

**CABINET OF MINISTERS OF UKRAINE**

**RESOLUTION**

**as of 7 July 2021, No. 714**

**Kyiv**

**On Approval of Methodology for Calculating the Amount of State Support for  
Implementation of an Investment Project with Significant Investments**

In accordance with paragraph 3 of Article 4 of the Law of Ukraine “On State Support for Investment Projects for Significant Investments in Ukraine” the Cabinet of Ministers of Ukraine **decrees:**

To approve Methodology for Calculating the Amount of State Support for Implementation of an Investment Project with Significant Investments which is attached.

**Prime Minister of Ukraine**

**D. SHMYHAL**

**APPROVED**  
**by the resolution of the Cabinet of Ministers of Ukraine**  
**as of 7 July 2021, No. 714**

**METHODOLOGY**  
**for Calculating the Amount of State Support for Implementation of an Investment**  
**Project with Significant Investments**

1. This Methodology defines the mechanism and indicators for calculating the amount of state support for the implementation of an investment project with significant investments (hereinafter – the amount of state support).

2. In this Methodology, the terms are used in the meaning given in the Law of Ukraine “On State Support for Investment Projects with Significant Investments in Ukraine” (hereinafter – the Law).

3. The amount of state support granted for a period of more than one year, which is specified in Article 3 of the Law for each form of state support, is calculated in view of the discount rate according to the following formula:

$$PV_{ss} = \sum_{t=0}^n \frac{CF_t^{ss}}{(1 + i_{ss})^t}$$

where  $PV_{ss}$  – discounted amount of state support for the appropriate form of state support;

$CF^{ss}$  – amount of state support for the appropriate form of state support in the relevant period;

$i_{ss}$  – discount rate of state support;

$t$  – number of the period (year) for which the discounting is made. The current period is defined as period “0”;

$n$  – total number of discount periods (years).

4. The total amount of state support consists of amounts of state support for all forms of state support that may be granted in accordance with Article 3 of the Law, considering the provisions of paragraph 1 of Article 4 of the Law.

5. The discount rate of state support is determined in view of the value of government borrowings at the level of current yield of long-term foreign government bonds with the longest maturity in the relevant currency on the date of determining the discount rate (date of preparation of feasibility study of the investment project with significant investments), and in the absence of such securities in the relevant currency – at the level of yield on domestic government bonds with the longest maturity on the date of determination of the discount rate (date of preparation of feasibility study of an investment project with significant investments) in the relevant currency.

In the absence of securities of external government loans and domestic government borrowings in the relevant currency, state support calculations are converted into hryvnia/UAH equivalent using the official exchange rate of hryvnia/UAH to the relevant currency as of the settlement date and the discount rate for hryvnia is used.

*Unofficial Translation*

6. When calculating the total amount of state support, the following provisions shall be taken into account:

the total amount of state support should not exceed 30 percent of the planned amount of significant investments in an investment project with significant investments;

the planned amount of significant investments in an investment project with significant investments includes all funds (own and/or borrowed) that will be invested in the investment object in the process of implementing an investment project with significant investments during the duration of a special investment agreement and does not include reinvestment that will be carried out at the expense of income received from operating activities in the process of implementing an investment project with significant investments.

7. When calculating the planned amount of significant investments over a period of more than one year, such investments shall be subject to the discount rate determined at the level of the weighted average cost of capital (WACC), calculated in accordance with the Annex to this Methodology.

8. The planned amount of significant investments for implementation of an investment project with significant investments is calculated in view of the discount rate according to the following formula:

$$PV_{si} = \sum_{t=0}^n \frac{CF_t^{si}}{(1 + i_{si})^t}$$

where  $PV_{si}$  – discounted planned amount of significant investments;

$CF_t^{si}$  – planned amount of significant investments in the relevant currency in the relevant period (year);

$i_{si}$  – a discount rate of the planned volume of significant investments;

$t$  – number of the period (year) for which the discount is made. The current period is defined as a period “0”;

$n$  – total number of discount periods (years).

**Calculation of Weighted Average Cost of Capital (WACC)**

Weighted average cost of capital is used to discount the planned amount of significant investments made in a period exceeding one year.

The weighted average cost of capital (WACC) is determined on the basis of assumptions about the share of borrowings, market interest rates on borrowings, and market value of equity, considering the capital structure (equity and debt (borrowed) financing) by the formula:

$$WACC = \frac{E}{(D + E)} (r_e) + \frac{D}{D + E} (r_d)(1 - t),$$

where WACC – a weighted average cost of capital;

E – an amount of equity \*;

D – an amount of debt (borrowed) capital \*\*;

$r_e$  – a market value of equity, percent;

$r_d$  – a market value of debt (borrowed) capital, percent;

t – income tax rate.

The market value of equity is determined using the Capital Asset Pricing Model (CAPM), which involves determining the expected value of capital based on the profitability of risk-free financial instruments with the addition of premiums for additional risks, according to the formula:

$$r_e = r_f + \beta_e * (r_m - r_f) + r_s,$$

where  $r_e$  – a market value of equity;

$r_f$  – a rate of return on financial instruments with minimal risk;

$r_m$  – return on equity invested in market financial instruments (stocks on the open stock market);

$\beta_e$  – coefficient showing the specific risk of investments compared to market averages, in view of the capital structure;

$r_s$  – premium for specific risks associated with the object of investment, specific risks of the industry, etc.

The market value of debt (borrowed) capital is determined based on the average market indicators of debt financing rates, in view of the specifics of the industry and the availability of such financing for the relevant type of projects.

### *Unofficial Translation*

Thus, the market value of debt (borrowed) capital can be determined in view of the information of financial institutions (including international financial organizations) or calculated in view of weighted average interest rate on interbank transactions related to the provision (placement) of financial resources by currency), in particular, LIBOR rates\*\*\* on the date of calculation (date of preparation of feasibility study of an investment project with significant investments) and premiums for risks associated with the country (region, city) in which the project is implemented, and specific risks of the project.

Calculation of weighted average cost of capital (WACC) is determined for the currency in which the cash flows will be calculated, in view of the projected inflation rate for the country whose legal tender is the currency in which the calculations are made.

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\* It is recommended to use the indicator of 30 percent of equity, but this indicator may be changed due to the specifics of the industry in which an investment project with significant investment is implemented, or the specifics of the market.

\*\* It is recommended to use the indicator of 70 percent of debt (borrowed) capital, but this indicator may be changed due to the specifics of the industry in which an investment project with significant investment is implemented, or the specifics of the market.

\*\*\* LIBOR base rate means the bid rate on London Interbank Deposit Market for half-yearly US dollar deposits.