

MINISTRY OF FINANCE OF UKRAINE



Investor presentation

Kyiv, Friday, March 13, 2015





- WHILE THE MINISTRY OF FINANCE OF UKRAINE HAS USED ALL REASONABLE EFFORTS TO ENSURE THAT THE FACTUAL INFORMATION CONTAINED IN THIS PRESENTATION IS CORRECT, ACCURATE AND COMPLETE IN ALL MATERIAL RESPECTS AT THE DATE OF PUBLICATION, NO REPRESENTATION OR WARRANTY IS MADE (EXPRESS OR IMPLIED) AS TO THE RELIABILITY, ACCURACY OR COMPLETENESS OF SUCH INFORMATION AND NO RELIANCE SHOULD BE PLACED ON SUCH INFORMATION. IN ADDITION, CERTAIN HISTORICAL INFORMATION SET FORTH IN THIS PRESENTATION IS PRELIMINARY IN NATURE OR BASED ON UKRAINIAN GOVERNMENT ESTIMATES, AND MAY BE SUBJECT TO SUBSTANTIAL CHANGE.
- THIS PRESENTATION INCLUDES FORWARD-LOOKING STATEMENTS. YOU ARE CAUTIONED NOT TO PLACE ANY RELIANCE ON FORWARD-LOOKING STATEMENTS. ALL STATEMENTS OTHER THAN STATEMENTS OF HISTORICAL FACT INCLUDED IN THIS PRESENTATION, INCLUDING, WITHOUT LIMITATION, THOSE REGARDING (I) IMPLEMENTATION OF THE GOVERNMENT'S REFORM PROGRAM, (II) PROVISION OF FINANCING FROM THE OFFICIAL SECTOR, (III) EVOLUTION OF THE CONFLICT IN EASTERN UKRAINE, (IV) THE SCOPE, TIMING AND RESULTS OF UKRAINE'S FORTHCOMING DEBT OPERATIONS REGARDING PUBLIC SECTOR DEBT AND (V) UKRAINE'S FUTURE MACROECONOMIC PERFORMANCE (INCLUDING EVOLUTION OF GDP GROWTH RATES, THE GDP DEFLATOR, THE GENERAL GOVERNMENT PRIMARY BALANCE AND THE USD/UAH EXCHANGE RATE), ARE FORWARD-LOOKING STATEMENTS. THESE FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS, WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR OUTCOMES TO BE MATERIALLY DIFFERENT FROM THOSE EXPRESSED OR IMPLIED BY THESE FORWARD-LOOKING STATEMENTS. THESE FORWARD-LOOKING STATEMENTS ARE BASED ON NUMEROUS ASSUMPTIONS REGARDING THE PRESENT AND FUTURE POLITICAL, ECONOMIC, FINANCIAL AND INTERNATIONAL SITUATION OF UKRAINE, ALL OF WHICH ASSUMPTIONS ARE SUBJECT TO SIGNIFICANT UNCERTAINTY AND CHANGE.

I GENERAL PRESENTATION

A Overview of the current economic situation of Ukraine	6
B Ukraine's program supported by the IMF	12
C Overview of the debt operations	16
D Debt restructuring principles and next steps	21

II Q&A SESSION



I. General presentation

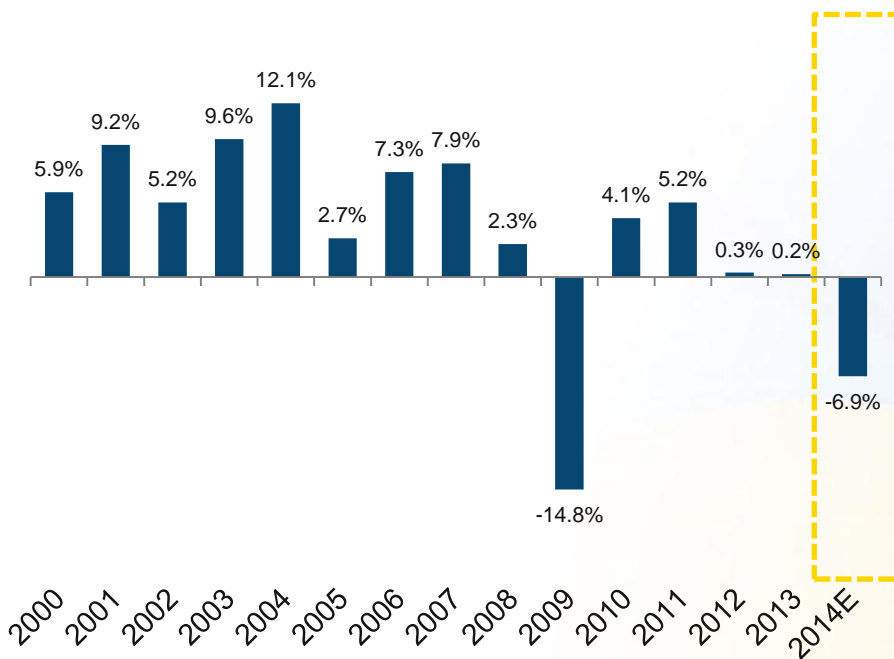




A Overview of the current economic situation of Ukraine

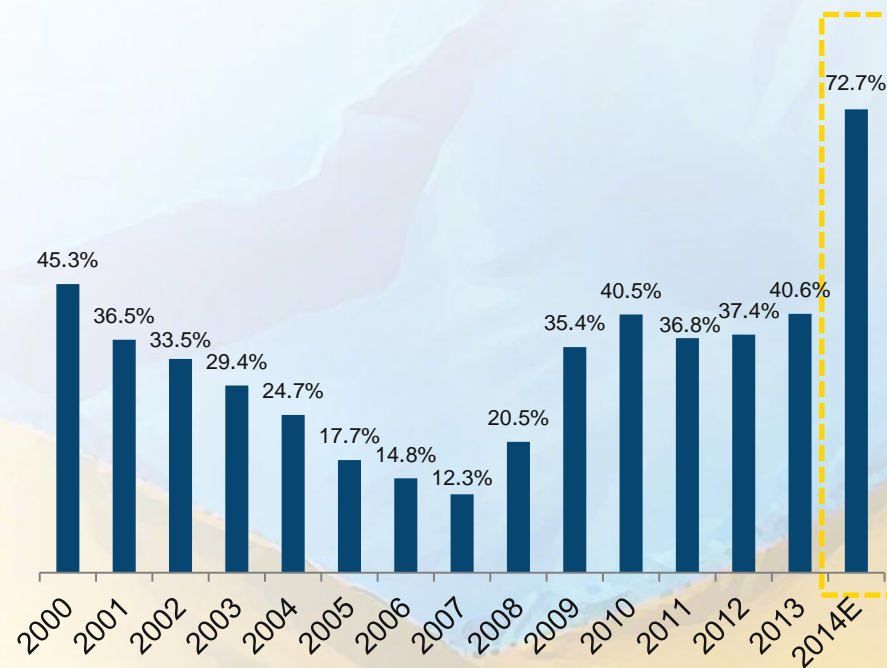


REAL GDP GROWTH RATE (IN % CHANGE)



Source: IMF

PUBLIC AND PUBLICLY GUARANTEED DEBT (IN % OF GDP)



Source: IMF

Delay in implementation of needed reforms in the past years coupled with the armed conflict in the Eastern part of Ukraine triggered a very deep crisis



In 2014, Ukraine has undertaken a number of steps to cope with the deterioration of its macroeconomic framework





FIELD	SELECTED MEASURES ALREADY IMPLEMENTED
<p>NATIONAL SECURITY AND DEFENSE</p>	<ul style="list-style-type: none"> ■ Improved combat readiness of the armed forces ■ Initiated proceedings before international tribunals arising from events in Crimea and Eastern Ukraine ■ Minsk I agreement reached
<p>MACROECONOMIC AND FINANCIAL STABILITY</p>	<ul style="list-style-type: none"> ■ Simplified tax system ■ Broadened tax base ■ Simplified business procedures
<p>ENERGY INDEPENDENCE</p>	<ul style="list-style-type: none"> ■ Launched the reverse supply system of natural gas into Ukraine from the EU ■ Increased natural gas reserves ■ Adopted a legal framework for foreign companies to invest into the Ukrainian gas transportation system ■ Eliminated every intermediary for international gas supply
<p>EUROPEAN INTEGRATION</p>	<ul style="list-style-type: none"> ■ Signed and ratified the Association Agreement with the EU ■ Adopted legislation and completed the first phase of the Visa Liberalization Action Plan ■ Created a coordination system by establishing an EU integration office in the government
<p>GOOD GOVERNANCE</p>	<ul style="list-style-type: none"> ■ Organized free and fair democratic presidential and parliamentary elections ■ Adopted a package of anti-corruption laws ■ Began lustration of senior public officials

Source: Report of the government – February/November 2014

“Over the past year, despite the challenging environment, the Ukrainian authorities have clearly shown their commitment to ambitious reform on several key fronts.” - Ms. Christine Lagarde, Managing Director of the International Monetary Fund, February 12, 2015

War in Ukraine is creating an unacceptable humanitarian crisis and devastating economic effects

HUMANITARIAN AND ECONOMIC EFFECTS OF THE ONGOING ARMED CONFLICT



HUMANITARIAN CRISIS

- 61 armed attacks recorded yesterday
- Based on conservative estimates, over 6,000 persons (including 63 children) were killed and at least 14,595 (including 169 children) were wounded since the beginning of the conflict
- c.1.1 million internally displaced persons, 60% of which are pensioners

Source: UN Human Rights Mission in Ukraine, World Health Organization Data as of March 2, 2015 and February 19, 2015

ECONOMIC EFFECTS

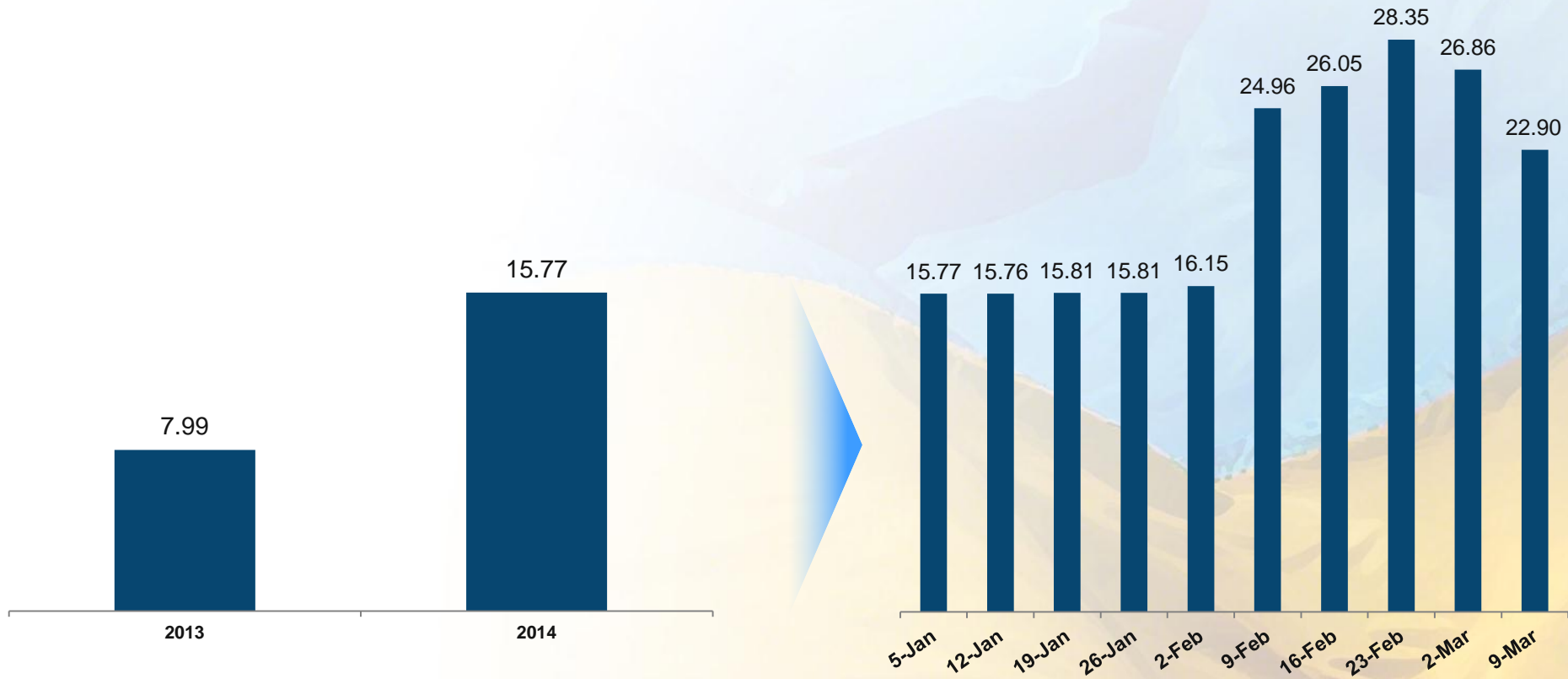
- Donetsk and Luhansk regions represented almost 16% of the Ukrainian GDP in 2013 (*)
- Donetsk and Luhansk regions accounted for approximately 22.2% of Ukraine's industrial output in 2013 (*)
- As a result of the war, the industrial sector output of Ukraine has fallen by 10.7% in 2014 and of Donetsk and Luhansk regions by c.31.5% and 42%, respectively, in 2014 (**)
- In Donetsk region alone, more than 9,215 apartment buildings (12% of all residential structures) were destroyed or severely damaged by Feb.3, 2015 (**)

Source: (*)State Statistics Service; all data valid as of Feb.6, 2015
(**) The central bodies of the government of Ukraine
Note: Figures are calculated without taking into account Crimea and Sevastopol



Purchasing power of most Ukrainians has dropped significantly

USD-UAH OFFICIAL EXCHANGE RATE (END OF YEAR FIGURES FOR 2013-2014)



Source: National Bank of Ukraine



B Ukraine's program supported by the IMF



The authorities' IMF-supported program is based on the restoration of strong growth in the medium-term

IMF MACROECONOMIC BASELINE SCENARIO MAIN ASSUMPTIONS

- **End of recession next year**
- **General government primary surplus from end of 2015** (*excl. Naftogaz*)
- **Exchange rate assumptions: between 22 and 23.8 USD/UAH**
- **GDP deflator in single digit figure in 2017 and afterwards**

Macro indicators projections	2014E	2015F	2016F	2017F	2018F	2019F	2020F
Real GDP growth rate (in % change)	-6.9%	-5.5%	2.0%	3.5%	4.0%	4.0%	4.0%
GDP deflator (in % change)	12.5%	27.6%	10.6%	9.0%	7.2%	6.0%	6.0%
Gen. gov't primary balance (in % of GDP)	-1.2%	1.1%	1.4%	1.6%	1.6%	1.6%	1.6%
USD/UAH exchange rate	15.8	22.0	22.7	23.4	23.5	23.6	23.8

Source: IMF

The revised reforms package agreed with IMF covers five main areas

MONETARY AND EXCHANGE RATE POLICY

- **Implement a flexible exchange rate regime**
- **Aim to rebuild FX reserve buffers**
- **Restructure the NBU organizational structure and communications**
- **Future adoption of inflation targeting**

FISCAL POLICY

- **Restrain spending and enhance fiscal discipline**
 - Tax policy reforms
 - Full economic cost recovery gas tariff
 - Reduce civil service workforce
 - Healthcare reform (open to private sector financing)
 - Education reform (rationalization of the system)
 - Pension reform
 - Reduce subsidies to SoEs, and eliminate Naftogaz's deficit
- **Improve revenue administration and public financial management**

BANKING SECTOR POLICIES

- **Ensure proper identification, monitoring and unwinding of loans to related parties**
- **Strengthen supervision of banking risks**
- **Resolve banks that do not comply with their recapitalization plans**
- **Strengthen bank capacity to resolve bad loans**

ENERGY SECTOR POLICY

- **Restore the financial health of Naftogaz** (increase household tariffs, improve collection rates, and lower costs)
- **Increase Naftogaz efficiency and improve governance**
- **Elimination of energy subsidies and implementation of compensation scheme for the most vulnerable**

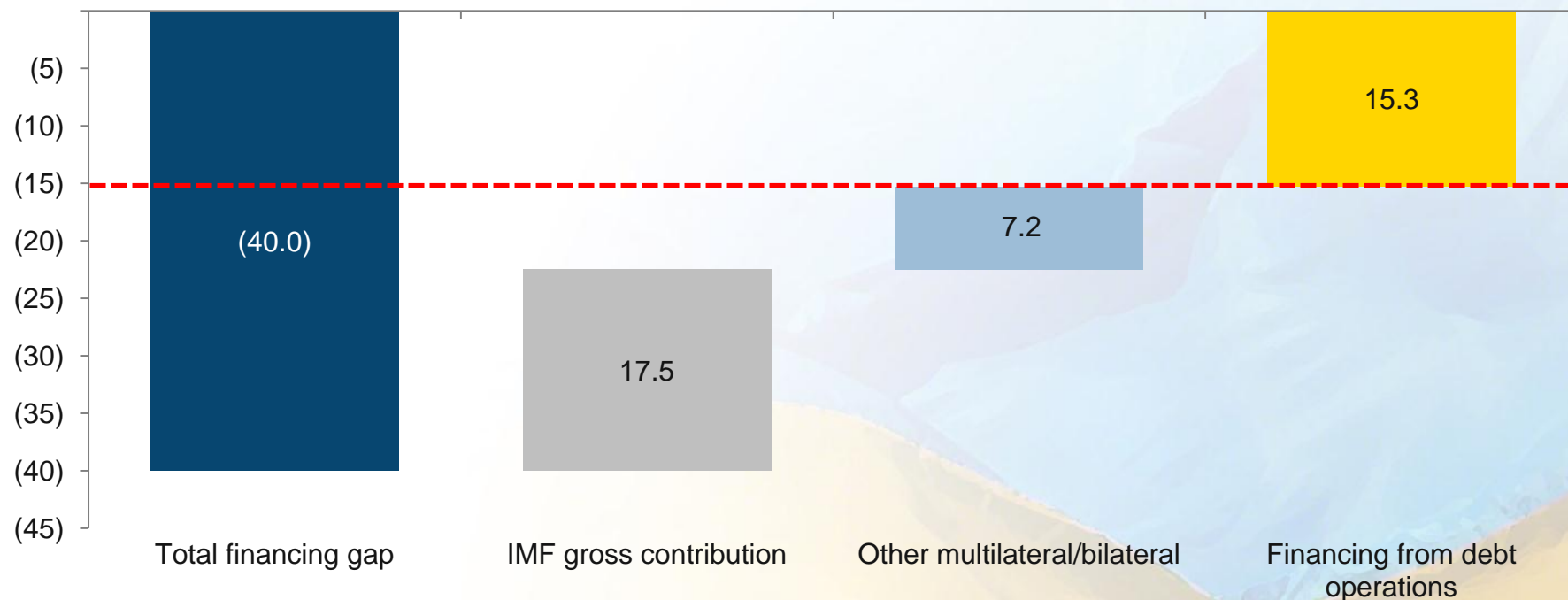
GOVERNANCE/TRANSPARENCY/BUSINESS CLIMATE

- **Strengthen governance and the transparency of government operations (anti-corruption policies)**
- **Enhance Ukraine's anti-money laundering framework**
- **Streamline the regulatory framework pertaining to economic activity**



How much creditors are expected to contribute

OVERVIEW OF UKRAINE'S FINANCING NEEDS AND FINANCING SOURCES (GROSS FIGURES IN USD BN)



Source: IMF

- Out of a total of c.USD40bn of gross financing needs, USD24.7bn are provided by new money coming from bilaterals and multilaterals
- Debt operations with holders of public sector debt are anticipated to cover the residual financing needs of USD15.3bn under the IMF-supported program



C Overview of the debt operations



Public sector external debt operations should allow Ukraine to meet three targets

Target #1

Generate US\$15.3 billion savings in public sector financing during the IMF program period

- From external debt payments on the sovereign, sovereign-guaranteed and state-owned entities

BoP objective

Target #2

Bring the public and publicly guaranteed debt/GDP ratio under 71% of GDP by 2020

- Includes general government external and domestic debt as well as IMF's BoP support to the NBU and debt of entities depending directly on the Ukrainian state budget

Debt sustainability objective

Target #3

Keep the budget's gross financing needs at an average of 10% of GDP in 2019–2025 (maximum of 12% of GDP in any given year)

- Includes financing needs of entities that depend directly on the Ukrainian state budget

Payment capacity objective

The following debt instruments will be included in the debt operations, divided into two broad groups

PUBLIC AND PUBLICLY GUARANTEED DEBT (IMF DEFINITION)

- Government Eurobonds and Eurobonds of the Ukrainian Infrastructure Fund (Fininpro)
- Loans denominated in foreign currency of state-owned entities benefiting from a sovereign guarantee:
 - Ukravtodor
 - Ukrmedpostach
 - Yuzhnoe State Design Office
- City of Kyiv Eurobonds

STATE-OWNED ENTITIES

- The external debt of the following state-owned entities:
 - Oschadbank
 - Ukreximbank
 - Ukrzaliznytsia
- Including these entities is essential to meeting target #1 of the debt operations
- However, each entity will undergo a separate process targeting its specific situation

Numerous factors, including the armed conflict in Eastern Ukraine, can heavily impact the currently envisaged macro framework for Ukraine



“The projected downward trajectory of Ukraine’s public debt is subject to considerable risks, particularly from growth and real exchange rate shocks, and larger than expected contingent liabilities emanating from the banking sector.” - Request for Extended Arrangement Under the Extended Fund Facility and Cancellation of Stand-By Arrangement, Annex II. p66

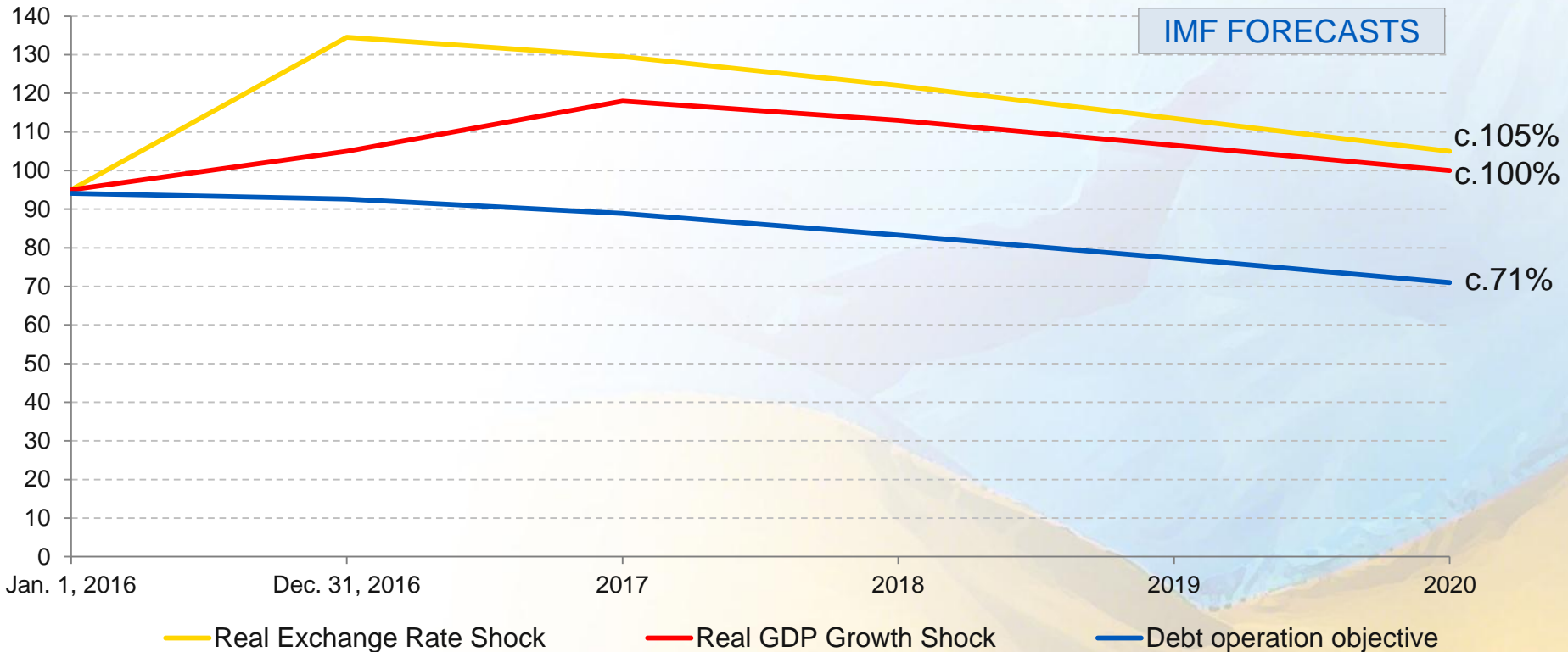
FACTORS POTENTIALLY IMPACTING THE PROGRAM

- Increased hostilities in Eastern Ukraine
- Social resistance to austerity measures
- Economic recovery proves more difficult than initially expected
- Real exchange rate shock
- Larger than expected financial burden emanating from either the banking and/or the energy sectors
- Crisis of confidence in the banking system
- External factors

In view of these risks, the macroeconomic framework may need to be updated before the formal debt treatment offers are made

Debt operations will need to account for possible shocks in the short to medium term while still allowing to meet IMF targets

GROSS NOMINAL PUBLIC DEBT (IN % OF GDP) – (YEAR END FIGURES UNLESS STATED OTHERWISE)



Source: IMF

Shocks

- Real GDP Growth Shock: Temporary shock in 2016 and 2017 (respectively -5% and -3.5% compared to 2% and 3.5% in the baseline scenario)
- Real Exchange Rate Shock: 30% depreciation compared to the baseline by 2020



D Debt restructuring principles and next steps





- A collaborative process is paramount to ensure Ukraine's debt sustainability in the medium to long term while ensuring Ukraine's ability to return to international capital markets in the next few years.
- Ukraine is committed to undertake consultations with its creditors on the basis of:
 - Transparency;
 - Good faith efforts for a collaborative approach; and
 - Inter-creditor equity.
- The program envisages that agreements with public sector debt holders will be reached before IMF's first review in June 2015.

- 1 Consultations between the public sector debt holders and Ukrainian authorities will be held in the coming weeks in main financial centers
- 2 Investors willing to be part of these consultations should register and apply at: ua.debtholders@lazard.fr



II Q&A session

