revenue as noted in each Loan Agreement dated 16 May 2013.

No significant change in the Company's business is expected in the foreseeable future.

Principal risks and uncertainties

From the perspective of the Company, its principal risks and uncertainties are integral to the principal risks and uncertainties of the Borrowers and their management is undertaken by the management of the State Administration of Railways Transport of Ukraine, Ukrzaliznytsia. The company's financial risk management objectives and policies are noted below and in note 12.

More detailed principal risks and uncertainties of Ukrzaliznytsia, which include those of the Company, are discussed in the Offering Circular, particularly the section Risk Factors.

Financial instruments

The Company's assets are financed solely through the issuance of the Loan Note. The Company issued such financial instruments to finance the acquisition of the Loans to the Borrowers. The interest on the Loans to the Borrowers and that on the Loan Note is at fixed rates.

The Company's financial instruments comprise the Loans, cash and cash equivalents, and the Note. The main risk arising from the Company's financial instruments is credit risk. Further information regarding the Company's financial risk management is given in note 12 to the financial statements.

Strategic report for the period ended 31 December 2013 *(continued)*

Credit risk

The Company is subject to the risk of delays in receipt and risk of defaults on payments due from the Borrowers in respect of the Loans. The directors of the Company review information available to them including the latest financial information published by Ukrzaliznytsia and make due enquiries of Ukrzaliznytsia's management regarding the financial performance and position of the Ukrzaliznytsia group companies and the business environment in which it operates in order to assess the credit risk related to the Loans to the Borrowers.

There is also a negative pledge in place agreed by the borrowers which restrict the level of security the Borrowers and Ukrzaliznytsia are able to take on over their undertakings, assets and revenue as noted in each Loan agreement dated 16 May 2013.

Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. The Company's exposure to interest rate risk is limited as the interest rate characteristics of its assets and liabilities are similar.

Liquidity risk

Liquidity risk is the risk that the Company may be unable to meet the payment obligations associated with its financial liabilities when they fall due. Because the payment and receipt of interest on notes and loans respectively, are matched and the expenses are reimbursed by the borrower, there is limited liquidity risk.

The Note issued by the Company is guaranteed by the Ukrzaliznytsia as per the Surety Agreement signed on 16 May 2013. The Note is a limited recourse debt obligation. The Company's ability to meet its obligations to the Noteholders as they fall due is directly linked to the Borrowers performance of their obligations under the Loans.

Currency risk

All the Company's assets and liabilities are denominated in US dollars except for share capital which is GBP £12,501 translated at the date of issue at US$19,191 and minor administrative expenses. The Company's foreign exchange risk is currently limited to this amount and is not seen as a significant risk.

Capital risk management

The Company's objective is to maintain a sufficient shareholder equity base to support current operations and planned growth in line with relevant forecasts. The Company is not subject to external regulatory capital requirements and manages share capital and reserves as shareholders' equity.

Results and dividends

The results for the period and the Company's financial position at the end of the period are disclosed on pages 10 and 11. The profit for the period after taxation amounted to US$8,964.

Key performance indicators

The main performance indicator is the extent of payments of interest and principal from the Borrowers. There have been no principal repayments on the Loan or the Note to date and these balances held by the Company remain unchanged from inception of the Company.

Other key performance indicators for the Company are net interest income and impairment losses. The net interest income for the period is US$9,430 and no impairment was charged. All interest payment obligations have been met by the Borrowers during and after year end.

For and on behalf of the board

Michael Adams
Joint Corporate Services Limited
Director

Date: 30 June 2014

Michael Adams
Praxis Mgt Limited
Director

Date: 30 June 2014

Directors' report for the period ended 31 December 2013

The directors have pleasure in presenting their report and the audited financial statements of Shortline Plc (the "Company" or the "Issuer") for the period ended 31 December 2013.

Please refer to the Strategic report for detailed disclosures relating to financial instruments and related risk management.

Corporate governance

The directors have been charged with governance in accordance with the offering circular describing the structure and operation of the transaction. The governance structure of the Company is such that the key policies have been predetermined at the time of issuance and the operational roles have been assigned to third parties with their roles strictly governed by the transaction documents.

The transaction documents provide for procedures that have been designed for safeguarding assets against unauthorised use or disposition, for maintaining proper accounting records, and for the reliability and usefulness of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives whilst enabling them to comply with their regulatory obligations.

Due to the nature of the securities which have been issued, the Company is largely exempt from the disclosure requirements of the Financial Conduct Authority (previously the Financial Services Authority) pertaining to the Disclosure and Transparency Rules (DTR) as detailed in DTR 7.1 audit committees and 7.2 corporate governance statements (save for DTR 7.2.5 a requiring description of the features of the internal control and risk management systems), which would otherwise require the Company respectively, to have an audit committee in place and include a corporate governance statement in the report of the directors. The directors are therefore satisfied that there is no requirement for an audit committee or a supervisory body entrusted to carry out the functions of an audit committee or to publish a corporate governance statement.

Directors and their interests

The directors of the Company who were in office during the period and up to the date of signing the financial statements, were:

Joint Corporate Services Limited
Praxis Mgt Ltd
Michael Adams

None of the directors have any beneficial interest in the ordinary share capital of the Company. None of the directors had any interest either during or at the end of the period in any material contract or arrangement with the Company.

No dividends were declared or paid by the Company during the current period and the directors do not propose a final dividend.

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity is currently in force.

Change in accounting date

The directors have taken the option available under the Companies Act 2006 Section 392 to change the accounting date of the Company from 31 March 2014 to 31 December 2013.

Company secretary

The Company secretary during the period, and subsequently, was Joint Secretarial Services Limited.

Employees

The Company had no employees during the current period. Joint Secretarial Services Limited performs the Company's secretarial functions. TMF Management (UK) Limited provides corporate and administration services.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance, and its principal uncertainties are set out in the Strategic report. The Note issued by the Company is unconditionally and irrevocably guaranteed by the Sureties, discussed in the Strategic report. The Note is a limited recourse debt obligation. The Company's ability to meet its obligations to the Noteholders as they fall due is directly linked to the Borrowers' performance of their obligations under the Loans.

The directors have undertaken a review and conclude that the Company has adequate resources and suitable arrangements in place for it to be able to continue in operational existence for the foreseeable future. Therefore the directors consider it appropriate for the financial statements to be prepared on a going concern basis.

Directors' report for the period ended 31 December 2013 *(continued)*

Political and charitable donations

The Company made no political or charitable donations or incurred any political expenditure during the period.

Business environment and political instability in Ukraine

Driven by political instability, Ukraine continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, high inflation and the existence of currency controls which cause the national currency to be illiquid outside Ukraine. The stability of the Ukrainian economy will be significantly impacted by the Government's policies and actions with regard to administrative, legal and economic reforms. As a result, operations in Ukraine involve risks that are not typical for developed markets. The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

In November 2013, the Ukrainian government declined to sign the association agreement with the European Union, which resulted in protests and signs of political unrest. In January - April 2014, the political unrest escalated. In February 2014, the President and majority of the Government officials were dismissed by the Parliament. Parliament initiated certain political reforms, appointed a transitional Government and is forming a set of anti-crisis measures. On 21 March 2014, Ukraine signed a political association with the European Union.

In March 2014, a referendum held in the Autonomous Republic of Crimea supported seceding from Ukraine and becoming part of the Russian Federation. The Crimean parliament declared independence. While the referendum and declaration of independence have been ruled unconstitutional by the Ukraine Constitutional Court, the President of the Russian Federation and the representatives of Crimea signed an agreement on the accession of Crimea to the Russian Federation, which has been ratified by the Constitutional Court and the Parliament of the Russian Federation. The Crimean authorities declared Crimean Direction of Prydniprovska Railway a separate State Company "Crimean Railways". Crimean Direction contributed 3% to Ukrzaliznytsia's revenues in 2013. Prydniprovska Railway accounts for US$94,190,000 of the Loans to the Borrowers as at the balance sheet date.

Furthermore, from 1 January to 23 June 2014, the Ukrainian Hryvnia devalued against major foreign currencies by approximately 48%, and the National Bank of Ukraine has imposed certain restrictions on purchase of foreign currencies at the inter-bank market. The international rating agencies have downgraded sovereign debt ratings for Ukraine. The combination of the above events has resulted in a deterioration of liquidity and much tighter credit conditions where credit is available.

From April 2014, Pro Russian protests in Eastern Ukraine have escalated into clashes with government forces.

Presidential elections were held in Ukraine on 25 May 2014, although due to instability in Eastern Ukraine, the elections were not held there. A new President was elected. He has sought through various diplomatic and military measures to regain control over the eastern region.

Management is monitoring these developments in the current environment and taking actions where appropriate. Further negative developments, including the political unrest, could adversely affect the Company's results and financial position in a manner not currently determinable. As a result of the above mentioned issues and uncertainties, the Directors believe that there is an increased risk that the Loans may not be fully paid, which will result in the Noteholders not being fully paid.

Subsequent Events

As noted in the Strategic report, the Company has provided loans to Ukrzaliznytsia and its group of companies which are Ukrainian state owned entities. In March 2014, Russian Federation annexed Autonomous Republic of Crimea which is part of Ukraine and the Crimean Direction of Prydniprovska Railway was declared a separate State Company "Crimean Railways" as detailed in the section above. The nature and timing of possible changes in the integrated operations of Crimean Direction within the Ukrzaliznytsia Group is currently not predictable.

Subsequent to year end on 13 February 2014 Ukrzaliznytsia was down graded by Fitch ratings from B- to CCC. In line with this the Company's Note was also downgraded from B- to CCC. Interest payments from the Borrowers were made on time on 20 May 2014, in line with the underlying agreements.

Directors' report for the period ended 31 December 2013 *(continued)*

Statement of disclosure of information to the auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditors

The auditors, Ernst & Young LLP were appointed as first auditors of the Company and have expressed their willingness to continue in office until the next Annual General Meeting. In accordance with s.485 of CA 2006, a resolution to reappoint Ernst & Young LLP will be proposed at the forthcoming Annual General Meeting.

For and on behalf of the board

Michael Adams

Joint Corporate Services Limited
Director

Date: 30 June 2014

Michael Adams

Praxis Mgt Limited
Director

Date: 30 June 2014

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

For and on behalf of the board

Michael Adams

Joint Corporate Services Limited
Director

Date: 30 June 2014

Michael Adams

Praxis Mgt Limited
Director

Date: 30 June 2014

Independent Auditors' Report to the Members of Shortline Plc

We have audited the financial statements of Shortline Plc for the period ended 31 December 2013 which comprise the Statement of comprehensive income, the Statement of changes in equity, the Statement of financial position, the Statement of cashflows and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its profit for the period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – Political unrest in Ukraine

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in Note 8 to the financial statements concerning the impact of the political unrest in Ukraine. The events referred to in Note 8 could adversely affect the Company's future results and financial position in a manner not currently determinable.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Kenneth Eglinton (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London, United Kingdom
Date: 30 June 2014

Statement of comprehensive income
for the period ended 31 December 2013

Company registration number 08446967

	Note	Period from 15 March 2013 to 31 December 2013 US $
Interest income	4	28,905,263
Interest expense	5	(28,895,833)
Net interest income		9,430
Operating expenses	6	(86,229)
Reimbursement for operating expenses		87,649
Profit on ordinary activities for the period before taxation		10,850
Income tax expense	7	(1,886)
Profit for the period after taxation		8,964
Total comprehensive income for the period		8,964

The financial statements are approved and authorised for issue by the Board of Directors on 30 June 2014 and signed on its behalf by:

Joint Corporate Services Limited
Director

Michael Adams

Praxis Mgt Limited
Director

Michael Adams

The accompanying notes on pages 14 to 23 are an integral part of these financial statements.

Statement of financial position
as at 31 December 2013

Company registration number 08446967

	Note	As at 31 December 2013 US $
Non-current assets		
Loans to the Borrowers	8	500,000,000
Current assets		
Accrued interest receivable	8	5,147,513
Other debtors	8	108,260
Cash at bank	9	7,750
Total current assets		5,263,523
Total assets		505,263,523
Non-current liabilities		
Loan Note	10	500,000,000
Current liabilities		
Accrued interest payable	10	5,145,833
Accruals		87,649
Current income tax liability		1,886
Total current liabilities		5,235,368
Total liabilities		505,235,368
Net assets		28,155
Equity		
Share capital	11	19,191
Retained earnings		8,964
Total equity		28,155
Total equity and liabilities		505,263,523

The financial statements are approved and authorised for issue by the Board of Directors on 30 June 2014 and signed on its behalf by:

Joint Corporate Services Limited
Director
Michael Adams

Praxis Mgt Limited
Director
Michael Adams

The accompanying notes on pages 14 to 23 are an integral part of these financial statements.

Statement of changes in equity

For the period ended 31 December 2013

Company registration number 08446967

Attributable to equity holders of the Company

	Note	Share Capital	Retained earnings	Total
		US $	US $	US $
At the date of incorporation - 15 March 2013		-	-	-
Total comprehensive income for the period		-	8,964	8,964
Shares issued during the period	11	19,191	-	19,191
At the end of the period		19,191	8,964	28,155

The accompanying notes on pages 14 to 23 are an integral part of these financial statements.

Statement of cash flows

Company registration number 08446967

	Note	As at 31 December 2013 US $
Cash flows from operating activities		
Profit before income tax		10,850
Adjustments for:		
Increase in interest payable	10	5,145,833
Increase in interest receivable	8	(5,147,513)
Increase in other debtors	8	(87,649)
Foreign exchange movement on unpaid share capital		(1,420)
Increase in accruals		87,649
Net cash from operating activities		7,750
Investing activities		
Loans to the Borrowers	8	(500,000,000)
Net cash generated investing activities		(500,000,000)
Financing activities		
Issue of Loan Note	10	500,000,000
Net cash from financing activities		500,000,000
Net increase in cash and cash equivalents		7,750
Cash and cash equivalents at beginning of period		-
Cash and cash equivalents at 31 December 2013	9	7,750

The accompanying notes on pages 14 to 23 are an integral part of these financial statements.

Notes to the financial statements

1. GENERAL INFORMATION

Shortline Plc is a special purpose entity incorporated on 15 March 2013 under the laws of the United Kingdom with the registration number 08446967. The Company was established in order to issue a fixed rate Note, the proceeds from which have been used to grant loans to six Ukrainian railway companies under control of the State Administration of Railways Transport of Ukraine and existing under the laws of Ukraine, as described in the Offering Circular dated 16 May 2013. The Offering Circular is available at the Company's registered office. The address of its registered office is given on page 2.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

Basis of preparation

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs as adopted by the EU"), IFRIC Interpretations and the Companies Act 2006 is applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention. As explained in the Directors' report, the directors consider it appropriate for the financial statements to be prepared on a going concern basis.

Preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Impairment of the loans to Ukrzaliznytsia group companies as explained in the Directors' report and also below is considered an area where assumptions and estimates are significant to the financial statements and a higher degree of judgement and complexity are involved.

The Company's main transactions are in US dollars and therefore, the functional and presentational currency used by the Company is US dollars.

Standards issued but not yet effective

The adoption of Standards and Interpretations issued by the International Accounting Standards Board (IASB) that were effective for the current year has not had a material impact on the financial statements of the Company. At the date of authorisation of these financial statements, the following Standards and Interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

Name of new Standards/amendments	Effective date
- Amendments to IAS 32 (Dec 2011): Offsetting Financial Assets and Financial Liabilities	1 January 2014
- IFRS 9: Financial Instruments	(Proposed) 1 January 2018
- Amendments to IAS 39: Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014

Early adoption of standards

IFRS 13 became effective on 1 January 2013, it establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Company re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures. Application of IFRS 13 has not materially impacted the fair value measurements of the Company. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in note 12.

The directors consider that there are no other new or revised standards relevant to the Company which should be adopted and reported in the 2013 Financial Statements.

Notes to the financial statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The directors considered the potential impact of the adoption of IFRS 9 on the financial statements of the Company, but the Company does not believe that the adoption at any time in the future of the remaining standards above will have any material impact on the amounts reported in these financial statements.

Loans to the Borrowers

The Loans to the Borrowers have been classified as Loans and receivables. They are measured on initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Subsequent increases of the value of the Loan, which can be objectively related to an event occurring after previous impairment losses have been recognised, are recorded in the income statement to the extent previous impairment losses have been taken through the income statement. The reversal shall not result in a carrying amount of the Loan that exceeds the amortised cost had no impairment been recognised.

Segmental Analysis

The whole Company's operations are carried out in the United Kingdom and the results and net assets are derived from its investment in the Loans to the Borrowers, which as stated in Note 8, is due from a related entity in the Ukraine.

Operating expenses

Operating expenses include corporate service fees, accounting fees, audit fees and other professional fees including Trustee and paying agents fees which are recognised on an accruals basis.

Share capital

Share capital is issued in Sterling (GBP) and has been translated at the prevailing rate of US$1.5163 on the date of issuance being 15 March 2013.

Cash and cash equivalents

Cash and cash equivalents comprises of cash at bank.

Loan Note

The Note issued is classified as other financial liabilities and is recognised initially at fair value being the principal issued less attributable transaction costs. Subsequent to initial recognition, the Note is stated at amortised cost with any difference between cost and the redemption value being recognised in the statement of comprehensive income on an effective interest basis.

As mentioned in the Strategic report, all issue costs relating to the issuance of the Note were borne by the Borrowers including Ukrzaliznytsia as part of the arrangement with Barclays Bank PLC (Joint Lead Manager) as noted in the signed Mandate Letter dated 16 May 2013.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained all the risks and rewards or the asset, but has transferred control of the asset.

Notes to the financial statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

Interest income and expense

Interest income and interest expense are determined using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of financial assets or financial liabilities and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount.

Income tax expense

The charge for taxation is calculated in accordance with "Taxation of Securitisation Companies Regulations 2006 (SI 2006/3296)" and takes into account all deferred taxation adjustments arising from timing differences between the treatment of income and expenditure for taxation and accounting purposes which are likely to crystallise in the foreseeable future.

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Foreign currency

The transactions in foreign currency are recorded at the rate of exchange as at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Non-monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at historical rates. These translation differences are dealt with in the statement of comprehensive income.

3. DIRECTORS AND EMPLOYEES

None of the directors received any emoluments during the period for their services to the Company nor received any benefits from the Company. The directors are employed and remunerated by subsidiaries of the TMF Group in respect of their services to the Company. Subsidiaries of the TMF Group who are the appointed corporate service providers as per the offering document were paid an annual corporate fee of US$20,968 as a whole, and it is considered that there is no appropriate basis on which they can apportion part of this fee applicable to directors' services to the Company.

The Company has no employees and services required are contracted to third parties.

4. INTEREST INCOME

	2013 US $
Interest income from Loans to the Borrowers	28,895,833
Additional interest income from Loans to the Borrowers	9,430
	28,905,263

The Borrowers pay 'interest' and 'additional interest' semi-annually in May and November of the year in U.S. dollars on the principal outstanding amount of the Loans at the rates of 9.5% and 0.0031% respectively.

Notes to the financial statements

5. INTEREST EXPENSE

	2013 US $
Interest expense on the Note	28,895,833

Interest expense to the Noteholders is calculated on the principal outstanding amount of the Note at the rate of 9.5% payable semi-annually in May and November in arrears in US dollars.

6. OPERATING EXPENSES

	2013 US $
Operating expenses include the following amounts:	
Auditor's remuneration for the audit of the Company's statutory accounts	46,944
Auditor's remuneration for tax compliance services	13,301
Management and advisory fees	20,968
Other expenses	6,436
Foreign exchange gain	(1,420)
	86,229

All ongoing operating expenses including the audit fees and corporate service fees of the Company are borne by Ukrzaliznytsia and the Borrowers where applicable by reimbursing the company for expenses incurred The reimbursable amounts due are shown as part of the other debtors in note 8 below.

7. INCOME TAX EXPENSE

(a) Analysis of charge in the year

	2013 US $
Current tax:	
Current tax charge for the year	1,886
Income tax expense	1,886

(b) Reconciliation of effective tax rate

The charge for the year can be reconciled to the profit per the statement of comprehensive income as follows:

	2013 US $
Profit before tax	10,850
Tax at the UK corporation tax rate of 20%	2,170
Effects of:	
Adjustment in accordance with securitisation tax rules	(2,170)
Application of Statutory Instrument No 3296. The Taxation of Securitisation Companies Regulation 2006	1,886
Total tax expense reported in the income statement	1,886

The Finance Act 2005 provided that corporation tax for a 'securitisation company' within the meaning of the Act, would be calculated with reference to UK GAAP as applicable up to 31 December 2004, for accounting periods ending by 1 January 2008. Under the powers conferred by the Finance Act 2005, secondary legislation was enacted in November 2006 which ensures that, for periods commencing on or after 1 January 2007, corporation tax for a 'securitisation company' will be calculated by reference to the retained profit of the securitisation company.

Notes to the financial statements

7. INCOME TAX EXPENSE (continued)

The directors are satisfied that this Company meets the definition of a 'securitisation company' as defined by both The Finance Act 2005 and the subsequent secondary legislation and that no incremental unfunded tax liabilities will arise. The directors have elected that this Company be taxed by reference to the profit required to be retained in accordance with the applicable capital market arrangement.

As at 31 December 2013, there are no tax-related contingent assets or contingent liabilities in accordance with International Accounting Standard No. 37 'Provisions, Contingent Liabilities and Contingent Assets' (IAS 37).

The small profits rate of corporation tax in the United Kingdom is 20%. Accordingly, the company's profit for this accounting year is taxed at a standard effective rate of 20%.

8. LOANS, ACCRUED INTEREST INCOME AND OTHER RECEIVABLES

	As at 31 December 2013	
	Current	Non-current
	US $	US $
Loans to the Borrowers	-	500,000,000
Accrued interest income	5,147,513	-
Other debtors*	108,260	-
	5,255,773	500,000,000

As noted in the Strategic report, the Company provided loans of US$500m to Ukrzaliznytsia and its group of companies which are Ukrainian state owned entities. The loans provided are intended to be used by the respective entities for general operational purposes.

Driven by political instability Ukraine continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, high inflation and the existence of currency controls which cause the national currency to be illiquid outside Ukraine. The stability of the Ukrainian economy will be significantly impacted by the Government's policies and actions with regard to administrative, legal and economic reforms. As a result, operations in Ukraine involve risks that are not typical for developed markets. The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

In November 2013, the Ukrainian government declined to sign the association agreement with the European Union, which resulted in protests and signs of political unrest. In January - April 2014, the political unrest escalated. In February 2014, the President and majority of the Government officials were dismissed by the Parliament. Parliament initiated certain political reforms, appointed a transitional Government and is forming a set of anti-crisis measures. On 21 March 2014, Ukraine signed a political association with the European Union.

In March 2014, a referendum held in the Autonomous Republic of Crimea supported seceding from Ukraine and becoming part of the Russian Federation. The Crimean parliament declared independence. While the referendum and declaration of independence have been ruled unconstitutional by the Ukraine Constitutional Court, the President of the Russian Federation and the representatives of Crimea signed an agreement on the accession of Crimea to the Russian Federation, which has been ratified by the Constitutional Court and the Parliament of the Russian Federation. The Crimean authorities declared Crimean Direction of Prydniprovska Railway a separate State Company "Crimean Railways". Crimean Direction contributed 3% to Ukrzaliznytsia's revenues in 2013. Prydniprovska Railway accounts for US$94,190,000 of the Loans to the Borrowers as at the balance sheet date.

Notes to the financial statements

8. LOANS, ACCRUED INTEREST INCOME AND OTHER RECEIVABLES (continued)

Furthermore, from 1 January to 23 June 2014, the Ukrainian Hryvnia devalued against major foreign currencies by approximately 48%, and the National Bank of Ukraine has imposed certain restrictions on purchase of foreign currencies at the inter-bank market. The international rating agencies have downgraded sovereign debt ratings for Ukraine. The combination of the above events has resulted in a deterioration of liquidity and much tighter credit conditions where credit is available.

From April 2014, Pro Russian protests in Eastern Ukraine have escalated into clashes with government forces.

Presidential elections were held in Ukraine on 25 May 2014, although due to instability in Eastern Ukraine, the elections were not held there. A new President was elected. He has sought through various diplomatic and military measures to regain control over the eastern region.

Management is monitoring these developments in the current environment and taking actions where appropriate. Further negative developments, including the political unrest, could adversely affect the Company's results and financial position in a manner not currently determinable.As a result of the above mentioned issues and uncertainties, the Directors believe that there is an increased risk that the Loans may not be fully paid, which will result in Noteholders not being fully paid.

The US$500,000,000 Loans outstanding at 31 December 2013 mature in May 2018 and bear a fixed interest rate of 9.50% per annum. Additional interest is also due at a fixed rate of 0.0031% per annum on the oustanding loan balance which is retained by the company as profit. Accrued interest income pertains to the unreceived interest income for the period 22 November to 31 December 2013 including the additional interest.

* Included within Other debtors are amounts due from shareholders being the unpaid balance of the issued and called up share capital of GBP £12,501.

9. CASH AT BANK

As at 31 December 2013 the Company held US$7,750 with Deutsche Bank AG London.

10. NON-CURRENT AND CURRENT LIABILITIES.

The US$500,000,000 Note outstanding at 31 December 2013 is listed on the Irish Stock Exchange. The Note matures on 21 May 2018 and bears a fixed interest rate of 9.5% per annum.

	As at 31 December 2013	
	Current	**Non-current**
	US $	**US $**
Loan Note	-	500,000,000
Accrued interest payable	5,145,833	-
	5,145,833	500,000,000

An amount equal to the new proceeds of the issue of the Note was used by the Issuer to finance the Loans to the Borrowers on 16 May 2013. The Note issued by the Company is unconditionally and irrevocably guaranteed on a senior and unsecured basis by the Sureties as to the payment of principal, interest and additional amounts, if any. The company will account to the Noteholders solely for the amounts equivalent to those (if any) actually received from the Borrowers pursuant to the Loan Agreements and/or the Sureties pursuant to the Surety Agreement. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Note was rated as B- and B by Fitch Ratings and Standard and Poor's respectively as at May 2013. The rating of the Note by Fitch and S&P as at 12 June 2014 was CCC.

Notes to the financial statements

11. SHARE CAPITAL

	Number of shares	2013 GBP	US $
Authorised share capital			
Ordinary share capital of GBP £1 each	50,000	50,000	76,760

Issued, allotted and called up	Number of shares	2013 GBP	US $
Fully paid up ordinary share capital of GBP £1	1	1	1.50
Partially paid up share capital at GBP £0.25	49,999	12,500	19,190
	50,000	12,501	19,191

The entire issued share capital is held on trust by TMF Trustee Limited.

12. FINANCIAL RISK MANAGEMENT

The Company's financial instruments comprise of Loans to the Borrowers, cash and cash equivalents and the Note.

Credit risk

The Company is subject to the risk of delays in receipt and risk of defaults on payments due from the Borrowers in respect of the Loans. The directors of the Company review information available to them including the latest financial information published by Ukrzaliznytsia and make due enquiries of Ukrzaliznytsia's management regarding the financial performance and position of the Ukrzaliznytsia group companies and the business environment in which it operates in order to assess the credit risk related to the Loans to the Borrowers. Due to the current crisis and instability in Ukraine which has been described in note 8 above, the credit risk of the Loans to the Borrowers has increased significantly.

There is also a negative pledge in place agreed by the Borrowers which restrict the level of security the Borrowers and Ukrzaliznytsia are able to take on over their undertakings, assets and revenue as noted in each Loan Agreement dated 16 May 2013.

The maximum exposure to credit risk arising on the Company's financial assets at the reporting date is disclosed in the table below.

	Carrying value 2013 US$	Maximum exposure 2013 US$
Assets:		
Loans to the Borrowers	500,000,000	500,000,000
Accrued interest receivable	5,147,513	5,147,513
Other debtors	108,260	108,260
Cash at bank and in hand	7,750	7,750
	505,263,523	505,263,523

On 13 February 2014, Fitch downgraded Ukrzaliznytsia ratings from B- to CCC. On 29 April 2014, Standard & Poor's have confirmed its rating of Ukrzaliznytsia as CCC which was downgraded to CCC+ from B- in February 2014. Based on this downgrading due to the post year end political crisis in Ukraine, the credit risk of the asset balances have increased significantly. However, it should be noted that the repayments due post year end from the Borrowers were received in full on the due dates.

Notes to the financial statements

12. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Company may be unable to meet the payment obligations associated with its financial liabilities when they fall due. The Note is a limited recourse debt obligation. The Company's ability to meet its obligations to the Noteholders as they fall due is directly linked to the Borrowers performance of their obligations under the Loans. All expenses are covered by Ukrzaliznytsia and the Borrowers as specified in the Fees Letter. The Note issued by the Company is guaranteed by the Ukrzaliznytsia as per the Surety Agreement signed on 16 May 2013.

Because the payment and receipt of interest on notes and loans respectively, are matched and the expenses are reimbursed by the borrower, there is limited liquidity risk.

The table below reflects the undiscounted cash flows of financial liabilities at the balance sheet date.

	Gross contractual cashflow US $	1 to 3 months US $	3 months to 1 year US $	1-5 years US $	Over 5 years US $
Interest payable	213,750,000	-	47,500,000	166,250,000	-
Loan Note principal	500,000,000	-	-	500,000,000	-
	713,750,000	-	47,500,000	666,250,000	-

Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. The Company's exposure to interest rate risk is limited as the interest rate characteristics of its assets and liabilities are similar as noted in note 8 and 10 above.

Currency risk

All the Company's assets and liabilities are denominated in US dollars except for share capital which is GBP £12,501 translated at the date of issue at US$19,191 and minor administrative expenses. The Company's foreign exchange risk is currently limited to this amount and is not seen as a significant risk.

Capital risk management

The Company considers its capital to comprise its ordinary share capital and its accumulated retained earnings. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern. The Company is not subject to any external capital requirements except for the minimum requirement under the Companies Act 2006 which is £50,000. The Company has not breached the minimum requirement.

Fair values

The carrying amounts shown on the statement of financial position are considered a reasonable approximation of the fair value of all the Company's financial instruments excluding the following:

	As at 31 December 2013 Carrying US $	Fair Value US $
Loans to the Borrowers	500,000,000	455,000,000
Note	500,000,000	455,000,000

The fair value of the Note is based on market prices as at the year end which showed a bid price of 91% of face value. The fair value of the Loans to the Borrowers are considered to be the same as the fair value of the Note. The terms of the Loan and Note agreements match in all material respects.

Notes to the financial statements

12. FINANCIAL RISK MANAGEMENT (continued)

Estimation of fair values

The fair value of the Note is based on market prices as at the year end which showed a bid price of 91% of face value. The fair value of the Loans to the Borrowers are considered to be the same as the fair value of the Note. The terms of the Loan and Note agreements match in all material respects. Under IFRS 13, Loans to the Borrowers are considered Level 2 as explained below.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Under IFRS 13 the fair value of the Note is considered to be Level 1.

No fair values have been disclosed for current assets and liabilities because their carrying amount approximates to fair value due to their short-term maturities.

13. RELATED PARTY TRANSACTIONS

The fees payable to the Company's directors for their services for the period ended on 31 December 2013 were US$nil. However, Praxis Mgt Limited, Joint Corporate Services Limited and Mr Michael Adams are subsidiaries or employees of TMF Management (UK) Limited, which provides corporate services to the Company. Invoices issued by TMF Management (UK) Limited are paid for by Ukrzaliznytsia, in accordance with the Offering Circular.

For the period to 31 December 2013, fees of US$20,968 were accrued in relation to TMF Management UK Ltd in respect of corporate services provided to the Company, including provision of directors. At year-end fees of US$20,968 remained payable.

At year end Loans amounting to US$500,000,000 and accrued interest on the Loans of US$5,147,513 is due from the Borrowers, entities under the management of the ultimate controlling party, Ukrzaliznystia.

Interest income of US$28,905,263, Loans to the Borrowers of US$500,000,000, Interest receivable of US$5,145,833 as well as all operating expenses are due from or paid by the Borrowers, subsidiary companies of Ukrzaliznytsia.

14. ULTIMATE CONTROLLING PARTY

Shortline Plc is incorporated and registered in the United Kingdom.

The entire share capital of the Company is held by TMF Trustee Limited on a discretionary trust basis for the benefit of certain charities.

Although Ukrzaliznytsia has no direct ownership interest in the Company, it is considered to benefit from the risk and rewards of its activities in the Loans to the Borrowers and Loan Note issued. The results of the Company are therefore included in the consolidated financial statements of Ukrzaliznytsia. This is the smallest group in which the Company's results are consolidated. Ukrzaliznytsia is registered in the Ukraine and copies of the consolidated financial statements may be obtained from the company's registered address which is at 5 Tverska Street, Kyiv, 03680, Ukraine or via their website: http://www.uz.gov.ua.

Notes to the financial statements

15. SUBSEQUENT EVENTS

The Company has provided loans to Ukrzaliznytsia and its group of companies which are Ukrainian state owned entities. In March 2014, Russian Federation annexed Autonomous Republic of Crimea which is part of Ukraine and the Crimean Direction of Prydniprovska Railway was declared a separate State Company "Crimean Railways" as detailed in note 8 above. The nature and timing of possible changes in the integrated operations of Crimean Direction within the Ukrzaliznytsia Group is currently not predictable.

On 13 February 2014, Fitch downgraded Ukrzaliznytsia ratings from B- to CCC. On 29 April 2014, Standard & Poor's have confirmed its rating of Ukrzaliznytsia as CCC which was downgraded to CCC+ from B- in February 2014. In line with this the Company's Note was also downgraded from B- to CCC. Interest payments from the Borrowers were made on time on 20 May 2014, in line with the underlying agreements.

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