

Ukraine

Investor Presentation



MINISTRY OF
FINANCE OF
UKRAINE

November 22, 2018

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Key investment highlights

- ▶ **Significant fiscal consolidation efforts** leading to primary surpluses since 2015 despite enacting social welfare policies
- ▶ **Budget revenues enhanced** through a streamlined revenue administration
- ▶ **Narrowing state budget deficit at 1.6% of GDP in 2017 vs 4.9% in 2014**
- ▶ **Declining state debt levels** (c.56% of GDP as of August 2018¹ vs c.67% of GDP as of end-2015) with 52% target set for 2019²










- ▶ **The largest arable land bank in Europe**
- ▶ **One of the global leaders in agricultural production**
- ▶ **Leading positions in metallurgy, electricity generation, IT**

- ▶ **Economy growing at its fastest pace in 10 quarters** (3.8% in Q2 2018) with an expected 2021 growth rate of 4.1%³
- ▶ **The EU becomes a major market** for Ukrainian exports (35% of total exports in 2017 vs 24% in 2013)
- ▶ **Prudent monetary policy** resulting in reduced consumer price inflation to single digits and stabilized prices
- ▶ **Essential support from international financial institutions and bilateral partners** (the IMF, the World Bank, the EU and individual EU countries, United States)
- ▶ **Stand-By Arrangement adopted in October 2018, after the success of EFF program**, for a total of US\$ 3.9bn approved by the IMF⁴
- ▶ **Comprehensive reforms of the state and economy** with recent remarkable changes in pension, healthcare, education spheres as well as adoption of new privatization framework
- ▶ **Formation of new anti-corruption infrastructure** (prevention, investigation and prosecution)

Notes

- 1 Based on LTM nominal GDP (Q2-Q4 2017 and Q1 2018)
- 2 According to Draft 2019 State Budget Law
- 3 According to The Forecast of Economic and Social Development of Ukraine for 2019-2021 prepared by the Ministry of Economic Development and Trade (MEDT) and approved by the Cabinet of Ministers of Ukraine. For the purposes of preparing the medium-term budget, the MEDT has assumed GDP growth of at least 3% for 2019 through 2021. Such assumptions are used for the purposes of the budgeting process and should not be relied upon as forecasts of actual GDP growth.
- 4 The Staff Level Agreement on the program has been reached on October 19th 2018 and remains subject to IMF management approval and approval by the IMF Executive Board

Ukraine's economy: illustrative success stories

	2014 / 2015	2017 / 2018
 Real GDP growth	(6.6)% / (9.8)%	2.5% (2017) / 3.8% (Q2 2018)
 Consumer inflation (eop)	24.9% / 43.3%	13.7% (2017) / 8.9% (Sep 2018, y-o-y)
 Reserves (eop)	US\$ 7.5bn (2014) / US\$ 13.3bn (2015)	US\$ 16.6bn (Sep 2018) ¹
 Primary state budget balance	(1.9)% of GDP (2014)	2.1% of GDP (2017)
 State debt to GDP	67.1% (2015)	61.5% (2017)
 Naftogaz	Quasi-fiscal deficit at 5.5% of GDP (2015)	The largest taxpayer in Ukraine

Sources State Statistics Service of Ukraine, NBU, State Treasury, Naftogaz

Note 1 Preliminary estimates



1. A story of recovery and renewal

2. Reforms achievements: irreversible steps towards big changes

3. Fiscal consolidation supporting a prudent debt management strategy

4. Continuous support from economic partners

Appendices



Solid economic recovery track (1/2)

2017 nominal GDP:

US\$ 112bn

GDP per capita dynamics, US\$

US\$ 2,125 2015

+3%

2016 US\$ 2,188

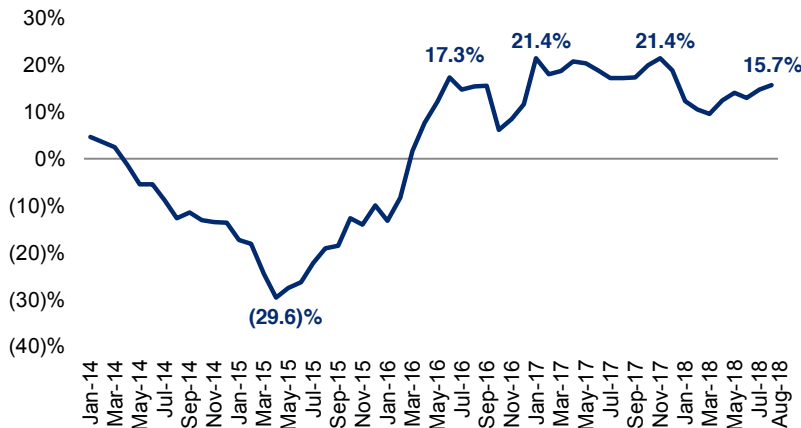
+21%

US\$ 2,640 2017

Comments

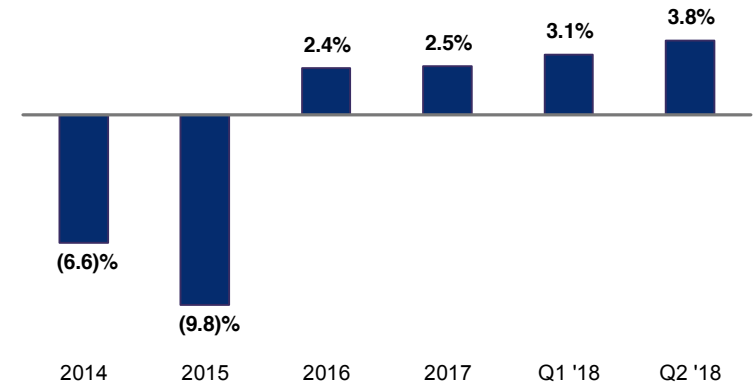
- ▶ **Ukraine's real GDP is growing for ten consecutive quarters in a row**
- ▶ Real GDP growth accelerated to 3.8% in Q2 2018 (y-o-y) compared to 3.1% in Q1 2018 and 2.5% in FY2017
- ▶ **An upturn in consumer demand remains the main driver of positive real growth dynamics** followed by a solid investment activity of Ukraine's enterprises
 - Retail trade turnover grew by 5.4% (y-o-y) in 8m 2018 on the back of rising real wages (15.7% growth y-o-y in August 2018), increasing money remittances and recovering consumer lending
- ▶ Real wages demonstrate a clear upward trend supported by economic expansion and 16.3% increase in minimum wage at the beginning of 2018

Real wages growth (y-o-y), %



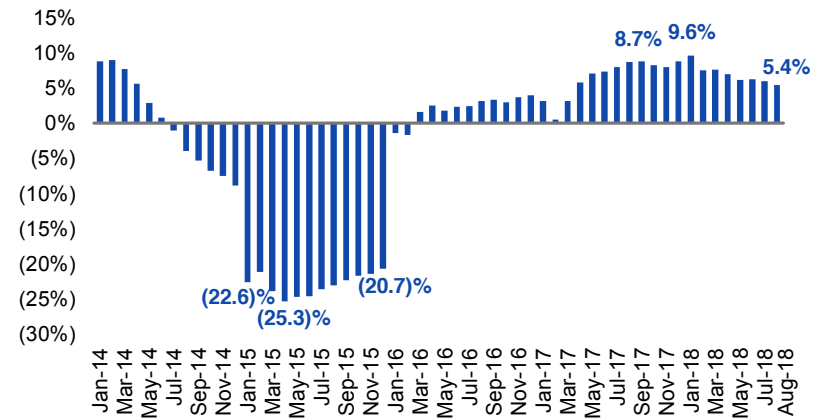
Source State Statistics Service of Ukraine

Real GDP growth (y-o-y), %



Source State Statistics Service of Ukraine, MEDT

Retail trade growth (y-o-y)¹, %



Note 1 To the corresponding period of the previous year on a cumulative basis

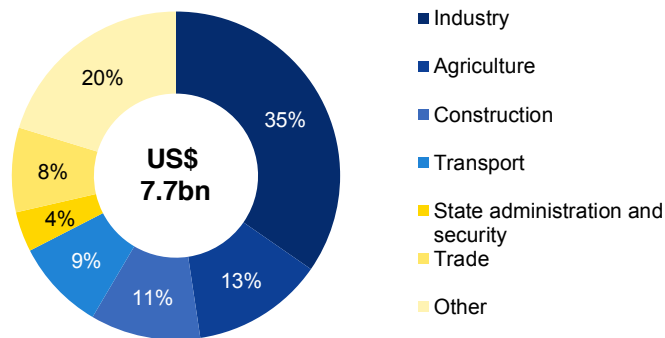
Source State Statistics Service of Ukraine

Solid economic recovery track (2/2)

Comments

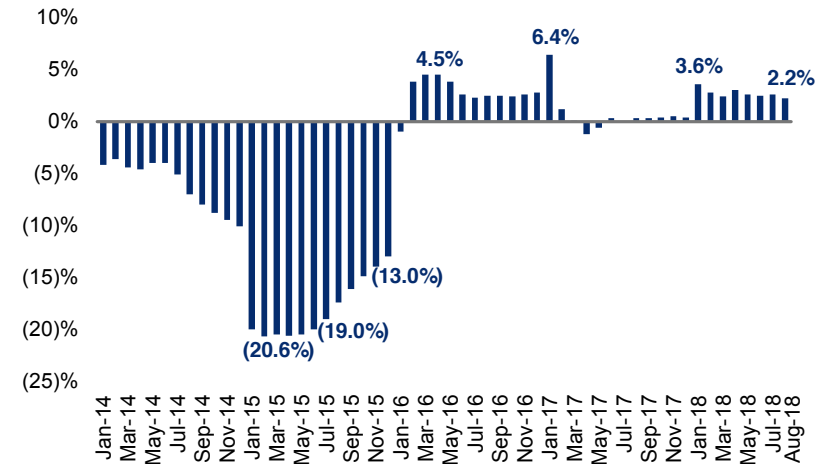
- ▶ **Investment demand** is another driver of Ukraine's economic recovery
- ▶ Industrial output grew by 2.2% (y-o-y) in 8m 2018 predominantly owing to the increased production in machinery (4.8%), utilities (2.9%) and metallurgy (2.3%)
- ▶ Capital investments witnessed 26.5% growth (y-o-y) in H1 2018, thus solidifying Ukraine's further economic growth prospects
 - **Industry has been the major contributor to capital investments in H1 2018 accounting for c.35%** followed by agriculture and construction with 13% and 11%, respectively

H1 2018 capital investments split by sector, %



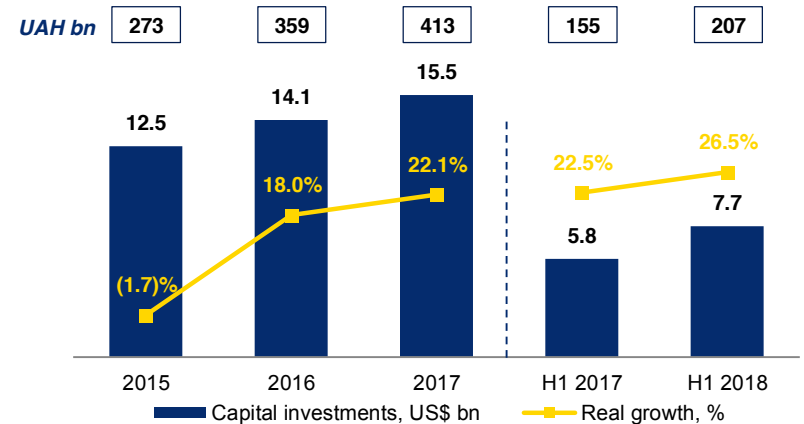
Source State Statistics Service of Ukraine

Industrial output growth (y-o-y)¹, %



Source State Statistics Service of Ukraine

Capital investments dynamics

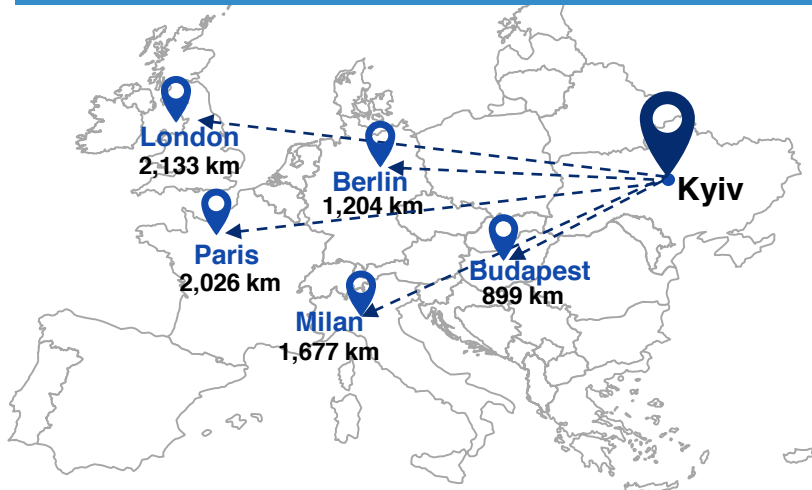


Source State Statistics Service of Ukraine

Note 1 To the corresponding period of the previous year on a cumulative basis

Key factors of Ukraine's international competitiveness

Close proximity to Western and Central Europe



Ukraine's investment attractiveness is built around country's key competitive advantages: close proximity to Western and Central Europe, highly educated human capital as well as lower utility tariffs and wages vs CEE countries

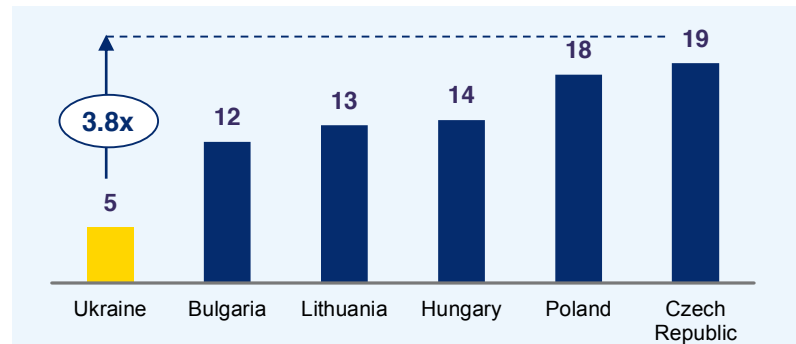
Highly educated and skilled human capital

Country	Quality of math & science education	Higher education enrollment	Availability of scientists & engineers
Ukraine	27	16	25
Poland	49	33	52
Bulgaria	81	24	93
Hungary	78	55	91
Czech Republic	48	36	73

Source Global Competitiveness Report 2017-18

Low utility tariffs compared to CEE

Q1 2018 electricity tariffs for industry, US\$ cents/kWh¹

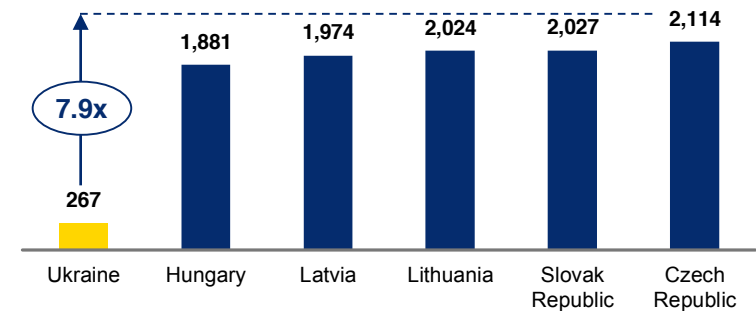


Note 1 incl. taxes; Ukraine: average between 1st and 2nd voltage class tariffs; other countries: companies with annual consumption between 0.5k and 2k MWh

Sources Eurostat, NEURC

Highest wage competitiveness in CEE

Average gross monthly wage in 2017, US\$



Sources State Statistics Service of Ukraine, OECD



Ukraine's core growth pillars



Agriculture

10.2% of the nominal GDP in 2017
+5% output growth (y-o-y) in US\$ equivalent

c.41% of Ukraine's total export of goods in 2017

- ▶ **Headroom for productivity growth** exists on the back of fertile soil and sustainable cost advantage
- ▶ **The largest arable land bank in Europe:** 33% of the global black soil area
- ▶ Growing investments in the sector:
 - **SALIC acquisition of Mriya** – one of the largest deals in Ukraine with foreign investor participation since 2014
 - **New port terminals** launched by international agri traders (Cargill, Bunge, Louis Dreyfus, Noble Group)



Infrastructure

6.4% of the nominal GDP in 2017
+17% output growth (y-o-y) in US\$ equivalent

170k km of roads 13 sea ports 23 airports 22k km of rail network

- ▶ **Regional transportation hub:** 5 international highways and railway lines pass through Ukraine
- ▶ Growing public infrastructure investments: lengths of road repaired – **2,100 km in 2017 vs 313 km in 2015**
- ▶ Airports passengers turnover: **+28% in 2017 (y-o-y)**
 - Boryspil – **third fastest growing** airport in Europe in 2017
- ▶ Beskydy tunnel connecting Ukrainian railway network with the EU opened in March 2018

Manufacturing



12.4% of the nominal GDP in 2017
+22% output growth (y-o-y) in US\$ equivalent

Manufacturing platform for international companies

- ▶ Beneficial location for foreign investors: **transportation and production cost advantages with competitive utility tariffs and labour costs**
- ▶ Large manufacturing base in heavy industry including leading positions in metallurgy globally
- ▶ Rapidly growing auto parts manufacturing: more than 20 global **automotive companies** started production in Ukraine since 2000
 - 3 plants of global automotive producers opened in 2018 (Sumitomo, Nexans, Bader)

IT



Over 3 % of the nominal GDP in 2017
30x growth of IT industry in 15 years to c.US\$ 3.6bn in 2017

1st position by number of engineers in CEE and 4th globally

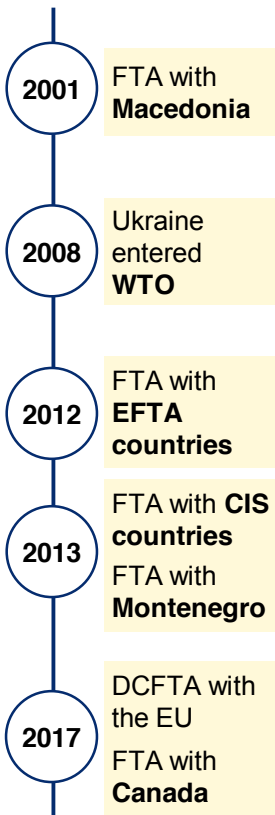
- ▶ **Strong human capital base:** high quality education, competitive salary, cultural and geographic proximity to the EU countries
- ▶ R&D centers of major corporations located in Ukraine
- ▶ Development of IT product and e-commerce segments
 - Growing number of start-ups entering global arena

Source UkraineInvest, State Statistics Service of Ukraine, NBU



Extension of trade partner universe

Overall Ukraine concluded 17 FTAs with 45 countries



Comments

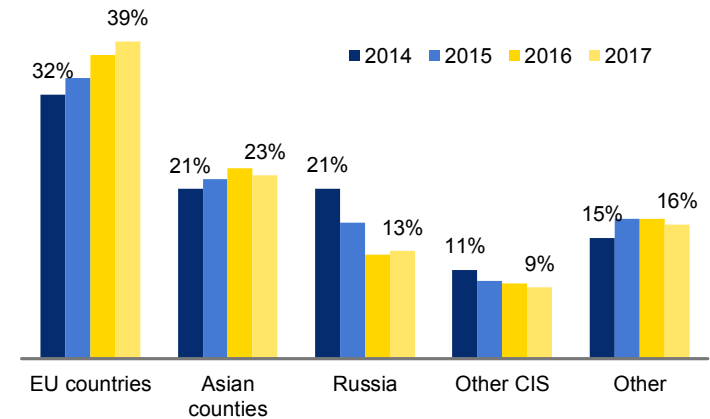
- ▶ Ukraine sets a course towards increasing and diversifying its base of trading partners
- ▶ Following a change in its trading policy Ukraine has undergone a major shift in trade flows towards the EU market in recent years
 - A share of the EU in Ukraine's foreign trade turnover¹ surged from 32% in 2014 to 39% in 2017 while share of Russia dropped from 21% to 13%
 - **DCFTA (in full force since September 2017)** provides further opportunities in the EU markets
- ▶ **Negotiations with Israel on the FTA were completed in June 2018** with terms of the FTA being already agreed
- ▶ **Ongoing negotiations** on free trade with Turkey and Serbia

Growth (y-o-y) of selected commodity exports in H1 2018

Product category	Growth (vs H1 2017)
Metallurgy	+ US\$ 1.5bn / +31.7%
Machinery	+ US\$ 401m / +20.4%
Mineral products	+ US\$ 99m / +5.0%
Wood and products	+ US\$ 215m / +38.9%
Chemicals	+ US\$ 215m / +18.5%

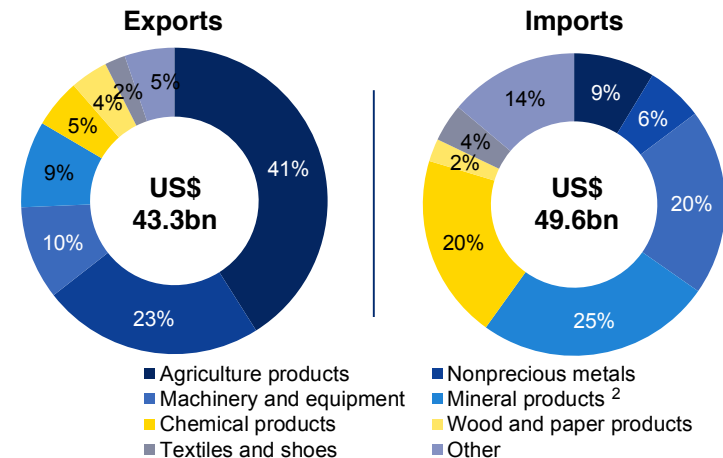
Notes
 1 Sum of export and import of goods and services
 2 Incl. Fuel and energy products

Geographic breakdown of trade in 2014-2017¹



Source NBU

Ukraine's 2017 commodity exports breakdown



Source State Statistics Service of Ukraine

Firm external position leading to less vulnerability to external shocks

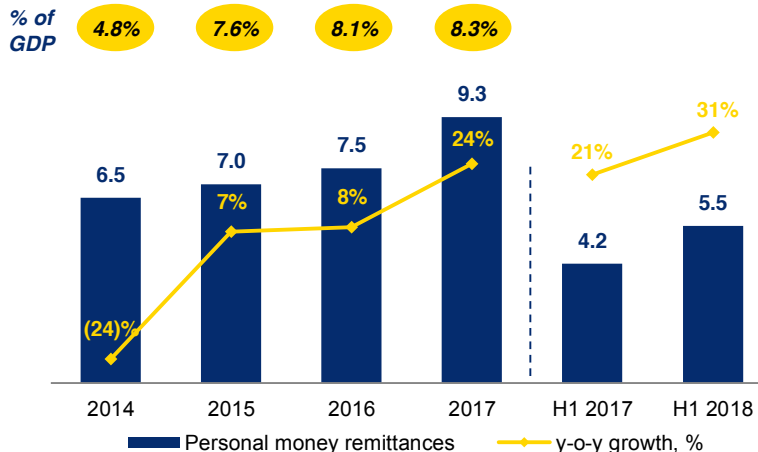
Comments

- ▶ **Trade balance deficit increase** up to 7.7% of GDP in 2017 relates to **growing consumer and investment demand**. The trend in 2018 is largely supported by rising energy resources and machinery imports
 - Import of machinery grew by 15.2% (y-o-y) in 8m 2018, while chemicals and mineral products increased by 12.3% and 13.4%, respectively
- ▶ **Negative trade balance is offset by growing personal money remittances together with capital account inflows** resulting into positive overall BoP of US\$ 164m in 8m 2018
 - Money remittances witnessed 31% (y-o-y) growth in H1 2018, thus solidifying Ukraine's external accounts

In March 2018 the NBU **changed methodology on personal remittances estimation**. As a result, **personal remittances data for 2015-2017 was revised up by US\$ 1.8bn, US\$ 2.1bn and by US\$ 2.0bn, respectively**

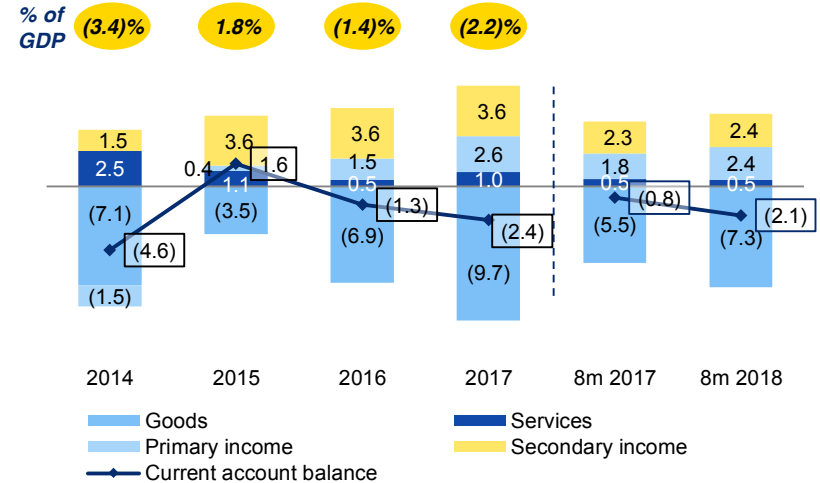
Current account balance as % of GDP was subsequently restated from (0.2%) to 1.8% in 2015; from (3.7%) to (1.4%) in 2016 and from (3.7%) to (2.2%) in 2017

Personal money remittances, US\$ bn

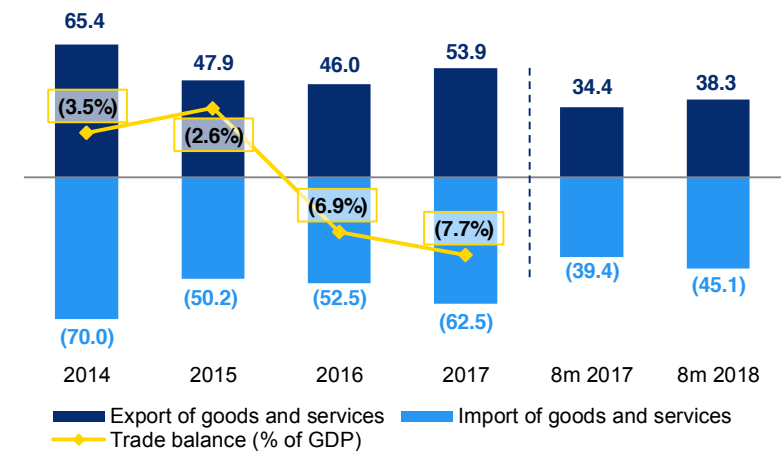


Source NBU

Current account balance, US\$ bn



Ukraine's trade balance dynamics, US\$ bn



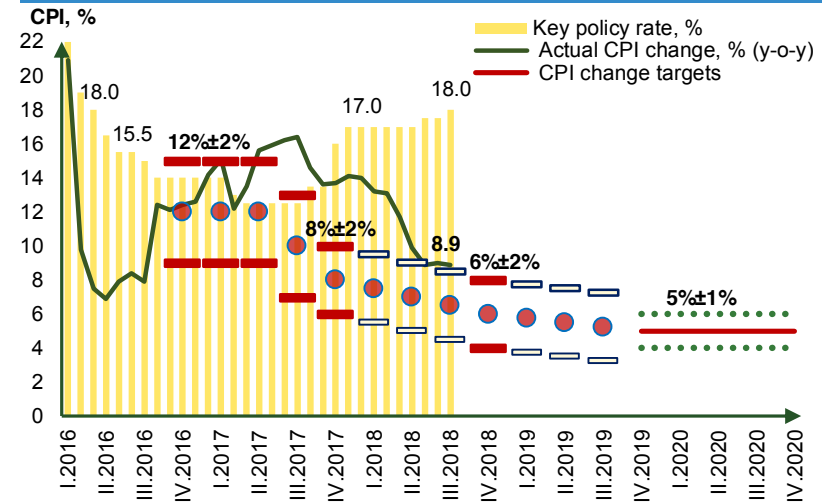
Prudent monetary policy implemented by independent regulator

Medium-term consumer inflation target: 5% +/- 1%

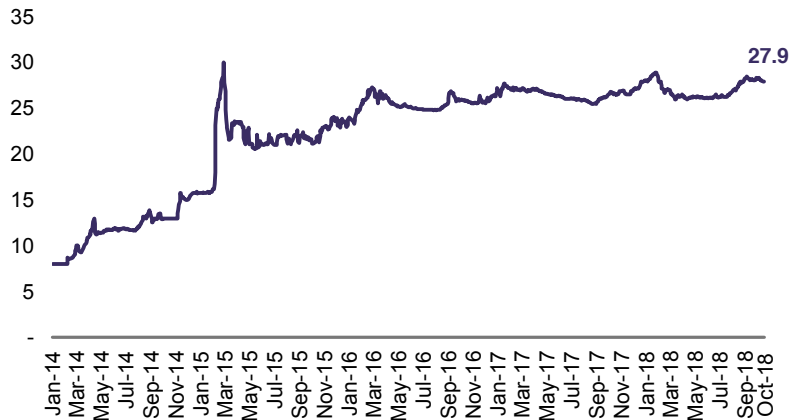
Comments

- ▶ **The NBU pursues tight monetary policy** by raising its key policy rate 6 times: **from 12.5% September 2017 and to 18.0% in September 2018**
 - Key reasons for such measures include higher than expected domestic consumer demand, deterioration of inflation expectations as well as rising external risks
- ▶ Owing to monetary policy tightening the regulator expects to bring inflation back to its medium-term target range (5% +/- 1%) by end of 2019 and to its 5% target by end of 2020
- ▶ Recent decrease in international reserves is mostly attributed to repayment and servicing of external and domestic FX-denominated debt and NBU FX interventions

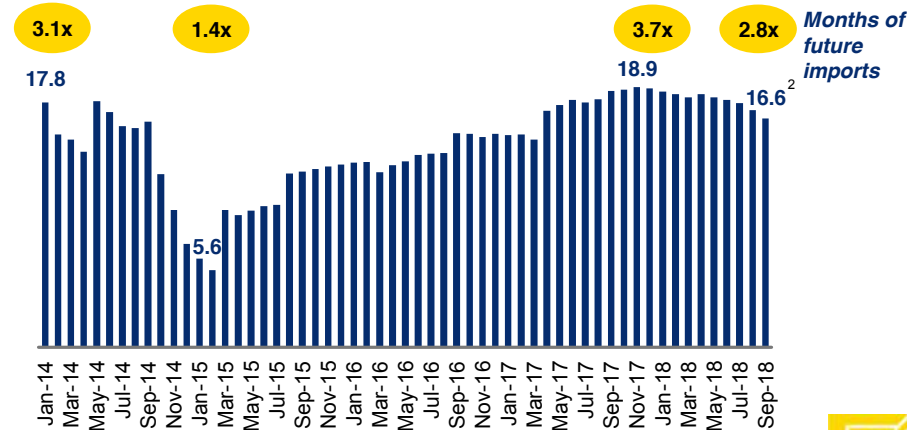
Consumer price index (CPI) change and key policy rate¹



UAH/US\$ exchange rate dynamics



Gross international reserves, US\$ bn



Notes

- 1 Key policy rate stated as of end of each month
- 2 Preliminary estimates

Source NBU



1. A story of recovery and renewal



2. Reforms achievements: irreversible steps towards big changes




3. Fiscal consolidation supporting a prudent debt management strategy

4. Continuous support from economic partners

Appendices



Challenging reforms start bearing fruit (1/2)

	Key areas	LTM ¹ update	Selected results
Public governance 	<ul style="list-style-type: none"> ▶ Decentralization: transfer of budgetary powers to local self-government bodies – total of 803 newly amalgamated communities ▶ Civil service: modern public administration in Ukraine ▶ Anti-corruption: full anti-corruption infrastructure in place 	<ul style="list-style-type: none"> • The law on High Anti-Corruption Court (June 2018) • Enhancement of corporate governance in state-owned banks (July 2018) 	<p>300% increase in revenues of local budgets in 2018 vs 2015</p> <p>50 directorates with 1,305 new reform staff positions in civil service</p> <p>644 criminal proceedings by NABU with 155 cases filed to the courts</p>
Public finance 	<ul style="list-style-type: none"> ▶ Taxation: decrease in number of taxes and reduction in tax rates ▶ Public expenditures and procurement: electronic procurement for the purchase of goods, works and services by government bodies ▶ Debt management: return to markets and IR 	<ul style="list-style-type: none"> • Pension reform aimed at easing pressure from a pensions deficit (October 2017) • MTDS: Discrete path towards managing state debt obligations • Fiscal stability: 2018 State budget adopted with no significant amendments over the year 	<p>11 number of taxes (vs 22)</p> <p>US\$ 18.7bn volume of Prozorro contracts in 900k auctions in 2017</p> <p>72% of GDP – state and state-guaranteed debt in 2017 (vs 81% in 2016)</p>
Business climate 	<ul style="list-style-type: none"> ▶ Foreign trade: DCFTA in full force, negotiations with other countries on FTA ▶ Competitiveness and Deregulation: a breakthrough in international rankings ▶ Investment climate development: introduction of effective mechanisms for dealing with bankruptcy ▶ Privatization: Large-scale privatization kick-off 	<ul style="list-style-type: none"> • New Framework for Privatization enhancing privatization procedure (March 2018) • Law on “Single window” at customs (September 2018) • Bankruptcy Code to protect creditors' rights and streamline bankruptcy procedures (October 2018) 	<p>Ease of Doing Business ranking improvement to 76th in 2017, 36 places up from 2014</p> <p>Over 150 new plants opened since 2015</p> <p>11 number of SOEs to be privatized with investment advisors selected</p>



Sources CMU, Ministry of Finance, NBU, Prozorro, NABU

Notes

1 LTM – last twelve months



Challenging reforms start bearing fruit (2/2)

	Key areas	LTM update	Selected results
Financial sector 	<ul style="list-style-type: none">▶ Monetary policy: inflation-targeting framework▶ Banking sector: sector clean-up, currency controls liberalization▶ NBU role: enhancement of the NBU's supervisory and regulatory role	<ul style="list-style-type: none">• Adopted Strategy for state-owned banks reforming, implying reduction of state-owned banks' share from 55% to 24% over the next 5 years (February 2018)• Law on Currency and Currency Operations aimed at liberalization of currency regulations (June 2018)	<p>98 banks withdrawn from the market over 2014-2018</p> <p>1/2 of state-owned banks have supervisory boards in place</p>
Energy sector 	<ul style="list-style-type: none">▶ Energy sector diversification: intensified domestic extraction and complete substitution of Russia in favor of the EU for gas imports since late 2015▶ Liberalization of energy markets: transition of electricity market to European model, increase in levels for gas and heating tariffs, elimination of operational deficit of Naftogaz of Ukraine	<ul style="list-style-type: none">• Victory of Ukraine's Naftogaz over Russia's Gazprom in Stockholm Arbitration (February 2018)• Deregulation of natural gas extraction leading to quicker licensing process and reduction of rents (March 2018)• Bringing gas prices for households closer to import parity level (October 2018)	<p>US\$ 2.56bn financial gain in Stockholm Arbitration</p> <p>3% CAGR In SOE Ukrgezvydobuvannia's gas extraction volumes (2015-2017)</p> <p>23% hike in gas tariffs for residential consumers</p>

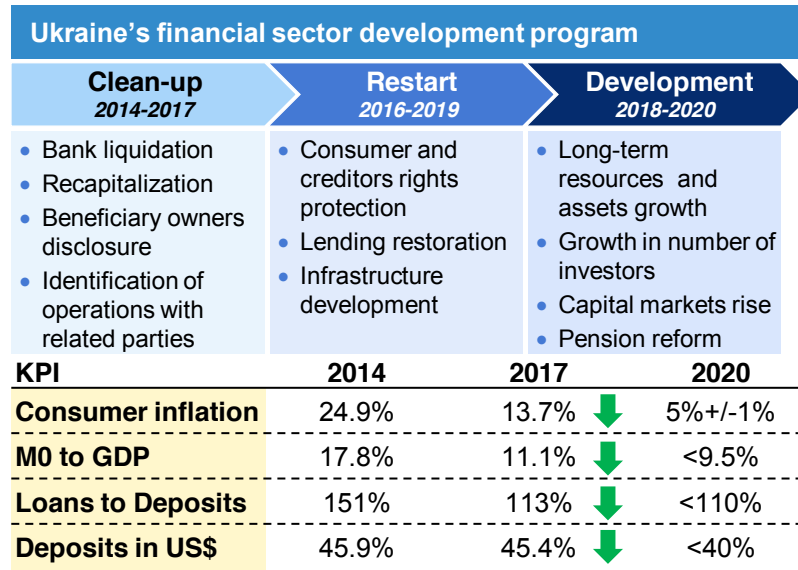
“**The government** in Kyiv can justifiably claim to have **made more progress with structural reform in just four years** than any administration since the country gained its independence in 1991.”

Financial Times, Special Report Investing in Ukraine
September 12, 2018

Sources CMU, NBU, Prozorro, Naftogaz, Financial Times

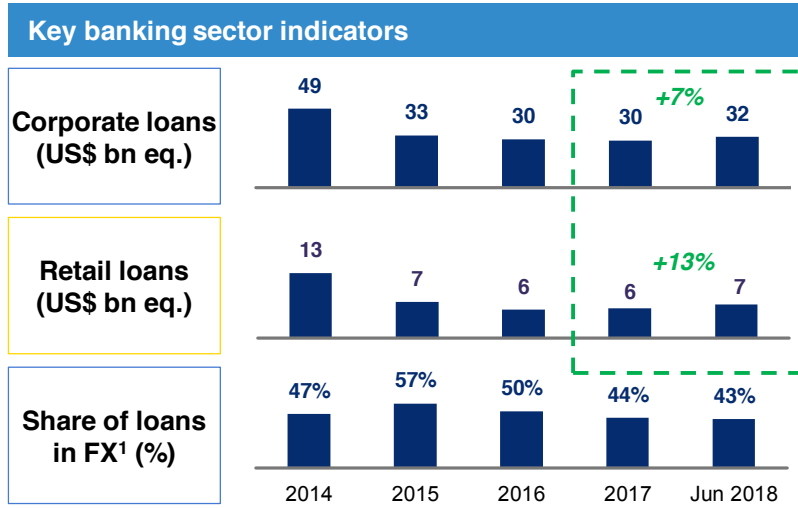


Further banking sector restart and development



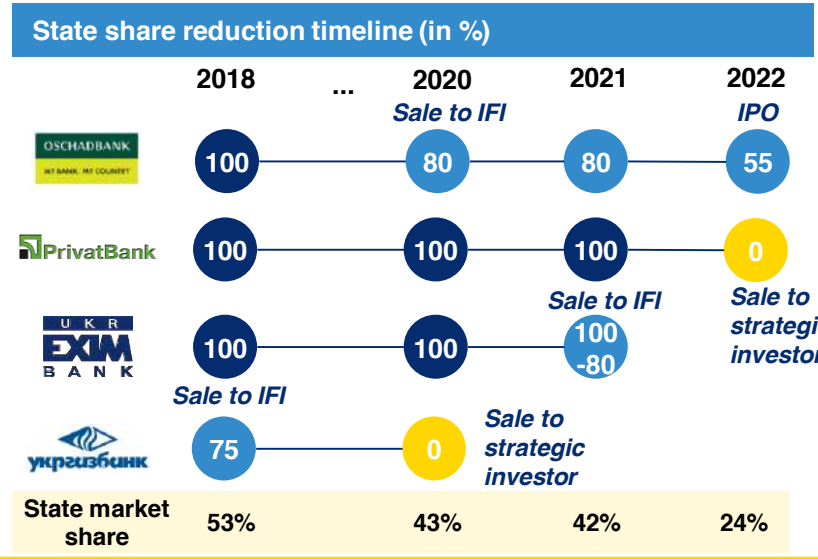
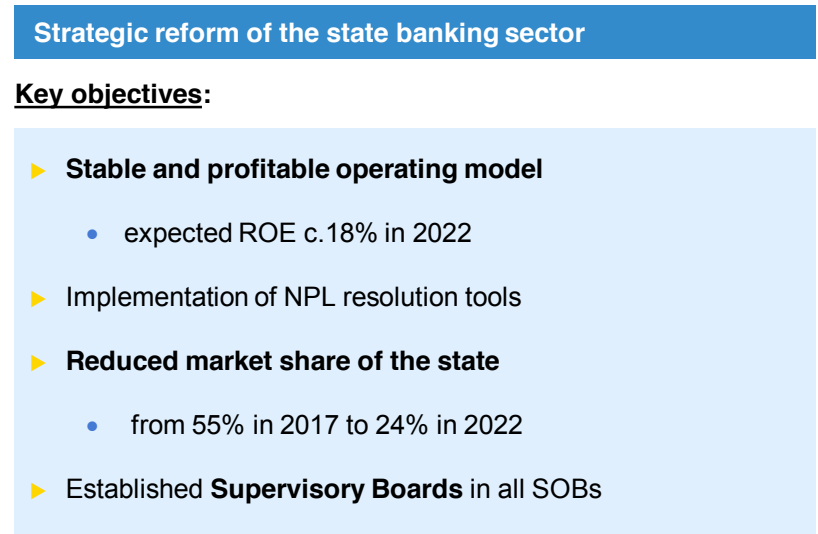
Main KPIs of Comprehensive program of Ukraine financial sector development exhibit positive dynamics

Recovery of lending in 2018 driven by UAH-denominated loans gradually reduces dollarization



Sources Ministry of Finance, NBU

Notes
1 Incl. corporate and retail loans

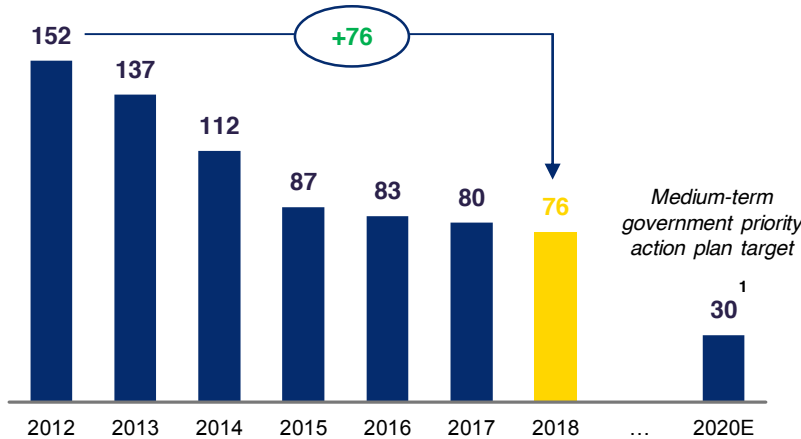


Business climate improvement to accelerate growth potential

Last Doing Business improvement (80 → 76)

- Dealing with construction permits: **+105 (positions)**
- Paying taxes: **+41**
- Getting electricity: **+2**
- Resolving insolvency: **+1**

Ease of Doing Business ranking

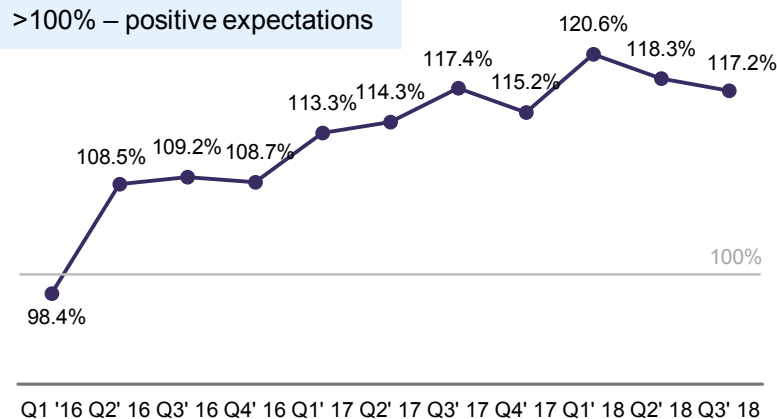


Source Doing Business

Last Logistics Performance Index (WB) improvement (80 → 66)

- Increased airport traffic: 28% (y-o-y) in 2017
- National road fund in place since 2018
- Concession of sea ports (in progress)

Business expectations index by the NBU



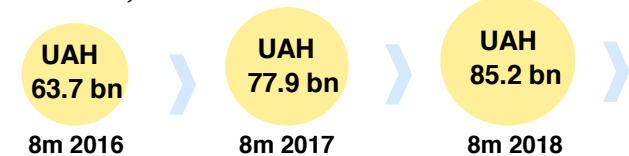
Source World Bank

Source: NBU

Improving business climate

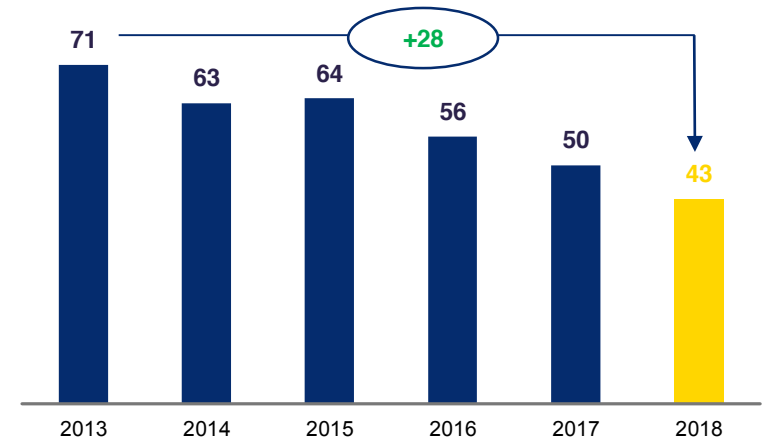
- SME support:** EUR 2.3 bn Treaty between Ukrainian Government and the EU on the participation of Ukraine in the EU Program “Competitiveness of small and medium enterprises 2014-2020”
- Transparent taxation:** automatic system of VAT reimbursement launched since April 1st, 2017

VAT reimbursement, UAH bn



Sources National Investment Council, State Fiscal Service of Ukraine

Global innovation index



Source Global Innovation Index

Notes

1 Not lower than 30 position by end-2020

Boosted activity of foreign investors over the last 6 months

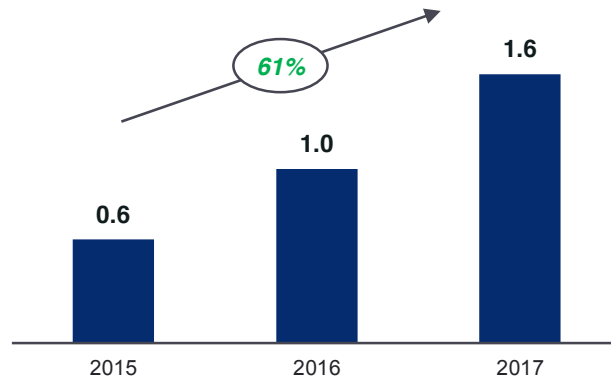
Main state institutions to support foreign investors:

UkraineInvest
Your Investment Matters

National Investment Council

- ▶ Investment projects support
- ▶ Protection of investors' rights
- ▶ Assistance in cooperation of investors with the state
- ▶ Sectoral policy recommendations

FDI to real sector of Ukraine, US\$ bn



Source NBU

Other important investors



Sources: UkraineInvest, National Investment Council of Ukraine



- ▶ US\$ 1bn 15-year framework agreement
- ▶ Renovation and modernization of Ukrzaliznytsia's traction rolling stock

Feb 2018



- ▶ Total investments reaching c. US\$ 160m
- ▶ Development of Innovation District IT Park in Lviv

Jun 2018



- ▶ Total investments are c. EUR 80m
- ▶ Establishing production of winter sports goods in Vinnytsia region in 2019-2020

May 2018



- ▶ Project cost c. EUR 370m
- ▶ Acquisition Ukrainian wind power farm and c.300 MW wind power project

Aug 2018



- ▶ US\$ 200m investment in seed plant 100 km west of Kyiv
- ▶ The plant will provide 25-30% of all corn harvested in Ukraine

Sep 2018



- ▶ Acquisition of Mriya group's Ukrainian farming assets (signed)

Sep 2018

1. A story of recovery and renewal

2. Reforms achievements: irreversible steps towards big changes



3. Fiscal consolidation supporting a prudent debt management strategy

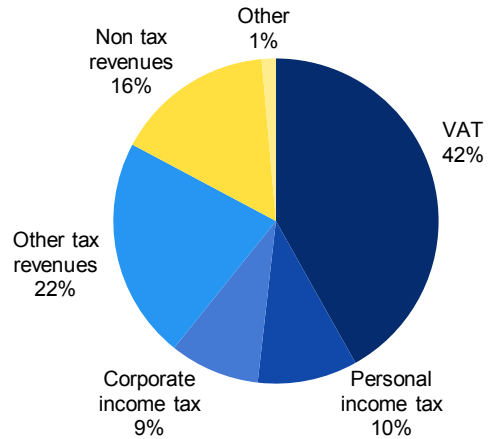
4. Continuous support from economic partners

Appendices

Ambitious 2018 state budget reflecting fiscal consolidation trends

2018 state budget revenues split (FY 2018 budget)¹

State budget revenues: UAH 918bn

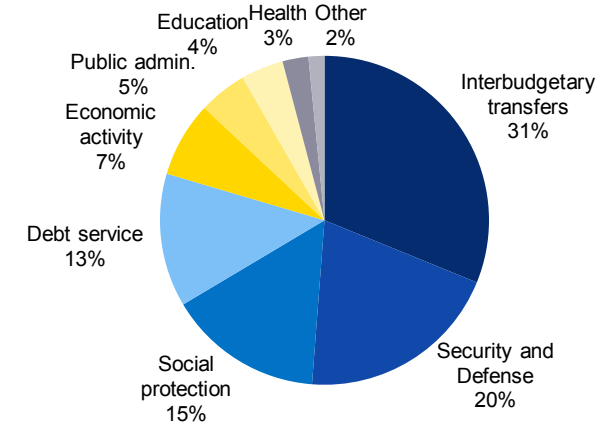


2018 State budget figures¹ vs. actual 2017:

- Total revenues: **UAH 918bn (+16%)**
- Total expenditures: **UAH 992bn (+18%)**
- Budget deficit: **UAH 81bn / 2.4% of GDP²**

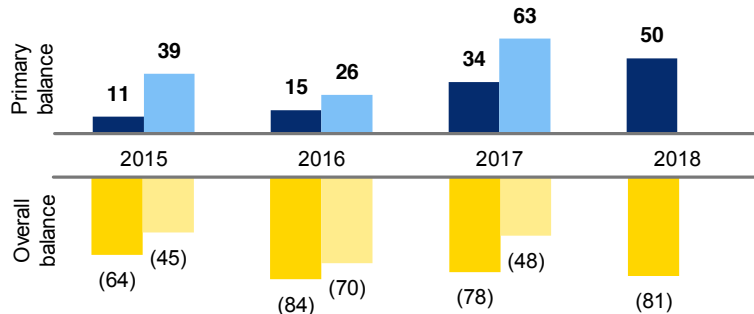
2018 state budget expenditures split (FY 2018 budget)¹

State budget expenditures: UAH 992bn



State budget balance, UAH bn

Category	2015	2016	2017
Act. primary balance	2.0%	1.1%	2.1%
Act. overall balance as % of GDP	(2.3)%	(2.9)%	(1.6)%



2019 State budget law was voted by the Ukrainian Parliament in the first reading on October 18th, 2018

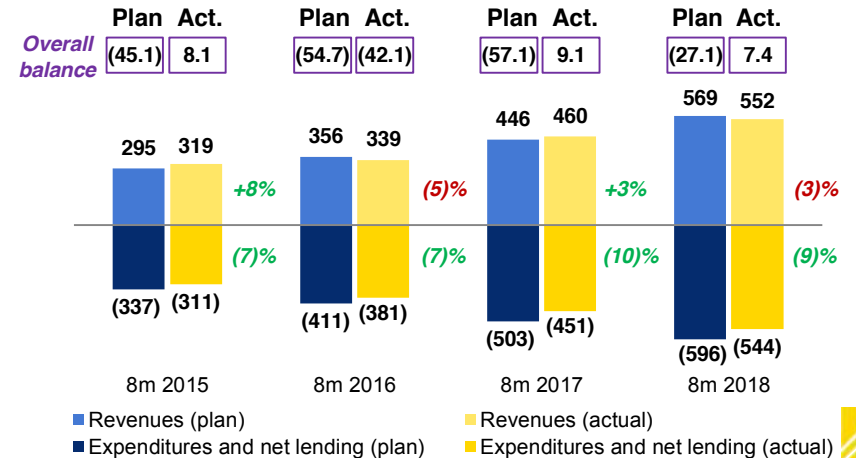
Notes

1 According to 2018 State budget Law as of end-August 2018

2 Budget deficit defined as revenues minus expenditures and minus net lending

■ Primary balance (Budget Law) ■ Primary balance (Actual)
 ■ Overall balance (Budget Law) ■ Overall balance (Actual)

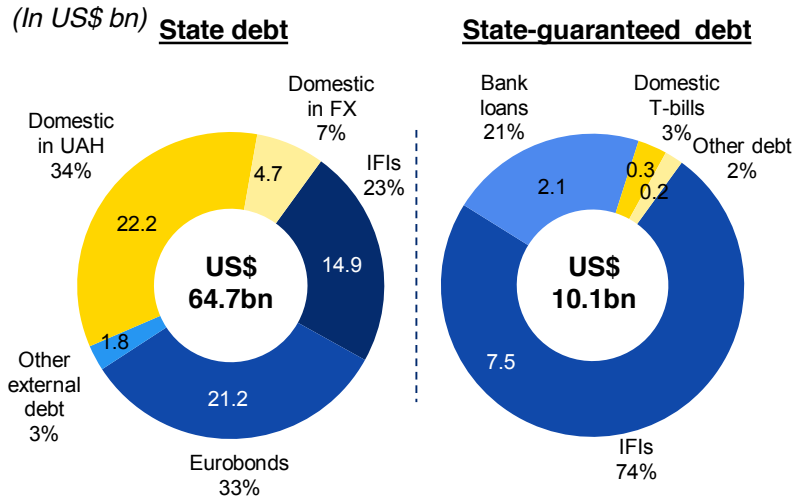
State budget general fund performance, UAH bn



Source State Treasury of Ukraine

Prudent and proactive debt management strategy

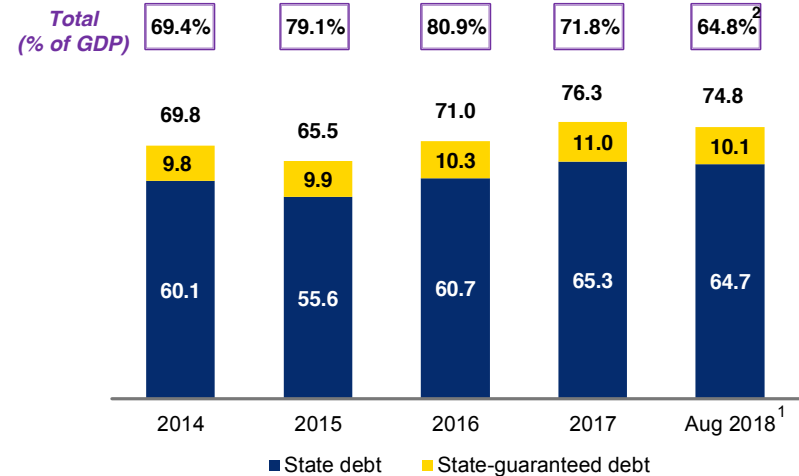
State and state-guaranteed debt structure (end-Aug 2018)¹



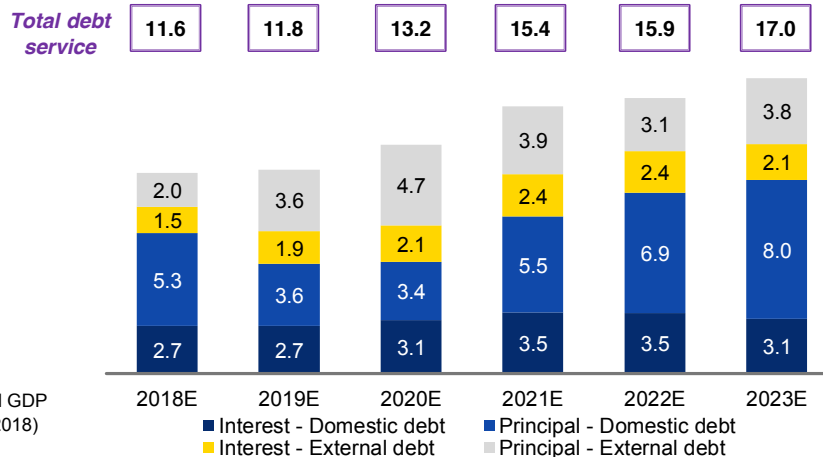
As of end of August 2018, Ukraine's total state and state-guaranteed debt (US\$ 74.8bn / UAH 2,117bn) split between:

- 64% of external debt, 36% of domestic debt
- 86% of state debt, 14% of state-guaranteed debt

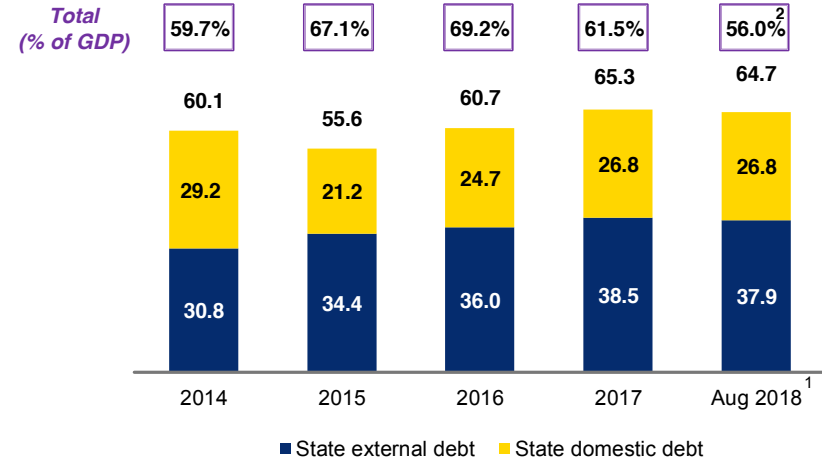
State and state-guaranteed debt dynamics, US\$ bn



State debt amortization schedule (end-Aug 2018)³, US\$ bn



State debt dynamics, US\$ bn



Notes

- 1 Preliminary estimates
- 2 Based on LTM nominal GDP (Q2-Q4 2017 and Q1 2018)
- 3 Incl. outstanding and planned debt obligations

Source Ministry of Finance



1. A story of recovery and renewal

2. Reforms achievements: irreversible steps towards big changes

3. Fiscal consolidation supporting a prudent debt management strategy









4. Continuous support from economic partners

Appendices

Continuous and significant support from our partners

Considerable support from international partners to public and private sectors in 2017-2018

Institution	Description
	<ul style="list-style-type: none"> ▶ IMF 4-year Extended Fund Facility (EFF) program (2015-2019): c.US\$ 8.5bn received (as of October 2018). The EFF program will be replaced with New 14-month Stand-By Program ▶ New Stand-By Arrangement (14-month period, 200% of quota): access to IMF financing equal to the equivalent of US\$ 3.9bn to support Ukrainian authorities' economic policies over 2019¹
 WORLD BANK GROUP	<ul style="list-style-type: none"> ▶ US\$ 650m Policy-Based Guarantee (PBG) to support institutional reforms and sustainable economic growth in Ukraine ▶ IFC financing and advisory expertise for public and private sectors: <ul style="list-style-type: none"> • First loan in national currency, financing for Ukrainian PE fund, development of PPP projects at Ukrainian sea ports, loans to support private sector development
  	<ul style="list-style-type: none"> ▶ EBRD: c.EUR 740m of project financing to public and private sector in 2017 (27% y-o-y growth) <ul style="list-style-type: none"> • Ukraine is the third country by amount of EBRD investments in 2017 • Dedicated funding towards renewable energy sector (EUR 250m USELF III launched in June 2018) ▶ EIB: EUR 318m of loans granted in 2017 with c.44%² provided to Ukrainian private sector; projects for a total of EUR 211m in 2018 ▶ EU: EUR 1bn macro financial assistance split into 2 tranches
	<ul style="list-style-type: none"> ▶ USA: US\$ 250m funding dedicated to security and defense assistance to Ukraine in 2019 ▶ USAID: Financial support to promote economic and social development together with sectoral reforms

Notes

- 1 Staff Level Agreement between the IMF and Ukraine was reached and is subject to IMF management approval and approval by the IMF Executive Board
- 2 Share of publicly disclosed loans provided to private companies as opposed to the Ukrainian public sector (incl. SOEs)

Sources IMF, World Bank, the EU, US Treasury



Update on EFF IMF program in Ukraine

Key milestones

- ▶ **February 2015:** IMF staff Level Agreement on a US\$ 17.5bn Extended Fund Facility Arrangement (900% of quota)
 - 2nd largest IMF program in percentage of quota: compared to 2,159% of quota for the 2nd program in Greece or 422% for Egypt and 322% for Iraq
 - With limited front-loading to incentivize reforms
- ▶ **August 2015:** Staff Level Agreement on 1st review under the EFF
- ▶ **October 2015:** Discussions on the 2nd review under the EFF
- ▶ **December 2015:** IMF decision on the Status of Ukraine's Eurobond Held by the Russian Federation
- ▶ **September 2016:**
 - Completion of the 2nd review under the EFF and approval of US\$ 1bn Disbursement
- ▶ **April 2017:** Completion of the 3rd review of the EFF and disbursement of the 4th tranche of EFF support
- ▶ **October 2018:** Staff Level Agreement on the New 14-month Stand-By Arrangement (to replace current EFF program) for 200% of quota
 - The Agreement remains subject to IMF management approval and approval by the IMF Executive Board further in 2018

Source IMF, Ministry of Finance

Past IMF reviews under the EFF program

Availability date / Next reviews	SDRs m	US\$ m ¹
March 11, 2015	3,546	4,879
July 31, 2015 [1 st review]	1,182	1,659
September 15, 2016 [2 nd review]	716	1,003
April 3, 2017 [3 rd review]	734	996
Total	6,178	8,537

Key achieved structural benchmarks for past reviews

- ▶ Establishment of the NABU and adoption of measures to make it operational
- ▶ Parliament approval of the new gas market law
- ▶ Adoption of a broad-based strategy to reform the SOE sector
- ▶ Launch of the electronic assets declarations
- ▶ New pension legislation
- ▶ New privatization framework
- ▶ Parliament approval of the law on ACC

Prior actions for approval of the New SBA by the IMF board

- ▶ Parliamentary approval of 2019 State budget consistent with the IMF recommendations
 - 2019 State budget Law approved by the Ukrainian Parliament in the first reading on October 18th, 2018
- ▶ Increase in household gas and heating tariffs to reflect market developments
 - Gas tariffs for households raised by c.23% on October 19th

Note 1 Tranches translated at NBU XDR/US\$ exchange rate as of the date of their receipt



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4. Continuous support from economic partners

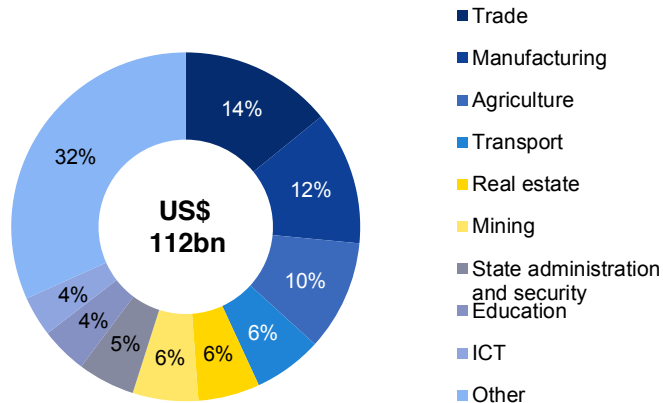


Appendices

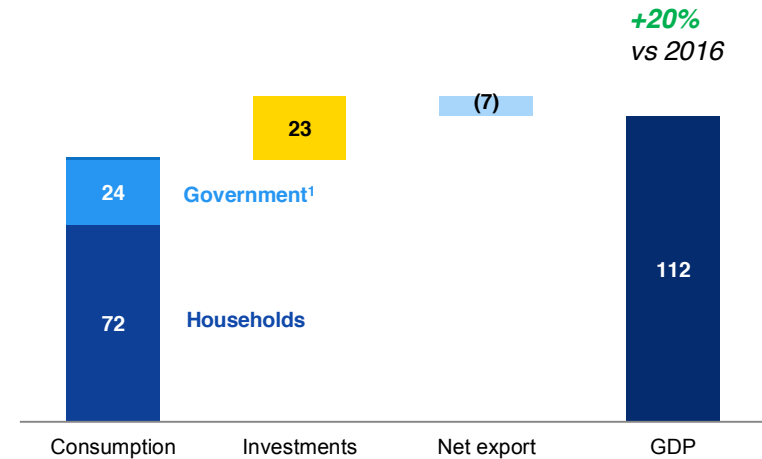


Structure of Ukraine's economy

2017 nominal GDP breakdown by sector



2017 nominal GDP breakdown by expenditures, US\$ bn



Note 1 incl. NPOs

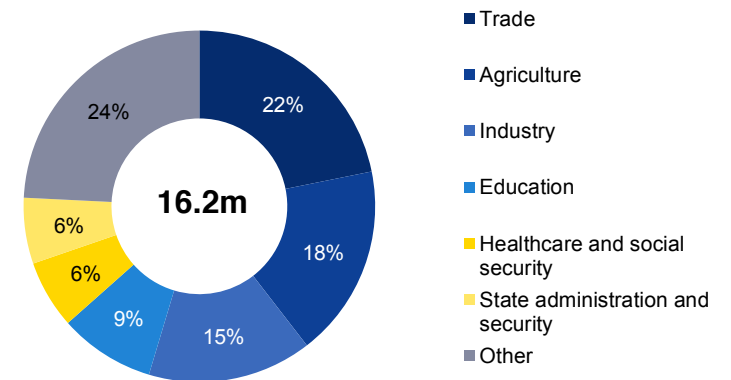
Comments

- ▶ **Ukraine is gradually shifting from prevailing raw material production to a country with a dominating tertiary sector**
 - Agriculture and mining, the largest segments of Ukraine's primary sector, jointly reach for only 16% of 2017 GDP
- ▶ Trade, transport and real estate operations accounted for the largest share of Ukraine's tertiary sector at 14%, 6% and 6% of 2017 GDP, respectively

Highlights on population



Employed population by sector (2017)



Current privatization and SOE corporate governance enhancement

New framework for privatization

- ▶ Simplified transparent process of privatization governed by a **single new law effective since March 2018**
- ▶ **Extended range of objects** for privatization divided into 2 groups: large and small privatization objects
- ▶ SPA and arbitration may be governed by **English law**

Large privatization

- State share of more than 50% and assets of over UAH 250m
- Sale via auction with an investment advisor selected by a competitive procedure
- Starting price determined by the advisor and approved by the CMU
- Duration: up to 14 months
- 26 companies approved for sale in 2018

Small privatization

- Other companies plus unfinished construction, separate assets of state-owned companies, and objects of social and cultural designation
- Sale through online auction (ProZorro.Sale)
- Duration: up to 6 months
- Over 1000 privatization objects announced for sale in 2018

Current progress

- 11** **Selected investment advisors** for 11 companies, including Odesa Port Plant
- Auction for Centrengo**, one of Ukraine's largest power generation companies, privatization **announced for Q4 2018**
- 427** Objects of small privatization are **put for sale** as of September¹ 2018, and **100 objects have been sold**

Note 1 As of September 24th, 2018

Sources: MEDT, CMU

SOE corporate governance reform

Key objectives

- ▶ Minimization of corrupt practices and political influence within SOEs
- ▶ Establishment of professional management teams
- ▶ Maximization of SOE enterprise value

Reform focus

- ▶ Establishment of supervisory boards at SOEs
- ▶ Implementation of OECD guidelines on corporate governance

The reform represents joint efforts of different governmental authorities and Ukraine's international partners



Current progress

- ▶ Established procedures for the selection of independent supervisory board members:
 - Preliminary selection of candidates by leading recruitment agencies
 - Final selection by newly established nomination committee incl. governmental and IFI representatives (EBRD, IFC, IMF)
- ▶ First supervisory board according to new procedure created in state railway operator Ukrzaliznytsia in June 2018

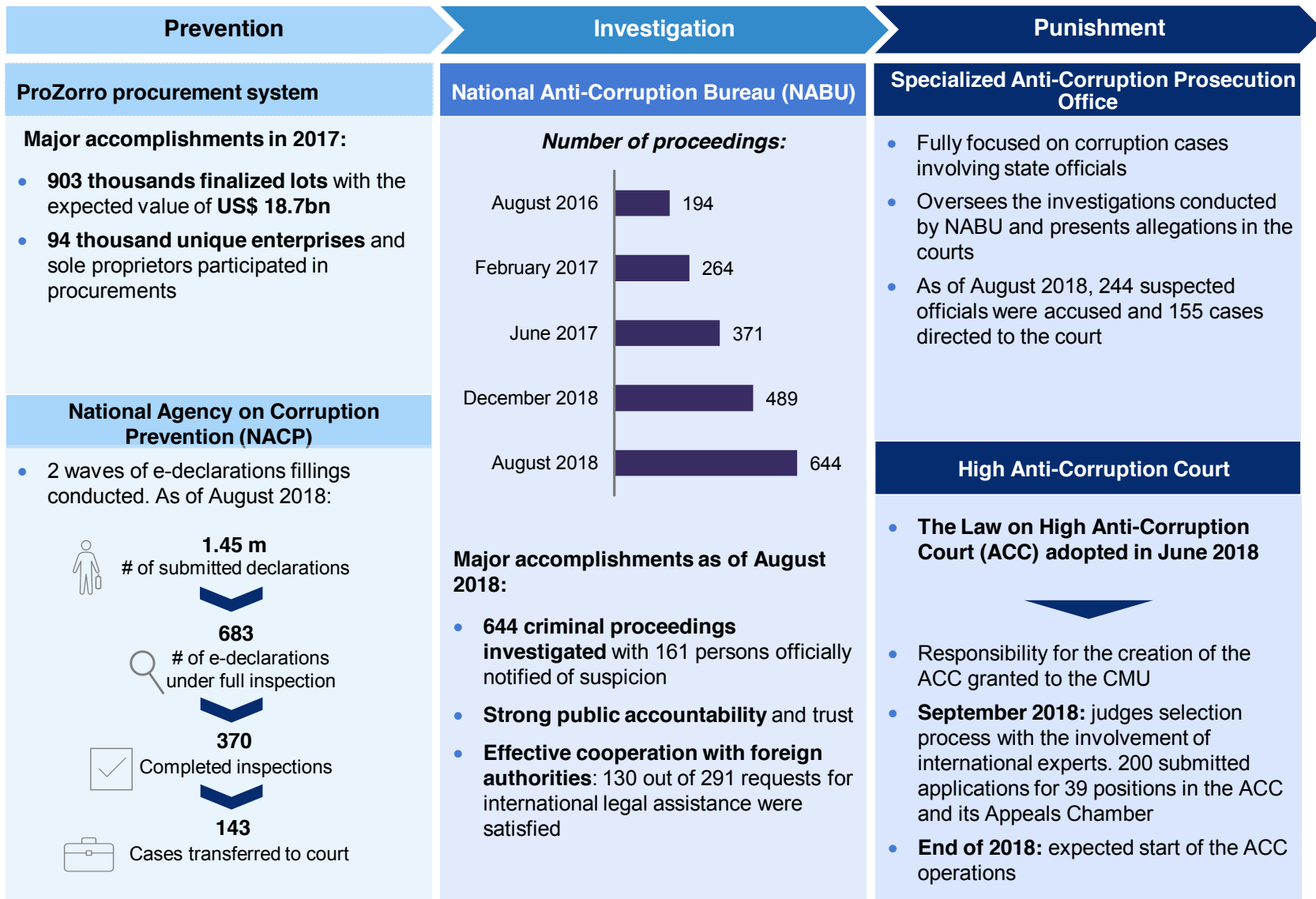
Established



In progress



Full anti-corruption infrastructure is being established



Sources: ProZorro, NACP, NABU



Details of Ukraine's return to the international bond market

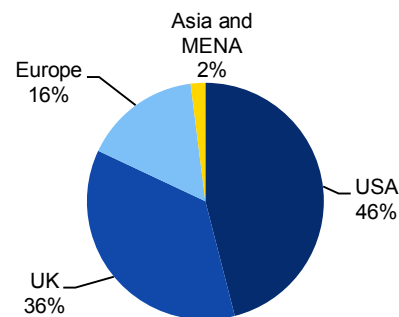
Ukraine's \$3bn 15-year Eurobond issue and \$1.6bn tender offer on 2019 & 2020 series

Institution
<ul style="list-style-type: none"> ▶ On September 18th, 2017, Ukraine returned to capital markets following a 5-day roadshow in London, New York and Boston <ul style="list-style-type: none"> • US\$ 3bn, 15-year Eurobond issue at a yield of 7.375%, a 37.5bps tightening from IPTs in the 7.75% area • Amortized in the final two years • The use of proceeds consisted of the financing of the buyback of outstanding Eurobonds 2019 & 2020 for US\$1.7bn, and US\$ 1.3bn new money component for general budget purposes ▶ Ukraine concluded a concurrent-tender offer on its 2019 and 2020 Eurobond series at a price of 106.0 and 106.75, representing a 7.0bps and 6.5bps premium respectively¹ <ul style="list-style-type: none"> • Structured to give priority to the 2019 series with acceptance of any and all 2019 notes tendered and the remaining acceptance amount for the 2020 series, up to a US\$ 1.5bn cap • Ukraine accepted the totality of the tendered notes for US\$ 1.57bn, of which US\$ 1.2bn of 2019 and US\$ 415m of 2020 notes • The tender offer reached a very high 44% blended participation rate with 64% participation for the priority 2019 leg of the buyback ▶ This transaction received a very strong demand from international investors with a close to US\$ 10bn orderbook with 350 investors participating <ul style="list-style-type: none"> • Largest Ukrainian Sovereign issuance ever • All key real money UK and US accounts placed a significant order (78% of allocation to asset managers)

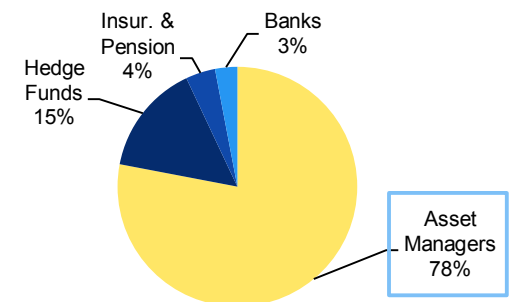
Term sheet – Ukraine 2032 Eurobond	
Issuer	Ukraine
Issuer Ratings	B- (S&P) / NR / B- (Fitch)
Format	144A / RegS
Amount issued	\$3.0bn
Final Maturity	2032
Amortization	4 equal instalments - March / Sept. 2031/32
Re-offer Price	100%
Spread (vs UST)	514.3 bps
Coupon	7.375% p.a., payable semi-annually
Governing Law	English Law
Joint Bookrunners	BNPP, Goldman Sachs, J.P. Morgan
Overbook Size	c.US\$ 9.5bn
No. Of investors	350

Term sheet – Buyback transaction			
	2019	2020	Total
Amount outstanding (before transaction)	US\$ 1,822m	US\$ 1,780m	US\$ 3,602m
Amount tendered	US\$ 1,161m	US\$ 415m	US\$ 1,576m
Participation rate (%)	63.7%	23.3%	43.8%
Amount outstanding (pro forma)	US\$ 661m	US\$ 1,365m	US\$ 2,026m
Buyback Price	106.00	106.75	-
Accrued Interest	US\$ 6.0m	US\$ 2.1m	US\$ 8.1m
Total Cash consideration	US\$ 1,237	US\$ 445m	US\$ 1,682
Dealer Managers	BNPP, Goldman Sachs, J.P. Morgan		

Distribution book – By region



Distribution book – By investor type



Note
1 On the closing price of the day prior to the announcement

Sources Bloomberg, Bookrunners



Key milestones

- ▶ **17 February 2016:** The Law Debenture Trust Corporation plc, acting on behalf of the Russian Federation as the sole holder of purported Ukraine's US\$ 3bn Eurobond, filed a lawsuit against Ukraine in the High Court of England and Wales seeking repayment of notes
 - Ukraine's position: the bond, sold on the eve of a 2014 revolution in Kiev, was induced by threats and acts of unlawful political, economic and military aggression from Moscow and was in any event void as being beyond Ukraine's capacity and/or the Minister's authority, amongst other reasons
 - Russia's position: English courts should hear the case as a straight-forward default, and were not entitled to take such aggression into account
- ▶ **29 March 2017:** the High Court issued a Summary Judgment decision in favour of the claimant
 - Ukraine appealed before the Court of Appeal of England and Wales
- ▶ **22-26 January 2018:** Appeal hearing took place
- ▶ **14 September 2018:** A final judgment has been rendered by the Court of Appeal that the case should go to a full trial on Ukraine's duress defence

Ukraine argues that the alleged contracts for the Russian bonds are void and unenforceable because of Russia's wanton threats and acts of political and military aggression towards Ukraine

Details on Judgment (September 14, 2018)

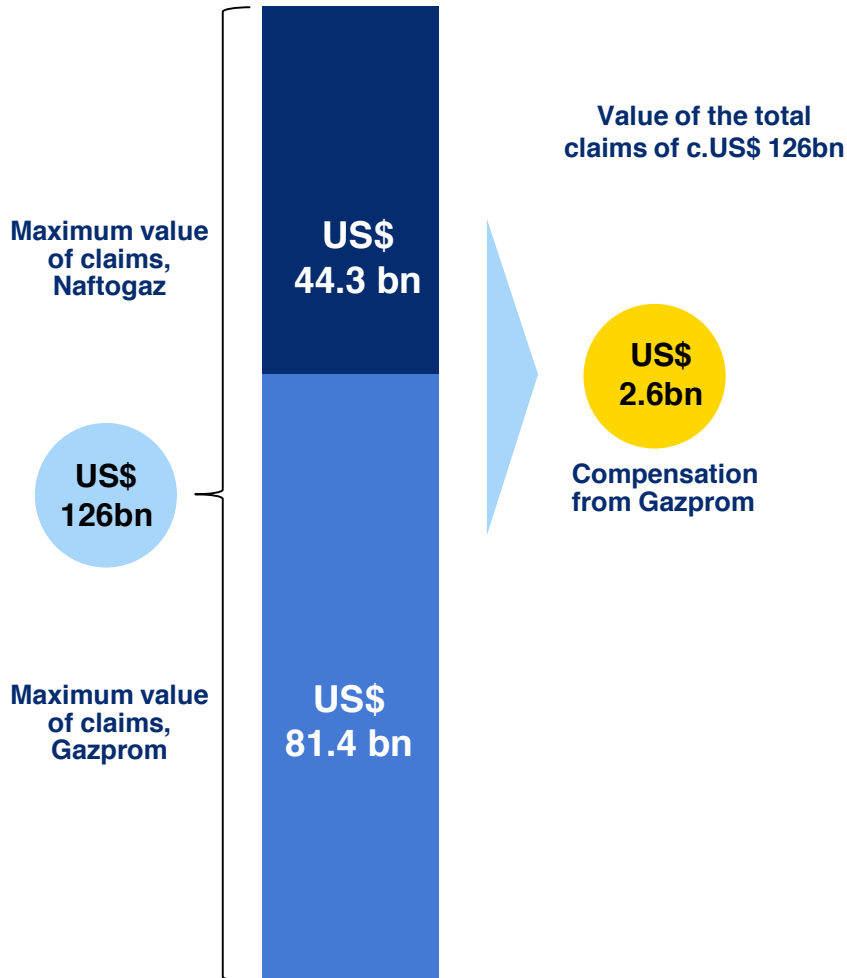
- ▶ The first instance judge was wrong:
 - to decline to permit Ukraine's defence of duress to proceed to trial; and
 - to refuse to grant Ukraine a permanent stay of the proceedings if Ukraine's defence of duress could not be adjudicated by the English Court.
- ▶ Ukraine has lost on the issues of capacity, authority, implied terms and countermeasures, as well as on the issue as to whether there are any other compelling reasons for the case to go to trial
- ▶ Ukraine has therefore succeeded in its appeal and the **Summary Judgment has been set aside, subject to any appeal to the Supreme Court**

"It **would be unjust** to permit Law Debenture and Russia to proceed to seek to make good the contract claim **without Ukraine being able to defend itself** by raising its defence of duress at trial."

The Law Debenture Trust Corporation p.l.c. v Ukraine, Approved Judgment, Court of Appeal of England and Wales September 14, 2018

Historical victory for Ukraine: Stockholm Arbitration

Case description



Key results of the Arbitration on gas supply contract

Gazprom's claims	Tribunal's decision
485 US\$ per tcm Contract gas price In Q2 2014	352 US\$ per tcm Gas price for Q2 2014 reduced
56 US\$ bn Gazprom's take-or-pay (ToP) claims	0 US\$ bn ToP provisions declared invalid and the claims based on ToP provisions fully rejected
52 bcm Minimum annual contract volume obligations	5 bcm Minimum annual contract volume obligations reduced to actual needs
CADLR * To pay for gas allegedly supplied to the temporarily occupied territories	CADLR * Naftogaz will not pay for supplies to CADLR

*Certain Areas of Donetsk and Luhansk Regions

Key results of the Arbitration on gas transit contract

- ▶ **Violation by Gazprom of its obligations for transit volumes amounting to 110 bcm per year**
 - Naftogaz awarded **compensation from Gazprom of US\$ 4.6bn**
 - **Net US\$ 2.6bn after set-off of the amounts owed between the parties in both cases**

Naftogaz has initiated **enforcement of the US\$ 2.6bn award**

- ▶ Freeze of Gazprom's assets in England and Wales¹
- ▶ Freeze of Gazprom's stakes in its Dutch subsidiaries
- ▶ Actions in Switzerland and the Netherlands

Sources: Naftogaz, Naftogaz's 2017 Annual Report

Note 1 On 18 June 2018 English court granted a freezing order against Gazprom. On 13 September 2018, upon mutual consent of the parties, the freezing order was discharged by the court in exchange of written undertaking from Gazprom, as accepted by the court, not to dispose of or otherwise deal with or diminish the value of any of its shares in the Swiss company Nord Stream AG, save that Gazprom shall be permitted to deal with or dispose of or diminish the value of the shares in the ordinary and proper course of business.





MINISTRY OF
FINANCE OF
UKRAINE

Thank you for your attention!