

## IMPORTANT NOTICE

THIS OFFER IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS (“**QIBs**”) AS DEFINED IN RULE 144A UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”) OR (2) NON-U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) LOCATED OUTSIDE THE UNITED STATES.

**IMPORTANT: You must read the following before continuing.** The following applies to the prospectus (the “**Prospectus**”) following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF NOTES (AS DEFINED IN THE PROSPECTUS) FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, EXCEPT (1) TO QIBs IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT OR (2) TO NON-US PERSONS OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT (“**REGULATION S**”), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR MAY NOT BE FORWARDED TO ANY US PERSON OR ANY US ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED, AND WILL NOT BE ABLE, TO PURCHASE ANY OF THE SECURITIES DESCRIBED HEREIN.

**Confirmation of your representation:** In order to be eligible to view the Prospectus or make an investment decision with respect to the Notes, you must be either (i) a non-U.S. person outside the United States or (ii) a QIB. The Prospectus is being sent at your request and by accepting this e-mail and accessing, reading or making any other use of the Prospectus, you shall be deemed to have represented to Ukraine, represented by the Minister of Finance of Ukraine (the “**Issuer**”) and BNP Paribas, J.P. Morgan Securities plc and Raiffeisen Bank International AG (the “**Joint Lead Managers**”), that (1) you have understood and agree to the terms set out herein; (2) in respect of Notes being offered pursuant to Rule 144A of the Securities Act, you are (or the person you represent is) a QIB, and that the electronic mail (or e-mail) address to which, pursuant to your request, the Prospectus has been delivered by electronic transmission is utilised by someone who is a QIB; in respect of the Notes being offered outside of the United States in an offshore transaction pursuant to Regulation S, you are (or the person you represent is) a non-US person (as defined in Regulation S of the Securities Act) outside the United States, and that the electronic mail (or e-mail) address to which, pursuant to your request, the Prospectus has been delivered by electronic transmission is not located in the United States, its territories or possessions; (3) you consent to delivery by electronic transmission; (4) you will not transmit the Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Joint Lead Managers; and (5) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase any of the Notes.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person and in particular to any U.S. person or any U.S. address. Failure to comply may result in a direct violation of the Securities Act or the applicable laws of other jurisdiction.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer (as defined in the Prospectus) in such jurisdiction.

Under no circumstances shall the Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Notes in any jurisdiction in which such offer, solicitation or sale would be unlawful. The Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) or the Financial Services and Markets Act 2000 does not apply to the communication. This communication is being directed only at persons having professional experience in matters relating to investments and any investment or investment activity to which this communication relates will be engaged in only with such persons. No other person should rely on it.

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer nor the Joint Lead Managers nor any person who controls any of the foregoing nor any director, officer, employee nor agent of any of the foregoing or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Issuer or the Joint Lead Managers.



UKRAINE

*(Represented by the Minister of Finance of Ukraine)*

**€1,250,000,000 4.375 per cent. Notes due 2030**

**Issue price: 100 per cent.**

The €1,250,000,000 4.375 per cent. notes due 2030 (the “Notes”) to be issued by Ukraine, represented by the Minister of Finance of Ukraine (the “Issuer” or “Ukraine”), will, unless previously redeemed, or purchased and cancelled, mature on 27 January 2030.

Interest will accrue on the outstanding principal amount of the Notes from and including the Closing Date (as defined below), and will be payable annually in arrear on 27 January in each year, commencing on 27 January 2021. The Notes will bear interest at a rate of 4.375 per cent. per annum.

*See “Risk Factors” beginning on page 4 for a discussion of certain factors to be considered in connection with an investment in the Notes.*

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), or with any securities regulatory authority of any State or other jurisdiction of the United States, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. For a summary of certain restrictions on resale, see “Subscription and Sale” and “Form of Notes and Transfer Restrictions”.

The Notes are rated B by Standard & Poor’s Credit Market Services Europe Limited (“Standard & Poor’s”) and B by Fitch Ratings Ltd. (“Fitch”). Standard & Poor’s and Fitch (together, the “Rating Agencies”) have also issued ratings in respect of the Issuer as set out in this Prospectus (this “Prospectus”). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. As of the date of this Prospectus, the Rating Agencies are rating agencies established in the European Economic Area (the “EEA”) and registered under Regulation (EC) No 1060/2009, as amended (the “CRA Regulation”).

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation unless (i) the rating is provided by a credit rating agency operating in the EEA before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused; or (ii) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the European Union and registered under the CRA Regulation; or (iii) the rating is provided by a credit rating agency not established in the EEA which is certified under the CRA Regulation.

The European Securities and Markets Authority (“ESMA”) is obliged to maintain on its website, [www.esma.europa.eu](http://www.esma.europa.eu), a list of credit rating agencies registered and certified in accordance with the CRA Regulation. This list must be updated within five working days of ESMA’s adoption of any decision to withdraw the registration of a credit rating agency under the CRA Regulation. Therefore, such list is not conclusive evidence of the status of the relevant rating agency as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

The Notes will be offered and sold outside the United States to non-US persons as defined in and in reliance on Regulation S under the Securities Act (“Regulation S”) and within the United States to “qualified institutional buyers” (“QIBs”) only (as defined in Rule 144A under the Securities Act (“Rule 144A”)) in reliance on Rule 144A. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Notes will be offered and sold in registered form in denominations of €100,000 or any amount in excess thereof which is an integral multiple of €1,000. Notes which, in each case, are offered and sold in reliance on Regulation S (collectively, the “Unrestricted Notes”) will each be represented by beneficial interests in a global Note (the “Unrestricted Global Note”) in registered form without interest coupons attached, which will be deposited on or about 27 January 2020 (the “Closing Date”) with a common depositary (the “Common Depositary”) for, and registered in the name of a nominee of a common depositary for, Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream, Luxembourg”) for the accounts of respective accountholders. Notes which, in each case, are offered and sold in reliance on Rule 144A (collectively, the “Restricted Notes”) will each be represented by beneficial interests in a global Note (the “Restricted Global Note”) and, together with the Unrestricted Global Note, the “Global Notes”) in registered form without interest coupons attached, which will be deposited on or about the Closing Date with the Common Depositary for, and registered in the name of a nominee of a common depositary for, Euroclear and Clearstream, Luxembourg for the accounts of respective accountholders. Interests in the Restricted Global Note will be subject to certain restrictions on transfer. Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, definitive certificates (“Note Certificates”) will not be issued in exchange for beneficial interests in the Global Notes.

Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin (“Euronext Dublin”) for the Notes to be admitted to the official list of Euronext Dublin (the “Official List”) and to trading on its regulated market. The regulated market of Euronext Dublin is a regulated market for the purposes of Directive 2014/65/EU (as amended, “MiFID II”). References in this Prospectus to the Notes being “listed” (and all related references) shall mean that the Notes have been admitted to the Official List and have been admitted to trading on the regulated market of Euronext Dublin. There is no assurance that a trading market in the Notes will develop or be maintained.

This Prospectus has been approved by the Central Bank of Ireland (the “CBI”), as competent authority under Regulation (EU) 2017/1129, as amended (the “Prospectus Regulation”). The CBI only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuer or the quality of the Notes that are subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the Notes.

Joint Lead Managers

BNP PARIBAS

J.P. MORGAN

RAIFFEISEN BANK INTERNATIONAL

This Prospectus is dated 24 January 2020.

*The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.*

*No person has been authorised to give any information or to make any representation other than those contained in this Prospectus in connection with the offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, BNP Paribas, J.P. Morgan Securities plc or Raiffeisen Bank International AG (the “**Joint Lead Managers**”).*

*None of the Joint Lead Managers has separately verified the information contained in this Prospectus. Accordingly, no representation, warranty or undertaking, express or implied, is made, and no responsibility or liability is accepted by any of the Joint Lead Managers nor any of its affiliates as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer in connection with the Notes or their distribution. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer since the date hereof or that there has been no adverse change in the financial position of the Issuer since the date hereof or that the information contained in it or any other information supplied in connection with the Notes is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. This Prospectus may only be used for the purpose for which it has been published.*

*This Prospectus will be valid until the date of admission of the Notes to trading on the regulated market of Euronext Dublin. The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus which is capable of affecting the assessment of the Notes, prepare a supplement to this Prospectus. The obligation to prepare a supplement to this Prospectus in the event of any significant new factor, material mistake or inaccuracy does not apply when this Prospectus is no longer valid.*

*Any website referred to in this document does not form part of this Prospectus and has not been scrutinised or approved by the CBI.*

***This Prospectus does not constitute an offer to sell or an offer to buy in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction, nor does this Prospectus constitute an offer or an invitation to subscribe for or purchase any Notes and it should not be considered as a recommendation by the Issuer or the Joint Lead Managers that any recipient of this Prospectus should subscribe for or purchase any Notes. The distribution of this Prospectus and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions.***

***For a description of certain restrictions on offers, sales and deliveries of the Notes, see “Subscription and Sale” and “Form of Notes and Transfer Restrictions”. Each recipient of this Prospectus shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) and status of the Issuer.***

***MIFID II product governance / Professional investors and ECPs only target market** – Solely for the purposes of each manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**Distributor**”) should take into consideration the manufacturers’ target market assessment; however, a Distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers’ target market assessment) and determining appropriate distribution channels.*

*The contents of this Prospectus are not, are not to be construed as and should not be relied on as legal, business or tax advice. Each prospective investor should consult its own advisers for legal, business, tax and related advice regarding an investment in the Notes. Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Issuer and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investments.*

*This Prospectus has been prepared solely for use in connection with the proposed offering of the Notes described in this Prospectus. This Prospectus is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire Notes. The distribution of this Prospectus to any person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorised, and any other disclosure of any of their contents, without the prior written consent of the Issuer and the Joint Lead Managers is prohibited. Each prospective investor, by accepting delivery of this Prospectus, agrees to the foregoing and to make no photocopies of this Prospectus or any documents referred to in this Prospectus.*

*The Issuer reserves the right to withdraw this offering of the Notes at any time. The Issuer and the Joint Lead Managers reserve the right to reject any offer to purchase the Notes in whole or in part for any reason or no reason and to allot to any prospective purchaser less than the full principal amount of the Notes sought by it.*

*The Notes have not been approved or disapproved by the United States Securities and Exchange Commission, any State securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Notes or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.*

*In connection with the issue of the Notes, J.P. Morgan Securities plc (the “Stabilising Manager”) (or any person acting on behalf of the Stabilising Manager) may, to the extent permitted by applicable laws, regulations and rules, over allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However, there is no obligation on the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) to undertake stabilisation action. Any stabilisation action may begin at any time on or after the adequate public disclosure of this Prospectus and, if commenced, may be discontinued at any time, but it must be no later than the earlier of 30 days after the issue of the Notes and 60 days after the date of the allotment of the Notes.*

*All references in this Prospectus to “Conditions” shall mean the terms and conditions of the Notes, and to “Agency Agreement” shall mean the Agency Agreement defined in the Conditions.*

*All references in this Prospectus to “Government” or “Parliament” are to the Government or Parliament of Ukraine, references to “CIS” are to the Commonwealth of Independent States, references to “UAH” and “hryvnia” are to the currency of Ukraine, references to “U.S. dollars” and “U.S.\$” are to the currency of the United States of America, references to “JPY”, “yen” and “¥” are to the currency of Japan, references to “CHF” and “Swiss Franc” are to the currency of Switzerland and references to “EUR”, “euro” and “€” are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended by the Treaty on European Union. References to “SDRs” are to special drawing rights allocated by the International Monetary Fund (the “IMF”). As at 17 January 2020, the official exchange rate of the National Bank of Ukraine (the “NBU”) was U.S.\$1.00 to UAH 24.1.*

*Conversions of amounts from hryvnia to U.S. dollars or euros are solely for the convenience of the reader and, unless otherwise stated, are made at various exchange rates. No representation is made that Ukrainian hryvnia or U.S. dollar or euro amounts referred to herein could have been or could be converted to U.S. dollars or euros or hryvnia, as the case may be, at any particular rate or at all.*

*Certain figures included in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown for the same item of information may vary to reflect such rounding, and figures shown as totals may not be the arithmetical aggregate of their components.*

*Statistical data appearing in this Prospectus has, unless otherwise stated, been obtained from the State Statistics Service of Ukraine (the “State Statistics Service”), the Ministry of Finance of Ukraine (the “Ministry of Finance”), the Ministry of Economic Development, Trade and Agriculture of Ukraine (the “Ministry of Economy”) and the NBU. Similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. Information included in this Prospectus and identified as being derived from information published by Ukraine or one of its agencies or instrumentalities is included herein on the authority of such publication as a public official document of Ukraine. All other information herein with respect to Ukraine is included herein as a public official statement made on the authority of the Ministry of Finance. Although every effort has been made to include in this Prospectus the most reliable and the most consistently presented data, no assurance can be given that such data was compiled or prepared on a basis consistent with international standards. However,*

*as far as the Issuer is aware and is able to ascertain from information published by these parties, the information has been accurately reproduced and no facts have been omitted which would render the reproduced information inaccurate or misleading.*

## FORWARD LOOKING STATEMENTS

Some of the statements contained in this Prospectus, as well as written and oral statements that Ukraine and its representatives make from time to time in reports, filings, news releases, conferences, teleconferences, web postings or otherwise, are or may be deemed to be forward-looking statements. Statements that are not historical facts, including, without limitation, statements about Ukraine's beliefs and expectations, are forward-looking statements. These statements are based on current plans, objectives, assumptions, estimates and projections. Therefore, undue reliance should not be placed on them. Forward-looking statements speak only as of the date on which they are made and Ukraine undertakes no obligation to update publicly any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. Ukraine cautions that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Forward-looking statements include, but are not limited to: (i) plans with respect to the implementation of economic policy, including privatisations, and the pace of economic and legal reforms; (ii) expectations about the behaviour of the economy if certain economic policies are implemented; (iii) the outlook for inflation, exchange rates, interest rates, foreign investment, trade and fiscal accounts; and (iv) estimates of external debt repayment and debt service.

In addition to the factors described in this Prospectus, including, but not limited to, those discussed under "*Risk Factors*", the following factors, among others, could cause future results to differ materially from those expressed in any forward-looking statements made herein: (i) decisions of international organisations, such as the IMF, regarding the terms of their financial assistance to Ukraine and accordingly the net cashflow to or from such international organisations over the life of the Notes; (ii) adverse external factors, such as higher international interest rates, low commodity prices or recession or low growth in Ukraine's trading partners or increases in world oil and gas prices, which could each decrease Ukraine's fiscal and foreign exchange revenues and could negatively affect the current account, balance of payments and international reserves and cause or contribute to recession or low growth in Ukraine; (iii) adverse domestic factors, such as recession, decreases in foreign direct investment ("**FDI**") and portfolio investment, high domestic inflation, high domestic interest rates, exchange rate volatility, a reduction in gas supplies, difficulties in borrowing in the domestic and foreign markets, trade and political disputes between Ukraine and its trading partners, including Russia, political uncertainty or lack of political consensus, which could each lead to lower growth in Ukraine and lower international currency reserves; (iv) decisions of Ukraine's official creditors, including the European Union (the "**EU**"), Germany, the United States and Japan, regarding the provision of new loans; (v) decisions of international financial institutions such as the IMF, the World Bank, the European Bank for Reconstruction and Development (the "**EBRD**") and the European Investment Bank (the "**EIB**") regarding the funding of new or existing projects over the life of the Notes; (vi) political factors in Ukraine, which affect the timing and structure of economic reforms, the climate for FDI and the pace, scale and timing of privatisations; (vii) the unpredictable outcome of the current situation in illegally occupied Crimea and the temporarily occupied territories of the Donetsk and Luhansk regions of Ukraine, which may affect the future economic, political and international policies of the Government and could lead to a period of heightened political and economic instability in Ukraine; (viii) the unpredictable outcome of ongoing litigation or arbitration proceedings in which Ukraine, or its State agencies may be involved; and (ix) decisions of the IMF and other international financial agencies with respect to the continued implementation of the proposed packages of economic and financial support for Ukraine announced after the date hereof.

## ENFORCEABILITY OF JUDGMENTS

The courts of Ukraine will not recognise or enforce any judgment obtained in a court established in a country other than Ukraine unless such enforcement is envisaged by an international treaty to which Ukraine is a party providing for enforcement of such judgments, and then only in accordance with the terms of such treaty. There is no such treaty between the United Kingdom and Ukraine or between the United States and Ukraine that provides for enforcement of such judgments.

In the absence of an international treaty providing for enforcement of judgments, the courts of Ukraine may only recognise or enforce a foreign court judgment on the basis of the principle of reciprocity. Unless proven otherwise, reciprocity is deemed to exist in relations between Ukraine and the country where the judgment is rendered. Ukrainian law does not provide any clear rules on the application of the principle of reciprocity and

there is no official interpretation or court practice in this respect. Accordingly, there can be no assurance that the courts of Ukraine will recognise or enforce a judgment rendered by the courts of the United Kingdom or the United States on the basis of the principle of reciprocity. Furthermore, the courts of Ukraine might refuse to recognise or enforce a foreign court judgment on the basis of the principle of reciprocity on the grounds provided in the applicable Ukrainian legislation.

The contractual agreements provide for resolution of disputes by arbitration under the LCIA Arbitration Rules with the seat of arbitration in London, England. Ukraine and the United Kingdom are parties to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “**New York Convention**”). Consequently, a foreign arbitral award obtained in a state which is party to the New York Convention, such as the United Kingdom, should be recognised and enforced by a Ukrainian court (under the terms of the New York Convention) subject to compliance with procedural requirements under Ukrainian law.

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## OVERVIEW OF THE OFFERING

Capitalised terms used in this overview of the terms of the Notes but not defined herein have the meanings ascribed to them in the Conditions.

<b>Issuer:</b>	Ukraine, represented by the Minister of Finance of Ukraine.
<b>Notes:</b>	€1,250,000,000 4.375 per cent. Notes due 2030.
<b>Joint Lead Managers:</b>	BNP Paribas, J.P. Morgan Securities plc and Raiffeisen Bank International AG.
<b>Final Maturity Date:</b>	27 January 2030.
<b>Issue Date:</b>	27 January 2020.
<b>Interest:</b>	The Notes will bear interest at a rate of 4.375 per cent. per annum payable annually in arrear on 27 January in each year.
<b>Status:</b>	The Notes are the direct, unconditional and, subject to the provisions of Condition 3(a) ( <i>Negative Pledge</i> ), unsecured obligations of the Issuer and (subject as aforesaid) rank and will rank <i>pari passu</i> without any preference among themselves and not less than <i>pari passu</i> in right of payment with all other unsecured External Indebtedness of the Issuer, from time to time outstanding, <i>provided however</i> , that the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other External Indebtedness and, in particular, shall have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due on the Notes and vice versa
<b>Negative Pledge:</b>	The Notes contain a negative pledge. See Condition 3 ( <i>Negative Pledge</i> ).
<b>Taxation:</b>	All payments in respect of the Notes by the Issuer shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Ukraine or any political subdivision or any authority thereof or therein having power to tax (together “ <b>Taxes</b> ”), unless such withholding or deduction is required by law. In that event, the Issuer will increase the payment of principal or interest, as the case may be to such amount as will result in the receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, subject to certain exceptions as provided in Condition 7 ( <i>Taxation</i> ) of the respective terms and conditions of the Notes.
<b>Form and Denomination:</b>	<p>The Notes will be offered and sold in registered form in denominations of €100,000 or any amount in excess thereof which is an integral multiple of €1,000.</p> <p>The Notes will be offered and sold outside the United States in reliance on Regulation S and within the United States to QIBs only in reliance on Rule 144A. Notes which, in each case, are offered and sold in reliance on Regulation S (collectively, the “<b>Unrestricted Notes</b>”) will each be</p>

represented by beneficial interests in a global Note (the “**Unrestricted Global Note**”) in registered form without interest coupons attached, which will be registered in the name of a nominee for, and shall be deposited on or about the Closing Date with the Common Depositary for, and in respect of interests held through, Euroclear and Clearstream, Luxembourg.

Notes which, in each case, are offered and sold in reliance on Rule 144A (collectively, the “**Restricted Notes**”) will each be represented by beneficial interests in a global Note (the “**Restricted Global Note**” and, together with the Unrestricted Global Note, the “**Global Notes**”) in registered form without interest coupons attached, which will be deposited on or about the Closing Date with the Common Depositary and registered in the name of the nominee of the Common Depositary for the accounts of, Euroclear and Clearstream, Luxembourg. Interests in the Restricted Global Note will be subject to certain restrictions on transfer. Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, Note Certificates will not be issued in exchange for beneficial interests in the Global Notes.

**Listing and Trading:**

Application has been made to the Notes to be admitted to the Official List of Euronext Dublin and to trading on its regulated market.

**Ratings:**

The Notes are rated B by Standard & Poor’s and B by Fitch. The Rating Agencies have also issued ratings in respect of the Issuer as set out in this Prospectus. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. As of the date of this Prospectus, the Rating Agencies are rating agencies established in the EEA and registered under the CRA Regulation.

In general, European-regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation unless (i) the rating is provided by a credit rating agency operating in the EEA before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused; or (ii) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the European Union and registered under the CRA Regulation; or (iii) the rating is provided by a credit rating agency not established in the EEA which is certified under the CRA Regulation.

ESMA is obliged to maintain on its website, [www.esma.europa.eu](http://www.esma.europa.eu), a list of credit rating agencies registered and certified in accordance with the CRA Regulation. This list must be updated within five working days of ESMA’s adoption of any decision to withdraw the registration of a

credit rating agency under the CRA Regulation. Therefore, such list is not conclusive evidence of the status of the relevant rating agency as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

**Subscription and Sale:**

The Joint Lead Managers will subscribe, severally and not jointly, for all of the Notes on or about the Closing Date. The Joint Lead Managers may sell the Notes to other investors or the Joint Lead Managers and/or one or more of its affiliates may hold the Notes as investors.

**Selling Restrictions:**

United States, United Kingdom, Republic of Italy and Ukraine.

**Governing law:**

English law.

**Fiscal Agent:**

The Bank of New York Mellon, London Branch.

**Registrar:**

The Bank of New York Mellon SA/NV, Luxembourg Branch.

**Security Codes:**

Regulation S ISIN: XS2010033343.

Regulation S Common Code: 201003334.

Rule 144A ISIN: XS2010033186.

Rule 144A Common Code: 201003318.

**Risk Factors:**

An investment in the Notes involved a high degree of risk. See “*Risk Factors*”.

## RISK FACTORS

*Investment in the Notes involves a high degree of risk. Prospective investors should carefully consider, in particular, the following risk factors, together with the other information set out in this Prospectus, before making a decision to invest in the Notes and should understand that the risks set out below (which do not purport to be in any way exhaustive) could, individually or in the aggregate, have a material adverse effect on Ukraine's capacity to repay principal and make payments of interest on the Notes. Words and expressions defined in "Terms and Conditions of the Notes" or elsewhere in this Prospectus have the same meanings when used in this section.*

### **Risk Factors Relating to Ukraine**

***Effects of the illegal occupation and attempted annexation of Crimea and the City of Sevastopol and the conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions.***

In 2014, following the Euro-Maidan Revolution, strategic military and governmental locations across Crimea and in the City of Sevastopol, including the Crimean parliament, were occupied by unmarked Russian armed forces. Subsequently, an illegal referendum was held in Crimea and the City of Sevastopol in violation of Ukrainian law and norms of international law and on the basis thereof the purported Russian annexation of Crimea and the City of Sevastopol was announced soon after (referred to herein as the **"illegal occupation of Crimea"**). See *"Description of Ukraine—Illegal Occupation of Crimea"*.

In addition, as reported in the United Nations Human Rights Office of the High Commission's report on the *"Accountability for killings in Ukraine from January 2014 to May 2016"* published on 14 July 2016, since 2014 there have been large areas of the Donetsk and Luhansk regions of Ukraine under the control of illegal armed formations largely backed by the Russian Federation where aggression against the legitimate Ukrainian authorities has taken and continues to take place, "fuelled by the inflow of foreign fighters and weapons from the Russian Federation" (such events herein referred to as the **"conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions"**). See *"Description of Ukraine—Illegal Occupation of Crimea—Conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions"*.

While the immediate severe effects of these two events, humanitarian, economic and political, have been felt by Ukraine for some time, further developments in these territories represent a significant risk to the existing economic and political situation in Ukraine, including the following:

#### *Economic costs of continued hostilities in certain areas of the Donetsk and Luhansk regions*

The Government's efforts to re-establish control over certain territories in the Donetsk and Luhansk regions and to resist any further escalation of the conflict with Russia-backed illegal armed formations have resulted in, and will continue to require, a significant increase in Ukraine's defence expenditure. If the situation escalates, the resulting further increase in expenditure required will place even greater pressure on the general resources of the Government and the Government's finances and negatively affect Ukraine's economy.

#### *Inability to manage the reintegration of IDPs within Ukraine*

The conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions has resulted in the displacement or destitution of a significant proportion of those living in affected areas. Large numbers of people have fled the temporarily occupied territories and sought refuge in other areas of the country. Considerable funds from the State budget have been (and will continue to be) required in order to feed, house and relocate these internally displaced persons (**"IDPs"**). In addition, the need to accommodate IDPs in satisfactory conditions pending return to their former homes or relocation to new homes, as well as the burden imposed on communities by the presence of large numbers of such IDPs, has led to and may in the future lead to social unrest, placing further strains on local and State authorities and consequently local and State budgets. A failure to effectively relocate and reintegrate IDPs into society, or a continued or increased flow of IDPs from the temporarily occupied territories, would be likely to have a material adverse effect on Ukraine's economic growth and political stability and on its ability to perform its obligations under the Notes.

### *Costs of reintegration of the temporarily occupied territories*

In the event that Ukraine were to successfully regain control of the illegally occupied territories in Crimea, and/or the temporarily occupied territories of Donetsk and Luhansk, the costs of reunification would be high, placing added strains on Ukraine's economy. Any reunification would require, *inter alia*, the rebuilding of housing, infrastructure and industry, the relocation of IDPs and the establishment of bureaucratic and fiscal systems within those areas. The fiscal burden of additional taxation as well as the reallocation of State budget funds required to pay for such reintegration would have a material adverse effect on the economy of Ukraine and potentially lead to popular unrest.

### *Risk of escalation of Russian-Ukrainian tensions in the Sea of Azov*

The illegal occupation of Crimea has given Russia a strategically important position at the mouth of the Sea of Azov. This strategic position enabled Russia to build a bridge across the Kerch Strait which has strengthened Russian control of the illegally occupied territory of Crimea as well as strengthening its strategic control of access to the Sea of Azov. The exercise of control by Russian authorities over access to the Kerch Strait has had the practical effect of restricting maritime traffic to and from Ukrainian ports in the Sea of Azov. Ukraine has brought an arbitral claim against Russia with respect to its actions in the Sea of Azov claiming a violation of the UN Convention on the Law of the Sea ("UNCLOS") and the 2003 bilateral treaty between Ukraine and Russia relating to access to the Sea of Azov through the Kerch Strait. See "*Description of Ukraine—Legal Proceedings—UNCLOS Dispute between Ukraine and Russia*".

The continued exercise by Russia of its control of the Kerch Strait and further actions by Russia to restrict maritime traffic to and from the strategically important city of Mariupol or other Ukrainian ports, further efforts by Russian-backed illegal armed formations to extend the illegal occupation of Ukraine's territories bordering the Sea of Azov, or any other escalation of tensions in the region would be likely to have a material adverse effect on Ukraine's economy and thus on the ability of Ukraine to perform its obligations under the Notes.

Accordingly, the occurrence of any or all of the abovementioned risks would be likely to have a material adverse effect on Ukraine's economy and its ability to meet its payment obligations under the Notes.

### ***Ukraine's economy is vulnerable to fluctuations in the global economy.***

Ukraine's economy is dependent to a large extent on the state of the global economy. In particular, Ukraine relies on foreign currency revenues derived from the export of goods and raw materials to finance imports (including natural gas) and service its external financing obligations. Accordingly, any material decrease in global demand or prices for Ukraine's exports, or any material increase in the cost of essential imports such as natural gas, may have a significant adverse effect on Ukraine's balance of payments. See "*External Sector—International Trade*".

Additionally, the state of the global economy has an important indirect effect on Ukraine's State Budget deficit and inflation levels, as Ukraine's economy is highly dependent on global commodity prices. Changes to Ukraine's principal exports, including metal products and grain, as well as Ukraine's critical imports, including natural gas and oil, have led to significant fluctuations in Ukraine's total tax revenues, budget deficit and inflation levels over the recent years. Continued upward pressure on global prices for energy, food and industrial products may lead to higher budget deficits and domestic inflation, particularly if the Ukrainian government implements an expansionary monetary policy in an attempt to finance its budget deficit.

Furthermore, in April 2017, the Government approved a medium-term priority action plan which sets out certain targets regarding GDP growth, State budget deficit and State guaranteed debt to GDP ratio for 2018 through 2020. On 29 September 2019, the Government adopted and, on 4 October 2019, Parliament approved the action plan defining the Government's priorities for the five-year period beginning 1 January 2020. See "*Public Debt—Debt Management Policy*" for further information regarding the targets.

While the 2020 State Budget is seen to be compliant with the requirements of the International Monetary Fund ("IMF") and materially consistent with the Issuer's medium-term priority action plan, there is a risk that the Government is unable to remain within the parameters of the 2020 State Budget, or the IMF may judge that measures taken within those parameters are not in line with their requirements.

A reduction in foreign direct investment in Ukraine since the Euro-Maidan Revolution of 2014, together with the reduced availability of external financing for Ukrainian companies over the same period, has contributed to a decrease in industrial production, investment projects and capital expenditure generally. Any deterioration of the current economic and geopolitical situation of Ukraine, or any adverse change in the global economic environment or in the appetite of international investors for emerging market risk, could further reduce the availability of inbound investment and external financing in Ukraine and materially adversely affect future GDP growth rates. Changing external or internal conditions could widen Ukraine's external funding gap. Continued widening of the current account deficit or significant net capital outflows could cause Ukraine's stock of international reserves to fall. Any such developments may lead to further depreciation of the hryvnia and have a material adverse effect on Ukraine's economy and thus on the ability of Ukraine to perform its payment obligations under the Notes.

### ***Litigation against Ukraine on behalf of Russia.***

On 17 February 2016, The Law Debenture Trust Corporation plc, acting in its capacity as trustee on behalf of the Russian Federation as the sole holder of Ukraine's U.S.\$3 billion 5 per cent. notes issued December 2013 (the "**December 2013 Notes**"), filed a lawsuit against Ukraine in the High Court of England and Wales seeking payment of principal and accrued interest due under the December 2013 Notes. Ukraine denies the validity and enforceability of the December 2013 Notes. On 29 March 2017, the High Court issued a summary judgment decision in favour of the trustee in the amount of U.S.\$3 billion plus an outstanding coupon and interest thereon (the "**Summary Judgment**"), which Ukraine appealed successfully before the Court of Appeal of England and Wales. However, the Court of Appeal's decision to overturn the Summary Judgment has since been appealed to the Supreme Court of England and Wales.

These appeals were heard by the Supreme Court from 9 to 12 December 2019. Following the hearing, the Supreme Court reserved its judgment until a later date. Any judgment would be unlikely to be immediate and may only be forthcoming a number of months after the hearing. In the meantime, the proceedings relating to the December 2013 Notes have been stayed pending the outcome of the appeal to the Supreme Court. See "*Description of Ukraine—Legal Proceedings—December 2013 Notes Litigation*". Ukraine believes that the Supreme Court will likely hand down a judgment during the first half of 2020, although the court is not subject to any deadline.

If Ukraine were to lose the appeal by the trustee to the Supreme Court against the decision of the Court of Appeal to overturn the Summary Judgment, and at the same time not succeed in convincing the Supreme Court either to overturn the Summary Judgment on other grounds argued by Ukraine that were not accepted in the Court of Appeal Decision or otherwise stay the proceedings, then the Summary Judgment will be reinstated and will become executable. Alternatively, if the Supreme Court upholds the Court of Appeal Decision and after a trial on the merits (and any appeals therefrom) Ukraine is ordered to make payment to the Trustee in respect of the December 2013 Notes, Ukraine will be legally obligated to make such payment to the Trustee.

In the event of the Summary Judgment being reinstated or the Trustee prevailing following a trial on the merits, unless Ukraine makes a voluntary payment of the sums due under the Summary Judgment or as determined in such trial, there is a risk that the holder of the December 2013 Notes may seek to attach, seize or otherwise assert rights with respect to the assets of Ukraine that are not subject to state immunity. Furthermore, in these circumstances, the terms of certain loan agreements with official and multilateral lenders may, at such time, allow such lenders to accelerate repayment of such loans.

If in these circumstances Ukraine pays the sums due under the reinstated Summary Judgment or as determined by a trial on the merits voluntarily, or pursuant to any enforcement action taken by the trustee, any such payment may violate the terms of the "most favoured creditor" covenant pursuant to the terms of the nine series of 7.75 per cent. Eurobonds originally issued in November 2015 (the "**November 2015 Eurobonds**") in connection with Ukraine's external debt restructuring (as well as the Notes and any other Eurobonds issued by Ukraine which are subject to the same terms) unless Ukraine were able to obtain a waiver of such covenant from the holders of the November 2015 Eurobonds (and the holders of such other Eurobonds) or, with the consent of such holders, amends the terms thereof. No assurance can be given whether, and on what terms, such holders would grant such waiver or consent. Should any of Ukraine's Eurobonds (in excess of U.S.\$50,000,000 in aggregate) become due and payable prior to the stated maturity thereof by reason of a breach by Ukraine of the "most favoured creditor" covenant therein, such event would constitute an event of default under the terms of Ukraine's other outstanding Eurobonds, potentially resulting in the acceleration of such Eurobonds.

The Ukrainian moratorium on payments under the December 2013 Notes declared by the Cabinet of Ministers of Ukraine (the “**Cabinet of Ministers**” or “**CMU**”) in December 2015 (see “*Public Debt–External Debt–Public Debt Strategy –Ukraine’s external debt restructuring*”) may prevent Ukraine from making payment (i) of the sums due under the Summary Judgment should it be reinstated and become enforceable or (ii) in respect of the December 2013 Notes as may be determined following a trial on the merits. It is possible in these circumstances, therefore, that the holder of the December 2013 Notes may also seek to assert rights over the proceeds of Ukraine’s capital markets transactions at the relevant time, as well as the scheduled payments under the Notes or other outstanding external debt of Ukraine.

All or any of the risks described above may have a material adverse effect on Ukraine’s financial condition and ability to access the international capital markets on commercially acceptable terms, trigger a downgrade of Ukraine’s credit ratings and negatively affect the trading price, liquidity and demand for its debt securities (including the Notes).

#### ***Uncertainties relating to Ukraine’s judicial system.***

Since Ukraine gained independence in 1991, the Ukrainian legal system has been developing to support the country’s transition from a planned to a market-based economy. Ukraine’s legal system continues to be essentially in transition and is, therefore, subject to greater risks and uncertainties than more mature legal systems. In particular, risks associated with the Ukrainian legal system include: (i) inconsistencies between and among the Constitution of Ukraine and various laws, presidential decrees, governmental, ministerial and local orders, decisions, resolutions and other acts; (ii) provisions in the laws and regulations that are ambiguously worded or which lack specificity and thereby raise difficulties when implemented or interpreted; (iii) difficulty in predicting the outcome of judicial application of Ukrainian legislation due to, amongst other factors, a general inconsistency in the judicial interpretation of such legislation in the same or similar cases; and (iv) the fact that not all Ukrainian resolutions, orders and decrees and other similar acts are readily available to the public or available in understandably organised form.

The independence of the judicial system and its immunity from economic and political influence in Ukraine remains questionable. Although the Constitutional Court of Ukraine (the “**CCU**”) is the only body authorised to exercise constitutional jurisdiction and has mostly proven impartial in its judgments, the system of constitutional jurisdiction itself can be considered still too complicated to ensure smooth and effective removal of discrepancies between the Constitution of Ukraine on the one hand and various laws of Ukraine on the other hand.

Recent judicial reform has deprived the CCU of its power to give official and obligatory interpretation of the laws of Ukraine (except for the Constitution of Ukraine). At the same time, access to the constitutional jurisdiction has been granted to all persons who consider that the law applied in a final decision in their case contradicts the Constitution of Ukraine.

Further, enforcement of court orders and judgments can, in practice, be difficult in Ukraine. Enforcement procedures are often very time-consuming and may fail for a variety of reasons, including the defendant lacking sufficient funds, the complexity of auction procedures for the sale of the defendant’s property, or the defendant undergoing bankruptcy proceedings. In addition, bailiffs in Ukraine have limited authority to enforce court orders and judgments quickly and efficiently. Bailiffs are bound by the method of enforcement envisaged by the relevant court order or judgment and may not independently change such method even if it proves to be inefficient or unrealisable. Furthermore, notwithstanding the successful execution of a court order or a judgment, a higher court may reverse the court order or judgment and require that the relevant funds or property be restored to the defendant.

The uncertainties described above also extend to certain rights, including investor rights. In Ukraine, there is no established history of investor rights protection.

All of these factors make judicial decisions in Ukraine difficult to predict and effective redress uncertain. In addition, court claims are often used in the furtherance of political aims. Court orders are also not always enforced or followed by law enforcement institutions. The uncertainties relating to the judicial system could have a negative effect on external investment in Ukraine and on the Ukrainian economy in general and thus Ukraine’s ability to perform its obligations under the Notes. See “*Political Framework—The Judicial System*”.

### ***Political instability.***

Historically, a lack of political consensus in Parliament has made it difficult for the Government to secure the necessary support to implement policies intended to foster liberalisation, privatisation and financial stability. The procedures and rules governing the political process in Ukraine may be subject to change through the normal process of political alliance building or through constitutional amendments and decisions of the CCU.

The political landscape of Ukraine remains uncertain, despite presidential and parliamentary elections held in 2019. See “*Political Framework*”. In April 2019, Volodymyr Zelenskiy won the 2019 Ukrainian presidential elections. On 20 May 2019, Volodymyr Zelenskiy was inaugurated and formally commenced his presidential term.

President Zelenskiy may not maintain current economic or foreign policies and certain political changes may be implemented. This uncertainty makes the enactment of legislation required to meet the IMF’s and other multilateral organisations’ criteria for further financial support more challenging. President Zelenskiy may also call into question Ukraine’s ability or desire to enact such legislation or potentially lead to the undoing of a number of steps taken to meet IMF requirements. If the IMF’s criteria for providing further financial support to Ukraine are not met, or measures taken to meet such criteria are undone, this could result in a suspension of international financial assistance to Ukraine. Such a suspension would be likely to materially adversely affect the economic position of Ukraine and make it difficult or impossible for Ukraine to meet its international financial obligations. In such circumstances, there could be severe negative effects on the banking sector as well as the real economy, and there can be no assurance whether or when Ukraine would be able to perform its payment obligations under the Notes. A number of additional factors could also adversely affect political stability in Ukraine, including:

- lack of agreement within the parliamentary factions and between individual Members of Parliament;
- disputes between the parliamentary majority and opposition factions on major policy issues, including Ukraine’s foreign, social, fiscal and energy policies and the constitutional changes required to implement the Minsk Agreements (as defined in “*Description of Ukraine—Conflict in and the temporary occupation of the territories in the Donetsk and Luhansk regions—Minsk Agreements*”);
- conduct of the joint forces operation in the temporarily occupied territories in the Donetsk and Luhansk regions;
- cyber attacks, which have intensified since 2014 following the outbreak of hostilities with Russia-backed illegal armed formations;
- timing and implementation of closer political and economic ties with the EU;
- court actions taken by opposition politicians to challenge decrees and other actions of the President and the Government; and
- the imposition of martial law.

Any continued or increased political instability due to the factors listed above or for any other reason could have a material adverse effect on Ukraine’s economy and thus on the ability of Ukraine to perform its payment obligations under the Notes. For example, political instability may increase emigration and reduce the domestic supply of skilled labour, adversely impacting Ukraine’s long-term growth potential.

### ***Relations with Russia.***

Ukraine’s economy has traditionally been heavily dependent on trade with Russia and other CIS countries, largely because Ukraine imported a large proportion of its energy requirements, especially from Russia (or from countries that transport energy related exports through Russia) as a result of its geographic proximity to, and historical relationship with, Russia. In addition, a large share of Ukraine’s service receipts has historically comprised of transit charges for oil, gas and ammonia from Russia, which are delivered to the EU via Ukraine. See “*Economy of Ukraine—Principal Sectors of the Economy—Fuel and Energy—Oil and Gas Transit*”.



Following the increased geopolitical tensions between Russia and Ukraine, exports of Ukrainian goods to Russia decreased significantly. See “*External Sector—International Trade—Direction of Trade—Russia and the CIS*”. As Ukraine has traditionally exported goods to the CIS countries, despite the existing tensions between Ukraine and Russia, the export of goods to Russia in 2017 increased compared to 2016. However, the overall amount of exports to Russia is significantly lower than before 2014: in 2017 exports to Russia amounted to U.S.\$3.9 billion as compared to U.S.\$15 billion in 2013. Exports to Russia decreased by 7.2 per cent. in 2018, compared to 2017, and by 9.7 per cent. for the nine months ended 30 September 2019, compared to the corresponding period in 2018.

Any escalation of the current tensions between Ukraine and Russia, such as the seizure by Russia of three Ukrainian naval ships in the Sea of Azov on 25 November 2018, may have a long-standing impact on trade and other aspects of Ukraine’s bilateral relations with Russia and could lead to the imposition of further trade and other punitive measures by both countries. These factors, in turn, could have a material adverse effect on the Ukrainian economy.

Sanctions imposed by the Ukrainian and Russian governments against each other, as well as those imposed by the EU and the United States on Russia and Crimea, and any reciprocal sanctions imposed by Russia, have significantly restricted Ukrainian companies’ ability to export goods and services to Russia as well as their ability to import vital resources. For example, Russia has, recently and in the past, cut off (or threatened to cut off) the supply of oil and gas to Ukraine in order to apply pressure on Ukraine to settle outstanding gas debts and maintain low transit fees for Russian oil and gas through Ukrainian pipelines to European consumers. See “*Economy of Ukraine—Principal Sectors of the Economy—Fuel and Energy—Oil and Gas Transit*”. Reciprocal sanctions imposed by Russia include a food embargo on certain agricultural products, raw materials and food originating from Ukraine and Russia also cancelled the preferential trade regime envisaged by the agreement on free trade within the CIS on imports of Ukrainian goods in 2016. Any further increase in the scope of such sanctions as a result of increasing diplomatic tensions or increased sanctions imposed by the EU, the United States or Ukraine would be likely to have a material adverse effect on the economy of Ukraine.

Despite financial support from Ukraine’s international partners, which has helped mitigate the economic impact of current events, the recent strained relationship between Ukraine and Russia continues to have a material adverse effect on Ukraine’s economy. Unless the relationship between Ukraine and Russia is normalised in the near future, the political, economic and financial impact in Ukraine of Russia’s policies, particularly in the event of a further deterioration of relations between the two countries, is likely to have an increasingly adverse effect on Ukraine’s financial position, especially if Ukraine were to lose financial support from its international partners and access to the international capital markets. Further strain on the Ukrainian economy may affect the ability of Ukraine to perform its payment obligations under the Notes.

### ***Relations with Western governments, the EU and multinational institutions.***

#### ***Political and financial relations***

Ukraine is currently benefitting from financial support from international financial institutions as well as international partners. See “*Economy of Ukraine—IMF Loan and Other Financing*”. Ukraine also benefits from significant practical and diplomatic support from the international community particularly in relation to the conflict in, and the temporary occupation of, the territories of the Donetsk and Luhansk regions and the illegal occupation of Crimea. This financial and political support is crucial to the economic development and political stability of Ukraine and is built on the promises of deep-seated and systemic reform of the country’s economic and political systems. Any negative effects on relations with these organisations and international partners as a result of internal political changes, events or failure to comply with foreign requirements would be likely to have a significant adverse effect on, amongst other things, the continued application of the Ukraine European Union Association Agreement signed on 21 March 2014 (the “**Association Agreement**”), and may lead to a suspension of financial support/aid packages as well as the deep and comprehensive free trade area created on the basis of the Association Agreement. Any negative change in the perceptions of Ukraine’s commitment to the implementation of the Association Agreement could have a material adverse effect on trade and other economic relations (including access to financial support) with the EU and its members, which, in turn, could have a material adverse effect on Ukraine’s economy and its ability to perform its payment obligations under the Notes.

### *Economic and trade relations*

Ukraine's trade and economic relations with the EU, its other international partners and multinational institutions is also of great importance to Ukraine given the current significant reduction in trading volumes with Russia. See "*External Sector—International Trade*". The perception of the Government's commitment to, and the nature of, Ukraine's legislative and regulatory reform programmes (including anti-corruption measures and measures to improve and enhance the independence of the judicial system), as well as political developments in Ukraine, could significantly impact those relations. Any negative change in the economic relations between Ukraine, the EU and Ukraine's other international partners may have a material adverse effect on Ukraine's ability to counterbalance the lost trade and business with Russia, which, in turn, could have a material adverse effect on Ukraine's economy and thus on the ability of Ukraine to perform its payment obligations under the Notes.

### *Reliance on the IMF*

Given Ukraine's current economic situation, its reliance upon the IMF and the 2018 Stand-By Arrangement (the "**2018 SBA**") and any successor programme is critical. The further recovery and development of Ukraine's economy is dependent on disbursements under the 2018 SBA, if and when implemented, which may be withheld upon any failure of Ukraine to make the political, social, economic and legislative reforms required by the 2018 SBA. See "*—Failure to implement required structural reforms*". Following a call on 7 December 2019 between Kristalina Georgieva, the Managing Director of the IMF, and President Zelenskiy, an IMF Staff Level Agreement was reached providing for a new three-year, SDR 4 billion (about U.S.\$5.5 billion) arrangement under the Extended Fund Facility which is to replace the current Stand-by Arrangement approved in December 2018.

Additionally, Ukraine's existing financings, as well as its ability to raise future financing, from international financial institutions and its international partners are to a large extent dependent on the continued compliance of Ukraine with the targets set by the 2018 SBA, as modified from time to time in consultation with IMF technical staff and with the approval of the IMF executive board. A failure to maintain its membership of the IMF would result in a default under a number of such finance agreements. Accordingly, a failure to continue to meet the targets set by the 2018 SBA or any successor programme or to remain a member of the IMF could potentially lead to the loss of further funds critical to the development of Ukraine's economy and defaults under existing financings which could require early repayments, either of which would be likely to have a material adverse effect on Ukraine's economy and thus on the ability of Ukraine to perform its payment obligations under the Notes.

### *Failure to implement required structural reforms.*

Ukraine is highly reliant on external sources for financing the State budget deficit and such reliance has been exacerbated by the fiscal pressures arising as a consequence of the illegal occupation of Crimea and the conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions. Since 2014, official creditors and multilateral organisations, such as the IMF, the EBRD, the World Bank and the EU, have provided much of such external financing support, and Ukraine is currently reliant on obtaining financing on favourable conditions with these multilateral organisations.

Further external borrowings from multilateral organisations and other external sources may be contingent upon Ukraine's satisfaction of certain requirements including:

- enacting and implementing strategic, institutional and structural reforms;
- effectively managing corruption and anti-money laundering requirements;
- managing the State budget deficit in order to restore confidence in fiscal sector sustainability;
- enacting a conservative and prudent fiscal policy;
- improving the sovereign debt credit ratings; and
- improving the corporate governance of state-owned banks.

Factors which may impede achievement of these requirements include:

- potential social resistance to austerity measures;
- economic recovery taking longer or proving more difficult than initially expected;
- real exchange rate shocks;
- a larger than expected fiscal burden emanating from either the banking and/or the energy sectors;
- a crisis of confidence in the banking system;
- political difficulties or delays in implementing structural reforms; and
- other external factors, including any increase or extension of the conflict in, and the temporary occupation of, the territories in the Donetsk and Luhansk regions.

If Ukraine is unable to meet the stringent criteria set out in the various support programmes provided by official creditors and multilateral organisations, these sources may withhold or suspend funding. In the current circumstances, a failure by official creditors and multilateral organisations to grant adequate financing on terms favourable to Ukraine (or at all), combined with any inability of Ukraine to access the international capital markets and syndicated loan markets, would put severe pressure on Ukraine's budget and foreign exchange reserves and could have a material adverse effect on Ukraine's ability to perform its payment obligations under the Notes. Further, Ukraine's ability to refinance its existing debts owed to these official creditors and multilateral organisations and to perform its obligations under the Notes could become difficult or impossible if relations between Russia and Ukraine deteriorate further or access to the international markets remains restricted in the medium term, or where no additional external financing is secured.

***IMF determination of status of the December 2013 Notes as official debt.***

On 8 December 2015, the IMF amended their policy to allow for financing to be extended in circumstances where a member has arrears under official debt, subject to certain conditions. On 16 December 2015, the IMF determined that the December 2013 Notes should have the status of official debt under their internal methodology. As at the date of this Prospectus, the IMF's position is that Ukraine is in arrears under the December 2013 Notes pursuant to a moratorium declared in December 2015. While the IMF's new policy may allow it to extend financing to Ukraine in accordance with the 2018 SBA or any successor programme, there is a condition that the borrower which is in arrears in respect of any such official debt should negotiate a restructuring of such debt "in good faith". Accordingly, if the IMF were to determine for any reason that Ukraine were failing to negotiate in good faith with the holders of its December 2013 Notes, it may be unable to make future disbursements under the 2018 SBA or any successor programme. The inability of the IMF to extend financing could also affect the ability of other international partners of Ukraine to provide financing for Ukraine. The loss of financing from the IMF and other international partners would be likely to have a material adverse impact on the financial position and liquidity of Ukraine and on its ability to service its obligations under the Notes. See "*Economy of Ukraine—IMF Loan and Other Financing*".

***Emerging markets, including Ukraine, are subject to greater risk than more developed markets.***

An investment in a country such as Ukraine, which achieved independence less than 30 years ago and whose economy is in transition, is subject to substantially greater risks than an investment in a country with a more developed economy and more mature political and legal systems. Although progress has been made since independence in 1991 to reform Ukraine's economy and its political and judicial systems, to some extent Ukraine still lacks the necessary legal infrastructure and regulatory framework that are essential to support market institutions, the effective transition to a market economy and broad-based social and economic reforms. As a consequence, there are risks associated with investments in emerging markets and, specifically, Ukraine, that are not typically associated with investing in more mature markets. The availability of credit to entities operating within emerging markets is significantly influenced by levels of investor confidence in such markets as a whole. Consequently, any factors that impact market confidence (for example, a decrease in credit ratings or state or central bank intervention in one market) could affect the price or availability of funding for entities within other emerging markets. These risks may be compounded by incomplete, unreliable or unavailable economic and statistical data on Ukraine, including elements of the information provided in this Prospectus.

See “—Official statistics and other data published by Ukrainian State authorities may not be reliable”. Investors should also note that emerging economies, such as Ukraine’s, are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly.

Accordingly, investors should exercise particular care in evaluating the risks involved. Generally, investments in emerging markets, such as Ukraine, are only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult their own legal and financial advisors before making a decision with respect to this Prospectus.

#### ***Corruption and money laundering.***

In accordance with Ukrainian anti-money laundering legislation, which came into force in June 2003, the NBU and other state authorities, as well as various entities performing financial transactions, are required to monitor financial transactions for evidence of money laundering.

Since the events of the Euro-Maidan revolution, in consultation with the international official and multilateral partners of Ukraine, a substantial effort has been undertaken to prevent corruption. This has included a number of new laws and the establishment of national agencies to enforce such laws. In addition, steps such as the establishment of an electronic system for the declaration of senior officials’ interests and the establishment of a High Anti-Corruption Court have been taken, all intended to be in line with the IMF’s requirements. See “*Economy of Ukraine—IMF Loan and Other Financing*”.

Ukraine remains low on Transparency International’s Corruption Perceptions Index 2018 and there can be no assurance that the above-mentioned laws will be effectively applied and implemented by the relevant anti-corruption and law enforcement authorities in Ukraine or that investigations by international bodies related to historical corruption in Ukraine could not arise. As of the date of this Prospectus, no senior government official has been arrested in connection with these laws. However, failure to effectively implement the relevant anti-corruption legislation referred to above or any future allegations of corruption in Ukraine or evidence of money laundering, whether connected to historical or future conduct by government officials, could have a negative effect on Ukraine’s reputation as well as ability to attract foreign direct investment and external financing for the State budget, including from international multilateral organisations, and thus may have a negative effect on the economy of Ukraine and on Ukraine’s ability to meet its payment obligations under the Notes. See “—*Failure to implement required structural reforms*”.

#### ***Ukraine’s physical infrastructure is in poor condition and could deteriorate further.***

Ukraine’s physical infrastructure, including its power generation and transmission and telecommunication systems and building stock, largely dates back to Soviet times and has not been adequately funded and maintained since independence. Road conditions throughout Ukraine are relatively poor in comparison with more developed countries. The Ukrainian government has been implementing plans to develop the nation’s rail, electricity and telecommunication systems, which may result in increased charges and tariffs, while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. The deterioration of Ukraine’s physical infrastructure, which has been exacerbated by the physical destruction caused by the illegal occupation of Crimea and the conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions, has had and continues to have a material adverse effect on the national economy, through disruption of the transportation of goods and supplies, adding to the costs of doing business in Ukraine and creating interruptions to business operations. Failure to address the existing deficiencies in and continuing deterioration of Ukraine’s infrastructure, and to effectively upgrade such infrastructure so as to enable Ukraine to achieve its economic and social goals, as well as raising the required capital investment in connection therewith, would be likely to have a material adverse effect on the Ukrainian economy and in turn on Ukraine’s ability to meet its payment obligations under the Notes.

#### ***Risks relating to the Enforcement of OJSC Tatneft’s Claims Against Ukraine***

On 20 December 2019, the High Court of England and Wales rendered a judgment allowing Russian company OJSC “Tatneft” (“**Tatneft**”) to enforce U.S.\$31 million of an award rendered by an arbitral tribunal seated in Paris on 29 July 2014. See “*Description of Ukraine—Legal Proceedings—Tatneft Arbitration*”. There is a risk that Tatneft may attempt to attach, seize or otherwise assert rights with respect to the assets of Ukraine, whether or not such assets are entitled to sovereign immunity. In particular, it is possible that Tatneft may seek to assert

rights over the proceeds of Ukraine's capital markets transactions, including the proceeds of the Notes, or over the scheduled payments under the Notes or other outstanding external debt. Any of the foregoing may have a material adverse impact on the settlement of the Notes and the price or trading of the Notes or other external debt of Ukraine in the secondary market.

***Official statistics and other data published by Ukrainian State authorities may not be reliable.***

Official statistics and other data published by Ukrainian State authorities (including the NBU and the State Statistics Service of Ukraine) may not be as complete or reliable as those of more developed countries. Official statistics and other data may also be produced on a different basis than those criteria used in more developed countries. Furthermore, standards of accuracy for statistical data may vary from agency to agency and from period to period due to the application of different methodologies. Since the first quarter of 2003, Ukraine has produced data in accordance with the IMF Special Data Dissemination Standard. It is possible, however, that this IMF standard has not been fully implemented or correctly applied. The existence of a sizeable unofficial or shadow economy may also affect the accuracy and reliability of statistical information. In addition, Ukraine has experienced variable rates of inflation, including periods of hyperinflation. Unless indicated otherwise, the macroeconomic data presented in this Prospectus has not been restated to reflect such inflation and, as a result, period-to-period comparisons may not be meaningful.

Furthermore, it should be noted that all figures relating to the draft budget resolution for 2019-2021 are merely assumptions used for purposes of the new three year budgeting process and thus should not be relied upon as forecasts and actual GDP growth may vary materially from these figures.

As a result of the events since February 2014, there has also been significant additional difficulty in obtaining reliable statistical information, particularly in relation to Crimea and the City of Sevastopol and the temporarily occupied territories in the Donetsk and Luhansk regions. From the beginning of 2014, Ukrainian GDP has been calculated without taking into account the data for Crimea and the City of Sevastopol and the temporarily occupied territories in the Donetsk and Luhansk regions. Therefore, certain statistics since 2014 may include unverifiable information or may not include any data at all from those areas of Ukraine; this may make a comparison of recent data to previous periods less meaningful. Certain statistical information and other data contained in this Prospectus have been extracted from official governmental sources in Ukraine and were not prepared or independently verified by any person in connection with the preparation of this Prospectus. In certain circumstances, Ukraine has relied on reported information in presenting such matters but is unable to independently verify such information.

***Liquidity risk.***

Ukraine has experienced liquidity difficulties in the past and continues to be a subject to a significant liquidity risk, which may be exacerbated by Ukraine's higher debt service obligations and higher cost of funding over the next several years. Following the Euro-Maidan Revolution in early 2014, a combination of factors resulting from the illegal occupation of Crimea, the conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions, and the resulting sharp depreciation of the hryvnia, created a severe financial crisis for the Government. As a condition to the extension by the IMF of extraordinary financing through an extended fund facility to help Ukraine stabilise its financial position, the restructuring of certain state and state guaranteed debt obligations of Ukraine took place in 2015 (the "**2015 Restructuring**"). See "*Public Debt—External Debt—Public Debt Strategy—Ukraine's external debt restructuring*".

While the debt reduction and maturity extension achieved through the 2015 Restructuring alleviated the immediate liquidity pressures on the State budget, further pressures remain. The devaluation of the hryvnia since 2014 has made foreign debt service considerably more expensive for the Government, and any further depreciation of the currency will put additional pressure on Ukraine's ability to service national and international debt denominated in foreign currency. Furthermore, Ukraine is vulnerable to the effect of any potential increases in interest rates in the Eurozone and the United States, as Ukraine's reliance on external financing to fund its current account deficit and refinance existing external debt stocks means that any such increases may result in a higher cost of funding and could put further pressure on the hryvnia exchange rate.

According to the Budget Code of Ukraine (the "**Budget Code**") the volume of total State debt and State guaranteed debt at the end of the budget period (31 December of each year) should not exceed 60 per cent. of the annual nominal GDP of Ukraine. Pursuant to the Budget Code, if the ratio of total State debt to GDP is

expected to exceed 60 per cent. as of any year end, the Government is required to apply to Parliament for approval to exceed the threshold and submit a plan setting out the steps to be taken to return the ratio below the 60 per cent. threshold. This requirement has been temporarily suspended while the conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions continues. As at 31 December 2019, the ratio was around 50 per cent. However, if the suspension were to be lifted or the territories were to be reclaimed by Ukraine, resulting in the ratio exceeding 60 per cent., then the Government would need to provide Parliament with a plan to reduce the level of State debt and State Guaranteed Debt below 60 per cent. which would be likely to put pressure on Ukraine's liquidity and its access to further funds in the international capital markets, thereby removing a key source of external liquidity for the Government. In addition, it should be noted that many Ukrainian companies have significant levels of foreign currency indebtedness and as a result of the financial crisis have experienced and may continue to experience difficulty refinancing such liabilities or accessing new financing. Although private sector debt, unlike State debt, does not have a direct negative effect on the Government's foreign exchange liquidity, high levels of indebtedness of, and limited availability of new credit to, the private sector may complicate or delay economic recovery and pose a significant risk to GDP growth in an already challenging economic environment.

Adverse changes in global or domestic political or economic conditions or in the international capital markets may place continued pressure on Ukraine's foreign exchange liquidity, which could have a material adverse effect on Ukraine's economy and thus on the ability of Ukraine to perform its payment obligations under the Notes.

### ***Frailty of the Ukrainian banking system.***

The Ukrainian banking system is vulnerable to stress due to fragmentation, undercapitalisation, and a potential increase in non-performing loans. The global financial crisis starting in 2007 led to the collapse or bailout of some Ukrainian banks and to significant liquidity constraints for others. The floating of the hryvnia since February 2014 has put additional strains on the Ukrainian banking system, as the high dollarisation of the Ukrainian financial system and its customers has not only exposed Ukrainian banks to additional foreign exchange risks but has also contributed to a worsening of asset quality. Ukrainian banks have also been negatively impacted by the Ukrainian population's loss of confidence in the hryvnia since it was floated in 2014 and there have been subsequent increases in the purchases of U.S. dollars by Ukrainian citizens in order to avoid exposure to an often fluctuating exchange rate of hryvnia. According to the NBU, the proportion of loans represented by non-performing loans was 25.4 per cent., 38.4 per cent., 42.0 per cent., 55.6 per cent. and 54.0 per cent. as at 31 December 2014, 2015, 2016, 2017 and as at 1 December 2018, respectively. As at 1 December 2019, the non-performing loans ratio was 48.7 per cent. As a result, the Ukrainian banking system as a whole is undercapitalised and suffers from high levels of non-performing assets.

Other factors which have had exacerbated the weak performance of the Ukrainian banking sector since 2014 include:

- significant outflows of deposits;
- the impact on the banking sector of the loss of income from, and branches in, Crimea following the illegal occupation and annexation of that territory; and
- the effect on the sector's revenues and business of the ongoing conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions.

Further, Ukrainian banks have relied extensively on liquidity facilities and other support from the NBU and have been shielded from the full impact of the floating exchange rate through currency control restrictions and other technical regulations of the financial sector imposed by the NBU.

Since 2014, the NBU has taken steps to promote the consolidation and strengthening of the Ukrainian banking sector, and to this end has required and/or facilitated the temporary administration, liquidation and/or restructuring of a number of Ukrainian banks. See *"The Banking System, Securities and Financial Service Markets –The Banking System in Ukraine"*.

A further increase in the share of non-performing loans in banks' loan portfolios, or a failure to decrease this share, could place additional strain on the Ukrainian banking system, and may lead to further banks being declared insolvent and being liquidated or nationalised by the Government.

The fragile condition of the Ukrainian banking system has been the main factor in restricting the availability of domestic credit. Domestic banks are in many cases unwilling or unable to lend to domestic businesses in need of renewed or increased funding and a continued shortage of credit will have a negative effect on Ukraine's GDP growth. Furthermore, increased domestic borrowing by the Government is likely to reduce the availability of domestic credit for Ukrainian businesses, exacerbating the negative impact on GDP levels.

Several European banks have terminated their activities in Ukraine in recent years, largely due to the perceived high risk of doing business in Ukraine, high credit risk, a high ratio of non-performing loans and exchange rate risk. The share of Russian banks in the Ukrainian market is also decreasing largely due to the political situation between the two countries.

Since July 2015, the Ukrainian Parliament has adopted new legislation to strengthen and protect the banking system. Furthermore, the National Bank of Ukraine (the "NBU") has actively sought to promote the closure of inadequately capitalised or poorly managed banks. Despite these positive legislative developments and actions by the bank regulator, any further insolvencies of Ukrainian banks, increased liquidity constraints, continued growth in the proportion of non-performing loans and the failure to adopt and implement a system of banking regulation meeting best international standards that achieves an increased degree of stability in the nation's banks, could have a material adverse effect on the Ukrainian economy and thus on Ukraine's ability to perform its payment obligations under the Notes.

#### ***Breaches of IT security and privacy systems.***

Information security risks for the public and commercial sectors, including large financial institutions and government bodies and key infrastructure facilities, have increased in recent years, in part because of the proliferation of new technologies, the use of internet and telecommunications technology and the increased sophistication and activities of organised criminals and hackers. Customers of Ukrainian companies and users of government and private services often use personal smartphones, personal computers and other computing devices, personal tablet computers and other mobile devices that are beyond these entities' control systems. Computer systems, software and networks may be vulnerable to unauthorised access, misuse, denial-of-service attacks, phishing attacks, computer viruses or other malicious code.

Ukrainian entities' databases contain certain personal data of customers and consumers of services. These databases may be vulnerable to damage, including telecommunications and network failures and human acts both by external individuals as well as employees. Any material security breach or other disruption could expose an individual bank, company or organisation in Ukraine, or the wider Ukrainian public and/or private sector, to risk of loss, regulatory actions and reputational harm.

Several public and private Ukrainian organisations and companies have been and continue to be subject to a range of cyber-attacks. Cyber-attacks could give rise to the loss of significant amounts of customer data and other sensitive information, as well as significant levels of liquid assets (including cash). In addition, cyber-attacks could give rise to the disablement of an organisation's information technology systems used to service customers or the public. As attempted attacks continue to evolve in scope and sophistication, Ukrainian entities may incur substantial costs in their attempts to modify or enhance their protective measures against such attacks, or to investigate or remediate any vulnerability or resulting breach.

As technology continues to develop, Ukrainian organisations (or their third-party affiliates) may be exposed to new risks to their business and the security of their data, including risks they may not be able to anticipate, as well as increased operating costs from ensuring that any new products and services they provide are implemented correctly and operated safely and securely.

If Ukrainian organisations fail to effectively manage their IT, cybersecurity and privacy risks, they may become exposed to liability, including regulatory fines or penalties, increased expenses relating to the resolution of any security or privacy breaches of their databases and the mitigation of the impact of such breaches on affected individuals, and the reputation of the Ukrainian government and sectors of the economy (such as banking) could

be harmed. Any of the above could have a material adverse effect on the Ukrainian economy and thus Ukraine's ability to meet its payment obligations under the Notes.

***The Ukrainian currency is subject to volatility.***

As a result of the high dollarisation of the Ukrainian economy and the reliance of Ukrainian borrowers on external markets, Ukraine has become increasingly exposed to the risk of hryvnia exchange rate fluctuations. As at 31 December 2013, immediately prior to the Euro-Maidan Revolution, the NBU official UAH/U.S. dollar exchange rate was pegged at UAH 7.9930 to one U.S. dollar. In February 2014, the NBU allowed the exchange rate to float. The NBU official UAH/U.S. dollar exchange rate was UAH 15.8, UAH 24.0, UAH 27.2, UAH 28.1, UAH 27.7 and UAH 23.7 to one U.S. dollar, as at 31 December 2014, 31 December 2015, 31 December 2016, 31 December 2017, 31 December 2018 and 31 December 2019, respectively.

Since March 2015, the NBU has taken action to protect against hryvnia exchange rate fluctuations by increasing its discount rate and adopting inflation targeting, and despite attempts to decrease the discount rate it remains elevated by historical standards, which may lead to lower liquidity in the domestic financial markets and higher borrowing costs. However, its ability to stabilise the currency is dependent on many factors (including political stability and a resolution of the illegal occupation of Crimea and the conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions) which cannot be predicted with any degree of certainty.

While a flexible exchange rate regime is expected in the medium term to have beneficial economic effects, these positive effects may not be realised and the interim support provided to banks to mitigate the effects of exchange rate depreciation may not have the desired effect. In addition, any further depreciation of the hryvnia may adversely affect the Government's ability to service its external debt. It is possible that increasingly strained relations with Russia may put pressure on the hryvnia exchange rate to the extent that the population loses confidence in the local currency and seeks to acquire foreign currencies as a hedge against political and economic risk. While the hryvnia has steadily gained in value against the U.S. dollar over 2019, no assurance can be given that this trend will continue or that the UAH/U.S. dollar exchange rate will remain relatively stable. Any failure to maintain a relatively stable exchange rate may have a material adverse effect on the Ukrainian economy in general and thus on Ukraine's ability to perform its payment obligations under the Notes. Additionally, rapid appreciation of the hryvnia can have a negative impact on the budget revenues, which might in turn have an adverse effect on the ability to conduct budget spending.

***Currency control restrictions.***

Ukraine has never had an entirely free capital account and transfers of foreign currency have historically been subject to restrictions. Over recent years, the NBU has introduced a number of currency controls aimed at stabilising the foreign exchange market and preventing foreign currency outflow from Ukraine. These restrictions include, *inter alia*, (i) a requirement to sell in the local market, for hryvnia, a portion of foreign currency received, (ii) restrictions on payments of dividends to foreign shareholders, and (iii) restrictions on advance import payments and the purchase of foreign currency with borrowed funds. See "*The Monetary System—Instruments of monetary policy—Currency Control*".

On 7 February 2019, the new Law "On Currency and Currency Operations" and a number of NBU regulations took effect. The new foreign currency framework is based on the principle that a currency transaction is allowed unless it is expressly prohibited.

At the same time, foreign currency investments abroad are subject to an annual aggregate limit of €2 million for legal entities and €100,000 for individuals which applies when a particular transaction qualifies for an exemption, a list of which is set out in the NBU regulations.

Historic and current restrictions have made it more difficult for many Ukrainian companies to conduct their business. Although the NBU's declared policy has been to ease or cancel currency control restrictions as economic conditions allow, continued imposition of such restrictions, or the imposition of further restrictions, may affect the credit quality of Ukrainian companies and in turn adversely impact their access to required funding and Ukraine's economic growth and thus Ukraine's ability to perform its obligations under the Notes.



***The Ukrainian tax system is underdeveloped and subject to frequent change.***

The tax legislation in Ukraine and its implementing regulations are not always clearly drafted and are thus subject to inconsistent interpretation by the tax authorities and other government bodies, providing many opportunities for inappropriate and corrupt practices by officials. These factors negatively impact the predictability of Ukraine's taxation system and therefore have an adverse effect on business activity, reducing the attractiveness of the national economy for foreign investors.

Since December 2014, Parliament has adopted a number of tax reforms intended to improve the business climate in Ukraine, however, such tax reforms (including joining the Inclusive Framework for implementation of the OECD Base Erosion and Profit Shifting Action Plan and signing the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting) have largely failed to achieve such key goals as broadening the tax base by bringing a substantial portion of the shadow economy into the reporting economy and reform of the tax authorities. See "*Public Finance and Fiscal Policy—Changes to the Tax System*".

Any significant changes to the Ukrainian tax system in the future, failure to implement required changes or the ineffectiveness of any implemented measures could adversely affect Ukraine's economy. Additionally, these factors negatively impact the predictability of Ukraine's taxation system and therefore may have an adverse effect on business activity by reducing the attractiveness of the national economy for foreign investors, and in turn adversely impact Ukraine's economic growth and thus Ukraine's ability to perform its payment obligations under the Notes.

***Vulnerability to climate change.***

According to the World Bank, Ukraine is vulnerable to the adverse impacts of climate change. In particular, Ukraine is at risk of hydrometeorological hazards and natural disasters, including seasonal flooding and drought, which could be exacerbated by further climate change. Ukraine's agricultural sector is especially vulnerable to fluctuations in the availability of water during the seasonal cycle. As a result, climate change could have a material adverse effect on Ukraine's economy and its ability to make payments on the Notes.

**Risk Factors Relating to the Notes**

***Enforcement of liabilities.***

Ukraine is a sovereign state. There is a risk that, notwithstanding the waiver of sovereign immunity by Ukraine agreed to by Ukraine in the documentation relating to the Notes, a Noteholder will not be able to enforce a court judgment against certain assets of Ukraine in certain jurisdictions (including the imposition of any arrest order or attachment or seizure of such assets and their subsequent sale) without Ukraine having specifically consented to such enforcement at the time when the enforcement is sought. Furthermore, Ukraine reserves the right to plead sovereign immunity under the United States Foreign Sovereign Immunities Act of 1976 with respect to actions brought against it under any United States federal or State securities law.

It may not be possible to effect service of process against Ukraine in courts outside Ukraine or in a jurisdiction to which Ukraine has not explicitly submitted. Moreover, it may not be possible in the courts of Ukraine to enforce foreign court judgments against Ukraine that are predicated upon the laws of foreign jurisdictions without a re-examination of the merits of such judgment in the Ukrainian courts. Furthermore, if a foreign judgment were to provide for an enforcement procedure contravening Ukrainian legal requirements, a Ukrainian court may refuse to recognise and enforce the judgment.

Courts in Ukraine will not recognise and/or enforce a judgment obtained in a court established in a country other than Ukraine unless such recognition and/or enforcement is provided for by an international treaty ratified by the Parliament, and then only in accordance with the terms of such treaty and Ukrainian law in effect at that time. Such treaties are in existence with certain CIS countries and other countries including, *inter alia*, Cyprus, Turkey, Hungary, Bulgaria and China. However, there is no such treaty or arrangement in effect between Ukraine and Ireland, the United Kingdom or the United States.

In the absence of a treaty providing for recognition and/or enforcement, the courts of Ukraine may recognise or enforce a foreign court judgment on the basis of the principle of reciprocity. Ukrainian law does not provide for any clear rules on the application of the principle of reciprocity and there is no official interpretation or court

practice. Accordingly, the courts of Ukraine may not recognise or enforce a judgment rendered by the courts of Ireland, the United Kingdom, the United States or any other country, on the basis of the principle of reciprocity. Furthermore, the courts of Ukraine might refuse to recognise or enforce a foreign court judgment on the basis of the principle of reciprocity on the grounds provided in the applicable Ukrainian legislation in effect when recognition and/or enforcement is sought, including on the basis that Ukraine's national interests may be threatened. Regarding arbitral awards, although Ukraine is a member of the New York Convention, this membership is subject to a reservation concerning the applicability of the New York Convention to arbitral awards made within non-New York Convention states and enforcing any award, especially within Ukrainian territory, may be challenging.

The foreign exchange reserves of Ukraine are controlled and administered by the NBU, which is an independent central bank legally distinct from the Government. Accordingly, such reserves would not be available to satisfy any claim or judgment in respect of the Notes.

***There are liquidity and secondary market risks related to the Notes.***

Although application has been made to list the Notes on Euronext Dublin, an active trading market for the Notes may not develop or, if one does develop, it may not be maintained. Even if a trading market for the Notes develops, it may not provide sufficient liquidity to allow Noteholders to sell or trade the Notes easily, and the difference between bid and ask prices for the Notes in any secondary market could be substantial. Therefore, an investment in the Notes may be characterised by a lack of liquidity and price volatility.

The value of the Notes may fluctuate, and if Noteholders sell Notes in the secondary market prior to maturity, they may receive less than their initial investment. Accordingly, Noteholders must be prepared to hold the Notes until maturity in order to ensure that they receive the full value of their initial investment.

The market for securities issued by Ukraine is also influenced by economic and market conditions in Ukraine and, to a varying degree, economic conditions in other CIS and Eastern European markets as well as global, emerging and developed markets generally. Events may occur which would cause volatility of the sort which occurred in worldwide financial markets in the past, and any such volatility may adversely affect the price or liquidity of the Notes. Furthermore, certain of Ukraine's outstanding Eurobonds have been issued using a trustee structure and others have been issued using a fiscal agency structure. Differences in the contractual enforcement mechanisms between the two structures could, in some circumstances, lead to differences in the liquidity and pricing of Eurobonds issued under the two structures.

***Ukraine's credit ratings are subject to revision or withdrawal, either of which could adversely affect the trading price of the Notes.***

The Notes are rated B by Standard & Poor's and B by Fitch, although we cannot exclude the possibility of a downgrade in such ratings. These ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed herein, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning Rating Agency. Ukraine has no obligation to inform Noteholders of any revision, downgrade or withdrawal of its current or future sovereign credit ratings. A suspension, downgrade or withdrawal at any time of a credit rating assigned to the Issuer may adversely affect the market price of the Notes. Credit ratings included or referred to in this Prospectus have been issued by Standard & Poor's and Fitch, each of which is established in the European Union and is registered under the CRA Regulation.

***The Notes may not be a suitable investment for all investors.***

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes and, in particular, the information contained in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, the merit and risks of an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

- (iii) have sufficient financial resources and liquidity to bear all the risks of an investment in the Notes;
- (iv) understand thoroughly the terms of the Notes; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic considerations, interest rate volatility and other factors that may affect its investment and its ability to bear the applicable risks.

***Financial turmoil in emerging markets could cause the prices of the Notes to decline.***

The market price of the Notes is influenced by economic and market conditions in Ukraine and, to a varying degree, economic and market conditions in other CIS and Eastern European countries and emerging markets generally. In recent years and in the past the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the market price of the Notes without regard to the Issuer's condition, prospects or credit rating. In recent periods, many global securities markets have experienced extreme price and volume fluctuations, particularly those in Ukraine and other developing economies. Continuation or intensification of financial or economic turmoil could materially adversely affect the market price of the Notes.

***The Conditions contain a "collective action" clause.***

The Conditions contain provisions regarding amendments, modifications and waivers, commonly referred to as "collective action" clauses. Such clauses permit defined majorities to bind all Noteholders, including Noteholders who did not vote and Noteholders who voted in a manner contrary to the majority.

The Issuer has previously issued, and in the future the Issuer may issue further, debt securities which contain collective action clauses substantially in the same form as the collective action clauses in the Conditions. If this occurs, then this could mean that the Notes would be capable of aggregation with any such other debt securities. This means that a defined majority of the holders of such debt securities (when taken in the aggregate) would be able to bind all holders of debt securities in all the relevant aggregated series, including the Notes.

Any modification or actions relating to Reserved Matters (as defined in the Conditions), including in respect of payments and other important terms, may be made to the Notes with the consent of the holders of 75 per cent. of the aggregate principal amount outstanding of the Notes present and voting at a quorate meeting, and to multiple series of debt securities of the Issuer containing a collective action clause substantially in the same form as the collective action clause in the Notes with the consent of both (i) the holders of 66⅔ per cent. of the aggregate principal amount outstanding of all debt securities being aggregated and (ii) the holders of 50 per cent. in aggregate principal amount outstanding of each series of debt securities being aggregated. In addition, under certain circumstances, including the satisfaction of the Uniformly Applicable condition (as more particularly described in the Conditions), any such modification or action relating to Reserved Matters may be made to multiple debt securities with the consent of 75 per cent. of the aggregate principal amount outstanding of all debt securities being aggregated only, without requiring a particular percentage of the holders in any individual affected debt securities to vote in favour of any proposed modification or action. Any modification or action proposed by the Issuer may, at the option of the Issuer, be made in respect of some debt securities only and, for the avoidance of doubt, the provisions may be used for different groups of two or more debt securities simultaneously. At the time of any proposed modification or action, the Issuer will be obliged, *inter alia*, to specify which method or methods of aggregation will be used by the Issuer.

There is a risk, therefore, that the Conditions may be amended, modified or waived in circumstances whereby the holders of debt securities voting in favour of an amendment, modification or waiver may be holders of different debt securities and as such, less than 66⅔ per cent. of the Noteholders would have voted in favour of such amendment, modification or waiver. In addition, there is a risk that the provisions allowing for aggregation across multiple debt securities may make the Notes less attractive to purchasers in the secondary market on the occurrence of an Event of Default (as defined in the Conditions) or in a distress situation.

***The Conditions contain a provision which provides that in defined circumstances certain Noteholders may declare all of the Notes to be due and payable.***

The Conditions contain a provision which provides that, at any time after the occurrence of an Event of Default, Holders whose Notes constitute at least one quarter in aggregate principal amount of the outstanding Notes may,

by notice in writing to the Issuer, or if so directed by an Extraordinary Resolution, shall (subject to the Conditions) declare all the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their unpaid principal amount plus accrued interest. There is, therefore, a risk for Noteholders that such actions may be taken without their consent and that, if they are a holder of Notes that constitute less than 25 per cent. in aggregate principal amount of the Notes, they will not on their own be able to do so. In addition, procuring a request from Noteholders whose Notes constitute at least 25 per cent. in aggregate principal amount of the Notes may not be possible or may result in delays.

***Noteholders may face exchange rate risks and exchange controls by investing in the Notes.***

The Issuer will pay principal and interest on the Notes in euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **"Investor's Currency"**) other than euro. These include the risk that exchange rates may significantly vary (including changes due to devaluation of the euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the euro would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

There may be tax consequences for Noteholders as a result of any foreign exchange gains or losses.

***Reliance on Euroclear and Clearstream, Luxembourg.***

The Notes will be represented by Global Notes except in certain limited circumstances described therein. The Global Notes will be deposited with a common depositary on behalf of Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Global Notes, investors will not be entitled to receive Note Certificates. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by the Global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Notes by making payments through the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their accountholders. A holder of a beneficial interest in the Global Notes must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

***Trading in the clearing systems is subject to minimum denomination requirements.***

The Notes will initially only be issued in global certificated form, and held through the clearing systems. Interests in the Global Notes will trade in book-entry form only, and Note Certificates will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of Notes. The Common Depositary, or its nominee, for the clearing systems will be the sole registered holder of the Global Notes representing the Notes. Payments of principal, interest and other amounts owing on or in respect of the Global Note representing the Notes will either be made directly by the Issuer to the clearing systems or will be made to the Fiscal Agent, who will in turn make payments to the clearing systems. Thereafter, these payments will be credited to accounts of participants who hold book-entry interests in the Global Notes representing the Notes and credited by such participants to indirect participants. After payment to the Common Depositary for the clearing systems, none of the Issuer, the Joint Lead Managers or the Agents will have any responsibility or liability for the payment of interest, principal or other amounts to the owners of the book-entry interests. Accordingly, an owner of book-entry interests must rely on the procedures of the clearing systems, and if an owner of book-entry interests is not a participant in the clearing systems, on the procedures of the participant through which it holds its interest, to exercise any rights and obligations of a Noteholder.

Unlike the Noteholders themselves, owners of book-entry interests will not have the direct right to act upon, for instance, solicitations for consents or requests for waivers from the Issuer. Instead, if a Noteholder owns a book-entry interest, it will be permitted to act only to the extent it has received appropriate proxies to do so from the relevant clearing system. The procedures implemented for the granting of such proxies may not be sufficient to enable an owner of book-entry interests to vote on a timely basis.

Similarly, upon the occurrence of an Event of Default under the Conditions, unless and until Note Certificates are issued in respect of all book-entry interests, an owner of book-entry interests will be restricted to acting through Euroclear and Clearstream, Luxembourg. The procedures to be implemented through Euroclear and Clearstream, Luxembourg may not be adequate to ensure the timely exercise of rights under the Notes.

***Legal investment considerations may restrict certain investments.***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions of the Notes, which upon issue will represent the terms and conditions applicable to the Notes, and subject to completion and amendment, will be endorsed on each Note Certificate and will be attached and (subject to the provisions thereof) apply to each Global Note relating to the Notes.*

The €1,250,000,000 4.375 per cent. notes due 2030 (the “**Notes**”, which expression shall in these conditions (the “**Conditions**”), unless the context otherwise requires, include any further notes issued pursuant to Condition 15 (*Further Issues*) and forming a single series therewith) issued by Ukraine (the “**Issuer**” or “**Ukraine**”), represented by the Minister of Finance of Ukraine, are issued subject to and with the benefit of a fiscal agency agreement dated on or about 27 January 2020 (such agreement as further amended and/or supplemented and/or restated from time to time, the “**Agency Agreement**”) made between the Issuer, The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar (the “**Registrar**”), The Bank of New York Mellon, London Branch as fiscal agent and principal paying agent (the “**Fiscal Agent**”), the transfer agent (the “**Transfer Agent**”) and the other initial paying agents named in the Agency Agreement (together with the Fiscal Agent, the “**Paying Agents**”) and any other agents named in the Agency Agreement (together with the Fiscal Agent, the Registrar, the Transfer Agent and the other Paying Agents, the “**Agents**”) and a deed of covenant dated on or about 27 January 2020, entered into by the Issuer in favour of the Account Holders named therein (such deed as further amended and/or supplemented and/or restated from time to time, the “**Deed of Covenant**”).

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Agency Agreement. Copies of the Agency Agreement are available for inspection during normal business hours by the Noteholders (as defined below) at the Specified Office (as defined in the Agency Agreement) of each of the Paying Agents. References in these Conditions to the Fiscal Agent, the Registrar, the Paying Agents and the Agents shall include any successor appointed under the Agency Agreement.

### 1. Form, Denomination and Status

#### (a) *Form and denomination*

The Notes will be issued in registered form, without interest coupons in denominations of €100,000 and in integral multiples of €1,000 in excess thereof (each denomination of Notes, an “**authorised denomination**”).

#### (b) *Status*

The Notes are the direct, unconditional and, subject to the provisions of Condition 3 (*Negative Pledge*), unsecured obligations of the Issuer and (subject as aforesaid) rank and will rank *pari passu* without any preference among themselves and not less than *pari passu* in right of payment with all other unsecured External Indebtedness of the Issuer, from time to time outstanding; *provided, however*, that the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other External Indebtedness and, in particular, shall have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due on the Notes and vice versa.

In this Condition:

“**External Indebtedness**” means any indebtedness which is expressed, denominated or payable, or at the option of the relevant creditor may be payable, in any currency other than the lawful currency from time to time of Ukraine.

### 2. Register, Title and Transfers

#### (a) *Register*

The Registrar will maintain a register (the “**Register**”) in respect of the Notes, which the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement. In these Conditions, the “**Holder**” of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “**Noteholder**” shall be construed accordingly. A certificate (each a “**Note**”

**Certificate**”) will be issued to each Noteholder in respect of its registered holding or holdings of Notes. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

(b) ***Title***

Title to the Notes will pass by and upon registration in the Register. Each Noteholder shall (except as otherwise required by law) be treated as the absolute owner of such Notes for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder.

(c) ***Transfers***

Subject to paragraphs (f) and (g) below, a Note may be transferred in whole or in part in an authorised denomination upon surrender of the relevant Note Certificate, with the form of transfer on the back duly completed, at the Specified Office of the Registrar or the Transfer Agent, together with such evidence as the Registrar or, as the case may be, such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the persons who have executed the Transfer Form; *provided, however*, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are authorised denominations. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

(d) ***Registration and delivery of Note Certificates***

Subject to paragraphs (e) and (f) below, within five Business Days (as defined below) of the surrender of a Note Certificate in accordance with paragraph (c) above, the Registrar will register the transfer in question and deliver a new Note Certificate of the same aggregate principal amount as the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of the Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail, if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, “**Business Day**” means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the Transfer Agent has its Specified Office.

Where some but not all the Notes in respect of which a Note Certificate is issued are to be transferred, a new Note Certificate in respect of the Notes not so transferred will, within five Business Days of the surrender of the Note Certificate in accordance with paragraph (c) above, be mailed by uninsured first class mail (airmail if overseas) at the risk of the Holder of the Notes not so transferred to the address of such Holder appearing on the Register.

(e) ***No charge***

Registration of transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agent but against payment or such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty or governmental charge of whatsoever nature which may be levied or imposed in connection with such registration of transfer.

(f) ***Closed periods***

Noteholders may not require transfers to be registered during the period beginning on the 15th calendar day before the due date for any payment of principal or interest in respect of such Notes.

(g) ***Regulations concerning transfers and registration***

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer upon the prior written notification to the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

**3. Negative Pledge**

So long as any Note remains outstanding (as defined in the Agency Agreement), the Issuer will not grant or permit to be outstanding, and it will procure that there is not granted or permitted to be outstanding, any Security Interest (other than a Permitted Security Interest) over any of its present or future assets or revenues or any part thereof, to secure any Relevant Indebtedness unless Ukraine shall (i) before or at the same time procure that the Issuer's obligations under the Notes are secured equally and rateably therewith or (ii) ensure that the Notes have the benefit of such other arrangement (whether or not comprising a Security Interest) as shall be approved by an Extraordinary Resolution or by a Written Resolution (each as defined in the Agency Agreement). For the avoidance of doubt, any such approval shall not constitute a Reserved Matter (as defined in Condition 12(e) (*Reserved Matters*)).

In this Condition:

**“Permitted Security Interest”** means:

- (i) any Security Interest arising by operation of law which has not been foreclosed or otherwise enforced against the assets to which it applies; or
- (ii) any Security Interest existing on any property at the time of its acquisition; or
- (iii) any Security Interest upon any property to secure indebtedness incurred for the purpose of financing the acquisition or construction of such property (or property which forms part of a class of assets of a similar nature where the Security Interest is by reference to the constituents of such class from time to time); or
- (iv) any Security Interest securing or providing for the payment of indebtedness incurred in connection with any Project Financing *provided that* such Security Interest applies solely to (x) any property which is, or forms part of, the subject of such Project Financing or (y) revenues or claims which arise from the operation, failure to meet specifications, exploitation, sale or loss, or failure to complete or damage to, any such property; or
- (v) any renewal or extension of any Security Interest described in sub paragraphs (ii) - (iv) above; *provided that* the principal amount of the indebtedness secured thereby is not increased.

**“Person”** means any individual, company, corporation, firm, partnership, joint venture, association, unincorporated organisation, trust or any other entity, including, without limitation, state or agency of a state or other entity, whether or not having separate legal personality.

**“Project Financing”** means any arrangement for the provision of funds which are to be used solely to finance a project for the acquisition, construction, development or exploitation of any property pursuant to which the Persons providing such funds agree that the principal source of repayment of such funds will be the project and the revenues (including insurance proceeds) generated by such project.

**“Relevant Indebtedness”** means any External Indebtedness (whether being any principal, premium, interest or other amounts constituting such External Indebtedness), present or future, of Ukraine in the form of or represented by notes, bonds or other similar instruments whether or not issued directly by Ukraine, where, in any such case, such notes, bonds or other similar instruments are capable of being traded on any stock exchange or other securities market.



“**Security Interest**” means any mortgage, charge, pledge, lien or other security interest (but excluding any lien arising by operation of law or pursuant to the judgment of any court in respect of the Old Notes, as defined in Condition 8 (*Events of Default*)).

#### 4. **Interest**

The Notes bear interest from and including 27 January 2020 at the rate of 4.375 per cent. per annum (the “**Rate of Interest**”), payable annually in arrear on 27 January in each year on the outstanding principal amount of the Notes, commencing on 27 January 2021 (each an “**Interest Payment Date**”). Interest will be paid subject to and in accordance with the provisions of Condition 6 (*Payments*). Each Note will cease to bear interest from the due date for redemption unless, after surrender of such Note, payment of principal is improperly withheld or refused or unless default otherwise occurs in respect of the payment, in which case interest shall continue to accrue on such portion of outstanding principal in accordance with this Condition 4 (*Interest*) until whichever is the earlier of (i) the day on which payment in full of such portion of outstanding principal is received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders in accordance with Condition 14 (*Notices*) that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable in respect of each Note on each Interest Payment Date shall be calculated by applying the Rate of Interest to the outstanding principal amount of such Note, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). The amount of interest payable if interest is otherwise required to be calculated in respect of any period which is shorter or longer than six months, shall be calculated by applying the Rate of Interest to the principal amount of each Note, multiplying the product by the Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards), where:

“**Day Count Fraction**” means (where interest is to be calculated in respect of a period ending on or before the relevant Interest Payment Date) the number of days in the relevant period from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the number of days in the relevant period (including the first such day but excluding the last).

#### 5. **Redemption, Purchase and Cancellation**

##### (a) ***Final Redemption***

Unless previously redeemed or purchased and cancelled, the Notes will be finally redeemed on 27 January 2030, in each case at their principal amount payable as provided in Condition 6 (*Payments*).

##### (b) ***Purchase***

The Issuer may at any time purchase Notes in the open market or otherwise and at any price. Any Notes so purchased may be cancelled or held and resold. Any Notes so purchased, while held by or on behalf of the Issuer, shall not entitle the holder to vote at any meeting of holders of Notes and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of holders of Notes.

##### (c) ***Cancellation***

All Notes cancelled in accordance with Condition 5(b) (*Purchase*) above may not be reissued or resold.

##### (d) ***No Issuer Call***

The Issuer has no right to redeem the Notes prior to the date specified for redemption in this Condition 5 (*Redemption, Purchase and Cancellation*).

## 6. Payments

### (a) *General*

Payments of principal and interest in respect of the Notes will be made by euro cheque drawn on a bank in a city in which banks have access to the TARGET System and mailed to the Holder by uninsured first class mail (airmail, if overseas), at the address appearing in the Register at the opening of business on the relevant Record Date (as defined in Condition 6(e) (*Record date*)) or, upon application by a Noteholder to the Specified Office of the Fiscal Agent not later than the 15th day before the due date for any such payment, by transfer to a euro account maintained by the payee with a bank in a city in which banks have access to the TARGET System, where “**TARGET System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) system or any successor thereto.

### (b) *Payments subject to fiscal laws*

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

### (c) *Payments on business days*

Where payment is to be made by transfer to a euro account with a bank in a city in which banks have access to the TARGET System, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by a euro cheque drawn on a bank in a city in which banks have access to the TARGET System, the cheque will be mailed on the due date for payment. A Noteholder shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 6 (*Payments*) arriving after the due date for payment or being lost in the mail.

In these Conditions, “**business day**” means any day on which the TARGET System is open for the settlement of payments in euro and any day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in Kyiv.

### (d) *Partial payments*

If a Paying Agent makes a partial payment in respect of any Note, the Registrar shall procure that the amount and date of such payment are noted on the Register.

### (e) *Record date*

Payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar’s Specified Office on the 15th day before the due date for such payment (the “**Record Date**”).

## 7. Taxation

All payments in respect of the Notes by the Issuer shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Ukraine or any political subdivision or any authority thereof or therein having power to tax (together “**Taxes**”), unless such withholding or deduction is required by law. In that event, the Issuer will increase the payment of principal or interest, as the case may be to such amount as will result in the receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such increased amount shall be payable in respect of any Note:

- (i) to a Holder, or to a third party on behalf of a Holder, if such Holder is liable for such Taxes in respect of such Note by reason of having some connection with Ukraine other than the mere holding of such Note; or
- (ii) to a Holder, or to a third party on behalf of a Holder, who would not be liable or subject to the withholding or deduction of Taxes by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or
- (iii) if the Note Certificate representing such Note is surrendered for payment more than 30 days after the Relevant Date, except to the extent that the Holder would have been entitled to such increased amounts on surrender of such Note Certificate for payment on the last day of such period of 30 days.

For the purpose of these Conditions, “**Relevant Date**” means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received by the Fiscal Agent on or prior to such due date, the date on which (the full amount plus any accrued interest having been so received) notice to that effect has been given to the Noteholders in accordance with Condition 14 (*Notices*) below.

In addition to the foregoing, no increased amount shall be paid with respect to any payment on a Note to a Holder who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent such payment would be required to be included in the income, for tax purposes, of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner who would not have been entitled to the increased amount had such beneficiary, settlor, member or beneficial owner been the Holder of the Note.

Any reference in these Conditions to principal or interest shall be deemed to include any increased amount in respect of principal or interest which may be payable under this Condition 7 (*Taxation*).

## 8. **Events of Default**

If any of the following events (each an “**Event of Default**”) occurs and is continuing, then the Holders of at least 25 per cent. in aggregate principal amount of the outstanding Notes may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), declare all the Notes to be due and payable, whereupon they shall become immediately due and payable at their outstanding principal amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders by the Issuer:

### (a) ***Non-payment***

The Issuer fails to pay any amount of principal or interest in respect of the Notes and the default continues for a period of 10 days; or

### (b) ***Breach of other obligations***

The Issuer defaults in the performance or observance of any of its other obligations in respect of the Notes and that failure continues for 30 days after any Noteholder gives written notice to the Issuer to remedy the failure (with a copy of such notice to the Fiscal Agent at its specified office); or

### (c) ***Indebtedness of Ukraine***

Any Relevant Indebtedness shall become due and payable prior to the stated maturity thereof following a default or any security therefore becomes enforceable or Ukraine fails to make any payment of any Relevant Indebtedness on the due date for payment thereof or, if applicable, at the expiration of any grace period originally applicable thereto or any guarantee of, or indemnity in respect of, any Relevant Indebtedness of any other Person given by Ukraine shall not be honoured when due and called upon; *provided that* the aggregate amount of such Relevant Indebtedness is in excess of U.S.\$50,000,000 (or its equivalent in any currency or currencies) and *provided further that* the acceleration of the maturity of or any payment default in respect of any Old Notes will not constitute an Event of Default; or

(d) **Authorisation**

If any authorisation, consent of, or filing or registration with, any governmental authority necessary for the performance of any payment obligation of the Issuer under the Notes, when due, ceases to be in full force and effect or remain valid and subsisting; or

(e) **Moratorium**

If Ukraine shall suspend payment of, or admit its inability to pay, Relevant Indebtedness or any part thereof, or declare a general moratorium on or in respect of Relevant Indebtedness or any part thereof or anything analogous to the foregoing shall occur, in each case other than with respect to Old Notes; or

(f) **Unlawfulness**

It is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes; or

(g) **Invalidity**

Any one or more of the Issuer's obligations under the Notes becomes unenforceable or invalid, or the Issuer shall contest the validity thereof.

In these Conditions:

**"Old Notes"** means the U.S.\$3,000,000,000 5 per cent. Notes due 2015 of the Issuer.

If the Issuer receives notice in writing from Holders of at least 50 per cent. in aggregate principal amount of the Notes outstanding to the effect that the Event of Default or Events of Default giving rise to any above mentioned declaration of acceleration is or are cured following any such declaration and that such Holders wish the relevant declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent), whereupon the relevant declaration shall be withdrawn and shall have no further effect (but without prejudice to any rights or obligations which may have arisen before the Issuer gives such notice, whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

**9. Prescription**

Claims for payment of principal and interest in respect of the Notes shall become void unless made within periods of ten years (in the case of principal) and five years (in the case of interest) after such principal or interest has become due and payable.

**10. Replacement of Note Certificates**

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar or the Transfer Agent subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

**11. Agents**

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar, principal paying agent or additional or successor paying agents and transfer agents; *provided however*, that the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar (in respect of both Restricted

Notes and Unrestricted Notes, each as defined in the Agency Agreement) and (iii) such other agents as may be required by any stock exchange on which the Notes may be listed from time to time.

Notice of any change in any of the Agents or in the Specified Offices shall promptly be given to the Noteholders.

## **12. Meetings of Noteholders; Modification and Waiver**

### **(a) *Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions***

- (i) The Issuer may convene a Meeting at any time in respect of the Notes in accordance with the provisions of the Agency Agreement. The Issuer will determine the time and place of the Meeting and will notify the Noteholders of the time, place and purpose of the Meeting not less than 21 and not more than 45 days before the Meeting.
- (ii) The Issuer will convene a meeting if the holders of at least 10 per cent. in principal amount of the outstanding Notes have delivered a written request to the Issuer setting out the purpose of the Meeting. The Issuer will notify the Holders within 10 days of receipt of such written request of the time and place of the Meeting, which shall take place not less than 21 and not more than 45 days after the date on which such notification is given.
- (iii) The Issuer will set the procedures governing the conduct of any Meeting in accordance with the Agency Agreement. If the Agency Agreement does not include such procedures, or additional procedures are required, the Issuer will set such procedures as are customary in the market and in such a manner as to facilitate any multiple series aggregation, if in relation to a Reserved Matter the Issuer proposes any modification to the terms and conditions of, or action with respect to, two or more series of debt securities issued by it.
- (iv) The notice convening any Meeting will specify, *inter alia*:
  - (A) the date, time and location of the Meeting;
  - (B) the agenda and the text of any Extraordinary Resolution to be proposed for adoption at the Meeting;
  - (C) the record date for the Meeting, which shall be no more than five business days before the date of the Meeting;
  - (D) the documentation required to be produced by a Noteholder in order to be entitled to participate at the Meeting or to appoint a proxy to act on the Noteholder's behalf at the Meeting;
  - (E) any time deadline and procedures required by any relevant international and/or domestic clearing systems or similar through which the Notes are traded and/or held by Noteholders;
  - (F) whether Condition 12(b) (*Modification of this Series of Notes only*), Condition 12(c) (*Multiple Series Aggregation – Single limb voting*) or Condition 12(d) (*Multiple Series Aggregation – Two limb voting*) shall apply and, if relevant, in relation to which other series of debt securities it applies;
  - (G) if the proposed modification or action relates to two or more series of debt securities issued by it and contemplates such series of debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group of debt securities;

- (H) such information that is required to be provided by the Issuer in accordance with Condition 12(f) (*Information*);
  - (I) the identity of the Aggregation Agent and the Calculation Agent, if any, for any proposed modification or action to be voted on at the Meeting, and the details of any applicable methodology referred to in Condition 12(g) (*Claims Valuation*); and
  - (J) any additional procedures which may be necessary and, if applicable, the conditions under which a multiple series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of debt securities.
- (v) In addition, the Agency Agreement contains provisions relating to Written Resolutions. All information to be provided pursuant to paragraph (iv) above shall also be provided, *mutatis mutandis*, in respect of Written Resolutions.
- (vi) A “**record date**” in relation to any proposed modification or action means the date fixed by the Issuer for determining the Noteholders and, in the case of a multiple series aggregation, the holders of debt securities of each other affected series that are entitled to vote on a Multiple Series Single Limb Extraordinary Resolution or a Multiple Series Two Limb Extraordinary Resolution, or to sign a Multiple Series Single Limb Written Resolution or a Multiple Series Two Limb Written Resolution.
- (vii) An “**Extraordinary Resolution**” means any of a Single Series Extraordinary Resolution, a Multiple Series Single Limb Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.
- (viii) A “**Written Resolution**” means any of a Single Series Written Resolution, a Multiple Series Single Limb Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.
- (ix) Any reference to “**debt securities**” means any notes (including the Notes), bonds, debentures or other debt securities issued by the Issuer in one or more series with an original stated maturity of more than one year but, for the avoidance of doubt, does not mean any GDP-linked Securities.
- (x) “**Debt Securities Capable of Aggregation**” means those debt securities which include or incorporate by reference this Condition 12 (*Meetings of Noteholders; Modification and Waiver*) and Condition 13 (*Aggregation Agent; Aggregation Procedures*) (or provisions substantially in these terms which provide for the debt securities which include such provisions to be capable of being aggregated for voting purposes with other series of debt securities, for the avoidance of doubt irrespective of whether any such series of debt securities is issued under a fiscal agency or a trust structure).
- (b) ***Modification of this Series of Notes only***
- (i) Any modification of any provision of, or any action in respect of, these Conditions or the Agency Agreement in respect of the Notes may be made or taken if approved by a Single Series Ordinary Resolution, a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.
  - (ii) For the purposes of a Meeting convened in respect of this Series of Notes only and for the purposes of passing a Single Series Ordinary Resolution and/or a Single Series Extraordinary Resolution (each as defined below) (a “**Single Series Meeting**”), at any such Single Series Meeting any one or more persons present in person holding Notes or proxies or representatives and holding or representing in the aggregate not less than 50 per cent. in principal amount of the Notes for the time being outstanding shall (save

for the purposes of passing a Single Series Extraordinary Resolution) form a quorum for the transaction of business and no business (other than the choosing of a chairman) shall be transacted at any such Single Series Meeting unless the requisite quorum be present at the commencement of business. The quorum at any such Single Series Meeting convened for the purpose of passing a Single Series Extraordinary Resolution shall (subject as provided in paragraph (iii) below) be one or more persons present in person holding Notes or being proxies or representatives and holding or representing in the aggregate not less than 66⅔ per cent. in principal amount of the Notes for the time being outstanding.

- (iii) If within 15 minutes from the time fixed for any such Single Series Meeting a quorum is not present, the Single Series Meeting shall, if convened upon the requisition of the Noteholders, be dissolved, or in any other case, it shall stand adjourned for such period, being not less than 14 days nor more than 42 days, as may be appointed by the chairman either at or after the Single Series Meeting. At such adjourned Single Series Meeting one or more persons present holding Notes or being proxies or representatives (whatever the principal amount of Notes so held or represented) shall form a quorum and may pass any resolution and decide upon all matters which could properly have been dealt with at the Single Series Meeting from which the adjournment took place had a quorum been present at such Single Series Meeting *provided that* at any adjourned Single Series Meeting at which a Single Series Extraordinary Resolution is to be proposed, the quorum shall be one or more persons present in person holding Notes or being proxies or representatives and holding or representing in the aggregate not less than 33⅓ per cent. in principal amount of the Notes for the time being outstanding.
- (iv) A “**Single Series Ordinary Resolution**” means a resolution passed at a Single Series Meeting duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 12(a) (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*) and paragraphs 12(b)(ii) and 12(b)(iii) above in respect of any matter other than a Reserved Matter, by the affirmative vote of more than 50 per cent. of the Noteholders present in person or represented by proxy.
- (v) A “**Single Series Extraordinary Resolution**” means a resolution passed at a Single Series Meeting duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 12(a) (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*) and paragraphs 12(b)(ii) and 12(b)(iii) above in respect of a Reserved Matter, by the affirmative vote of at least 75 per cent. of the Noteholders present in person or represented by proxy.
- (vi) A “**Single Series Written Resolution**” means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:
  - (A) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Notes; or
  - (B) in the case of a matter other than a Reserved Matter, more than 50 per cent. of the aggregate principal amount of the outstanding Notes.
- (vii) Any Single Series Written Resolution may be contained in one document or several documents in the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders.
- (viii) Any Single Series Ordinary Resolution, Single Series Extraordinary Resolution duly passed or Single Series Written Resolution approved shall be binding on all Noteholders, whether or not they attended such Single Series Meeting, whether or not

they voted in favour thereof and whether or not they signed or confirmed in writing any such Single Series Written Resolution, as the case may be.

(c) ***Multiple Series Aggregation – Single limb voting***

- (i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Single Limb Extraordinary Resolution or by a Multiple Series Single Limb Written Resolution as set out below, *provided that* the Uniformly Applicable condition is satisfied.
- (ii) A “**Multiple Series Single Limb Extraordinary Resolution**” means a resolution considered at separate Meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 12(a) (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*), as supplemented if necessary, which is passed by a majority of at least 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate).
- (iii) A “**Multiple Series Single Limb Written Resolution**” means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of at least 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate).
- (iv) Any Multiple Series Single Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.
- (v) Any Multiple Series Single Limb Extraordinary Resolution duly passed or Multiple Series Single Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any Meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Single Limb Written Resolution, as the case may be.
- (vi) The “**Uniformly Applicable**” condition will be satisfied if:
  - (A) the holders of all affected series of Debt Securities Capable of Aggregation are invited to exchange, convert or substitute their debt securities, on the same terms, for (1) the same new instrument or other consideration or (2) a new instrument, new instruments or other consideration from an identical menu of instruments or other consideration; or
  - (B) the amendments proposed to the terms and conditions of each affected series of Debt Securities Capable of Aggregation would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to the currency of issuance).
- (vii) It is understood that a proposal under paragraph (c)(i) above will not be considered to satisfy the Uniformly Applicable condition if each exchanging, converting, substituting



or amending holder of each affected series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation (or, where a menu of instruments or other consideration is offered, each exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation electing the same option from such menu of instruments).

- (viii) Any modification or action proposed under paragraph (i) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 12(c) (*Multiple Series Aggregation – Single limb voting*) may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

(d) ***Multiple Series Aggregation – Two limb voting***

- (i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.
- (ii) A “**Multiple Series Two Limb Extraordinary Resolution**” means a resolution considered at separate Meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 12(a) (*Meetings of Noteholders; Modification and Waiver*), as supplemented if necessary, which is passed by a majority of:
  - (A) at least 66⅔ per cent. of the aggregate principal amount of the outstanding debt securities of affected series of Debt Securities Capable of Aggregation (taken in aggregate); and
  - (B) more than 50 per cent. of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).
- (iii) A “**Multiple Series Two Limb Written Resolution**” means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of:
  - (A) at least 66⅔ per cent. of the aggregate principal amount of the outstanding debt securities of all the affected series of Debt Securities Capable of Aggregation (taken in aggregate); and
  - (B) more than 50 per cent. of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

- (iv) Any Multiple Series Two Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.
  - (v) Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any Meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be.
  - (vi) Any modification or action proposed under paragraph (i) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 12(d) (*Multiple Series Aggregation – Two limb voting*) may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.
- (e) **Reserved Matters**
- In these Conditions, “**Reserved Matter**” means any proposal:
- (i) to change the date, or the method of determining the date, for payment of principal, interest or any other amount in respect of the Notes, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Notes on any date;
  - (ii) to change the currency in which any amount due in respect of the Notes is payable or the place in which any payment is to be made;
  - (iii) to change the majority required to pass an Extraordinary Resolution, a Written Resolution or any other resolution of Noteholders or the number or percentage of votes required to be cast, or the number or percentage of Notes required to be held, in connection with the taking of any decision or action by or on behalf of the Noteholders or any of them;
  - (iv) to change this definition, or the definition of “Extraordinary Resolution”, “Single Series Extraordinary Resolution”, “Multiple Series Single Limb Extraordinary Resolution”, “Multiple Series Two Limb Extraordinary Resolution”, “Written Resolution”, “Single Series Written Resolution”, “Multiple Series Single Limb Written Resolution” or “Multiple Series Two Limb Written Resolution”;
  - (v) to change the definition of “debt securities” or “Debt Securities Capable of Aggregation”;
  - (vi) to change the definition of “Uniformly Applicable”;
  - (vii) to change the definition of “outstanding” or to modify the provisions of Condition 12(i) (*Notes controlled by the Issuer*);
  - (viii) to change the legal ranking of the Notes as set out in Condition 1(b) (*Status*);
  - (ix) to change any provision of the Notes describing circumstances in which Notes may be declared due and payable prior to their scheduled maturity date, as set out in Condition 8 (*Events of Default*);

- (x) to change the law governing the Notes, any of the arrangements specified in the Notes to enable proceedings to be taken or the Issuer's waiver of immunity, in respect of actions or proceedings brought by any Noteholder, as set out in Condition 17 (*Governing Law and Arbitration*);
- (xi) to impose any condition on or otherwise change the Issuer's obligation to make payments of principal, interest or any other amount in respect of the Notes, including by way of the addition of a call option;
- (xii) to modify the provisions of this Condition 12(e) (*Reserved Matters*);
- (xiii) except as permitted by any related guarantee or security agreement, to release any agreement guaranteeing or securing payments under the Notes or to change the terms of any such guarantee or security;
- (xiv) to exchange or substitute all the Notes for, or convert all the Notes into, other obligations or securities of the Issuer or any other person, or to modify any provision of these Conditions in connection with any exchange or substitution of the Notes for, or the conversion of the Notes into, any other obligations or securities of the Issuer or any other person, which would result in the Conditions as so modified being less favourable to the Noteholders which are subject to the Conditions as so modified than:
  - (A) the provisions of the other obligations or debt securities of the Issuer or any other person resulting from the relevant exchange or substitution or conversion; or
  - (B) if more than one series of other obligations or debt securities results from the relevant exchange or substitution or conversion, the provisions of the resulting series of debt securities having the largest aggregate principal amount.

(f) **Information**

Prior to or on the date that the Issuer proposes any Extraordinary Resolution or Written Resolution pursuant to Condition 12(b) (*Modification of this Series of Notes only*), Condition 12(c) (*Multiple Series Aggregation – Single limb voting*) or Condition 12(d) (*Multiple Series Aggregation – Two limb voting*), the Issuer shall publish in accordance with Condition 13 (*Aggregation Agent; Aggregation Procedures*):

- (i) a description of the Issuer's economic and financial circumstances which are, in the Issuer's opinion, relevant to the request for any potential modification or action, a description of the Issuer's existing debts and a description of its broad policy reform programme and provisional macroeconomic outlook;
- (ii) if the Issuer shall, at the time, have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, a description of any such arrangement or agreement and where permitted under the information disclosure policies of the multilateral or such other creditors, as applicable, copies of the arrangement or agreement shall be *provided*;
- (iii) a description of the Issuer's proposed treatment of external debt securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other debt securities and its other major creditor groups; and
- (iv) if any proposed modification or action contemplates debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group, as required for a notice convening a Meeting in Condition 12(a)(iv)(G).

(g) ***Claims Valuation***

For the purpose of calculating the par value of the Notes and any affected series of debt securities which are to be aggregated with the Notes in accordance with Condition 12(c) (*Multiple Series Aggregation – Single limb voting*) and Condition 12(d) (*Multiple Series Aggregation – Two limb voting*), the Issuer may appoint a Calculation Agent. The Issuer shall, with the approval of the Aggregation Agent and any appointed Calculation Agent, promulgate the methodology in accordance with which the Calculation Agent will calculate the par value of the Notes and such affected series of debt securities. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Notes and each other affected series of debt securities for these purposes, and the same methodology will be promulgated for each affected series of debt securities.

(h) ***Manifest error, etc.***

The Agency Agreement may be amended without the consent of the holder of any Note for the purposes of, as determined by the Issuer, curing any ambiguity or of curing, correcting or supplementing any defective or inconsistent provisions contained therein or herein, to take into account further issues of notes pursuant to Condition 15 (*Further Issues*) or in any manner that the Issuer may deem necessary or desirable and that will not adversely affect, in the opinion of the Issuer, in any material respect, the interests of the Noteholders.

(i) ***Notes controlled by the Issuer***

For the purposes of (i) determining the right to attend and vote at any Meeting, or the right to sign or confirm in writing, or authorise the signature of, any Written Resolution, (ii) Condition 12(a) (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*); and (iii) Condition 13 (*Aggregation Agent; Aggregation Procedures*), any Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer shall be disregarded and be deemed not to remain outstanding, where:

- (i) “**public sector instrumentality**” means the Ministry of Ukraine, the National Bank of Ukraine, any other department, ministry or agency of the government of Ukraine or any corporation, trust, financial institution or other entity owned or controlled by the government of Ukraine or any of the foregoing; and
- (ii) “**control**” means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or through contractual control or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

A Note will also be deemed to be not outstanding if the Note has previously been cancelled or delivered for cancellation or held for reissuance but not reissued, or, where relevant, the Note has previously been called for redemption in accordance with its terms or previously become due and payable at maturity or otherwise and the Issuer has previously satisfied its obligations to make all payments due in respect of the Note in accordance with its terms.

In advance of any Meeting, or in connection with any Written Resolution, the Issuer shall provide to the Fiscal Agent a copy of the certificate prepared pursuant to Condition 13(d) (*Certificate*) which includes information on the total number of Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer and, as such, such Notes shall be disregarded and deemed not to remain outstanding for the purposes of ascertaining the right to attend and vote at any Meeting or the right to sign, or authorise the signature of, any Written Resolution in respect of any such Meeting. The Fiscal Agent shall make any such certificate available for inspection during normal business hours at

its Specified Office and, upon reasonable request, will allow copies of such certificate to be taken.

(j) ***Publication***

The Issuer shall publish all Extraordinary Resolutions and Written Resolutions which have been determined by the Aggregation Agent to have been duly passed in accordance with Condition 13(g) (*Manner of publication*).

(k) ***Exchange and Conversion***

Any Extraordinary Resolutions or Written Resolutions which have been duly passed and which modify any provision of, or action in respect of, the Conditions may be implemented at the Issuer's option by way of a mandatory exchange or conversion of the Notes and each other affected series of debt securities, as the case may be, into new debt securities containing the modified terms and conditions if the proposed mandatory exchange or conversion of the Notes is notified to Noteholders at the time notification is given to the Noteholders as to the proposed modification or action. Any such exchange or conversion shall be binding on all Noteholders.

**13. Aggregation Agent; Aggregation Procedures**

(a) ***Appointment***

The Issuer will appoint an aggregation agent (the “**Aggregation Agent**”) to calculate whether a proposed modification or action has been approved by the required principal amount outstanding of Notes and, in the case of a multiple series aggregation, by the required principal amount of outstanding debt securities of each affected series of debt securities. In the case of a multiple series aggregation, the same person will be appointed as the Aggregation Agent for the proposed modification of any provision of, or any action in respect of, these Conditions or the Agency Agreement in respect of the Notes and in respect of the terms and conditions or bond documentation in respect of each other affected series of debt securities. The Aggregation Agent shall be independent of the Issuer.

(b) ***Extraordinary Resolutions***

If an Extraordinary Resolution has been proposed at a duly convened Meeting to modify any provision of, or action in respect of, these Conditions and other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as practicable after the time the vote is cast, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have voted in favour of the Extraordinary Resolution such that the Extraordinary Resolution is passed. If so, the Aggregation Agent will determine that the Extraordinary Resolution has been duly passed.

(c) ***Written Resolutions***

If a Written Resolution has been proposed under the Conditions to modify any provision of, or action in respect of, these Conditions and the terms and conditions of other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as reasonably practicable after the relevant Written Resolution has been signed or confirmed in writing, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have signed or confirmed in writing in favour of the Written Resolution such that the Written Resolution is passed. If so, the Aggregation Agent will determine that the Written Resolution has been duly passed.

(d) ***Certificate***

For the purposes of Condition 13(b) (*Extraordinary Resolutions*) and Condition 13(c) (*Written Resolutions*), the Issuer will provide a certificate to the Aggregation Agent up to three days prior to, and in any case no later than, with respect to an Extraordinary Resolution, the date of

the Meeting referred to in Condition 12(b) (*Modification of this Series of Notes only*), Condition 12(c) (*Multiple Series Aggregation – Single limb voting*) or Condition 12(d) (*Multiple Series Aggregation – Two limb voting*), as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution.

The certificate shall:

- (i) list the total principal amount of Notes and, in the case of a multiple series aggregation, the total principal amount of each other affected series of debt securities outstanding on the record date; and
- (ii) clearly indicate the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities which shall be disregarded and deemed not to remain outstanding as a consequence of Condition 12(i) (*Notes controlled by the Issuer*) on the record date identifying the holders of the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities.

The Aggregation Agent may rely upon the terms of any certificate, notice, communication or other document believed by it to be genuine.

(e) ***Notification***

The Aggregation Agent will cause each determination made by it for the purposes of this Condition 13 (*Aggregation Agent; Aggregation Procedures*) to be notified to the Fiscal Agent and the Issuer as soon as practicable after such determination. Notice thereof shall also promptly be given to the Noteholders.

(f) ***Binding nature of determinations; no liability***

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 13 (*Aggregation Agent; Aggregation Procedures*) by the Aggregation Agent and any appointed Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Fiscal Agent and the Noteholders and (subject as aforesaid) no liability to any such person will attach to the Aggregation Agent or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(g) ***Manner of publication***

The Issuer will publish all notices and other matters required to be published pursuant to the Agency Agreement including any matters required to be published pursuant to Condition 12 (*Meetings of Noteholders; Modification and Waiver*), this Condition 13 (*Aggregation Agent; Aggregation Procedures*) and Condition 14 (*Notices*):

- (i) through Euroclear Bank SA/NV, Clearstream Banking S.A., and/or any other clearing system in which the Notes are held;
- (ii) in such other places and in such other manner as may be required by applicable law or regulation; and
- (iii) in such other places and in such other manner as may be customary.

## **14. Notices**

All notices to the Noteholders will be valid if mailed to them at their respective addresses in the Register at the time of publication of such notice by prepaid, first class mail (or any other manner approved by the Registrar (or the Fiscal Agent on its behalf), which may be by electronic transmission). Any such notice shall be deemed to have been given on the next weekday (being a day other than a Saturday or Sunday) after being so mailed.

The Issuer shall also ensure that for so long as the Notes are admitted to trading on Euronext Dublin or any other stock exchange and the rules of such exchange so require, notices shall be given or published in a manner which complies with the rules and regulations of such stock exchange or other relevant authority on which the Notes are for the time being listed. Any notice shall be deemed to have been given on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

## 15. Further Issues

The Issuer is at liberty from time to time, without the consent of Noteholders, to create and issue further Notes ranking equally in all respects (or in all respects save for the date and the amount of the first payment of interest thereon) so that the same shall be consolidated and form a single series with the Notes; *provided that*, if such further Notes of such series are not fungible with the Notes of such series for U.S. federal income tax purposes, such further Notes of such series will have a separate ISIN, CUSIP or other identifier number.

## 16. Currency Indemnity

The Issuer agrees that if a judgment, order or award given or made by any court or arbitral tribunal for the payment of any amount in respect of any Note is expressed in a currency (the “**judgment currency**”) other than the euro (the “**denomination currency**”), the Issuer will pay any deficiency arising or resulting from any variation in rates of exchange between the date as of which the amount in the denomination currency is notionally converted into the amount in the judgment currency for the purposes of such judgment, order or award and the date of actual payment thereof. This obligation will constitute a separate and independent obligation from the other obligations under the Notes, will give rise to a separate and independent cause of action, will apply irrespective of any waiver or extension granted from time to time and will continue in full force and effect notwithstanding any judgment, order or award for a liquidated sum or sums in respect of amounts due in respect of the relevant Note or under any such judgment, order or award for a liquidated sum or sums in respect of amounts due in respect of the relevant Note or under any such judgment, order or award.

## 17. Governing Law and Arbitration

- (a) The Deed of Covenant and the Notes and any noncontractual obligations arising out of or in connection therewith are governed by, and will be construed in accordance with, English law.
- (b) Any dispute, difference, controversy or claim arising out of or in connection with the Notes (including any dispute, difference, controversy or claim in relation to the execution, validity, interpretation, performance, breach or termination of the Notes and in relation to any non-contractual obligations arising out of or in connection with the Notes) (a “**Dispute**”) shall be finally and exclusively resolved by confidential arbitration in accordance with the Arbitration Rules of the LCIA (the “**LCIA Rules**”), which rules are deemed to be incorporated by reference into this Condition 17, as supplemented and/or varied by this Condition 17(b).
  - (i) The arbitral tribunal shall consist of three arbitrators. The claimant(s), irrespective of number, shall jointly nominate one arbitrator; the respondent(s), irrespective of number, shall jointly nominate the second arbitrator; and a third arbitrator, who shall serve as presiding arbitrator, shall be selected by the two party nominated arbitrators. For the avoidance of doubt, for the purpose of Article 8.1 of the LCIA Rules, the claimant(s), irrespective of number, and the respondent(s), irrespective of number, constitute two separate sides for the formation of the arbitral tribunal.
  - (ii) In the event that the claimant(s) fail to nominate an arbitrator in accordance with the LCIA Rules, such arbitrator shall be selected and appointed by the LCIA Court as soon as possible, preferably within 15 days of such failure. In the event that the respondent(s) fail to nominate an arbitrator in accordance with the LCIA Rules, such arbitrator shall be selected and appointed by the LCIA Court as soon as possible, preferably within 15 days of such failure. In the event that the arbitrators nominated by the claimant(s) and the respondent(s) fail to jointly nominate a presiding arbitrator within 30 days of the

nomination of the second party-nominated arbitrator, such presiding arbitrator shall be selected and appointed by the LCIA Court as soon as possible, preferably within 15 days of such failure. In the event that both the claimant(s) and the respondent(s) fail to nominate the respective arbitrators in accordance with the LCIA Rules, all three arbitrators shall be selected and appointed by the LCIA Court as soon as possible, preferably within 15 days of such failure, and the LCIA Court shall then designate one amongst them as presiding arbitrator.

- (iii) The Emergency Arbitrator provisions of the LCIA rules shall not apply.
- (iv) The seat (legal place) of arbitration shall be London, England and the language of the arbitration shall be English.
- (v) Where Disputes:
  - (A) as defined in the Deed of Covenant arise under the Deed of Covenant; and/or
  - (B) arise under the Notes,

which, in the reasonable opinion of the first arbitral tribunal to be appointed in any of the Disputes referred to above, are so closely connected that it is just for them to be resolved in the same proceedings, that arbitral tribunal shall have the power to order that the proceedings to resolve that Dispute shall be consolidated with those to resolve any of the other Disputes (whether or not proceedings to resolve those other Disputes have yet been instituted or any other arbitral tribunals have yet been constituted). The first arbitral tribunal shall determine whether to order such consolidation on the application of either the claimant(s) or the respondent(s) to any party to any of the Disputes referred to above, and in making such determination shall take account of (i) the likelihood and consequences of inconsistent decisions if consolidation is not ordered, (ii) any failure on the part of the party seeking consolidation to make a timely application and (iii) the likely consequences of consolidation in terms of cost and time. If the first arbitral tribunal makes an order for consolidation, it will immediately, to the exclusion of any other arbitral tribunals, have jurisdiction to resolve finally each dispute which is a subject of the order for consolidation, and the parties to each Dispute which is a subject of such order for consolidation shall be treated as having consented to that Dispute being finally decided by such first arbitral tribunal and having waived any objection on the basis of such order for consolidation to the validity and/or enforcement of any arbitral award made by such first arbitral tribunal following the order for consolidation unless the LCIA Court decides that any member of such arbitral tribunal would not be suitable or impartial.

- (vi) The jurisdiction of the Courts under sections 45 and 69 of the Arbitration Act 1996 is excluded.
- (c) To the extent that the Issuer or any of its revenues, assets or properties are entitled, in England or any other jurisdiction where arbitral proceedings or court proceedings in support of arbitration or to enforce any arbitral award may at any time be brought against it or any of its revenues, assets or properties, to any immunity from suit, from the jurisdiction of any such court from set off, from attachment in aid of execution of a judgment with respect to an arbitral award, from execution of a judgment with respect to an arbitral award or from any other legal or judicial process or remedy (other than a pre-judgment attachment which is expressly not waived), and to the extent that in any such jurisdiction there shall be attributed such an immunity, the Issuer irrevocably agrees not to claim and irrevocably waives such immunity, to the fullest extent permitted by the laws of such jurisdiction (and consents generally for the purposes of the State Immunity Act 1978 to the giving of any relief or the issue of any process in connection with any arbitral proceedings or court proceedings in support of arbitration or to enforce any arbitral award). The Issuer reserves the right to plead sovereign immunity under the U.S. Foreign Sovereign Immunities Act of 1976 with respect to actions brought against it



in any court of or in the United States of America under any United States federal or State securities law.

- (d) The waiver of immunities referred to herein constitutes only a limited and specific waiver for the purposes of the Notes and under no circumstances shall it be interpreted as a general waiver by the Issuer or a waiver with respect to proceedings unrelated to the Notes. Notwithstanding Condition 17(c), the Issuer has not waived such immunities in respect of any property which is (i) used by a diplomatic or consular mission of the Issuer (except as may be necessary to effect service of process), (ii) of a military character and under the control of a military authority or defence agency, or (iii) located in Ukraine and dedicated to a public or governmental use (as distinct from property dedicated to a commercial use).

## **18. Contracts (Rights of Third Parties) Act**

No rights are conferred on any person under the Contracts (Right of Third Parties) Act 1999 to enforce any term of the Notes other than the parties to the Deed of Covenant in respect of the terms of Conditions 17(b)(v), but this does not affect any right or remedy of any person which exists or is available apart from that Act.

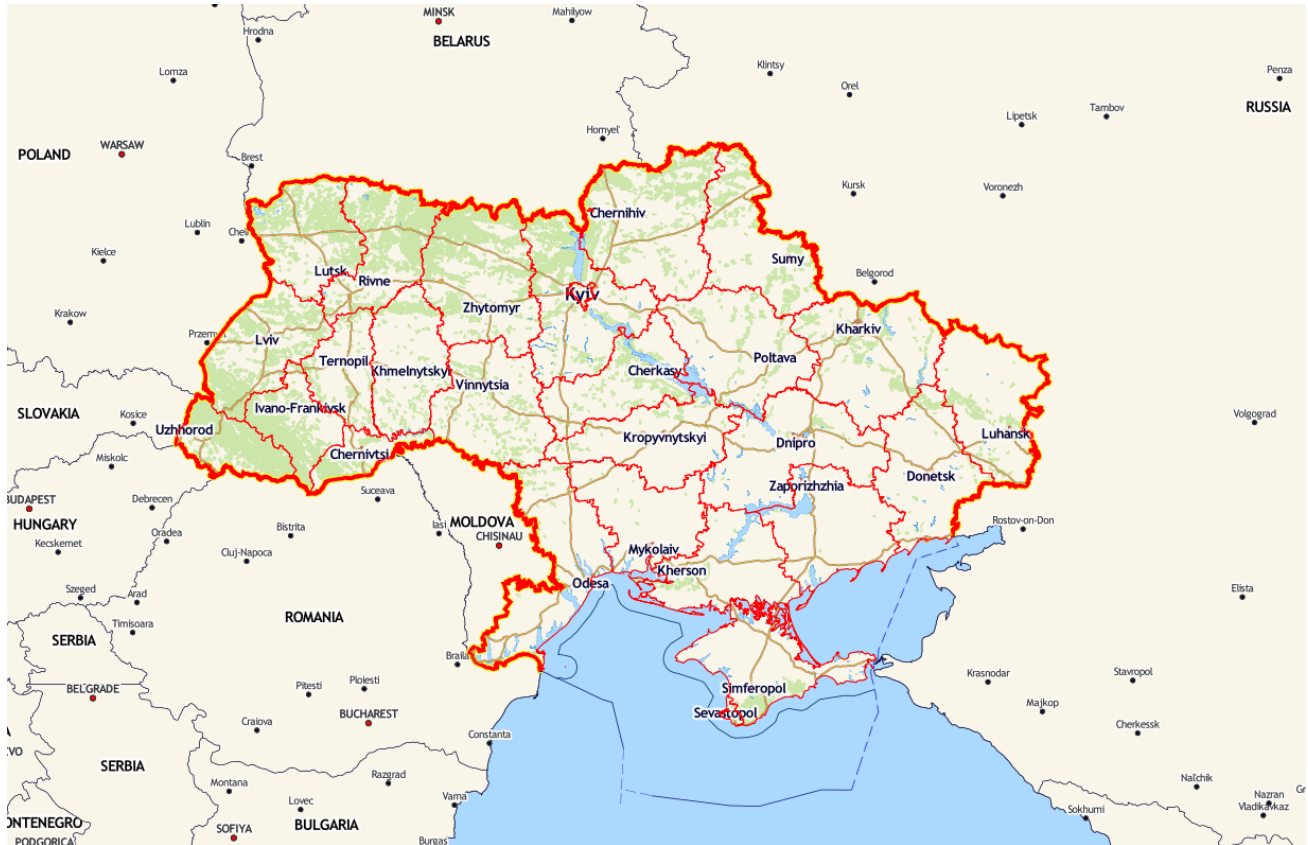
## **USE OF PROCEEDS**

The net proceeds of the issue of the Notes are estimated to amount to €1,249,375,000 and will be used by Ukraine for general budgetary purposes.

## DESCRIPTION OF UKRAINE

### Area and Population

Ukraine is a republic in Eastern Europe occupying a land area of 603,548 square kilometres, making it the second largest country in Europe by area after Russia. It is bordered by Russia to the east, Belarus to the north, Poland, Slovakia, Hungary, Romania and Moldova to the west and the Black Sea to the south.



Source: Geoportal of administrative-territorial system of Ukraine

Ukraine is subdivided into 24 regions (or oblasts). Two Ukrainian cities, Kyiv, the capital of Ukraine, and Sevastopol, currently the site of a major naval base of the Russian Federation, are granted special status under the Ukrainian Constitution in respect of certain administrative and budgetary matters. The Autonomous Republic of Crimea, a partially self-governing region within Ukraine, is located on the Crimean Peninsula on the country's Black Sea and Azov Sea coast. As a result of the illegal occupation of Crimea in March 2014 by the Russian Federation, Crimea is considered by Ukraine to be a temporarily occupied territory. See “—*Illegal occupation of Crimea*”.

According to the data of the State Statistics Service, as of 1 October 2019, the population of Ukraine was approximately 42.0 million (excluding the temporarily occupied territories of Crimea and the City of Sevastopol). According to the Ukrainian census of 2001, approximately 78 per cent. of the country's population were ethnic Ukrainians and 17 per cent. ethnic Russians. Other groups, including Belarusians, Moldovans, Bulgarians, Crimean Tatars, Hungarians, Romanians, Greeks and Poles, accounted for about 5 per cent. of the population. The official language is Ukrainian, although approximately 57 per cent. of the population speaks more than one language fluently. Approximately 88 per cent. of the population speaks Ukrainian fluently and approximately 66 per cent. of the population speaks Russian fluently. The literacy rate is approximately 99 per cent.

Between 1980 and 1990, the population of Ukraine grew by 0.3-0.4 per cent. annually, but this trend has reversed since 1993, reflecting the mixed economic and social conditions seen post-independence. From 1993 to 2017 the population of Ukraine declined by 7.2 million (not including the temporarily occupied territories of Crimea and the City of Sevastopol).

## History

Ukraine was first settled by Slavic tribes in the first millennium AD; from the thirteenth century through to the seventeenth century, control of the territory now comprising Ukraine had passed through several powers including the principality of Kyiv Rus, the Kingdom of Poland in alliance with the Grand Principality of Lithuania and the Mongol Golden Horde.

The Slavic tribes that occupied central and eastern Ukraine in the sixth century AD played an important role in the establishment of Kyiv. Situated on lucrative trade routes, Kyiv quickly prospered as the centre of the powerful state of Kyiv Rus. In the eleventh century, Kyiv Rus was geographically the largest state in Europe. In the thirteenth century, Kyiv was razed by Mongol raiders, with Kyiv Rus subsequently rendering tribute to the Mongol Golden Horde.

In 1654, the leader of the Ukrainian (Zaporozhian) Cossacks accepted the protection of the Russian Tsar under the Treaty of Pereyaslav. From the signing of the treaty until World War I, most of what is present day Ukraine remained under Russian administration. The end of the Russian and Hapsburg Empires brought about by World War I allowed Ukraine to briefly assert its independence. In 1917 and 1918, three separate Ukrainian republics declared independence. However, by 1921, the western part of the traditional territory of Ukraine had been incorporated into Poland and the larger central and eastern parts joined the Soviet Union. As a consequence of the imposition of Soviet farm collectivisation and the subsequent artificial famine of 1933, known as “Holodomor” orchestrated by Stalin, around seven million Ukrainians are estimated to have died.

After World War II, the western Ukrainian regions were incorporated into the Soviet Union. Many Ukrainians and persons of other nationalities living in Ukraine (including almost the entire population of Crimean Tatars) were forcibly deported by Stalin, adding to the millions of victims of the war itself. After the end of the war, Ukrainian patriotic feelings were strongly suppressed, but resurfaced from time to time in opposition to the “**Russification**” policies pursued by Moscow.

The greater openness (glasnost) which followed the accession to power of Mikhail Gorbachev in the Soviet Union allowed the formation of the Ukrainian patriotic movement, Rukh, in the mid-1980s. Rukh went on to win 27 per cent. of the vote in the 1990 elections. Following the dissolution of the Soviet Union, Ukraine became an independent State on 24 August 1991. Ukraine’s Parliament then officially adopted the Act Declaring the Independence of Ukraine, a decision subsequently ratified by 90.3 per cent. of the votes cast in a referendum on 1 December 1991. Crimea is an autonomous republic within Ukraine, with its own constitution, parliament and government, but the Crimean government remains subordinated to the central Government of Ukraine as provided in the Constitution and other applicable legislation. Since March 2014 Crimea and the City of Sevastopol have been illegally occupied by Russia.

## Recent History

Following the deferral by the Cabinet of Ministers, on 21 November 2013, of the signing of the Association Agreement with the EU, largely peaceful mass rallies took place in Kyiv and other cities of Ukraine expressing strong public support for the political association and economic integration of Ukraine with the EU, culminating in the occupation by protesters of Independence Square in Kyiv, the so-called “Euro-Maidan Revolution”. Following an intensification of the protests and mass rallies in late 2013 and early 2014, then-President Viktor Yanukovich fled Ukraine in February 2014, following which the Parliament voted to remove President Yanukovich from the office of president on the grounds that he had abandoned his office and withdrawn from presidential duties in an unconstitutional manner, and subsequently appointed Oleksandr Turchynov as the new Speaker of Parliament and as interim President.

Shortly thereafter, Russia’s illegal occupation of the Ukrainian administrative territories of Crimea and the City of Sevastopol began. See “—*Illegal occupation of Crimea*”. On 27 February 2014, the Parliament appointed former opposition leader Arseniy Yatsenyuk as the new Prime Minister. The United States and the EU recognised the new Government in Kyiv, whereas the Russian Federation did not recognise the legitimacy of the new authorities.

On 25 May 2014, presidential elections were held in which Petro Poroshenko, a businessman and politician, received 54.7 per cent. of the votes on the first ballot and was elected President of Ukraine. On 16 September 2014, the Parliament ratified the “**Association and Free Trade Agreement**”, between Ukraine on one side and

the European Union, the European Atomic Energy Community (“**Euratom**”) and their member states on the other, which formed the basis for the creation of a universal zone of free trade with the EU. However, at the request of Ukraine, the bilateral implementation of free trade was postponed from November 2014 until December 2015 due to the need to address Russia’s concerns regarding the free trade agreement.

On 19 September 2014, in Minsk, former Ukrainian president Leonid Kuchma (in his capacity as representative of Ukraine) signed the Minsk Memorandum, aimed at fulfilling the provisions of the Minsk Protocol, upon consultation with the trilateral contact group, consisting of representatives of Ukraine, OSCE and the Russian Federation (the “**Trilateral Contact Group**”), regarding the necessary steps for implementation of the Peace Plan of the President of Ukraine, Petro Poroshenko, and initiatives of the President of the Russian Federation, Vladimir Putin. See “—*Conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions—Minsk Agreements*”.

On 26 October 2014, Ukraine held parliamentary elections in which Ukrainians voted overwhelmingly for pro-Western parties: Petro Poroshenko Bloc, a political party of President Poroshenko, and the People’s Front, a party headed by Prime Minister Arseniy Yatseniuk, received 21.8 per cent. and 22.1 per cent., respectively, of the vote, although Poroshenko’s bloc won many more seats due to its better performance in single member districts. The “Opposition Bloc” (former President Yanukovych’s party’s remnants) received 9.4 per cent. of the vote. Total seats won by the opposition, including independents, amounted to 79. On 21 November 2014, the Petro Poroshenko Bloc, the People’s Front, Self-Reliance, Fatherland and the Radical Party signed a coalition agreement. At the opening session of the new parliament on 27 November 2014, these five parliamentary factions formed a parliamentary coalition representing 302 seats in Parliament. In a Parliament session on 17 May 2019, the 2014 coalition was declared to be terminated.

On 1 January 2016, Title IV of the Association Agreement establishing a Deep and Comprehensive Free Trade Area with Ukraine entered into force followed on 1 September 2017 by the remainder of the provisions of the Association Agreement.

On 10 April 2016, Prime Minister Arseniy Yatseniuk announced his intention to resign and, on 14 April 2016, Members of Parliament voted in favour of his resignation and approved former Speaker of Parliament Volodymyr Groysman’s appointment as Prime Minister.

On 30 April 2019, Volodymyr Zelenskiy won the 2019 Ukrainian presidential elections. On 20 May 2019, Volodymyr Zelenskiy was inaugurated and formally commenced his presidential term.

On 21 May 2019, President Zelenskiy issued a decree dissolving the Parliament and scheduling early parliamentary elections for 21 July 2019. As a result of these snap elections, President Zelenskiy’s political party won an outright majority in the Parliament.

On 25 May 2019, the International Tribunal for the Law of the Sea (“**ITLOS**”) ordered Russia to immediately release the detained Ukrainian sailors and naval vessels. On 7 September 2019, Russia and Ukraine completed a prisoner exchange, with Russia releasing 35 Ukrainians, including the 24 detained crew members, and 11 political prisoners. On 18 November 2019, Russia returned the seized naval vessels to Ukraine.

On 29 August 2019, the Parliament appointed the newly formed technocratic Cabinet of Ministers of Ukraine led by the Prime Minister Oleksiy Goncharuk who declared his commitment to liberal and business-oriented reforms for the economy and public administration.

On 10 October 2019, a group of Ukrainian deputies submitted to Parliament the draft law No. 2178-10 “*On Amendments to the Certain Legislative Acts of Ukraine on Turnover of Agricultural Land*”. The draft law proposes to abolish the moratorium on the disposal of agricultural land and to create a free market for the buying and selling of agricultural land. On 12 November 2019, the draft law was adopted by Parliament in the first hearing.

On 9 December 2019, the Normandy Format meetings of the leaders of France, Germany, Russia, and Ukraine took place in Paris. Results of the meetings included, among others, a renewed commitment to a comprehensive ceasefire and an agreement on the exchange of prisoners of the military conflict in the temporarily occupied territories of Donetsk and Luhansk. As a result of the negotiations, 76 Ukrainian captives returned to Ukraine-controlled territory on 29 December 2019.

## **Illegal Occupation of Crimea**

On 20 February 2014, Russia began its illegal occupation of the Autonomous Republic of Crimea and the City of Sevastopol. Subsequently, the UN General Assembly confirmed the internationally recognised borders of Ukraine and the absence of any legal grounds for changing the status of the Autonomous Republic of Crimea and the City of Sevastopol, and adopted, among other resolutions, Resolution 71/205, “Situation of human rights in the Autonomous Republic of Crimea and the City of Sevastopol (Ukraine)”, on 19 December 2016, which recognised Russia as an occupier state, which was confirmed by similar UN General Assembly Resolutions 72/190 on 19 December 2017 and 73/263 on 22 December 2018.

Furthermore, numerous documents adopted by international bodies, including the Committee of Ministers of the Council of Europe, the Parliamentary Assembly of the Council of Europe, the Parliamentary Assembly of the Organization for Security and Co-operation in Europe, also contain confirmation of the territorial integrity of Ukraine within internationally recognised borders and condemnation of the violation of the territorial integrity and sovereignty of Ukraine by the armed forces of the Russian Federation. In connection with the illegal occupation of Crimea, many countries around the world have followed a policy of non-recognition of the attempted annexation by the Russian Federation of the Ukrainian Peninsula of Crimea and the City of Sevastopol and applied restrictive measures (sanctions) against the Russian Federation.

For the purposes of protecting the rights and freedoms of the citizens of Ukraine in the temporarily occupied territory of Crimea and the City of Sevastopol, as well as determination of the legal status of such territories, Ukraine adopted a number of laws, including laws establishing a tax and customs control in the free economic zone of Crimea and the specifics of carrying out operations on the temporarily occupied territory of Ukraine.

As a result of the illegal occupation of Crimea, the Ukrainian economy has lost the benefit of a large number of private and state-owned assets and property (such as the Sevastopol Naval Base and local oil and gas assets, including all assets held in storage) in the region. In addition, the estimated cost of resettlement of the IDPs, as well as those who have left Crimea and the City of Sevastopol as a result of the occupation, are significant. Although it is not possible to accurately calculate the extent of the impact the illegal occupation of Crimea has had on Ukraine’s GDP, Ukraine estimates that the region contributed approximately 2.9 per cent., 3.1 per cent. and 3.0 per cent. of total GDP in 2011, 2012 and 2013, respectively. Information since 2014 is not available due to the illegal occupation of Crimea.

## **Conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions**

Following the removal from power of President Yanukovich in February 2014, government buildings in certain areas of Donetsk and Luhansk were forcibly occupied by Russia-backed illegal armed formations. These events prompted the Ukrainian Government to launch military and joint forces operations against the Russia-backed illegal armed formations. Such operations are continuing as at the date of this Prospectus, and a significant part of the Donetsk and Luhansk regions remain outside Ukrainian Government control. These territories, including the Ukraine-Russia border passing through them, are now under the *de-facto* control of the Russia-backed illegal armed formations, and while Ukraine has no control over the aforementioned border, Russia permits movement of goods and people across the border without reference to the Ukrainian authorities.

Since mid-February 2015, the geographic position of a demarcation line east and north of Donetsk and Luhansk has not been altered significantly.

The conflict in, and temporary occupation of, territories in Donetsk and Luhansk remain complicated and unresolved, and Russia-backed illegal armed formations continue to operate in such areas and to restrict the freedom of movement of the OSCE Special Monitoring Mission. In addition, Russia-backed illegal armed formations continue to block the activities of the ICRC and other international governmental and non-governmental humanitarian organisations within the temporarily occupied territories. Hundreds of Ukrainian citizens have been captured and continue to be illegally detained in the temporarily occupied territories of Donetsk and Luhansk, despite Ukraine’s attempts to establish an exchange process. Since March 2014, there have not been any local elections in such areas that have complied with Ukrainian legislation or OSCE standards.

According to the United Nations, the total death toll of the conflict in the temporarily occupied territories of Donetsk and Luhansk and illegally occupied Crimea from 14 April 2014 to the end of 2018 is approximately

12,800 – 13,000 persons with approximately 27,500 – 30,000 persons being injured. The number of internally displaced persons from the Donetsk and Luhansk regions and the Autonomous Republic of Crimea was estimated to have reached approximately 1.4 million people as of November 2019.

### *Minsk Agreements*

On 5 September 2014, in Minsk, former Ukrainian president Leonid Kuchma, together with representatives of Russia and the OSCE, signed the Minsk Protocol. On 19 September 2014, Leonid Kuchma signed the Minsk Memorandum, and on 17 February 2015, the Package of Measures for the Implementation of the Minsk Agreements. These three documents (together, the “**Minsk Agreements**”) concern the implementation of the Peace Plan of the former President of Ukraine, Petro Poroshenko, and initiatives of the President of the Russian Federation, Vladimir Putin.

The Minsk Agreements remain for Ukraine the main political-diplomatic instrument for resolution of the situation in Donbas. All parties to the Minsk Agreements have been called on by international observers, including the International Court of Justice in its Order of 19 April 2017 on Ukraine v. Russian Federation, to implement the provisions of the Minsk Agreements. Special note has been taken of the responsibility of the Russian Federation to take steps to implement the Minsk Agreements. Ukraine remains fully dedicated to the fulfilment of the Minsk Agreements and a peaceful resolution of the situation in the temporarily occupied territories of Donetsk and Luhansk regions.

As of the date of this Prospectus, the armed forces of Ukraine are complying with the ceasefire as ordered by the President of Ukraine. On 18 January 2018, the Parliament adopted the law “On Specifics of State Policy in relation to the Maintenance of State Sovereignty of Ukraine on the Temporarily Occupied Territories in the Donetsk and Luhansk regions”. This law further clarified the legal framework of certain districts of the Donetsk and Luhansk regions as temporarily occupied territories of Ukraine and prescribed certain procedures for ensuring the national security and defence of such districts.

On 1 October 2019, the Trilateral Contact Group agreed that the Law of Ukraine “On the Special Regime of Local Self-Government in Certain Areas of Donetsk and Luhansk Regions” would come into force once local elections are held in the Donetsk and Luhansk regions. However, as of the date of this Prospectus, the conditions for holding local elections in these regions have not been fulfilled.

In an effort to progress the peace settlement process, in June 2019, Ukraine began withdrawing military forces from three villages in the Donetsk region: Petrivske, Zolote and Stanytsia Luhanska. As of the date of this Prospectus, Ukrainian forces have withdrawn from all three villages. In addition, by decree of President Zelenskiy, Ukraine rebuilt the destroyed bridge in Stanytsia Luhanska spanning the Siverskyi Donets River, enabling residents to safely cross.

### *Additional economic measures imposed on the temporarily occupied territories of Donetsk and Luhansk regions*

On 15 March 2017, then President Poroshenko announced that Ukraine would impose additional economic measures to counter the hybrid threats against the national security of Ukraine in the territories held by Russia-backed illegal armed formations. These measures were implemented by the Decree of the President of Ukraine No. 133/2017 “On the Decision of National Security and Defence Council of Ukraine dated 28 April 2017 “*On the Imposition of Personal Special Economic and Other Restrictive Measures (Sanctions)*” in reaction to the seizure of certain key steel and coal businesses in the Donbas region by Russia-backed illegal armed formations and include suspending all cargo traffic between the temporarily occupied territories of Donetsk and Luhansk regions and the rest of Ukraine, as well as cutting off industrial ties between the two areas. These additional economic measures have had a direct negative impact on the Ukrainian mining, coke processing and metallurgical industries. The Government is undertaking steps aimed at levelling out the negative impact of the additional economic measures, especially in the energy sector.

Such steps include diversification of the coal supply to Ukraine, the creation of a reserve of coal energy, and the adoption of a new energy strategy for Ukraine until 2035, which was recently approved by the Cabinet of Ministers of Ukraine. As of the date of this Prospectus, the additional economic measures remain in force. However, the civilian crossing of the demarcation line between the temporarily occupied territories of Donetsk and Luhansk regions has been greatly simplified. On 20 November 2019, the Government adopted Resolution No. 953 “*On Amendments to the Procedure for Entering and Exiting from the Temporarily Occupied Territory*

of Ukraine” simplifying the list of personal documents required for crossing the demarcation line. The resolution permits children under the age of 16 years to cross the demarcation line on the basis of a Ukrainian birth certificate and also permits persons intending to obtain a Ukrainian internal passport or international passport to cross the demarcation line on the basis of a temporary certificate identifying their home address in the temporarily occupied territories. The resolution also abolishes certain restrictions on the transporting of goods across the demarcation line.

## **International Sanctions**

Since the events of February and March 2014, extensive sanctions have been imposed on the legal entities and individuals responsible for misuse of Ukraine state funds, illegal activities in temporarily occupied territories of Ukraine, human rights violations in the temporarily occupied territories of Ukraine and illegal transfers of property rights in illegally occupied Crimea.

In particular, sanctions have been imposed by the United States of America, Canada, Norway, the EU and certain of its member-states, and to a lesser extent other jurisdictions, including Japan, Australia and New Zealand.

Sanctions include, *inter alia*, (a) asset freezes, (b) blocking and travel sanctions on individuals and entities, (c) sectoral sanctions, (d) prohibitions on investing, financing or insurance, and (e) import and export bans, from and into the Russian Federation, respectively.

In response to the international sanctions imposed upon them, the Russian Federation has declared a number of reciprocal sanctions. Since 1 January 2016, the Russian Federation has established a number of prohibitions and restrictions with regard to Ukraine, in particular:

- a ban on the import of certain types of agricultural products, raw materials and food products originating from Ukraine, including Ukrainian pork, beef, chicken, fish, crayfish, molluscs, dairy products, cheeses, sausages, vegetables, fruits and nuts;
- an application of import duties in connection with the “suspension” of the CIS Free Trade Agreement with regard to Ukraine without giving any justification for the imposition of such duties; and
- restriction of international transit.

In addition, Russia has introduced sanctions against certain Ukrainian individuals and companies, which impose freezing of funds, securities and property within Russian territory. This list was approved as of 25 December 2018.

Given the previous importance of trade between Ukraine and Russia to the Ukrainian economy, the trade restrictive measures imposed by Russia since 2013 and further prohibitions and restrictions imposed by Russia since 2016 have had a significant effect on the level of Ukrainian imports, mitigated only to a certain extent by increased trade with the EU and other international economies. See “*External Sector—International Trade—Direction of Trade*”.

## **Anti-Corruption and Anti-Money Laundering Reform**

In accordance with Ukrainian anti-money laundering legislation, which came into force in June 2003, the NBU and other state authorities, as well as various entities performing financial transactions, are required to monitor financial transactions for evidence of money laundering. As a result of the implementation of this legislation, Ukraine was removed from the list of non-cooperative countries and territories by the Financial Action Task Force on Money Laundering (“FATF”) in February 2004, and in January 2006 FATF suspended the formal monitoring of Ukraine. That said, external analysts, as well as Ukraine’s official and multilateral partners, have identified corruption and money laundering as problems in Ukraine. In particular, corruption and money laundering allegations and concerns have been identified in relation to Ukraine, including various private and government entities and officials in the country, prior to Euro-Maidan revolution.

Following the events of the Euro-Maidan revolution, in consultation with the international official and multilateral partners of Ukraine, a substantial effort has been undertaken at prevention of corruption. In particular, on 14 October 2014, Ukraine’s Parliament adopted a number of laws aimed at prevention of



corruption. On 30 March 2017, the law “*On Amendments to Certain Laws of Ukraine Regarding the Specifics of Financial Control of Certain Categories of Officials*” entered into force. These laws require, among other things, that senior officials of the non-governmental organisations which operate in the anti-corruption sphere must submit electronic declarations regarding their property, income, expenditures and financial liabilities.

In order to enforce the above laws, the National Anti-Corruption Bureau of Ukraine (the “**Anti-Corruption Bureau**”) and the National Agency on Corruption Prevention (the “**Agency on Corruption Prevention**”) were established. The Anti-Corruption Bureau commenced activities on 16 April 2015. On the same day, the Director of the Anti-Corruption Bureau was appointed by the President of Ukraine. On 14 August 2016, the Agency on Corruption Prevention officially commenced its activity.

On 10 June 2016, the Agency on Corruption Prevention adopted a resolution on launching a system of electronic declaration of property, income, expenditures and financial liabilities by state and local government officials, starting from 1 September 2016. On 30 October 2016, the first stage of submission of electronic declarations was completed and approximately 115,245 state and local governmental officials registered with a system of electronic declaration and submitted 117,966 documents, including 102,913 annual declarations for the year 2015. On 1 May 2017, the second stage of submission of electronic declarations was completed, which required governmental officials to submit their electronic declarations for 2016. As at 14 September 2018, three stages of submission of electronic declarations had taken place. More than 1,240,000 officials registered with a system of electronic declaration and submitted more than 2,392,000 electronic declarations. The Agency on Corruption Prevention has implemented a system automating the verification of electronic declarations, as well as a system automating the exchange of related information with other databases, which simultaneously rates the risk level of each declaration, based on the assessment of information provided by officials to different sources. As at 27 December 2019, the Agency on Corruption Prevention had access to all registers and databases necessary for the automatic verification of electronic declarations.

On 7 June 2018, the law “*On the High Anti-Corruption Court*” was adopted and on 11 June 2018 it was signed by the President of Ukraine. On 11 April 2019, in an official ceremony with the attendance of the President of Ukraine, 38 judges of the High Anti-Corruption Court of Ukraine were formally appointed and sworn in to the office and the Court commenced its duties on 5 September 2019.

On 26 February 2019, the Constitutional Court of Ukraine declared unconstitutional Article 368-2 of the Criminal Code of Ukraine relating to illicit enrichment. On 3 June 2019, President Zelenskiy submitted a revised draft law criminalising illicit enrichment, which was adopted by Parliament on 31 October 2019 and took effect on 25 November 2019.

On 6 December 2019, Parliament adopted the draft law “*On the Prevention of and Counteraction to Legalisation (Laundering) of Criminal Proceeds, Financing of Terrorism and Proliferation of Weapons of Mass Destruction*” (the “**Draft AML Law**”). The Draft AML Law is aimed at implementing the EU’s Fifth Anti-Money Laundering Directive and FATF guidance into Ukrainian legislation. The Draft AML Law proposes, *inter alia*, to increase the threshold of financial transactions which are subject to mandatory reporting to the State Financial Monitoring Service from UAH 150,000 (approximately U.S.\$6,300) to UAH 400,000 (approximately U.S.\$17,000), to reduce the number of criteria for mandatory reporting to the State Financial Monitoring Service from 17 to four. These four criteria include cash operations, cross-border transfer operations, operations conducted by politically-exposed persons and operations with clients from countries that do not comply with recommendations of international and intergovernmental anti-money laundering organisations. The Draft AML Law also provides automated reporting tools for entities carrying out primary financial monitoring, to introduce a risk-based approach for those entities and to introduce the concept of a “virtual asset”. Adoption of the new AML Law improves the current anti-money laundering legal framework and implements recommendations of FATF, the IMF, the European Commission and Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism. The Draft AML Law was signed by President Zelenskiy on 27 December 2019 and will take effect on 28 April 2020.

## **Legal Proceedings**

From time to time, Ukraine, its State agencies and its political subdivisions become involved in disputes with various parties. These disputes most often involve issues of trade or inward investment, and are typically brought before arbitral panels, although court proceedings also occur.

The following section describes the active material disputes in which Ukraine is currently involved. This section does not describe legal proceedings against state-owned companies except to the extent that Ukraine is also a party. In addition, Ukrainian authorities may receive information to the effect that various parties may be contemplating legal or arbitral proceedings against the State or its agencies. Unless and until formal action is taken to commence such proceedings, it is not possible to form a view as to the likelihood that such proceedings will commence, the nature and magnitude of any award that might be sought or the merits, if any, of any such claim.

### ***2017 ICJ Dispute between Ukraine and the Russian Federation***

On 16 January 2017, Ukraine filed a case against the Russian Federation at the International Court of Justice (the “**ICJ**”) in connection with alleged violations by the Russian Federation of the International Convention for the Suppression of the Financing of Terrorism of 1999 (the “**ICSFT**”) and the International Convention on the Elimination of All Forms of Racial Discrimination of 1965 (the “**CERD**”). Ukraine accuses the Russian Federation of breaching the ICSFT through the financing of terrorist activities of illegal armed formations in the Donbas, and of breaching the CERD by systematic discrimination against non-Russian ethnic groups living in the occupied territory of the Crimean peninsula, in particular, Ukrainian and Crimean Tatars minorities.

On 19 April 2017, the ICJ adopted a decision to impose interim measures and ordered that the Russian Federation must refrain from maintaining or imposing new restrictions on the ability of the Crimean Tatars to conserve their representative institutions, including the Mejlis of the Crimean Tatar people, and must guarantee access to education in Ukrainian. The court also required that both sides refrain from any action which might aggravate or extend the dispute.

In respect of the decision on the application of the ICSFT, the ICJ:

- confirmed the existence of a dispute between Ukraine and the Russian Federation regarding the application of the ICSFT;
- recognised the observance by Ukraine of the necessary pre-trial procedure; and
- recognised the existence of its prima facie jurisdiction over this dispute.

Since the date of that decision, Ukraine has made a number of requests, and reports have been provided in relation to the specific steps taken by the parties to comply with the decision.

On 12 September 2018, Russia submitted its preliminary observations regarding the lack of jurisdiction of the ICJ. On 14 January 2019, Ukraine contested Russia’s preliminary observations by filing written observations with the ICJ. From 3 to 7 June 2019, the ICJ held oral hearings on Russia’s opposition to the court’s jurisdiction.

On 8 November 2019, the ICJ rejected Russia’s preliminary observations and declared that it had jurisdiction to hear the dispute on the merits. Russia may prepare and submit a counter-memorandum by 8 December 2020.

### ***UNCLOS Dispute between Ukraine and Russia***

Under UNCLOS, Ukraine has, as a coastal state, exclusive rights to the territorial sea as an exclusive economic area, and the continental shelf adjacent to Crimea. Since 2014, Russia has taken actions violating such rights, including:

- the regulation of the use of subsoil and the attempted revocation of certain licenses issued by competent Ukrainian authorities;
- the seizure of the Odeske natural gas deposit and other hydrocarbon deposits located within the continental shelf of Ukraine;
- the removal of a drilling rig from the Odeske natural gas deposit;
- the interference with the exercise by Ukrainian individuals and businesses of fishing rights in Ukraine’s maritime zones;

- the restriction of maritime traffic in the Kerch Strait; and
- the construction of a land bridge and laying of an underwater cable and gas pipeline through the territorial sea of Ukraine.

On 14 September 2016, the Ministry of Foreign Affairs of Ukraine served Russia with a notification of arbitration and statement of claim pursuant to UNCLOS, claiming breach of UNCLOS by Russia in the territorial sea and continental shelf adjacent to Crimea and the Black Sea, Sea of Azov, and Kerch Strait. An arbitral tribunal was formed in the Hague on 22 December 2016 and, as of the date of this Prospectus, is considering Russia's objection to the tribunal's exercise of jurisdiction. The tribunal hearings were scheduled to take place from 10-14 June 2019 in the Hague.

On 10 to 14 June 2019, oral tribunal hearings on Russia's preliminary objections to the tribunal's jurisdiction took place. Following the announcement of the end of the last round of oral hearings, the tribunal's decision is expected in early 2020.

***Dispute between Ukraine and the Russian Federation on immunities of the naval vessels and their crews seized in the Kerch Strait***

On 1 April 2019, following attempts over a period of several months to secure the release of the naval vessels seized in the Kerch Strait and their crews, Ukraine notified the Russian Federation that it was commencing mandatory arbitration under UNCLOS.

On 16 April 2019, Ukraine requested that the International Tribunal for the Law of the Sea order provisional relief to Ukraine by releasing its naval ships and 24 servicemen, in light of the urgency of the situation.

On 10 May 2019, the International Tribunal for the Law of the Sea held oral hearings on the provisional relief requested by Ukraine.

On 25 May 2019, the International Tribunal for the Law of the Sea issued an order requesting the Russian Federation to immediately release the Ukrainian naval vessels and return them to the custody of Ukraine, as well as to immediately release the detained Ukrainian servicemen and allow them to return to Ukraine.

On 7 September 2019, as part of the bilateral exchange agreed between the Presidents of Ukraine and the Russian Federation, 24 Ukrainian sailors and 11 detained Ukrainian citizens were returned to Ukraine.

On 18 November 2019, shortly before the first oral hearings on the case, the three seized vessels were transferred to the Ukrainian authorities.

On 21 to 22 November 2019, the first procedural hearings took place in The Hague. The Rules of Procedure for the arbitration were adopted and the issue of transparency was discussed. Ukraine was given until May 2020 to prepare a memorandum.

***December 2013 Notes Litigation***

On 17 February 2016, The Law Debenture Trust Corporation plc, acting in its capacity as trustee on behalf of the Russian Federation as sole holder of the December 2013 Notes (the "**Trustee**"), filed a claim against Ukraine in the High Court of Justice of England and Wales, seeking payment of principal and accrued interest allegedly due as well as other relief. Ukraine denies the validity and enforceability of the December 2013 Notes on various grounds as set out in its Defence.

On 29 March 2017, the Court issued a summary judgment (the "**Summary Judgment**") in favour of the claimant. Ukraine was granted permission to appeal the Summary Judgment to the Court of Appeal of England and Wales, which appeal hearing took place in January 2018. On 14 September 2018, the Court of Appeal overturned the Summary Judgment and directed that the claim against Ukraine should be the subject of a full trial on the issue of Ukraine's defence based on alleged duress (but not Ukraine's other defences). The Court also held that had it found Ukraine's defence of duress not to be justiciable by the English Court then the fair outcome would have been to stay the Trustee's claim since a fair adjudication on the merits would not be possible. The Court of Appeal also required the Trustee to repay to Ukraine the interim payment in respect of the Trustee's costs of approximately GBP 1.1 million that the Court had previously required Ukraine to pay the

Trustee consequent upon the first instance Summary Judgment, with interest at an annual rate of 2 per cent. above the Bank of England base rate, by 9 November 2018.

The Court of Appeal's decision has since been appealed by the trustee to the Supreme Court of the United Kingdom seeking principally to overturn the Court of Appeal's decisions on the justiciability of the duress defence and the related stay issue, and therefore to reinstate the Summary Judgment. At the same time, Ukraine appealed the Court of Appeal's decision in relation to some of Ukraine's further defences in respect of which the Court of Appeal upheld the first instance decision to grant Summary Judgment.

These appeals were heard by the Supreme Court from 9 to 12 December 2019. Following these hearings, the Supreme Court reserved its Judgment until a later date. Any judgment would be unlikely to be immediate and may only be forthcoming a number of months after the hearing. In the meantime, the proceedings relating to the December 2013 Notes have been stayed pending the outcome of the appeal to the Supreme Court. See "*Description of Ukraine—Legal Proceedings—December 2013 Notes Litigation*". Ukraine believes that the Supreme Court will likely hand down a judgment during the first half of 2020, although the Supreme Court is not subject to any deadline.

The Court of Appeal's stay of the underlying proceedings remains in place pending the outcome of the appeals to the Supreme Court, which will finally determine as a matter of English civil procedure the issues raised by the trustee's summary judgment application.

### ***Tatneft Arbitration***

On 21 May 2008, PAO Tatneft ("**Tatneft**") filed a notice of arbitration against the state of Ukraine. Tatneft's claims were brought pursuant to the Agreement between the Government of the Russian Federation and the Cabinet of Ministers of the Ukraine on the Encouragement and Mutual Protection of Investments, dated 29 November 1998 (the "**Russia-Ukraine BIT**"). Tatneft claimed that Ukraine had violated investor protections conferred on it by the Russia-Ukraine BIT by depriving Tatneft (and other shareholders) of the right to control their investments in Ukratnafta, a Ukrainian company. The amount claimed was U.S.\$1.13 billion.

The arbitration was seated in Paris, France, and conducted under UNCITRAL Rules. On 29 July 2014, the arbitral tribunal rendered a final award on the merits, holding that Ukraine had violated the Russia-Ukraine BIT. It awarded Tatneft U.S.\$112 million in compensation plus interest thereon at the LIBOR rate plus three percent compounded every three months (the "**Award**").

Tatneft's claims were for alleged violations of investor protections it enjoyed with respect to both direct and indirect shareholdings in Ukratnafta. With respect to its direct shareholding in Ukratnafta, Tatneft was awarded compensation of U.S.\$31 million (the "**Damages Award of U.S.\$31 million**"). With respect to its indirect shareholdings in Ukratnafta, Tatneft was awarded compensation of U.S.\$81 million (the "**Damages Award of U.S.\$81 million**").

Tatneft has taken steps to enforce the Award, having sought its recognition and enforcement in Russia, England and Wales and the United States, pursuant to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**").

### ***Enforcement in Russia***

The Stavropol Region Arbitrazh Court granted Tatneft's requests for recognition and enforcement of the Award in Russia pursuant to a judgment rendered on 11 March 2019. Ukraine's cassation request against that judgment was denied by the Arbitrazh Court for the North Caucasus District by a judgment rendered on 21 June 2019. Ukraine's request to refer the decisions below for second cassation to the Supreme Court of the Russian Federation was rejected on 21 October 2019.

As a consequence, the decision granting recognition and enforcement of the Award in Russia is now final and binding. Ukraine is not aware of attempts having been made to date by Tatneft to execute the Award against assets located in Russia which are allegedly owned by Ukraine.

### *Enforcement in England and Wales*

On 9 August 2017, the High Court of England and Wales (“**EWHC**”) granted Tatneft’s ex parte application for an order for recognition and enforcement of the Award in England and Wales (the “**Recognition Order**”). Ukraine applied to set aside the Recognition Order, in summary, in two stages: initially, Ukraine challenged the English Court’s jurisdiction over it (on the grounds that it enjoyed state immunity, having not agreed, under the Russia-Ukraine BIT, to submit to arbitration the claims determined against it in the Award); subsequently, Ukraine contended that the EWHC should refuse to recognise and enforce the Award pursuant to section 103 of the Arbitration Act 1996 (which enacts under English law the non-arbitrability and public policy defences to recognition and enforcement contained in Article V of the New York Convention).

By judgment dated 13 July 2018, the EWHC rejected Ukraine’s application to set aside the Recognition Order on state immunity grounds. The EWHC’s order dated 23 July 2018 ordered Ukraine to pay Tatneft’s costs of the application and dismissed Ukraine’s requests for permission to appeal the judgment save on one ground: namely, whether or not Ukraine had agreed under the Russia-Ukraine BIT to arbitrate disputes with respect to Tatneft’s indirect shareholdings in Ukratnafta (on the basis that they were not investments for the purposes of the BIT). Tatneft then obtained an order from the Court of Appeal requiring Ukraine to provide security for Tatneft’s costs of responding to that appeal in the sum of £161,709.01 within 21 days. By order dated 17 May 2019, the Court of Appeal struck out Ukraine’s appeal for failure to put up the security for costs directed.

On 20 December 2019, the EWHC rendered a judgment allowing enforcement in respect of the Damages Award of U.S.\$31 million. Ukraine sought permission to appeal from the EWHC, which was denied, and did not seek permission from the Court of Appeal to appeal against that the EWHC’s decision. Consequently, the Recognition Order is now final insofar as it relates to the Damages Award of U.S.\$31million. Pursuant to the EWHC’s order of the same day, sealed on 13 January 2020, Ukraine has until 31 January 2020 to apply to set aside the Recognition Order insofar as it relates to the Damages Award of U.S.\$81 million. Ukraine’s present intention is to make a set aside application, and under the terms of the EWHC’s order of 13 January 2020, until such application has been finally determined the Award may not be enforced in relation to the Damages Award of U.S.\$81 million.

Ukraine is not aware of attempts having been made to date by Tatneft to enforce the Award against assets located in England and Wales pursuant to the Recognition Order.

### *Enforcement in the U.S.*

On 30 March 2017, Tatneft petitioned the District Court for the District of Columbia (the “District Court”) to confirm and enforce the Award. In response, Ukraine filed a motion to stay the proceedings, and moved to dismiss Tatneft’s claim on sovereign immunity and forum non conveniens grounds. Ukraine’s motions were rejected by the District Court by decision dated 19 March 2018. On 17 April 2018, Ukraine submitted a notice of appeal against the District Court’s decision.

On 28 May 2019, the U.S. Court of Appeals for the District of Columbia Circuit affirmed the decision of the District Court.

Ukraine petitioned for a writ of certiorari to the U.S. Supreme Court on 8 November 2019. This was denied on 13 January 2020.

In addition to its challenges to enforcement on sovereign immunity and forum non conveniens grounds, Ukraine has also opposed enforcement of the Award in the United States on improper composition of the arbitral tribunal and public policy grounds under Article V of the New York Convention. No judgment recognising and enforcing the Award has been rendered in the United States yet.

### *Claim of the Republic of Tatarstan and the Ministry of Land and Property of the Republic of Tatarstan against Ukraine*

On 6 January 2016, the Ministry of Justice of Ukraine received an arbitration notice from the Ministry of Land and Property of the Republic of Tatarstan. The claim under dispute amounts to U.S.\$300 million. This dispute is under review by an *ad hoc* tribunal under 1976 UNCITRAL arbitration rules.

The legal grounds for the arbitration is the alleged violation of the “Agreement between the Government of the Russian Federation and the Cabinet of Ministers on the Encouragement and Mutual Protection of Investments” dated 27 November 1998. The alleged violations resulted from the allegedly illegal decisions of the Ukrainian courts regarding the forfeiture of the shares of the Ministry of Land and Property of the Republic of Tatarstan in PJSC “Ukratnafta”.

On 15 September 2017, the claimant challenged Ukraine’s jurisdictional objection. On 29 December 2017, a written response was filed on behalf of Ukraine. The hearing for this case was held on 7 to 8 May 2018. In June 2018, the parties filed explanations requested by the arbitral tribunal based on the results of the hearings.

On 9 December 2019, the arbitration tribunal satisfied Ukraine’s objection and confirmed that the Republic of Tatarstan was not “investor” in the meaning of Article 1(2)(b) of the agreement but recognized the Ministry of Land and Property Relations of the Republic of Tatarstan as an investor, subsequently rejecting the remainder of Ukraine’s objections. Further, the case will be considered in respect of the claim of the Ministry of Land and Property Relations of the Republic of Tatarstan to Ukraine.

On 7 January 2020, Ukraine appealed to the Court of Appeal of Paris, challenging the decision of the arbitration tribunal dated 9 December 2019. At the same time, Ukraine appealed to the arbitration tribunal with a motion to suspend the proceeding in the Court of Appeal of Paris or to consider the objections of Ukraine that had not been considered as a matter of priority.

### ***Claim of PJSC “Gazprom” against Ukraine***

In October 2018, PJSC “Gazprom”, the Russian energy corporation, initiated arbitration proceedings against Ukraine under the UNCITRAL rules relating to a fine imposed by the Antimonopoly Committee of Ukraine (the “AMCU”) against it.

The Claimant believes that by holding PJSC “Gazprom” guilty, refusing to consider its claim seeking invalidation of the AMCU resolution and by taking steps aimed at enforcing such resolution, the State of Ukraine violated a number of provisions of Agreement between the Cabinet of Ministers of Ukraine and the Government of the Russian Federation on the Encouragement and Mutual Protection of Investments, dated 27 November 1998.

The case will be considered by an *ad hoc* arbitral tribunal under the UNCITRAL Arbitration Rules. Formation of the arbitral tribunal was completed on 1 February 2019.

On 19 March 2019, Ukraine sent its Reply to the Notice of Arbitration to the claimant.

On 23 April 2019, a meeting was held in Paris between members of the arbitral tribunal, employees of the Ministry of Justice of Ukraine representing Ukraine and representatives of the claimant. As a result of the meeting, the parties and members of the arbitral tribunal agreed on the terms of appointment of the arbitral tribunal, procedural order No. 1 and procedural timetable.

On 13 December 2019, the claimant submitted a statement of claim. As of the date of this Prospectus, the parties have executed a settlement agreement and taken steps to close the arbitration proceedings.

### ***Ihor Boiko v. Ukraine***

On 30 January 2017, the Ministry of Justice of Ukraine received a notification from Mr. Ihor Boiko regarding the initiation of arbitration proceedings against Ukraine in accordance with UNCITRAL Arbitration Rules, in relation to a corporate dispute concerning the company “Zhytomyrski Lasoshchi”. The amount in dispute exceeds U.S.\$100 million.

The claimant alleges that Ukraine allowed illegal expropriation of investments without any reimbursement or compensation, and did not provide full and unconditional legal protection of investments. It further alleges that Ukraine permitted discriminatory actions, which impeded the disposal of the investments. If such allegations were true, they would be in violation of the requirements of the Ukraine-Russia Bilateral Investment Treaty.

On 13 September 2018, the Tribunal issued a procedural decision whereby it refused to bifurcate the proceeding, as well as proposed the parties to agree on the timeline of the proceeding.

On 22 February 2019, Ukraine filed its objections to the claim.

On 28 March 2019, the parties completed the exchange of the schedules of documents they were to provide each other. On 2 May 2019, the parties completed the exchange of the requested documents and comments thereto. On 23 May 2019, a further exchange of objections was completed. On 13 September 2019, the claimant filed a response to Ukraine's objections to the claim. Ukraine's rejoinder is expected to be submitted by 7 February 2020.

***“Littop Enterprises Limited”, “Bridgemont Ventures Limited” and “Bordo Management Limited” v. Ukraine***

“Littop Enterprises Limited”, “Bridgemont Ventures Limited” and “Bordo Management Limited” submitted a request for arbitration against Ukraine on 30 June 2015. The claimants submit that Ukraine breached the Energy Charter Treaty and caused them material damage resulting from (i) the continuous extraction of gas by PJSC “Naftogaz” from gas storages owned by PJSC “Ukrnafta” for public needs at a discount or free of cost; (ii) failure of PJSC “Ukrtransgaz” and PJSC “Naftogaz” to abide by judgments of Ukrainian courts; (iii) rapid increase in the rates for subsoil use for gas extraction; and (iv) adoption of the law “*On Amendments to the Law “On Joint Stock Companies” (On Reducing Quorum of General Shareholding Meetings of Joint Stock Companies)*” dated 19 March 2015. The claimants rely on certain provisions of the Energy Charter Treaty.

The amount in dispute exceeds U.S.\$5.4 billion, plus interest.

Oral hearings in the case were held from 1 to 18 April 2019 in London. Following the hearings, the parties agreed on the date for submission of the first round post-hearing briefs, which was 31 July 2019. On 19 November 2019, the parties exchanged a second round of explanations. The final award is expected to be issued not earlier than the second half of 2020.

***“Gilward Investments B.V.” v. Ukraine***

Gilward Investments B.V, a shareholder of PJSC “Aerosvit”, has initiated an investment dispute against Ukraine. The Claimant alleges that Ukraine breached certain commitments under the Netherlands-Ukraine bilateral investment treaty dated 14 July 1994. The amount in dispute exceeds U.S.\$695 million.

On 31 July 2015, the Secretariat of the International Centre for Settlement of Investment Disputes (“**ICSID**”) registered the Request for Arbitration (ICSID Case No. ARB/15/33). The Respondent was to provide additional explanations on 5 January 2019 and hearings were scheduled for February 2019, however, because the claimant failed to make an additional advance payment, a technical default was declared in the case and the trial thereof has been suspended until the said payment is made by the claimant.

On 3 June 2019, the claimant informed the ICSID Secretariat that it had made the required payment.

The ICSID informed Ukraine in a letter dated 6 June 2019 that it received an advance payment from the claimant and intended to resume proceedings. Hearings are scheduled for 28 to 31 July 2020.

***“Emergofin B. V.” and “Velbay Holdings Ltd.” v. Ukraine***

On 15 December 2015, Ukraine received notice of the intent of Emergofin B. V. and Velbay Holdings Ltd, subsidiary companies of UC Rusal, to submit a claim against Ukraine to the ICSID. This claim was aimed at protecting the claimants' alleged rights and interests with respect to the Ukrainian investments (shares in PJSC “Zaporozhye aluminium combine”) in accordance with Article 9 of the Netherlands-Ukraine bilateral investment treaty.

On 25 October 2016, the claimants submitted a Request for Arbitration to the Secretariat of the ICSID.

On 27 March 2018, the claimants filed their memorial. On 15 March 2019, Ukraine filed its counter-memorial. The claimants filed their reply to the Ukraine's counter-memorial on 13 September 2019. Ukraine is to file its rejoinder by 28 February 2020.

***Luxexpress 2016 Corp., Alamo Group Inc., Luxexpress-II ltd, Mykola Ivanenko, and Larysa Ivanenko, et al. v. Ukraine, et al.***

This action was initially filed on 23 June 2015 by two Ukrainian citizens, Mykola Ivanenko and Larysa Ivanenko, and their now-defunct Ukrainian corporation, Luxexpress-II ltd. Ukraine was not named as a defendant. The complaint alleged that Luxexpress-II ltd lease over five acres of land in central Kyiv owned by City of Kyiv was prematurely cancelled and a railroad bridge constructed on the property. The plaintiffs allege damages of U.S.\$1 billion, claiming to be victims of a conspiracy to deprive them of the value of their leasehold and their expected profits.

This case was recently transferred to United States District Court of Columbia from the United States District Court for the Southern District of New York after that court concluded that US District Court of Columbia is the correct venue, without deciding the many grounds for dismissal, including sovereign immunity, raised in Ukraine's initial motion to dismiss.

On 31 May 2018 Ukraine submitted a renewed motion to dismiss arguing the court lacked subject-matter jurisdiction over the claims against Ukraine. Ukraine emphasized the plaintiffs were unable to meet their burden to produce evidence demonstrating the application of one of the narrow exceptions to foreign sovereign immunity set forth in the Foreign Sovereign Immunities Act. Ukraine claimed all of the claims against it were barred by the Act of State Doctrine and the plaintiffs' claims were time-barred.

The plaintiffs' opposition was received on 15 August 2018. The parties are currently waiting for the hearing to be scheduled.

***VEB.RF v. Ukraine***

On 26 June 2019, the Ministry of Justice of Ukraine received a request for arbitration from the Russian state development corporation, VEB.RF pursuant to the Arbitration Rules of the Arbitration Institute of the Stockholm Chamber of Commerce. The claimant claimed a violation of its rights as an investor under the Ukraine-Russia Bilateral Investment Treaty. The claimant considered its investments in PJSC Prominvestbank ("PIB") to have been unlawfully expropriated. The claimant alleged, inter alia, that Ukraine cancelled PIB's, licence to carry out professional activities in the capital markets, prohibited state institutions from carrying on business with PIB's, limited PIB deposit activity, and prohibited PIB from paying dividends and repaying loans to the claimant. Regulatory bodies of Ukraine initially requested that the claimant sell its stake in PIB, but, later blocked the sale and ordered that PIB surrender its banking license.

The amount in dispute exceeds €200 million according to the preliminary calculations of the claimant.

On 15 July 2019, the Ministry of Justice of Ukraine responded to the request for arbitration. On 21 August 2019, the claimant initiated an appointment of an emergency arbitrator. On 27 August 2019, the Ministry of Justice of Ukraine responded to the claimant's motion on appointment of an emergency arbitrator. On 28 August 2019, the Ministry of Justice of Ukraine received the emergency arbitrator award which granted interim measures and banned Ukraine from selling PIB's shares via an auction.

The parties are currently exchanging written comments on the following issues:

- the claimant's motion to assess its legal costs related to the emergency arbitration procedure;
- the claimant's motion for a separate arbitration award regarding recovering the defendant's part of the advance payment;
- the defendant's motion for cancelling the emergency arbitrator award dated 28 August 2019; and
- the defendant's motion for bifurcation of proceedings.

An arbitration award regarding these issues is expected to be issued by 2 March 2020.



## POLITICAL FRAMEWORK

### The Constitution and the President

The Constitution of Ukraine was adopted by the Parliament on 28 June 1996. It defines Ukraine as a sovereign, independent, democratic social, and unitary state, based on the rule of law. The Constitution guarantees, among other things, the principles of political, economic and ideological diversity, human and civil rights and freedoms, freedom of information, the inviolability of private property and the right to conduct entrepreneurial activity. The State ensures the protection of competition and business activity.

The Constitution also stipulates the responsibilities of Parliament, the President and the Government and outlines the system for the administration of justice and the functions of the judiciary of Ukraine. Under the Constitution, both the President and Parliament are directly elected by universal suffrage. The Constitution provides that the President is the head of the sovereign State of Ukraine and is authorised to act on behalf of Ukraine. The President is elected for a term of five years.

As a result of amendments to the Constitution passed on 8 December 2004, Ukraine became a “parliamentary presidential” republic, as the President was no longer empowered to exercise direct executive powers over the decisions and actions of the Government (the “**2004 Constitutional Amendments**”). In particular, the 2004 Constitutional Amendments empowered Parliament to appoint, upon the President’s nomination, the Prime Minister, the Minister of Defence and the Minister of Foreign Affairs and upon the Prime Minister’s nomination, the remaining members of the Government. Parliament was also empowered to dismiss these officials, while the President was no longer empowered to appoint members of the Government. On 30 September 2010, the CCU declared the 2004 Constitutional Amendments to be unconstitutional and these amendments lost their effect.

Following the Maidan protests, the removal of former President Yanukovich from power and the appointment of the interim Government (see “*Description of Ukraine—Recent History*”) on 21 February 2014, the Parliament passed a law which reinstated the 2004 Constitutional Amendments. These amendments are in effect as of the date of this Prospectus. According to the Constitution, Members of Parliament are required to form a majority, which is entitled to propose a candidate for the position of Prime Minister to the President, who submits a nomination to Parliament. The majority is further entitled to propose candidates for Government positions (subject to certain exceptions) to the Prime Minister who makes further nominations to Parliament. The President has the power to terminate Parliament early.

In the course of the reform process initiated in 2014, then President Proshenko submitted to Parliament several draft laws introducing amendments to the Constitution of Ukraine. The first draft law submitted on 1 July 2015 covered the questions of the decentralisation of powers and proposed a new system of local governance but has since been withdrawn.

The second draft law was submitted to Parliament on 25 November 2015 and provided for the independence of the judiciary and transparency of the judiciary as they fulfil their duties. On 2 June 2016 the Parliament adopted the second draft law which entered into force on 30 September 2016.

The President has the right to initiate legislation, the power to veto laws adopted by the Parliament (except for amendments to the Constitution of Ukraine) with their subsequent return for repeat consideration by the Parliament and the power to suspend the operation of acts of the Cabinet of Ministers on grounds of their inconsistency with the Constitution and challenge concurrently the constitutionality of such acts before the CCU. The President may also issue his own decrees and directives.

The President has the power to dissolve Parliament if (i) it fails to form a majority within a month of the commencement of its first session or the dissolution of the previously existing majority; (ii) it fails to appoint a government within 60 days following the previous government’s dismissal or resignation or (iii) it fails to convene for a continuous period of 30 days.

The President is the head of the National Security and Defence Council (the “**NSDC**”) and is authorised to appoint its members.

## The Executive

The powers of the Government of Ukraine are vested in the Cabinet of Ministers, which is the highest body of executive power in Ukraine and includes the Prime Minister, First Vice Prime Minister, Vice Prime Ministers and Ministers. The Cabinet of Ministers is accountable to the President and Parliament and reports to Parliament in accordance with the Constitution. The Prime Minister, the Minister of Defence and the Minister of Foreign Affairs are appointed by the Parliament upon the submission of nominees by the President; the other members of the Cabinet of Ministers are appointed by the Parliament upon the submission of nominees by the Prime Minister. The Cabinet of Ministers divests itself of its powers before the newly elected Parliament. The powers of an existing Cabinet of Ministers are also terminated if the Prime Minister resigns or if a vote of “no confidence” with respect to the Cabinet of Ministers is passed in Parliament. Should any of the foregoing occur, then the President has 15 days to submit to Parliament a candidate, proposed by the Parliamentary majority, for Prime Minister.

On 29 August 2019, Oleksiy Goncharuk was appointed as Prime Minister and the appointment of a new Cabinet of Ministers of Ukraine was approved by the Parliament.

The Cabinet of Ministers’ powers include the implementation of financial, pricing, investment, labour, social security, education, science, environment and tax policies, management of State owned assets and the creation and performance of the State Budget Law for each relevant year.

In 2014, 2015, 2016, and 2019, the Cabinet of Ministers approved a number of resolutions on optimisation of central governmental agencies through their merger or liquidation. As at the date of this Prospectus, Ukraine has 15 ministries, 23 services, 13 agencies, seven central executive authorities with special status, four inspectors, four commissions and six other central executive authorities.

## The Legislature

Legislative power in Ukraine is vested in the *Verkhovna Rada*, or Parliament. Parliament enacts laws, which, after the Constitution itself, have the highest authority in the hierarchy of normative acts in Ukraine. Parliament is a unicameral body with 450 seats and is elected for a five year term.

Since December 2011, parliamentary elections have been held through a mixed voting system based equally on majority voting and proportional representation. On 1 January 2020, the new electoral code took effect, which implemented a proportional representation voting system with open party lists for both parliamentary and local elections. The minimum electoral threshold required for representation in Parliament was increased from 3 per cent. to 5 per cent. and strategic alliances between political parties in order to artificially meet that threshold were prohibited.

In addition to its legislative function, the Parliament, upon submission of nominees by the President, appoints to office the Prime Minister, the Minister of Defence, the Minister of Foreign Affairs, the Head of the NBU the Head of the Security Service, members of the Central Electoral Commission. Upon submission by the Prime Minister, the Parliament has the power to appoint other members of the Cabinet of Ministers, the Chairperson of the Anti-Monopoly Committee, the Head of the State Property Fund of Ukraine (“SPF”) and the Head of the State Committee on Television and Radio Broadcasting. Parliament also appoints to office one-half of the membership of the Council of the NBU. The consent of Parliament is required for the appointment or dismissal of the Prosecutor General by the President, and Parliament also has the power to take a vote of “no confidence” in the Prosecutor General, which would result in his or her resignation from office. Furthermore, the Parliament has the power to make judicial appointments for all courts other than the CCU. With respect to the judicial appointments to the CCU, the Parliament can only appoint one third of the judges.

Parliament must consider other items such as: approval of the general government agenda; nationwide programmes of economic, scientific, social, cultural and environmental development; the general outlines of domestic and foreign policy; the State Budget and the list of State owned assets barred from privatisation; the granting of loans to foreign countries and international organisations; entering into financing arrangements with foreign countries, banks and international financial organisations that are not otherwise envisaged in the State Budget in any given year; and the organisation, purpose and size of the Ukrainian armed forces and the Security Service of Ukraine. Parliament has the power to declare war, to conclude peace and approve a decision by the

President on the use of the armed forces of Ukraine and other military formations in the event of armed aggression.

## The Judicial System

The Constitutional Court of Ukraine (“CCU”) is the state authority which carries out constitutional review and it is not part of the judicial system of Ukraine. The CCU has exclusive jurisdiction over the interpretation of the Constitution of Ukraine and acts as final arbiter on constitutional issues. The CCU consists of 18 judges, six appointed by the President, six appointed by the Parliament and six appointed by the Congress of Judges. The Congress of Judges is the highest body of judicial self-government in Ukraine.

On 3 August 2017, the new law “*On Constitutional Court of Ukraine*” entered into force. This law establishes fundamental operation principles for the CCU and regulates constitutional proceedings. In particular, it concerns the procedure for filing and consideration of constitutional petitions.

Ukraine operates a unified judicial system with national courts operating throughout the country. There are no municipal courts, as the entire judicial system is national. The judicial system in Ukraine comprises of courts of general jurisdiction: local courts, appellate courts, high specialised courts, and the Supreme Court.

The courts of general jurisdiction consist of local (common and specialised) courts, courts of appeal (common and specialised), and the Supreme Court. The local common courts consider civil, criminal, administrative, and administrative offence cases, whereas local specialised (commercial and administrative) courts consider commercial and administrative cases. Commercial courts hear disputes relating to the commercial interests of businesses and organisations. Administrative courts hear disputes with the participation of state and local authorities relating to the execution of their powers.

The Supreme Court is the highest judicial body in the judicial system of Ukraine. The Supreme Court consists of five chambers – the Cassation Administrative Court, Cassation Commercial Court, Cassation Criminal Court, Cassation Civil Court, and the Grand Chamber of the Supreme Court.

As a result of ongoing judicial reform, on 30 September 2016 the new law “*On the Judicial System and the Status of Judges*” (the “**Judiciary Law**”) became effective. It provides for establishment of new local district courts instead of existing common courts. Commercial courts of the Autonomous Republic of Crimea, regions, cities of Kyiv and Sevastopol are to be replaced by new district commercial courts. The Judiciary Law does not clearly specify when these courts should start to operate.

Recent amendments introduced by the Judiciary Law also concern the status of judges, and procedures for their appointment and for holding them liable. In practice, this has led to numerous resignations of judges and increased the caseload of the judges who remained. As a result, the time for consideration of a case has increased significantly.

The Judiciary Law also provides for establishment of two new high specialised courts: the High Anti-Corruption Court and the High Court of Intellectual Property. These courts will operate as local and appellate courts in the respective areas. Under the Law, both courts are to be established within 12 months following entry into force by the Judiciary Law. On 29 September 2017, the President of Ukraine issued an order establishing the High Court of Intellectual Property, which will start to operate after the judges are appointed.

On 2 June 2016, the Parliament adopted the law “On Amendments to the Constitution of Ukraine (Regarding the Justice)”, the law “On the Judicial System and the Status of Judges” and the law “On Bodies and Individuals that Carry Out Enforcements of Judgments and Decisions of other Bodies” (the “**Laws**”). The Laws launched a major and long-anticipated reform of the country’s judiciary and law enforcement administration. The Laws reform the judicial system to 3 levels: local courts, appellate courts, and the Supreme Court. The new Supreme Court operates as the court of cassation. The pre-existing specialised higher courts, namely the High Commercial Court of Ukraine, the High Administrative Court of Ukraine, and the High Specialized Court of Ukraine on Civil and Criminal Cases, were liquidated. The High Court on Intellectual Property Matters and the High Anti-Corruption Court will be established as first instance courts. The Laws stipulate that only attorneys admitted to the Bar may represent individuals and legal entities in courts. Numerous amendments introduced by the Laws also concern the status of judges, procedure for their appointment, and their liability. It is important to note that the Supreme Court does not replace the CCU. The Supreme Court and the CCU act independently

and have different jurisdictions. The Supreme Court acts as the court of cassation, while the CCU resolves issues relating to the correspondence of Ukrainian law to the Constitution of Ukraine, as well as other issues related solely to the Constitution of Ukraine.

On 7 June 2018, the law “On the High Anti-Corruption Court” was adopted and on 11 June 2018 it was signed by the President of Ukraine.

According to the Judiciary Law, new administrative, commercial and common courts of appeal are to be established in the relevant appeal circuits. These courts should begin to operate not later than three years following entry into force by the Judiciary Law.

All commercial, administrative, civil and criminal proceedings in Ukraine are governed by the relevant national legislation. On 17 December 2017, the new Code of Administrative Procedure of Ukraine, Code of Commercial Procedure of Ukraine, and Code of Civil Procedure of Ukraine became effective. Significant amendments into the Code of Criminal Procedure of Ukraine have also been introduced. These amendments concern the duration of pre-trial investigation, the regulation of dawn raids, and the procedures for engaging expert witnesses, among other matters.

The law “On Arbitration Courts”, enacted in 2004, provides for the establishment of independent permanent arbitration courts and ad hoc arbitration tribunals. Permanent arbitration courts are subject to State registration by the Ministry of Justice of Ukraine or its regional departments.

In accordance with the law “On Access to Court Decisions”, which became effective on 1 June 2006, decisions of courts of general jurisdiction in civil, economic, administrative and criminal matters issued from 1 June 2006 (and, in the case of local courts of general jurisdiction, from 1 January 2007) onward, are required to be made available to the public. The Unified State Register of Court Decisions has been established pursuant to this law and is accessible on the official website of the judiciary.

An additional result of judicial reform has been, since 2017, the operation of private bailiffs. Private bailiffs have predominantly the same status and power as public bailiffs; however, they are not able to enforce certain categories of judgments, including decisions against state authorities, local municipal authorities, as well as decisions of administrative courts and the European Court of Human Rights.

On 3 August 2017, the law “On the Constitutional Court of Ukraine” introduced a new procedure for the competitive selection of candidates for the Constitutional Court as well as a new remedy for constitutional complaints, which was not previously envisaged by Ukrainian legislation, that may be filed by an individual or company. This new constitutional complaint may be brought to challenge on constitutional grounds the law (act of Parliament) that was applied in proceedings involving such individual or company; *provided that*, in the opinion of the applicant, its constitutional rights were violated as a result of the application of the law. In cases where a complaint is upheld, the Constitutional Court of Ukraine will declare the law as unconstitutional, with such law immediately ceasing to be effective and becoming not applicable to any case. Previous court judgments made on the basis of the law declared unconstitutional may be reconsidered further on the merits. This new constitutional remedy will become an additional instrument for the protection of constitutional rights and interests.

## **Legal Framework**

As a result of its relatively recent transition towards a market economy, Ukraine does not yet have a mature legal system comparable to the legal systems of most major European countries. Although new laws have been introduced and amendments have been made to existing company, property, bankruptcy, securities, taxation, banking and foreign investment laws, this legislation is underdeveloped and contains many gaps. As a result, the body of law may be considered somewhat inadequate for underpinning certain complex transactions. In order to facilitate the implementation and enforcement of important new legislation, such as tax legislation, the Parliament has gradually been taking steps to adopt new legislation that consolidates the laws into unified codes.

## **Regional Administration**

Executive power in each of Ukraine’s 24 regions (oblasts), special status cities (Kyiv and Sevastopol) and districts (rayons) is vested in the respective region’s administration. Each regional administration is headed by

a governor who is nominated by the Cabinet of Ministers and appointed by the President. Each municipal government is administered by a local council.

Crimea is an autonomous republic within Ukraine. It has its own parliament, government and constitution (passed by the parliament of the Autonomous Republic of Crimea and approved by the Ukrainian Parliament). However, Crimea remains subject to the Constitution, laws and regulations of Ukraine. On 30 July 2010, the law governing elections of local council members came into effect. This law replaces the system previously used for the election of members of oblast, city and district (rayon) councils and the parliament of the Autonomous Republic of Crimea with a new system, under which half of the seats are elected by majority voting and the other half under a proportional representative system. In addition, all members of village councils are elected on the basis of a majority vote. Pursuant to the 2004 Constitutional Amendments, the term of office for the parliament of the Autonomous Republic of Crimea and local councils is five years.

Amidst the illegal occupation of Crimea and the conflict in, and the temporary occupation of, territories of the Donetsk and Luhansk regions in 2014 (see “*Description of Ukraine—Recent History*”), the then acting President Oleksandr Turchynov and the then acting Prime Minister Arseniy Yatsenyuk stated that they would support constitutional change that would decentralise more power to local councils, including control over their official language, in the hope that it would help to de-escalate tensions in the Eastern and Southern regions of Ukraine.

On 17 March 2015, the Parliament adopted a resolution on the recognition of certain districts, towns and villages in the Donetsk and Luhansk regions as a temporarily occupied territory and amended the Law on Special Status of the Eastern Regions accordingly. According to these amendments, the Law on Special Status of the Eastern Regions will apply when new local self-government bodies take office. For these local self-government bodies to be legitimate, they are required to be elected in extraordinary elections held according to the Constitution, laws of Ukraine and generally recognised under international human rights and electoral standards. Such elections must be held when the following can be guaranteed: (i) elections are held under the supervision of international impartial observers (in particular those of the OSCE Office for Democratic Institutions and Human Rights, Congress of Local and Regional Authorities of the Council of Europe and other international organisations and foreign states); (ii) secure and unimpeded work of official observers; (iii) withdrawal of all Russia-backed illegal armed formations and military equipment from the territory of Ukraine; (iv) there is no unlawful interference with the electoral process; (v) adherence to principles of political pluralism, equal opportunity to participate in the electoral process and freedom of electoral campaigning; and (vi) the resumption of Ukrainian television and radio broadcasting and circulation of Ukrainian printed press in the entirety of Donetsk and Luhansk region.

On 13 December 2019, President Zelenskiy submitted the draft law No. 2598 “*On Amendments to the Constitution of Ukraine on Decentralisation*”. The draft law, *inter alia*, proposes to establish a new system of administrative division in Ukraine, to eliminate state regional administrations and introduce the new position of prefect who will be responsible for constitutional and legislative compliance on a local level. The draft law, *inter alia*, proposes to establish a new system of administrative divisions in Ukraine in order to eliminate state regional administrations. Additionally, the draft law would introduce the position of prefect who would be responsible for ensuring that municipal authorities comply with constitutional and legislative obligations. Under the draft law, should decisions made by municipal authorities not comply with the Constitution or legislation of Ukraine and threaten Ukraine’s territorial integrity and sovereignty, the prefect would be entitled to request that the President suspend such decisions and/or dismiss offending heads of local councils, simultaneously applying to the Constitutional Court of Ukraine to review the municipal authority’s actions. The draft law also proposes to define the powers of state and local authorities to change names and borders of administrative units, names of streets, districts, considering local citizens’ opinion. The draft law provides local authorities with more financial independence and is primarily aimed at implementing provisions of the European Charter of Local Self-Government.

Beginning in 2014, decentralisation in Ukraine is considered to be one of the Ukraine’s most successful reforms. The decentralisation process was initiated with the adoption of the Concept of the Reform of Local Government and Territorial Organisation of Authority, Law of Ukraine “*On Cooperation of Territorial Communities*” and Law of Ukraine “*On Voluntary Amalgamation of Territorial Communities*” as well as financial decentralisation amendments to the budget and tax codes. Based on the provisions of the European Charter of Local Self-Government, this process enabled the creation of effective and capable local government institutions, known as

amalgamated territorial communities (the “ATCs”). Ukraine created 882 ATCs between 2014 and 2018 by amalgamating 4,043 communities (36.7 per cent. of the total number of local councils as of 1 January 2015), comprising 38.0 per cent. of the area of Ukraine and approximately 69 per cent. of its population. Local budgets’ own revenues grew by approximately UAH 200 billion from 2014 to 2018 (from UAH 68.6 billion to UAH 267 billion).

## **International Relations**

Ukraine has established diplomatic relations with 171 countries, is a member of 70 international organisations and attaches significant importance to developing relations with international organisations. Ukraine is a member of the United Nations (“UN”) and all specialised agencies of the UN, WTO, the Council of Europe, and the Organisation for Security and Cooperation in Europe, save for the International Fund for Agricultural Development. Ukraine has signed and ratified the Non-Proliferation Treaty and certain other conventions banning weapons of mass destruction.

Ukraine is a member of the UN Human Rights Council from 2018 to 2020, the UN Economic and Social Council from 2019 to 2021, the Executive Board of the UN Development Programme, the UN Population Fund, the UN Office for Project Services from 2019 to 2021, as well as a member of the Commission for Social Development for the period from 2019 to 2023 and a member of the Executive Council of Organisation for the Prohibition of Chemical Weapons from 2018 to 2020. Representatives of Ukraine were elected to Advisory Committee on Administrative and Budgetary Questions from 2016 to 2018 and 2019 to 2021 and the International Tribunal for the Law of the Sea from 2011 to 2020.

On 7 May 2019, Ukraine was elected to the UN ECOSOC Commission on Narcotic Drugs for the period from 2020 to 2023 and the UN ECOSOC Commission on Population and Development for the period from 2020 to 2024. Ukraine is also a member of the IMF, the World Bank, the WTO, European Bank for Reconstruction and Development and many other international organisations.

Ukraine is a party to over 1,218 multilateral treaties and 5,115 bilateral treaties, including treaties on promotion and mutual protection of investments entered into with 79 foreign states. International treaties ratified by the Parliament are an integral part of Ukraine’s domestic legislation and will prevail over any domestic laws and regulations whose provisions are inconsistent with such international treaties.

Ukraine is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards and the Convention on the Settlement of Investment Disputes between States and Nationals of Other States. Ukraine has entered into treaties on the recognition and enforcement of judgments with certain CIS countries and other countries, including Cyprus, Turkey, Czech Republic, Hungary, Romania, Bulgaria, Greece, China, India, and the United Arab Emirates.

## ***Supranational Bodies and Organisations***

### ***United Nations***

In October 2017, Ukraine was elected a member of the United Nations Human Rights Council for the 2018-2020 term.

On 31 December 2017, Ukraine completed its two-year non-permanent membership in the UN Security Council (2016-2017).

### ***WTO***

Ukraine became the 152<sup>nd</sup> member state of the WTO on 16 May 2008, as a result of which a number of laws were enacted by the Parliament to address inconsistencies between Ukrainian legislation and WTO regulations and requirements. See “—*The Judicial System*” and “—*Legal Framework*”.

On 19 and 21 April 2016, at the headquarters of the World Trade Organization in Geneva, the first review of the trade policies and practices of Ukraine was held, during which the member states praised the achievements of the Ukrainian Government in terms of increasing the transparency of the trade and investment regime since Ukraine’s accession to the WTO in 2008 and identified foreign trade policy issues that require further attention.

On 18 May 2016, Ukraine officially became party to the Agreement on Government Procurement (“GPA”). Since then, Ukrainian companies have become entitled to participate in state procurement contracts in 45 member states of the GPA. In particular, this provides Ukrainian companies access to: EU member states, Japan, the United States, South Korea, Taiwan, Singapore, Hong Kong, and Canada. The overall volume of the WTO government procurement market is estimated at U.S.\$1.7 trillion dollars per year.

The Government expects ongoing amendments to a number of laws and regulations to bring them in line with WTO treaties and special commitments Ukraine undertook during the accession procedure. The expected amendments include changes to legislation regulating standardisation and certification, consumer protection, and introduction of an additional import duty, which can be used as a temporary measure in the event of a substantial deterioration in the country’s balance of payments. Other important tasks that flow from Ukraine’s WTO membership include Ukraine’s participation in the multilateral negotiations of the Doha Development Round, bilateral negotiations on other countries’ accession to the WTO, implementation of efficient mechanisms for the State support of national producers, and the promotion of investments in Ukrainian industrial and agricultural enterprises.

Since Ukraine’s accession to the WTO, Ukraine has signed free trade agreements with the EU, Montenegro, the European Free Trade Association, Canada and Israel and is currently negotiating the creation of free trade areas with Serbia, and Turkey. Ukraine is also currently considering free trade area negotiations with a number of other countries. An added benefit of Ukraine’s membership of the WTO is the protection it offers for Ukraine’s trade and economic interests. In particular, through the WTO dispute settlement mechanism, Ukraine has been able to reach a resolution in disputes with Kazakhstan, Kyrgyzstan and Armenia.

## *EU*

Accession to the EU is a long term strategic goal of the Government. The first and most important step towards European integration was the signing of the Partnership and Cooperation Agreement with the EU in June 1994, which came into force in March 1998 (“PCA”). On 5 March 2007, Ukraine began negotiations with the EU to replace the PCA with an Association Agreement.

The Association Agreement, excluding the sections on the Free Trade Agreement (“FTA”), was initialled on 30 March 2012 and the sections relating to the FTA were initialled on 19 July 2012. The execution of the Association Agreement was originally scheduled for 28 November 2013. However, Ukraine deferred the planned signing of the Association Agreement.

Following the decision of Ukraine to defer the signing of the Association Agreement, mass rallies took place in Kyiv and other Ukrainian cities expressing strong public support for the political association and economic integration of Ukraine with the EU.

On 21 March 2014, following the resignation of Mr. Yanukovich as President and the appointment of an interim government, the new Ukrainian Prime Minister, Arseniy Yatsenyuk, and EU leaders, along with the 28 national political leaders or heads of state on the European Council, signed the political provisions of the Association Agreement in Brussels. The EU and President Poroshenko signed the economic provisions of the Association Agreement on 27 June 2014. On 16 September 2014, the Parliament and the European Parliament ratified the Association Agreement with the EU.

The execution of the Association Agreement is viewed by Ukraine as one of the stages in the implementation of Ukraine’s strategic goal of ultimate accession to the EU. Ukraine and the EU have agreed that the grounds for the new agreement should be both the political association and the economic integration of Ukraine and the EU. In terms of economic integration, the Association Agreement creates the necessary legal and institutional framework for Ukraine’s entrance into the EU domestic market through the gradual implementation of principles of free movement of goods, services and capital and partially free movement of the labour force. The Association Agreement also provides for a strengthening of cooperation in the regulatory sphere and the continuation of Ukraine’s work in conforming Ukrainian laws to EU legislation as well as obligations for Ukraine regarding the alignment of national legislation with EU legislation.

As part of its cooperation with the EU, throughout 2014-2018, Ukraine received macro financial support amounting to €3.31 billion based on (i) the Memorandum of Understanding between Ukraine as borrower and the EU as lender concerning the provision of macro financial assistance by the EU in the amount of €610 million

(ratified by Ukraine on 4 March 2014), (ii) the Memorandum of Understanding between Ukraine as borrower and the EU as lender concerning the provision of macro financial assistance by the EU in the amount of €1 billion (ratified by Ukraine on 20 May 2014), and (iii) the Memorandum of Understanding between Ukraine as borrower and the EU as lender concerning the provision of macro financial assistance by the EU in the amount of €1.8 billion (€1.2 billion received) (ratified by Ukraine on 18 June 2015). Ukraine fulfilled 17 of the 21 policy commitments attached to the third tranche of €600 million that could have been made available to Ukraine under the third Macro-Financial Assistance (“MFA”) operation. Because the policy commitments were not implemented by the time the availability period expired in January 2018, the European Commission passed a resolution on 18 January 2018 to cancel the last tranche under the third MFA operation.

On 2 August 2017, the law “On State Aid to Undertakings”, adopted in connection with the Ukraine EU Association agreement provided a legal framework for regulatory control on state aid measures to business undertakings, which distort competition. The state aid framework is to be applied and interpreted in compliance with EU regulations, guidelines and case law. According to the law, the Antimonopoly Committee of Ukraine is entrusted with the monitoring of state aid, reviews of state aid applications, granting clearances for state aid and investigating instances of illegal state aid. Grants, subsidies, tax reliefs and deferrals, debt write-offs, state guarantees, soft loans, capital injections on non-market terms and other forms of selective benefits constitute state aid if granted to an undertaking by public authorities through state or local resources on a selective basis that could distort competition. New state aid measures exceeding €200,000 per undertaking over a period of three fiscal years require the preliminary approval of the Antimonopoly Committee of Ukraine.

On 9 March 2018, the European Commission published a proposed resolution for the European Parliament and the Council of Europe on the provision of further macro financial aid for Ukraine worth up to €1 billion to support economic stabilisation and structural reforms. As reported by the European Commission, the proposal follows a request from the Ukrainian authorities and direct discussions between Commission President Jean-Claude Juncker and Ukraine’s President Petro Poroshenko in Brussels on 23 November 2017.

On 13 June 2018, the European Parliament approved a fourth EU macro-financial assistance programme to Ukraine to partly cover its financing needs and support the implementation of a wide-ranging structural reform agenda. On 14 September 2018, the representatives of the European Commission and Ukraine signed a memorandum of understanding relating to the new macrofinancial aid programme in the amount of €1 billion. The new programme consists of two tranches and is conditional upon a number of requirements relating to the implementation by Ukraine of reforms in the most vulnerable sectors of Ukraine’s economy. Such requirements are agreed between the European Commission and the Ukrainian authorities and set out in the memorandum of understanding signed on 14 September 2018, taking into account measures that remain outstanding from the previous MFA programme, and including steps to intensify the fight against corruption.

On 11 December 2018, the European Commission disbursed the first tranche of the fourth EU macro-financial assistance programme, totalling €500 million. The disbursement of the second tranche is conditional on the implementation of specific measures agreed in the memorandum of understanding, which relate to public finance management, good governance and anti-corruption reforms, sectoral reforms, privatisation, and certain social policies, among others.

A delegation from the European Commission visited Ukraine from 13 to 15 March 2019 in order to assess the implementation status of the fourth MFA programme. During the visit, the EC delegation met with representatives of the relevant state authorities of Ukraine, which are responsible for meeting the requirements of the programme.

According to the European Commission, Ukraine satisfied all twelve conditions required to obtain the second tranche under the fourth macro-financial assistance programme in the amount of €500 million.

From 25 to 27 September 2019, a further delegation from the European Commission visited Ukraine regarding the implementation of the fourth MFA programme. As at the date of this Prospectus, Ukraine awaits the EU’s decision and for additional consultations with the European Commission to specify financial conditions of further macro-financial assistance.

The EU provides substantial financial and technical assistance to Ukraine in various spheres such as legal reform, the strengthening of border infrastructure, the improvement of its anti-money laundering system, and



the counteraction of illegal human and drug trafficking. Financial cooperation with the EU aimed at implementation of infrastructure projects in Ukraine is expected to continue, including within the 2005 framework agreement entered into between Ukraine and the European Investment Bank (“**EIB**”).

In recent years, the EU has intensified cooperation with Ukraine on energy matters, including nuclear energy, space exploration and environment. The EU has increased political and financial support in reforming the Ukrainian energy sector, including modernisation of the Ukrainian gas transport system and mining industry, improvement of the quality of oil refining products, preparation of a feasibility study on extension of the Odesa Brody, for which, as at the date of this Prospectus, funds are being raised, oil pipeline and development of alternative energy sources, as well as mitigation of the consequences of the Chernobyl disaster and improvement of regional policy.

In 2014, the EIB signed loans to finance the upgrade of gas transmission infrastructure along the Urengoy-Pomary-Uzhgorod pipeline (€150 million).

In June 2010, Naftogaz became an associated member of the European natural gas industry association Eurogas. The Government expects that Naftogaz’s associated membership of Eurogas will contribute to ensuring the safety of natural gas supplies to European countries and facilitate Ukraine’s participation in discussion and resolution of major issues of European energy policy.

In 2011, Ukraine became a full member of the European Energy Community (the “**Energy Community**”). On 1 October 2015, the law “*On Market of Natural Gas*” (the “**Natural Gas Market Law**”) entered into force, providing for further reform of the gas sector as well as the plan for the implementation of the reforms. The Natural Gas Market Law also includes the restructuring plan for Naftogaz, the Ukrainian state-owned gas company, which complies with the requirements of the Energy Community (the “**Restructuring Plan**”). The Secretariat of the Energy Community has confirmed that the Natural Gas Market Law satisfies EU legislative requirements.

In cooperation with the Secretariat of the Energy Community, two models of division for the Ukrainian gas transfer system (OU model and ISO model) were determined for the restructuring of Naftogaz. The relevant provisions have been stipulated in the Natural Gas Market Law and a Decree of the Cabinet of Ministers “*On the Questions of the Reforming of Gas Sector*” dated 25 March 2015.

The Cabinet of Ministers has supported the proposal to approve the Action Plan on Corporate Governance (“**APCG**”) of Naftogaz, which was developed with the financial support of the European Bank of Reconstruction and Development (the “**EBRD**”).

According to the Restructuring Plan, a new PJSC “*Main gas pipelines of Ukraine*” will be established. The SPF will own 100 per cent. of Naftogaz’s shares. PJSC “*Main gas pipelines of Ukraine*” was established by the Cabinet of Ministers of Ukraine Resolution dated 9 November 2016.

Since 2005, Ukraine has unilaterally established a non-visa regime for citizens of the EU, the United States, Canada, Japan, Switzerland, Iceland, Andorra, Vatican City, Norway, Monaco, San Marino and Lichtenstein. On 11 May 2017, the EU Council approved the decision on visa-free regime with Ukraine. Therefore, on 11 June 2017, the EU visa-free regime for Ukraine came into force. According to the State Border Guard Service of Ukraine, during the first month of effective visa waiver rules, 171,129 Ukrainian citizens with biometric passports crossed the border to the EU countries, 37,886 out of which crossed the border without visas. Over 2 million visa-free journeys to the EU were made as at May 2019.

## **NATO**

The development of a relationship with the North Atlantic Treaty Organisation (“**NATO**”) continues to be an important element of Ukraine’s security policy. Ukraine joined the Partnership for Peace in 1994 and is also an active member of the Euro Atlantic Partnership Council.

On 9 July 1997, the Charter on a Distinctive Partnership (the “**Charter**”) between NATO and Ukraine was signed in Madrid and a further supplement to the Charter was signed on 21 August 2009. The key mechanism of bilateral dialogue development is the NATO-Ukraine Commission created pursuant to the Charter.

Since 2009, in cooperation with NATO within the framework of the Ukraine-NATO Partnership Commission, Ukraine develops national annual programmes for implementing necessary reforms relating to political, military, resources, security, and legal issues.

Ukraine's current priorities in the development of its relations with NATO include the maintenance of positive political dialogue and practical cooperation as well as the furtherance of reforms using the expert assistance and funding of NATO. As of July 2017, a total of 43 agreements have been signed between NATO and Ukraine governing their cooperation on various practical issues.

Since the intervention of the Russian Federation in Ukraine and the attempted annexation of Crimea and the City of Sevastopol, the position of the North Atlantic Alliance in support of the sovereignty of Ukraine, its independence and territorial integrity has remained unchanged. Ukraine receives substantial political, logistical, and advisory assistance from both the Alliance and its member states. For example, in 2015 six NATO trust funds in support of Ukraine were launched. The decision to establish the trust funds was reached at the NATO Summit in Wales (September 2014) and they primarily focus on: (i) modernisation of communication and automation systems; (ii) physical rehabilitation (prosthetics) of military personnel wounded during joint forces operations; (iii) reforming the logistics and standardization systems of the Armed Forces of Ukraine; (iv) reintegration of servicemen; (v) cyber defence; and (vi) reburial of radioactive waste. The utilization of PFM-1 anti-personnel mines was also restored.

In his Annual Address to Ukrainian Parliament *"On Internal and External Situation of Ukraine in 2016"*, President Poroshenko noted that "our accession to NATO remains our strategic goal". Clause 1.1.2 of the Annual National Programme under the auspices of the Ukraine-NATO Commission in 2017, approved by the Decree of the President of Ukraine No 103/2017, dated 8 April 2017, states that: "Ukraine's strategic goal is to become a member of NATO. Based on the long-term goal of joining the pan-European security system, Ukraine will deepen its cooperation with the North Atlantic Treaty Organization in order to fulfil the criteria necessary to obtain membership in this organization".

Based on the results of debates held on 7 December 2016, the Parliament approved the relevant recommendations (Resolution No 6014, dated 24 May 2017) that establish the need for activating the law-making procedure aimed at implementing the strategic course of Ukraine joining NATO and the EU. In order to implement these Recommendations, on 18 May 2017, a draft Law was submitted to the Ukrainian Parliament providing for amendments to the existing laws in order to introduce the wording "for the purpose of obtaining membership in the North Atlantic Treaty Organization" into the legislation. Ukrainian Parliament approved the draft law on 8 June 2017 and on 9 July 2017 it entered into force.

#### *CIS and BSEC*

Ukraine was, together with Russia and Belarus, one of the founding countries of the Commonwealth of Independent States ("**CIS**"), which ratified the CIS Creation Agreement in December 1991. Ukraine has not, however, ratified the CIS Charter and, consequently, does not regard itself as a full member of the CIS, but rather as an establishing state and participating state of the CIS.

Since the illegal occupation of Crimea and conflict in and the temporary occupation of territories of the Donetsk and Luhansk regions, the CIS showed no reaction to the internationally wrongful acts perpetrated against Ukraine. Consequently, Ukraine's cooperation with this organisation has been fundamentally changed. Ukraine has minimised the level of political representation in the supreme bodies of the CIS and has stopped political, security, cultural, humanitarian and informational cooperation, and suspended payments to the Single Budget of the CIS bodies.

Ukraine has been a member of the CIS Free Trade Agreement ("**CIS FTA**") since September 2012, which replaced bilateral and multilateral agreements between various CIS states, including Russia, and provided for, among other things, duty free trade between the nations. In December 2015, the President of the Russian Federation signed an executive order on the suspension of the CIS FTA with respect to Ukraine effective as of 1 January 2016.

Ukraine is one of the 12 member states of the Organisation of Black Sea Economic Cooperation ("**BSEC**"), which also includes the Russian Federation, Georgia and Turkey. Ukraine has chaired BSEC several times. BSEC was formed with the goal of extending economic cooperation by facilitating contracts between businesses

and eliminating barriers to trade among its member states. Organised by BSEC, the Black Sea Trade and Development Bank finances and implements joint regional projects. In July-December 2017, Ukraine chaired the BSEC.

## ***Foreign States***

### *United States*

#### Strategic Cooperation

The relationship between Ukraine and the United States is defined as a strategic partnership. The main bilateral document in this regard is the Ukraine and United States Charter on Strategic Partnership signed on 19 December 2008. Meetings between President Poroshenko and United States President Donald Trump on 21 September 2017, 21 June 2017, and 12 July 2018 have sought to strengthen this partnership.

The main Ukraine-U.S. intergovernmental body is the bilateral Strategic Partnership Commission (“SPC”), which held its constitutive meeting on 9 December 2009. In a joint statement of the SPC on 16 November 2018, the United States assured Ukraine of its support for Ukraine’s sovereignty, independence and territorial integrity within its internationally recognised borders. Ukrainian Minister of Foreign Affairs Pavlo Klimkin and United States Secretary of State Michael Pompeo reiterated that cooperation between the United States and Ukraine is based on common interests and shared values, including support for democracy, economic freedom and prosperity, sovereignty and territorial integrity, energy security, and respect for human rights and the rule of law. The United States and Ukraine also underscored the need for continued gas transit through Ukraine and emphasised their opposition to energy projects that threaten European energy diversity and security. The United States has reaffirmed its commitment to working with Ukraine to develop its economy.

The Export-Import Bank of the United States of America has recently reviewed the risks of doing business in Ukraine, taking into account macroeconomic stability and success in reform implementation. As a result, the U.S. Eximbank lifted restrictions imposed in 2014 on conducting operations with the public and private sectors of Ukraine under export credit, loan guarantee and export insurance programmes. This decision will increase the volume of Ukrainian-American trade and the number of joint Ukrainian-American projects.

As of November 2019, the United States Department of Treasury had imposed sanctions on 240 individuals and 173 entities and sectoral sanctions on 289 entities, in response to Russian aggression against Ukraine. Seven Russian ships are currently under sanctions (“Stalingrad”, IMO No. 9690212 “Marshal Zhukov”, IMO No. 9690224; “Yaz”, IMO No. 9735323; “SYG”, IMO No. 9735335; “Sudak”, IMO No. 8943155; “Passat”, IMO No. 8523242; and “OT-2077”, IMO No. 9025778), as well as yachts under the flag of Saint Vincent and the Grenadines “ST VITAMIN” (MMSI 375311000). In joint statement by the SPC, the United States affirmed its commitment to maintain sanctions against Russia relating to its aggression against Ukraine until Russia fully implements the Minsk agreements and returns Crimea to Ukrainian control.

#### Trade

According to the 2017 results, the overall trade turnover between Ukraine and the U.S. amounted to U.S.\$4.8 billion, increasing by U.S.\$1.3 billion as compared to 2016. Exports from Ukraine to the U.S. amounted to U.S.\$1.7 billion and imports from the U.S. to Ukraine amounted to U.S.\$3.2 billion. The negative balance of bilateral trade for 2017 amounted to U.S.\$1.5 billion.

In the first quarter of 2018, the overall trade turnover between Ukraine and the U.S. amounted to U.S.\$1.1 billion, decreasing by U.S.\$0.1 billion as compared to the first quarter of 2017. Exports from Ukraine to the U.S. amounted to U.S.\$0.4 billion and imports from the U.S. to Ukraine amounted to U.S.\$0.7 billion. The negative balance of bilateral trade for the first quarter of 2018 amounted to U.S.\$0.3 billion.

In 2017, the total trade turnover in goods between Ukraine and the U.S. was equal to U.S.\$3,352.7 million, increasing by U.S.\$1,238.2 million, or 58.6 per cent. compared to the corresponding figures in 2016. There was an increase in export volumes of Ukrainian goods to the U.S. by 94.1 per cent. or by U.S.\$401.5 million, which in 2017 amounted to U.S.\$828.1 million. Imports of American goods to Ukraine amounted to U.S.\$2,524.6 million in 2017, which constituted an increase of 49.6 per cent. or U.S.\$836.7 million, compared

to the previous year. The negative balance of bilateral trade in goods for 2017 amounted to U.S.\$1,696.5 million.

In the eleven months of 2018, the total trade turnover in goods between Ukraine and the U.S. was equal to U.S.\$4,073.8 million, increasing by U.S.\$721.1 million, or 21.5 per cent. compared to 2017. There was an increase in export volumes of Ukrainian goods to the U.S. of 34.2 per cent. or U.S.\$283.4 million, which in 2018 amounted to U.S.\$1,111.5 million. Imports of U.S. goods to Ukraine amounted to U.S.\$2,962.3 million in 2018, which constituted an increase of 17.3 per cent. or U.S.\$437.7 million compared to 2017. The negative balance of bilateral trade in goods in 2018 amounted to U.S.\$1,850.8 million. Export of goods from Ukraine to the U.S. accounted for 2.3 per cent. of overall exports, import of goods into Ukraine from the U.S. accounted for 5.2 per cent. of the overall import in the stated period.

For the two months ended 28 February 2019, the total trade turnover in goods between Ukraine and the U.S. amounted to U.S.\$697.0 million, increasing by U.S.\$124.7 million, or 21.8 per cent. compared to the corresponding period of 2018. Exports of Ukrainian goods to the U.S. increased by 54.4 per cent. or U.S.\$75.6 million, totalling U.S.\$214.4 million. Imports of goods from the U.S. to Ukraine amounted to U.S.\$482.6 million, an increase of 11.3 per cent. or U.S.\$49.2 million compared to the corresponding period of 2018. The deficit of bilateral trade in goods amounted to U.S.\$268.2 million. In the stated period, exports of goods from Ukraine to the U.S. accounted for 2.7 per cent. of overall exports, while imports of goods into Ukraine from the U.S. accounted for 5.5 per cent. of overall imports.

In 2017, ferrous metals (63.9 per cent. of overall exports, increased by 135.3 per cent. as compared to the same period in 2016), ferrous metal products (9.5 per cent. of overall exports, increased by 209.8 per cent.), electric machinery (3.5 per cent. of overall exports, increased by 42.2 per cent.) remained the main commodity groups of export from Ukraine to the U.S. Agricultural and food products amounted to 7.7 per cent. of exports of Ukrainian goods to the U.S., including milk and dairy products, eggs, and natural honey (3.4 per cent. of overall exports, an increase of 47.3 per cent.). Metallurgy products amounted to 76.1 per cent. of exports of Ukrainian goods to the U.S.

In 2018, the main commodity groups of exports from Ukraine to the U.S. included ferrous metals, 63.6 per cent. of overall exports, an increase of 33.5 per cent. as compared to 2017, ferrous metal products, 12.2 per cent. of overall exports, an increase of 72.4 per cent. as compared to 2017, electric machines, 4.2 per cent. of overall exports, an increase of 59.5 per cent. as compared to 2017, fat and oil of animal or vegetable origin, 1.8 per cent. of overall exports, an increase of 39.7 per cent. as compared to 2017, and aircrafts, 1.8 per cent. of overall exports, an increase by 12.5 times as compared to 2017.

For the two months ended 28 February 2019, the main commodity groups of exports from Ukraine to the U.S. included ferrous metals, 62.2 per cent. of overall exports, an increase of 36.3 per cent. as compared to the corresponding period of 2018, ferrous metal products, 14.8 per cent. of overall exports, an increase of 83.3 per cent. as compared to the corresponding period of 2018, ore, slag and ash, 3.8 per cent. of overall exports, an increase by 81.2 times as compared to the corresponding period of 2018, vegetable products, 3.4 per cent. of overall exports, an increase by 38 times as compared to the corresponding period of 2018, electric machines, 2.7 per cent. of overall exports, an increase of 2.9 times as compared to the corresponding period of 2018.

It should be noted that from 2012 to 2017 there has been a downward trend in exports of Ukrainian goods to the U.S. (the maximum export amount equalled to U.S.\$1.1 billion in 2011 with goods turnover amounting to U.S.\$3.7 billion). In 2012, export decreased by 8.9 per cent., in 2013 by 12.5 per cent., in 2014 by 22.4 per cent., in 2015 by 27.9 per cent. and in 2016 by 11.5 per cent. In 2017, export increased by 94.1 per cent. In 2018, exports increased by 34.2 per cent., and in two months ended 28 February 2019 – by 54.4 per cent compared to the respective preceding periods.

The structure of domestic exports to the U.S. demonstrates dependence on virtually one industry – ferrous metallurgy, which makes supplies of Ukrainian products extremely sensitive to world market conditions and is characterised by low added value, therefore leading to low profitability.

In 2017, ground transport, apart from railway transport (19.8 per cent. of overall imports, increased by 30 per cent.), mechanical machinery (13.9 per cent. of overall imports, increased by 31.7 per cent.), mineral fuels, oil and its derived products (27.1 per cent. of overall imports, increased by 221.3 per cent.), electric

machinery (5.6 per cent. of overall imports, increased by 13.5 per cent.), pharmaceutical products (4.0 per cent. of overall imports, increased by 13.2 per cent.) and plastics, polymer materials (4.0 per cent. of overall imports, increased by 24.6 per cent.) were the main commodity groups of American imports to Ukraine. The increase of American imports to Ukraine was likely the result of the stabilisation of the Ukrainian economy, the deceleration of inflation, rise in demand, as well as implementation by buyers of deferred demand that arose in 2014-2015.

In 2018, the main commodity groups of imports from the U.S. to Ukraine included mineral fuels, oil and its derived products, 32.1 per cent. of overall imports, an increase of 38.8 per cent., ground transport, apart from railway transport, 17.5 per cent. of overall imports, an increase of 3.6 per cent., mechanical machinery, 11.4 per cent. of overall imports, a decrease of 3.3 per cent., electric machinery, 5.3 per cent. of overall imports, an increase of 11.8 per cent., optical and photographic instruments and appliances, 3.8 per cent. of overall imports, an increase of 42.4 per cent., pharmaceutical products, 3.3 per cent. of overall imports, a decrease of 3.9 per cent., polymers and plastics, 3.0 per cent. of overall imports, a decrease of 11.4 per cent., in each case as compared to 2017.

For the two months ended 28 February 2019, the main commodity groups of imports from the U.S. to Ukraine included mineral fuels, oil and its derived products, 32.1 per cent. of overall imports, a decrease of 0.6 per cent., ground transport, apart from railway transport, 16.5 per cent. of overall imports, an increase of 9.6 per cent., seeds and fruit of oil plants, 10.1 per cent. of overall imports, an increase of 52.7 per cent, mechanical machinery, 8.5 per cent. of overall imports, a decrease of 22.3 per cent., railway locomotives, 7.3 per cent. of overall imports, were not imported during the corresponding period of 2018, pharmaceutical products, 4.1 per cent. of overall imports, an increase of 58.9 per cent., in each case as compared to the corresponding period of 2018.

For the nine months ended 30 September 2019, total foreign trade between Ukraine and the U.S. amounted to U.S.\$1.22 billion, an increase of 15 per cent. compared to the corresponding period in 2018. In 2018, the total trade turnover in services between Ukraine and the U.S. amounted to U.S.\$1.47 billion, a decrease of 1.4 per cent. compared to the corresponding period in 2017. In 2017, the total trade turnover in services between Ukraine and the U.S. amounted to U.S.\$1.49 billion, an increase of 5.8 per cent. as compared to the corresponding period in 2016.

For the nine months ended 30 September 2019, total export in services to the U.S. amounted to U.S.\$864.7 million and total import in services from the U.S. amounted to U.S.\$356.0 million, an increase of 21.1 per cent. and 2.6 per cent., respectively, as compared to the nine months ended 30 September 2018. In 2018, export of services to the U.S. amounted to U.S.\$1,011.7 million and total import in services from the U.S. amounted to U.S.\$461.1 million, an increase of 19.3 per cent. and a decrease of 28.5 per cent., respectively, as compared to the year ended 31 December 2017. In 2017 export/import figures were, respectively, U.S.\$848.2 billion (an increase of 18.2 per cent.) and U.S.\$645.0 million (a decrease of 7.0 per cent.). For the nine months ended 30 September 2019 the positive balance of trade in services between Ukraine and the U.S. amounted to U.S.\$508.7 million, as compared to a positive balance of U.S.\$366.9 million for the nine months ended 30 September 2018. In 2018, the positive balance of trade in services constituted U.S.\$550.6 million. In 2017, the surplus of trade in services amounted to U.S.\$203.2 million.

In 2016, export of services totalled to U.S.\$717.3 million, while import services amounted to U.S.\$693.6 million.

For the nine months ended 30 September 2019, the main export in services provided to the U.S. were telecommunications, computer and information services (accounting for 66.0 per cent. of Ukraine's U.S.\$570.3 million in total export to the U.S. for the period, an increase of 21.4 per cent. compared to the corresponding period in 2018), transport services (16.4 per cent. of export total turnover, increased by 30.9 per cent, total export U.S.\$141.9 million) and business services (11.9 per cent. of export total turnover, increased by 29.8 per cent., and total export turnover amounted to U.S.\$103.2 million). In 2018, telecommunication services, computer and information services (64.6 per cent. of overall exports of services provided to the U.S., an increase of 22 per cent., and an overall volume of U.S.\$654.0 million), transport services (16.9 per cent. of overall exports of services, an increase of 18.4 per cent., and an overall volume of U.S.\$171.2 million), as well as business services (10.9 per cent. of overall exports of services, an increase of 10.6 per cent., and an overall volume of U.S.\$110.5 million) took the lead in the structure of export of domestic services to the U.S. In 2017, telecommunication services, computer and information services (63.2 per cent. of overall exports of services,

an increase of 16.1 per cent., and an overall volume of U.S.\$535.9 million), transport services (17.0 per cent. of overall exports of services, an increase of 23.6 per cent., and an overall volume of U.S.\$144.5 million), as well as business services (11.8 per cent. of overall exports of services, an increase of 8.4 per cent., and an overall volume of U.S.\$100.0 million) took the lead in the structure of export of domestic services to the U.S. Therefore, export in services to the U.S. is comparable to export of goods to the U.S. in terms of volumes.

The U.S. is one of the leading markets for export of Ukrainian products. Over the first nine months of 2019, U.S. export in services equalled 9.7 per cent. of the overall export in services. In 2018, the U.S. export equalled almost 8.7 per cent. of the overall export in services to all the other countries, in 2017 – 7.9 per cent. The above trends serve as a direct indication of structural changes in the Ukrainian economy towards the transition from traditional export of heavy industry products to high-tech export (IT services). Taking into account further development of information technologies both in the U.S. and on a global scale, one may expect further increase in exporting domestic IT products in 2019. Over the first nine months of 2019, state and governmental services held the largest share among all services received from the U.S. equalling a total of 44.6 per cent. of overall import, an increase of 0.5 per. cent as compared to 2018 and totalling approximately U.S. \$159.6 million. Moreover, business and financial services held significantly large shares in comparison to other services received. Business services amounted to 23.7 per cent. of overall import, an increase of 48.9 per cent. as compared to 2018 and totalling approximately U.S.\$84.3 million. Financial services amounted to 12.5 per cent. of overall import, with virtually no year-on-year change and totalling approximately U.S.\$44.5 million. Similarly, in 2018, state and governmental and business and financial services each respectively represented the largest portions of services imported from the U.S. State and governmental services equalled a total of 46 per cent. of overall import in services provided to the U.S., a decrease of 2.2 per cent. as compared to the corresponding period in 2017, and totalling approximately U.S.\$212.3 million. Business services amounted to 17 per cent. an increase of 68.4 per cent. as compared to the corresponding period in 2017, and totalling approximately U.S.\$78.6 million. Financial services amounted to 12.4 per cent., an increase of 17.0 per cent. as compared to the corresponding period in 2017, totalling approximately U.S.\$57.2 million. In general, for the first nine months of 2019 import in services received from the U.S. accounted for 7.5 per cent. of overall import in services from across the world.

In 2017, state and governmental services (U.S.\$458.3 million, a decrease of 11.9 per cent.) comprised the major portion of services imported from the U.S. (71.1 per cent. of the overall volume). Furthermore, the import of services related to financial activity was also relatively significant (7.6 per cent., an increase of 68.0 per cent. to U.S.\$48.9 million). In general, the import of services from the U.S. amounts to over 11.8 per cent. of Ukraine's total import of services from all over the world.

### *Investments*

As of 1 January 2014, 2015, 2016, and 2017, Ukraine attracted U.S.\$935 million, U.S.\$702 million, U.S.\$634 million and U.S.\$576 million of U.S. investments. As of 31 December 2018, Ukraine attracted U.S.\$488.9 million of U.S. investments, which accounted for 1.5 per cent. of all foreign direct investment in Ukraine.

The most attractive areas for the US investment in Ukraine are agriculture, the IT sector and transport infrastructure. In addition, as of the date of this Prospectus, the investment portfolio of the Overseas Private Investment Corporation (OPIC) includes 19 projects (10 loan projects (including 2 involving investment funds), and 9 investment insurance projects) totalling U.S.\$960 million. The most recent OPIC projects in Ukraine include projects with:

- the Bank of America Merrill Lynch and SE NNEGC “Energoatom” related to financing the construction of the Spent Nuclear Fuel Storage Facility by Holtec. Central Storage Safety Trust, which had been established solely for the purpose of implementation of this project, has issued securities in the U.S. stock market and extended a long-term loan to SE NNEGC “Energoatom” funded by the proceeds from the issue. OPIC provided insurance coverage in the amount of U.S.\$250 million in relation to the loan, based on the respective guarantee granted by Ukrainian Government.
- ERU Corporation on gas trade expansion project in Ukraine (U.S.\$38 million); first supplies of the U.S. LNG were made into Ukraine (through Polish LNG terminal in Świnoujście) at the end of 2017, with OPIC providing the insurance coverage.

- Eurocape Ukraine I on a 500 MW wind power project in Zaporizhia Region (in the aggregate amount of U.S.\$447.5 million, including a risk insurance project in the amount of U.S.\$297.5 million and funding of the first phase of the project in the amount of U.S.\$150 million).

Several meetings between Ukrainian delegations and the management of OPIC were held through 2017 and 2018. During the meetings, the U.S. party advised that it is prepared to significantly expand their operations in Ukraine. At the same time, it was noted that further active operations of OPIC in Ukraine would be facilitated both by increasing the Corporation's budget (in view of reaching the cap of funding projects involving Ukraine) and by amending the Corporation's constitutive documents in order to increase flexibility in providing political risks insurance, which would allow to cover more U.S. investors and enable funding of projects already at the stage of their feasibility studies.

As of 1 July 2019, 23.1 per cent. of the total volume of direct US investments in the Ukrainian economy was in wholesale and retail trade, 15.6 per cent. was in financial and insurance activities, 14.3 per cent. was in construction, 13.4 per cent. was in the processing industry, 12.9 per cent. was in operations with real estate, and 7.0 per cent. was in professional scientific and technical activities.

Such guarantee agreements are part of bilateral and multilateral economic support to Ukraine which includes the 2018 SBA, EBRD loans, EU Macro-Financial Aid and financial aid from Canada, Japan, Germany, and other countries. The guarantee agreements are aimed at facilitating implementation of Ukraine's economic reforms programme supported by international donors.

#### Financial, Technical and Humanitarian Aid

Since March 2014, the U.S. has provided Ukraine with support of more than U.S.\$2.8 billion, including U.S.\$1.1 billion to support Ukrainian security. At present, the Government of the United States is implementing 56 programmes of assistance in Ukraine with a total value of over U.S.\$1.39 billion. In addition, during 2014-2016, the United States provided Ukraine with credit guarantees worth U.S.\$3 billion.

Since 1992, a total of U.S.\$1.9 billion had been allocated to the U.S. Agency for International Development ("USAID") programmes for Ukraine. The USAID budget for Ukraine amounted to approximately U.S.\$150 million in 2016 and approximately U.S.\$120 million in 2017. USAID's programmes provide support to Ukraine primarily in areas such as good governance, economic growth, strengthened health services, agriculture, environmental protection and climate change, and humanitarian aid. In general, USAID currently implements 47 long-term and medium-term programmes in Ukraine (and some of them are valid until 2023) with a total value of over U.S.\$523 million.

Signed on 15 February 2019 by President of the United States, a package of legislative acts on budgetary allocations for the fiscal year 2019 provides for an increase in expenditures to support Ukraine. In particular, the total amount of funds to be allocated for the implementation of Ukraine's assistance programmes through the State Department, the United States Agency for International Development and Associate Programs is U.S.\$445.7 million. The total amount of funds to support Ukraine in the fiscal year 2019, taking into account the U.S.\$250 million previously allocated by the Pentagon, amounts to U.S.\$695.7 million - U.S.\$75 million more than was provided by 2018 allocations.

As at 30 September 2019, for the fiscal year 2019, the United States Government has allocated U.S.\$40.8 million for humanitarian assistance programmes in Ukraine.

#### *Japan*

On 24 March 2014, at the Nuclear Security Summit (The Hague), the Prime Minister of Japan, Shinzo Abe, announced the provision of financial aid to Ukraine in the amount of over U.S.\$1.4 billion.

In 2015, Japan has allocated additional aid to Ukraine in the amount of U.S.\$300 million of preferential loans to consolidate the budget of Ukraine in addition to U.S.\$100 million provided by Japan in 2014. The funds are allocated within the framework of the second project "*Economic Reform Development Policy Loan*" co-financed with the World Bank and aimed at supporting strategic and institutional reforms in Ukraine.

In addition, in 2015, Japan implemented a large-scale programme of technical assistance to Ukraine in support of democratic reforms and institutions, within which Japan was visited by delegations of the Ukrainian Parliament, the Central Election Commission, national television of Ukraine to participate in experience sharing trainings with representatives of the Japanese Government and experts in the field of law, public administration and work of independent media.

In June 2015, the Ukrainian Government and the Japanese Agency for International Cooperation signed a loan agreement for implementation of a project regarding reconstruction of aeration station in Bortnychi (approximately U.S.\$1 billion).

The Nippon Export and Import Insurance Agency (NEXI) has extended the export insurance line in the amount of approximately U.S.\$300 million for 2016-2017 for import of goods and services from Japan needed to stabilise the economic and social situation in Ukraine.

### *Russia*

The contractual legal framework of bilateral Ukrainian-Russian cooperation includes over 350 international documents that regulate a wide range of issues. The implementation of most documents is significantly complicated or impossible due to the general state of Ukrainian-Russian relations at present.

At present, Russia permits the free movement of goods and people from Russia across the Ukrainian state border and into the temporarily occupied territories of the Donetsk and Luhansk regions. Ukraine recorded numerous incidents of intrusion into Ukraine's airspace by unmanned aerial vehicles, aircrafts and helicopters of the Russian Armed Forces.

Further development of Ukrainian-Russian dialogue depends upon dialogues with Russia and the stabilisation of the situation in the temporarily occupied territories of Donetsk and Luhansk regions of Ukraine, withdrawal of units of Russia-backed illegal armed formations from those territories, de-occupation of the Autonomous Republic of Crimea and the City of Sevastopol with further restoration of Ukraine's sovereignty and territorial integrity within the internationally recognised borders. See *"Risk Factors—Risk Factors Relating to Ukraine—Effects of the illegal occupation and attempted annexation of Crimea and the City of Sevastopol and the conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions"*.

From 2013 to 2016, the Russian Federation impeded exports of Ukrainian goods. In most cases, the Russian Federation did not inform the WTO of the establishment of the bans on Ukrainian goods, thus enabling their act to be potentially viewed as a violation of WTO regulations.

Current points of contention between the two countries include the illegal occupation of Crimea and the City of Sevastopol, conflict in and the temporary occupation of territories of the Donetsk and Luhansk regions, export/import restrictions and bans, travel restrictions, gas price increases, cessation of gas supply, ongoing litigation/arbitration proceedings launched by both Gazprom and Naftogaz, expropriation claims and criminal claims filed by Ukraine against certain Russian individuals.

In addition, the signing of the Association Agreement by Ukraine in June 2014 triggered a further set of economic, gas and trade issues as a result of Russia's belief that this agreement is incompatible with Ukraine continuing to trade with the Customs Union/Eurasian Economic Union. In particular, in the period from July 2014 to 2017, Russia introduced restrictions on imports of Ukrainian confectionery, dairy, meat, canned vegetables and other agricultural products. Ukraine estimates that restrictions introduced by Russia has as of the date of this Prospectus lead to a 50.4 per cent. decline in trade with Russia and further expected sanctions are anticipated to further reduce the levels of trade. See *"Political Framework—International Relations—Foreign States—Russia"*.

On 31 March 2014, Russia unilaterally terminated the following agreements between Russia and Ukraine (i) the Agreement on Parameters of Division of the Black Sea Fleet dated 28 May 1997, (ii) the Agreement on Status and Conditions of Russian Black Sea Fleet stationing within the territory of Ukraine dated 28 May 1997, (iii) the Agreement on mutual settlements related to the division of Russian Black Sea Fleet and the Black Sea Fleet Stationing within the territory of Ukraine dated 28 May 1997, and (iv) the Agreement on Matters related to Russian Black Sea Fleet stationing within the territory of Ukraine dated 21 April 2010, which extended the



stationing of Russia's Black Sea Fleet in Sevastopol for a further 25 years from the expiration of the original 20 year term in 2017. Ukraine has officially rejected the termination of the above agreements.

The rapid deterioration of political relations since February 2014 has been mirrored in the oil and gas sphere. Naftogaz receives deliveries of natural gas from the Russian Federation on the basis of an agreement on the sale and purchase of natural gas for the period from 2009 to 2019, executed between Gazprom and Naftogaz on 19 January 2009 (the "**Supply Contract**") in the amounts necessary to assure the gas balance in Ukraine. Under the Supply Contract, Naftogaz received natural gas from Gazprom at the price of U.S.\$268.5 per 1000 cubic metres in the first quarter of 2014.

In the second quarter of 2014, the contract price for imported gas amounted to more than U.S.\$490 per 1,000 cubic metres. This increase was caused by the unilateral cancellation by Russia of its Government Resolution No. 291, dated 30 April 2010 and by Gazprom's refusal to sign a supplement to the gas supply contract for the second quarter of 2014 to establish the coefficient for the price calculation formula. Naftogaz did not agree to purchase gas at such price, considering it economically unjustified and discriminatory. Price inconsistencies in the second quarter of 2014 resulted in the suspension of gas supplies from Gazprom to Ukraine from 16 June 2014, and Naftogaz switched to a prepayment system wherein it paid in advance for the natural gas it received from Gazprom.

The lack of compromise between the parties led to submission of counter-claims to the Stockholm Chamber of Commerce by Naftogaz and Gazprom in June 2014.

After tripartite meetings, the Cabinet of Ministers of Ukraine, the Russian Government and the European Commission executed a binding protocol on 30 October 2014 (the "**Binding Protocol**"), with the Russian Government agreeing to supply gas to Ukraine for the period from November 2014 to 31 March 2015 on an advance-payment basis at the price of a U.S.\$100 per 1,000 cubic metres. Gazprom did not apply the "take-or-pay" clause for this period. Pursuant to the executed documents, Naftogaz fulfilled its obligations and ensured gas supplies for the 2014-2015 heating season within the amounts necessary to maintain Ukraine's gas balance.

In violation of the Supply Contract, from 19 February 2015, Gazprom, in its sole discretion, initiated gas supplies to the territories in Donetsk and Luhansk regions, which are temporarily outside Ukraine's control.

Since December 2015 until the date of this Prospectus, Naftogaz has neither purchased nor paid for supplies of Russian natural gas.

On 31 May 2017, the arbitral tribunal of the Stockholm Chamber of Commerce (the "**SCC**") ruled on the case of Naftogaz against Gazprom relating to the Supply Contract. The tribunal dismissed the claims of Gazprom, which were based on the "take-or-pay" clause. The tribunal also held that:

- the clauses of the Supply Contract concerning the supply amounts and "take-or-pay" provision were invalid beginning 19 January 2009, up until the date of the final decision on the case, and must be amended starting from the date of the final judgment, taking into account the real demand from Naftogaz;
- the price formula provided in the Supply Contract must be reviewed starting from 27 April 2014 in order to bring the price to the market rate;
- Naftogaz must be compensated for overpaid sums in cases where the payment price exceeded the price as provided by the revised formula of the Supply Contract; and
- the clause of the Supply Contract prohibiting Naftogaz from selling gas purchased under the Supply Contract outside Ukraine is invalid as of 19 January 2009.

On 22 December 2017, the tribunal of the SCC issued the final award on the case of Naftogaz against Gazprom relating to the Supply Contract. The tribunal:

- ruled that Naftogaz is not responsible for gas supply to the third parties (gas supplies to the temporarily occupied territories in Donetsk and Luhansk regions);

- restated the price formula of the Supply Contract and fully linked the *price for gas* to *German hub* rates, starting from 27 April 2014;
- reduced the price by 27 per cent. from U.S.\$485 per 1,000 cubic metres to U.S.\$352 per 1,000 cubic metres;
- ruled to reduce the annual contract volume obligations from 52 billion cubic metres to 5 billion cubic metres in 2018 and 2019 (the minimum contract volume is 4 billion cubic metres);
- rejected Gazprom take-or-pay claims to Naftogaz amounting to U.S.\$56 billion for 2009-2017;
- lifted the ban on Russian gas re-export; and
- ruled that Naftogaz was responsible to pay U.S.\$2,029,823,867.2 in favour of Gazprom for the volume of gas taken but not paid by Naftogaz in November-December 2013, April, May, and June 2014.

On 28 February 2018, the arbitral tribunal of the SCC issued the final award on the case of Naftogaz against Gazprom relating to the Gas Transit Contract. The tribunal:

- found that Gazprom had defaulted on its obligations regarding volumes to be transited and awarded Naftogaz damages of U.S.\$4.63 billion;
- confirmed obligations of Gazprom in respect of supplies under the Gas Transit Contract, which is effective until the end of 2019;
- confirmed the right of Naftogaz to demand review of transit tariffs; and
- rejected Gazprom's demand in respect of penalties for alleged unauthorised volumes of gas taken by Naftogaz, which was supplied for transit.

As a result of this award by the arbitral tribunal of the SCC, Gazprom must pay Naftogaz approximately U.S.\$2.56 billion net of payments to be made by Naftogaz in favour of Gazprom for the gas received but not paid for by Naftogaz in certain months of 2013 and 2014.

On 1 March 2018, Gazprom decided to return the advance payment for natural gas that was to have been supplied to Ukraine in March 2018. Naftogaz claims this to be a violation of Gazprom's contractual obligations. Following Gazprom's decision to stop gas supplies to Ukraine on 1 March 2018, Naftogaz and Poland's PGNiG have signed a contract, pursuant to which PGNiG provided urgent gas supplies until the end of March 2018. The contracted volume totals over 60 million cubic metres of gas. As a result of these emergency measures, Ukraine's gas transmission system ("GTS") was fully functional on the morning of 3 March. Additional gas imports from the EU also contributed to compensate for the shortfall in trunk pipeline pressure caused by Gazprom's unilateral stoppage of the gas supply and transit contracts with Naftogaz. In light of cooperation with European gas suppliers during the last three years, Naftogaz will likely be able to purchase natural gas in the European market in the future.

On 5 March 2018, Naftogaz received a notice from Gazprom on its intention to apply for arbitration to the arbitral tribunal of the SCC with a request to reinstate the commercial balance between the Gas Supply Contract and the Gas Transit Contract by way of invalidation or amendments of a number of provisions or with a request for their termination or cancellation if the tribunal rejects the request for invalidation or amendments. Under the contracts, prior to making a request for arbitration the parties must conduct negotiations for 30 days under the Supply Contract and for 45 days under the Gas Transit Contract. Naftogaz maintains that these agreements remain effective and do not allow for unilateral termination. Naftogaz supports the suggestion by the Ukrainian Ministry of Foreign Affairs and the European Commission to hold trilateral Ukraine-Russia-EU negotiations regarding the implementation of Stockholm arbitration awards.

On 20 April 2018, arbitral tribunal of the SCC informed Naftogaz of the commencement of a new arbitration proceeding initiated by Gazprom in respect of the Supply Contract and the Gas Transit Contract.

On 22 May 2018, Naftogaz filed a Complaint to the Gazprom Arbitration Request. Naftogaz objected to Gazprom's lawsuit and filed its counterclaims regarding both Contracts.

On 6 July 2018, Naftogaz filed a Request for Arbitration with the Arbitration Institute of the SCC, seeking to revise the applicable rate of gas transit services fees for the period starting from 13 March 2018, as well as to recover from Gazprom the amount of fees not received for the said period calculated applying the revised rate. On 14 August 2018, Gazprom filed its Answer to the Request for Arbitration, objecting against Naftogaz claims.

Naftogaz and Gazprom met bilaterally to negotiate a number of issues, including the issues raised in the notifications of Gazprom. However, no agreement was reached.

On 6 September 2018, the Arbitration Institute of the SCC decided to consolidate two proceedings initiated by Gazprom (on 20 April 2018) and by Naftogaz (on 6 July 2018).

On 14 June 2019, Gazprom sent Statement of Claim to Naftogaz and the arbitral tribunal in accordance with the tribunal's approved procedural schedule.

On 1 November 2019, Naftogaz filed a Statement of Defence and Counterclaims in response to Gazprom's Statement of Claim. Following Gazprom's response on 13 December 2019, the parties executed a settlement agreement. Subsequently, the parties have been taken steps for closing the arbitration proceedings.

Gazprom filed an appeal with the Svea Court of Appeals to reverse the ruling by the Stockholm arbitration court.

On 27 November 2019 Svea Court of Appeals dismissed Gazprom's appeal on aforementioned SCC Separate arbitral award dated 31 May 2017.

Naftogaz requested several jurisdictions, including the Netherlands, Switzerland and England and Wales, to freeze Gazprom's assets as payment for the arbitration award.

On 29 May 2018, Naftogaz submitted an application for enforcement of the arbitral award in England and Wales. On 18 June 2018, the High Court of England and Wales issued an order to arrest Gazprom's assets. On 15 March 2019, the court upheld the previously filed appeal to Gazprom to postpone the process of recognising and executing the Transit Decision until a decision was made on the Gazprom Transit decision's appeal in the County Court of Appeal (Sweden). In addition, the court ordered Gazprom: (i) not to conceal or relocate its assets in England or the Netherlands, and (ii) to make a monetary deposit of U.S.\$200 million in an escrow account until 15 April 2019. The enforcement proceedings are ongoing.

On 29 May 2018, in Switzerland, Naftogaz submitted a request for the arrest of shares of Nordstream AG and Nordstream 2 AG, owned by Gazprom, and on any amounts owed by these companies to Gazprom. On 11 June 2018, the court of the Canton of Zug informed Naftogaz of appeals made by Gazprom, Nordstream AG and Nordstream 2 AG of the arrest warrant. On 16 January 2019, the court of the Canton of Zug removed the previous arrest of Gazprom's receivables as no such receivables were found. The enforcement proceedings are ongoing.

On 29 May 2018, in the Netherlands, Naftogaz submitted an application to the Amsterdam court to arrest the shares held by Gazprom in seven subsidiary companies, as well as on the amount owed by these subsidiaries to Gazprom. The enforcement proceedings are ongoing. On 30 May 2018, at the request of Naftogaz, the Amsterdam court agreed to arrest Gazprom's assets in the Netherlands. On 19 September 2018, the Court of Appeal of Amsterdam accepted the application of Naftogaz for recognition of the Transit Decision.

In addition, Naftogaz plans to enforce the arbitration award in other jurisdictions.

Although the Netherlands, Switzerland and England and Wales approved freezing Gazprom's assets, the Svea Court of Appeals suspended the Stockholm arbitration award on 13 June 2018.

On 17 June 2018, Naftogaz submitted an application for review and revocation of the court order which suspended the Stockholm arbitration award and on 13 September 2018 the Svea Court of Appeal repealed its suspension of the Stockholm arbitration award, thus allowing Naftogaz to continue freezing Gazprom's assets without encumbrance.

Currently, Ukraine's GTS pipeline system continues to transit Russian gas to European customers. This gas transit contract expires at the end of 2019.

On 20 December 2019, during tripartite negotiations between Ukraine, Russia and the EU, the parties agreed on a preliminary basis to the extension of the gas transit contract for a mid-term period of five years with a possible extension for the next ten years. Russia agreed to repay the U.S.\$2.9 billion compensation under the Stockholm Arbitration Awards and transferred the full amount to Naftogaz on 27 December 2019. On 30 December 2019, Naftogaz, the Gas Transmission System Operator of Ukraine (“GTSOU”) and Gazprom signed a set of agreements to continue Russian gas transit through Ukraine until 2024 inclusive. These agreements contemplate mutual climb-downs and include, *inter alia*, (i) withdrawal from all arbitration proceedings where final decisions have not been ruled yet, (ii) lifting attachments on Gazprom’s property, assets and monetary funds and prohibiting any future claims and proceedings under the contracts signed in January 2009; and (iii) providing minimal transit volumes of 65 billion cubic metres per year for 2020 and 40 billion cubic metres per year for 2021 to 2024. The agreements do not affect Naftogaz’s claims against the Russian Federation regarding its assets seized in Crimea. The certainty of future gas transit creates stability in the domestic gas market, facilitates energy reforms and secures future contracts with Ukrainian industrial producers related to the maintenance of the Ukrainian gas transmission system.

Despite the extension of the gas transit contract, Russia has attempted to decrease gas transit through Ukraine by constructing alternative gas pipelines, in particular Nord Stream 2 and TurkStream. On 8 January 2020, TurkStream pipeline was officially launched. It is estimated that TurkStream may partially replace Ukraine’s GTS by routing Russian gas directly to Southern Europe which may lead to a reduction of Russian gas transited via the GTS by around 15 billion cubic metres per year.

#### *Minsk Agreements*

It is the position of the Ukrainian Government, as well as many international observers of the situation on territories of the Donetsk and Luhansk regions, under the control of Russia-backed illegal armed formations, that since the signing of the Minsk agreements, Russia has not fulfilled its commitments under the Minsk agreements, starting from the initial security provisions. Ukraine, together with German and French partners in the Normandy format, are focused on compelling Russia to comply with the basic provisions of the Minsk Agreements.

The implementation of the Minsk Agreements remains the key condition for the return of peace to Donbas (see “*Description of Ukraine—Conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions—Minsk Agreements*”).

#### *Eurasian Economic Union*

Ukraine is interested in cooperation with the Eurasian Economic Union and is seeking forms of possible cooperation, which would take into account Ukraine’s interests and its European integration course and interests of the members of this organisation. This cooperation shall be based on the WTO rules and obligations of the member states of Eurasian Economic Union within the WTO framework, and shall not contradict obligations of Ukraine under the Association Agreement with the EU.

## ECONOMY OF UKRAINE

*Unless otherwise stated, the statistical information presented in this section has been derived from reports published by, or information obtained from, the Ministry of Finance.*

### Overview

Ukraine's principal economic sectors include agriculture, industry, mining, oil and gas transit, electricity generation, nuclear power, construction and information technology.

Prior to commencing the transition to a market economy, Ukraine had a centrally-planned economy geared towards Russia and the other countries of the former Soviet Union. Considerable progress has been achieved by Ukraine in its transition to a market economy, particularly in the areas of economic liberalisation, privatisation and financial stabilisation policies, but the process remains incomplete and has not been helped by the conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions and the illegal occupation of Crimea.

The illegal occupation of Crimea has had a significant adverse effect on the economy of Ukraine, including the loss of approximately UAH 1,180 billion due to illegal confiscation of the property of more than 4,000 enterprises, including oil and gas production assets and gas storage units; the loss of the Sevastopol Naval Base and related Russian rental payments and gas price concessions granted in connection with the lease; a deterioration of relations with Russia; a reduction in foreign direct investment in Ukraine caused by a decrease in the investment appeal of the country; disruption of the privatisation programme and loss of control over the tax revenues and economic operations of Crimea. See "*Description of Ukraine—Illegal Occupation of Crimea*".

The conflict in, and the temporary occupation of territories in the Donetsk and Luhansk regions has also had a significant effect on Ukraine's economy. For example, certain infrastructure has been badly damaged or destroyed as a result of such events. As of the date of this Prospectus, the economic and infrastructure losses in the Donetsk and Luhansk regions included destruction or severe damage to a large number of residential buildings and gas distribution pipelines, as well as significant disruption to power supply in the region. The estimated total amount of financing necessary for primary recovery of destroyed or damaged property is UAH 12,181.4 million as of 1 January 2018. The estimated cost of restoration of the electric power supply system is UAH 207.3 million in Donetsk Oblast and UAH 113.6 million in Luhansk Oblast. The estimated cost of restoration of water supply in Donetsk Oblast is UAH 258.5 million. The estimated cost of restoration of water supply and gas supply in Luhansk Oblast is UAH 226.4 million and UAH 9.5 million, respectively.

On 13 December 2017, the Cabinet of Ministers approved the State Target Programme for recovery and peacebuilding in the eastern regions of Ukraine. The goal of the programme is recovery and peacebuilding the eastern regions of Ukraine, including stimulation of socioeconomic development of the local communities in order to improve the quality of life by reinforcing their capabilities and social stability and stimulating economic activity. The programme proposes to support three pillars for action: restoration of infrastructure and social services; economic recovery; and social resilience and peacebuilding. The estimated total amount of program financing amounts to UAH 4.8 billion, UAH 2.2 billion of which comes from the state budget funds, UAH 1.2 billion from local budgets, and UAH 1.3 billion from other sources.

In addition, the Ministry for Temporarily Occupied Territories and Internally Displaced Persons of Ukraine jointly with the World Bank and the Stockholm International Peace Research Institute developed the "Economic and Social Recovery Portal" to monitor the implementation of projects aimed at the restoration of infrastructure, community development and support, as well as investment and lending activities, including funds from international financial organisations and international technical assistance. To date, representatives of international organisations have provided technical access to the administrative part of the Portal with the ability to independently provide information on the status of projects that are being implemented or planned to be implemented and aimed at the restoration and development of regions that have been adversely affected by the armed conflict in eastern Ukraine. To date, more than 1,600 projects have been posted on the Portal, of which about 200 projects are aimed at the implementation of the State Target Programme for recovery and peacebuilding in the eastern regions of Ukraine.

As a result of the illegal occupation of Crimea and the conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions, real GDP fell by 6.6 per cent. and 9.8 per cent. in 2014 and 2015,

respectively. However, since then, the Ukrainian economy has experienced a significant revival as a result of increasingly favourable trading conditions with the EU and other western economies. Real GDP grew by 2.4 per cent., 2.5 per cent. and 3.3 per cent. in 2016, 2017 and 2018, respectively. In accordance with Scenario 1 of the Forecast of Economic and Social Development of Ukraine for 2019-2021, approved by the CMU Resolution No. 546 on 11 July 2018, the real GDP will grow by 3 per cent. in 2019, by 3.8 per cent. in 2020 and by 4.1 per cent. in 2021. For the three months ended 31 March, 30 June and 30 September 2019, real GDP grew by 2.5 per cent., 4.6 per cent. and 4.1 per cent., respectively. All figures relating to the draft 2019-2021 budget resolution are based on assumptions used for purposes of the three-year budgeting process and should not be relied on as forecasts for actual GDP growth. Debt to GDP ratios and other economic indicators may vary materially from these figures. See *“Risk Factors—Official statistics and other data published by Ukrainian State authorities may not be reliable”*.

## Privatisation

Ukraine began to implement privatisation in 1992, with the objectives of increasing the private sector's share of the economy, generating foreign direct investment (“**FDI**”) and contributing funds to the State Budget. As of 18 November 2019, Ukraine has collected more than UAH 68.1 billion to the State Budget in privatisation receipts.

During the years of privatisation, more than 30,000 state-owned enterprises were privatised. The process of privatisation of property owned by state enterprises had the effect of creating a significant non-state sector of the economy, which as of 1 November 2019 includes more than 8,000 joint-stock companies. As of 1 November 2019, the State owned shares in 441 companies.

The State Property Fund of Ukraine (“**SPF**”) administers the privatisation programme in Ukraine. In cooperation with various ministries, the SPF identifies enterprises to be privatised each year. Once the Cabinet of Ministers has approved the list of companies to be privatised, the SPF proceeds to convert the companies into joint stock companies and subsequently sell them to investors. Foreign and Ukrainian investors generally have equal rights in the privatisation processes, subject to certain exceptions, such as a prohibition on land sales and restrictions on companies located in offshore zones (such as the British Virgin Islands, Liberia and others) from participating in the privatisation of certain large assets.

Certain laws and regulations establish rules for privatisation of particular enterprises in strategic sectors, including power generation, military and mining. Furthermore, the State has the right to retain an ownership interest in such enterprises, enabling it to block certain management decisions.

On 7 March 2018, the law *“On Privatisation of State and Municipal Property”* entered into force. The new law consolidates previous privatisation laws into one law and improves privatisation procedures. Among other changes, the law sets forth a simplified classification scheme whereby objects are classified either as large privatisation objects or as small privatisation objects. It also expands the range of objects that may be offered for sale because of a shorter list of criteria under which the objects are not subject to privatisation. It also expands the range of privatisation objects at the cost of assets of state owned enterprises not subject to privatisation, which assets are not used in production, and assets of governmental authorities that are not directly used by such authorities to perform the duties set forth by the laws.

The law *“On the State Budget of Ukraine for 2018”* sets the target of receiving funds from privatisation of state property in the amount of UAH 21.3 billion, but in December 2018 this amount was reduced to UAH 18.8 billion. As a result of privatisations, UAH 268.7 million was contributed to the state budget.

In view that the Law of Ukraine *“On Privatisation of State and Municipal Property”* entered into force on 7 March 2018, the State Property Fund of Ukraine (“**SPF**”) approved a list of small privatisation objects. The list is constantly being extended based on the results of the SPF's processing of proposals submitted by authorised authorities. By the end of 2018, such list consisted of 818 small privatisation objects. Small privatisation objects are sold solely through on-line auctions. As a result of such auctions, 224 objects for a total amount of UAH 316.6 million were sold. Moreover, 18 objects for a total amount of UAH 48.2 million were sold by means of buyout.

The list of large privatisation objects subject to privatisation in 2018 was approved at the meeting of the Cabinet of Ministers of Ukraine on 10 May 2018. The list includes 23 objects of which 17 are managed by the SPF

(including PJSC “Odesa Port Plant”, 5 majority shareholdings in power supply companies, and PJSC “Centerenergo”). Preparation for privatisation and sale of large privatisation objects is carried out with the involvement of advisers selected on a competitive basis. During 2018, the fund carried out measures to prepare these facilities for privatization. According to the fund’s proposal, the Cabinet of Ministers of Ukraine approved an adviser to prepare for the privatisation of PJSC “President-Hotel”.

In addition, the fund carried out a competitive selection of advisers to prepare for the privatisation of PJSC “Odessa Port Plant”, PJSC “Indar”, PJSC “United Mining and Chemical Company”, State Enterprise “Electrotyazhmash Plant” and State Enterprise “Coal Company Krasnolimanskaya”, which was to be approved by the Government. However, further preparation for the privatisation of these companies was blocked by a court order. In 2018, the fund put up for sale a state-owned stake in PJSC “Tsentrnergo”. However, the auction, which was scheduled for 13 December 2018, was declared invalid.

The law “*On the State Budget of Ukraine for 2019*” sets the target of receiving funds from privatisation of state property in the amount of UAH 17.1 billion. The law “*On the State Budget of Ukraine for 2020*” sets the target of receiving funds from privatisation of state property in the amount of UAH 12.0 billion.

According to operation data, as of 18 November 2019, from the privatisation of state property and other proceeds directly related to the privatisation process, UAH 428.41 million was received by the general fund of the state budget.

On 27 December 2018, the fund approved by its order the lists of assets categorised as small for privatisation in 2019, which included 777 objects as of 19 November 2019.

In the first ten months of 2019, 467 objects were auctioned through the e-commerce system ProZorro. Sales with a total starting price of UAH 699.74 million. As a result of these electronic auctions, 305 objects for the total amount of UAH 383.1 million were sold. In addition, in accordance with the requirements of Articles 16, 18 of the Law of Ukraine “On privatisation of state and communal property”, 36 objects were sold at a total amount of UAH 45.4 million through foreclosure.

The Cabinet of Ministers of Ukraine by the order dated 16 January 2019 approved a list of assets categorised as large for privatisation in 2019, which includes 21 objects.

The law “*On Privatisation of State and Municipal Property*”, adopted by Ukrainian Parliament allowed the acceleration of the preparation and sales of objects for privatisation. As of the date of this Prospectus, the SPF adopted 34 regulations and the Cabinet of Ministers of Ukraine adopted 12 resolutions.

State bodies have examined a number of privatisations that took place in previous years under irregular conditions, which were not fully transparent. A special parliamentary commission controlling privatisation supervises compliance with privatisation laws. If the commission determines that such laws have been breached, it may request that the authorised privatisation bodies, including the SPF, cancel illegal orders or unwind illegal actions. If sales are found to have taken place in violation of applicable laws, the Government may decide to petition the appropriate courts to cancel the sales of the companies concerned. In these circumstances, the proceeds from the asset sale would be returned to the buyer.

Due to non-performance of terms and conditions of sale-purchase agreements as of 1 October 2019, 379 privatised assets were returned to the state’s ownership, including 87 stakes in joint-stock companies, 61 small-scale privatisation objects and 231 unfinished construction projects. The list of privatisation objects returned to state property, which are subject to re-sale, as of 1 July 2019 includes 105 objects, including: 7 shareholding stakes, 3 integral property complexes and 95 objects under construction. Claims are in progress with regard to the termination (invalidation) of 88 privatisation agreements and with regard to the return of assets sold pursuant to such agreements. Such claims relate to 8 shareholding stakes, 12 integral property complexes and 68 objects under construction.

## **IMF Lending**

In the immediate aftermath of the Euro-Maidan Revolution, in early 2014, the newly installed Ukrainian government initiated discussions with the IMF on the terms of a U.S.\$17 billion 24-month stand-by arrangement

(the “**2014 SBA**”). The 2014 SBA was approved by the IMF Executive Board on 30 April 2014 and the first disbursement thereunder in the amount of U.S.\$3.2 billion was released in May 2014.

On 29 August 2014, the IMF executive board approved the first review under the 2014 SBA and agreed to disburse to Ukraine a second tranche of financial assistance thereunder totalling U.S.\$1.4 billion.

In early 2015, with the intensification of the conflict in, and temporary occupation of, territories in Donetsk and Luhansk regions and continued depreciation of the hryvnia, the Ukrainian Government concluded that the financial support package and underlying reform programme of the two-year 2014 SBA would not be sufficient to achieve the Government’s objectives. A longer period would be required to enact and implement the necessary reforms and stabilise the economy. Accordingly, the Government requested the IMF to replace the 2014 SBA with a new four-year extended fund facility (the “**2015 EFF**”) in an amount equivalent to U.S.\$17.5 billion.

On 11 March 2015, the Executive Board of the IMF approved the 2015 EFF, which replaced the 2014 SBA. All funds not already disbursed under the 2014 SBA were cancelled.

Since then Ukraine has received the following disbursements under the 2015 EFF: On 13 March 2015, U.S.\$5 billion, approximately U.S.\$2.6 billion of which was allocated to finance the State Budget deficit; on 4 August 2015, U.S.\$1.7 billion, which was allocated to bolster Ukraine’s foreign exchange reserves; on 14 September 2016, U.S.\$1 billion; and in April 2017, U.S.\$1 billion. Other than the first tranche, these funds were allocated to bolster Ukraine’s foreign exchange reserves held by the NBU.

On 19 October 2018, the IMF and Ukraine reached a staff-level agreement on a U.S.\$3.9 billion 14-month Stand-By Arrangement in close coordination with the World Bank and the EU. On 5 December 2018, a Letter of Intent of the Ukrainian Government and the NBU and Memorandum on economic and financial policy within the new stand-by arrangement were sent for IMF review.

On 18 December 2018, the Executive Board of the IMF approved the 2018 SBA, which replaced the 2015 EFF. All funds not already disbursed under the 2015 EFF were cancelled. On 20 December 2018, Ukraine received the first \$1.4 billion tranche, which was allocated to Ukraine’s foreign exchange reserves.

Following a call on 7 December 2019 between Kristalina Georgieva, the Managing Director of the IMF, and President Zelenskiy, an IMF Staff Level Agreement was reached providing for a new three-year, SDR 4 billion (about U.S.\$5.5 billion) arrangement under the Extended Fund Facility which is to replace the current Stand-by Arrangement approved in December 2018.

In addition to borrowing from the IMF, Ukraine has lending arrangements with a number of other external creditors, including the World Bank, EIB, EBRD, and EU. See “*Public Debt—External Debt*”.

## **Gross Domestic Product**

In 2014, Ukraine’s GDP slowed. Decreases in real GDP of 1.0 per cent., 4.3 per cent., and 5.3 per cent. and 14.4 per cent. were recorded for the first, second, third and fourth quarters, respectively, compared to the respective periods in 2013. At the close of 2014, Ukraine’s nominal GDP amounted to UAH 1,586.9 billion. This contraction was principally attributable to the decline in domestic demand and in exports to Russia.

The contraction of Ukraine’s GDP continued in 2015. Real GDP decreased by 16.0 per cent., 14.5 per cent., 7.0 per cent. and 2.4 per cent. in the first, second, third and fourth quarters, respectively, compared to the respective periods in 2014. In 2015, GDP fell by a total of 9.8 per cent.

Starting from the first quarter of 2016, real GDP recorded continuous growth of 0.1, 1.5, 2.3 and 4.8 per cent., in the first, second, third and fourth quarters of 2016, respectively, as compared to the relevant quarters of 2015. In 2016, GDP increased by 2.4 per cent.

Growth of real GDP continued in 2017 and, amounted to 2.8 per cent. in the first quarter of 2017, in the second quarter of 2017, GDP increased by 2.7 per cent., in the third quarter – by 2.3 per cent., in the fourth quarter – by 2.2 per cent., as compared to the relevant quarters of 2016. In 2017, real GDP growth was 2.5 per cent. During 2018, the Ukrainian economy also demonstrated positive dynamics. In the first quarter of 2018, real GDP increased by 3.3 per cent, in the second quarter of 2018, real GDP increased by 3.8 per cent, in the third



quarter of 2018, real GDP increased by 2.8 per cent., in the fourth quarter of 2018, real GDP increased by 3.5 per cent. as compared to the relevant quarters of 2017. In 2018, real GDP growth was 3.3 per cent. Based on preliminary data, real GDP increased by 2.5 per cent., 4.6 per cent. and 4.1 per cent. in the first, second and third quarters of 2019, respectively. As at the date of this Prospectus it is not possible to calculate the extent of the impact that the illegal occupation of Crimea and the conflict in, and temporary occupation of, territories in the Donetsk and Luhansk regions have had on Ukraine's GDP.

The following table sets out the contribution to GDP for the indicated periods from each of the following regions, which are either occupied or subject to the on-going joint forces operation:

Region	Year ended 31 December					
	2012	2013	2014	2015	2016	2017 <sup>(1)</sup>
			(% of GDP)			
Donetsk Oblast.....	11.7	10.8	7.6	5.8	5.8	5.6
Luhansk Oblast .....	4.0	3.6	2.0	1.2	1.3	1.0
Crimea.....	3.1	3.0	—	—	—	—
Sevastopol.....	0.7	0.7	—	—	—	—

(1) According to the State Statistics Service of Ukraine, the regional GDP data for 2018 is not available as at the date of this Prospectus.  
Source: State Statistics Service

It has not been possible for the Government to collect further data regarding the territory of Crimea and the City of Sevastopol since the region's occupation.

The following tables set out certain information about Ukraine's GDP for the periods indicated:

GDP	As at 31 December				
	2014	2015	2016	2017	2018 <sup>(2)</sup>
Nominal GDP (UAH millions)...	1,586,915.0	1,988,544.0	2,385,367.0	2,983,882.0	3,558,706.0
Nominal GDP					
(U.S.\$ millions) <sup>(1)</sup> .....	133,503.9	91,031.0	93,355.9	112,190.3	130,832.4
Real GDP (% change).....	(6.6)	(9.8)	2.4	2.5	3.3
Nominal per capita GDP					
(U.S.\$) <sup>(1)</sup> .....	3,104.7	2,124.7	2,187.7	2,640.7	3,095.2

(1) Hryvnia amounts have been converted to dollar amounts using the average exchange rate specified under the heading "*The Monetary System—Instruments of monetary policy—Exchange Rates*".

(2) Updated report of the State Statistics Service.

Source: State Statistics Service

GDP	1 <sup>st</sup> quarter <sup>(1)</sup>						2 <sup>nd</sup> quarter <sup>(1)</sup>					
	2014	2015	2016	2017	2018 <sup>(3)</sup>	2019 <sup>(3)</sup>	2014	2015	2016	2017	2018 <sup>(3)</sup>	2019 <sup>(3)</sup>
Nominal GDP												
(UAH millions) .....	316,905.0	375,991.0	455,298.0	592,523.0	705,013.0	807,755.0	382,391.0	456,715.0	535,701.0	665,233.0	810,820.0	927,773.0
Nominal GDP												
(U.S.\$ millions) <sup>(2)</sup> .....	35,784.3	17,749.7	17,736.8	21,896.7	25,810.0	29,586.9	32,701.2	21,125.4	21,205.4	25,138.1	30,972.9	34,926.6
Real GDP (% change)...	(1.0)	(16.0)	0.1	2.8	3.3	2.5	(4.3)	(14.5)	1.7	2.7	3.8	4.6
Nominal per capita												
GDP (U.S.\$) <sup>(1)</sup> .....	832.2	414.3	415.7	515.4	609.4	702.5	760.5	493.1	496.9	591.7	731.8	830.0

(1) The data does not take into account illegally occupied Crimea and territories in the Donetsk and Luhansk regions.

(2) Hryvnia amounts have been converted to dollar amounts using the average exchange rate specified under the heading "*The Monetary System—Instruments of monetary policy—Exchange Rates*" by the NBU.

(3) Updated report of the State Statistics Service.

GDP	3 <sup>rd</sup> quarter <sup>(1)</sup>						4 <sup>th</sup> quarter <sup>(1)</sup>					
	2014	2015	2016	2017	2018 <sup>(3)</sup>	2019 <sup>(3)</sup>	2014	2015	2016	2017	2018 <sup>(3)</sup>	2019 <sup>(3)</sup>
Nominal GDP (UAH millions)	440,476.0	566,997.0	671,456.0	834,287.0	994,850.0	1,105,520.0	447,143.0	588,841.0	722,912.0	891,839.0	1,048,023.0	
Nominal GDP (U.S.\$ millions)												
(2).....	35,025.4	26,101.8	26,450.2	32,206.4	36,364.1	43,733.0	31,005.8	25,765.2	27,925.1	33,081.4	37,496.3	
Real GDP												
(% change).....	(5.3)	(7.0)	2.7	2.3	2.8	4.1	(14.4)	(2.4)	4.6	2.2	3.5	
Nominal per capita GDP (U.S.\$) <sup>(1)</sup>	814.5	609.2	619.8	758.1	859.6	1,043.0	721.0	601.3	654.4	778.7	889.8	

- (1) The data does not take into account illegally occupied Crimea and territories in the Donetsk and Luhansk regions.
- (2) Hryvnia amounts have been converted to dollar amounts using the average exchange rate specified under the heading “*The Monetary System—Instruments of monetary policy—Exchange Rates*” by the NBU.
- (3) Updated report of the State Statistics Service.

## Principal Sectors of the Economy

### Industry

In 2014, industry accounted for 20.5 per cent. of Ukraine’s nominal GDP, as compared to 20.1 per cent. in 2013. In 2015, industry accounted for 19.8 per cent. of Ukraine’s nominal GDP; this grew to 21.2 per cent., in 2016. In 2017, industry accounted for 21.7 per cent. of Ukraine’s nominal GDP. In 2018, industry accounted for 20.4 per cent. of Ukraine’s nominal GDP. For the six months ended 30 June 2019, industry accounted for 21.9 per cent. of Ukraine’s nominal GDP.

In 2014, industrial production decreased by 10.1 per cent. as compared to 2013. This trend continued in 2015, where industrial production decreased by 13.0 per cent. as compared to 2014. This was primarily due to a significant decline in key industries as compared to the previous year: a 16.1 per cent. decrease in metallurgy, a 14.1 per cent. decrease in machinery and a 15.2 per cent. decrease in the chemical industry. The most significant decreases in industrial production in 2015 as compared to 2014, of 34.6 per cent. and 66 per cent., respectively, were recorded in Donetsk and Luhansk regions. In 2014, production rates in Donetsk Oblast decreased in all industrial sectors in comparison to 2013. Traditional production chains, including “coal-coke-metal” and “coal-electricity”, were distorted. Production volumes at the functioning enterprises in the Donetsk and Luhansk regions decreased due to shortages of raw material supplies and exports of finished goods, damage to industrial and infrastructure facilities, water supply and power systems, and the suspension of banking operations. The industrial sector has been one of the hardest-hit sectors of the economy by the conflict in, and temporary occupation of, territories in the Donetsk and Luhansk regions and the illegal occupation of Crimea.

However, in 2016, industrial production increased by 2.8 per cent., as compared to 2015. The biggest contributors to industrial production were food, beverage and tobacco enterprises (which registered a 4.4 per cent. increase as compared to 2015), metallurgical production and the production of finished metal products (6.8 per cent. increase), and machinery (2.0 per cent. increase). A significant share of the iron and steel capacities of Ukraine are concentrated in Donbas. Donetsk Oblast provided 30.5 per cent. of the sales volumes of steel products in 2014.

In 2017, production increased by 0.4 per cent. as compared to 2016, primarily due to an increase in production in the processing industry of 4.8 per cent. At the same time, significant negative impacts on the general industrial dynamics were caused by enterprises of extractive industry and quarries development (which showed a decrease of 5.7 per cent. compared to the same period in 2016), production of coke and oil refining products (decrease of 14.8 per cent.), metallurgical production and ready-made metal products (except for machinery and equipment) (decrease of 0.2 per cent.), and electricity, gas, steam and air conditioning supply (decrease of 6.5 per cent.). However, at the end of 2017, metallurgical production demonstrated high rates of adaptation to complex industrial conditions. At the end of the year, significant growth was achieved in the production of pipes, hollow profiles and steel fittings (an increase of 27.3 per cent.), manufacturing of finished metal products, except for machinery and equipment (an increase of 12.1 per cent.), the production of construction metal constructions and production (an increase of 17.8 per cent.), production of metal tanks, tanks and containers (an increase of 41 per cent.), production of precious and other non-ferrous metals (an increase of 16.3 per cent.), and the production of other finished metal products (an increase of 7.5 per cent.)

In 2018, manufacturing of industrial products increased by 1.6 per cent. as compared to 2017, primarily due to an increase in production in the extractive and quarrying industries by 2.4 per cent., electricity, gas, steam and air conditioning supply by 2.8 per cent., the processing industry by 1.1 per cent., including coke and oil refining products by 3.5 per cent., metallurgical production and ready-made metal products (except for machinery and equipment) by 0.6 per cent., and machine building by 1.6 per cent. For the ten months ended 31 October 2019, negative impacts on general industrial dynamics were caused by textile production (a decrease of 10.2 per cent. as compared to the corresponding period in 2018), wood and paper production (a decrease of 5.7 per cent. as compared to the corresponding period in 2018), production of coke and oil refining products (a decrease of 4.8 per cent. as compared to the corresponding period in 2018), production of rubber and plastic products and

other non-metal products (a decrease of 0.9 per cent. as compared to the corresponding period in 2018), metallurgical production (a decrease of 1.3 per cent. as compared to the corresponding period in 2018), machine building (a decrease of 4.1 per cent. as compared to the corresponding period in 2018), manufacturing of furniture and other products and the repair and installation of machinery and equipment (a decrease of 0.3 per cent. as compared to the corresponding period in 2018), and electricity, gas, steam and air conditioning supply (a decrease of 1.7 per cent. as compared to the corresponding period in 2018).

For the ten months ended 31 October 2019, as compared to the corresponding period of 2018, production of consumer durable goods increased by 7.1 per cent among all major industrial product groups. At the same time, intermediate goods groups decreased by 1.1 per cent., investment goods by 0.9 per cent., short-term consumer goods by 0.1 per cent., and energy by 0.2 per cent.

In 2018, the production of intermediate goods increased by 0.6 per cent., investment goods increased by 6.3 per cent., long-term consumption products increased by 0.2 per cent., and electricity by 3.2 per cent. The only group with a decrease in production was the short-term consumption products group (a 1 per cent. decrease).

In 2018, industrial production as compared to 2017 increased by 1.6 per cent. due to increase in all main subsectors: electricity, gas, steam and air conditioning by 2.8 per cent., extractive industry by 2.4 per cent., and the processing industry by 1.1 per cent. This increase reflects primarily the development and modernisation of building capacities and favourable external conditions. In general, production in most subsectors of industrial groups increased: investment goods by 6.3 per cent., energy by 3.2 per cent. and intermediate goods by 0.6 per cent. At the same time, the production of short-term and long-term consumption products decreased by 1 per cent. and 0.2 per cent., respectively.

Positive dynamics were recorded in a number of industrial sectors, including wood products, paper products and printing activities, which grew by 2.5 per cent.; production of coke and refined products which grew by 3.5 per cent.; production of chemicals and chemical products which grew by 17.4 per cent.; machine building (except repair and installation of machinery and equipment) which grew by 1.6 per cent.; manufacturing of furniture and other products and repair and installation of machinery and equipment which grew by 5.6 per cent., and metallurgy, manufacture of finished metal products, except machinery and equipment which grew by 0.6 per cent.

In 2018, 16 regions demonstrated production growth (compared to 19 regions in 2017). In the Donetsk region industrial production increased by 2.6 per cent. (compared to a decrease of 10.9 per cent. in 2017), in particular, due to coke production, production of machinery and chemical production. In the Luhansk region production decreased by 17.0 per cent. (compared to a decrease of 31 per cent. in 2017).

For the ten months ended 31 October 2019, as compared to the corresponding period of 2018, industrial production decreased by 0.6 per cent. due to decreases in all key subsectors: electricity, gas, steam and air conditioning by 1.7 per cent., and the processing industry by 1.2 per cent. In general, production in major industrial groups decreased for nearly all categories of goods: investment goods decreased by 0.9 per cent., intermediate goods decreased by 1.1 per cent., short-term consumption products decreased by 0.1 per cent., and electricity production decreased by 0.2 per cent. The only group with an increase in production was long-term consumption products (7.0 per cent. increase). The index of industrial output in the mining industry was 1.7 per cent. The logistical problems with rail transport, as well as repairs of equipment, in particular at metallurgical enterprises and power plants, slowed industrial activity somewhat.

For the ten months ended 31 October 2019, among the main sub-types of industrial activity, production in the mining industry increased by 1.7 per cent. as compared to the corresponding period in 2018 due to the intensification of extraction of Ukraine's existing resource base (in particular in relation to crude oil and natural gas extraction) in order to reduce dependence on imported energy and improve external energy markets for metal ores. At the same time, production in process industries decreased by 1.2 per cent. as compared to the corresponding period in 2018, which was attributable to the repair of production facilities and partial suspension of their activities, as well as significant competition from imports. Russia continues to ban the import of certain types of machine-building products of Ukrainian origin, which continues to negatively impact industrial production. Electricity, steam, and air conditioning supply decreased by 1.7 per cent. for the ten months ended 31 October 2019 as compared to the corresponding period in 2018, primarily due to a decrease in natural gas consumption distributed by regional gas distribution companies.

In 2017, as compared to 2016, the production of cast iron decreased by 16.0 per cent. and amounted to 19.8 million tonnes; production of steel decreased by 2.9 per cent. (10.8 million tonnes); production of rolled products decreased by 11.5 per cent. (11.7 million tonnes). Despite the loss of metallurgical capacities in the occupied territory of the Donbas (more than 3.3 million tonnes of steel per year), the domestic mining and metallurgical complex in the past year generally remained at the level of 2017, and according to some indicators even surpassed it. In 2018, Ukrainian steelmakers produced 20.6 million tonnes of pig iron (an increase of 2.0 per cent. compared to the corresponding period in 2017 including the activity of enterprises in the temporarily uncontrolled territory of Ukraine, or 3.7 per cent., excluding them), 20.1 million tonnes of steel (a decrease of 1.5 per cent. and an increase of 0.3 per cent., respectively), and 18.36 million tonnes of rolled products (an increase of 0.2 per cent. and 3.0 per cent., respectively). Given such performance, the share of metallurgical exports in total foreign exchange earnings in 2018 was 30.7 per cent. (a 28.4 per cent. increase compared to 2017), while the share of metallurgy in the GDP increased by 15 per cent. In 2018, the production of coke with 6 per cent. humidity - 10.8 million tonnes (107.1 per cent. as compared to 2017), the production of non-agglomerated iron ore concentrate amounted to 60.5 million tonnes (a decrease of 0.4 per cent. compared to 2017), production of agglomerated iron ore concentrate amounted to 53.1 million tonnes (104.6 per cent. compared to 2017), production of granules and briquettes of pressed or sintered wood, residues or waste of vegetable origin – 1,164 thousand tonnes (114.1 per cent. as compared to 2017), production of pipe products – 1.1 million tonnes (106 per cent. as compared to 2017).

For the ten months ended 31 October 2019, the production volume of pig iron and refractory iron smelt remained at the same level compared to the corresponding period of 2018 and amounted to 17.1 million tonnes; the production volume of semi-finished steel products of non-alloy flat increased by 2.2 per cent. (to 8.0 million tonnes); the production volume of ingots, forms of primary others, semi-finished products for the production of seamless pipes, of non-alloy steel increased by 2.7 per cent. (to 5.7 million tonnes); the production volume of semi-finished products of steel alloy (except non-stainless) flat ones increased by 10.5 per cent. (to 1.1 million tonnes); the production volume of ingots, forms of primary and semi-finished products, of other alloy steel (except stainless steel) increased by 6.7 per cent. (to 726.5 thousand tonnes); the production volume of tubes and tubes, circular cross section, hot-worked, seamless, of steel other than stainless increased by 3.5 per cent. (to 331.4 thousand tonnes); and the production volume of pipes and tubes, welded, hot or cold formed, of rectangular or square cross-section, with an outer diameter of not more than 406.4 mm, with a wall thickness of not more than 2 mm, of steel other than stainless, increased by 16.7 per cent. (to 185.2 thousand tonnes), in each case as compared to the corresponding period in 2018. At the same time, the production volume of smelting of ingots, forms of primary and semi-finished products, other, of non-alloy steel decreased by 3.7 per cent. (to 4.2 million tonnes); the production volume of ingots, forms of primary others, semi-finished products for the production of seamless pipes, of alloy steel (except stainless steel) decreased by 2.4 per cent. (to 3.0 million tonnes); the production volume of casing, pumping and drilling pipes for drilling oil and gas wells, seamless, of steel other than stainless steel decreased by 27.8 per cent. (to 136.1 thousand tonnes); the production volume of pipes and tubes, welded, round cross-section, hot or cold forming, with an outer diameter of not more than 406.4 mm, of steel other than stainless decreased by 10.7 per cent. (to 121.4 thousand tonnes); the production volume of tubes with welded, hot or cold formed and rectangular or square cross-sections with an outer diameter of not more than 406.4 mm, with a wall thickness of more than 2 mm, of steel other than stainless, decreased by 18.2 per cent. (to 134.6 thousand tonnes), the production volume of coke production with a moisture content of 6 per cent. decreased by 95.2 per cent. (to 8.5 million tonnes); the production volume of concentrates of iron ore not agglomerated decreased by 104.9 per cent. (to 52.8 million tonnes); the production volume of concentrates of iron ore agglomerated decreased by 100.0 per cent. (to 44.1 million tonnes); the production volume of pellets and briquettes of pressed or sintered wood, residues or waste of vegetable origin decreased by 100.1 per cent. (to 832 thousand tonnes), in each case as compared to the corresponding period in 2018.

Coke production volumes in the Donetsk Oblast in 2014 decreased by 29.7 per cent. as compared to 2013 and totalled 6.5 million tonnes. In 2015, coke production volumes in the Donetsk Oblast decreased by 15.6 per cent. as compared to 2014 and totalled 5.5 million tonnes. As of the date of this Prospectus, two coke-processing works produce coke in the region: PrJSC “Avdiivka Coke” and coke-processing production facility PrJSC “Azovstal Iron and Steel Works”. LLC “SPA “Inkor & C°(Toretsk)” also carries out production activity; the company specialises in the processing of products from coke-processing companies. In 2017, as compared to the previous year, production of coke with 6 per cent. humidity decreased by 20.8 per cent. and amounted to 4.9 million tonnes. In 2018, as compared to the previous year, production of coke with 6 per cent. humidity increased by 6.9 per cent. and amounted to 5.3 million tonnes. Coke-chemical enterprises face significant

problems with supply of raw materials and export of finished products by rail. Low coal deposits do not allow for a complete production process. Problems also remain with supply of technical water to coke-chemical enterprises in the region. As a result, coke plants in the territories in the Donetsk and Luhansk regions are functioning at 30 to 40 per cent. of their full capacity. In 2016, coke production in the Donetsk region increased by 12.8 per cent. and amounted to 6.2 million tonnes as compared to the same period in 2015.

In 2014, Ukraine's exports of ferrous metals comprised 24.6 million tonnes (a decrease of 7.3 per cent. compared to 2013), and amounted to U.S.\$12.9 billion (a decrease of 9.8 per cent. compared to 2013). In 2015, exports of ferrous metals decreased by 13.0 per cent., to 21.4 million tonnes, amounting to U.S.\$8.1 billion (a decrease of 37.2 per cent. compared to 2014). In 2016, exports of ferrous metals stayed stable at 21.4 million tonnes, in the amount of U.S.\$7.2 billion (a decrease of 11.1 per cent. compared to 2015). In 2017, exports of ferrous metals comprised 18.3 million tonnes (a decrease of 14.3 per cent. compared to 2016) and amounted to U.S.\$8.7 billion (an increase of 19.6 per cent. compared to 2016). In 2018, export of ferrous metals comprised 18.6 million tonnes (an increase of 14.7 per cent. compared to 2017) and amounted to nearly U.S.\$10 billion (an increase of 12.3 per cent. as compared to 2017). In the nine months ended 30 September 2019, import of ferrous metals comprised 14.2 million tonnes (a decrease of 2.1 per cent. compared to the first nine months of 2018).

In 2018, exports of products from ferrous metals amounted to U.S.\$1.1 billion (an increase of 23.8 per cent.), products of chemical and related industries U.S.\$1.9 billion dollars (an increase of 12.7 per cent.), textiles and textile products U.S.\$847 million (an increase of 11.5 per cent.), footwear U.S.\$194 million (an increase of 13.5 per cent.), electrical equipment U.S.\$4.7 billion (an increase of 8.9 per cent.), land transport vehicles, aircraft and floating means U.S.\$670 million (an increase of 7 per cent.) and furniture U.S.\$625.8 million (an increase of 15.4 per cent.).

In the nine months ended 30 September 2019, exports of products from ferrous metals amounted to U.S.\$0.8 billion (a decrease of 4.7 per cent. as compared to the corresponding period in 2018), products of chemical and related industries amounted U.S.\$1.4 billion dollars (an increase of 3.1 per cent.), textiles and textile products amounted U.S.\$637.9 million (an increase of 0.8 per cent. as compared to the corresponding period in 2018), footwear amounted U.S.\$134.6 million (a decrease of 3.9 per cent. as compared to the corresponding period in 2018), electrical equipment amounted U.S.\$3.3 billion (a decrease of 3.9 per cent. as compared to the corresponding period in 2018), land transport vehicles, aircraft and floating means amounted U.S.\$650.3 million (an increase of 28.6 per cent. as compared to the corresponding period in 2018) and furniture amounted U.S.\$494.5 million (an increase of 6.2 per cent. as compared to the corresponding period in 2018).

In 2018, Ukraine's exports of metal-roll products amounted to 14.4 million tonnes (98.8 per cent as compared to the corresponding period in 2017). The European Union (34.2 per cent.), Africa (16.3 per cent.), other European countries, including Turkey (12.8 per cent.) and the Middle East (10.7 per cent) remain the leading markets for export of Ukrainian steel products.

In 2018, steel products sales in the domestic market amounted to 5.4 million tonnes, of which 1.4 million tonnes (26.8 per cent.) were imported. During the corresponding period in 2017, steel products sales in the domestic market amounted to 5.0 million tonnes, of which 1.3 million tonnes (25.8 per cent.) were imported. Thus, in 2018, the rolled product sales in the domestic market increased by 6.76 per cent. as compared to 2017, with a faster growth of the import component (10.75 per cent.). CIS countries (52.2 per cent.), Asia (20.6 per cent.) and the European Union (17.5 per cent.) remain the leading markets for import of steel products.

Key Ukrainian machine-building enterprises manufacture products for the mining and metallurgical industry, power engineering, the chemical industry, railway engineering, shipbuilding, the aviation industry, agricultural machinery, radio engineering, electronic machine building, electrical engineering, technological equipment for light food industry, and lifting and transportation equipment.

Due to the conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions, a considerable number of machine-building factories are currently located in the uncontrolled territory of Ukraine, namely in the cities of Donetsk, Gorlivka, Yasinuvata, Makiyivka and Snizhne. The main problem of the industry is the loss of the main markets (the Customs Union countries) and the low demand for machine building products in the domestic market.

Production of chemicals in Donetsk Oblast decreased by 47.5 per cent. and 52.7 per cent. in 2014 and 2015, respectively. In 2016, production of chemicals in Donetsk Oblast increased by 13.5 per cent. as compared to 2015. In 2017, production of chemicals in Donetsk Oblast decreased by 7.2 per cent. as compared to 2016. In 2018, production of chemicals increased by 12.4 per cent. as compared to 2017, in January to October 2019 production of chemicals increased by 10.8 per cent. Since May 2014, Stirol Concern PJSC has been out of service (the production of ammonium nitrate, urea nitrate and hydrogen nitrate was stopped). Ammonium nitrate production volumes in Ukraine decreased by 30.9 per cent. in 2014. In 2015, ammonium nitrate production volumes in Ukraine further decreased by 32.4 per cent. as compared to 2014. In 2016, ammonium nitrate production volumes in Ukraine increased by 34.5 per cent. as compared to 2015. In 2017, ammonium nitrate production volumes in Ukraine decreased by 24.0 per cent. as compared to 2016. In 2018, the production of ammonium nitrate decreased by 1.8 per cent. In January to October 2019, ammonium nitrate production in Ukraine amounted to 403.7 thousand tonnes. The main factor influencing the volume of production of mineral fertilisers is the high price of gas, which reduces the competitiveness of domestic mineral fertilisers.

In 2018 the coal mining enterprises of Ukraine extracted 26.3 million tonnes of coal (an increase of 8.6 per cent. compared to 2017).

As at the date of this Prospectus, 16 coal mining enterprises operate in the territory controlled by Ukrainian authorities, out of 37 coal mining enterprises that operated in this territory prior to the beginning of the conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions. The coal mining industry suffers from limited working capital for investment, untimely payments for shipped coal products and reduced investor interest. As of the date of this Prospectus, 29 coal mines which are currently producing coal are located within the territory controlled by the Ukrainian authorities, and subject to the Ministry of energy and environment protection. The conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions has resulted in widespread damage to vital infrastructure as well as to industrial assets and road and transport infrastructure. Additionally, protectionist measures by Russia have negatively impacted industrial imports, while at the same time increasing the costs of certain raw materials. See “*Risk Factors—Relations with Russia*”.

The index of industrial products, production of food products, beverages and tobacco products in Ukraine (excluding the temporarily occupied territory of the Crimea and the City of Sevastopol) in 2018, as compared to 2017, was 98.5 per cent. (the index of industrial products in industry in total was 101.6 per cent.; processing industry – 101.1 per cent.). In 2018, as compared to 2017, the production of beef and frozen veal - carcasses, half-carcass, a quarter, cuts increased by 9.6 per cent.; poultry, chicken meat, frozen carcasses increased by 35.1 per cent.; tomato juice - by 6.9 per cent.; apple juice increased by 43.2 per cent.; milk and cream uncondensed, without sugar or other sweetening matter and with a fat content of 1 per cent. to 6 per cent. in primary packaging (net volume up to two litres) increased by 3.9 per cent.; liqueurs and other spirits (except spirits distilled from grape wine, grape or fruit extracts; whiskey, rum, taffia, gin, juniper tincture, horilka with alcohol not more than 45.4 per cent., spirits distilled from fruit) increased by 16.7 per cent.; natural mineral non-carbonated water increased by 21 per cent.; and natural mineral sparkling water increased by 15.8 per cent.

The index of production of textiles, leather and leather products and other products was 96.8 per cent.; the index of production of chemicals and chemical products, was 117.4 per cent.; the index of production of rubber and plastic products, other non-metallic mineral products was 99.5 per cent. (increase/decrease in production compared to the previous period).

In 2018, as compared to the corresponding period in 2017, production of unrefined sunflower oil and its fractions (except for chemically modified) decreased by 3.9 per cent. to 5,148.6 thousand tonnes and production of margarine and low-fat paste products (except for liquid margarine) decreased by 3.1 per cent. to 136.6 thousand tonnes. At the same time, production of frozen beef and veal increased by 9.6 per cent. to 20.2 thousand tonnes; production of vegetables (except for potatoes), fruits, nuts, mushrooms and natural canned vegetables increased by 1.7 per cent. to 29.7 thousand tonnes and production of beverages (including natural sparkling water and soft drinks) increased by 9.4 per cent. to 144.1 million decalitres.

In 2018, as compared to the corresponding period in 2017, production of food products, beverages and tobacco products decreased by 11.5 per cent.; production of wood and paper products and printing increased by 2.5 per cent.; and production of pharmaceutical products increased by 1.1 per cent.

In January to October 2019, production of food, beverages and tobacco increased by 1.2 per cent.; wood and paper production and printing decreased 5.7 per cent.; and production of basic pharmaceutical products increased by 7.3 per cent., all compared to the corresponding period in 2018.

In 2017, production volumes of the majority types of food products increased. The total increase of industrial products in the area was significantly impacted by the increase of production of meat, dairy products, confectionery, oils and animal fats, beverages, processing and preserving of fruits and vegetables. In addition, the production in machinery industry grew, including the production of motor vehicles, trailers and semitrailers and other vehicles, computers, electronic and optical products, machinery and equipment.

For the ten months ended 31 October 2019, as compared to the corresponding period in 2018, production of basic pharmaceutical products increased by 7.3 per cent.; food, beverages and tobacco increased by 1.2 per cent; and chemicals increased by 0.6 per cent.

### ***Mining***

In 2014, the extractive industry accounted for approximately 5.0 per cent. of Ukraine's nominal GDP, as compared to 5.5 per cent. in 2013. In 2015, 2016, and 2017, it accounted for approximately 4.8 per cent., 5.5 per cent. and 5.9 per cent. of Ukraine's nominal GDP. In the first, second, third, and fourth quarters of 2017, the extractive industry accounted for approximately 5.9 per cent., 6.5 per cent., 5.4 per cent. and 6.1 per cent. of Ukraine's nominal GDP, respectively. In the first, second, third, and fourth quarters of 2018, the extractive industry accounted for 6.1 per cent., 6.3 per cent., 5.6 per cent., and 6.0 per cent. of Ukraine's nominal GDP, respectively. In the first and second quarter of 2019, the extractive industry constituted 6.1 per cent. and 6.5 per cent. of Ukraine's nominal GDP, respectively.

Ukraine possesses a large mineral reserve base, with approximately 8,000 deposits of 80 different minerals. It has more than 70 per cent. of the CIS countries' reserves of manganese ores, 60 per cent. of kaolin, approximately 30 per cent. of iron ore deposits, 25 per cent. of cooking salt, and 15 per cent. of coal deposits. Ukraine is the world's fifth largest producer of iron ore and has the second largest reserve of manganese after South Africa. It also produces titanium and aluminium. Ukraine exported approximately U.S.\$2.6 billion, U.S.\$2.3 billion, and U.S.\$3.2 billion of non-metallic minerals and approximately U.S.\$476.1 million, U.S.\$401.9 million, and U.S.\$561.9 million of non-ferrous metals in 2015, 2016, and 2017 respectively. In 2018, Ukraine exported U.S.\$3.5 billion of non-metallic minerals and approximately U.S.\$585.8 million of nonferrous metals.

In 2015, 30.2 million tonnes of coal were produced in Ukraine, a decrease of 34.3 per cent., as compared to 2014. In 2016, 31.6 million tonnes were produced, an increase of 4.8 per cent., as compared to 2015. In 2017, production of coal decreased by 7.5 million tonnes as compared to 2016 and was equal to 24.2 million tonnes. In 2018, production of coal increased by 2.1 million tonnes of coal as compared to 2017 and was equal to 26.3 million tonnes. In the period from January to October 2019 compared to the corresponding period of 2018, across the coal mining enterprises that produce the amount of extraction of ordinary coal increased by 0.2 million tonnes and amounted to 25.6 million tonnes, or 94.0 per cent. of planned targets.

Exports of coal in 2014 amounted to 7.0 million tonnes, valued at U.S.\$521.0 million. Exports of coal in 2015, 2016, and 2017 were 0.6, 0.5 and 0.6 million tonnes, respectively, with values of U.S.\$53.7 million, U.S.\$44.8 million and U.S.\$105.5 million, respectively. Export of coal for the ten months ended 31 October 2019 was 13.3 thousand tonnes, with a value of U.S.\$526.9 per thousand tonnes. The aggregate volume of coal deposits in Ukraine is estimated at approximately 117.5 billion tonnes. This volume represents 95.4 per cent. of Ukraine's energy reserves and includes industrial reserves located at active mines of approximately 4.3 billion tonnes. The remaining 2 per cent. and 2.6 per cent. were accounted for by oil and natural gas, respectively.

As at the date of this Prospectus, a significant number of coal-producing enterprises are loss-making. However, due to a lack of funds to cover the costs of the closure of coal producing enterprises, as well as for other environmental reasons, redundancy payments and the need for coal supplies for private heating locally, progress on the closure of coal-producing enterprises has been delayed. The Government continues to view coal as an important source of energy for Ukraine. In addition, many coal mines are seen as "social assets", as they are

the only or the largest source of employment for certain communities. As at the date of this Prospectus, there are 11 state-owned coal mining companies operating in Ukraine.

Since the beginning of the “Restructuring of Coal and Peat Industries” state programme in 1996, liquidation of 144 unprofitable coal mining companies, coal refineries, and peat mining companies has been initiated, of which 68 liquidation projects have been completed; 11 projects on liquidation of unprofitable coal mining companies and coal refineries are being carried out; five mines are at the stage of preparation for liquidation; and two drainage complexes are maintained, whose construction and reconstruction was envisaged by mine liquidation projects; *provided that* their further operation is not included into the cost of such projects.

As a result of the Joint Forces Operation, 62 mines under liquidation and 11 mines prepared for liquidation are temporarily outside the control of the Ukrainian authorities.

Between 2014 and 2018, the Government adopted decisions on liquidation of a further five mining companies. As at the date of this Prospectus, 95 coal mining companies, representing approximately 64 per cent. of the total number of coal mining companies in Ukraine, are currently located in territories in the Donetsk and Luhansk regions and so are beyond the effective control or monitoring of the Government while the conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions continues.

State financing of the coal industry was UAH 9,407.5, UAH 1,997.9, UAH 2,292.7 and UAH 2,833.0 million out of the State Budget general fund in 2014, 2015, 2016, and 2017. In 2018, State financing of the coal industry was UAH 3,722.5 million, including UAH 2,627.3 million out of the State Budget general fund and UAH 1,095.2 million out of the special fund. In the State Budget of Ukraine for 2019, expenditures in support of the coal industry are provided in the amount of UAH 3,604.7 million from the general fund and UAH 40.9 million from the special fund. In addition, as at 20 November 2019, UAH 950 million has been already allocated to support the industry from the reserve fund of the state budget.

In 2012, the Parliament passed a law on the specifics of privatisation of coal mining companies. This law regulates the privatisation of coal mining companies and aims at establishing clear and transparent mechanisms for their privatisation, taking into account the social as well as economic impact. In particular, investment obligations must be fulfilled and required social guarantees to workers must be provided.

The privatisation of coal mining companies is expected to have several benefits, including reducing the burden on the State Budget due to the reduction in governmental subsidies for the cost of State coal mining companies, updating mine stock through investment, attracting private investment and greater managerial effectiveness and corporate stability in the post privatisation period.

Recent events in Ukraine have disrupted the Government’s privatisation plans. Prices expected for State assets, including coal mines, are subject to significant revision in the light of the current devaluation and internal disruptions to business in the country in general.

### ***Agriculture, forestry and fishery***

In 2015, 2016, 2017, and 2018 agriculture, forestry, and fishery accounted for 12.1 per cent., 11.7 per cent., 10.2 per cent., and 10.1 per cent. of Ukraine’s nominal GDP, respectively. In the six months ended 30 June 2019, this index accounted for 3.0 and 4.1 per cent. of Ukraine’s nominal GDP, respectively.

In 2017, as compared to 2016, overall agricultural production decreased by 2.2 per cent, which was attributable to a decrease in the overall production of crops (by 3.0 per cent.).

In 2017, 61.9 million tonnes of grain and leguminous crops were harvested (as compared to 66.1 million tonnes in 2016). At the same time, in comparison with 2016, production of the following increased: rapeseed (by 90.2 per cent.), sugar beets (by 6.2 per cent.), potatoes (by 2.1 per cent.), fruit crops (by 2.0 per cent.) and grapes (8.4 per cent.). In 2018, as compared to 2017, agricultural production increased by 8.1 per cent., including an increase in the production of enterprises by 12.6 per cent. and an increase in household plot production by 2.3 per cent, which was attributable to an increase in the production of crops by 10.7 per cent. (including 14.8 per cent. in enterprises and 4.3 per cent. in households) and 1.5 per cent. in the production of livestock products (including in enterprises by 5.2 per cent.). In 2018, 22 regions demonstrated growth in production, as compared to 13 regions in 2017. In January to October 2019, as compared to the corresponding period in 2018, agricultural



production increased by 3.3 per cent., including an increase in the production of enterprises by 7.2 per cent., while household production decreased by 1.8 per cent.

In 2018, a harvest of grain and leguminous crops amounted to a record 70.1 million tonnes (an increase of 13.1 per cent. or 8.1 million tonnes compared to 2017). In addition, as compared to 2017, the overall production of rapeseed increased by 25.3 per cent., soybeans increased by 14.4 per cent, sunflower increased by 15.8 per cent., potatoes increased by 1.3 per cent., vegetable crops increased by 1.7 per cent., fruit and berry crops increased by 25.6 per cent. and grapes increased by 14.2 per cent.

For the ten months ended 31 October 2019, as compared to the corresponding period of 2018, overall agricultural production increased by 3.3 per cent, including an increase in the production of enterprises by 7.2 per cent which ensured 7.4 per cent growth in crop production and 6.6 per cent increase in livestock production. As at 22 November 2019, farmers had already harvested approximately 73.7 million tonnes of cereals and legumes, 3.3 million tonnes of rapeseed, 3.7 million tonnes of soybeans, 15.0 million tonnes of sunflower, 9.7 million tonnes of sugar beets, 20.2 million tonnes of potatoes, 9.4 million tonnes of vegetables, 2.0 million tonnes of fruit-bearing crops, and 0.3 million tonnes of grapes.

In 2018, as compared to 2017, the production of livestock products increased by 1.5 per cent. (in 2017, this increase was 0.1 per cent. compared with 2016), including an increase in the production of enterprises by 5.2 per cent. (in 2017 this increase was 0.7 per cent. compared with 2016). The volumes of breeding livestock increased by 5.1 per cent. (in 2017 this decreased by 0.1 per cent. compared with 2016). The output of milk cows in enterprises (the annual milk production per cow) increased by 2.1 per cent. as compared to 2017 (in 2017, this increased by 1.8 per. cent compared with 2016). Poultry demonstrated positive dynamics in 2018: the number of poultry increased by 3.3 per cent. in all categories of households (in 2017, this increased by 1.6 per cent. compared with 2016) and production of eggs in all categories of households increased by 4.0 per cent. (in 2017, this increased by 2.7 per. cent compared with 2016).

In 2018, 3.3 million tonnes of livestock (in live weight) were slaughtered, 10.1 million tonnes of milk were produced and 16.1 billion eggs were produced.

As at 1 January 2019, the number of cows kept in all categories of households amounted to over 3.33 million heads, 6.0 million of pigs, 1.3 million sheep and goats, and 211.7 million heads of poultry.

For the ten months ended 31 October 2019, as compared to the corresponding period in 2018, the production of livestock products increased by 1.5 per cent., including an increase in the production of enterprises by 6.6 per cent. At the same time, the volume of the livestock (in live weight) that were slaughtered increased by 6.3 per cent. and production of poultry eggs increased by 4.0 per cent. Additionally, production of milk decreased by 3.6 per cent. mainly because of a decrease in the number of cows by 4.8 per cent. As of 31 October 2019, the total number of cattle in holdings in all categories was 3.5 million, as well as 6.1 million pigs, 1.4 million sheep and goats and 243.7 million heads of poultry.

For the ten months ended 31 October 2019, 2,733.4 thousand tonnes of cattle and poultry (live weight basis) were sold for slaughter, a 6.3 per cent. increase as compared to the corresponding period of 2018, and 8.4 million tonnes of milk and 14.3 billion eggs were produced, a decrease of 3.6 per cent. and an increase of 4.0 per cent., respectively, as compared to the corresponding period of 2018. The share of household plot production in the overall production of these products amounted to 31,72 and 46 per cent., respectively.

As at 31 October 2019, Ukrainian households kept 3.5 million heads of cattle (a 5.5 per cent. decrease as compared to 31 October 2018), 1.9 million heads of cows (a 4.8 per cent. decrease as compared to 31 October 2018), 6.1 million heads of pigs (a 4.1 per cent. decrease as compared to 31 October 2018), 1.4 million heads of sheep and goats (a 3.4 per cent. decrease as compared to 31 October 2018), and 243.7 million heads of poultry of all kinds (or a 3.4 per cent. increase as compared to 31 October 2018). As a percentage of all cattle in Ukraine, cattle kept by households amounted to 69.5 per cent., including 76.6 per cent. of cows, 45.3 per cent. of pigs, 87.4 per cent. of sheep and goats, and 46.1 per cent. of poultry of all kinds.

In 2018, 86.2 thousand tonnes of aquatic bioresources (including 64.7 thousand tonnes of fish) were extracted, including the following classifications of aquatic bioresources: aquaculture (13.6 thousand tonnes extracted), internal water objects (46.8 thousand tonnes extracted), and other regions fishing (25.8 thousand tonnes extracted).

In 2018, the foreign trade turnover of the products of the agroindustrial complex amounted to U.S.\$23.7 billion (increased by 7.3 per cent. as compared to 2017). At the same time, the export of products of the agricultural sector amounted to 39.3 per cent. of foreign exchange earnings from the total exports of Ukraine and amounted to U.S.\$18.6 billion (increased by 4.8 per cent.). The trade surplus amounted to U.S.\$13.6 billion.

According to the International Trade Center, Ukraine is globally, by volume and export value, the largest exporter of sunflower oil, sunflower cake and other solid wastes; the second-largest exporter of rapeseed; the fourth-largest exporter of corn, barley, dried peas and chicken (not cut); the fifth-largest exporter of walnuts without shell and waste and residues from wheat processing; and the sixth largest export of wheat and soybeans globally. In 2018, globally, the main export markets for agricultural products were: Asia (U.S.\$8 billion or 43.0 per cent. of total global exports of agricultural products), the EU (U.S.\$6.3 billion or 34.0 per cent. of total global exports of agricultural products), Africa (U.S.\$2.3 billion or 12.0 per cent. of total global exports of agricultural products) and CIS countries (U.S.\$1.5 billion or 8.0 per cent. of total global exports of agricultural products). Together, they account for 97 per cent. of Ukraine's total global exports.

Between January and September 2019, the foreign trade turnover of products of the agroindustrial complex amounted to approximately U.S.\$20 billion (an increase of 18.6 per cent. as compared to the corresponding period of 2018). The export of products of the agricultural sector amounted to 42.5 per cent. of foreign exchange earnings from the total exports of Ukraine and amounted to U.S.\$315.8 billion (increased by 21.5 per cent.). The trade surplus amounted to U.S.\$11.6 billion.

In recent years, the main positions of exports of agricultural products have remained unchanged. For the nine months ended 31 September 2019, Ukraine's key exports of agricultural products by volume were grain crops (43.3 per cent.), vegetable oil (2.8 per cent.), and oil seeds (10.5 per cent.).

In the nine months ended 31 September 2019, Ukraine's main export markets for agricultural products were: Asia (41.0 per cent. of Ukraine's total exports of agricultural products), the EU (34.0 per cent. of Ukraine's total exports of agricultural products), Africa (15.0 per cent. of Ukraine's total exports of agricultural products) and CIS countries (7.0 per cent. of Ukraine's total exports of agricultural products). The main export trading partners of Ukraine in January to September 2019 were: China, Egypt, the Netherlands, India, Turkey, Spain, Germany, Poland, Italy, and Belarus. Together, these countries imported 56.0 per cent. of Ukraine's total exports of agricultural products for the period.

In the 2018 to 2019 marketing period the export of grain and leguminous crops (with products of their processing) and flour amounted to 50.4 million tonnes (compared to more than 40 million tonnes in the 2017-2018 marketing period). Since the beginning of the 2018 to 2019 marketing period, as of 22 November 2019, more than 23.3 million tonnes of grain and leguminous crops and flour were exported.

In 2019, Ukrainian producers received duty-free quotas for agricultural imports into the EU, provided for in the EU-Ukraine Association Agreement, with a corresponding increase in export volumes of honey (an increase of 5.6 thousand tonnes as compared to 2018), other sugar (an increase of 16.0 thousand tonnes as compared to 2018), bran, waste and residues (an increase of 20.0 thousand tonnes as compared to 2018), ethanol (an increase of 70.8 thousand tonnes as compared to 2018), poultry meat (an increase of 18.4 thousand tonnes (basic) and 20.0 thousand tonnes (additional) as compared to 2018), wheat (an increase of 980.0 thousand tonnes as compared to 2018), corn (an increase of 550.0 thousand tonnes as compared to 2018), barley (an increase of 310.0 thousand tonnes as compared to 2018), eggs (an increase of 2.4 thousand tonnes (basic) and 3 thousand tonnes (additional) as compared to 2018), milk and cream, condensed milk and yoghurts (an increase of 9.2 thousand tonnes as compared to 2018), milk powder (an increase of 3.6 thousand tonnes as compared to 2018) and butter (an increase of 2.5 thousand tonnes as compared to 2018).

As of 19 November 2019, Ukrainian producers fulfilled the following basic export quotas: honey, sugar, barley groats and flour, processed starch, processed tomatoes, grape and apple juices, corn, poultry meat and wheat; processed malt and starch (99.9 per cent. of quota fulfilled), butter (98.8 per cent. of quota fulfilled), barley (80.3 per cent. of quota fulfilled), starch (92.0 per cent. of quota fulfilled), processed grain crops (95.1 per cent. of quota fulfilled) malt and wheat gluten (81.7 per cent. of quota fulfilled), bran, waste and residues (65.8 per cent. of quota fulfilled), garlic (64.6 per cent. of quota fulfilled), processed milk (39.8 per cent. of quota fulfilled), milk powder (29.4 per cent. of quota fulfilled) eggs and albumins (84.5 per cent. of quota fulfilled)

and 63 per cent. of quota fulfilled for “basic” and “additional” categories, respectively) and poultry carcasses (45.9 per cent. of quota fulfilled).

Also in 2019, additional unilateral or “autonomous” trade preferences were available from the EU for the following: honey (2,500 tonnes); grape juice (500 tonnes); processed tomatoes (3,000 tonnes); barley, groats and flour (7,800 tonnes); oats (4,000 tonnes); corn, corn flour, and granules (625,000 tonnes); soft wheat, wheat flour and granules (65,000 tonnes); and barley and granules (325,000 tonnes). Quotas for honey, barley, flour, corn, processed tomatoes and wheat were utilised in full (additional quotas for honey, processed tomatoes, effective from 1 October 2019, were also utilised in full), barley and flour - by 38.1 per. cent. and oats (from 1 October 2019 to 31 September 2020) - by 1 per. cent.

As of 19 November 2019, 319 Ukrainian companies are entitled to export their products into the EU.

On 28 December 2015, Ukraine and the EIB signed a finance facility amounting to €400 million, aiming to support the Ukrainian agrarian sphere; this was ratified by Parliament on 20 September 2016. The Law of Ukraine “*On Ratification of the Finance Facility (Project “Basic Credit for Agrarian Industries – Ukraine”) between Ukraine and European Investment Bank*” No. 1530-VIII came into force on 23 October 2016. As of the date of this Prospectus, there have not been any drawdowns under this project. The agreement aims to increase the financing of the agrarian sector of economy, in particular the projects of small and medium-sized enterprises and institutions with average capitalisation in the agrarian sector of the economy, notably the portfolio of modernisation projects in the areas of grain and oilseeds, fisheries and aquaculture in Ukraine. On 10 July 2019 the Cabinet of Ministers of Ukraine adopted the Resolution No. 606 “On Implementation of the joint project with the EIB “the Basic Credit for Agrarian Industries – Ukraine”. The Resolution approved the monetary and financial conditions for the banks to participate in the this project, the conditions for participation and the list of documents required for submission to participate in the selection. On 3 September 2019, the competitive selection of banks was announced. As of the date of this Prospectus, the selection process is ongoing.

On 27 August 2019, Ukraine and the International Bank for Reconstruction and Development signed a loan agreement (“**Accelerated Investment Program for Agriculture**”) in the amount of U.S.\$200 million. Conditions necessary for the entry into force of the agreement are currently being taken. Unlike other sectors of the Ukrainian economy, agricultural output grew by 2.2 per cent. in 2014. This growth included an increase of 3.2 per cent. in crop farming and a decrease of 0.3 per cent. in animal husbandry. These trends were helped in part by reductions in export restrictions (on 9 April 2014, the Parliament adopted a law which reduced the number of authorisations, including quality certificates required for export of grain); record grain and vegetable oil crops in summer 2014; and a positive trade balance in meat (in particular, poultry meat, beef), casein, cereals, soybeans, seeds of flax, seeds of fennel or rape and oil (in particular, sunflower, soybean, soup or rape), with Ukraine exporting more than it imported in 2014. On 16 June 2014, Russia introduced temporary restrictions on imports of potatoes from Ukraine; on 3 February 2014 it banned import of pork from Ukraine and as at 9 July 2014 temporary restrictions introduced by Russia were effective with respect to 11 Ukrainian dairies. Estimated losses from these restrictions and bans amounted to approximately U.S.\$1.0 million, U.S.\$2.0 million and U.S.\$60.0 million, respectively.

In 2014, agricultural production in Donetsk region decreased by 7.0 per cent. (4.2 per cent. share in the overall volume of agricultural production) and in Luhansk region by 20.2 per cent. (2.1 per cent. share in the overall volume of agricultural production), compared to 2013. In Donetsk and Luhansk regions, 1.3 and 1.2 million tonnes of grain and legumes were collected respectively (compared to 2.4 million tonnes in Donetsk region and 1.2 million tonnes in Lugansk in 2013).

In 2015, agricultural production in Donetsk region decreased by 35.1 per cent. and by 22.2 per cent. in Luhansk region, production of grain and leguminous crops in the Donetsk region amounted to 1.5 million tonnes, in Lugansk - about 1 million tonnes compared to 2014. In 2016, agricultural production increased by 8.3 per cent. in Donetsk region and by 19.3 per cent. in Luhansk region compared to 2015 In 2016 production of grain and leguminous crops in Donetsk and Luhansk regions amounted to 1.9 million and 1.3 million tonnes, respectively. In 2017, agricultural production in Donetsk region increased by 2.2 per cent. and decreased by 6.0 per cent. in Luhansk region Production of grain and leguminous crops in Donetsk and Luhansk regions amounted to 1.9 million and 1.3 million tonnes, respectively. In 2018, agricultural production in Donetsk region decreased by

9.4 per cent. while in Luhansk region it increased by 9.2 per cent. compared with 2017, and production of grain and leguminous crops in Donetsk and Luhansk regions amounted to 1.3 million and 1.2 million tonnes, respectively.

In January to October 2019, compared to the relevant period in 2018, agricultural production in the Donetsk and Luhansk regions increased by 18.4 per cent. and 11.4 per cent., respectively.

## ***Fuel and Energy***

### ***Import, Production and Consumption***

Ukraine has historically imported a significant portion of its primary energy needs, mainly in the form of natural gas and crude oil, from Russia and other CIS countries. Ukraine and Russia are currently in a dispute over pricing for future gas deliveries (See “*Oil and Gas Transit*”).

Though Ukraine possesses untapped internal energy sources of natural gas and oil, most of Ukraine’s external liabilities are generated through imports of oil and gas. In 2016, 11.1 billion cubic metres of natural gas was imported, compared to 16.5 billion cubic metres in 2015, 19.5 billion cubic metres in 2014 and 28.0 billion cubic metres in 2013. In 2017, 14.1 billion cubic metres of natural gas were imported. In 2018, import of natural gas amounted to 10.5 billion cubic metres. For the first nine months of 2019, Ukraine increased imports of natural gas by 14.1 per cent. or 1.1 billion cubic metres to 9.2 billion cubic metres, as compared to the corresponding period in 2018. In January to October 2019, Ukraine imported 13.3 billion cubic metres of natural gas.

Production of natural gas in Ukraine supplies approximately half of the total demand. Therefore, there is a significant need to import natural gas to meet local consumption demands. At the same time, the success of implementation of plans to increase domestic production of gas, established at the state level by the Concept for the Development of Gas Production Industry by 2020 (approved by the Government), is expected to significantly impact the reduction of gas import needs.

The law “*On the Natural Gas Market in Ukraine*” was adopted in 2015 and fully complies with the Third Energy Package of the EU. The majority of the provisions of this law became effective on 1 October 2015.

The single gas market, formed by the EU Energy Union, envisages free access of any country to at least three independent resources of natural gas. Until 2014, Ukraine could import natural gas from two directions: via Poland (up to 1.5 billion cubic metres per year) and Hungary (up to 5.5 billion cubic metres per year). These directions are limited by comparatively low bandwidth capacity of pipelines, which could be interrupted at any moment. Further, they did not provide Ukraine with access to the liquid market of Western Europe because they were fully controlled by Gazprom in the European direction.

In 2014, through cooperation between operators of the gas transit systems of Slovakia and Ukraine, and with the active support of the European Commission, a new gas transit route from Slovakia to Ukraine was opened. Current capacity of the route is approximately 15.5 billion cubic metres per year. It connects Ukraine with the liquid markets of Western Europe and was the main route used by Naftogaz to import gas in 2015, 2016, and 2017. The capacities of gas routes from Europe have resolved Ukraine’s critical dependency on supplies of Russian gas.

Comparing the capacity of gas routes from Europe with Ukraine’s total demand for imported gas, which is currently 11-14 billion cubic metres per year, it can be argued that Ukraine has removed its critical dependence on Russian gas supplies.

In 2014, domestic extraction of oil and gas condensate was 2.7 million tonnes, compared to 3.1 million tonnes in 2013. The decrease in domestic oil and gas condensate extraction was partly caused by a depletion of reserves at the main oil deposit fields and a reduction in the volumes of research and exploration and exploitation drilling at deposit fields of PJSC “Ukrnafta”. Extraction of oil and gas condensate in Ukraine by enterprises managed by Naftogaz was 2.2 million tonnes in 2015, 2.0 million tonnes in 2016, 1.8 million tonnes in 2017, 1.9 million tonnes in 2018 and 1.7 million tonnes in January to October 2019.

According to current data for 2018, 19.9 billion cubic metres of natural gas were extracted (20.98 billion cubic metres, taking into account Ukrnafta). Compared to 2017, extraction increased by only 2.4 per cent., which is 9.6 per cent. less than planned. In January to October 2019, natural gas production in Ukraine amounted to 17.2 billion cubic metres (including 18.2 billion cubic metres produced by Ukrnafta). As compared to 2018, production decreased by 0.6 per cent.

Of the Naftogaz group companies, Ukrgezvydobuvannya has extracted 15.496 billion cubic metres (74 per cent. of total production in Ukraine), which is 1.01 billion cubic metres less than planned, and Ukrnafta has extracted 1.12 billion cubic metres. In the ten months ended 31 October 2019, Naftogaz produced 13.4 billion cubic metres of natural gas, a decrease in extraction compared to the same period in 2018 of 1.9 billion cubic metres or 1.5 per cent.

Ukrgezvydobuvannya production in 2018 increased by 250 million cubic metres (an increase of 1.6 per cent.) as compared to 2017, and since the beginning of the transformation of Ukrgezvydobuvannya in 2015, annual growth has averaged 970 million cubic metres (an average annual increase of 6.7 per cent.). For the first ten months of 2019, Ukrgezvydobuvannya produced 12,500 million cubic metres, a decrease of 300 million cubic metres or 2.3 per cent. as compared to the corresponding period in 2018.

Among the enterprises of Ukrgezvydobuvannya the maximum rate of increase in production was demonstrated by the western branch. In 2018, the State Enterprise “Shebelinkagasvidobuvannya” extracted 8.7 billion cubic metres (an increase of 1 per cent. as compared to 2017), Poltavaagasvydobuvannya GPU extracted 6.1 billion cubic metres (a decrease of 1 per cent. as compared to 2017), and Lvivgazvydobuvannya GPU extracted 0.7 billion cubic metres of gas (an increase of 4.8 per cent. as compared to 2017).

All commercial gas extracted by Ukrgezvydobuvannya during the period from January to October 2018 was purchased by Naftogaz at a price of UAH 4,849 per thousand cubic metres excluding VAT, while during November and December 2018 it was purchased by Naftogaz at a price of UAH 6,115.98 per thousand meters cubic without VAT, for the needs of domestic consumers, religious organizations and producers of thermal energy and other consumers for public service obligations. Prices, conditions and procedure for gas supply are established by acts of the Cabinet of Ministers of Ukraine.

All purchased gas for the needs of the population was implemented by Naftogaz Ukrainy on the terms of PSO through regional gas supply companies.

Extraction of other business entities is 4.37 billion cubic metres. In comparison with 2017, production increased by 7.3 per cent. In January to October 2019, extraction of other business entities was 3.8 billion cubic metres.

In 2018, Ukrgezvydobuvannya extracted 446.8 thousand tonnes of oil and oil condensate, showing 103.3 per cent. plan fulfilment; Ukrnafta extracted 1,447.8 thousand tonnes (104.6 per cent. plan fulfilment). Overall, Naftogaz extracted 1,894.6 thousand tonnes – 104.3 per cent. plan fulfilment. As compared to 2017, the production of oil and oil condensate increased by 46.7 thousand tonnes. In January to October 2019 Ukrgezvydobuvannya extracted 394.3 thousand tonnes of oil and oil condensate.

In 2018, Ukrgezvydobuvannya processed 454 thousand tonnes of oil and gas condensate – 100.6 per cent. plan fulfilment. The production of gasoline by Ukrgezvydobuvannya amounted to 130.6 thousand tonnes, diesel fuel – 85.05 thousand tonnes, fuel oil – 29.35 thousand tonnes and liquefied gas – 164.84 thousand tonnes. The production of liquefied gas by Ukrnafta amounted to 110 thousand tonnes. The processing decreased by 39.5 thousand tonnes and amounted to 92 per cent. as compared to 2017.

In January to October 2019, Ukrgezvydobuvannya processed 247 thousand tonnes of oil and gas condensate which constitutes 103.4 per cent. of plan fulfilment. Ukrgezvydobuvannya produced 80.3 thousand tonnes of gasoline, 45.1 thousand tonnes of diesel fuel, 17.3 thousand tonnes of fuel oil and 83.4 thousand tonnes of liquefied gas during this period.

In 2018, Ukrgezvydobuvannya drilled 313,121 metres and Ukrnafta – 3,082 metres. As compared to 2017, the number of drilled metres increased by 55,394 metres (21.2 per cent.). In the first quarter of 2019, Naftogaz group companies produced 4.2 billion cubic metres of natural gas and petroleum gas (100.6 per cent of planned volumes) on the territory of Ukraine.

In January to October 2019, the volume of drilling by Ukrgezvydobuvannya amounted to 190,314 metres (including outsourcing of Ukrgezvydobuvannya – 64,505 metres) at the planned level of 202,443 metres (94.0 per cent. of the plan). As compared to the corresponding period of 2018 the volume of drilling by Ukrgezvydobuvannya decreased by 71,982 metres or by 27.4 per cent.

### *Oil and Gas Transit*

Ukraine has well developed pipelines to transport gas and oil from the CIS to Western Europe. According to Naftogaz, Ukraine's gas transit system consists of more than 38,000 kilometres of gas pipelines (or 37,500 kilometres excluding Chornomornaftogaz (in Crimea)); it includes 72 compressor stations and 13 underground gas storage facilities (with the capacity to store 32.0 billion cubic metres of gas, including one underground gas storage facility in Crimea with a capacity of 1 billion cubic metres), with a total transit input capacity of 302.1 billion cubic metres per year, of which 21.4 billion cubic metres per year are from the European direction, as well as 178 billion cubic metres output capacity of gas per year, including 146 billion cubic metres of gas per year which is transited to other parts of Europe. Approximately 68 per cent. of the pipelines have been in operation for more than 30 years, 30 per cent. of the pipelines have been in operation for between 11 to 30 years and 2 per cent. have been in operation for ten years or less.

Ukraine's oil transit system consists of 19 oil pipelines with an aggregate length of approximately 4,767.3 kilometres and an aggregate entrance capacity of 114.0 million tonnes per year and aggregate exit capacity of 56.3 million tonnes per year. The system functions with the help of 51 pumping stations with an aggregate capacity of 1,083,000 cubic metres; 79 tanks are currently in operation. Onshore Loading Terminal "Pivdennyi" (Odesa region, Yuzhnyi Port) is intended for unloading, loading and transportation of oil via the main oil pipelines of Ukraine. The output capacity of the terminal is 14.5 million tonnes per year with a capability of increasing the same to 45 million tonnes per year. The tankers' deadweight in operation is up to 150,000 tonnes, with a maximum sea gauge of 13.8 metres. The capacity of the tank farm is 200,000 cubic metres. In June 2001, OJSC Ukrtransnafta, a state-owned oil company and 100 per cent. subsidiary of Naftogaz, was established to manage the transport of oil by pipelines through Ukraine. This pipeline infrastructure is a major source of revenue, with significant effects on Ukraine's balance of payments. See *"External Sector—Balance of Payments"*.

In recent years, the Ministry of Energy and Coal Industry and Naftogaz have actively cooperated with prominent international consultants, financial organisations (including the World Bank, EIB and EBRD), the European Commission and the Energy Community Secretariat on reforming the gas sector of Ukraine. An analysis of potential unbundling models for the gas transit system of Ukraine was carried out with international consultants.

Two unbundling models for Ukraine's gas transit system, OU and ISO, were shortlisted as the recommended options for the reorganisation of Naftogaz, based on active cooperation with the Energy Community Secretariat. Respective provisions are set out in the law *"On the Natural Gas Market"* and the *"Gas Sector Reform Issues"* Decree No. 375-p, dated 25 March 2015 (which includes a step plan in respect of reformation of the gas sector, approved by the World Bank and Energy Community Secretariat).

The law *"On the Natural Gas Market"*, which entered into force on 1 October 2015, laid down the foundation for the functioning of the natural gas market in Ukraine with the requirements of the EU Third Energy Package, which aims at creating open, competitive and transparent energy markets that facilitate trade between countries and provide access to diversified sources of energy. One of the tools to achieve this goal is to eliminate the conflict of interest between the production and supply segments on the one hand, and the energy transporting segment on the other.

Article 23 of this law aims at implementing Article 9 of EU Directive 2009/73/EC; in particular, the requirements related to elimination of any influence on the operation of GTS operators through control or rights of other persons who are related to producers (manufacturers) and/or suppliers of natural gas and/or electric power.

For fulfilment of Ukraine's commitments within the Energy Community, under the law *"On the Natural Gas Market"*, and in order to complete the separation of the natural gas transmission system operator, on 18 September 2019 the Cabinet of Ministers of Ukraine adopted Resolution No. 840 *"On Unbundling of Natural Gas Transportation Activities and Provision of Operation of the Gas Transmission System Operator"*

(“**Resolution No. 840**”), which approved the Implementation Plan requirements for the separation and independence of the gas transmission system operator (Plan of Measures). According to paragraph 1 of Resolution No. 840, the Cabinet of Ministers of Ukraine changed the unbundling model to the Independent System Operator (ISO) provided by Article 27 of the Law of Ukraine “*On the Natural Gas Market*”. Resolution of the Cabinet of Ministers of Ukraine No. 496 “On Unbundling of Gas Transmission and Storage (Injection, Withdrawal) Activities” dated 1 June 2016 has become invalid in accordance with paragraph 5 of Resolution No. 840.

On 31 October 2019, Parliament adopted the law “*On amending the certain laws of Ukraine related to the separation of natural gas transmission activities*” which is necessary for the separation of the natural gas transmission system operator and for compliance of the natural gas transmission system operator with European legislation.

The Cabinet of Ministers, by Resolution No. 496 dated 1 July 2016, approved the Naftogaz Restructuring Plan with an aim of separating activities of transportation and storage of natural gas and selected the model for unbundling of the GTS operator, which is provided for in Article 23 of the law “*On the Natural Gas Market*”, where GTS is state-owned and not subject to privatisation. Resolution No. 496 sets deadlines for the analysis of the list of assets to be transferred to the public joint stock company “Main Gas Pipelines of Ukraine” (“**JSC MGPU**”) and the timeline of such transfer. Under Resolution No. 496, “*Property which is used for transportation of natural gas and is recorded on the balance of Ukrtransgas, subject to loan liabilities of Naftogaz and its subsidiaries*” must be transferred to JSC “MGPU” within 30 days following the effective date of the final awards on the Naftogaz-Gazprom cases.

In line with the Restructuring Plan, the Corporate Governance Action Plan on GTS operators was approved. On 9 November 2016 and 16 November 2016, Cabinet of Ministers adopted Resolutions No. 801 “*On Establishment of Public Joint Stock Company “Main Gas Pipelines of Ukraine”*” and No. 837, respectively, providing for placement of shares and establishment of JSC “MGPU”, and formation and approval of its charter. Subsequently, “JSC” MGPU and its charter were registered with the State Registration Service on 19 January 2017. The members of the supervisory board of JSC “MGPU” were approved by Order No. 134 of the Ministry of Energy and Coal Industry of Ukraine dated 28 February 2018.

On 24 July 2018, supervisory boards of Naftogaz and JSC “MGPU” signed a memorandum of understanding related to unbundling of the gas transportation system operator. The supervisory boards confirmed that the operator of the gas transportation system will be part of Naftogaz by the end of 2019. Naftogaz is responsible for all internal preparatory work for further unbundling of the operator and the transfer of its assets starting 1 January 2020. By that time, JSC “MGPU” will not carry on significant business activity related to operation of the gas transportation system, but will take steps to prepare for certification.

According to the Resolution of the Cabinet of Ministers of Ukraine dated 18 September 2019, No. 791-p, the Ministry of Finance of Ukraine is authorised to manage on behalf of the state the corporate rights of JSC “Main Gas Pipelines of Ukraine”.

Ukraine and EU are implementing a comprehensive study project for the Ukrainian underground gas storage facilities. The project is funded by the EU and is designed to build up a sustainable business case for Ukraine’s underground gas storage facilities in the context of the European and Ukrainian energy market. The findings will be used to generate several strategy scenarios for the optimal use of Ukraine’s underground gas storage facilities. The project is therefore important to the implementation of the law “*On the Natural Gas Market*” and the fulfilment of Ukraine’s commitments towards the unbundling of the gas transmission function from Naftogaz. On 1 January 2020, Naftogaz announced the completion of the unbundling process by signing the act of acceptance of GTSOU between JSC Ukrtransgaz and JSC MGPU. On the same day, GTSOU adopted a separate act on the balance sheet assets of the Ukrainian GTS transferred from Ukrtransgaz. The act of acceptance contained more than 47,000 balance units with a total book value of approximately UAH 32 billion. This act was agreed by all parties involved in the unbundling procedure, including Naftogaz, the SPF, the Ministry of Economic Development, Trade and Agriculture, the Ministry of Finance as well as the Ministry of Energy and Environmental Protection.

In 2015, 67.1 billion cubic metres of gas were transported via Ukraine (the value of provided transport services was U.S.\$2.1 billion), as compared to 62.2 billion cubic metres in 2014 and 86.1 billion in 2013. In 2016, 82.2

billion cubic metres of gas were transported via Ukraine (the value of provided transport services being U.S.\$2.4 billion). In 2017, 93.5 billion cubic metres of gas were transported via Ukraine (the value of provided transport services was U.S.\$2.8 billion) as compared to 82.2 billion cubic metres in 2016. In 2018, 86.8 billion cubic metres of natural gas were transported via Ukraine (the value of provided transport services was U.S.\$2.7 billion). In January to October 2019, 73 billion cubic metres of natural gas were transported via Ukraine (the value of provided transport services was U.S.\$2.2 billion).

The gas transit corridor through Ukraine is the only route for transportation of Russian gas that is not controlled by Russia. With the apparent aim of acquiring control over all supplies of natural gas to Europe, Russia is implementing projects on development of alternative supply routes (Northern Stream 2, Southern/Turkish Stream, perhaps Bulgarian/Greek Stream, etc.) for increasing supplies of Russian gas; this would therefore raise the dependency of the EU on Russian gas.

At the same time, despite the gas crisis of recent years and the worsening of relations during the last two years, Ukraine has worked to demonstrate its reliability to European partners and consumers. Increased efficiencies and usage capacities in the Ukrainian gas transit system, including in relation to EU demand, will create new opportunities for ensuring the safety of supplies of hydrocarbons and their transit through Ukraine to the EU. Implementation of European approaches to tariff setting, European legislation in Ukraine, as well as increased participation by Ukraine in EU gas infrastructure development plans, have already led to positive results in the diversification of gas supplies to Ukraine over the past two years and may be considered indicative of beneficial results in Ukraine's further integration into the sphere of European energy supply.

In 2014, 15.0 million tonnes of oil were transported through Ukraine, a decrease of 0.6 million tonnes, as compared to 2013. In 2015, 15.2 million tonnes of oil were transported through Ukraine, which constitutes an increase of 0.2 million as compared to 2014. In 2016, according to PJSC "Ukrtransnafta", 13.8 million tonnes of oil were transported through Ukraine. In 2017, 13.9 million tonnes of oil were transported through Ukraine, an increase of 0.1 million tonnes, as compared to 2016. In 2018, 13.3 million tonnes of oil were transported through Ukraine. In January to October 2019, 12.6 million tonnes of oil were transported through Ukraine.

Several gas pipelines bypassing Ukraine, including Nord Stream (together with internal European distribution pipelines), are operated by international consortia of companies headed by PJSC "Gazprom". At the same time, Nord Stream 2 and Turkish Stream, are under development by PJSC "Gazprom".

As a result of the deterioration of its relations with Russia resulting in the cessation of Russian gas imports on 16 June 2014, Ukraine has been considering the possibility of buying back Russian gas from European countries. Naftogaz has entered into several framework agreements concerning the reverse gas supply from European countries. In particular, framework agreements were executed with RWE Supply & Trading GmbH (Germany), GDF SUEZ (France) and E.ON Global Commodities (Germany). For the first six months of 2014, 311.1 million cubic metres of natural gas were purchased from RWE Supply & Trading GmbH and 257.3 million cubic metres of natural gas from GDF SUEZ.

As at the date of this Prospectus, imports of natural gas are being carried out through the territories of Poland, Hungary and Slovakia. The route through Slovakia is considered as the most efficient for reverse transportation. It is expected that the volume of such transportation through the territory of Slovakia will be approximately 42.5 million cubic metres of natural gas per day. In 2015 and 2016, Naftogaz continued working on the diversification of natural gas supply sources. As a result, the amount of imported gas from the European market increased almost twofold (from 4.9 billion cubic metres in 2014 to 9.2 and 8.2 billion cubic metres in 2015 and 2016, respectively). In 2017, Naftogaz imported 8.7 billion cubic metres of natural gas, which is 0.5 billion cubic metres more than in 2016. Gas was supplied from Slovakia and Hungary. In 2018, Naftogaz imported 7.0 billion cubic metres of natural gas. In January to October 2019, Naftogaz imported 13.3 billion cubic metres of natural gas. Gas was supplied from Slovakia, Poland and Hungary.

In 2017, private traders and gas consumers increased both volume and share of gas imports. Specifically, private traders and gas consumers imported 5.4 billion cubic metres, which is 1.8 times more than in 2016 (2.9 billion cubic metres). Overall, 67 companies imported gas to Ukraine in 2017, as compared to 34 companies in 2016. During the first three quarters of 2019 Naftogaz purchased gas from 9 European suppliers as compared to 19 European suppliers in 2018 and 13 European suppliers in 2017. None of them accounted for more than 35% of gas imported by Naftogaz.



The average price for the import of gas by Naftogaz in 2016, 2017, 2018 and 2019 quarterly is shown in the table below:

	Period of gas delivery							
	1 <sup>st</sup> quarter				2 <sup>nd</sup> quarter			
	2016	2017	2018	2019	2016	2017	2018	2019
	<i>(U.S.\$ per 1,000 cubic metres)</i>							
Average weighted cost of gas imported from all directions, including transportation to the Ukrainian border.....	198	243	303	260	—	212	274	213
Average weighted cost of gas imported from Europe, including transportation to the Ukrainian border.....	198	243	303	260	—	212	274	213
Average weighted price of gas purchase in Europe (at the delivery point).....	191	236	296	253	—	205	267	206

	Period of gas delivery							
	3 <sup>rd</sup> quarter				4 <sup>th</sup> quarter			
	2016	2017	2018	2019	2016	2017	2018	2019
	<i>(U.S.\$ per 1,000 cubic metres)</i>							
Average weighted cost of gas imported from all directions, including transportation to the Ukrainian border	191	211	300	164	210	248	339	-
Average weighted cost of gas imported from Europe, including transportation to the Ukrainian border .....	191	211	300	164	210	248	339	-
Average weighted price of gas purchase in Europe (at the delivery point).....	185	204	294	157	204	241	331	-

During 2015 and 2016, Naftogaz continued working on raising funds from international financial organisations for the purchase of natural gas. In particular, on 11 August 2017, Naftogaz finished contracting gas for supplies to Ukraine within the procurement procedures under the EBRD loan. In 2015-2016 and 2017, Naftogaz carried out 81 procurement procedures, 65 of which were completed. As a result of such procedures, Naftogaz contracted 5.3 billion of cubic metres of gas in aggregate for supplies in the period from December 2015 until September 2017. The winners of the procurement procedures were Noble Clean Fuels Limited, Engie SA, Axpo Trading AG, Uniper Global Commodities SE, CEZ, a.s., RWE Supply and Trading GmbH and Eni trading & shipping S.p.A out of seventeen suppliers that previously passed the shortlisting procedure under the EBRD standards. The winners were chosen based on the lowest price criterion. As a result of the carried out EBRD procurement procedures, Naftogaz contracted gas under the price at U.S.\$162-204 per 1,000 cubic metres.

On 30 December 2016, Naftogaz signed a euro-denominated revolving credit facility with Citibank and Deutsche Bank for gas purchase in the amount of U.S.\$500 million (equivalent). The facility is secured by a guarantee from IBRD. The guarantee is valid for a term of four years, with two years available for gas purchase and two years for repayment. The guarantee of IBRD and the credit facility are considered highly cost-effective compared to other loan agreements of Naftogaz. According to the funding conditions under the credit facility, Naftogaz will continue buying gas under eligible existing contracts, switching from pre-payment to post-payment terms.

During the period from 2017 through the first six months of 2018, Naftogaz signed 87 natural gas supply agreements with seven suppliers pursuant to a loan agreement guaranteed by IBRD. Agreements were signed in accordance with the rules set forth in a cooperation agreement between Naftogaz and IBRD. Naftogaz purchased approximately 3.2 billion cubic metres for supply in the period from March 2017 until January 2018 at a VTP (Virtual Trading Point) in Slovakia.

The following companies won tenders: Axpo Trading AG, DufEnergy Trading SA, Engie SA, MET Gas and Energy Marketing AG, RWE Supply and Trading GmbH, TrailStone GmbH and Uniper Global Commodities SE. The winning bid was chosen on the criteria of lowest price. Based on the results of IBRD procurement procedures, Naftogaz contracted gas at a price ranging from €175/thousand cubic metres to €226/thousand cubic metres.

Naftogaz purchased about 5 billion cubic metres of gas for the period of March 2017 through July 2018 at the Slovak virtual trading point. Naftogaz is also contracting gas on the European market on competitive terms with its own money.

On 1 April 2018, a new law “*On Amending Certain Legislative Acts of Ukraine Concerning Deregulation in the Oil and Gas Industry*” became effective. The law considerably reduces the number of permits and approvals, and simplifies regulatory procedures relating to oil and gas exploration and production activities in Ukraine with a view to enhancing the local production of oil and gas and spurring investment in the industry.

### *Electricity Generation*

The total electricity generating capacity of Ukraine was approximately 55.8 million kWh, 55.9 million kWh, 51.4 million kWh, 51.8 million kWh and 49.7 million kWh, respectively, for the years 2014, 2015, 2016, 2017 and 2018. Electricity production in 2017 was recorded at 156.0 billion kWh, as compared to 164.6 billion kWh in 2016, 163.7 billion kWh in 2015 and 182.8 billion kWh in 2014. Of these amounts, 85.6 billion kWh, 81.0 billion kWh, 87.6 billion kWh, and 88.4 billion kWh, respectively, were provided by nuclear power stations. In 2018, electricity production was recorded at 159.9 billion kWh, of which 84.4 billion kWh were provided by nuclear energy. For the ten months ended 31 October 2019, Ukraine generated 126.7 billion kWh of electricity, of which 67.1 billion kWh was generated with nuclear energy.

In 2016, Ukraine produced 72.9 billion kWh of energy by thermal power stations, as compared with 67.5 billion kWh in 2015 and 83.5 billion kWh in 2014. In 2016, Ukraine produced 81.0 billion kWh by nuclear power stations, compared with 87.6 billion kWh in 2015 and 88.4 billion kWh in 2014. Ukraine produced 9.3 billion kWh by hydropower stations in 2016, as compared with 7.0 billion kWh in 2015, and 9.3 billion kWh in 2014. It produced 1.4 billion kWh by other energy stations (wind and solar) in 2016, as compared to 1.6 billion kWh in 2015 and 1.4 billion kWh in 2014. In 2017, Ukraine produced 58.2 billion kWh of energy by thermal power stations, 85.6 billion kWh by nuclear power stations, 10.5 billion kWh by hydropower stations and 1.7 billion kWh by other energy stations (wind and solar). In 2018, Ukraine produced 61.2 billion kWh of energy by thermal power stations, 84.4 billion kWh by nuclear power stations, 12 billion kWh by hydropower stations and 2.3 billion kWh by other energy stations (wind and solar). In January to October 2019, Ukraine produced 46.9 billion kWh of energy by thermal power stations, 67.1 billion kWh by nuclear power stations, 6.6 billion kWh by hydropower stations and 6.1 billion kWh by other energy stations (including wind and solar stations).

Ukraine has exported electricity to Hungary, Slovakia, Poland, Moldova, Belarus and the Russian Federation. In 2017, Ukraine exported 5.2 billion kWh of energy, an increase of 30.0 per cent. as compared to 2016, when 4.0 billion kWh of energy was exported; this was an increase of 44.4 per cent. as compared to 2015, when 3.6 billion kWh of energy was exported; this was a decrease of 35.8 per cent. as compared to 2014, when 8.1 billion kWh of energy was exported. This was a decrease of 4.7 billion kWh, or 47.5 per cent., as compared to 2013. In 2018, Ukraine exported 6.2 billion kWh of energy, an increase of 20.1 per cent. compared to 2017. In the first ten months of 2019, Ukraine exported 5.1 billion kWh of energy, an increase of 1.5 per cent. compared to the corresponding period in 2018. Ukraine currently exports electricity to Hungary, Slovakia, Poland, Moldova and Romania.

### Nuclear Energy

Energoatom operates four active nuclear power stations in Ukraine. Ukraine currently operates 15 nuclear energy reactors located at four nuclear power stations (“NPSs”): Zaporizhzhya NPS, with six reactors and a production capacity of 1,000 megawatts each; Rivne NPS, with four reactors and a production capacity of 415 megawatts, 420 megawatts and 1,000 megawatts (two reactors), respectively; Khmelnytsky NPS, with two reactors of 1,000 megawatts each; and Yuzhno-Ukrainska NPS, with three reactors with a production capacity of 1,000 megawatts each. These four power stations have a total production capacity of 13,835 megawatts. In addition, Yuzhno-Ukrainskyi energy complex operates two hydro units of the Tashlytska hydroelectric pumped-storage power plant, with established capacity of 302 megawatts and 2 hydro units of Oleksandrivska hydroelectric power plant, with established capacity of 11.5 megawatts.

Most of the nuclear reactors in Ukraine commenced operation during the 1980s and 1990s, with one commencing operations in 1995 and two in 2004. The projected operational life of the active nuclear power stations in Ukraine is 30 years. Currently, out of 15 active NPSs, the operational life of 7 NPSs has been

prolonged beyond the projected operational life. These are energy blocks No. 1 and No. 2 of Rivne NPS (operational life extended by 20 years), energy blocks No. 1 and No. 2 of Yuzhno-Ukrainska NPS and energy blocks No. 1, No. 2 and No. 3 of Zaporizhyya NPS (operational life extended by 10 years each). Currently, work is underway on energy block No. 4 of Zaporizhyya NPS, No. 3 of Rivne NPS and No. 1 of Khmelnytsky NPS. Works aimed to extend operational life for the remaining 5 energy blocks are planned for 2019-2035.

International experts have been positively assessing the security level of Ukraine's NPSs for many years. On IAEA there have been periodic meetings on compliance with the provisions of the Convention on Nuclear Safety; there continues to be ongoing monitoring by international experts in the framework of international cooperation (during missions OSART, ASSET, WANO).

The main programme, within the framework of which reliance and security of Ukrainian energy blocks is ensured, is the *"Consolidated Programme on the Enhancement of Safety at the Ukrainian NPSs"*, adopted by CMU Resolution No. 1270, dated 7 December 2011. Financing of the Programme is done through Energoatom's own funds and, starting from 2016, also through an EBRD/Euratom loan (CMU Resolution No. 356, dated 20 August 2014). The loan and guarantee agreements with the EBRD and Euratom, for a total amount of €600 million, were executed on 25 March 2013 and 7 August 2013, respectively. The term of the Programme is 2012-2020. Currently, the term of the Programme has been extended until 2023. CMU Resolution No. 924, dated 7 November 2018 introduced certain amendments to the terms of financing of the Programme. In accordance with the amendments, the estimated amount of financing of the Programme is UAH 26,893 million (excluding VAT) of Energoatom's own funds, and €600 million provided as loans by the EBRD and Euratom.

The aim of the above project is to ensure a level of safety at the Ukrainian NPSs which meets national and international safety standards and the fulfilment of Ukraine's obligations to international organisations (EBRD, EU and the International Atomic Energy Agency) and national control agencies related to the implementation of measures on the enhancement of the NPSs' safety. On 15 May 2014, the law on the ratification of the guarantee agreement between Ukraine and Euratom was approved by the Parliament.

After performance by the borrower of conditions precedent, the loan agreement with the EBRD became effective on 19 December 2014. The loan agreement with Euratom became effective on 27 May 2015. As of 1 January 2020, €380.5 million, including €280.5 million of EBRD funds and €100.0 million of Euroatom funds have been drawn down for this project.

With the aim of diversifying nuclear fuel supply sources, Energoatom is currently working in co-operation with Westinghouse Electric Sweden AB ("**Westinghouse**"). Since 2011, Westinghouse has provided Ukraine's NPSs with nuclear fuel. Starting from January 2018, the fuel from Westinghouse is loaded into nuclear units of six energy blocks of Energoatom: four energy blocks of Zaporizhyya NPS and two energy blocks of Yuzhno-Ukrainska NPS. The other nuclear reactors are supplied with nuclear fuel by OJSC TVEL. This practice is inherent to the European strategy of energy security, adopted in 2014, in particular regarding the general diversification of nuclear fuel sources.

In 2016, Energoatom successfully completed its works on reconstruction of the open distribution facilities (750 kV) of Rivne and Khmelnytsky NPSs. This enabled the lifting of restrictions on the issuing capacity of these power plants.

On 9 November 2017, Energoatom and United States-based Holtec International started construction of the Central Spent Fuel Storage Facility ("**CSFSF**"), located in the Chornobyl Exclusion Zone. The facility will store spent nuclear fuel from three Ukrainian nuclear power plants ("**NPPs**"). This project is designed in part to improve Ukraine's energy security by eliminating the need to ship and store spent nuclear fuel in Russia.

On 29 January 2018, Energoatom and Westinghouse entered into a new nuclear fuel contract, which provides for expanded cooperation and extension of the term of the current agreement by 2025. The agreement was signed within the framework of diversification of nuclear fuel sources for NPPs in Ukraine. Energoatom cooperates with Westinghouse to increase the efficiency and production capacity of operating power units at Ukrainian NPPs.

On 28 February 2018, Energoatom and Holtec International signed a memorandum on cooperation in using small modular reactors (SMR-160) and establishment of one of the leading global production centres for small modular reactors systems and components in Ukraine.

In November 2016, at the Ukraine-EU Summit in Brussels, a memorandum of understanding was signed on Strategic Energy Partnership between Ukraine and the EU along with Euratom. By signing this document, Ukraine secured the achievements in the energy sphere over the last 10 years (the period of the previous Memorandum), in particular in the sphere of nuclear security.

On 25 March 2013, Ukraine and the EBRD signed loan and guarantee agreements regarding a project aimed at increasing the level of safety of nuclear power plants. The project aims to bring all energy blocks of Ukraine's NPSs to internationally accepted security levels. The agreements provide for state guarantees in the amount of €300 million. On 7 August 2013, Ukraine and Euratom signed a €300 million Guarantee Agreement. As of 31 December 2018, €154.2 million of EBRD funds and €100 million of Euratom funds had been drawn down under the project.

### Renewable Energy

On 21 September 2012, Ukraine entered separate agreements with the EIB and the EBRD regarding the "Rehabilitation of Hydro Electric Stations" project, whereby the EIB and EBRD each agreed to provide Ukraine with €200 million. The project aims to renovate hydroelectric stations in order to reach a general capacity of 1.4 MW; this would represent a 10 per cent. capacity increase. On 30 December 2015, Ukraine and the EBRD signed a Guarantee Agreement to supersede the undrawn part of the previous (2012) loan, and PJSC "Ukrhydroenergo" and the EBRD signed a €180 million loan agreement. As of 31 December 2018, €20 million of EBRD funds under the loan agreement, €20.6 million of EBRD funds under the guarantee agreement and €24.0 million of EIB funds had been drawn down for this project.

At the end of 2017, the United States Overseas Private Investment Corporation ("OPIC") approved the allocation of U.S.\$400 million (U.S.\$150 million as OPIC financing and U.S.\$250 million as insurance guarantees) to implement wind power plant construction project in Ukraine with capacity of up to 500 MW. The implementation of the project will allow to increase power generation capabilities of Ukrainian wind power plants by 40 per cent.

### *Electricity and Natural Gas Transmission*

In February and October 2008, respectively, the Government signed a €150.0 million loan agreement with the EBRD and a €150.0 million loan agreement with the EIB under a joint EBRD-EIB-Ukraine project to construct an overhead transmission line between Rive NPP and Kyiv. State Enterprise "Ukrenergo", Ukraine's energy company, is a beneficiary under this project. The project aims to alleviate capacity limitations at the Rivne NPS and Khmelnytsky NPS and to improve the reliability of energy supply to consumers in Central Ukraine. As at 25 November 2019, Ukraine had drawn down all EIB and EBRD funds under this project.

On 30 December 2011, the Cabinet of Ministers and the Government of Germany signed an Agreement on Financial Cooperation for the amount of €40.5 million, which aims at reconstruction of five substations within the Dnipro and Donbass energy systems. As of 1 January 2020, €11.1 million had been drawn down for this project.

In accordance with a separate project, "*Construction of the 750 kV Zaporizhya NPS Kakhovka Overhead Transmission Line*", Ukraine borrowed €175 million from each of the EBRD and the EIB. The agreements became effective on 19 October 2012 (EBRD) and 3 December 2012 (EIB), respectively. The project aims to maximise the available usage capacity of Zaporizhya NPS, as well as increase the reliability of energy supply to the southern energy system during times when Ukrainian Unified Energy System (UES)'s heat energy plants are operating at reduced capacity. The project further aims to increase the reliability of energy supply to consumers reliant on the Dnipro energy system through a 750 kV overhead transmission line running from Zaporizhya NPS to Kakhovka, improve the stability of energy supply to consumers in central Ukraine and Crimea; and to renovate substation 330/220 Novokakhovka. As of 1 January 2020, €134.5 million of EBRD funds and €72.7 million of EIB funds had been drawn down for this project.

The Hydropower Rehabilitation Project is an investment project financed primarily by the EBRD, EIB and KfW Development Bank (“**KfW**”) aimed at modernising the hydromechanical and electromechanical equipment of the hydroelectric power plants owned and operated by PJSC “Ukrhydroenergo”, with completion anticipated by 2026. Once completed, this project will help to ensure reliable, sustainable and cost-effective hydroelectric power plants, with electricity generated by such plants routed through Ukraine’s unified energy system. The Government anticipates that the project will also extend the operational life of PJSC “Ukrhydroenergo” hydroelectric power plants by 30-40 years and increase their capacity by 245.2 MW, as well as improve their operational safety.

On 10 October 2016, the Cabinet of Ministers and KfW signed an individual loan agreement, and NEC “Ukrenergo” and KfW signed a separate agreement under the project “Reconstruction of Substations in Eastern Ukraine”, for the amount of €150 million. The project aims at providing reliable and high-quality energy supply in the electricity grid in Eastern Ukraine, as well as ensuring the coverage of peak power consumption without additional losses. It is expected to make a significant contribution to increasing energy efficiency in the transmission of electricity and in the future integration of Ukraine’s UPS into the European Network of System Operators for Electricity Transmission (ENTSO-E). As of 1 January 2020, €16.1 million of KfW funds were drawn down under this project.

On 11 June 2017, the Law of Ukraine “*On Electricity Market*” provides for a new electricity market architecture aimed at establishing a more liberalised, open and competitive market in Ukraine in line with the requirements of the “Third Energy Package” of the European Union. The electricity market in Ukraine will be gradually redesigned from the traditional centralised, monopolistic model toward a more liberal market with multiple segments and trade channels, both through organised (spot) markets and bilateral transactions. The balancing market, day-ahead market and other market sub-segments are expected to become operational from 1 July 2019. The market redesign is expected to enhance competition and increase investment in the sector, including through privatisation. The state guarantees and the principal support mechanisms for renewable energy introduced in 2015 will continue to remain in full force and effect, including the feed-in tariff. The new regulatory framework will also gradually introduce the responsibility of renewable energy producers with respect to new plants commissioned after the enactment of the law, subject to certain tolerance margins. The law represents a significant milestone in reforming the electricity market in Ukraine.

On 24 May 2018, Ukraine and the EIB signed a guarantee agreement for the amount of €136.0 million (project “Programme for increase of substations reliability”). Loan funds of the EIB will be drawn down to increase effectiveness and reliability of the Unified Energy System of Ukraine by replacement of obsolete equipment and automatisatisation in the South-East region of Ukraine.

NEC “Ukrenergo” is implementing the programme for the transfer of electricity, with financing from the International Bank for Reconstruction and Development (the “**IBRD**”) and the Clean Technology Fund. A U.S.\$330.0 million credit facility agreement between NEC “Ukrenergo” and the IBRD and a U.S.\$48.4 million credit facility agreement between NEC “Ukrenergo” and the Clean Technology Fund were signed on 10 February 2015. As of 1 January 2020, U.S.\$66.3 million of IBRD funds and U.S.\$0.5 million of Clean Technology Fund funds had been disbursed.

On 30 July 2019, Ukraine entered into a guarantee agreement with the EBRD, as well as a €149 million loan agreement with NEC “Ukrenergo” and the EBRD. The proceeds of the loan agreement will be used to modernise power transmission infrastructure across Ukraine and will partly contribute to ongoing efforts to automate certain substations of NEC “Ukrenergo”. The EIB, EBRD, IBRD and KfW have also financed the automation of 47 substations of United Energy Systems of Ukraine. Such modernisation efforts are designed to improve the efficiency and reliability of United Energy Systems of Ukraine in order to integrate it with the network of transmission system operators in Europe.

### Electricity and Natural Gas Tariffs

#### Electricity Tariffs

In order to prevent cross-subsidisation and to minimise price distortions between electricity market consumers, the Government adopted a resolution at the end of 2005 to bring tariffs for energy carriers to economically reasonable levels for all categories of consumers. The wholesale market price for electricity was UAH 0.7672

per kwh in the first half of 2014. The actual wholesale market price for electricity was UAH 0.8659 in July to August 2014, UAH 0.9004 in September to November 2014 and UAH 0.9410 in December 2014. In January and February 2015 the wholesale market price for electricity was UAH 0.9878, in March UAH 1.0385, in April to May UAH 1.0689, in June UAH 1.1220, and in July 2015 to April 2016 UAH 1.1761. In May to June 2016, the wholesale market price for electricity was UAH 1.2369 per kwh, in July to September 2016 UAH 1.3587 per kwh, in October to December 2016 UAH 1.4905 per kwh, in January to June 2017 UAH 1.3412 per kwh, and starting from July 2017 and until the end of the year, UAH 1.3654 per kwh. In January to March 2018, the wholesale market price for electricity was UAH 1.4952 per kwh, in April to June 2018 – UAH 1.5860 per kwh, in July to December 2018 – UAH 1.5865 per kwh, and in January to June 2019 – UAH 1.6186 per kwh.

On 1 July 2019, the new electricity market started to operate. Electricity suppliers purchase electricity in accordance with bilateral agreements (including import) and/or on the day-ahead market, the intra-day market, and the balancing market. Thus, the price of electricity is determined depending on the market sector in which the electricity supplier purchases it.

On the day-ahead market, the indicative electricity price is determined for each billing period by the market operator based on the principle of marginal pricing under the balance of aggregate demand for electricity and its aggregate supply. According to the reporting information of SE “Market Operator”, the average price of electricity on the day-ahead market in October 2019 amounted to UAH 1562.20 per mhw. According to the tariff calculation formula, the final price for electricity (including the electricity tariff for the general population) for consumers consists of:

- the purchasing price of electricity for electricity suppliers under bilateral agreements and/or on organised market sectors;
- tariffs of system operators (tariff for distribution and tariff for transmission of electricity) due to technological costs of electricity in the networks; and
- a portion that covers costs of transmitting electricity or tariff for universal service provider (for household and small non-residential customers) or a “last hope” provider tariff.

Pursuant to resolution No. 749 dated 23 May 2014, since 1 June 2014, the electricity tariffs levied on households have increased from 10 to 40 per cent. and amounted to 30.84 for consumption under 150kWh, 41.94 for consumption of 150-800 kWh and 134.04 kopecks for consumption above 800 kWh per kWh for consumers; 28.50, 38.76 and 134.04 kopecks per kWh for village areas; 23.70, 32.22 and 134.40 kopecks per kWh for households using electric stoves depending on the same levels of consumption. The tariffs remained at this level until April 2015.

On 26 February 2015, the National Commission for the Regulation of the Electric Power Industry and Communal Services (the “**Commission**”) adopted Resolution No. 220, which established tariffs for electricity sold to the general population, and aimed at eliminating cross-subsidies to individuals at the expense of other electricity consumers. At the same time, taking into account that one-time increase of tariffs to the economically reasonable level would result in significant financial pressure for a large part of the general population, this resolution provides for a gradual increase of electricity tariffs for the general population in five stages within two years, as shown in the table below (average tariff for consumers are given in kopecks per 1 kWh, including VAT):

Indicators	From 1 April 2015	From 1 September 2015	From 1 March 2016	From 1 September 2016	From 1 March 2017
Tariff.....	51.2	62.8	77.3	97.3	122.8
Increase, % .....	45.2	23.0	23.0	26.0	26.0

A system of block tariffs for electricity is effective with the aim of ensuring additional social protection for low-income groups of population.

Additionally, resolution of the Cabinet of Ministers of Ukraine No. 483 dated 5 June 2019 sets out public service obligations for electricity market participants, which may include selling electricity at prices different from that set out in the Resolution No. 220 in the course of performing those obligations.

## Gas Tariffs

From 1 January 2014, the threshold price for natural gas for institutions and organisations financed from state and local budgets (State-financed consumers) decreased to UAH 2,448.0 per 1,000 cubic metres (excluding VAT, transport, distribution and supply tariffs, and special purpose charges) and for industrial consumers and other commercial entities, the threshold price decreased to UAH 3,113.0 per 1,000 cubic metres (excluding VAT, transport, distribution and supply tariffs, and special purpose charges). However, from 1 April 2014, the threshold prices for State-financed consumers, industrial consumers and other commercial entities increased to UAH 4,020.0 per 1,000 cubic metres (excluding VAT, transport, distribution and supply tariffs, and special purpose charges), and further increased from 1 May 2014 to UAH 4,724.0 per 1,000 cubic metres (excluding VAT, transport, distribution and supply tariffs, and special purpose charges). These prices remained unchanged until 31 August 2014.

The prices per 1,000 cubic metres (excluding VAT, transport, distribution and supply tariffs, and special purpose charges) were UAH 4,874.0 in September and October 2014, UAH 5,100.0 in November, UAH 5,900.0 in December-January 2015, UAH 5,700.0 in February 2015, UAH 8,900.0 in March, UAH 7,200.0 in April, UAH 6,810.0 in May and UAH 6,600.0 per 1,000 cubic metres (excluding VAT, transport, distribution and supply tariffs, and special purpose charges) in June-September 2015.

Law No. 329-VIII, dated 9 April 2015, “*On the Natural Gas Market*”, entered into force on 1 October 2015 and provides for a transition to market principles of pricing in the natural gas market on the basis of free competition. From 1 October 2015, the Commission lost powers to establish natural gas prices. Naftogaz acquired authority to establish prices for its own imported natural gas for State-financed consumers, industrial consumers and other businesses. In October 2015, Naftogaz established natural gas prices for State-financed consumers, industrial consumers and other businesses at UAH 6,600.0 per 1,000 cubic metres. Starting from 1 November 2015, Naftogaz established differentiated natural gas prices for State-financed consumers, industrial consumers and other businesses depending on the amount of supplied natural gas and payments conditions.

From 1 August 2010 until 1 April 2015, the threshold price for municipal heating enterprises stood at UAH 1,309.2 per 1,000 cubic metres (including VAT, transport and distribution tariffs, and special purpose charges). From 1 April 2015, according to the agreed arrangements with the IMF, the Commission established the threshold price for municipal heating enterprises at UAH 2,994.3 per 1,000 cubic metres (including VAT, transport, distribution and supply tariffs, and special purpose charges), which was in place until 1 October 2015. According to Resolution No. 758, dated 1 October 2015 (“Resolution 758”) between 1 October 2015 and 31 March 2016, a regulated price for municipal heating enterprises, which are directly connected to main gas pipelines, was set at UAH 1,843.3 per 1,000 cubic metres (excluding VAT, transport, distribution and supply tariffs, and special purpose charges), and for the remainder, UAH 1,770.7 per 1,000 cubic metres (excluding VAT, transport, distribution and supply tariffs, and special purpose charges). The mentioned prices were in place until 30 April 2016 (inclusive).

Ukraine used differentiated threshold retail prices for households depending on the volumes of consumption. In accordance with Resolution No. 420 dated 3 April 2014, retail prices for natural gas charged to households have increased on average by 56 per cent. since 1 May 2014:

- subject to the natural gas being used for cooking and/or heating water in apartment buildings (UAH 1.182 per one cubic metre if a gas meter is installed and UAH 1.299 per one cubic metre if a gas meter is not installed);
- subject to the annual amount of consumption of gas not exceeding:
  - 2,500 cubic metres (UAH 1.089 per one cubic metre if a gas meter is installed and UAH 1.197 per one cubic metre if a gas meter is not installed);
- subject to the annual amount of consumption of gas not exceeding:
  - 6,000 cubic metres (UAH 1.788 per one cubic metre if a gas meter is installed and UAH 1.965 per one cubic metre if a gas meter is not installed);
- subject to the annual amount of consumption of gas exceeding:

- 6,000 cubic metres (UAH 3.645 per one cubic metre if a gas meter is installed and UAH 4.011 per one cubic metre if a gas meter is not installed).

From 1 April 2015, Commission resolution No. 583 established retail prices for natural gas used for general population needs (including VAT, special charges, tariffs for services of transportation, distribution and supply of natural gas at regulated tariff); if natural gas is used:

- for cooking and/or heating of water – UAH 7.188 per one cubic metre;
- for individual heating or complex use (individual heating, cooking and/or heating of water):
  - from 1 May until 30 September – UAH 7.188 per one cubic metre;
  - from 1 October until 30 April:
- for volumes not exceeding 200 cubic metres of natural gas per month – UAH 3.600 per one cubic metre;
- for volumes exceeding 200 cubic metres of natural gas per month – UAH 7.188 per one cubic metre;

In accordance with the law “*On the Natural Gas Market*” dated 9 April 2015, and during the transition to market price formation principles in the natural gas market, prices for natural gas charged to households from 1 October 2015 were established by Resolution 758.

Resolution 758 dated 1 October 2015 (as amended by Resolution of the Cabinet of Ministers No. 234 dated 30 March 2016) established maximum retail prices for natural gas charged to households (differentiated depending on the kind and volume of use of natural gas) until April 2016, in particular:

- for cooking and/or heating water – UAH 7.188 per one cubic metre; and
- for individual heating or complex use (cooking and/or heating of water) UAH 7.188 per one cubic metre, except for the consumption of up to 1,200 cubic metres of natural gas (inclusive) during the period from 1 October 2015 to 31 March 2016 (inclusive) – UAH 3.600 per one cubic metre.

The Memorandum of Understanding with the IMF signed in February 2015 under the 2015 EFF provided for a transfer to the common consumer principles of market pricing for gas, as well as gradual liquidation of cross-subsiding (multi-level tariff system) through the establishment of prices and tariffs for all users, including households, at economically reasonable levels. The Memorandum of Understanding further provided for a simultaneous transfer of specific compensations to socially vulnerable households.

A subsequent regulation of natural gas prices for households and municipal heating enterprises was to be carried out from 1 April 2016 to fulfil the obligations under the Memorandum of Understanding.

According to Resolution 758 (as amended by Resolution of the Cabinet of Ministers No. 315 dated 27 April 2016), from 1 May 2016 until 31 March 2017 the maximum retail price for natural gas charged to households was UAH 6.879 per one cubic metre.

In accordance with Resolution 758 (as amended by CMU Resolution 937, dated 14 December 2016), for the period from 1 May 2016 until 31 March 2017, Naftogaz supplied natural gas to producers of heat energy under regulated prices (excluding transportation and distribution tariffs, taxes and charges included into the prices of natural gas under the Tax Code of Ukraine), with the aim of provision of heating services and supply of hot water to State-financed institutions and the general population in the amount of UAH 4,942 per 1,000 cubic metres.

In addition, under Resolution 758 (as amended by CMU Resolution 658, dated 22 September 2016) until 31 December 2016, PJSC “Odesa Port Plant” was entitled to purchase natural gas from Naftogaz for its own commercial activity on an uninterrupted basis (regardless of indebtedness to Naftogaz for consumed gas) in the total amount of up to 300 million cubic metres during such period at the expense of imported natural gas of Naftogaz.

From 1 April 2017 and until 1 November 2018, prices for natural gas for households and religious organisations and for the State Enterprise of Ukraine International Children’s Center “Artek” and producers of thermal energy,



are determined by the Regulation on imposing special obligations on participants in the natural gas market for ensuring public interest in the process of functioning of the natural gas market (“**Regulation 187**”), approved by Resolution of Cabinet of Ministers No.187, dated 22 March 2017. This Regulation provides for:

- establishment of prices for natural gas under which Naftogaz sells or supplies natural gas for households and producers of thermal energy for households at the rate of UAH 4,942.0 per thousand cubic metres (excluding VAT, natural gas transportation and distribution tariffs subject to mandatory payment and rate of mark-up (margin) of natural gas supplier with special obligations);
- the application of a rate of 0.5 to the price UAH 4,942.0 per thousand cubic metres (excluding VAT, natural gas transportation and distribution tariffs subject to mandatory payment and rate of mark-up (margin) of natural gas supplier with special obligations) for the sale/supply of natural gas for religious organisations and producers of thermal energy for religious organisations;
- the application of a rate of 1.6 to the price of UAH 4,942.0 per thousand cubic metres (excluding VAT, natural gas transportation and distribution tariffs subject to mandatory payment and rate of mark-up (margin) of natural gas supplier with special obligations) when natural gas is supplied to other manufacturers of thermal energy, including for production of electricity; and
- establishment of prices for natural gas under which Naftogaz supplies natural gas for State Enterprise of Ukraine International Children’s Centre “Artek” and producers of thermal energy for State Enterprise of Ukraine International Children’s Centre “Artek” at the rate of UAH 4,942.0 per thousand cubic metres (excluding VAT, natural gas transportation and distribution tariffs subject to mandatory payment and rate of mark-up (margin) of natural gas supplier with special obligations).

According to Regulation 187, until 1 November 2018 natural gas suppliers who purchase natural gas from Naftogaz are required to supply such natural gas exclusively to households, religious organisations (except for volumes used for their commercial activities) and State Enterprise of Ukraine International Children’s Centre “Artek” at a price where the supplier’s margin cannot exceed 2.5 per cent. of the price for natural gas used by suppliers to purchase natural gas from Naftogaz (excluding VAT).

Thus, since 1 April 2017, the natural gas price for domestic consumers, which price includes value added tax, natural gas transportation and distribution tariffs subject to mandatory payment and rate of mark-up (margin) of natural gas supplier with special obligations may not exceed UAH 6.9579 per one cubic metre.

Regulation 187 further provides the right to reconsider defined prices for the period from 1 October 2017 to 1 November 2018 set for households and for producers of thermal energy, religious organisations (except for volumes used for their commercial activities) and State Enterprise of Ukraine International Children’s Centre “Artek” provided the gas price calculated by the Ministry of Energy and Coal Industry in accordance with the Regulation 187 formula before 1 July 2017 at the level of import parity is at least 10 per cent. higher than the current price for natural gas set at the rate of UAH 4,942.0 per thousand cubic metres (excluding VAT, natural gas transportation and distribution tariffs subject to mandatory payment and rate of mark-up (margin) of natural gas supplier with special obligations).

On 19 October 2018, the Cabinet of Ministers of Ukraine approved Resolution No. 867 on the imposition of special duties on electricity market participants for the public interest in the functioning of the natural gas market, increasing the wholesale gas tariff for households and municipal heating companies of approximately 23 per cent., effective from 1 November 2018.

Resolution No. 867 established:

- conditions for buying natural gas by Naftogaz from Ukrgezvydobuvannya and Chornomornaftogaz to create sufficient gas stocks for performing special duties;
- conditions for selling/supplying natural gas by Naftogaz for performing special duties, including setting gas selling prices; and
- a formula for the selling/supplying prices of gas determination by Naftogaz as an average of natural gas sales/supply prices of gas set by Naftogaz for industrial customers subject to advanced payment prior

to gas supply period effecting from 1 July 2018 to 30 September 2018 adjusted for the discount (a price multiplier of 0.6943 from 1 November 2018, and 0.8 starting from 1 May 2019).

Additionally, Resolution No. 867 provides that, starting from 1 January 2020, Naftogaz will sell/supply natural gas at a discount for public service obligations at prices defined between the supplier (seller) and the buyer but not higher than the arithmetic average price of the gas set by Naftogaz for industrial customers subject to advance payment prior to gas supply period.

Thus, from 1 November 2018 to 30 April 2019, the natural gas price for household consumers, religious organisations (except the volumes used for their commercial activities) or State Enterprise of Ukraine International Children's Centre "Artek" and producers of thermal energy amounted to UAH 6.23551 per thousand cubic metres (excluding VAT, natural gas transportation and distribution tariffs subject to mandatory payment under contracts on the transportation and distribution of natural gas and the trade premium (surcharge) of the natural gas supplier with special obligations). However, the price of natural gas for household consumers, including VAT, tariffs for transportation and distribution of natural gas, subject to mandatory payment under contracts on the transportation and distribution of natural gas and the profit margin of the natural gas supplier with special obligations shall not exceed UAH 8.54892 per thousand cubic metres.

Therefore, starting from 1 May 2019, the price of natural gas sale/supply for consumers who purchase natural gas under Resolution No. 867 on PSO, was UAH 5,990 per thousand cubic metres (excluding VAT, natural gas transportation and distribution tariffs).

On 5 June 2019, the Cabinet of Ministers of Ukraine approved Resolution No. 485 "On amendment to Resolution No. 293 dated 3 April 2019". According to this resolution, National Joint-Stock Company "Naftogaz of Ukraine" shall determine the price of natural gas which shall be equal to the minimum value of four indicators:

- 1) the average customs value of imported natural gas, which was formed during its customs clearance when imported in Ukraine, at gas month-end, preceding month of sale/supply of natural gas, published by the Ministry of Economic Development and Trade;
- 2) the average weighted price of the monthly natural gas resource for the gas month of sale / supply based on electronic stock exchanges at the Commodity Exchange "Ukrainian Energy Exchange" prior to this gas month;
- 3) the arithmetic average price for the sale / supply of natural gas by National Joint-Stock Company "Naftogaz of Ukraine" for industrial consumers, subject to advance payment prior to the gas supply period, effective in the gas month preceding the month of sale / supply of the natural gas; and
- 4) the price calculated by the formula under paragraph 12 of Resolution No. 485.

Therefore, starting from 1 June 2019, the price of natural gas for consumers under Resolution No. 867 on PSO amounts to UAH 5,553.89 per thousand cubic metres (excluding VAT), from 1 July – UAH 4,905.657 per thousand cubic metres (excluding VAT), from 1 August – UAH 4,653.544 per thousand cubic metres (excluding VAT), from 1 September – UAH 4,493.6363 per thousand cubic metres (excluding VAT), from 1 October – UAH 4,272.7604 per thousand cubic metres (excluding VAT).

Starting from 1 November 2019, the price of natural gas for consumers under Resolution No. 867 on PSO was UAH 4,899 per thousand cubic metres (excluding VAT) and UAH 6,830.84 per thousand cubic metres (including VAT, natural gas transportation and distribution tariffs).

### ***Construction***

In 2016, construction accounted for 2.0 per cent. of Ukraine's nominal GDP, as compared with 1.9 per cent. in 2015 and 2.3 per cent. in 2014. In 2017 and 2018, construction accounted for 2.3 per cent. and 2.3 per cent. of Ukraine's nominal GDP, respectively. In the first and second quarters of 2019, construction accounted for 2.1 per cent., 2.5 per cent. of Ukraine's nominal GDP, respectively.

In 2018, construction works performed by Ukrainian companies totalled UAH 136.3 billion, an increase of 4.4 per cent. as compared to 2017, in January-October 2019 construction works performed by Ukrainian companies

amounted to UAH 131.5 billion. The general trend in January to October 2019 was impacted by the growth in construction of engineering structures by 18.1 per cent., non-residential buildings by 22.0 per cent. and by the reduction in residential buildings by 8.7 per cent.

In 2014, construction volumes decreased by 20.4 per cent., as compared to 2013, with construction of non-residential buildings decreasing by 33.7 per cent. and construction of engineering structures decreasing by 20.3 per cent., while construction of residential buildings increased by 3.5 per cent.

In 2015, construction volumes decreased by 12.3 per cent. as compared to 2014, with construction of residential buildings decreasing by 1.1 per cent. and non-residential buildings by 14.2 per cent. respectively. Construction of engineering structures decreased by 16.3 per cent. over the same period.

In 2016, construction works totalled UAH 73.7 billion, an increase of 17.4 per cent. as compared to 2015. This was primarily due to an increase in the construction volumes of residential (17.8 per cent.) and non-residential buildings (23.7 per cent.) and engineering structures (14.0 per cent.).

In 2017, construction works totalled UAH 105.7 billion, an increase of 26.3 per cent. as compared to 2016. This was principally as a result of an increase in the construction volumes of residential (11.7 per cent.) and non-residential buildings (20.2 per cent.) buildings and engineering structures (26.3 per cent.).

In the eleven months ended 30 November 2018, construction works totalled UAH 115 billion, an increase of 6.3 per cent. as compared to the corresponding period in 2017. This was primarily due to an increase in the construction volumes of engineering structures (11.3 per cent.), non-residential buildings (1.8 per cent.) and residential buildings (0.9 per cent.).

In January to October 2019, construction works totalled UAH 131.5 billion, an increase of 20.8 per cent. compared to the corresponding period in 2018. This was primarily due to an increase in the construction volumes of engineering structures (24.6 per cent.), non-residential buildings (31.3 per cent.) and residential buildings (2.0 per cent.).

Between 2010 and 2016, Ukraine signed a number of financing agreements with the European Investment Bank (the “EIB”) aimed at developing Ukraine’s urban infrastructure. On 2 February 2010, Ukraine and the EIB signed a €15.5 million agreement for development of a water supply and waste water collection system in the city of Mykolaiv, which aims to reconstruct water supply and waste water collection infrastructure, sewage and extend the water supply network of Mykolaiv. The total cost of the project is €31.08 million and is comprised of the following: loan extended by the EIB of €15.54 million and own funds of €15.54 million. The income of City Municipal Company “Mykolayivvodokanal” is the source of repayments under the loan. In December 2014, the EIB made available the first tranche of €5 million for this project. As at 26 November 2019, €1.02 million remained undrawn and €3.98 million had been drawn down. On 16 August 2018, negotiations were held in the Representative Office of the European Investment Bank in Ukraine regarding conclusion of the Letter on Amendments No. 3 to the Financial Agreement (*Mykolayivvodokanal Project (Development of a Water Supply and Waste Water Collection System in the City of Mykolayiv)*) and the Grant Agreement (*Mykolayivvodokanal Project (Development of a Water Supply and Waste Water Collection System in the City of Mykolayiv)*). On 19 October 2018, Ukraine and the EIB signed Amendment Letter No. 3 to the financial agreement and grant agreement within the E5P Program extending the implementation of the project until 2020. The grant agreement was ratified by Law of Ukraine No. 416-IX dated 19 December 2019 and came into force on 7 January 2020. As of the date of this Prospectus, Ukraine is undergoing internal procedures for ratification and entry into force of Amendment Letter No. 3 to the financial agreement between Ukraine and the EIB. Amendment Letter No. 3 and the grant agreement will allow for an extension of the term for implementation of the project and a grant in the amount of €5.11 million.

On 22 December 2014, Ukraine and the EIB signed a €200.0 million agreement with proceeds directed to municipal and social infrastructure projects addressing the effects of the conflict in, and temporary occupation of territories in the Donetsk and Luhansk regions. As of 1 January 2020, the EIB had disbursed €47 million for this project.

From 2017 until 2019, Ukraine and the EIB together funded 95 such projects valued at UAH 424.8 million. In total, 294 projects were financed under the above agreement for a total value of UAH 7,140.2 million.

The Law of Ukraine “*On the State Budget of Ukraine for 2019*” allocated subventions for local budgets of UAH 1.6 billion. On 23 July 2015, Ukraine and the EIB signed a €400.0 million agreement relating to the project “Municipal Infrastructure Development Program of Ukraine”, which aims to finance reconstruction and renewal of urban infrastructure, in the fields of heat and water supply networks and drainage, energy efficiency of the buildings, external lighting of localities, handling of the solid household waste. The preliminary list of the projects upon the results of the selection was approved in the end of 2017 (22 projects on the overall sum of approximately €505.5 million, including VAT).

On 12 April 2019, a regular meeting of the Coordination Committee was held, which approved Programme Operational Manual (version 3), the eligibility of which is confirmed by the EIB letter dated 31 July 2019 and UMIP Project List (version 3). The 20 projects that were selected amounted to approximately €370 million, including VAT.

As at the date of this Prospectus, 11 out of 22 projects were approved as projects with the high level of readiness and submitted to the EIB. The EIB confirmed its readiness to allocate funds for 11 projects on the overall sum of €182,390.87 thousand (45.5 per cent. from the overall amount of the borrowing).

As of the date of this Prospectus, Ukraine concluded funds transfer agreements in respect of seven other projects (Sumy, Ternopil, Khmelnytskyi, Dnipro, Zaporizhia, Kryvyi Rih, and Mariupol), while negotiations with respect to an agreement with the city of Mariupol are ongoing.

With the aim of securing financing of the projects, the Ministry of Finance prepared a draft of financing agreement, which was approved by the EIB, as provided in the financing agreement. At the same time, the following will need to be carried out prior to the execution of agreements: regarding projects, ultimate beneficiaries of which are city councils, adoption by the respective city council of a decision on the local borrowing (such decision in accordance with the Resolution of the CMU dated 16 February 2011 No. 110 requires an approval of the Ministry of Finance); regarding projects, ultimate beneficiaries of which are municipal enterprises, adoption by the city council of a decision on granting of the local guarantee (such decision in accordance with the Resolution of the CMU dated 14 May 2012 No. 541 requires an approval of the Ministry of Finance) or other security for performance by the municipal enterprise of its loan obligations. Prior to entering into agreements, the Ministry of Finance will carry out a second evaluation of the financial situation of the ultimate beneficiaries (order of the Ministry of Finance dated 14 July 2016 No. 616). Upon the completion of preparation of, and obtaining of the required approvals for, the above documents, execution of Agreements on the transfer of funds of the borrowing with the respective ultimate beneficiaries and implementation of measures required for the beginning of financing of works/services will ensue. Other projects from the preliminary list of projects of the UMIP will be taken for consideration of the EIB following completion of preparation of the respective documentation. As of the date of this Prospectus, the participating cities are the following: Sumy, Ternopil, Khmelnytskyi, Dnipro, Lozova, Oleksandriya, Mariupol, Chernihiv, Kryvi Rih, Kyiv, Zaporizhya, Kamianske, Lutsk, Rivne and Kremenchuk. As of 1 January 2020, €300 thousand were disbursed to finance the activities of the Programme Management Support Unit.

## ***Transport***

Ukraine’s transport infrastructure includes a wide network of roads and railways, which requires significant investment. As in many other CIS countries, the transport system is in need of modernisation. In 2014 and 2015, Ukraine’s transport infrastructure suffered significant damage and destruction from military actions resulting from the conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions as well as illegal interferences and acts of sabotage in those areas.

In 2016, transport companies transported 624.6 million tonnes of cargo and 4.9 billion passengers; this represented a 3.8 per cent. increase and a 6.1 per cent. decrease, respectively, compared to 2015, where 601.9 million tonnes of cargo and 5.2 billion passengers were transported. The 2015 figures represented a 10.5 per cent. and 12.5 per cent. decrease, respectively, compared with 2014, where transport companies transported 672.1 million tonnes of cargo and 5.9 billion passengers; these figures were a 9.9 per cent. decrease and 5.3 per cent. decrease, respectively, compared to 2013.

In 2017, transport companies transported 636.7 million tonnes of cargo and 4.6 billion passengers; a 1.9 per cent. and 0.3 per cent. increase, respectively, compared to 2016. In 2018, transport companies

transported 626.6 million tonnes of cargo and 4.5 billion passengers; a 1.9 per cent. and 3.5 per cent. decrease, respectively, compared to 2017. In January to October 2019 transport companies transported 561.6 million tonnes of cargo, an 8.8 per cent. increase compared to the respective period in 2018 and transported 3.5 billion passengers, a 5.6 per cent. decrease, compared to the respective period of 2018.

In January to October 2019, port operators on all seaports processed 129,848.41 thousand tonnes of cargo, a 20.2 per cent. increase compared to the respective period of 2018. Transit cargo processing amounted to 9,280.57 thousand tonnes, a 7.8 per cent. increase compared to the respective period of 2018, the volume of processing cargo for export amounted to 97,692.68 thousand tonnes, a 24.2 per cent. increase compared to the respective period of 2018 and processing cargo for cargo amounted to 21,192.94 thousand tonnes, a 12.1 per cent. increase compared to the respective period of 2018. In January to October 2019, 9,813 vessels were processed (9,613 vessels as compared to the respective period of 2018).

In 2017, tariff cargo turnover of JSC “Ukrzaliznytsia” amounted to 191.9 billion tkm, a 2.3. per cent. increase as compared to 2016. Tariff cargo turnover of Ukrzaliznytsia in 2018 estimated 186.3 billion tkm, a 2.9 per cent. decrease compared to 2017. As of 1 November 2019, the tariff cargo turnover of JSC “Ukrzaliznytsia” amounted to 152.5 billion tkm, a 1.3per cent. decrease compared to the respective period of 2018.

In 2017, passenger turnover of JSC “Ukrzaliznytsia” estimated 28 billion pkm, a 3.7 per cent. increase compared to 2016. Passenger turnover of Ukrzaliznytsia in 2018 estimated 28.6 billion pkm, a 2.2 per cent. increase compared to 2017. As of 1 November 2019, passenger turnover of JSC “Ukrzaliznytsia” amounted to 24.0 billion pkm, a 0.9 per cent. decrease compared to the respective period of 2018.

In 2018, cargo transportation decreased by 1.9 per cent., cargo turnover decreased by 3.3 per cent., passenger transportation decreased by 3.5 per cent., and passenger traffic increased by 5.1 per cent., each as compared to 2017. In January to October 2019, cargo transportation increased by 8.8 per cent., cargo turnover increased by 2.2 per cent., passenger transportation increased by 5.6 per cent. and passenger turnover increased by 4.1 per cent. each as compared to the respective period of 2018. Starting from 30 March 2019, in accordance with the order of the Ministry of Infrastructure of Ukraine dated 22 March 2019, the indexation of tariffs for rail transportation within Ukraine and associated services by 14.2 per cent. took effect.

On 7 May 2014, Ukrzaliznytsya and the EIB signed a finance agreement and guarantee on providing a loan in the amount of €55 million for construction of the Beskyd tunnel. The purpose of this loan was to construct a new 1.8km double-track tunnel on the pan-European corridor V in South-West Ukraine. On 1 January 2020, €54.77 million of EIB funds (99.58 per cent. of the loan) had been drawn down to complete the project. The Beskyd tunnel was put into operation.

On 17 December 2018, Ukraine and the EIB signed a finance agreement for up to €50 million (project “Transport Communication in Ukraine - Phase I”). The project aims at addressing transport bottlenecks in Ukraine. Investments will be allocated to improve interconnections in the eastern regions of Ukraine. No funds had been disbursed for this project.

On 22 November 2019, Ukraine and the EIB signed a finance agreement for €450 million (project “European Roads of Ukraine III (Trans-European Transport Network Development)”). The project is focused on improving the efficiency and safety of transport on the main highways which are important for inland transport, and connect Ukraine with international corridors, in particular with the EU, and connect Kyiv with the Black Sea ports of Ukraine.

As a result of the temporary occupation of the Autonomous Republic of Crimea and the city of Sevastopol and territories in the Donetsk and Luhansk regions, part of Ukraine’s airspace was closed for civilian aircrafts. As a result, the overwhelming share of the transit potential of Ukraine’s airspace was lost, the main part of which was through the Simferopol Flight Information Area.

The amount of flights in terms of passenger volumes through Ukrainian airspace decreased by 60 per cent. from 2014 to 2016 as compared to 2013. Starting from 2017, there is a positive dynamics in the recovery of aircraft traffic in the airspace of Ukraine (19 per cent in 2017 and 19 per cent in 2018). For the nine months ended 30 September 2019, 6,096.3 thousand passengers and 44.8 thousand tonnes of cargo and mail were transported, representing an increase of 11.4 per cent. and 2.5 per cent., respectively, compared to the corresponding period of 2018.

From January to September 2019, passengers and cargos were transported by 29 domestic airlines which operated 79.7 thousand commercial flights (there were 77.1 thousand commercial flights in the corresponding period of 2018.). In the first nine months of 2019, the number of passengers of Ukrainian airlines increased by 7.9 per cent. and amounted to 5,632.6 thousand people. At the same time, the average passenger loading of international scheduled flights of Ukrainian airlines increased by 1.9 per cent. and amounted to 81.2 per cent.

As a result of the temporary occupation of the Autonomous Republic of Crimea and the city of Sevastopol and territories in the Donetsk and Luhansk regions the value of destroyed property belonging to the State Enterprise of Air Traffic Services of Ukraine amounted to more than 1 billion UAH. The estimated amount of lost income from the air navigation services as a result of such restrictions was UAH 18 billion in 2014-2018.

In 2012-2013, the Ukrainian State Air Traffic Service Enterprise entered into loan agreements with the EBRD and the EIB to modernise the air navigation system of Ukraine for a total of €82.4 million. Within the framework of this project, more than €5 million was drawn down.

As a result of the conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions in the territory under Ukraine's control, as at 30 June 2019, 704 infrastructure assets at the regional branch of Donetsk railway, with a value of UAH 370.1 million, were damaged, 422 assets with a value of UAH 197.683 million were restored.

As a result of the conflict in territories in the Donetsk and Luhansk regions 738.9 km of public roads (including 182.4 km in Donetsk Oblast and 556.5 km in Luhansk Oblast) and 952 linear metres of artificial constructions on public roads (including 590 linear metres in Donetsk Oblast and 362 linear metres in Luhansk Oblast) have been damaged or destroyed. The estimated cost of reconstruction works amounts to UAH 6.0 billion and in 2019 UAH 1.3 billion was allocated for reconstruction works. As at 31 October 2019, Ukraine had spent UAH 1.2 billion on reconstruction (including UAH 1.0 billion and UAH 148.7 million in Donetsk and Luhansk regions, respectively).

Additionally, 28 air traffic control facilities have been damaged or destroyed, including 17 at Donetsk Airport, eight at Luhansk Airport, and three at the radar complex in Artemivsk, Donetsk Oblast.

On 28 March 2018, the Cabinet of Ministers of Ukraine adopted a Resolution No. 381, implementing a project for the construction of a railway line between Kyiv and Boryspil International Airport at the expense of Ukrzaliznytsya, which was a client under this project. On 2 November 2018, JSC "Ukrzaliznytsya" received a certificate from the State Architectural and Construction Inspection of Ukraine series IV No. 163183060580 certifying the completion of the construction of the railway.

As at 1 January 2020, within three joint projects with the EBRD and one with the EIB, approximately €891.6 million had been spent on the repair of Kyiv Chop highway, including €573.3 million in EBRD and EIB loans, as well as €318.3 million from the State Budget. The M06 highway is a component of Trans-European corridors III and V, which connects Central Ukraine with the EU member countries and its development is a priority for Ukraine.

On 26 November 2010, Ukraine and the EBRD executed a €450 million loan agreement, and on 27 May 2011 Ukraine and the EIB executed a €450 million financial agreement for the improvement of the quality of main roads near Kyiv; these came into force on 16 September 2011 and on 7 February 2012, respectively. The total value of the project is €1,150.0 million and its implementation is expected to lead to an improvement of the busiest motorways into and out of Kyiv. As at 1 January 2020, €370.2 million of EBRD funds and €212.9 million of EIB funds had been drawn down for this project. See *"Public Debt—External Debt—International Financial Institutions"*.

Between 2012 and 2017, Ukraine signed a number of agreements with the EBRD and the EIB, intended to finance infrastructure projects in Ukraine. On 27 July 2012, Ukraine and the EBRD signed a €152 million loan agreement and on 25 October 2013, Ukraine and the EIB signed a €152 million loan agreement under the joint EBRD-EIB Project *"Completion of Subway Construction in Dnipropetrovsk"*. As of 1 January 2020, €25.4 million of EBRD funds and €19.3 million of EIB funds had been drawn down for this project.

On 15 December 2014, Ukraine and the EBRD signed a €150 million loan agreement (Project *"Reconstruction, Capital Renovation and Technical Re-Equipment of Gas Pipeline Urengoy – Pomary – Uzhorod"*). As at 1

January 2020, €1.5 million of EBRD funds had been drawn down for this project. On 1 December 2014, Ukraine and the EIB signed a €150 Finance Agreement in relation to the project.

On 31 August 2004, Ukrainian Railways (Ukrzaliznytsia) and the EBRD entered into a U.S.\$120 million loan agreement and Ukraine and the EBRD entered into a guarantee agreement relating to a project to implement high-speed passenger trains on Ukraine's railways. As of 1 April 2019, U.S.\$120 million of EBRD funds had been drawn down for this project. The project is completed.

On 11 November 2016, Ukraine and the EIB signed a €200 million finance agreement relating to the project "Urban Public Transport of Ukraine", aimed at developing environmentally clean and socially meaningful public transport systems.

On 19 December 2016, Ukraine and the EIB signed a €150 million finance agreement relating to the project "Modernisation of the Ukrainian Railway" (modernisation of the infrastructure of PJSC "Ukrzaliznytsia") aimed at electrification and general modernisation of railway infrastructure in the Dolynska – Mykolaiv – Kolosivka region. On 30 December 2017, Ukrzaliznytsia and the EBRD entered into a €150 million Loan Agreement and Ukraine and EBRD entered into a Guarantee Agreement for implementation of a project regarding electrification of railway infrastructure in the Dolynska – Mykolaiv – Kolosivka region. The project aims at electrification and general modernisation of the railway, alarm systems and telecommunications. At present, the company is being selected for technical supervision of construction work in the framework of the project and the tender documentation for the selection of the contractor is being prepared.

On 17 December 2018, a financial agreement was signed between Ukraine and the EIB relating to the project "*Transport Communication in Ukraine*". Within the framework of the project, JSC "Ukrzaliznytsya" is provided with €10 million grant funding for the development of feasibility studies of railway projects. An advisor is currently preparing a feasibility study for the Kowel-Jagodin-Polish Railway Track Modernisation Project.

On 9 July 2018, Ukraine and the EIB signed a €75 million finance agreement on for the project "Improving road safety in Ukrainian cities" aimed at the improvement and renovation of road infrastructure, including to accommodate pedestrians and cyclists and for granting access to public transport and utilities and the support of regulatory and monitoring frameworks for the creation of such accommodations. The finance agreement for the project was ratified by Law of Ukraine No. 415-IX dated 19 December 2019. As of 1 January 2020, the loan agreement between Ukraine and EBRD and the financing agreement between Ukraine and the EIB became effective.

On 9 November 2018, Ukrzaliznytsya and EBRD entered into a €150 million loan agreement for a project to renew Ukrzaliznytsia's rolling stock. The project provides for the purchase of approximately 6,500 gondola cars. On 24 September 2019, e-procurement portal for EBRD clients has published an invitation for tender. On 31 October 2019, tender offers of the first stage of the two-staged tender were opened. Ukrzaliznytsya is currently assessing received tender bids.

On 11 December 2017, Ukraine and the EBRD entered into a €320 million loan agreement and Ukraine and the EIB entered into a Finance Agreement for a project to extend a metro line in Kharkiv. The aim of the project is to improve the provision of mass transit in the Kharkiv by extension of the metro line "Oleksiyivska" by 3.5 km, construction of two new stations and of a metro depot "Oleksiyivske". The finance agreement between Ukraine and the EIB was ratified by Law of Ukraine No. 346-IX dated 5 December 2019.

In April 2009, Ukraine and the World Bank signed a U.S.\$400 million facility agreement for the Roads and Safety Improvement Project, which took effect in September 2009. The project was completed on 30 November 2014. During the period of its realisation, U.S.\$380.4 million had been drawn down under this agreement from the IBRD funds; in addition, U.S.\$76.1 million was provided from the State Budget as co-financing. As part of this project, a "Boryspil – Lubny" segment of the Kyiv Kharkiv Dovzhanski highway was reconstructed, and on 2 September 2015, the Cabinet of Ministers adopted Resolution "*On Approval of the Final Report on the Implementation of the Joint Project "Roads and Safety Improvement Project" with the International Bank for Reconstruction and Development*" No.894-p.

On 11 October 2012, Ukraine and the World Bank signed a U.S.\$450 million facility agreement for the Second Roads and Safety Improvement Project, which entered into force on 24 December 2012. As at

31 December 2017, U.S.\$256.5 million of the IBRD loan funds had been drawn down and a further U.S.\$12.3 million of the co-financing by Ukraine was used for the project. As at 1 January 2020, U.S.\$384.5 million had been drawn down for this project. The project is aimed at capital repair of the “Lubny-Poltava” segment of Kyiv Kharkiv Dovzhanski highway, improvement of road safety and development of institutional capacity.

On 19 November 2015, Ukraine and the IBRD signed Loan 8549-UA “*Road Sector Development Project*”. The purpose of the loan is to improve transport and operating condition of roads M03 Kyiv-Kharkiv-Dovzhanskiy Road, maintenance of M06 Kyiv-Chop, as well as administration and development of the highway system. As of 1 January 2020, U.S.\$53.9 million had been used for this project.

On 28 January 2009, the Cabinet of Ministers issued a guarantee to Credit Suisse International as lender under a credit facility in the amount of U.S.\$465 million extended to Ukravtodor. On 28 April 2016, Ukravtodor, Ukraine and VTB Capital plc entered into a deed of novation and amendment with the effect that Ukravtodor was replaced by Ukraine as the borrower under the loan agreement dated 28 January 2009 (as amended) entered into between Ukravtodor and Credit Suisse International (original lender).

In December 2012 and July 2013, the Cabinet of Ministers issued a guarantee to Ukravtodor, in the context of two bond issues in the amount of UAH 14.0 billion and UAH 5.0 billion, respectively. Proceeds were used to finance various infrastructure projects. Within the term for placement of bonds prescribed by the Cabinet of Ministers, bonds in the total amount of UAH 7.2 billion and UAH 2.8 billion, respectively, were placed in Ukrainian banks and the remainder was cancelled.

In preparation for the Euro 2012 Championships, Ukraine invested in the development and improvement of its road network, especially in areas hosting the event, as well as its airport and railways. From 2008 to 2012, UAH 60.195 billion was spent on transport infrastructure projects, including UAH 17.987 billion on the reconstruction and maintenance of a number of Ukrainian airports, UAH 9.358 billion on the reconstruction and maintenance of Ukrainian railways and UAH 16.814 billion on the construction and maintenance of roads.

In the implementation of the State target programme for the development of airports for the period up to 2023, a total of UAH 1,913.92 million of budget funds and funds raised under state guarantees was allocated for the development of the International Airport “Odesa” in 2018, including UAH 1,091.919 million of funds raised in the first nine months of 2019.

As part of the implementation of the State Programme for improving the level of road safety in Ukraine for the period up to 2020, in 2018, UAH 919.348 million (covering 37,505.4 km of roads) was allocated for improving the road safety of roads of state importance.

## **Inflation**

Consumer Price Index (“**CPI**”) is used as a broad measure of inflation in Ukraine. CPI statistics are collected and calculated on a monthly basis by the State Statistics Service of Ukraine and are published on its website on the 9-10<sup>th</sup> business day of every month.



The following table sets out certain CPI and wholesale price index information, showing the annual percentage rates of change as at the dates indicated:

	As at 31 December					As at 31 October
	2014 <sup>(2)</sup>	2015 <sup>(3)</sup>	2016 <sup>(3)</sup>	2017 <sup>(3)</sup>	2018 <sup>(3)</sup>	2019 <sup>(3)</sup>
	<i>(increase/(decrease) compared to 31 December of the previous year)</i>					
Consumer Price Index (CPI) .....	24.9	43.3	12.4	13.7	9.8	4.2
Food and non-alcoholic beverages <sup>(1)</sup> .....	24.8	41.5	3.3	17.7	7.8	5.0
Wholesale Price Index (WPI) .....	31.8	25.4	35.7	16.5	14.2	1.1

The State Statistics Service uses international COICOP classification and does not calculate non-foods and paid services.

(1) Does not include alcoholic beverages and tobacco.

(2) Does not include the temporarily occupied territories of Crimea and the City of Sevastopol.

(3) Does not include the temporarily occupied territories of Crimea, the City of Sevastopol and territories in the Donetsk and Luhansk regions.

Source: State Statistics Service

In 2014, Ukraine's CPI inflation rate was 24.9 per cent., compared to a 0.5 per cent. rate of inflation in 2013. This sharp increase in inflation was largely a result of the conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions, which consequently led to a devaluation of the hryvnia (Hryvnia devalued by 97.3 per cent. against the U.S. dollar in 2014). In 2015, Ukraine's CPI inflation rate was 43.3 per cent. In 2016, inflation slowed and was 12.4 per cent. In 2017, inflation was 13.7 per cent. Food production prices have increased by 32.3 per cent. in 2014, driven primarily by increased transport costs as a result of higher fuel prices, as well as an increase of 31.8 per cent. in production costs and increased cost of water and electricity supply. Food production prices increased by 40.1 per cent. in 2015, 12.4 per cent. in 2016, 11.4 per cent. in 2017, 5.0 per cent. in 2018 and 4.4 per cent. for the ten months ended 31 October 2019. For the years ended 31 December 2018 and 2019, the CPI inflation rate was 9.8 per cent. and 4.1 per cent., respectively.

## Price Liberalisation

Ukraine continues to take steps towards liberalising prices, aiming to reduce the misallocation of State resources employed to keep prices at artificially low levels. Starting in 1993, State-determined prices for energy, agricultural products and communal services were gradually raised towards the economically reasonable (market) level.

Currently, the goods and services that remain subject to administrative price regulation are gas, electricity, certain telecommunications, postal and transport services, housing and communal services such as central heating, water, sewage and housing maintenance services.

The prices and tariffs in the utilities sphere are regulated by the National Commission for the Regulation of the Electric Power Industry and by local authorities in accordance with their powers as provided by the law.

The National Commission for the State Regulation of Communications and Informatisation regulates the following tariffs: tariffs for public telecommunications services; tariffs for leasing of telecommunication channels and estimated taxes for services of traffic passage to telecommunication networks of telecommunication operators, which have a dominant market position; tariffs for leasing of cable channelling of telecommunication of operators, as well as universal postal services.

Tariffs for transport services provided by subjects of natural monopolies, in particular, cargo and passenger rail transportations, specialised services of ports and airports and management of air traffic, are established by the Ministry of Infrastructure with the approval of the CMU, the Ministry of Economic Development and Trade and the Ministry of Finance.

In recent years, tariffs for housing and communal services for the general population have steadily increased. According to data of the State Statistics Service, in 2014, the prices for house, water, electricity, gas and fuel increased by 16.2 per cent. compared to 2013, by 115.8 per cent. in 2015 compared to 2014, and by 35.1 per cent. in 2016 compared to 2015 and in 2017 the prices for house, water, electricity, gas and fuel increased by 26.7 per cent. as compared to the same period in 2016. In 2018, prices for house, water, electricity, gas and fuel increased by 6.8 per cent. as compared to 2017. As at 31 October 2019, prices for house, water,

electricity, gas and fuel increased by 9.8 per cent. as compared to the relevant period of 2018. These increases were due to implementation of a policy in 2015-2019 on the gradual elimination of cross-subsidising of individuals at the expense of other consumers and establishment of prices/tariffs for all categories of consumers at market levels, with a simultaneous introduction of mechanisms for compensation for socially vulnerable categories of the population. Moreover, according to the law “*On Electricity Market*”, which entered into force on 11 June 2017, the National Commission for Regulation of the Electric Power and Municipal Services should reassure the absence of cross-subsidisation between the different consumer categories before the new electricity market will start to function (which is scheduled for July 2019). Beginning 1 July 2019, Resolution No. 1050 dated 29 August 2017 and Resolution No. 1420 dated 27 December 2017 entered into force, establishing subsidies available to electricity suppliers, replacing the cross-subsidisation model.

Since 1 January 2017, market tariffs for electricity for city electric transport and companies that maintain outdoor illumination of cities, towns and villages were introduced and, as a result, respective subsidising (cross subsidising) stopped. In 2018, total subsidies increased to UAH 45.3 billion (as compared to UAH 36.6 billion in 2017). From 1 January 2019, market tariffs for electricity for the children’s centres “Artek” and “Young Guard” were introduced, as well as tariffs differentiated according to time periods for non-residential consumers.

In 2017, National Commission for the Regulation of the Electric Power Industry and Communal Services completed setting up regulatory and legal framework for introduction of incentive-based tariff regulation for natural monopoly entities, which is based on general international practice of price regulation. Such regulation will provide incentive for natural monopoly entities to boost energy efficiency, ensure creation of environment for attracting investments for the purposes of sustainable functioning and development, and facilitate enhancement of reliability and quality of services provided to consumers.

Moreover, in order to comply with the law “*On the Electricity Market*”, the National Energy and Utilities Regulation Commission adopted Resolution No. 1175 dated 5 October 2018 “On approval of the Procedure for determining tariffs for electricity distribution services”. This resolution sets forth a detailed mechanism for determining applicable electricity tariffs.

## **Environment**

Ukraine has established a legal framework for environmental protection that is generally consistent with standards accepted by EU member states and international treaties. There is some concern that Ukraine does not yet have sufficient resources to fully comply with these standards. Therefore, to increase financial resources for the implementation of environmental protection measures, Ukraine is reviewing alternative sources of funding, including the introduction of investments and EU funds.

The main environmental issues facing Ukraine include waste accumulation (including toxic waste), water and atmosphere pollution, contamination from the Chernobyl incident, and the closure of mines. The construction of a New Safe Confinement (the “NSC”) over the “Shelter” and the destroyed Unit 4 of the Chernobyl Nuclear Power Station in 2016 was an important step in mitigating the consequences of the Chernobyl incident. After the NSC construction, the radiation exposure decreased more than 2 times. In 2018, it is planned to put into operation Chernobyl’s radioactive waste management and spent nuclear fuel facilities, which will significantly increase the level of nuclear and environmental safety both in the exclusion zone and beyond. However, the process of Chernobyl Nuclear Power Station decommissioning and transformation of “Shelter” into ecologically safe system takes a long time. The risks and threats in certain parts of the exclusion zone, which suffered the greatest contamination with plutonium isotopes (about a thousand square kilometres) remain for years.

Environmental protection is financed by the State Budget, local budgets, funds of enterprises and organisations, voluntary contributions and other funds. Environmental protection funds have been allocated each year within the State Budget, oblast budgets, the Kyiv and Sevastopol city budgets and local (village, township and city) budgets for the purpose of remedying environmental pollution and damage caused by violations of environmental protection legislation. The Ministry of Ecology and Natural Resources of Ukraine (“**MENR**”) intends to streamline the organisation of these funds and to utilise resources from other sources (including grants and loans from foreign sources).

In line with its commitments under the Association Agreement, MENR has developed a draft of amendments and supplements to the National Environmental Policy Strategy until 2030 and a draft of the National Action Plan on Environmental Protection. On 21 August 2014, MENR presented the “*National Strategy of Bringing Ukrainian legislation in Compliance (Approximation) with European Union Law on Environmental Protection*”, which will serve as guidance in performing the environmental obligations under the Association Agreement.

As at the date of this Prospectus, MENR also continues advancing the implementation plans of the EU Directives and Regulations in the sphere of environmental protection (20 EU legislative acts), adopted by the Resolution of the Cabinet of Ministers No. 371 on 15 April 2015.

In 2016, Ukraine ratified the Paris Agreement to the UN Framework Convention on Climate Change. To implement this agreement, the Cabinet of Ministers adopted the Concept of state policy in the field of climate change for the period until 2030 (Resolution No. 932-r on 7 December 2016) and the Plan of Measures for its implementation (Resolution No. 878-r on 6 December 2016). Currently, the draft of Ukraine’s low carbon growth strategy until 2050 is developed and published on the website of MENR.

The law “*On Environmental Audit*” sets basic legal and organisational criteria for carrying out environmental audits and aims to increase environmental awareness and efficiency of businesses. Mandatory environmental audits must be performed in the following cases, among others: bankruptcy; privatisation and concession of state and communal property, subject to exceptions provided by law; transfers of title or long term leases into state or communal property; establishment of joint ventures on the basis of state or communal assets; environmental insurance of objects; and termination of effectiveness of production sharing agreements according to law.

State control is exercised over management and protection of land, environmental and radiation safety, protection and management of territories and objects of natural reserve funds, management and disposal of waste products (other than radioactive waste products), hazardous chemical substances, pesticides and agrochemicals, the management, protection and use of the ecological network, as well as over compliance with environmental security standards. In addition, the State exercises geological and geodesic monitoring and control. However, the damages payable for the breach of environmental legislation tend to be low, which reduces their deterrent value and is inadequate compared to the sums required to remedy pollution.

In 2015, damages paid to the consolidated budget for breaches of environmental legislation amounted to UAH 57.3 million, including UAH 17.2 million to the State Budget. In 2016, damages paid to the consolidated budget for breaches of environmental legislation amounted to UAH 154.0 million, including UAH 11.8 million to the State Budget. In 2018, damages paid to the consolidated budget for breaches of environmental legislation amounted to UAH 123.33 million, including UAH 37.0 million to the State Budget. As at 1 November 2019, damages paid to the consolidated budget for breaches of environmental legislation amounted to UAH 77.1 million, including UAH 23.1 million to the State Budget.

## THE LABOUR MARKET

### Wages

The average monthly wage of the workforce in the Ukrainian labour market has steadily increased over recent years, from UAH 4,195 in 2015 to UAH 5,183 in 2016, UAH 7,104 in 2017 (increases of 20.5 per cent., 23.5 per cent. and 37.1 per cent. compared to the previous year, respectively), and to UAH 10,340 for the eleven months ended 30 November 2019 (an increase of 18.7 per cent. as compared to the corresponding period of 2018). This trend of consistently rising wages is primarily due to an increase in the efficiency of production and the amount of the minimum wage under the tariff rates and salaries provided by the Law on Remuneration of Labour.

The minimum wage in Ukraine is determined by the Parliament on the basis of the Government's recommendation. The Government bases its recommendation on a number of factors, including the forecasts of key macroeconomic indices for the relevant period (for example, inflation) as well as the then current average wage and employment level and the provisions of collective contracts negotiated with workers. The State Budget Law for 2019 provided for a minimum monthly wage of UAH 4,173 and a minimum hourly wage of UAH 25.13 from 1 January 2019; this represents an increase of more than 12.1 per cent. compared to December 2018.

### Wage Arrears

As at 1 October 2019, total wage arrears amounted to UAH 3,141.1 million, a decrease of UAH 252.1 million, or 8.7 per cent. as compared to total wage arrears as at 1 October 2018. As at 1 October 2019, of total wage arrears, UAH 1,970.1 million (or 62.7 per cent.) were arrears related to operating enterprises, UAH 768.8 million (or 24.5 per cent.) were arrears related to enterprises subject to bankruptcy or readjustment proceedings and UAH 402.2 million (or 12.8 per cent.) were arrears related to non-operating enterprises. Despite the difficult economic situation and ongoing conflict in and the temporary occupation of territories in the Donetsk and Luhansk regions, the adopted measures helped to contain the growth of wage arrears in 2016. Such measures were carried out pursuant to the Cabinet of Ministers of Ukraine Order No. 517-p dated 22 July 2016 and included: (i) weekly monitoring by the Ministry of Social Policy of the status of wage arrears payment; (ii) setting up by the Ministry of Social Policy of a registry of all enterprises having wage arrears and co-operation with the Ministry of Finance, the Ministry of Interior, the State Treasury, the State Fiscal Service, and the Office of the Prosecutor General aimed at taking measures in respect of directors of the enterprises having wage arrears; (iii) establishing committees involving state and municipal officers and directors of the largest enterprises having wage arrears and work through such committees, and (iv) inspections by state labour inspectors of the enterprises having wage arrears.

In terms of statistics, the measures adopted to contain the growth of wage arrears in 2016 translated, among others, into: (i) 6,160 committee meetings issuing disciplinary notices to directors of 8,786 enterprises having wage arrears and adopting 3,549 other measures towards such directors; (ii) approximately 2,200 labour inspections carried out on approximately 1,500 enterprises having state arrears; (iii) 819 administrative offence notices issued by law enforcement agencies and filed with relevant courts, and (iv) 656 labour inspection results filed with the relevant law enforcement agencies.

As at 1 October 2019, wage arrears of operating enterprises in the public sector were UAH 604.5 million. Of public sector wage arrears, as at 1 October 2019, wage arrears of state-owned enterprises were UAH 450.3 million (an increase of UAH 85.6 million or 23.5 per cent. as compared to such arrears as at 1 October 2018), and wage arrears of municipal enterprises were UAH 154.2 million (an increase of UAH 88.7 million or 2.4, as compared to such arrears as at 1 October 2018).

As at 1 October 2019, wage arrears of operating enterprises payable out of the State Budget were UAH 31.6 million (an increase of UAH 6.8 million as compared to 1 October 2018), wage arrears of operating enterprises payable out of the local budgets were UAH 14.5 million (a decrease of UAH 10.6 million as compared to such arrears as at 1 October 2018).

## Employment

The State Statistics Service calculates unemployment monthly on the basis of all persons between the ages of 15 and 70, using the International Labour Organisation's (the "ILO") internationally accepted methodology of household surveys.

The table below shows the annual average employment data for 2014, 2015, 2016, 2017, and for the six months ended 30 June 2019:

	For the year ended 31 December					For the six months ended 30 June
	2014	2015	2016 <sup>(2)</sup>	2017	2018	2019
Economically active population, millions .....	19.9	18.1	18.1	17.8	17.9	18.1
Employed, millions .....	18.1	16.4	16.3	16.2	16.4	16.6
Unemployed, millions .....	1.8	1.7	1.7	1.7	1.6	1.5
Unemployment rate <sup>(1)</sup> in per cent. to economically active population .....	9.3	9.1	9.3	9.5	8.8	8.4

(1) Based on a selective survey of the population (households) in Ukraine (excluding illegally occupied Crimea).

(2) Based on a selective survey of the population (households) in Ukraine (excluding illegally occupied Crimea and certain parts of the Donetsk and Luhansk regions).

Source: State Statistics Service of Ukraine

According to selective surveys of household economic activity conducted under ILO methodology, average unemployment remains high in Ukraine, representing 9.3 per cent., 9.1 per cent., 9.3 per cent., 9.5 per cent., 8.8 per cent. and 8.0 per cent. of the economically active population in 2014, 2015, 2016, 2017, 2018, and the nine months ended 30 September 2019, respectively.

For the nine months ended 30 September 2019, the average employment level was at 16.7 million compared to 16.4 million in 2018, 16.2 million in 2017, 16.3 million in 2016, 16.4 million in 2015 and 18.1 million in 2014. In 2018, the economically active population averaged 17.9 million. Unemployment fell from 1.9 million in 2014 to 1.7 million in 2015 to 1.7 million in 2016 and 1.7 million in 2017. In 2018, unemployment fell to 1.6 million and in the nine months ended 30 September 2019 it fell again to 1.5 million. The figures for 2015 and 2016 fell as compared to 2014 as, since 2015 and onwards, the data collected by the Ukrainian statistics authority do not account for illegally occupied Crimea and certain parts of the temporarily occupied Donetsk and Luhansk regions.

Under ILO methodology, the overall unemployment rate in 2014 was 9.3 per cent., being 9.5 per cent. in rural areas and 9.2 per cent. in urban areas; in 2015, the overall unemployment rate was 9.1 per cent., being 9.4 per cent. in rural areas and 9.0 per cent. in urban areas; in 2016, the overall unemployment rate was 9.3 per cent., being 9.7 per cent. in rural areas and 9.2 per cent. in urban areas; in 2017, the overall unemployment rate was 9.5 per cent., with 9.9 per cent. in rural areas and 9.3 per cent. in urban areas; in the fourth quarter of 2018, the overall unemployment rate was 9.3 per cent., with 9.8 per cent. in rural areas and 9.1 per cent. in urban areas. In the nine months ended 30 September 2019, the overall unemployment rate was 8.0 per cent., with 8.5 per cent. in rural areas and 7.8 per cent. in urban areas.

The number of persons employed part time was 888,100 in 2014, 742,100 in 2015, and 464,200 in 2016. The number of persons on involuntary unpaid leave was 90,500 in 2014, 62,600 in 2015, and 163,600 in 2016. For the nine months ended 30 September 2018, the number of persons employed part time was 128,200 (a 19.6 per cent. decrease as compared to the nine months ended 30 September 2017), and the number of persons on involuntary unpaid leave was 16,300 (a 30 per cent. decrease as compared to the nine months ended 30 September 2017).

## **Pensions, Unemployment Benefits and Social Benefits**

The Ukrainian social insurance system consists of pensions, unemployment benefits, and other social benefits, including those related to temporary incapacity, work related injury, occupational illness, and pregnancy, childbirth and child care benefits, and funeral payment assistance.

As part of Ukraine's ongoing transition to a market economy, the Government is currently working with the World Bank and the IMF to restructure Ukraine's social insurance system. The restructuring includes the introduction of a system of collecting and accounting for a single social contribution under a mandatory State social insurance scheme (based on the Law of Ukraine "On Collection and Accounting of the Single Contribution under the Mandatory State Social Insurance" that entered into force on 1 January 2011), as well as the further development of the Ukrainian pension system.

The Uniform State Automated Register of Persons Entitled to Benefits (the "**Register**") records information on military and labour service veterans, certain categories of pensioners, persons harmed by the Chernobyl disaster and other categories of individuals entitled to benefits. Social security authorities use the Register to verify information received from entities that render services to entitled persons and to make payments for such services. As at 1 January 2018, the Register contained information on approximately 9.8 million persons.

For 2019, the total pension expenditure is budgeted at UAH 408.3 million. In January to March 2019, pension expenditure amounted to UAH 98.1 billion. In 2018, pension expenditure amounted to 352.7 billion UAH. In 2017 pension expenditure amounted to UAH 286.6 billion, and social insurance expenditures amounted to UAH 26.8 billion. In 2016, pension expenditure amounted to UAH 249.8 billion, while social insurance costs amounted to UAH 22.6 billion. In 2015, pension expenditure amounted to UAH 262.1 billion, while social insurance expenditure amounted to UAH 24.8 billion.

Social insurance expenditure amounted to an estimated UAH 32.8 billion in 2018 and will amount to an estimated UAH 36.8 billion in 2019.

### ***Pensions and Pension Reform***

The average monthly pension in Ukraine as at 1 January 2018 amounted to UAH 2,479.15, an increase of 35.6 per cent. as compared to the average monthly pension as at 1 January 2017.

The average monthly pension in Ukraine as at 1 January 2019 amounted to UAH 2,645.66, an increase of approximately 44.7 per cent. as compared to the average monthly pension at 1 January 2017.

The average monthly pension in Ukraine as at 1 April 2019 amounted to UAH 2,899.04.

The average monthly pension in Ukraine as at 1 October 2019 amounted to UAH 3,019.63, an increase of UAH 373.96, or 14.1 per cent., as compared to the average monthly pension as at 1 January 2019.

The minimum pension as at 1 January 2019 amounted to UAH 1,497.00 following 35 years of pensionable service for men and 30 years for women. For persons with less than the minimum amount of pensionable service, their pension is calculated in an amount proportional to their actual pensionable service. For persons with disabilities preventing them from working, pensions are adjusted to satisfy living wage legislation.

The minimum retirement pension starting from 1 January 2019 increased by UAH 172 to UAH 1,669 (40 per cent. of the minimum wage) for persons over the age of 65 having, for men, 35 years of pensionable service and, for women, 30 years of pensionable service.

The minimum retirement pension will increase for male pensioners with 35 years of pensionable service and for female pensioners with 30 years of pensionable service from 1 July 2019 to UAH 1,564 and from 1 December 2019 to UAH 1,638.

The Pension Fund deficit increased significantly from UAH 14.7 billion in 2014, to UAH 31.8 billion in 2015, and UAH 84.8 billion in 2016, primarily due to a decrease of the single social contribution rate to 22 per cent. In 2018, the Pension Fund deficit amounts to UAH 32.1 billion. The 2019 State Budget provides UAH 167.0 billion to fund pensions.

The State Budget includes provision of loans to the Pension Fund in order to cover its deficit, such loans to be repaid using proceeds from the Pension Fund. The outstanding amount of loans provided to the Pension Fund was UAH 48.1 billion as at 1 January 2017, UAH 54.7 billion as at 1 February 2018, UAH 52.8 billion as at 1 January 2019 and UAH 4.5 billion as at 1 April 2019. See “*Public Finance and Fiscal Policy—The State Budget Expenditures—Pensions*”.

On 1 January 2004 a three-tier system of pension insurance was created in Ukraine. The first level is a pay as you earn system of mandatory State pension insurance, the second level is a defined contribution system of State pension insurance and the third level is non-State pension provisions.

From 1 October 2011, a maximum rate for pensions was introduced equal to 10 times the subsistence level, and the length of service required to receive a pension was extended, with incentives for retiring later, with the intention of levelling the retirement age for men and women through a gradual increase in the retirement age through to an increase of five years by 2021.

Prior to 1 June 2015, Ukraine operated a system of special state funded pensions (for prosecutors, judges, MPs and civil servants) over and above the general pension. However, in 2014, the level of this pension decreased from 80 per cent. of earnings to 70 per cent. and then in 2015 fell to 60 per cent.; since 1 June 2015, no special pensions have been granted (apart from certain military and scientific sector employees). Furthermore, in 2014 taxes were introduced on pensions awarded prior to 1 October 2011 and exceeding UAH 10,000.

Starting from 1 January 2015, pensions exceeding three times the minimum wage (UAH 3,654) were subject to personal income tax at the rate of 15 per cent. Pensions exceeding 10 times the minimum wage (UAH 12,180) were subject to personal income tax at the rate of 15 per cent. and 20 per cent. (the 15 per cent. rate was applied to the portion of the pension equal to UAH 12,180 and the 20 per cent. rate was applied to the portion of the pension over UAH 12,180).

From 1 July 2016, personal income tax at the rate of 18 per cent. applies to pensions exceeding 10 living wages for persons who have lost working capacity.

On 27 February 2018, the CCU declared taxation of pensions as unconstitutional and since 28 February 2018 going forward pensions and monthly payments to persons receiving lifetime support shall not be subject to personal income tax and military duty.

From 1 April 2015, (i) the maximum pension for judges was set at the level of UAH 9,490 and has been further increased to UAH 10,740 with effect from 1 September 2015; (ii) pensions for working pensioners exceeding UAH 1,423.5 (or UAH 1,968 with effect from 1 May 2017) have been fixed in the amount of 85 per cent. of such pension but not less than UAH 1,423.5 (or UAH 1,968 with effect from 1 May 2017); and (iii) the payment of pensions to MPs, civil servants and similar persons who are still working has been limited. From July 2017, pensions to working pensioners have been paid out without limitations.

Within the framework of the pension reform, on 30 April 2015, the Government submitted draft law “On Amendments to Certain Legislative Acts of Ukraine Regarding Increase of Pensions” No. 2148 to Parliament providing, among other things, for cancellation of certain special pensions and an enhanced system for determination of bonuses and other amounts payable in addition to pensions. On 3 October 2017, that law was adopted by the Parliament and on 11 October 2017, it entered into effect. The new law contemplates a modernisation of the pensions system, including by recalculation of the pensions awarded earlier, adoption of unified rules to determine amounts of pension payments, as well as cancelling the special procedure of pension payments to working pensioners. In addition, the new law retained the current retirement age, established flexible terms of retirement depending on the term of contribution period, as well as determined a mechanism of yearly indexation (recalculation) of pensions. This allowed an increase in pensions for 10.2 million people.

As at 1 July 2018, the total number of pensioners in Ukraine was 11,441,387, including 8,704,166 receiving retirement pensions (76.1 per cent. of the total number of pensioners), 1,391,575 receiving pensions due to physical disability (12.2 per cent. of the total number of pensioners), 624,142 receiving pensions due to loss of a breadwinner (5.5 per cent. of the total number of pensioners), 639,528 receiving pensions for years of service (5.5 per cent. of the total number of pensioners), 85,815 receiving social pensions (0.74 per cent. of the total number of pensioners), and 3,150 receiving lifetime support (0.027 per cent. of the total number of pensioners).

As at 1 January 2019, approximately 11,470,294 million pensioners were registered with the Pension Fund of Ukraine. Out of the total number of pensioners, 8,693,013 are receiving retirement pension, 1,415,294 are receiving pensions due to physical disability, 645,659 are receiving pensions due to loss of a breadwinner, 629,118 are receiving pensions for years of service, 84,027 are receiving social pensions, and 3,294 are receiving lifetime support as former judges.

As at 1 April 2019, 11,389,949 million pensioners were registered with the Pension Fund of Ukraine. Out of the total number of pensioners, 8,614,536 are receiving retirement pension, 1,414,392 are receiving pensions due to physical disability, 648,834 are receiving pensions due to loss of a breadwinner, 626,215 are receiving pensions for years of service, 82,665 are receiving social pensions, and 3,307 are receiving lifetime support as former judges.

As at 1 October 2019, 11,389,949 million pensioners were registered with the Pension Fund of Ukraine. Among a total number of pensioners, 8,588,595.00 are receiving retirement pension, 1,428,059.00 are receiving pensions due to physical disability, 630,615.00 are receiving pensions due to loss of a breadwinner, 619,441.00 are receiving pensions for the retirement from service, 79,138.00 are receiving social pensions, and 3,339.00 are receiving lifetime support as former judges.

As at 31 March 2018, the State Register of Financial Entities contained information on 62 non-state pension funds (“NSPF”) and 22 administrators of NSPF (for reference: as at 31 March 2017, the State Register of Financial Entities contained information on 64 NSPF and 22 administrators). The overall sum of assets, formed by non-state pension funds, amounted to UAH 2.485.2 million, which is 12.6 per cent., or UAH 278.9 million, more than in the corresponding period of 2017, and 24.8 per cent., or UAH 493.1 million, more than in the corresponding period of 2016. Administrators of non-state pensions fund entered into 61,000 pension contracts, which is 5.4 per cent. (3,5 thousand contracts) fewer compared to 31 March 2017. The overall number of participants of NSPF amounted to 843.2 thousand people (as at 1 March 2017 this figure was 836.2 thousand people), 79.4 thousand of which received/are receiving pension payments (9.4 per cent. of the overall number of participants).

### ***Unemployment Benefits***

Mandatory unemployment insurance was introduced in Ukraine on 1 January 2001. Independent agricultural workers, as well as Ukrainians working abroad, may participate in the unemployment insurance scheme on a voluntary basis. Insured persons, as well as young persons who ended or suspended their studies or who are free from regular or alternative (non-military) service and who need assistance in finding employment for their first job, are entitled to benefits and social services; *provided that* they are registered as unemployed with the State Employment Service. Benefits are currently payable out of the Unemployment Fund. Insured unemployed persons’ benefits depend on their wages (income), insurance period, duration of unemployment, and the reasons for dismissal from the last workplace or termination of the respective type of activity. Persons who receive unemployment benefits that do not take their insurance period and wages into account, as well as young persons who ended or suspended their studies, or who are free from regular or alternative (non-military) service, have the right to unemployment benefits at the minimum level.

Since 1 January 2019, management of the Unemployment Fund established the minimum unemployment benefit: 1) in the amount of UAH 610 per month for persons who have no pensionable service, whose pensionable service within the twelve months preceding the registration as unemployed was shorter than six months, or whose last employment was terminated on the specified grounds, provided for by Articles 40 (points 3,4,7,8), 41 and 45 of the Labour Code of Ukraine, and on the corresponding grounds, defined by other laws, and internally displaced persons, who are not able to confirm periods of their employment; 2) in the amount not exceeding UAH 1,630 per month for insured persons, payments for which are calculated in accordance with their pensionable service, which may not be shorter than six months within the twelve months preceding the registration as unemployed, and depend on their wages. Such minimum unemployment benefit is payable at least twice per month, or, if agreed to by the unemployed receiving the benefit, once per month pursuant to the law “*On Mandatory State Social Unemployment Insurance*”.

In accordance with Ukrainian employment insurance laws, any unemployed person whose pensionable service within the twelve months preceding the registration as unemployed was longer than six months is entitled to benefits, depending on such person’s past employment period. In particular, a person is entitled to benefits:



equivalent to 70 per cent. of that person's average monthly salary if the past employment period was more than ten years, 60 per cent. if it was between six and 10 years, 55 per cent. if it was between two and six years and 50 per cent. if it was less than two years. An unemployed person is entitled to 100 per cent. of such benefits for the first 90 calendar days, 80 per cent. for the subsequent 90 calendar days and 70 per cent. for the following months; however, for unemployment benefits the duration of payment is limited, in a two-year period, to 720 calendar days for persons of pre-retirement age, 360 calendar days for other persons and not longer than 180 calendar days for youth registered as unemployed and requiring employment support at the first job and internally displaced persons, who are not able to confirm their periods of employment.

The major categories of social services rendered to the unemployed include search for an appropriate job and assistance in employment process, including by means of holding public works; professional training (including re-training and advanced training); providing subsidies to employers in compensation of the single social contribution under a mandatory State social insurance scheme for creation of additional jobs in new workplaces, providing citizens with a special voucher to keep up with competition in the labour market, as well as information and consulting services related to employment (including the provision of social services to vulnerable persons, IDPs and participants in the conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions).

### ***Social Insurance and Benefits***

In addition to pensions and unemployment benefits, social insurance consists of public support for persons who are temporarily incapable of working or have suffered work related injury or illness, as well as pregnancy, childbirth and child care benefits. Furthermore, social benefits include subsidies to low income families, cash subsidies for the purchase of fuel and gas, subsidies for the payment of housing and communal services, as well as assistance for health improvement (rehabilitation) and funeral costs.

As 1 October 2019, there were no social benefit arrears for subsidies to families with children and low income subsidies.

## EXTERNAL SECTOR

### Balance of Payments

In 2014, the current account deficit decreased to U.S.\$4.6 billion, or 3.4 per cent. of GDP, as compared to U.S.\$16.5 billion, or 8.7 per cent. of GDP in 2013. Considerable devaluation of the hryvnia and prolonged decline in domestic demand led to a decrease in imports of goods and services by 28.1 per cent. to U.S.\$70.0 billion. Exports of goods and services, which decreased by 19.9 per cent. to U.S.\$65.4 billion, were also affected by trade restrictions imposed by Russia and by the conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions.

The deficit of the financial account in 2014 amounted to U.S.\$9.1 billion. This was due to political instability and high devaluation expectations in 2014. This situation stabilised as a result of significant external funding from the World Bank amounting to of U.S.\$1.3 billion and the EU amounting to of €1.8 billion. In 2014, the financial and corporate sectors reduced their foreign debt by U.S.\$13.6 billion. In 2014, the net inflow of FDI amounted to U.S.\$0.3 billion.

In 2015, the current account surplus amounted to U.S.\$1.6 billion, or 1.8 per cent. of GDP. A significant decrease in world prices for exported goods and a further deterioration in trade relations with Russia resulted in a decline of exports of goods and services by 26.9 per cent. to U.S.\$47.9 billion in this period. However, low domestic demand and significant devaluation of the hryvnia as well as the introduction of additional import duties led to a reduction of imports of goods and services by 28.3 per cent. to U.S.\$50.2 billion in this period.

In 2015, the outflow of the financial account decreased to U.S.\$1.2 billion. The main external borrowings were made by the state sector including from the World Bank in the amount of U.S.\$1 billion, the European Commission in the amount of U.S.\$0.9 billion, Canada in the amount of U.S.\$0.2 billion and U.S.\$1 billion Notes issued by Ukraine and guaranteed by the U.S. Other planned external borrowings were moved to 2016 due to a postponed tranche from the IMF. In 2015, the volume of FDIs increased to U.S.\$3.0 billion, U.S.\$2.4 billion of which was allocated to the banking system.

In 2016, the current account deficit amounted to U.S.\$1.3 billion, or 1.4 per cent. of GDP. Exports of goods and services further decreased to U.S.\$46 billion, or by 3.9 per cent., due to the complicated market situation at the beginning of the year, new trade restrictions imposed by Russia and repeated domestic transit complications. In addition, due to the Ukraine–EU Association Agreement, Ukraine enhanced the volume of its exports to the EU member states. Increase in internal demand, in particular for investment capital, also led to an increase in imports of goods and services to U.S.\$52.5 billion or by 4.5 per cent. in 2016.

The current account deficit in 2016 was balanced by an increase in net external borrowings of U.S.\$2.6 billion. In contrast to the previous year, these borrowings were made by private sector.

In 2016, the net inflow of foreign direct investments amounted to U.S.\$3.3 billion. Direct inflow to the banking system amounted to U.S.\$2.3 billion (or 69.0 per cent. of the total inflow).

In 2017, the current account deficit amounted to U.S.\$2.4 billion, or 2.2 per cent. of GDP. The deficit in trade of goods and services amounted to U.S.\$8.6 billion. Exports of goods and services increased by 17.1 per cent. to U.S.\$53.9 billion and imports of goods and services increased by 19.2 per cent., to U.S.\$62.5 billion.

Since 2014, Poland (as opposed to Russia) became the main destination country for Ukrainian labour migrants. Since labour migration to Poland is mostly short-term and cyclical, most workers can bring money to Ukraine personally which, in turn, means official remittance transfers remains low and data regarding personal remittances was significantly underestimated from 2014 onwards. As a result, in 2018 the NBU revised personal remittances data for 2015 to 2017. The Statistics and Reporting Department of the NBU conducted a review of the calculation method and updated the personal remittances data from 2015 using mirror statistics (*i.e.* data of the main partner countries such as Poland and Russia). As a result, personal remittances were revised up by U.S.\$1.8 billion in 2015, U.S.\$2.1 billion in 2016 and U.S.\$2.0 billion in 2017, which in turn has led to changes on the current account. The 2015 current account deficit was revised from 0.2 per cent. of GDP to a current account surplus of 1.8 per cent. of GDP. The 2016 current account deficit was revised from 3.7 per cent. of GDP to current account deficit of 1.4 per cent. of GDP. The 2017 current account deficit was revised from 3.7

per cent. of GDP to current account deficit of 2.2 per cent. of GDP. The overall balance remains unchanged due to corresponding changes in financial accounts.

Net borrowings in financial account in 2017 amounted to U.S.\$5.0 billion, an increase of U.S.\$2.1 billion as compared to 2016. 2017 has seen the inflow of funds to the public sector (totalling U.S.\$2.1 billion as compared to U.S.\$792 million in 2016) and to the private sector (totalling U.S.\$2.5 billion as compared to U.S.\$3.4 billion in 2016). The inflow of funds to the public sector was due to the issuance of Eurobonds made in September 2017 and marking Ukraine's return to international capital markets following a four year absence from the markets, which resulted in the net inflow in the amount of U.S.\$1.3 billion and receipt of a further tranche of macro-financial assistance from the European Commission in the amount of U.S.\$0.6 billion. The net inflow of foreign direct investment decreased to U.S.\$2.6 billion, which was due to completion of most of bank recapitalisation programmes (the volume of debt-to-equity conversion transactions in banks decreased from U.S.\$2.1 billion in 2016 to U.S.\$0.6 billion in 2017). Aside from such transactions, the net inflow of foreign direct investment increased by 64 per cent. compared to 2016, totalling U.S.\$2.0 billion in 2017. The surplus of the consolidated balance of payments in 2017 and net borrowings provided by the IMF enabled Ukraine to increase its foreign currency reserves to U.S.\$18.8 billion, which was equal to 3.2 months' worth of Ukrainian imports for the following period. Overall in 2017, gross foreign currency reserves increased by U.S.\$3.3 billion or 21 per cent.

In 2018, the current account deficit increased to U.S.\$4.4 billion (or 3.3 per cent. of GDP), primarily due to an increase in the deficit of trade in goods. Exports of goods increased by 9.2 per cent. due to favourable external conditions and a record harvest of certain crops. At the same time, imports grew faster than exports (13.6 per cent.), supported by sustained high demand and energy prices. In addition, dividend payments increased by 1.9 times to U.S.\$3.4 billion, which is also due to the NBU's permission for their repatriation for the previous years. However, an increase in the total of money transferred into Ukraine by 19.9 per cent. to U.S.\$11.1 billion limited the current account deficit.

As at September 2019, the current account deficit decreased compared to the corresponding period of 2018 (from U.S.\$3.4 billion or 3.7 per cent. of GDP to U.S.\$2.7 billion or 2.5 per cent. of GDP). Such decrease was caused by further increase of remittances, an increase of surplus of trade of goods and services, and lower dividend repatriation rates. Deficit of trade of goods slightly increased (from U.S.\$8.9 billion as at September 2018 to U.S.\$9.7 billion), largely due to the impact of temporary factors on the volume of imports. One factor was the display in the statistical reporting of used cars that were imported in violation of the Ukrainian customs regime. Another factor was the large physical volumes of natural gas imported in order to accumulate sufficient supplies in light of the expected expiry of the gas transit agreement with Russia at the end of 2019. High crop yields during both 2018 and 2019 ensured a steady growth rate of export of goods (8.1 per cent per annum). Increase in imports of goods (8.3 per cent. per annum) was restrained by falling global energy prices.

Net flow of capital in the financial account in 2018 increased to U.S.\$7.2 billion and were provided by both the private and public sectors. At the same time, the role of the latter in capital flows increased at the end of the year, primarily due to the placement of sovereign Eurobonds and the receipt of official financing. Capital flow to the private sector were secured by inflow of FDI and debt capital to the real sector. Net inflow of direct investments in 2018 amounted to U.S.\$2.4 billion, 42 per cent. of which was directed into equity capital of the real sector. The surplus of the consolidated balance of payments totalling U.S.\$2.9 billion, combined with official funding, contributed to an increase in international reserves to U.S.\$20.8 billion at the end of 2018 or 3.3 months of imports of the future period. In total, in 2018 gross international reserves increased by U.S.\$2 billion or 11 per cent.

As at September 2019, the net inflow of capital into the financial account increased to U.S.\$4.9 billion and was propelled by the purchase by non-residents of hryvnia's UT-Bills, the placement of the Eurobonds in June 2019 and loan inflow under the World Bank guarantees. The real sector attracted investment and debt capital, including through the placement of Eurobonds by individual Ukrainian companies. Net FDI inflows increased to U.S.\$1.8 billion, 50% of which was aimed at equity in the real sector. As at 30 September 2019 the consolidated balance of payments amounted to U.S.\$2.2 billion, which allowed financing the current account

deficit and payments on IMF loans, as well as increasing international reserves to U.S.\$21.4 billion as at 30 September 2019, or 3.4 months of future imports.

The following table sets out Ukraine's balance of payments for the periods shown:

	For the year ended 31 December					For the nine months ended 30 September
	2014	2015	2016	2017	2018	2019
	<i>(U.S.\$ millions)</i>					
<b>A. Current account.....</b>	<b>(4,596)</b>	<b>1,616</b>	<b>(1,340)</b>	<b>(2,442)</b>	<b>(4,367)</b>	<b>(2,705)</b>
Goods and services (balance).....	(4,606)	(2,362)	(6,453)	(8,644)	(11,367)	(8,504)
Export of goods and services.....	65,436	47,862	46,008	53,868	59,135	46,793
Import of goods and services.....	70,042	50,224	52,461	62,512	70,502	55,297
Goods (balance) .....	(7,128)	(3,455)	(6,942)	(9,663)	(12,714)	(9,680)
Services (balance) .....	2,522	1,093	489	1,019	1,347	31,176
Initial revenues (balance) .....	(1,531)	375	1,477	2,579	3,348	13,357
Secondary revenues (balance).....	1,541	3,603	3,636	3,623	3,652	12,442
<b>B. Capital account .....</b>	<b>400</b>	<b>456</b>	<b>92</b>	<b>(4)</b>	<b>37</b>	<b>(35)</b>
<i>Net lending (+)/ Net borrowing (-)</i>						
<i>(=A+B)</i> .....	<i>(4,196)</i>	<i>2,072</i>	<i>(1,248)</i>	<i>(2,446)</i>	<i>(4,330)</i>	<i>(2,670)</i>
<b>C. Financial account.....</b>	<b>9,111</b>	<b>1,223</b>	<b>(2,594)</b>	<b>(5,012)</b>	<b>(7,207)</b>	<b>(4,884)</b>
Direct investment (balance) .....	(299)	(3,012)	(3,268)	(2,593)	(2,360)	(1,794)
Portfolio investment (balance) .....	2,700	(367)	(293)	(1,800)	(2,080)	(3,715)
Other investments (balance).....	7,243	4,263	392	(137)	(1,061)	1,243
Other investments: assets .....	1,515	(565)	(2,762)	629	1,996	4,653
Including						
Banks .....	(3,006)	384	(700)	(753)	(329)	2,197
Other sectors .....	4,886	221	(2,059)	1,369	2,320	2,459
including foreign currency cash						
outside banks.....	3,452	(168)	(2,722)	393	2,421	2,177
Other investments: liabilities.....	(5,728)	(3,698)	(3,154)	766	3,057	3,410
Including						
State administration sector .....	3,274	2,295	252	530	922	482
Banks .....	(2,102)	(4,304)	(2,628)	(1,522)	(454)	(153)
Other sectors .....	(6,900)	(3,009)	525	1,658	2,589	3,081
Mistakes and omissions.....	533	(339)	(575)	482	11,706	4618
<b>D. Consolidated balance (= A + B - C) .....</b>	<b>(13,307)</b>	<b>849</b>	<b>1,346</b>	<b>2,566</b>	<b>2,877</b>	<b>2,214</b>
<b>E. Reserves and related items.....</b>	<b>(13,307)</b>	<b>849</b>	<b>1,346</b>	<b>2,566</b>	<b>2,877</b>	<b>2,214</b>
Reserve assets .....	(12,404)	6,016	2,348	2,673	2,161	(620)
Loan from IMF (NBU).....	551	3,346	1,002	678	658	(590)
IMF loan to Ukraine.....	352	1,821	0	(571)	(1,374)	(1,004)
SDR.....	0	0	0	0	0	0

Source: NBU

## International Trade

Following independence, the large increases in the price of Ukraine's energy imports were offset by decreases in import volumes, with the result that nominal import flows remained broadly the same. The price of energy, in particular of oil (delivered by Russia) and of gas (delivered by Russia and, in certain periods, Turkmenistan), increased from intra Soviet to world market levels. The immediate impact on the economy was less severe than it might have been because part of the price was credited to Ukraine by its suppliers, especially Russia's Gazprom.

The trade deficit of goods and services has remained relatively low since 2013, amounting to U.S.\$4.6 billion, U.S.\$2.4 billion and U.S.\$6.5 billion in 2014, 2015 and 2016, respectively. However, following the political and military upheaval in early 2014, the level of Ukrainian trade, both in terms of exports and imports, has dropped significantly from the 2011 to 2013 levels. From 2017 imports significantly increased amid high investment activity. As a result, the trade deficit of goods and services increased to U.S.\$8.6 billion in 2017

and to U.S.\$11.4 billion in 2018. As at September 2019, the trade deficit of goods and services increased to U.S.\$8.5 billion (compared to U.S.\$8.1 billion as at September 2018).

Exports of goods and services amounted to U.S.\$65.4 billion (or 48.6 per cent. of GDP), U.S.\$47.9 billion (or 52.6 per cent. of GDP) and U.S.\$46.0 billion (or 49.3 per cent. of GDP) in 2014, 2015 and 2016, respectively, representing decreases of 19.9 per cent., 26.9 per cent. and 3.9 per cent., respectively, compared to the previous years. This continued decrease in exports was primarily caused by the trade restrictions imposed by Russia and the conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions. In 2017, exports of goods and services amounted to U.S.\$53.9 billion (or 48.0 per cent. of GDP), an increase of 17.1 per cent. as compared to 2016. Due to a good harvest of grains and oilseeds in 2016, exports of food increased by 16.3 per cent. Exports of ferrous metals in terms of volume decreased due to the seizure of a number of metallurgical enterprises located on the temporarily occupied territories of the Donetsk and Luhansk regions and the cut-off from the resources and industrial output of such enterprises. However, because prices on the world markets increased, the exports of metallurgical products increased by 22.1 per cent. in terms of value. In 2018, exports of goods and services increased by 9.8 per cent. and amounted to U.S.\$59.1 billion (or 45.2 per cent. of GDP). The record harvest of grain crops against the background of higher world prices than the previous year contributed to an increase in exports of food products of 4.8 per cent. Exports of IT services continued to grow at a high pace (25.8 per cent.). At the same time, the growth of exports of metallurgical products (15.3 per cent.) was restrained by repairs on a number of metallurgical enterprises and the complication of freight traffic in the Azov Sea in the second half of the year.

For the nine months ended 30 September 2019, exports of goods and services increased by 8.4 per cent. as compared to the corresponding period in 2018 and amounted to U.S.\$46.8 billion. Substantial harvests resulted in an increase in exports of grain and oilseeds by 42.5 per cent. and 22.4 per cent. respectively, as compared to the corresponding period in 2018. Exports of oilcakes continued to increase (to 11.6 per cent. per annum) due to active processing of the record sunflower crop produced in 2019 and expansion of the delivery geography. Overall, exports of food products increased to 22.1 per cent. per annum and became the main driver of exports growth in goods. In addition, a significant increase in the global market price of ironstone facilitated a growth in the amount exported (up to 30.3 per cent. per annum). At the same time, the increase in exports of goods was restrained by falling global market prices of metallurgical and chemical products, repairs at certain industrial facilities and due to increasing trade protectionism by certain countries. As a result, for the nine months ended 30 September 2019, exports of metallurgical and chemical goods decreased by 10.8 per cent. and 11.8 per cent., respectively, as compared to the corresponding period in 2018.

Imports of goods and services amounted to U.S.\$70.0 billion (or 52.0 per cent. of GDP), U.S.\$50.2 billion (or 55.2 per cent. of GDP), and U.S.\$52.5 billion (or 56.2 per cent. of GDP) in 2014, 2015 and 2016, respectively, representing decreases of 28.1 per cent. and 28.3 per cent. for 2014 and 2015, respectively, and an increase of 4.5 per cent. for 2016. The significant decreases in 2014 and 2015 were the result of a considerable devaluation of the hryvnia and prolonged decline in domestic demand, while in 2016 the situation stabilised as domestic demand for investment in the agricultural sector boosted trade and an increase in the real income of population, as well as stabilisation of economic conditions led to an upsurge in imports of consumer goods. In 2017, economic recovery continued as the domestic demand, especially for investment, particularly in the agricultural sector, and consumer goods kept growing. Imports of goods and services in 2017 increased by 19.2 per cent. to U.S.\$62.5 billion (or 55.7 per cent. of GDP) due to increases in the volumes of energy products and machinery. Specifically, imports of coal in terms of volume increased by 26.4 per cent. and imports of natural gas in terms of volume increased by 27.9 per cent. Further increase in demand for investments resulted in a 31 per cent. increase in machinery imports in terms of value. High growth rates were observed in the imports of agricultural machinery (by 24.5 per cent.) and cars (by 1.4 times). In 2018, imports of goods and services increased by 12.8 per cent. to U.S.\$70.5 billion (or 53.9 per cent. of GDP). In particular, the import of machine building products increased by 17.9 per cent. against the backdrop of high investment demand, including purchases of equipment for the construction of alternative energy facilities. Sustained consumer demand has led to an increase in imports of food products and industrial products (by 17.7 per cent. and 21.1 per cent., respectively). In addition, energy imports grew by 14.2 per cent., primarily as a result of the sharp increase in world prices for most of 2018.

For the nine months ended 30 September 2019, imports of goods and services increased by 7.8 per cent. as compared to the corresponding period in 2018 and amounted to U.S.\$55.3 billion, primarily due to an increase

in imports of machine building products (by 22.8 per cent per year). As a result, the implementation of a number of alternative energy projects has led to an increase in imports of electrical equipment (by 40.9 per cent. as compared to the corresponding period in 2018). In addition, imports of passenger cars have increased significantly (by 70.0 per cent. as compared to the corresponding period in 2018) as a result of the customs clearance of used cars that are registered abroad, and which were located in Ukraine in violation of the customs regime. High consumer demand due to favourable situation on the exchange market and rapid improvement in consumer sentiment caused the increase of imports of food and industrial goods (by 9.4 per cent. and 20.0 per cent., respectively, in each case as compared to the corresponding period in 2018). Another factor that supported the growth of imports is the increased volumes of natural gas imported in 2019 as compared to 2018, reflecting Ukraine's desire to accumulate natural gas reserves prior to the expiry of the gas transit contract with Russia at the end of 2019. The increase of imports of goods was restrained by falling world prices for oil and natural gas. As the result, volumes of energy imports decreased by 4.6 per cent. per year.

The following table represents the import and export of goods and services as a percentage of GDP for the years ended 31 December 2014, 2015, 2016, 2017, 2018 and for the nine months ended 30 September 2019, (based on preliminary data):

		For the year ended 31 December				For the nine months ended 30 September 2019
	2014 <sup>(1)</sup>	2015 <sup>(2)</sup>	2016 <sup>(2)</sup>	2017 <sup>(2)</sup>	2018 <sup>(2)</sup>	2019
Export of goods and services.....	48.6	52.6	49.3	48.0	45.2	42.9
Import of goods and services.....	52.0	55.2	56.2	55.7	53.9	50.7

(1) Information is provided without figures for illegally occupied Crimea.

(2) Since 2015, information is provided without figures for illegally occupied Crimea and certain parts of the temporarily occupied Donetsk and Luhansk regions.

### ***Composition of Trade***

Since gaining its independence, Ukraine's trade has increasingly revolved around raw materials. This reorientation reflects in part the quality and quantity of Ukraine's natural resources, which include large reserves of coal, high grade iron ore, manganese, titanium and magnesium. These resources have formed the basis for the growth of heavy industry since the late nineteenth century.

In 2014, 2015, 2016, 2017, 2018 and during the nine months ended 30 September 2019, ferrous and nonferrous metals and their products accounted for approximately 28.3 per cent., 24.8 per cent., 22.9 per cent., 23.4 per cent., 24.6 per cent. and 21.8 per cent. of the value of exports, respectively, and the combined trade surplus on these items was U.S.\$11.9 billion, U.S.\$7.5 billion, U.S.\$6.0 billion, U.S.\$7.1 billion, U.S.\$8.1 billion and 5.3 billion, respectively. Chemicals accounted for a further 6.8 per cent., 6.7 per cent., 5.4 per cent., 5.1 per cent., 5.5 per cent. and 5.2 per cent. of exports in 2014, 2015, 2016, 2017, 2018 and for the nine months ended 30 September 2019, respectively.

Agricultural products accounted for 30.9 per cent., 38.3 per cent., 42.0 per cent., 41.0 per cent., 39.4 per cent. and 42.2 per cent. of exports in 2014, 2015, 2016, 2017, 2018 and for the nine months ended 30 September 2019, respectively. In 2014, exports of agricultural products increased by 1.5 per cent. due to easing of export restrictions (on 9 April 2014, the Parliament passed a law which decreased the number of permits, including certificates of quality necessary for the export of grain); a record harvest of wheat and oilseeds in the summer of 2014; and a positive trade balance in the trade of meat, casein, grain cereals, oil due to excess volumes of exports over imports in 2014. In 2015, according to the State Statistics Service, exports of agricultural products decreased by 12.6 per cent. as compared to 2014. In 2016, exports of agricultural products increased by 49 per cent. as compared to 2015. In 2017, according to the State Statistics Service, the exports of agricultural products increased by 16.2 per cent. as compared to 2016, in 2018, the exports of agricultural products increased by 4.8 per cent. as compared to 2017 and for the nine months ended 30 September 2019, the exports of agricultural products increased by 22.0 per cent. as compared to the corresponding period in 2018.

In addition, machinery and equipment accounted for 10.5 per cent., 10.3 per cent., 10.0 per cent., 9.9 per cent., 9.9 per cent. 9.8 per cent. and 8.4 per cent. of exports in 2014, 2015, 2016, 2017, 2018 and for the nine months ended 30 September 2019, respectively. In 2014, the volume of machinery exports increased by 17.1 per cent. as compared to 2013. In 2015, the volume of machinery exports decreased by 30.3 per cent. as compared to 2014. In 2016, the volume of machinery exports decreased by 7.7 per cent. as compared to 2015. In 2017, the volume of machinery exports increased by 17.6 per cent. as compared to 2016. In 2018, the volume of machinery exports increased by 8.9 per cent. as compared to 2017. During the first nine months of 2019, the volume of machinery exports decreased by 3.9 per cent. as compared to the corresponding period in 2018. Since July 2005, exports of natural gas have been close to zero.

Fuel and energy exports increased by 25.2 per cent. in 2014 and decreased by 75.7 per cent. and 8.5 per cent. in 2015 and 2016, respectively. In 2017, the volume of fuel and energy exports increased by 77.0 per cent. as compared to 2016. In 2018, the volume of fuel and energy exports increased by 9.0 per cent. as compared to 2017. In January and February 2019, fuel and energy exports increased by 3.1 per cent. as compared to the corresponding period in 2018.

Fuel and energy products also represented the largest category of imports in 2014 and 2015, and one of the largest since then. Fuel and energy products represented 27.8 per cent., 29.0 per cent., 20.0 per cent., 23.6 per cent., 23.4 per cent. and 20.2 per cent. of imports in 2014, 2015, 2016, 2017, 2018 and during the first nine months of 2019, respectively. These figures reflect the high natural resource requirements of the Ukrainian economy, which resulted in deficits in energy trade of U.S.\$13.1 billion in 2014, U.S.\$10.4 billion in 2015, U.S.\$7.4 billion in 2016, U.S.\$10.9 billion in 2017, U.S.\$12.5 billion in 2018 and U.S.\$8.3 billion for the nine months ended 30 September 2019.

Machinery and equipment also accounted for a significant share of Ukrainian imports, representing 16.0 per cent., 16.7 per cent., 20.1 per cent., 20.0 per cent., 20.9 per cent. and 21.4 per cent. of imports in 2014, 2015, 2016, 2017, 2018 and for the nine months ended 30 September 2019, respectively.

The positive balance of trade in goods and services was U.S.\$3.3 billion in 2014. In 2015, the positive balance of trade in goods and services was U.S.\$3.8 billion. In 2016, the positive balance of trade in goods and services was U.S.\$0.5 billion. In 2017, the negative balance of trade in goods and services was U.S.\$2.5 billion. In 2018, the negative balance of trade in goods and services was U.S.\$6.2 billion. For the nine months ended 30 September 2019, the negative balance of trade in goods and services was U.S.\$4.1 billion.

Energy-intensive production was encouraged in the Soviet economy by the artificially low price of energy resources and by an incentive system that failed to maximise the use of resources. Depletion of domestic energy resources (especially coal) and the steering of industry towards the use of natural gas (another legacy from the Soviet period) have made Ukraine increasingly dependent on imported energy, although some products are imported for the purpose of re-export. The Government is trying to alleviate this situation by reshaping Ukraine's energy needs towards locally available sources and away from costly imported gas, particularly in light of the current state of relations with Russia.

The following table sets out exports from Ukraine by major commodity group and as a percentage<sup>(1)</sup> of total exports for the periods shown:

	For the year ended 31 December										For the nine months ended 30 September	
	2014 <sup>(2)</sup>		2015 <sup>(2)</sup>		2016 <sup>(2)</sup>		2017 <sup>(2)</sup>		2018		2019	
	(U.S.\$ millions)	(%)	(U.S.\$ millions)	(%)	(U.S.\$ millions)	(%)	(U.S.\$ millions)	(%)	(U.S.\$ millions)	(%)	(U.S.\$ millions)	(%)
Fuel and Energy												
Products.....	2,012.1	3.7	488.0	1.3	446.5	1.2	790.2	1.8	861.4	1.8	6584	1.8
Machinery and												
Equipment .....	5,657.2	10.5	3,940.9	10.3	3,637.9	10.0	4,276.8	9.9	4,656.7	9.8	3,2986	8.9
Wood and Paper												
Products.....	2,248.2	4.2	1,724.3	4.5	1,668.5	4.6	1,723.9	4.0	2,043.6	4.4	1,4241	3.8
Chemical Related												
Products.....	3,640.5	6.8	2,543.4	6.7	1,967.4	5.4	2,221.7	5.1	2,565.7	5.5	1,9916.0	5.2
Agriculture												
Products.....	16,668.9	30.9	14,563.1	38.3	15,281.8	42.0	17,756.9	41.0	18 612.7	39.4	15,630.8	42.2
Ferrous Metals												
and their												
Products.....	14,596.4	27.1	8,994.6	23.6	7,937.0	21.8	9,562.7	22.1	11,047.3	23.3	7,728.5	20.8
Non Ferrous												
Metals and												
their Products .	632.6	1.2	476.1	1.2	401.9	1.1	561.9	1.3	585.8	1.3	366.4	1.0
Mineral Products ..	4,091.5	7.6	2,611.5	6.8	2,282.3	6.3	3,157.5	7.3	3,478.6	7.4	3,218.8	8.7
Textiles and shoes	988.6	1.8	785.0	2.1	841.2	2.4	939.9	2.2	1,054.9	2.2	784.0	2.1
Other.....	3,365.7	6.2	2,000.2	5.2	1,897.2	5.2	2,273.2	5.3	2,433.2	4.9	2,067.0	5.6

<b>Total.....</b>	<b>53,901.7</b>	<b>100.0</b>	<b>38,127.1</b>	<b>100.0</b>	<b>36,361.7</b>	<b>100.0</b>	<b>43,264.7</b>	<b>100.0</b>	<b>47,339.9</b>	<b>100.0</b>	<b>37,092.6</b>	<b>100.0</b>
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(1) Percentages may not add up to 100.0 because of rounding.

(2) Information provided does not include illegally occupied Crimea and certain parts of the temporarily occupied Donetsk and Luhansk regions.

Source: State Statistics Service; International Trade Bulletin

The following table sets out imports to Ukraine by major commodity group and as a percentage<sup>(1)</sup> of total imports for the periods shown:

	For the year ended 31 December										For the nine months ended 30 September	
	2014 <sup>(2)</sup>		2015 <sup>(2)</sup>		2016 <sup>(2)</sup>		2017 <sup>(2)</sup>		2018 <sup>(2)</sup>		2019	
	(U.S.\$ millions)	(%)	(U.S.\$ millions)	(%)	(U.S.\$ millions)	(%)	(U.S.\$ millions)	(%)	(U.S.\$ millions)	(%)	(U.S.\$ millions)	(%)
Fuel and Energy Products .....	15,143.8	27.8	10,882.4	29.0	7,851.5	20.0	11,699.6	23.6	13,376.0	23.4	8,939.0	20.2
Machinery and Equipment ....	8,720.8	16.0	6,273.4	16.7	7,889.4	20.1	9,902.6	20.0	951.4	20.9	9,473.9	21.4
Wood and Paper Products .....	1,584.2	2.9	1,026.3	2.7	1,112.0	2.8	1,205.5	2.4	1,388.8	2.4	972.3	2.2
Chemical Related Products .....	10,420.3	19.1	7,655.4	20.5	8,486.4	21.6	9,791.7	19.7	10,603.1	18.5	8,360.2	18.9
Agriculture Products .....	6,059.2	11.1	3,484.4	9.4	3,891.1	9.9	4,301.2	8.7	5,051.7	8.9	3,900.8	8.8
Ferrous Metals and their Products .....	2,138.8	3.9	1,207.7	3.2	1,445.7	3.6	1,941.8	3.9	2,334.4	4.1	1,799.8	4.1
Non Ferrous Metals and their Products	1,185.6	2.2	796.5	2.1	860.8	2.3	1,071.0	2.2	1,240.7	2.2	946.5	2.1
Mineral Products .....	951.6	1.7	807.5	2.2	643.5	1.6	805.1	1.6	793.3	1.4	632.5	1.4
Textiles and shoes .....	2,314.0	4.3	1,662.9	4.5	1,815.1	4.6	2,005.8	4.0	2,376.0	4.1	2,071.6	4.7
Other .....	5,910.4	11.0	3,719.9	9.7	5,254.3	13.5	6,882.9	13.9	8,025.6	14.1	7,094.7	16.1
<b>Total .....</b>	<b>54,428.7</b>	<b>100.0</b>	<b>37,516.4</b>	<b>100.0</b>	<b>39,249.8</b>	<b>100.0</b>	<b>49,607.2</b>	<b>100.0</b>	<b>57,141.0</b>	<b>100.0</b>	<b>44,191.3</b>	<b>100.0</b>

(1) Percentages may not add up to 100.0 because of rounding.

(2) Information provided does not include illegally occupied Crimea and certain parts of the temporarily occupied Donetsk and Luhansk regions.

Source: State Statistics Service; International Trade Bulletin.

## Direction of Trade

### Russia and the CIS

The structure of Ukraine's trade with the CIS has historically been determined by its need to import a large proportion of its energy requirements, especially from Russia (with which Ukraine has historically run substantial trade deficits) and countries which transport their energy exports through Russia. The need to import large quantities of energy products explains the fact that the CIS countries remain the main suppliers of Ukraine's energy imports, accounting for 67.6 per cent. in 2014, 53.1 per cent. in 2015, 52.4 per cent. in 2016, 52.0 per cent. in 2017, 57.5 per cent. in 2018, and 58.7 per cent. for the nine months ended 30 September 2019. Imports from Russia of energy products accounted for 44.6 per cent. in 2014, 34.1 per cent. in 2015, 23.8 per cent. in 2016, 28.5 per cent. in 2017, 32.8 per cent. in 2018, and 35.1 per cent. in January and February 2019.

Following the illegal occupation of Crimea by Russia and against a backdrop of recent European Union and U.S. economic sanctions imposed on Russia (in part due to its involvement in the conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions), a wide range of trade restrictions on imports to and exports from Russia have come into place. These restrictions have included recent bans by both Ukraine and Russia on various goods (including dairy products, confectionaries, alcoholic beverages and pork). In 2014, exports from Ukraine to Russia declined by 33.7 per cent. compared to 2013 and further declined by 50.7 per cent. and 25.6 per cent. in 2015 and 2016, respectively. In 2017, exports from Ukraine to Russia increased by 9.6 per cent, and decreased by 7.2 per cent. and 9.7 per cent. in 2018 and during the first nine months of 2019, respectively.

In 2014, Russia introduced temporary restrictions on imports of potatoes, pork products and 11 dairy products. In 2016, these restrictions were extended to 25 dairy companies, 17 meat-processing companies, one poultry



processing company and one fish processing company in Ukraine; concurrently, Russia introduced a food embargo on certain agricultural products, raw materials and food originating from Ukraine and cancelled the preferential trade regime envisaged by the agreement on free trade within the CIS on imports of Ukrainian goods.

In July 2019, the Cabinet of Ministers of Ukraine amended the decree “*On the Ban of Imports of Russian Goods Into Ukraine*”, extending its validity until 31 December 2020. The following products are subject to restrictions: meat, fish, cereals, grain, bakery and confectionery products, dairy products, coffee, tea, vodka, beer, cigarettes, certain chemicals products, mineral fertilizers, railway equipment, animal feed, and veterinary medicine, as well as cars, buses, tractors, trucks, and motorcycles.

Following Ukraine’s entry into the Association Agreement with the EU in 2014, a significant increase in trade flows to and from the EU was expected. However, while total exports from Ukraine to the EU in 2014 increased by 2.6 per cent. as compared with the same period in 2013 (despite the abovementioned 33.7 per cent. decline in exports to Russia for the same period). In 2015, total exports from Ukraine to the EU decreased by 23.5 per cent. and to Russia by 50.7 per cent. as compared to 2014. In 2016, total exports from Ukraine to the EU increased by 3.7 per cent. as compared to 2015, and in 2017, total exports from Ukraine to the EU increased by 29.9 per cent. as compared to 2016, and total exports from Ukraine to Russia increased by 9.6 per cent. as compared to 2016. In 2017, the increase in the total exports from Ukraine to the EU was due to increases in exports of ore, slags and cinder, ferrous metals, electrical machines and grains. In 2016, exports to Russia decreased by 25.6 per cent. as compared to 2015. In 2018, total exports from Ukraine to the EU increased by 15.0 per cent. compared to 2017, while the total Ukrainian exports to Russia decreased by 7.2 per cent. compared to 2017. In 2018, the increase of Ukraine’s total exports to the European Union was due to an increase in exports of grain crops, ores, ash, ferrous metals and electrical equipment. During the nine months ended 30 September 2019, total exports from Ukraine to the EU increased by 6.8 per cent. compared to the corresponding period in 2018, while the total Ukrainian exports to Russia decreased by 9.7 per cent. compared to 2018. The increase of Ukraine’s total exports to the European Union is due to an increase in exports of grain crops, fats and oils of animal or plant origin. The CIS countries remain one of Ukraine’s main destinations for export of goods, accounting for 27.6 per cent. of Ukraine’s total exported goods in 2014, 20.5 per cent. in 2015, 16.6 per cent. in 2016, 16.0 per cent. in 2017, 14.8 per cent. in 2018 and 11.6 per cent. in January and February 2019, of which exports to Russia accounted for 18.2 per cent. in 2014, 12.7 per cent. in 2015, 9.9 per cent. in 2016, 9.1 per cent. in 2017, 7.7 per cent. in 2018 and 6.6 per cent. for the nine months ended 30 September 2019. In 2014, exports of goods to CIS countries amounted to U.S.\$14.9 billion, a 31.3 per cent. decrease as compared to 2013. In 2015, exports of goods to CIS countries amounted to U.S.\$7.8 billion (or 20.5 per cent. of Ukraine’s total exports), a 47.5 per cent. decrease as compared to 2014. In 2016, exports of goods to CIS countries amounted to U.S.\$6.0 billion (or 16.6 per cent. of Ukraine’s total exports), a 22.7 per cent. decrease as compared to 2015. In 2017, exports of goods to CIS countries amounted to U.S.\$6.9 billion (or 16.0 per cent. of Ukraine’s total exports), a 14.7 per cent. increase as compared to 2016. In 2018, exports of goods to CIS countries amounted to U.S.\$7.0 billion (or 14.8 per cent. of Ukraine’s total exports), a 1.6 per cent. increase as compared to 2016, and in January and February 2019, it amounted to U.S.\$0.9 billion (or 11.6 per cent. of Ukraine’s total exports), a 8.4 per cent. decrease as compared to the corresponding period in 2018.

In 2014, imports of goods from CIS countries amounted to U.S.\$17.3 billion (or 31.7 per cent. of total imports to Ukraine), a 37.7 per cent. decrease as compared to 2013. In 2015, imports of goods from CIS countries amounted to U.S.\$10.5 billion (or 27.9 per cent. of total imports to Ukraine), a 39.3 per cent. decrease as compared to 2014. In 2016, imports of goods from CIS countries amounted to U.S.\$8.6 billion (or 21.8 per cent. of total imports to Ukraine), an 18.3 per cent. decrease as compared to 2015. In 2017, imports of goods from CIS countries amounted to U.S.\$11.5 billion (or 23.1 per cent. of total imports of Ukraine), a 34.0 per cent. increase as compared to 2016. In 2018, imports of goods from CIS countries amounted to U.S.\$13.2 billion (or 23.1 per cent. of total imports of Ukraine), a 15.1 per cent. increase as compared to 2017, and in January and February 2019, it amounted to U.S.\$1.8 billion (or 20.7 per cent. of total imports of Ukraine), a 6.1 per cent. decrease compared to the corresponding period in 2018.

A large share of Ukraine’s services exports originate from transit charges for Russian oil, gas, ammonia and electricity, which comprised approximately 19.2 per cent. of services exports in 2014, 23.2 per cent. in 2015, 26.2 per cent. in 2016, 27.8 per cent. in 2017, and 25.1 per cent. in the nine months ended 30 September 2018. In 2017, the largest volumes of export of services were payments for the transportation of oil, gas and ammonia

(27.8 per cent. of total exports, and 24.9 per cent. in 2018). In 2014, exports of goods to Russia decreased by 33.7 per cent., due to decreases in exports of food products (a decrease of 52.8 per cent.), machinery (a decrease of 40.3 per cent.), articles of stone, plaster and cement (a decrease of 32.0 per cent.) and metallurgical products (a decrease of 30.9 per cent.). In 2015, exports of goods to Russia decreased by 50.7 per cent. as compared to 2014, due to decreases in exports of mineral products (a decrease of 59.7 per cent.), mechanical and electrical machinery (a decrease of 50.8 per cent.), base metals and their products (a decrease of 49.0 per cent.), and wood mass and other fibrous cellulose materials (a decrease of 45.6 per cent.). In 2016, exports of goods to Russia decreased by 25.6 per cent. as compared to 2015, due to decreases in exports of food products (a decrease of 66.4 per cent.), wood products (a decrease of 29.2 per cent.), machinery (a decrease by 25.7 per cent.), as well as mineral products (a decrease of 23.3 per cent.). In 2017, exports of goods to Russia increased by 9.6 per cent. as compared to 2016, due to increases in exports of fuel and energy (an increase by 2.7 times), chemicals and related goods (an increase of 19.5 per cent.), land vehicles, aircraft and marine vessels (an increase of 17.2 per cent.), as well as polymers, plastics and products manufactured therefrom (an increase of 15.6 per cent.). In the 11 months ended 30 November 2018, exports of goods to Russia decreased by seven per cent. as compared to the corresponding period in 2017 due to decreases in exports of mechanical equipment (a decrease by 19.5 per cent.), ferrous metals (a decrease by 11.1 per cent.), products manufactured from ferrous metals (a decrease by 10.4 per cent.), and railway locomotives (a decrease by 9.9 per cent.). In 2018, the export of goods to Russia decreased by 7.2 per cent. compared to 2017, due to the reduction of exports of fuel and energy (by 38 per cent.), machine building products (by 13.5 per cent.), land transport vehicles, aircraft, floating means (by 12.2 per cent.), precious metals and articles thereof (by 10.4 per cent.) and minerals (by 6.5 per cent.). During the first nine months of 2019, the export of goods to Russia decreased by 9.7 per cent. compared to the corresponding period of 2018 due to the reduction of exports of electric power (by 35.6 per cent.), ferrous products (by 33.1 per cent.), and mechanical machines (by 13.8 per cent.).

#### *The EU*

EU countries are Ukraine's largest trading partners. In 2014, exports of goods to the EU increased by 2.6 per cent., as compared to 2013 and amounted to 31.5 per cent. of the total exports in 2014. In 2015, exports of goods to the EU decreased by 23.5 per cent. as compared to 2014 and amounted to 34.1 per cent. of the total exports for 2015. In 2016, exports of goods to the EU increased by 3.7 per cent. as compared to 2015 and amounted to 37.1 per cent. of the total exports for 2016. In 2017, exports of goods to the EU increased by 29.9 per cent. as compared to 2016 and amounted to 40.5 per cent. of Ukraine's total exports for that period. In 2018, exports of goods to the EU increased by 15.0 per cent. as compared to 2017 and amounted to 42.6 per cent. of Ukraine's total exports for that period. For the nine months ended 30 September 2019, exports of goods to the EU increased by 6.8 per cent. as compared to the corresponding period in 2018 and amounted to 42.1 per cent. of Ukraine's total exports for that period.

In 2014, exports of goods and services to the EU amounted to U.S.\$20.4 billion (31.8 per cent. of total exports of goods and services), or a 1.1 per cent. increase as compared to 2013. In 2015, exports of goods and services to the EU amounted to U.S.\$15.3 billion (32.8 per cent. of total exports of goods and services), or a 25.0 per cent. decrease as compared to 2014. In 2016, exports of goods and services to the EU amounted to U.S.\$15.8 billion (or 35.1 per cent. of total exports of goods and services), or a 3.2 per cent. increase as compared to 2015. In 2017, exports of goods and services to the EU amounted to U.S.\$20.2 billion (or 38.3 per cent. of total exports of goods and services) or a 27.4 per cent. increase as compared to 2016. In 2018, exports of goods and services to the EU amounted to U.S.\$23.0 billion (or 40.3 per cent. of total exports of goods and services) or a 14.3 per cent. increase as compared to 2017. For the nine months ended 30 September 2019, exports of goods and services amounted to U.S.\$17.9 billion (or 40 per cent. of total exports of goods and services), an increase of 6.8 per cent. as compared to the corresponding period in 2018.

In 2014, imports of goods and services from the EU amounted to U.S.\$24.2 billion (39.8 per cent. of total imports of goods and services), or a 21.8 per cent. decrease as compared to 2013. In 2015, imports of goods and services from the EU amounted to U.S.\$18.1 billion (42.1 per cent. of total imports of goods and services), or a 25.3 per cent. decrease as compared to 2014. In 2016, imports of goods and services from the EU amounted to U.S.\$19.6 billion (or 43.9 per cent. of total imports of goods and services), or an 8.2 per cent. increase as compared to 2015. In 2017, imports of goods and services from the EU amounted to U.S.\$23.3 billion (or 42.4 per cent. of total imports of goods and services), or a 19.3 per cent. increase as compared to 2016. In 2018, imports of goods and services from the EU amounted to U.S.\$26.3 billion (41.8 per cent. of total imports of

goods and services), or a 12.7 per cent. increase as compared to 2017. For the nine months ended 30 September 2019, total imports of goods and services from the EU amounted to U.S.\$20.9 billion (42.7 per cent. of goods and services), an increase of 8.0 per cent. as compared to the corresponding period in 2018.

In 2014, 2015, 2016, 2017, 2018 and for the nine months ended 30 September 2019, the bilateral trade in goods and services with the EU amounted to a deficit of U.S.\$3.8 billion, U.S.\$2.7 billion, U.S.\$3.7 billion, U.S.\$3.2 billion, U.S.\$3.5 billion and U.S. \$4.1 billion, respectively. Trade between Ukraine and the EU consists largely of exports of Ukrainian ferrous metals, raw materials, semi-finished products, machinery and agricultural products and imports by Ukraine of machinery, vehicles and chemical products (mainly medical products and polymeric materials) from the EU. The main trading partners of Ukraine within the EU are Germany, Poland, Italy, Hungary, the Netherlands and France.

#### *Other Markets*

Outside Russia and the EU, other key markets for Ukrainian trade are Asia and Africa. In 2016, 2015 and 2014, exports of goods to Asia decreased by 4.7 per cent., 19.4 per cent. and 7.9 per cent., respectively, as compared to the previous years, and accounted for 28.5 per cent., 32.5 per cent. and 32.4 per cent. of total exports of Ukraine in 2014, 2015 and 2016, respectively. In 2017, exports of goods to Asia increased by 9.9 per cent. as compared to 2016, and accounted for 30.0 per cent. of total exports of Ukraine for 2017. In 2018, exports of goods to Asia increased by 6.1 per cent. as compared to 2017, and accounted for 29.1 per cent. of total exports of Ukraine for 2018. For the nine months ended 30 September 2019, exports of goods to Asia increased by 10.1 per cent. as compared to the corresponding period in 2018 and accounted for 29.8 per cent. of total exports.

In 2014, exports of goods to Africa increased by 0.4 per cent. as compared to 2013, and accounted for 9.5 per cent. of total exports of Ukraine in 2014. In 2015, the figure decreased by 25.4 per cent. as compared to 2014, and accounted for 10.0 per cent. of total exports of Ukraine in 2015. However, in 2016, exports of goods to Africa increased by 1.6 per cent. as compared to 2015, accounting for 10.6 per cent. of total exports of Ukraine in 2016. In 2017, exports of goods to Africa increased by 4.7 per cent. as compared to 2016, and accounted for 9.4 per cent. of total exports of Ukraine for 2017. In 2018, exports of goods to Africa increased by 2.0 per cent. as compared to 2017, and accounted for 8.7 per cent. of total exports of Ukraine for 2018. For the nine months ended 30 September 2019, exports of goods to Africa increased by 21.9 per cent. as compared to the corresponding period in 2018 and accounted for 10.1 per cent. of total exports of Ukraine.

In 2014, 2015, 2016, 2017, 2018 and for the nine months ended 30 September 2019, Ukraine's consolidated trade balance amounted to a deficit of U.S.\$0.5 billion, a surplus of U.S.\$0.6 billion, a deficit of U.S.\$2.9 billion, a deficit of U.S.\$6.3 billion, a deficit of U.S.\$9.8 billion and a deficit of U.S.\$7.1 billion, respectively.

As at 31 December 2014, 2015, 2016, 2017, and 2018 and as at 30 September 2019, the consolidated trade balance in goods and services amounted to a deficit of U.S.\$4.6 billion, U.S.\$1.7 billion, U.S.\$5.8 billion and U.S.\$6.8 billion, respectively. The following table sets out exports of goods by country of destination for the periods shown<sup>(1)</sup>:

	As at 31 December										As at 30 September	
	2014 <sup>(2)</sup>		2015 <sup>(3)</sup>		2016 <sup>(3)</sup>		2017 <sup>(3)</sup>		2018 <sup>(3)</sup>		2019	
	(U.S. \$ millio ns)	(%)	(U.S. \$ millio ns)	(%)	(U.S. \$ millio ns)	(%)	(U.S. \$ millio ns)	(%)	(U.S. \$ millio ns)	(%)	(U.S. \$ millio ns)	(%)
China.....	2,674.1	5.0	2,399.1	6.3	1,832.5	5.0	2,039.3	4.7	2,200.3	4.6	2,586.7	7.0
Germany.....	1,590.6	3.0	1,328.7	3.5	1,423.7	3.9	1,754.2	4.1	2,208.4	4.7	1,783.3	4.8
Turkey.....	3,561.4	6.6	2,771.8	7.3	2,049.1	5.6	2,519.1	5.8	2,352.4	5.0	1,859.9	5.0
United States .....	667.9	1.2	481.8	1.3	426.6	1.2	828.1	1.9	1,111.5	2.3	755.6	2.0
Italy .....	2,468.3	4.6	1,979.8	5.2	1,929.6	5.3	2,469.5	5.7	2,628.8	5.6	1,821.8	4.9
Poland .....	2,644.7	4.9	1,977.3	5.2	2,200.0	6.1	2,724.6	6.3	3,257.6	6.9	2,531.9	6.8
Hungary .....	1,509.9	2.8	909.7	2.4	1,053.1	2.9	1,326.4	3.1	1,646.3	3.5	1,159.8	3.1
Thailand .....	140.2	0.3	334.9	0.9	413.5	1.1	249.1	0.6	228.6	0.5	254.4	0.7
Slovak Republic ..	670.6	1.2	468.5	1.2	471.4	1.3	656.0	1.5	864.2	1.8	579.5	1.6
Syria.....	163.0	0.3	132.8	0.3	43.2	0.1	8.4	0.0	7.9	0.0	3.3	0.0
Lebanon .....	272.3	0.5	300.1	0.8	338.5	0.9	427.0	1.0	404.8	0.9	280.8	0.8
Czech Republic ..	772.5	1.4	541.0	1.4	560.8	1.5	715.2	1.7	878.1	1.9	713.2	1.9

	As at 31 December										As at 30 September	
	2014 <sup>(2)</sup>		2015 <sup>(3)</sup>		2016 <sup>(3)</sup>		2017 <sup>(3)</sup>		2018 <sup>(3)</sup>		2019	
	(U.S. \$ millio ns)		(U.S. \$ millio ns)		(U.S. \$ millio ns)		(U.S. \$ millio ns)		(U.S. \$ millio ns)		(U.S. \$ millio ns)	
		(%)		(%)		(%)		(%)		(%)		(%)
Netherlands .....	1,106.1	2.1	905.7	2.4	995.3	2.7	1,676.1	3.9	1,603.5	3.4	1,420.8	3.8
Greece .....	201.2	0.4	153.8	0.4	159.1	0.4	196.8	0.5	280.0	0.6	210.6	0.6
Spain .....	1,166.6	2.2	1,043.6	2.7	1,004.5	2.8	1,260.1	2.9	1,370.0	2.9	1,039.6	2.8
Lithuania .....	362.1	0.7	236.3	0.6	258.2	0.7	374.2	0.9	342.9	0.7	309.9	0.8
Latvia .....	226.2	0.4	150.3	0.4	138.2	0.4	213.7	0.5	294.4	0.6	228.8	0.6
Russian												
Federation .....	9,798.2	18.2	4,827.7	12.7	3,592.9	9.9	3,936.5	9.1	3,654.1	7.7	2,453.0	6.6
Moldova .....	743.6	1.4	524.3	1.4	481.1	1.3	707.6	1.6	789.3	1.7	541.4	1.5
Kazakhstan .....	1,069.4	2.0	712.7	1.9	400.1	1.1	372.1	0.9	376.5	0.8	261.5	0.7
Belarus .....	1,617.1	3.0	870.7	2.3	903.2	2.5	1,142.9	2.6	1,304.5	2.8	1,142.8	3.1
Turkmenistan .....	431.2	0.8	170.3	0.4	109.0	0.3	62.1	0.1	56.8	0.1	36.6	0.1
Azerbaijan .....	591.5	1.1	318.8	0.8	248.0	0.7	354.7	0.8	360.0	0.8	289.9	0.8
Uzbekistan .....	308.6	0.6	174.5	0.5	142.4	0.4	167.1	0.4	285.9	0.6	154.6	0.4
Other .....	18,821.7	34.9	14,205.8	37.2	15,032.9	41.3	16,910.5	38.9	18,633.2	39.2	314,672.9	39.6
<b>Total .....</b>	<b>53,901.7</b>	<b>100.0</b>	<b>38,127.1</b>	<b>100.0</b>	<b>36,361.7</b>	<b>100.0</b>	<b>43,264.7</b>	<b>100.0</b>	<b>47,339.9</b>	<b>100.0</b>	<b>737,092.6</b>	<b>100.0</b>

(1) Percentages may not add up to 100.0 because of rounding.

(2) Information provided does not include figures for illegally occupied Crimea.

(3) Information provided does not include illegally occupied Crimea and certain parts of the temporarily occupied Donetsk and Luhansk regions.

Source: State Statistics Service; International Trade Bulletin

The following table sets out imports of goods by country of origin for the periods shown<sup>(1)</sup>:

	As at 31 December										As at 30 September	
	As at 1 January of each year		2015 <sup>(3)</sup>		2016 <sup>(3)</sup>		2017 <sup>(3)</sup>		2018 <sup>(3)</sup>		2019	
	2014 <sup>(2)</sup>		(U.S.\$ million		(U.S.\$ million		(U.S.\$ million		(U.S.\$ million		(U.S.\$ million	
	s)	(%)	s)	(%)	s)	(%)	s)	(%)	s)	(%)	s)	(%)
Germany .....	5,361.5	9.9	3,975.6	10.6	4,318.4	11.0	5,445.0	11.0	5,983.2	10.5	4,517.7	10.2
United States .....	1,928.9	3.5	1,480.7	3.9	1,687.9	4.3	2,524.6	5.1	2,962.3	5.2	2,343.0	5.3
Poland .....	3,070.8	5.6	2,324.0	6.2	2,693.3	6.9	3,453.8	7.0	3,634.6	6.4	2,986.2	6.8
Italy .....	1,509.0	2.8	976.3	2.6	1,358.2	3.5	1,625.0	3.3	2,031.1	3.6	1,455.4	3.3
France .....	1,269.2	2.3	892.8	2.4	1,530.5	3.9	1,563.8	3.2	1,476.3	2.6	1,226.8	2.8
Czech Republic .....	687.9	1.3	479.7	1.3	654.8	1.7	869.5	1.8	1,035.6	1.8	843.2	1.9
Slovak Republic .....	426.9	0.8	346.3	0.9	434.9	1.1	508.7	1.0	525.7	0.9	449.7	1.0
Hungary .....	1,464.0	2.7	1,608.5	4.3	802.0	2.0	1,152.3	2.3	1,267.8	2.2	915.5	2.1
United Kingdom .....	692.0	1.3	570.1	1.5	709.3	1.8	798.9	1.6	888.1	1.6	552.5	1.3
Netherlands .....	763.9	1.4	452.6	1.2	546.8	1.4	643.7	1.3	776.4	1.4	563.0	1.3
Austria .....	606.3	1.1	369.6	1.0	465.1	1.2	484.5	1.0	593.4	1.0	506.9	1.1
Turkey .....	1,299.5	2.4	851.7	2.3	1,098.6	2.8	1,262.5	2.5	1,714.2	3.0	1,444.1	3.3
Japan .....	612.6	1.1	382.2	1.0	551.8	1.4	723.5	1.5	737.6	1.3	670.6	1.5
Switzerland .....	523.6	1.0	457.7	1.2	983.8	2.5	1,682.2	3.4	1,635.8	2.9	1,179.0	2.7
China .....	5,411.0	9.9	3,771.0	10.1	4,687.7	11.9	5,648.7	11.4	7,604.0	13.3	6,597.3	14.9
Lithuania .....	1,032.2	1.9	552.6	1.5	492.5	1.3	679.8	1.4	877.6	1.5	845.6	1.9
Latvia .....	89.7	0.2	87.1	0.2	112.5	0.3	144.3	0.3	152.0	0.3	118.5	0.3
Russian												
Federation .....	12,700.0	23.3	7,492.7	20.0	5,149.3	13.1	7,204.0	14.5	8,092.7	14.2	5,416.9	12.3
Turkmenistan .....	24.6	0.1	16.3	0.0	34.3	0.1	89.3	0.2	144.4	0.3	43.4	0.1
Belarus .....	3,970.8	7.3	2,449.1	6.5	2,777.8	7.1	3,205.3	6.5	3,787.0	6.6	2,664.6	6.0
Kazakhstan .....	380.6	0.7	377.6	1.0	434.3	1.1	318.0	0.6	460.0	0.8	335.3	0.8
Uzbekistan .....	72.9	0.1	62.3	0.2	71.1	0.2	122.7	0.2	121.4	0.2	85.8	0.2
Moldova .....	61.9	0.1	41.2	0.1	47.6	0.1	106.7	0.2	118.1	0.2	65.4	0.1
Other .....	10,402.8	19.1	7,452.4	19.9	7,556.3	19.3	8,918.5	17.8	10,033.9	17.3	68,364.9	18.9
<b>Total .....</b>	<b>54,428.7</b>	<b>100.0</b>	<b>37,516.4</b>	<b>100.0</b>	<b>39,249.8</b>	<b>100.0</b>	<b>49,607.2</b>	<b>100.0</b>	<b>57,141.0</b>	<b>100.0</b>	<b>44,191.3</b>	<b>100.0</b>

(1) Percentages may not add up to 100.0 because of rounding.

(2) Information provided does not include figures for illegally occupied Crimea.

(3) Information provided does not include illegally occupied Crimea and certain parts of the temporarily occupied Donetsk and Luhansk regions.

Source: State Statistics Service; International Trade Bulletin

## ***Trade Agreements***

Ukraine has been a member of the WTO since 2008. This membership facilitated the signing in June 2010 of a free trade agreement between Ukraine and the European Free Trade Association (Norway, Switzerland, Iceland and Liechtenstein), which came into force on 1 June 2012. In the same year, Ukraine entered into a free trade agreement with Montenegro.

In 2014, an *Association Agreement* between Ukraine, from one side, and the European Union, the European Atomic Energy Community and its member states, from the other side, (the “**Association Agreement**”) was entered into. Provisions of the Association Agreement, which regulate issues of trade (Deep and Comprehensive Free Trade Zone between Ukraine and the EU), became temporarily applicable from 1 January 2016. The Association Agreement fully entered into force from 1 September 2017. The Association Agreement includes provisions intended to gradually liberalise trade with the EU, including lowering/cancelling certain tariff and nontariff barriers to trade. See “*Political Framework—International Relations—Supranational Organisations—EU*”. On 1 August 2017, the Free Trade Agreement between Ukraine and Canada, which was signed on 11 July 2016, became effective.

On 21 January 2019, the Government of Ukraine and the Government of the State of Israel signed the Free Trade Agreement. Ukraine has completed its ratification of this agreement by adopting the Law of Ukraine on “Ratification Free Trade Agreement between the Cabinet of Ministers of Ukraine and the Government of the State of Israel” dated 11 July 2019 № 2753-VIII. The State of Israel is currently carrying out domestic procedures necessary for the Free Trade Agreement to become effective.

Additionally, negotiations are being held with the Republic of Macedonia in relation to amending the Free Trade Agreement between Ukraine and the Republic of Macedonia.

As at the date of this Prospectus, negotiations and consultations in relation to entering into free trade agreements are being held with Turkey and Serbia.

## ***Anti-Dumping and Protective Measures***

As at October 2019, two anti-dumping investigations, five procedures relating to the review of the implemented anti-dumping measures concerning Ukrainian products, and three safeguard investigations are being carried out on external markets. The trade protection measures relate to steel products, steel and corrosion resistant pipes, steel rollers, seamless pipes, rolled metal products, acrylic fibre and car tyres. The jurisdictions undertaking procedures of trade protection are the Eurasian Economic Union, Canada, India, the United States, Morocco, Brazil and countries of Persian Gulf.

In addition, based on the outcome of previous investigations, 37 restrictive measures, including 33 anti-dumping measures and four protective measures are being applied in relation to Ukrainian products (mainly metallurgical products) in countries and economic organisations including the United States, the Eurasian Economic Union, the EU, Canada, Mexico, Thailand, Taiwan, Korea, India, Indonesia, Egypt, Pakistan, Brazil and Morocco (preliminary), including charge of additional import duties on metallurgical products by the United States.

As at 20 October 2019, Ukraine was conducting (i) a total of seven anti-dumping investigations concerning bars from carbon and other alloyed steel originating from the Republic of Belarus and the Republic of Moldova; roller antifriction bearing from the Republic of Kazakhstan, hawsers and ropes from the Russian Federation; autoclaved aerated concrete blocks from the Republic of Belarus; steel araphorostic hot bulge pipes from the People’s Republic of China; aluminic automobile wheel discs from the People’s Republic of China and from the Russian Federation; matches from the Republic of Belarus and the Russian Federation; (ii) two special investigations concerning import to Ukraine: some nitrogenous fertilizer (such as: ammonium nitrate and calcium-ammonium nitrate, carbamide and carbamide-ammonia mixture) and mineral fertilisers with nitrogen content and phosphorus and mineral fertilisers with nitrogen content, phosphorus, potassium regardless of country of origin and export; and (iii) two reviews of anti-dumping measures concerning import to Ukraine: ammonium nitrate (ammonium saltpeter) from the Russian Federation; products made on ferrous metals without electrical insulation (except corrosion-resistant (stainless) products and civil aviation products) from the People’s Republic of China.

As at 20 November 2019, following previous investigations, Ukraine applies 22 trade protective measures (including 19 anti-dumping measures, two special measures and one countervailing measure).

### **Tariffs**

In recent years, the customs and tariff policy of Ukraine has been pursued in light of Ukraine's accession to the WTO in 2008. As a result of the WTO negotiations, the Consolidated Tariff Offer set the aggregate level of tariff protection at 5.8 per cent. (the final binding level agreed in connection with accession to the WTO), while the current level of tariff protection in Ukraine amounts to 4.9 per cent.

Parliament has enacted a number of laws providing for the improvement of intellectual property protection as goods are transferred over Ukraine's customs borders. There have also been changes in the laws governing foreign economic activities including the creation of a list of goods potentially subject to import and export bans and a list of measures that Ukraine may take in response to discriminatory or otherwise prejudicial actions of other states, economic unions or trade blocs. These laws also provide for the establishment of a tariff quota on imports of raw sugar cane and the reduction of export duties on live cattle, leather and ferrous, alloy and non ferrous metal scrap and the semi-finished products thereof. The majority of these laws became effective upon Ukraine's accession to the WTO, emphasising the link between Ukraine's accession to the WTO and a general reduction of tariff rates. However, to offset any adverse consequences of this reduction, transition periods have been established for certain sensitive products, including fish and alcoholic beverages. In 2013, Ukraine completed the process of bringing its tariff rates in line with the WTO requirements.

In 2018, Ukraine fulfilled its obligations to the WTO regarding decrease of export duty rates for certain products, in particular for leather (the rate amounts to 20 per cent.).

### **Foreign Investment**

As a consequence of the significant shortage of internal financial resources, Ukraine has sought to attract foreign investment as an important contributor to economic growth and structural reform. However, the pace and amount of FDI in Ukraine has been adversely affected by overly complex and inconsistent legislation and opaque procedures, including in the areas of privatisation, Government intervention and taxation, as well as through perceived corruption and, more recently, by the illegal occupation of Crimea and the conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions.

As at 1 January 2015, 2016, 2017, 2018, and 2019, cumulative FDI (including foreign interests in privatisations) amounted to U.S.\$38.4 billion, U.S.\$32.1 billion, U.S.\$31.2 billion, U.S.\$31.6 billion, and U.S.\$32.3 billion, respectively. As at 1 October 2019, cumulative FDI amounted to U.S.\$33.7 billion. However, cumulative FDI (equity capital) decreased by 16.3 per cent. and 2.8 per cent. in 2015 and 2016, respectively, and increased by 1.2 per cent. and 2.2 per cent. in 2017 and 2018, respectively. As at 1 October 2019, cumulative FDI increased by 8.4 per cent.

The following tables show information on FDI for the periods indicated:

#### **FDI (share capital) in the economy of Ukraine**

<b>As at</b>	<b>FDI (cumulative total) (U.S.\$ millions)</b>
1 January 2015 <sup>(1,2)</sup> .....	38,356.8
1 January 2016 <sup>(1,2)</sup> .....	32,122.5
1 January 2017 <sup>(1,2)</sup> .....	31,230.3
1 January 2018 <sup>(1,2)</sup> .....	31,606.4
1 January 2019 <sup>(1,2)</sup> .....	32,291.9
1 October 2019 <sup>(1,2)</sup> .....	34,727.6

(1) Information provided does not include illegally occupied Crimea and certain parts of the temporarily occupied Donetsk and Luhansk regions.

(2) The data on FDI for the period from 1 January 2018 until 1 October 2018 is calculated taking into account administrative data of the NBU, which, unlike in earlier years, now includes the amounts of reinvested earnings of Ukrainian banks (calculated by the NBU based on the retained earnings, or losses (as the case may be) data corresponding to a direct investor's shareholding in Ukrainian banks). Data as of 1 January 2015, 2016, 2017 has been updated. Data as of 1 January 2015, 2016, 2017 has been updated.

#### **Growth (decline) of FDI (share capital)**

	<b>Growth (decline) of FDI over the relevant period</b> (U.S.\$ millions)
Year ended 31 December 2015 <sup>(1,2)</sup> .....	(6,234.3)
Year ended 31 December 2016 <sup>(1,2)</sup> .....	(892.2)
Year ended 31 December 2017 <sup>(1,2)</sup> .....	376.1
Year ended 31 December 2018 <sup>(1,2)</sup> .....	685.5
Six months ended 30 June 2019 <sup>(1,2)</sup> .....	839.6

(1) Information provided does not include illegally occupied Crimea and certain parts of the temporarily occupied Donetsk and Luhansk regions.

(2) The data on FDI for the period from 1 January until 1 September 2018 is calculated taking into account administrative data of the NBU, which, unlike in earlier years, now includes the amounts of reinvested earnings of Ukrainian banks (calculated by the NBU based on the retained earnings or losses (as the case may be) data corresponding to a direct investor's shareholding in Ukrainian banks).

Source: State Statistics Service

The following table shows the breakdown of cumulative FDI by country of origin as at the dates indicated<sup>(1,2,3)</sup>:

	2015 <sup>(1,2)</sup>		As at 1 January 2016 <sup>(1,2)</sup>		2017 <sup>(1,2)</sup>		As at 31 December 2018 <sup>(1,2)</sup>		As at 1 July 2019 <sup>(1,2)</sup>	
	(U.S.\$ millions)	(%)	(U.S.\$ millions)	(%)	(U.S.\$ millions)	(%)	(U.S.\$ millions)	(%)	(U.S.\$ millions)	(%)
United States .....	789.1	2.1	717.2	2.2	585.2	1.9	517.4	1.6	550.9	1.6
Cyprus .....	11,971.6	31.2	9,894.8	30.8	8,785.5	28.1	8,932.7	28.3	9,922.0	29.4
Russian Federation .....	6,887.3	18.0	6,090.3	19.0	6,028.4	19.3	6,395.0	20.2	743.4	2.2
United Kingdom .....	2,146.2	5.6	1,785.2	5.6	1,947.0	6.2	1,944.4	6.2	2,069.9	6.1
Netherlands .....	2,110.6	5.5	1,604.9	5.0	1,564.2	5.0	1,682.9	5.3	7,413.3	22.0
Germany .....	1,391.7	3.6	1,391.0	4.3	1,436.9	4.6	1,515.9	4.8	1,749.2	5.2
Switzerland .....	1,988.3	5.2	1,715.0	5.3	1,682.3	5.4	1,358.4	4.3	1,652.0	4.9
Other <sup>(3)</sup> .....	911,439.8	229.8	810,295.3	232.0	810,069.5	232.3	89,689.7	229.9	9,630.7	28.6
<b>Total .....</b>	<b>38,356.8</b>	<b>100.0</b>	<b>32,122.5</b>	<b>100.0</b>	<b>31,230.3</b>	<b>100.0</b>	<b>31,606.4</b>	<b>100.0</b>	<b>33,724.4</b>	<b>100.0</b>

(1) Information provided does not include illegally occupied Crimea and certain parts of the temporarily occupied Donetsk and Luhansk regions.

(2) The data on FDI for the period from 1 January 2018 until 1 October 2018 is calculated taking into account administrative data of the NBU, which, unlike in earlier years, now includes the amounts of reinvested earnings of Ukrainian banks (calculated by the NBU based on the retained earnings or losses (as the case may be) data corresponding to a direct investor's shareholding in Ukrainian banks). Data as of 1 January 2015, 2016, 2017 has been updated.

(3) Includes countries whose cumulative FDI contribution did not exceed 3.5 per cent. of the total (other than the United States, which is included in a separate line) as at 1 July 2019.

Source: State Statistics Service

From 2014 to 2018, Cyprus was the largest contributor of FDI to Ukraine. As at 1 July 2019, Cypriot investments in Ukraine amounted to U.S.\$9.9 billion, constituting 29.4 per cent. of the total volume of investments (excluding illegally occupied Crimea and certain parts of the temporarily occupied Donetsk and Luhansk regions). Cypriot FDI is believed to consist primarily of "off shore" investments originating in Russia or other CIS countries that are structured through Cyprus for tax reasons. As at 1 July 2019, Cyprus, the Netherlands, the United Kingdom, Germany, Switzerland, the British Virgin Islands, Austria, the Russian Federation, France, Poland, Hungary, the United States, Belize and Luxembourg were among the most important sources of FDI into Ukraine.

Investments made in Ukraine as at 1 July 2019 have primarily been in the fields of industry, wholesale and retail trade, repairs of cars and motorcycles, real estate, finance and insurance, professional, scientific and technical activities, and information and telecommunications. The industrial sector was the largest recipient of FDI from 2014 to 2018.

The following table sets out cumulative FDI by sector as at the dates indicated:

	As at 1 January						As at 1 January		As at 1 July	
	2015 <sup>(1,2)</sup>		2016 <sup>(1,2)</sup>		2017 <sup>(1,2)</sup>		2018 <sup>(1,2)</sup>		2019 <sup>0</sup>	
	(U.S.\$ millions)	(%)	(U.S.\$ millions)	(%)	(U.S.\$ millions)	(%)	(U.S.\$ millions)	(%)	(U.S.\$ millions)	(%)
Manufacturing of food, beverages and tobacco products .....	2,706.4	7.1	2,419.0	7.5	2,530.5	8.1	2,758.4	8.7	2,887.4	8.6
Wholesale and retail trade; repair of cars and motorcycles .....	6,037.6	15.7	5,247.4	16.3	5,106.5	16.4	4,957.8	15.7	5,595.5	16.6
Financial and insurance business...	6,421.7	16.7	4,350.1	13.5	3,627.4	11.6	3,526.3	11.2	3,953.3	11.7
Engineering, other than repair and instalment of machines and equipment.....	841.7	2.2	781.6	2.4	771.0	2.5	781.2	2.5	795.9	2.4
Coke and petrochemical products.....	129.2	0.3	188.7	0.6	176.5	0.6	178.1	0.6	276.2	0.8
Transport, warehouse services, post and courier services .....	1,355.5	3.5	1,088.0	3.4	1,086.0	3.5	985.3	3.1	1,049.9	3.1
Production of chemicals and chemical products ...	869.7	2.3	679.5	2.1	646.4	2.1	696.9	2.2	665.8	2.0
Production of rubber and plastic articles, other than non-metallic mineral products.....	1,179.2	3.1	1,079.8	3.4	967.0	3.1	1,023.6	3.2	1,151.0	3.4
Information and telecommunications	1,646.2	4.3	2,089.4	6.5	2,075.7	6.6	2,100.1	6.6	2,200.3	6.5
Real estate business .....	3,979.4	10.4	3,882.1	12.1	3,764.4	12.1	3,796.3	12.0	4,377.2	13.0
Metallurgy and production of fully processed articles of metal, other than manufacturing of machines and equipment.....	2,181.3	5.7	1,533.1	4.8	1,560.8	5.0	1,637.1	5.2	1,728.9	5.1
Professional services, scientific and technical activities...	2,634.5	6.9	2,222.6	6.9	2,253.5	7.2	2,131.1	6.7	2,224.6	6.6
Supply of electricity, gas, steam and condensed air .....	412.4	1.1	438.0	1.4	556.5	1.8	755.0	2.4	716.1	2.1
Other .....	7,962.0	20.7	6,123.2	19.1	6,108.1	19.4	6,279.2	19.9	6,110.3	18.1
<b>Total .....</b>	<b>38,356.8</b>	<b>100.0</b>	<b>32,122.5</b>	<b>100.0</b>	<b>31,230.3</b>	<b>100.0</b>	<b>31,606.4</b>	<b>100.0</b>	<b>32,724.4</b>	<b>100.0</b>

(1) Information provided does not include illegally occupied Crimea and certain parts of the temporarily occupied Donetsk and Luhansk regions.

(2) The data on FDI for the period from 1 January 2018 until 1 October 2018 is calculated taking into account administrative data of the NBU, which, unlike in earlier years, now includes the amounts of reinvested earnings of Ukrainian banks (calculated by the NBU based on the retained earnings or losses (as the case may be) data corresponding to a direct investor's shareholding in Ukrainian banks). Data as of 1 January 2015, 2016, 2017 has been updated.

Source: State Statistics Service

According to Ukrainian law, foreign investors are treated on a similar basis to domestic investors and, in most circumstances, are permitted to conduct business on the same terms as domestic business enterprises. In addition, capital assets brought into Ukraine as a contribution to the charter capital of a Ukrainian legal entity by a foreign investor are exempt from customs duties on imports (subject to compliance with certain requirements).



Foreigners are permitted to own up to 100 per cent. of a Ukrainian company, subject to foreign ownership restrictions in certain industry sectors, such as media. The hryvnia is not yet freely tradable, and a withholding tax of 15 per cent. may be imposed on profit repatriation. Profit repatriation is subject to the provisions of treaties on the avoidance of double taxation, which can reduce or eliminate the withholding tax.

## PUBLIC FINANCE AND FISCAL POLICY

### Overview

Ukraine's consolidated budget (the “**Consolidated Budget**”) consists of the combined revenues and expenditures of the State Budget of Ukraine (the “**State Budget**”) and of the budgets of local authorities (after eliminating inter-budgetary transfers). The State Budget is the central Government budget and has two components, the general fund (the “**General Fund**”) and the special fund (the “**Special Fund**”). The General Fund includes all revenues of the State Budget, except for those that are designated for the Special Fund and all expenditure financed out of those revenues. The Special Fund consists of special purpose revenues and the expenditure they finance. Special Fund expenditure has permanent budget allocations so as to protect its objectives from adverse market conditions.

External debt of the State is reliant upon the State Budget for its servicing requirements. The Government is not permitted to use funds from the Consolidated Budget to service external debt payments, except to the extent they form part of the State Budget. This limitation includes payments to be made under the Notes.

The following table sets out the actual revenues, expenditure, lending, deficit/surplus, and deficit/surplus as a percentage of GDP as calculated by the Ministry of Finance for the Consolidated and State Budgets for the years ended 31 December 2014, 2015, 2016, 2017, 2018 and for the eleven months ended 30 November 2018 and 2019:

	For the year ended 31 December					For the eleven months ended 30 November	
	2014 <sup>(2)</sup>	2015 <sup>(3)</sup>	2016 <sup>(3)</sup>	2017 <sup>(3)</sup>	2018 <sup>(3)</sup>	2018	2019
				(UAH millions)			
GDP <sup>(1)</sup> .....	1,586,915.0	1,988,544.0	2,385,367.0	2,983,882.0	3,560,596.0	—	—
<b>Consolidated Budget</b>							
Revenues.....	456,067.3	652,031.0	782,859.5	1,016,969.5	1,184,290.8	1,074,807.5	1,164,019.9
Expenditure.....	523,125.7	679,871.4	835,832.1	1,056,973.1	1,250,189.5	1,052,380.5	1,169,482.2
Lending <sup>(4)</sup> .....	4,972.1	3,057.8	1,841.3	2,122.1	1,893.0	425.5	1,419.7
Surplus (Deficit).....	(72,030.5)	(30,898.2)	(54,813.9)	(42,125.7)	(67,791.8)	22,001.5	(6,882.0)
Surplus (Deficit) (% of GDP).....	(4.5)	(1.6)	(2.3)	(1.4)	(1.9)	—	—
<b>State Budget</b>							
Revenues.....	357,084.2	534,694.8	616,283.2	793,441.9	928,114.9	843,261.8	899,707.3
Expenditure.....	430,217.8	576,911.4	684,883.7	839,453.0	985,581.8	843,325.3	933,450.6
Lending <sup>(4)</sup> .....	4,919.3	2,950.9	1,661.6	1,870.9	1,514.3	120.1	1,116.7
Surplus (Deficit).....	(78,052.8)	(45,167.5)	(70,262.1)	(47,882.1)	(59,251.1)	(183.6)	(34,860.1)
Surplus (Deficit) (% of GDP).....	(4.9)	(2.3)	(2.9)	(1.6)	(1.7)	—	—

(1) GDP for 2014 through 2019 was calculated according to the System of National Accounts (2008) and does not include data of illegally occupied Crimea, Sevastopol city and certain parts of the Donetsk and Luhansk regions.

(2) The data on performance of the State Budget and the Consolidated Budget for 2014 includes data of illegally occupied Crimea, which was recorded in the reports for January to March 2014.

(3) The data on performance of the State and Consolidated budgets for 2015 through 2019 does not include data of the illegally occupied Crimea, Sevastopol city and certain parts of the temporarily occupied Donetsk and Luhansk regions.

(4) Lending figures are calculated as the aggregate amount of loans provided from the budget minus aggregate amount of repayments made to the budget under the existing loans in the given period. Where there are negative lending figures, this is because the amount of loan repayments to the budget exceeds the amount of provided new loans from the budget.

Source: Ministry of Finance

### Changes to the Tax System

#### *Austerity Measures of April 2014*

On 27 March 2014, the first package of tax reforms developed by the post-revolutionary Government was adopted by the Parliament. This package included an increase in personal income tax for most types of passive income of individuals, an imposition of personal income tax on interest on deposits and financial instruments, an increase of excise tax rates and rent tax rates (including payment for the use of subsoil for extraction purposes), the abolishment of certain tax exemptions and other tax reforms.

These austerity measures in taxation were aimed at raising additional funds for the budget and were not designed to change the overall tax system or reform it significantly. Some of the introduced changes were amended in June and July 2014 to avoid what was seen as an unreasonable or excessive tax burden.

### *Military duty*

In July 2014, a military duty was introduced in Ukraine. The duty is withheld by employers from salary and salary-like remunerations at a rate of 1.5 per cent. of the relevant amount. Although initially intended to be a temporary measure, it has been prolonged and extended to any other forms of payments to individuals. This measure is expected to remain in effect until the completion of the reform of Ukraine's military forces.

### *Electronic system for VAT administration*

In July 2014, the Parliament adopted changes to the Tax Code introducing a special electronic system of VAT administration, effective as of 1 January 2015. On 28 December 2014, the Parliament amended the Tax Code and postponed the introduction of the special electronic system to 1 February 2015 in test mode, with full application from 1 July 2015. Such electronic system establishes special VAT accounts for each VAT payer in Ukraine and is aimed at the prevention of massive VAT fraud, which is thought to have been widely practiced in Ukraine. The VAT accounts are used to store advance payments of VAT paid by the taxpayer (which will be a prerequisite for the issuance of a valid VAT invoice to the customer).

### *Tax Reform of December 2014*

Since the amendments introduced in early 2014 were not considered sufficient to improve the business climate in Ukraine, the Government developed a large-scale tax reform, which was adopted by the Parliament on 28 December 2014 and became effective as of 1 January 2015. These further amendments provided for a significant revision of the corporate income tax computation rules, personal income tax rates, rate of the rent tax and a broadening of the tax base of a number of different taxes.

The tax reform also provided for certain reforms in tax administration procedures that decreased the administrative burden on businesses with regard to tax matters. In particular, the total number of taxes was reduced from 22 to 11. Tax authorities were prohibited from carrying out unscheduled audits of transactions which have already been subject to a tax audit, if such audits are based on information from third parties, deviations in tax returns or orders to conduct tax audit as a part of a criminal investigation. Moreover, information on companies with tax debt was made available online.

As part of the December 2014 tax reform, the rules concerning corporate income tax ("CIT") were significantly amended. Under the new rules, the object of taxation of corporate income tax is profit with a source of origin from Ukraine and abroad, which is determined by adjusting (increasing or decreasing) the financial result before tax (profit or loss), determined in the financial statements of the enterprise in accordance with national provisions (standards) of accounting or International Financial Reporting Standards on differences arising under the provisions of the Code.

The rate of personal income tax was also revised. From 1 January 2015, the general personal income tax rate was 15 per cent. for income less than 10 times the minimum wage, and 20 per cent. (an increase from the previous rate of 17 per cent.) for income exceeding 10 times the minimum wage. The general personal income tax rate for passive income (royalties, interest, capital gains) was set at 20 per cent. (a rise from the previous rate of 15 per cent.).

Amendments also introduced real estate tax on commercial (non-residential) real estate situated in Ukraine.

The land levy is charged in form of the land tax or land rent. Owners of Ukrainian land and those with permanent rights to use Ukrainian land must pay land tax. Lessees of state or municipal lands must pay land rent. In accordance with the reform, the land levy became a local tax. As a result, local authorities were given the power to determine tax rates (within ranges established by the Tax Code) and grant tax reliefs.

Tax rates for privately-owned land plots should not exceed three per cent. of normative appraisal of the land plot, one per cent. of normative appraisal of the land plot for agricultural lands and public use land plots, five per cent. of regional average normative appraisal for unappraised land plots. Tax rates for permanent use land plots should not exceed 12 per cent. of the normative appraisal. The land rent is determined by local authorities in the lease agreements. The land rent must not be less than three per cent and more than 12 per cent. of the normative appraisal of the land plot. Since 2017, the land rent must not be less than the amount of the land tax payable on the respective land plot.

### *Improvement of Transfer Pricing Controls*

Additionally, the Government made significant steps towards the prevention of base erosion and profit shifting. Transfer pricing rules were significantly amended in order to prevent abuse of offshore vehicles. Certain of the changes to the transfer pricing rules and regulations were adopted on 28 December 2014 as a part of the tax reform. The new rules are generally in line with OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations. These rules require taxpayers conducting controlled transactions to report such transactions and prove that they are on arm's length terms.

Further amendments to the transfer pricing rules were introduced in 2015, including extending the categories of transactions subject to such rules.

Effective from 1 January 2017, additional amendments to the Ukrainian transfer pricing rules were introduced. These amendments increased the thresholds for transactions covered by the rules and further extended the list of controlled transactions. In particular, transactions with non-residents incorporated in certain corporate forms (indicated in the list approved by the Cabinet of Ministers of Ukraine), which (i) do not pay corporate income tax; and/or (ii) are not tax residents of their incorporation state, are considered as controlled transactions starting from 27 July 2017. As of 1 January 2018, the list of controlled transactions was extended to cover transactions between non-residents and their permanent establishments in Ukraine.

The most recent changes to Ukrainian transfer pricing rules took effect on 1 January 2019.

### *Tax Reform of December 2015*

The tax reform of December 2014 generally improved the business climate in Ukraine but failed to achieve certain key goals, namely bringing a substantial portion of the shadow economy into the reporting economy and reform of the tax authorities. On 24 December 2015, the Parliament adopted a number of changes to Ukraine's tax system with effect from 1 January 2016. These changes provided for a flat 18 per cent. personal income tax rate applicable to labour, passive incomes (except dividends), business incomes, benefits and prizes, the basic reporting period for corporate income tax payers changing from yearly to quarterly, the abolition of monthly advance payments of corporate income tax with certain transition rules, the decrease of the single social contribution rate from 41 per cent. to 22 per cent. and the abolition of the 3.6 per cent. single social contribution payable by employees, the introduction of the additional fixed real estate tax rate for residential property with a total area exceeding 300 sq. metres for apartments and 500 sq. metres for houses in the amount of UAH 25 thousand per taxable item of property and improvement of the VAT refund.

### *Tax Reform of December 2016*

Further amendments to existing tax laws entered into force on 1 January 2017, introducing a wide range of changes mostly related to the tax administration as well as to the application of corporate income tax, VAT, personal income tax and certain other taxes. These amendments were intended to help reform the State Fiscal Service of Ukraine and contribute to the prevention of corruption in the Ukrainian tax system.

### *Suspension of VAT invoices registration*

Effective from 1 July 2017, a special procedure relating to the suspension of the registration of VAT invoices by the tax authorities was introduced, aimed at combating VAT fraud. Under this procedure, the tax authorities suspend registration of VAT invoices that fall within risk assessment criteria adopted by the Ministry of Finance of Ukraine. For example, where an entity supplies alcohol and/or tobacco products without the requisite licence for such activity the tax authorities could suspend registration of VAT invoices for the relevant goods issued by the entity.

Purchasers of goods may not deduct VAT which relates to such suspended VAT invoices until the tax authorities formally register them, if at all. However, taxpayers could challenge such suspension of the registration of VAT invoices under a special procedure provided for by the Tax Code and Resolution of the Cabinet of Ministers of Ukraine No. 485, dated 4 July 2017.

Starting from 1 January 2018, registration of VAT invoices can no longer be suspended until adoption of new procedure on suspension of registration. The new procedure on suspension of registration of VAT invoices is determined by the Cabinet of Ministers of Ukraine.

### *Tax Reform of December 2017*

On 7 December 2017, the Parliament adopted the law “On Amendments to the Tax Code of Ukraine and Certain Laws of Ukraine on Securing Balance of Budget Revenues in 2018” No. 2245-VIII (the “**Budget Balancing Law**”) aimed at improving tax legislation and administration of taxes. The Budget Balancing Law introduced a number of key changes related to tax administration, CIT, VAT and excise tax.

### Administration of taxes

The Budget Balancing Law revised thresholds for recognition as a large taxpayer:

the threshold of paid taxes and duties was increased from UAH 20 million to the equivalent of €1 million; *provided that* the amount of taxes and duties other than those paid at customs exceeds the equivalent of €500,000; and

the threshold of gross income for four consecutive reporting quarters was increased from UAH 1 billion to the equivalent to €50 million.

The Budget Balancing Law also provides that if officials of tax authorities act illegally and cause damages to taxpayers, such damages must be compensated from the State Budget.

### VAT

Effective from 1 January 2018, the list of medical goods supplied or imported into Ukraine at a VAT rate of 7 per cent. was expanded. In particular, the reduced VAT rate applies to import and supply of medical products in the customs territory of Ukraine, if (i) such medical products are included in the State Register of Medical Equipment and Medical Products or (ii) comply with the requirements of the relevant technical regulations.

Import and export of electric vehicles are exempt from VAT by 31 December 2018.

The Budget Balancing Law also allows payment of import VAT by instalments within 24 months period. This provision applies to import of eligible categories of production machinery and equipment and is available until 1 January 2020.

### CIT

The Budget Balancing Law extends reporting period for annual CIT return to 60 days.

Banks are allowed to deduct their accounting reserves and provisions for tax purposes without limitations.

Deductible amount of payments made to NGOs in sport was increased from 4 to 8 per cent. of taxpayer’s taxable profit for the previous year.

Taxpayers paying the Single Tax are required to deduct withholding tax from payments made to non-residents.

### Transfer pricing

The Budget Balancing Law extended the list of controlled transactions by adding transactions between non-residents and their permanent establishments in Ukraine.

The CIT rate criteria for recognition of jurisdictions as low taxed for transfer pricing purposes was amended to cover jurisdiction with high headline tax rate, which grant preferential tax regimes allowing significant decrease of effective tax rate.

The Budget Balancing Law improves the advance pricing agreements procedure with the goal to encourage large taxpayers to use this instrument.

Tax authorities may request information required for transfer pricing audits from taxpayer’s counterparties.

### Excise tax

The Budget Balancing Law introduced the schedule for harmonization of excise tax rates on tobacco products to the minimum EU level. Specific rates and minimal excise tax will gradually increase by approximately 20 per cent. by 2025.

The term for advance payment of excise duty on the purchase of excise stamps on tobacco products was extended from 5 to 15 business days.

An electronic copy of a tax bill of exchange is sufficient for the customs clearance of petroleum products imported into Ukraine as raw materials for the production of ethylene free of excise tax.

Requirement to equip excise warehouses with flow meters and level sensors was postponed until 1 January 2019.

Import of electric vehicles is exempt from excise tax as of 31 December 2018.

### Rent tax

The Budget Balancing Law introduced a number of amendments aimed at growth of domestic gas production and improvement of investment attractiveness of the gas extraction industry. In particular, the Budget Balancing Law introduced preferential rent tax rates for the extraction of natural gas from new wells. These rates are set at 12 per cent. (for deposits with up to 5,000 metres depth) and 6 per cent. (for deposits exceeding 5,000 metres depth). Stabilisation clause prohibits change of these rates for five years (from 1 January 2018 to 1 January 2023).

Rent tax rates for extraction in product sharing agreements was set at two per cent. for oil and 1.25 per cent. for gas.

### *Tax Reform of December 2018*

On 23 November 2018, the Parliament adopted the law “On Amendment of the Tax Code and Certain Other Legal Acts of Ukraine in Relation to Improvement of Administration, and Revision of Rates, of Certain Taxes” No. 2628-VIII. This law introduced a number of changes into the Tax Code. Most of the amendments came into force as of 1 January 2019.

### VAT

Effective from 1 January 2019, VAT exemption for import of electric vehicles was extended until 31 December 2022. The amendments also introduce VAT exemption for import of wind power units, certain liquid dielectric transformers, solar panels and inverters.

### CIT

Starting from 1 January 2019, interest payments under the Eurobond-funded loans are subject to a reduced 5 per cent. withholding tax rate in Ukraine (as compared to 15 per cent. ordinary tax rate), if the eligibility requirements are met. Eligibility requirements for the reduced 5 per cent. withholding tax rate include the following: (i) notes must be listed on an eligible stock exchange; (ii) the loan must be provided with the purpose of financing a Ukrainian resident; and (iii) the issuer of the notes must not be registered in a low-tax jurisdiction, directly or indirectly.

### Rent tax

Since 1 January 2019, rent tax rates for oil and condensate extraction increased from 29 per cent. to 31 per cent. (for deposits with up to 5,000 metres depth) and from 14 per cent. to 16 per cent. (for deposits exceeding 5,000 metres depth). Rent tax rates for special use of forest resources increased by 50 per cent. During 2019, rent tax rates for iron ore extraction increased by 10 per cent.

### Excise tax

From 1 July 2019, the System of Electronic Administration of Fuel Sales (“SEAFS”) will reflect all fuel movements and data of counter devices in respect of each excise warehouse. SEAFS will also apply to ethyl alcohol. In addition, effective from 1 July 2019, the excise tax rate for tobacco products will be increased by 9 per cent.

### Ecology tax

Effective from 1 January 2019, ecology tax rates for carbon dioxide emission increased from UAH 0.41 per tonne to UAH 10.00 per tonne.

### Transfer pricing

Effective from 1 January 2019, Ukrainian tax authorities shall apply the “substance over form” approach to transactions which are subject to transfer pricing control. Transactions subject to transfer pricing control are to be scrutinised based on factual circumstances of the transactions instead of contractual arrangements. In addition, amendments effective from 1 January 2019 provide for a possibility to stay tax inspections in relation to the compliance with the arm’s length principle for the duration of court proceedings, as well as measures to induce taxpayers to adjust prices of controlled transactions and their corresponding tax obligations themselves.

### *OECD Base Erosion and Profit Shifting Action Plan*

As of 2017, Ukraine has joined the Expanded Cooperation Programme within the framework of the Organization for Economic Cooperation and Development on combating the erosion of the Base Erosion and Profit Shifting (“BEPS”) and has undertaken to implement the minimum standard of the BEPS Action Plan.

On 23 July 2018, Ukraine signed the Multilateral Convention on the Implementation of Measures Relating to Tax Agreements in order to counteract the dilution of the tax base and the elimination of taxable profits (the “MLI”). MLI makes changes to all existing international treaties of Ukraine on avoidance of double taxation and is subject to ratification by Parliament. On 28 February 2019, the Law of Ukraine No. 2692-VIII “On Ratification of the Multilateral Convention for the Implementation of Measures Concerning Taxation Agreements with the Purpose of Countering the Erosion of the Tax Base and the Removal of Profit Tax” was adopted. On 1 December 2019, the MLI became effective for Ukraine.

On 1 January 2017, Ukraine joined the Inclusive Framework for the implementation of the OECD Base Erosion and Profit Shifting Action Plan with an undertaking to implement a “minimum standard” of four recommended actions. Furthermore, draft law No. 1210 providing for certain amendments to the Tax Code of Ukraine would implement anti base erosion and profit shifting measures and introduce the controlled foreign companies rules, country-by-country reporting rules, mutual assistance procedure, enhanced definition of a permanent establishment, and would substantially amend transfer pricing rules, modify the “reasonable economic purpose of transaction” doctrine, extend the powers of tax authorities and amend regulations concerning tax audits. As of the date of this Prospectus, draft law No. 1210 has been adopted in the second reading of the Parliament.

### *Further changes in accordance with IMF recommendations*

According to the recommendations of the IMF, Ukraine will focus on further improvement of the tax administration, broadening of the taxing base and limitation of tax benefits. Effective from 1 January 2017, VAT incentives for agricultural producers were removed. Instead, since 1 January 2017, the Ukrainian Government has introduced budget subsidies for qualifying agricultural companies. Among the priorities for further changes are the complex reform of the State Fiscal Service of Ukraine and its structural optimisation.

### *The 2018 – 2019 reform of the State Fiscal Service of Ukraine*

In order to optimize the structure of the State Fiscal Service of Ukraine (the “DFS”), on 28 March 2018, the Government adopted a resolution “On the Reform of Some Territorial Bodies of the State Fiscal Service”, which, *provided that* state tax inspections in districts, cities (except Kyiv), districts in cities and the combined state tax inspectorates lose the status of legal entities and join the main DFS departments in those regions.

With a view to institutional, structural and functional updating of the central executive body implementing the state tax and customs policy, on 18 December 2018, the Government adopted a resolution “On the Establishment of the State Tax Service of Ukraine and the State Customs Service of Ukraine”.

On 27 December 2018, the Cabinet of Ministers approved a resolution of the Cabinet of Ministers of Ukraine “On the Establishment of an Interdepartmental Working Group on Reforming the System of Bodies implementing the State Tax and Customs Policy” and the Resolution of the Cabinet of Ministers of Ukraine “On Approving the Conceptual Directions of Reforming the System of Bodies implementing the State Tax and customs policy”.

In order to regulate the procedure of activities of the State Tax Service of Ukraine and the State Customs Service of Ukraine, determination of their legal status, main tasks, and the rights and duties of employees related to the implementation of tax and customs policy, on 6 March 2019, the Government adopted a resolution “On Approval of the Regulation on the State Tax Service of Ukraine and the State Customs Service of Ukraine”.

On 8 May 2019, a new Head of State Tax Service was appointed. On 19 June 2019, local authorities of the State Tax Service were registered as Public Legal Entity. On 21 August 2019 the State Tax Service commenced its activities. The Ministry of Finance with the Cabinet of Ministers of Ukraine are going to combine all local tax and customs authorities under two legal entities - the State Tax Service and the State Customs Service with their respective local authorities operating as separate units of those two legal entities. On 14 January 2020, Ukrainian Parliament adopted the Law of Ukraine “On Amendments to the Customs Code of Ukraine and Other Laws of Ukraine in Connection with Administrative Reform” in order to restructure local authorities of the tax and custom services separate units of the State Tax Service and the State Customs Service, respectively.

#### *Influence of illegal Crimean occupation and events in parts of Donbas*

Since the illegal occupation of Crimea, tax receipts from that region have been completely cut off. The Government estimates the lost tax and customs revenues of the State Budget to be approximately UAH 4.8 billion in 2014. The conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions has also effectively limited tax collections and therefore revenues from the affected areas. The Government estimates the lost revenues of the State Budget to be approximately UAH 9.9 billion in 2014 (actual tax and customs revenues from Donetsk and Luhansk regions in 2014 amounted to UAH 20.8 billion, as compared to UAH 30.7 billion in 2013). In 2015 and 2016 actual tax and customs revenues from Donetsk and Luhansk regions amounted to UAH 15.7 billion and UAH 17.0 billion respectively, taking into account that revenues throughout the period from 2014 to 2016 were also affected by price dynamics, in particular GDP deflator, which stood at 15.9 per cent., 38.9 per cent., 17.1 per cent., 22.1 per cent. and 15.4 per cent. in 2014, 2015, 2016, 2017 and 2018, respectively.

### **The Budget Process**

#### ***Budget Preparation and Adoption***

Pursuant to the Constitution, each year, following a review by the Cabinet of Ministers, a proposed State Budget is to be submitted to Parliament by the 15 September in the form of a draft Budget Law. The deadline for approval of the State Budget Law by the Parliament is the 1 December. If the State Budget Law is not adopted by the 1 January of the following year, certain borrowing restrictions apply until the adoption of the State Budget Law for the relevant year.

The Budget Code of Ukraine (the “**Budget Code**”) was initially adopted in 2001. On 8 July 2010, the Parliament approved a restatement of the Budget Code, which took effect on 1 January 2011, subject to certain exceptions that came into effect on 1 January 2013. The Budget Code, as restated, focuses on, among other things, further development of the programme target method of the budget process, which focuses on using budget funds to achieve specific results as well as the evaluation of the effectiveness of using budget funds during all stages of the budget process, and medium term budgetary planning; the introduction of modern forms and methods of budget fund management and State and local debt management; the improvement of the system for State control over budget performance; formalising the responsibility of budget process participants; and strengthening the financial independence of local budgets.



Further legislative amendments have targeted the harmonisation of provisions of Ukrainian law with the Budget Code, the principles of State and local debt management (including guaranteed debt), increasing the transparency of State finances and the financial self-sufficiency of local budgets, improving legislative governance of quasi fiscal operations and compliance of laws with the balancing of the State Budget. The amendments to the Budget Code as of 1 January 2019 created the legal basis for the introduction of medium-term budget planning and further development of the programme-target budgeting.

### Budget Implementation

The budget year commences on 1 January and ends on 31 December. The Ministry of Finance is responsible for implementation of the State Budget, and local authorities are responsible for the implementation of their respective local budgets. Implementation of the budget involves ensuring that revenues are collected, budget programmes are implemented and the deficit is financed. The Ministry of Finance and local authorities develop regulations concerning the implementation of the budget, provide methodological guidance, and provide accounting and financial budgetary reporting services in relation to the execution of their respective budgets.

### The State Budget

The main planned and actual State Budget performance for the years ended 2015, 2016, 2017, and 2018 and for the eleven months ended 30 November 2019 are set out in the table below:

	Year ended								Eleven months ended 30 November	
	2015 <sup>(1)</sup>		2016 <sup>(2)</sup>		2017 <sup>(3)</sup>		2018 <sup>(4)</sup>		2019	
	Budget (as amended)	Actual	Budget (as amended)	Actual	Budget (as amended)	Actual	Budget (as amended)	Actual	Budget (as amended)	Actual
	(in UAH millions)		(in UAH millions)		(in UAH millions)		(in UAH millions)		(in UAH millions)	
<b>Revenues</b>										
Tax revenue .....	409,970.9	409,417.5	502,554.6	503,879.4	632,202.3	627,156.7	760,016.4	753,815.6	846,714.6	722,968.1
of which:										
Personal income tax ..	42,591.3	45,062.0	56,132.2	59,810.5	77,177.8	75,033.4	91,123.7	91,741.8	106,155.3	98,262.7
Corporate income tax	36,915.0	34,776.3	48,559.0	54,344.1	67,119.6	66,911.9	82,327.4	96,882.3	95,520.0	101,000.4
VAT .....	180,006.1	178,452.4	232,658.0	235,506.0	302,866.2	313,980.6	384,362.9	374,508.2	417,676.1	338,387.7
Excise duty on domestic goods ....	36,525.0	38,783.8	52,711.0	55,116.3	71,585.0	66,303.7	78,117.2	71,143.8	85,922.9	62,001.9
Excise duty on imported goods ....	23,500.7	24,326.8	29,181.0	35,006.2	41,751.0	41,989.7	45,986.3	47,708.6	48,140.1	49,680.6
Non tax revenue .....	110,506.7	120,006.5	110,052.9	103,643.7	133,741.1	128,579.1	171,679.8	164,683.1	173,594.8	165,646.4
Capital revenue .....	753.0	171.4	1,267.4	191.5	373.5	286.9	473.6	657.5	1,235.3	159.9
From the EU, foreign governments and international organisations, and donors .....	4,970.0	1,800.3	5,502.6	4,109.4	1,777.5	1,607.4	2,372.5	1,464.8	1,541.9	1,130.5
Special funds <sup>(6)</sup> .....	1,665.8	155.0	7,880.3	287.7	22,703.1	29,847.1	4,867.4	187.5	1,727.5	1,768.1
Official transfers .....	4,152.3	3,144.0	4,269.5	4,171.6	6,047.4	5,967.7	7,439.4	7,306.3	8,667.3	8,034.4
<b>Total revenues .....</b>	<b>532,018.6</b>	<b>534,694.8</b>	<b>631,527.2</b>	<b>616,283.2</b>	<b>796,844.9</b>	<b>793,441.9</b>	<b>946,849.0</b>	<b>928,114.9</b>	<b>1,033,481.5</b>	<b>899,707.3</b>
<b>Expenditure</b>										
State function .....	106,047.0	103,116.7	121,952.7	118,049.3	147,019.0	142,492.7	179,283.7	162,958.1	176,712.0	155,106.6
of which:										
Public and local administration, financial and foreign economic activity .....	14,604.5	13,689.5	20,185.1	17,213.0	29,350.8	25,533.8	41,406.3	38,622.5	37,501.0	29,045.0
Fundamental research	3,290.7	3,114.9	3,140.6	2,888.7	4,073.5	3,827.6	5,584.3	5,162.3	5,891.9	4,559.3
Sovereign debt service <sup>(7)</sup> .....	85,669.3	84,505.4	96,310.7	95,794.2	110,562.5	110,456.1	127,700.8	115,431.2	122,872.0	114,171.5
National defence .....	54,570.6	52,005.2	66,696.4	59,350.8	77,832.8	74,346.2	97,794.0	97,024.1	108,436.0	88,029.8
Law enforcing activity, national security and the judiciary .....	55,810.6	54,643.4	72,525.7	71,670.4	92,082.7	87,850.5	123,477.2	116,875.9	146,301.0	119,612.1
Economic activity .....	43,516.1	37,135.4	35,932.9	31,422.3	51,656.5	47,000.1	74,434.5	63,600.9	84,460.3	53,634.1
of which:										
General economic, trade and labour activity .....	710.2	640.1	1,667.2	1,436.4	2,760.0	2,524.6	3,787.4	3,487.1	4,184.4	2,994.9
Agriculture, forestry, fishery and hunting .....	5,299.7	4,732.9	4,628.6	4,372.8	11,796.4	11,072.4	14,300.5	13,757.3	15,145.6	10,943.4
Fuel and energy complex .....	3,564.9	1,889.6	2,226.3	2,200.4	2,957.6	2,765.2	4,763.9	3,444.0	4,274.0	3,826.3
Transport .....	25,468.1	23,104.2	16,398.2	15,335.2	21,263.9	20,575.1	32,148.0	27,952.5	39,907.7	27,750.5
Communication, telecommunication and informatics ..	126.7	124.3	120.4	119.3	203.4	196.8	274.9	271.6	293.3	254.7
Protection of environment	4,705.7	4,053.0	5,353.3	4,771.6	5,247.5	4,739.9	6,137.1	5,241.2	7,971.1	4,501.8
Housing and utilities infrastructure .....	493.0	21.5	38.7	12.5	38.8	16.9	414.8	296.9	161.9	80.0
Health .....	12,657.2	11,450.4	12,816.2	12,464.6	17,328.3	16,729.4	23,338.4	22,618.0	39,706.6	31,664.9
Intellectual and physical development .....	7,605.4	6,619.2	5,058.9	4,958.9	8,216.9	7,898.1	10,478.0	10,107.1	10,743.0	7,967.6
of which:										
Physical culture and sport .....	4,527.6	3,647.5	1,448.5	1,410.7	2,433.7	2,385.0	3,014.6	2,869.1	3,091.1	2,421.5
Culture and art .....	1,880.5	1,804.4	2,055.4	2,012.0	4,185.9	3,952.1	5,457.7	5,257.0	5,816.5	4,100.6
Mass media .....	1,134.8	1,108.9	1,499.0	1,483.7	1,470.0	1,440.6	1,501.7	1,496.8	1,675.7	1,350.8

	Year ended								Eleven months ended 30 November	
	2015 <sup>(1)</sup>		2016 <sup>(2)</sup>		2017 <sup>(3)</sup>		2018 <sup>(4)</sup>		2019	
	Budget (as amended) (in UAH millions)	Actual	Budget (as amended) (in UAH millions)	Actual	Budget (as amended) (in UAH millions)	Actual	Budget (as amended) (in UAH millions)	Actual	Budget (as amended) (in UAH millions)	Actual
Education.....	33,281.6	30,185.7	38,946.8	34,826.5	46,695.7	41,297.3	50,224.3	44,324.3	57,354.7	44,598.5
Social protection and social insurance .....	104,381.3	103,700.9	152,513.7	151,961.5	145,147.6	144,478.9	164,172.1	163,865.6	221,681.2	189,301.8
Interbudgetary transfers.....	176,403.9	173,980.0	196,743.3	195,395.3	279,224.2	272,602.9	304,672.2	298,939.7	272,713.7	238,953.5
<b>Total expenditure .....</b>	<b>599,472.4</b>	<b>576,911.4</b>	<b>708,578.7</b>	<b>684,883.7</b>	<b>870,490.0</b>	<b>839,453.0</b>	<b>1,034,426.3</b>	<b>985,851.8</b>	<b>1,126,241.6</b>	<b>933,450.6</b>
Domestic lending.....	11,189.9	2,950.9	10,192.5	1,661.6	8,581.0	1,870.9	6,538.6	1,514.3	6,621.4	1,116.7
External lending .....	—	—	—	—	—	—	—	—	—	—
Total lending .....	11,189.9	2,950.9	10,192.5	1,661.6	8,581.0	1,870.9	6,538.6	1,514.3	6,621.4	1,116.7
<b>Balance (surplus/deficit).....</b>	<b>(78,643.6)</b>	<b>(45,167.5)</b>	<b>(87,244.0)</b>	<b>(70,262.1)</b>	<b>(82,226.1)</b>	<b>(47,882.1)</b>	<b>(94,116.0)</b>	<b>(59,251.1)</b>	<b>(99,381.5)</b>	<b>(34,860.1)</b>
Balance (% of GDP).....	(4.3)	(2.3)	(3.9)	(2.9)	(2.9)	(1.6)	(2.8)	(1.7)	—	—
Domestic financing <sup>(8)</sup> .....	(84,507.4)	(64,522.7)	9,270.2	37,036.1	36,209.8	10,923.6	33,154.3	14,492.0	97,591.2	44,672.1
of which: Receipts from privatisation of state property .....	17,000.0	151.5	17,100.0	188.9	3,375.0	3,376.8	355.0	268.8	17,100.0	531.2
External financing <sup>(9)</sup> .....	163,151.0	109,690.2	77,973.8	33,225.9	46,016.3	36,958.5	60,961.7	44,759.2	1,790.3	(9,812.1)
<b>Total financing<sup>(10)</sup> .....</b>	<b>78,643.6</b>	<b>45,167.5</b>	<b>87,244.0</b>	<b>70,262.1</b>	<b>82,226.1</b>	<b>47,882.1</b>	<b>94,116.0</b>	<b>59,251.1</b>	<b>99,381.5</b>	<b>34,860.1</b>

- (1) Basic assumptions underlying the 2015 State Budget, as amended, included a real GDP decline rate of 5.5 per cent., nominal GDP of UAH 1,850.2 billion, CPI (December-on-December) of 26.7 per cent. and an average annual exchange rate of UAH 21.70 to U.S.\$1.00. Actual GDP in 2015 amounted to UAH 1,988.5 billion (in accordance with the System of National Accounts (2008)), taking into account that the provided figures do not include illegally occupied Crimea and certain parts of the temporarily occupied Donetsk and Luhansk regions.
- (2) Basic assumptions underlying the 2016 State Budget, as amended, included a real GDP growth rate of 2.0 per cent., nominal GDP of UAH 2,262.0 billion, CPI (December-on-December) of 12.0 per cent. and an average annual exchange rate of UAH 24.1 to U.S.\$1.00. The actual GDP in 2016 amounted to UAH 2,385.4 billion (according to the System of National Accounts (2008)), taking into account that the provided figures do not include illegally occupied Crimea and certain parts of the temporarily occupied Donetsk and Luhansk regions.
- (3) Basic assumptions underlying the 2017 State Budget, as amended, included a real GDP growth rate of 1.8 per cent., nominal GDP of UAH 2,845.8 billion, CPI (December-on-December) of 11.2 per cent. and an average annual exchange rate of UAH 27.8 to U.S.\$1.00. The actual (updated) GDP in 2017 amounts to UAH 2,983.9 billion (in accordance with the System of National Accounts (2008)) the actual GDP in 2018 amounted to UAH 3 558.7 billion (according to the SNA-2008), taking into account that the provided figures do not include illegally occupied Crimea and certain parts of the temporarily occupied Donetsk and Luhansk regions.
- (4) Basic assumptions underlying the 2018 State Budget, as amended, included a real GDP growth rate of 3.0 per cent., nominal GDP of UAH 3,332.3 billion, CPI (December-on-December) of 9.0 per cent. and an average annual exchange rate of UAH 29.3 to U.S.\$1.00, taking into account that the provided figures do not include illegally occupied Crimea and certain parts of the temporarily occupied Donetsk and Luhansk regions.
- (5) Basic assumptions underlying the 2019 State Budget, as amended, included a real GDP growth rate of 3.0 per cent., nominal GDP of UAH 3,946.9 billion, CPI (December-on-December) of 7.4 per cent. and an average annual exchange rate of UAH 28.2 to U.S.\$1.00, taking into account that the provided figures do not include illegally occupied Crimea and certain parts of the temporarily occupied Donetsk and Luhansk regions.
- (6) Special funds in the State Budget include amounts received into the fund for Social Insurance of Disabled Persons, a fund for the remediation of environmental pollution, and special funds established by the parliament of the Autonomous Republic of Crimea and other local governance bodies and authorities in Ukraine. Since 1 January 2015, this line also includes a special fund for national security, defence purposes and recovered monies, which had previously been misappropriated due to corrupt practices.
- (7) Does not include repayments of the sovereign debt's principal.
- (8) "Domestic financing" includes domestic issues, domestic repayments, changes in cash volumes and receipts from privatisation of State property. "Domestic financing" is presented net of repayments (i.e. net of domestic issues and domestic repayments).
- (9) "External financing" is presented net of repayments (i.e. net of external issues and external repayments).
- (10) "Total financing" and components of this line reflect financing of both the State Budget and local budgets. Revenue from privatisation of state property is reflected in the State Budget only.

## 2015 State Budget

The 2015 State Budget Law was adopted by the Parliament on 28 December 2014.

Actual revenues and expenditure of the 2015 State Budget amounted to UAH 534.7 billion and UAH 576.9 billion, respectively, as compared to the respective budgeted amounts of UAH 532.0 billion and UAH 599.5 billion. The actual deficit of the 2015 State Budget amounted to UAH 45.2 billion (or 2.3 per cent. of GDP), as compared to the budgeted deficit of UAH 78.6 billion (or 4.3 per cent. of GDP).

The 2015 State Budget Law, as amended, was based on the following assumptions: real GDP contraction at 5.5 per cent., nominal GDP of UAH 1,850.2 billion, CPI (December-on-December) of 26.7 per cent., WPI (December-on-December) of 26.5 per cent. and an average annual exchange rate of UAH 21.7 to U.S.\$1.00 in 2015.

## 2016 State Budget

The 2016 State Budget Law was adopted by the Parliament on 25 December 2015.

Actual revenues and expenditure of the 2016 State Budget amounted to UAH 616.3 billion and UAH 684.9 billion, respectively, as compared to the respective budgeted amounts of UAH 631.5 billion and UAH 708.6 billion. The actual deficit of the 2016 State Budget amounted to UAH 70.3 billion (or 2.9 per cent. of GDP) as compared to the budgeted deficit of UAH 87.2 billion (or 3.9 per cent. of GDP).

The 2016 State Budget Law, as amended, was based on the following assumptions: real GDP growth at 2.0 per cent., nominal GDP of UAH 2,262.0 billion, CPI (December-on-December) of 12.0 per cent., WPI (December-on-December) of 10.4 per cent. and an average annual exchange rate of UAH 24.1 to U.S.\$1.00 in 2016.

## 2017 State Budget

The 2017 State Budget Law was adopted by the Parliament on 21 December 2016.

The budgeted revenues and expenditure of the 2017 State Budget amounted to UAH 771.3 billion and UAH 841.4 billion, respectively. The increase in budgeted revenues from 2016 reflects the expected effects of increased productivity in the remaining, more efficient tax collection practices and the recovery of monies that had previously been misappropriated due to corrupt practices. The budgeted deficit of the 2017 State Budget amounts to UAH 77.6 billion (or 2.9 per cent. of GDP). The actual revenues and expenditure of the 2017 State Budget amounted to UAH 793.4 billion and UAH 839.5 billion, respectively. The actual deficit of the 2017 State Budget in 2017 amounted to UAH 47.9 billion (or 1.7 per cent. of GDP).

The 2017 State Budget Law was based on the following assumptions (as amended by the Cabinet of Ministers of Ukraine resolution dated 31 May 2017): real GDP growth at 1.8 per cent., nominal GDP of UAH 2,845.8 billion, CPI (December-on-December) of 11.2 per cent., WPI (December-on-December) of 16.8 per cent. and an average annual exchange rate of UAH 27.8 to U.S\$1.00 in 2017.

#### *2018 State Budget*

The 2018 State Budget Law was adopted by the Parliament on 7 December 2017.

The budgeted revenues and expenditure of the 2018 State Budget amount to UAH 918 billion and UAH 991.9 billion, respectively. The increase in the budgeted revenues of the 2018 State Budget compared to the budgeted revenues of the 2017 State Budget was made possible by planned social and economic development of Ukraine, as well as by amendments to certain provisions of the tax and budget legislation. The budgeted deficit of the 2018 State Budget amounts to UAH 80.6 billion (or 2.4 per cent. of GDP). The actual revenues and expenditure of the 2018 State Budget amounted to UAH 928.1 billion and UAH 985.9 billion, respectively. The actual deficit of the 2018 State Budget amounted to UAH 59.3 billion.

The 2018 State Budget Law was based on the following assumptions: real GDP growth at 3.0 per cent., nominal GDP of UAH 3,332.3 billion, CPI (December-on-December) of 9.0 per cent., WPI (December-on-December) of 10.3 per cent. and an average annual exchange rate of UAH 29.3 to U.S\$1.00 in 2018.

#### *2019 State Budget*

The 2019 State Budget Law was adopted by the Parliament on 23 November 2018.

The 2019 State Budget Law provided for State Budget revenue and expenditure in the amount of UAH 1,026.1 billion and UAH 1,112.1 billion, respectively. The budgeted deficit of the 2019 State Budget amounts to UAH 90.0 billion (or 2.28 per cent. of GDP).

Amendments introduced by Law of Ukraine No. 265-IX dated 31 October 2019 reduced revenues and expenditures of the 2019 State Budget to UAH 1,007.3 billion and UAH 1,093.0 billion, respectively. The budgeted deficit of the 2019 State Budget amounts to UAH 91.1 billion (or 2.26 per cent. of GDP).

The 2019 State Budget Law was based on the following assumptions: real GDP growth at 3.0 per cent., nominal GDP of UAH 3,946.9 billion, CPI (December-on-December) of 7.4 per cent., WPI (December-on-December) of 10.1 per cent. and an average annual exchange rate of UAH 28.2 to U.S\$1.00 in 2019.

Actual revenues and expenditures of the State Budget for the eleven months ended 30 November 2019 amounted to UAH 899.7 billion and UAH 933.5 billion, respectively. The actual deficit of the State Budget for the eleven months ended 30 November 2019 amounted to UAH 34.9 billion.

#### *2020 State Budget*

The 2020 State Budget Law was adopted by Parliament on 14 November 2019.

The 2020 State Budget Law provides for State Budget revenue and expenditure in the amount of UAH 1,095.6 billion and UAH 1,182.0 billion, respectively. The budgeted deficit of the 2020 State Budget amounts to UAH 94.3 billion (or 2.09 per cent. of GDP).

### **The State Budget Revenues**

The following table sets out actual sources of revenue for the State Budget for the years ended 31 December 2015, 2016, 2017, 2018 and for the eleven months ended 30 November 2019:

	For the year ended 31 December				For the eleven months ended 30 November
	2015	2016	2017	2018	2019
	<i>(in UAH millions)</i>				
<b>Tax revenues</b> .....	<b>409,417.5</b>	<b>503,879.4</b>	<b>627,153.7</b>	<b>753,815.6</b>	<b>722,968.1</b>
Direct taxes .....	79,838.3	114,154.6	141,945.3	188,624.1	199,263.0
of which:					
Personal income tax .....	45,062.0	59,810.5	75,033.4	91,741.8	98,262.7
Corporate income tax .....	34,776.3	54,344.1	66,911.9	96,882.3	101,000.4
<b>Indirect taxes</b> .....	<b>329,579.2</b>	<b>389,724.8</b>	<b>485,208.4</b>	<b>565,191.6</b>	<b>523,705.1</b>
of which:					
VAT .....	178,452.4	235,506.0	313,980.6	374,508.2	338,387.7
Excise tax on domestic goods (products) .....	38,783.8	55,116.3	66,303.7	71,143.8	62,001.9
Excise tax on imported goods (products) .....	24,326.8	35,006.2	41,989.7	47,708.6	49,680.6
Import duty .....	39,881.0	20,001.3	23,898.4	26,560.4	27,349.8
Export duty .....	419.8	369.7	643.5	516.2	216.3
Other taxes .....	47,715.4	43,725.3	38,392.5	44,754.3	46,068.8
<b>Non-tax revenues</b> .....	<b>120,006.5</b>	<b>103,643.7</b>	<b>128,579.1</b>	<b>164,683.1</b>	<b>165,646.4</b>
of which:					
Entrepreneurial and property income ..	71,084.8	51,589.9	71,553.7	87,170.4	101,547.2
Administrative fees and charges non-commercial sale income .....	15,008.3	8,026.6	10,437.6	18,413.6	9,501.8
Other non-tax revenue <sup>(2)</sup> .....	33,913.3	44,027.1	46,587.8	59,099.1	54,597.4
<b>Capital revenue</b> .....	<b>171.4</b>	<b>191.5</b>	<b>286.9</b>	<b>657.5</b>	<b>159.9</b>
<b>From the EU, foreign governments and international organisations</b> .....	<b>1,800.3</b>	<b>4,109.4</b>	<b>1,607.4</b>	<b>1,464.8</b>	<b>1,130.5</b>
<b>Special funds<sup>(2)</sup></b> .....	<b>155.0</b>	<b>287.7</b>	<b>29,847.1</b>	<b>187.5</b>	<b>1,768.1</b>
of which:					
Payments to Fund of Social Insurance of Disabled of Ukraine .....	154.9	287.5	179.9	187.4	207.9
Payments to the Special Fund for National Defence and Security Purposes .....	0.1	0.2	29,667.2	0.1	1,560.1
Official transfers .....	3,144.0	4,171.6	5,967.7	7,306.3	8,034.4
<b>Total revenues</b> .....	<b>534,694.8</b>	<b>616,283.2</b>	<b>793,441.9</b>	<b>928,114.9</b>	<b>899,707.3</b>

Notes:

(1) Includes own source of revenues of budget-funded institutions and organisations.

(2) From 1 January 2015, includes contributions to the special fund for national defence and security purposes.

Source: Ministry of Finance

## Tax Revenue

The state budget for 2019 contemplates tax revenue in the amount of UAH 840.6 billion, an increase of UAH 86.8 billion (or 11.5 per cent.) compared with 2018. For the eleven months ended 30 November 2019, the actual tax revenues to the state budget amounted to 723.0 billion UAH, an increase of 34.7 billion UAH (or 5.0 per cent.) compared with 2018. In 2018, according to preliminary data, tax revenues of the State Budget amounted to UAH 753.8 billion, a 20.2 per cent. increase as compared to the UAH 627.2 billion tax revenues received in 2017. In 2017, the tax revenues of the State Budget amounted to UAH 627.2 billion, a 24.5 per cent. increase as compared to the UAH 503.9 billion tax revenues received in 2016. In 2016, tax revenues of the State Budget amounted to UAH 503.9 billion, a 23.1 per cent. increase as compared to the UAH 409.4 billion tax revenues received in 2015.

State Budget tax arrears (excluding arrears of taxpayers subject to ongoing insolvency proceedings or insolvency proceedings stayed by a court order) amounted to UAH 19.9 billion as at 1 January 2015, UAH 30.6 billion as at 1 January 2016, UAH 43.9 billion as at 1 January 2017, UAH 58.2 billion as at 1 January 2018 and UAH 60 billion as at 1 January 2019. Increases in the State Budget tax arrears throughout 2015-2017 were largely due to arrears in payment of subsoil use royalties (which amounted to UAH 1.6 billion as at 1 January 2015, UAH 8.8 billion as at 1 January 2016, UAH 13.2 billion as at 1 January 2017, UAH 14.9 billion as at 1 January 2018 and UAH 15.0 billion as at 1 December 2018). A major part of the subsoil use royalties' arrears consists of the arrears of PJSC "Ukrnafta", which were primarily brought about by falling

oil prices throughout 2015-2016. In addition, a substantial part of the State Budget tax arrears was also due to the illegal occupation of Crimea by Russia and the conflict in the temporarily occupied territories in the Donetsk and Luhansk regions, which disrupted taxpayers' production chains and generally deteriorated their financial condition.

### *Corporate Income Tax*

The current corporate income tax rate is 18 per cent. There are certain exceptions to the general corporate income tax rate including for businesses in the insurance industry. Special tax rates are applicable in certain circumstances, including in respect of small general income or revenue generated from gambling services, for example.

Traditionally, corporate income tax constitutes a significant part of the overall revenue of the State budget of Ukraine. Since 2015, in accordance with the amendments to the Budget Code, 10 per cent. of the tax revenues related to corporate income tax received from private companies are transferred to local (regional) budgets. The stabilisation of the economic conditions in the country and improvement in foreign markets conditions enabled the corporate income tax revenues to increase to UAH 54.3 billion in 2016. In 2017, the corporate income tax revenues of the State Budget amounted to UAH 66.9 billion, a UAH 12.6 billion increase as compared to 2016. In 2018, the corporate income tax revenues of the State Budget amounted to UAH 96.9 billion. For the eleven months ended 30 November 2019, the corporate income tax revenues of the State Budget amounted to UAH 101.0 billion, a UAH 5.9 billion increase as compared to the relevant period of 2018. The proportion of corporate income tax in the tax revenues of the State budget and in the overall revenues of the State budget was, respectively, 8.5 per cent. and 6.5 per cent. in 2015, 10.8 per cent. and 8.8 per cent. in 2016, 10.7 per cent. and 8.4 per cent. in 2017, and 12.8 per cent. and 10.4 per cent. in 2018, and 14.0 per cent., and 11.2 per cent. for the eleven months ended 30 November 2019.

### *Personal Income Tax and Single Social Contribution*

Since 1 January 2016, the basic rate of personal income tax in Ukraine has been 18 per cent. This rate applies to most types of income.

In 2015, 2016, and 2017 the personal income tax revenues of the State Budget amounted to UAH 45.1 billion, UAH 59.8 billion and UAH 75.0 billion, respectively, which constituted approximately 8.4 per cent. of total revenue and 11.0 per cent. of total tax revenue of the 2015 State Budget; 9.7 per cent. of total revenue and 11.9 per cent. of total tax revenue of the 2016 State Budget and 9.5 per cent. of total revenue and 12.0 per cent. of total tax revenue of the 2017 State Budget. In 2018, the personal income tax revenues of the State Budget amounted to UAH 91.7 billion, which constituted 9.9 per cent. of total revenue and 12.2 per cent. of total tax revenue of the 2018 State Budget. For the eleven months ended 30 November 2019, the personal income tax revenues of the State Budget amounted to UAH 98.3 billion, which constituted 10.9 per cent. of total revenue and 13.6 per cent. of total tax revenue of the State Budget for the eleven months ended 30 November 2019.

In addition to personal income tax, wages of individuals are subject to a single social contribution. The single social contribution was paid by both employers and employees until 1 January 2016. In 2015, the average aggregated single social contribution rate was 41 per cent., which was paid on account of employers on top of the wages. The rate of single social contribution paid by employees from their wages was 3.6 per cent.

Since 1 January 2016, the single social contribution paid by employers is charged at the unified rate of 22 per cent. The maximum amount subject to the single social contribution is capped at 15 minimum wages (UAH 70,845).

### *VAT*

VAT is currently charged in Ukraine at a standard rate of 20 per cent. The Tax Code also provides for decreased VAT rates for certain types of goods. For example, a 7 per cent. rate applies to certain medicinal products and a 0 per cent. rate applies to the export of goods. VAT collection constituted approximately 33.4 per cent. of actual total revenues and 43.6 per cent. of actual total tax revenues in 2015; 38.2 per cent. of actual total revenues and 46.7 per cent. of actual total tax revenues in 2016; 39.6 per cent. of actual total revenues and 50.1 per cent. of actual total tax revenues in 2017; 40.4 per cent. of actual total revenues and 49.7 per cent. of

actual total tax revenues in 2018; and 37.6 per cent. of actual total revenues and 46.8 per cent. of actual total tax revenues for the eleven months ended 30 November 2019.

Under the existing tax regime, exporters are entitled to receive VAT refunds for exports. During 2015, the Government paid out a significant part of outstanding VAT refund arrears. As at 1 January 2017, the total amount of VAT refunds in arrears amounted to UAH 0.5 billion; this was UAH 0.3 billion less than the amount of such arrears existing as at 1 January 2016 (UAH 0.8 billion). As at 1 December 2018, the total amount of VAT refunds in arrears stood at the level existing as at 1 January 2018 and amounted to UAH 0.5 billion.

### **The State Budget Expenditures**

The 2015 State Budget Law, as amended, made provision for State Budget social expenditure of 38.0 per cent. of the total amount of State Budget expenditures. In 2015, actual social expenditure amounted to 37.7 per cent. of the State Budget expenditure for that period.

The 2016 State Budget Law, as amended, made provision for State Budget social expenditure of 41.5 per cent. of the total amount of State Budget expenditures. In 2016, actual social expenditure amounted to 41.7 per cent. of the State Budget expenditure for that period. In addition, the debt servicing expenditures from the State Budget were increased by 13.4 per cent. and amounted to UAH 95.8 billion, as compared to 2015. Expenditure on defence also increased by 14.1 per cent., as compared to 2015 and amounted to UAH 59.4 billion.

The 2017 State Budget Law, as amended, made provision for State Budget social expenditure of 37.3 per cent. of the total amount of State Budget expenditures. In 2017, actual social expenditure amounted to 37.1 per cent. of the State Budget expenditure for that period. In addition, the debt servicing expenditures from the 2017 State Budget were increased by 15.3 per cent. and amounted to UAH 110.5 billion, as compared to 2017. Expenditure on defence also increased by 25.3 per cent., as compared to 2016, and amounted to UAH 74.3 billion.

The 2018 State Budget Law made provision for social expenditures in the amount of 33.6 per cent. of the total amount of State Budget expenditure. Expenditure on defence under the 2018 State Budget Law increased by 20.8 per cent., as compared to 2017, and amounted to UAH 88.6 billion. In 2018, actual social expenditure amounted to 35.1 per cent. of the total State Budget expenditure for that period. Expenditure on defence increased by 30.5 per cent. as compared to 2017, and amounted to UAH 97 billion.

The 2019 State Budget Law makes provision for social expenditures in the amount of 37.5 per cent. of the total amount of State Budget expenditure. Expenditure on defence under the 2019 State Budget Law increased by 18.5 per cent., as compared to 2018, and will amount to UAH 104.9 billion.

For the eleven months ended 30 November 2019, actual social expenditure amounted to 39.4 per cent. of the total State Budget expenditure for that period. Expenditure on defence increased by 17.6 per cent. as compared to 2018, and amounted to approximately UAH 88 billion.

### *Pensions*

The State Budget also extends loans to cover any deficit in the Pension Fund, which are expected to be repaid using proceeds from the Pension Fund.

In 2015, the Pension Fund deficit amounted to UAH 31.8 billion. The outstanding amount of loans provided to the Pension Fund did not change throughout 2015 and, as at 1 January 2016, it still stood at UAH 50.4 billion. In 2018, the outstanding amount of loans provided to the Pension Fund amounted to UAH 52.8 billion as compared to UAH 48.1 billion in 2017. As at 12 April 2019, the outstanding amount of loans provided to the Pension Fund amounted to UAH 48 billion. As at 25 November 2019, the outstanding amount of loans provided to the Pension Fund amounted to UAH 62.5 billion. See “*The Labour Market—Pensions, Unemployment Benefits and Social Benefits—Pensions and Pension Reform*”.

## The Consolidated Budget

The main components of the Consolidated Budget and actual Consolidated Budget performance for the years ended 31 December 2015, 2016, 2017, 2018 and for the eleven months ended 30 November 2019 are set out in the table below:

	For the year ended 31 December								For the eleven months ended 30 November	
	2015 <sup>(1)</sup>		2016 <sup>(2)</sup>		2017 <sup>(3)</sup>		2018 <sup>(4)</sup>		2019	
	Budget (as amended)	Actual	Budget (as amended)	Actual	Budget (as amended)	Actual	Budget (as amended)	Actual	Budget (as amended)	Actual
<i>(in UAH millions)</i>										
<b>Revenues</b>										
Tax revenue.....	496,640.1	507,635.9	634,403.5	650,781.7	824,098.9	828,158.8	989,830.4	986,348.5	1,112,424.9	969,563.1
of which:										
Personal income tax	91,255.8	99,983.2	128,917.5	138,781.8	182,588.7	185,686.1	226,772.5	229,900.6	270,474.1	245,951.8
Corporate income tax.....	40,782.2	39,053.2	53,250.8	60,223.2	73,486.2	73,396.8	91,109.4	106,182.3	105,464.2	110,967.1
VAT.....	180,006.1	178,452.4	232,658.0	235,506.0	302,866.2	313,980.6	384,362.9	374,508.2	417,676.1	338,387.7
Excise duty on domestically produced goods.....	36,525.0	38,783.8	52,711.0	55,116.3	72,686.4	67,774.2	79,615.2	72,695.5	87,445.3	63,329.1
Excise duty on imported goods.....	23,500.7	24,326.8	29,181.0	35,006.2	46,033.9	47,674.4	52,035.7	54,062.3	54,462.8	55,216.0
Excise duty on sale of excisable goods.....	6,546.0	7,684.6	10,487.0	11,628.2	7,235.9	6,000.8	6,074.6	5,892.0	6,123.5	5,761.8
<b>Non tax revenue.....</b>	<b>129,673.0</b>	<b>140,154.4</b>	<b>130,559.0</b>	<b>125,502.9</b>	<b>158,193.4</b>	<b>154,552.1</b>	<b>198,740.6</b>	<b>192,716.6</b>	<b>198,109.7</b>	<b>188,220.1</b>
Capital revenue.....	2,240.8	1,799.5	2,685.9	1,594.0	2,395.9	2,160.5	3,126.9	2,801.0	5,189.9	2,759.5
From the EU, foreign governments and international organisations, and donors.....	5,096.0	1,882.2	5,635.3	4,198.2	1,860.7	1,631.2	2,471.4	1,559.0	1,715.2	1,166.3
Special funds <sup>(5)</sup> .....	2,031.1	558.9	8,296.9	782.8	23,272.0	30,467.0	5,422.8	865.6	2,341.2	2,310.9
<b>Total revenues.....</b>	<b>635,681.0</b>	<b>652,031.0</b>	<b>781,580.7</b>	<b>782,859.5</b>	<b>1,009,820.9</b>	<b>1,016,969.5</b>	<b>1,199,592.2</b>	<b>1,184,290.8</b>	<b>1,319,780.9</b>	<b>1,164,019.9</b>
<b>Expenditure</b>										
State function.....	121,846.0	117,642.4	140,492.8	134,256.9	172,841.6	166,295.1	209,439.4	191,550.0	214,046.7	185,367.6
of which:										
Public and local administration, financial and foreign economic activity.....	24,805.1	23,459.3	34,170.3	30,406.6	50,469.0	45,738.9	69,281.8	65,602.0	71,159.3	57,626.1
Fundamental research.....	3,290.7	3,114.9	3,140.6	2,888.7	4,073.5	3,827.6	5,584.3	5,162.3	5,891.9	4,559.3
Sovereign debt service <sup>(6)</sup> .....	87,399.3	86,172.7	97,238.5	96,105.2	110,714.1	110,578.2	128,388.0	116,088.0	123,974.4	114,775.4
National defence.....	54,583.5	52,015.8	66,706.7	59,359.1	77,848.8	74,360.4	97,794.0	97,024.1	108,436.0	88,029.8
Law enforcing activity, national security and the judiciary.....	56,165.0	54,963.0	72,951.7	72,056.6	92,788.1	88,485.3	124,714.4	118,025.5	147,683.9	120,705.0
Economic activity.....	66,565.5	56,257.3	79,031.0	66,191.3	121,209.6	102,883.4	171,129.7	140,761.4	182,323.2	116,817.8
of which:										
General economic, trade and labour activity.....	1,142.1	1,026.1	3,041.5	2,515.3	4,452.5	3,942.5	3,898.3	3,572.9	4,284.0	3,032.4
Agriculture, forestry, fishery and hunting.....	6,735.4	6,062.7	6,196.6	5,781.8	13,887.7	12,943.6	14,804.5	14,107.3	15,792.6	11,233.2
Fuel and energy complex.....	3,571.9	1,896.2	2,275.5	2,248.9	3,019.5	2,816.2	4,832.1	3,505.0	4,288.2	3,833.7
Transport.....	34,977.3	31,110.4	33,130.6	29,262.0	57,075.9	49,389.7	81,505.5	70,293.4	83,626.3	59,701.7
Communication, telecommunication and informatics.....	292.6	263.2	419.0	382.0	1,013.9	950.2	1,312.5	1,278.3	1,335.6	835.1
Protection of environment	7,160.5	5,529.7	8,113.0	6,255.4	9,693.0	7,349.3	10,843.0	8,242.1	12,972.0	6,905.7
Housing and utilities infrastructure.....	18,079.9	15,700.4	20,517.7	17,547.5	30,837.9	27,187.5	33,024.9	30,345.5	36,880.9	28,107.7
Health.....	75,443.6	71,001.1	78,896.5	75,503.4	108,169.9	102,392.4	120,547.6	115,852.0	130,941.5	106,594.7
Intellectual and physical development.....	17,861.0	16,228.3	17,887.0	16,897.8	25,716.2	24,342.3	30,353.2	28,993.1	33,474.1	26,151.6
of which:										
Physical culture and sport.....	7,112.2	6,120.3	4,762.7	4,528.4	7,227.5	6,960.8	8,914.6	8,509.3	10,243.3	8,021.8
Culture and art.....	9,287.9	8,694.8	11,280.2	10,554.0	16,488.6	15,430.1	18,888.9	17,976.8	20,930.0	16,322.6
Mass media.....	1,398.3	1,354.7	1,788.0	1,762.9	1,872.7	1,830.9	2,045.9	2,022.8	2,141.3	1,712.6
Education.....	121,135.6	114,193.5	139,252.0	129,437.7	192,088.6	177,915.8	224,179.7	210,032.3	253,630.4	206,731.0
Social protection and social insurance.....	178,431.6	176,339.8	259,764.7	258,326.1	288,404.8	285,761.7	312,517.9	309,363.6	335,691.8	284,071.3
<b>Total expenditure.....</b>	<b>717,606.9</b>	<b>679,871.4</b>	<b>883,613.2</b>	<b>835,832.1</b>	<b>1,119,598.4</b>	<b>1,056,973.1</b>	<b>1,334,543.8</b>	<b>1,250,189.5</b>	<b>1,456,080.5</b>	<b>1,169,482.2</b>
Domestic lending <sup>(7)</sup> .....	11,371.4	3,057.8	10,407.5	1,841.3	8,840.0	2,122.1	6,924.5	1,893.0	7,016.7	1,419.7
External lending.....	—	—	—	—	—	—	1.2	—	1.2	—
Total lending <sup>(7)</sup> .....	11,371.4	3,057.8	10,407.5	1,841.3	8,840.0	2,122.1	6,925.8	1,893.0	7,017.8	1,419.7
<b>Balance (surplus/deficit).....</b>	<b>(92,926.6)</b>	<b>(30,898.2)</b>	<b>(112,439.9)</b>	<b>(54,813.9)</b>	<b>(118,617.5)</b>	<b>(42,125.7)</b>	<b>(141,877.4)</b>	<b>(67,791.8)</b>	<b>(143,317.4)</b>	<b>(6,882.0)</b>
Balance (% of GDP).....	—	(1.6)	—	(2.3)	—	(1.4)	—	(1.9)	—	—
Domestic financing <sup>(8)</sup> .....	(70,206.3)	(78,752.9)	34,372.2	21,551.8	72,386.3	5,142.6	80,588.3	22,958.5	140,567.7	16,418.2
of which: Receipts from privatisation of state property.....	17,000.0	151.5	17,100.0	188.9	3,375.0	3,376.8	355.0	268.8	17,100.0	531.2
External financing <sup>(9)</sup> .....	163,169.0	109,651.1	78,067.7	33,262.1	46,231.2	36,983.1	61,289.1	44,833.3	2,749.7	(9,536.2)
<b>Total financing<sup>(10)</sup>.....</b>	<b>92,962.6</b>	<b>30,898.2</b>	<b>112,439.9</b>	<b>54,813.9</b>	<b>118,617.5</b>	<b>42,125.7</b>	<b>141,877.4</b>	<b>67,791.8</b>	<b>143,317.4</b>	<b>6,882.0</b>

(1) Basic assumptions underlying the 2015 Consolidated Budget, as amended, included a real GDP decline rate of 5.5 per cent., nominal GDP of UAH 1,850.2 billion, CPI (December-on-December) of 26.7 per cent. and an average annual exchange rate of UAH 21.70 to U.S.\$1.00. Actual

GDP in 2015 amounted to UAH 1,988.5 billion (in accordance with the System of National Accounts (2008)), taking into account that the provided figures do not include illegally occupied Crimea and certain parts of the temporarily occupied Donetsk and Luhansk regions.

- (2) Basic assumptions underlying the 2016 Consolidated Budget, as amended, included a real GDP growth rate of 2.0 per cent., nominal GDP of UAH 2,262.0 billion, CPI (December-on-December) of 12.0 per cent. and an average annual exchange rate of UAH 24.1 to U.S.\$1.00. The actual GDP in 2016 amounted to UAH 2,385.4 billion (according to the System of National Accounts (2008)), taking into account that the provided figures do not include illegally occupied Crimea and certain parts of the temporarily occupied Donetsk and Luhansk regions.
- (3) Basic assumptions underlying the 2017 Consolidated Budget, as amended, included a real GDP growth rate of 1.8 per cent., nominal GDP of UAH 2,845.8 billion, CPI (December-on-December) of 11.2 per cent. and an average annual exchange rate of UAH 27.8 to U.S.\$1.00. The actual GDP in 2017 amounted to UAH 2,983.9 billion (according to the System of National Accounts (2008)), the actual GDP in 2018 amounted to UAH 3 558.7 billion (according to the SNA-2008), taking into account that the provided figures do not include illegally occupied Crimea and certain parts of the temporarily occupied Donetsk and Luhansk regions.
- (4) Basic assumptions underlying the 2018 Consolidated Budget, as amended, included a real GDP growth rate of 3.0 per cent., nominal GDP of UAH 3,332.3 billion, CPI (December-on-December) of 9.0 per cent. and an average annual exchange rate of UAH 29.3 to U.S.\$1.00, taking into account that the provided figures do not include illegally occupied Crimea and certain parts of the temporarily occupied Donetsk and Luhansk regions.
- (4\*) Basic assumptions underlying the 2019 State Budget, as amended, included a real GDP growth rate of 3.0 per cent., nominal GDP of UAH 3,946.9 billion, CPI (December-on-December) of 7.4 per cent. and an average annual exchange rate of UAH 28.2 to U.S.\$1.00, taking into account that the provided figures do not include illegally occupied Crimea and certain parts of the temporarily occupied Donetsk and Luhansk regions.
- (5) Special funds in the Consolidated Budget include amounts received into the fund for Social Insurance of Disabled Persons, a fund for the remediation of environmental pollution, a special fund for national security and defence purposes, and special funds established by the parliament of the Autonomous Republic of Crimea and other local governance bodies and authorities in Ukraine. Since the three months ended on 31 March 2014, no funds were directed to the special funds established by the parliament of the Autonomous Republic of Crimea. Since 1 January 2015, this line also includes a special fund for national security, defence purposes and recovered monies which had previously been misappropriated due to corrupt practices.
- (6) Does not include repayments of the sovereign debt's principal.
- (7) Lending figures are calculated as the aggregate amount of loans provided from the budget minus aggregate amount of repayments made to the budget under the existing loans in the given period. Where there are negative lending figures, this is because the amount of loan repayments to the budget exceeds the amount of provided new loans from the budget.
- (8) "Domestic financing" includes domestic issues, domestic repayments, changes in cash volumes and receipts from privatisation of State property. "Domestic financing" is presented net of repayments (*i.e.* net of domestic issues and domestic repayments).
- (9) "External financing" is presented net of repayments (*i.e.* net of external issues and external repayments).
- (10) "Total financing" and components of this line of the Consolidated Budget reflect financing of both the State Budget and local budgets. Revenue from privatisation of state property is reflected in the State Budget only.

### *2015 Consolidated Budget*

The 2015 Consolidated Budget, as amended, contemplated revenues of UAH 635.7 billion, expenditure of UAH 717.3 billion and a budget deficit of UAH 93.0 billion (or 5.0 per cent. of GDP). Basic assumptions underlying the 2015 Consolidated Budget included a real GDP decline rate of 5.5 per cent., nominal GDP of UAH 1,850.2 billion, CPI (December-on-December) of 26.7 per cent., WPI (December-on-December) of 26.5 per cent. and an average exchange rate of UAH 21.7 to U.S.\$1.00.

In 2015, actual revenues and expenditures amounted to UAH 652.0 billion and UAH 679.8 billion, respectively, with the actual Budget deficit amounting to UAH 30.9 billion.

### *2016 Consolidated Budget*

The 2016 Consolidated Budget, as amended, contemplated revenues of UAH 781.6 billion, expenditure of UAH 883.6 billion and a budget deficit of UAH 112.4 billion (or 5.0 per cent. of GDP). Basic assumptions underlying the 2016 Consolidated Budget included a real GDP growth rate of 2.0 per cent., nominal GDP of UAH 2,262.0 billion, CPI (December-on-December) of 12.0 per cent., WPI (December-on-December) of 10.4 per cent. and an average exchange rate of UAH 24.1 to U.S.\$1.00.

In 2016, actual revenues and expenditures amounted to UAH 782.9 billion and UAH 835.8 billion, respectively, with the actual Budget deficit amounting to UAH 54.8 billion (or 2.3 per cent. of GDP).

### *2017 Consolidated Budget*

The 2017 Consolidated Budget contemplated revenues of UAH 1,009.8 billion, expenditures of UAH 1,119.6 billion and a budget deficit of UAH 118.7 billion (or 4.2 per cent. of GDP). In 2017, the actual revenues and expenditure of the 2017 Consolidated Budget amounted to UAH 1,017 billion and UAH 1,057 billion, respectively. The actual deficit of the 2017 Consolidated Budget in 2017 amounted to UAH 42.1 billion (or 1.5 per cent. of GDP).



Basic assumptions underlying the 2017 Consolidated Budget included a real GDP growth rate of 1.8 per cent., nominal GDP of UAH 2,845.8 billion, CPI (December-on-December) of 11.2 per cent., WPI (December-on-December) of 16.8 per cent. and an average exchange rate of UAH 27.8 to U.S.\$1.00.

#### *2018 Consolidated Budget*

The 2018 Consolidated Budget contemplated revenues of UAH 1,199.6 billion, expenditures of UAH 1,334.5 billion and a budget deficit of UAH 130.1 billion. In 2018, the actual revenues and expenditure of the 2018 Consolidated Budget amounted to UAH 1,184.3 billion and UAH 1,250.2 billion, respectively. The actual deficit of the 2018 Consolidated Budget in 2018 amounted to UAH 67.8 billion (or 1.9 per cent. of GDP).

Basic assumptions underlying the 2018 Consolidated Budget include a real GDP growth rate of 3.0 per cent., nominal GDP of UAH 3,332.3 billion, CPI (December-on-December) of 10.9 per cent., WPI (December-on-December) of 10.3 per cent. and an average exchange rate of UAH 29.3 to U.S.\$1.00.

#### *2019 Consolidated Budget*

The 2019 Consolidated Budget contemplates revenues of UAH 1,319.8 billion, expenditures of UAH 1,456.1 billion and a budget deficit of UAH 143.4 billion.

Basic assumptions underlying the 2019 Consolidated Budget include a real GDP growth rate of 3.0 per cent., nominal GDP of UAH 3,946.9 billion, CPI (December-on-December) of 7.4 per cent., WPI (December-on-December) of 10.1 per cent. and an average exchange rate of UAH 28.2 to U.S.\$1.00.

For the eleven months ended 30 November 2019, the actual revenues and expenditures of the Consolidated Budget amounted to UAH 1,164.0 billion and UAH 1,169.5 billion respectively. Actual temporary excess of revenues over expenditures of the consolidated budget for the eleven months ended 30 November 2019 amounted to UAH 6.9 billion.

For the eleven months ended 30 November 2019, the actual social expenditures amounted to 54.2 per cent. of expenditures of the Consolidated Budget of that period.

#### *2020 Consolidated Budget*

The 2020 Consolidated Budget contemplates revenues of UAH 1,418.0 billion, expenditures of UAH 1,504.4 billion and a budget deficit of UAH 94.3 billion.

#### **The Consolidated Budget Revenues**

The following table sets out actual sources of revenue for the Consolidated Budget for the years ended 31 December 2014, 2015, 2016, 2017, 2018 and for the eleven months ended 30 November 2019:

	For the year ended 31 December				For the eleven months ended 30 November
	2015	2016	2017	2018	2019
	<i>(in UAH millions)</i>				
<b>Tax revenues</b> .....	<b>507,635.9</b>	<b>650,781.7</b>	<b>828,158.8</b>	<b>986,348.5</b>	<b>969,563.1</b>
<b>Direct taxes</b> .....	<b>166,024.4</b>	<b>241,162.8</b>	<b>312,223.4</b>	<b>396,919.2</b>	<b>425,667.5</b>
<i>of which:</i>					
Personal income tax and contribution ..	99,983.2	138,781.8	185,686.1	229,900.6	245,951.8
Corporate income tax .....	39,053.2	60,223.2	73,396.8	106,182.3	110,967.1
Land tax <sup>(1)</sup> .....	14,831.4	23,323.6	26,384.5	27,321.1	28,022.5
Wealth (property) tax (other than land tax) <sup>(2)</sup> .....	1,181.5	1,667.1	2,672.6	3,950.9	7,055.7
Uniform tax <sup>(3)</sup> .....	10,975.1	17,167.1	24,083.4	29,564.2	33,670.4
<b>Indirect taxes</b> .....	<b>341,611.5</b>	<b>409,618.9</b>	<b>515,935.4</b>	<b>589,429.3</b>	<b>543,895.6</b>
<i>of which:</i>					
VAT .....	178,452.4	235,506.0	313,980.6	374,508.2	338,387.7
Excise duty on goods produced domestically .....	38,783.8	55,116.3	67,774.2	72,695.5	63,329.1
Excise duty on imported goods .....	24,326.8	35,006.2	47,674.4	54,062.3	55,216.0
Excise duty on sale of excisable goods .....	7,684.6	11,628.2	6,000.8	5,892.0	5,761.8
Import duty .....	39,881.0	20,001.3	23,898.4	26,560.4	27,349.8
Export duty .....	419.8	369.7	643.5	516.2	216.3
Other taxes .....	52,063.1	51,991.2	55,963.5	55,194.7	53,634.9
<b>Non-tax revenues</b> .....	<b>140,154.4</b>	<b>125,502.9</b>	<b>154,552.1</b>	<b>192,716.6</b>	<b>188,220.1</b>
<i>of which:</i>					
Entrepreneurial and property income ...	71,563.0	53,364.5	73,894.6	89,030.6	103,008.1
Administrative fees and charges non-commercial sale income .....	17,854.5	11,387.0	14,418.4	23,002.4	13,716.5
Other non-tax revenue <sup>(4)</sup> .....	50,737.0	60,751.4	66,239.0	80,683.6	71,495.5
<b>Capital revenue</b> .....	<b>1,799.5</b>	<b>1,594.0</b>	<b>2,160.5</b>	<b>2,801.0</b>	<b>2,759.5</b>
<b>From the EU, foreign governments and international organisations, and donors</b> .....	<b>1,882.2</b>	<b>4,198.2</b>	<b>1,631.2</b>	<b>1,559.0</b>	<b>1,166.3</b>
<b>Special funds<sup>(5)</sup></b> .....	<b>558.9</b>	<b>782.8</b>	<b>30,467.0</b>	<b>865.6</b>	<b>2,310.9</b>
<i>of which:</i>					
Payments to Fund of Social Insurance of Disabled of Ukraine .....	154.9	287.5	179.9	187.4	207.9
Payments to the Special Fund for National Defence and Security Purposes .....	0.1	0.2	29,667.2	0.1	1,560.1
Special funds established by the parliament of the Autonomous Republic of Crimea and other local governance bodies and authorities .....	403.9	495.1	619.9	678.1	542.9
<b>Total revenues</b> .....	<b>652,031.0</b>	<b>782,859.5</b>	<b>1,016,969.5</b>	<b>1,184,290.8</b>	<b>1,164,019.9</b>

Notes:

- (1) Since January 2015, land tax has been included as part of property tax, whereas in the previous year's land tax was a separate state tax.
- (2) Provided figures include revenues from the tax charged on owners of vehicles and the levy for first registration of a vehicle, which are currently repealed.
- (3) Since 1 January 2015, a uniform tax charged on manufacturers of agricultural products, 75 per cent. or more of whose business for the last reporting period consisted in manufacturing of agricultural products, has been included as part of the uniform tax.
- (4) This line includes budget institutions' own sources of revenue.
- (5) Since 1 January 2015, this line also includes a special fund for national security, defence purposes and recovered monies which had previously been misappropriated due to corrupt practices.

Source: Ministry of Finance

### Tax Revenues

For the eleven months ended 30 November 2019, tax revenues to the Consolidated Budget amounted to UAH 774.8 billion, an increase of 9.3 per cent. compared to UAH 708.9 billion for the corresponding period in 2018.

In 2018, tax revenues of the Consolidated Budget amounted to UAH 986.3 billion, an increase of 19.1 per cent., as compared to UAH 828.2 billion in 2017. The 2018 Consolidated Budget contemplates UAH 982.7 billion of total tax revenues, a UAH 154.6 (or 18.7 per cent.) increase compared to the 2017 Consolidated Budget.

In 2017, tax revenues of the Consolidated Budget amounted to UAH 828.2 billion, an increase of UAH 177.4 billion (or 27.3 per cent.) as compared to 2016. In 2016, tax revenues of the Consolidated Budget amounted to UAH 650.8 billion, an increase of UAH 143.1 billion (or 28.2 per cent.) as compared to UAH 507.6 billion for 2015, which in turn was an increase of UAH 140.1 billion (or 38.1 per cent.) as compared to UAH 367.5 billion for 2014. In 2014, tax revenues of the Consolidated Budget amounted to an increase of UAH 13.5 billion (or 3.8 per cent), as compared to UAH 354.0 billion for 2013. The Government estimated the lost revenues of the Consolidated Budget resulting from the occupation of the Republic of Crimea in 2014 to be UAH 9.8 billion and the lost revenues of the Consolidated Budget resulting from conflict in and the temporary occupation of territories in the Donetsk and Luhansk regions in 2014 to be UAH 13.2 billion.

### *Corporate Income Tax*

The current corporate income tax rate is 18 per cent. There are certain exceptions to the general corporate income tax rate including for businesses in the insurance industry.

As was the case for the State Budget, due to the overall deterioration of the Ukrainian economy in 2014 and 2015, tax revenues from corporate income tax decreased from UAH 40.2 billion in 2014 to UAH 39.1 billion in 2015. Improved conditions thereafter enabled tax revenues from corporate income tax to increase to UAH 60.2 billion in 2016. The proportions of corporate income tax in tax revenues of the Consolidated Budget and in overall revenues of the Consolidated Budget were, respectively, 10.9 per cent. and 8.8 per cent. in 2014, decreasing to 7.7 per cent. and 6.0 per cent. in 2015, before increasing in 2016 to 9.3 per cent. and 7.7 per cent. In 2017, the Consolidated Budget of Ukraine received UAH 73.4 billion of corporate income tax revenues, which represented 8.9 per cent. of the tax revenues and 7.2 per cent. of the overall revenue of the Consolidated Budget. In 2018, the Consolidated Budget of Ukraine received UAH 106.2 billion of corporate income tax revenues, which represented 10.8 per cent. of tax revenues 9.0 per cent. of overall revenues of the Consolidated Budget. For the eleven months ended 30 November 2019, the Consolidated Budget of Ukraine received UAH 83.3 billion of corporate income tax revenues, which represented 10.8 per cent. of tax revenues and 8.8 per cent. of overall revenues of the Consolidated Budget.

### *Personal Income Tax and Single Social Contribution*

In 2014, 2015 and 2016 the personal income tax revenues of the Consolidated Budget amounted to UAH 75.2 billion, UAH 100.0 billion, and UAH 138.8 billion, respectively, which constituted approximately 16.5 per cent. of total revenue and 20.5 per cent. of total tax revenue of the 2014 Consolidated Budget; 15.3 per cent. of total revenue and 19.7 per cent. of total tax revenue of the 2015 Consolidated Budget; and 17.7 per cent. of total revenue and 21.3 per cent. of total tax revenue of the 2016 Consolidated Budget. In 2017, the Consolidated Budget of Ukraine received UAH 185.7 billion of personal income tax and contribution revenues, which represented 18.3 per cent. of total revenue and 22.4 per cent. of total tax revenue of the Consolidated Budget. In 2018, the Consolidated Budget of Ukraine received UAH 229.9 billion of personal income tax revenues and contribution revenues, which represented 19.4 per cent. of the tax revenues and 23.3 per cent. of the overall revenues of the Consolidated Budget. For the eleven months ended 30 November 2019, the Consolidated Budget of Ukraine received UAH 199.0 billion of personal income tax revenues and contribution revenues, which represented 20.9 per cent. of the tax revenues and 25.7 per cent. of the overall revenues of the Consolidated Budget.

### *VAT*

VAT collection constitutes a large proportion of revenues of the Consolidated Budget; actual revenues collected amounted to approximately 30.5 per cent. of total revenue and 37.8 per cent. of total tax revenue of the 2014 Consolidated Budget; 27.4 per cent. of total revenue and 35.2 per cent. of total tax revenue of the 2015 Consolidated Budget; 30.1 per cent. of total revenue and 36.2 per cent. of total tax revenue of the 2016 Consolidated Budget; 30.9 per cent. of total revenue and 37.9 per cent. of total tax revenue of the 2017 Consolidated Budget; 31.6 per cent. of total revenue and 38.0 per cent. of total tax revenue of the

2018 Consolidated Budget, 28.5 per cent. of total revenue and 35.0 per cent. of total tax revenue of the 2019 Consolidated Budget for the eleven months ended 30 November 2019.

### **The Consolidated Budget Expenditure**

The 2015 Consolidated Budget contemplated social expenditure at 54.8 per cent. of the total amount of expenditure. In 2015, actual social expenditure amounted to 55.6 per cent. of the Consolidated Budget and 37.7 per cent. of the State Budget. In 2015, the actual Consolidated Budget expenditures for debt servicing amounted to UAH 86.2 billion (or 12.7 per cent. of total expenditure) and for the state defence amounted to UAH 52.0 billion (or 7.7 per cent. of total expenditure).

The 2016 Consolidated Budget contemplated social expenditure at 56.1 per cent. of the total amount of expenditure. In 2016, actual social expenditure amounted to 57.4 per cent. of the Consolidated Budget and 41.7 per cent. of the State Budget. In 2016, the actual Consolidated Budget expenditures for debt servicing amounted to UAH 96.1 billion (or 11.5 per cent. of total expenditure) and for the state defence amounted to UAH 59.4 billion (or 7.1 per cent. of total expenditure).

The 2017 Consolidated Budget contemplated social expenditure at 54.9 per cent. of the total amount of expenditure. In 2017, actual social expenditure amounted to 55.9 per cent. of the Consolidated Budget and 31.1 per cent. of the State Budget. In 2017, the actual Consolidated Budget expenditures for debt servicing amounted to UAH 110.6 billion (or 10.5 per cent. of total expenditure) and for the state defence amounted to UAH 74.4 billion (or 7.0 per cent. of total expenditure).

The 2018 Consolidated Budget made provision for social expenditure in the amount of 51.5 per cent. of the total amount of expenditure. Actual social expenditure amounted to 53.1 per cent. of the total amount of expenditure. The actual Consolidated Budget expenditures for defence amounted to UAH 97 billion (or 7.8 per cent. of the total amount of expenditure). In 2018, the actual Consolidated Budget expenditures for debt servicing amounted to UAH 116.1 billion (or 9.3 per cent. of total expenditure).

The 2019 Consolidated Budget made provision for social expenditure in the amount of 51.2 per cent. of the total amount of expenditure. For the eleven months ended 30 November 2019, actual social expenditure amounted to 54.2 per cent. of the total amount of expenditure. For the eleven months ended 30 November 2019, the actual Consolidated Budget expenditures for defence amounted to UAH 70.8 billion (or 7.5 per cent. of the total amount of expenditure). For the eleven months ended 30 November 2019, the actual Consolidated Budget expenditures for debt servicing amounted to UAH 92.5 billion (or 9.8 per cent. of total expenditure).

### **Local Budgets**

On 1 April 2014, the Government of Ukraine approved a programme (the “**Local Authority Programme**”) intended to focus on the reform of local administration and territorial organisation, the purpose of which is to establish an effective local government and territorial organisation of state authority, provide qualified services to the population, as well as to protect the state’s and territorial communities’ interests. The Government adopted an Action Plan in 2014 to implement the Local Authority Programme.

In 2015, Ukraine commenced the decentralisation of budgetary responsibilities and implemented a reform of inter-budgetary relations, and as a result, on 28 December 2014, the Parliament adopted amendments to the Tax Code of Ukraine and the Budget Code of Ukraine. Such amendments provided new financial means for the local authorities set a new distribution of national taxes and introduced a new system of budget aligning.

The amendments to the Budget Code ensured full fiscal self-sustainability of local budgets, including by means of increasing their revenue and broadening the rights of local authorities, both as regards administration of taxes and charges and directing the use of budget funds.

The revenue of local budgets was increased by the transfer of certain revenues from the State Budget to local budgets, introduction of a new tax – the excise tax on sale of excisable goods, as well as the broadening of the tax base for the real estate tax. Amendments to the Tax Code enhanced the local authorities’ fiscal independence as regards local taxes and duties, in particular by authorising them to define the rates of taxes and impose taxes prescribed by the Tax Code.

In addition, a new procedure for budget management was introduced – the previous system of total balancing of all local budgets was replaced by the system of horizontal alignment of the territories' taxpaying capacity depending on revenue per capita. Such aligning only applies to personal income tax, whereas other charges are fully within the control of the local authorities.

Another key feature of the reform of inter-budgetary relations is the introduction of a two-tier system of relations between the State Budget and local budgets.

In 2015 through 2018, voluntary unification of territorial communities created 782 unified territorial communities' budgets, which have established direct inter-budgetary relations with the State Budget and receive inter-budgetary transfers directly. In 2019, 1,403 local budgets have established direct inter-budgetary relations with the State Budget.

New types of transfers from the State Budget to the local budgets were also introduced, namely educational and medical subsidies that are provided to fund the exercise of competencies in the field of education and healthcare, which state authorities delegated to local authorities.

In 2017, the second stage of the inter-budgetary relations reform commenced. Its principal task is to delineate the responsibilities between the state and local authorities regarding the funding of general education and healthcare establishments.

In the course of further decentralisation and in order to ensure the optimal and justified distribution of national wealth among all budgets, as well as to align their fiscal capacity, local budgets were made responsible for funding general education establishments, excluding salaries for teachers. Such funding is to be based on the proceeds of educational subsidy. In addition, local budgets will now cover payments for utilities made by healthcare establishments (other expenses to fund such establishments will be covered by the proceeds of the medical subsidy).

In order to make educational services closer to the end customer, the State Budget has taken over from the local budgets the expenditures for training the staff for the state owned higher education institutions having first or second degrees of accreditation and incorporated as a legal entity.

Further, as part of the healthcare reform implementation measures, starting from 1 July 2018, the State Budget is also financing (out of a separate budget programme) the provision of primary medical aid services.

Inter-budgetary transfers to local authority budgets amounted to UAH 130.6 billion, UAH 174.0 billion, UAH 195.4 billion, UAH 272.6 billion and UAH 298.9 billion in 2014, 2015, 2016, 2017 and 2018, respectively. The 2019 State Budget Law estimated inter-budgetary transfers to local budgets totalling UAH 273.9 billion in 2019. In the year ended 31 December 2019, UAH 261.4 billion was received.

## PUBLIC DEBT

*When calculating its public debt figures (including for the purposes of this section) Ukraine takes into account only liabilities of the State (the Government) for which specific bonds or loans have been issued. The data relating to borrowings and repayments in this section do not include borrowings disbursed to the Special Fund of the State Budget in 2017 or previous years and also take no account of repayments from the Special Fund to the State Budget. See “—Special Fund Borrowings”. The data relating to outstanding State debt include the debt raised through such borrowings. In some tables shown below, borrowings, outstanding State debt and debt servicing data are presented excluding debt owed to the IMF, which is accounted for as a liability of the NBU as opposed to debt owed to the IMF that is accounted for as a direct debt of the State (for more information on this see the relevant tables and notes).*

*Ukraine’s debt figures (including for the purposes of this section) include reference to the December 2013 Notes, however such inclusion is made without prejudice to Ukraine’s ongoing litigation in the High Court of England and Wales, see “Description of Ukraine—Legal Proceedings –December 2013 Notes Litigation”.*

*For the purposes of this Prospectus, ratios of (i) total debt and/or State external debt to GDP were calculated based on nominal GDP converted into U.S.\$ and (ii) State external debt and State external debt service (including principal and interest payments, but excluding debt owed to the IMF by the NBU) to State budget revenues or State budget expenditures were calculated based on revenues or expenditures converted into U.S.\$, in each case using the period end exchange rates specified under the heading “The Monetary System—Exchange Rates”.*

### **Debt Management Policy**

The Budget Code establishes the current legal framework for various types of State borrowing, including direct and guaranteed borrowing, State guaranteed borrowings and borrowings by the NBU, including limits on State direct and guaranteed indebtedness.

The Government of Ukraine has made considerable efforts to continue the practice of medium-term budget planning and its implementation at the legislative level. In particular, the Government implemented amendments to the Budget Code of Ukraine implementing medium-term budget planning (Law No. 2646-VIII, dated 6 December 2018).

Since this bill came into force in accordance with the requirements of Article 33 of the current version of the Budget Code of Ukraine, the Ministry of Finance of Ukraine is required to develop a “budget declaration” instead of the “principal directions of budget policy”. The budget declaration defines the principles of budgetary policy and the indicators of the state budget for the medium-term, forming the basis for the drafting of the State Budget of Ukraine and local budget forecasts.

According to the Budget Code of Ukraine, the Cabinet of Ministers of Ukraine approves the budget declaration annually and in any case no later than June 1 of the year preceding the relevant year.

Given the presidential and parliamentary elections in 2019, such a budget declaration was prepared but not approved by the Cabinet of Ministers of Ukraine.

The State Budget for 2020 (Law No. 294-IX, dated 14 November 2019) is based on the forecasts of the Ministry of Economic Development and Trade of the projected macroeconomic indicators for 2020-2022 approved by the Government (CMU Resolution No. 555 dated 15 May 2019 amended by CMU Resolution No. 883 dated 23 October 2019) and estimates a deficit of 2.09 per cent. of GDP.

The programme of activity of the Cabinet of Ministers of Ukraine (approved by a CMU Resolution No. 849 dated 29 September 2019 and the Parliament Resolution No. 188-IX dated 4 October 2019) identifies the Government’s priority goals and strategies for achieving them, as well as sets key performance indicators for each objective. The purpose of the programme is to define the Government’s strategy for restoring public confidence in the state and government authorities, building a competitive, investment-friendly and transparent state and business environment, and fostering service-oriented public service. The programme’s goals are linked with Ukraine’s security and the fulfilling of its commitment to greater European integration.

Ukraine's Medium-term Strategy for State Debt Management for 2019-2022 was prepared by the Ministry of Finance of Ukraine and approved by the Government (CMU Resolution No. 473 dated 5 July 2019). This strategy establishes key objectives, tasks, and measures for effective state debt management and was developed in accordance with the aims of Ukraine's budget policy and macroeconomic forecasts. It is designed to reduce risks related to the current state debt, increase the level of transparency and efficiency of state debt management policy, and maintain cooperation with investors and further explore concessional financing by expanding cooperation with international financial institutions and partner countries. This strategy targets a State debt to GDP ratio (expressed as a percentage) of no greater than 47 per cent., 45 per cent., and 43 per cent. by the end of 2020, 2021, and 2022, respectively.

According to the indicators of the State Budget Law for 2020, the ratio (expressed as a percentage) of State debt to GDP at the end of 2020 will be approximately 45.3 per cent., including a guaranteed debt to GDP ratio of 7 per cent.

The limit for State debt (direct debt) was set by the respective State Budget Laws for 2014, 2015, 2016, 2017, 2018, 2019, and 2020 at UAH 968.35 billion (U.S.\$60.5 billion), UAH 1,393.95 billion (U.S.\$63.4 billion), UAH 1,501.5 billion (U.S.\$61.5 billion), UAH 1,823.7 billion (U.S.\$65.6 billion), UAH 1,999.3 billion (U.S.\$66.4 billion), UAH 2,060.1 billion (U.S.\$70.1 billion), and UAH 2,045.1 billion (U.S.\$74.4 billion), respectively.

The outstanding State debt (direct debt) as at 31 December 2014 amounted to approximately UAH 947.3 billion (U.S.\$60.1 billion) and State guaranteed debt amounted to approximately UAH 153.8 billion (U.S.\$9.8 billion). The State debt as at 31 December 2015 amounted to approximately UAH 1,334.3 billion (U.S.\$55.6 billion) and State guaranteed debt amounted to approximately UAH 237.9 billion (U.S.\$9.9 billion). The State debt as at 31 December 2016 amounted to approximately UAH 1,650.8 billion (U.S.\$60.7 billion) and State guaranteed debt amounted to approximately UAH 279.0 billion (U.S.\$10.3 billion). The outstanding State debt as at 31 December 2017 (based on preliminary data) amounted to approximately UAH 1,833.71 billion (U.S.\$65.33 billion) and State guaranteed debt amounted to approximately UAH 307.96 billion (U.S.\$10.97 billion) and as at 31 December 2018, the outstanding State debt amounted to approximately UAH 1,860.3 billion (U.S.\$67.2 billion) and State guaranteed debt amounted to approximately UAH 308.1 billion (U.S.\$11.1 billion). As at 30 November 2019, the outstanding State debt amounted to approximately UAH 1,750.36 billion (U.S.\$72.82 billion) and State guaranteed debt amounted to approximately UAH 240.41 billion (U.S.\$10.00 billion).

The total debt of Ukraine (including IMF debt) as a percentage of GDP, including both State debt (direct debt) and State guaranteed debt (contingent liabilities), was 69.4 per cent., 79.1 per cent., 80.9 per cent., 71.8 per cent., 60.9 per cent. and less than 60% as at 31 December 2014, 2015, 2016, 2017, 2018 and 2019 (preliminary data for 2019), respectively. From 2014 to 2016, the level of public debt increased, primarily due to the devaluation of the hryvnia against the U.S. dollar and the euro, and the financing of the State Budget deficit. Other relevant factors included the need for additional financing due to falling levels of GDP, the need to support the financial system, the postponement of a number of planned privatisations and additional unexpected expenditures, such as to fund the military efforts in certain parts of the Donetsk and Luhansk regions.

According to the Budget Code of Ukraine, the volume of total State debt and State guaranteed debt at the end of the budget period (31 December of each year) should not exceed 60 per cent. of the annual nominal GDP of Ukraine. If this threshold is exceeded, the Cabinet of Ministers of Ukraine must submit its proposed plan to return the level of total State debt and State guaranteed debt to within the set threshold for approval by the Parliament. Notwithstanding this, this provision is not applicable due to ongoing Operation of the Joint Forces on the territory of Ukraine (according to the final provisions of the Budget Code).

State external debt (direct debt) as a percentage of GDP was 30.6 per cent., 41.6 per cent., 41.1 per cent., 36.2 per cent. and 30.9 per cent. as at 31 December 2014, 2015, 2016, 2017 and 2018, respectively. The ratio of State external debt service (including principal and interest payments, but excluding debt owed to the IMF by the NBU) to GDP was approximately 4.3 per cent., approximately 2.6 per cent., approximately 1.8 per cent., approximately 3.5 per cent. and approximately 3.1 per cent. for the years ended 31 December 2014, 2015, 2016, 2017 and 2018, respectively. See "*Risk Factors—Risk Factors Relating to Ukraine—Liquidity Risk*".

State external debt (direct debt) as a percentage of State Budget revenue amounted to 136.1 per cent., 154.5 per cent., 159.0 per cent., 136.2 per cent. and 118.4 per cent. for the years ended 31 December 2014, 2015, 2016, 2017 and 2018, respectively.

State external debt (direct debt) as a percentage of State Budget expenditure amounted to 113.0 per cent., 143.2 per cent., 143.1 per cent., 128.7 per cent. and 111.5 per cent. for the years ended 31 December 2014, 2015, 2016, 2017 and 2018, respectively.

The ratio of State external debt service (including principal and interest payments, but excluding debt owed to the IMF by the NBU) to State Budget revenue amounted to 19.2 per cent., 9.7 per cent., 6.9 per cent., 13.3 per cent. and 11.8 per cent for the years ended 31 December 2014, 2015, 2016, 2017 and 2018, respectively.

The ratio of State external debt service (including principal and interest payments, but excluding debt owed to the IMF by the NBU) to State Budget expenditure amounted to 15.9 per cent., 9.0 per cent., 6.2 per cent., 12.5 per cent. and 11.1 per cent for the years ended 31 December 2014, 2015, 2016, 2017 and 2018.

The following table sets out the total outstanding debt obligations of the State as at the dates indicated:

	As at 31 December										As at 30 November
	2014		2015		2016		2017		2018		2019
	(in U.S.\$ billions)	(% of GDP)	(in U.S.\$ billions)	(% of GDP)	(in U.S.\$ billions)	(% of GDP)	(in U.S.\$ billions)	(% of GDP)	(in U.S.\$ billions)	(% of GDP)	(in U.S.\$ billions)
Total debt.....	69.8	69.4%	65.5	79.1%	71.0	81.0%	76.3	71.8%	78.3	60.9%	82.8
State debt (direct debt) .....	60.1	59.7%	55.6	67.1%	60.7	69.3%	65.3	61.5%	67.2	52.3%	72.8
Internal debt (direct debt) <sup>(1)</sup> ....	29.2	29.1%	21.2	25.5%	24.7	28.1%	26.8	25.2%	27.5	30.9%	33.9
External debt (direct debt).....	30.8	30.6%	34.4	41.6%	36.1	41.1%	38.5	36.2%	39.7	%	38.9
of which: debt to the IMF owed by the Government.....	3.7	3.6%	5.3	6.5%	5.2	5.9%	4.9	6.3%	5.2	4.0%	4.1
State guaranteed debt (contingent liabilities) .....	9.8	9.7%	9.9	12.0%	10.3	11.7%	11.0	10.3%	11.1	8.6%	10.0
Internal debt <sup>(1)</sup> .....	1.8	1.8%	0.9	1.1%	0.7	0.8%	0.5	0.4%	0.4	0.3%	0.5
External debt .....	8.0	7.9%	9.0	10.9%	9.6	10.9%	10.50	9.9%	10.8	8.4%	9.5
of which: debt to the IMF owed by the NBU .....	2.1	2.0%	5.3	6.5%	6.1	5.5%	7.2	6.9%	7.9	6.1%	7.2

Note:

(1) Hryvnia amounts have been converted to dollar amounts using the period end exchange rate specified under the heading "The Monetary System—Instruments of monetary policy—Exchange Rates".

Source: Ministry of Finance



The following table sets out Ukraine's total State debt service obligations and total State borrowings incurred (not including contingent liabilities and debt owed by the NBU to the IMF) for the periods indicated:

	As at 31 December					As at 30 November
	2014	2015 <sup>(2)</sup>	2016 <sup>(2)</sup>	2017	2018	2019
	<i>(in U.S.\$ millions)</i>					
<b>Total State debt service.....</b>	<b>13,737</b>	<b>8,897</b>	<b>8,090</b>	<b>17,800.1</b>	<b>12,861.8</b>	<b>17,291.8</b>
Internal State debt service <sup>(1)(2)</sup> .....	8,551	6,780	6,476	13,807.8	8,859.4	12,298.4
Principal.....	5,827	4,119	4,023	11,110.0	6,145.1	9,644.3
Interest .....	2,724	2,661	2,452	2,697.8	2,714.3	2,654.1
External State debt service <sup>(3)</sup> .....	5,186	2,117	1,614	3,992.3	4,002.4	4,993.4
Principal.....	3,903	1,140	355	2,525.3	2,479.4	3,233.1
<i>of which: debt to the IMF owed by the</i>						
Government.....	2,533	813	—	567.8	1,371.3	1,002.8
Interest .....	1,283	977	1,259	1,467.0	1,523.0	1,760.3
<i>of which: debt to the IMF owed by the</i>						
Government.....	56	99	108	132.9	143.2	115.0
<b>Total State borrowings incurred.....</b>	<b>23,847</b>	<b>10,585</b>	<b>10,819</b>	<b>17,652.3</b>	<b>10,122.3</b>	<b>14,646.8</b>
Internal borrowing <sup>(1)(2)</sup> .....	16,576	4,632	9,457	14,020.5	6,429.7	12,260.4
External borrowing <sup>(3)</sup> .....	7,271	5,953	1,361	3,631.8	3,692.5	2,386.4
<i>of which: securities issued by the State....</i>	<i>1,000</i>	<i>1,000</i>	<i>1,000</i>	<i>3,000.0</i>	<i>2,692.7</i>	<i>1,470.7</i>
Multilateral creditors .....	6,271	4,953	361	631.8	999.7	915.7
<i>of which: IMF loans to the Government ..</i>	<i>2,978</i>	<i>2,634</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>—</i>

Note:

- (1) Hryvnia amounts have been converted to dollar amounts using the official exchange rate set by the NBU as at the date of the relevant payment.
- (2) Payments and borrowings include transactions in connection with the exchange of the T-bills held by the National Bank of Ukraine for new T-bills pursuant to the Ukrainian law "On the State Budget of Ukraine for 2017".
- (3) Payments and borrowings include transactions in connection with the exchange of the T-bills due 2019 and 2020 for new T-bills issued in 2017 and due in 2032.

Source: Ministry of Finance

The following table sets out Ukraine's actual and projected State debt service obligations for the periods indicated:

	Year ended 31 December					
	2017	2018	2019	2020 <sup>(2)</sup>	2021 <sup>(2)</sup>	2022 <sup>(2)</sup>
	<i>(in U.S.\$ millions)</i>					
<b>Principal payments.....</b>	<b>13,635.3</b>	<b>8,624.5</b>	<b>13,215.0</b>	<b>9,835.9</b>	<b>7,194.2</b>	<b>4,243.9</b>
Internal debt <sup>(1)</sup> .....	11,110.0	6,145.1	9,964.6	5,490.3	3,384.7	1,305.3
External debt .....	2,525.3	2,479.4	3,250.4	4,345.6	3,809.5	2,938.6
<b>Interest payments.....</b>	<b>4,164.8</b>	<b>4,237.3</b>	<b>4,643.3</b>	<b>4,795.7</b>	<b>3,857.3</b>	<b>3,333.3</b>
Internal debt <sup>(1)</sup> .....	2,697.8	2,714.3	2,846.0	2,988.8	2,169.3	1,811.5
External debt .....	1,467.0	1,523.0	1,797.3	1,806.9	1,688.0	1,521.8
<b>Total payments .....</b>	<b>17,800.1</b>	<b>12,861.8</b>	<b>17,858.3</b>	<b>14,631.6</b>	<b>11,051.5</b>	<b>7,577.2</b>

Note:

- (1) Hryvnia amounts have been converted to dollar amounts using the actual UAH/U.S.\$ exchange rate for 2017, 2018 and 2019, and the actual and projected UAH/U.S.\$ exchange rate of UAH 27.50 to U.S.\$1.00 for 2020, UAH 30.50 to U.S.\$1.00 for 2021, UAH 30.70 to U.S.\$1.00 for 2022 and UAH 32.00 to U.S.\$1.00 for 2023.
- (2) 2020 to 2023 for current debt obligations as of 10 January 2020.

Source: Ministry of Finance

The amended 2019 State Budget Law provides for anticipated total State debt service payments (including principal and interest payments, but excluding debt owed to the IMF by the NBU) of UAH 395.9 billion. Payments of principal are expected to amount to UAH 272.3 billion, 55.3 per cent. (or UAH 150.5 billion) of which will be internal debt payments and 44.7 per cent. (or UAH 121.8 billion) of which will be external debt payments. Payments of interest are expected to amount to UAH 123.6 billion. It is expected that the State borrowing for the General Fund of the State Budget will amount to UAH 324.8 billion, including external borrowing for the General Fund of UAH 122.8 billion and internal borrowing for the General Fund of approximately UAH 202.0 billion.

The 2020 State Budget Law provides for anticipated total State debt service payments (including principal and interest payments, but excluding debt owed to the IMF by the NBU) of UAH 423.6 billion. Payments of principal are expected to amount to UAH 282.1 billion, 57.4 per cent. (or UAH 161.8 billion) of which will be internal debt payments and 42.6 per cent. (or UAH 120.3 billion) of which will be external debt payments. Payments of interest are expected to amount to UAH 141.5 billion. It is expected that the State borrowing for the General Fund of the State Budget will amount to UAH 342.5 billion, including external borrowing for the General Fund of UAH 111.4 billion and internal borrowing for the General Fund of approximately UAH 231.1 billion.

The actual amount of internal State borrowing for the General Fund in 2018 was UAH 174.2 billion, and external State borrowing for the General Fund was UAH 103.2 billion. In the year ended 31 December 2018, the State borrowing amounted to UAH 277.5 billion. The actual amount of internal State borrowing for the General Fund in 2019 (preliminary data) was UAH 345.9 billion, and external State borrowing for the General Fund was UAH 63.8 billion. In the year ended 31 December 2019, the State borrowing amounted to UAH 409.8 billion. The Government's strategy concerning issuance of Eurobonds and T-bills aims at achievement of full or partial refinancing of State debt servicing in foreign currency.

### Internal Debt

Internal debt of Ukraine is made up of three categories: (i) securities issued by the State (T-bills and other obligations); (ii) rescheduled Government debt owed to the NBU; and (iii) State guaranteed debt (including obligations guaranteed by the State and Government bonds issued during the Soviet period). As upon dissolution of the former Soviet Union it proved impossible to verify the holders of the Government bonds issued during the Soviet period, and there was no procedure to write off the debt outstanding under said bonds, that debt was never written off. The outstanding principal amount under the Government bonds issued during the Soviet period amounted to UAH 11,600 (equivalent to approximately U.S.\$483) as at 30 November 2019.

The State Budget Law sets the limit either for State internal debt (direct debt) specifically, or, alternatively, a combined limit for State internal and external debt (direct debt) for each year, although the relevant Budget Law may permit additional borrowing by the Government in certain extraordinary cases. In addition, the Budget Code permits the Government to switch borrowing sources (from external to internal or vice versa), *provided that* the combined limit on State debt is complied with.

The following table sets out the total outstanding internal debt obligations of the State and the cap on internal debt under the budget as at the dates indicated:

	As at 31 December					As at 30 November
	2014	2015	2016	2017	2018	2019
<i>(in UAH millions)</i>						
State internal debt (direct debt) .....	461,003.6	508,001.1	670,645.5	753,399.4	761,090.2	814,238.3
of which:						
Obligations under T-bills and State savings bonds .....	458,226.3	505,356.1	668,132.7	751,018.8	758,841.9	812,089.2
of which denominated in foreign currency .....	67,112.8	61,075.8	105,668.6	123,056.4	139,656.5	100,573.4
Obligations to the NBU <sup>(1)</sup> ....	2,777.3	2,645.1	2,512.8	2,380.5	2,248.3	2,149.1
State guaranteed internal debt (contingent liabilities) ..	27,863.3	21,459.5	19,084.5	13,279.5	10,320.4	11,286.5
<b>Total internal debt.....</b>	<b>488,866.9</b>	<b>529,460.6</b>	<b>689,730.0</b>	<b>766,678.9</b>	<b>771,410.5</b>	<b>825,524.8</b>
Budget cap for State debt (direct debt) <sup>(2)</sup> .....	968,354.6 <sup>(3)</sup>	1,393,950.8 <sup>(4)</sup>	1,501,479.7 <sup>(5)</sup>	1,823,730.2 <sup>(6)</sup>	1,999,347.2 <sup>(7)</sup>	2,060,101.4 <sup>(8)</sup>

#### Notes:

- (1) Including debt owed to the NBU undertaken to finance the budget deficits in 1994 to 1996, which debt was restructured in April 2000.
- (2) Including the hryvnia denominated and dollar denominated State internal debt. The dollar denominated State internal debt is converted to hryvnia at the exchange rate assumed for purposes of the law "On the State Budget of Ukraine" for the relevant year. See "Public Finance and Fiscal Policy—The State Budget Revenues".
- (3) The 2014 State Budget Law limits State debt in 2014 to UAH 968,354.6 million, making no distinction between internal and external State debt.

- (4) The 2015 State Budget Law limits State debt in 2015 to UAH 1,393,950.8 million, making no distinction between internal and external State debt.
- (5) The 2016 State Budget Law limits State debt in 2016 to UAH 1,501,479.7 million, making no distinction between internal and external State debt.
- (6) The 2017 State Budget Law (as amended) limits State debt in 2017 to UAH 1,823,730.2 million, making no distinction between internal and external State debt.
- (7) The 2018 State Budget Law limits State debt in 2018 to UAH 1,999,347.2 million, making no distinction between internal and external State debt.
- (8) The 2019 State Budget Law limits State debt in 2019 to UAH 2,060,101.4 million, making no distinction between internal and external State debt.

Source: Ministry of Finance

The table below sets out the total amount of State internal debt in the form of T-bills and State savings bonds outstanding in each of the periods presented:

	As at 31 December					As at 30 November
	2014	2015	2016	2017	2018	2019
	<i>(in UAH millions)</i>					
T-bills.....	458,137.9	505,257.4	668,132.7	751,018.8	758,841.9	812,089.2
Less than one year maturity .....	1,015.0	0.0	422.4	11,420.6	51,526.3	8,233.4
One to three years maturity .....	95,599.6	74,620.2	115,551.4	153,876.9	138,653.6	183,232.5
Four to five years maturity .....	134,302.0	164,078.9	167,155.2	51,204.5	39,400.3	43,593.1
Six to ten years maturity.....	200,154.9	204,458.9	207,963.4	128,479.0	123,223.9	170,992.3
Over ten years maturity .....	27,066.5	62,099.5	177,040.4	406,037.8	406,037.8	406,037.8
State savings bonds .....	88.4	98.6	— <sup>(1)</sup>	—	—	—

Notes:

(1) As at 31 December 2016, all state savings bonds were redeemed in full.

Source: Ministry of Finance

As at 31 December 2014, 2015, 2016, 2017 and 2018, the ratio of State internal debt (direct debt) to total State debt (direct debt) was approximately 48.7 per cent., 38.1 per cent., 40.6 per cent., 41.1 per cent. and 40.9 per cent, respectively. As at 30 November 2019, the ratio of State internal debt (direct debt) to total State debt (direct debt) stood at 46.5 per cent.

In 2014, the average annual weighted T-bill yield was 15.3 per cent. in hryvnia, 6.1 per cent. in U.S. dollars and 7.5 per cent. in euro. In 2015, the average annual weighted T-bill yield was 17.0 per cent. in hryvnia, 8.7 per cent. in U.S. dollars; no T-bills in euro were outstanding in the said year. In 2016, the average annual weighted T-bill yield was 14.9 per cent. in hryvnia, 7.3 per cent. in U.S. dollars and 4.0 per cent. in euro. In 2017, the average annual weighted T-bill yield was 15.0 per cent. in hryvnia, 4.8 per cent. in U.S. dollars, and 4.0 per cent. in euro. In 2018, the average annual weighted T-bill yield was 17.8 per cent. in hryvnia, 6.0 per cent. in U.S. dollars, and 4.2 per cent. in euro. In 2019, the average annual weighted T-bill yield was 17.0 per cent. in hryvnia, 5.9 per cent. in U.S. dollars, and 3.5 per cent. in euro.

International investment in T-bills is currently growing. As at 31 December 2014, 2015, 2016, 2017, 2018 and 2019, non-residents held approximately 4.7 per cent., 4.5 per cent., 1.0 per cent., 0.7 per cent., 0.84 per cent. and 14.1 per cent. of all outstanding T-bills, respectively. As at 16 January 2020, non-residents held approximately 14.6 per cent. of all outstanding T-bills.

As at 16 January 2019, Ukraine's UAH 812.9 billion outstanding domestic bondholders include the NBU (41.5 per cent.), banks (39.7 per cent.), the term "banks" including both Ukrainian and foreign banks carrying on business as such in Ukraine, companies (3.0 per cent.), resident individuals (1.2 per cent.), and foreign individuals (14.6 per cent.).

The 2020 Budget assumes domestic debt issuances of UAH 231.1 billion to meet state financing needs, including UAH 50.0 billion in short-term borrowing, UAH 117.1 in medium-term borrowing, and UAH 64.0 billion in long-term borrowing.

### *State Savings Bonds*

Since 21 May 2014, Ukraine has issued new “Military” State savings bonds. As at 31 December 2015 and 29 February 2016, the amount of such savings bonds outstanding was UAH 99.9 million and UAH 100.9 million, respectively. As at 1 January 2017, all State savings bonds were redeemed in full. No further “Military” State savings bonds have been issued since 1 January 2017.

### *Foreign currency T-bills*

On 9 December 2011, the Parliament approved a law allowing issuances of foreign currency T-bills by the Government. In 2014, the Government issued U.S.\$792.5 billion of U.S. dollar denominated T-bills and €40.0 million of euro denominated T-bills. In 2015, the Government issued U.S.\$643.4 million of U.S. dollar/euro denominated T-bills. In 2016 the Government issued U.S.\$2,998.6 million of US dollar denominated T-bills and €141.3 million of euro denominated T-bills. In 2017, the Government issued U.S.\$1,804.2 million of U.S. dollar denominated T-bills and €133.6 million of euro denominated T-bills. In 2018, the Government issued U.S.\$3,451.5 million of U.S. dollar denominated T-bills and €498.5 million of euro denominated T-bills. In 2019, according to preliminary data, the Government issued U.S.\$4,302.6 million of US dollar denominated T bills and €387.2 million of euro denominated T-bills.

In order to decrease the high percentage of foreign currency debt in the State debt (direct debt) (approximately 63 per cent.), issuances of foreign currency T-bills were limited.

Nevertheless, Ukraine along with experts from the World Bank, are in the process of developing the local bond market. The goal is to increase liquidity of the T-bills. To that end, the number of instruments was reduced, the quarterly calendar was established and the communications with primary dealers prior to auctions were improved.

On 27 May 2019, Clearstream, the international central securities depository (ICSD) of Deutsche Börse Group, connected the Ukrainian market to its network and made Ukrainian government securities eligible in its system. Citibank is acting as cash correspondent bank and local operator of Clearstream’s account at the National Bank of Ukraine.

Since October 2019, Ukraine has moved to a Bloomberg auction system to conduct T-bill primary auctions and plans to start regular liquidity management operations on the local market in line with international practices.

### **External Debt**

Ukraine’s external debt comprises five categories: (i) securities (Eurobonds) issued by the State, (ii) loans from international financial organisations, (iii) loans from foreign governments, (iv) loans from foreign banks, and (v) State guaranteed debt (including obligations under external loans guaranteed by the State).

As at 31 December 2014, Ukraine’s external debt was U.S.\$38.8 billion, including State debt (direct debt) of U.S.\$30.8 billion and State guaranteed debt of U.S.\$8.0 billion. As at 31 December 2015, external debt was U.S.\$43.4 billion, including State debt (direct debt) of U.S.\$34.4 billion and State guaranteed debt of U.S.\$9.0 billion. As at 31 December 2016, external debt was U.S.\$45.6 billion, including State debt (direct debt) of U.S.\$36.0 billion and State guaranteed debt of U.S.\$9.6 billion. As at 31 December 2017, external debt amounted to U.S.\$49.0 billion, including State debt (direct debt) of U.S.\$38.5 billion and State guaranteed debt of U.S.\$11.0 billion. As at 31 December 2018, external debt amounted to U.S.\$50.5 billion, including State debt (direct debt) of U.S.\$39.7 billion and State guaranteed debt of U.S.\$10.8 billion. As at 30 November 2019, external debt amounted to U.S.\$48.5 billion, including State debt (direct debt) of U.S.\$39.0 billion and State guaranteed debt of U.S.\$9.5 billion.

In 2014, 2015, 2016, 2017 and 2018, the aggregate amount of State external debt service payments (including principal and interest payments but excluding debt owed to the IMF by the NBU) amounted to U.S.\$5,186.2 million, U.S.\$2,366.7 million, U.S.\$1,614.4 million, U.S.\$3,992.2 million and U.S.\$4,002.4 million respectively. In 2019, according to the preliminary data, the aggregate amount of State external debt service payments (including principal and interest payments but excluding debt owed to the IMF by the NBU) amounted to U.S.\$5,033.6 million.

The 2020 Budget assumes long-term external debt issuances of UAH 111.4 billion to meet state financing needs.

The following tables set out Ukraine's (i) State external debt structure as at 31 December 2014, 2015, 2016, 2017, 2018 and as at 30 November 2019; (ii) actual and projected payments of State external debt service for the years 2018 to 2023; and (iii) actual and projected IMF debt service for the years 2018 to 2022:

### State External Debt Structure

	As at 31 December					As at 30 November
	2014	2015	2016	2017	2018	2019
	<i>(in U.S.\$ millions)</i>					
<b>State external debt (direct debt) .....</b>	<b>30,822.5</b>	<b>34,427.0</b>	<b>36,048.4</b>	<b>38,490.1</b>	<b>39,699.2</b>	<b>38,947.5</b>
<i>of which:</i>						
Multilateral borrowings (IFI loans) .....	10,723.2	14,059.2	13,675.4	14,517.6	13,392.7	12,105.6
<i>of which:</i>						
EBRD .....	594.2	582.2	591.1	641.4	577.8	480.4
EIB .....	485.3	522.1	534.1	689.7	680.8	741.7
EU .....	1,658.8	2,414.6	2,310.1	3,353.5	3,791.3	3,642.7
Debt to the IMF owed by the Government.....	3,651.9	5,341.8	5,182.3	4,914.9	3,450.7	2,409.9
World Bank .....	4,333.0	5,198.5	5,055.4	4,912.2	4,877.8	4,811.7
Clean Technology Fund (IBRD) .....	—	—	2.5	6.0	14.4	19.3
Bilateral borrowings .....	1,038.3	1,362.8	1,678.8	1,756.4	1,731.1	1,604.9
<i>of which:</i>						
Russia .....	605.9	605.9	605.9	605.9	605.9	605.9
United States .....	10.4	9.0	7.6	6.2	4.7	4.7
France .....	—	—	—	—	—	14.9
Japan .....	241.5	233.7	549.9	560.4	567.3	564.1
Germany .....	8.5	226.2	220.0	266.8	259.5	258.4
Canada .....	—	—	295.4	317.2	293.7	150.5
Italy .....	—	—	—	—	—	—
SDR allocations received to the State Budget .....	1,779.1	1,701.7	1,650.8	1,748.8	1,707.9	1,685.9
Loans from foreign banks <sup>(1)</sup> .....	0.1	0.1	0.1	0.1	400.2	1,294.6
State External Bonds 2003 .....	—	—	—	—	—	—
State External Bonds 2004 .....	—	—	—	—	—	—
State External Bonds 2005 .....	731.8	—	—	—	—	—
State External Bonds 2006 .....	1,000.0	—	—	—	—	—
State External Bonds 2007 .....	700.0	—	—	—	—	—
State External Bonds 2010 .....	2,000.0	—	—	—	—	—
State External Bonds 2011 .....	2,750.0	—	—	—	—	—
State External Bonds 2012 .....	4,850.0	—	—	—	—	—
State External Bonds 2013 <sup>(2)</sup> .....	4,250.0	3,000.0	3,000.0	3,000.0	3,000.0	3,000.0

State External Bonds 2014 .....	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0	—
State External Bonds 2015 .....	—	13,302.4	14,043.3	12,467.3	12,467.3	11,805.9
State External Bonds 2016 .....	—	—	1,000.0	1,000.0	1,000.0	1,000.0
State External Bonds 2017 .....	—	—	—	3,000.0	3,000.0	3,000.0
State External Bonds 2018 .....	—	—	—	—	2,000.0	2,350.0
State External Bonds 2019 .....	—	—	—	—	—	1,100.5
<b>Limit of State external debt (direct debt) under the State Budget Law as at 31 December each year<sup>(3)</sup> .....</b>	<b>60,522.2<sup>(4)</sup></b>	<b>63,361.4<sup>(4)</sup></b>	<b>61,536.1<sup>(4)</sup></b>	<b>65,601.8<sup>(4)</sup></b>	<b>66,423.5<sup>(4)</sup></b>	<b>70,071.5<sup>(4)</sup></b>
<b>State guaranteed external debt (contingent liabilities) .....</b>	<b>7,986.7</b>	<b>9,018.3</b>	<b>9,558.03</b>	<b>10,500.6</b>	<b>10,755.8</b>	<b>9,532.7</b>
<i>of which: .....</i>						
Multilateral borrowings (IFI loans) .....	2,543.7	5,867.8	7023.7	8,185.1	8,559.33	7,993.4
<i>of which: .....</i>						
European Atomic Energy Community .....	28.6	19.0	10.9	63.2	114.54	110.0
EBRD .....	88.3	126.9	388.4	408.8	206.3	328.2
European Investment Bank .....	—	—	36.6	41.8	56.1	60.3
Debt to the IMF owed by the NBU .....	2,058.5	5,329.4	6,132.8	7,221.7	7,838.6	7,039.5
World Bank .....	368.3	392.4	455.0	449.7	457.1	455.4
Bilateral borrowings <sup>(5)</sup> .....	243.7	195.0	146.2	97.5	48.7	—
Loans from foreign banks .....	3,273.4	2,842.7	2,278.5	2,102.0	2,034.5	1,427.5
Other .....	1,926.0	112.9	109.5	116.0	113.3	111.8
<b>Total external debt .....</b>	<b>38,809.3</b>	<b>43,445.4</b>	<b>45,606.5</b>	<b>48,990.7</b>	<b>50,455.0</b>	<b>48,480.3</b>

Notes:

- (1) Figures include DM 100,000 aggregate principal amount of 16 per cent. Notes due 2001 issued on a fiduciary basis by Chase Manhattan Bank Luxembourg S.A. and supported by a fiduciary loan agreement with Ukraine in the same principal amount, as each of the foregoing may be amended from time to time.
- (2) The December 2013 Notes are currently the subject of litigation in the English Courts. See “*Description of Ukraine—Legal Proceedings—December 2013 Notes Litigation*”.
- (3) Hryvnia amounts have been converted to dollar amounts at the exchange rate assumed for purposes of the law “*On the State Budget of Ukraine*” for the relevant year. See “*Public Finance and Fiscal Policy—The State Budget Revenues*”.
- (4) The 2014, 2015, 2016, 2017, 2018, and 2019 State Budget Laws limited State debt, at the respective year ends, to UAH 968,354.6 million, UAH 1,393,950.8 million, UAH 1,501,479.7 million, UAH 1,823,730.2 million, UAH 1,999,347.2 million and UAH 2,060,101,364.5 million, without apportioning this between internal and external State debt.
- (5) Bilateral borrowings represent debt owed to Canada.

Source: Ministry of Finance

**Actual and Projected State External Debt Service for 2018 to 2023<sup>(1)</sup>:**

	2018	2019	2020	2021	2022	2023
	<i>(in U.S.\$ millions)</i>					
State external debt (direct debt).....	<b>4,002.4</b>	<b>5,047.7</b>	<b>6,152.5</b>	<b>5,497.6</b>	<b>4,460.4</b>	<b>4,348.8</b>
Interest .....	1,523.0	1,797.3	1,806.9	1,688.0	1,521.8	1,377.5
Principal, incl. ....	2,479.4	3,250.4	4,345.6	3,809.5	2,938.6	2,971.3
Eurobonds .....	692.7	1,661.3	2,364.7	2,409.3	1,383.7	1,355.2
IFIs .....	1,776.4	1,385.9	1,689.0	1,114.3	1,305.0	1,378.0
Official loans.....	10.2	162.4	192.8	65.5	86.5	86.5
Loans received from foreign commercial banks and other foreign financial institutions.....	—	40.7	99.1	220.5	163.3	151.6

Notes:

(1) 2020 to 2023 for current and projected debt obligations as at 10 January 2020.

Source: Ministry of Finance

**Projected IMF Debt Service for 2018 to 2023<sup>(1)</sup>:**

	2018	2019	2020 <sup>(2)</sup>	2021 <sup>(2)</sup>	2022 <sup>(2)</sup>	2023 <sup>(2)</sup>
	<i>(in U.S.\$ millions)</i>					
<b>Total debt to IMF .....</b>	<b>2,449.2</b>	<b>2,117.2</b>	<b>1,474.3</b>	<b>1,708.3</b>	<b>2,489.2</b>	<b>2,423.4</b>
<b>Debt of the Government .....</b>	<b>1,514.5</b>	<b>1,117.8</b>	<b>586.7</b>	<b>576.2</b>	<b>548.3</b>	<b>532.5</b>
Interest .....	143.2	115.0	108.0	97.5	69.5	53.7
Principal .....	1,371.3	1,002.8	478.7	478.7	478.7	478.7
Debt of the NBU .....	934.7	999.4	887.6	1,132.1	1,940.9	1,890.9
Interest .....	202.6	409.2	184.3	158.0	125.1	75.1
Principal .....	732.0	590.2	703.3	974.1	1,815.8	1,815.8

Notes:

(1) 2020 to 2023 for current debt obligations owed to the IMF as at 10 January 2020.

(2) SDR amounts have been converted to dollars using an assumed average 2020 to 2023 exchange rate of SDR 1 to U.S.\$1.5.

Source: Ministry of Finance

**Commercial Creditors**

Since 1997, Ukraine has been regularly issuing bonds in the international capital markets denominated in various foreign currencies. As of the date of this Prospectus, Ukraine has U.S.\$22.3 billion of outstanding bonds in foreign currency in the international capital markets (including the December 2013 Notes that are currently the subject of litigation in the English courts) with maturities ranging from 2020 to 2032.

**Public Debt Strategy**

Since Ukraine gained independence, credit from international financial organisations has played a significant role in fostering economic and structural reforms. Resources from these organisations provide long-term support for economic growth in an environment of low domestic investment and expensive (and sometimes unavailable) commercial borrowing. Since 1992, Ukraine has received loans amounting to U.S.\$31.5 billion from the IMF and U.S.\$12.2 billion from the World Bank. As at 31 October 2019, Ukraine, Ukrainian companies and local authorities had raised approximately €13.2 billion from the EBRD in 422 projects. As at 1 January 2020, Ukraine, Ukrainian companies and local authorities had raised approximately €6.4 billion from the EIB. See “*Risk Factors—Risk Factors Relating to Ukraine—Failure to implement required structural reforms*”.

**Ukraine’s external debt restructuring**

Following the Euro-Maidan Revolution, Russia’s illegal occupation of Crimea and the conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions triggered a substantial depreciation in the hryvnia, which by early 2015 had lost more than half of its value as compared with the exchange rates at 31 December 2013. Over the same period, Ukraine’s real GDP shrank by 18.9 per cent. due to the temporary loss of productive capacity in illegally occupied Crimea and certain parts of the temporarily occupied Donetsk and Luhansk regions. The substantial depreciation of the hryvnia, combined with reduced tax revenues due to the

economic recession and increased fiscal expenditures associated with the conflict in, and the temporary occupation of, territories in the Donetsk and Luhansk regions, created a financial crisis in Ukraine. In order to address this crisis, the Government agreed in connection with the 2015 EFF to undertake a debt operation aimed at restoring the sustainability of Ukraine's external debt burden. To this end, on 4 April 2015, the Cabinet of Ministers passed a resolution permitting the restructuring of certain state and state guaranteed debt obligations of Ukraine in order for Ukraine to be able to meet its financing obligations under the 2015 EFF.

The Ministry of Finance subsequently engaged in negotiations with an ad hoc committee of creditors (the "AHC"), comprised of some of the largest holders of its outstanding Eurobonds. On 27 August 2015, the Government announced that it had reached an agreement with the AHC on restructuring Ukraine's Eurobonds and state-guaranteed Eurobonds of the State Enterprise "Financing of Infrastructural Projects". This agreement provided, inter alia, for a 20 per cent. nominal haircut, an increase in coupon to 7.75 per cent. per annum, the extension of the maturities of the notes to fall in the period from 2019 to 2027, and the issuance to bondholders participating in the debt restructuring of GDP-linked securities providing potential value recovery and upside to holders from 2021 to 2040, conditional on real-GDP growth in Ukraine reaching certain thresholds. The new sovereign notes and GDP-linked securities issued as a result of this restructuring were issued together as a package, in consideration for the exchange and cancellation of Ukraine's then outstanding Eurobonds.

On 12 November 2015, the Ministry of Finance of Ukraine announced the settlement of Ukraine's debt restructuring operation in respect of thirteen series of Ukraine's Eurobonds and state-guaranteed Eurobonds. Following the passing of extraordinary resolutions for each series of Eurobonds at bondholder meetings held on 14 October 2015, the holders of such Eurobonds who submitted valid and timely participation instructions received distributions of new Ukrainian securities on 12 November 2015 in accordance with the terms of the exchange offer. Only one series of eligible debt instruments, the December 2013 Notes (the validity and enforceability of which is currently the subject of legal proceedings in the English courts), did not participate in the exchange offer. In November 2015, the Ministry of Finance of Ukraine stated that the Government of Ukraine remained open to finding a solution with the holders of the December 2013 Notes. On 18 December 2015, the Cabinet of Ministers of Ukraine announced the imposition of a moratorium on payments under the December 2013 Notes until a solution on restructuring was found. The moratorium also applied to certain state-guaranteed loans which were subsequently restructured in early 2016.

A number of further debt operations have been conducted in order to help Ukraine meet the 2015 EFF's financing targets. On the instructions of the Ukrainian authorities, the external notes of Ukreximbank and Oschadbank (the two largest state-owned banks) were successfully reprofiled on 7 July 2015 and 3 August 2015, respectively. Further, on 22 December 2015, the City of Kyiv authorities announced the successful restructuring of the majority of its U.S.\$250 million 8 per cent. loan participation notes due 2015 and all of its U.S.\$300 million 9.375 per cent. loan participation notes due 2016. On 14 March 2016, public joint-stock company "Ukrainian Railways" successfully completed the exchange of its U.S.\$500 million 9.5 per cent. loan participation notes due 2018 for its new U.S.\$500 million 9.875 per cent. loan participation notes due 2021.

In 2016, further tranches of Ukraine's existing Eurobonds and GDP-linked securities were issued in exchange for the termination of state-guaranteed loans of Ukravtodor with Sberbank, VTB and a syndicate of banks, respectively, as well as a state-guaranteed loan to Yuzhnoye State Design Office. Accordingly, following the final issuance of new tranches of Eurobonds and GDP-linked securities in 2016 to fulfil the final elements of the sovereign restructuring, the sovereign restructuring was completed in June 2016, other than in respect of the December 2013 Notes as discussed above.

### ***International Financial Institutions***

Since Ukraine gained independence, credit from international financial organisations has played a significant role in fostering economic and structural reforms. Resources from these organisations provide long-term support for economic growth in an environment of low domestic investment and expensive (and sometimes unavailable) commercial borrowing. Since 1992, Ukraine has received loans amounting to U.S.\$31.5 billion from the IMF and U.S.\$12.2 billion from the World Bank. As at 31 October 2019, Ukraine, Ukrainian companies and local authorities had raised approximately €13.2 billion from the EBRD in relation to 422 projects. As at 1 January 2020, Ukraine, Ukrainian companies and local authorities had raised approximately €6.4 billion from the EIB. See "*Risk Factors—Risk Factors Relating to Ukraine—Failure to implement required structural reforms*".



As at 31 December 2014, 2015, 2016, 2017, 2018 and as at 30 November 2019, the total amount of debt owing to the IMF stood at U.S.\$5.7 billion, U.S.\$10.7 billion, U.S.\$11.3 billion, U.S.\$12.1 billion, U.S.\$11.2 billion and U.S.\$9.4 billion, respectively (including both debt owed to the IMF by the Government and the NBU). The total amount of direct debt owing to other international organisations stood at U.S.\$7.1 billion, U.S.\$8.7 billion, U.S.\$8.5 billion, U.S.\$9.6 billion, U.S.\$9.9 billion and U.S.\$9.7 billion as at 31 December 2014, 2015, 2016, 2017, 2018 and as at 30 November 2019, respectively. Repayments of principal and interest in respect of IMF debt owed by the Government totalled approximately U.S.\$2,589.4 million for 2014, U.S.\$912.1 million for 2015, U.S.\$108.3 million for 2016, U.S.\$708.3 million for 2017, U.S.\$ 1,514.5 million for 2018 and U.S.\$1,117.7 billion for 2019 (based on preliminary data). Repayments of principal and interest in respect of debt owed to international organisations other than the IMF amounted to U.S.\$281.2 million in 2014, U.S.\$384.3 million in 2015, U.S.\$442.9 million in 2016, U.S.\$497.5 million in 2017, U.S.\$554.5 million in 2018, and U.S.\$591.3 million in 2019 (based on preliminary data).

### *IMF*

During the initial phase of Ukraine's market reforms, IMF support was crucial to facilitate monetary reform, support the exchange rate, increase currency reserves, service external debt and finance any payment shortfalls.

On 30 April 2014, the Executive Board of the IMF approved a programme for Ukraine on the terms of the 2014 Stand-by Arrangement ("**2014 SBA**") under which Ukraine was eligible to receive tranchised disbursements of up to U.S.\$17 billion from the IMF between 2014 and 2016. On 7 May 2014, Ukraine received the first tranche under the 2014 SBA of U.S.\$3.194 billion (equivalent of 2.058 billion SDR). On 8 September 2014, Ukraine received a further, second tranche of U.S.\$1.378 billion (equivalent of 914.67 million SDR). In total, U.S.\$3.0 billion was allocated to the State Budget under the 2014 SBA.

On 11 March 2015, Ukraine reached agreement with the IMF on the terms of the 2015 EFF, which replaced the 2014 SBA (the remaining disbursements under which were cancelled). On 13 March 2015, Ukraine received the first tranche under the 2015 EFF in the amount of U.S.\$4.88 billion (equivalent of SDR 3.546 billion), U.S.\$2.63 billion of which was allocated to finance the State Budget deficit. After successful completion of the first review of the 2015 EFF by the IMF, on 4 August 2015, Ukraine received the second tranche under the 2015 EFF in the amount of U.S.\$1.66 billion (equivalent of SDR 1.182 billion), which was allocated toward replenishing Ukraine's foreign exchange reserves.

On 14 September 2016, the Executive Board of the IMF approved the second review of the 2015 EFF, following which Ukraine received the third tranche under the 2015 EFF in the amount of U.S.\$1.00 billion (equivalent of SDR 716.1 million), which was allocated toward replenishment of Ukraine's foreign exchange reserves.

On 3 April 2017, the Executive Board of the IMF approved the third review of the 2015 EFF, following which Ukraine on 5 April 2017 received the fourth tranche under the 2015 EFF in the amount of U.S.\$1.00 billion (equivalent of SDR 734.0 million), which was also allocated toward replenishment of Ukraine's foreign exchange reserves.

On 19 October 2018, the IMF and Ukraine reached a staff-level agreement on a U.S.\$3.9 billion 14-month Stand-By Arrangement in close coordination with the World Bank and the EU.

On 5 December 2018, a Letter of Intent from the Government of Ukraine and the National Bank of Ukraine, as well as a Memorandum on Economic and Financial Policy were addressed for consideration of the IMF for the purposes of establishing the 2018 SBA.

On 18 December 2018, the Executive Board of the IMF approved the 2018 SBA and cancelled the 2015 EFF, including all unutilised tranches thereunder.

A first tranche under the 2018 SBA in the amount of SDR 1 billion (approximately U.S.\$1.38 billion) was received by Ukraine on 20 December 2018 and was allocated to Ukraine's foreign exchange reserves.

Between 14 and 22 November 2019, an IMF mission led by Mr. Ron van Roden visited Ukraine to hold discussions with the relevant authorities in connection with a new programme.

Following the call on 7 December 2019 between Ms. Kristalina Georgieva, the Managing Director of the IMF, and President Zelenskiy, an IMF Staff Level Agreement was reached providing for a new three-year, SDR 4 billion (approximately US\$5.5 billion) arrangement under the Extended Fund Facility which is to replace the current Stand-by Arrangement approved in December 2018.

The new programme will focus on the monetary, fiscal and financial sectors, as well as reforms aimed at improving the business climate, strengthening the rule of law and boosting economic growth.

It is expected that, since all necessary conditions are met, the relevant programme will be approved by the IMF Board of Directors in the near future.

In addition to the financial assistance provided by the IMF, and in accordance with the Articles of Agreement of the IMF applicable to all member states, Ukraine also has access to its quota SDRs. On 28 August 2009, the IMF allocated to Ukraine 1.017 billion SDRs (equal to U.S.\$1.6 billion) as part of a distribution of approximately 161.2 billion SDRs among 186 shareholder states of the IMF. In September 2009, the IMF made an additional allocation to Ukraine in the amount of 292 million SDRs as part of a special one-time distribution of SDRs to IMF members. As at the end of 2010, Ukraine utilised 1.2 billion SDRs of the aggregate amount of such IMF allocations. Since 2010, Ukraine has not received any SDRs from IMF distributions. The amount of SDR allocations received by the State Budget is recorded as State borrowings and, therefore, is included as State debt (direct debt).

#### *World Bank*

Between 1992, when Ukraine joined the World Bank, and 1 January 2020, the World Bank has approved 56 loans amounting to U.S.\$12.47 billion, four Global Environment Facility grants to Ukraine amounting to approximately U.S.\$9.2 billion and two guarantees amounting to U.S.\$1.25 billion. As at 1 January 2020, U.S.\$9.5 billion had been drawn down under these loans. Loans from the World Bank are directed at supporting the State Budget, reforming the tax, banking, and financial systems, as well as the energy, municipal and State governance sectors and improving the effectiveness of social services. World Bank loans also support agriculture, energy efficiency, social sector, healthcare, education, energy development, road reconstruction and improvement of water and heat supply.

The level of funds drawn down under ten pending programmes in 2015-2016 amounted to U.S.\$300.4 million as at 31 January 2016. As at 31 December 2017, the total drawn down funds for 2016-2017 amounted to U.S.\$296.95 million. As at 1 January 2020, the total drawn down funds under eight pending programmes amounted to U.S.\$ 1.02 billion.

In 2014 and 2015, Ukraine and the World Bank started the preparation of six projects, two of which are in the municipal sector in the amount of up to U.S.\$732 million: a project on energy efficiency in the sphere of centralised heat supply in the amount of U.S.\$382 million and a municipal infrastructure development project in the amount of U.S.\$350 million. On 26 May 2014, loan agreements were executed between Ukraine and the IBRD for the provision of loans for each of the above two municipal sector projects.

In 2014, Ukraine commenced to introduce a project for the modernisation of the system of social support in Ukraine, which will involve loans from the World Bank of U.S.\$300 million in total, U.S.\$100 million of which will be used to increase the efficiency of social assistance and systems of social services in Ukraine for indigent families and U.S.\$200 million will be used to finance the State Budget deficit. On 9 July 2014, an agreement was executed between Ukraine and the IBRD for the provision of the loan for the above project.

In August 2014, loans for the total amount of U.S.\$1,250 million were approved aimed at supporting, among other things, the reforms in Ukraine's banking sector.

In addition, at that time two other projects aimed at supporting the ongoing reforms, amounting to U.S.\$1,250 million, were in progress (the Second Development Policy Loan and the Second Programmatic Financial Sector Development Policy Loan).

In 2014, the World Bank provided financing in the overall amount of U.S.\$1.25 billion aimed at supporting ongoing reforms in Ukraine on the whole (the First Development Policy Loan for U.S. \$750 million, approved by the World Bank Board of Directors in May 2014) and reforms in the banking sector in particular (The First

Programmatic Financial Sector Development Policy Loan for U.S.\$500 million, approved by the World Bank Board of Directors in August 2014).

The First Development Policy Loan was co-funded by the Government of Japan via the Japan International Cooperation Agency, which provided funding in the amount of JPY 10.0 billion (approx. U.S.\$96.0 million).

These loans formed part of a package of financial support which was expected to provide Ukraine with up to U.S.\$3.5 billion by the end of 2014.

In June 2015, Ukraine commenced the implementation of the Second Power Transmission Project in the amount of U.S.\$378.43 million with the aim of improving the reliability of the power transmission system in Ukraine and establishing institutional backing for implementation of the energy sector reforms which Ukraine undertook as part of its membership in the Energy Community and pursuant to the terms of the Ukraine-EU Association Agreement. In addition, in June 2015, Ukraine commenced the Servicing People Improving Health Project in the amount of U.S.\$214.73 million with the aim to improve the quality of healthcare services in eight regions of Ukraine (Vinnytsia, Volyn, Dnipropetrovsk, Zakarpattia, Zaporizhia, Lviv, Poltava, and Rivne regions) focusing on primary and secondary prevention of heart diseases and cancer, as well as improved public governance in the healthcare sector.

In 2015, the World Bank extended a loan to Ukraine in the amount of U.S.\$1.0 billion to implement the Second Development Policy Loan and the Second Programmatic Financial Sector Development Policy Loan projects (each amounting to U.S.\$500 million, approved by the World Bank Board of Directors in August 2015 and September 2015, respectively), aimed at stabilisation of the financial and economic conditions in Ukraine, as well as support of strategic reforms and provision of funding for the State Budget.

The Second Development Policy Loan was also co-funded by the Government of Japan via the Japan International Cooperation Agency, which provided funding in the amount of JPY 36.97 billion (approximately U.S.\$300 million).

In January 2016, the World Bank extended a loan to Ukraine in the amount of U.S.\$560.0 million to implement the Road Sector Development Project. The proceeds of this loan are intended to fund reconstruction of approximately 108 kilometres of the road between, Kyiv, Kharkiv, and Dovzhansky in the Poltava region, including reconstruction (reinforcement) of the existing road, implementation of safety measures for road traffic, creation of new jobs, reduction of expenses for transit of cargo and passengers, and the reduction of overall damages caused by road accidents.

On 26 June 2017, within the framework of the Access to Long-term Finance Project, two instruments were signed: a guarantee agreement between Ukraine and the World Bank, and a loan agreement between JSC “Ukreximbank” and the World Bank. The agreements took effect on 12 June 2018.

The World Bank’s current programme is intended to assist Ukraine to implement urgent reforms required to return Ukraine’s economy to a sustainable growth path.

During the period from 6 through 14 July 2017, a World Bank mission visited Ukraine to launch a new systemic project (as a multi-vector loan or a policy-based guarantee).

Based on the results of the mission’s work, the World Bank in its letter dated 14 August 2017 confirmed its potential support of the priority reforms programme in the following areas:

- (1) strengthening of production factors markets, in particular the agricultural land market and the financial services (banking) market, as well anti-corruption institutions, including establishment of an independent anti-corruption court;
- (2) promoting sustainable and efficient public services delivery through introduction of pension reform, health care reform, enhancing of targeted housing and utilities subsidies and establishment of an Energy Efficiency Fund.

A policy-based guarantee was chosen as the financial instrument within systemic project carried out in cooperation with the International Bank for Reconstruction and Development (Economic Growth and Fiscally

Sustainable Services Policy Based Guarantee). The IBRD guarantee amounts to the equivalent of U.S.\$750 million which, in its turn, will allow to raise about U.S.\$1 billion in commercial financing.

On 21 December 2018, Ukraine and the International Bank for Reconstruction and Development signed an indemnity agreement (Economic Growth and Fiscally Sustainable Services Policy Based Guarantee) No. G-2790.

On 27 December 2018, the state budget of Ukraine received funds from a loan in the amount of €349.3 million granted by Deutsche Bank and having the benefit of the abovementioned IBRD guarantee. A portion of the guarantee in the amount equal to U.S.\$375 million had been utilised under this loan (out of the total amount of the World Bank guarantee equal to U.S.\$750 million).

On 27 February 2019, Ukraine and the IBRD signed an indemnity agreement (Economic Growth and Fiscally Sustainable Services Policy Based Guarantee) No. G-2820. On 1 March 2019, the state budget of Ukraine received a further €529.2 million granted by Deutsche Bank and having the benefit of the IBRD guarantee.

### *EIB*

On 27 August 2019, Ukraine and the International Bank for Reconstruction and Development signed a loan agreement under the programme for accelerated investment in agriculture in the amount of U.S.\$200 million. As at the date of this Prospectus, measures are being taken to satisfy the conditions necessary for the agreement to become effective.

Ukraine has cooperated with the EIB since 2005, and a framework agreement with the EIB was signed and came into force in 2006.

The EIB's mandate for 2014 to 2020 authorised lending operations for projects in the transport, energy, municipal infrastructure, telecommunications and environmental protection sectors. The Government expects that the EIB's lending operations in the future (following the end of that mandate) will continue to focus on the transport sector (including construction, repair and modernisation of highways and railways), telecommunications, energy efficiency, energy infrastructure and environmental protection.

As at 1 January 2020, the EIB was involved in 20 projects with Ukraine involving the provision of up to €4.09 billion. As at 1 January 2020, €851.46 million was drawn down under current and completed EIB projects. In addition, on 17 December 2018, Ukraine and the EIB entered into a Financial Agreement in relation to project "Transport Connection in Ukraine – Phase I" in the amount up to €50 million. On 22 November 2019, Ukraine and the EIB signed a €450 million financing agreement relating to the Trans-European Transport Network Development project.

### *EBRD*

As at 1 January 2020, the EBRD portfolio in Ukraine included 447 projects valued at €14.9 billion, among which there were 26 projects in the public sector valued in aggregate at €2.1 billion and U.S.\$1.0 billion with total disbursements amounting to €1.49 billion and U.S.\$1.0 billion. From the outset of Ukraine's relations with the EBRD, significant attention has been paid to funding nuclear safety measures. The EBRD oversees both the Nuclear Safety Account and the Chernobyl Fund "Shelter" established in December 1997 by the G7 and other contributor countries in connection with the clean-up of the Chernobyl nuclear reactor disaster.

The EBRD has also supported projects in food processing, the oil and gas industries, transport, telecommunications, finance and agricultural services, as well as municipal infrastructure projects relating to water supply and heating. In addition, joint projects between Ukraine and the EBRD are underway to introduce energy saving technologies in the power consuming sectors of the economy.

As at 1 January 2020, the EBRD portfolio included 6 joint projects in public sector at both the development and implementation stages involving the provision of €1.39 billion in funding. As 1 January 2020, €1,492.12 million and U.S.\$ 938.86 million were drawn down under current and completed EBRD projects.

On 30 July 2019, Ukraine entered into a guarantee agreement with the EBRD as well as a loan agreement with NEC "Ukrenergo" and the EBRD totalling €149 million related to the power transmission modernisation project. In addition, as at 1 January 2020, the EBRD tentatively approved several projects in Ukraine involving

the provision of approximately €450 million for the “Development of the trans-European transport network” project, and €51.85 million for the “Purchase of CRC machines”, and the “Increase of energy efficiency of PJSC “Ukrzavvydobuvannya” projects.

#### *KfW*

As at 1 January 2020, KfW’s portfolio in the public sector included three projects valued in aggregate at €207.5 million, under which a total of €27.2 million was disbursed. In addition, it is envisaged to raise funding in amount of €193.4million to implement the projects on renovation and modernisation of infrastructure objects, lending to small and medium enterprises and modernisation of substations.

#### *BSTDB*

Ukraine has also undertaken a number of projects jointly with the Black Sea Trade and Development Bank (“**BSTDB**”), which provides support for projects in the transport, communications and energy sectors and for environmental protection in the Black Sea area. As at 1 January 2020, the aggregate value of loans relating to 40 BSTDB projects implemented in Ukraine was approximately €615.2 million.

#### *Official Creditors*

##### *Paris Club*

On 13 July 2001, Ukraine reached an agreement with the Paris Club creditors to reschedule U.S.\$581.7 million of debt, to be repaid in 18 equal semi-annual instalments commencing on 30 April 2005 and ending on 31 October 2013 and which was duly repaid. Ukraine paid the Paris Club creditors (other than Russia and Turkmenistan) U.S.\$8.8 million in 2014, U.S.\$14.6 million in 2015, U.S.\$22.1 million in 2016, and U.S.\$13.4 million in 2017. As at 31 December 2014, 2015, 2016, 2017, 2018 and as at 30 November 2019, Ukraine’s outstanding debt to the Paris Club creditors (other than Russia) was approximately U.S.\$432.4 million, U.S.\$757.0 million, U.S.\$1,072.9 million, U.S.\$1,150.5 million, U.S.\$1,125.2 million and U.S.\$999.1 million respectively.

##### *Russia*

Ukraine’s largest official bilateral creditor is Russia, and despite the current political situation, Ukraine’s existing debt to Russia as at 31 December 2014 amounted to U.S.\$605.9 million and has not changed as of the date of this Prospectus. Since 1997, in exchange for a 20 year lease in favour of the Russian Navy for port facilities in Sevastopol in Crimea, Ukraine was able to benefit from decreased payments under its Russian debt obligations. However, since the recent developments in Crimea, the benefit of this agreement has been lost. From 2001 to 2013, Ukraine’s debt to Russia was reduced by approximately U.S.\$97.8 million annually pursuant to this agreement.

On 17 December 2013, the President of Russia and the former President of Ukraine announced a package of economic and financial support for Ukraine to be provided by Russia. As part of this promised financial package Russia provided U.S.\$3 billion of financial support by purchasing, indirectly, the entirety of Ukraine’s December 2013 Notes. The remainder of the promised U.S.\$15 billion of financial support was suspended following the fall from power of Mr. Yanukovych. The December 2013 Notes are currently the subject of litigation in the English Courts. See “*Description of Ukraine—Legal Proceedings—December 2013 Notes Litigation*”.

On 31 March 2014, Russia unilaterally terminated the following agreements between Russia and Ukraine (i) the Agreement on Parameters of Division of the Black Sea Fleet dated 28 May 1997, (ii) the Agreement on Status and Conditions of Russian Black Sea Fleet stationing within the territory of Ukraine dated 28 May 1997, (iii) the Agreement on mutual settlements related to the division of Russian Black Sea Fleet and the Black Sea Fleet Stationing within the territory of Ukraine dated 28 May 1997, and (iv) the Agreement on Matters related to Russian Black Sea Fleet stationing within the territory of Ukraine dated 21 April 2010, which extended the stationing of Russia’s Black Sea Fleet in Sevastopol for a further 25 years from the expiration of the original 20 year term in 2017. Ukraine has officially rejected the termination of the above agreements.

## EU

As part of its cooperation with the EU, throughout 2014-2018, Ukraine received macro financial loan assistance amounting to €3.31 billion, based on (i) the memorandum of understanding between Ukraine as borrower and the EU as lender concerning the provision of macro financial assistance by the EU in an amount up to €610 million (ratified by Ukraine on 4 March 2014; €610 million received), (ii) the memorandum of understanding between Ukraine as borrower and the EU as lender concerning the provision of macro financial assistance by the EU in the amount up to €1 billion (ratified by Ukraine on 20 May 2014; €1 billion received), (iii) the memorandum of understanding between Ukraine as borrower and the EU as lender concerning the provision of macro financial assistance by the EU in the amount up to €1.8 billion (ratified by Ukraine on 18 June 2015; €1.2 billion received), and (iv) the Memorandum of Understanding between Ukraine as borrower and the EU as lender concerning the provision of macro financial assistance by the EU in the amount up to €1 billion (ratified by Ukraine on 8 November 2018; €500 million received).

Funds received from macro financial assistance pursuant to the terms of the respective memoranda of understanding were used to reduce external debt pressure on Ukraine, improve its balance of payments and service its budgetary needs.

### *The fourth EU macro financial assistance programme*

The legislative decision of the European Parliament and the European Council on the fourth EU macro financial assistance programme to Ukraine in the amount of €1 billion took effect on 9 July 2018. Following consultations, the parties signed a memorandum of Understanding on 14 September 2018 with Ukraine as borrower and the EU as lender, as well as a loan facility agreement with Ukraine as borrower, the National Bank of Ukraine as financial agent to the borrower and the EU as lender.

The law of Ukraine on ratification of the mentioned international treaties of Ukraine was passed by the Parliament of Ukraine on 8 November 2018 and on 30 November 2018, it became effective.

The purpose of the assistance under the new programme is to support economic stabilisation in Ukraine by covering Ukraine's external funding needs in 2018 and 2019 through the provision of medium- and long-term loan facilities and its reform agenda. This assistance is granted in an amount up to €1 billion in the form of two tranches, both of which are conditional. Conditions include, among others, general the satisfactory implementation of the arrangements reached between Ukraine and the IMF, as well as a positive assessment by the EU of structural reforms. Structural reforms include six measures for the first tranche and 12 for the second, which must be implemented prior to the disbursement of funds. The measures relate to public finance management, good governance and anti-corruption reforms, sectoral reforms, privatisation, and certain social policies, among others.

Following a positive assessment by the EU of implemented structural reforms, the European Commission decided, on 30 November 2018, to disburse loan facility funds in the amount of €500 million to Ukraine.

On 11 December 2018, Ukraine received the first tranche under the fourth macro financial assistance programme in the nominal amount of €500 million (net refinancing amount was €510.854 million) in the form of a loan bearing interest at the rate of 1.25 per cent. maturing in April 2033.

The second tranche will be disbursed in the event the European Commission makes a positive assessment of complete performance by Ukraine of the remaining 12 measures.

In the context of reaching an agreement with the IMF on a new Extended Fund Facility, President Zelenskiy and the President of the European Commission Ursula von der Leyen agreed on the steps required to release the second tranche of the EU's fourth macro-financial assistance, which amounts to €500 million.

As of 31 December 2019, Ukraine fulfilled all twelve conditions required to obtain the second tranche under the fourth EU macro-financial assistance programme in the amount of €500 million.

As at the date of this Prospectus, Ukraine is waiting for the decision of the EU and for upcoming consultations with the European Commission to specify financial conditions of further macro-financial assistance.

## Contingent Liabilities

Historically, Ukraine issued guarantees not only in favour of State owned entities, but also other enterprises, including liabilities arising under export credit lines. From 1999 to 2003, Ukraine has been limited to issuing guarantees in favour of State owned entities. The Budget law sets out caps for guarantees provided by Ukraine for any given year. The cap was set at UAH 27.3 billion and UAH 29.3 billion for 2019 and 2020, respectively.

Ukraine paid U.S.\$130.5 million, U.S.\$82.1 million, U.S.\$35.6 million, U.S.\$45.2 million, and U.S.\$29.5 million, and U.S.\$32.8 million in 2014, 2015, 2016, 2017, 2018, and as at 30 November 2019 under its obligations for State guarantees.

As at 31 December 2014, 2015, 2016, 2017, 2018, and as at 30 November 2019, the total value of guarantees outstanding provided by Ukraine amounted to UAH 153.8 billion, UAH 237.9 billion, UAH 279.0 billion, UAH 308.1 billion, UAH 308.2 billion, and UAH 240.4 billion, respectively. The 2017, 2018, 2019 and 2020 State Budget Law limited the aggregate State guarantees to UAH 579.4 billion, UAH 747.6 billion, UAH 388.6 billion, and UAH 318.4 billion.

The 2014, 2015, 2016, 2017, 2018 and 2019 State Budget Laws authorised the Cabinet of Ministers to issue sovereign guarantees in 2014, 2015, 2016, 2017, 2018, 2019 and 2020, with a cumulative total amount not exceeding UAH 25.0 billion, UAH 26.0 billion, and UAH 28.9 billion, UAH 31.7 billion and U.S.\$700 million, UAH 24.0 billion, and UAH 27.3 billion respectively. In 2014, 2015, 2016, 2017, 2018 and 2019, Ukraine granted sovereign guarantees in the total amount of UAH 17.4 billion, UAH 12.8 billion, UAH 16.5 billion, UAH 8.0 billion, UAH 8.9 billion, UAH 4.9 billion, respectively.

## Special Fund Borrowings

In addition to borrowing accounted for in the General Fund of the State Budget, certain Government borrowing is accounted for in the Special Fund of the State Budget. Such borrowing includes certain loans from international financial organisations and special issuances of T-bills to replenish the Stabilisation Fund, including for the purpose of financing the Euro 2012 Championships in Ukraine and the Agrarian Fund, although the majority of financing from international financial organisations and T-bill issuances is accounted for in the General Fund of the State Budget. In 2014, 2015, 2016, 2017, 2018 and as at 30 November 2019, the amount of borrowing of the Special Fund was UAH 22,390.9 million (U.S.\$1,838.9 million), UAH 6,341.2 million (U.S.\$284.5 million), UAH 6,757.7 million (U.S.\$263.6 million), UAH 7,446.5 million (U.S.\$278.7 million), UAH 9,102.0 million (U.S.\$336.6 million) and UAH 10,535.5 million (U.S.\$ 408.2 million), respectively.

The following table sets out the borrowing made by the Special Fund of the State Budget and repayments of principal from the Special Fund of the State Budget in the periods indicated (no interest payments from the Special Fund of the State Budget were made in these periods):

	As at 31 December				As at 31 January	As at 30 April
	2014	2015	2016	2017	2018	2019
	<i>(in U.S.\$ millions)</i>					
Borrowing accounted for in the						
Special Fund.....	1,838.9	284.5	263.6	278.7	336.6	125.7
Internal borrowing.....	1,494.8	—	—	—	—	—
External borrowing.....	344.1	284.5	263.6	278.7	336.6	125.7
Repayments from the Special Fund....	—	—	—	—	—	—
Internal borrowing.....	—	—	—	—	—	—
External borrowing.....	—	—	—	—	—	—

## Debt Ratings

As at the date of this Prospectus, the foreign currency long-term debt of Ukraine is rated B (stable outlook) by Standard & Poor's Credit Market Services Europe Limited and B (outlook upgraded to positive) by Fitch Ratings Ltd.

## THE MONETARY SYSTEM

### National Bank of Ukraine

The NBU is the central bank of Ukraine and is a special central body of the state administration. Established in 1991, pursuant to Ukrainian law, and governed in accordance with the Constitution and Ukrainian law, the NBU is a State authority with the principal objective of ensuring the stability of the national currency. This objective is achieved by monitoring the strength of the banking system and price stability. Other functions of the NBU include promoting economic growth and supporting the Government's economic policy. The principal governing bodies of the NBU are the Council and the Board. The Council is the highest governing body of the NBU and consists of nine members, four of whom are appointed by the Parliament and four of whom by the President; it is responsible for the development of fundamental principles of monetary policy, as well as supervision of the performance thereof. The NBU Governor acts *ex officio* as the ninth member of the Council, and is nominated by the President and appointed by the Parliament for a seven-year term.

### Monetary Policy

The NBU is responsible for implementing monetary policy.

In recent decades, the Ukrainian economy suffered from volatile and unpredictable inflation, which reduced the credibility of the hryvnia and led to high interest rates on deposits and loans and high levels of dollarisation. With this in mind, the Monetary Policy Guidelines for 2016 to 2020 set out (for the first time) quantitative targets on inflation and the principles of monetary policy realisation based on inflation targeting. The NBU's monetary policy also aims at meeting objectives such as increasing the level of international reserves and achieving other quantitative performance criteria and indicative targets under the programme of cooperation with the IMF (including cooperation in relation to inflation).

The mid-term inflation objective for the annual CPI growth rate is set at 5 per cent. (+/- 1.0 per cent.) and will be achieved gradually. Short-term target rates for the annual change of CPI are set as follows: 12 per cent. (+/- 3.0 per cent.) as of December 2016, 8.0 per cent. (+/- 2.0 per cent.) as of December 2017, 6.0 per cent. (+/- 2.0 per cent.) as of December 2018 and 5.0 per cent. (+/- 1.0 per cent.) as of December 2019. The inflation target for 2016 was achieved with consumer inflation at 12.4 per cent. per year.

In December 2016 and September 2017, respectively, the NBU Council approved the Governing Principles of Monetary Policy for 2017 and the mid-term (the “**2017 Governing Principles**”) and the Governing Principles of Monetary Policy for 2018 and the mid-term (the “**2018 Governing Principles**”). These principles confirmed that the new monetary regime would continue with inflation targeting, and specified the inflation targets for subsequent years (which should remain unchanged once declared). The NBU will continue implementing monetary policy within this framework.

In December 2017, consumer inflation amounted to 13.7 per cent. year-on-year, exceeding the NBU target for the year-end (8 per cent.  $\pm$  2 per cent.) set forth in the 2017 Governing Principles. As compared to December 2016, inflation increased primarily as a result of factors on which the instruments of monetary policy have limited effect. The NBU viewed such factors as short-term and elected not to significantly tighten monetary policy. However, the NBU did ultimately adjust monetary policy in order to reduce any secondary effects of shocks on inflation expectations and to bring inflation within the target range in the mid-term perspective.

From the beginning of 2018, the moderate slowdown in consumer inflation continued, amounting to 9.8 per cent in December 2018. The slowdown of inflation reflected the NBU's tight monetary policy. Since October 2017, the NBU has gradually increased the discount rate in view of increasing inflation risks. In order to decrease inflation to the target indicators in the medium term, the NBU Council increased the discount rate six times consecutively in the period from 1 October 2017 to 1 September 2018, amounting to an overall increase of 5.5 per cent. to the current level of 18.0 per cent. per annum. This resulted in an increase of other interest rates, incentivising savings strengthening the exchange rate of hryvnia to the currencies of Ukraine's key trade partners. Growth in the domestic supply of certain products and an increase in global food prices also strengthened the hryvnia. At the same time, despite its earlier decrease, at the end of the year 2018 inflation exceeded the NBU target level of 6 per cent. (+/- 2 per cent.) set out in the 2018 Governing Principles. Inflation deviated from the target level mainly due to factors on which monetary policy had limited influence. Such factors included an increase in administratively governed prices and tariffs, an increase in production costs, an



increase in global prices for oil, and a decrease in the supply of certain vegetables. Consumer demand also drove inflation, resulting from an increase in wages. Finally, uncertainty concerning Ukraine's continued cooperation with the IMF and other external risks negatively affected Ukraine's economy.

In 2019, the slowdown of consumer inflation continued. As at 31 December 2019, consumer inflation was 4.1 per cent. per annum (compared to 9.8 per cent. per annum in December 2018). Core inflation fell to 5.9 per cent. per annum (from 8.7 per cent. per annum in December 2018). The reduction in core inflationary pressure was facilitated by the NBU's pursuit of tight monetary policy through the strengthening of hryvnia exchange rates to the basket of currencies of partner states and an improvement of inflation expectations. Due to the strengthening of hryvnia and falling energy prices, the majority of core components of non-core inflation were also lower than forecasted.

Considering depreciation of core inflationary pressure, a significant improvement of inflation expectations, on the basis of macroeconomic forecast, which was updated in April 2019, as well as considering the balance of risks for such forecast, the Board of the NBU decided in April 2019 to begin to reduce the discount rate. In April 2019, the Board of the NBU decreased the discount rate by 0.5 per cent. to 17.5 per cent. and again in the third quarter of 2019 to 16.5 per cent. The sharp decrease of core inflation pressure and the invariance of the risk balance since the meeting in September 2019 created grounds for further easing of monetary policy. On 25 October 2019, the NBU again reduced the discount rate to 15.5 per cent., followed by a further reduction to 13.5 per cent. on 13 December 2019.

According to the NBU's forecast published in its October 2019 Inflation Report, inflation will fall into the target range (5.0 per cent.  $\pm$  1.0 per cent.) in early 2020 and reach the mid-term target of 5.0 per cent. by the end of 2020.

The NBU believes that current monetary conditions are tight enough to reduce inflation to the target indicators within the planned terms. It is expected that consumer inflation will reach the target level in 2020 and will reach the 5 per cent. medium-term target at the end of 2020.

In July 2018, the Council of the National Bank of Ukraine approved the Strategy of monetary policy. This document confirms the key elements of inflation targeting regime, determines the key aims of monetary policy, principles, instruments and directions of their evolution for the medium term.

The Strategy of monetary policy confirms medium-term aim for inflation on the level of 5 per cent.  $\pm$  1 per cent, which has to be achieved at the end of 2019. From December 2019, the aim of 5 per cent. becomes permanent, and can be reviewed only downwards; *provided that* volatility of the exchange rate of hryvnia decreases, relative prices change and effects of convergence of Ukrainian economy weakens to the levels of the country's key trade partners.

In September 2018, the NBU Council approved the Governing Principles of Monetary Policy for 2019 and the mid-term, which are based on the Strategy of monetary policy and detail the implementation of the monetary policy.

In September 2019, the Board of the NBU approved the Governing Principles of Monetary Policy for 2020 and for the mid-term perspective. The document confirms that the NBU will continue to use the monetary regime of inflation targeting to achieve price stability. The objective of monetary policy is to maintain inflation in the mid-term perspective at 5.0 per cent. with possible fluctuations of  $\pm$  1.0 per cent.

The NBU achieves inflation targets primarily by changing the key interest rate of the monetary policy (the discount rate). Other instruments of monetary policy play a supporting role; they contribute to smoothing the effects of the key interest rate of the monetary policy changes on the economy as well as to the balanced development of the financial markets.

To improve the NBU's ability to achieve the inflation targets, the operational design of the monetary policy was improved in April 2016; in particular, the discount rate was synchronised with the key interest rate by major operations on liquidity regulation, notably the issue of the NBU's two-week deposit certificates. As such, the discount rate has become the *de facto* key interest rate of the monetary policy.

There is a symmetrical interest rate corridor, meaning the key interest rate may deviate for +/- 2 per cent. for continued access operations around the key interest rate. As a result, the NBU keeps interest rates on the interbank credit market at a level close to the key interest rate.

In the beginning of 2019, the NBU modified the operational design of monetary policy to allow for a more flexible reaction to changes in the banking system liquidity.

The main operations under the new design are tenders on placement of deposit certificates for a term up to 14 days and refinancing for the same term. The rate under these main operations is equal to the discount rate of the NBU. Tenders on refinancing and placement of deposit certificates are not restrained in volumes. Implemented changes will strengthen the role of the discount rate as a benchmark to assess the price of interbank loan resources.

The schedule of operations regulating liquidity changed as well. The main operations are being carried out weekly on Friday on a rotating basis: one week – a refinancing tender, the following week – a placement of deposit certificates as so on. Modernisation of the operational design will facilitate effective performance by the NBU of its operational goal even where the banking system liquidity may be unstable. The said goal is to maintain the hryvnia interbank rates on the level close to the discount rate, within the corridor of rates for instruments of continued access.

In July 2019, the NBU began to publish a regular discount rate forecast. The forecasted rate trajectory is consistent with other indicators of the NBU macroeconomic forecast, in particular inflation. The NBU updates its quarterly forecast and publishes it in its Inflation Report. According to the forecast of the NBU (Inflation Report published in October 2019), the discount rate will decrease to 8.0 per cent. by the end of 2021 and inflation will decrease to 5.0 per cent. The sharpest decline of the discount rate is expected throughout 2020, along with the return of inflation to the target range and the improvement of inflation expectations.

The NBU takes all necessary measures to maintain the floating exchange rate regime; its monetary policy is not aimed at achieving a certain level or range of the exchange rate. Peculiarities of the currency intervention under the inflation targeting regime are defined in the Monetary Policy Strategy for 2016-2020, which was approved by the Board of the NBU in October 2016. This Strategy provides for currency intervention objectives, including accumulation of international reserves, smooth functioning of the currency market and transmission of the key interest rate as the main tool of monetary policy.

Building international reserves to a sufficient level is considered an important task of the NBU in the coming years. Sufficient levels of international reserves are expected to serve as a stabilising protective mechanism for the state financial system and economy and should minimise the impact of external shocks. Currency interventions are made in order to build international reserves to the target level, which is equal to 100 per cent. of the IMF composite criterion (“**ARA metrics**”) at the end of 2018. After the target level is attained, the NBU plans to minimise its presence on the foreign exchange market.

The Draft Law of Ukraine “*On Amendments to Certain Legislative Acts of Ukraine Regarding the Issues of Regulation of Banking Activities*” was developed by the NBU taking into account the recommendations of the experts of the International Monetary Fund and the World Bank and approved by them. On 20 March 2019, the draft law was sent to the Parliament Committee on Financial Policies and Banking, the Deposit Guarantee Fund, the Independent Association of Banks of Ukraine and the Association of Ukrainian Banks for information, as well as comments and suggestions.

The draft law “*On Amendments to Law of Ukraine “On Banks and Banking Activities*” intends to bring corporate governance standards in line with the Basel Principles of Banking Supervision and to expand legal forms of bank organisation. The draft law also enhances responsibility of the bank’s board in terms of expanding its responsibilities by establishing committees of the bank’s board carrying out annual evaluation of their activities/committees’ activities, defining wage policy, and establishing corporate ethics code and policies for preventing conflicts of interest, as well as introduction of a mechanism for confidential notification by the employees of the bank about illegal, unethical, suspicious practices in the bank.

On 6 February 2018, the Parliament adopted the draft law “*On Amendments of Certain Legislative Acts on Establishment and Administration of the Loan Register of the National Bank of Ukraine*” No. 2277-VIII, empowering the NBU to establish a loan register and to use information contained in such register for the

purpose of banking regulation and supervision. The law entered into force on 4 March 2018. The law intends to increase the reliability of the banking system and to enhance protection of depositors' and lenders' interests.

On 7 July 2018, the Law of Ukraine “*On Currency and Currency Operations*” No. 2473-VIII dated 21 June 2018 (the “**Currency Law**”), became effective and was put into operation on 7 February 2019. The Currency Law presents the new concept of currency regulation and introduces the regime of free movement of capital on the trans-border level under the principle “everything which is not prohibited shall be allowed”, which will operate fully as intended when the National Bank of Ukraine no longer needs to apply safeguards in the currency market to prevent threats to macrofinancial stability.

### Instruments of Monetary Policy

The following table describes operations aimed at regulating the liquidity of banks in Ukraine in 2014, 2015, 2016, 2017 and 2018 and for the period from 1 January 2019 to 20 November 2019:

	For the year ended 31 December					For the period from 1 January 2019 to 20 November
	2014	2015	2016	2017	2018	2019
	(UAH billion)					
<b>Operations for maintenance of liquidity</b>						
Refinancing operations.....	150.6	61.3	50.8	35.7	181.2	101.6
REPO operations.....	20.4	2.3	0.0	0.0	0.0	0.0
Stabilising loans .....	28.2	11.7	25.0	0.0	0.0	0.0
Other loans .....	23.0	0.0	0.0	0.0	0.0	0.0
<b>Operations for prevention of excessive liquidity</b>						
Reverse REPO operations .....	0.0	0.0	0.0	0.0	0.0	0.0
Issuing of deposit certificates of NBU ..	1,472.7	2,849.2	2,946.9	2,667.0	2,898.9	4,105.5
<b>Sale purchase of securities</b>						
Repurchase of securities in the national currency .....	183.3	93.7	27.9	3.9	0.0	0.0
on a two way quotation basis .....	1.0	0.3	0.0	0.0	0.0	0.0
Sale of securities in the national currency .....	1.0	1.9	0.0	0.0	0.0	0.0
on a two way quotation basis .....	1.0	0.3	0.0	0.0	0.0	0.0

Methods and instruments currently used by the NBU for the implementation of monetary policies include interest rate policy, mandatory reserve requirements, liquidity requirements, and a wide range of instruments for the regulation of bank liquidity, namely refinancing tenders and tenders for placing deposit certificates of the NBU, repurchase agreements, currency swaps, and the purchase and sale of State securities.

### Interest Rate

A reduction in risks to price stability in the second half of 2015 allowed the NBU to start easing monetary policy; the discount rate was reduced from 30 per cent. to 22 per cent. In 2016, the NBU continued its active easing of monetary policy; the discount rate was decreased from 22 per cent. to 14 per cent. Since the end of 2016 and in the first quarter of 2017, the NBU Board refrained from reducing the discount rate in order to moderate the risks connected with achieving the inflation targets in 2017 and 2018. In April 2017, the NBU renewed the monetary easing cycle. On 14 April 2017, it reduced the discount rate by 1.0 per cent. to 13 per cent. and on 26 May by another 0.5 per cent. to 12.5 per cent. The worsening of inflation expectations, delays in official financing, the acceleration of growth in consumer demand and a larger-than-expected 2018 budget prompted the NBU to increase the discount rate in total by 1.0 per cent. to 14.5 per cent. between October and December 2017. In 2018, the NBU maintained its policy of gradual reduction of inflation, and twice raised the discount rate by 1.5 per cent. in January and 1.0 per cent. in March (in general up to 17.0 per cent. per annum). The recent decisions of the NBU to raise the key interest rate were caused by the lack of significant signs of weakening of inflation risks. Among such risks are the vulnerability of the Ukrainian economy due to the fact that it continues to delay the receipt of the next tranche under the programme of cooperation with the IMF,

increased inflation expectations of economic agents and significant growth pace in consumer demand. In 2018, the NBU raised the discount rate four times by an aggregate amount of in total by 3.5 per cent. up to 18.0 per cent. in order to prevent further deterioration of inflation expectations against a background of strengthening of risks, which may prevent the decrease of inflation to the target level. From October 2018 until April 2019, the Board of the National Bank has kept the discount rate unchanged at 18.0 per cent. With effect from 26 April 2019, the Board of the National Bank began to reduce the discount rate to 17.5 per cent. and to 17.0 per cent. on 19 July 2019. On 6 September 2019, the NBU again reduced the discount rate to 16.5 per cent. and to 15.5 per cent. on 25 October 2019. From December 2019, the discount rate was further reduced to 13.5 per cent. Tight monetary conditions remain an important prerequisite for further deceleration of inflation to the 5 per cent. target in 2020. In early 2019, the main inflation risks were the possible deterioration of expectations due to the increase of social benefits in the context of the traditional increase of uncertainty in the year of presidential and parliamentary elections, as well as external conditions, along with the increased volatility of world commodity prices.

Decisions on the key rate are determined by the value of market resources. Thus, the yield of domestic government bonds in the national currency is closely correlated with the NBU discount rate and have remained practically unchanged since the end of 2018. In general, the yield of hryvnia instruments in real terms has remained the highest among emerging markets, which, among other factors, supported the inflow of foreign portfolio investment. As at October 2019, the Ukrainian Interbank Rate Index (“UIIR”), which is an indicator of the level of hryvnia interbank interest rates for interest rate policy purposes, was also almost unchanged, fluctuating within the corridor of NBU rates for permanent access instruments. Against the backdrop of rising liquidity since mid-January, its gravity towards the lower limit was restored.

Reducing the cost of resources on the interbank lending market has led to a decrease in interest-free interest rates on loans to customers in January and February 2019. Hryvnia loans to non-financial corporations became more significant, while the high demand of the population for credit resources kept interest rates on household loans almost at the level of the previous quarter. The decline in the return on deposits of non-financial corporations is due to a decrease in interest rates on term deposits up to one year, while the cost of funds to demand and more than a year has increased. Interest rates on household fixed-term deposits also grew.

The average weighted value of interbank loans in hryvnia fell from 19.3 per cent. in December 2015 to 13.6 per cent. in December 2016, to 13.0 per cent. in December 2017 and increased at the end of 2018 to 18.0 per cent. In January to October 2019 the average weighted value of interbank loans in hryvnia fell to 15.0 per cent.

According to NBU data, the average weighted interest rate on hryvnia deposits of residents was 11.93 per cent. in 2014, 13.01 per cent. in 2015, 11.41 per cent. in 2016 and 9.13 per cent. in 2017 and 12.08 in 2018 and 22.78 per cent. in October 2019. The average weighted interest rate on foreign currency deposits of residents was 6.75 per cent. in 2014, 6.69 per cent. in 2015, 4.68 per cent. in 2016, 3.22 per cent. in 2017 and 2.39 per cent. in 2018 and 2.44 per cent. in October 2019. The average weighted interest rate on loans to residents in national currency excluding overdrafts was 17.15 per cent. in 2014, 21.2 per cent. in 2015, 17.43 per cent. in 2016, 15.35 per cent. in 2017 and 18.87 per cent. in 2018 and 19.81 per cent. in October 2019. The average weighted interest rate on loans to residents in foreign currency excluding overdrafts was 9.02 per cent. in 2014, 8.86 per cent. in 2015, 8.8 per cent. in 2016, 7.52 per cent. in 2017 and 5.91 per cent. in 2018 and 4.26 per cent. in October 2019.

#### *Instruments of permanent access*

Instruments of permanent access employed by the NBU include operational maintenance of banks' liquidity by means of overnight loans (with a next business day deadline) or operational removal of banks' liquidity by means of placing deposit certificates overnight.

The corridor of overnight interest rates in the interbank credit market is formed of interest rates under the instruments of permanent access. The possibility of daily free access to these instruments is the key to the effectiveness of the interest rate policy of the NBU, which is based on the maintenance of market interest rates within the limits of the defined corridor. Since April 2016, interest rates under the instruments of permanent access have been set within  $\pm 2$  per cent. of the discount rate.

### *Refinancing operations*

The NBU currently conducts refinancing operations as follows:

- daily by overnight loans to banks (secured by a pool of assets (property) which may consist of Ukrainian sovereign bonds, deposit certificates of the NBU, bonds of international financial institutions and foreign currency);
- biweekly on Friday by way of tenders for provision of refinancing for a term up to 14 days;

The NBU may, if necessary, announce tenders for refinancing loans for the term of up to 90 days and from one to five years.

Tenders can be quantitative and interest-based. Bank refinancing by way of provision of overnight loans to banks and holding of tenders for maintaining liquidity can be secured by a pool of assets (property) which may consist of Ukraine governmental bonds, which are owned by banks, deposit certificates of the NBU, foreign currency (U.S. dollar, EUR, GBP, CHF, and JPY) and bonds of international financial institutions issued in Ukraine.

*Direct repo operations* (purchase with further sale commitments) can be held with Ukrainian sovereign bonds and bonds of international financial institutions for up to 90 days.

*Open market operations on the sale and purchase of Ukrainian sovereign bonds* can be carried out by means of participation both in trading, held by organisers of securities trading and on the over-the-counter market.

On 6 October 2017, the Ministry of Finance of Ukraine and the National Bank of Ukraine entered into state debt transaction, exchanging T-bills owned by the National Bank of Ukraine for the new T-bills issued in accordance with the terms and conditions for the issue of 2017 Ukrainian T-bills (the “**Terms and Conditions**”). T-bills with total book value of UAH 218.9 billion, with maturities ranging from 11 October 2017 to 27 November 2030 and fixed interest rates ranging from 9.50 per cent. to 15.50 per cent. were withdrawn from the portfolio of securities accounted at amortised cost. At the same time, as the result of exchange of T-bills with total value of UAH 220.6 billion with maturities ranging from 10 May 2025 until 10 November 2047 were acquired. Interest rates on notes due within the period from 2025 until 2035 are fixed and range from 8.12 per cent. to 11.30 per cent. Interest rates on notes due within the period from 2036 to 2047 are calculated in accordance with Clauses 7 through 9 of the Terms and Conditions. Accrued and unpaid interest under T-bills subject to exchange amounted to UAH 8.0 billion as of the transaction date and was paid in cash to the National Bank of Ukraine.

The NBU did not sell T-bills in 2016, 2017, 2018 and in January to 20 November 2019. In 2016, T-bills purchase transactions amounted to UAH 27.9 billion, and in 2017 amounted to UAH 3.9 billion. In 2018 and from 1 January to 20 November 2019, there were no T-bills purchase transactions.

### *Banks refinancing operations and REPO*

The total amount of transactions providing overnight loans to banks and tender loans amounted to UAH 61.3 billion in 2015, UAH 50.8 billion in 2016, UAH 35.7 billion in 2017, UAH 181.2 billion in 2018 and UAH 101.6 billion in January to 20 November 2019. The total sum of repo operations amounted to UAH 20.4 billion in 2014 and UAH 2.3 billion in 2015. Repo operations were not conducted in 2016, 2017, 2018 or in January to 20 November 2019.

### *Mobilisation operations*

NBU deposit certificates are a form of monetary instrument representing debt obligations of the NBU, which evidence the placement of bank funds with the NBU and the right of such banks to receive the placed funds with accrued interest on the redemption date of such certificates. Such operations are aimed at a reduction of the liquidity of the banking system.

Currently the NBU places deposit certificates for a term up to 14 days by way of biweekly tenders and for a term up to 100 days in accordance with a schedule of tenders for placement of deposit certificates.

The NBU may, if necessary, conduct tenders for the placement of deposit certificates for up to 100 days.

The total amount of mobilisation operations amounted to UAH 2,946.9 billion in 2016, UAH 2,667.0 billion in 2017, UAH 2,898.9 billion in 2018 and UAH 4,105.5 billion in January to 20 November 2019.

#### *Emergency liquidity assistance*

The NBU provides emergency liquidity assistance to solvent banks by providing loans for liquidity support, once a bank has already exhausted all other sources of liquidity support, including on the interbank loan market and standard NBU refinancing instruments. Banks should use such disbursements for the satisfaction of their obligations to depositors and other creditors (other than related parties). Such loans are provided for a term of up to 90 days and may be further extended for a further 90 days. The aggregate term of loans provided as emergency liquidity assistance to banks (including all extension periods) cannot exceed one year.

#### *T-Bills*

T-bills are placed in the market through an auction process carried out by the NBU as agent for the Ministry of Finance. Auctions are currently conducted through the NBU's electronic communication network pursuant to a schedule approved and published in advance. Since 19 February 2010, T-bills in the primary market are only sold to primary dealers selected by the Ministry of Finance. In addition, T-bills in the primary market may be sold to the NBU acting upon instruction and at the expense of its clients. See "*Public Debt*".

In 2014, the Government placed T-bills denominated in both the national currency ("UAH") and U.S. dollars into the market, with the maturity of these T-bills ranging from 19 days to ten years. Approximately UAH 67.5 billion of these T-bills are denominated in UAH, approximately U.S.\$0.8 billion are denominated in U.S. dollars and €40 million are denominated in Euro. The purpose of the T-bills issued amounted to UAH 96.6 billion to finance the increase of the charter capital of Naftogaz, UAH 16.6 billion to finance state-owned banks, UAH 10.18 billion to finance the Deposits Guarantee Fund and UAH 6.88 billion to finance VAT refunds.

In 2015, the Government again placed T-bills denominated in UAH and U.S. dollars into the market; the maturity of these T-bills ranged from three months to two years. Approximately UAH 10.0 billion of these T-bills are denominated in UAH, and approximately U.S.\$0.64 billion are denominated in U.S. dollars. The T-bills issued amounted to UAH 29.7 billion to finance the increase of the charter capital of Naftogaz, UAH 3.8 billion to finance the increase of the charter capital of banks and UAH 41.5 billion to issue a loan to Deposits Guarantee Fund.

The Government placed further T-bills into the market in 2016, denominated in UAH, U.S. dollars and EUR, with the maturity of these T-bills ranging from three months to five years. Approximately UAH 36.6 billion of these T-bills are denominated in UAH, approximately U.S.\$3 billion in U.S. dollars and approximately €0.14 billion in EUR. The T-bills issued to finance the increase of the charter capital of banks amounted to UAH 121.3 billion (including UAH 107 billion to PrivatBank, UAH 5 billion to Oschadbank and UAH 9.3 to Ukreximbank), and approximately UAH 8.0 billion to issue a loan to the Deposits Guarantee Fund.

In 2017, the Government placed U.S.\$1,804.2 million T-bills and €133.6 million T-Bills. In 2018, according to preliminary data, the Government placed U.S.\$3,451.5 million T-bills and €498.4 million T-bills. As of 28 February 2019, the Government placed U.S.\$885.5 million T-bills and €33.3 million T-bills. As at 31 December 2014, 2015, 2016, 2017 and 2018 holdings of Ukrainian T bills by non-residents were approximately 4.7 per cent., 4.5 per cent., 1.0 per cent., 0.7 per cent. and 0.8 per cent. respectively. As at 12 April 2019, T-bills held by non-residents represented approximately 3.4 per cent.

In 2014, the average yield for T-bills sold in the primary market was 15.2 per cent. for T-bills denominated in hryvnia, 5.8 per cent. for T-bills denominated in U.S. dollars and 7.5 per cent. for T-bills denominated in Euro. In 2015, the average yield for T-bills sold in the primary market was 17.0 per cent. for T-bills denominated in hryvnia and 8.7 per cent. for T-bills denominated in U.S. dollars. In 2016, the average yield for T-bills sold in the primary market was 14.9 per cent. for T-bills denominated in UAH, 7.3 per cent. for T-bills denominated in U.S. dollars and 4 per cent. for T-bills denominated in Euro. The average weighted annual yield on domestic T-bills sold in the primary market in 2017 amounted to 15.0 per cent. in hryvnia, 4.8 per cent. in US dollars and 4.0 per cent. in euro. The average weighted annual yield on T-bills sold in the primary market in 2018 was 17.8

per cent. in hryvnia, 6.0 per cent. in US dollars and 4.2 per cent. in euro. The average weighted annual yield on T-bills sold in the primary market as of 28 February 2019 amounted to 18.9 per cent. in hryvnia, 6.5 per cent. in US dollars and 4.52 per cent. in EUR Savings Bonds.

On 21 May 2014, the Ministry of Finance launched an issue of UAH 100 million of saving bonds (military) with a two-year term and an interest rate of 7 per cent. per annum. This was in addition to two separate savings bonds issuances in 2012, which totalled U.S.\$200 million. As at 1 January 2018, all saving bonds were repaid in full. Since then, no further savings bonds have been issued.

#### *Obligatory reserves*

The NBU uses this instrument for levelling out possible market (unforeseen) fluctuations of liquidity of the banking system. Banks are required to reserve on their correspondent accounts funds in the amount, which is defined as a certain per cent. of their obligations (reserving standard).

Based on the results of consultations with IMF experts, the NBU unified the requirements related to the maintenance of the mandatory reserves of the banks. In particular, the NBU adopted the Regulation on the Procedure for the Formation and Maintaining of the Mandatory Reserves by Ukrainian Banks and Branches of Foreign Banks Operating in Ukraine, which was approved by Resolution of the NBU Board No. 806, dated 11 December 2014. The NBU also adopted Resolution No. 820 “*On the Change of the Procedure for the Formation and Maintaining of the Mandatory Reserves*”, dated 18 December 2014. Consequently, according to the applicable requirements, all funds in local and foreign currency received by the bank from individuals and legal entities are subject to mandatory reserves, except for loans from resident banks, funds from international financial organisations, and funds provided on subordinated debt terms. Beginning on 1 January 2015, banks reserve and store mandatory reserve costs on their correspondent accounts in the NBU. The mandatory reserve requirement for funds on demand is equal to 6.5 per cent. and 3.0 per cent. of the base amount for fixed term deposits.

Since 25 December 2017, the amount of mandatory reserves to be maintained on a day-to-day basis at the beginning of the operational day on the bank’s correspondent account with the NBU is 0 per cent. of the reserve base calculated for the relevant period. Previously, such mandatory reserves could not be less than 40 per cent. of the reserve base calculated for the relevant period. When banks failed to comply with these mandatory reserve requirements more than ten times within three consecutive months (periods), they were subject to a penalty required to maintain their correspondent accounts with the National Bank of Ukraine.

Starting from 10 April 2016, no enrolment by banks is required to cover mandatory reserves of any asset.

#### *Currency markets interventions*

On 6 September 2016, the decision of the Board of the NBU No. 261-PU approved the strategy of currency interventions of the NBU in 2016-2020. The strategy defined the following objectives for the implementation of the NBU’s foreign exchange intervention: the accumulation of international reserves; levelling out of the foreign exchange market to avoid the negative effects of excessive exchange rate volatility and extraordinary events on price and financial stability in the currency market; and maintaining the transmission of the key interest rate as the main tool of monetary policy.

Currency interventions can be implemented in the following forms: currency auctions, interventions on a single exchange rate basis, inquiries as to the best exchange rate, and targeted intervention.

#### *Money Supply*

Improvement of economic expectations and the clean-up of the banking system in 2016 and 2017 increased the demand for hryvnia; this required an increase in money supply. Previous low demand for money in 2014 to 2015 had been caused by various factors, including the economic crisis, increased inflation and devaluation expectations and hryvnia turnover in the temporarily occupied territories. The improvement of economic expectations and the clean-up of the banking system increased the demand for hryvnia in 2016 and 2017; this required an increase in money supply.

In 2014, money supply increased by 5.3 per cent. and amounted to UAH 956.7 billion; in the same period, the monetary base increased by 8.5 per cent. and amounted to UAH 333.2 billion. In 2015, money supply increased by 3.9 per cent., amounting to UAH 994.1 billion; during the same period, the monetary base increased by 0.8 per cent. and amounted to UAH 336 billion. In 2016, money supply increased by 10.9 per cent. and amounted to UAH 1,102.7 billion. The monetary base in 2016 increased by 13.6 per cent. and amounted to UAH 381.6 billion. In 2017, money supply increased by 9.6 per cent. and amounted to UAH 1,208.7 billion. The monetary base increased to 4.6 per cent. and amounted to UAH 399.1 billion. Due to favourable currency market conditions that prevailed over most of 2018, as well as increased interest rates, the attractiveness of hryvnia deposits increased, primarily among the population whose nominal income continued to grow at a high pace. This ensured a further increase in volume of hryvnia deposits within the banking system and growth of money supply by 5.7 per cent. to UAH 1,277.6 billion in 2018. Continuing demand for cash from population and business accelerated annual growth of the monetary base. In 2018, it increased by 9.2 per cent. annually to UAH 435.8 billion. In October 2019, the growth of money supply and money base amounted to 6.9 per cent. and 4.0 per cent. annually (to UAH 1,331.7 billion and UAH 441.9 billion, respectively).

As at 1 January 2017, the money multiplier was 2.89, compared with 2.96, 2.87 and 2.96 as at 1 January 2016, 2015 and 2014, respectively. On 1 January 2018 and 1 January 2019 the money multiplier was 3.03 and 2.93, respectively. On 1 November 2019, the money multiplier was 3.01.

The following table sets out information concerning Ukraine's money supply (including accrued interest) as at the dates indicated:

	As at 31 December					As at 1 October	
	2013	2014	2015	2016	2017	2018	2019
	<i>(in UAH millions except as noted)</i>						
Money outside banks (M0) .....	237,777	282,947	282,673	314,392	332,546	363,629	357,457
Money supply (M1) .....	383,821	435,475	472,217	529,928	601,631	671,285	689,260
Money supply (M2) .....	906,236	955,349	993,812	1,102,391	1,208,557	1,273,772	1,328,609
Money supply (M3) .....	908,994	956,728	994,062	1,102,700	1,208,859	1,277,635	1,331,696
as % before beginning of year .....	117.6	105.3	103.9	110.9	109.6	105.4	104.2
Monetary base .....	307,139	333,194	336,000	381,575	399,057	435,798	441,848
as % before beginning of year .....	120.3	108.5	100.8	113.6	104.6	109.2	101.4
Deposits in local currency .....	422,351	365,890	391,539	425,697	490,594	540,109	576,225
Deposits in foreign currency included into M3 .....	246,109	306,512	319,599	362,302	385,417	370,034	394,928
Loans extended .....	910,782	1,020,667	981,627	998,682	1,016,657	1,073,131	1,011,848

### Exchange Rates

Ukraine's currency, the hryvnia, was introduced in 1996. As at 31 December 2013, immediately prior to the Euro-Maidan Revolution, the NBU official UAH/U.S. dollar exchange rate was pegged at UAH 7.9930 to one U.S. dollar. In February 2014, due to increasing pressure on the hryvnia and a low level of reserves, the NBU allowed the exchange rate to float against the U.S. dollar, helping to stabilise the financial market. Based on the NBU resolutions of 19 March 2015, as of 31 March 2015, the official exchange rate of hryvnia was established by the NBU as the average weighted ratio of buyers and sellers on the interbank exchange market at the end of the preceding business day. The NBU intends to maintain a floating exchange rate regime; a money-based monetary framework will therefore be developed.

In 2014, the hryvnia depreciated against the U.S. dollar by 97.3 per cent. and against the euro by 74.2 per cent. As at 31 December 2014, the NBU official UAH/U.S. dollar exchange rate was UAH 15.77 to one U.S. dollar. As at 31 December 2015, the NBU official UAH/U.S. dollar exchange rate was UAH 24.00 to one U.S. dollar; hryvnia depreciation against one U.S. dollar was 52.2 per cent. during 2015. In 2016, the hryvnia depreciated against the U.S. dollar by 13.3 per cent., while the NBU set the official exchange rate to the U.S. dollar of UAH 27.19 per one U.S. dollar as of 31 December 2016.

The situation in the currency market during 2017 mostly remained stable; this was primarily due to favourable external price conditions and significant volumes of grain exports following a good harvest in previous year. The official exchange rate of hryvnia to the US dollar for a year devalued by 3.2 per cent. to UAH 28.07 per U.S. dollar.

In 2018, the situation on the currency market was also mainly favourable – the supply of the foreign currency from clients of banks prevailed over the demand. Among other factors, this was facilitated by the decision of the NBU on the key rate. In 2018, the official UAH/U.S. dollar exchange rate strengthened by 1.35 per cent. as at 31 December 2018 to UAH 27.69 to 1 U.S. dollar. Since the beginning of 2019, its strengthening has



continued, as of 31 October 2019, the official UAH/U.S. dollar exchange rate has strengthened by 9.7 per cent. to UAH 24.99 to 1 U.S. dollar.

On the basis of the regulation on the establishment of the official exchange rate of hryvnia to foreign currencies and banking metals and the calculation of the reference value of hryvnia to the U.S. dollar (Resolution of the Board of the NBU № 80 dated 19 July 2018), starting from 1 August 2018, in establishing the official exchange rate of hryvnia to the U.S. dollar the NBU considers information regarding purchases and sales of U.S. dollars on the “tod”, “tom” and “spot” terms, which were concluded in the day of settlement by banks in the currency market of Ukraine with other banks and with the NBU, as well as information provided to the NBU by THOMSON REUTERS and BLOOMBERG trade information systems (the calculation method is provided in Annexes 5 and 6 of the aforementioned Resolution). The NBU intends to maintain a floating exchange rate regime and thus create a monetary policy based on the use of money.

Following the change to a floating exchange rate, the NBU maintained its presence on the interbank currency market, evening out temporary excessive exchange rate fluctuations. The regulator did not take any action to defend the exchange rate against fluctuations due to the influence of fundamental market factors. The NBU did, however, take action to increase the level of international reserves.

The net cumulative balance of the NBU foreign exchange operations became positive in 2016 and 2017 and stood at U.S.\$1.55 billion and U.S.\$1.26 billion, respectively. The positive balance of the NBU foreign exchange operations in 2018 amounted to U.S.\$1.37 billion. The net cumulative balance of NBU foreign exchange operations was positive on 31 October 2019 and stood at U.S.\$4.1 billion.

The following table sets out the average official hryvnia/U.S. dollar exchange rates for the relevant periods, as reported by the NBU:

	Average	Period end
2016.....	25.6	27.2
2017.....	26.6	28.1
2018.....	27.0	27.7
1 January 2019 to 1 October 2019 .....	26.2	25.0

Source: NBU

The NBU has a number of additional monetary instruments and temporary protection measures which are currently being used to support the hryvnia. They include a maximum period of 365 days between the prepayment for imported goods and their delivery or payment for exported goods, the mandatory sale of part of foreign currency earnings from abroad (from 1 March 2019 in a nominal amount of 30 per cent.), limits on the repatriation of dividends to a foreign investor/non-resident, and certain operations related to the movement of capital, as well as the limits of open currency positions.

### ***Inflation-targeting***

Taking into account that low and stable inflation is one of the key contributors to sustainable economic growth, the NBU believes that inflation targeting is the most favourable monetary policy regime. See “*Economy of Ukraine—Inflation*”.

The NBU started using inflation targeting in 2016. There was a rapid decrease in the annual rate of consumer inflation from 43.3 per cent. in late 2015 to 12.4 per cent. in December 2016, according to a predetermined target (12 per cent. +/- 3 per cent.).

In December 2016, the NBU Council approved the governing principles of monetary policy for 2017 and the mid-term perspective, thereby officially recognising inflation targeting as the monetary policy regime. At the same time, the inflation rate targets for 2017 to 2020 were set at the same level.

In September 2017, the NBU Council approved the Governing Principles of Monetary Policy for 2018 and the mid-term perspective, which confirmed the invariability of the goals and principles of monetary policy implementation.

In July 2018, the Council of the National Bank of Ukraine approved the Strategy of monetary policy. This document confirms the key elements of inflation targeting regime, determines the key aims of monetary policy, principles, instruments and directions of their evolution for the medium term.

As of the date of this Prospectus, Ukraine continues to cooperate with the IMF under the new Stand-By Arrangement (2018 SBA). The success achieved by the NBU in inflation targeting has led to the transition in the new arrangement from quantitative monetary targets to consultation with the IMF regarding inflation targets. Inflation targets set by the NBU are included as target indicators in the new IMF arrangement.

In September 2019, the NBU Council approved the Governing Principles of Monetary Policy for 2020 and the mid-term perspective. The document confirms that the National Bank will continue to use the monetary regime of inflation targeting to achieve and ensure price stability. The objective of monetary policy is to maintain inflation at 5.0 per cent. in the medium term with a possible fluctuation of  $\pm 1.0$  per cent.

### ***Currency Control***

On 19 November 2012, the NBU introduced temporary requirements for the compulsory sale of 50 per cent. of foreign currency revenues received by Ukrainian exporters from sales of goods under foreign economic contracts. Accordingly, Ukrainian banks servicing Ukrainian exporters' accounts were required to initiate compulsory sales of foreign currency funds within one business day of crediting such foreign currency funds to the relevant Ukrainian exporter's account, regardless of whether the Ukrainian bank had obtained instruction from its client. In August 2014, the NBU increased the amount of foreign currency proceeds subject to the compulsory sale requirement to 100 per cent. of foreign currency proceeds, but subsequently decreased it to 75.0 per cent. in September 2014. The same mandatory exchange requirement remained in place throughout the remainder of 2014, 2015 and until 8 June 2016. Starting from 9 June 2016, the mandatory sale requirement of foreign currency proceeds was reduced to 65 per cent. and, with effect from 5 April 2017, reduced to 50 per cent. On 14 June 2018, the Resolution of the NBU's Council dated 12 June 2018 No. 65 "*On Imposition of Compulsory Sale of Proceeds in the Foreign Currency and Establishment of the Amount of Compulsory Sale of Such Proceeds*" entered into force (with duration until 13 December 2018), in accordance with which it is compulsory for foreign currency proceeds to be sold on the interbank currency market of Ukraine to authorised banks and/or the NBU in the amount of 50 per cent. In order to maintain the stability of the currency market of Ukraine, the NBU by the Resolution of the Board of the National Bank of Ukraine No. 138 dated 13 December 2018, continued the mandatory sale of foreign currency proceeds of legal entities in the amount of 50 per cent. for the period from 14 December 2018 to 6 February 2019 (inclusive). Starting from 7 February 2019, the requirement for mandatory sale in the amount of 50 per cent. was established by the resolution of the Board of the National Bank of Ukraine dated 2 January 2019, No. 5 "*On Approval of the Provisions on Protection Measures and Determining the Procedure for the Execution of Certain Transactions in Foreign Currency*". From 1 March the mandatory selling of foreign exchange earnings was reduced from 50 per cent. to 30 per cent. (Resolution of the Board of the National Bank No. 35 of 6 February 2019 "*On Amendments to Certain Regulatory Acts of the National Bank of Ukraine*"). The mandatory sale requirements of foreign currency proceeds in the amount of 30.0 per cent. was cancelled by Resolution of the Board of the National Bank of Ukraine No. 78 dated 18 June 2019 "*On amendments to the Regulation on measures of protection and determination of the procedure for carrying out certain operations in foreign currency*", which took effect on 20 June 2019.

In addition to compulsory sale requirements, the NBU reduced the maximum permitted period for effecting settlements under export and import operations from 180 calendar days to 90 calendar days. On 29 July 2016, this period was increased to 120 calendar days, and, on 26 May 2017, returned to 180 days.

Starting from 7 February 2019 (from the date of the entry into force of the Law on Currency), the National Bank increased the time limit for settlements under the contracts for export and import of goods up to 365 calendar days in accordance with the Resolution of the Board of the National Bank dated 2 January 2019, No. 5 "*On Approval of the Regulation on measures of protection and determination of the procedure for carrying out certain operations in foreign currency*".

From 16 May 2019, the time limits for settlements of export-import transactions no longer applied to the import of goods under government defence contracts; import of services or medicines under agreements between the Ministry of Health of Ukraine with specialised organisations, as well as import of services for treatment of

citizens with rare diseases; import of goods used in the production of space and aircraft equipment and units; export and import of goods within the framework of production sharing agreements; export of works, services (except for transportation and insurance services and works) and intellectual property rights (Resolution of the Board of the NBU № 67 dated 14 May 2019 *“On setting exceptions and (or) peculiarities of introduction of time limits for payments on export and import of goods and amending certain legal acts”*).

On 1 June 2014, taking into account difficulties in the macroeconomic situation in Ukraine, the NBU introduced a limitation on the receipt of cash assets in foreign currency from current and deposit accounts in an amount up to UAH 15,000.00 or its equivalent in foreign currency per day at the NBU rate (subject to certain exceptions). On 9 April 2015, the limit on cash withdrawal in foreign currency from current and deposit accounts was increased to the equivalent of UAH 20,000.00; as of 3 May 2016, it was increased to the equivalent of UAH 50,000.00; as of 6 September 2016, it was increased to the equivalent of UAH 100,000.00 and as of 15 September 2016, it was increased to the equivalent of UAH 250,000.00. Such requirement was cancelled starting from 24 August 2017.

Purchases of cash in foreign currency by individuals were limited to the equivalent of UAH 3,000.00 per day per bank. On 5 March 2016, this limit was increased to the equivalent of UAH 6,000.00 per day per bank, and on 9 June 2016, was increased to the equivalent of UAH 12,000.00 per day per bank. Beginning 5 April 2017, individuals are able to purchase cash in foreign currency up to the equivalent of UAH 150,000.00 per day per bank. From 5 November 2019, restriction on the amount of foreign currency cash purchased by individuals was revoked.

From 31 May 2017, the prohibition on the purchase of foreign currency for clients who have their own funds on accounts in an amount exceeding U.S.\$100,000 or equivalent was cancelled. Banks were also permitted to conduct foreign currency exchange transactions without limitations as to the group of the “Classifier of Foreign Currencies” in the interbank market and in the international currency market. Additionally, from 12 June 2017, the restriction on transfer of funds abroad under non-trading operations by individuals from their current accounts was cancelled.

Commencing 26 June 2017, (i) banks were allowed to perform their own foreign currency transactions under “forward” terms without limitations as to the group of the Classifier of Foreign Currencies, the maturity and type of transaction that is hedged (pair currency/currency; UAH/foreign currency); (ii) terms for forward transactions for bank customers engaged in foreign trade operations were simplified; (iii) the range of transactions in investment metals was broadened: banks were allowed to perform interbank transactions involving the purchase/sale of investment metals under “tod”, “tom”, “spot”, “forward” or “swap” terms not only in hryvnias but also in foreign currency; (iv) restrictions on cashless foreign exchange transactions as to the group of the Classifier and the number of such transactions per day for individuals other than entrepreneurs were removed.

From 16 June to 13 December 2017, inclusive, there was a requirement to sell foreign currency proceeds received by legal entities from abroad. The mandatory sale requirement was introduced between 14 December 2017 and 13 June 2018. It was then reintroduced as of 14 June 2018, initially until 13 December 2018, but was then extended until 6 February 2019 inclusive, and again until 10 April 2019. The sales of such proceeds were set at the level of 50 per cent. until 18 February 2019 and from 1 March 2019 were set at the level of 30 per cent. Starting from 20 June 2019, the mandatory requirements for the sale of foreign currency proceeds received from abroad were revoked.

From 7 February 2019, the repatriation of dividends for corporate rights/shares accrued for the period up to and including 2018 may be made subject to €7,000,000 monthly cap. This limit does not apply to the purchase/transfer of foreign currency/hryvnia for the purpose of repayment:

- on the territory of Ukraine to investment accounts of foreign investors. Further transfer of these funds from the investment account abroad and/or to the current account of the non-resident (other than an investment account) should be carried out with observance of this limit; and
- abroad from current (except investment) accounts of non-residents.

In an effort to make Ukraine a more attractive destination for investment, the NBU lifted, effective from 10 July 2019, all restrictions on dividend repatriation. As a result, Ukrainian businesses with foreign capital are no

longer subject to a €12 million monthly limit on dividend payments to foreign accounts or to non-resident accounts in Ukraine.

Payment abroad or to current accounts of non-residents opened in Ukraine (other than investment accounts) of funds received by foreign investors/non-residents from sales of securities or corporate rights, as well as a reduction of the statutory capital of legal entities or the withdrawal from business partnerships of foreign investors may be made subject to €5 million monthly cap. This limit does not apply to the purchase/transfer of foreign currency/hryvnia for the purpose of repayment:

- in the territory of Ukraine to investment accounts of foreign investors. Further transfer of these funds from the investment account abroad and/or to the current account of the non-resident (other than an investment account) should be carried out in accordance with this limit;
- abroad from current (except investment) accounts of non-residents; and
- received by foreign investors on transactions for the sale of government bonds of Ukraine on stock exchanges and over-the-counter, as well as the sale of debt/listing securities on stock exchanges.

From 10 September 2019, repatriation of revenues generated from the sale of securities or corporate rights, as well as revenues received from decreasing the statutory capital of Ukrainian companies and the withdrawal by foreign investors of their investments in Ukrainian companies are no longer subject to a €5 million monthly limit. These mitigations have made it easier for non-residents to manage their own funds both in foreign currency and in hryvnia.

Certain other restrictions related to foreign exchange controls have been introduced by the NBU to stabilise Ukraine's foreign exchange market, including limiting payments abroad on the basis of NBU individual licences (excluding payment(s) of legal entities which together do not exceed U.S.\$50,000.00 (or its equivalent in another currency) per month per licence and fees for certain transactions on the special list); prohibiting early repayment of loan payments in foreign currency from non-resident Ukrainian companies; and stringent requirements for the registration of cross-border foreign currency loan agreements.

In addition, since 7 February 2019, a number of restrictions related to foreign exchange control introduced by the NBU to stabilise the foreign exchange market of Ukraine have been abolished, including, but not limited to, the ban on early repayment of foreign currency loans from non-residents, as well as the requirement to register loans from non-residents in foreign currency.

In 2016, the NBU presented the new concept of currency regulation, which provides for a phased and gradual simplification/cancellation of currency restrictions towards a regime of free movement of capital defined in an agreement with the EU. In addition, the roadmap for the gradual cancellation of currency restrictions with implementation phases which are tied to specific macroeconomic conditions instead of calendar dates was developed together with IMF experts. On 7 July 2018, the Law of Ukraine "On Currency and Currency Operations" No. 2473-VIII dated 21 June 2018 (the "**Currency Law**") became effective and was put into operation on 7 February 2019. The Currency Law creates relevant legal basis for currency regulatory regime, which establishes new approaches to ensuring unified state policy in the sphere of currency operations and free implementation of currency operations on the territory of Ukraine, and also specificities of exercising currency supervision, exchange of information between subjects of currency operations, including currency supervision authorities, and application of coercive measures for breach of requirements of currency legislation. The Currency Law provides that until 6 January 2019, the NBU and other state authorities have to harmonise their regulations in accordance with this Law and ensure adoption of regulations, which are required for implementation of the Currency Law. On 2 January 2019, the NBU adopted eight regulations setting out new currency regulation rules in line with the Currency Law. The regulations took effect on 7 February 2019, along with the Currency Law becoming operational. The new regulations abolished, among others measures, (i) the individual licencing regime for cross border payments in foreign currency (replacing it with a more flexible electronic limits system), and (ii) the registration of cross-border loans with the NBU. Additionally, the NBU softened a number of previously established temporary restrictions and took further steps towards the general liberalisation of foreign currency transactions. From 5 November 2019, individuals are allowed to purchase online non-cash foreign currency without limitations as to the amounts purchased.

Pursuant to “*Regulation on measures of protection and determination of the procedure for carrying out certain operations in foreign currency*” adopted by the Resolution of the Board of the NBU No. 5 dated 2 January 2019, resident legal entities and individuals are permitted to make investments and certain other related foreign currency transfers abroad within the established e-limits in the amounts of €2 million for legal entities and €50,000.00 for individuals.

According to Resolution of the Board of the NBU No. 149 dated 12 December 2019 “*On amendments to the Regulation on measures of protection and determination of the procedure for carrying out certain operations in foreign currency*”, the e-limit for individuals has been increased from €50,000 to €100,000 (or the equivalent to this amount in any other foreign currency at the official exchange rate of hryvnia to foreign currencies established by the NBU at the date of the relevant transaction). Pursuant to such resolution, resident persons are permitted to carry out currency transactions outside of Ukraine or to current accounts of non-resident legal entities opened in Ukraine (except for investment accounts) in order to fulfil their obligations to a non-resident under a life insurance contract, to make an investment abroad, to deposit funds in a personal account opened abroad or to grant a loan to a non-resident in a foreign currency during the calendar year for a total amount of €100,000. These changes took effect on 18 December 2019.

### **International Reserves**

As at 31 December 2014, Ukraine’s international reserves amounted to U.S.\$7.5 billion; this was a decrease of U.S.\$12.9 billion within one year. The decrease was due to a number of factors, including the negative balance of foreign exchange intervention in the amount of U.S.\$9.2 billion, repayment and servicing by the State Government and state-guaranteed debt and state securities in foreign currency in the amount of U.S.\$6.6 billion, repayment of debt to the IMF in the amount of U.S.\$3.8 billion, and repayment of NJSC “Naftogaz of Ukraine” debt in the amount of U.S.\$3.1 billion. The amount of reserves subsequently increased by U.S.\$10.1 billion in proceeds within a year, including U.S.\$4.6 billion from the IMF received by the Government.

As at 31 December 2015, international reserves amounted to U.S.\$13.3 billion, an increase of U.S.\$5.8 billion as compared to 1 January 2015. The increase was primarily as a result of revenue in favour of the government in the amount of U.S.\$4.0 billion, receipt of funds from the IMF in the amount of U.S.\$6.5 billion and other factors.

As at 31 December 2016, international reserves amounted to U.S.\$15.5 billion, an increase of U.S.\$2.2 billion as compared with 31 December 2015. The increase was the result of revenue in favour of the government in the amount of U.S.\$4.6 billion, receipt of funds from the IMF in the amount of U.S.\$1.0 billion and positive balance of interventions in foreign currency amounting to U.S.\$1.6 billion.

As of 31 December 2017, international reserves amounted to U.S.\$18.8 billion. The increase in international reserves was the result of a positive balance of interventions in foreign currency amounting to U.S.\$1.3 billion, revenue in favour of the Government in the amount of U.S.\$3.9 billion, and receipt of U.S.\$1.0 billion from the IMF.

As of 31 December 2018, international reserves amounted to U.S.\$20.8 billion, which is an increase of 10.7 per cent. compared to the previous year and the highest level achieved over the last five years. This level of reserves covers 3.3 months of future imports. The increase in the volume of international reserves from the beginning of 2018 by U.S.\$2 billion was the result of the Government’s income in the amount of U.S.\$7.1 billion, receipt of funds from the IMF in the amount of U.S.\$1.4 billion and a positive balance of interventions in foreign currency in the amount of U.S.\$1.4 billion.

As of 31 March 2019, international reserves amounted to U.S.\$20.6 billion. The decrease in the amount of international reserves from the beginning of 2019 by U.S.\$0.2 billion was the result of repayment and servicing by the government of the state and state-guaranteed debt in the amount of U.S.\$2.4 billion, as well as repayment of debt to the IMF in the amount of U.S.\$0.6 billion US dollars. The increase in reserves was due to a U.S.\$2.0 billion surplus in favour of the Government, a positive surplus of foreign currency interventions of U.S.\$0.6 billion and other factors.

As at 31 October 2019, international reserves amounted to U.S.\$21.4 billion, an increase of 2.8 per cent. as compared to 1 January 2019. This increase was caused by the generation of U.S.\$6.3 billion in Government revenues, including U.S.\$1.5 billion from the placement of sovereign Eurobonds, a surplus of foreign exchange

interventions of U.S.\$4.1 billion, and other factors. At the same time, the factors contributing to the decrease of foreign exchange reserves were the government's payments for external obligations and repayments to the IMF.

	2014	2015	As at 31 December 2016	2017	2018	As at 31 October 2019
			<i>(U.S.\$ millions, unless otherwise indicated)</i>			
International reserves <sup>(1)</sup> .....	7,533.33	13,300.0	15,539.3	18,808.4	20,820.4	21,403.3
Including:						
Monetary gold <sup>(2)</sup> .....	911.09	931.9	941.7	1,060.6	1,002.2	1,181.0
Reserves in SDR and reserve position in IMF .....	3.77	8.9	2,703.9	2,165.8	3.9	95.6
Foreign currency <sup>(3)</sup> .....	6,618.47	12,359.2	11,893.7	15,582.0	19,814.3	20,126.7
Import coverage (months) <sup>(4)</sup>	1.8	3.0	3.0	3.2	3.4	3.4

Notes:

(1) International reserves are equal to the sum of foreign currency, SDR and monetary gold.

(2) Cost of gold is calculated on the basis of the price for one ounce of gold in U.S. dollars at the London Precious Metal Exchange.

(3) Including securities issued by non-residents.

(4) Imports of goods and services of the immediately succeeding month are used for these calculations.

Source: NBU

As at 31 December 2019, international reserves of Ukraine amounted to U.S.\$25.3 billion.

## THE BANKING SYSTEM, SECURITIES AND FINANCIAL SERVICES MARKETS

### The Banking System in Ukraine

A two tier banking structure exists in Ukraine, comprising a supervisory body (the NBU), with the banks underneath, which operate as multipurpose or specialised (savings or trust) banks. Following Ukraine's accession to the WTO in May 2008, Ukraine's banking system may now include branches of foreign banks. The NBU has the power and independence to pursue monetary policy and to regulate and supervise the banking sector; this includes, for example, the power to limit, terminate or suspend certain transactions and to revoke a bank's licence.

As at 1 November 2019, there were 75 active banks in Ukraine (including one bank declared insolvent, but retaining its banking licence at the time). On 25 December 2017, the NBU adopted the following criteria for the classification of banks in 2018:

- state-owned banks (where state ownership exceeds 75 per cent. of the share capital);
- banks of foreign banking groups (banks that are controlled by foreign banks and foreign finance and banking institutions);
- privately owned banks (where one or more private investors directly and/or indirectly own not less than 50 per cent. of the share capital).

As at 1 November 2019, there were five banks with state ownership in their share capital; 20 bank of foreign banking groups and 51 privately owned bank operating in Ukraine. As at 1 April 2019, of the top ten largest Ukrainian banks (by aggregate value of assets), four banks were controlled by the state of Ukraine, one bank was controlled by Ukrainian citizens and five banks were controlled by foreign citizens and legal entities.

Newly established banks are required to be in the form of a joint stock company or cooperative bank. Furthermore, in June 2011, a minimum statutory capital requirement for banks, as at the date of their registration, of UAH 120 million was introduced. In July 2014, the minimum statutory capital requirement for banks which acquired a banking licence after 11 July 2014 was increased to UAH 500 million, and from that date, all banks that registered before 11 July 2014 have been obliged to gradually increase their charter capital to a minimum of UAH 500 million by 11 July 2024.

The NBU's current regulatory capital sufficiency (adequacy) ratio (solvency ratio) requirement is at least 10 per cent. of the bank's risk-weighted assets. For banks that have been operating for less than 12 months, this threshold is at least 15 per cent., and for banks that have been operating between 12 and 24 months, this ratio is at least 12 per cent. As at 1 January 2015, 2016, 2017, and 2018, 1 January 2019 and 1 November 2019, the average regulatory capital sufficiency (adequacy) ratio across the Ukrainian banking sector was 15.6 per cent., 12.3 per cent., 12.7 per cent., 16.4 per cent., 16.2 per cent. and 18.6 per cent., respectively. Since February 2008, the NBU has required banks to take account of foreign exchange risks in the calculation of the regulatory capital sufficiency (adequacy) ratio. In order to calculate the actual amount of the regulatory capital, taking into account the risks of banking activity, banks are required to constantly monitor the quality of current transactions, as well as to determine the level of credit risk.

### *Foreign capital in the Banking Sector*

Since 16 May 2008, foreign banks have been permitted to operate branches in Ukraine, subject to certain criteria. There are a number of prerequisites to be satisfied before general permission is granted to open and operate a branch, of which the most significant is that the NBU and the bank supervisory authority of the foreign state where the relevant foreign bank is incorporated execute a cooperation agreement regarding bank supervision and the harmonisation of the principles and terms of such supervision. To date, such agreements have been signed with the banking regulators of a number of countries, including Armenia, Belarus, China, Cyprus, Kyrgyzstan, Latvia, Lithuania, Luxembourg, Poland, Russia, Hungary, Turkey, Sweden, Greece, Kazakhstan and Montenegro.

As at 1 October 2019 (according to quarterly reporting), 36 banks with foreign shareholders holding 10 or more per cent. of the share capital thereof were operating in Ukraine and 24 of these banks were wholly owned

by foreign entities and/or individuals. The share of foreign capital in the total registered charter capital of Ukrainian banks having a banking licence amounted to 30.91 per cent as at 1 October 2019.

As at 1 November 2019, the total assets of banks with foreign shareholders amounted to UAH 612 billion (U.S.\$25 billion); the total amount of loans guaranteed by these banks was UAH 358 billion (U.S.\$14 billion); the capital of these banks amounted to UAH 81 billion (U.S.\$3 billion); loans to companies from such banks amounted to UAH 260 billion (U.S.\$10 billion); and loans to individuals from such banks amounted to UAH 82 billion (U.S.\$3 billion). The above figures are based on an exchange rate of U.S.\$1.00 to UAH 24.99 as of 1 November 2019.

### *Banking Sector Regulation*

The NBU is responsible for banking regulation and supervision. Banks are required to submit an annual report that contains audited financial statements as well as a general description of their business. Banks are also required to submit financial and statistical data to the NBU, including on a daily, ten-day period and monthly basis, permitting continual review by the NBU of the banks' performance and financial position. In addition, banks are required to post quarterly and annual financial statements and annual audit reports on their websites, as well as certain other information required by the NBU, including information on ultimate key shareholders, owners of material shareholdings, and on the ownership structure.

The NBU oversees the activities of banks using both off-site and on-site inspections. Planned inspections are usually carried out on an annual basis, although the NBU also has the power to decide to carry out extra (unplanned) inspections if it has sufficient grounds. Annual financial statements of banks are subject to inspection by a firm of auditors.

If a bank violates banking laws and regulations, including financial monitoring laws, performs risk-related activity threatening the interests of depositors or other lenders, or has sanctions imposed on it or on an owner of a material shareholding in it by any foreign state, interstate organisation or intergovernmental organisation threatening the interests of depositors or other creditors and/or the stability of the banking system, the NBU may impose any of a variety of sanctions available to it, depending on the nature of the violation or the risk level.

Such measures include written warnings, the ability to convene a general meeting of the bank's shareholders, management board or board of bank; increasing the bank's reserves in order to reimburse potential losses under its active operations; limiting, terminating or suspending certain types of banking operations, including related party transactions; prohibiting the grant of unsecured loans; suspending payment of dividends or capital distributions in any form; imposing stricter performance requirements for the bank; imposing penalties on the bank or any owners of material interests in the bank; temporarily prohibiting voting rights for owners of material shareholdings; temporary removal of managers from their posts (until the violation is remedied); withdrawing general licences for foreign currency transactions; declaring the bank problematic or insolvent; executing written agreements with the bank; withdrawing the licence of the bank; and putting the bank into liquidation.

The NBU also carries out consolidated supervision in respect of banking groups in order to ensure stability of the banking system and containment of risks which a bank may face in view of it being a member of the banking group, by means of regulating, monitoring, and controlling risks of the banking group following the procedure set forth by the NBU. Non-banking financial companies which are members of a banking group are also subject to the NBU's consolidated supervision. As at 1 November 2019, there were 26 recognised banking groups in Ukraine.

The NBU has significant powers over banking groups, including the right (i) to impose the sanctions described above on the responsible member of the group; (ii) to impose increased economic ratios and limits, as well as restrictions on the performance of certain types of transactions; (iii) to prohibit transactions between the bank and other members of the banking group; (iv) to require a bank to dispose of its participation interests in the charter capital of its subsidiaries and associated companies; and (v) to terminate agreements based on which a bank exercises decisive influence over the management and/or operation of these entities in the absence of formal ownership.

In March 2015, legislation was enacted to strengthen the liability regime governing banks' related parties. In particular, such legislation significantly expanded the list of persons treated as related parties. In its supervisory role, the NBU is authorised under such legislation to determine which persons are considered related parties of



the bank. Sanctions for violation of applicable Ukrainian law and regulations promulgated by the NBU include civil liability and administrative liability for a bank's related parties for committing actions that led to such bank being declared problematic. Criminal liability is triggered for actions that led to a bank's insolvency if damages inflicted on either the state or a creditor exceed 10,000 tax-exempt minimum incomes.

On 18 December 2016, the NBU declared PrivatBank insolvent, leading to the bank's nationalisation by the Government on 21 December 2016. At the time of such declaration, the NBU identified a total capital requirement of UAH 148 billion. Taking into account the systemic importance of the bank for the financial sector and economy, PrivatBank was nationalised. On 26 December 2016, according to the NBU, PrivatBank's existing debt was converted into equity. As a result of the nationalisation of PrivatBank, the State's equity share in the banking sector exceeded 50 per cent. in the net assets. As at 1 November 2019, share of the state banks in the net assets of the banking system reached 54.4 per cent., and its share in deposits of the banking system reached 54.8 per cent.

As of the date of this Prospectus, several claims to the NBU and Privatbank in relation to the latter's nationalisation were being tried at courts of various levels. However, no judgment that could serve as a basis to change the state ownership of Privatbank has entered into legal force.

#### *Deposit Guarantee Scheme*

The law "*On the System of Guaranteeing the Deposits of Individuals*" (the "**Deposit Guarantee Law**") became effective in full on 21 September 2012 and introduced new rules for monitoring the activities of problem banks by the NBU. In addition, the Ukrainian Deposit Guarantee Fund (which covers the deposits of individuals (natural persons) and sole traders and of which all duly licenced banks in Ukraine are members (the "**Deposit Guarantee Fund**")) obtained the right to alienate all or a part of the assets and liabilities of an insolvent bank to the receiving bank, accompanied by the withdrawal of the insolvent bank's banking licence and its further liquidation. The Deposit Guarantee Fund may also incorporate and sell a transitional bank and transfer all or a part of the insolvent bank's assets and liabilities to such transitional bank followed by liquidation of the insolvent bank. In accordance with the Deposit Guarantee Law, participants of the Deposit Guarantee Fund should pay an initial duty of 1 per cent. of their registered statutory capital (except for transitional banks), as well as a regular fee in the form of a differentiated fee by weighing the risk of a base annual rate of interest of 0.5 per cent. in domestic currency and of 0.8 per cent. in foreign currency.

As of 1 November 2019, the Deposit Guarantee Fund had 74 member banks. The aggregate amount of assets accumulated by the Deposit Guarantee Fund was UAH 10.1 billion as at 1 November 2019.

The Administrative Council of the Deposit Guarantee Fund has determined the indemnification threshold for deposits by individuals including interest thereon at UAH 200,000.

#### *Bank Reserves*

Since 2015, banks have been required to set up reserves for active banking operations exclusively in accordance with International Financial Reporting Standards ("**IFRS**"). Thus, the NBU has no rules of its own to regulate the methodology of setting up of reserves for active banking operations.

At the same time, under Principle 18 "*Problem assets, provisions and reserves*" of the Basel Committee's Core Principles for Effective Banking Supervision, the supervisory body must determine that the reserves, set up by banks in accordance with IFRS, are sufficient under banking supervision rules, and that such reserves can account for prospective losses. The NBU in June 2016 set minimum requirements for the assessment of credit risk by banks that have been mandatory for Ukrainian banks since the beginning of 2017.

This requirement is intended to ensure that banks conduct full and timely assessments of credit risk, thus making determination of the amount of regulatory capital required more accurate, to in turn enhance the financial stability of the banking system, and sets out improved approaches to the assessment of prospective losses from credit risk (based on the Basel Principles for Banking Supervision), allowing banks and the regulator to use their reasonable judgment.

Under the rules of determining the regulatory capital, effective from 29 April 2018, if the total credit risk exceeds the sum of reserves set up under IFRS, the amount of discount of financial assets assessed at fair value and the

amount of expected credit losses, recorded on separate analytic accounts, then the amount of the regulatory capital is decreased by the difference resulting from such excess (uncovered credit risk exposure).

Based on the results of consultations with IMF experts, the NBU unified the requirements related to the formation and maintenance of the mandatory reserves by the banks. As a result, according to the applicable requirements, all funds in local and foreign currency received by a bank from individuals and legal entities are subject to a mandatory reserve, save for loans granted by resident banks, international financial institutions, as well as the amounts of subordinated debt. Such funds must be reserved and kept on a correspondent account opened for the relevant bank with the NBU. The mandatory reserve requirement for funds on demand and funds kept on current accounts are 6.5 per cent. and 3.0 per cent. of the funds raised by the bank, respectively.

As of 1 January 2019, the amount of mandatory reserves that banks need to hold daily at the beginning of the trading day at the correspondent account with the NBU is 0 per cent. of the reserve base calculated for the relevant maintenance period (this requirement came into force on 25 December 2017). Previously, banks were required to ensure that no less than 40 per cent. of the amount of mandatory reserves are kept on their correspondent accounts with the NBU at the beginning of each operational day. The banks could fail to comply with these mandatory reserve requirements no more than ten times within three consecutive months (periods) without penalty.

Since 23 May 2014, authorised banks may purchase currency on the interbank foreign exchange market of Ukraine for the purposes of forming reserves to cover any losses under active bank operations in foreign currency.

### *Liquidity*

The NBU has established three separate liquidity requirements for commercial banks. A bank must have an instant liquidity ratio (the ratio of highly liquid assets to current liabilities) of at least 20 per cent., a current liquidity ratio (the ratio of assets with maturities under 31 days to liabilities with maturities under 31 days) of at least 40 per cent. and a short term liquidity ratio (the ratio of assets with maturities under one year to liabilities with maturities under one year) of at least 60 per cent.

On 14 December 2016, the NBU introduced a new means of emergency liquidity support for solvent banks, the Emergency Liquidity Assistance programme (the “**ELA Programme**”). Loans provided under the ELA Programme, must be used for the sole purpose of covering the temporary deficit of a bank’s liquidity in the event of an emergency, where the bank has no other means to support its liquidity, in particular by using shareholders’ funds and NBU’s standard refinancing tools. Banks must apply the proceeds of such loans only to meet their commitment to depositors and lenders (excluding bank’s related parties).

### *Accounting Standards*

Since 2012, banks in Ukraine have been preparing and disclosing their financial reports in accordance with IFRS using a transition method. Transformational adjustments for IFRS financial statements are made where requirements of IFRS differ from those of Ukrainian legislation.

Since 1 December 2015, banks have been required to record transactions in their accounting systems in accordance with IFRS.

### **Performance and Balance Sheet of the Banking System**

The banking sector’s asset and liability structure reflects the history of Ukraine’s macroeconomic development.

The following table sets out information on the Ukrainian banking system as at the dates indicated:

	As at 31 December					As at 1
	2014	2015	2016	2017	2018	November
	(UAH millions, unless otherwise indicated)					2019
<b>Total assets.....</b>	<b>1,520,817</b>	<b>1,598,401</b>	<b>1,781,380</b>	<b>1,876,037</b>	<b>1,910,641</b>	<b>1,907,962</b>
Correspondent accounts in other banks .....	99,752	129,529	121,739	96,200	86,607	110,026
Assets in (including correspondent accounts of banks in NBU) NBU .....	27,554	27,544	41,321	37,475	35,549	51,704
Interbank loans and deposits .....	19,825	23,627	23,084	28,282	33,610	42,067
Loans to customers.....	981,672	960,047	966,978	974,694	964,303	923,089
Accumulated interest income .....	81,796	73,797	72,988	100,977	161,113	159,073
Other assets <sup>(2)</sup> .....	310,218	383,857	555,270	638,409	629,433	622,002
<b>Total liabilities .....</b>	<b>1,168,829</b>	<b>1,170,894</b>	<b>1,154,661</b>	<b>1,190,552</b>	<b>1,204,743</b>	<b>1,208,616</b>
Interbank loan and deposits.....	140,054	122,066	73,567	49,513	40,823	23,087
Customer deposits .....	704,090	743,711	833,861	896,642	929,066	991,742
Securities of active debt .....	4,613	9,717	13,635	6,360	5,443	3,792
Other liabilities.....	320,072	295,400	233,598	238,037	229,412	189,995
<b>Total capital .....</b>	<b>148,023</b>	<b>101,594</b>	<b>124,681</b>	<b>159,852</b>	<b>154,960</b>	<b>188,764</b>
<b>Total liabilities and capital .....</b>	<b>1,316,852</b>	<b>1,272,489</b>	<b>1,279,342</b>	<b>1,350,403</b>	<b>1,359,703</b>	<b>1,397,380</b>
Capital adequacy ratio (%).....	15.59	12.31	12.69	16.10	16.18	18.59
Total deposits/total liabilities (%)	60.2	63.5	72.2	75.31	77.12	82.06
Provisions/total loans (%) .....	19.58	32.33	48.95	47.38	48.45	47.38
Foreign currency loans/total loans (%) .....	47.18	57.09	49.84	45.81	44.59	39.89
Non-performing loans/total loans (%) .....	25.36	38.37	42.00	55.62	54.17	50.48
Foreign currency deposits/total deposits (%).....	47.88	46.77	48.13	44.59	41.41	41.55
Interest margin (%) .....	4.16	3.02	3.56	4.29	5.50	5.82
Interest rate spread (basis points) .	547	772	600	681	525	499**
Total assets (in millions of U.S. dollars) .....	96.45	66.60	65.51	66.84	69.0	76.33

Source: NBU

(\*) "Other assets" includes assets which are not mentioned in other rows of the table (such as securities, derivatives, receivables, fixed assets, etc.).

(\*\*) For October 2019.

### Deposits and Loans

According to monetary statistics data, in 2014, the total amount of deposits made by Ukrainian residents increased by 0.8 per cent. to UAH 675.1 billion, following an increase of 24.7 per cent. in the amount of deposited foreign currency funds and a simultaneous decrease of 13.3 per cent. in the amount of deposited Ukrainian hryvnia funds. In 2015, the total amount of deposits made by Ukrainian residents increased by 6.2 per cent. to UAH 716.7 billion following an increase of 7.2 per cent. in the amount of deposited Ukrainian hryvnia funds and an increase of 4.9 per cent. in the amount of deposited foreign currency funds. In 2016, the total amount of deposits made by Ukrainian residents increased by 10.7 per cent. to UAH 793.5 billion following an increase of 8.8 per cent. in the amount of deposited Ukrainian hryvnia funds and an increase of 13.0 per cent. in the amount of deposited foreign currency funds. In 2017, the total amount of deposits made by Ukrainian residents increased by 13.3 per cent. to UAH 898.8 billion following an increase of 15.1 per cent. in the amount of deposited Ukrainian hryvnia funds and an increase of 11.1 per cent. in the amount of deposited foreign currency funds. In 2018, the total volume of deposits made by Ukrainian residents increased by 3.8 percent to UAH 933 billion as a result of an increase in the amount of funds in national currency by 10.1 percent and a decrease in the amount of funds in foreign currency by 3.8 percent. Between January to October 2019, the volume of deposits made by Ukrainian residents in the national currency increased by 6.0 percent and decreased in foreign currency by 1.3 percent. The total amount of residents' deposits as of 1 November 2019 amounted to UAH 1,004.1 billion.

Term deposits as a percentage of overall deposits made by Ukrainian residents amounted to 62.9 per cent., 57.4 per cent., 54.1 per cent., 53.4 per cent., 51.1 per cent. and 48.8 per cent. in 2014, 2015, 2016, 2018 and January to October 2019, respectively. Foreign currency deposits made by Ukrainian residents accounted for 45.9 per cent., 45.3 per cent., 46.3 per cent., 45.4 per cent., 42 per cent. and 41.4 per cent. of total deposits made by Ukrainian residents in 2014, 2015, 2016, 2017, 2018 and January to October 2019, respectively. As a percentage of total deposits made by Ukrainian residents, long-term deposits comprised 41.1 per cent., 31.8 per cent., 19.5 per cent., 19.8 per cent., 20.7 per cent., 16.6 per cent. and 13.8 per cent. as at 1 January 2014, 2015, 2016, 2017, 2018, 2019 and 1 November 2019, respectively.

In 2014, the amount of loans extended to Ukrainian residents increased by 12.1 per cent. to UAH 1,021 billion, decreasing by 9.1 per cent. in respect of domestic currency lending and increasing by 53.5 per cent. in respect of foreign currency lending. In 2015, the amount of loans extended to Ukrainian residents decreased by 3.8 per cent. to UAH 982 billion (in particular in domestic currency there was a decrease of 20.8 per cent. whereas in foreign currency there was an increase of 15.9 per cent.). In 2016, the amount of loans extended to Ukrainian residents increased by 1.7 per cent., to UAH 999 billion; there was an increase of 16.4 per cent. in respect of domestic currency and a decrease of 9.9 per cent. for foreign currency lending. In 2017, the amount of loans extended to Ukrainian residents increased by 1.8 per cent., to UAH 1,016.7 billion; there was an increase of 13.0 per cent. in respect of domestic currency and a decrease of 9.7 per cent. for foreign currency lending. In 2018, the amount of loans extended to Ukrainian residents increased by 5.6 per cent. to UAH 1,073.0 billion; there was an increase of 7.6 per cent. in respect of domestic currency and an increase of 2.9 per cent. for foreign currency lending. In January to October 2019, the amount of loans extended to Ukrainian residents decreased by 5.7 per cent., to UAH 1,012 billion; there was an increase of 1.5 per cent. in respect of domestic currency and a decrease of 15.3 per cent. for foreign currency lending.

#### *Revenues and Profitability*

In 2014, the revenues of the banking sector increased by 24.5 per cent. as compared to 2013. As at 31 December 2014, revenue of the banking sector amounted to UAH 210.2 billion, including interest revenues in the amount of UAH 151.2 billion (or 72.0 per cent. of total revenues) and commission revenues in the amount of UAH 28.3 billion (or 13.5 per cent. of total revenues). As at 31 December 2014, losses in the banking sector amounted to UAH 53.0 billion.

In 2015, the revenues of banks amounted to UAH 203.3 billion, including interest income constituting UAH 138.7 billion (68.2 per cent. of the total revenues), while fees income totalled UAH 28.6 billion (14.1 per cent. of the total revenues). In 2015, the financial result of the banking system of Ukraine was a loss of UAH 72.5 billion.

In 2016, the revenues of banks amounted to UAH 194.2 billion, including interest income constituting UAH 138.5 billion (71.3 per cent. of the total revenues), while fees income totalled UAH 31.4 billion (16.2 per cent. of the total revenues). In 2016, the financial result of the banking system of Ukraine was a loss of UAH 160.1 billion.

In 2017, the revenues of banks amounted to UAH 181 billion, including interest income constituting UAH 126.9 billion (70.1 per cent. of the total revenues), while fees income totalled UAH 37.1 billion (20.5 per cent. of the total revenues). In 2017, the financial result of the banking system of Ukraine was a loss of UAH 28.1 billion.

In 2018, the revenues of banks amounted to UAH 204.6 billion, including interest income constituting UAH 140.8 billion (68.8 per cent. of the total revenues), while fees income totalled UAH 51 billion (24.9 per cent. of the total revenues). In 2018, the financial result of the banking system of Ukraine amounted to UAH 21.2 billion.

For the nine months ended 30 September 2019, the revenues of banks amounted to UAH 201 billion, including interest income constituting UAH 127.8 billion (63.6 per cent. of the total revenues), while fees income totalled UAH 50.7 billion (25.2 per cent. of the total revenues). For the ten months ended 31 October 2019, the financial result of the banking system of Ukraine amounted to UAH 52 billion.

## Measures taken to stabilise the Banking Sector

In order to enhance the effectiveness of banking supervision and ensure the stability of the banking system in Ukraine, the NBU, pursuant to the Memorandum of Economic and Financial Policies, which is part of the IMF's 2018 SBA, regularly carries out stress testing of Ukrainian banks.

In 2015, the NBU Board approved results of testing of Ukraine's 20 largest banks, of which four were found not to require additional capitalisation and 16 were found to require additional capitalisation in the total amount of UAH 203.0 billion. Measures set out in the relevant plans/programmes are generally being implemented. Likewise, the banks generally comply with the minimum capital adequacy requirements of not less than 5 per cent. Ten banks have implemented the additional capitalisation requirements in full. In the case of two banks, the NBU Board decided to revoke banking licences and liquidate them due to failure to comply.

In 2016, the NBU Board approved the results of a diagnostic inspection of:

- (i) the 20 largest banks, of which seven were found not to require additional capitalisation and 12 were found to require additional capitalisation in the total amount of UAH 16.6 billion (whereas four banks were declared insolvent); and
- (ii) the 20 next largest banks, of which 10 banks were found not to require additional capitalisation and 11 were found to require additional capitalisation in the total amount of UAH 4.3 billion (whereas one bank was declared insolvent).

In 2018, the NBU implemented the annual assessment of the sustainability of banks and the banking system of Ukraine.

On 22 December 2017, the NBU approved Resolution No. 144 "*On assessment of financial sustainability of banks and the banking system of Ukraine*". This resolution introduces annual assessments of banks' sustainability, conducted by the NBU on an individual basis. The assessment of financial sustainability of banks and the banking system of Ukraine in 2018 was conducted in accordance with the requirements approved by the NBU Board on 28 December 2017. As at 1 January 2019, the majority of banks did not require additional capitalisation. Out of 80 assessed institutions, 66 were not required to file additional capitalisation plans, four banks were required to submit restructuring plans, eight banks were required to submit capitalisation and restructuring plans, and two banks were required to submit capitalisation plans. The aggregate amount of insufficient capitalisation was assessed at UAH 6.3 billion.

As at 1 November 2019, two banks implemented restructuring plans, subject to approval by the NBU of the banks' increase in the authorised capital in 2019. Additionally, four banks have implemented restructuring plans and received NBU approval and seven banks are in the process of implementing restructuring plans.

In 2019, the assessment of banks' resilience was conducted in accordance with the Terms of Reference for assessing the resilience of banks and the banking system of Ukraine in 2019, approved by the decision of the NBU Board dated 5 February 2019 No. 97-пш. Among 75 Ukrainian banks, 56 banks do not require additional capitalisation or restructuring, 18 banks require additional capitalisation or restructuring and the banking licence of one bank has been withdrawn due to bank's merger with another bank.

As of 1 November 2019, all submitted proposals for the restructuring of banks were under consideration of the NBU.

## Refinancing Transactions

The overall amount of the NBU transactions relating to refinancing loans in 2014 constituted UAH 222.3 billion and the average annual interest rate was 15.6 per cent. The overall amount of refinancing transactions in 2015 was UAH 75.4 billion and the average annual interest rate was 25.2 per cent. The overall amount of refinancing transactions in 2016 was UAH 75.8 billion and the average annual interest rate was 17.4 per cent. per annum. In 2017, the aggregate volume of refinancing loans was UAH 35.7 billion and the average annual interest rate was 15.9 per cent. In 2018, the aggregate volume of refinancing loans was UAH 181.2 billion and the average annual interest rate was 19.22 per cent. From 1 January to 20 November 2019, the aggregate volume of refinancing loans was UAH 101.6 billion and the average annual interest rate was 18.36 per cent.

## *Recent Developments*

In line with discussions with the IMF and the credit programme under the 2018 SBA, there has been greater scrutiny on the state of the banking system and, as a result, certain measures have been taken to further stabilise and reform the under-capitalised and fragmented banking sector in Ukraine.

Cleansing of the financial sector is one of the main steps the NBU is taking towards promoting a stable and flexible financial system. Since the beginning of 2014, 101 banks have been removed from the market, including five banks which did not comply with the requirement on transparent ownership structure, nine banks which were voluntarily wound-up (including six banks which terminated their activities without winding up of the legal entity and three banks which were voluntarily wound-up), four banks which were based in Crimea and the temporarily occupied territories in the Donetsk and Luhansk regions, nine banks which carried out risky activities under financial monitoring regulations (including six banks which were declared insolvent and put into liquidation, and three banks which were put into liquidation without being declared insolvent in advance), and other banks which breached various banking regulations, including regulations concerning capital adequacy, satisfactory business reputation of the owners, and other regulations.

Despite the removal of certain banks from the market, the overall capitalisation of the banking system increased during the period. In the last four years (2014-2017), the total growth of registered charter capital amounted to UAH 330 billion. In 2018, the registered charter capital decreased by UAH 20.5 billion due to voluntary winding up of banks and their withdrawal from the market. As at 31 October 2019, the growth of registered authorised capital amounted to UAH 4.2 billion. The total growth of registered charter capital amounted to 153.3 per cent. compared to the level as at the beginning of 2014.

Aiming to increase the ability to increase the level of capitalisation of the banking system of Ukraine, in December 2018, the NBU implemented a new capitalisation instrument – a capital instrument allowing for conversion/write-off. The instrument provides for the ability to absorb bank losses at the expense of lenders (by converting or writing off liabilities for such an instrument) in the event of a trigger event – reducing the level of capital adequacy of the bank (without the instrument) below 6.25 per cent. The instrument will be included in the capital of the bank at level 1 (fixed capital) after obtaining a National Bank permit.

In order to ensure the security and financial stability of the banking system, as well as to ensure the interests of depositors and creditors, the NBU designed a Plan of Measures to Improve Banking Supervision in Ukraine. This was launched on 4 May 2017 and, among other things, contemplates the following measures: enhancement of NBU's independence and broadening of its regulatory and supervisory functions; further regulation of risk management; improvement of banks' corporate governance in accordance with the latest Basel Committee principles and provisions of EU law; implementation of requirements to the new capital structure in accordance with Basel III and CRD IV/CRR; implementation of requirements in relation to short-term liquidity indications; a liquidity coverage ratio in accordance with Basel III and CRD IV/CRR; enhancement of control over related-party transactions; enhancement of cooperation with banks in the course of supervisory dialogue implementing preventive measures to avert the deterioration of banks' financial conditions; enhancement of cooperation between the NBU and the Deposit Guarantee Fund.

Basel III and CRD IV/CRR requirements on new capital structure and liquidity indications are being implemented in Ukraine within a long-term (up to four years) project to be carried out gradually in accordance with the implementation schedule set out in the EU – Ukraine Association Agreement. As at the date of this Prospectus, this project includes the formulation of a proposal on amendments to the legislation necessary in view of Basel III and CRD IV/CRR implementation and consultations with international experts.

On 11 June 2018, the NBU adopted Resolution No. 64 approving the Regulation “On the Organisation of Risk Management System in Banks and Bank Groups of Ukraine”, which is based on principles of the Basel Committee on Banking Supervision and follows European legislation and international practices.

The regulation, above all, has increased responsibility of the bank, the requirement for the establishment of independent risk management units and compliance monitoring.

The Regulation also establishes a list of key risks (credit risk, liquidity risk, interest rate risk, market risk, operational risk, and compliance risk), that a bank must identify, measure, monitor, and report on. Furthermore, a bank must manage other material risks that it faces in the course of its activity.

With effect from 1 December 2018, the NBU implemented a new type of liquidity ratio – liquidity coverage ratios (“**LCR**”) for all currencies and for foreign currencies. From 1 June 2019, the required minimum level of the LCR for all currencies is set at 90 per cent. and the LCR for foreign currencies is 90 per cent. The NBU intends to gradually increase both these levels to 100 per cent. until 1 December 2019.

On 2 July 2019, the NBU adopted Resolution No. 88 “*On the Organisation Of Internal Control Systems in Banks of Ukraine and Banking Groups*”. This resolution details the authority and responsibilities of the internal control system body and introduces requirements for establishing an internal control system based on a three-layer model: business and support departments, risk management and compliance departments, and internal audit departments which conduct independent assessments of the other departments. This resolution also sets out the procedures and types of internal controls, establishes the criteria for the implementation and functioning of the components of the internal control system, determines the criteria for evaluating the effectiveness of the internal control system and defines the minimum list of internal control issues to be addressed by bank policy.

On 18 July 2019, the NBU adopted Resolution No. 95 “On the recovery plans of banks of Ukraine and banking groups”. The resolution requires that banks draw up recovery plans based on the particularities of their activities, risk profile, type and volume of banking services. Recovery plans include the main goals and principles of the bank’s development and measures needed to restore financial stability in cases of deterioration of a bank’s liquidity.

The plan should include: an effective system of deterioration indicators of the financial position of banks, which provide quantitative indicators (capital, liquidity, profitability, etc.) and qualitative indicators (e.g. customer requirements for early repayment or negative effects of court decisions) based on the results of the bank’s own risk assessment; simulation of stress scenarios that include events that may lead to bank insolvency; realistic options for restoring creditworthiness with minimal transaction costs determined by the bank based on the results of the stress.

Systemically important banks are required to and other bank is recommended to comply with Resolution No. 95 of the NBU when drawing up the recovery plans, respectively. Banks shall submit recovery plans to the NBU by 1 October 2020 and update them annually.

On 18 July 2019, the NBU adopted Resolution No. 97 “On the Organisation of Problem Asset Management in Banks of Ukraine”. The resolution categorises distressed assets as either potentially problematic assets, non-working assets or recovered property and establishes a framework for problem asset management.

## **The Securities Markets in Ukraine**

### *The Securities Markets*

Currently, exchange based trading of corporate and municipal securities in Ukraine is concentrated on two main exchanges, although the country has six stock exchanges in total. The two main exchanges are PJSC “First Securities Trading System Stock Exchange” and PJSC “SE Perspectyva” (which account for 98.4 per cent. of the value of all stock exchange contracts). The aggregate volume of securities registered with the National Securities and Stock Market Commission of Ukraine (the “**National Securities Commission**”) amounted to UAH 1,619.2 billion, UAH 1,840.4 billion, and UAH 2,194.3 billion as at 31 December 2015, 2016, and 2017, respectively, representing increases of UAH 148.5 billion, UAH 222.5 billion and UAH 353.7 billion, respectively, as compared to the corresponding periods in 2014, 2015 and 2016. As at 31 December 2018, the aggregate volume of securities registered with the National Securities Commission amounted to UAH 60.32 billion, representing a decrease of UAH 292.88 billion compared to the relevant period in 2017 (for which the aggregate volume of securities registered with the National Securities Commission amounted to UAH 353.19 billion). For the nine months ended 31 September 2019, the total amount of securities registered with the National Securities Commission was UAH 71.2 billion, an increase of UAH 30.5 billion, compared to the corresponding period of 2018 (for which the aggregate volume of securities registered with the National Securities Commission amounted to UAH 40.7 billion).

From 2015 to 2017 there was an increase in the volumes of shares registered by the National Securities Commission from UAH 122.3 billion to UAH 324.8 billion, respectively. In 2018, the volume of shares reached its minimum in the last five years and amounted to UAH 22.28 billion.

During the first three quarters of 2019, the volume of shares issued by the National Securities Commission was UAH 44.06 billion, an increase of UAH 30.1 billion, compared with the corresponding period of 2018.

Starting from 2016 there is a tendency to increase the volumes of bonds of enterprises registered by the National Securities Commission. In 2016, the volume of registered securities issued by the National Securities Commission amounted to UAH 5.5 billion, compared to UAH 8.4 billion in 2017, and in UAH 15.5 billion in 2018. Compared to 2017, the volume of registered bond issues in 2018 increased by UAH 7.1 billion (85 per cent.).

As at 30 September 2019, the volume of bonds of enterprises registered with the National Securities Commission totaled UAH 7.7 billion (a decrease of UAH 3.6 billion as compared to 30 September 2018).

Starting from 2015, the volume of trades on the stock exchange market varied within the range of UAH 200-300 billion. In 2015, the volume of trades on the stock market amounted to UAH 286.2 billion, in 2016 it was UAH 235.4 billion, in 2017 – UAH 205.8 billion, and in 2018 – UAH 260.9 billion. Compared to 2017, the volume of stock exchange contracts with securities at trade organisers in 2018 increased by 26.8 per cent.

In 2014, the aggregate volume of corporate bond issuances decreased by UAH 13.5 billion, as compared to 2013, and amounted to UAH 29.0 billion. In 2015, the aggregate volume of corporate bond issuances decreased by UAH 17.6 billion, as compared to 2014, and amounted to UAH 11.4 billion. In 2016, the aggregate volume of corporate bond issuances decreased by UAH 5.9 billion, as compared to 2015, and amounted to UAH 5.5 billion. In 2017, the aggregate volume of corporate bond issuances increased by UAH 2.8 billion, as compared to the relevant period of 2016 and amounted to UAH 8.4 billion. In 2018, the aggregate volume of corporate bond issuances increased by UAH 7.11 billion, as compared to the relevant period of 2017 and amounted to UAH 15.46 billion. In the first quarter of 2019, the total amount of corporate bonds registered the National Securities Commission amounted to UAH 1.7 billion, an increase of UAH 201 million compared to the corresponding period of 2018.

In 2014, trading volumes on organised securities markets in Ukraine increased by 33.7 per cent., as compared to 2013, and amounted to UAH 619.7 billion as at 31 December 2014. In 2015, there was a decrease of 53.8 per cent., as compared to 2014, with trading volumes amounting to UAH 286.2 billion. In 2016, trading volumes further decreased, by 17.8 per cent., as compared to 2015 and amounted to UAH 235.4 billion. In 2017, trading volumes on organised securities markets in Ukraine decreased by 14.4 per cent., as compared to the relevant period of 2016 and amounted to UAH 205.8 billion. For the 11 months of 2018, trading volumes on organised securities markets in Ukraine increased by 57.25 per cent., as compared to the relevant period of 2017 and amounted to UAH 238.35 billion, as compared to the relevant period of 2017, when trading volumes on organised securities markets in Ukraine amounted to UAH 181.1 billion. During the first three quarter of 2019, the volume of trades on organised securities markets increased by 16.33 per cent. compared to the corresponding period of 2018, a total of UAH 231.81 billion. The largest volume of trades was recorded with Ukraine's T-bills – UAH 223.34 billion. (96 per cent. of the total volume of exchange contracts on organised securities markets during the first three quarter of 2019).

#### *Regulation of the Securities Market in Ukraine*

The National Securities Commission, which was established on 23 November 2011, carries out state regulation of the stock market.

State regulation of the securities market includes comprehensive measures aimed at organising the market, controlling and supervising it, as well as preventing abuses and violations on the market. The National Securities Commission aims to reconcile the interests of all the participants in the securities market. In doing so, the National Securities Commission uses different approaches to regulate activities of different market participants. All such approaches are designed to ensure equal treatment of all participants, equal access to the market for all participants, and maximum transparency in the market.

During the first three quarter of 2019, measures were taken to introduce more rigorous inspections when issuing licences to conduct professional activities in the securities market and to increase the requirements for licencees. These measures led to a decrease by 8.1 per cent. of the number of professional participants in all types of activities in the securities market. As at 1 September 2019, the following number of professional stock market



participants had licences to undertake professional activities in the securities market: 229 security brokers, 186 custodians, 299 asset management companies, six trade organisers, and one clearing house.

The National Securities Commission is taking measures to implement the provisions of the legislation of the EU in the field of corporate governance and financial services provided for in the Association Agreement between Ukraine and the EU in the domestic legislation.

The National Securities Commission's further plans in connection with the reform of the securities market include addressing the following issues: implementation of new and development of existing financial instruments, securitisation mechanisms for financial and other assets; insufficient administrative and financial independence of the National Securities Commission which does not allow for efficient state regulation of the domestic securities market in accordance with the international standards, in particular, requirements of the EU legislation and standards of the International Organization of Securities Commissions; inefficiency and the underdeveloped state of the capital markets' infrastructure, which needs, in particular, modernisation, consolidation and development of exchange, settlement and clearing infrastructure of commodity markets and capital markets, improvement of the institute of financial sector intermediaries and rating agencies in accordance with the EU legislation; inefficiencies of the state regulation and supervision of activities of non-banking companies; corporate governance deficiencies in companies participating in the stock market.

### The Financial Services Markets in Ukraine

The National Commission for the Regulation of Financial Services Markets in Ukraine, which was established in 2011, is responsible for regulating and supervising the non-bank financial sector (except for the securities market and derivatives). The non-bank financial sector of Ukraine (except for the securities market and derivatives) includes insurance companies, insurance and reinsurance brokers, credit unions and other non-bank credit institutions, non-State pension funds and their administrators, pawnbrokers, financial companies rendering services, such as financial leasing, factoring and the provision of sureties and guarantees, lending and managing property to finance construction and/or real estate operations (fundraising), as well as legal entities that do not have the status of a financial institution, but are permitted to render specific kinds of financial services.

The total assets of the non-bank financial sector are significantly smaller in comparison with the total assets of commercial banks. The total assets of non-banking financial institutions amounted to UAH 147.8 billion, UAH 162.8 billion and UAH 160.9 billion in 2014, 2015 and 2016, respectively. As at 31 December 2017, the total assets of the non-bank financial sector amounted to UAH 173.3 billion. As at 31 December 2018, the total assets of the non-bank financial sector amounted to UAH 197.5 billion. As at 30 September 2019, the total assets of the non-bank financial sector amounted to UAH 224.1 billion.

The following table sets forth the total assets of non-bank financial institutions as at the dates indicated below:

	As at 31 December					As at 30 September
	2014	2015	2016	2017	2018	2019
	<i>(UAH million)</i>					
Insurance .....	70,261.2	60,729.1	56,075.6	57,381.0	63,493.3	66,950.6
Financial companies .....	51,264.8	71,120.0	67,401.4	107,533.9	125,322.3	147,637.2
Credit unions .....	2,338.7	2,064.3	2,032.5	2,169.8	2,218.4	2,141.1
Pawnbrokers .....	1,710.3	2,218.7	3,317.7	3,763.7	3,721.3	4,104.0
Non-State pension funds....	2,469.2	1,980.0	2,138.7	2,465.6	2,745.2	2,977.9

Non-resident insurance and reinsurance brokers are currently permitted to offer services in Ukraine and shall notify in writing the National Commission for the Regulation of Financial Services Markets in Ukraine of any intention to operate in Ukraine. Non-resident insurance companies are allowed to engage in insurance activities in Ukraine directly or through a branch so long as they are registered with and issued a licence by the National Commission for the Regulation of Financial Services Markets of Ukraine. However, several conditions need to be satisfied, including the execution of a memorandum of undertaking between the National Commission for the Regulation of Financial Services Markets of Ukraine and the insurance supervisory authority of the foreign

state where the relevant non-resident insurer is registered. This memorandum of understanding provides for the exchange of information between the two regulators, certifies that the non-resident insurer is not registered in an offshore jurisdiction, confirms that the non-resident insurer is AML and FATF compliant and meets financial stability standards, and ensures that any branch of the non-resident insurer has a guarantee deposit and a written irrevocable obligation of the non-resident insurer to fulfil its obligations unconditionally. The main focus of the National Commission for Regulation of Financial Services Markets is harmonisation of local Ukrainian financial markets regulations with the relevant European Union legislation.

On 4 December 2015, at a meeting of the National Council for Reforms, the President of Ukraine proposed to liquidate the National Commission for the Regulation of Financial Services Market in Ukraine, with the aim is to improve efficiency of government agencies and eliminate double oversight over certain regulated areas and industries. In order to cooperate in the implementation of reforms in the financial sector of Ukraine, on 8 May 2019, a memorandum of understanding and cooperation was signed between the NBU, the National Securities Commission, the National Commission for State Regulation in the Financial Services Markets, the Deposit Guarantee Fund and the Ministry of Finance of Ukraine on the preparation and implementation of a strategy to further develop Ukraine's financial sector by 2025. As of the date of this Prospectus, the responsible parties are implementing this strategy, which focuses in particular on financial stability (including the effective regulation of the financial sector), macroeconomic development, financial inclusion, financial markets development and financial sector innovation.

On 12 September 2019, Parliament adopted the Law of Ukraine No. 79-IX "*On amendments to certain legislative acts of Ukraine on improving the functions of state regulation of financial services markets*", which was signed on 16 October 2019 by President Zelenskiy. The powers and functions of the National Commission for the Regulation of Financial Services Market in Ukraine will be transferred to the National Securities and Stock Market Commission and the NBU from 1 July 2020.

Throughout 2015-2019, the National Commission for Regulation of Financial Services Markets was an active participant of the Target Team for Financial Sector Reform, whose main task is the implementation of the Comprehensive Programme for the Development of the Financial Sector of Ukraine until 2020. The following measures have been carried out under the programme:

- Legislative proposals and measures on approximation of Ukrainian legislation to EU laws, as provided by the Association Agreement between Ukraine and the EU. Specifically, the National Commission for Regulation of Financial Services Markets contributed to implementation of Directive 2009/138/EC (Solvency II), Directive 2016/97/EU, Directive 2009/103/EU, Directive 2003/41/EU, Directive (EU) 2016/2341, Directive 2014/49/EU, Directive 2002/65/EU, and directives, regulating matters related to financial statements, in particular, Directive 86/635/EEC and others as a result of adopting IFRS taxonomy. Moreover, with the aim of effective implementation of respective EU laws, the National Commission for Regulation of Financial Services Markets participates in international technical assistance programmes (such as the EU FINREG and FINSTAR projects and the USAID "Credit for Agricultural Producers" project).
- Regulatory acts and other measures of the National Commission for Regulation of Financial Services Markets, which are intended to improve consumer and investor protection in financial and insurance markets, facilitate increase of the level of capitalisation, financial viability and stability of the insurers, improve the regime for filing by non-banking financial companies of financial statements prepared in accordance with the IFRS, enhance prudential supervision over non-banking financial companies (including by means of designing rules for consolidated supervision over non-banking financial groups), improve the rules for regulatory approval of acquisition or increase of significant shareholding in a financial company, disclosure by financial companies, consumer lending, and simplify regulations for purchase of foreign currency in banks and procedures for obtaining financial services licences, among other things.
- During 2018, the National Commission for the Regulation of Financial Services Market in Ukraine primarily focused on harmonising certain regulatory acts with the laws of Ukraine "*On Foreign Currency and Foreign Currency Transactions*", "*On Electronic Trust Services*" and "*On Audit of Financial Statements and Auditing*", as amended, as well as taking measures to improve prudential supervision and the standards of disclosure and reporting of non-banks financial institutions, strengthen

controls on risks associated with financial institution, increase professional requirements for executives and chief accountants of financial institutions, improve the order of application of measures of influence for violation of the legislation on financial services, heighten the regulation of insurance reserves, enforce compulsory insurance of civil liability for vehicle owners, develop criteria for identifying risks associated with the provision of financial services and implementing more regular and uniform inspections of financial services providers.

## TAXATION

*The following discussion summarises certain United States federal income tax and Ukrainian tax considerations that may be relevant to holders of Notes. This summary is based on laws, regulations, rulings and decisions now in effect and is subject to changes in tax law and the interpretation thereof, including changes that could have a retroactive effect.*

*This summary does not describe all of the tax considerations that may be relevant to holders of Notes, particularly holders of Notes subject to special tax rules. Holders of Notes are advised to consult their own professional tax advisors as to the consequences under the tax laws of the country of which they are resident of purchasing Notes.*

### **United States Federal Income Tax**

The following is a summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes by a U.S. Holder (as defined below). This summary deals only with purchasers of Notes in this offering at their initial “issue price” that are U.S. Holders and that will hold the Notes as capital assets. The “issue price” of a series of Notes is generally equal to the first price at which a substantial amount of the Notes are sold for money to investors (excluding sales to bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers). The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors, and does not address state, local, foreign or other tax laws. This summary also does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, investors liable for the alternative minimum tax, investors that are required to include certain amounts no later than the time such amounts are reflected on certain financial statements, individual retirement accounts and other tax deferred accounts, tax exempt organisations, dealers in securities or currencies, investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar). In addition, this summary does not address the U.S. federal income tax consequences of the Medicare surtax.

As used herein, the term “**U.S. Holder**” means a beneficial owner of Notes that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation (or any other entity that is treated as a corporation for U.S. federal income tax purposes) created or organised under the laws of the United States, any State thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source, or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in a partnership that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships should consult their tax advisers concerning the U.S. federal income tax consequences to their partners of the acquisition, ownership and disposition of Notes by the partnership.

The summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as at the date hereof and all subject to change at any time, possibly with retroactive effect.

**THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.**

## **Payments of Interest**

### ***General***

It is expected, and this summary assumes, that the Notes will not be treated as issued with “original issue discount” for U.S. federal income tax purposes. Interest on a Note will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the holder’s method of accounting for tax purposes. Interest paid by the Issuer on the Notes constitutes income from sources outside the United States. Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to income attributable to the Notes.

The amount of interest income recognised by a cash basis U.S. Holder will be the U.S. dollar value of the euro interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

An accrual basis U.S. Holder may determine the amount of income recognised with respect to an interest payment denominated in euros in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year). Under the second method, a U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year). Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the exchange rate in effect on the day the payment is received. A U.S. Holder that elects to use this second method must apply it consistently to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies and any debt instruments thereafter acquired by the U.S. Holder, and the U.S. Holder cannot revoke the election without the consent of the IRS. Upon receipt of a euro interest payment (including a payment attributable to accrued but unpaid interest upon the sale or other disposition of a Note), an accrual basis U.S. Holder will generally recognise U.S. source exchange gain or loss (which is taxable as ordinary income or loss, and is generally not treated as an adjustment to interest income or expense) equal to the difference, if any, between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued in U.S. dollars with respect to such payment, regardless of whether the payment is in fact converted into U.S. dollars.

### ***Sale and Retirement of the Notes***

Upon the sale, exchange, redemption, retirement or other taxable disposition of a Note, a U.S. Holder generally will recognise gain or loss in an amount equal to the difference, if any, between (i) the amount realised on such disposition (*i.e.*, the amount of cash and the fair market value of any property received, excluding amounts attributable to accrued but unpaid interest, which will be taxable as ordinary income to such U.S. Holder, to the extent not previously included in income), and (ii) such U.S. Holder’s “adjusted tax basis” in such Note. A U.S. Holder’s “adjusted tax basis” in a Note is generally its U.S. dollar cost (as defined below). The U.S. dollar cost of a Note purchased with euros will generally be the U.S. dollar value of the purchase price on the date of purchase, or the settlement date for the purchase, in the case of Notes traded on an established securities market, as defined in the applicable U.S. Treasury regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects). The amount realised on a sale, exchange, redemption, retirement or other taxable disposition for an amount in euros will be the U.S. dollar value of this amount on the date of such disposition, or the settlement date for the sale, in the case of Notes traded on an established securities market sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects). An accrual basis U.S. Holder that makes the election described above must apply it consistently to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies and any debt instruments thereafter acquired by such U.S. Holder, and such U.S. Holder cannot revoke the election without the consent of the IRS. If a Note is not traded on an established securities market (or, if a Note is so traded, but a U.S. Holder is an accrual basis taxpayer that has not made the settlement date election), a U.S. Holder will recognise foreign currency gain or loss (taxable as ordinary income or loss) to the extent that the U.S. dollar value of the euros

received on the settlement date differs from the U.S. dollar value of the amount realised on the date of the taxable disposition.

A U.S. Holder will recognise U.S. source exchange rate gain or loss (taxable as ordinary income or loss) on the sale, exchange, redemption, retirement or other taxable disposition of a Note equal to the difference, if any, between the U.S. dollar values of the U.S. Holder's purchase price for the Note (i) on the date of such disposition, and (ii) on the date on which the U.S. Holder acquired the Note. Any such exchange rate gain or loss (including any exchange gain or loss with respect to the receipt of accrued but unpaid interest) will be realised only to the extent of total gain or loss realised on the taxable disposition.

Except to the extent attributable to changes in exchange rates, gain or loss recognized by a U.S. Holder on the sale, exchange, redemption, retirement or other taxable disposition of a Note will be U.S. source capital gain or loss and will be long-term U.S. source capital gain or loss if the Note was held by the U.S. Holder for more than one year. The deductibility of capital losses is subject to limitations. A U.S. Holder may use foreign tax credits to offset only the portion of U.S. federal income tax liability attributable to foreign source income. Consequently, if such gain is subject to tax in Ukraine, a U.S. Holder may not be able to utilise any foreign tax credit claimed with respect to the sale or retirement of a Note. In addition, if a U.S. Holder is eligible to claim the benefits of the U.S.-Ukrainian Tax Treaty to eliminate Ukrainian tax on gain realised by the U.S. Holder upon disposition of a Note, and fails to claim such benefit, the U.S. Holder may not be entitled to claim a foreign tax credit in respect of any Ukrainian taxes imposed. The rules governing foreign tax credits are complex and, therefore, U.S. Holders should consult their tax advisors regarding the availability of foreign tax credits in their particular circumstances.

### ***Disposition of Foreign Currency***

A U.S. Holder's tax basis in the euros received as interest on a Note or on the sale or other disposition of a Note will be the U.S. dollar value of the euros at the time the euros are received. In addition, foreign currency that is purchased will generally have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase Notes or upon exchange for U.S. dollars) generally will be U.S. source ordinary income or loss.

### ***Backup Withholding and Information Reporting***

Payments of principal and interest on, and the proceeds of sale or other disposition of Notes by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

### ***Reportable Transactions***

A U.S. taxpayer that participates in a "reportable transaction" will be required to disclose its participation to the IRS. Under the relevant rules, since the Notes are denominated in a foreign currency, a U.S. Holder may be required to treat a foreign currency exchange loss from the Notes as a reportable transaction if this loss exceeds the relevant threshold in the regulations and to disclose its investment by filing Form 8886 with the IRS. Prospective purchasers should consult their tax advisors regarding the application of these rules.

### ***Foreign Asset Reporting***

Certain U.S. Holders who are individuals are required to report information relating to an interest in the Notes, subject to certain exceptions (including an exception for Notes held in accounts maintained by U.S. financial institutions). U.S. Holders are urged to consult their tax advisors regarding their information reporting obligations, if any, with respect to their ownership and disposition of the Notes.

## ***Ukraine Income Tax***

*This section summarises the basic Ukrainian tax consequences of the issue and redemption of the Notes for both non-residents and residents of Ukraine pursuant to applicable Ukrainian legislation.*

### ***Certain Ukrainian Tax Consequences***

This summary is based upon Ukrainian tax law in force, as well as practice and interpretation available, at the date of this Prospectus, which is subject to change at any time, possibly with retroactive effect. Should such a change occur, Ukraine will not update this section even if, as a result thereof, the information contained herein should be no longer complete and/or accurate. The following summary is included for general information only and does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire, hold or dispose of the Notes, and does not purport to deal with the tax consequences applicable to all categories of investors, some of which may be subject to special rules. As with other areas of Ukrainian legislation, tax law and practice in Ukraine is not as clearly established as that of more developed jurisdictions. It is possible, therefore, that the current interpretation of the law or understanding of the practice may change or that the law may be amended. Accordingly, it is possible that payments to be made to the holders of the Notes could become subject to taxation or that rates currently in effect with respect to such payments could be increased in ways that cannot be anticipated as of the date of this Prospectus.

### ***Tax on Issue of the Notes***

No state duty or similar tax will be payable in Ukraine upon the issue of the Notes.

### ***Tax Implications for Non-Residents of Ukraine***

According to the Tax Code, no withholding tax shall be levied on income earned by non-resident (legal entities or individuals) in the form of interest or income (discount) on state securities. Given that the Notes qualify as state securities for Ukrainian tax purposes, no withholding tax shall be levied on income earned by non-residents in the form of interest or income (discount) on the Notes.

This exemption from withholding tax in Ukraine applies to non-resident holders of the Notes, regardless of whether the Notes were obtained on a primary or secondary securities market.

Income of non-resident individuals in the form of interest or income (discount) on Notes will be subject to a military duty at the rate of 1.5 per cent. Non-resident individual investors receiving interest or income (discount) on the Notes have an obligation to determine the amount of relevant military duty by self-assessment and pay it. Whether the military duty can be reduced or eliminated based on the relevant double tax treaty depends on the provisions of such treaty. However, there is a risk that the double-tax treaties will not apply to the military duty.

Capital gains realised by a non-resident legal entity from disposal of the Notes would be exempted from withholding tax in Ukraine; *provided that* such income is paid by the Ministry of Finance of Ukraine. Otherwise, capital gains realised by a non-resident legal entity from disposal of the Notes would be subject to withholding tax at the rate of 15 per cent. Tax can be reduced or eliminated based on a relevant double tax treaty subject to compliance with the requirements and formalities imposed by the relevant treaty and/or applicable Ukrainian legislation.

No withholding tax shall be levied on capital gains realised by a non-resident individual from disposal of Notes. However, a military duty of 1.5 per cent. applies to capital gains from disposal of the Notes. Non-resident individual investors receiving capital gains from the disposal of the Notes have an obligation to independently declare the income and pay military duty on it (unless the income is received from a person who would be deemed a tax agent in Ukraine). Whether the military duty can be reduced or eliminated based on the relevant double tax treaty depends on the provisions of such treaty. However, there is a risk that the double-tax treaties will not apply to the military duty.

### ***Tax Implications for Residents of Ukraine***

According to the Tax Code, interest and any other income derived from debt claims (including gains) are treated as taxable income of a resident legal entity or permanent establishment of a foreign company. Interest and

discount income on the Notes received by resident legal entities, holders of the Notes, as well as capital gains realised by resident legal entities from disposal of the Notes will be subject to corporate profit taxation in Ukraine by self-assessment at the rate of 18 per cent.

Interest income received by resident individuals from the Notes, as well as capital gains realised by resident individuals from disposal of Notes are not subject to personal income tax but subject to a military duty at the rate of 1.5 per cent. Individual investors receiving interest, income (discount) or capital gains on the Notes have an obligation to independently declare the income and pay military duty on it (unless the income is received from a person who would be deemed a tax agent in Ukraine).



## FORM OF NOTES AND TRANSFER RESTRICTIONS

*The following information relates to the form, transfer and delivery of the Notes. Because of the restrictions set out below, purchasers of Notes offered in the United States in reliance on Rule 144A are advised to consult appropriately qualified legal counsel prior to making any offer, resale, pledge or transfer of Notes. Capitalised terms used but not defined herein have the meanings provided in “Terms and Conditions of the Notes”.*

### 1. Form of Notes

All Notes will be in registered form, without interest coupons attached. Notes offered and sold outside the United States in reliance on Regulation S will be represented by interests in the Unrestricted Global Note, in registered form, without interest coupons attached, which will be deposited on or about the Closing Date with the Common Depositary in respect of interests held through Euroclear and Clearstream, Luxembourg.

Notes offered and sold in reliance on Rule 144A will be represented by interests in the Restricted Global Note in registered form without interest coupons attached, which will be deposited on or about the Closing Date with the Common Depositary and registered in the name of the nominee of the common depositary for the accounts of Euroclear and Clearstream, Luxembourg.

The Restricted Global Note (and any Note Certificates issued in exchange therefore) will be subject to certain restrictions on transfer contained in a legend appearing on the face of such Note as set forth under “—*Transfer Restrictions*” below.

The Unrestricted Global Note and the Restricted Global Note will have separate ISINs and Common Codes.

### 2. Transfer Restrictions

Transfers of interests in Global Notes within Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant system.

On or prior to the 40th day after the Closing Date, a beneficial interest in the Unrestricted Global Note may be transferred to a person who wishes to take delivery of such beneficial interest through the Restricted Global Note only upon receipt by the Registrar of a written certification from the transferor (in the form scheduled to the Agency Agreement) to the effect that such transfer is being made to a person whom the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. After such 40th day, such certification requirements will no longer apply to such transfers, but such transfers will continue to be subject to the transfer restrictions contained in the legend appearing on the face of such Note, as set out below.

The Restricted Global Note will bear a legend substantially identical to that set out below and neither the Restricted Global Note nor any beneficial interest in the Restricted Global Note may be transferred except in compliance with the transfer restrictions set forth in such legend.

A beneficial interest in the Restricted Global Note may be transferred to a person who wishes to take delivery of such beneficial interest through the Unrestricted Global Note only upon receipt by the Registrar of a written certification from the transferor (in the form scheduled to the Agency Agreement) to the effect that such transfer is being made in accordance with Regulation S or Rule 144A (if available) under the Securities Act.

Any beneficial interest in either the Restricted Global Note or the Unrestricted Global Note that is transferred to a person who takes delivery in the form of a beneficial interest in the other relevant Global Note will, upon transfer, cease to be a beneficial interest in such Global Note and become a beneficial interest in the other relevant Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other relevant Global Note for so long as such person retains such an interest.

The Notes are being offered and sold in the United States only to qualified institutional buyers within the meaning of and in reliance on Rule 144A. Because of the following restrictions, purchasers of Notes offered in the United States in reliance on Rule 144A are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such Notes.

The Issuer is a foreign government as defined in Rule 405 under the Securities Act and is eligible to register securities on Schedule B of the Securities Act. Therefore, the Issuer is not subject to the information provisions requirements of Rule 144A(d)(4)(i) under the Securities Act.

### **Restricted Notes**

Each prospective purchaser of Notes in reliance on Rule 144A (a “**144A Offeree**”), by accepting delivery of this Prospectus, will be deemed to have represented, agreed and acknowledged as follows:

- (i) such 144A Offeree acknowledges that this Prospectus is personal to such 144A Offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire Notes. Distribution of this Prospectus, or disclosure of any of its contents to any person other than such 144A Offeree and those persons, if any, retained to advise such 144A Offeree with respect thereto and other persons meeting the requirements of Rule 144A or Regulation S is unauthorised, and any disclosure of any of its contents, without the prior written consent of the Issuer, is prohibited.
- (ii) such 144A Offeree agrees to make no photocopies of this Prospectus or any documents referred to herein.

Each purchaser of Restricted Notes within the United States, by accepting delivery of this Prospectus, will be deemed to have represented, agreed and acknowledged as follows (terms used herein that are defined in Rule 144A or in Regulation S are used herein as defined therein, as applicable):

- (a) the purchaser (i) is a QIB, (ii) is acquiring the Notes for its own account or for the account of a QIB, and (iii) is aware that the sale of the Notes to it is being made in reliance on Rule 144A. If it is acquiring any Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account;
- (b) the purchaser understands that such Restricted Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, such Restricted Notes have not been and will not be registered under the Securities Act or any other applicable State securities laws, the purchaser acknowledges that such Restricted Note is a “restricted security” (as defined in Rule 144(a)(3) under the Securities Act) and that (i) if in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Restricted Notes, such Restricted Notes may be offered, sold, pledged or otherwise transferred only (A) in the United States to a person that the seller reasonably believes is a QIB purchasing for its own account in a transaction meeting the requirements of Rule 144A whom the seller has notified, in each case, that the offer, resale, pledge or other transfer is being made in reliance on Rule 144A, (B) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, (C) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), or (D) to the Issuer or an affiliate of the Issuer (upon redemption thereof or a similar transaction); in each case in accordance with any applicable securities laws of any state of the United States, and (ii) no representation can be made as to the availability at any time of the exemption provided by Rule 144 for the resale of the Restricted Notes;
- (c) the Restricted Notes offered hereby will bear a legend to the following effect, unless the Issuer determines otherwise in accordance with applicable law:

“THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR

WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, EXCEPT (1) TO THE ISSUER, (2) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (3) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAW OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THIS NOTE.

THIS NOTE AND RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFERS OF RESTRICTED SECURITIES GENERALLY. BY THE ACCEPTANCE OF THIS NOTE, THE HOLDER HEREOF SHALL BE DEEMED TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT”;

- (d) the purchaser understands that Notes offered in reliance on Rule 144A will be represented by the Restricted Global Note. Before any interest in a Note represented by the Restricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Note, it will be required to provide the Registrar with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws; and
- (e) the Issuer and the Joint Lead Managers and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

For so long as the Notes of the relevant series are held in global form, Noteholders of such series may not require transfers to be registered during the period beginning on the third business day before the due date for any payment of principal or interest in respect of such Notes.

**Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.**

#### **Unrestricted Notes**

Each purchaser of Notes pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) it is, or at the time Notes are purchased will be, the beneficial owner of such Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S), and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.
- (2) it understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes, except (a) in accordance with Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believe is a QIB

purchasing for its own account or the account of a QIB, or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case, in accordance with any applicable securities laws of any State of the United States.

- (3) the Issuer, the Registrar, the Joint Lead Managers and their respective affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.
- (4) it understands that the Notes offered in reliance on Regulation S will be represented by the Unrestricted Global Note. Prior to the expiration of the distribution compliance period, before any interest in the Unrestricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Restricted Global Note, it will be required to provide the Registrar with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.
- (5) none of the Issuer, the Joint Lead Managers or any person representing any such entity has made any representation to it with respect to any such entity or the offering or sale of any Notes, other than the information in this Prospectus.
- (6) it understands that the Notes, while represented by the Unrestricted Global Note or if issued in exchange for an interest in the Unrestricted Global Note or for Note Certificates, will bear a legend to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE “**SECURITIES ACT**”). THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF ANY U.S. PERSON EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT OF 1933, AS AMENDED.

### 3. Exchange of Interests in Global Notes for Note Certificates

Registration of title to Notes initially represented by the Unrestricted Global Note and the Restricted Global Note in a name other than the nominee of the common depositary for Euroclear and Clearstream, Luxembourg will not be permitted unless (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Fiscal Agent is available, or (b) following a failure to pay principal in respect of any relevant Note at maturity or upon acceleration of any such Note, and the Fiscal Agent has received a request from the registered holder of the Unrestricted Global Note or the Restricted Global Note, as the case may be, requesting exchange of the Unrestricted Global Note or the Restricted Global Note, as the case may be, for individual note certificates (the “**Unrestricted Note Certificates**” or the “**Restricted Note Certificates**”, as the case may be, and together, the “**Note Certificates**”).

In such circumstances, the relevant Global Note shall be exchanged in full for Note Certificates and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Note Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Note Certificates, and (b) in the case of the Restricted Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A or Regulation S, a certification that the transfer is being made in compliance with the provisions of Rule 144A or Regulation S. Note Certificates issued in exchange for a beneficial interest in a Restricted

Global Note shall bear the legends applicable to transfers pursuant to Rule 144A, as set out under “—*Transfer Restrictions*” above.

The holder of a Note may transfer such Note in accordance with the provisions of Condition 2 of the Conditions. See “*Terms and Conditions of the Notes—Register, Title and Transfers*”. Note Certificates may not be eligible for trading in the Euroclear and Clearstream, Luxembourg systems.

Upon the transfer, exchange or replacement of a Restricted Note Certificate bearing the legend referred to under “—*Transfer Restrictions*”, or upon specific request for removal of the legend on a Restricted Note Certificate, the Issuer will deliver only Restricted Note Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

The Registrar will not register the transfer of or exchange of interests in a Global Note for Note Certificates for a period of 15 calendar days ending on the due date for payment of principal or interest.

#### **4. Euroclear and Clearstream, Luxembourg Arrangements**

So long as Euroclear, Clearstream, Luxembourg or the nominee of their common depository is the registered holder of a Global Note, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Agency Agreement and the Notes. Payments of principal, interest and additional amounts, if any, in respect of the Global Notes will be made to Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, as the registered holder thereof. None of the Issuer, any Agent, or the Joint Lead Managers or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Distributions of principal and interest with respect to book entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by Euroclear or Clearstream, Luxembourg from the Principal Paying Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg customers in accordance with the relevant system’s rules and procedures.

The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer interests in a Global Note to such persons will be limited. Because Euroclear and Clearstream, Luxembourg can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Note to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

The holdings of book entry interests in the Notes through Euroclear and Clearstream, Luxembourg will be reflected in the book entry accounts of each such institution. As necessary, the Registrar will adjust the amounts of Notes on the Register for the accounts of the nominee of the Common Depository to reflect the amounts of Notes held through Euroclear and Clearstream, Luxembourg, respectively. Beneficial ownership of Notes will be held through financial institutions as direct and indirect participants in Euroclear and Clearstream, Luxembourg.

Interests in the Unrestricted Global Note and the Restricted Global Note will be in uncertificated book entry form.

#### **5. Secondary Market Trading in Relation to Global Notes**

The Issuer has obtained the information in this section concerning Euroclear and Clearstream, Luxembourg and their book entry systems from sources made publicly available by Euroclear and

Clearstream, Luxembourg, which the Issuer believes to be reliable and which has been accurately extracted and/or summarised from those sources. The Issuer takes no responsibility for the accuracy of this information and only accepts responsibility for accurately extracting the information from those sources.

### **Trading between Euroclear and/or Clearstream, Luxembourg participants**

Secondary market sales of book entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book entry interests in the Notes through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Euroclear and Clearstream, Luxembourg have advised the Issuer as follows: Euroclear and Clearstream, Luxembourg hold securities for participating organisations and facilitate the clearance and settlement of securities between their respective accountholders through electronic book entry changes in accounts of such accountholders. Euroclear and Clearstream, Luxembourg provide to their accountholders, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg interface with domestic securities markets. Euroclear and Clearstream, Luxembourg accountholders are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organisations. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream, Luxembourg accountholder, either directly or indirectly.

Although the foregoing sets out the procedures of Euroclear and Clearstream, Luxembourg to facilitate transfers of beneficial interests in global bonds among participants and accountholders of Euroclear and Clearstream, Luxembourg, none of Euroclear or Clearstream, Luxembourg is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Issuer nor any agent of the Issuer nor any person by whom any of them is controlled for purposes of the Securities Act will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or the sufficiency for any purpose of the arrangements described above.

While a Global Note is lodged with Euroclear or Clearstream, Luxembourg or the Common Depositary, Notes represented by individual Note Certificates will not be eligible for clearing or settlement through Euroclear or Clearstream, Luxembourg.

## **6. Amendments to Conditions**

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effects of the relevant terms and conditions. The following is a summary of those provisions:

### **Payments Record Date**

Payments of principal and interest in respect of Notes evidenced by a Global Note will be made to, or to the order of, the person whose name is entered on the relevant register of holders at the close of business on the Clearing System Business Day immediately prior to the date for payment, where “Clearing System Business Day” means Monday to Friday inclusive, except 25 December and 1 January.

### **Meetings**

The holder of each Global Note will be treated as being one person for the purposes of any quorum requirements of, or have the right to demand a poll at, a meeting of Noteholders and, at any such meeting, as having one vote in respect of each €1,000 principal amount of Notes for which the relevant Global Note may be exchangeable.

### **Purchase and Cancellation**

Cancellation of any Note required by the relevant terms and conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the relevant Global Note.

### **Notices**

So long as the relevant Global Note is held on behalf of Euroclear and Clearstream, Luxembourg or any other clearing system (an “**Alternative Clearing System**”), notices to holders of Notes represented by a beneficial interest in such relevant Global Note may be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg or, as the case may be, the Alternative Clearing System; except that, so long as the notes are listed on Euronext Dublin, notices will also be published either via the Companies Announcement Office of Euronext Dublin or in the Irish Times.

## SUBSCRIPTION AND SALE

The Joint Lead Managers have, in a subscription agreement dated 24 January 2020 (the “**Subscription Agreement**”) and made between Ukraine and the Joint Lead Managers upon the terms, and subject to the conditions, contained therein, agreed to subscribe and pay for the respective number of Notes set forth opposite their names in the table below at the issue price set forth on the cover page hereof. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from its obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

<b>Joint Lead Manager</b>	<b>Principal Amount</b>
BNP Paribas	€416,667,000
J.P. Morgan Securities plc	€416,667,000
Raiffeisen Bank International AG	€416,666,000
<b>Total</b>	<b>€1,250,000,000</b>

Ukraine has agreed to indemnify the Joint Lead Managers against certain liabilities in connection with the offer and sale of the Notes, including liabilities under the Securities Act. The Joint Lead Managers have performed investment banking and other services for Ukraine in the past and received customary compensation for such services.

### **United States**

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Joint Lead Managers have agreed (severally and not jointly) to offer the Notes for resale in the United States initially only to persons they reasonably believe to be qualified institutional buyers in reliance on Rule 144A and outside the United States in offshore transactions in reliance on Regulation S. Terms used in this paragraph have the respective meanings given to them by Regulation S.

The Notes are being offered and sold outside of the United States in reliance on Regulation S. The Subscription Agreement provides that each of the Joint Lead Managers may through its respective U.S. agents or affiliates resell a portion of the Notes within the United States only to qualified institutional buyers in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

### **United Kingdom**

Each of the Joint Lead Managers has represented and agreed (severally and not jointly) that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.



## Ukraine

Each of the Joint Lead Managers has represented and agreed (severally and not jointly) that it has not offered or sold, and will not offer or sell, any Notes constituting part of its allotment to any purchaser located within the territory of Ukraine, except in compliance with applicable laws and regulations.

A Ukrainian resident may purchase Notes in the secondary market; *provided that* it obtains an individual licence from the NBU authorising the transfer of foreign currency for the purchase of such Notes. However, currently Ukrainian residents may not make foreign currency payments on the basis of individual licences from the NBU (subject to certain exceptions). Individual licence is not required for individuals that are not entrepreneurs if residents are using funds already available to them outside of Ukraine. A Ukrainian resident may also need to involve a licensed professional securities trader for the purposes of its transactions with the Notes, unless it is a licenced institution itself.

## Republic of Italy

The offering has not been cleared by the Commissione Nazionale per la Società e la Borsa (“**CONSOB**”) (the Italian securities exchange commission), pursuant to Italian securities legislation. Accordingly, no Notes may be offered, sold or delivered, directly or indirectly nor may copies of this Prospectus or of any other document relating to the Notes be distributed in the Republic of Italy, except (a) to qualified investors (investitori qualificati) as defined in Article 26, first paragraph, letter (d) of CONSOB Regulation No. 16190 of 29 October 2007, as amended (“**Regulation No. 16190**”), which shall apply as provided by Article 34-ter, first paragraph letter (b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended (the “**Issuer Regulation**”), implementing Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the “**Italian Financial Act**”); and (b) in any other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Italian Financial Act and Article 34-ter, first paragraph of the Issuer Regulation and/or any other implementing CONSOB regulations.

Each of the Joint Lead Managers has, severally and not jointly, represented and agreed that any offer, sale or delivery of the Notes or distribution of copies of this Prospectus or of any other document relating to the Notes in the Republic of Italy will be carried out in accordance with all Italian securities, tax and exchange control and other applicable laws and regulations.

Any such offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in the Republic of Italy according to the provisions above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Italian Financial Act, Legislative Decree No. 385 of September 1, 1993, Regulation No. 16190 (in each case, as amended from time to time) and any other applicable laws and regulations; and
- (b) in compliance with all relevant Italian securities, tax and exchange control and other applicable laws and regulations and any other applicable requirement or limitation that may be imposed from time to time by CONSOB, the Bank of Italy (including, the reporting requirements, where applicable, pursuant to Article 129 of the Italian Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time) or any other relevant Italian authorities.

Any investor purchasing the Notes is solely responsible for ensuring that any offer or resale of the Notes by such investor occurs in compliance with applicable laws and regulations.

This Prospectus and the information contained herein are intended only for the use of its recipient and are not to be distributed to any third party resident or located in Italy for any reason. No person resident or located in Italy other than the original recipients of this Prospectus may rely on them or their contents.

## General

Other than with respect to the admission of the Notes to listing on the Official List and to trading on the regulated market of Euronext Dublin, no action has been taken by the Issuer or any of the Joint Lead Managers that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that

purpose is required. Accordingly, each of the Joint Lead Managers has undertaken that it will, to the best of its knowledge and belief, comply with all applicable laws and regulations in each jurisdiction in which it acquires, purchases, offers, sells or delivers Notes or has in its possession or distributes this Prospectus (or any amendment or supplement thereto) or any other offering material relating to the Notes, in all cases at its own expense. Persons into whose hands this Prospectus comes are required by the Issuer and the Joint Lead Managers to comply with all applicable laws and regulations in each jurisdiction in which they acquire, purchase, offer, sell or deliver Notes or possess, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

### **Certain Relationships**

Certain of the Joint Lead Managers and their affiliates from time to time have performed, and in the future will perform, banking, investment banking, advisory, consulting and other financial services for the Issuer and its affiliates, for which they may receive customary advisory and transaction fees and expenses reimbursement.

In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Issuer's affiliates. In particular, certain of the Joint Lead Managers intend to submit orders for the Notes and so may hold a portion of the Notes at the closing date. If they do so, each such Joint Lead Manager may distribute the Notes held by it to the market as permitted by applicable laws and regulations, but will be under no obligation to do so.

Furthermore, certain of the Joint Lead Managers or their affiliates that have a lending relationship with the Issuer may hedge their credit exposure to the Issuer consistent with their customary risk management policies. Such Joint Lead Managers and their affiliates may hedge such exposure by entering into transactions that consist of either the purchase of credit default swaps or the creation of short positions in securities (potentially including the Notes). Any such short positions could adversely affect future trading prices of Notes.

The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

### **Other Relationships**

The Joint Lead Managers and their respective affiliates have engaged and may engage in transactions with the Issuer in the ordinary course of their business, performing various investment banking, financial advisory, and other services for the Issuer, for which they received and may receive customary fees. The Joint Lead Managers and their respective affiliates expect to provide such services in the future.

## GENERAL INFORMATION

### Authorisation

The issue of the Notes is duly authorised by the Order of the Ministry of Finance of Ukraine “On Determining the Terms and Conditions for the Issue of Long-term External Sovereign Bonds in 2020” dated 22 January 2020, No. 19.

### Contact Details

The Issuer’s address is 12/2 Grushevsky Street, Kyiv, Ukraine. The Issuer’s telephone number is +38 044 463 6855. The website of the Issuer is <https://mof.gov.ua/>. This internet site does not form part of this Prospectus for the purpose of its approval or the listing of the Notes.

### Listing

Application has been made to Euronext Dublin for the Notes to be admitted to the Official List and trading on the regulated market of Euronext Dublin. The regulated market of Euronext Dublin is a regulated market for the purposes of MiFID II.

The expenses in connection with the admission of the Notes to the Official List and to trading on the regulated market of Euronext Dublin are expected to amount to approximately €5,000.

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission to the Official List or trading on the regulated market of Euronext Dublin for the purpose of the Prospectus Regulation.

### Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg.

The Unrestricted Global Note has been accepted for clearance through Euroclear and Clearstream, Luxembourg under Common Code No. 201003334. The ISIN for the Unrestricted Global Note is XS2010033343.

The Restricted Global Note has been accepted for clearance through Euroclear and Clearstream, Luxembourg under Common Code No. 201003318. The ISIN for the Restricted Global Note is XS2010033186.

### Significant Change

Since 31 December 2018, there has been no significant change in the Issuer’s (a) tax and budgetary systems, (b) gross public debt or the maturity structure or currency of its outstanding debt and debt payment record, (c) foreign trade and balance of payment figures, (d) foreign exchange reserves, including any potential encumbrances to such foreign exchange reserves as forward contracts or derivatives, (e) financial position and resources, including liquid deposits available in domestic currency, and (f) income and expenditure figures, save as disclosed in this Prospectus under “*Political Framework*” beginning on page 57; “*Economy of Ukraine*” beginning on page 77; “*The Labour Market*” beginning on page 116; “*External Sector*” beginning on page 122; “*Public Finance and Fiscal Policy*” beginning on page 138; “*Public Debt*” beginning on page 158; and “*The Monetary System*” beginning on page 176.

### Litigation

Save as disclosed in this Prospectus in “*Description of Ukraine—Legal Proceedings*”, the Issuer is not involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the previous 12 months which may have or have had in the recent past, significant effects on the Issuer’s financial position.

### Documents

So long as the Notes are listed on Euronext Dublin, a copy of the Agency Agreement will be available for inspection on the website of Euronext Dublin at [www.ise.ie](http://www.ise.ie) and the latest law “*On the State Budget of Ukraine*”

(in the Ukrainian language) will be available for inspection at [www.rada.gov.ua](http://www.rada.gov.ua). These internet sites do not form part of this Prospectus for the purpose of its approval or the listing of the Notes.

**Foreign Language**

The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

## **THE ISSUER**

### **Ukraine**

Represented by the Minister of Finance of Ukraine  
12/2 Grushevsky Street  
Kyiv  
Ukraine

## **FISCAL AGENT AND TRANSFER AGENT**

The Bank of New York Mellon, London Branch  
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United Kingdom

### **REGISTRAR**

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Grand Duchy of Luxembourg

### **IRISH LISTING AGENT**

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## **LEGAL ADVISERS**

*To the Issuer as to English and U.S. law*

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*To the Issuer as to Ukrainian law*

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