

Ukraine

Investor meetings

Vienna, January 2019



MINISTRY OF
FINANCE OF
UKRAINE

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Ukraine's economy: illustrative success stories

	2014 / 2015	2017 / 2018
 Real GDP growth	(6.6)% / (9.8)%	2.5% (2017) / 2.8% (Q3 2018)
 Consumer inflation (eop)	24.9% / 43.3%	13.7% (2017) / 9.8% (Dec 2018, y-o-y)
 Reserves (eop)	US\$ 7.5bn (2014) / US\$ 13.3bn (2015)	US\$ 20.8bn (Jan 2019) ¹
 Primary state budget balance	(1.9)% of GDP (2014)	2.1% of GDP (2017)
 State debt to GDP	67.1% (2015)	51.6% (Nov 2018) ²
 Naftogaz	Quasi-fiscal deficit at 5.5% of GDP (2015)	c.UAH 137bn paid in taxes and dividends to state budget in 2018

Notes

- 1 Preliminary estimates as of January 1, 2019
- 2 Based on LTM nominal GDP (Q4 2017 and Q1-Q3 2018)

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





1. A story of recovery and renewal supported by reforms achievements

2. Fiscal consolidation supporting a prudent debt management strategy

3. 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

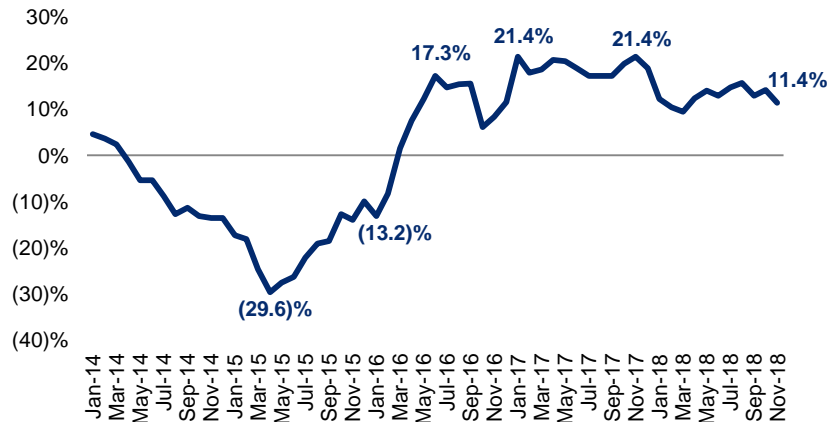
+21%

2017 US\$ 2,640

Comments

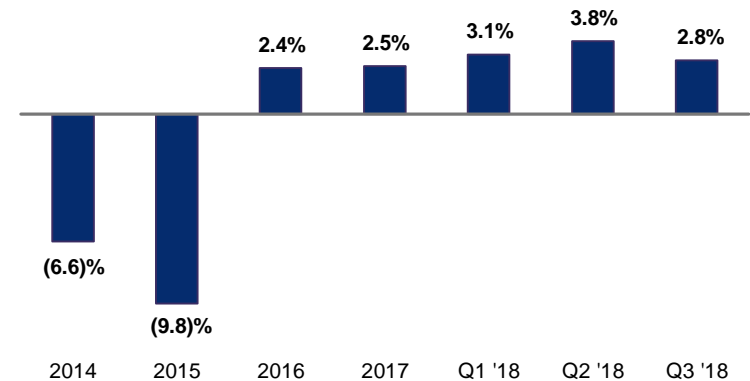
- ▶ **Ukraine's real GDP is growing for eleven consecutive quarters in a row**
- ▶ Real GDP growth accounted for 2.8% in Q3 2018 (y-o-y) compared to 2.5% in FY2017 and 2.4% in Q3 2017
- ▶ **An upturn in consumer demand remains the main driver of real growth dynamics** followed by a solid investment activity of Ukraine's enterprises
 - Retail trade turnover grew by 6.2% (y-o-y) in 11m 2018 on the back of rising real wages (11.4% growth y-o-y in November 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), %



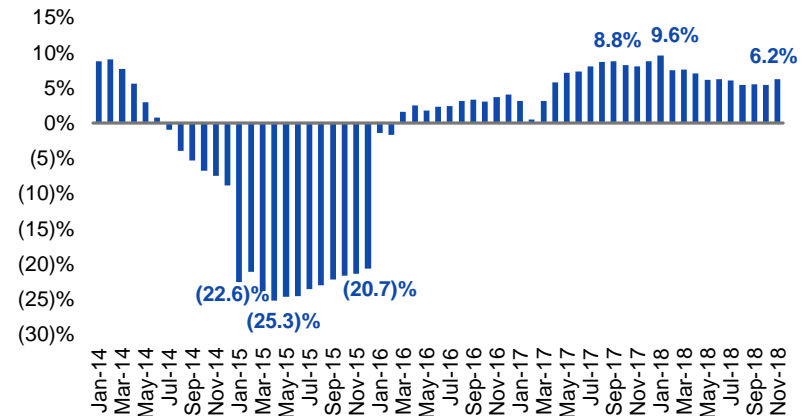
Source State Statistics Service of Ukraine

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

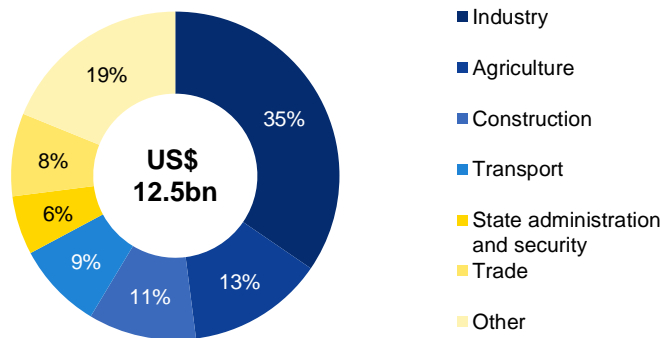
Source State Statistics Service of Ukraine

Solid economic recovery track (2/2)

Comments

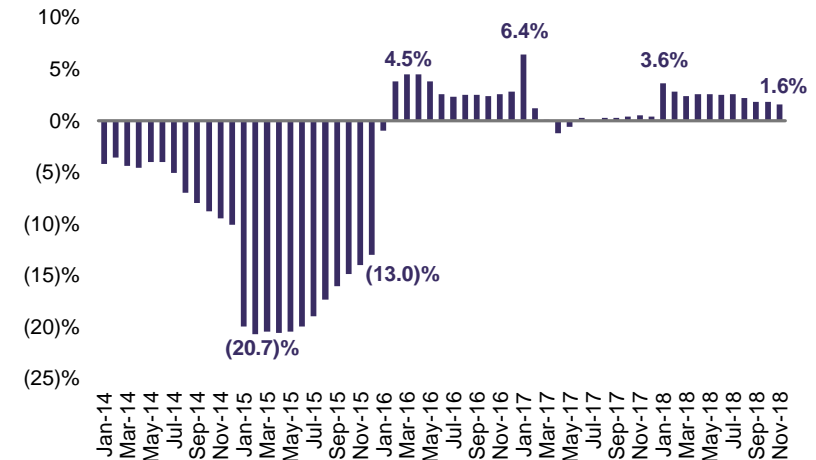
- ▶ **Investment demand** is another driver of Ukraine's economic recovery
- ▶ Industrial output grew by 1.6% (y-o-y) in 11m 2018 predominantly owing to the increased production in chemical products (18.6%), machinery (2.7%), mining industry (2.2%) and utilities (2.0%)
- ▶ Capital investments witnessed 19.9% growth (y-o-y) in 9m 2018, thus solidifying Ukraine's further economic growth prospects
 - **Industry has been the major contributor to capital investments in 9m 2018 accounting for c.35%** followed by agriculture and construction with 13% and 11%, respectively

9m 2018 capital investments split by sector, %



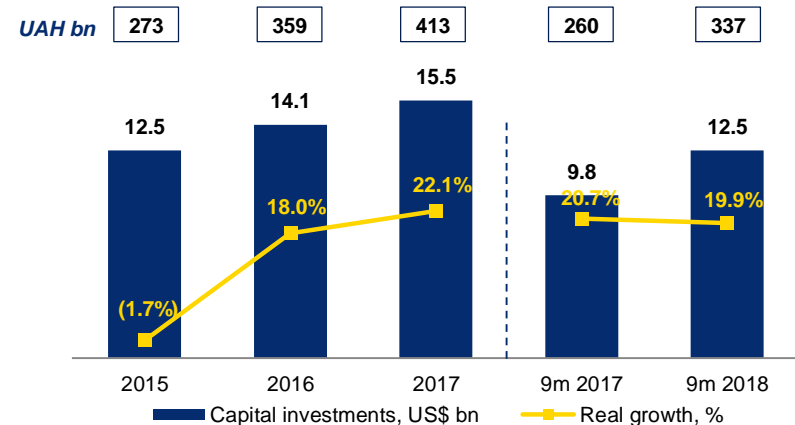
Source State Statistics Service of Ukraine

Industrial output growth (y-o-y)¹, %



Source State Statistics Service of Ukraine

Capital investments dynamics



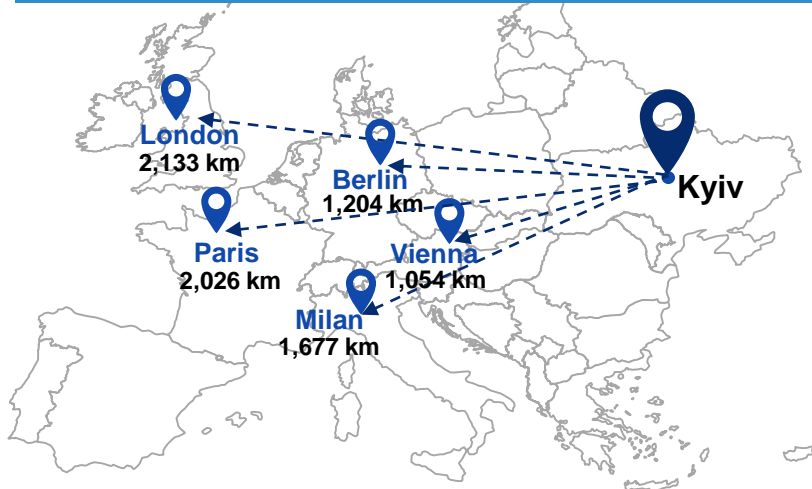
Source State Statistics Service of Ukraine

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



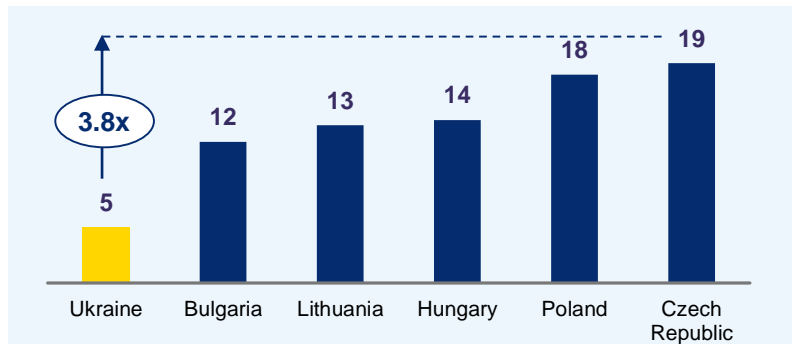
Highly educated and skilled human capital

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

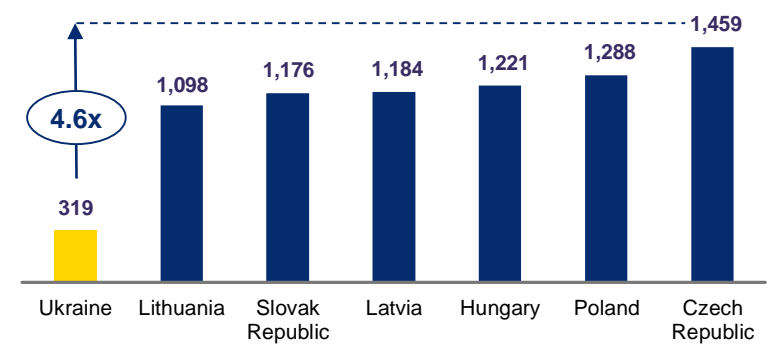


Note 1 incl. taxes; Ukraine: average between 1st and 2nd voltage class tariffs; other countries: companies with annual consumption between 0.5k and 2k MWh

Sources Eurostat, NEURC

Highest wage competitiveness in CEE

Average gross monthly wage for 9m 2018, US\$

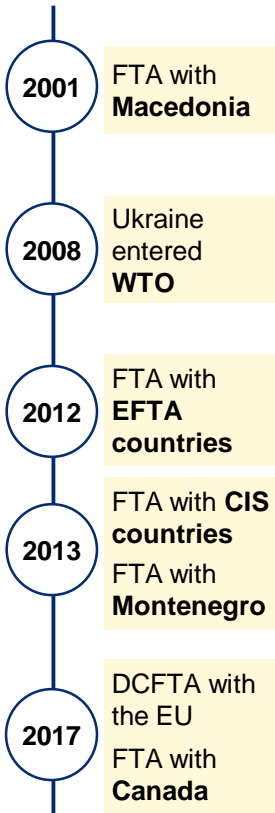


Sources State Statistics Service of each country



Extension of trade partner universe

Overall Ukraine concluded 17 FTAs with 45 countries



Comments

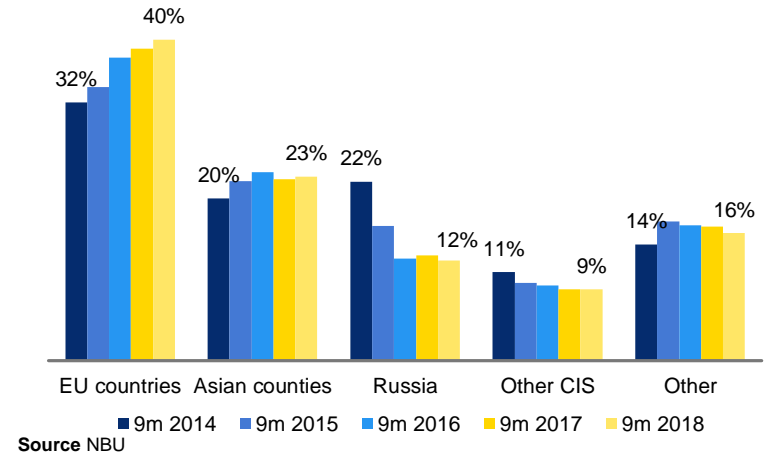
- ▶ Ukraine sets a course towards increasing and diversifying its base of trading partners
- ▶ Following a change in its trading policy Ukraine has undergone a major shift in trade flows towards the EU market in recent years
 - A share of the EU in Ukraine's foreign trade turnover¹ surged from 32% in 9m 2014 to 40% in 9m 2018 while share of Russia dropped from 22% to 12%
 - 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 9m 2018

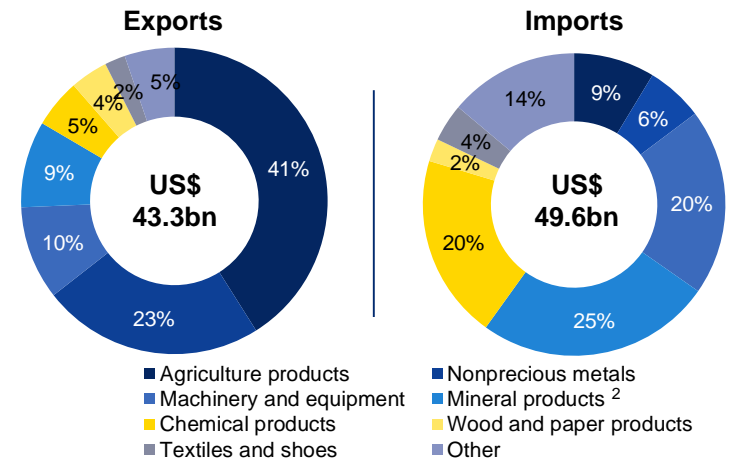
Product category	Growth (vs 9m 2017)
Metallurgy	+ US\$ 1.8bn / +22.7%
Machinery	+ US\$ 473m / +14.0%
Wood and products	+ US\$ 279m / +27.8%
Mineral products	+ US\$ 258m / +7.8%
Chemicals	+ US\$ 199m / +15.1%

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

Geographic breakdown of trade in 2014-2017¹



Ukraine's 2017 commodity exports breakdown



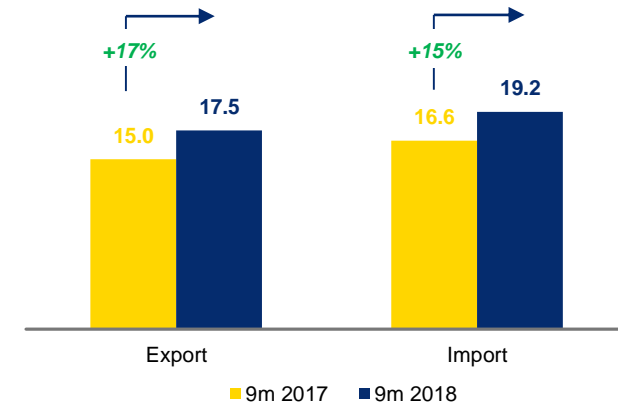
Enhancement of trade relations with the EU

Ukraine is among 5 largest exporters of agricultural products to the European Union

Key highlights

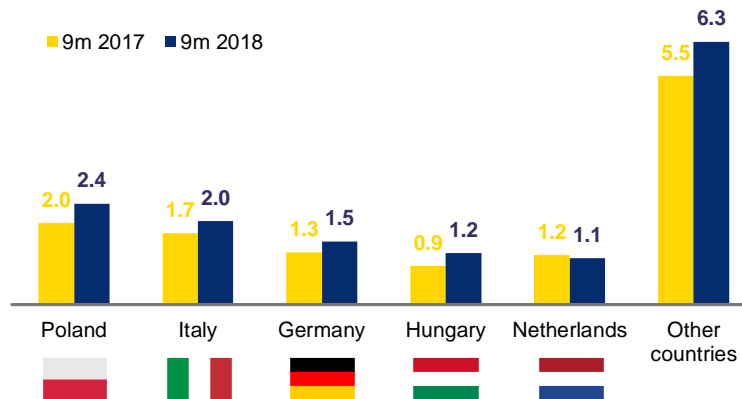
- ▶ Following the full implementation of DCFTA in September 2017, **Ukraine's export of goods and services to the EU has increased by 17%** in 9m 2018 (y-o-y) while **imports from the EU countries has grown by 15%**
 - **Export of services has raised by 19%** over 9m 2018 (y-o-y) totaling US\$ 2.9bn with the UK and Germany being the main destinations
- ▶ Goods export structure remained relatively stable with a modest **shift towards more value-added products**
- ▶ The largest increase in exports of goods over 9m 2018 (y-o-y) took place with **Cyprus, Norway, Latvia, Greece, and Croatia** (by more than 50% with each country)

Dynamics of trade in goods and services with the EU, US\$ bn



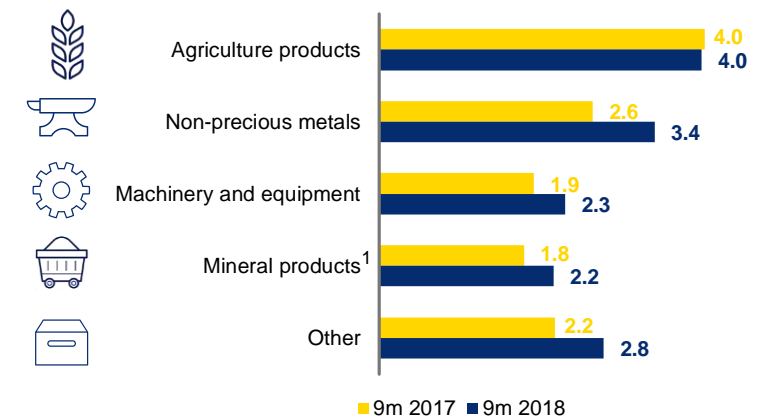
Source State Statistics Service of Ukraine

Key destinations of Ukraine's export of goods, US\$ bn



Source State Statistics Service of Ukraine

Export of selected goods to the EU, US\$ bn



Source State Statistics Service of Ukraine

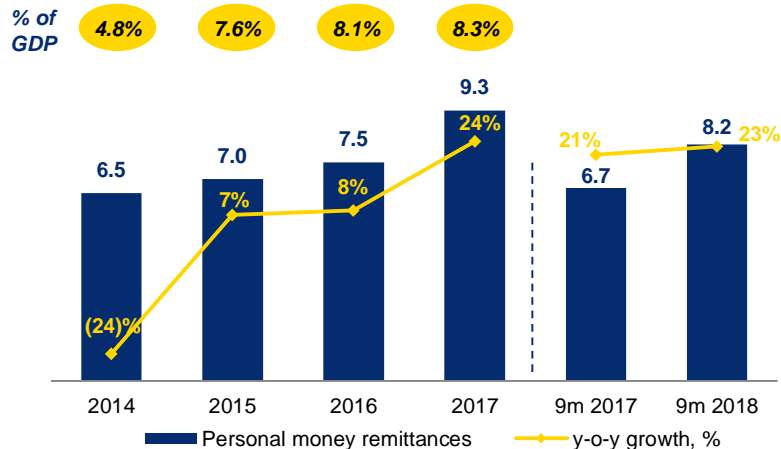
Note 1 Incl. fuel and energy products

Firm external position leading to less vulnerability to external shocks

Comments

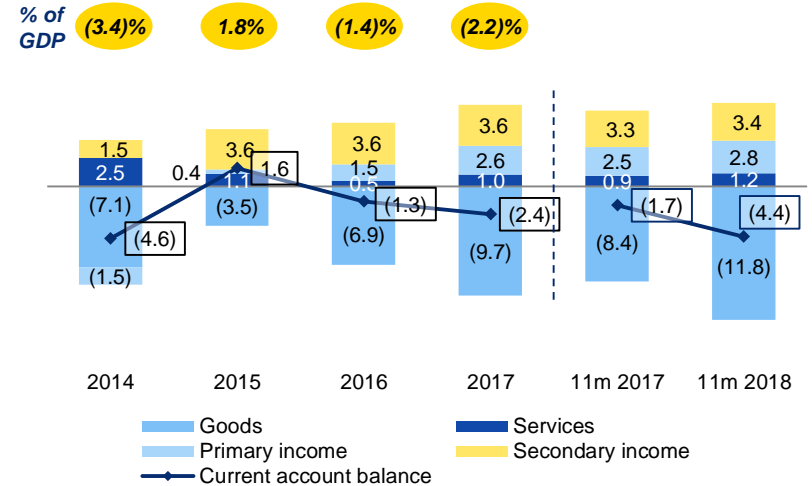
- ▶ **Trade balance deficit increase** up to 7.7% of GDP in 2017 relates to **growing consumer and investment demand**. The trend in 2018 is largely supported by rising energy resources and machinery imports
 - Import of machinery grew by 18.7% (y-o-y) in 11m 2018, while mineral products and chemicals increased by 16.8% and 10.1%, respectively
- ▶ **Negative trade balance is offset by growing personal money remittances together with capital account inflows** resulting into positive overall BoP of US\$ 1.1bn in 11m 2018
 - Money remittances witnessed 23% (y-o-y) growth in 9m 2018, thus solidifying Ukraine's external accounts

Personal money remittances, US\$ bn

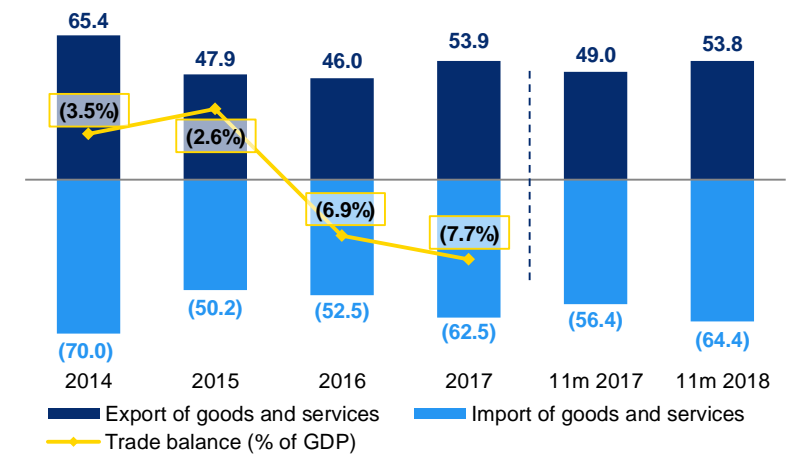


Source NBU

Current account balance, US\$ bn



Ukraine's trade balance dynamics, US\$ bn



Prudent monetary policy implemented by independent regulator

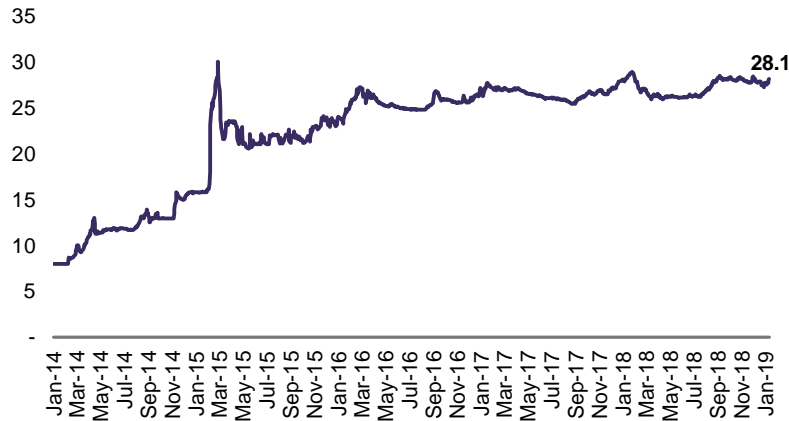
Medium-term consumer inflation target: 5% +/- 1%

Ukraine's international reserves reached a 5-year high as of end of 2018

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 the beginning of 2020
- ▶ The **international reserves** accounted for c.US\$ 20.8bn as of end of 2018 reaching a 5-year high. **The increase in the reserves** is predominantly attributed to the **receipt of foreign financing** from the IMF, the EU and Deutsche Bank under the World Bank's PBG totaling **c.US\$ 2.4bn**

UAH/US\$ exchange rate dynamics

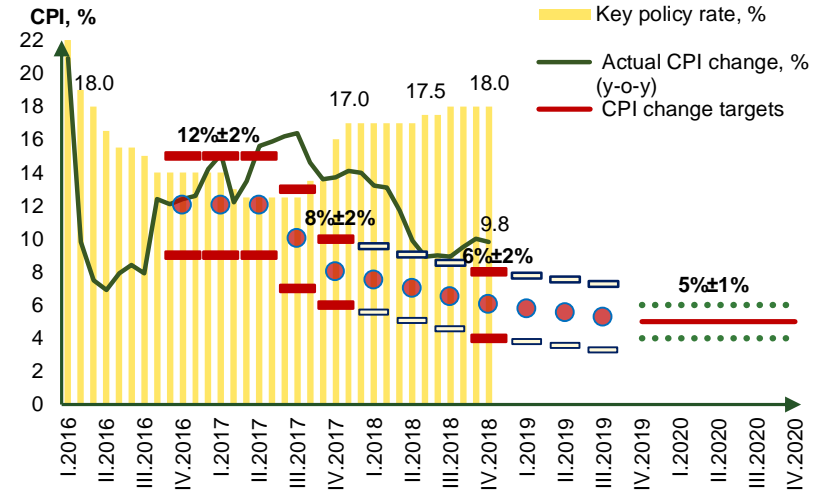


Notes

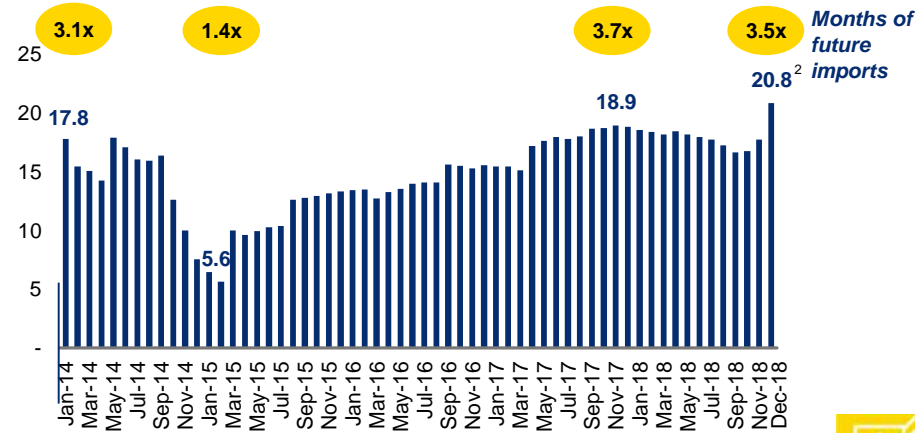
- 1 Key policy rate stated as of end of each month
- 2 Preliminary estimates as of January 1, 2019

Source NBU

Consumer price index (CPI) change and key policy rate¹



Gross international reserves, US\$ bn

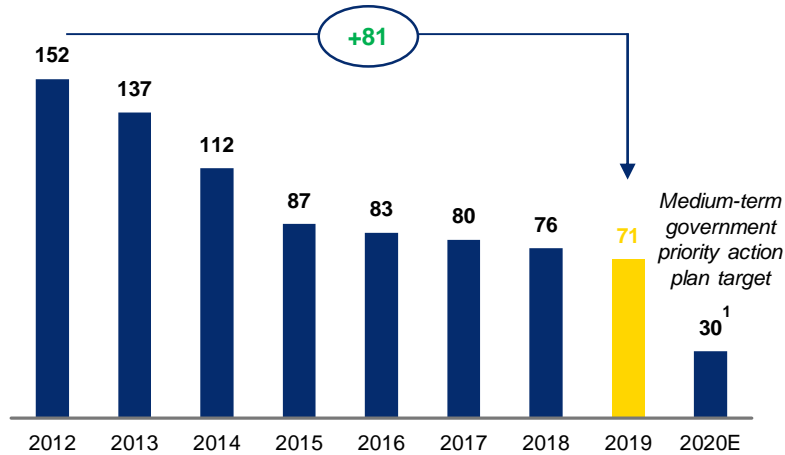


Business climate improvement to accelerate growth potential

Last Doing Business improvement (76 → 71)

- Trading across borders: **+41 (positions)**
- Enforcing contracts: **+25**
- Dealing with construction permits: **+5**
- Protecting minority investors: **+9**

Ease of Doing Business ranking

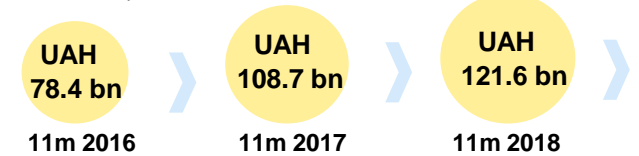


Source Doing Business

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

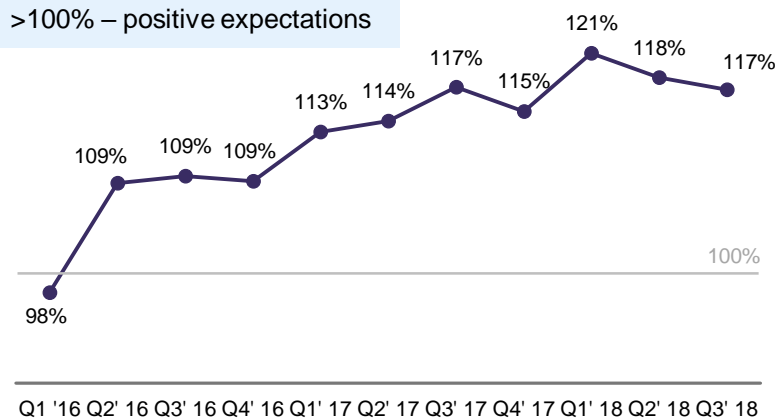


Sources National Investment Council, State Fiscal Service of Ukraine

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

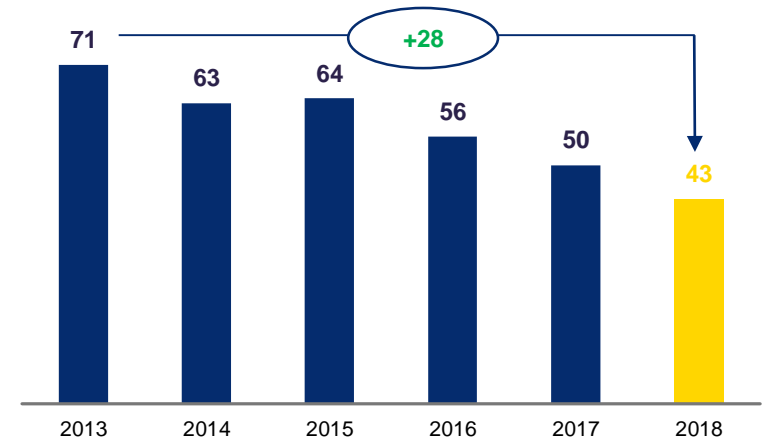
- Increased airport traffic: 25% (y-o-y) in 2018
- National road fund in place since 2018
- Concession of sea ports (in progress)

Business expectations index by the NBU



Source: NBU

Global innovation index



Source Global Innovation Index

Notes

1 Not lower than 30 position by end-2020

Source World Bank

Boosted activity of foreign investors over the last 6 months

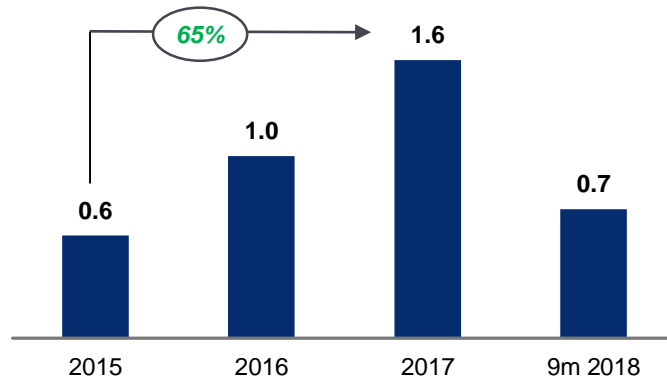
Main state institutions to support foreign investors:

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

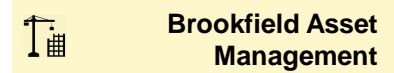


Sources: UkraineInvest, National Investment Council of Ukraine



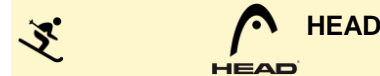
- ▶ US\$ 1bn 15-year framework agreement
- ▶ Renovation and modernization of Ukrzaliznytsia's traction rolling stock

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

Nov 2018

1. A story of recovery and renewal supported by reforms achievements



2. Fiscal consolidation supporting a prudent debt management strategy

3. Continuous support from economic partners

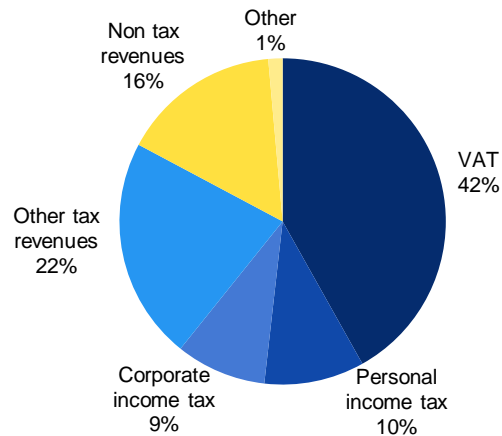
Appendices



Ambitious 2018 state budget reflecting fiscal consolidation trends

2018 state budget revenues split (FY 2018 budget)¹

State budget revenues: UAH 918bn

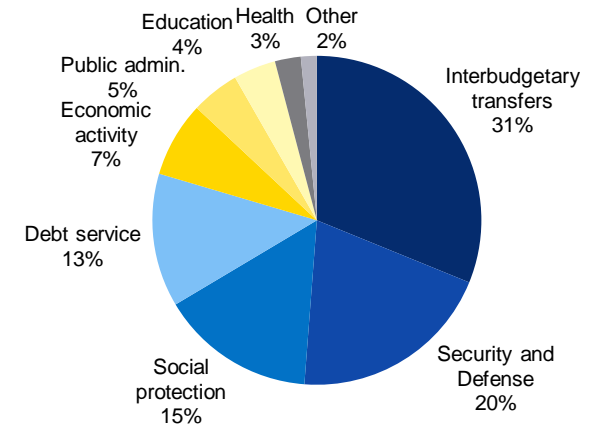


2019 vs. 2018 State budget figures¹:

- Total revenues: UAH 1,026bn (+12%)
- Total expenditures: UAH 1,112bn (+12%)
- Budget deficit: UAH 90bn / 2.3% of GDP²

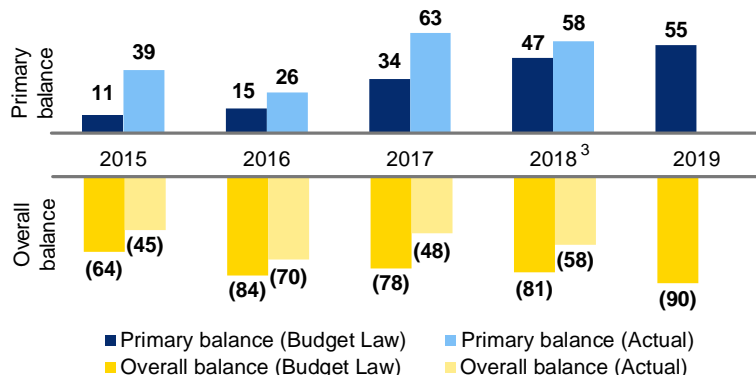
2018 state budget expenditures split (FY 2018 budget)¹

State budget expenditures: UAH 992bn



State budget balance, UAH bn

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

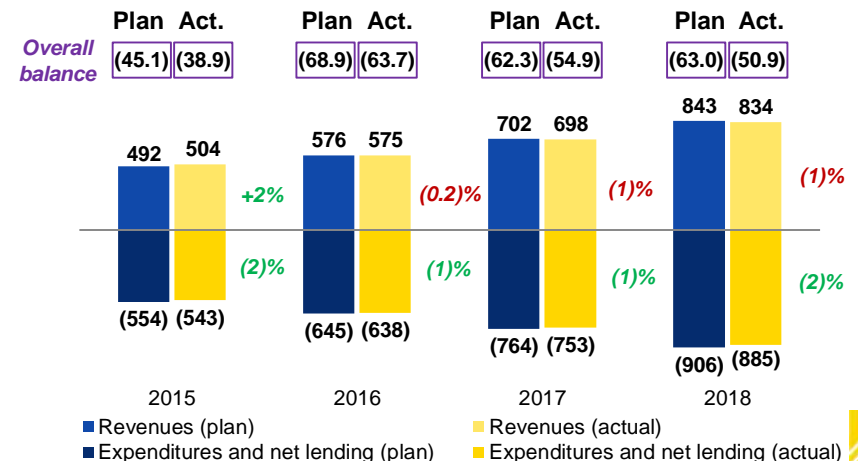


2019 State budget law was voted by the Ukrainian Parliament on November 23rd, 2018

Notes

- 1 According to 2018 State budget Law as of end-November 2018
- 2 Budget deficit defined as revenues minus expenditures and minus net lending
- 3 Preliminary estimates

State budget general fund performance, UAH bn

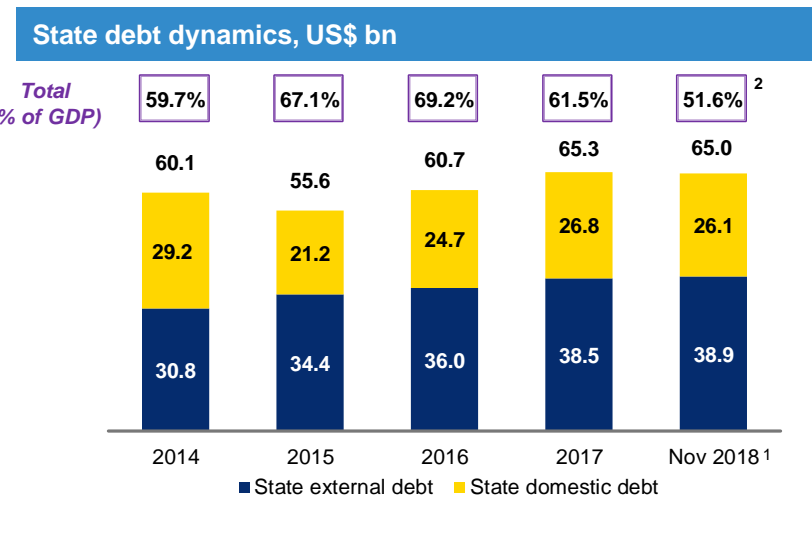
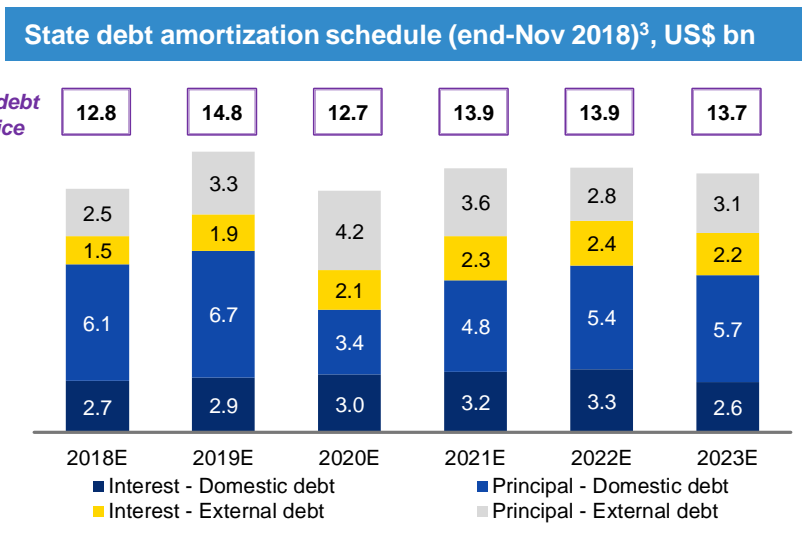
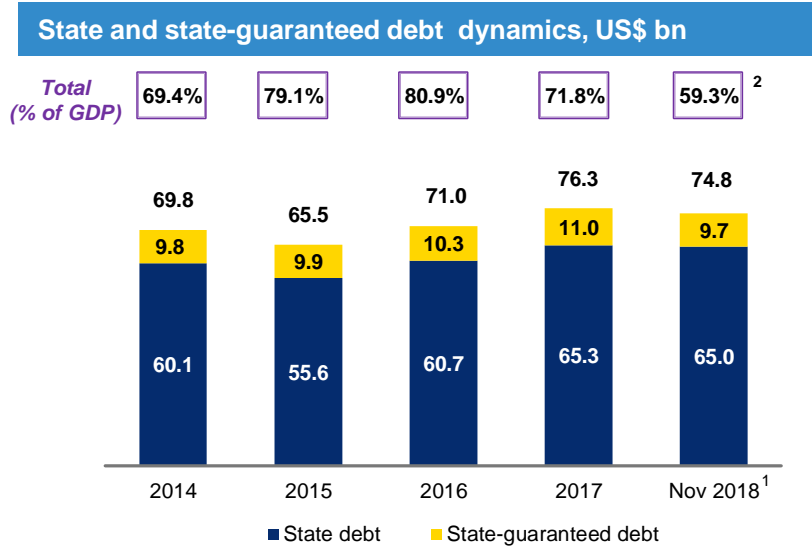
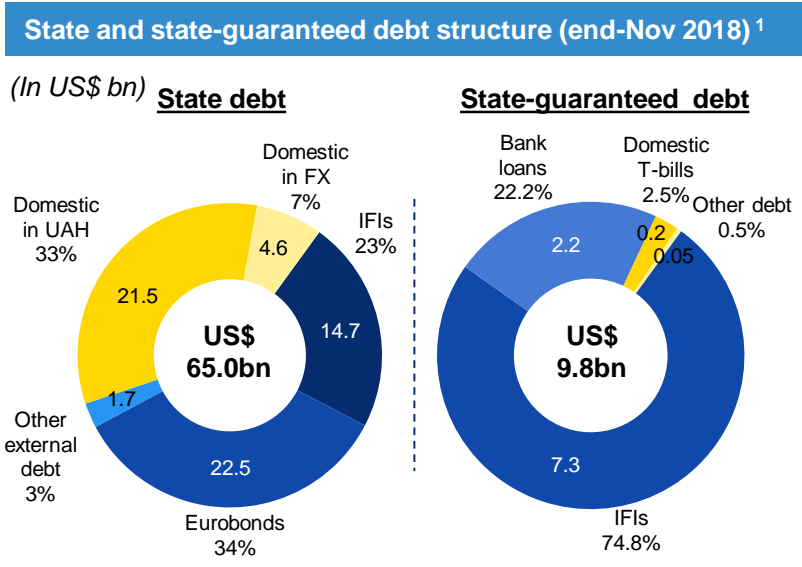


Source: State Treasury of Ukraine

Prudent and proactive debt management strategy

As of end of November 2018, Ukraine's total state and state-guaranteed debt (US\$ 74.8bn / UAH 2,122bn) split between:

- 65% of external debt, 35% of domestic debt
- 87% of state debt, 13% of state-guaranteed debt



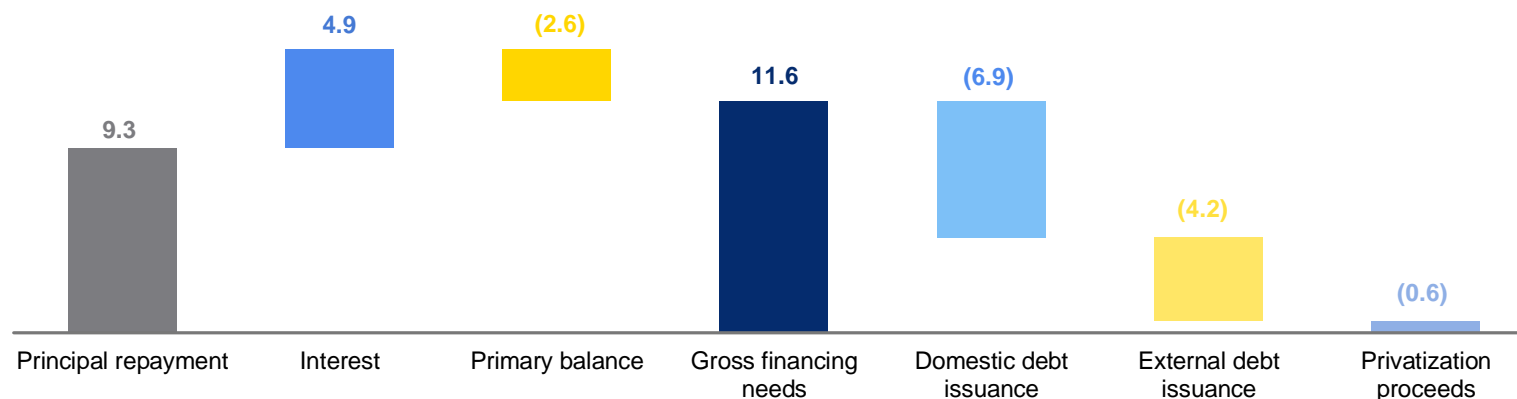
Notes
¹ Preliminary estimates
² Based on LTM nominal GDP (Q4 2017 and Q1-Q3 2018)
³ Incl. outstanding and planned debt obligations
 Source Ministry of Finance



Ukraine's 2019 gross financing needs

Based on 2019 State budget general fund

Ukraine's 2019 Gross financing needs split by funding sources, US\$ bn



	UAH bn ¹	US\$ bn ²
Gross financing needs	341.9	11.6
State borrowings	324.8	11.0
Domestic borrowings	202.0	6.9
Short-term	43.0	1.5
Medium-term	146.0	5.0
Long-term	13.0	0.4
External borrowings	122.7	4.2
Long-term	122.7	4.2
Privatization proceeds	17.1	0.6

- US\$ 4.2bn³ of external borrowings budgeted for 2019 envisage both commercial and concessional financing
- Among others 2019 concessional financing sources envisage funding within EU MFA program and World Bank PBG

Notes

- 1 Figures based on 2019 State budget law approved by the Parliament of Ukraine on November 23rd, 2018
- 2 Figures in UAH were translated into US\$ at 29.4 UAH/US\$ (exchange rate 2019 State budget law is based on); for reference, NBU UAH/US\$ exchange rate as of January 10th is 28.27 UAH/US\$
- 3 According to Appendix 2 of 2019 State budget Law

Sources Ministry of Finance,
2019 State budget law



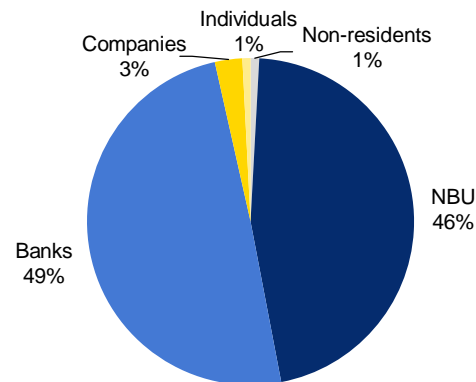
Ukraine's domestic government bond holders

Key highlights

- ▶ With **c.49%** share the banks are currently the largest holders of domestic government bonds followed by the NBU, which accounts for **c.46%** of the portfolio
- ▶ At c.1.6% of total outstanding Ukrainian domestic government bonds as of January 2019¹, the **portfolio held by non-residents is comparable in size to the portfolio held by individuals**
- ▶ **Ukraine is making decisive steps to deepen domestic government bond market** and to **increase share of non-residents in local currency bonds portfolio**
 - Clearstream, the international central securities depository, intends to establish the link with the depository of the NBU in Q1 2019

Domestic government bond holding structure, % of total²

Total portfolio: UAH 755bn

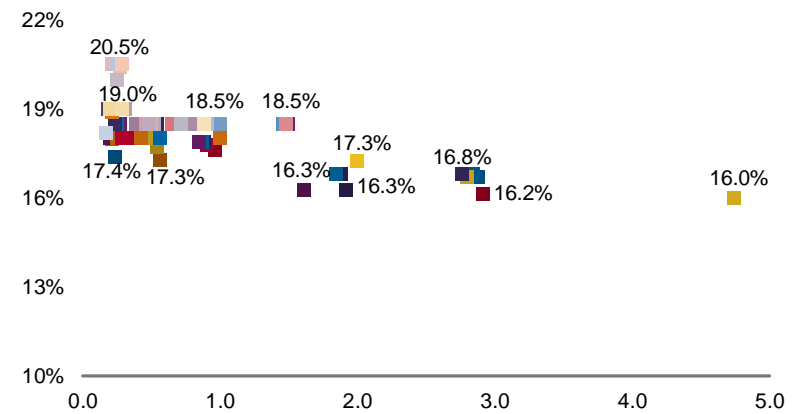


Source Ministry of Finance

Domestic government bond issuances (in UAH and US\$)

	2016	2017	2018
UAH-denominated bonds (UAH m)			
Funds remitted to state budget	37,025	32,755	65,128
up to 1 year	5,487	11,294	60,429
1-3 years	18,353	19,529	2,983
3-5 years	4,474	1,932	1,716
over 5 years	8,711	-	-
Weighted average yield at auctions, %	14.86%	15.02%	17.79%
up to 1 year	16.64%	15.23%	17.92%
1-3 years	17.85%	14.89%	16.18%
3-5 years	16.74%	15.11%	15.87%
over 5 years	6.50%	-	-
Consumer inflation¹	12.4%	13.7%	9.8%

Primary market UAH-denominated yield curve in H2 2018



Source NBU

Ways to enter Ukraine's domestic currency bond market:

- Open individual securities accounts with local custodians
- Buy GDNs / CLNs which are clearable in Euroclear / Clearstream
- Buy eligible securities through the link established by international depositories (expected in Q1 2019)

Notes

¹ Actual CPI change (y-o-y) in December for 2016, 2017 and 2018

² As of January 9, 2019

1. A story of recovery and renewal supported by reforms achievements

2. Fiscal consolidation supporting a prudent debt management strategy







3. 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 replaced with a new 14-month Stand-By Program ▶ New Stand-By Arrangement (139% of quota) with total program size amounting to the equivalent of c.US\$ 3.9bn approved by the IMF Board of Directors in December 2018 (first tranche of c.US\$ 1.4bn disbursed immediately)
 WORLD BANK GROUP	<ul style="list-style-type: none"> ▶ US\$ 750m Policy-Based Guarantee (PBG) to support institutional reforms and sustainable economic growth in Ukraine approved in December 2018 <ul style="list-style-type: none"> • Loan with total size of c.EUR 349m attracted under the PBG in December 2018 (second loan for the rest of the guarantee expected in Q1 2019) ▶ 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%¹ provided to Ukrainian private sector; projects for a total of EUR 211m in 2018 ▶ EU: EUR 1bn macro financial assistance split into 2 tranches (EUR 500m disbursed in December 2018, second tranche expected in 2019)
	<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

Sources IMF, World Bank, the EU, US Treasury

Notes

¹ Share of publicly disclosed loans provided to private companies as opposed to the Ukrainian public sector (incl. SOEs)



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 139% of quota
- ▶ **December 2018:** Approval of the Stand-By Arrangement for a total program amount of US\$ 3.9bn by the IMF Board of Directors
 - Immediate disbursement of the first tranche totaling US\$ 1.4bn
 - Simultaneous cancelation of the arrangement under the EFF approved in March, 2015

Source IMF, Ministry of Finance

Past IMF reviews under the EFF and SBA programs

Availability date / Next reviews	SDR m	US\$ m ¹
EFF program		
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 EFF program	6,178	8,537
SBA program		
December 18, 2018	1,000	1,391
May 2019 [1 st review]	900	1,258
November 2019 [2 nd review]	900	1,258
Total SBA program	2,800	3,907

Key achieved structural benchmarks and prior actions

EFF:

- ▶ Establishment of the NABU
- ▶ 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

SBA:

- ▶ Parliamentary approval of 2019 State budget consistent with the IMF recommendations
- ▶ Increase in household gas and heating tariffs

Note 1 Past tranches translated at NBU XDR/US\$ exchange rate as of the date of their receipt; expected tranches converted at XDR/US\$ as of January 10, 2019



Key structural benchmarks under the IMF's SBA for Ukraine

Structural benchmarks	Completion date
1 Raising heating tariffs of all remaining heating companies with an output of up to the NEURC-set threshold, to cover at least 95 percent of the total centralized heating supply	End-December 2018
2 Adoption by the NBU of revisions to its capital regulations to subtract loan exposures to related parties above regulatory limits from regulatory capital	End-December 2018
3 Parliamentary approval of the law revisiting the supervisory responsibility for a variety of financial intermediaries ("split" law)	End-March 2019
4 Publication of first report summarizing progress in asset recovery and litigation efforts related to the four state-owned banks	End-March 2019
5 Consolidate the current central and regional units of the State Fiscal Service (SFS) into two separate legal entities: the Tax Service and the Customs Service	End-April 2019
6 At least thirty-five anti-corruption judges with impeccable reputation and relevant professional skills to be appointed to the HACC	End-April 2019
7 The NBU to take appropriate supervisory actions against banks that fail to comply with capital requirements	End-June 2019
8 Complete an external audit of the NABU , conducted by a panel of respected experts with international experience	End-July 2019

Source IMF



1. A story of recovery and renewal supported by reforms achievements

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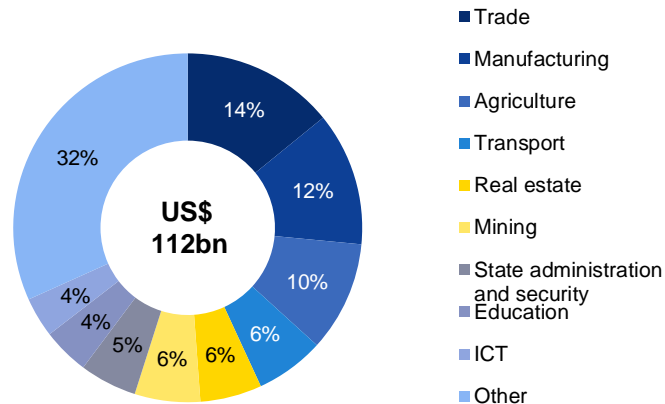
3. Continuous support from economic partners



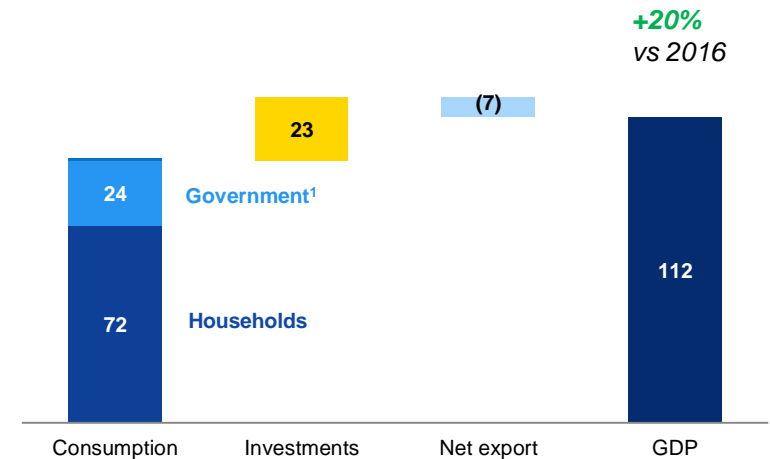
Appendices

Structure of Ukraine's economy

2017 nominal GDP breakdown by sector



2017 nominal GDP breakdown by expenditures, US\$ bn



Note 1 incl. NPOs

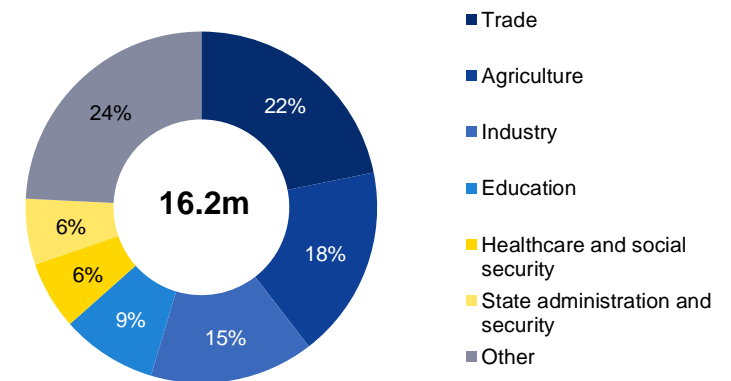
Comments

- ▶ **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 (as of end-2017)



Employed population by sector (2017)



Environmental, social and corporate governance developments

Key highlights

- ▶ Ukraine's strategy on renewable energy sector (RES) and energy saving is based on two core pillars:
 - **National Renewables Action Plan** aimed at reaching 11% share of RES in total electricity consumption by 2020
 - **National Energy Efficiency Action Plan** with a view toward reduction of final energy consumption by 9%
- ▶ Strong governmental incentive mechanism for RES development represented by **one of the highest feed-in-tariffs** in Europe

International Renewable Energy Agency (IRENA)

On February 2018, Ukraine became a member of IRENA.

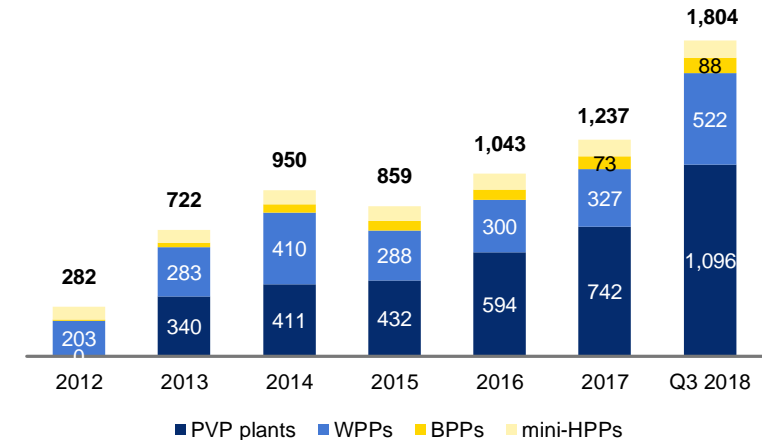


Key benefits for Ukraine:

- ▶ Renewable projects financing by the Abu Dhabi Fund for Development (ADFD) under 1-2% for up to 20 years
- ▶ Legislation improvement
- ▶ "Green" investment attraction
- ▶ Additional guarantees to investors

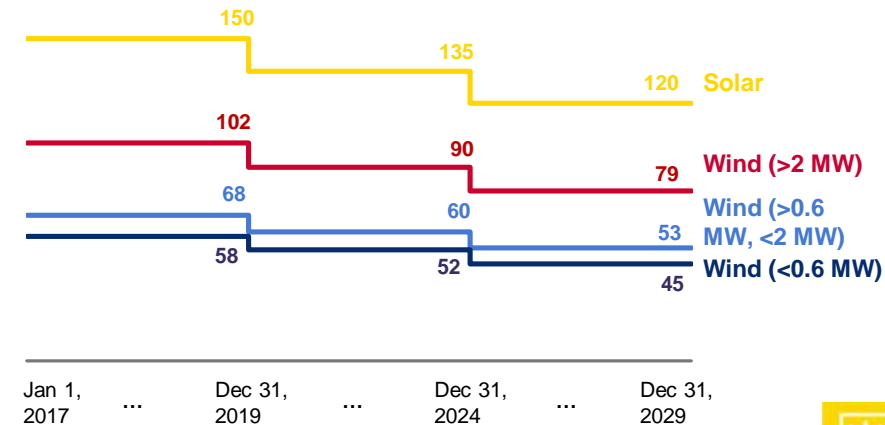
Source NEURC

RES's installed capacity dynamics, MW



Sources SAAE, NEURC

WPP and SPP feed-in tariffs dynamics, EUR/MWh



Source NEURC

Directions of RES development in Ukraine

Energy generation

Construction of renewable energy facilities

Construction of plants producing equipment for RES

Biofuel production plants construction

Growing energy crops

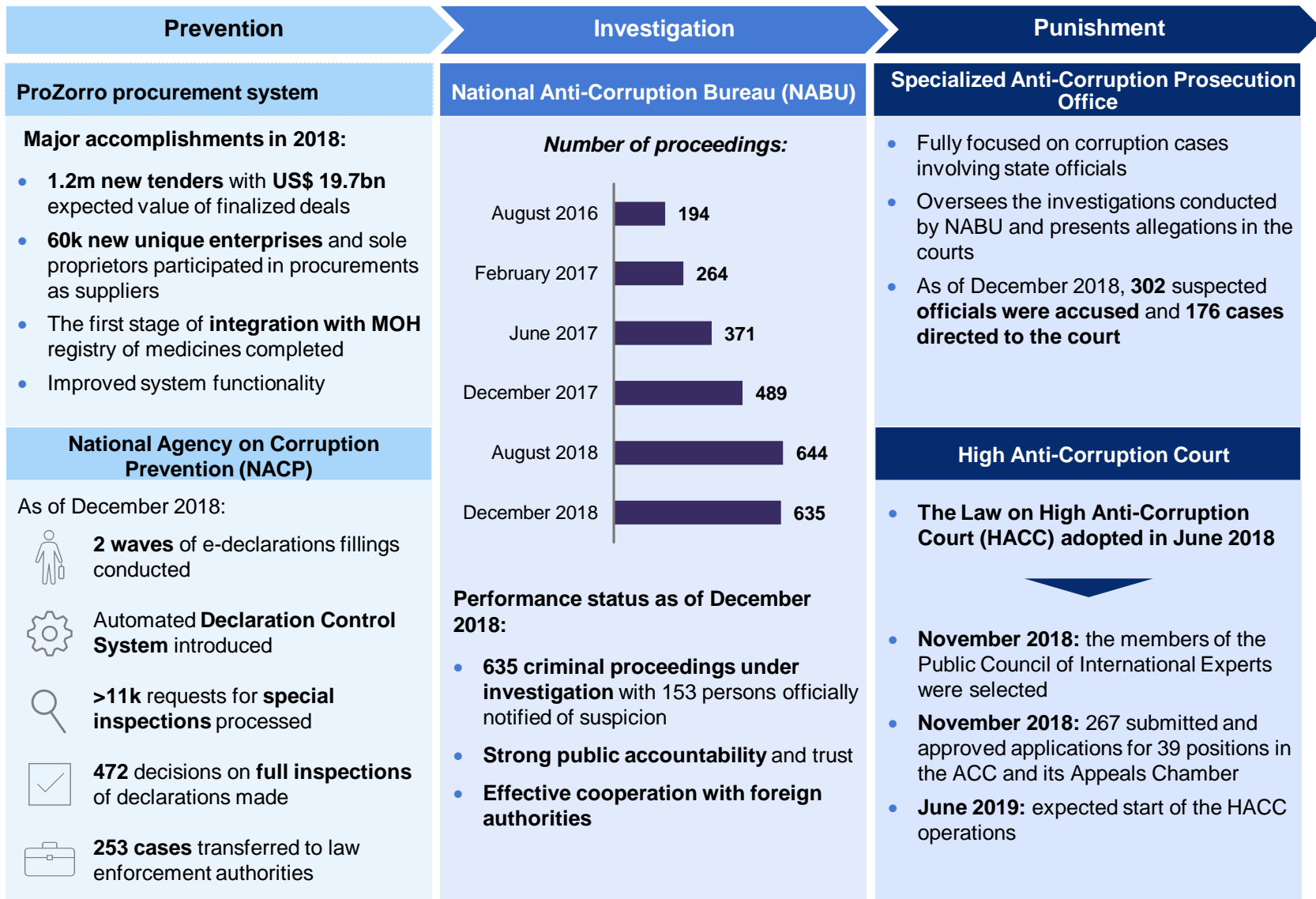
Energy saving

Residential sector

Industry

Public sector

Full anti-corruption infrastructure is being established



Sources: ProZorro, NACP, NABU



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)

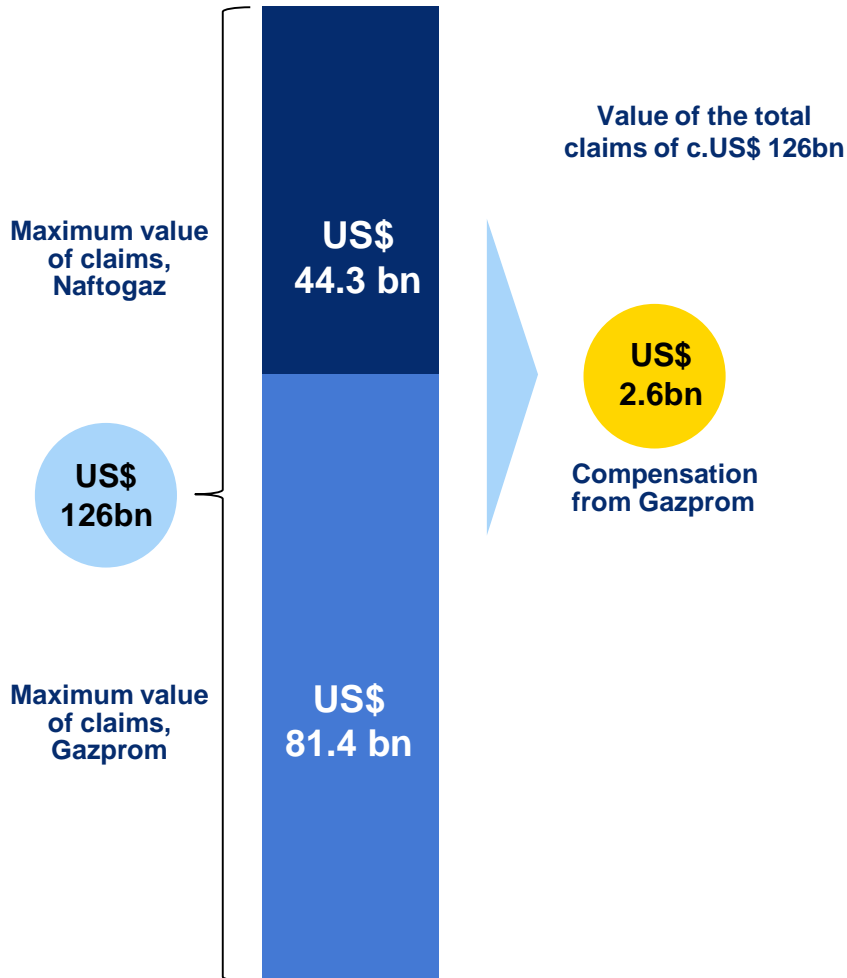
- ▶ The first instance judge was wrong:
 - to decline to permit Ukraine's defence of duress to proceed to trial; and
 - to refuse to grant Ukraine a permanent stay of the proceedings if Ukraine's defence of duress could not be adjudicated by the English Court.
- ▶ Ukraine has lost on the issues of capacity, 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!