

Ukraine

Investor Presentation



MINISTRY OF
FINANCE OF
UKRAINE

February 2018

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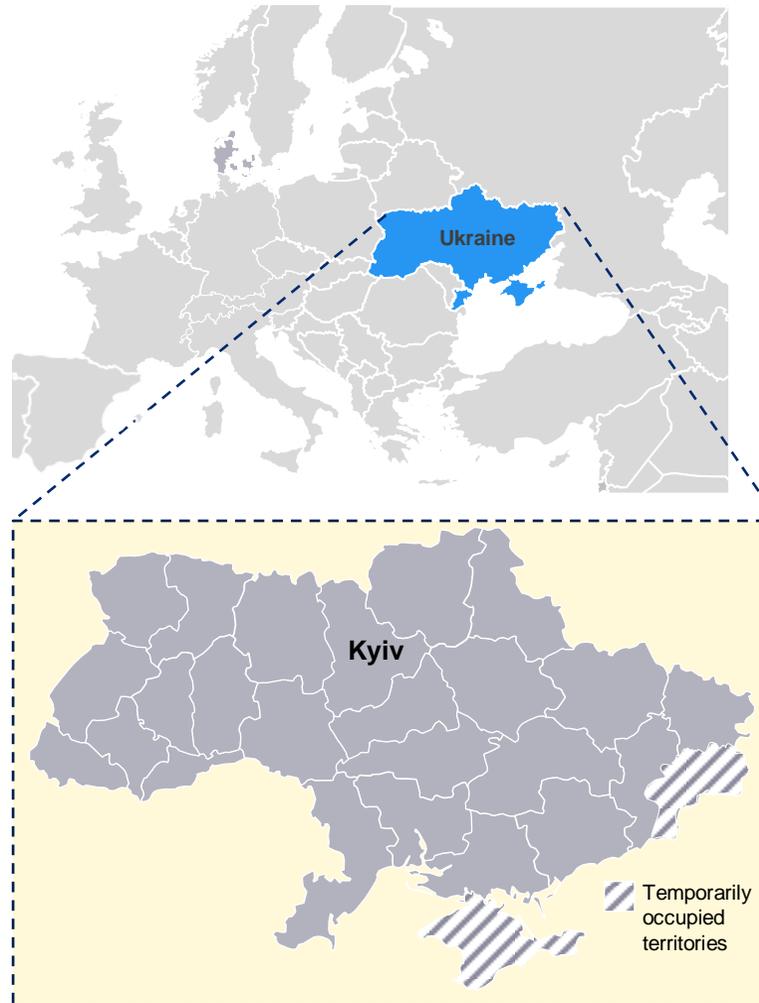
Key facts on Ukraine

Largest country in Europe

Abundant natural resources

Highly educated human capital

Pro-European society



- ▶ **Area:** 603,548 sq. km
- ▶ **Capital:** Kyiv
- ▶ **Language:** Ukrainian
- ▶ **Population:** 42.5m¹
- ▶ **Life expectancy:** 72 years²
- ▶ **Currency:** Ukrainian hryvnia (UAH)
- ▶ **Exchange rate** (as of 31.12.2017): 1UAH = US\$ 0.036
- ▶ **Nominal GDP (2017):** US\$ 103.1bn³
- ▶ **Real GDP growth (2016):** 1.8%⁴
- ▶ **State and state-guaranteed debt:** US\$ 76.3bn (74.0% of GDP)⁵
- ▶ **State external debt:** US\$ 38.5bn (37.3% of GDP)⁵
- ▶ **Key economic sectors:** agriculture, industry, mining, oil & gas, electricity generation, construction, transport and IT

Notes

1 Average in January - December 2017

2 As of end-2016

3 Ministry of Economic Development and Trade (MEDT) preliminary estimates of 2017 GDP (UAH 2,895m) converted at end-2017 NBU UAH/US\$ (28.07) exchange rate

4 According to The Forecast of the Economic and Social Development of Ukraine for 2018-2020 prepared by the MEDT

5 Preliminary estimates of state and state-guaranteed debt as of end-2017

Source State Statistics Service of Ukraine



Key investment highlights

- ▶ **Significant fiscal consolidation efforts** leading to primary surpluses since 2015
- ▶ **Narrowing consolidated budget deficit at 1.5% of GDP in 2017¹** vs 4.5% in 2014
- ▶ **Strong tax revenue growth**
- ▶ **Manageable public debt levels** after peaking at c.81% of GDP as of end-2016 are trending downward (c.74% of GDP as of end-2017)
- ▶ **Successful return to international capital markets** with US\$3.0bn Eurobond issue and c.US\$ 1.7bn concurrent LMO² in September 2017



- ▶ **Strong, broad based GDP growth**, with an expected 2020 growth rate of 4%³
- ▶ **External rebalancing** and reorientation of exports towards the EU
- ▶ **Large and qualified workforce** (16.3m people employed in 2016), with a relatively low average annual wage (US\$ 2.4k in 2016⁴), well below OECD average (US\$ 38.4k⁵)
- ▶ **Extensive and consistent support from international financial institutions and bilateral partners** (the IMF, the World Bank, the EU and individual EU countries, United States)

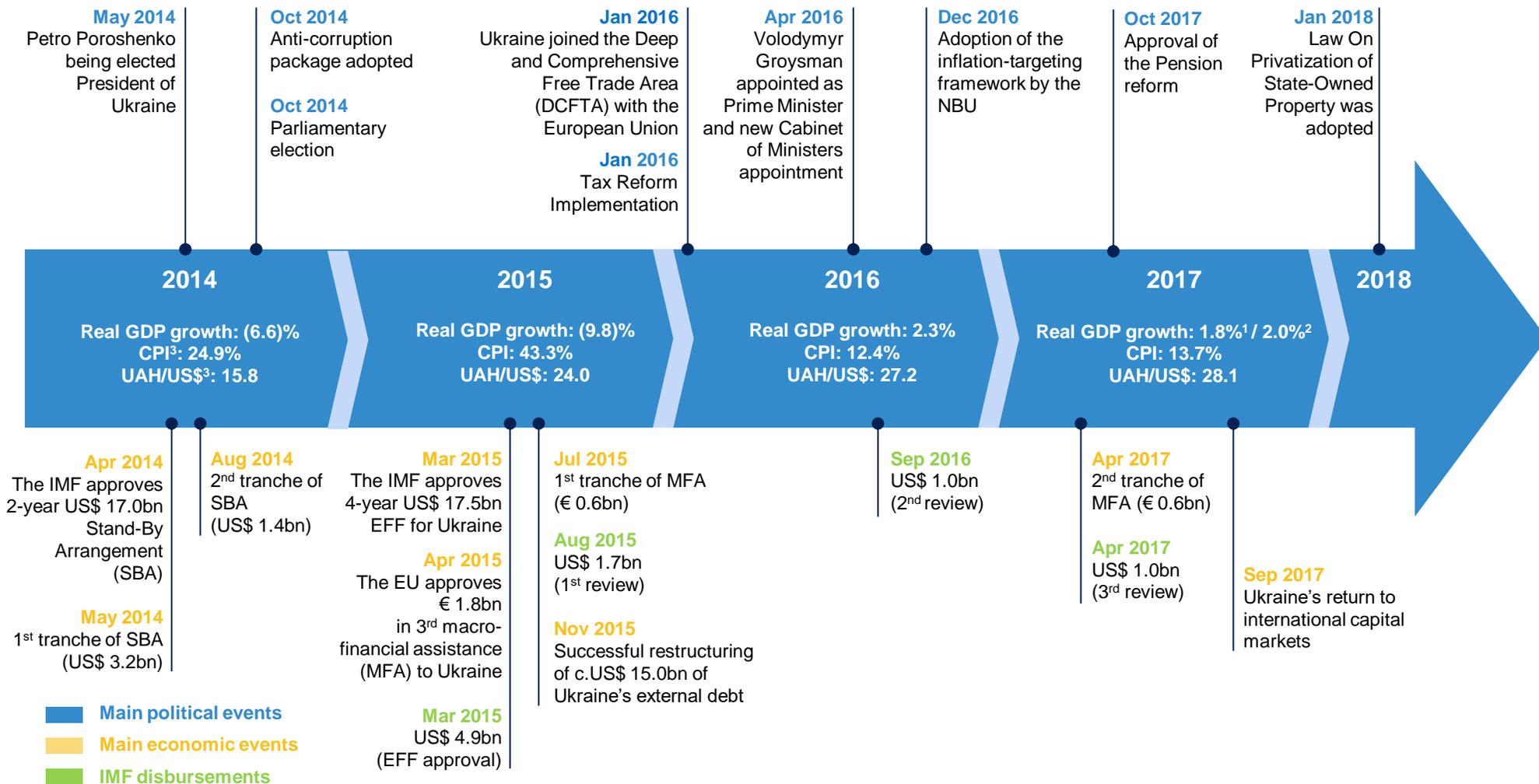
- ▶ **The largest arable land bank in Europe**
- ▶ **One of the global leaders in production of several crops**
- ▶ **Leading positions in metallurgy, electricity generation, IT**

- ▶ **Unprecedented set of reforms adopted** across the economic and political systems (energy market liberalization, banking sector clean-up, tax reform, creation of anti-corruption agencies, pension and healthcare reforms, etc.)
- ▶ **Strong commitment to tackle corruption**

Notes

- 1 Preliminary estimates based on 12m budget execution data
- 2 Liability management operation
- 3 According to The Forecast of the Economic and Social Development of Ukraine for 2018-2020 prepared by the MEDT and approved by the Cabinet of Ministers of Ukraine
- 4 2016 average salary according to State Statistics Service of Ukraine divided by 2016 average UAH/US\$ exchange rate
- 5 According to OECD

Key milestones to Ukraine's economic recovery



Notes

- MEDT Forecast of the Economic and Social Development of Ukraine for 2017
- IMF estimate
- As of end of year

Sources Ministry of Finance, NBU, IMF





1. A story of recovery and renewal

2. The strong reform momentum

3. Fiscal consolidation supporting a prudent debt management strategy

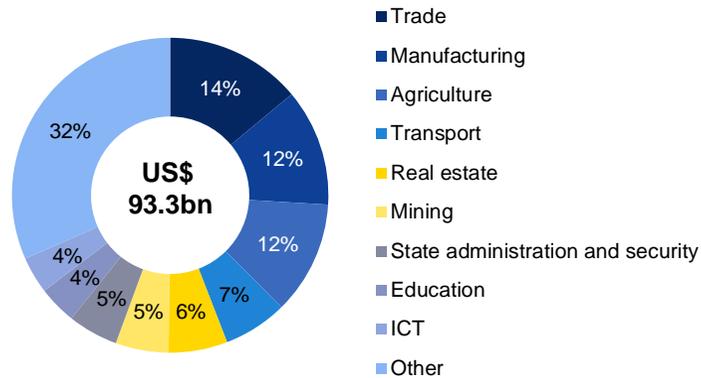
4. Continuous support from economic partners

5. Return to the international bond market

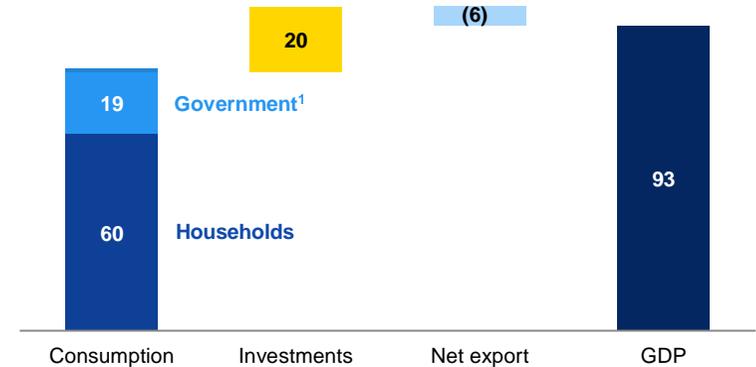


Overview of Ukraine's economy

2016 nominal GDP breakdown by sector

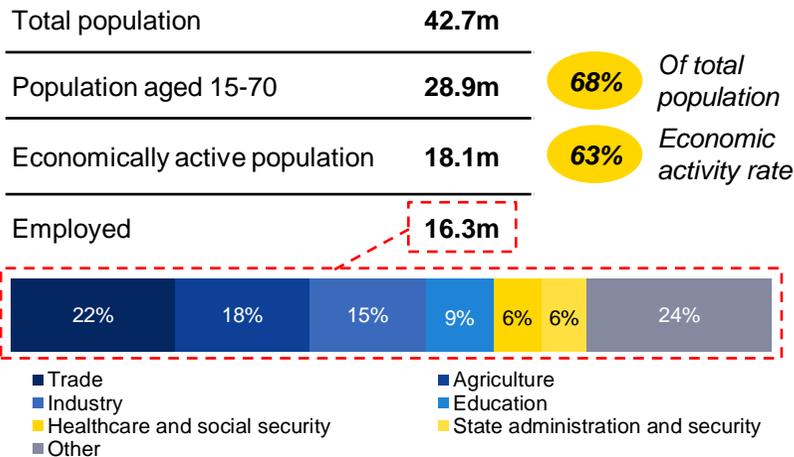


2016 nominal GDP breakdown by expenditures, US\$ bn



Note 1 incl. NPOs

2016 population breakdown, m



Corporations operating in Ukraine

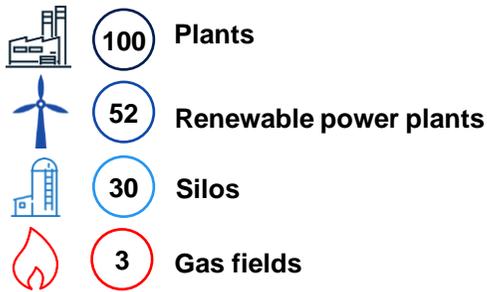


Source State Statistics Service of Ukraine

Ukraine's key competitive advantages

New industrial projects commissioned since 2015¹

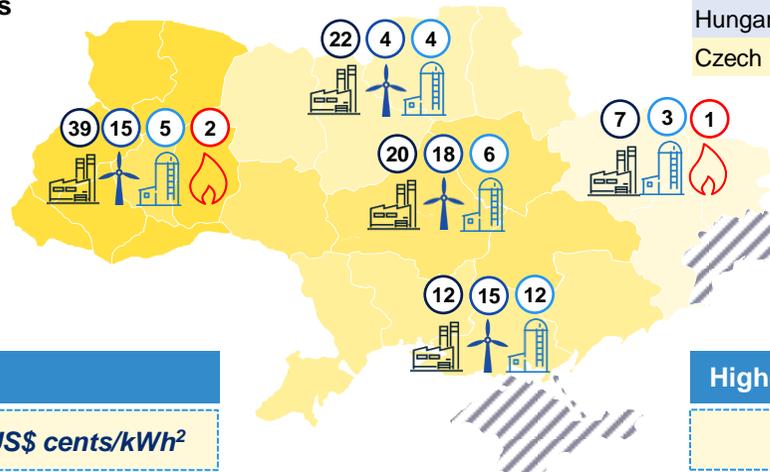
New businesses account for a **considerable share of the overall capital investments** into Ukraine's economy, thus enhancing **further economic growth potential**



Source aggregated data from media and companies' news and announcements

Note 1 Exact number of new enterprises established since 2015 may differ

of enterprises established



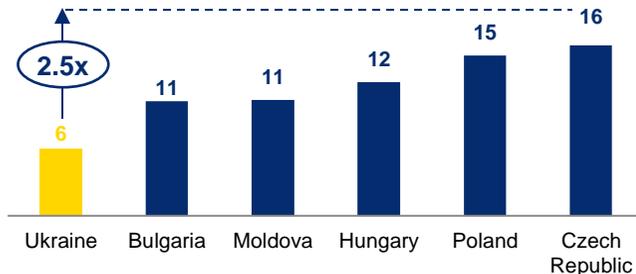
Highly educated population

Country	Quality of math & science education	Higher education enrollment	Rank / 140 Availability of scientists & engineers
Ukraine	27	11	29
Poland	58	25	50
Bulgaria	75	26	71
Hungary	83	51	83
Czech Republic	56	32	89

Source Global Competitiveness Report 2016-17

Lower utility tariffs compared to CEE

2016 electricity tariffs for industry, US\$ cents/kWh²

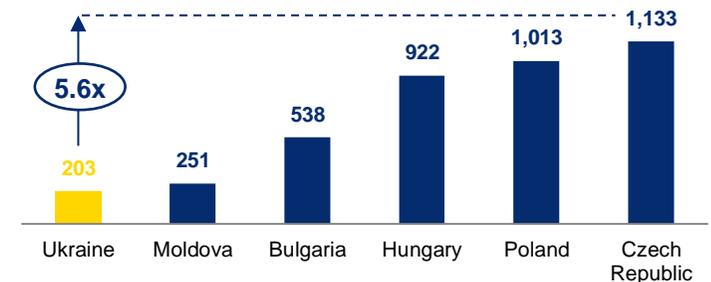


Note 2 excl. taxes; Ukraine: average between 1st and 2nd voltage class tariffs; other countries: companies with annual consumption between 0.5k and 2k MWh

Source Eurostat, NEURC

Highest wage competitiveness in CEE

Average gross monthly wage in 2016, US\$



Source State Statistics Service of Ukraine, UNECE

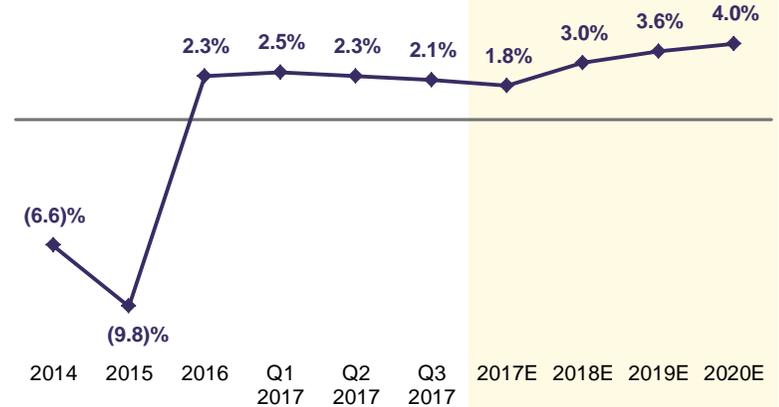


A strong and broad based economic recovery

Comments

- ▶ **After three years of GDP contraction, real GDP growth returned to growth from Q1 2016** (2016 y-o-y growth rate of 2.3%)
- ▶ **The recovery has been relatively broad based**, including growth in the industrial production, agriculture and retail trade
- ▶ **MEDT estimates the economy to expand at 1.8% in 2017**, a more conservative forecast than current IMF projection of 2.0% and NBU forecast of 2.2%
 - However, actual GDP growth in Q1-Q3 2017 outperforms projections
- ▶ Ukraine's future growth is supported by **acceleration of domestic investment demand and private consumption**

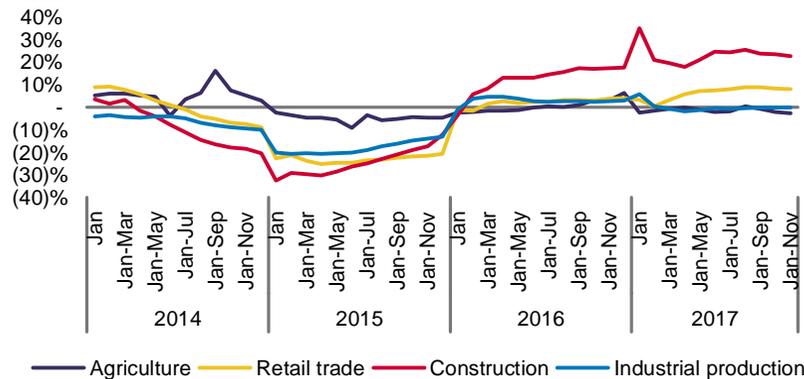
Real GDP growth (y-o-y), %



Sources State Statistics Service of Ukraine, Ministry of Economic Development and Trade

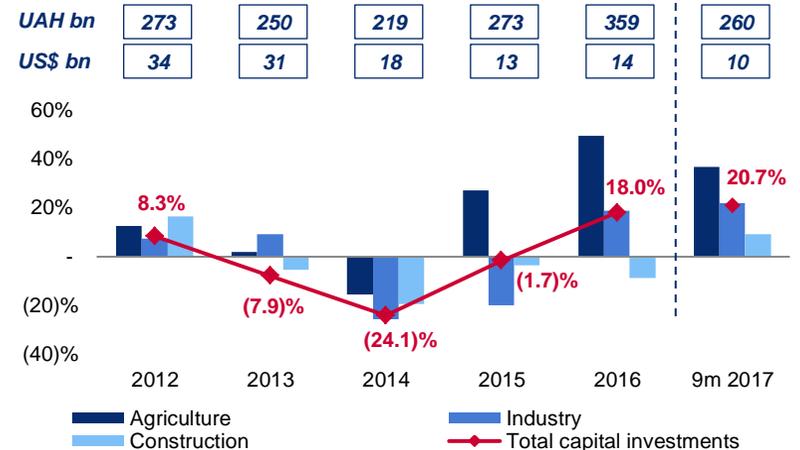
Growth of economic activity by sector

Key sector output, y-o-y % change



Source NBU

Capital investments growth (y-o-y), %



Sources State Statistics Service of Ukraine

Focus on the agri sector underpinning economic recovery

Powerful domestic champions in selected segments of Ukraine's agriculture

Oilseed processing:



Poultry meat processing:



Crop farming:



Sugar production:



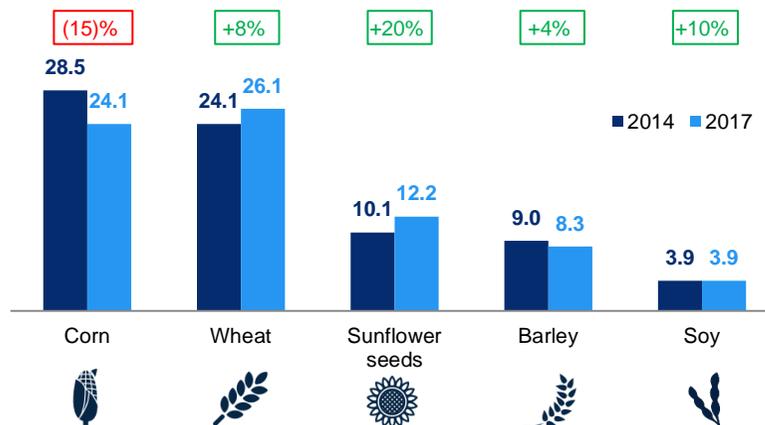
World's leading commodity traders successfully operating in Ukraine's agri sector



Key highlights

- ▶ Agricultural sector accounts for **11.7% of the nominal GDP¹** and **35% of Ukraine's total export of goods (2016)**
- ▶ **7 listed companies** in the Ukrainian agri sector
- ▶ **Capital investments in agriculture** serve as a **driving force** for the Ukrainian economic growth
 - **US\$ 1.5bn** investments in 9m 2017 (**32% y-o-y growth**)
 - Major corporations have **access to capital investments** through **public listings** and **private equity placements**
 - **Kernel (B-/ B+)²** and **MHP (B-/B-)²** attracted **US\$ 500m each** through **Eurobonds issuance** in 2017, thus ambitiously **increasing their investment programs**

Production of selected crops, m t



Source State Statistics Service of Ukraine

Leading positions in global agricultural market

The largest arable land bank in Europe

33% of the global black soil area

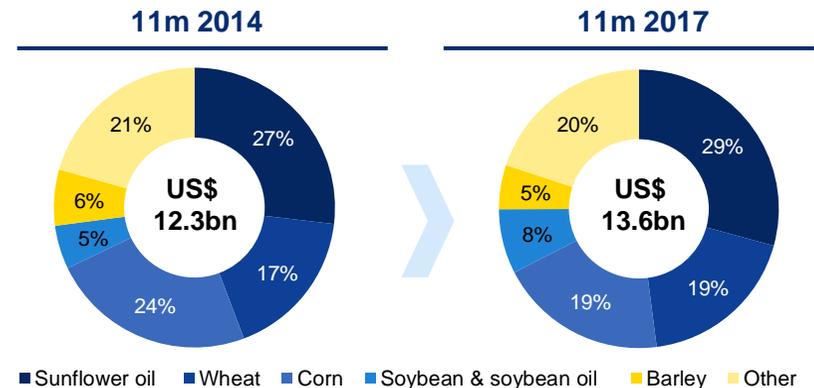
#1 sunflower oil producer and exporter

#3 corn and barley exporter

#6 wheat exporter

Sources Eurostat, FAO, State Statistics Service of Ukraine, Ministry of Economic Development and Trade

Ukraine's agri exports structure



Source State Statistics Service of Ukraine

Notes

- 1 Agriculture, forestry and fishery
- 2 Eurobond issue ratings

Focus on the secondary sector

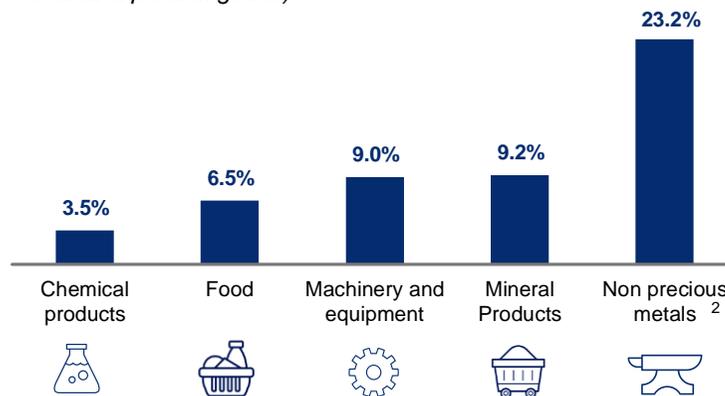
Key highlights

- ▶ Highly developed industrial sector: **the largest contributor to the Ukrainian economy**, amounting to **c.21% of Ukraine's GDP** in 2016
- ▶ After **2.8% (y-o-y) growth** in 2016 industrial production exhibited a modest **decline by 0.1%** in 2017
 - Such dynamics was mainly attributable to the trade blockade with Donbas region in Q1 2017 with negative impact on coal, coke and iron ore output, which were down in 2017 (y-o-y) by 16.3%, 15.0% and 6.3%, respectively
- ▶ **Top performing** industry segments in 2017:
 - Chemical products – **17.4%**
 - Motor vehicles – **15.2%**
 - Machinery and equipment – **7.3%**

Sources State Statistics Service of Ukraine, NBU

Largest industry exports (11m 2017)

(% of total exports of goods)



Source State Statistics Service of Ukraine

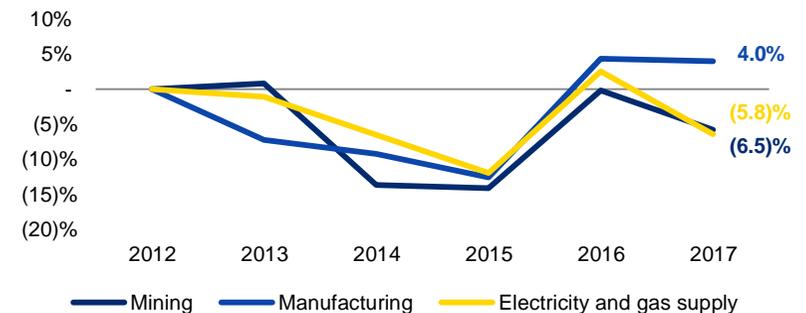
Leading positions in various industries (2016)

- #1** by rail cargo turnover in Europe
- #5** in titanium production in the world
- #7** by gross electricity production in Europe
- #10** in steel production in the world
- #10** by nitrogen fertilizers export in the world¹

Sources Eurostat, World Steel Association, USGS, Yara

Growth of Ukraine's industrial production by segment

Industry segments output, y-o-y % change



Notes ¹ In 2015

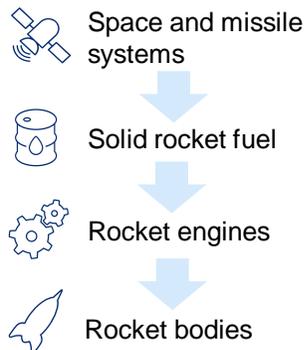
² Incl. ferrous and non ferrous metals

Source State Statistics Service of Ukraine

The world's largest cargo plane – An-225 Mriya produced and operated in Ukraine



Advanced space and rocket industry



IT services as a driving force of Ukraine's tertiary sector

Key highlights

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

Over 36k technical and 130k engineering graduates annually

- ▶ **One of the largest** Ukraine's economic sectors by export volume
- ▶ **7 Ukrainian** companies and **6 international** companies with branches in Ukraine **ranked among world's top 100 outsourcing service providers** in 2017¹

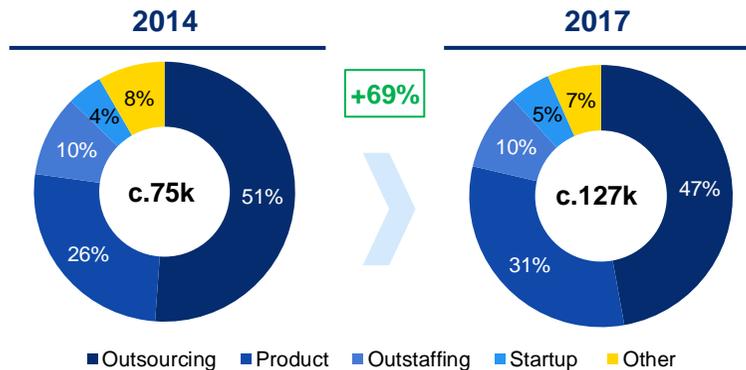
Corporations with R&D centers in Ukraine



Sources Ukraine Digital News, AVentures

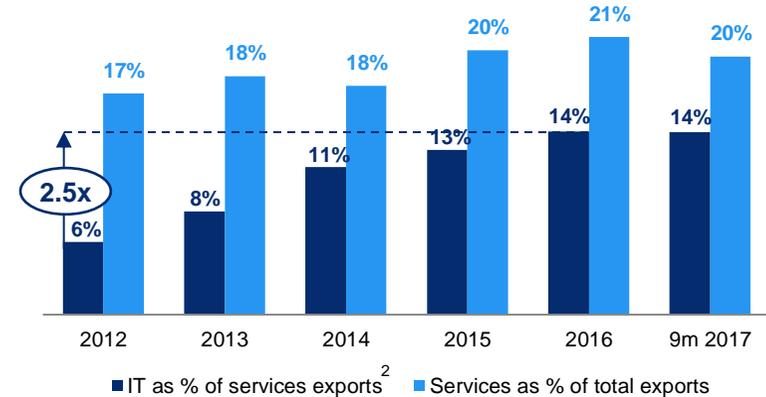
Ukraine's IT labour force structure, (as of year end)³

Shift of the labor force towards more value-added segments



Source dou.ua

Share of services in Ukraine's exports



Source State Statistics Service of Ukraine

Major deals with Ukrainian IT companies

Year	Ukrainian target	Buyer	Size
2017	grammarly	Venture capital financing round	US\$ 110m
2015	LOKSERV	SNAPCHAT	US\$ 150m
2013	GlobalLogic	Apax PARTNERS	US\$ 420m
2012	Viewdle	Google	US\$ 45m

Sources UVCA, companies' news and announcements

Notes

1 According to The Global Outsourcing 100 ranking (IAOP)

2 Incl. computer and information services

3 Based on industry survey

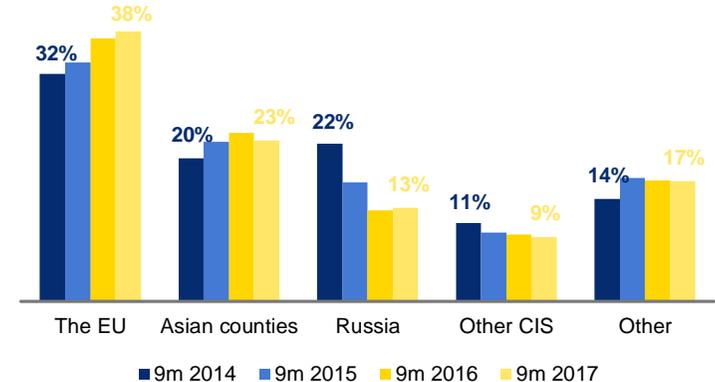
Reorientation of trade towards new markets and the EU

Comments

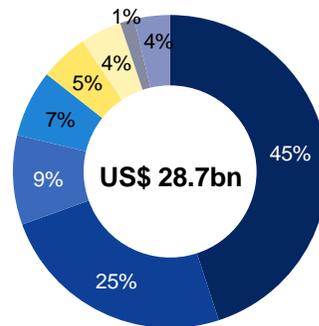
- ▶ **Ukraine has a diversified base of trading partners**, dominated by Eastern Europe and the EU countries
- ▶ **Recent trade restrictions following the EU and the US economic sanctions imposed on Russia have led to a shift in Ukraine's major trading partners**
 - Increase in the share of Asian and the EU countries
 - **DCFTA** provides new opportunities in the EU markets via the progressive removal of customs tariffs and quotas and an extensive harmonisation of laws and norms

Geographic breakdown of trade in 9m 2014-2017¹

Share of trade with the EU has significantly increased since 2014

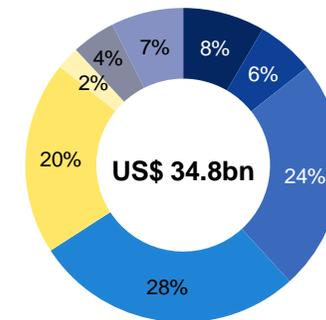


Total exports of goods structure (9m 2017)



■ Agricultural products² ■ Metals ■ Minerals ■ Machinery and equipment ■ Chemicals ■ Wood products ■ Industrial goods ■ Other

Total imports of goods structure (9m 2017)



Source NBU

Notes 1 Sum of export and import of goods and services

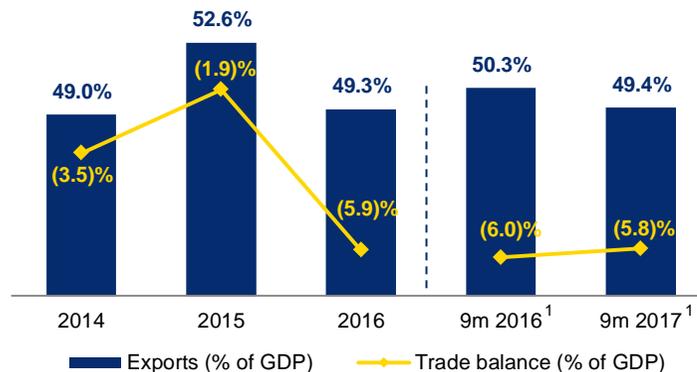
2 Incl. finished food products

As a result, external accounts have already adjusted

Comments

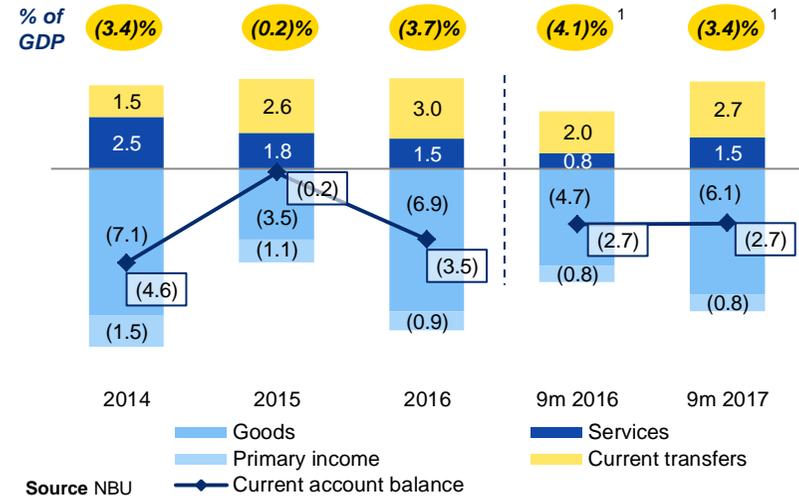
- ▶ **Ukraine's external accounts have been adjusting since 2013**
 - Current account (CA) deficit decreased sharply from 9.0% of GDP in 2013 to 3.7% in 2016
- ▶ **Strong external position despite trade restrictions**
 - Deterioration of the current account balance in 2016 vs 2015, from (0.2)% of GDP to (3.7)% on the back of Russia's trade restrictions and swings in commodity prices
 - Stable CA balance in 9m 2017 vs 9m 2016: growing agri- and steel exports amid recovering commodity prices offset by growth in machinery and gas imports due to strong investment demand
- ▶ **Foreign Direct Investments (FDIs) getting progressively back to pre-crisis level, supporting country's economic recovery**
 - Decrease in net FDI inflows in 9m 2017 vs 9m 2016 is primarily attributable to lower need of foreign banks recapitalization

Exports and trade balance, % of GDP



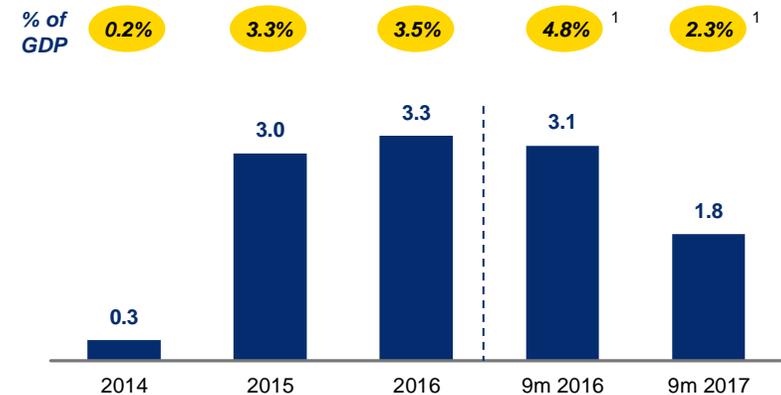
Source NBU

Current account balance, US\$ bn



Source NBU

FDIs (net inflow), US\$ bn



Source State Statistics Service of Ukraine

Note 1 estimated based on 9m GDP

1. A story of recovery and renewal



2. The strong reform momentum

3. Fiscal consolidation supporting a prudent debt management strategy

4. Continuous support from economic partners

5. Return to the international bond market



Series of core reforms adopted across all key sectors

Key areas

Key achievements

1 Public governance

- ▶ Decentralization
- ▶ Anti-corruption
- ▶ Civil service

- **Decentralization package** (amendments to Tax and Budget Codes transferring budgetary powers to local governments: 413 territorial communities in Ukraine were merged)
- Creation of new independent anti-corruption structure (incl., the **National Anti-Corruption Bureau** and the Specialized Anti-Corruption Prosecution Office; the National Agency for the Prevention of Corruption)
- Adoption of new **Civil service law** to create a modern public administration in Ukraine

Source CMU

2 Public finance

- ▶ Taxation
- ▶ Public expenditures and procurement
- ▶ Debt management

- The 2015 **Tax Reform** (decreased number of taxes from 22 to 11; reduction in tax rates and simplification of tax administration)
- First time introduction of **Medium-term budget resolution for 2018-20** and its approval by the Cabinet of Ministers of Ukraine (CMU) in June 2017
- Adoption of **e-procurement legislation** that requires all government entities to use a new electronic procurement system
- **Return to international debt market** with US\$3bn Eurobond issuance, incl. liability management leg
- **Pension reform** adopted in October 2017

Source Ministry of Finance

3 Business climate

- ▶ Foreign trade
- ▶ Competitiveness
- ▶ Privatization

- **Deregulation** (# of permits reduced from 143 to 84; # of **economic activities subject to licensing**: from 56 to 32)
- Provisional application of the **DCFTA** from January 1st, 2016
- **Ease of Doing Business ranking improvement** to 76th in 2017, 36 places up from 2014
- Legislation in the area of **public-private partnership development** adopted
- **Judicial reform** package adopted in October 2017
- **Law on new framework for privatization** adopted in January 2018

Source Ministry of Economic Development and Trade

4 Financial sector

- ▶ Monetary policy
- ▶ Banking sector
- ▶ NBU role

- **Flexible exchange rate** regime since February 2014
- **Inflation-targeting** framework since December 2016
- Enhancement of the NBU's supervisory and regulatory role
- **Sector clean-up** (c.90 banks have been resolved with **nationalization of the largest commercial bank** being one of the best examples of stable and smooth transitioning to state ownership)
- Strengthening of the legal framework for private debt restructuring

Source NBU

5 Energy sector

- ▶ Energy sector diversification
- ▶ Gas and heating tariffs

- **Increase** in levels for **gas and heating tariffs**, eliminating Naftogaz operational deficit (from state support to Naftogaz of c.US\$ 7.3bn or 5.5% of GDP in 2014 to the **highest dividend payment of US\$ 0.5bn** ever made by a state-owned company in Ukraine in 2017)
- The **new gas market law** enabling the unbundling of Naftogaz (process commenced), 3rd party access to the gas transmission system
- The **new energy law** liberalizing energy market, in line with the EU energy legislation
- Continued stimulus for renewable energy

Sources IMF, Naftogaz



Prevention

1 Public procurement reform – ProZorro system

- ▶ Ukraine joined the World Trade Organization Agreement on Government Procurement (WTO GPA) in 2016
- ▶ Adopted e-procurement legislation that requires all government entities to use a new electronic procurement system ProZorro from August 1, 2016
- ▶ **Compulsory procurement auctions** throughout all government bodies for purchases of over UAH 50k, hosted in **ProZorro electronic procurement system**



Source ProZorro public disclosures

2 National Agency on Corruption Prevention (NACP)

- ▶ **Functions:** setup of anti-corruption policies / mechanisms, cooperation with whistleblowers, monitoring of personal wealth / declarations of public servants

Public electronic declarations *Launched in 2016*

- ▶ **Obligatory** for state officials / employees
- ▶ **Aim:** monitoring of illicit enrichment → criminal trials
- ▶ **One of the strictest disclosure requirements in the world**, incl. salary, savings, stocks, movable assets and real estate they (relatives) own / lease



Sources NACP, NABU

Punishment

1 National Anti-Corruption Bureau (NABU)

Launched in 2015

- ▶ **Independent state law enforcement agency**, objectives: exclusive authority to investigate acts of corruption by high level officials
- ▶ **Competence:** NABU detectives conduct pre-trial investigations into corruption offences → cases filed for judicial proceedings
- ▶ **Detectives unit** formed of people not previously employed by law enforcement / state, subsequently **trained by FBI**
- ▶ Since inception **NABU has filed more MP immunity cancellation cases** than ever before in the Ukrainian history

2 Specialized Anti-Corruption Prosecution Office

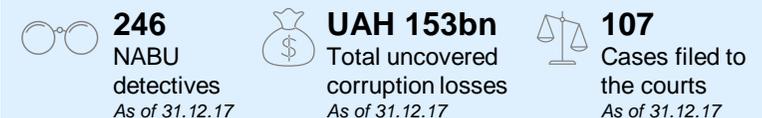
Launched in 2015

- ▶ **Fully focused on corruption cases involving state officials**

3 Independent Anti-Corruption Court / Chamber

To be launched

- ▶ Hearing the corruption cases, **delivering verdicts**
- ▶ **Today the cases are heard by the existing court system**



Source NABU

Awards of ProZorro:

The 1st prize in World Procurement Awards in the Public Sector nomination (2016)



Winner of the Open Government Award



Tax reform

- ▶ Focus on **broadening the tax base and strengthening tax administration** procedures
- ▶ Number of taxes **reduced from 22 to 11**
- ▶ **Reduced number of tax reporting forms** and administrative regulations
- ▶ **Social contributions tax rate decreased to 22%** (previous rates: from 34.7% to 49.7%); withholding of social contributions at employee's cost is cancelled (before – 3.6%)
- ▶ **Single personal income tax rate set at the level of 18%** (before – 15% and 20%)

Strategic Reform Plan of the State Fiscal Service (tax administration)

Key achievements:

- ▶ Introduction of a single public register of VAT refund
- ▶ Automatic procedure of VAT refund launched in April 2017

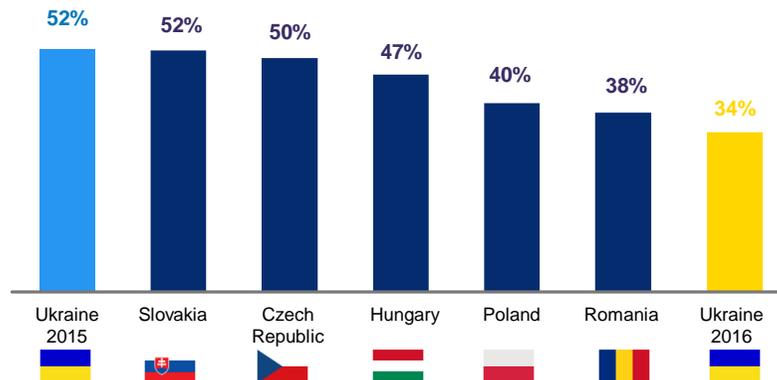


- ▶ Introduction of full e-cabinet of taxpayer
- ▶ Opening several Large Taxpayers Offices

Source State Fiscal Service of Ukraine

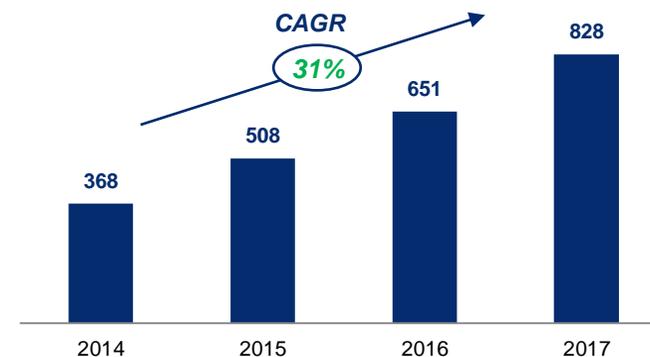
Effective corporate tax rates (2015), %

Effective corporate tax rate reduced considerably as a result of the reform



Source Doing Business

Consolidated budget tax revenues 2014-2017, UAH bn



Source Ministry of Finance

New approach to the management of State Owned Enterprises (Triage)

Approach overview

- ▶ **A new approach Triage has been developed by the Ministry of Economic Development and Trade** in coordination with the IMF
- ▶ **Key principles:**
 - The state owns only the enterprises necessary to fulfil its key functions
 - Improvement of corporate governance
- ▶ **All SOEs (c.3.5k) are divided into groups:**
 - State ownership (strategic and important, objects for concession)
 - For liquidation and situated in Crimea / ATO area
 - For sale (privatization)

Groups of SOEs according to Triage approach

Strategic and important		Concession	Privatization	Liquidation / Occupied areas
Strategic 15 SOEs, incl.:	Important	 Airports 2	893 companies incl.:	 Liquidation 1,255
Energy	Defence 164	 Road services 34	• Odesa Portside Plant	Crimea and ATO area 559
Rail	Healthcare 52		• Turboatom	
Mail	Social 35	 Forestries 333	• Centrenerg	
Aerospace	Other 112		• Oblenergos	

New privatization law framework

Highlights

- ▶ **Decrease** of the privatization procedure duration **by 2x**
- ▶ **New framework** for privatization
- ▶ **Asset clean-up** before sale
- ▶ Governed by the **English law** (incl. arbitration)

Privatization procedure

Large firms

- ▶ Sale with an **independent investment advisor** via auction
- ▶ **Duration:** 11-12 months

Small firms

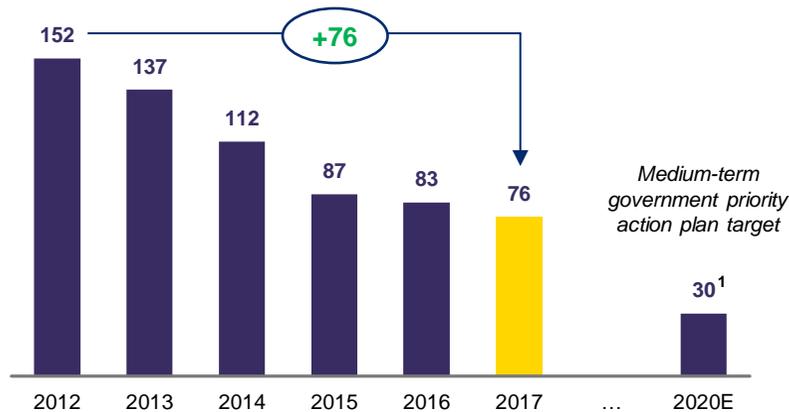
- ▶ Sale via **online auction (ProZorro.Sale)**
- ▶ **Starting price** equal to net assets value or UAH 1
- ▶ **Duration:** 5-6 months

Source Ministry of Economic Development and Trade



Business climate improvement to boost growth potential

Ease of Doing Business ranking



Source Doing Business

Continuous integration into international trade flows

- ▶ **WTO** membership since 2008
- ▶ **17 Free Trade Agreements** covering **45 countries**:
 - **DCFTA (in force since September 1, 2017)**: access to the European market without quotas and customs tariffs
 - **CUFTA (in force since August 1, 2017)**: customs-free access to 98% of Canadian market
 - Free trade with several **CIS and regional countries**
- ▶ Ongoing negotiations on free trade with **Israel and Turkey**

Source Ministry of Economic Development and Trade

Key selected achievements in business climate improvement

of **permits reduced** from 143 to 84
 # of **economic activities subject to licensing**: from 56 to 32

Over **300 registers** opened by the government

New online platforms launched by key government bodies to **speed up public services** and **reduce corruption risks**

Adoption of legislation on **securing investors' rights**

Over **12.8k of state GOST standards** cancelled by MEDT²

Sources Ministry of Economic Development and Trade, Ministry of Justice

Business Ombudsman Council

- ▶ Business Ombudsman Council launched since May 2015
- ▶ **Key objective** is to **defend businesses and entrepreneurs** with legitimate claims against state entities that infringe on their rights

Since the inception of the Business Ombudsman Council:
 (As of 31.12.17)

 c. **3.4k** complaints received

 Over **2.0k** complaints resolved

 **UAH 11.4bn** Positive financial impact of interventions

Source Business Ombudsman Council

Notes

- 1 Not lower than 30 position by end-2020
- 2 Ministry of Economic Development and Trade

Ukraine is World #1 in Ease of doing business gains since 2010

Source Financial Times

Ukraine is the 1st country in the world to join the Global Beneficial Ownership Register

Source CMU

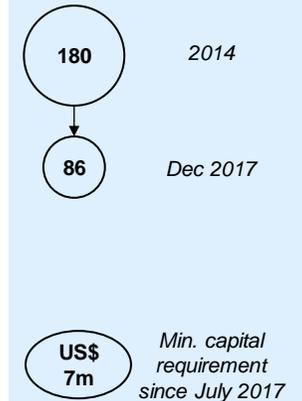
Actions to safeguard the stability of the financial system

Comprehensive Programme for Financial Sector Development till 2020

1 Financial sector clean-up 2014-17

- ▶ **The banking sector in Ukraine is currently experiencing the most decisive restructuring and clean-up phase**
 - Most of liquidated banks had significant shortcomings with regard to liquidity, solvency, and excessive exposure to related parties
- ▶ **The NBU completed three rounds of stress testing for the 60 largest banks** (accounting for 95% of the system assets), focusing particularly on the sustainability of borrowers' cash flows and the quality of loan collateral; the remaining banks were similarly evaluated during 2017
- ▶ **PrivatBank, the largest private bank in Ukraine, was nationalized in December 2016**
 - As the recapitalization and restructuring plan for PrivatBank was not implemented in due course, the authorities decided to nationalize the bank in light of its systemic role in Ukraine's financial system (accounting for more than 1/5 of banking system assets) and financial stability concerns
- ▶ **Owing to the efforts of the NBU, the ownership in the banking sector has become transparent:** 100% of remaining banks disclose their ultimate beneficiary owners

of operating banks



2 Financial sector restart 2016-19

Selected measures



3 Sustainable development of the financial sector 2018-20

Source NBU



The strategy for state-owned banks will be adopted in early 2018 which envisages privatization of PrivatBank in the medium term

Key figures

The largest commercial bank in Ukraine

21% of Ukraine's domestic market share by assets¹

More than 20m customers, over 30m active cards¹

Over UAH 150bn of retail deposits¹

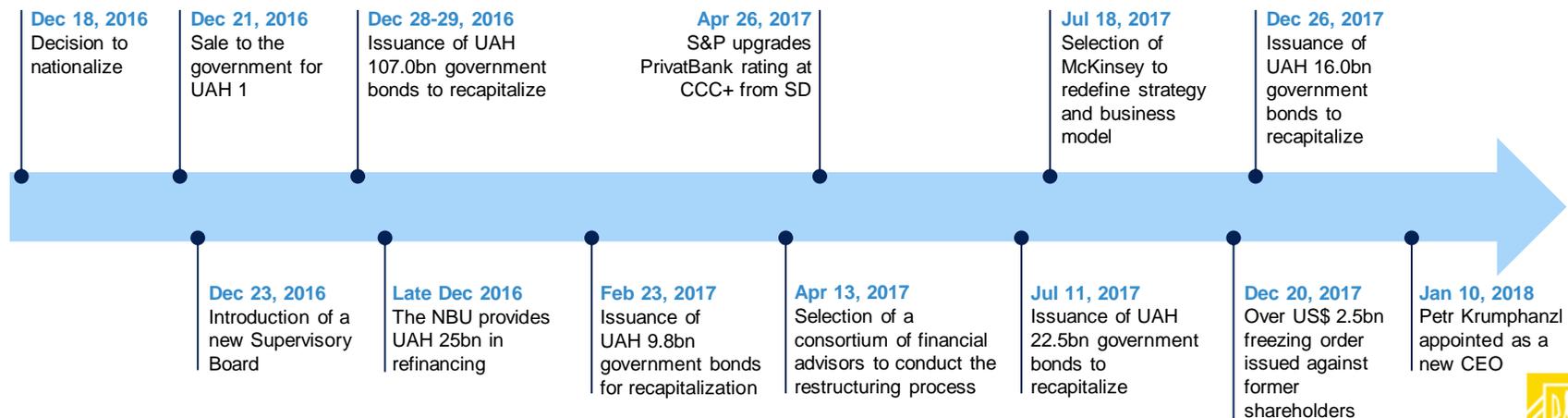
UAH 155.4bn of capital injected by the government²

Context of the nationalization

- ▶ **In December 2016 Ukraine's government decided to nationalize and recapitalize the bank**
 - Total capital needs were estimated at UAH 117bn
- ▶ **All major international partners (IMF, World Bank, the EU, EBRD) expressed their strong support to nationalization**
- ▶ **Key accomplishments up-to-date**
 - Decrease of deposit interest rates from over 10% in 2016 to current 3-4% (FX 12m deposit interest rate)
 - New Supervisory Board of 7 international reputable members headed by Engin Akçakoca, ex-head of Savings Deposit Insurance Fund in Turkey
 - New strategy developed by McKinsey&Company
 - New reputable CEO with extensive experience in European financial institutions appointed in January 2018

Timeline of the nationalization and recapitalization process

Quick and smooth nationalization / recapitalization process of PrivatBank executed by the government to safeguard financial sector stability



Notes

¹ As of December 2016

² As of December 2017

Sources Ministry of Finance, Privatbank's public disclosures, NBU



Monetary policy

Feb 2014

The NBU *de facto* switched to a flexible exchange rate regime

Feb 2015

FX reserves decreased to US\$ 5.6bn

Aug 2015

NBU *de facto* transferred to inflation targeting

Dec 2016

The NBU formally adopted an inflation-targeting framework

Oct 2016

The NBU increased key policy rate to 13.5%

Nov 2017

FX reserves reached a 3-year high at US\$ 18.9bn

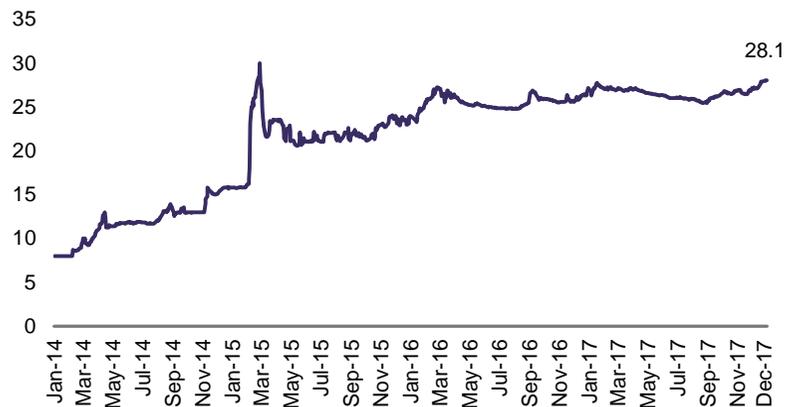
Dec 2017&Jan 2018

Key policy rate increase:
- 14.5% (Dec 2017)
- 16.0% (Jan 2018)

Comments

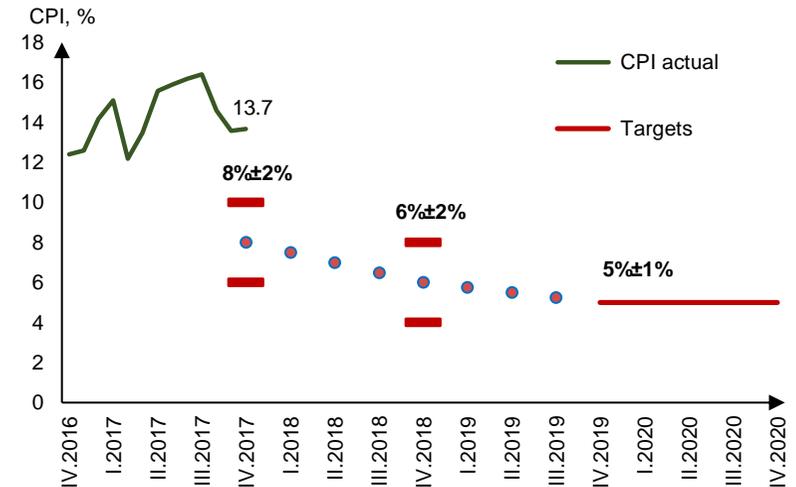
- ▶ **The introduction of UAH exchange rate flexibility helped reduce external imbalances** and significantly contributed to restoring Ukraine's competitiveness
- ▶ The surplus of the balance of payments and return to Eurobond market **boosted international reserves** to US\$ 18.8bn in as of end 2017 (c.3.6x months of future imports)
- ▶ After **macroeconomic recovery and fiscal consolidation inflation has fallen** from its peak of 61% in April 2015 to 12.4% by 2016 year end; however, accelerates to 13.7% (est) in 2017 by faster growth in raw food prices, higher production costs, and a revival of consumer demand
 - **NBU pursued a fairly tight monetary policy** to bring inflation back to the target by raising key policy rate three times – in October, December 2017 and January 2018

Exchange rate, UAH/US\$

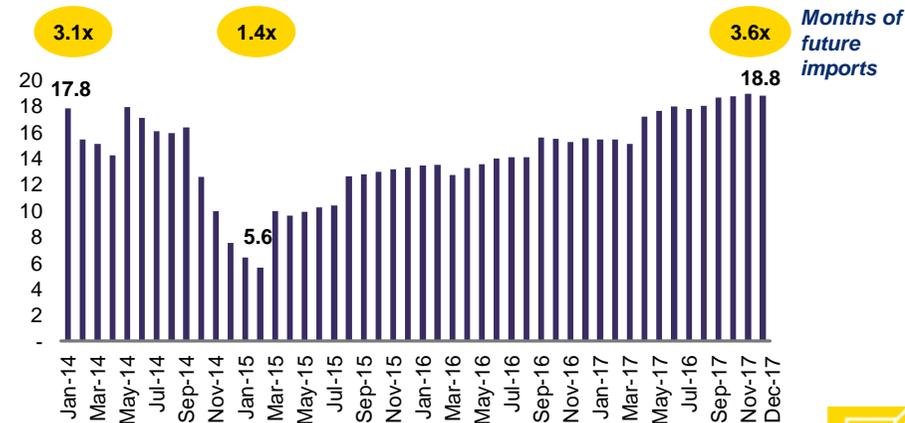


Source NBU

Consumer price index (CPI), % change



Gross international reserves, US\$ bn



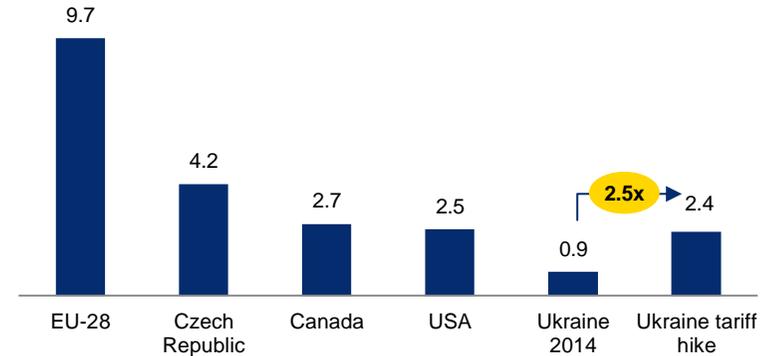
Ambitious reforms transforming the energy sector

Comments

Naftogaz transferred UAH 13bn (c.US\$ 500m) of 2016 dividends to the state budget, the highest dividend payment ever made by a state-owned company in Ukraine

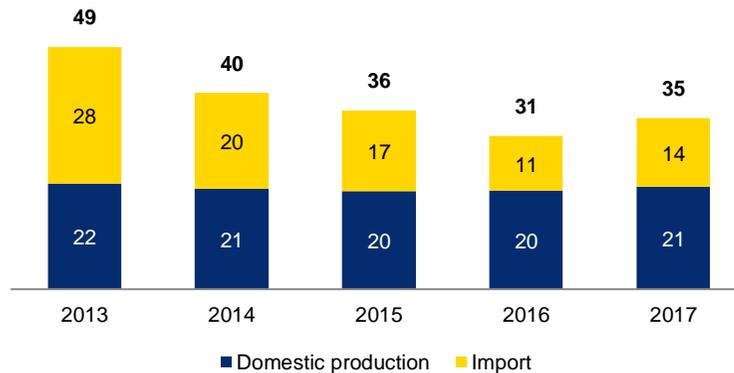
- ▶ **Following two rounds of tariff adjustment, Ukraine's energy policy is clearly targeting gas and heating tariffs to reach full import parity levels:**
 - Eliminating Naftogaz's operational deficit and generating significant savings for the State budget
 - c.US\$ 7.3bn in 2014 (5.5% of GDP)
 - c.US\$ 0.9bn in 2015 (1.0% of GDP)
 - Laying the foundation for competitive gas market development
- ▶ **Ukraine has intensified domestic extraction and has started importing natural gas from the EU**
 - Complete substitution of Russia in favor of the EU for gas imports since late 2015

Natural gas prices, US\$ cents per kWh



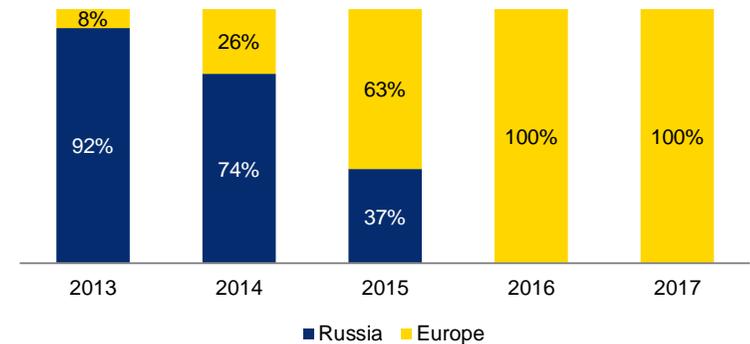
Sources Eurostat, World Bank, Naftogaz

Natural gas import vs. local production, bcm



Source Naftogaz

Natural gas import structure, %



Source Naftogaz



The path to new Ukraine is now clearly delineated

- **Medium-Term Government Priority Action Plan till 2020** was adopted by the CMU in April 2017
- **Outlines key government's objectives** and priorities for 2017-20
- **82 initiatives** – set of actions the government intends to pursue in the medium term



Medium-Term Government Priority Action Plan till 2020				
Pillar 1 Economic growth	Pillar 2 Effective governance	Pillar 3 Human capital development	Pillar 4 Rule of law and anti-corruption	Pillar 5 Security and defense
<ul style="list-style-type: none"> ▶ Business development ▶ Investments ▶ Exports support ▶ Privatization ▶ Land reform ▶ Energy reform ▶ Infrastructure modernization 	<ul style="list-style-type: none"> ▶ Public service reform ▶ Public finance reform ▶ Decentralization ▶ E-governance 	<ul style="list-style-type: none"> ▶ Education reform ▶ Healthcare system reform ▶ Pension and social security reforms ▶ Culture and sport development 	<ul style="list-style-type: none"> ▶ Introduction of anti-corruption policies ▶ Support of anti-corruption institutions ▶ Property rights protection ▶ Equal access to justice 	<ul style="list-style-type: none"> ▶ Military forces / National guard / law enforcement agencies development ▶ Renovation of liberated territories ▶ Reintegration of occupied territories ▶ Strategic communications
30 initiatives	9 initiatives	20 initiatives	8 initiatives	15 initiatives

Selected KPIs to be achieved by 2020

<ul style="list-style-type: none"> • Top 30 in Doing Business ranking • Gini coefficient less than or equal to 0.35 • Gross savings c.23% of GDP 	<ul style="list-style-type: none"> • Top 50% by World Bank Governance Indicators • Top 50 in Institutions pillar of GCI¹ • State and state-guaranteed debt / GDP at 72% till 2020 	<ul style="list-style-type: none"> • Top 50 in Human Development Index • Mortality rate – decrease by 10% • Poverty rate (acc. to OECD) – 15% 	<ul style="list-style-type: none"> • Top 50 in Corruption Perception Index 	<ul style="list-style-type: none"> • Security and defense spending not less than 5% of GDP • Securing international support on Donbass and Crimea issues
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Source CMU
Note 1 Global Competitiveness Index

1. A story of recovery and renewal

2. The strong reform momentum



3. Fiscal consolidation supporting a prudent debt management strategy

4. Continuous support from economic partners

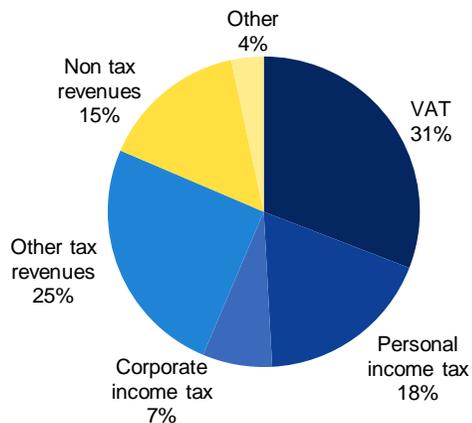
5. Return to the international bond market



Ambitious 2017 budget driven by strong tax revenue growth

Breakdown of public revenues (2017 budget¹)

Consolidated budget revenues: UAH 1,016bn

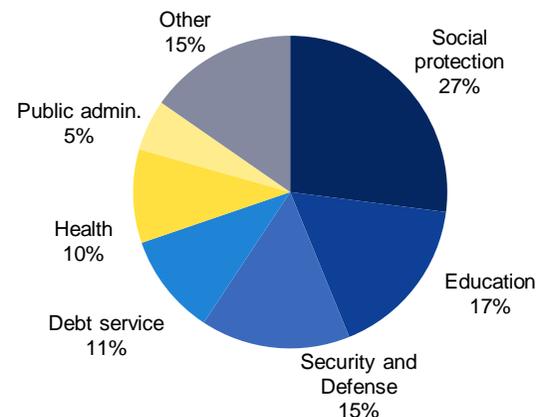


2017 Consolidated budget execution¹ (vs. 2016):

- Consolidated budget deficit: UAH 42bn – 1.5% of GDP (2.3% of GDP in 2016)

Breakdown of public expenditures (2017 budget¹)

Consolidated budget expenditures: UAH 1,057bn

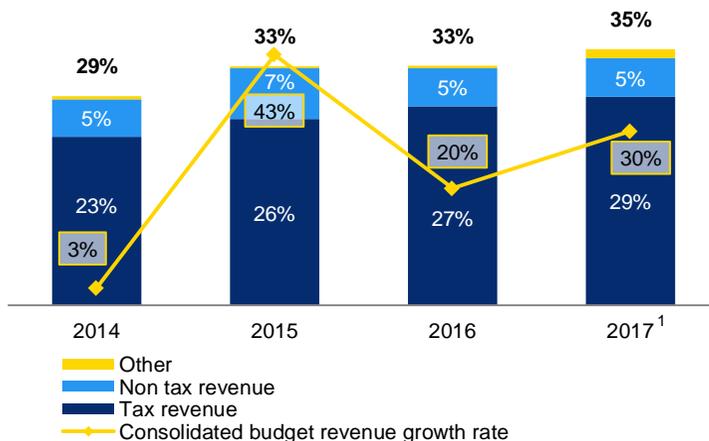


2018 State Budget Law has been adopted by the Parliament on Dec 7, 2017

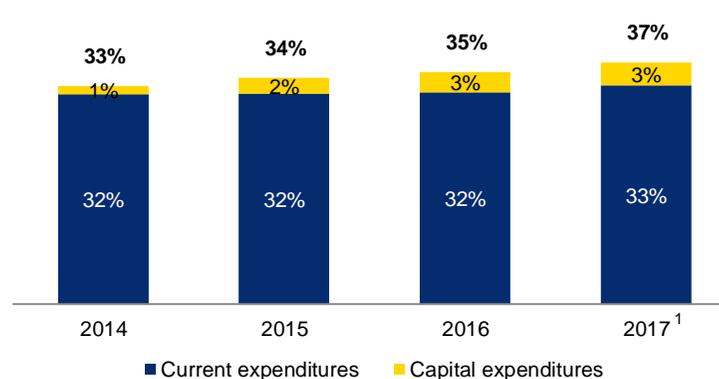
Key figures vs. 2017 State budget²:

- Total revenues: UAH 918bn (+19%)
- Total expenditures: UAH 992bn (+18%)
- Budget deficit: UAH 86bn (2.4% of GDP) – in line with IMF requirement of 2.5% of GDP

Consolidated budget revenues, % of GDP²



Consolidated budget expenditures, % of GDP²



Notes

- Preliminary estimates based on 12m budget execution data
- 2017 GDP represents preliminary estimates

Source Ministry of Finance



Significant fiscal consolidation efforts leading to primary surplus

Comments

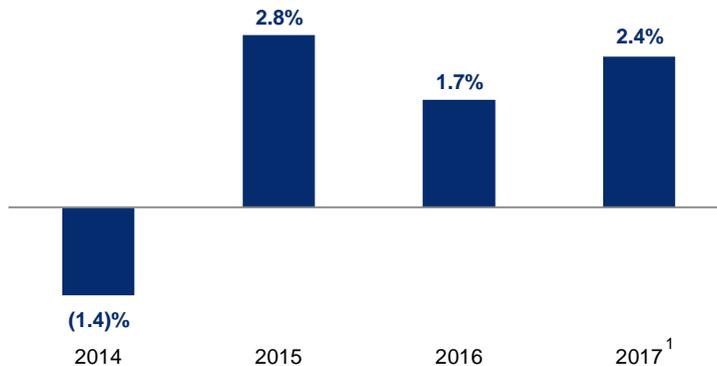
- ▶ **The overall deficit (incl. the energy sector's quasi-fiscal losses) declined significantly since 2014**, from 10.0% to 2.3% of GDP in 2017
 - Naftogaz operational deficit almost eliminated starting from 2016 owing to the successful reform of Naftogaz
- ▶ **Fiscal consolidation has created space in the budget** to finance infrastructure projects
- ▶ Medium-term budget resolution for 2018-20 anchors government's fiscal framework for the years to come
 - Target consolidated budget deficit at c.2% of GDP by 2020, vs 2.4%¹ in 2017
 - Reduction in current expenditures to increase investment spending for public infrastructure

2017 general government balance keeps an overall balance below 3% of GDP, in line with IMF programme's requirements

Source Ministry of Finance

Primary balance,³ % of GDP

After a slight decline in 2016 primary surplus grew to 2.4% of GDP in 2017¹ mainly amid increasing tax revenues

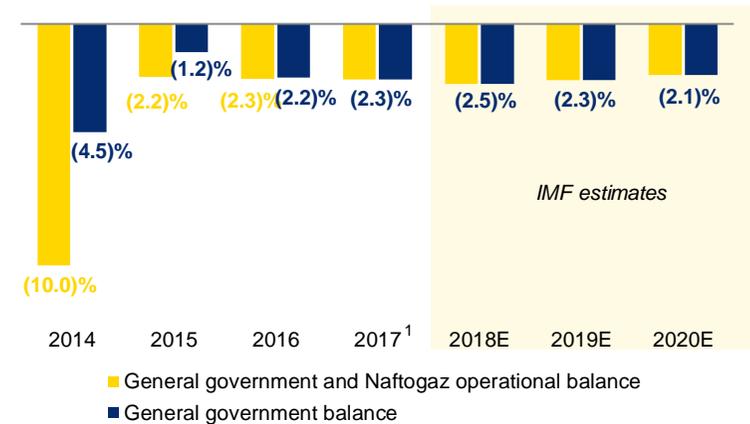


Source Ministry of Finance

Notes

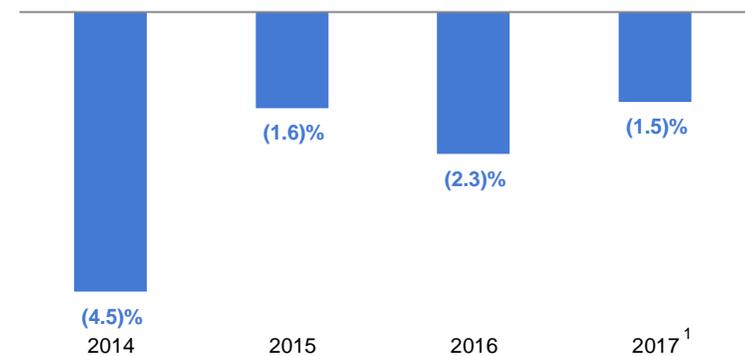
- 1 Preliminary estimates based on 12m 2017 budget execution data
- 2 Incl. state, local budgets, social security funds; excl. Naftogaz balance and state banks and DGF recapitalization
- 3 Consolidated budget revenues minus expenditures and net lending (excl. debt servicing)

General government balance², % of GDP



Sources Ministry of Finance, IMF

Consolidated budget balance, % of GDP



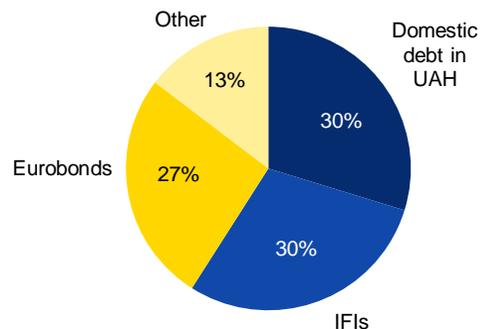
Source IMF

Prudent and proactive debt management strategy (1/2)

State and state-guaranteed debt structure (as of end-2017)²

US\$ 76.3bn / UAH 2,142bn

State and state-guaranteed debt targeted at 72% of GDP by 2020¹



State and state-guaranteed debt (as of end-2017), US\$ bn

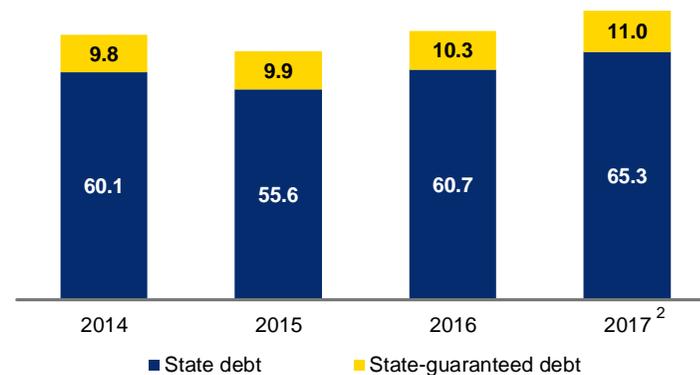
Total (% of GDP)

69.4%

79.1%

81.0%

74.0%



State debt amortization schedule (as of end-2017)³, US\$ bn

Total debt service

8.0

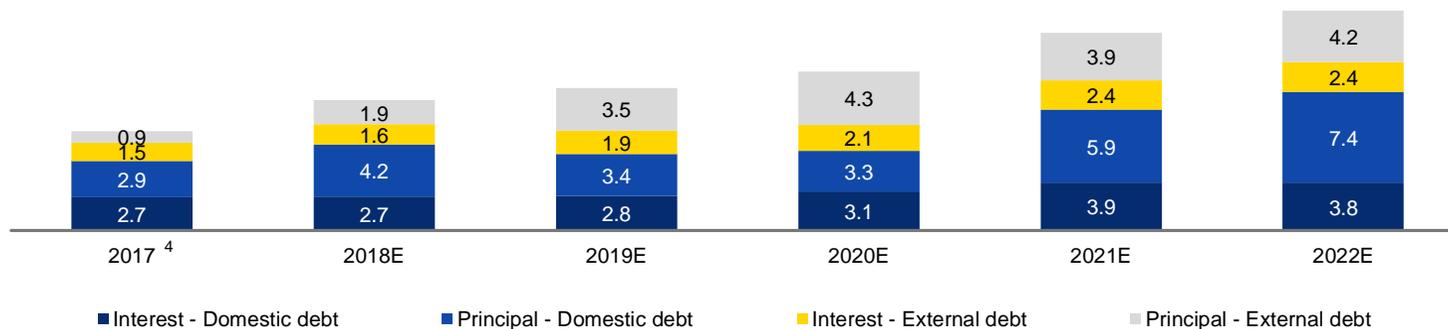
10.5

11.5

12.8

16.0

17.8



Notes

1 According to the Medium-term budget resolution for 2018-20

2 Preliminary estimates

3 Incl. outstanding and planned debt obligations

4 Excl. c.US\$ 1.6bn repayment as a result of LMO and c.US\$ 8.2bn as a result of domestic debt re-profiling

Source Ministry of Finance

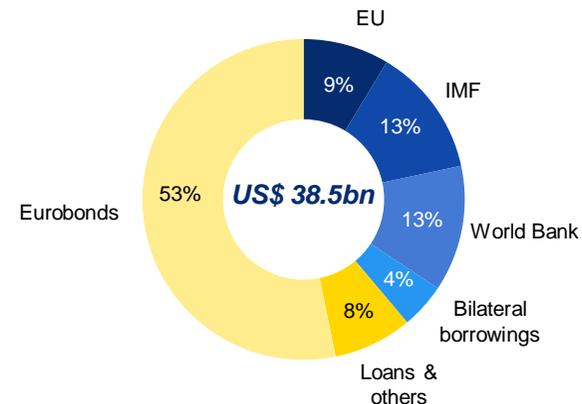


Prudent and proactive debt management strategy (2/2)

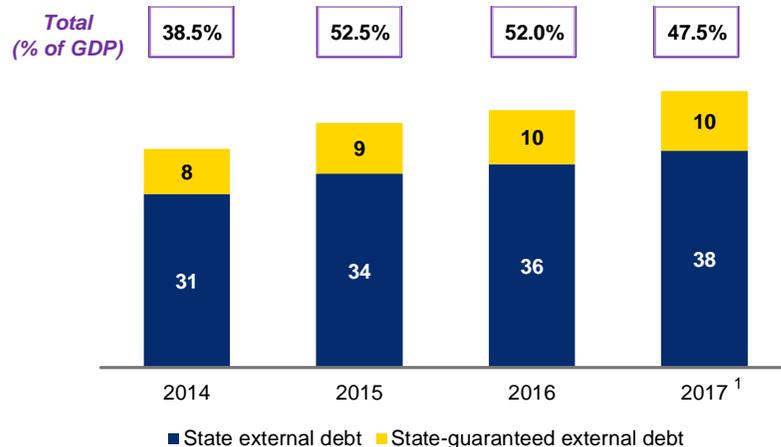
Comments

- ▶ **As of end 2017, Ukraine's total debt (US\$ 76.3bn)¹ is composed of**
 - 64% of external debt, 36% of domestic debt
 - 86% of state debt, 14% of state-guaranteed debt
- ▶ **State external debt is split between**
 - A growing portion of debt owed to International Financial Institutions (IFIs) reflecting IFIs increasing financial support to Ukraine
 - Non-concessional debt in the form of Eurobonds
- ▶ **The series of FX maturities from 2019 onwards call for a proactive debt management strategy**

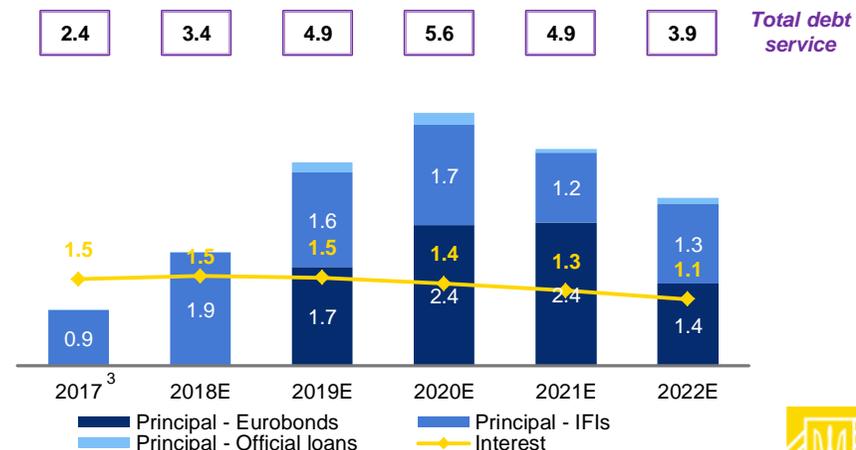
State external debt structure (as of end-2017)¹



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



State external debt maturity profile (as of end-2017)², US\$ bn



Notes

- 1 Preliminary estimates
- 2 Incl. existing debt obligations only
- 3 Excl. US\$ 1.6bn repayment as a result of LMO

Source Ministry of Finance



1. A story of recovery and renewal

2. The strong reform momentum

3. Fiscal consolidation supporting a prudent debt management strategy



4. Continuous support from economic partners

5. Return to the international bond market

Continuous and significant support from our partners

Significant commitments made to support both public and private sectors

Institution	Financial support	Comments
	US\$ 17.5bn for 2015-19	<ul style="list-style-type: none"> ▶ IMF 4-year Extended Fund Facility approved in March 2015 ▶ c.US\$ 8.5bn already received (as of July 2017)
	US\$ 4.6bn for 2014-16	<ul style="list-style-type: none"> ▶ US\$ 4.6bn of new support committed from May 2014 to June 2016 (US\$ 655m committed for 2017) ▶ Financial support in the form of project financing (US\$ 2.2bn), Development Policy Loans (US\$ 2.25bn), IFC investments in the private sector (US\$ 250m)
	€ 11bn	<ul style="list-style-type: none"> ▶ € 11bn package approved in March 2014 to be provided by the EU budget (€ 3bn, of which € 1.6bn in macro financial assistance), the EIB (€ 3bn) and the EBRD (€ 5bn) ▶ Free trade agreement with the EU and implementation of the EU legislation
	US\$ 3bn of loan guarantees	<ul style="list-style-type: none"> ▶ Issuance of three US\$ 1bn loan guarantees from the US Treasury (USAID) in May 2014, May 2015 and Sept 2016 ▶ Financial support to promote economic recovery and reforms in Ukraine

Sources IMF, World Bank, the EU, US Treasury



Update on ongoing IMF programme in Ukraine

Key milestones

- ▶ **February 2015:** IMF staff Level Agreement on a US\$ 17.5bn Extended Fund Facility Arrangement (the EFF) (900% of quota)
 - 2nd largest IMF programme in percentage of quota: compared to 2,159% of quota for the 2nd programme 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
 - Reduction in the number of reviews to 11 and rephrasing of remaining access to align purchases with reform progress and balance of payments needs
- ▶ **April 2017:** Completion of the 3rd review of the EFF and disbursement of the 4th tranche of EFF support
- ▶ **H1 2018:** Upcoming next tranche of the EFF budget support of SDR1.4bn (c.US\$ 1.9bn) is expected

Past and upcoming IMF reviews

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
4 th review	1,418	1,907
5 th review	952	1,280
6 th review	952	1,279
7 th review	712	955
8 th review	712	955
9 th review	712	955
10 th review	712	955
Total	12,348	16,823

Key structural benchmarks to be met for IMF 4th review

- ▶ **Pension reform:**
 - Approved in October 2017
- ▶ **Privatization:**
 - Law on state property privatization adopted in January 2018
- ▶ **Anti-corruption court:**
 - Draft Law submitted to the Parliament for consideration

Note 1 March 2015 - April 2017 tranches translated at NBU XDR/US\$ exchange rate as of the date of the receipt of the tranches; expected tranches converted at XDR/US\$ as of April 2017

Source IMF, Ministry of Finance



1. A story of recovery and renewal

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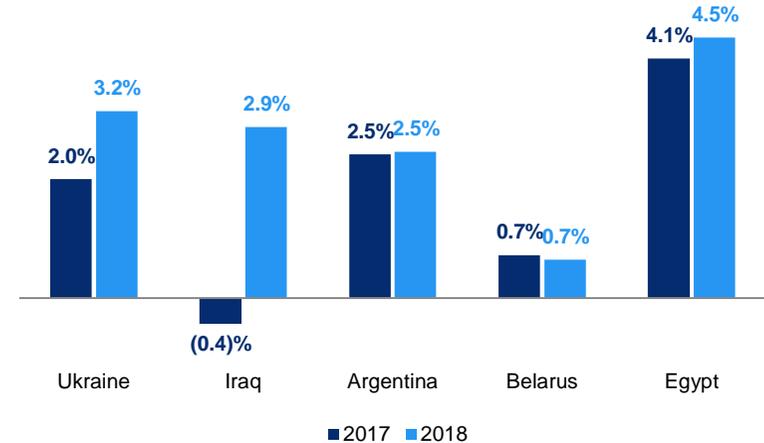
5. Return to the international bond market

Favourable fiscal metrics compared to our peers

Comments

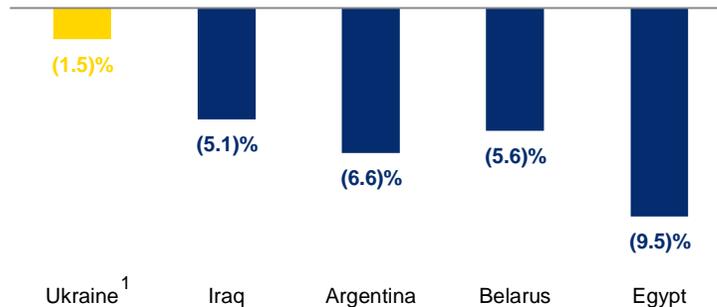
- ▶ **Ukraine can be compared with the following 4 countries with recent Eurobond transactions:**
 - **Argentina (B / B3 / B):** US\$ 16.5bn Eurobond issued in four tranches (3 / 5 / 10 / 30 years at 6.25% / 6.875% / 7.5% / 8% yield) in April 2016
 - **Egypt (B- / B3 / B):** US\$ 4bn Eurobond issued in three tranches (US\$ 1.75bn due 2022 at 6.125%, US\$ 1bn due 2027 at 7.5%, US\$ 1.25bn due 2047 at 8.5%) in January 2017 and US\$ 3bn triple-tranche tap in May
 - **Belarus (B- / Caa1 / B-):** US\$ 1.4bn Eurobond issued in two tranches (US\$ 800m due 2022 at 7.125%, US\$ 600m due 2027 at 7.625%) in June 2017
 - **Iraq (B- / Caa1 / B-):** US\$ 1bn 5-year Eurobond issued in August 2017 at 6.75%
- ▶ **Compared to these peers that recently tapped the Eurobond market, Ukraine exhibits better macro and fiscal metrics**

Real GDP growth estimates in 2017-2018 %



Source IMF

Consolidated budget deficit, % of GDP

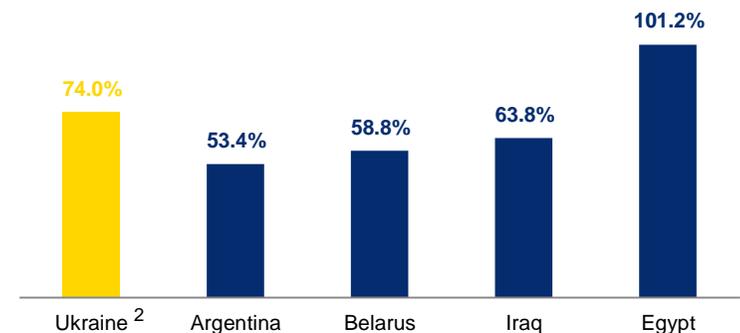


Sources Ministry of Finance, IMF

Notes

- 1 Preliminary estimates based on 12m budget execution data
- 2 Preliminary estimates of state and state-guaranteed debt as of end-2017

State and state-guaranteed debt as of end-2017, % of GDP



Details of Ukraine's return to the international bond market

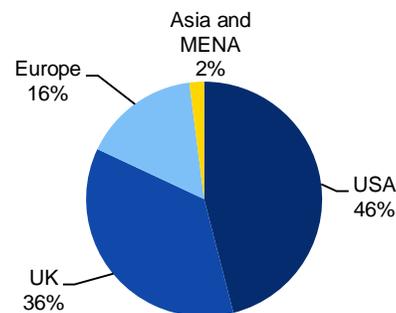
Ukraine's \$3bn 15-year Eurobond issue and \$1.6bn tender offer on 2019 & 2020 series

Institution
<p>▶ On September 18th, 2017, Ukraine returned to capital markets following a 5-day roadshow in London, New York and Boston</p> <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 <p>▶ 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</p> <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 <p>▶ This transaction received a very strong demand from international investors with a close to US\$ 10bn orderbook with 350 investors participating</p> <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

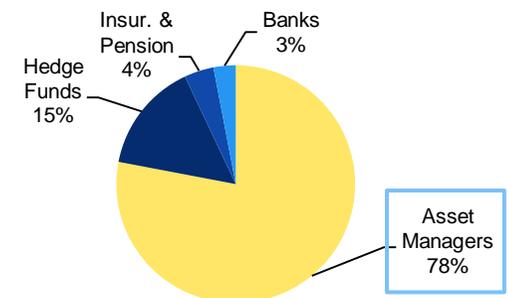
Term sheet – Buyback transaction			
	2019	2020	Total
Amount outstanding (before transaction)	US\$ 1,822m	US\$ 1,780m	US\$ 3,602m
Amount tendered	US\$ 1,161m	US\$ 415m	US\$ 1,576m
Participation rate (%)	63.7%	23.3%	43.8%
Amount outstanding (pro forma)	US\$ 661m	US\$ 1,365m	US\$ 2,026m
Buyback Price	106.00	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



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

Distribution book – By investor type



Sources Bloomberg, Bookrunners



MINISTRY OF
FINANCE OF
UKRAINE

Thank you for your attention!