State Road Agency of Ukraine

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Opportunities for realization of PPP-projects in the road sector of Ukraine

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КРАВТОДОР

Agenda

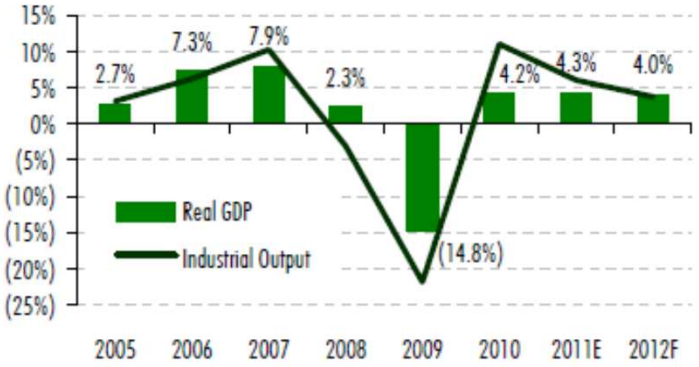
1. General information about Ukraine and Ukravtodor
2. Principles for investment projects
3. Investment projects
4. Conclusions

Macroeconomic Indicators of Ukraine

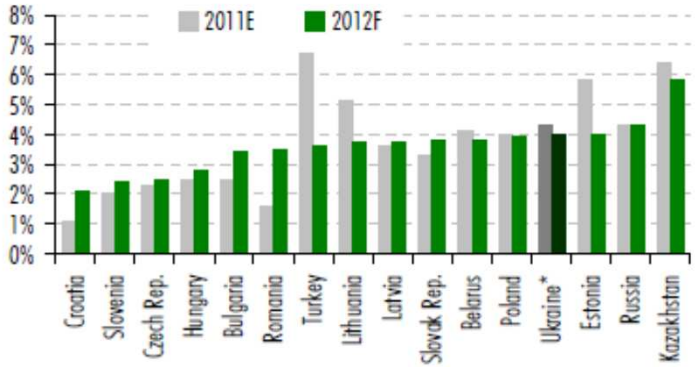
Key Macroeconomic Indicators

	2005	2006	2007	2008	2009	2010	2011E	2012F
Real GDP growth (%; y-o-y)	2.7%	7.3%	7.9%	2.3%	(14.8%)	4.2%	4.3%	4.0%
Nominal GDP ($bn)	86.1	107.8	142.7	179.6	117.2	138.0	164.7	187.7
Real industrial growth (%; y-o-y)	3.1%	6.2%	10.2%	(3.1%)	(21.9%)	11.0%	6.0%	3.7%
Consumer price index (%; y-o-y; e-o-p)	10.3%	11.6%	16.6%	22.3%	12.3%	9.1%	10.5%	8.5%
General gov't & Naftogaz balances* (% of GDP)	(2.3%)	(1.4%)	(2.0%)	(3.2%)	(8.7%)	(7.1%)	(4.7%)	(4.5%)
Gross government debt (% of GDP)	17.7%	14.8%	12.3%	20.0%	34.8%	39.5%	38.8%	37.4%
C/A balance (% of GDP)	2.9%	(1.4%)	(3.7%)	(7.1%)	(1.5%)	(2.1%)	(3.9%)	(3.8%)
Net FDI (% of GDP)	8.7%	5.3%	6.5%	5.5%	4.0%	4.2%	3.6%	3.6%
NBU gross international reserves ($bn)	19.4	22.3	32.5	31.5	26.5	34.6	36.0	32.3
UAH:USD (market rate; e-o-p)	5.05	5.05	5.05	7.85	8.00	7.96	8.00	8.00

Note: *includes the central and local budgets, Pension Fund and, from 2009 onwards, Naftogaz Ukrainy, but excludes bank recapitalization costs.
Sources: Government statistics, National Bank of Ukraine, Dragon Capital estimates and forecasts



Real GDP and Industrial Output (% y-o-y)



Real GDP Consensus Forecasts (% y-o-y)

Note: *Dragon Capital's revised forecasts. Sources: SSC, Eastern Europe Consensus

Main objectives of Ukravtodor

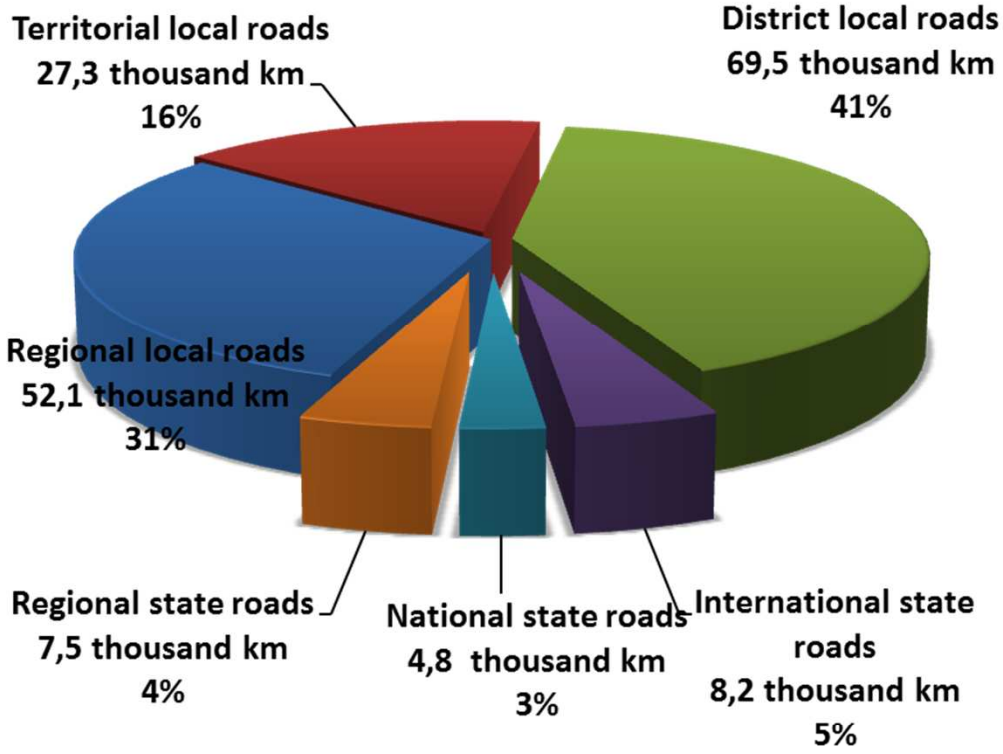
- implementation of the state policy and proposals;
- management of public roads;
- organization of the reconstruction, repair and maintenance of roads, engineering and road service;
- provision of technical regulation in the reconstruction and repair of roads;
- management of the state property;
- implementation of international projects in the road sector.

Overview of the network of public roads

Length of public roads 169,4 thousand km, including:

- State roads – 20,5 thousand km
- Local roads – 148,9 thousand km

72% of freight and 82% of passenger transportation in Ukraine is carried by roads



International and national transport corridors

All projects of Ukravtodor with IFIs

European Bank for Reconstruction and Development and European Investment Bank	mln. Euro	
First Project “Kiev-Chop Road Rehabilitation”	75	Finished 497 km and continue work on the third project
Second Project “Kiev-Chop Road Rehabilitation”	100	
Third Project “Kiev-Chop Road Rehabilitation” and “Ukraine - European Roads of Ukraine Project”	400	
Fourth Project “Improvement of transport and operational conditions of roads on approaches to Kyiv”	900	Realization
World Bank		mln. USD
Project "Improvement of roads and road safety"	400	Realization
Improvement of operational conditions of the road Kyiv - Kharkiv - Dovzhanskiy in the area from Lubny to Poltava	600	Preparation
Japan International Cooperation Agency		mln. USD
Construction of bridge across the Southern Bug River in Mykolaiv City	540	Preparation

Joint project with Japan International Cooperation Agency (JICA)

Ukravtodor and JICA started a joint work under the Project "Construction of bridge across the Southern Bug River in Mykolaiv City"

Project Cost – $ 540 m

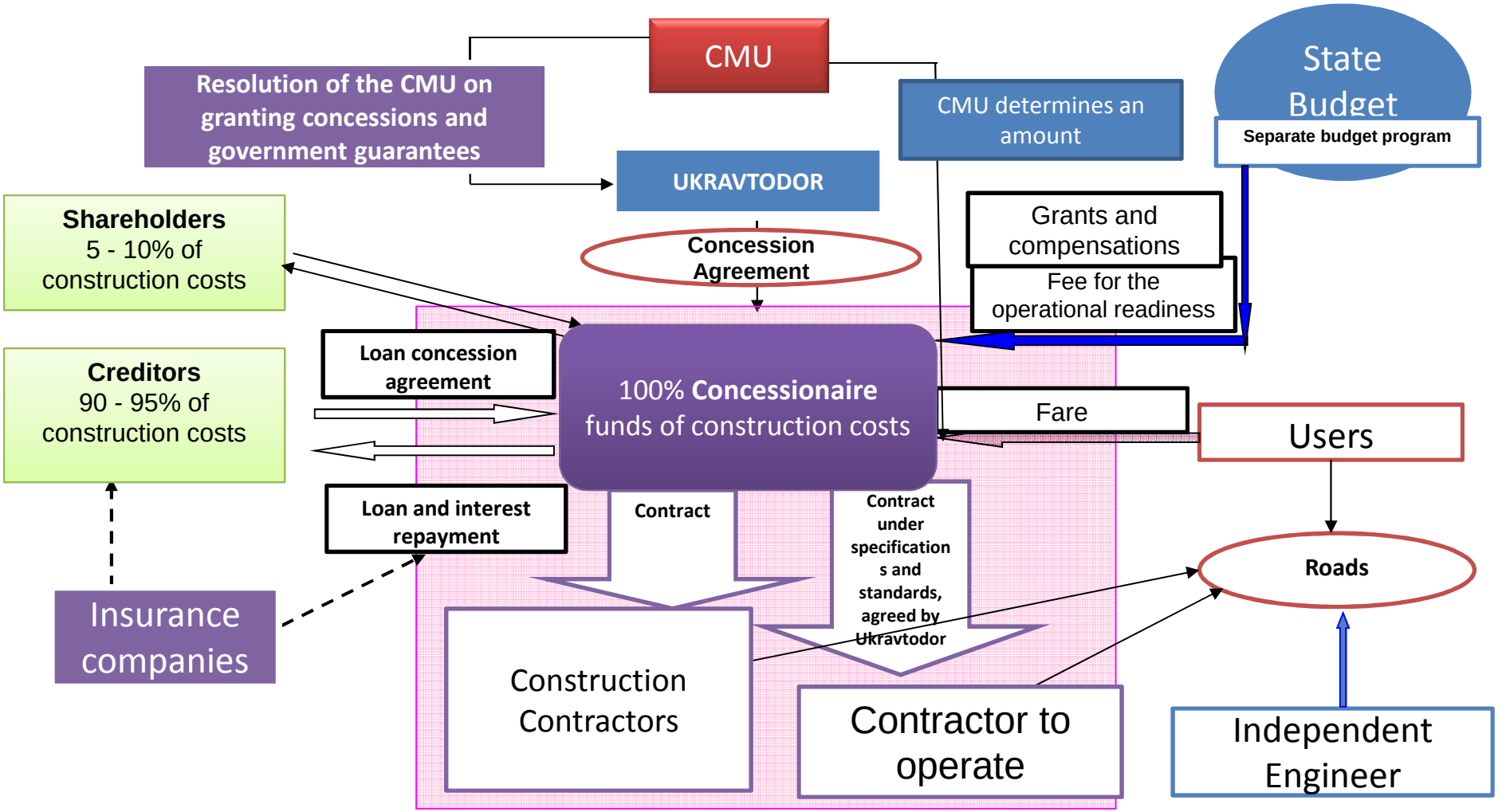
A project is under the active preparation

PPP principles and risk allocation

- private partner provides 100% of construction financing
- private partner assumes the risks of cost overruns on construction and operation
- the State assumes the risk of revenue shortfall
- The Government approves the project, provides government guarantees and sets maximum tolls
- private partner receives return on investment from:
  - charges
  - availability payments
  - subsidies and compensations

In 2009-2010 laws on PPP in road sector were created in the legislation of Ukraine

Typical scheme of the financial concession model



KPP Scherbakivka – Kharkiv – Novomoskovsk as a PPP

- In 2007 was recommended for the implementation as a pilot project as a PPP
- The shortest route between the Kharkiv region and Crimea
- PPP (concession) term established as 49 years.

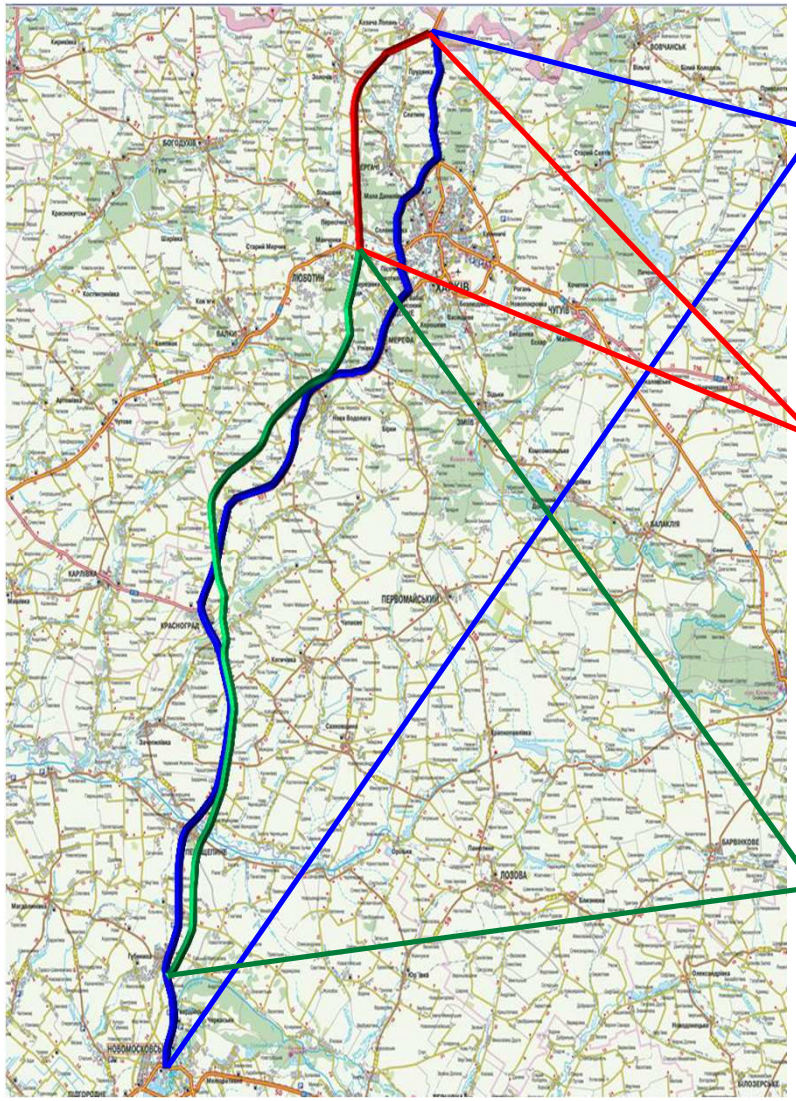
Government involvement

- Transfer of the existing road section Kharkiv - Novomoskovsk to concessionaire
- Obligation of allotment of land plots

Definition of the investor

- Competitive basis

Layout of a road KPP “Scherbakivka”- Kharkiv - Novomoskovsk



Existing roads: “Scherbakivka”- Kharkiv (M-20), Kharkiv - Novomoskovsk (M-18)

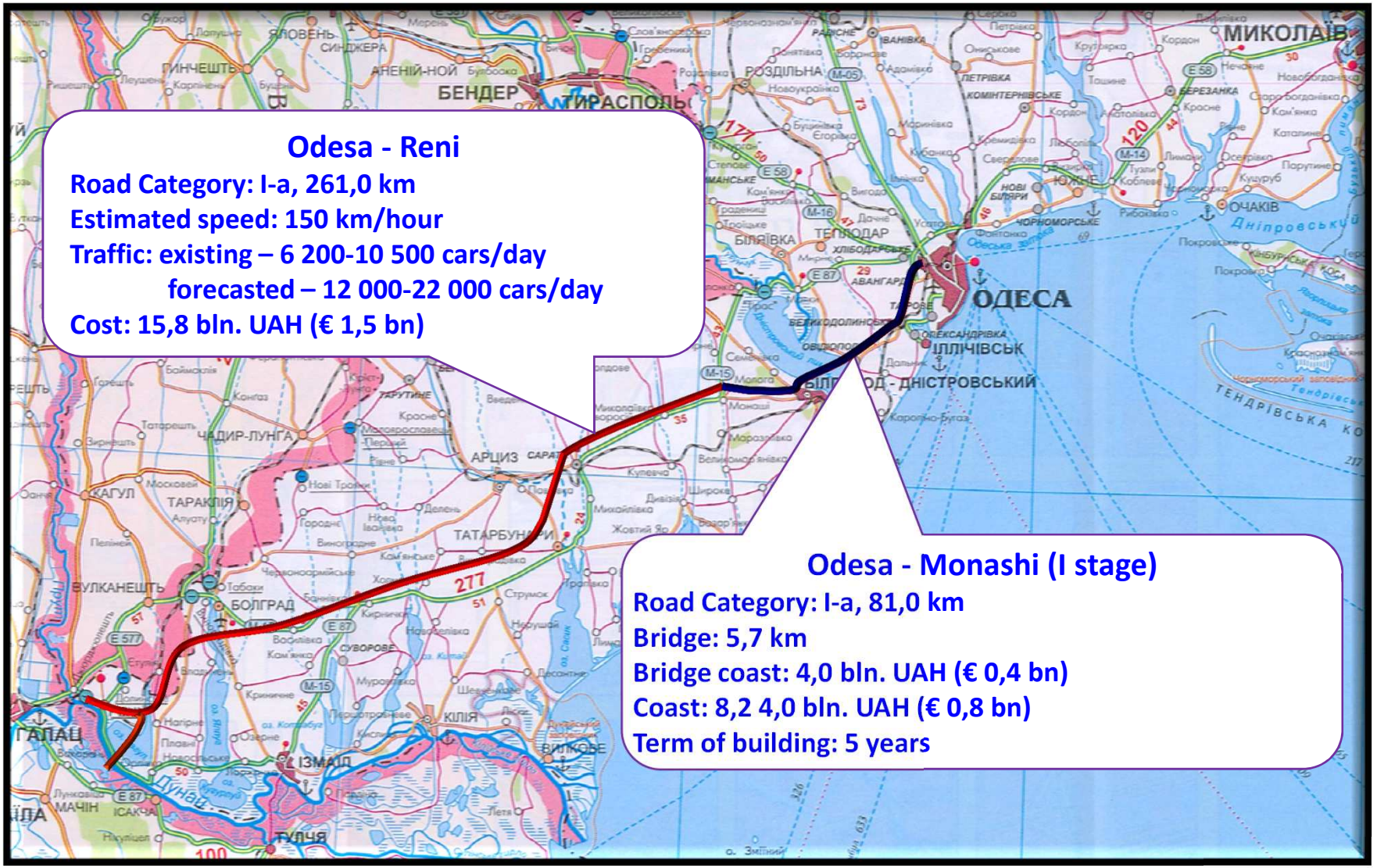
KPP “Scherbakivka”- Kharkiv (has to be built)
Road Category: I-a, 48,8 km
Cost: 3100 m UAH
(€ 298,95 m)
Period of construction: 4 years

Existing road: (P-51) Kharkiv - Novomoskovsk
Road Category: 1-a
Cost: 355, 15 m UAH
(€ 34,25 m)
Period of repairing work: 1 year

Road Odesa - Reni

- On the transport corridor "Black Sea Economic Cooperation“
- Provides a high-quality connection for central Ukraine with southern Europe
- Road is included to the list of concession projects
- Government approved the feasibility study

Location of the road Odesa - Reni



SWOT for PPPs in Ukraine

Strengths	Weaknesses
PPP legislative framework	No practical experience (success story)
Understanding of necessity and IFI support	Political support
Strong interest from potential investors	Lack of budget financing and limited resources on the global markets (cheap and long)
Improvement of macroeconomic situation	Institutional capacity
Opportunities	**Threats**
Investments flows	World financial crisis
Competitive market	Investment risk
New technologies and better quality	Political risk
Rapidly modernising economy with major growth potential	Legislative framework (tax system and investment legislation)
Social and economic benefits (developed infrastructure)	Risk of worsening macroeconomic situation

Thank you for your attention

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