

Investment Opportunity Summary

Privatization of Electricity Distribution Companies

May 2016

Strictly confidential



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Privatization Process

The Government of Ukraine (GOU) approved privatization of **6 electricity distribution companies**

An **investor conference will be held in Kyiv, Ukraine, June 30, 2016** for interested investors

Bidder outreach, privatization preparation, and sale **will be open, competitive, and transparent**

GOU plans to commence the **sales process beginning September 2016**

Privatization through public auction

Deloitte Consulting is advising on these transactions with support from USAID, EBRD, and other international partners

Electricity Market Reform

Electricity distribution companies currently purchase electricity through a single market wholesaler on a day-ahead schedule and sell that electricity to end users at tariffs set by the national regulator (NEURC).

In addition to privatization, the Government of Ukraine is already implementing other reforms to improve and modernize the electricity market as described below:



European Integration

- The Parliament of Ukraine is finalizing a **new electricity law consistent with EU's third package energy legislation**
- The law will include migration to direct sales between electricity suppliers and commercial customers, which **will reduce risk and secure revenue**



Tariff Reforms

- NEURC has **committed to raise tariffs** through 2017 towards cost-reflective levels
- The regulator has approved a **new Regulatory Asset Base (RAB) incentive tariff structure** that provides for an attractive ROI for new investments on regulatory assets



Improvement Opportunities

- **Under-invested CAPEX provides opportunities to make new investments** at guaranteed rates of return upon acceptance into RAB Tariff scheme
- **Opportunities to further improve financial position** through reduction of aggregate technical and commercial (AT&C) losses will also strengthen cash flow and profitability

UKRAINE



33,014 km of lines, 7,554 total substation, 20.6 sq. km service territory



568,000 total customers, 3,600 employees



UAH 1,551M (\$65M, €59M) total assets, only UAH 312M (\$13M, €12M) total liabilities as of Dec 2015*



UAH 1,420M (\$65M, €59M) annual revenue, 10.9% EBITDA margin in 2015*

*According to statutory accounts

Khmelnytskoblenergo is an electricity distribution company with the exclusive license to supply customers in the Khmelnytsky region in western Ukraine. The State Property Fund of Ukraine (SPFU) is preparing to sell its entire 70% majority stake through a competitive, transparent public auction.

Khmelnytskoblenergo Investment Highlights

Strategic Geographical Location

- Western Ukraine is **poised to benefit from greater EU commercial integration**. European-oriented manufacturing is stabilizing the economic situation and GDP losses in the region
- Khmelnytskoblenergo holds the **exclusive supply license for this region**

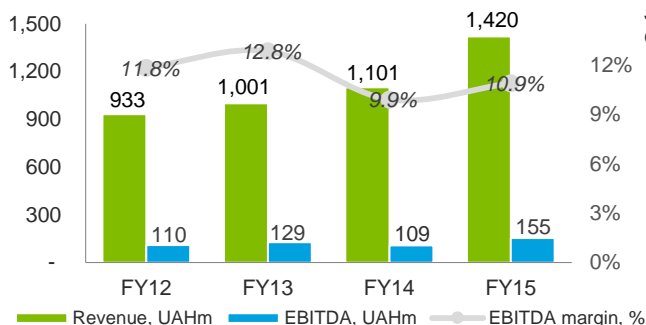
Operational Excellence and High Quality Standards

- Modern central call center and efficient network** of service centers in all districts of the region
- Experienced management** and strong technical performance history
- Quality management system** introduced in accordance with the requirements of ISO 9001-2000

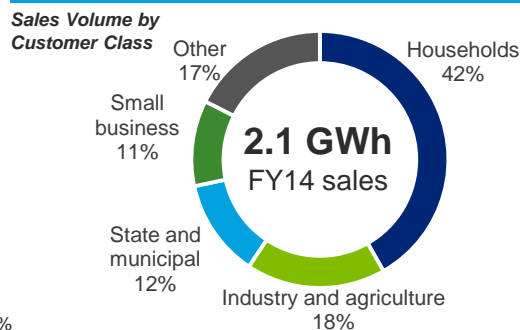
Strong Financial Performance

- Zero long-term debt and low liabilities**
- Highest historical EBITDA margins** of any state-owned distribution company (historically 11%) and cash collection rates (near 100% in 2015)

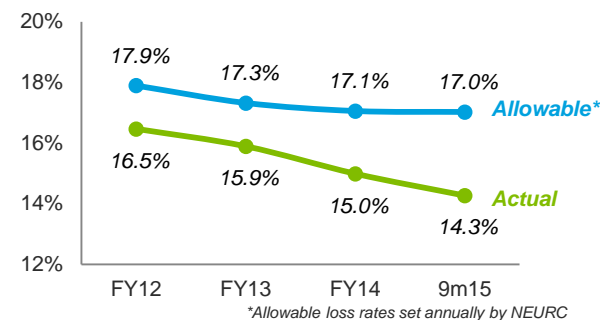
Stable, Profitable Financial Results



Diversified Customer Base



Shrinking AT&C Electricity Losses



UKRAINE



24,098 km of lines, 218 total substations, 13.8k sq. km service territory



420,000 total customers, 2,200 employees



UAH 766M (\$32M, €29M) total assets, only UAH 189M (\$8M, €7M) total liabilities as of Dec 2015*



UAH 1,015M (\$47M, €42M) annual revenue, 8.6% EBITDA margin in 2015*

*According to statutory accounts

Ternopiloblenergo is an electricity distribution company with the exclusive license to supply customers in the Ternopil region of western Ukraine. The State Property Fund of Ukraine (SPFU) is preparing to sell its entire 51% majority stake through a competitive, transparent public auction.

Ternopiloblenergo Investment Highlights

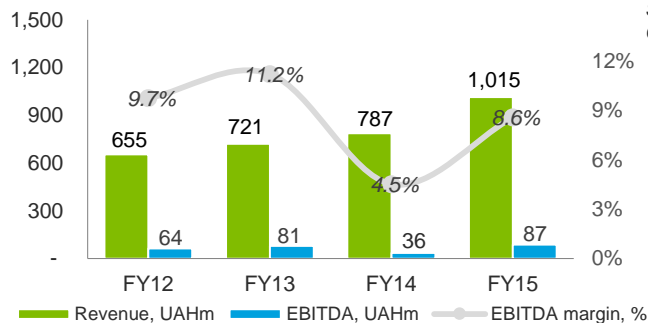
Expected Growth in Core Customer Class

- Ternopil region is **experiencing positive population growth, including 3.8% CAGR from 2012-2014, increasing potential future household electricity sales.**
- Western Ukraine is poised to **benefit from EU commercial integration.** European-oriented manufacturing is stabilizing the economic situation, promoting growth.
- **Historically strong cash collections** among residential customers (near 100% 2012-2015)

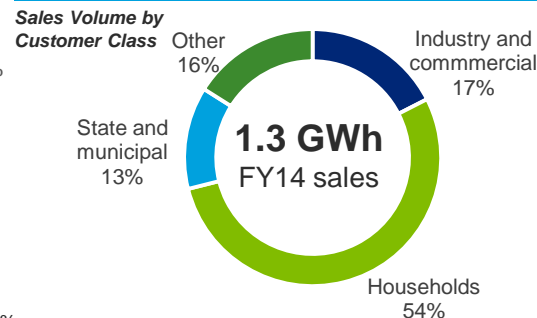
Strong Balance Sheet and Operations Management

- Company **executed 100% of planned investment program** annually from 2012-2015
- Attractive historical EBITDA margins
- **Zero long-term debt and minimal long-term liabilities**

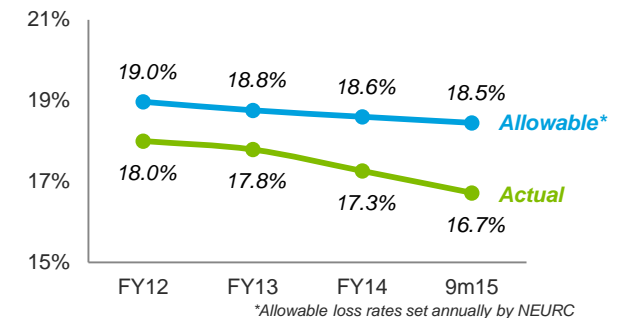
Stable, Profitable Financial Results



Residentially-Oriented Customer Base



Shrinking AT&C Electricity Losses



UKRAINE



26,128 km of lines, 5,941 total substations, 24.6k sq. km service territory



0.5M total customers, 3,555 employees



UAH 1,022M (\$43M, €39M) total assets, UAH 697M (\$29M, €27M) total liabilities as of Dec 2015*



UAH 2,149 M (\$99 M, €89) revenue for 2015, 8.1% EBITDA margin*

*According to statutory accounts

Mykolaivoblenergo is an electricity distribution company with the exclusive license to supply customers in the Mykolaiv region in southern Ukraine. The State Property Fund of Ukraine (SPFU) is preparing to sell its entire 70% majority stake through a competitive, transparent public auction.

Mykolaivoblenergo Investment Highlights

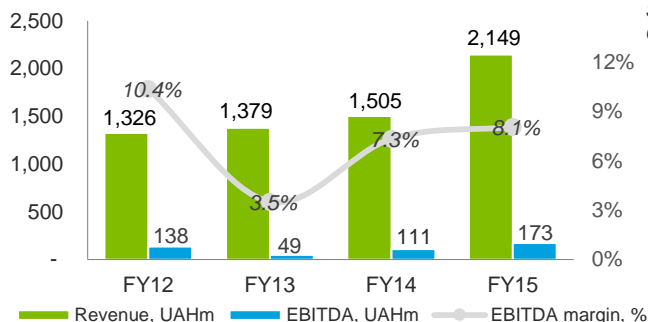
Regional Industrial Sector Growth

- Economist Construction Index predicts strong economic performance in Mykolaiv
- **Recent acquisition of a large industrial customer from independent supplier** in May 2015 demonstrates strength of positioning with larger industrial customers
- **80% of commercial customers are on payment plans**, the majority pre-pay, the rest pay 3x monthly

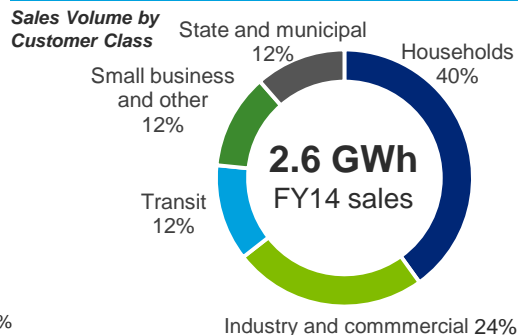
Track Record of Residential Customer Service

- **Efficient cash collection among residential customers to 99%**
- Modern **call center and service centers** in place
- **Experienced management** and strong technical performance history
- Steadily **improving aggregate technical and commercial losses** since 2012

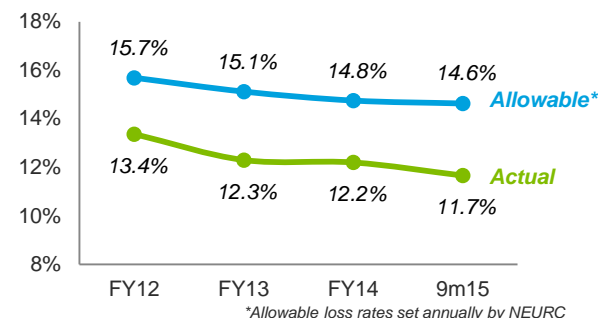
Stable, Profitable Financial Results



Diversified Customer Base



Shrinking AT&C Electricity Losses



UKRAINE



Kharkivoblenergo is an electricity distribution company with the exclusive license to supply customers in the Kharkiv region of eastern Ukraine. The State Property Fund of Ukraine (SPFU) is preparing to sell its entire 65% majority stake through a competitive, transparent public auction.

Kharkivoblenergo Investment Highlights

Strategically Important Region Poised for Economic Recovery

- The city of **Kharkiv is the second-largest** in Ukraine **by population**. Kharkivoblenergo is one of the **largest distribution companies in Ukraine** (by territory, total customers, and total assets)
- Kharkiv region is historically **an industrial-oriented region**: engineering, metallurgy, manufacturing, production of chemicals etc. with a high growth potential

Strong Balance Sheet and Operations Management

- Steadily **decreased aggregate technical and commercial losses** since 2012
- **Zero interest-bearing debt** and low liabilities
- **Attractive EBITDA margins** and cash collection rates (near 95%)
- Distribution and supply functions functionally separated already in anticipation of market reforms



48,267 km of lines, 11,402 total substations, 32k sq. km service territory



1.5M total customers, 6,731 employees



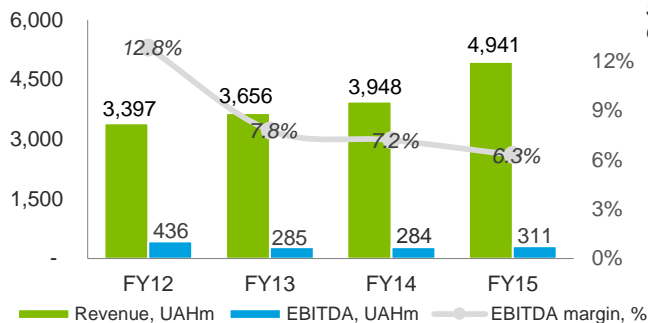
UAH 3,344M (\$139M, €127M) total assets, only 709M UAH (\$30 M, €27M) total liabilities as of Dec 2015*



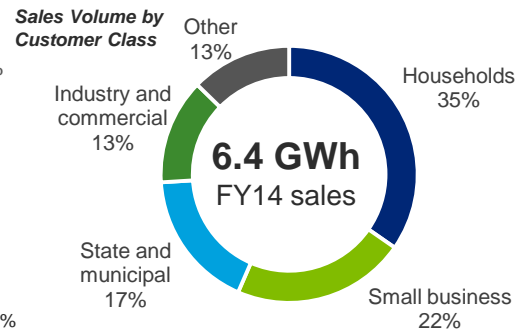
UAH 4,941M (\$226M, €204M) annual revenue, 6.3% EBITDA margin in 2015*

*According to statutory accounts

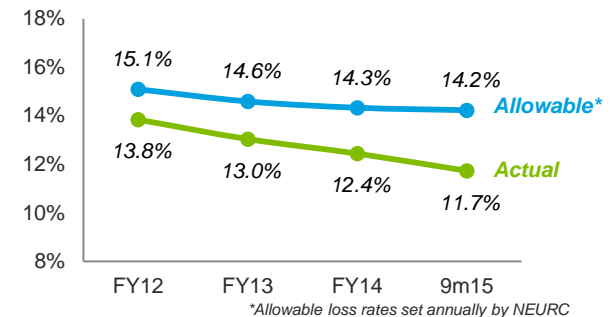
Stable, Profitable Financial Results



Diversified Customer Base



Shrinking AT&C Electricity Losses



UKRAINE



31,892 km of lines, 9,159 total substations, 20.9k sq. km service territory



0.6M total customers, 3,876 employees



UAH 833M (\$35M, €32M) total assets, only UAH 549M (\$23M, €21M) total liabilities as of Dec 2015*



UAH 2,350M (\$108M, €97M) revenue for 2015, 3.1% EBITDA margin*

*According to statutory accounts

Cherkasyoblenergo is an electricity distribution company with the exclusive license to supply customers in the Cherkasy region in central Ukraine. The State Property Fund of Ukraine (SPFU) is preparing its majority 71% stake through a competitive, transparent public auction. This stake consists of two allotments, 46% of shares are held directly by the SPFU and the remaining 25% is held by Ukresco, an enterprise fully owned by the SPFU.

Cherkasyoblenergo Investment Highlights

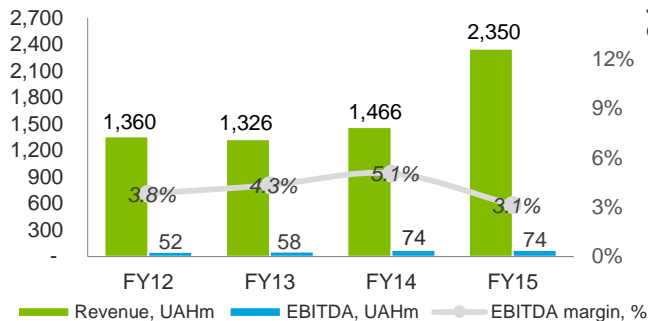
Industrial Customers Poised for Growth

- **Largest regional industrial customer** – the nitrogen plant – switched from purchasing electricity from an independent supplier to full supply via Cherkasyoblenergo. Potential growth in industrial customer volume along with the macroeconomic recovery
- Cherkasyoblenergo has been **actively implementing the remote automatic system for commercial accounting** for energy consumption (ASCUE) integrated with the billing system
- **Cash collection rates are above 90%** despite the financial difficulties of some of the commercial customers

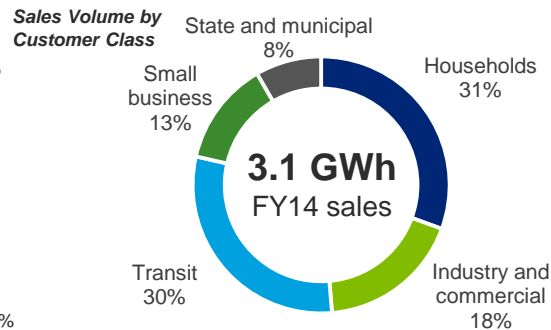
Stable Financial Performance

- **Zero interest-bearing debt**
- **Positive historical EBITDA margins**
- **Low and steady aggregate technical and commercial losses for 3 years (12%)**

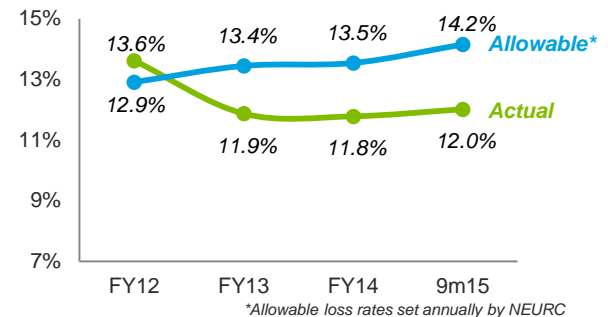
Stable, Profitable Financial Results



Diversified Customer Base



Shrinking AT&C Electricity Losses



UKRAINE



39,661 km of lines, 8500 total substations, 27.2k sq. km service territory



780,000 total customers, 5,700 employees



UAH 2,367M (\$99M, €90M) total assets, UAH 1,974M (\$82M, €75M) total liabilities as of Dec 2015*



UAH 8,260M (\$379M, €341M) annual revenue, 2.8% EBITDA margin in 2015*

*According to statutory accounts

Zaporizhyaoblenergo is an electricity distribution company with the exclusive license to supply customers in the Zaporizhya region of southern Ukraine. The State Property Fund of Ukraine (SPFU) is preparing to sell its entire 60.3% majority stake through a competitive, transparent public auction.

Zaporizhyaoblenergo Investment Highlights

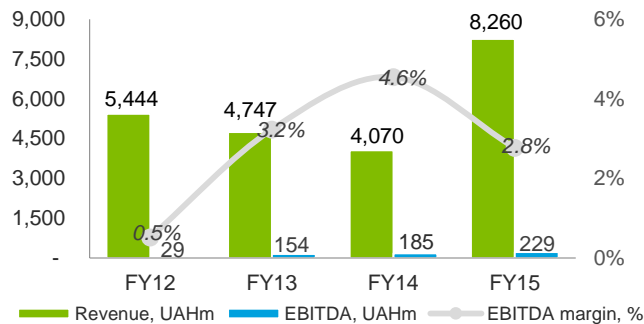
Industrial Customers Poised for Growth

- Zaporizhyaoblenergo is the 3rd largest distribution company in Ukraine, operating in one of the most industrialized regions of Ukraine, **poised for growth with future economic recovery**
- Recent acquisition of 2 large industrial customers from independent supplier** during 2015 demonstrates strength of positioning with larger industrial customers
- Potential for strong cash flow and profits upon improvement of billings and collections efficiency

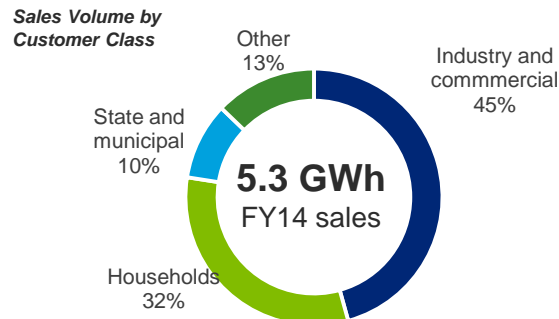
Operational Effectiveness

- Ranked 5th best of distribution energy companies for performance by NEURC
- Steadily **decreased aggregate technical and commercial losses** since 2012

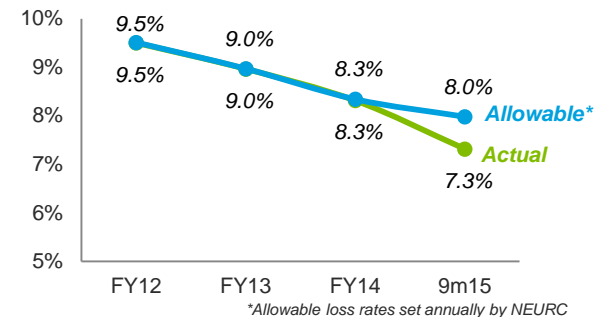
Growing Revenue



Diversified Customer Base



Shrinking AT&C Electricity Losses



Disclaimer and Contact Details

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All communications or inquiries relating to this opportunity should be directed to the persons listed below:

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**STATE PROPERTY
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Ukraine Energy Conference

**Thursday
30 June 2016**

Kyiv, Ukraine

The Parliament of Ukraine authorized the privatization of electricity generation, distribution, and CHP enterprises through transparent, competitive auctions.

These auctions offer unique opportunities for investment in profitable, regulated energy companies.

We invite you to Kyiv on 30 June 2016 to discuss privatization and reform of the Ukrainian electricity sector.

The Program

Ukraine is undergoing a fundamental transformation of its energy industry. Market-oriented laws and regulations have been recently approved and more are expected to be adopted in the near future, providing compelling privatization and partnership opportunities for private investors in Ukraine's electricity sector.

During September-December 2016, the Government of Ukraine will sell its majority stakes in:

- ***6 electricity distribution companies,***
- ***1 large coal-fired generation enterprise, and***
- ***4 combined heat and power facilities.***

Interested investors, both strategic and financial, should look forward to discussions with management and current owners of the companies to be privatized, as well as representation from all of the key actors in governance, regulation, and finance.

We look forward to meeting you on 30 June, 2016

Important Details

Location	Intercontinental Kyiv Velyka Zhytomyrska St, 2A Kyiv, Ukraine 01001 Phone: +380 44 219 1919
Meeting Start	Thursday, June 30 at 09:00
Meeting End	Thursday, June 30 at 17:00
Attire	Business Professional
Working Language	English, with translation available
Airport	Kyiv Boryspil Airport (KBP); approximately 40 kilometers from the Intercontinental Hotel
Ground Transport	Taxis are available from KBP to the Intercontinental for approximately UAH 450. Private car service through the Intercontinental is available.

Registration Information

Please register online at <http://noblesfortune.com/energydt>

Note: Registration is mandatory for this event by 20 June. No walk-up registrations will be accepted. Please refer to Ministry of Foreign Affairs of Ukraine website (mfa.gov.ua) for visa requirements for your country.

Conference Agenda

Session 1 – Opening Statements – Economic Reforms and Investment Climate

Invited Speakers

- **Volodymyr Groysman**, Prime Minister of Ukraine
- **Sevki Acuner**, Ukraine Country Director, EBRD
- **Stepan Kubiv**, Minister of Economic and Trade Development
- **Geoffrey Pyatt**, US Ambassador to Ukraine

Discussion Points

- Main economic reforms in progress
- Point of view on Ukraine from international investment community
- Investment climate is becoming more favorable
- Donors’ support to reforms and investment climate changes

Session 2 – Energy Privatization in Ukraine in 2016-2017

Speakers

- **Igor Bilous**, Head of the State Property Fund of Ukraine
- **Joe Oliver**, Senior Manager, Deloitte Advisory
- **Anna Onyshchenko**, Director, PwC Advisory Services

Discussion Points

- Privatization Process, Conditions, Calendar
- Opportunities for GenCo and DisCos Privatization
- Opportunities for CHP Privatization

Session 3 – Fundamental Reforms and Changes in Energy Sector

Speakers

- **Igor Nasalyk**, Minister of Energy and Coal of Ukraine
- **Dmytro Vovk**, Head of the National Energy and Utilities Regulatory Commission of Ukraine
- **Yuriy Hnatyuk**, Director of SOE “Energorynok”

Discussion Points

- Reforms and investment climate in electricity market
- Implementation of the 3rd energy package reforms
- Cooperation between electricity companies and wholesale market operator (Energorynok)

Session 4 – Breakout Discussions with Current Management of Energy Enterprises to be Privatized

<i>Room #1</i>	<i>Room #2</i>	<i>Room #3</i>
Generation Company	Distribution Companies	Combined Heat and Power (CHP)
Discussions with Management	Discussions with Management	Discussions with Management
Tsentrenergo	Khmelnitskoblenergo, Ternopiloblenergo Mykolaivoblenergo Kharkivoblenergo, Cherkasyoblenergo Zaporizhyaoblenergo	Odesa CHP Mykolaiv CHP Dniprodzerzhynsk CHP Kherson CHP

Session 5 – Investor Question and Answer with SPFU and Advisors

Participants

- State Property Fund of Ukraine
- Deloitte Advisory
- PwC Advisory Services
- Baker McKenzie Ltd.
- Conference Participants

Discussion Points

- Summary of process, deadlines and next steps
- Q&A session

Contact Information

Prior to the conference, for questions regarding logistics or for additional detail related to any of the six distribution companies or Centrenerg, please contact Deloitte Consulting LLP:

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For additional detail related to any of the four combined heat and power facilities, please contact PwC:

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