

OLVIA AND KHERSON CONCESSION PROJECTS



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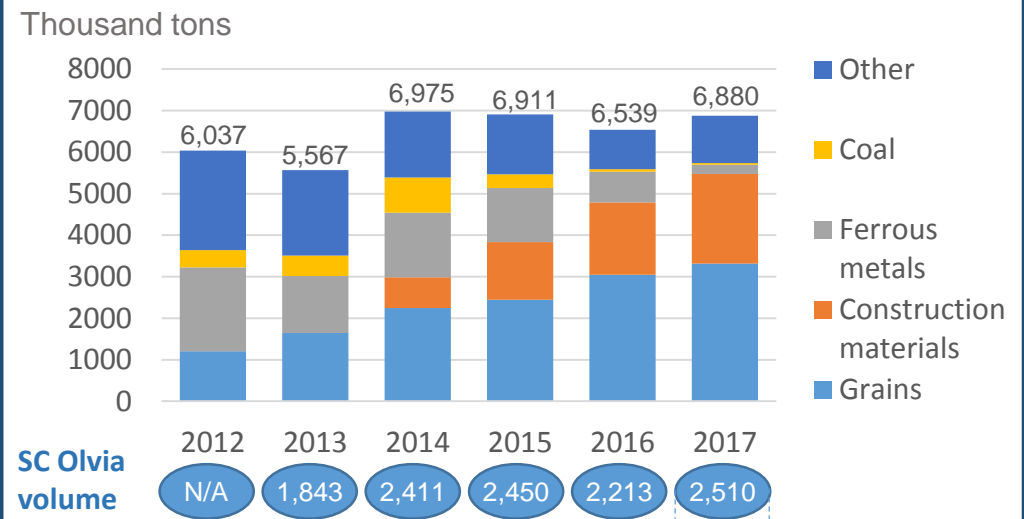
Scope of concession covers only State Enterprise “Stevedoring Company Olvia (SC Olvia)”

Schematic overview of SC Olvia

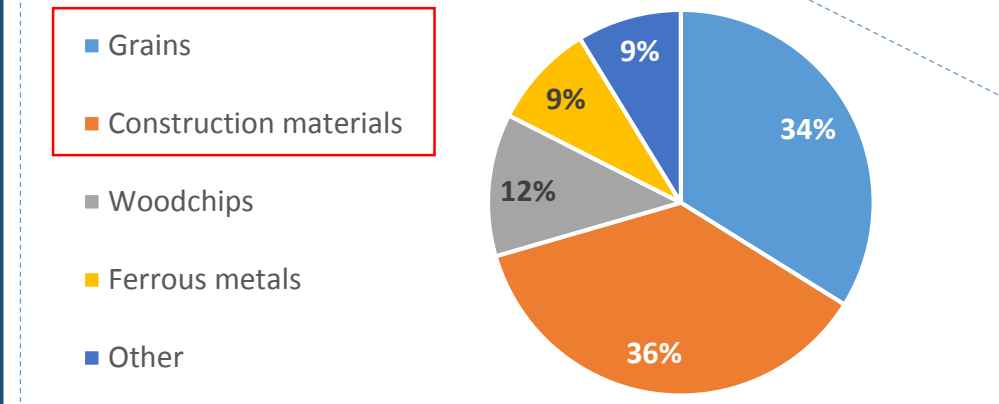


SC Olvia is a profitable business, mostly handling grains and construction materials

Port Olvia cargo volumes



SC Olvia volume: N/A, 1,843, 2,411, 2,450, 2,213, 2,510
 SC Olvia share: N/A, 33%, 35%, 35%, 34%, 36%



Key financial indicators

In UAH mln	2015	2016	2017
Revenues	434	396	380
EBITDA	253	192	159
EBITDA margin	58%	48%	42%
Net Profit	187	133	102
Total Assets	517	542	501
Total Liabilities	50	52	58
Total Equity	467	490	443

- Over the last years, SC Olvia has been constrained in its ability to invest in existing and new assets mainly due to strict dividend requirements for state enterprises (75% of net income) and limited access to long-term capital
- Due to public sector regulations, SC Olvia is also limited in its ability to react to changes in competitive environment
- As a result, profitability of the port has been declining, though it is still at a reasonable level

Key infrastructure (SC Olvia + USPA)

- 57 buildings and structures (2 general cargo warehouses)
 - 20 open storage facilities 22 gantry cranes Utilities
 - More than 100 units of loading machinery 3 tugs
 - Automobile and rail road lines within port's territory
 - 27 units of transport Power supply substations **7 berths**
- | | |
|-------------------------------|-----------------------------------|
| Built in: 1965 - 1989 | Suitable vessel parameters |
| Depth: 9.75 - 11.5 m | Length: up to 250 m |
| Length: 180 - 285 m | Width: up to 40 m |
| Berthing line: 1,530 m | Deadweight: 80 000 tons |

Number of employees (2018)

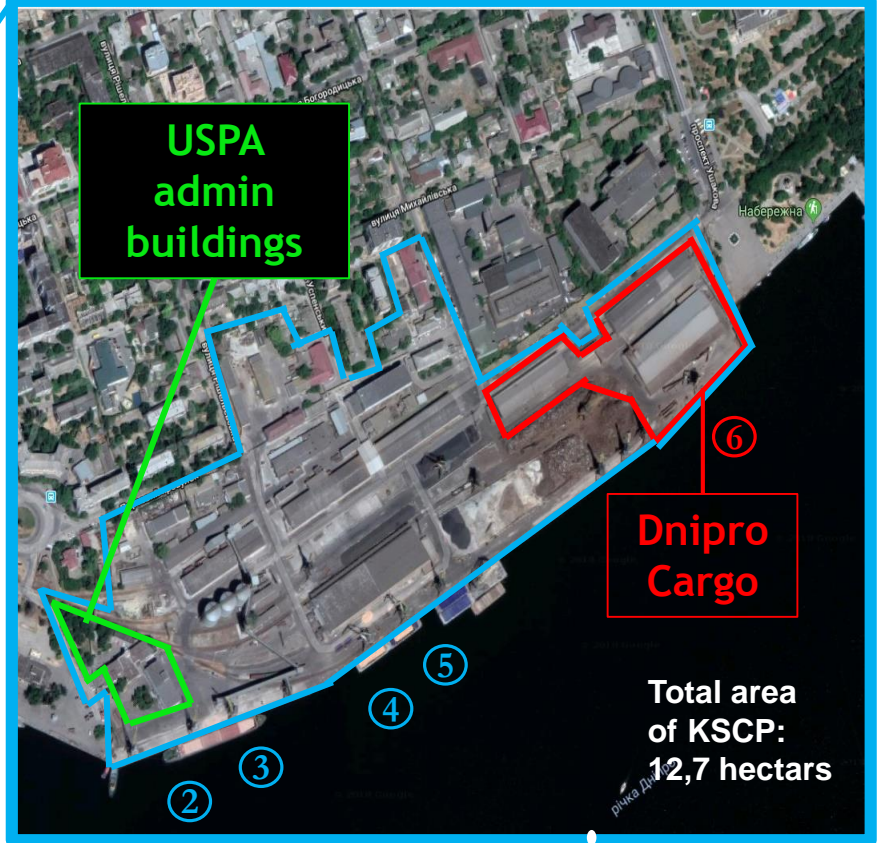
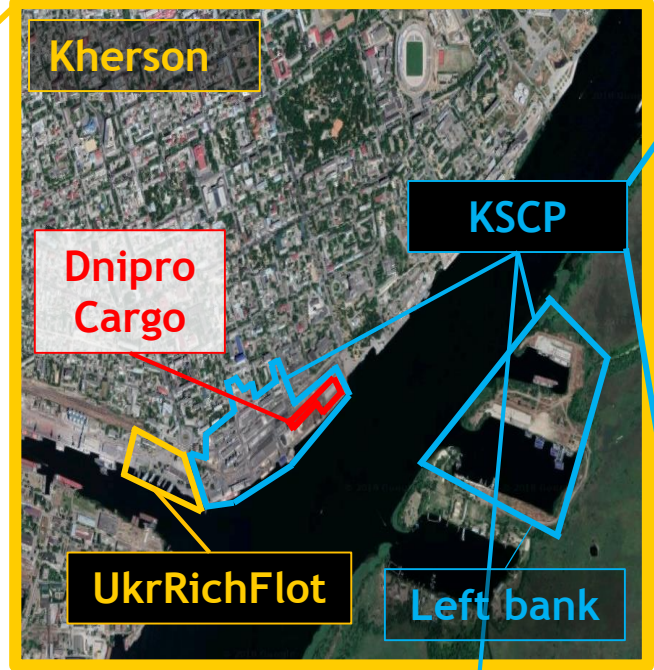
637

Front office	49%
Back office	51%
Labor union	<input checked="" type="checkbox"/>
Collective agreement	<input checked="" type="checkbox"/>

Source: Market analysis, company information, unaudited financial statements

Scope of concession: Kherson Sea Commercial Port (KSCP)

Schematic overview of KSCP



Left Bank

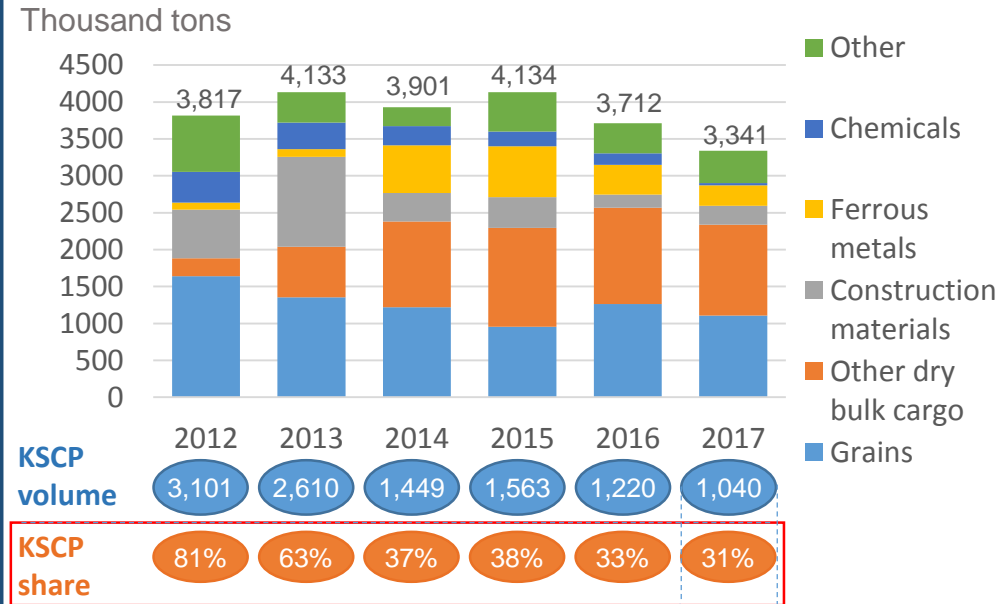
Rybalche Sand pit

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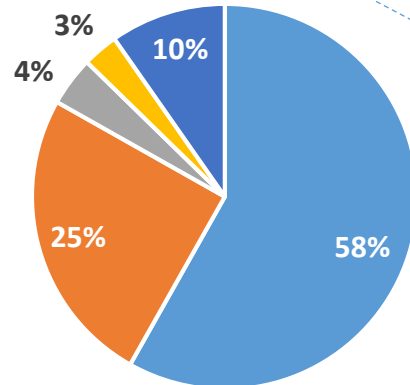
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Declining cargo volumes at Kherson Port coupled with declining market share of KSCP within the port drove down KSCP's profitability

Kherson Port¹ cargo volumes



- Grains and grain by-products
- Construction materials
- Scrap metals
- Fertilizers
- Other



Key financial indicators


In UAH mln	2015	2016	2017
Revenues	218	203	170
EBITDA	53	28	7
EBITDA margin	24%	14%	4%
Net Profit	44	16	(6)
Total Assets	284	274	258
Total Liabilities	32	22	18
Total Equity	252	252	240

- KSCP is subject to regulatory constraints limiting investments and reaction to changes in competitive environment
- As a result, KSCP has been losing its share within Kherson Port; coupled with Kherson Port's overall loss of cargo volume, KSCP's profitability has been declining
- However, if modernized and if its cost structure is optimized, the Port will regain its competitive position and profitability

Key infrastructure (KSCP + USPA)

54 buildings/structures (6 general cargo warehouses)
13 gantry cranes 6 crane vessels 27 port vessels
More than 90 handling equipment items
Intra-port roads and railroads 11 open-air storage yards
Other utilities infrastructure (water, power, heat) 5 berths
Built in: 1963 - 1965 Scope of activities related to the rehabilitation of berths needs to be determined as well as estimate of relevant capital expenditures
Depth: 6.9 - 8.2 m
Berthing line: 600.9 m

Number of employees (2018)

	644
Front office	55%
Back office	45%
Labor union	<input checked="" type="checkbox"/>
Collective agreement	<input checked="" type="checkbox"/>

¹ Kherson port consists of several operators, including KSCP

Source: Market analysis, company information, unaudited financial statements

The existing regulatory environment provides sufficient flexibility to implement concession projects based on best international practice

		Notes
Compliance with characteristics of PPP in accordance with Ukrainian legislation	✓	<ul style="list-style-type: none"> Contemplated projects meet PPP characteristics <ul style="list-style-type: none"> Provision of rights regarding the PPP object (management, operation, reconstruction, etc.) and assumption of investment obligations Long-term relations Transfer of risks to private partner
Optimal form of PPP	Concession	
Conformity of the concession object to the requirements of Ukrainian legislation	✓	<ul style="list-style-type: none"> Adoption of the Draft Law on Concessions can eliminate / resolve a number of issues associated with implementation of concession projects
Limitations under existing contracts, which make concession impossible	✗	<ul style="list-style-type: none"> The list of assets to be transferred to the project concession will be approved by the MIU The land on which concession facilities are located will be leased to the concessionaire
Limitations related to obtaining permits, which make concession impossible	✗	
Limitations related to insurance, which make concession impossible	✗	<ul style="list-style-type: none"> Existing concession legislation establishes a list of essential requirements for concession contracts (from concession payment requirements to the terms of handover / return of the concession object) A concession contract must sufficiently detail and clearly regulate the obligations of each party and establish liability for breach of obligations.
Limitations related to legal liability, which make concession impossible	✗	

- From the legal point of view a concession based on best international practice is possible even under the existing concession legislation
- However, adoption of the new law on concessions currently being considered will simplify a number of issues related to project implementation

Existing assets provide solid basis for ongoing operations but some modest additional investments will be required

Existing assets

SC Olvia port complex



Condition of assets

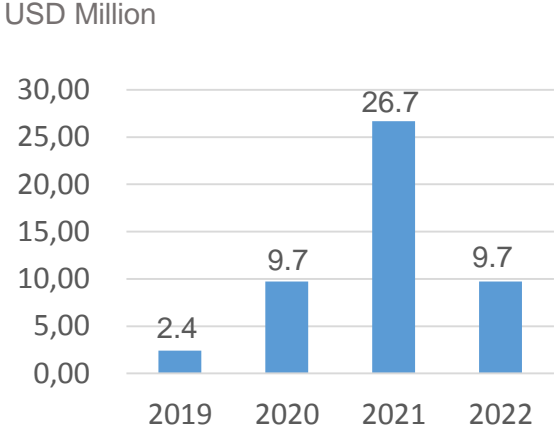
- Technical analysis shows that the assets of SC Olvia port complex are **mostly in good condition**, but with time the need for replacement and major repairs will increase.
- Technical analysis confirms that the main water and energy supply networks as well as railways have sufficient capacity to ensure implementation of investment obligations imposed on the concessionaire

Investment requirements

Description

- New grain terminal in the port with throughput capacity of 2 mln tons per year will provide the necessary grain handling capacity until 2030.
- Total investment estimate: **USD 49 million** (without VAT)

Investment timeline



KSCP port complex



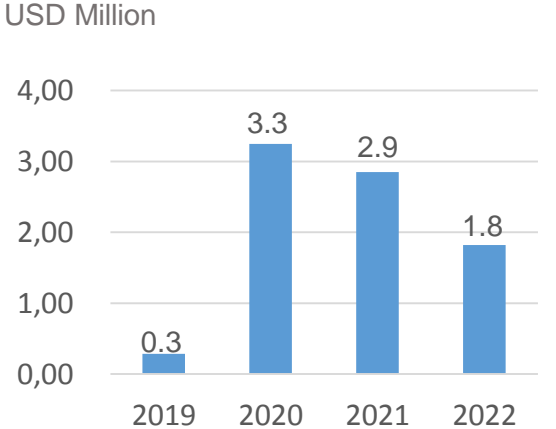
Condition of assets

- Design capacity of the KSCP port complex is 4 million tons of cargo per year
- While the core assets of the port are **physically obsolete**, they remain useful for core operations
- The Port area is built up; for this reason, new facilities can be built mainly on the sites of open-air yards. An increase in the Port's throughput can be achieved mainly by automating and mechanizing its processes

Description

- Rehabilitation / partial replacement of the existing intra-site utility networks
- Upgrading of storage capacity (e.g., warehouses No. 5 and 6)
- Improvement of road infrastructure
- Engineering and environmental surveys
- Total investment estimate: **USD 8 million** (without VAT)


Investment timeline



With natural outflow of personal, incentives for retirement and increase of cargo volumes, acceptable staff levels may be reached without forced layoffs

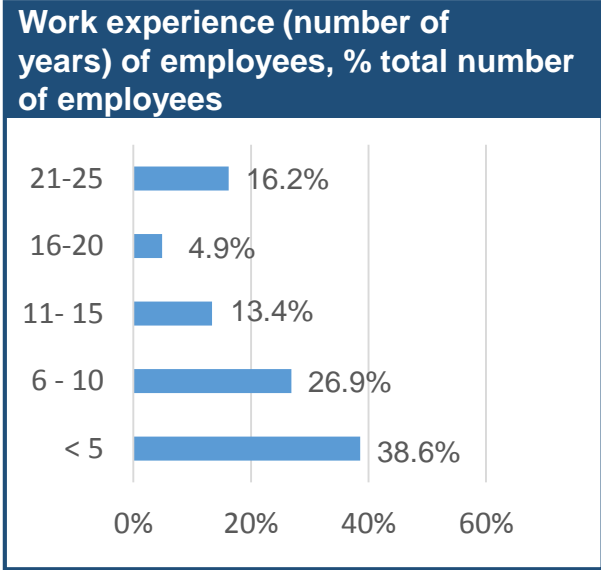
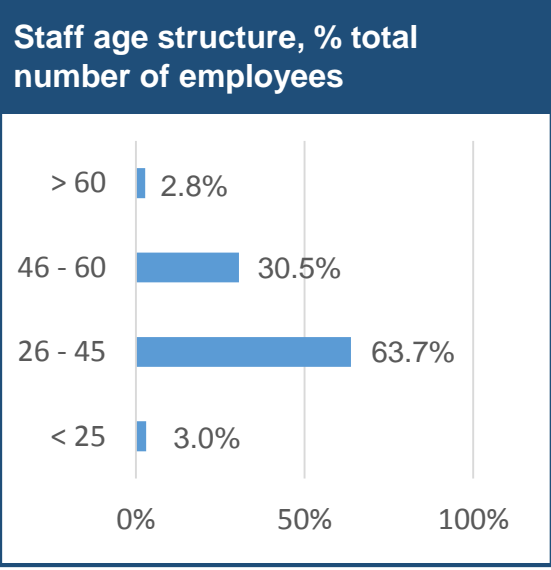
SC
Olvia

Number of employees (2018)




637

77 of retirement age



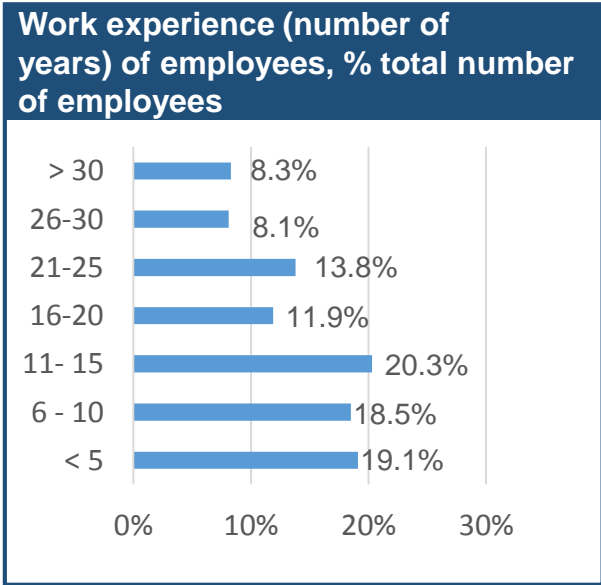
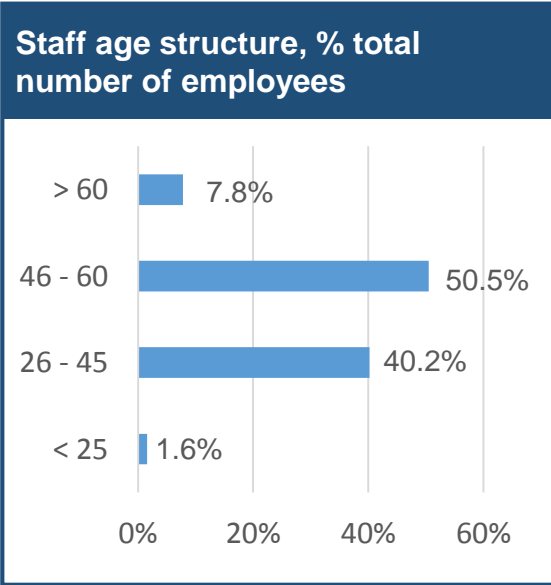
KSCP

Number of employees (2018)



644

114 of retirement age



- Both Olvia and KSCP are less effective in terms of cargo turnover and staffing in comparison with private Ukrainian and international seaports
- However, due to the natural outflow of personnel and incentives for retirement, the ports may be able to reach acceptable staffing levels without forced layoffs
- In addition, with the increase of cargo volumes the need for staff will also increase

Based on the discussions with labor unions, the following terms are proposed to be included in the concession agreement

- **No forced layoffs** for five years
- **No reduction of salaries** and keeping salary indexation for three years
- **No changes to Collective labor agreement** (except for improvements of the agreement that are approved by the labor unions) for five years

Outline of proposed concession projects

		Olvia	Kherson
Concession term		<ul style="list-style-type: none"> 35 years (2019-2053) 	<ul style="list-style-type: none"> 30 years (2019-2049)
Concession object		<ul style="list-style-type: none"> All SC Olvia assets and USPA assets on the territory of the port, except (i) special warehouse complex, (ii) Berth #1 and coastal fortifications, (iii) selected USPA assets 	<ul style="list-style-type: none"> KSCP assets, except : i) Left bank, (ii) non-core assets, (iii) assets used by DniproCargo USPA assets: berths, intra-port transport and energy infrastructure, except for railroad line N19
Concession payment	Fixed	<ul style="list-style-type: none"> Average sum of dividends for 2015-2017 paid by SC Olvia to state budget¹ (UAH 78.8 mln or USD 3 mln) 	<ul style="list-style-type: none"> Average sum of dividends for 2015-2017 paid by KSCP to state budget¹ (UAH 8.4 mln or USD 300 thousand)
	Variable	<ul style="list-style-type: none"> At least 0.73% of concessionaire's revenue Actual level of variable payments will be determined based on the results of the tender 	<ul style="list-style-type: none"> At least 0.73% of concessionaire's revenue Actual level of variable payments will be determined based on the results of the tender
Investment requirements		<ul style="list-style-type: none"> New grain terminal (2 mln ton/year capacity) 5% of capital investments to be paid as contribution for development of local infrastructure 	<ul style="list-style-type: none"> Investment in existing infrastructure (rehabilitation / partial replacement of existing intra-site utility networks) Upgrading of storage capacity (e.g., warehouses No. 5 and 6) Investment in the road infrastructure Engineering and environmental surveys 5% of capital investments to be paid as contribution for development of local infrastructure
Employment requirements		<ul style="list-style-type: none"> Accept Collective Agreement No forced layoffs for 5 years 	<ul style="list-style-type: none"> Accept Collective Agreement No forced layoffs for 5 years
Other		<ul style="list-style-type: none"> Terms ensuring operational independence of the concessionaire Requirements to comply with all environmental and social obligations Incentives for concessionaire to develop value-adding processing facilities on the territory of the port 	<ul style="list-style-type: none"> Terms ensuring operational independence of the concessionaire Requirements to comply with all environmental and social obligations Incentives for concessionaire to develop value-adding processing facilities on the territory of the port

¹ Indexed to inflation annually

Key features of the concession projects

Key benefits of the proposed concession projects	
Operational independence	<ul style="list-style-type: none"> Ensuring reasonable operational independence, Transfer of berths and intra-port transportation, energy, water infrastructure
No large upfront investment requirement	<ul style="list-style-type: none"> No large upfront investment requirement, while the concessionaire receives an existing business that will generate positive cash flows from day one
USPA part of the agreement	<ul style="list-style-type: none"> USPA will be part of concession agreement and will have contractual obligations
Space for expansion	<ul style="list-style-type: none"> Northern territory of SC Olvia <ul style="list-style-type: none"> Use it or lose it
International arbitration	<ul style="list-style-type: none"> Ability to resolve disputes through international arbitration
Independent engineers	<ul style="list-style-type: none"> A reputable engineering firm will monitor compliance with quality standards and take part in resolving disputes
Change in law	<ul style="list-style-type: none"> Protection for certain types of changes in the legislation
Protection from political risk	<ul style="list-style-type: none"> Protection from changes in the government and other political risks

Key responsibilities of the concessionaire	
Market risk	<ul style="list-style-type: none"> Concessionaire bears the risk that cargo volumes and handling rates may go down
Cost overrun risk	<ul style="list-style-type: none"> Private partner bears the risk that CAPEX and OPEX may exceed planned levels
Maintenance and operational requirements	<ul style="list-style-type: none"> Concessionaire has to comply with maintenance and operational requirements set by the concession agreement
Investment requirements	<ul style="list-style-type: none"> Concessionaire has to make the investment requirements outlined in the concession agreement In addition, the concessionaire has to maintain and handover the assets at the end of concession in good condition
Employment requirement	<ul style="list-style-type: none"> Concessionaire has to accept the terms of labor unions and accept the Collective agreement and avoid forced layoffs for 5 years
FX risk	<ul style="list-style-type: none"> FX risk stays with the private partner
Concession fee	<ul style="list-style-type: none"> Concession fee obligation

Preliminary tender process and timeline

