

Ukraine

Investor presentation



MINISTRY OF
FINANCE OF
UKRAINE

September 2019

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Ukraine's economy: illustrative success stories

	2014 / 2015	2018 / 2019
 Real GDP growth	(6.6)% / (9.8)%	3.3% (2018) / 4.6% (Q2 2019) ¹
 Consumer inflation (eop)	24.9% / 43.3%	9.8% (2018) / 9.1% (Jul 2019, y-o-y)
 Reserves (eop)	US\$ 7.5bn (2014) / US\$ 13.3bn (2015)	US\$ 22.0bn (Sep 2019)
 Primary state budget balance	(1.9)% of GDP (2014)	1.6% of GDP (2018)
 State debt to GDP	67.1% (2015)	52.3% (2018)
 Naftogaz	Quasi-fiscal deficit at 5.5% of GDP (2015)	c.UAH 137bn paid in taxes and dividends to state budget in 2018

Note 1 Preliminary estimates

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





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

2. Reforms achievements: irreversible steps towards big changes

3. Fiscal consolidation supporting a prudent debt management strategy

4. Continuous support from economic partners

Appendices



Solid economic recovery track (1/3)

2018 nominal GDP:

US\$
131bn

GDP per capita dynamics, US\$

US\$
2,125 2015

+3%

2016 US\$
2,188

+21%

2017 US\$
2,640

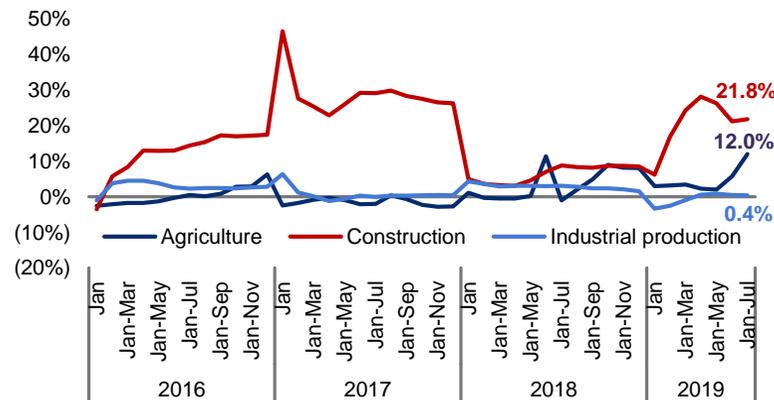
+17%

2018 US\$
3,093

Comments

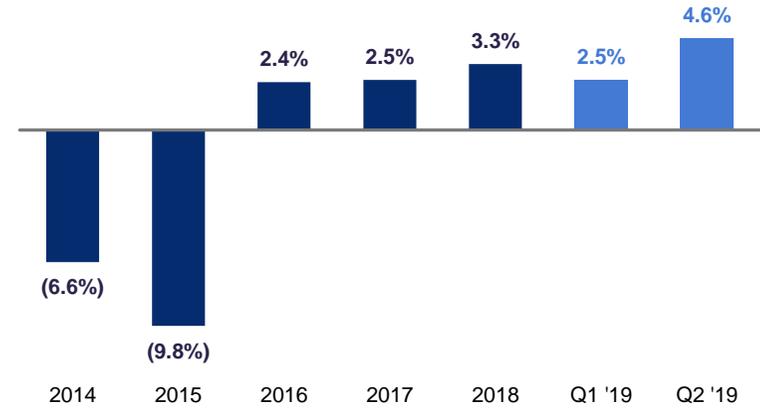
- ▶ **Ukraine's real GDP is growing for fourteen consecutive quarters in a row**
- ▶ Real GDP growth accelerated further to 4.6% (y-o-y) in Q2 2019 compared to 3.8% in Q2 2018 and 2.7% in Q2 2017
- ▶ In 2018 Ukraine witnessed a 7.8% real growth in agriculture, 8.5% – in construction, and 1.6% increase in industrial production. In 7m 2019 the positive trend continued with construction, agriculture and industrial output growing by 21.8%, 12.0% and 0.4%, respectively
- ▶ **Strong consumer demand remains the key driver of real growth dynamics** followed by the accelerated investments
 - **Private consumption contribution to real GDP growth accounted for 8.0%** in Q1 2019, whereas positive contribution of fixed capital accumulation totaled 2.5%

Key economic sectors output growth (y-o-y)¹, %



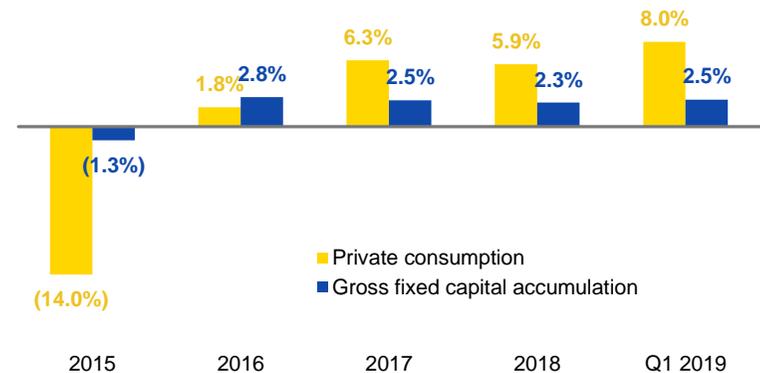
Source State Statistics Service of Ukraine

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



Source State Statistics Service of Ukraine

Component contribution into real GDP growth, %



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

Source State Statistics Service of Ukraine

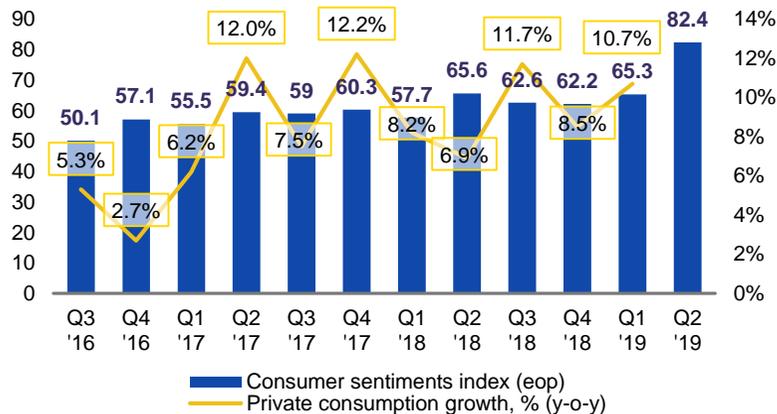


Solid economic recovery track (2/3)

Comments

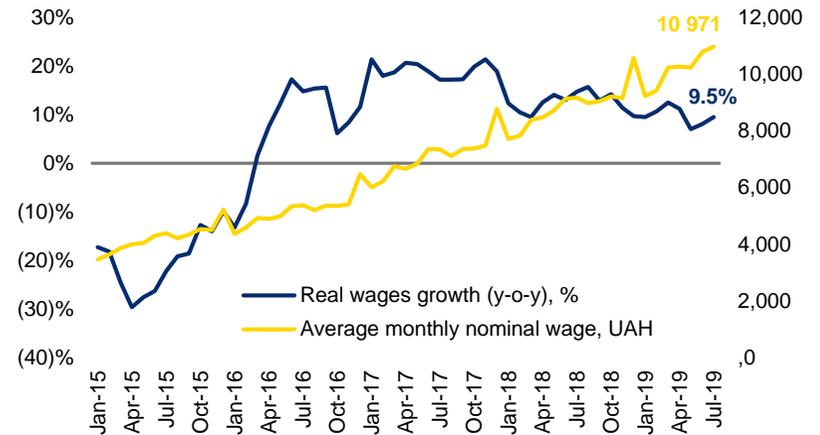
- ▶ **Increasing consumer demand remains the main driver of Ukraine's real GDP growth**
 - Final private consumption grew by 8.9% (y-o-y) in 2018 and further accelerated to 10.7% in Q1 2019, whereas retail trade turnover increased by 10.1% in July 2019
- ▶ Consumer demand is driven by a number of factors, including among others **improving consumer sentiments, rise in real wages, consumer lending and personal money remittances**
 - Real wages went up by 9.5% in July 2019 with growth being supported by the economic expansion, 12.1% increase in minimum wage in 2019 and increased competition for the labor force

Private consumption and consumer sentiments evolution



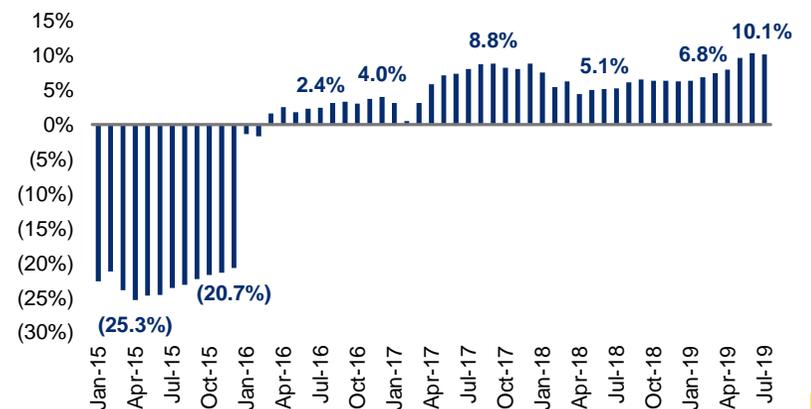
Source GFK, Info Sapiens, State Statistics Service of Ukraine

Real wages growth and average monthly nominal wages



Source State Statistics Service of Ukraine

Retail trade growth (y-o-y)¹, %



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

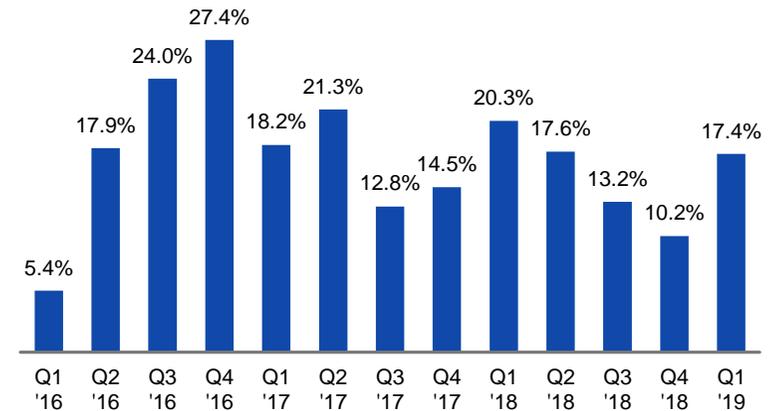
Source State Statistics Service of Ukraine

Solid economic recovery track (3/3)

Comments

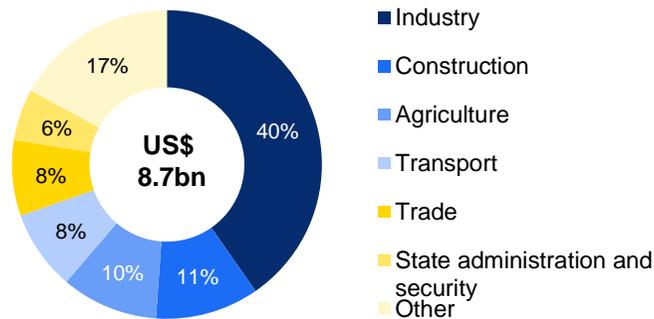
- ▶ **Investment demand** is another driver of economic recovery
- ▶ Industrial output grew by 0.4% (y-o-y) in 7m 2019 predominantly owing to the increased production in pharmaceuticals (11.3%), food, beverages and tobacco production (3.1%), and mining industry (2.6%)
- ▶ **Gross fixed capital went up by 17.4% in Q1 2019** indicating increased investment activity of Ukrainian enterprises
- ▶ Capital investments witnessed 12.3% growth (y-o-y) in H1 2019, thus solidifying further economic growth prospects
 - **Industry has been the major contributor to capital investments in 2018 accounting for c.40%** followed by construction and agriculture with 11% and 10% shares, respectively

Gross fixed capital accumulation, % (y-o-y)



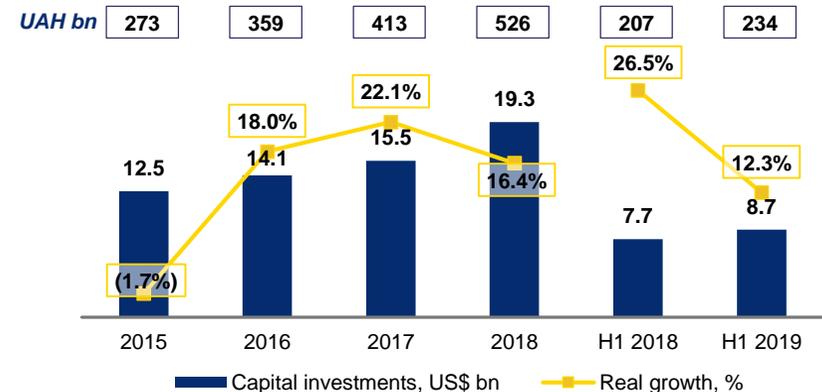
Source State Statistics Service of Ukraine

H1 2019 capital investments split by sector, %



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

Extension of trade partner universe

Overall Ukraine concluded 18 FTAs with 46 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
 - **The EU's share** in Ukraine's foreign trade turnover¹ went up **from 29% in H1 2013 to 39% in H1 2019** while Russia's share dropped from 27% to 10%
 - **DCFTA (in full force since September 2017)** provides further opportunities in the EU markets
- ▶ **The FTA with Israel** was ratified in July 2019 and stipulates elimination of import duties for about 80% of Ukrainian and 70% of Israeli industrial goods

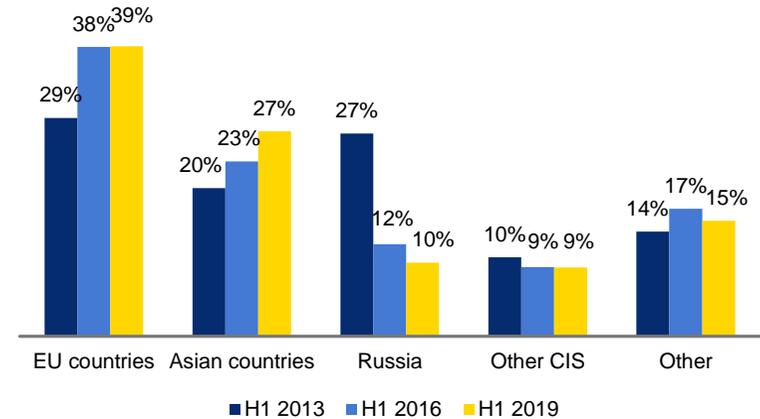
Growth (y-o-y) of selected commodity exports in H1 2019

Product category	Growth (vs H1 2017)
Fuel & energy	+27.9% / + US\$ 99m
Chemicals	+25.9% / + US\$ 258m
Mineral products	+23.0% / + US\$ 372m
Wood & paper products	+22.6% / + US\$ 177m
Textile & shoes	+19.1% / + US\$ 84m

Notes

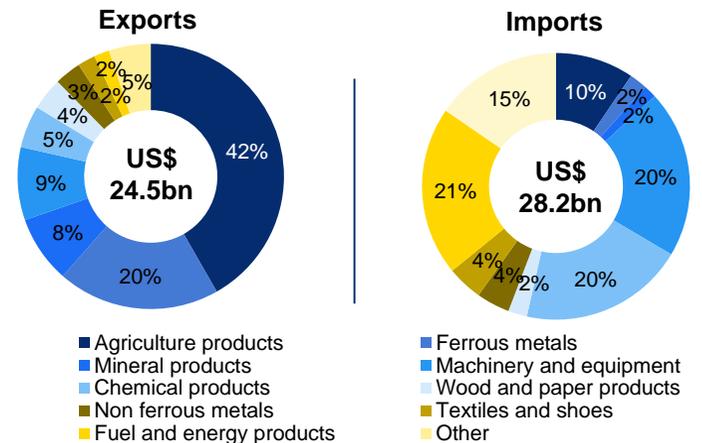
1 Sum of export and import of goods and services

Geographic breakdown of trade in H1 2013-H1 2019¹



Source NBU

Ukraine's H1 2019 exports and imports breakdown



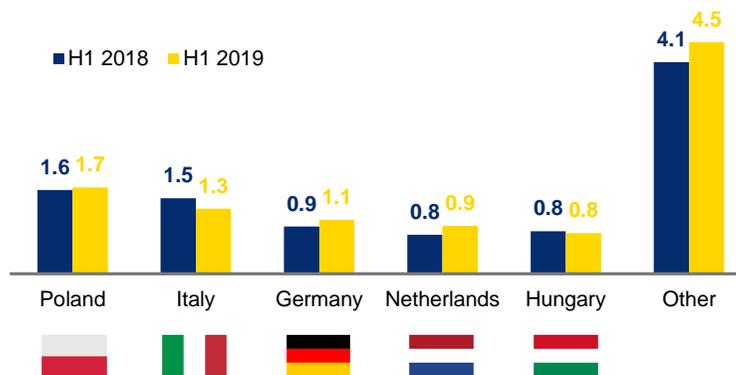
Source State Statistics Service of Ukraine

Enhancement of trade relations with the EU

Key highlights

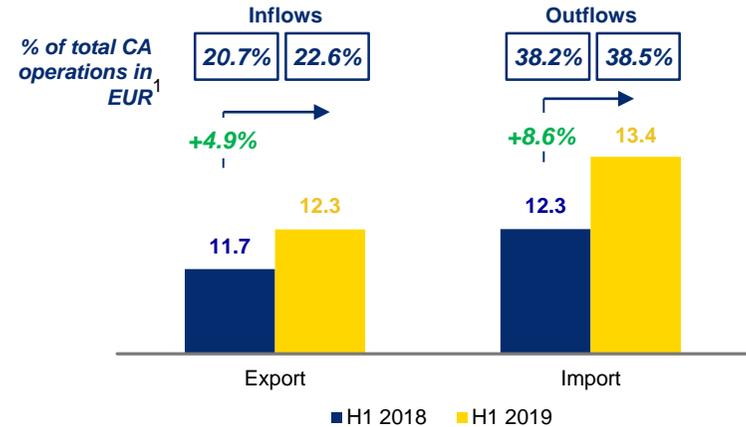
- ▶ Following the full implementation of DCFTA in September 2017, **Ukraine's export of goods and services to the EU increased by 4.9%** in H1 2019 (y-o-y) while **imports from the EU countries grew by 8.6%**
 - **Export of services has increased by 4.5%** over H1 2019 (y-o-y) totaling US\$ 2.0bn with the UK, Germany, and Poland being the main destinations
 - **Export of goods grew by 5.0%** over H1 2019 (y-o-y) totaling US\$ 10.3bn with the Poland, Italy, and Germany being the largest partners
 - Change in goods export structure indicates considerable **rise in export of agriculture and mineral products**

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



Source State Statistics Service of Ukraine

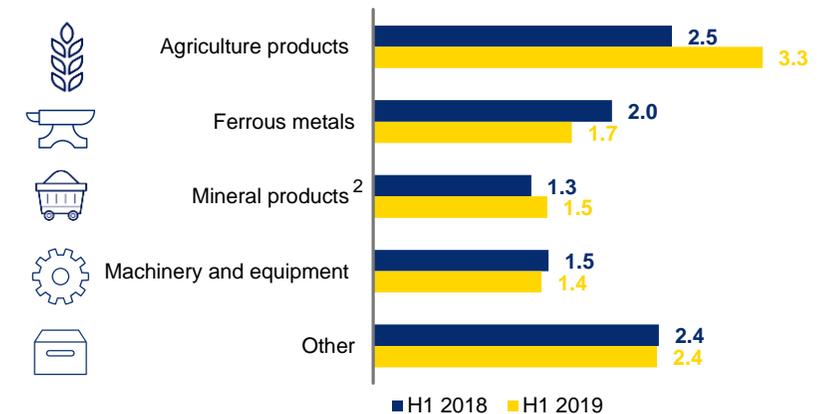
Dynamics of trade in goods and services with the EU, US\$ bn



Source State Statistics Service of Ukraine

Note 1 Q1 2018 and Q1 2019 data

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



Source State Statistics Service of Ukraine

Note 2 Incl. fuel and energy products

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

Key fast growing EU destinations in H1 2019 (y-o-y):

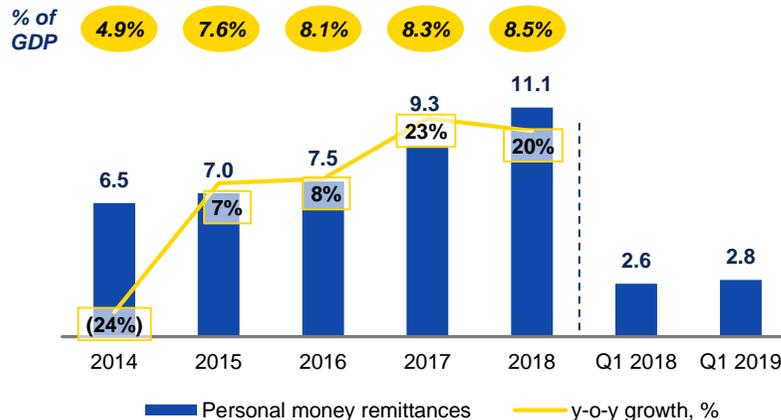
1. Ireland: **+99%**
2. Denmark: **+50%**
3. Luxembourg: **+48%**

Firm external position leading to less vulnerability to external shocks

Comments

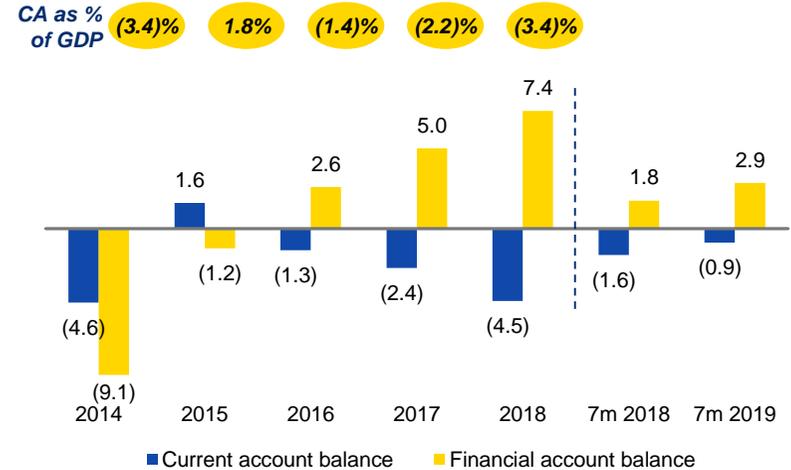
- ▶ **The trade balance deficit increased** to 8.6% of GDP in 2018 relating to **growing consumer and investment demand**. The trend is largely supported by rising mineral resources and machinery imports
 - Import of mineral products grew by 15.6% (y-o-y) in H1 2019, while import of non-ferrous metals, as well as machinery and equipment increased by 15.2% and 8.7%, respectively
- ▶ **Negative trade balance is offset by growing personal money remittances together with capital account inflows** resulting into positive overall BoP of US\$ 2.9bn in 2018
 - Private money remittances witnessed 20% (y-o-y) growth in 2018, thus solidifying Ukraine's external accounts

Private money remittances, US\$ bn

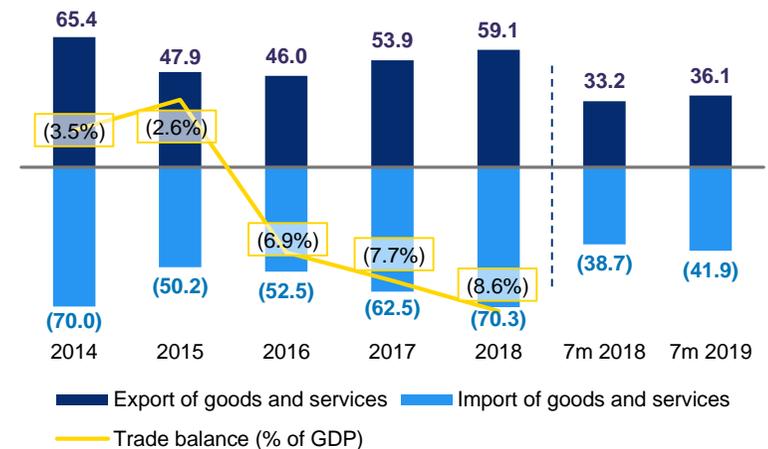


Source State Statistics Service of Ukraine, NBU

Current and financial account balances, 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 6-year high as of September 2019

Comments

- ▶ **The NBU pursues tight monetary policy** with key policy rate of 18.0% preserved since Sep 2018 until Apr 2019 when a cycle of key policy rate cuts has commenced and it was gradually reduced to 16.5% in Sep 2019
 - According to the NBU, steadily decreasing inflation enables the regulator to carry out the mentioned cycle of key policy rate cuts
- ▶ Owing to fairly tight monetary conditions the regulator expects to bring inflation to its medium-term target range (5% +/- 1%) in 2020
- ▶ The international reserves grew by 0.8% (m-o-m) in August 2019 to US\$ 22.0bn mainly due NBU net FX purchase (US\$ 299m) and revaluation of financial instruments (US\$ 133m)

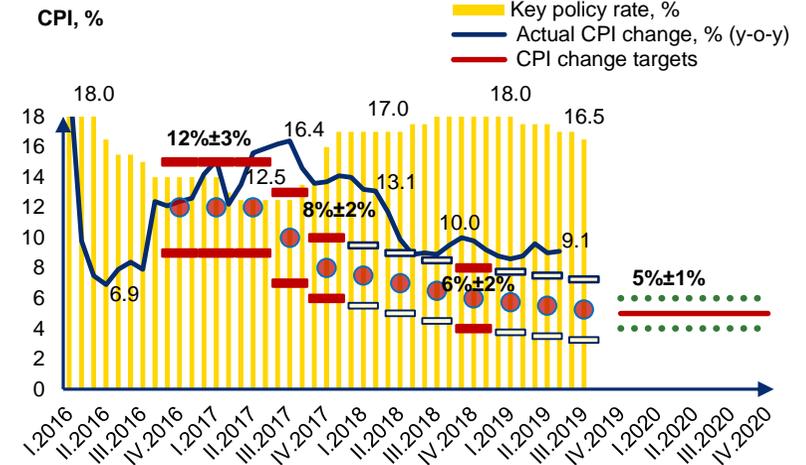
UAH/US\$ exchange rate dynamics



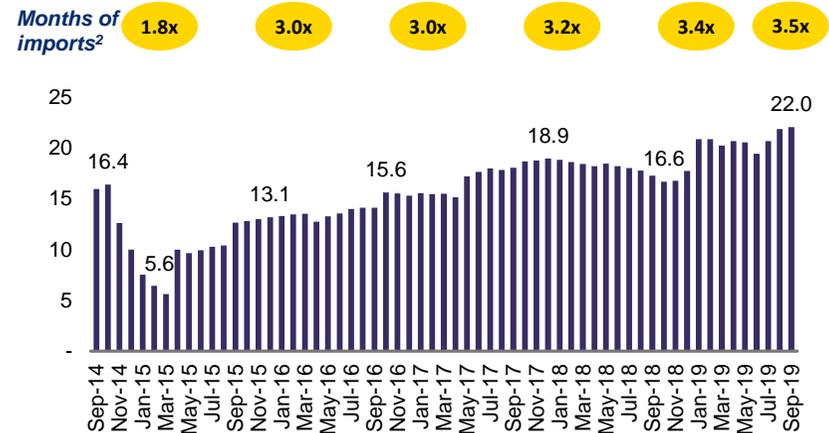
Notes
 1 Key policy rate stated as of beginning of each month
 2 Imports of goods and services of the immediately succeeding month are used for these calculations

Source NBU

Consumer price index (CPI) change and key policy rate¹



Gross international reserves, US\$ bn



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Appendices



Challenging reforms start bearing fruit (1/2)

	Key areas	LTM ¹ update	Selected results
Public governance 	<ul style="list-style-type: none"> ▶ Parliament: pro-Western parties held majority of mandates after the snap elections ▶ Decentralization: transfer of budgetary powers to local self-government bodies – total of 878 newly amalgamated communities ▶ Anti-corruption: full anti-corruption infrastructure in place 	<ul style="list-style-type: none"> • High Anti-Corruption Court (HACC) commenced its operations (Sep 2019) • New Supervisory Boards in state-owned banks commenced their work (June 2019) • 38 judges were approved to the HACC and its Appeal Chamber (April 2019) 	<ul style="list-style-type: none"> • 91% increase in revenues of local budgets in 2018 vs 2015 • 50 directorates with 1,305 new reform staff positions in civil service • 751 criminal proceedings by NABU with 212 cases filed to the courts
Public finance 	<ul style="list-style-type: none"> ▶ Taxation: decrease in number of taxes and reduction in tax rates ▶ Debt management: MTDS, return to markets, significant involvement of international investors and effective investor relations ▶ Medium-Term Budget Planning introduced ▶ Public expenditures and procurement: electronic procurement system fully effective 	<ul style="list-style-type: none"> • Link between Clearstream and NBU depository launched (May 2019) • Resolution on State Fiscal Service and State Customs Service reform with appointment of respective heads in May and July 2019 • Fiscal stability: timely adoption of 2019 State budget and in line with IMF requirements (November 2018) 	<ul style="list-style-type: none"> • 14-fold increase in non-residents' domestic government bond portfolio to US\$ 3.4bn since the beginning of 2019 • 61% of GDP – state and state-guaranteed debt in 2018 (vs 81% in 2016) • 11 number of taxes (vs 22)
Business climate 	<ul style="list-style-type: none"> ▶ Foreign trade: DCFTA in full force, FTA with Israel signed in early 2019, FTA with Turkey under negotiations ▶ Competitiveness and Deregulation: a great leap forward in international rankings ▶ Investment climate: introduction of effective mechanisms for dealing with bankruptcy 	<ul style="list-style-type: none"> • SME Development Office launched (July 2019) • Regulations on improvement of Doing Business ranking adopted by the CMU (March 2019) • Bankruptcy Code to protect creditors' rights and streamline bankruptcy procedures (October 2018) 	<ul style="list-style-type: none"> • Ease of Doing Business ranking improvement to 71st in 2018, 41 places up from 2014 • UAH 1.6bn Privatization proceeds transferred to state budget in 2018

Sources CMU, Ministry of Finance, NBU, NABU

Notes

1 LTM – last twelve months



Challenging reforms start bearing fruit (2/2)

	Key areas	LTM update	Selected results
Financial sector 	<ul style="list-style-type: none">▶ Monetary policy: inflation-targeting framework▶ Banking sector: sector clean-up, currency controls liberalization▶ NBU role: enhancement of the NBU's supervisory and regulatory role	<ul style="list-style-type: none">• New liberalized currency regulation system became effective (February 2019)• Recommendations for State-Owned Banks on Treating Non-Performing Loans (January 2019)• NBU Macropprudential Policy Strategy to reinforce Ukraine's financial system (December 2018)	<p>103 banks withdrawn from the market over 2014-2019</p> <p>UAH 23.4bn record high profits posted by the Ukrainian banking sector in January – May 2019</p>
Energy sector 	<ul style="list-style-type: none">▶ Energy sector diversification: intensified domestic extraction and complete substitution of Russia in favor of the EU for gas imports since late 2015▶ Liberalization of energy markets: transition of electricity market to European model, increase in levels for gas and heating tariffs, elimination of operational deficit of Naftogaz of Ukraine	<ul style="list-style-type: none">• Two oil and gas licensing rounds conducted (March and May 2019)• Start of debt enforcement process by Naftogaz following its victory over Gazprom in Stockholm Arbitration (February 2019)• Bringing gas prices for households closer to market level (April 2019)	<p>US\$ 2.56bn financial gain in Stockholm Arbitration</p> <p>2.3% CAGR in SOE Ukrgezvydobuvannia's gas extraction volumes (2015-2018)</p>

“The Ukrainian authorities have successfully **restored macro-economic stability and growth**, with support from the international community. **Prudent fiscal and monetary policies** and a **flexible exchange rate** regime have helped reduce fiscal and current account deficits. Reserves have been partly rebuilt and **confidence has improved.**”

*Mr. David Lipton, First Deputy Managing Director of the IMF
December 18, 2018*

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

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

Sources CMU, NBU, Prozorro, Naftogaz, Financial Times



Business climate improvement to accelerate growth potential

Last Doing Business improvement (76 → 71)

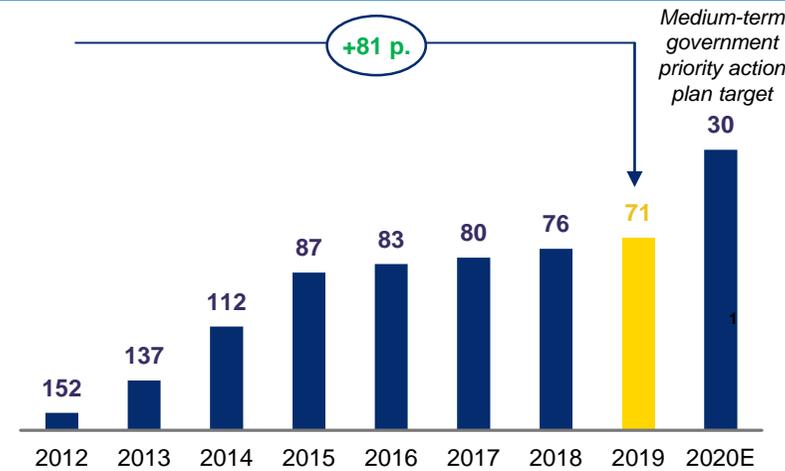
Trading across borders: **+41 (positions)**

Enforcing contracts: **+25**

Dealing with construction permits: **+5**

Protecting minority investors: **+9**

Ease of Doing Business ranking

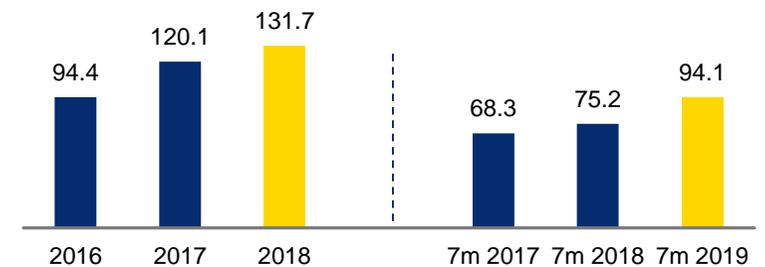


Source Doing Business

Improving business climate

► **Transparent taxation:** automatic system of VAT reimbursement launched since April 1st, 2017

VAT reimbursement, UAHbn



Sources National Investment Council, State Fiscal Service of Ukraine

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

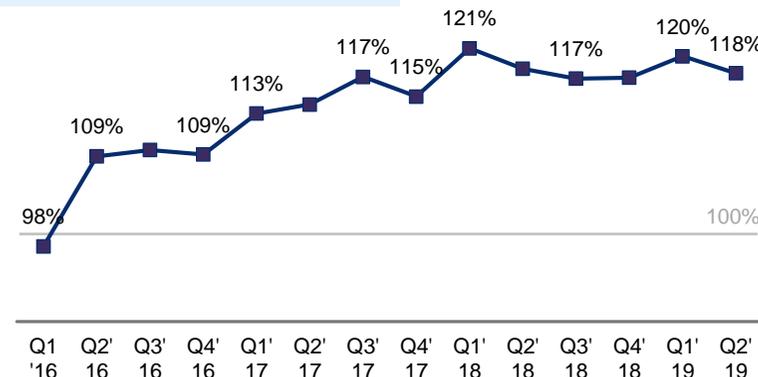
✈ Increased airport traffic: 25% (y-o-y) in 2018

🛣 National road fund in place since 2018

🚢 Concession of sea ports (in progress)

Business expectations index by the NBU

>100% – positive expectations



Source World Bank

Source: NBU

Global innovation index



► **47th position** in general ranking and **2nd position** among lower-middle income economies in 2018

► 2019/2013 strong improvement in **business sophistication** (+32 p.), **knowledge and technology outputs** (+17 p.)

Notes

Source Global Innovation Index

1 Not lower than 30 position by end-2020



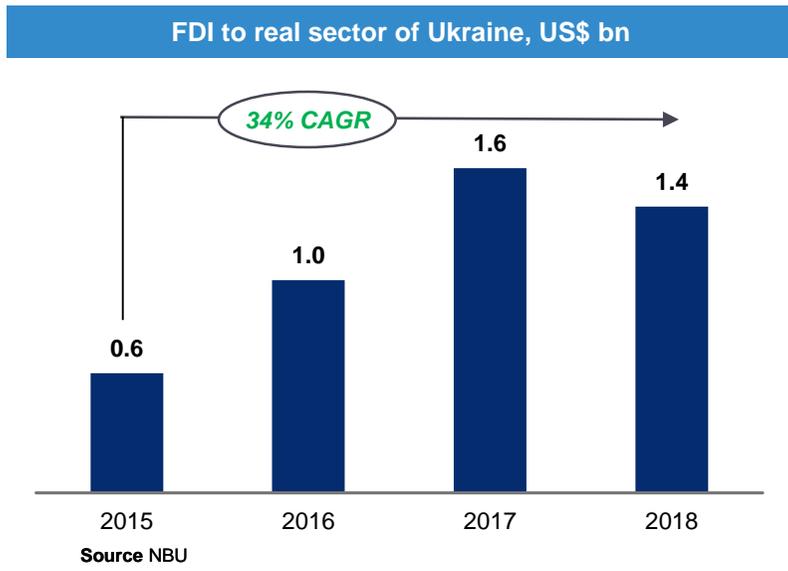
Boosted activity of foreign investors

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



Other important investors

Sources: UkraineInvest, National Investment Council of Ukraine

General Electric Transportation

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

Feb 2018

Brookfield Asset Management

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

Jun 2018

NBT

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

Aug 2018

Bayer

- ▶ 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

SALIC

- ▶ Acquisition of Mriya group's Ukrainian farming assets

Nov 2018

Scater Solar Powerchina

- ▶ Project cost c. EUR 124m
- ▶ Construction of 148 MW solar power plant with commissioning scheduled for 2020

June 2019

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3. Fiscal consolidation supporting a prudent debt management strategy

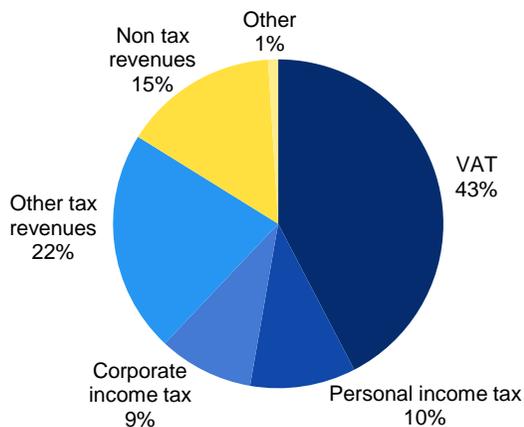
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Appendices

Ambitious 2019 state budget reflecting continuous fiscal consolidation

2019 state budget revenues split (2019 State budget Law)

State budget revenues: UAH 1,026bn

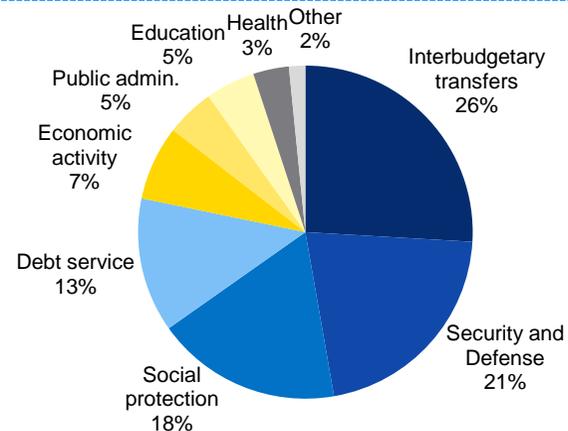


2019 vs. 2018 State budget figures:

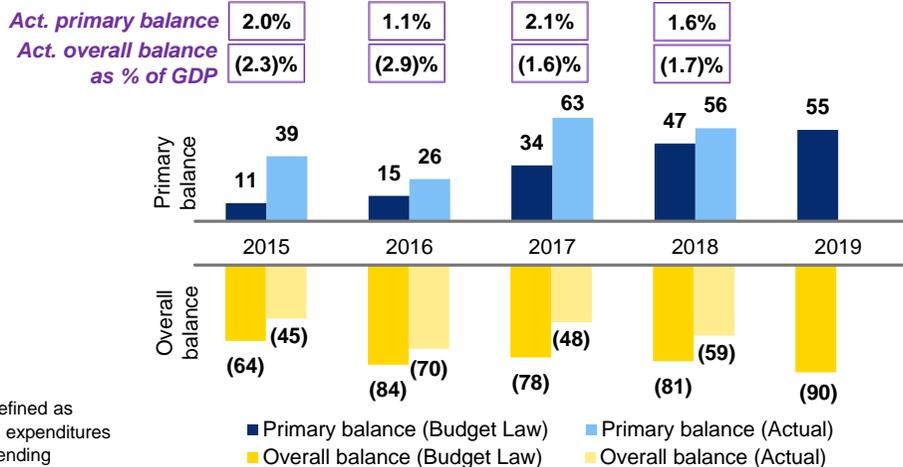
- Total revenues: UAH 1,026bn (+12%)
- Total expenditures: UAH 1,112bn (+12%)
- Budget deficit: UAH 90bn / 2.3% of GDP¹⁾

2019 state budget expenditures split (2019 State budget Law)

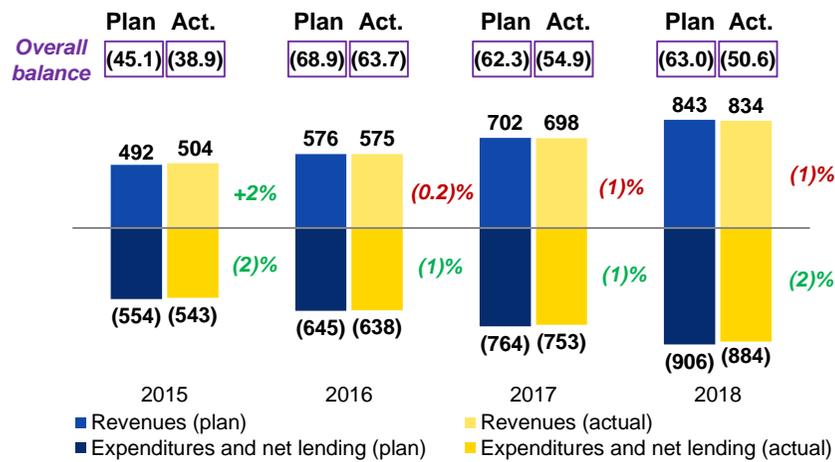
State budget expenditures: UAH 1,112bn



State budget balance, UAH bn



State budget general fund performance, UAH bn



Source State Treasury of Ukraine



Notes

¹ Budget deficit defined as revenues minus expenditures and minus net lending

State budget execution (7m 2019)

UAH m	State budget general fund			Overall state budget					
	7m 2019	7m 2019	% diff.	7m 2018	7m 2019	% diff.	FY 2018	FY 2019 ¹	% diff.
	Actual	Plan		Actual	Actual				
Revenues	516,444	537,973	(4%)	513,508	584,137	+14%	928,115	1,026,122	+11%
Tax revenues, incl.	401,688	437,817	(8%)	406,760	440,460	+8%	753,816	860,659	+14%
Personal income tax and income charge	61,802	58,339	+6%	50,494	61,802	+22%	91,742	106,155	+16%
Corporate profit tax	53,671	51,180	+5%	54,005	53,671	(1%)	96,882	95,520	(1%)
Fee for the use of mineral resources	28,191	31,791	(11%)	22,205	28,389	+28%	45,259	58,302	+29%
Excises	38,450	47,064	(18%)	61,348	69,840	+14%	118,852	130,233	+10%
VAT (net of VAT reimbursement)	205,390	234,649	(12%)	204,836	207,741	+1%	374,508	434,844	+16%
Export and Import duties	12,759	13,457	(5%)	14,256	16,993	+19%	27,077	31,544	+16%
Other taxes and duties	1,423	1,338	+6%	(385)	2,024	+626%	(505)	4,061	-
Non-tax revenues	114,757	100,156	+15%	106,748	143,677	(26%)	174,299	165,463	(5%)
Expenditures	(528,730)	(577,174)	(8%)	(526,323)	(586,491)	+11%	(985,852)	(1,112,120)	+13%
General public functions, incl.:	(88,592)	(103,354)	(14%)	(85,245)	(90,203)	+6%	(162,958)	(197,205)	+21%
Debt service	(65,024)	(75,642)	(14%)	(60,111)	(65,024)	+8%	(115,431)	(145,205)	+26%
Security and Defense	(113,616)	(123,006)	(8%)	(101,915)	(124,993)	+23%	(213,900)	(237,270)	+11%
Economic activity	(11,897)	(17,812)	(33%)	(24,638)	(28,621)	+16%	(63,601)	(80,502)	+27%
Protection of environment	(1,850)	(2,781)	(33%)	(1,799)	(2,236)	+24%	(5,241)	(6,826)	+30%
Municipal utilities and services	-	-	-	(10)	(23)	+143%	(297)	(162)	(45%)
Healthcare	(17,598)	(22,056)	(20%)	(7,135)	(18,578)	+160%	(22,618)	(38,446)	+70%
Intellectual and physical development	(4,460)	(6,048)	(26%)	(4,101)	(4,545)	+11%	(10,107)	(10,570)	+5%
Education	(19,234)	(22,476)	(14%)	(24,818)	(28,995)	+17%	(44,324)	(53,257)	+20%
Social welfare	(118,315)	(121,298)	(2%)	(89,125)	(126,447)	+42%	(163,866)	(199,627)	+22%
Interbudgetary transfers	(153,168)	(158,342)	(3%)	(187,537)	(161,849)	(14%)	(298,940)	(288,256)	(4%)
Net lending	1,641	2,771	(41%)	(542)	(504)	(7%)	(1,514)	(3,991)	+164%
Primary balance	54,379	39,212	+39%	46,755	62,167	+33%	56,180	55,216	(2%)
Overall state budget balance	(10,645)	(36,430)	(71%)	(13,356)	(2,857)	(79%)	(59,251)	(89,989)	+52%

Source State Treasury of Ukraine

Notes

¹ Plan according to 2019 State Budget Law



Consolidated budget execution (7m 2019)

UAH m	7m 2018 Actual	7m 2019 Actual	% change	FY 2018 Actual	FY 2019 Plan ¹	% change
Revenues	652,070	744,617	+14%	1,184,291	1,317,042	+11%
Tax revenues	532,957	590,592	+11%	986,349	1,123,350	+14%
Personal income tax and income charge	125,576	153,761	+22%	229,901	265,964	+16%
Corporate profit tax	59,115	59,048	(0%)	106,182	105,029	(1%)
Fee for the use of mineral resources	24,589	31,254	+27%	50,081	63,010	+26%
Excises	68,273	76,805	+12%	132,650	147,802	+11%
VAT (net of VAT reimbursement)	204,836	207,741	+1%	374,508	436,659	+17%
VAT reimbursement	(75,164)	(94,130)	+25%	(131,659)	-	
Property taxes	17,731	22,081	+25%	31,272	34,449	+10%
Export and Import duties	14,256	16,993	+19%	27,077	31,994	+18%
Other taxes and duties	18,581	22,910	+23%	166,338	38,442	(77%)
Non-tax revenues	119,112	154,025	+29%	197,942	193,692	(2%)
Expenditures	(643,826)	(721,191)	+12%	(1,250,190)	(1,440,073)	+15%
General public functions, incl.:	(99,997)	(108,955)	+9%	(191,550)	(233,712)	+22%
Debt service	(60,185)	(65,419)	+9%	(116,088)	(145,711)	+26%
Security and Defense	(102,428)	(125,636)	+23%	(215,050)	(246,031)	+14%
Economic activity	(51,402)	(60,653)	+18%	(140,761)	(174,398)	+24%
Protection of environment	(2,714)	(3,368)	+24%	(8,242)	(11,877)	+44%
Municipal utilities and services	(12,453)	(15,146)	+22%	(30,345)	(32,134)	+6%
Healthcare	(57,124)	(65,335)	+14%	(115,852)	(127,594)	+10%
Intellectual and physical development	(13,764)	(15,673)	+14%	(28,993)	(32,357)	+12%
Education	(116,612)	(133,517)	+14%	(210,032)	(247,032)	+18%
Social welfare	(187,332)	(192,908)	+3%	(309,364)	(334,939)	+8%
Net lending	(726)	(692)	(5%)	(1,893)	(5,544)	(193%)
Primary balance	67,702	88,153	+30%	48,296	17,135	(65%)
Consolidated budget balance	7,517	22,734	+202%	(67,792)	(128,576)	+90%

Source State Treasury of Ukraine

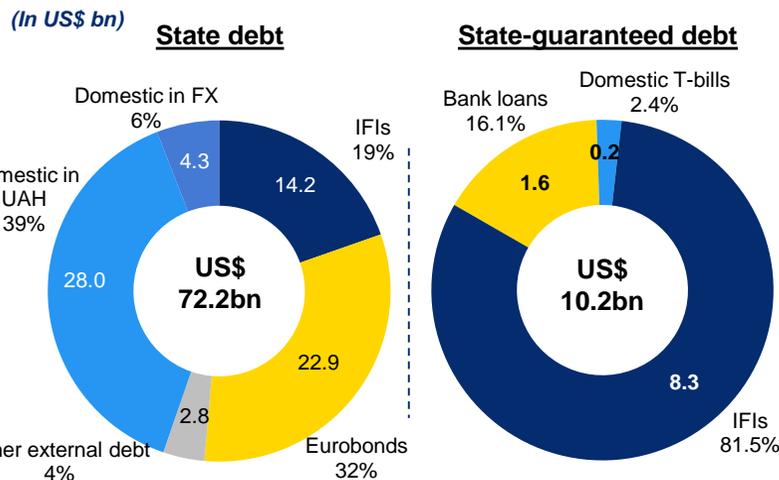
Notes

¹ Plan as of end-July 2019



Prudent and proactive debt management strategy

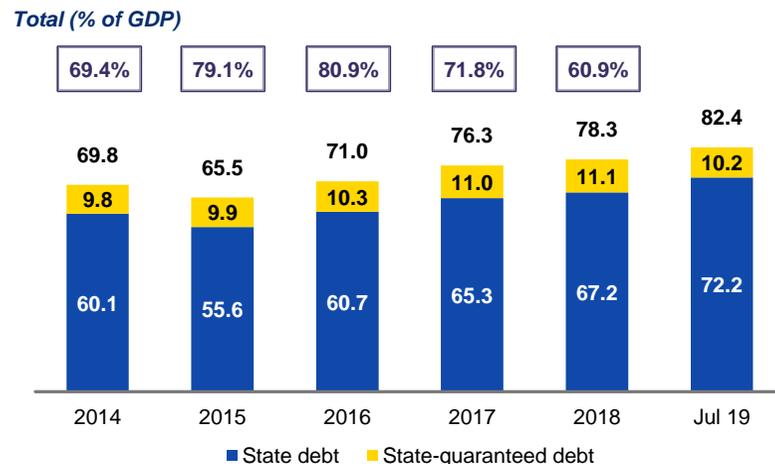
State and state-guaranteed debt structure (end-Jul 2019)



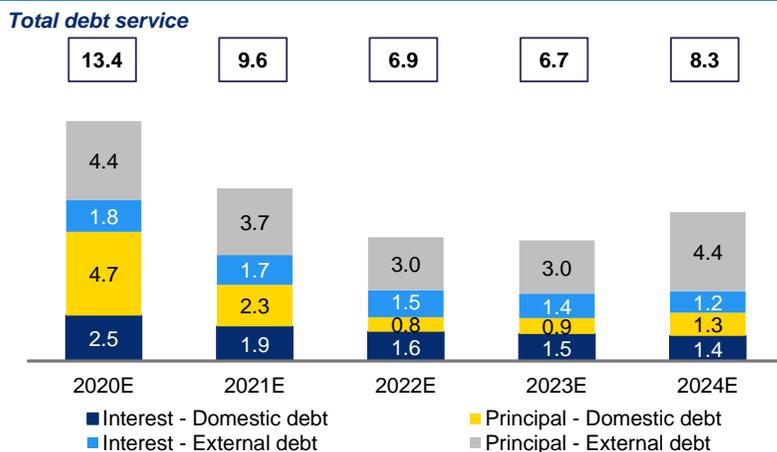
As of end-July 2019, Ukraine's total state and state-guaranteed debt (US\$ 82.4bn / UAH 2,067bn) split between:

- 60% of external debt, 40% of domestic debt
- 88% of state debt, 12% of state-guaranteed debt

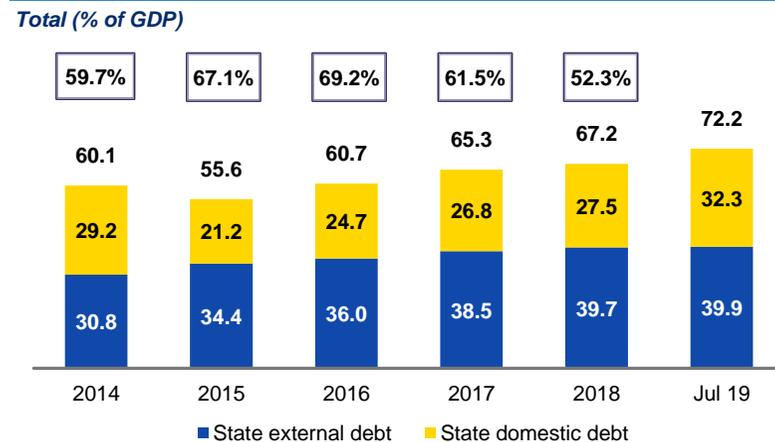
State and state-guaranteed debt dynamics, US\$ bn



State debt service schedule (end-Aug 2019)¹, US\$ bn



State debt dynamics, US\$ bn



Notes

¹ Incl. outstanding debt obligations only

Source Ministry of Finance



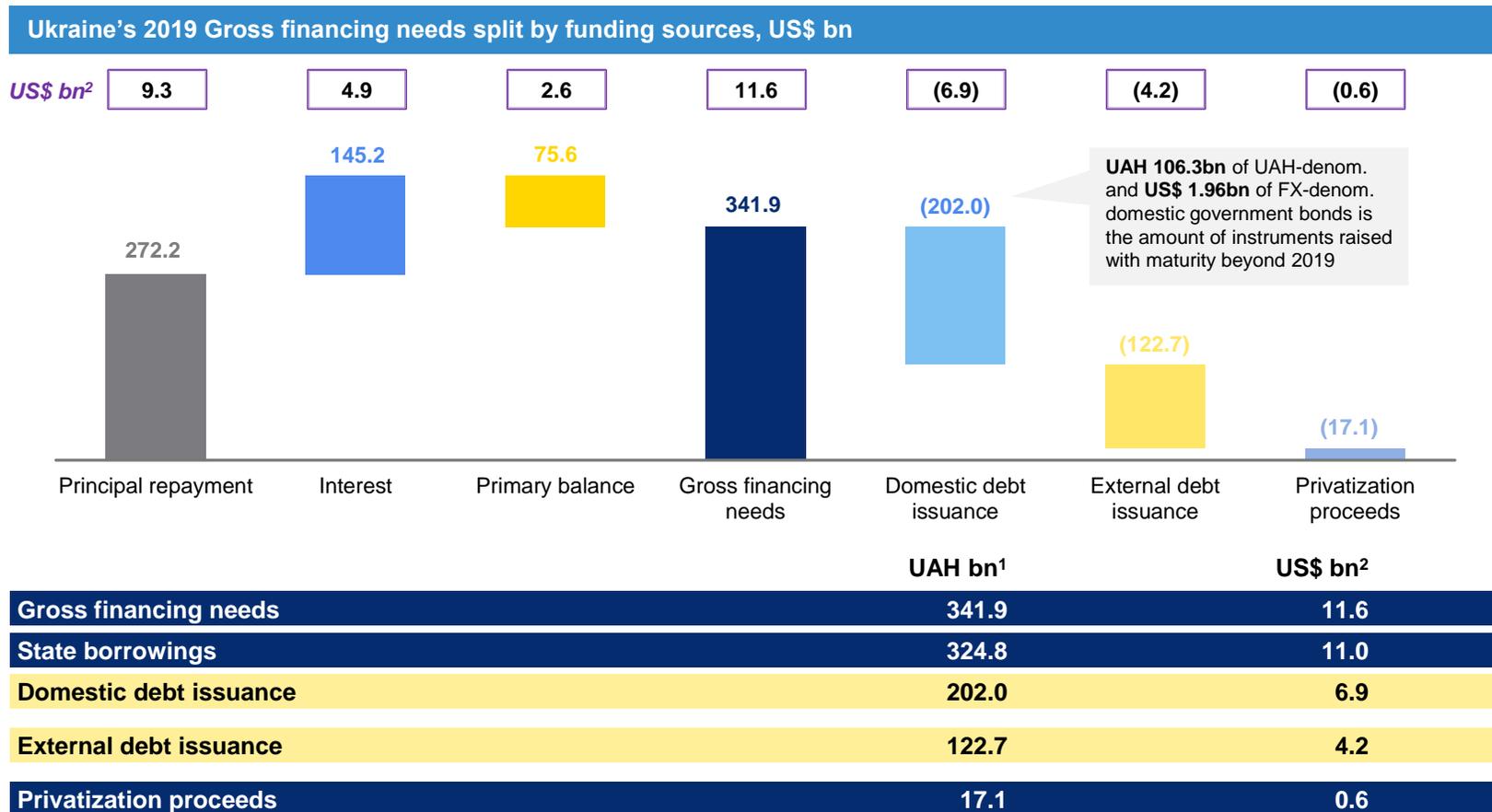
Ukraine's 2019 gross financing needs

Based on 2019 State budget general fund

US\$ 11bn of borrowings budgeted for 2019

As of September 9, 2019, the following sources of financing have been tapped:

- US\$ 600m World Bank partially-guaranteed
- US\$ 350m tap of 2024 Eurobonds
- EUR 1bn Eurobond issuance
- UAH 268bn (equivalent of US\$ 10.1bn) raised on domestic market o/w UAH 176.0bn in UAH-denominated bonds and US\$ 3.4bn in FX denominated domestic bonds



Sources Ministry of Finance, 2019 State budget law

Notes

1 Figures based on 2019 State budget law

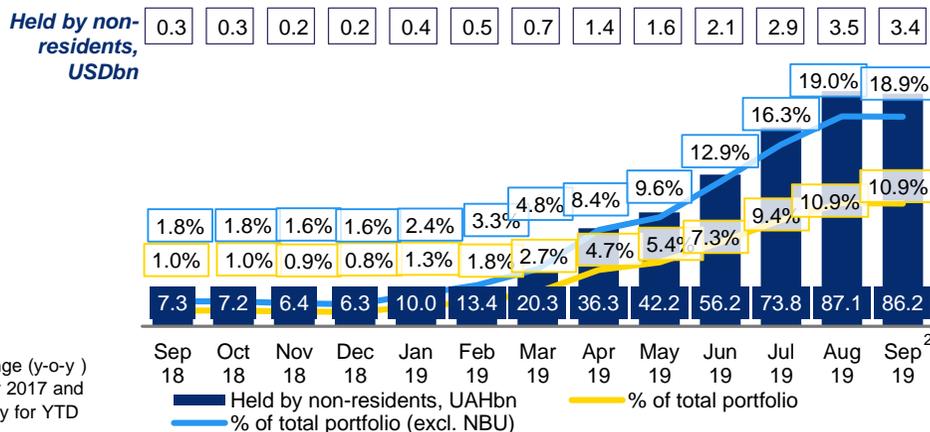
2 Figures in UAH were translated into US\$ at 29.4 UAH/US\$ (exchange rate 2019 State budget law is based on); for reference NBU UAH/US\$ FX rate as of September 9, 2019 is 25.09

Ukraine's domestic government bond holders

Key highlights

- ▶ With **c.43%** share the **NBU** is the largest holder of **domestic government bonds** followed by the banks, which account for **c.42%** of the portfolio
- ▶ **Ukraine is making decisive steps to deepen domestic government bond market** and to **increase share of non-residents in local currency bonds portfolio**
 - A link between **Clearstream** and the depository of the NBU launched in the end of May 27, 2019
- ▶ **Share of non-residents** in total domestic government bonds amount **reached c.11% as of September 2019²**,
 - **Non-residents' portfolio increased almost 14x since the beginning of 2019** and more than twofold following Clearstream link setup

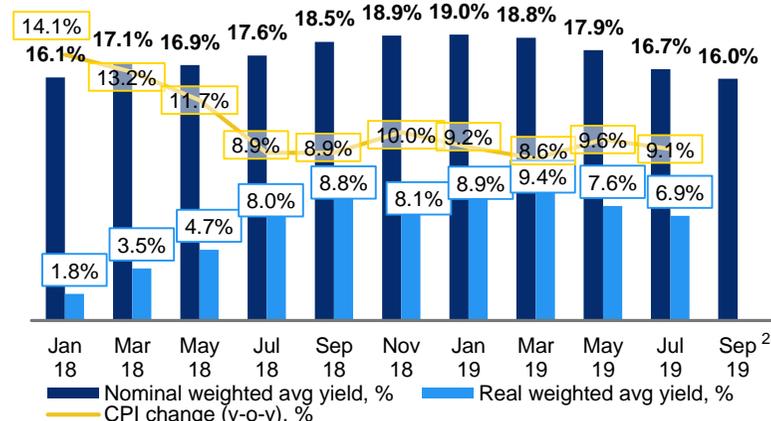
Domestic government bonds held by non-residents



Domestic government bond issuances (in UAH)

	2017	2018	YTD 2019 ²
UAH-denominated bonds (UAH m)			
Funds remitted to state budget	32,755	65,128	176,029
up to 1 year	11,294	60,429	95,528
1-3 years	19,529	2,983	53,289
3-5 years	1,932	1,716	4,232
over 5 years	-	-	22,980
Weighted average yield at auctions, %	15.0%	17.8%	17.87%
up to 1 year	15.2%	17.9%	18.8%
1-3 years	14.9%	16.2%	17.4%
3-5 years	15.1%	15.9%	16.0%
over 5 years	-	-	15.6%
Consumer inflation¹	13.7%	9.8%	9.1%

Nominal and real weighted avg yields at primary auctions, %



Notes

¹ Actual CPI change (y-o-y) in December for 2017 and 2018, and in July for YTD 2019

² As of September 6, 2019

Source Ministry of Finance

Source Ministry of Finance of Ukraine, NBU

Consistent upgrade in credit ratings

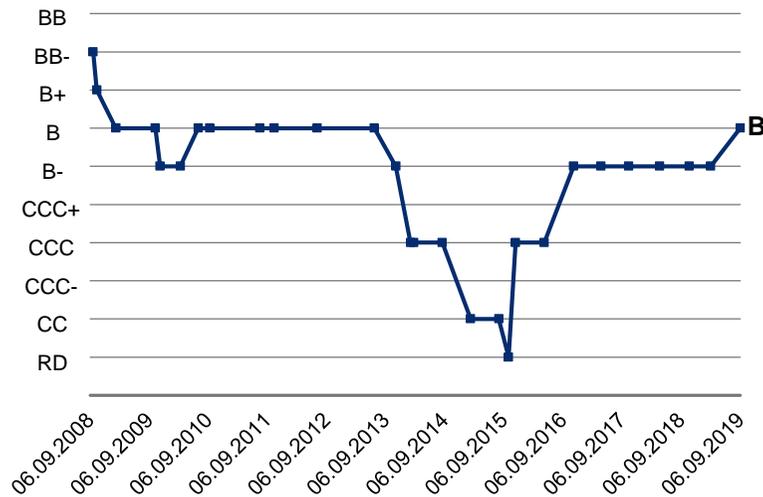
FitchRatings

Rating: B, Positive

Last update: Sep 6, 2019, upgrade from B- to B

Key rating drivers of the last update:

- ▶ Timely access to fiscal and external financing
- ▶ Improving macroeconomic stability
- ▶ Declining public indebtedness
- ▶ Reduced domestic political uncertainty
- ▶ Expected macroeconomic policy continuity
- ▶ New government's strong stated commitment to structural reforms
- ▶ Engagement with IFIs



MOODY'S

Rating: Caa1, Stable

Last update: Dec 21, 2018, upgrade from Caa2 to Caa1

Key rating drivers of the last update:

- ▶ Anticipated improvement in external strength due to IMF's SBA
- ▶ Adopted reforms to make incremental progress on reducing corruption and strengthening institutions
- ▶ Incremental improvement in Ukraine's resilience to the ongoing conflict with Russia

STANDARD & POOR'S

Rating: B-, Stable

Last update: Apr 12, 2019, affirmed

Key rating drivers of the last update:

- ▶ Sizable external debt repayments coupled with improving government finances
- ▶ Ukraine's likely compliance with the IMF program and the ongoing implementation of reforms
- ▶ Although uncertain financing outlook for government foreign currency redemptions beyond 2019

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

2. Reforms achievements: irreversible steps towards big changes

3. Fiscal consolidation supporting a prudent debt management strategy



4. Continuous support from economic partners

Appendices

Continuous and significant support from our partners

Considerable support from international partners to public and private sectors in 2017-H1 2019

Institution	Description
	<ul style="list-style-type: none"> ▶ IMF 4-year Extended Fund Facility (EFF) program (2015-2019): c.US\$ 8.5bn received. 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)
 <p>WORLD BANK GROUP</p>	<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"> • Two loans totaling EUR 349m and EUR 529m attracted under the entire amount of the PBG in December 2018 and February 2019, respectively ▶ IFC financing and advisory expertise for public and private sectors: <ul style="list-style-type: none"> • Financing for Ukrainian PE fund, development of PPP projects at Ukrainian sea ports, loans to support private sector development, UAH-denominated bond issuance
  	<ul style="list-style-type: none"> ▶ EBRD: c.EUR 543m of project financing to public and private sector provided in 2018 <ul style="list-style-type: none"> • Current portfolio is composed from sustainable infrastructure projects (61%), industry, commerce & agribusiness projects (28%), financial institutions projects (11%) ▶ EIB: EUR 393m of loans granted in 2018 with c.34%¹ provided to Ukrainian private sector and the rest 66% directed towards transport connectivity and road safety improvement as well as upgrade of energy and road infrastructure ▶ 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)



Status of cooperation between Ukraine and the IMF

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
- ▶ **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
- ▶ **September 2019:** IMF mission is expected to visit Ukraine in order to discuss the following steps of cooperation

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
Total SBA program	1,000	1,391

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 September 8, 2019

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

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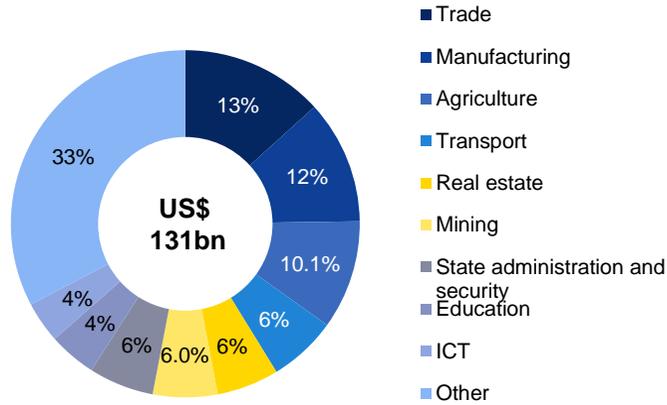


Appendices

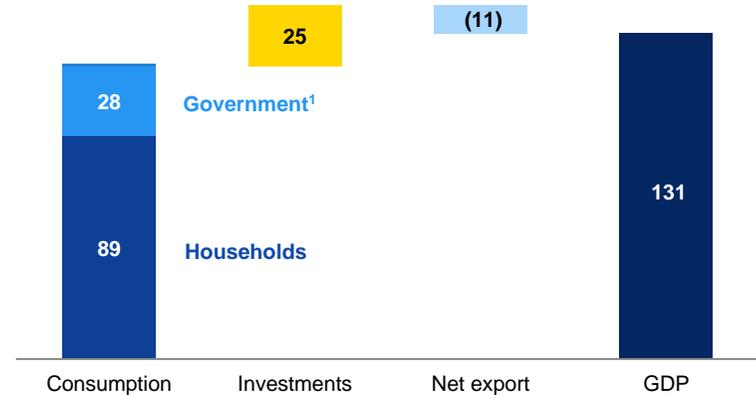


Structure of Ukraine's economy

2018 nominal GDP breakdown by sector



2018 nominal GDP breakdown by expenditures, US\$ bn



Note 1 incl. NPOs

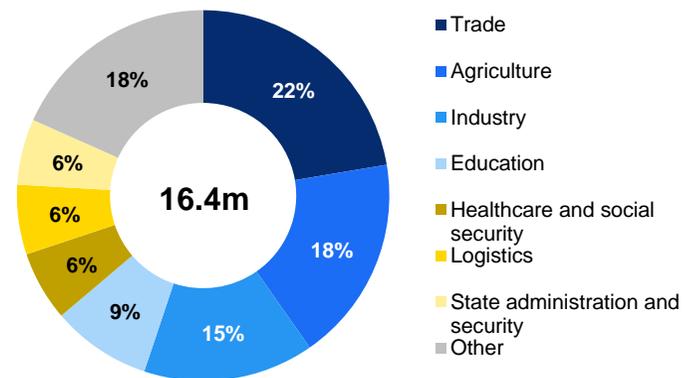
Comments

- ▶ **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 2018 GDP
- ▶ Trade, transport and real estate operations constitute the largest shares of Ukraine's tertiary sector at 13%, 6% and 6% of 2018 nominal GDP

Highlights on population (average for 2018)



Employed population by sector (2018)



Source State Statistics Service of Ukraine



Environmental safety 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
- ▶ The legislation stipulating replacement of FIT mechanism with an auction system was adopted by the Ukrainian Parliament in April 2019

International Renewable Energy Agency (IRENA)

On February 2018, Ukraine became a member of IRENA.

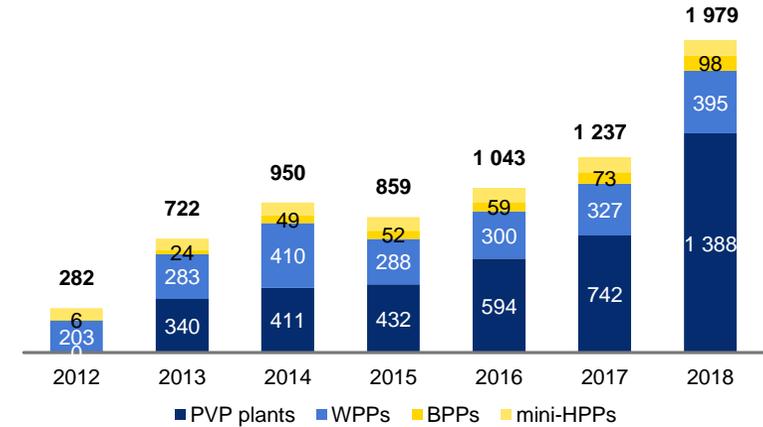


Key benefits for Ukraine:

- ▶ 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

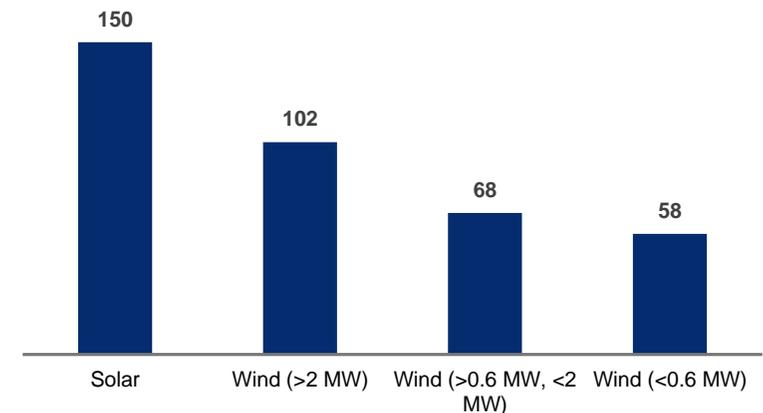
Source NEURC

RES's installed capacity dynamics, MW



Sources SAAE, NEURC

WPP¹ and SPP current feed-in tariffs, EUR/MWh



Source NEURC Note 1 Depending on wind turbine capacity

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

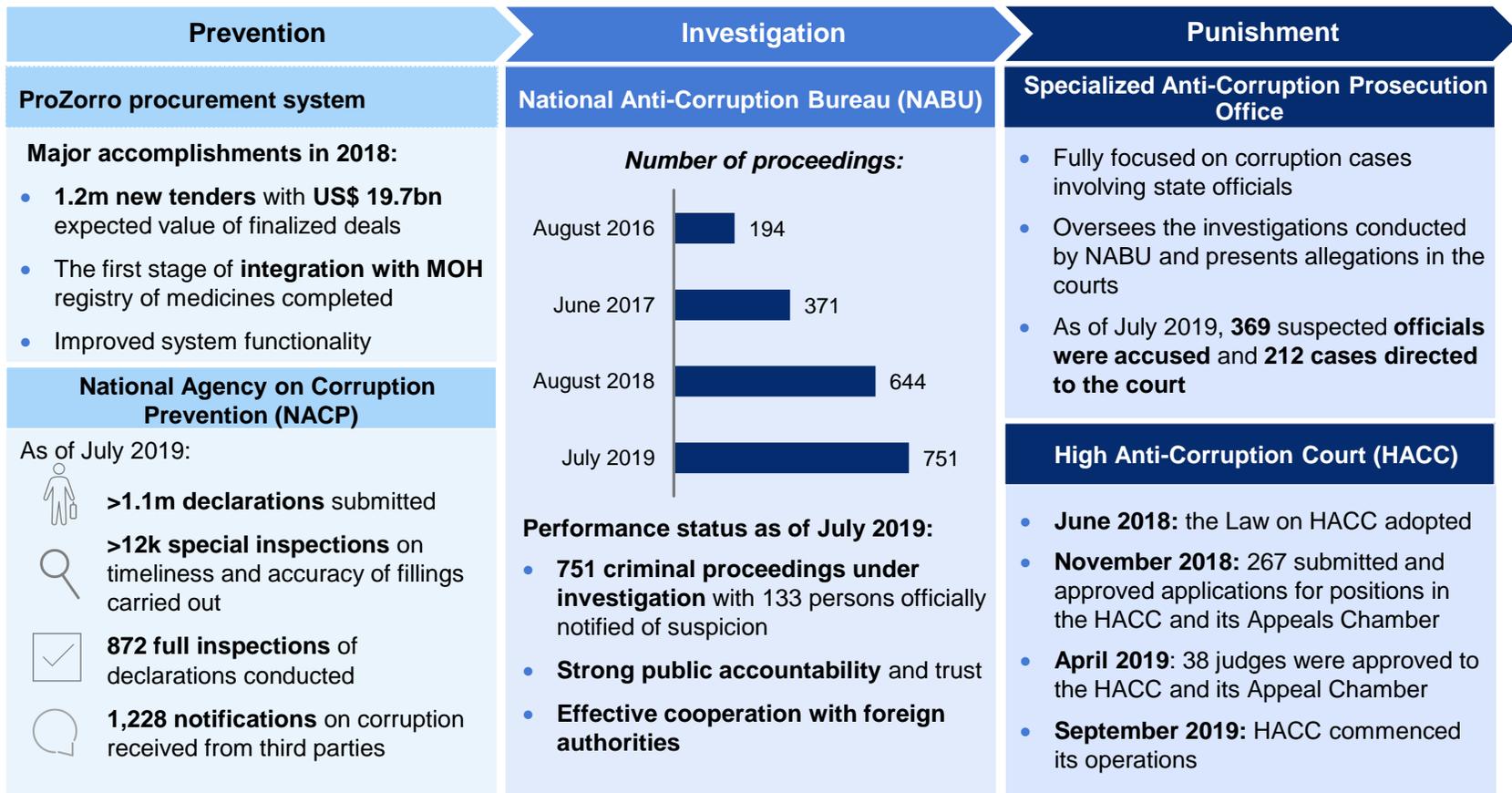
Full anti-corruption infrastructure has being established

National Anti-Corruption Policy Council

June 2019: the Council with updated composition has been restarted by the President. Delegates of the World Bank, USAID, UNDP, OECD, and the EU obtained official status of observers

5 main priorities:

- Review of anti-corruption legislation
- Development of amendments to the Criminal Procedural Code of Ukraine
- Development of whistleblowers protection legislation
- Adoption of a new anti-corruption strategy
- Fulfillment of international commitments within cooperation with GRECO, OECD, UN



Sources: ProZorro, NACP, NABU, official website of the President of Ukraine



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)

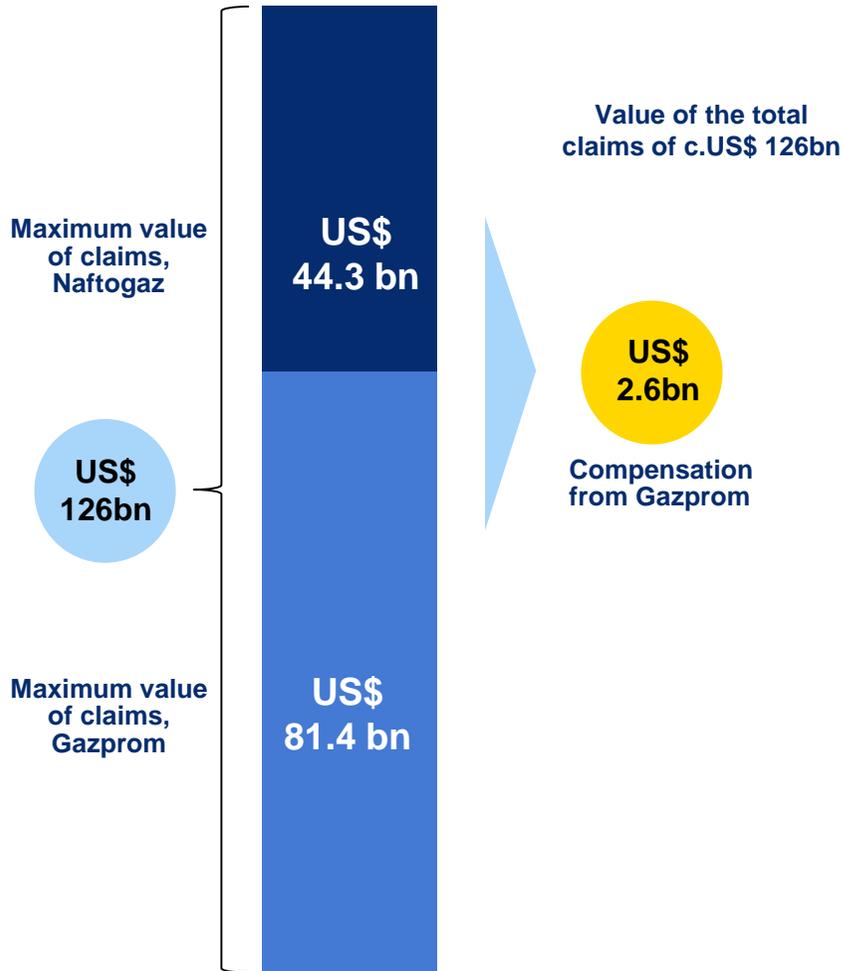
- ▶ The first instance judge was wrong:
 - to decline to permit Ukraine's defence of duress to proceed to trial; and
 - to refuse to grant Ukraine a permanent stay of the proceedings if Ukraine's defence of duress could not be adjudicated by the English Court
- ▶ Ukraine has lost on the issues of capacity,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