Contributions accumulated in such a fund would be invested and paid out together with the investment income to the employees upon retirement, in addition to pensions paid out of the Pension Fund.

In addition, this system allows for differentiation among pension amounts in an attempt to improve pension provision for citizens, such differentiation being based on the duration of the employment period, during which the person was making contributions to the Pension Fund, and the amount of the previous wages (income). Citizens who already receive a pension are entitled to its recalculation pursuant to the provisions of the law enacted in January 2004. On average, the recalculation has resulted in pension increases by more than six times to date as compared to 2004. Periods of labour prior to the enactment of the law are credited towards seniority in determining the pension amounts to be paid under the laws enacted in January 2004. Since 1 January 2004, approximately 12.5 million pensioners have had their pensions recalculated based on the principles of pension payment established in 2004. Although the introduction of pension reform has resulted in the increase of the ratio of average pension to average wages from 20 per cent. to 48 per cent., a sufficient level of pension provision will only be attainable through the efficient operation of the pension insurance system at all levels.

As at 31 December 2010, the State Commission on the Regulation of Financial Services Markets had information on 101 non-state pension funds. As at 31 December 2008 and 31 December 2009, non state pension funds held total assets of UAH 612.2 million and UAH 857.9 million, respectively, and had approximately 483,000 and 497,000 individual participants, respectively. As at 30 September 2010, non state pension funds held total assets of UAH 1,057.3 million and had approximately 484,300 individual participants.

Unemployment Benefits

Mandatory unemployment insurance was introduced on 1 January 2001 and until the end of 2010 was funded through a 1.6 per cent. payroll tax paid by the employer to the Unemployment Fund and a 0.6 per cent. tax paid by the employee. From 1 January 2011 the payroll tax was replaced by a single social contribution. Self-employed individuals and individual entrepreneurs, as well as those workers employed outside the Ukraine may participate in the unemployment insurance scheme on a voluntary basis. Both insured and uninsured persons 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 past wages, insurance period and the reasons for dismissal from the last workplace. Uninsured persons have the right to unemployment benefits in the minimum amount.

During 2009 and through 31 May 2010, the minimum unemployment benefit was UAH 360 for uninsured unemployed persons and for insured long-term unemployed persons. During this period, for insured unemployed persons the minimum unemployment benefit was UAH 500. During the second half of 2010 the unemployment benefits were increased in several stages: the minimum unemployment benefit for uninsured unemployed persons and for insured long term unemployed persons was gradually increased up to UAH 500 from 1 December 2010 and the minimum unemployment benefit for insured unemployed persons was gradually increased up to UAH 700 from 1 December 2010.

Starting from 1 January 2011, the minimum unemployment benefit for uninsured unemployed persons and for insured long term unemployed persons is UAH 510 and the minimum unemployment benefit for insured unemployed persons is UAH 714. In 2011, the minimum unemployment benefit for uninsured unemployed persons and for insured long term unemployed persons will be increased to UAH 520, UAH 534, and UAH 544 from 1 April, 1 October and 1 December 2011, respectively. The minimum unemployment benefit for insured unemployed persons will be increased to UAH 729, UAH 748 and UAH 762 from 1 April, 1 October and 1 December, respectively.

In December 2010, the amount of unemployment benefit was, in average for each unemployed person, UAH 780.1 per month, an increase of 19.0 per cent. as compared to December 2009.

In accordance with Ukrainian employment laws, any unemployed person who worked for at least 26 weeks within the 12 months preceding unemployment is entitled to benefits, depending on such person's past employment period. In particular, one is entitled to benefits equivalent to 70 per cent. of one's average monthly salary if the 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. The amount of unemployment benefit is capped at the level of the average monthly salary in a relevant region for the previous month.

The major categories of social services rendered to the unemployed include professional training or re training, assistance in finding employment, including through subsidies to the employers for creation of additional workplaces and financing of public works, as well as informational and consulting services related to employment.

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 labour 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 funeral and health improvement (rehabilitation).

In 2009, the average monthly insurance payment to employees injured at work as a result of accidents and professional illnesses was UAH 782.0, an increase of 4.5 per cent. as compared to 2008. In the six months ended 30 June 2010, the average monthly insurance payment to employees injured at work as a result of accidents and professional illnesses was UAH 841.7, an increase of 5.0 per cent. as compared to the same period in 2009. From 1 March 2008 and 1 March 2009, the amount of monthly insurance payments to employees injured at work as a result of accidents and professional illnesses was increased by 12.5 per cent. and 6.3 per cent., respectively; and from 1 March 2010 this amount was increased by 1.0 per cent.

Since 2007, childbirth benefits and child care benefits to insured persons are funded out of the State Budget rather than out of the Temporary Disability Social Insurance Fund. In 2008, 2009 and 2010, the childbirth benefit was UAH 12,240 for the first child in a family, UAH 25,000 for a second child and UAH 50,000 for each additional child. In 2011, the level of childbirth benefit is equivalent to 22 times the monthly subsistence level for a child up to six years old, for the first child (UAH 17,952 as of 1 January 2011 to be gradually increased to UAH 19,140 as of 1 December 2011), to 45 times the monthly subsistence level for a child up to six years old for a second child (UAH 36,720 as of 1 January 2011 to be gradually increased to UAH 39,150 as of 1 December 2011), and to 90 times the monthly subsistence level for a child up to six years old for each additional child (UAH 73,440 as of 1 January 2011 to be gradually increased to UAH 78,300 as of 1 December 2011). A portion of these benefits is payable at birth, with the remainder payable in instalments over the period ranging from 12 to 36 months thereafter.

The aggregate amount of childbirth benefits was UAH 8,444.8 million and UAH 10,173.2 million in 2009 and 2010, respectively. The total amount of childbirth benefit budgeted in the State Budget for 2011 is UAH 12,841.5 million. Child-care benefits are available until a child is three years old. Certain additional benefits are available to children under guardianship and to single mothers. the minimum child care benefit is currently UAH 130.0 per month. In 2009 and 2010, the average amount of monthly child care benefit was UAH 170.9 and UAH 306.3, respectively. At each of 1 January 2010 and 1 January 2011, approximately 1.3 million persons were recipients of such benefits. The aggregate amount of these benefits was approximately UAH 2,506.2 million and UAH 4,645.1 million in 2009 and 2010, respectively.

In 2009 and 2010, the average amount of monthly subsidies to low income families was UAH 551.5 and UAH 882.2, respectively. As of 1 January 2010 and 1 January 2011, approximately 89.1 thousand and 70.2 thousand families, respectively, were recipients of such subsidies, which totalled approximately UAH 705.4 million and UAH 808.5 million in 2009 and 2010, respectively.

In 2009 and the eleven months ended 30 November 2010, the average amount of cash subsidy for the purchase of fuel and gas was UAH 372.3 and UAH 381.8, respectively. In 2009 and in the eleven months ended 30 November 2010, 256,000 and 225,000 families, respectively, received these subsidies. In 2009 and in the eleven months ended 30 November 2010, the average amounts of subsidy for the payment of housing and communal services were UAH 95.0 and UAH 94.9, respectively. As at 1 January 2010 and 1 January 2011, 869,000 and 1,064,000 families, respectively, received these subsidies.

As at 1 January 2011, social benefit arrears for subsidies to families with children and low income subsidies had been completely eliminated. As at 1 January 2011, total arrears for cash subsidies for the purchase of fuel and gas amounted to UAH 15.1 million.

EXTERNAL SECTOR

Balance of Payments

Ukraine had a current account surplus from 1999 until 2005, followed by current account deficits of U.S.$1.6 billion in 2006 and U.S$5.3 billion in 2007. In 2008, the current account deficit increased to U.S.$12.8 billion or 7.0 per cent. of GDP, mainly due to the increase of the external goods trade deficit to U.S.$16.1 billion and the increase of the revenue deficit to U.S.$1.5 billion. Notwithstanding the consequences of the global financial downturn, which significantly affected Ukraine's economy in the fourth quarter of 2008, the positive economic dynamics of the first three quarters resulted in high rates of growth of almost all current account items for the full year 2008.

In 2009, reductions in external demand and world market prices due to the global financial and economic downturn resulted in a significant decrease of revenues from the exports of goods and services by 36.6 per cent. At the same time, reduction in domestic demand, lack of external financing as well as a significant devaluation of hryvnia in late 2008 resulted in a 43.7 per cent. decline in imports. Consequently, in 2009, the current account deficit significantly decreased to U.S.$1.7 billion (or 1.5 per cent. of GDP) as compared to U.S.$12.8 billion (or 7.0 per cent. of GDP) in 2008.

In 2008, the capital and financial account surplus amounted to U.S.$9.7 billion, a decrease of 35.0 per cent. as compared to U.S.$14.7 billion recorded in 2007. The reduction in the financial account surplus resulted from a capital outflow of U.S.$5.8 billion during the fourth quarter of 2008. This was the first time such a capital outflow occurred since early 2006 and was caused by the global financial downturn. The net capital outflow resulted from the decrease in the long term funding inflow recorded concurrently with high rates of short term loan and foreign currency physical cash outflow from the banking system.

In 2009, the capital and financial account deficit amounted to U.S.$12.0 billion as compared to the financial account surplus of U.S.$9.7 billion in 2008. The financial account deficit in 2009 was largely due to limited global liquidity, instability of global and domestic capital markets and significant volumes of debt that had been accumulated by the private sector during previous years and matured in 2009. In particular, the financial account balance was affected by net repayment in 2009 of U.S.$9.1 billion of external debt accumulated by private and public sectors before the global financial downturn as well as by a significant decrease in inflows of foreign direct investments in 2009.

According to data published by the NBU in 2010, the current account deficit was U.S.$2.6 billion (or, in estimation of the NBU, 1.9 per cent. of the estimated GDP). The current account deficit in 2010 was largely due to the increase of the goods trade deficit especially during the second half of 2010 as a result of reviving internal demand leading to a 35.4 per cent. increase in goods imports as compared to a 29.0 per cent. increase in goods exports in 2010. In 2010, the goods trade deficit made U.S.$8.4 billion (compared to U.S.$4.3 billion in 2009). Concurrently, the surplus of trade in services increased significantly in 2010 to U.S.$4.7 billion (as compared to U.S.$2.4 billion for 2009) largely due to an increase in natural gas transit charges.

In 2010, Ukraine had a capital and financial account surplus of U.S.$7.7 billion (as compared to a U.S.$12.0 billion deficit in 2009). The capital and financial account surplus was largely attributable to the renewal of state and private borrowings, the reduction in net repayments by the private sector under the external borrowings, the Government's borrowings under the U.S.$2.0 billion facility entered into in June 2010 and 2010 and external bonds, as well as a general inflow of foreign direct investment.

The NBU expects the overall balance of payments to be close to zero in 2011 due to further increase of current account deficit against the moderate growth of capital inflows to the financial account.

In particular, the current account deficit is expected to increase in 2011 to U.S.$3.9 billion due to further revival of internal investment and consumer demand.

The financial account surplus (forecasted to be U.S.$3.8 billion) in 2011 is expected to be formed due to direct foreign investment (U.S.$6.5 billion) and net real sector borrowings (U.S.$2.0 billion), while banking sector borrowings are expected to be directed to repay previously drawn facilities. Cash outflows from banks are expected to experience a slower growth (U.S.$5.2 billion in 2011 as compared to U.S.$7.3 billion in 2010).

The following table sets out Ukraine's balance of payments for the periods shown:

	Year ended 31 December			
	2007	2008	2009	2010[(1)]
	(in U.S.$ millions)			
Current account	(5,272)	(12,763)	(1,732)	(2,558)
Goods and services (balance)	(8,152)	(14,350)	(1,953)	(3,688)
Export of goods and services	64,001	85,612	54,253	68,982
Import of goods and services	(72,153)	(99,962)	(56,206)	(72,670)
Goods (balance)	(10,572)	(16,091)	(4,307)	(8,397)
Services (balance)	2,420	1,741	2,345	4,709
Income (balance)	(659)	(1,540)	(2,440)	(1,942)
Current transfers (balance)	3,539[(2)]	3,127	2,661	3,072
Capital and financial account	14,693	9,700	(11,994)	7,654
Capital account	3	5	595	185
Direct investment (balance)	9,218	9,903	4,654	5,684
Portfolio investment (stock capital)	715	398	(99)	233
Loans and bonds	23,077	12,412	(9,137)	6,741
Medium and long term loans	18,210	13,443	(4,663)	3,789
Short term loans	4,867	(1,031)	(4,474)	2,952
Other capital	(18,320)	(13,018)	(8,205)	(5,189)
including foreign currency cash outside banks	(13,518)	(12,897)	(9,713)	(7,346)
Overall balance	9,421	(3,063)	(13,726)	5,096
Financing	(9,421)	3,063	13,726	5,777[(4)]
Reserves assets[(2)]	(8,980)	(1,080)	5,654	(7,675)[(4)]
Loans from IMF (net)	(441)	4,143	1,228	873[(4)]
IMF loan to Government of Ukraine	–	–	4,798	1,025[(4)]
SDR	–	–	2,046	–[(4)]

Notes:

(1) According to preliminary estimates of the NBU for 2010.

(2) Includes payments from Germany and Austria as compensation for World War II victims in the aggregate amount of U.S.$5 million in 2007.

(3) Numbers in brackets represent an increase in the reserves.

(4) As at 30 November 2010.

Source: NBU

International Trade

Prior to independence, Ukraine's commerce was centrally controlled from Moscow, and the integrated trade system of the USSR meant that the majority of Ukraine's cross border trade was with other Soviet republics. Figures are difficult to obtain, but by 1989 Ukraine tended to import energy and raw materials while exporting machinery, metals and chemicals. At that time approximately 80 per cent. of both imports and exports are estimated to have been with non Ukrainian Soviet markets.

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.

During the period from 1992 through 2009, Ukrainian exports of goods and services increased from 24.0 per cent. to 34.3 per cent. of GDP, and imports increased from 22.0 per cent. to 38.5 per cent. of GDP. The increasing proportion of exports and imports between 1992 and 2009 as a percentage of GDP reflects, among other factors, the gradual integration of Ukraine into the world economy.

In 2007, goods and services export volumes increased by 27.4 per cent., while goods and services import volumes increased by 35.4 per cent., each as compared to 2006. In 2007, the external trade turnover increased by 31.5 per cent. as compared to 2006 and was U.S.$136.2 billion and the external trade deficit was U.S.$8.2 billion (as compared to U.S.$3.1 billion deficit in 2006). As a percentage of GDP, in 2007, Ukrainian exports of goods and services decreased to 45.3 per cent. of GDP and imports increased to 50.6 per cent. of GDP. The growth of goods export volumes in 2007 was primarily attributable to stable demand and favourable price conditions in external markets for metal, chemical products and certain agricultural products as well as to growth in demand for machinery products. The growth of goods imports volumes in 2007 was largely attributable to intensification of investment demand, the growth of real household incomes and consumer lending and sharp increases in energy prices.

In 2008, goods and services import volumes grew by 38.5 per cent. as compared to the 33.8 per cent. growth of goods and services export volumes. As a result, the external trade deficit increased to U.S.$14.4 billion in 2008 compared to U.S.$8.2 billion in 2007, with the main increase in the deficit occurring in the first half of 2008 and being largely attributable to increased household income, stimulated by significant social expenditures made by the Government, dynamic development of consumer lending and the strengthening of the hryvnia exchange rate against the U.S. dollar in this period. High prices for traditional export products, such as ferrous metallurgical products, positively affected the external trade balance in the middle of 2008 and as a result, despite the economic downturn at the end of 2008, goods export volumes grew by 35.9 per cent. in that year as compared to 2007 and amounted to U.S.$67.7 billion, or 37.6 per cent. of GDP in 2008. This was also aided by growth in exports of agricultural products and machinery products in particular. In addition, volumes of imported goods increased by 38.7 per cent. to U.S.$83.8 billion (46.6 per cent. of GDP). This growth was primarily attributable to an increase in domestic demand, as well as increased world prices for energy, raw materials and other materials recorded in the first half of 2008.

In 2009, volumes of exported goods and services were U.S.$54.3 billion (or 46.2 per cent. of GDP), a decrease of 36.6 per cent., or U.S.$31.4 billion, compared to 2008. Volumes of imported goods and services in 2009 were U.S.$56.2 billion (or 47.9 per cent. of GDP), a decrease by 43.8 per cent. (or U.S.$43.8 billion) as compared to 2008. As a result, the external trade deficit decreased to U.S.$2.0 billion in 2009 compared to U.S.$14.4 billion in 2008.

In 2009, the goods trade deficit decreased to U.S.$4.3 billion (U.S.$16.1 billion in 2008). While the rate of recovery for exports of goods (due to a gradual renewal of external demand and a stabilisation of prices for Ukrainian exports) was faster than that for the imports of goods, the balance of trade in goods remained negative in 2009 largely due to the significant increase of prices for imported gas. Exports of goods, which were in aggregate 40.7 per cent. lower in 2009 than in 2008, kept increasing in 2009. This improvement was due to a gradual renewal of external demand and the stabilisation of the prices of Ukrainian exports after their sharp decline in the last quarter of 2008 and first quarter of 2009. In 2009, the largest declines were recorded in exports of metal products (by 53.6 per cent.), chemical industry products (by 48.6 per cent.) and mineral products (by 44.6 per cent.). In 2009, the aggregate volume of imported goods amounted to U.S.$45.4 billion, a decrease by 46.9 per cent. as compared to 2008. A sharp decline in imports was recorded in the first quarter of 2009. Starting in the second quarter of 2009, imports increased by an average of 14.3 per cent. per quarter due to a gradual recovery of Ukrainian economy and a relative stabilisation of the hryvnia exchange rate. In 2009, the largest decreases in value of imports were recorded for machinery and metallurgical products at 66.0 per cent. and 58.1 per cent., respectively. Imports of mineral products decreased by 35.5 per cent. largely due to reductions in value volumes of oil and oil refinery products. Imports of chemical products and agricultural products decreased by 30.0 per cent. and 23.6 per cent., respectively.

For 2010, volumes of exported goods and services amounted to U.S.$69.0 billion, an increase of 27.1 per cent. (or U.S.$14.7 billion) compared to 2009. In particular, the export of goods increased to U.S.$52.1

billion due to GDP growth in Ukraine's major trade partners, an increase in physical export volumes and export prices due to a gradual recovery of the global economy. Increases in the value of exports of metals by 35.2 per cent., machinery by 33.6 per cent. and mineral products by 78.9 per cent. were the main contributors to the total goods exports volume growth in 2010.

In addition, for 2010, volumes of imported goods and services amounted to U.S.$72.7 billion, an increase of 29.3 per cent. (or U.S.$16.5 billion) as compared to 2009. In particular the import of goods increased to U.S.$60.5 billion as a result of gradual recovery of the Ukrainian economy and further increases in prices for imported natural gas and oil. For 2010, the value of imports of chemical industry products, machinery and metals increased by 27.2 per cent., 39.9 per cent., and 54.2 per cent., respectively as compared to 2009.

In 2010, the goods trade deficit increased to U.S.$8.4 billion (as compared to U.S.$4.3 billion in 2009) and the services trade surplus increased to U.S.$4.7 billion (as compared to U.S.$2.4 billion in 2009) largely due to an increase of natural gas transit charges.

The NBU expects the growth in both exports and imports to be slower in 2011 as a result of the deceleration of growth of the global economy and the strengthening of the hryvnia. The volume of exports is expected to rise by 8.6 per cent. while the volume of imports is expected to grow by 7.2 per cent.

Trade Agreements

An open trade regime is being codified in a number of trade agreements. Ukraine applied to join the WTO in 1993. Within the framework of the WTO accession process, between 2005 and 2007, 49 laws were enacted (including, for example, laws relating to customs and excise, standards and compliance assessment, foreign currency settlements, insurance, intellectual property protection and the taxation of agricultural producers) with the intention of significantly reducing or eliminating the differentiation among rates of import duties on agricultural, industrial and consumer goods. On 5 February 2008, Ukraine's accession package was considered and approved by the WTO General Council and on the same day the President of Ukraine and the Director General of the WTO signed the Protocol of Ukraine's Accession to the WTO. The law of Ukraine ratifying the Protocol was passed by Parliament on 10 April 2008 and signed by the President on 16 April 2008. On 16 May 2008, upon completion of internal WTO procedures, Ukraine became the 152nd member state of the World Trade Organisation. WTO membership is expected to provide better access for Ukraine's exports to western and other markets.

On 1 February 1996, an Interim Trade Agreement with the EU was signed. The Partnership and Co-operation Agreement, which was signed with the EU in 1994, came into force in 1998 and remains in place to date. In previous years, Ukraine and the EU entered into agreements relating to trade in steel products and trade in textile products providing for special quotas, licensing and other restrictions, which automatically terminated upon Ukraine's accession to the WTO. Upon the cancellation of the quotas, Ukraine became subject to the EU import surveillance system for steel products, which remained in effect until 31 December 2009.

Anti-Dumping Measures

As at 2 February 2011, various countries are conducting a total of three anti-dumping investigations and seven special investigations against Ukrainian products. The investigations were primarily conducted in relation to tin cans, confectionary, mechanical fixtures and absorbent carbon. Out of the total of ten investigations conducted against Ukrainian goods worldwide, Russia is conducting four investigations, Moldova, Indonesia and India are conducting one each, while Kazakhstan is conducting three investigations. As at 2 February 2011, as a result of previous investigations, there are 28 anti-dumping restrictive measures and one special restrictive measure applied worldwide against Ukrainian products (mainly chemical and metallurgical products), including, among others, seven anti-dumping measures imposed by the United States, six anti-dumping measures imposed by the EU and four anti-dumping measures imposed by Mexico. In addition, as at 2 February 2011, eight reviews of previously imposed anti-dumping measures are in progress, including reviews by the Russian Federation, Turkey, EU, Mexico, Peru and Argentina.

As of 2 February 2011, out of the above three anti-dumping investigations and seven special investigations, one anti-dumping investigation (relating to Ukrainian steel rollers) and three special investigations (relating to Ukrainian mechanical fixtures, hard boiling confectionery and absorbent carbon) were underway in Russia. As of that date, Russia has been applying restrictive measures in relation to exports from Ukraine as a result of three anti-dumping investigations (on small and medium diameter pipes, ferromagnesian polyamide technical fibre and mechanical fixtures) and one special investigation (non corrosive pipes). In addition, at the beginning of 2006, Russia banned imports of meat and milk products from Ukraine due to alleged non compliance with Russian sanitary standards. Russia lifted this ban with effect from 1 July 2010. However, only Ukrainian companies that have been certified by the relevant Russian authorities may export meat and dairy products to Russia.

As at 2 February 2011, Ukraine is conducting four investigations, including two anti-dumping investigations against pneumatic tyres imported from Belarus and methanol imported from Russia; and two special investigations against refrigerating equipment and crude petrol processing products imported from any country. As at 2 February 2011, as a result of previous investigations, Ukraine was applying 20 restrictive measures against imports of various products (including 18 anti-dumping measures and 2 special anti-dumping measures).

Tariffs

Tariffs in Ukraine are imposed based on both value and quantity. Ukraine adopted a revised law on tariffs on 5 April 2001, which provides that any changes to import duties or introductions of new import duties may only be enacted by Parliament. On 1 January 2004, a new Customs Code relating to customs procedures in the areas of air, rail and sea transportation came into effect. The Government aims, in the long run, to harmonise its tariffs with those of the EU countries.

In recent years, the customs and tariff policy of Ukraine has been pursued in light of the negotiation process on Ukraine's accession to the WTO. As a result of these negotiations, the Consolidated Tariff Offer set the aggregate level of tariff protection at 6.28 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 5.36 per cent.

Parliament enacted a number of laws providing for improvement of intellectual property protection during goods transfer over Ukraine's customs border and changes in the laws governing foreign economic activities including setting forth a list of goods, exports and imports of which could be prohibited, and a list of measures which Ukraine may undertake in response to discriminatory or non amicable actions of other states, customs or economic unions against Ukraine. Such laws also provide for the establishment of a tariff quota on imports of raw cane sugar, reduction of the export duties on live cattle, leather and ferrous, alloy and non ferrous metal scrap and semi finished products thereof. The majority of these laws became effective upon Ukraine's accession to the WTO. Thus, Ukraine's accession to the WTO has resulted in a reduction of tariff rates. However, to offset adverse consequences of this reduction, transition periods have been established for certain sensitive products, including fish and alcoholic beverages. It is expected by the Government that by 2013 Ukraine will complete the process of bringing its tariff rates in line with the WTO requirements.

Composition of Trade

Since its independence, Ukraine's trade has been gradually re oriented towards 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 2007, 2008, 2009 and the eleven months ended 30 November 2010, ferrous and non ferrous metals and their products accounted for approximately 42.1 per cent., 41.2 per cent., 32.3 per cent. and 34.2 per cent., respectively, of export value, and the combined trade surplus on these items was U.S.$16.0 billion, U.S.$21.2 billion, U.S.$10.1 billion and U.S.$12.1 billion, respectively. Chemicals accounted for a further 10.2 per cent., 9.0 per cent., 7.7 per cent. and 8.0 per cent. of exports in 2007, 2008, 2009 and the eleven months ended 30 November 2010, respectively. In 2007 and 2008, an increase in the export value of ferrous and nonferrous metals, as well as of chemical products, was due to an improvement of external market conditions in comparison with the beginning of the year, including an increase in world prices for ferrous metals and chemical products, respectively. The decrease in the export value of ferrous and nonferrous metals, as well as of chemical products in 2009 was due to a deterioration in the market conditions generally and decreased world prices for such products. In the eleven months ended 30 November 2010, such prices increased as compared to the same period in 2009.

Agricultural products accounted for a further 12.8 per cent., 16.2 per cent., 24.0 per cent. and 18.7 per cent. of exports in 2007, 2008, 2009 and the eleven months ended 30 November 2010, respectively. The increased exports of agricultural and food processing products in 2007 and 2008 were due to a productive harvest of the traditionally exported agricultural products and increased demand for such products in their respective markets. The decrease in the exports of agricultural and food processing products in 2009 was due to a decrease in global demand for such products. In the eleven months ended 30 November 2010, demand for agricultural products returned which resulted in an increase of their exports.

In addition, machinery and equipment accounted for a further 10.1 per cent., 9.5 per cent., 12.6 per cent. and 11.0 per cent. of exports in 2007, 2008, 2009 and the eleven months ended 30 November 2010, respectively. In 2007, the volume of machinery exports increased by 49.5 per cent. as compared to 2006, contributing to a recovery in the economy in that year. In 2008, the volume of machinery exports increased by 27.4 per cent. as compared to 2007. In 2009, the volume of machinery exports decreased by 20.9 per cent. as compared to 2008 due to reduced liquidity, demand and production in external markets, as well as due to a decrease in global prices for machinery. In the eleven months ended 30 November 2010, the volume of machinery exports increased by 13.7 per cent. as compared to the same period in 2009 due to intensification of investment activities and increased demand in external markets, as well as due to last year's low comparative basis. Fuel and energy product exports have also decreased as suspension of operation of several oil refinery plants in 2007, 2008 and 2009 resulted in a decrease in oil refinery volumes and reduction in export volumes of oil refinery products. Since July 2005, there have been practically no export supplies of natural gas.

Strong concentration was also evident on the import side, where the largest item in 2007, 2008, 2009 and the eleven months ended 30 November 2010 were fuel and energy products (representing 26.3 per cent., 26.7 per cent., 32.2 per cent. and 32.4 per cent. of imports, respectively). Machinery and equipment also account for a significant share of Ukrainian imports (representing 17.5 per cent., 15.6 per cent., 13.8 per cent. and 13.4 per cent. of imports, respectively), mainly from Russia. The figures relating to imports of fuel and energy products reflect the energy intensity of the Ukrainian economy, resulting in a deficit in energy trade of approximately U.S.$13.3 billion in 2007, U.S.$18.7 billion in 2008, U.S.$12.5 billion in 2009 and U.S.$14.1 billion in the eleven months ended 30 November 2010. Increased import volumes of gas and coal and increased gas and oil prices produced higher total imports in 2007 and 2008. The significant changes in the terms of energy resources trade in early 2008 and early 2009 were the main reason for the deficit in trade of goods and services in 2008 and 2009. The trade deficit related to goods and services for 2010 was U.S.$3.7 billion.

Energy intensive production was encouraged in the Soviet economy by the artificially low price of energy resources and by an incentive system that encouraged the wasteful use of economic inputs. Depletion of domestic energy resources (especially coal) and the orientation of much 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 mitigate this situation by re orienting Ukraine's energy needs towards locally available sources and away from costly imported gas.

The following table sets out exports from Ukraine by major commodity group and as a percentage of total exports for the periods shown:

	Year ended 31 December						Eleven months ended 30 November	
	2007		2008		2009		2010	
	(UAH millions)	*(%)*	*(UAH millions)*	*(%)*	*(UAH millions)*	*(%)*	*(UAH millions)*	*(%)*
Fuel and Energy Products	2,630.2	5.3	4,109.2	6.1	2,130.8	5.4	3,348.4	7.3
Machinery and Equipment	4,977.1	10.1	6,341.1	9.5	5,013.5	12.6	5,089.7	11.0
Wood and Paper Products	1,595.2	3.3	1,675.6	2.5	1,471.9	3.7	1,609.1	3.5
Chemical Related Products	5,047.5	10.2	6,043.0	9.0	3,078.4	7.7	3,711.2	8.0
Agriculture Products	6,287.0	12.8	10,837.6	16.2	9,514.9	24.0	8,622.4	18.7
Ferrous Metals and their Products	19,645.6	39.9	26,487.7	39.6	12,198.4	30.7	15,119.3	32.8
Non-Ferrous Metals and their Products	1,131.0	2.2	1,106.3	1.6	617.3	1.6	654.2	1.4
Mineral Products	1,645.1	3.3	2,936.8	4.4	1,769.3	4.5	2,799.4	6.0
Textiles and shoes	1,393.4	2.3	1,162.7	1.8	857.5	2.2	826.6	1.7
Other	4,944.0	10.6	6,267.2	9.4	3,043.7	7.6	4,349.3	9.6
Total	49,296.1	100.0	66,967.3	100.0	39,695.7	100.0	46,129.6	100.0

Note:

(1) Percentages may not add up to 100.0 because of rounding.

Source: State Statistics Service; International Trade Bulletin

The following table sets out imports to Ukraine by major commodity group and as a percentage of total imports for the periods shown:

	Year ended 31 December						Eleven months ended 30 November	
	2007		2008		2009		2010	
	(UAH millions)	*(%)*	*(UAH millions)*	*(%)*	*(UAH millions)*	*(%)*	*(UAH millions)*	*(%)*
Fuel and Energy Products	15,923.0	26.3	22,832.0	26.7	14,638.7	32.2	17,498.2	32.4
Machinery and Equipment	10,578.6	17.5	13,379.8	15.6	6,254.6	13.8	7,245.8	13.4
Wood and Paper Products	1,897.5	3.1	2,381.0	2.7	1,654.6	3.6	1,813.4	3.3
Chemical Related Products	8,730.0	14.4	11,435.7	13.3	7,983.1	17.6	9,007.6	16.6
Agriculture Products	4,111.5	6.7	6,456.6	7.5	4,936.0	10.9	5,096.6	9.4
Ferrous Metals and their Products	3,257.3	5.4	4,732.4	5.6	1,737.3	3.9	2,506.6	4.6
Non-Ferrous Metals and their Products	1,485.8	2.4	1,657.7	1.9	939.2	2.0	1,173.2	2.2
Mineral Products	1,296.2	2.1	2,609.3	3.0	1,056.4	2.3	1,382.3	2.6
Textiles and shoes	1,704.9	2.9	2,630.3	3.1	1,703.4	3.7	2,240.4	4.1
Other	11,633.2	19.2	17,420.5	20.6	4,529.8	10.0	6,123.5	11.3
Total	60,618.0	100.0	85,535.3	100.0	45,433.1	100.0	54,087.6	100

Note:

(1) Percentages may not add up to 100.0 because of rounding.

Source: State Statistics Service; International Trade Bulletin

Direction of Trade

The structure of Ukraine's trade with the CIS is determined by its need to import a large proportion of its energy requirements, especially from Russia (with which Ukraine runs large trade deficits) or from countries that transport 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 imports, accounting for 42.0 per cent. of total goods imports in 2007, 39.0 per cent. in 2008, 43.3 per cent. in 2009 and 44.0 per cent. in the eleven months ended 30 November 2010. Of this amount, imports from Russia alone accounted for 27.8 per cent.

in 2007, 22.7 per cent. in 2008, 29.1 per cent. in 2009 and 36.5 per cent. in the eleven months ended 30 November 2010.

The CIS countries also remain Ukraine's main export destinations, accounting for 36.7 per cent. of Ukraine's exports in 2007, 34.6 per cent. in 2008, 33.9 per cent. in 2009 and 36.5 per cent. for the eleven months ended 30 November 2010, of which exports to Russia accounted for 25.7 per cent. of total exports of goods in 2007, 23.5 per cent. in 2008, 21.4 per cent. in 2009 and 26.3 per cent. for the eleven months ended 30 November 2010. A large share of Ukraine's receipts for services exports comprises transit charges for oil, gas, ammonia and electricity from Russia, which made up approximately 22.1 per cent. of total services exports in 2007, 18.5 per cent. in 2008, 21.5 per cent. in 2009 and 29.4 per cent. in the nine months ended 30 September 2010. Exports of goods to Russia increased by 46.4 per cent. in 2007 and by 24.2 per cent. in 2008, but decreased by 46.1 per cent. in 2009, followed by an increase of 74.7 per cent. in the eleven months ended 30 November 2010 as compared to the corresponding period in 2009. The significant decrease of goods exports to Russia in 2009 was primarily caused by reductions in exports of machinery by approximately 110 per cent., metallurgical products by approximately 130 per cent. and agricultural and food products by approximately 40 per cent., respectively, each as compared to 2008. Increase of goods exports to Russia in the eleven months ended 30 November 2010 was largely due to an increase in exports of machinery, metallurgical products, agricultural and food products and oil and oil refinery products by approximately 80 per cent., 70 per cent., 34.4 per cent. and 160 per cent., respectively.

Exports of goods to Asia increased by 27.3 per cent. in 2007 and by 47.1 per cent. in 2008, but decreased by 23.6 per cent. in 2009, followed by an increase by 11.6 per cent. in the eleven months ended 30 November 2010 as compared to the corresponding period in 2009. Exports of goods to the EU increased by 15.1 per cent. in 2007 and 30.3 per cent. in 2008, decreased by 47.6 per cent. in 2009, and increased by 38.1 per cent. in the eleven months ended 30 November 2010, respectively. The reduction of exports of goods to the EU in 2009 was primarily attributable to reductions in exports of ferrous metals and their products by 230 per cent., mineral products by approximately 130 per cent. and chemical products by 110 per cent., respectively, each as compared to 2008. Increase of exports of goods to the EU in the eleven months ended 30 November 2010 was largely due to increase in exports of metallurgical products, machinery, wood and oil and oil products (other than crude oil) by approximately 20 per cent., 13.5 per cent., 11.4 per cent. and 50 per cent., respectively. Exports of goods to Africa increased by 17.6 per cent. in 2007 and by 39.8 per cent. in 2008, decreased by 32.7 per cent. in 2009 and increased by 14.3 per cent. in the eleven months ended 30 November 2010 as compared to the same period in 2009.

In 2006, the EU became Ukraine's largest trading partner, a trend that continued in 2007, 2008 and 2009. In 2009, exports of goods and services from Ukraine to the EU amounted to U.S.$12.5 billion, and imports of goods and services to Ukraine from the EU amounted to U.S.$18.4 billion, or a 43.6 per cent. and 43.6 per cent. decrease compared to 2008, respectively. The significant decrease of exports to the EU in 2009 was primarily caused by the global financial downturn and reduced demand. In the eleven months ended 30 November 2010, the EU remained one of the major external trade partners of Ukraine accounting for a 29.4 per cent. share in Ukraine's external trade turnover, with exports of goods and services from Ukraine amounting to U.S.$14.3 billion, or a 27.7 per cent. increase compared to the same period for 2009, and imports of goods and services to Ukraine amounting to U.S.$19.5 billion, or a 17.7 per cent. increase compared to the same period for 2009. In the eleven months ended 30 November 2010 the bilateral trade in goods and services with the EU had a U.S.$5.2 billion deficit. Trade between Ukraine and the EU consists largely of exports of Ukrainian raw materials, semi finished products and agricultural products and imports by Ukraine of machinery and vehicles from the EU. The main trading partners of Ukraine within the EU are Germany, Italy and Poland.

In 2007 and 2008, the consolidated trade deficit for goods increased to U.S.$11.3 billion and U.S.$18.6 billion, respectively, and in 2009, the consolidated trade deficit for goods decreased to U.S.$5.7 billion. The deterioration of the consolidated balance of trade in goods during 2007 and 2008 was due to an excess of the import growth rates over export growth rates caused by the deterioration of trade conditions and a decrease in world demand. The reduction in deficit of the consolidated trade balance for goods in 2009 was primarily due to a decline in volumes of imported goods resulting from reduced domestic demand. In the eleven months ended 30 November 2010 the consolidated trade balance for goods had a deficit totalling U.S.$8.0 billion and increased by 64.3 per cent. compared to the respective period in 2009.

In 2007, 2008 and 2009, the consolidated balance of trade in goods and services had a deficit totalling U.S.$7.3 billion, U.S.$13.3 billion and U.S.$1.3 billion, respectively. The deterioration of the consolidated balance of trade in goods and services during 2007 and 2008 was a result of several factors, including the substantial share of energy imports in total imports and significant energy price increases as well as the low pace of production re equipment and an increased need to implement energy saving technologies in the machinery manufacturing, metallurgy and chemical industries, requiring growth of inward investment. These factors also included increased demand for imported consumer goods, reduction of customs tariffs and liberalisation of access of goods to Ukraine's domestic market, aimed at the reduction of smuggling. The reduction in deficit of the consolidated trade balance for goods and services in 2009 was largely due to a decline in volumes of imported goods resulting from reduced domestic demand as well a related decrease in services imports. In the nine months ended 30 September 2010 the consolidated deficit of trade in goods and services amounted to U.S.$1.1 billion as compared to the deficit of U.S.$1.0 billion for the same period in 2009.

The following table sets out exports of goods by country of destination for the periods shown:

	Year ended 31 December							
	2008		**2009**		**2009**		**2010**	
	(in U.S.$ millions and %)[1]							
China	431.7	0.9	547.5	0.8	1,434.4	3.6	1,184.6	2.6
Germany	1,644.5	3.3	1,837.1	2.7	1,248.1	3.1	1,373.4	3.0
Turkey	3,645.3	7.4	4,633.3	6.9	2,126.5	5.4	2,635.6	5.7
United States	1,058.0	2.2	1,949.1	2.9	250.4	0.6	740.5	1.6
Italy	2,675.1	5.4	2,911.7	4.3	1,227.6	3.1	2,170.6	4.7
Poland	1,636.9	3.3	2,338.3	3.5	1,208.0	3.0	1,601.1	3.5
Hungary	1,235.1	2.5	1,367.1	2.0	730.2	1.8	768.6	1.7
Thailand	104.6	0.2	270.2	0.4	269.2	0.7	414.9	0.9
Slovak Republic	645.2	1.3	910.2	1.4	433.7	1.1	503.3	1.1
Syria	846.9	1.7	1,037.3	1.5	753.3	1.9	561.0	1.2
Lebanon	136.2	0.3	339.9	0.5	694.1	1.7	950.5	2.1
Czech Republic	429.0	0.9	670.8	1.0	340.7	0.9	568.4	1.2
Netherlands	765.7	1.6	1,117.9	1.7	594.9	1.5	520.7	1.1
Greece	221.0	0.5	339.4	0.5	100.3	0.3	134.3	0.3
Spain	557.4	1.1	870.0	1.3	570.4	1.4	354.5	0.8
Lithuania	363.3	0.7	432.3	0.6	193.5	0.5	231.7	0.5
Latvia	258.6	0.5	280.5	0.4	178.0	0.4	157.5	0.3
CIS	18,087.0	36.7	23,166.3	34.6	13,472.9	33.9	16,845.5	36.5
Russian Federation	12,668.5	25.7	15,748.5	23.5	8,494.9	21.4	12,132.2	26.3
Moldova	911.3	1.8	1,172.0	1.8	693.5	1.7	645.4	1.4
Kazakhstan	1,433.5	2.9	1,832.6	2.7	1,418.4	3.6	1,135.3	2.5
Belarus	1,561.5	3.2	2,105.6	3.1	1,258.9	3.2	1,679.2	3.6
Turkmenistan	196.6	0.4	376.9	0.6	325.2	0.8	191.1	0.4
Azerbaijan	631.1	1.3	910.5	1.4	546.0	1.4	546.3	1.2
Uzbekistan	346.9	0.7	595.3	0.9	406.2	1.0	205.0	0.4
Other CIS states	337.6	0.7	424.9	0.6	329.8	0.8	311.0	0.7
Other	14,554.6	29.5	21,948.4	32.8	13,869.5	34.9	14,412.9	31.2
Total	49,296.1	100.0	66,967.3	100	39,695.7	100.0	46,129.6	100.0

Note:

(1) Percentages may not add up to 100.0 because of rounding.

Source: State Statistics Service; International Trade Bulletin

The following table sets out imports of goods by country of origin for the periods shown:

	Year ended 31 December							
	2008		2009		2009		2010	
	(in U.S.$ millions and %)[1]							
Germany	5,830.0	9.6	7,165.3	8.4	3,852.1	8.5	4,090.2	7.6
United States	1,404.5	2.3	2,808.2	3.3	1,286.3	2.8	1,579.3	2.9
Poland	2,920.5	4.8	4,280.3	5.0	2,170.3	4.8	2,521.7	4.7
Italy	1,788.7	3.0	2,432.1	2.8	1,139.8	2.5	1,235.5	2.3
France	1,330.0	2.2	1,682.5	2.0	971.5	2.1	972.8	1.8
Czech Republic	1,154.6	1.9	1,376.0	1.6	622.2	1.4	656.2	1.2
Slovak Republic	523.5	0.9	742.5	0.9	306.0	0.7	393.3	0.7
Hungary	1,240.9	2.0	1,282.7	1.5	678.3	1.5	1,095.2	2.0
United Kingdom	886.4	1.5	1,375.8	1.6	651.1	1.4	722.6	1.3
Netherlands	881.0	1.5	1,283.7	1.5	677.5	1.5	760.2	1.4
Austria	800.4	1.3	1,031.2	1.2	612.2	1.3	631.7	1.2
Turkey	972.3	1.6	1,950.1	2.3	952.2	2.1	1,139.6	2.1
Japan	1,406.6	2.3	2,795.8	3.3	519.5	1.1	715.6	1.3
Switzerland	429.8	0.7	1,171.6	1.4	438.0	1.0	463.0	0.9
China	3,307.5	5.5	5,601.5	6.5	2,734.3	6.0	4,190.7	7.7
Lithuania	380.4	0.6	723.9	0.8	410.3	0.9	574.1	1.1
Latvia	118.6	0.2	113.1	0.1	110.1	0.2	81.0	0.1
CIS	25,469.3	42.0	33,377.8	39.0	19,692.6	43.3	23,781.3	44.0
Russian Federation	16,838.2	27.8	19,414.2	22.7	13,235.8	29.1	19,756.0	36.5
Turkmenistan	4,707.4	7.8	5,631.7	6.6	718.3	1.6	31.1	0.1
Belarus	1,445.4	2.4	2,809.6	3.3	1,692.8	3.7	2,286.4	4.2
Kazakhstan	1,686.6	2.8	3,118.9	3.6	2,033.9	4.5	663.6	1.2
Uzbekistan	546.0	0.9	2,118.3	2.5	1,640.8	3.6	72.5	0.1
Moldova	168.2	0.3	169.6	0.2	52.1	0.1	66.1	0.1
Other CIS states	77.5	0.1	115.5	0.1	318.9	0.7	905.6	1.8
Other	9,773.0	16.1	14,341.2	16.8	7,608.8	16.7	14,153.1	26.2
Total	60,618.0	100.0	85,535.3	100.0	45,433.1	100.0	54,087.6	100.0

Note:

(1) Percentages may not add up to 100.0 because of rounding.

Source: State Statistics Service; International Trade Bulletin

Foreign Investment

As a result of a 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 foreign direct investment ("**FDI**") in Ukraine has been adversely affected by overly complex and inconsistent legislation and non transparent procedures, including in the areas of privatisation, Government intervention and taxation, and by perceived corruption. Nevertheless, the amount of cumulative FDI has been increasing in recent years. Cumulative FDI increased by 36.6 per cent. in 2007 as compared to 2006, by 20.6 per cent. in 2008 as compared to 2007, by 12.4 per cent. in 2009 as compared to 2008 and by 6.4 per cent. in the nine months ended 30 September 2010 as compared to 1 January 2010. As at 1 January 2007, 1 January 2008, 1 January 2009, 1 January 2010 and 1 October 2010, cumulative FDI (including foreign interests in privatisations) reached U.S.$21.6 billion, U.S.$29.5 billion, U.S.$35.6 billion, U.S.$40.0 billion and U.S.$42.5 billion, respectively.

At the same time, the annual amount of FDI capital growth decreased from U.S.$7,935.4 million in 2007 to U.S.$6,073.7 million in 2008 and further decreased to U.S.$4,410.4 million in 2009 due to the global financial downturn. For the nine months ended 30 September 2010, FDI capital growth amounted to U.S.$2,546.7 million compared to U.S.$2,972.1 million for the same period in 2009. The decrease in FDI capital growth in 2009 was due to increased foreign currency market volatility, limited access to domestic and foreign capital markets and the decreased profitability of Ukrainian companies. As at 1 October 2010, foreign currency FDI reached approximately U.S.$926.7 per capita.

The following table shows the breakdown of FDI for the periods indicated:

	FDI (cumulative total) at the end of the relevant period[1]	Growth of FDI for the relevant period
	(in U.S.$ millions)	
2007	29,542.7	7,935.4
2008	35,616.4	6,073.7
Nine months ended 30 September 2009	38,591.6	2,972.1
2009	40,026.8	4,410.4
Nine months ended 30 September 2010	42,511.9	2,546.7

Note:

(1) FDI (cumulative total) measures the volume of FDI starting from 1991.

Source: State Statistics Service

The following table shows the breakdown of cumulative FDI by country of origin for the periods indicated:

	Year ended 31 December						Nine months ended 30 September			
	2007		2008		2009		2009		2010	
	(U.S.$ million)	*Share (% of total)*	*(U.S.$ million)*	*Share (% of total)*	*(U.S.$ million)*	*Share (% of total)*	*(U.S.$ million)*	*Share (% of total)*	*(U.S.$ million)*	*Share (% of total)*
United States	1,430.1	4.8	1,464.6	4.1	1,387.1	3.5	1,381.5	3.6	1,218.4	2.9
Cyprus	5,946.4	20.1	7,646.2	21.5	8,593.2	21.5	8,201.7	21.3	9,579.1	22.5
Russian Federation	1,462.4	5.0	1,847.2	5.2	2,674.6	6.7	2,061.5	5.3	2,956.3	7.0
United Kingdom	1,975.5	6.7	2,249.8	6.3	2,375.9	5.9	2,348.5	6.1	2,284.7	5.4
Netherlands	2,508.8	8.5	3,197.4	9.0	4,002.0	10.0	3,814.2	9.9	4,082.7	9.6
Germany	5,918.3	20.0	6,393.0	17.9	6,613.0	16.5	6,580.8	17.1	7,005.7	16.5
Austria	2,067.4	7.0	2,443.8	6.9	2,604.1	6.5	2,564.8	6.6	2,667.3	6.3
Other[1]	8,233.8	27.9	10,374.4	29.1	11,776.9	29.4	11,638.6	30.1	12,717.7	29.8
Total[1]	29,542.7	100.0	35,616.4	100.0	40,026.8	100.0	38,591.6	100.0	42,511.9	100.0

Notes:

(1) Includes countries whose cumulative FDI contribution did not exceed 5.0 per cent. of the total (other than the United States, which is included in a separate line).

(2) Totals may not add up due to rounding.

Source: State Statistics Service

In 2007, 2008, 2009 and 2010, Cyprus was the largest contributor of FDI to Ukraine. As at 1 October 2010, Cypriot investments into Ukraine amounted to U.S.$9,579.1 million, constituting 22.5 per cent. of the total volume of investments. Cypriot FDI is believed to consist primarily of “off shore” investment originating in Russia or other CIS countries that is structured through Cyprus for tax reasons. Germany, Netherlands, the Russian Federation, Austria, the United Kingdom, France, British Virgin Islands, Sweden and the United States continue to be among the most important sources of FDI.

The principal forms of FDI are monetary contributions (which were U.S.$5,008.9 million in 2009, and U.S.$3,186.1 million in the nine months ended 30 September 2010) and investments in personal and real property (which were U.S.$384.8 million in 2009, and U.S.$194.5 million in the nine months ended 30 September 2010). Investments made in Ukraine to date have primarily been in the fields of industry, financial and banking sector, trade and repair of cars and household goods, real estate, rent, engineering and rendering of services for entrepreneurs. The financial and banking sector was the largest recipient of FDI in the first nine months of 2010.

The following table sets out cumulative FDI by sector for the periods indicated:

	Year ended 31 December						Nine months ended 30 September			
	2007		2008		2009		2009		2010	
	(U.S.$ million)	*Share (% of total)*	*(U.S.$ million)*	*Share (% of total)*	*(U.S.$ million)*	*Share (% of total)*	*(U.S.$ million)*	*Share (% of total)*	*(U.S.$ million)*	*Share (% of total)*
Food Industry	1,561.2	5.3	1,685.9	4.7	1,837.2	4.6	1,836.0	4.8	1,840.0	4.3
Wholesale Trade	2,610.3	8.8	3,125.9	8.8	3,467.9	8.7	5,338.0	8.6	3,757.6	8.9
Finance/Insurance	6,836.0	23.1	10,496.1	29.5	12,433.5	31.1	11,571.2	30.0	14,115.4	33.2
Machinery manufacturing	1,071.7	3.6	1,075.5	3.0	1,152.8	2.9	1,126.2	2.9	1,155.5	2.7
Coke Petroleum derivatives	319.6	1.1	330.2	0.9	451.4	1.1	448.1	1.2	455.8	1.1
Transport	1,430.9	4.8	1,567.6	4.4	1,662.8	4.2	1,645.6	4.3	1,684.9	4.0
Chemical and Petrochemical Industry	876.8	3.0	985.8	2.8	1,241.5	3.1	1,217.0	3.2	1,192.7	2.8
Real estate activities	2,669.3	9.0	3,613.8	10.2	4,065.0	10.2	3,931.9	10.2	4,454.6	10.5
Metallurgy	5,774.6	19.6	5,534.4	15.5	5,579.1	13.9	5,565.3	14.4	5,656.5	13.3
Other	6,392.3	21.6	7,201.2	20.2	8,135.6	20.3	7,912.3	20.5	8,198.5	19.2
Total[(21)]	29,542.7	100.0	35,616.4	100.0	40,026.8	100.0	38,591.6	100.0	42,511.9	100.0

Note:

(1) Totals may not add up due to rounding.

Source: State Statistics Service

Foreign investors are treated equally with domestic investors and, in most circumstances, are permitted to conduct business on the same terms as domestic business enterprises. In addition, capital assets imported into Ukraine as a contribution to the charter fund of a Ukrainian legal entity by a foreign investor are exempt from customs duties on imports.

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 publishing, television and radio broadcasting and news agency services. The hryvnia is not yet freely exchangeable, and a withholding tax of 15 per cent. may be applied to profit repatriation, subject to the provisions of treaties on the avoidance of double taxation, which can reduce or eliminate this tax.

The 2010 State Budget Law provided for expenditure of UAH 250.0 million for cash payouts to citizens compensating for lost savings deposited with the USSR State Savings Bank or invested in USSR state securities (as compared to UAH 650.0 million, UAH 6,400.0 million and UAH 250.0 million envisaged for this purpose by the 2007, 2008 and 2009 State Budget Laws, respectively). In 2009, actual expenditures for such purpose amounted to UAH 19.7 million (as compared to UAH 506.0 million and UAH 6,079.1 million directed for this purpose in 2007 and 2008, respectively). In total, from 1997 through 2009, UAH 10,646.8 million were reimbursed. In 2010, no expenditures for these purposes were made from the State Budget and the 2011 State Budget Law does not provide for expenditures for this purpose.

Revenues

Revenues 2007 to 2010

The following table sets forth sources of revenues of the Consolidated Budget for the years 2007 to 2010:

	Year ended 31 December			
	2007	**2008**	**2009**	**2010**
	(in UAH millions)			
Tax revenues	161,264.2	227,164.8	208,073.2	234,447.7
Direct taxes	76,025.8	103,846.8	89,200.6	104,729.1
of which:				
Personal income tax	34,782.1	45,895.8	44,485.3	51,029.3
Corporate income tax	34,407.2	47,856.8	33,048.0	40,359.1
Land tax	3,889.3	6,681.4	8,362.7	9,539.9
Property tax (motor vehicle tax)	1,354.6	1,558.4	1,538.3	1,905.4
Uniform tax for small business	1,592.6	1,854.4	1,766.3	1,895.4
Indirect taxes	79,830.8	118,190.2	114,008.5	123,483.2
of which:				
VAT	59,382.8	92,082.6	84,596.7	86,315.9
Excise tax on domestic goods	9,072.2	10,230.1	17,934.5	23,715.3
Excise tax on imported goods	1,495.5	2,553.0	3,690.0	4,600.8
Import duty	9,588.9	11,932.8	6,328.8	8,556.4
Export duty	291.4	197.4	382.7	294.8
Other taxes	5,407.6	6,322.1	5,939.9	6,235.4
Non tax revenues	48,553.2	60,543.6	58,435.8	73,847.2
of which:				
Entrepreneurial and property income	13,214.0	22,468.7	17,062.6	30,629.5
Administrative fees and charges, non commercial sale income	2,963.5	3,037.0	2,719.0	2,638.1
Other non tax revenue[(1)]	32,375.7	35,037.8	38,654.2	40,579.5
Capital revenue	6,373.4	6,702.4	3,653.1	3,143.2
Official transfers	104.5	135.2	645.3	180.2
Special funds	3,641.2	3,347.0	2,159.5	2,772.7
Payments to Fund of Social Insurance of Disabled of Ukraine	223.2	254.4	227.0	187.5
Collection for pollution of the environment	1,088.1	1,182.0	1,211.8	1,932.4
Special funds established by parliament of Autonomous Republic of Crimea and local self governmental bodies and authorities	2,329.9	1,910.5	720.7	652.7
Total revenues	**219,936.5**	**297,893.0**	**272,967.0**	**314,391.0**

Note:

(1) Includes own source revenues of budgetary institutions and organisations and certain other items.

Source: Ministry of Finance

In 2008, tax revenues of the State Budget amounted to UAH 167.9 billion, or 97.8 per cent. of the target for 2008, an increase of 43.9 per cent., or UAH 51.2 billion, compared to 2007. In 2009, tax revenues of the State Budget amounted to UAH 148.9 billion, or 83.3 per cent. of the target for 2009, a decrease of 11.3 per cent., or UAH 19.0 billion, compared to 2008. In 2010, tax revenues of the State Budget amounted to UAH 166.9 billion, an increase of 12.1 per cent. as compared to 2009.

Without accounting for the VAT refund in the amount of UAH 16.4 billion which was financed through the issue of T-bills to securitise VAT refund arrears, tax revenues amounted to UAH 183.3 billion in 2010, which shows a 23.1 per cent. growth compared to 2009. The increase in tax revenues in 2010 was largely due to increases in corporate income tax revenues, excise tax, VAT (not including the VAT refund through the issue of T-bills) and import duty revenues by 22.7 per cent., 29.8 per cent., 21.5 per cent. and 35.2 per cent., respectively.

The high taxation of enterprises is one reason for the continuing importance of the shadow economy, which has impeded revenue collection. The overall State Budget tax arrears for 2009 increased by UAH 2.3 billion to UAH 10.9 billion at 31 December 2009, as compared to UAH 8.6 billion at 31 December 2008 and UAH 6.2 billion at 31 December 2007. The overall State Budget tax arrears for 2010 increased by UAH 4.1 billion as compared to 31 December 2009 to UAH 15.0 billion as at 31 December 2010.

Corporate Income Tax

The Tax Code provides a gradual decrease in the rate of corporate income tax from the current rate of 25 per cent. to 23 per cent. from 1 April 2011, 21 per cent. from 1 January 2012, 19 per cent. from 1 January 2013 and 16 per cent. from 1 January 2014. However, businesses in the bio fuel industry, publishing and certain other sectors enjoy preferential tax regimes. In addition to corporate taxes, firms have to pay additional contributions in an aggregate amount between 36.8 per cent. and 49.7 per cent. (depending on the risk level of the particular industry) of gross wages. In addition, firms are required to withhold and remit a single social contribution at a rate of 3.6 per cent. of each employee's gross salary. The amount of annual wages used to calculate these mandatory contributions is capped. This cap is established by legislation and is subject to annual revision by Parliament. The cap is currently UAH 14,115 per employee and will be UAH 14,400, UAH 14,775 and UAH 15,060 per employee from 1 April, 1 October and 1 December 2011, respectively. Pension Fund duties are also levied on certain types of transactions such as the purchase and sale of fine jewellery (5 per cent.) or cars (3 per cent.).

Personal Income Tax

Until 2004, individuals in Ukraine were subject to personal income tax at rates ranging from 10 per cent. to 40 per cent. Effective 1 January 2004, a flat tax of 13 per cent. was introduced for all levels of income. After 31 December 2006, this flat rate increased to 15 per cent. and from 1 January 2011, the 15 per cent. flat rate applies to personal income below the amount that equals the minimum wage multiplied by 10 (UAH 9,410 as of 1 January 2011). From 1 January 2011, personal income in excess of the minimum wage multiplied by 10 is subject to personal income tax at 17 per cent. The personal income tax revenues of the local budgets increased from UAH 22.8 billion in 2006 to UAH 34.8 billion in 2007 and UAH 45.9 billion in 2008. In 2009, personal income tax revenues of the local budgets decreased to UAH 44.5 billion which was followed by an increase to UAH 51.0 billion in 2010.

VAT

VAT is currently assessed in Ukraine at a rate of 20 per cent. Under the Tax Code, the VAT rate will decrease from 20 per cent. to 17 per cent. from 1 January 2014. Because VAT serves an important macro economic stabilisation role, the Government believes that collection of VAT should be assigned to the central Government. In accordance with this principle, VAT collection was shifted entirely to the central Government under the 1997 budget, and constituted approximately 40.3 per cent. of total revenues and 56.8 per cent. of total tax revenues of the 2009 State Budget and 40.0 per cent. of total revenues and 56.1 per cent. of total tax revenues (not including the VAT refund in the amount of UAH 16.4 billion which was financed through the issue of T-bills to securitise VAT refund arrears) for 2010.

Credits for VAT paid are available for exports. In the past, significant arrears owed to exporters for VAT refunds were addressed by the issuance of T-bills to exporters in 2004; no T-bills to securitise accumulated VAT refund arrears were issued in 2005-2009. The amount of VAT arrears to exporters for VAT refunds increased from UAH 11.7 billion as at 1 January 2009 to UAH 24.6 billion as at 1 January 2010 and decreased to UAH 24.1 billion as at 1 January 2011. The 2010 State Budget Law provided for the issuance of T-bills in 2010 to securitise accumulated VAT refund arrears. On 12 May 2010, the Government approved the procedure and the terms of issuance of such T-bills, which provided, among other things, that T-bills to exporters shall be issued with a five-year maturity and a 5.5 per cent. interest rate. In the seven months ended 31 July 2010, no such T-bills were issued by the Ministry of Finance; however, in August 2010, the Ministry of Finance issued four tranches of T-bills to securitise VAT refund arrears in the aggregate amount of approximately UAH 16.4 billion. Between September and December 2010, no T-bills were issued by the Ministry of Finance to securitise VAT refund arrears, and no T-bills are proposed to be issued under the 2011 State Budget for such purposes.

Tax Reforms

In 2008 and 2009, a number of changes were introduced into Ukrainian tax laws in accordance with WTO requirements, including changes in taxation of dividends distributable through holding companies, abolition of customs duties, reductions in import duties for more than 2,500 goods and changes in the rates of licence charges for various activities. In addition, a number of tax incentives were introduced, including import duty exemptions for energy saving equipment and materials and equipment operating on non traditional and alternative energy sources. On 20 May 2010, Parliament passed a law increasing excise tax and import duties for a number of products, improving tax administration system and eliminating certain loopholes in tax legislation. The provisions of the new law came into effect at different stages between 16 June 2010 and 1 January 2011.

In line with goals of the Economic Reform Programme, Parliament adopted a new Tax Code on 2 December 2010. The Tax Code, which became effective on 1 January 2011, (other than the provisions relating to, among other things, corporate income tax) is intended to create a comprehensive legal framework for tax reform and provides for a wide range of changes in the existing tax system to improve tax collection and administration. Among other things, the Tax Code provides for a gradual decrease of the corporate tax rate: to 23 per cent. for the period from 1 April 2011 to 31 December 2011 (inclusive), followed by a decrease to 21 per cent. for 2012, to 19 per cent. for 2013 and finally to 16 per cent. from 1 January 2014 onwards. Furthermore, under the Tax Code, the value added tax rate will decrease from 20 per cent. to 17 per cent. from 1 January 2014. The Tax Code also introduces a form of taxation of interest accrued on bank deposits, which will take effect from 1 January 2015, and abolishes twelve local taxes and duties that do not materially impact the financing of local budgets. The Government expects the implementation of the Tax Code to result in increased tax revenues for the State Budget.

On 8 July 2010, Parliament approved a law that introduced, with effect from 1 January 2011, a single social contribution to replace the various social duties that were previously levied. This law aims to simplify the operation of the State social insurance system and provide for collection of insurance contributions by a single authority, the Pension Fund.

In addition, pursuant to the Economic Reform Programme, the following further measures are proposed to be implemented within the framework of the tax system reform in 2010-2014:

- by the end of 2012, Ukraine should further reduce the number of inefficient taxes and duties, and introduce a real estate tax;
- by the end of 2014, Ukraine should, among other things, gradually reduce the corporate income tax rate.

Revenues 2011

The 2011 State Budget Law estimates that tax revenues will amount to UAH 234.3 billion in 2011, including UAH 6.8 billion of personal income tax, UAH 44.3 billion of corporate income tax, UAH 14.1 billion of rent, UAH 108.3 billion of VAT, UAH 34.9 billion of excise tax on domestic goods, UAH 6.2 billion of excise tax on imported goods, UAH 9.3 billion of import duties and UAH 0.4 billion of export duties. In addition, the 2011 State Budget Law contemplates non-tax revenues amounting to UAH 43.0 billion, including UAH 17.0 billion of entrepreneurial and property income, UAH 2.0 billion of administrative fees and charges and non-commercial sale income, UAH 17.4 billion of revenues from budget-funded entities and UAH 6.7 billion of other non-tax revenues.

Pensions

In 2007 and 2008, the Pension Fund did not have a deficit, which was partially due to allocation of certain funds that were formerly part of the Temporary Disability Social Insurance Fund for pension purposes in 2008, but also evidenced growth in the pension fund revenues. However, in December 2008, the Ministry of Finance extended a UAH 4.7 billion loan to the Pension Fund to finance an advance payment of pensions in January 2009 and other temporary cash gaps. In accordance with the Law on the State Budget for 2009, the Pension Fund was budgeted to have a UAH 13.7 billion deficit in 2009 that was covered out of the State Budget. In addition, during 2009, the Ministry of Finance extended a UAH 16.0 billion loan to the Pension Fund to finance temporary cash gaps. In accordance with the Law on the State Budget for 2010, the Pension Fund was budgeted to have a UAH 26.6 billion deficit in 2010 that was expected to be covered out of the State Budget. As at 31 December 2010, the outstanding principal amount of loans extended to the Pension Fund to finance temporary cash gaps was UAH 25.1 billion. It is expected that in 2011 the Pension Fund will have UAH 17.8 billion deficit covered out of the State Budget.

The Central Local Fiscal Relationship

The following table sets forth the actual revenues, expenditures, deficit/surplus, and deficit/surplus as a percentage of GDP for the consolidated budget and the State Budget for 2007-2010:

	Year ended 31 December			
	2007	**2008**	**2009**	**2010**
	(in UAH millions unless otherwise specified)			
GDP	720,731	948,056	913,345	—
Consolidated Budget				
Revenues	219,936.5	297,893.0	272,967.0	314,391.0
Expenditures	226,054.4	309,203.7	307,399.4	377,873.4
Lending	1,583.9	2,813.8	2,825.8	1,353.9
Surplus (Deficit)	(7,701.7)	(14,124.5)	(37,258.1)	(64,836.2)
Surplus (Deficit)(% of GDP)	(1.1)	(1.5)	(4.1)	—
State Budget				
Revenues	165,939.2	231,722.9	209,700.3	240,477.1
Expenditures	174,254.3	241,490.1	242,437.2	303,596.1
Lending	1,527.7	2,734.8	2,780.3	1,297.5
Surplus (Deficit)	(9,842.9)	(12,502.0)	(35,517.2)	(64,416.8)
Surplus (Deficit)(% of GDP)	(1.4)	(1.3)	(3.9)	—

Source: Ministry of Finance

The Budget Code, which was initially adopted on 21 June 2001, governs the balance between the central budgets and local budgets and regulates payments from and to donor and recipient regions. According to the Budget Code, local budgets are established for the Autonomous Republic of Crimea and each of Ukraine's oblasts, cities, rayons and other administrative regions, as a result of which there are 691 local budgets to which direct transfers are made out of the State Budget. In addition, there are 11,341 local budgets of lower level political subdivisions such as small towns, villages and settlements to which no direct transfers are made from the State Budget but which may receive central funds indirectly through transfers from the higher level subdivisions. The Government is responsible for all expenditures that have a national scope, while local governments in Ukraine manage a significant portion of expenditure in the social sectors (including approximately 60 per cent. of education expenditure). Oblasts are responsible for expenditures whose benefit is regional (such as social protection), and rayons and cities are responsible for providing local goods and services, such as basic health and sanitation.

In 2009, interbudgetary transfers from the State Budget to the local budgets amounted to UAH 62.2 billion. The 2010 State Budget Law provided for interbudgetary transfers from the State Budget to local budgets in the amount of UAH 81.3 billion. In 2010, interbudgetary transfers from the State Budget to local budgets amounted to UAH 77.8 billion. The 2011 State Budget Law provides for interbudgetary transfers from the State Budget to local budgets in the amount of UAH 34.8 billion.

The 2001 Budget Code was an important step in modernising and improving the efficiency of allocating and administering budgetary funds. The Budget Code introduced a "formula method" that reallocates budget resources among oblasts on the basis of their population count through "interbudgetary transfers". This approach also provides an incentive for local governments to create their own tax bases, giving them the right to keep revenue from a variety of sources, including full entitlement to land tax and enterprise profit tax from communally owned enterprises. Another important revenue base for local budgets is personal income tax, which, together with the land tax, the Government estimates to have accounted for approximately 89.8 per cent. of local revenues in 2010.

The Concept of Local Budgets Reform was approved by the resolution of the Cabinet of Ministers of Ukraine dated 23 May 2007 (as amended) with the aims of strengthening the financial basis of local governments and the investment component of local budgets, decentralising budget funds management, improving the system of interbudgetary relations, increasing the efficiency of local budget expenditure and funds management and introducing medium term planning of local budgets. In particular, pursuant to the Concept, the share of the local budgets in the consolidated budget is expected to increase and optimal distribution of taxes and other revenues between State and local budgets is expected to be achieved. The Concept also provides for re allocation of revenues and expenditure among local budgets of different levels.

The Economic Reform Programme also provides for the implementation between 2010 and 2014 of a number of measures to improve the efficiency of inter budgetary relations and increase revenues of the local budgets. These measures include:

- the transfer from the State Budget to local budgets of certain additional revenues, such as revenues from charges for use of natural resources, state registration, licensing and certification;
- the reform of local taxes and duties (including abolishment of inefficient taxes and improvement of the tax administration);
- the introduction of a property tax, which will contribute to local budget revenues;
- the simplification of borrowing procedures for local authorities;
- the introduction of medium term planning for local budgets; and
- the development of legislation governing external audit of local budgets.

On 8 July 2010, Parliament approved a restatement of the Budget Code of Ukraine, which, subject to certain exceptions, took effect on 1 January 2011 and provides for the implementation of a number of measures set forth in the Economic Reform Programme with respect to inter budgetary relations. See "*Public Finance and Fiscal Policy—The Budget Process*".

Local authorities are permitted to incur General Fund budget deficits up to the amount of any surplus of funds in the preceding year. In addition, the Autonomous Republic of Crimea and municipalities are permitted to incur Special Fund budget deficits, which can be financed by internal borrowings, whilst cities with populations greater than 500,000 are also permitted to incur external debt. Both internal and external borrowings by the Autonomous Republic of Crimea and municipalities may be made only for specific projects. So far, only the city of Kyiv and the city of Odessa have issued external debt. Any borrowings by local authorities are subject to prior review of the Ministry of Finance for compliance with applicable budgetary legislation.

All levels of sub national government are involved in the social sector, although the level of service differs. Cities and rayons provide communal services, garbage and sanitation, housing and transportation. Sub national governments also manage a number of companies that are in the process of being privatised, such as hotels and restaurants.

PUBLIC DEBT

General

From 1991 to 1995 Ukraine had high fiscal deficits, which were financed predominantly by direct central bank credits to the Government, which increased the money supply and, together with other factors, contributed to the hyperinflation experienced during that period. The deficits were also financed by arrears on energy imports from Russia and Turkmenistan. The emergence of a Treasury bill market in March 1995, and the release of IMF and other official Western funds, as well as bond issues in the international capital markets, made it possible to finance the deficit increasingly by non inflationary means. While in 1995 72.7 per cent. of the budget deficit (amounting to 6.6 per cent. of GDP) was financed by the NBU, with the rest coming from the issue of treasury bills, foreign grants and loans, by 1998, the share of NBU financing of the deficit fell to just 0.8 per cent. In 1999, the NBU ceased the practice of providing direct financing of the budget. Currently, budget deficits are funded by a combination of debt financing and privatisation proceeds.

Historically, the State and State owned enterprises have accumulated significant arrears to employees, including for social benefits. However, when calculating its public debt figures (including for the purposes of this section), Ukraine takes into account only liabilities of the State (Central Government) for which specific bonds or loans have been issued. Furthermore, data relating to borrowings and repayments in this section do not include borrowings disbursed to the Special Fund of the State Budget in 2011 and previous years and repayments from the Special Fund of the State Budget. See "*—Special Fund Borrowings*". However, data relating to outstanding State debt includes the debt raised in such borrowings. In addition, in certain of the tables below, borrowings, outstanding State debt and debt servicing data are presented excluding debt owed to the IMF that 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 Government. See the relevant tables and notes thereto for more information. For the purposes of this Prospectus, ratios of total debt and/or State external debt to GDP were calculated based on nominal GDP converted into U.S.$ using the period end exchange rates specified under the heading "*The Monetary System—Exchange Rates*".

As at 31 December 2010, the total outstanding debt obligations of the State were approximately U.S.$54.29 billion, including approximately U.S.$40.63 billion in State debt (direct debt) and approximately U.S.$13.66 billion in State guaranteed debt (contingent liabilities).

The following table sets forth the total outstanding debt obligations of the State at the end of the periods indicated:

	Year ended 31 December					
	2008		**2009**		**2010**	
	(in U.S.$ billions)	*(% of GDP)*	*(in U.S.$ (billions)*	*(% of GDP)*	*(in U.S.$ billions)*	*(% of GDP)*
Total debt	24.60	19.98	39.81	34.80	54.29	39.63
State debt (direct debt)	16.97	13.78	28.43	24.86	40.63	29.66
Internal debt (direct debt)(1)	5.80	4.71	11.41	9.98	17.79	12.99
External debt (direct debt)	11.17	9.07	17.02	14.89	22.84	16.67
of which: debt to the IMF owed by the Government	–	–	6.82	5.96	6.86	5.00
State-guaranteed debt (contingent liabilities)	7.63	6.20	11.38	9.95	13.66	9.97
Internal debt(1)	0.26	0.21	1.76	1.54	1.74	1.27
External debt	7.37	5.99	9.62	8.41	11.92	8.7
of which: debt to the IMF owed by the NBU	4.71	3.83	6.07	5.31	7.38	5.39

Notes:

(1) Hryvnia amounts have been converted to dollar amounts using the period-end exchange rate specified under the heading "*The Monetary System—Exchange Rates*".

Source: Ministry of Finance

The following table sets forth Ukraine's total State debt service and total State borrowings (not including contingent liabilities and debt to the IMF owed by the NBU) for the periods indicated:

	Year ended 31 December			
	2007	2008	2009	2010
	(in U.S.$ millions)			
Total State debt service	1,848	1,705	5,014	5,216
Internal State debt service[1]	616	808	2,846	3,856
Principal	469	653	2,254	2,483
Interest	147	155	592	1,373
External State debt service	1,232	897	2,168	1,360
Principal	716	358	1,609	781
of which: debt to the IMF owed by the Government	–	–	–	–
Interest	516	539	559	580
of which: debt to the IMF owed by the Government	–	–	58	120
Total State borrowings	1,907	3,728	14,625	10,220
Internal borrowing[1]	707	2,930	7,473	3,695
External borrowing	1,200	798	7,152	6,525
Securities issued by the State	1,200	–	–	2,500
Multilateral creditors	–	798	7,152	2,025
of which: IMF loans to the Government	–	–	6,753	2,025

Notes:

(1) Hryvnia amounts have been converted to dollar amounts using the official exchange rate set by the NBU as at the date when relevant payment was made.

Estimated State Debt Service for 2011-2014[1]

	2011[2]	2012[3]	2013[3]	2014[3]
	(in U.S.$ millions)			
Principal payments	7,352.0	4,374.6	5,383.1	4,252.9
Internal debt[4]	3,737.4	2,657.7	1,369.2	1,241.5
External debt	3,614.6	1,716.9	4,013.9	3,011.4
Interest payments	2,707.9	2,332.7	1,892.1	1,588.9
Internal debt[4]	1,826.7	1,487.6	1,126.9	974.6
External debt	881.2	845.1	765.2	614.3
Total payments	10,059.9	6,707.3	7,275.2	5,841.8

Notes:

(1) Estimates as at 9 February 2011, excluding contingent liabilities and debt to the IMF which is accounted for as a liability of the NBU.

(2) As approved by the 2011 State Budget Law.

(3) Excluding future borrowings and payments under service agreements.

(4) Hryvnia amounts have been converted to dollar amounts using assumed average UAH/U.S.$ exchange rate of UAH 7.95 = U.S.$1.00 for 2011, UAH 7.8 = U.S.$1.00 for 2012 and assumed average UAH/U.S.$ exchange rate of UAH 8.0 = U.S.$1.00 for 2013-2014.

Source: Ministry of Finance

Total debt of Ukraine as a percentage of GDP, including both State debt (direct debt) and State guaranteed debt (contingent liabilities), was 12.3 per cent. at the end of 2007, 20.0 per cent. at the end of 2008, 34.8 per cent. at the end of 2009 and 39.6 per cent. at the end of 2010. The significant increase in the ratio of total debt to GDP in 2009 was largely attributable to: a significant increase in debt raised from the IMF; the need to finance the budget deficit of UAH 31.6 billion in 2009; the need to finance a recapitalisation programme for Naftogas and for the Ukrainian banking sector in the amount of UAH 44.0 billion in 2009; and an increase in contingent liabilities. The increase in this ratio in 2010 was due to further increase of the debt raised from the IMF, the need to finance the recapitalisation programme for Naftogas and the Ukrainian banking sector in the amount of UAH 13.8 billion, the issue of State internal bonds for VAT reimbursements and replenishment of the authorised capital of the State mortgage institution and an increase in contingent liabilities.

The Government expects the total debt of Ukraine as a percentage of GDP, including both State debt (direct debt) and State guaranteed debt (contingent liabilities), to increase to 44.2 per cent. by the end of 2011. Of these amounts, State external debt (direct debt) as a percentage of GDP was 7.4 per cent. at the end of 2007, 9.1 per cent. at the end of 2008, 14.9 per cent. at the end of 2009, 16.7 per cent. at the end of 2010, and is expected by the Government to be approximately 16.2 per cent. by the end of 2011. 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 0.9 per cent. at the end of 2007, approximately 0.5 per cent. at the end of 2008, approximately 1.9 per cent. at the end of 2009, approximately 1.0 per cent. at the end of 2010 and is expected by the Government to be approximately 2.6 per cent. at the end of 2011.

The 2008 State Budget Law provided for expected total State debt service payments (including principal and interest payments but excluding debt owed to the IMF by the NBU) to be in an amount of UAH 9,918.7 million in 2008, 50.4 per cent. (or UAH 5,003.1 million) of which were internal debt payments and 49.6 per cent. (or UAH 4,915.6 million) of which were external debt payments (equal to U.S.$963.8 million at an exchange rate of UAH 5.1 = U.S.$1.00). State borrowings for 2008 were planned in the amount of approximately UAH 14,134.0 million or UAH 4,307.7 million more than the amended plan for 2007, including external borrowings to the General Fund amounting to UAH 6,358.0 million (an increase of UAH 361.4 million from that planned for 2007) and internal borrowings to the General Fund amounting to approximately UAH 7,776.0 million (an increase of UAH 3,946.2 million from that planned for 2007). Actual state borrowings in 2008 amounted to UAH 26,612.6 million or 88 per cent. more than the amended plan for 2008, including external borrowings to the General Fund amounting to UAH 5,396.5 million (15 per cent. less than was planned for 2008) and internal borrowings to the General Fund amounting to approximately UAH 21,216.2 million (173 per cent. more than was planned for 2008). Pursuant to the 2008 State Budget Law, external and internal borrowings were expected to amount to 20 per cent. and 80 per cent. of total borrowings, respectively. Actual external and internal borrowings in 2008 amounted to 20.3 per cent. and 79.7 per cent. of total borrowings, respectively.

The 2009 State Budget Law provided for expected total State debt service payments (including principal and interest payments but excluding debt owed to the IMF by the NBU) to be in an amount of UAH 40,941.9 million in 2009, 56.9 per cent. (or UAH 23,314.1 million) of which were internal debt payments and 43.1 per cent. (or UAH 17,627.7 million) of which were external debt payments (equal to U.S.$2,350.4 million at an exchange rate of UAH 7.5 = U.S.$1.00). State borrowings for 2009 were planned in the amount of approximately UAH 80,037.5 million, or UAH 65,903.5 million more than the amended plan for 2008, including external borrowings to the General Fund amounting to UAH 14,625.0 million (an increase of UAH 8,267.0 million from that planned for 2008) and internal borrowings to the General Fund amounting to approximately UAH 65,412.5 million (an increase of UAH 57,636.5 million from that planned for 2008). Actual state borrowings in 2009 amounted to UAH 113,851.3 million or 42.2 per cent. more than the amended plan for 2009, including external borrowings for the General Fund amounting to UAH 55,726.2 million (281 per cent. more than was planned for 2009) and internal borrowings to the General Fund amounting to approximately UAH 58,125.1 million (11.1 per cent. less than was planned for 2009). As planned, the actual amount of internal borrowings raised in 2009 for the purpose of the banking system and Naftogas recapitalisation was UAH 44.0 billion. In 2009, it was expected that external and internal borrowings would amount to 18.3 per cent. and 81.7 per cent. of total borrowings, respectively. Actual external and internal borrowings in 2009 amounted to 48.1 per cent. and 51.9 per cent. of total borrowings, respectively.

The 2010 State Budget Law provided for expected total State debt service payments (including principal and interest payments but excluding debt owed to the IMF by the NBU) to be in an amount of UAH 37,218.1 million in 2010, 73.2 per cent. (or UAH 27,226.9 million) of which were internal debt payments and 26.8 per cent. (or UAH 9,991.2 million) of which were external debt payments (equal to U.S.$1,248.9 million at an exchange rate of UAH 8.0 = U.S.$1.00). State borrowings for 2010 were initially planned in the amount of approximately UAH 78,253.3 million, or UAH 1,784.2 million less than the amended plan for 2009, including external borrowings to the General Fund amounting to UAH 30,400.0 million (an increase of UAH 15,775.0 million from that planned for 2009) and internal borrowings to the General Fund amounting to approximately UAH 47,853.3 million (a decrease of UAH 17,559.2 million from that planned for 2009). The planned amount of internal borrowings included borrowings for the purpose of the banking system recapitalisation amounting to approximately UAH 30.0 billion. Pursuant to the 2010 State Budget Law, external and internal borrowings were initially planned to amount to 38.8 per cent. and 61.2 per cent. of total borrowings, respectively.

On 8 July 2010, Parliament approved the State Budget Amendment providing for an increase in the aggregate amount of internal borrowings to the General Fund of the State Budget in 2010 of approximately UAH 5,100.0 million, to UAH 52,953.3 million. At the same time, planned borrowings to the Special Fund of the 2010 State Budget were decreased by the same amount. See "—*Special Fund Borrowings*". Pursuant to the State Budget Amendment, aggregate planned State borrowings to the General Fund of the 2010 State Budget were increased to approximately UAH 83,353.3 million, or UAH 3,315.8 million more than in the amended plan for 2009, and internal and external borrowings to the General Fund of the 2010 State Budget are planned to amount to 36.5 per cent. and 63.5 per cent. of total borrowings, respectively. On 23 September 2010, Parliament approved an amendment to the 2010 State Budget Law providing for an increase in the ceiling on State debt up to UAH 315,715,906,300 to provide for the planned amount of internal borrowings for the purpose of the Naftogas recapitalisation in the amount of UAH 7,400.0 million. As a result, aggregate planned State borrowings to the General Fund of the 2010 State Budget were increased to approximately UAH 90,753.3 million.

Actual State borrowings in 2010 amounted to UAH 85,351.1 million for 2010, with external borrowings to the General Fund amounting to UAH 51,708.3 million and internal borrowings to the General Fund amounting to approximately UAH 33,642.8 million. The actual amount of internal borrowings raised in 2010 to recapitalise the banking system and Naftogas amounted to UAH 13.8 billion. In 2010, the external and internal borrowings to the General Fund were expected to amount to 33.5 per cent. and 66.5 per cent. of the total borrowings, respectively. Actual external and internal borrowings in 2010 amounted to 60.6 per cent. and 39.4 per cent. of the total borrowings, respectively.

The 2011 State Budget Law provides for expected total State debt service payments (including principal and interest payments but excluding debt owed to the IMF by the NBU) to be in the amount of UAH 62,270.2 million in 2011, 60.3 per cent. of which (or UAH 37,522.8 million) are internal debt payments and 39.7 per cent. (or UAH 24,747.4 million) are external debt payments (equal to U.S.$3,122.9 million at an exchange rate of UAH 7.95 = U.S.$1.00). According to the 2011 State Budget Law, State borrowings to the General Fund of the State Budget for 2011 are planned to amount to approximately UAH 88,337.5 million, or UAH 2,415.8 million less than the amended plan for 2010, including external borrowings to the General Fund amounting to UAH 39,750.0 million (an increase of UAH 9,350.0 million from that planned for 2010) and internal borrowings to the General Fund amounting to approximately UAH 48,587.5 million (a decrease of UAH 11,765.8 million from that planned for 2010). Pursuant to the 2011 State Budget Law, external and internal borrowings are planned to amount to 45.0 per cent. and 55.0 per cent. of total borrowings, respectively.

Internal Debt

Internal debt of Ukraine comprises 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).

Usually State Budget Law contains a specific line item setting forth the ceiling for State internal debt (direct debt) or, alternatively, a combined State internal and external debt (direct debt) to be issued for each year, although the 2011 State Budget Law permits additional borrowings by the Government (i) if privatisation receipts are below expectations, up to the amount of the shortfall, and (ii) in certain other cases, including, among other things, for the purposes of recapitalisation of banks, financial assistance to banks, increasing the statutory capital of the Naftogas and granting loans to the Agrarian Fund. In addition, the 2011 State Budget Law allows the Government to change borrowing sources (from external to internal or vice versa) provided that the combined limit on State debt is complied with.

The following table sets forth the total outstanding internal debt obligations of the State and the ceiling on internal debt under the budget at the end of the periods indicated:

	Year ended 31 December			
	2007	**2008**	**2009**	**2010**
	(in UAH thousands)			
State internal debt (direct debt)	17,806,386.3	44,666,547.6	91,070,076.8	141,662,098.1
of which:				
Obligations under T-bills	9,146,565,7	33,521,860.4	87,631,511.0	138,355,785.0
Obligations to the NBU[(1)]	8,659,820.7	11,144,687.2	3,438,565.8	3,306,313.1
State guaranteed debt (contingent liabilities)	1,000,966.3	2,000,966.3	14,062,842.6	13,827,751.4
Total internal debt	**18,807,352.6**	**46,667,513.9**	**105,132,919.4**	**155,489,849.5**
Budget ceiling for State internal debt (direct debt)[(2)]	20,274,714.9	89,138,062.3[(3)]	193,076,747.3[(4)]	315,715, 906.3[(5)]

Notes:

(1) Including debt owed to the NBU undertaken to finance the budget deficits in 1994-1996, which debt was restructured in April 2000.

(2) Including 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 Consolidated Budget*".

(3) In accordance with the 2008 State Budget Law, the ceiling on State debt was set at UAH 89,138,062.3 thousand, not sub-divided into internal and external State debt.

(4) In accordance with the 2009 State Budget Law, the ceiling on State debt was set at UAH 193,076,747.3 thousand, not sub-divided into internal and external State debt.

(5) In accordance with the 2010 State Budget Law, the ceiling on State debt was set at UAH 315,715,906.3 thousand, not sub-divided into internal and external State debt.

Source: Ministry of Finance

As at 31 December 2007, 2008, 2009 and 2010, the ratio of State internal debt (direct debt) to total State internal and external debt (direct debt) was approximately 25.0 per cent., 34.2 per cent., 40.1 per cent. and 43.5 per cent., respectively.

In 2007 and 2008 the Government placed new T-bills in the amount of UAH 3.6 billion and UAH 21.2 billion, respectively. In 2009, the Government placed new T-bills in the amount of UAH 62.8 billion (not including T-bills issued in exchange of debt to the NBU). In 2010, the amount of proceeds to the State budget from placement of new T-bills was UAH 70.03 billion. The Government also issued guarantees for the aggregate amount of UAH 3.0 billion debt of the State Mortgage Institution in 2006 2008, and guarantees to several State aviation enterprises under domestic bonds issued in the aggregate amount of UAH 2.5 billion in 2009.

The total amount of State internal debt (direct debt) was UAH 17.8 billion as at 31 December 2007, UAH 44.7 billion as at 31 December 2008, UAH 91.1 billion as at 31 December 2009 and UAH 140.1 billion as at 31 December 2010. The 2009 State Budget Law limited State debt (direct debt) at 31 December 2009 to UAH 193.1 billion without any breakdown between internal and external State debt. The 2010 State Budget Law limited State debt (direct debt) at 31 December 2010 to UAH 315.7 billion without breakdown for internal and external State debt. The 2011 State Budget Law limits State debt (direct debt) at 31 December 2011 to UAH 375.6 billion without breakdown for internal and external State debt.

In April 2000, the debt owed to the NBU undertaken to finance the State Budget deficits in 1994-1996 was recognised as State debt and restructured. The restructuring provided for repayments of maturing principal in the aggregate amount of U.S.$1.18 billion between 2002 and 2009 and UAH 3.44 billion between 2010 and 2035. In 2004, the NBU and the Government further restructured the U.S.$1.18 billion of State debt; the Government paid U.S.$133 million of this debt to the NBU in 2004, U.S.$50 million in each of the years from 2005 through 2007 and U.S.$33.1 million in 2008. At the end of 2009, new T-bills maturing in 2012 and 2014 were issued in exchange for the remaining State debt to the NBU restructured in 2004 in the amount of U.S.$1,000.8 million. From 2010, the Government also started repayment of UAH 3.44 billion of debt to the NBU. As of 31 December 2010, the outstanding amount of this debt owed to the NBU was UAH 3.31 billion.

The average annual weighted T-bill yield, based on the actual volumes of T-bill proceeds, was 6.7 per cent. in 2007, 11.9 per cent. in 2008 and 12.2 per cent. in 2009. The average annual weighted T-bill yield, based on the actual volumes of T-bill proceeds, was 10.4 per cent. in 2010. The average annual weighted yield of T-bills that were issued for the purpose of the recapitalisation of banks was 9.5 per cent. in each of 2008, 2009 and 2010. The average annual weighted yields, based on the actual volumes of T-bill proceeds, of T-bills that were sold at the primary auctions to market participants were 20.1 per cent. and 12.7 per cent. in 2009 and 2010, respectively.

Currently, the demand for T-bills from non residents is insignificant. As at 1 January 2011, non residents held approximately 8.35 per cent. of all outstanding T-bills. The Government is aware of the inflationary pressures and instability that non resident investment in T-bills can create in the money market and such investment is therefore subject to certain restrictions under Ukrainian legislation.

To diversify domestic financing streams, Ukraine issued two tranches of State saving bonds in 2002 in a nominal amount of UAH 50 million each. In 2003, a further UAH 50.0 million of savings bonds were issued, with their placement being completed during 2004. In 2004, a further UAH 47.0 million of savings bonds were issued. These instruments were not issued in 2005-2008. In 2009, however, the Government recommenced the issuance of savings bonds. In particular, the Government launched sales to the public of a first series of savings bonds in an aggregate nominal amount of UAH 200 million beginning 23 September 2009 and UAH 1.6 million of such bonds were sold to the public as at 31 December 2010.

The table below sets forth the total amount of State internal borrowings from T-bills and State savings bonds issued in each of the years 2007 to 2010:

	Year ended 31 December			
	2007	**2008**	**2009**	**2010**
	(in UAH thousands)			
Security (maturity)				
T-bills (twelve year maturity)	–	–	1,500,000.0	–
T-bills (eleven year maturity)	–	–	3,850,000.0	–
T-bills (ten year maturity)	–	–	10,217,189.0	3,095,000.0
T-bills (nine year maturity)	–	–	18,470,748.0	3,294,999.0
T-bills (eight year maturity)	–	–	9,316,198.0	–
T-bills (seven year maturity)	–	17,470,000.0	17,470,000.0	2,400,000.0
T-bills (six year maturity)	–	–	–	3,000,000.0
T-bills (five year maturity)	249,000.0	2,887,145.8	8,108,003.0	2,315,935.5
T-bills (four year maturity)	–	223,788.1	–	–
T-bills (three year maturity)	2,017,000.0	—	9,427,995.0	2,774,981.3
T-bills (two year maturity)	–	–	665,800.0	1,983,161.5
T-bills (18 month maturity)	1,307,000.0	–	–	800,000.0
T-bills (12 month maturity)	–	–	4,540,152.0	8,522,207.7
T-bills (9 month maturity)	–	–	130,000.0	2,485,779.1
T-bills (6 month maturity)	–	18,913.4	3,744,865.0	1,730,015.8
T-bills (3 month maturity)	–	616,315.9	189,142.0	1,240,676.8
State savings bonds (1 year maturity)	–	–	1,419.0	147.5

Source: Ministry of Finance

The Government is continuously taking measures to increase the efficiency of State debt management, including through further development of domestic market for State securities. In 2009-2010, a number of regulations were enacted for this purpose, including the Concept for Development of the Domestic Market for State Securities for 2009-2013, Regulations on the Implementation of the Primary Dealer Institute in the State Securities Market, the Regulation on Development of Medium Term Strategy on State Debt

Management and Control of its Implementation and Regulation on Risk Management relating to State Debt. The Concept for Development of the Domestic Market for State Securities for 2009-2013 provides for the implementation of the following measures: introduction of market pricing at T-bills placements; broadening the scope of State borrowing instruments; creation of the State securities primary dealer system; enhancing transparency of State borrowings; timely placement of idle State Budget funds; and improvement of State debt risk management. Pursuant to the Concept, starting from 14 May 2009, a market pricing mechanism has been introduced at the primary placements of T-bills. In 2009 and 2010, five primary dealer tenders were held and fifteen banks were selected as State securities primary dealers. Since 19 February 2010, T-bills in the primary market have been sold only to such primary dealers. In addition, T-bills may be sold in the primary market to the NBU acting on instruction and at the expense of its clients.

External Debt

External debt of Ukraine 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).

At the end of 2007, Ukraine's external debt was approximately U.S.$13.9 billion, including State debt (direct debt) of U.S.$10.6 billion and State guaranteed debt of U.S.$3.3 billion. At the end of 2008, Ukraine's external debt was approximately U.S.$18.6 billion, including State debt (direct debt) of U.S.$11.2 billion and State guaranteed debt of U.S.$7.4 billion. At the end of 2009, Ukraine's external debt was approximately U.S.$26.6 billion, including State debt (direct debt) of U.S.$17.0 billion and State guaranteed debt of U.S.$9.6 billion. At the end of 2010, Ukraine's external debt was approximately U.S.$34.7 billion, including State debt (direct debt) of U.S.$22.8 billion and State guaranteed debt of U.S.$11.9 billion. The limit for State debt (direct debt) at the end of 2010 was set by the 2010 State Budget Law at UAH 315.7 billion without breakdown for internal and external State debt. The limit for the State debt (direct debt) at the end of 2011 has been set by the 2011 State Budget Law at UAH 375.6 billion without breakdown for internal and external State debt.

The tables below set forth Ukraine's (i) public external debt structure as at 31 December 2007, 2008, 2009 and 2010; (ii) actual and estimated external debt service for the year 2011; (iii) estimated payments of State external debt service for the years 2012 to 2020; and (iv) estimated IMF debt service for 2011 to 2015:

Public External Debt Structure as at 31 December 2007, 2008, 2009 and 2010

	As at 31 December			
	2007	**2008**	**2009**	**2010**
	(in U.S.$ thousands)			
State external debt (direct debt)	10,591,661.8	11,171,831.4	17,022,696.3	22,835,965.2
of which:				
Multilateral borrowings (IFI loans)	2,483,678.5	3,189,090.4	8,486,433.4	10,432,283.8
of which:				
European Union	42,606.8	20,442.1	–	–
EBRD	202,956.9	265,800.2	342,574.2	331,329.5
EIB	–	–	97,498.4	196,544.0
Debt to the IMF owed by the Government	–	–	4,899,032.9	6,860,855.0
World Bank	2,238,114.8	2,902,848.1	3,147,327.9	3,043,555.3
Bilateral borrowings	1,936,412.5	1,724,772.0	1,570,533.2	1,415,650.7
of which:				
Russia	1,290,105.9	1,192,355.9	1,094,605.8	996,855.9
USA	154,359.3	125,937.6	99,699.9	75,666.8
France	18,572.6	14,851.4	12,083.3	8,393.8
Japan	78,874.6	74,029.4	104,395.8	151,534.1
Germany	326,445.3	262,365.4	215,084.1	151,283.7
Italy	68,054.9	55,232.3	44,664.3	31,916.5
SDR allocations received to the State Budget	–	–	1,925,124.0	1,891,162.7
Loans from foreign banks(1)	75.1	72.1	73.3	2,000,067.9
State External Bonds 2003	1,000,000.0	1,000,000.0	1,000,000.0	1,000,000.0
State External Bonds 2004	1,100,000.0	1,100,000.0	600,000.0	600,000.0
State External Bonds 2005	881,520.0	845,880.0	860,280.0	796,800.0
State External Bonds 2006	1,989,975.7	2,112,016.8	1,380,252.3	1,000,000.0
State External Bonds 2007	1,200,000.0	1,200,000.0	1,200,000.0	1,200,000.0
State External Bonds 2010	–	–	–	2,500,000.0
Limit of state external debt (direct debt) under the State Budget Law as of 31 December each year(2)	9,890,764.5(3)	17,478,051.0(4)	25,743,566.3(4)	38,781,875.0(4)
State-guaranteed external debt (contingent liabilities)	3,257,326.2	7,366,204.0	9,623,665.9	11,923,490.1
of which:				
Multilateral borrowings (IFI loans)	665,090.4	5,020,310.4	6,441,086.7	7,740,642.8
of which:				
European Atomic Energy Community	57,298.8	74,233.1	77,549.7	65,255.5
EBRD	124,998.8	158,229.8	173,578.4	148,586.7
Debt to the IMF owed by the NBU	431,252.4	4,709,040.6	6,074,800.9	7,384,466.8
World Bank	51,540.5	78,806.9	115,157.7	142,333.8
Bilateral borrowings(5)	11,102.1	1,991.3	–	190,593.6
Loans from foreign banks	1,790,300.4	1,686,402.4	650,579.6	1,001,077.7
Other	790,833.3	657,500.0	2,531,999.7	2,991,176.0
Total external debt	13,848,988.0	18,538,035.4	26,646,362.2	34,759,455.3

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) 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 Consolidated Budget*".

(3) The 2007 Budget Law allowed the Government to exceed the limit of State external direct debt if the privatisation receipts were below expectations or if the limit on State internal debt remained unused.

(4) The 2008, 2009 and 2010 State Budget Law limited State debt at 31 December 2008, 31 December 2009 and 31 December 2010 to UAH 89,138,062.3 thousand, UAH 193,076,747.3 thousand and UAH 315,715,906.3 thousand, respectively, without explicit breakdown for internal and external State debt.

(5) Bilateral borrowings are represented by debt owed to the Federal Republic of Germany.

Source: Ministry of Finance

Actual and Estimated External Debt Service for 2011

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct	Nov.	Dec.	Total
						(in U.S.$ millions)[1]							
State external debt (direct debt)	49.1	92.2	867.2	69.8	147.9	160.0	53. 9	93.7	246.8	120.7	160.5	2,845.0	4,906.9
Interest	13.8	50.5	256.9	9.2	106.4	143.0	17.0	53.5	236.4	59.9	118.4	226.7	1,291.7
Debt to the IMF owed by the Government	5.0	41.2	0.0	0.0	44.2	0.0	0.0	45.5	0.0	0.0	45.5	0.0	181.4
Principal	35.3	41.7	610.3	60.5	41.5	16.9	36.9	40.3	10.5	60.9	42.0	2,618.3	3,615.2
Debt to the IMF owed by the Government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payments to IMF (debt of the NBU)	0.0	28.3	0.0	0.0	45.4	0.0	0.0	46.9	0.0	0.0	46.8	0.0	167.5

Notes:

(1) Repayment amounts are actual for January and estimated for February-December and in total. SDR amounts have been converted to dollar amounts as of the maturity date. The average 2011 exchange rate of SDR is 0.625=U.S.$1.00. Figures do not include future borrowings.

Source: Ministry of Finance

Estimated State External Debt Service for 2012-2020[1]

	2012	2013	2014	2015	2016	2017	2018	2019	2020
					(in U.S.$ millions)				
State external debt (direct debt)[2]	2,561.9	4,779.1	3,625.7	3,154.3	1,830.3	1,765.7	686.3	610.2	2,087.0
Interest	845.0	765.2	614.3	530.5	412.5	329.4	265.2	248.4	232.4
Principal	1,716.9	4,013.9	3,011.4	2,623.8	1,417.8	1,436.3	421.1	361.8	1,854.6

Note:

(1) Estimates as at 9 February 2011 excluding future borrowings and payments under service agreements.

(2) Excluding debt owed to the IMF and accounted for as a liability of the NBU.

Source: Ministry of Finance

As at 9 February 2011, the amount of State external debt service payments (including principal and interest payments but excluding debt owed to the IMF by the NBU) is expected to increase significantly in 2013 to U.S.$4,779.1 million, largely due to scheduled repayment in 2013 of debt owed to the IMF by the Government in the amount of U.S.$2,599.0 million and redemption of U.S.$1,000.0 million 7.65 per cent. notes due 2013.

Estimated IMF Debt Service for 2011-2015[1]

	2011[2]	2012[2]	2013[2]	2014[2]	2015[2]
			(in U.S.$ millions)		
Total debt to IMF	349.2	3,985.2	6,052.1	3,589.2	1,269.8
Debt of the Government	181.0	1,100.0	2,811.6	2,789.6	933.0
Interest	181.0	283.1	212.6	101.7	26.9
Principal	0.0	816.9	2,599.0	2,687.9	906.1
Debt of the NBU	168.2	2,885.2	3,240.5	799.7	336.8
Interest	168.2	158.0	69.6	4.6	0.0
Principal	0.0	2,727.2	3,170.9	795.0	336.8

Notes:

(1) Excluding future borrowings and payments under service agreements.

(2) SDR amounts have been converted to dollars using an assumed average 2011-2015 exchange rate of SDR 0.625 = U.S.$1.00.

Source: Ministry of Finance

Commercial Creditors

In August and October 1997, the Ministry of Finance raised a total of U.S.$559 million through the issue of bonds in the international capital markets. In addition, UAH 750 million of T-bills were sold to foreign investors in December 1997. In 1998, the Government issued a DM 1.5 billion eurobond that matured in February 2001 and a €500 million eurobond maturing in March 2000. A further U.S.$503 million issue that matured in September 2000 consisted of restructured T-bills, previously held by foreign investors.

In early 2000, Ukraine found itself in a critical financial position. Ukraine's external debt, which amounted to U.S.$11.5 billion at the end of 1998, equivalent to approximately 37.9 per cent. of GDP, had grown to U.S.$12.5 billion as of 31 December 1999, equivalent to approximately 40.1 per cent. of GDP. With foreign exchange reserves of approximately U.S.$1.04 billion at the end of 1999, Ukraine was scheduled to pay more than U.S.$3.0 billion in debt servicing in 2000 and a further U.S.$2.8 billion in 2001. The contribution of scheduled debt service payments falling due in 2000 and 2001, combined with inadequate levels of foreign exchange reserves and its inability to obtain financing from the international capital markets, prompted Ukraine to undertake a comprehensive debt restructuring in which notes representing existing commercial indebtedness of approximately U.S.$2.7 billion of its existing commercial indebtedness were amended or exchanged for new notes on 14 April 2000, 15 March 2001 and 15 November 2002. On 27 November 2002 and 17 December 2002, Ukraine issued an aggregate principal amount of U.S.$260 million and U.S.$139 million, respectively, of bonds maturing in 2007, which were fungible with the U.S. dollar denominated bonds issued pursuant to the three exchange offers in 2000, 2001 and 2002. All U.S. dollar denominated and euro denominated bonds issued in 2000-2002 offerings matured in March 2007. The purpose of these exchange offers was to improve Ukraine's debt servicing profile and balance of payments. Ukraine has also restructured certain aspects of its internal indebtedness; see "*—Internal Debt*".

On 11 June 2003, Ukraine issued an aggregate amount of U.S.$800 million bonds due 2013, which bear interest at the rate of 7.65 per cent. per annum; on 3 October 2003, Ukraine issued additional bonds of the same series in the aggregate principal amount of U.S.$200 million. On 2 March 2004, Ukraine issued an aggregate principal amount of U.S.$600 million 6.875 per cent. bonds due 2011. On 5 August 2004 Ukraine issued an aggregate principal amount of U.S.$500 million floating rate notes that were redeemed in full in 2009. On 13 October 2005, Ukraine issued an aggregate principal amount of €600 million 4.95 per cent. bonds due 2015. On 13 September 2006, Ukraine issued an aggregate principal amount of CHF 384 million 3.5 per cent. bonds due 2018; on 7 December 2006, Ukraine issued additional bonds of the same series in the aggregate principal amount of CHF 384 million. Following the exercise of the scheduled put option by holders of the CHF bonds, all CHF bonds were redeemed in September 2009. On 20 November 2006, Ukraine issued an aggregate principal amount of U.S.$1,000 million 6.58 per cent. bonds due 19 December 2006 Ukraine issued an aggregate principal amount of JPY 35,100 million 3.2 per cent. notes that were redeemed in full in 2010. On 26 June 2007, Ukraine issued an aggregate principal amount of U.S.$500 million 6.385 per cent. bonds due 2012 and on 14 November 2007, Ukraine issued an aggregate principal amount of U.S.$700 million 6.75 per cent. bonds due 2017.

In June 2010, Ukraine entered into a credit facility with JSC VTB Bank, which assigned its rights under the facility to VTB Capital plc in August 2010. Under this facility, Ukraine has been extended a loan of U.S.$2.0 billion at an annual interest rate of 6.7 per cent. The loan was for an initial term of six months and was extended for a further six-month term in December 2010. The loan may be extended two more times for a maximum maturity of eighteen months (two years from the initial utilisation date), subject to agreement between the parties on a new interest rate for each extension period.

On 16 September 2010, Ukraine issued an aggregate principal amount of U.S.$500,000,000 6.875 per cent. notes due 2015 and an aggregate principal amount of U.S.$1,500,000,000 7.75 per cent. notes due 2020. On 21 December 2010, Ukraine issued an aggregate principal amount of U.S.$500,000,000 6.7 per cent. notes due 2011 and on 26 January 2011, Ukraine issued an aggregate principal amount of U.S.$100,000,000 6.7 per cent. notes due 2011.

International Financial Institutions

Since Ukraine's independence, credits from international financial organisations have played a significant role in fostering economic and structural reforms. The resources of these organisations provide long term support for economic growth in an environment of low domestic investment and more expensive (and sometimes unavailable) commercial borrowing options. From 1992 to the end of 2010, Ukraine obtained loans totalling U.S.$18.3 billion from the IMF and U.S.$4.90 billion from the World Bank. As at 31 December 2010, Ukraine and Ukrainian companies raised €5.7 billion from the EBRD under more than 240 projects (this figure includes loans raised by Ukrainian companies with and without State guarantees). In the wake of the emerging market crisis in the autumn of 1998 and up until the second half of 2002, loans from international organisations such as the IMF, the EBRD and the World Bank and the EU comprised Ukraine's only significant source of external financing. See "*Risk Factors—Risk Factors Relating to Ukraine—Inability to obtain financing from external sources could affect Ukraine's ability to meet financing expectations in its budget*".

As at 31 December 2007, 2008, 2009 and 2010, the total amount of debt owed to the IMF stood at U.S.$0.4 billion, U.S.$4.7 billion, U.S.$12.9 billion and U.S.$16.3 billion, respectively (including debt owed to the IMF by the Government amounting to approximately U.S.$4.9 billion and U.S.$6.9 billion, as at 31 December 2009 and 31 December 2010, respectively), and the total amount of direct debt owed to other international organisations and the EU stood at U.S.$2.5 billion, U.S.$3.2 billion, U.S.$10.4 billion and U.S.$3.6 billion, respectively. Repayments of principal and interest in respect of IMF debt for 2010 were U.S.$234.6 million, including payments by the Government amounting approximately to U.S.$119.6 million, and are estimated to total U.S.$349.2 million in 2011 and U.S.$3.99 billion in 2012. Repayments of principal and interest in respect of debt owed to the EU and international organisations other than the IMF amounted to U.S.$309.7 million in 2010 and are estimated at U.S.$349.2 million and U.S. $459.4 million for 2011 and 2012, respectively.

IMF

During the first stage of Ukraine's market reforms, Ukraine used the credit resources of the IMF to enable monetary reform, to support the exchange rate, to increase currency reserves, to service external debt and to finance the balance of payments deficits. During this period, Ukraine's cooperation with the IMF took place under "stand-by" loan arrangements aimed at stabilising the economy. In the period after 2000, following the establishment of the relevant economic conditions, the cooperation has taken the form of "extended fund facilities", which support economic development.

In 2005-2007, Ukraine did not borrow any funds from the IMF and cooperation between Ukraine and the IMF was focused on technical assistance intended to reduce threats to stability and to address problems associated with macro economic, monetary, currency, tax and budgetary policy. Such cooperation also included technical assistance on issues related to debt, the shadow economy and forecasting. During 2005-2006, IMF technical missions made several visits to Ukraine aimed at assisting the Government in various areas, amongst others, related to public debt management, fiscal policy and customs administration. In 2006-2007, an IMF expert was permanently involved in the activities of the Ministry of Finance relating to fiscal analysis and forecasting, strategy of budget planning and control over fiscal stability.

In the fourth quarter of 2008, against the background of the global financial downturn, Ukraine approached the IMF for financing. On 5 November 2008, the IMF approved for Ukraine a two year stand-by facility in an aggregate amount of U.S.$16.4 billion. The financing extended under the stand-by arrangement was intended to support Ukraine's long term economic policy in line with the Memoranda of Economic and Financial Policies issued by Ukraine in October 2008, April 2009 and July 2009.

In particular, the stand-by arrangement aimed to restore economic growth, reduce inflation and bring about financial stabilisation. A priority of the arrangement was to mitigate problems in the financial services sector and encourage lending through a complex restructuring of the banking system. Furthermore, the arrangement aimed to reduce inflationary pressure through changes in macro economic policy, a flexible exchange rate policy and a tight fiscal policy.

To achieve these aims, the stand-by arrangement focused on three key areas: (i) fiscal policy; (ii) monetary and exchange rate policy, and (iii) financial sector policy. In particular, the fiscal policy as envisaged by the arrangement contemplated following of a prudent fiscal policy and undertaking additional savings measures to help ease the pressure on public finances while providing for the required recession related social expenditures. The monetary and exchange rate policy contemplated under the arrangement provided for the implementation of a flexible exchange rate regime, a transparent strategy for the NBU interventions and strengthening of the NBU independence and governance structure. The third element of the arrangement, the financial sector policy, envisaged development and implementation of a comprehensive framework for the recapitalisation and restructuring of the banking system in order to restore the financial stability in Ukraine and confidence in the banking sector.

Furthermore, the stand-by arrangement provided for the quantitative and continuous performance criteria that should have been met by Ukraine as of each of 31 December 2008, 31 March 2009, 31 May 2009, 30 September 2009 and 31 December 2009. Such criteria included, among other things, a ceiling on the cash deficit of the general government, a floor on net international reserves of the NBU, and a ceiling on the monetary base, some of such criteria having been revised in 2009 as compared to the initial targets.

In 2008 and 2009, Ukraine received three tranches under the stand-by arrangement in the total amount of U.S.$10.6 billion, U.S.$4.8 billion of which were earmarked for the financing of the State Budget deficit, including repayments of external State debt. The first tranche in the amount of U.S.$4.5 billion was approved by the IMF on 5 November 2008 and received by Ukraine on 7 November 2008. The second tranche in the amount of U.S.$2.8 billion was approved by the IMF on 8 May 2009 and received by Ukraine on 12 May 2009. The third tranche in the amount of U.S.$3.3 billion was approved by the IMF on 28 July 2009 and received by Ukraine on 31 July 2009. The next tranche of IMF financing in the amount of approximately U.S.$3.9 billion was expected to be disbursed after the third review of Ukraine's compliance with the terms of the stand-by arrangement. However, in November 2009, IMF financing under the stand-by arrangement was suspended due to a failure to reach an agreement with respect to results of the third review.

From March to July 2010, after the new President took office, IMF missions visited Ukraine with a view to review the macroeconomic situation and budget, fiscal and monetary policy of the Government and the NBU and to consider a possibility of resumption of IMF support. On 28 July 2010, the IMF Executive Board noted the cancellation of the SBA approved in November 2008. On the same date, the IMF Executive Board approved a new U.S.$15.15 billion stand-by arrangement for Ukraine to be extended in ten tranches in 2010-2012, with two tranches expected to be extended in 2010, and four tranches expected to be extended in each of 2011 and 2012, subject, in each case, to Ukraine's compliance with the stand-by arrangement terms. On 2 August 2010, Ukraine received the first tranche in the amount of approximately U.S.$1.89 billion, approximately U.S.$1.02 billion of which were earmarked for the financing of the State Budget deficit.

The goal of the Ukrainian economic programme supported by the current IMF stand-by arrangement is to entrench fiscal and financial stability, advance structural reforms, and put Ukraine on a path of sustainable and balanced growth. To achieve these aims, the stand-by arrangement focuses on three key areas: (i) fiscal policy; (ii) monetary and exchange rate policy, and (iii) financial sector policy. In particular, fiscal policy as envisaged by the arrangement contemplates restoration of confidence and fiscal sustainability by reducing the general government deficit to 5.5 per cent. of GDP in 2010, 3.5 per cent. of GDP in 2011, and 2.5 per cent. of GDP in 2012; reducing the deficit of Naftogas to 1.0 per cent. of GDP in 2010 and eliminating it thereafter; setting public and publicly guaranteed debt to GDP ratio firmly on a downward path with the objective of stabilising it below 35 per cent. by 2015; and relying proportionally more on expenditure saving measures to gradually reduce the tax burden on the economy. The monetary and exchange rate policy contemplated under the arrangement provides for maintaining core CPI inflation in single digits in 2010 and bringing overall CPI to no more than 5 per cent. over the medium term; strengthening the independence and accountability of the NBU; and improving the functioning of the foreign exchange market. The third element of the arrangement, financial sector policy, centres on completing the resolution and recapitalisation of systemic banks, strengthening State owned banks, and enacting key legislation and regulations, including, among other things, through creating a framework that properly recognises and facilitates the resolution of impaired loans and implementing consolidated supervision.

In addition, the current stand-by arrangement provides for the quantitative and continuous performance criteria that should have been met by Ukraine as of each of 30 September and 31 December 2010. Such criteria include, among other things, a ceiling on the cash deficit of the general government, a floor on net international reserves of the NBU, a ceiling on the net domestic assets and a ceiling on the State guaranteed debt. The first review of Ukraine's compliance with the stand-by arrangement terms took place in December 2010. By the time of this compliance review, Ukraine was required to have met certain criteria as to net domestic assets, net international reserves and cash deficit of the general government sector. In particular, as at 30 September 2010, Ukraine was required to comply with a ceiling on the cash deficit of the general government excluding Naftogas in the amount of UAH 47.0 billion and a ceiling on the cash deficit of the general government including Naftogas in the amount of UAH 56.0 billion. In addition, as at 30 September 2010, Ukraine was required to have net international reserves in the amount of not less than U.S.$18.3 billion, and to comply with a ceiling on the cumulative change in net domestic assets in the amount of UAH 9.9 billion. After this first review, the second tranche amounting to U.S.$1.5 billion was received by Ukraine on 27 December 2010, U.S.$1 billion of which was directed to Ukraine's State Budget. A second review is to take place in March 2011 based on year end 2010 targets.

On 28 August 2009, the IMF announced that Ukraine would receive 1.017 billion in SDRs (equal to U.S.$1.6 billion) as part of a distribution of approximately 161.2 billion in 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 in 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 in SDRs of the aggregate amount of such IMF allocations. The amount of SDR allocations received to the State Budget is accounted as State borrowings and, therefore, is included into State debt (direct debt).

World Bank

From 1992 to 31 December 2010, the World Bank approved a total of 39 loans and four Global Environment Facility grants to Ukraine totalling approximately U.S.$6.65 billion (U.S.$4.90 billion had been raised under such loans to that date). Loans from the World Bank are directed at supporting the State Budget and reforming the tax, banking, and financial systems, as well as the energy sector and State governance sector. World Bank loans also support social protection and road reconstruction.

The World Bank and Ukraine are parties to a two part U.S.$750 million Programmatic Adjustment Loan ("**PAL**") programme. Ukraine received a loan in the amount of U.S.$250 million in the first stage of the PAL, in September 2001. The loans in the second stage of the PAL (PAL II) were provided by the World Bank in two tranches, the first tranche, in the amount of U.S.$75 million, in December 2003 and the second tranche, in the amount of U.S.$175 million, in June 2005. In 2005, Ukraine agreed with the World Bank on the completion of the transactions under the PAL programme and preparation of a new Development Policy Loan ("**DPL**") project to replace the PAL.

On 19 July 2005, Ukraine received a DPL of U.S.$251.26 million from the World Bank. The DPL provides for assistance in supporting priority initiatives in the economic and social spheres of the Government Action Programme. The DPL was intended to support broad improvements in governance, especially political and institutional reforms in the following sectors: investment climate improvement; improvement of public administration and State finance management; and enhancement of social integration.

In February 2008, Ukraine received a second stage DPL (DPL II) of U.S.$300 million from the World Bank. In December 2008, Ukraine received a third stage DPL (DPL III) of U.S.$500 million from the World Bank. DPL II and DPL III were intended to support improvement of investment climate needed for further economic development; creation of a fiscal foundation for economic growth by means of strengthening of the public finance sector; and a reform of the public sector and improvement of the quality of social services. Currently, Ukraine and the World Bank are preparing to launch the Fourth Development Policy Loan expected to amount to U.S.$500 million.

In June 2006, the loan agreement under the Access to Financial Services Project was signed (ratified by Parliament on 13 December 2006, the World Bank loan amounts to U.S.$150 million). As at 31 December 2010, the outstanding amount under this loan was U.S.$17.4 million. In July 2006, the Board of Directors of the World Bank approved the Second Export Development Project (U.S.$154.5 million, the guarantee agreement under the Project between Ukraine and the World Bank and the loan agreement between Ukreximbank and the World Bank were ratified on 1 December 2006). As at 31 December 2010, U.S.$124.79 million had been utilised under the Second Export Development Project.

In August 2007, the Board of Executive Directors of the World Bank approved the Power Transmission Project, involving a U.S.$200.0 million loan, and the Urban Infrastructure Development Project, involving a U.S.$140.0 million loan. The loan agreements under these projects came into effect on 5 December 2008 and 10 November 2008, respectively. As at 31 December 2010, U.S.$0.89 million and U.S.$10.1 million has been disbursed under the Power Transmission Project and the Urban Infrastructure Development Project, respectively. The Power Transmission Project is intended to increase the reliability of power transmission. The project seeks to achieve this goal through transmission station rehabilitation and the renewal of Ukraine's power transmission network. The Urban Infrastructure Development Project aims to support utility companies in providing reliable utility services to the Ukrainian population.

In January 2008, the Board of Executive Directors of the World Bank approved the Public Finance Modernisation Project, involving a U.S.$50.0 million loan to Ukraine (the loan agreement was signed in March 2008). The loan agreement under this project came into effect on 23 October 2008. As at 31 December 2010, U.S.$1.3 million has been disbursed under the Public Finance Modernisation Project. The project aims to strengthen the public finance management in Ukraine through improvement of functional efficiency and transparency in the sector, introduction of an integrated system of public finance management and support of major reform programmes of the Ministry of Finance of Ukraine.

In the first quarter of 2009, Ukraine and the World Bank initiated the Programmatic Financial Rehabilitation Loan Project, under which Ukraine expects to borrow U.S.$750 million in two tranches. The first tranche under this project in the amount of U.S.$400 million was received by Ukraine in September 2009, and Ukraine is currently preparing a drawdown of the second tranche. The project is intended to assist the Government and the NBU in implementation of the system of the recapitalisation by the State of large problem banks, consolidation of the banking system, strengthening of the system for guaranteeing individual deposits, and increasing the population's confidence in the banking system.

On 21 April 2009, Ukraine and the World Bank signed the facility agreement under the Roads and Safety Improvement Project involving a loan of U.S.$400 million. The project is intended to improve the condition of the Boryspil Lubny section of the M 03 Kyiv Kharkiv highway, and to repair dangerous sections of roads of general use. The facility agreement came into effect on 3 September 2009 and, as at 31 December 2010, U.S.$51.05 million had been disbursed under this project. In addition, Ukraine and the World Bank have launched preparations for the Railway Modernisation Project involving a loan of U.S.$500 million. The project provides for the construction of a second track, electrification and modernisation of the railway in the Znamyanka Dolynska Mykolaiv Kherson Dzhankoy direction.

In December 2007, the World Bank approved the Strategy for Partnership of the World Bank and the International Finance Corporation with Ukraine for 2008-2011. The Strategy provides for loans supporting the improvement of public finance management, the development of the private sector and social protection. The Strategy is based on principles of selectivity, flexibility and partnership based on which the World Bank intends to extend funding to a small number of key projects. In addition, since October 2007, rates under World Bank loans have been reduced and certain commitment fees have been eliminated.

The activities of other members of the World Bank Group, such as the International Finance Corporation ("**IFC**"), the Multilateral Investment Guarantee Agency ("**MIGA**") and the International Development Association are directed at encouraging foreign private investment in various sectors of the economy. The aim is for this investment to modernise and restructure production, transfer technology and boost exports of goods and services. The improved investment climate from 2000 to 2008 led to growth in the number of IFC investments and loan projects for private sector companies. The Government also believes that MIGA may expand its activities in Ukraine by guaranteeing investments against non commercial risks and providing technical assistance in developing a national system of investment incentives.

Two other projects are currently under preparation: the Energy Saving Project worth U.S.$200 million, which aims at financing the energy saving improvement measures of Ukrainian industrial companies; and the Additional Financing for Second Export Development Project worth U.S.$150 million, which aims at supporting the development of exports by non-state Ukrainian companies by helping finance the mid- and long-term investment needs of export-oriented companies. In addition, on 3 February 2010, Ukraine and the World Bank signed the facility agreement under the Additional Financing of the Water Power Plant Rehabilitation Project involving a loan of U.S.$60 million. The facility agreement took effect on 31 August 2010 and as at 31 December 2010 the total amount drawn down under this project amounted to U.S.$0.15 million.

EIB and Nordic Investment Bank

On 22 December 2004, a new mandate of the EIB was approved authorising lending operations in Russia, Ukraine, Moldova and Belarus up to a ceiling of €500 million. In July 2005, Ukraine signed a cooperation agreement with the EIB, which became effective in April 2006. Work on establishing a viable loan portfolio is ongoing and initial lending operations were started in 2006. The new mandate of the EIB for 2007-2013 for Russia, Ukraine, Moldova, Belarus, Armenia, Azerbaijan and Georgia authorised lending operations in such countries of up to €3.7 billion for projects in the transport, energy, telecommunications and environmental protection spheres. As of 11 February 2011, the EIB and Ukraine have initiated a dialogue for the implementation of joint projects in transport, energy and municipal services. The Government expects that EIB lending operations will focus on the transport sector (including construction, repair and modernisation of highways and railways), telecommunications, energy efficiency, energy infrastructure and environmental protection.

In June 2010, Ukraine and the EIB signed a Host Country Agreement for EIB representation for Ukraine. The parties expect that this agreement will strengthen cooperation between them and improve the EIB's response to the financing needs of public and private clients in Ukraine. This agreement became effective on 21 December 2010.

On 30 July 2007, Ukraine and the EIB signed a Financing Agreement relating to the Kyiv Chop Road Rehabilitation Project under which Ukraine expects to borrow from the EIB a loan in the amount of €200 million. The EBRD has agreed to provide an additional €200 million in financing; see "*—EBRD*". On 28 April 2009, the Financing Agreement with the EIB relating to the Kyiv Chop Road Rehabilitation Project came into effect. As at 1 January 2011, the EIB had disbursed €148.0 million under the Kyiv Chop Road Rehabilitation Project. Currently, Ukraine and the EIB are preparing a joint project "Improvement of Roads Around Kyiv", under which Ukraine expects to borrow €450.0 million from the EIB. It is expected that this project will be financed jointly by the EIB and the EBRD, which is expected to provide an additional €450.0 million in financing. The loan agreements with the EBRD and EIB under this project were signed on 26 November 2010.

In addition, a €150 million loan agreement was signed with the EIB in October 2008 and came into effect in September 2009 under a joint EBRD EIB Ukraine project "Construction of the 750 kV Rivne NPP—Kyiv Overhead Transmission Line". The Government expects that €150 million for this project will be funded by the EIB, with another €150 million to be funded by the EBRD. As at 1 January 2011, €1.52 million of EBRD funds had been disbursed under this project.

On 2 February 2010, Ukraine and the EIB signed a Financing Agreement relating to the Development of the Water Supply and Wastewater System in the City of Mykolayiv. Under this project, Ukraine expects to borrow €15.54 million from the EIB in the form of a loan.

Other projects that are being prepared with the EIB include projects for the construction of electrical transmission lines (namely the "Construction of the 750 kV electricity line Zaporizhska NPS – Kahovska" and the "Construction of the 330 kV electricity line Novoodeska – Artsyz" projects), under which Ukraine expects to borrow €225 million from the EIB, with an additional €225 million proposed to be funded by the EBRD; the Ukrhydroenergo Rehabilitation Project, under which Ukraine expects to borrow €200 million from the EIB, with an additional €200 million proposed to be funded by the EBRD; a project for the financing of small and medium businesses in the telecommunications, transport, energy and environmental protection sectors, under which the EIB is expected to provide a loan in the amount of €100 million; and a joint project with the EBRD and the EIB "Modernisation and reconstruction of the Urengoy-Pomary-Uzhgorod gas pipeline" under which Ukraine expects to borrow €308 million (€154 million from each of financial institutions).

On 14 December 2006, a framework agreement between Ukraine and the Nordic Investment Bank became effective, providing for financing to Ukraine for the implementation of various infrastructural, energy, banking, telecommunications, environmental and other investment projects. In particular, the Board of Directors of Nordic Investment Bank has made a decision to extend €20 million for a project to reconstruct water supply and heating systems in the City of Odessa. In addition, the Nordic Investment Bank is considering a number of projects involving Ukrainian State owned and privately owned banks and metallurgical companies.

On 17 September 2009, the Government of Ukraine and the Nordic Environment Finance Corporation ("**NEFCO**") signed the framework agreement, which was ratified by Parliament on 21 September 2010. NEFCO is an international finance institution and finances projects for energy savings in housing as well as for environmental protection. At present, NEFCO considers a variety of projects in Ukraine.

EBRD

As at 31 December 2010, the EBRD portfolio in Ukraine included 240 projects with a total financing volume of €5.7 billion. From the beginning of Ukraine EBRD relations, 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 G 7 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 have commenced for the introduction of energy saving technologies in the power consuming sectors of the economy. See "*Economy of Ukraine—Principal Sectors of the Economy—Transport and Communication*" and "*Economy of Ukraine—Principle Sectors of the Economy—Electricity Generation and Nuclear Power*".

In August 2005, Ukraine and the EBRD signed a cooperation programme for 2005-2006 that was intended to provide €360 million for the implementation of various projects in Ukraine. The programme covered projects in the energy sphere, updating of rolling stock of Ukrainian railways, seaports modernisation and road construction. An amount of €346 million was extended under the Ukraine EBRD cooperation programme for 2005-2006, including €300 million to road construction, €26 million to electricity grid construction and €20 million to energy efficiency projects.

In June 2007, Ukraine and the EBRD signed a cooperation programme for 2007-2009 that provided for a significant increase in EBRD investments in the public sector of Ukraine. The total volume of funding of joint Ukraine EBRD investment projects in the public sector of Ukraine's economy for the period covered by the Programme was approximately €1 billion. The programme covered projects in such sectors as energy, transport, communications, municipal infrastructure, natural resources and energy efficiency. In addition, one of the key objectives of this programme was the mobilisation of co financing for Ukrainian projects from other leading international financial institutions, in particular the EIB.

Furthermore, on 18 September 2007, the EBRD's board of directors approved the 2007-2009 strategy for Ukraine. According to this strategy, priority areas for EBRD activities in Ukraine included domestic capital markets development; increasing the economy's competitiveness, including through transport and communications infrastructure development; energy sector reform, including use of alternative fuels; and corporate governance and transparency improvement.

In June 2010, representatives of Ukraine and the EBRD met to review the portfolio of EBRD loans to Ukraine. The new EBRD strategy for Ukraine for 2011-2014 is expected to be approved in the first quarter of 2011, following which a new Ukraine EBRD cooperation programme is expected to be developed.

Within the framework of cooperation with the EBRD in the public sector, on 15 January 2007, the Loan Agreement between the State Railways Administration of Ukraine ("**Ukrzaliznytsya**") and the EBRD and the Guarantee Agreement between Ukraine and the EBRD under the joint Ukraine EBRD Fast Passenger Trains Project became effective. The amount of the loan from the EBRD is U.S.$120 million, of which U.S.$80.5 million had been disbursed as at 31 December 2010.

In addition, on 16 August 2007, the Loan Agreement and the Project Agreement under the Third Kyiv — Chop Road Rehabilitation Project came into effect. The agreements relating to this project provide for financing by the EBRD in the amount of €200 million, of which €139.62 million had been disbursed as at 31 December 2010. This project is financed by the EBRD jointly with the EIB, which has agreed to provide an additional €200 million; see "*—EIB and Nordic Investment Bank*".

In November 2007 Ukraine and the EBRD signed an agreement for a €26 million loan for the development of Illichivsk sea trade port, which came into effect on 22 May 2009. As at 1 January 2010, €0.5 million had been received by Ukraine under this agreement.

The EBRD and Ukraine are considering the implementation of a U.S.$90 million project for energy savings in the railway transport sector. Ukraine and the EBRD are also discussing potential financing for subway construction in Dnipropetrovsk and Donetsk, under which the EBRD may lend to Ukraine €378 million in total. In addition, Ukraine is considering issuance of guarantees under €1,014.2 million financing to be extended by the EBRD and Euroatom to finance the project on implementation of the consolidated programme on enhancement of safety at the Ukrainian NPSs.

On 19 October 2010, a loan agreement in respect of the "Construction of the 750 kV electricity line Zaporizhska NPS – Kahovska" project was concluded by Ukraine and the EBRD which agreed to provide €175 million loan. This project will be financed jointly by the EBRD and the EIB, who agreed to allocate an additional €175 million.

A loan agreement was also entered into by Ukraine and the EBRD to implement the project "Improving the Transport and Operation Characteristics of the Autoroutes around Kyiv" on 26 November 2010 with the EBRD providing a €450 million loan to Ukraine to finance the project. This project will be financed jointly by the EBRD and the EIB, who agreed to lend an additional €450 million.

See "*—EIB and Nordic Investment Bank"* for a description of certain projects financed jointly by the EBRD and the EIB.

BSTDB

Ukraine has also undertaken a number of projects jointly with the Black Sea Trade and Development Bank ("**BSTDB**"), which provides support to projects in the transport, communications and energy sectors and for environmental protection in the Black Sea area. The aggregate value of loans under BSTDB projects implemented in Ukraine was approximately U.S.$243.2 million as of 1 December 2010. As at 1 December 2010, Ukraine ranked third (after Russia and Turkey) in terms of both projects approved by BSTDB Board of Directors and those projects actually implemented, accounting for 16.7 per cent. and 18.3 per cent. of all such projects, respectively. The BSTDB also promotes business cooperation among the member states of the Organisation of the Black Sea Economic Co-operation. Among the investment projects undertaken by the BSTDB is the reconstruction of a gas pipeline supplying Russian gas through Ukraine to the Balkans and Turkey. It has become common practice for the BSTDB to finance projects jointly with the EBRD and cooperate with commercial banks by providing loan facilities to support trade and small businesses.

Official Creditors

On 13 July 2001, Ukraine reached agreement with Paris Club creditors to reschedule U.S.$581.7 million of debt arising under agreements concluded or pursuant to guarantees issued before 31 December 1998 and in respect of principal balances falling due prior to 3 September 2002. Pursuant to bilateral agreements with each of Ukraine's principal official creditors to implement the Paris Club agreement, Ukraine agreed to repay the rescheduled principal balances in 18 equal semi annual instalments commencing 30 April 2005 and ending 31 October 2013. Ukraine paid Paris Club creditors (other than Russia and Turkmenistan) U.S.$148.3 million in 2007, U.S.$145.2 million in 2008, U.S.$136.4 million in 2009 and U.S.$116.8 million in 2010. Outstanding debt to Paris Club creditors as at 31 December 2010 was approximately U.S.$418.8 million (excluding debt to Russia, which amounted to U.S.$996.9 million).

Ukraine's largest bilateral creditor is Russia. A framework agreement was entered into in May 1997 with the Russian government pursuant to which, with effect from 1 January 1998, a portion of debt then outstanding was deemed to have been repaid in exchange for a 20 year lease to the Russian Navy of port facilities in Sevastopol in the Crimea. Debt service payments to Russia are netted off against lease payments for the port facilities and both figures appear in future budgets. Under this agreement, Ukraine's State debt to Russia was reduced by approximately U.S.$97.8 million in each of 2001 through 2010. Approximately U.S.$1.29 billion, U.S.$1.19 billion, U.S.$1.09 billion and U.S.$1.0 billion was owed to Russia as at 31 December 2007, 2008, 2009 and 2010, respectively.

Further to a €110 million macro financial support loan to Ukraine approved by the EU in 2002, the European Parliament approved in 2010 an additional 15 year macro financial support loan for Ukraine in the amount of up to €500 million to finance the deficit of its balance of payments and to meet its budgetary needs. As of 10 February 2011, Ukraine and the EU plan to execute a Memorandum of Understanding and a Loan Agreement for a €610.0 million loan. Extension of this macro financial support loan is expected to be conditional on, among other things, compliance by Ukraine with its commitments under its new stand-by arrangement with the IMF.

Contingent Liabilities

Historically, Ukraine has issued guarantees in favour of State owned and other enterprises, including liabilities arising under export credit lines. All payments on guarantees and to Paris Club creditors were temporarily suspended on 21 January 2000. After reaching agreement with its Paris Club creditors in July 2001, Ukraine also resumed payments on outstanding guarantees. Ukraine paid U.S.$4.3 million in 2007, U.S.$4.6 million in 2008, U.S.$109.7 million in 2009 and U.S.$33.5 million in 2010.

The ceiling recommended by the IMF for the amount of guarantees issued in 2000 was UAH 1.5 billion and the ceiling for 2001, 2002 and 2003 was UAH 2.5 billion. The IMF issued no recommendation regarding a ceiling for the amount of guarantees issued from 2004 through to 2009. The ceiling recommended by the IMF for the amount of guarantees issued in 2010 was UAH 15.0 billion.

The total amount of guarantees issued by Ukraine from 1 January 2004 through 2010 in respect of various borrowings was approximately U.S.$9.2 billion. On 2 July 2004, Ukraine issued a guarantee to Deutsche Bank AG as lender under a seven year, U.S.$480 million credit facility, dated 29 June 2004, granted to Ukravtodor as borrower, for the purpose of financing the reconstruction of a segment of the Kyiv Odessa highway. On 18 October 2004, Ukraine issued a guarantee to Deutsche Bank AG as lender under a seven year U.S.$700 million credit facility granted to Ukrzaliznytsnya to finance the planning and construction of a railway and automobile bridge across the Dnipro river in Kyiv. On 18 November 2004, Ukraine issued a guarantee to Credit Suisse First Boston, London branch, as lender under a U.S.$150 million loan granted to Yangel Yuzhnoye State Design Office for financing of a joint Ukraine Brazil project for engineering of a missile complex "Cyclone 4". In August 2005, the Cabinet of Ministers issued a guarantee to Deutsche Bank as lender under a 10 year U.S.$100 million credit facility granted to Ukravtodor to finance the completion of reconstruction of the Kyiv Odessa highway. In July 2006, Ukraine issued a guarantee to Citibank N.A. London as lender under a 10 year €280 million credit facility extended to Ukravtodor to finance the construction, reconstruction and capital repair of roads in general use.

In December 2006, November 2007 and December 2008, Ukraine guaranteed obligations of the State Mortgage Institution under domestic bonds issued in the aggregate amount of UAH 3 billion.

The aggregate amount of sovereign guarantees issued by Ukraine in 2009, including guarantees in respect of obligations of Ukravtodor and Naftogas, was U.S.$4.1 billion. On 28 January 2009, Ukraine issued a guarantee to Credit Suisse International as lender under a credit facility in the aggregate amount of U.S.$465 million extended to Ukravtodor. On 5 November 2009, sovereign guarantees were issued in respect of the restructured external debt obligations of Naftogas. The guarantees extend to payment obligations of Naftogas under the new U.S.$1,595,017,000 9.5 per cent. notes issued by Naftogas on 5 November 2009 as well as one of Naftogas loans from a foreign lender, which has partially survived the restructuring. In June 2009, Ukraine issued sovereign guarantees under domestic corporate bonds issued by Kharkiv State Aviation Enterprise and Kyiv Aviation Plant "Aviant" in the aggregate amount of UAH 2,478 million. Further, in October 2009, the Cabinet of Ministers issued a sovereign guarantee under a EUR 50 million loan from Aquasafety Invest for the implementation of an anti flood defence project and a sovereign guarantee under a EUR 85 million loan granted by UniCreditBank Austria to State Enterprise "Ukrmedpostach". In December 2009, Ukraine issued a sovereign guarantee under USD 292.4 million loan granted by Export Development Canada to State Enterprise "Ukrkosmos" for the creation of the National Satellite Communication System.

In addition, in November and December 2009, Ukraine avalised (guaranteed) certain bills of exchange due 2012 in an aggregate amount of approximately UAH 1.6 billion issued by regional State road services as a payment for supplied goods, works or services in connection with modernisation of roads in view of holding the Euro 2012 Championship in Ukraine, liquidation of the consequences of certain natural disasters and other road construction, reconstruction and capital repair projects. See also "*Economy of Ukraine—Principal Sectors of the Economy—Transport and Communications*".

The 2010 State Budget Law authorised Ukraine to issue a number of State guarantees in 2010 in an amount not exceeding UAH 45.0 billion, including guarantees under obligations of Ukravtodor, and the State Mortgage Institution, implementation of projects related to the preparation and hosting of the Euro 2012 Championship and implementation of other important investment, innovation, infrastructure and development projects. The aggregate amount of sovereign guarantees relating to external borrowings issued by the Cabinet of Ministers in 2010 was UAH 10,074 million (equivalent to U.S.$1,269 million).

In November 2010, the Cabinet of Ministers issued sovereign guarantees in favour of BNY Corporate Trustee Services Limited guaranteeing the obligations of the State enterprise "Financing of Infrastructural Projects" as issuer of U.S.$568 million notes, and in favour of VTB Capital PLC as lender under a U.S.$440.8 million credit facility granted to Ukravtodor.

In December 2010, Ukraine entered onto a guarantee with Korea Export Import Bank in relation to its U.S.$261.0 million financing of Pivdenna Zaliznytsya (Southern Railway) for the supply of 10 two-system interregional trains by Hyundai Corporation.

The 2011 State Budget Law authorises the Cabinet of Ministers to issue a number of state guarantees in 2011 in an amount not exceeding UAH 15.0 billion, including, among other things, guarantees under obligations of Ukravtodor, State Mortgage Institution, legal entities subordinated to the National Agency on Preparation and Holding in Ukraine of the UEFA Euro 2012, State Enterprise "National Nuclear Power Generating Company "Energoatom", and the implementation of other important investment, innovation, infrastructure and development projects. As at the date of this Prospectus, no sovereign guarantees were issued by the Cabinet of Ministers in 2011.

Special Fund Borrowings

In addition to borrowings accounted for in the General Fund of the State Budget, which, excluding contingent liabilities and debt owed to the IMF accounted for as a liability of the NBU, amounted to U.S.$1,907 million, U.S.$3,728 million, U.S.$14,625 million and U.S.$10,220 million in each of 2007, 2008, 2009 2010, respectively, the Government has made certain borrowings that have been accounted for in the Special Fund of the State Budget. Such borrowings include, for instance, certain loans from international financial organisations and special issuances of T-bills for replenishment of the Stabilisation Fund, including for the purposes of financing the measures connected with holding of the Euro 2012 Championship in Ukraine, although the majority of loans from international financial organisations and T-bill issuances are accounted for in the General Fund of the State Budget. An aggregate UAH 22,005.1 million in borrowings to the Special Fund of the State Budget were initially planned for 2010. On 8 July 2010, Parliament approved the State Budget Amendment providing for a decrease in this amount of approximately UAH 5,100 million, to UAH 16,905.1 million. An aggregate UAH 3,259.1 million in borrowings to the Special Fund of the State Budget are planned for 2011.

The following table sets forth the borrowings made to 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):

	Year ended 31 December			
	2007	2008	2009	2010
	(in U.S.$ millions)			
Borrowings accounted for in the Special Fund	171.9	1,169.5	905.0	4,735.6
Internal borrowings	–	1,017.4	590.9	4,413.2
External borrowings	171.9	152.1	314.1	322.4
Repayments from the Special Fund	97.8	97.8	97.8	97.8
Internal borrowings	–	–	–	–
External borrowings	97.8	97.8	97.8	97.8
Debt Ratings				

Debt Ratings

The outstanding foreign currency long term debt of Ukraine is rated "B+" (stable) by Standard & Poor's ("**S&P**"), "B2" (stable) by Moody's Investors Service ("**Moody's**"), "B" (stable) by Fitch Ratings Ltd. ("**Fitch**") and "B+" (stable) by Rating and Investment Information, Inc. ("**R&I**"). The outstanding national currency long term debt of Ukraine is rated "BB–" by S&P, "B2" by Moody's and "B" by Fitch. The Notes have received a preliminary "B+" rating by S&P, a preliminary "B" rating by Fitch, a preliminary "B2" rating by Moody's and a preliminary "B+" rating by R&I. These ratings are contingent upon receipt of final documentation confirming information already received. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal by the assigning rating agency.

THE MONETARY SYSTEM

National Bank of Ukraine

The NBU is the central bank of Ukraine. Established in 1991 pursuant to the Law of Ukraine "On Banks and Banking" and governed in accordance with the Law of Ukraine "On the National Bank of Ukraine", dated 20 May 1999, the NBU is a special State authority with the principal objective of ensuring the external and internal stability of the national currency. To implement such main function, the NBU aims to promote the banking system stability as well as price stability. The principal governing bodies of the NBU are the Council and the Board. The Council, the highest governing body of the NBU, consists of 15 members, seven of whom are appointed by Parliament and seven of whom are appointed by the President and is responsible for the annual approval of the main principles of monetary lending policy as well as supervision of their performance. The NBU Governor acts ex officio as the fifteenth member of the Council. The NBU Governor is nominated by the President and appointed by Parliament for a seven year term.

The NBU is empowered to develop and conduct monetary policy, organise banking settlements and the foreign exchange system with a view to integrating Ukraine into the international economy, ensure stability of the monetary, financial and banking systems and protect the interests of commercial bank depositors. On 8 July 2010, Parliament approved a law, which entered into force in October 2010, subject to certain provisions coming into effect from 1 January 2012, and has significantly amended the legislative framework that governs the activities of the NBU in order to comply with the arrangements reached by Ukraine with the IMF and the World Bank. The primary purpose of this law is to strengthen the independence of the NBU. For instance, the law provides that, in carrying out its primary function of ensuring the stability of the national currency, the NBU shall aim to:

- promote and maintain price stability as a priority,
- facilitate stability of the banking system to the extent this does not prevent ensuring price stability, and
- facilitate stable economic growth and support the economic policy of the Government, to the extent this does not prevent ensuring price stability and the stability of the banking system.

Among other things, the law provides for changes in the procedures for distribution of profits of the NBU, including with respect to their transfer to the State Budget; tightens qualification requirements for the members of the NBU Council and the Board; and increases the term of office of the NBU Governor from five years to seven years.

The monetary and lending policy guidelines for 2011 have been developed by the NBU but have not yet been considered and approved by its Council. In accordance with the draft monetary and lending policy guidelines for 2011, the main priorities of the monetary and lending policy for 2011 include achieving and maintaining price stability, ensuring the decrease of the CPI (year on year) to less than 5 per cent. by 2014 and maintaining it thereafter between 3 and 5 per cent. It is expected that in 2011 the NBU shall mainly focus on reviving investment lending and ensuring the stability of the banking system. In addition, the NBU expects to gradually relax the regulatory limitations applicable to its foreign currency and exchange rate policy, increase the flexibility of the hryvnia exchange rate, eliminate disparities in the balance of payments, and ensure stable exchange market development and ensure continuous growth in demand for hryvnia.

Monetary Policy

The NBU is responsible for implementing monetary policy. In making monetary decisions, the NBU primarily relies on the forecast of the development of the real sector of the economy, balance of payments and financial markets that is based on the analysis of a large spectrum of macro economic, budgetary and monetary indicators, their interrelation and impact on hryvnia stability. Based on the review of such forecast development estimates, the NBU determines which regulatory measures shall be taken.

In 2009 and 2010, monetary lending policy was carried out under challenging macro economic conditions. As a result of changes in the macroeconomic environment, the development of the monetary and lending market in this period was substantially different from that in previous years. In particular, an economic downturn in the first quarter of 2009 put significant pressure on the monetary and lending market during that period. However, an improvement of macroeconomic indices in subsequent periods contributed to a gradual improvement of the situation in the monetary sphere reflected in the stabilisation of the foreign exchange market, an increase in the foreign currency supply at the interbank market, the gradual return of retail deposits to the banking system and a decline in interest rates on loans.

In addition, in 2009 and 2010, the monetary and lending market was materially affected by fiscal factors such as spending of the Government's funds, loan funds provided by the IMF and mandatory repurchases of T-bills by the NBU. Under such circumstances, the NBU conducted its monetary and lending policy with a view to ensuring a prompt adjustment to changes in the economic environment using various monetary instruments and mechanisms. Measures taken by the NBU to stabilise the monetary and lending market were mainly focused on preventing hryvnia devaluation and counteracting inflationary pressures and ensuring that the credit support extended by banks to the economy was not unduly restricted by monetary measures. Furthermore, against the background of instability in the financial markets, the NBU applied flexible approaches to the regulation of banks' liquidity. In particular, in the first quarter of 2009, in order to address the outflow of funds from the banking system, the NBU focused its transactions on supporting the banks' liquidity. Since the second quarter 2009, when banks started to form a liquidity surplus, the NBU shifted its focus from refinancing transactions to mobilisation transactions, including through the placement of NBU deposit certificates in the amount of UAH 246.1 billion during 2010. Starting from May 2010, the NBU has shifted to gradual relaxation of the monetary lending policy, which has reflected in a decrease in the discount rate and other NBU interest rates and a reduction in the volumes of the mobilisation transactions, including through the narrowing of the maturity range of the NBU deposit certificates. In August-September 2010, the monetary and lending policy of the NBU became more conservative due to CPI acceleration as a result of an increase in regulated prices and disproportions in certain commodity markets.

To prevent excessive liquidity in the banking system caused by, among other things, conversion into hryvnia of proceeds from the external borrowings raised by the Government, in the second half of 2009 and during 2010, the NBU several times strengthened mandatory reserve requirements and intensified transactions with T-bills on the two way quotation basis. In particular, in the five months ended 31 May 2010, during such transactions the NBU sold T-bills in the nominal amount of UAH 9.2 billion, and purchased T-bills in the nominal amount of UAH 4.3 billion; however, in May 2010, the NBU stopped mobilisation transactions by way of T-bills sale/purchase on the two way quotation basis.

The measures taken by the NBU in 2010 to restrain excessive liquidity in the banking system also included the sale by the NBU of T-bills from its portfolio (in the total amount of UAH 7.1 billion in 2010) and repo transactions carried out by the NBU (in the amount of UAH 2.0 billion in 2010).

In addition, to ensure stability of hryvnia and a renewal of banks' lending to the economy, the NBU took a number of measures aimed at returning to the banking system funds withdrawn during the second half of 2008 and the first quarter of 2009. Such measures included improvement of the system for guaranteeing retail deposits, facilitation of banks' recapitalisation and support of banks' liquidity, including through prolongation of previously extended refinancing loans, although in 2010 the NBU sought to minimise the volume of the banks' liquidity support through refinancing mechanisms. As a result of such measures, the trend of outflow of funds from the banking system reversed and, since the second quarter of 2009, an increase in retail deposits has been recorded (with the exception of a minor decline in September 2009). In particular, during 2010, retail deposits increased by 28.9 per cent. In addition, starting from March 2010, growth has also been recorded in the corporate deposits, which increased by 25.0 per cent. during 2010. The maturity structure of the bank deposits also improved in 2010, with the share of long-term deposits in the aggregate deposit portfolio increasing from 24.4 per cent. as of 1 January 2010 to 31.4 per cent. as of 1 January, 2011. At the same time, recent positive trends in the monetary and lending market have not yet resulted in a significant increase in lending to the real sector of the economy. One of the factors restraining demand for the banking credit in 2010 was the issuance by the Government of T-bills to securitise VAT refund arrears that provided Ukrainian corporate borrowers with access to liquid resources.

Methods and instruments currently used by the NBU for the implementation of its monetary lending policy include interest rate policy, mandatory reserve requirements, liquidity requirements and operations for the purpose of regulation of banks' liquidity, and transactions on sale or purchase of T-bills at the open market.

In particular, as part of its interest rate policy, the NBU gradually increased the discount rate from 7.0 per cent. in December 2002 to 9.5 per cent. (effective from 10 August 2005), which was followed by a decrease to 8.5 per cent. effective from 10 June 2006 and to 8 per cent. effective from 1 June 2007. On 1 January 2008, the NBU reversed course with an increase back to 10 per cent., followed by a further increase to 12 per cent. effective from 30 April 2008. With effect from 15 June 2009, the NBU decreased the discount rate to 11 per cent., followed by a further decrease to 10.25 per cent. effective from 12 August 2009, to 9.5 per cent. effective from 8 June 2010, to 8.5 per cent. effective from 8 July 2010 and 7.75 per cent. effective from 10 August 2010. This led to a decrease in the cost of money in all segments of money lending markets by reducing interest rates for deposits, loans and on the interbank borrowing market.

The NBU performs daily deposit operations with banks through issuances of its deposit certificates (overnight and up to 90 days). In addition, the NBU performs operations with banks including repo and refinancing transactions (overnight loans, up to 14 day and up to 90 day refinancing loans) and transactions with T-bills. The NBU also provides stabilising loans to solvent banks for support of their liquidity. Stabilising loans are provided for a term of up to 90 days and could be further extended up to the maximum term of 360 days or 450 days in case of a real threat to stability of a bank's operations. Since 1 March 2004, the NBU has separately determined interest rates on overnight unsecured loans (11.25 per cent. as at 31 December 2010) and overnight loans secured by State securities (9.25 per cent. as at 31 December 2010). Starting from 17 November 2006, the NBU has been setting separate interest rates on a regular basis for deposit certificates issued by the NBU on various terms.

In 2001, the NBU adopted new regulations permitting it to sanction commercial banks for failure to keep prescribed amounts of mandatory reserves. These sanctions are payable from the banks' profits. Currently, commercial banks must transfer to their reserve fund no less than 5 per cent. of their profits annually until and unless the reserve fund is equal to 25 per cent. of their regulatory capital. The NBU can require additional allocations to be made to the reserve fund.

The NBU has established a mandatory reserve requirement to maintain the liquidity of the banking system and the stability of the Ukrainian hryvnia. Banks are required to maintain certain reserves in current accounts with the NBU; such reserve requirements are computed as a percentage of certain of the bank's liabilities. In particular, since 1 February 2009, reserves are required to be not less than the sum of 4 per cent. of the amount of term deposits of customers in foreign currency, 7 per cent. of demand deposits and current accounts of customers in foreign currency and 2 per cent. of funds borrowed from non resident banks and financial organisations. Currently, term deposits, demand deposits and current accounts of customers in hryvnia are not subject to such mandatory reserve requirements. Further, with effect from 1 August 2008, Ukrainian banks are generally required to form reserves for funds (e.g. loans and deposits) attracted from non residents for the term of up to six months in the amount of 20 per cent. of the aggregate amount of such funds. Overnight loans and deposits, as well as loans and deposits guaranteed by the Government or received from international financial organisations, to which Ukraine is a member, are exempt from the above reserve requirements. Since 13 October 2008, the NBU has temporarily suspended the requirement to form such reserves however, it was brought back into effect from 1 October 2010. In addition, with effect from 1 May 2010, a bank is required to maintain 100 per cent. of the amount of the mandatory reserves formed during the previous reporting period at the separate correspondent account with the NBU.

The NBU has also 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 40 per cent. and a short term liquidity ratio (the ratio of liquid assets with maturities under one year to liabilities with maturities under one year) of at least 60 per cent. The NBU has determined that, for the purpose of calculating assets and liabilities with maturities under one year, liquid assets include cash funds, bank metals, funds in correspondent accounts opened with the NBU, loans granted to commercial entities, State authorities and individuals, debt securities in the bank's trade portfolio, available for sale portfolio and held to maturity portfolio, term deposits at the NBU and certain portion of funds in correspondent accounts opened with other banks, deposits placed with other banks and loans granted to other banks. Liabilities with maturities under one year are defined to include budget funds, term loans from the NBU, term deposits of the NBU, funds in the correspondent account opened by the NBU with the relevant bank, loans from international and other financial organisations, debt securities issued by the bank, overdue indebtedness under term deposits of other banks and loans raised from other banks, bank's subordinated debt, liabilities under all types of guarantees, suretyships and avals, customers' funds, accounts payable in respect of purchase of assets, committed credit lines to banks and customers and certain portion of funds in correspondent accounts of other banks, deposits of other banks and loans raised from other banks.

In 2009, in order to mitigate the effects of the financial downturn and ensure stabilisation of the banking system, the NBU refinanced commercial banks through overnight loans, repo and swap transactions, up to 14, up to 90 and up to 365 day refinancing loans, stabilisation loans, as well as loans secured by the pledge of property rights to deposits placed with the NBU. The aggregate volume of refinancing transactions in 2009 was UAH 64,410.0 million, 19.8 per cent. of it as overnight loans, 75.4 per cent. as stabilisation and other loans, 1.9 per cent. as up to 14 day and up to 365 day refinancing loans, 0.7 per cent. as repo transactions, and 2.2 per cent. as swap transactions. The weighted average interest rate under all refinancing instruments in 2009 was 16.7 per cent. per annum. In 2010, the NBU refinanced commercial banks through overnight loans, repo transactions, up to 14 and up to 90 day refinancing loans, and stabilisation loans. In 2010, the aggregate volume of refinancing transactions was only UAH 5.2 billion. 3.5 per cent. of this volume consisted of overnight loans, 8.7 per cent. of up to 14 day and up to 90 day refinancing loans, 2.2 per cent. of repo transactions and the remaining 85.6 per cent. of stabilisation and other loans. The weighted average interest rate under all refinancing instruments in 2010 was 11.6 per cent. per annum.

Money Supply

The ratio of broad money supply (M3) to GDP was 55.0 per cent. in 2007, 54.3 per cent. in 2008, 53.3 in 2009 and 72.5 per cent. in the nine months ended 30 September 2010. As at 31 December 2010, the broad money supply (M3) amounted to UAH 598.4 billion. The 22.8 per cent. increase in the broad money supply (M3) in 2010 was largely attributable to an increase in deposits and cash outside the banking system.

The financial and economic downturn materially affected Ukrainian monetary lending system in 2009. Significant debt pressure in the private sector, along with the limited access to external borrowings, put additional devaluation pressure on hryvnia, even against the background of gradual improvement of conditions in external commodity markets. At the same time, deterioration of borrowers' financial standing affected the financial stability of the banking system. These factors, also strengthened by the low pace of economic reforms and misbalances in the public finance sector, created significant risks for monetary lending market in 2009. However, due to measures taken by the NBU, the inflation growth rate decreased significantly by the end of 2009, largely due to stabilisation of the hryvnia exchange rate and use of other monetary instruments. Such stabilisation in the foreign exchange market was coupled with a gradual renewal of confidence in the banking system among the general public. In 2010, a monetary lending policy was implemented by the NBU against the background of certain improvements in macroeconomic conditions and was aimed at facilitating the renewal of the economy's high growth rates and ensuring the stability of financial system. Measures taken by the NBU during this period contributed to a further decrease in consumer inflation, stabilised the foreign exchange market and banking system, and strengthened the trend toward the return of funds to the banking system which, in turn, contributed to a decrease of interest rates under bank loans and gradual resumption of lending to economy.

In 2007, 2008, 2009 and 2010, the monetary base increased by 46.0 per cent., 31.6 per cent., 4.4 per cent. and 15.8 per cent., respectively. As at 1 January 2011, the monetary base amounted to UAH 225.7 billion.

The NBU contributed to economic growth in 2008 and 2009 in part through the satisfaction of a continuous increase in money demand as a result of, amongst other things, active re monetisation of the Ukrainian economy at a rate of 50.1 per cent. as at 1 January 2011, as compared to 55.0 per cent. as at 1 January 2010 and 48.1 per cent. as at 1 January 2009. The monetisation process was supported by a deceleration of the money turnover rate: the rate of money turnover decreased from 2.19 to 2.08 in 2008 and further decreased to 1.82 in 2009. In the seven months ended 31 July 2010, the money turnover rate increased to 2.09.

According to NBU data, the average weighted interest rate on hryvnia deposits was approximately 8.2 per cent. in 2007, 9.9 per cent. in 2008, 14.0 per cent. in 2009 and 7.1 per cent. in December 2010. The average weighted interest rate on foreign currency deposits decreased from 5.8 per cent. in 2007 to 5.4 per cent. in 2008, but increased to 9.2 per cent. in 2009, and further decreased to 6.0 per cent. in December 2010. The average weighted interest rate on credits in the national currency fluctuated between 13.9 per cent. in 2007, 17.6 per cent. in 2008, 20.5 per cent. in 2009 and 12.8 per cent. in December 2010. The average weighted interest rate on credits in foreign currency increased from 11.3 per cent. in 2007 to 11.6 per cent. in 2008, decreased to 9.9 per cent. in 2009 and 9.8 per cent. in December 2010.

The following table sets forth information concerning Ukraine's money supply as at the end of the periods indicated:

Available Money Supply in Circulation in Ukraine[1]

	Year ended 31 December			
	2007	**2008**	**2009**	**2010**
	(in UAH millions except as noted)			
Money outside banks (M0)	111,119	154,759	157,029	182,990
Money supply (Ml)	181,665	225,127	233,748	291,065
Money supply (M2)	391,273	512,527	484,772	597,228
Money supply (M3)	396,156	515,727	487,298	598,352
as % of the previous year	151.7	130.2	94.5	122.8
as % of GDP	55.0	54.3	53.3	72.5[2]
Monetary base	141,901	186,671	194,965	225,677
as % of the previous year	146.0	131.6	104.4	115.8
Deposits in local currency	190,287	200,266	173,586	240,223
Deposits in foreign currency	89,867	157,502	154,156	174,015
Credit extended	426,863	734,010	717,540	724,554

Notes:

(1) The data include accrued interest.

(2) As at 1 October 2010.

Banking Credit

According to NBU statistics, overall banking credit to the economy increased in real terms by 74.1 per cent. in 2007 and 72.0 per cent. in 2008, but decreased by 2.1 per cent. in 2009 and further increased by 1.0 per cent. in 2010. Long term (over one year) lending as a percentage of total lending decreased in 2009, reaching 68.1 per cent. of total lending, as compared to 69.8 per cent. in 2008, and further increased in the seven months ended 31 July 2010, reaching 68.6 per cent. of total lending. Foreign currency lending accounted for 59.1 per cent. in 2008, 51.3 per cent. in 2009 and 46.6 per cent. in 2010.

Treasury Bills

Placements of T-bills sold in the market are conducted 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 on the instruction and at the expense of its clients. See "*Public Debt—General*". According to the data of the Ministry of Finance, the Government placed in 2009 T-bills with maturities ranging from three months to twelve years in the aggregate amount of approximately UAH 62.8 billion. This amount includes T-bills of approximately UAH 2.7 billion for the increase of the statutory capital of the State owned banks, T-bills of approximately UAH 17.0 billion for the recapitalisation of the three banks in which the State became a shareholder in July 2009, T-bills of approximately UAH 24.4 billion for the increase of the statutory capital of Naftogas, and T-bills sold in the market in the aggregate amount of approximately UAH 18.8 billion. In addition, in 2009 new T-bills in the amount of approximately UAH 8.0 billion were issued in exchange for certain remaining USD debt of the Government to the NBU. See "*Public Debt—Internal Debt*".

In 2010, the Government placed T-bills with maturities ranging from three months to ten years in the aggregate amount of approximately UAH 70.7 billion, including T-bills of approximately UAH 6.4 billion for the increase of the statutory capital of the State owned banks. T-bills of approximately UAH 7.4 billion for the increase of the statutory capital of Naftogas, T-bills of approximately UAH 16.4 billion to securitise accumulated VAT refund arrears, and T-bills sold in the market in the aggregate amount of approximately UAH 40.4 billion.

The share of T-bills held by non residents decreased significantly in 2008 and 2009 due to foreign capital outflow from the domestic capital market resulting from the global financial downturn and the devaluation of the hryvnia, but further increased during 2010. As of 1 January 2011, non residents held approximately 8.4 per cent. of Ukrainian T-bills.

Interest Rates

During the financial markets crisis of late 1997 and 1998, yields of T-bills in the secondary market rose to over 70 per cent. but dropped to about 50 per cent. again in September 1998. In the primary market, average T-bill yields decreased further to 20.5 per cent. in 2000 and 9.8 per cent. in 2003. The average T-bill yields sold in the market fluctuated between 14.9 per cent. in 2008, 20.1 per cent. in 2009 and 12.7 per cent. in 2010.

The following table sets out the average refinancing rates and average yields of T-bills for the periods indicated:

		Treasury bill yields			
			Including:		
	Weighted average rates under all refinancing instruments	**Average**	**T-bills sold in the market**	**T-bills issued for share capital increase**	**T-bills issued to securitise VAT refund arrears**
2008	15.3	11.9	14.9	9.5	–
2009	16.7	12.2	20.1	9.5	–
2010	11.6	10.4	12.7	9.5	5.5

Source: NBU

The NBU plans to increase the importance of its interest rate policy (which includes discount, overnight loan, overnight deposit, refinancing rates and certain other rates) as an instrument of monetary regulation. To this end, the NBU is contemplating important improvements in the regulation of short term market interest rates through improving the approach to establishing interest rate corridors for asset and liabilities transactions and strengthening the connection between short term and long term interest rates through minimising the exposure of interest rates to non market risks. The NBU believes that the efficiency of its interest rate policy could be strengthened if the Government continues to support further development and institutional improvement of the stock market and non banking financial services markets.

Exchange Rates

The currency of Ukraine, the hryvnia, was introduced in 1996. In 2008, drastic fluctuations of foreign currency demand and supply adversely affected hryvnia exchange rate dynamics and the hryvnia depreciated against the dollar by 52.5 per cent. and against the euro by 46.3 per cent. During 2009, the inflow of foreign currency into the economy was continuously declining, thus contributing to the deficit of foreign currency in the domestic foreign exchange market and hryvnia exchange rate fluctuations. In 2009, the hryvnia depreciated against the dollar by 3.7 per cent. and against the euro by 5.5 per cent.

In 2010, due to an increased supply of foreign currency at the market, the hryvnia appreciated against the dollar by 0.29 per cent. and against the euro by 7.65 per cent. As at 4 February 2011, the hryvnia had appreciated against the dollar by 0.23 per cent. and depreciated against the euro by 3.27 per cent. compared to 1 January 2011.

In 2008 and 2009, the balance of intervention by the NBU had a deficit of U.S.$3.9 billion and U.S.$10.4 billion, respectively, that contributed to exchange rate stabilisation. In addition, at the end of 2008, the NBU introduced foreign currency auctions for banks as a new form of interventions and, starting from February 2009, the NBU introduced special auctions where foreign currency funds are sold to the population for the purpose of making payments under retail loans in foreign currencies. In 2009, the NBU sold foreign currencies in the amount equivalent to U.S.$2,248.3 million at foreign currency auctions, including foreign currencies in the amount equivalent to U.S.$1,413.1 million sold at the auctions for the retail loan repayments. In 2010, the NBU sold foreign currencies in the amount equivalent to U.S.$68.2 million at the auctions for the retail loan repayments. The NBU believes that foreign currency auctions are an efficient instrument that contributed to the reduction of pressure in the Ukrainian foreign exchange market.

Improvement of the situation in the foreign exchange market allowed the NBU to resume purchase of foreign currency for replenishment of international reserves starting March 2010. In particular, in 2010, the balance of intervention by the NBU had a surplus of U.S.$1,327.1 million.

Under the NBU's monetary lending policy principles for 2008 the official hryvnia/U.S. dollar exchange rate was initially targeted at between UAH 4.95 and 5.25 = U.S.$1.00. However, on 22 May 2008 the NBU revalued the hryvnia against the U.S. dollar by 4 per cent. in an attempt to reduce inflationary pressure on the Ukrainian economy. The official hryvnia/U.S. dollar exchange rate on 22 May 2008 was UAH 4.85 to the dollar compared with UAH 5.05 to the dollar immediately prior to such revaluation.

However, starting from September 2008, as a result of decreased foreign currency proceeds under export transactions and external borrowings against the background of global financial downturn and reduced external demand, a significant deficit of foreign currencies was recorded at the Ukrainian foreign exchange market. On 7 October 2008, the NBU Council revised the official hryvnia/U.S. dollar exchange rate target at the level of UAH 4.95 = U.S.$1.00 with possible fluctuations in the range of +/ 8 per cent., and on 27 October 2008 the NBU Council decided to remove the official hryvnia/U.S. dollar exchange rate target from the principles for monetary lending policy for 2008. In 2008, the average official hryvnia/U.S. dollar exchange rate was UAH 5.27 to the dollar while market exchange rates fluctuated at between UAH 4.57 and 8.90 = U.S.$1.00.

During 2009, a deficit of foreign currencies was recorded on the Ukrainian foreign exchange market. This deficit was the result of negative market expectations, deepening of the global economic downturn, reduced external demand and reduced foreign currency inflows into the country in a form of export revenues and external borrowings. In 2009, the average official hryvnia/U.S. dollar exchange rate was UAH 7.79 to the dollar, while market exchange rates fluctuated at between UAH 7.57 and 8.65 = U.S.$1.00. Starting from February 2010, supply of foreign currency in the foreign exchange interbank market has been increasing which facilitates strengthening of the hryvnia and a concurrent reduction of the gap between official and market exchange rates. In 2010, the average official hryvnia/U.S. dollar exchange rate was UAH 7.94 to the dollar, while market exchange rates fluctuated at between UAH 7.89 and 8.06 = U.S.$1.00. In 2010, the hryvnia strengthened against the dollar both in the interbank market and in the cash foreign exchange market by 0.38 per cent. and 0.66 per cent., respectively.

The official hryvnia/U.S. dollar exchange rate reported by the NBU on 4 February 2011 was UAH 7.94 = U.S.$1.00.

The following table sets out the average and year end official hryvnia/U.S. dollar exchange rates reported by the NBU:

	Average	Year end
2005	5.12	5.05
2006	5.05	5.05
2007	5.05	5.05
2008	5.27	7.70
2009	7.79	7.99
2010	7.94	7.96

Source: NBU

In line with the Memorandum on Economic and Financial Policy entered into in 2008-2009 within the framework of the IMF stand-by arrangement, the NBU has completed the transition to a flexible exchange rate by changing the methodology for the calculation of the official hryvnia/U.S. dollar exchange rate. Starting from May 2009, the official hryvnia/U.S. dollar exchange rate is determined based on the average weighted exchange rate at the Ukrainian foreign exchange market as of the preceding business day, with possible fluctuations +/ 2 per cent. The average monthly difference between the official hryvnia/U.S. dollar exchange rate and the average weighted exchange rate in the Ukrainian foreign exchange market was 0.7 per cent., 0.2 per cent., 0.8 per cent. and 2.0 per cent. in each of May, June, July and August 2009. However, in September 2009, the deficit of foreign currencies in the Ukrainian foreign exchange market heightened as a result of a seasonal increase in payments under import contracts and negative market expectations caused by, among other things, expected increases in minimum wages and pensions. In view of the temporary nature of such factors, the NBU was conducting interventions in the foreign exchange market and resorted to broadening the gap between the official and market exchange rates: in September 2009, the average monthly difference between the official hryvnia/U.S. dollar exchange rate and the average weighted exchange rate in the Ukrainian foreign exchange market was 3.4 per cent. However, from October 2009, the gap between the official and market exchange rates returned to the +/ 2 per cent. range. In 2010, the average monthly difference between the official hryvnia/U.S. dollar exchange rate and the average weighted exchange rate in the Ukrainian foreign exchange market fluctuated between - 0.46 per cent. and 0.15 per cent.

In 2010, the NBU's foreign exchange policy was governed by the main principles of the monetary lending policy and commitments undertaken by Ukraine within the framework of the IMF stand-by arrangement. In 2010, growth of foreign currency inflows into Ukrainian economy was gradually restoring, along with the slow down of foreign currency outflow from Ukraine, as a result of which the foreign currency deficit at the interbank market changed into the foreign currency surplus. This trend facilitated strengthening of hryvnia market exchange rates and replenishment of international reserves. Starting from the end of August 2010, there was a seasonal increase in foreign currency demand, such an increase having been aggravated by negative market expectations caused by, among other things, increases in tariffs for municipal services and prices for certain consumer goods.

In 2011, the NBU will continue pursuing a flexible exchange rate and, as the national financial system is restored and transmission mechanisms become more mature, will avoid multiple exchange rates and comply with the minimum levels of net international reserves.

The NBU also has a number of other monetary tools that it can use to support the hryvnia. These include licensing and registration requirements applicable to movements of financial capital and a maximum 180 day period between the prepayment of imported goods and their delivery, as well as reserve requirements and open currency position limits.

Following a number of measures taken by the NBU from 2004 through 2006 to liberalise the foreign exchange market and currency control rules, in 2007, the NBU further liberalised the regulations governing cross border movement of national currency and also amended the regulations on foreign borrowings by Ukrainian residents, such amendments included, amongst others, an introduction of a simplified loan agreement registration procedure for Ukrainian banks and a clarification of the maximum interest rate restrictions. In addition, in 2007, the NBU broadened the list of transactions permitted for the foreign exchange market participants. In particular, insurance companies are now entitled to purchase and transfer funds in foreign currencies under re insurance agreements with foreign reinsurers, and banks have the right to purchase coins from foreign mints.

In 2007, the NBU started implementing gradual measures aimed at reducing the level of dollarisation in the economy (calculated as the ratio of the amount of foreign currency deposits to the amount of cash in national currency outside banks, bank deposits and debt securities issued by banks) and increasing the use of the national currency for lending. For example, with effect from April 2007, the NBU introduced increased provisioning requirements for loans in foreign currency and, with effect from 20 November 2007, the NBU has required banks to create provisions for loans raised from foreign banks. See "*The Banking System and Securities and Financial Services Markets in Ukraine—The Banking System in Ukraine*". These and other measures have contributed to the deceleration in the rate of the dollarisation of the economy. In 2007, the growth rate of the economy dollarisation level fell to 22.8 per cent. However, in 2008, the economy dollarisation level increased to 30.6 per cent., which was followed by a further increase to 31.7 per cent. in 2009 and a decrease to 29.1 per cent. in 2010. As at 1 February 2011, the economy dollarisation level was 29.7 per cent. In addition, in July 2007, the NBU established a legal framework within which the EBRD can provide loans in the national currency to residents of Ukraine.

In 2008, the NBU continued implementing measures aimed at further liberalising the foreign exchange market. These measures included permission for individuals to make wire transfers abroad, if such transfers are unrelated to entrepreneurial or investment activities, without any limitation as to amount, as well as authorisation to legal entities to pay accession or membership fees to international organisations without the need to receive an individual licence from the NBU. In addition, State Enterprise "Ukrposhta" (Ukrainian Mail) was authorised to perform foreign exchange operations as well as individual transfers abroad, and certain changes have been made in order to accelerate settlements at the interbank foreign exchange market. Furthermore, from 4 November 2008, pursuant to the amended foreign currency trade rules, Ukrainian banks are required to perform all foreign currency trades only at the time when the NBU deal confirmation system is operative; thus, the NBU is able to receive full real time information on conditions on the Ukrainian interbank foreign exchange market (market exchange rates and trade volumes) and, based on such information, to adjust its forecasts and actions as appropriate.

From 2008 to 2010, the NBU implemented a number of measures aimed at improving the foreign investment regime and increasing the investment attractiveness of Ukraine's economy. These measures included permitting foreign investors to place deposits in hryvnias with Ukrainian banks, removing limitations on a maximum period during which hryvnia funds must be used for a foreign investment and simplifying purchase of foreign currency funds for repatriation of investments made into blue chip companies. Also, in 2008, the NBU liberalised rules governing physical transfers of cash and banking metals out of and into Ukraine. From October 2008, taking into account increased interest rates under borrowings on the international markets, the NBU removed maximum interest rate limitations for all foreign currency loans in freely convertible currencies other than loans with maturities of less than one year; however, the maximum interest rate limitations for loans with maturities of more than one year are reinstated starting 15 November 2009.

From October 2008, the NBU introduced a number of currency control limitations, some of which have since been removed. Restrictions that were introduced beginning in October 2008 but removed by 23 October 2009 included a restriction on purchasing foreign currency for payments to non residents for imports of products or services that are not transported to or used in the territory of Ukraine and a UAH 75,000 limitation on the maximum amount permitted for transfer abroad by individuals for certain non trade purposes. The following restrictions remain in place as at 1 February 2011:

- a restriction, with certain exceptions, on exchange of foreign currencies that are not freely convertible into hard currencies and *vice versa*;
- a prohibition on banks acting as both seller and buyer in transactions on sale/purchase of a particular foreign currency for hryvnia at the interbank foreign exchange market; and
- restrictions on opening correspondent accounts in hard currencies in certain foreign banks.

In addition, in April 2009, the NBU introduced a new methodology for calculating open currency position limits of banks.

In October 2010, the NBU also reinstated the 20 per cent. provisioning requirement on loans and deposits in foreign currencies drawn by banks for periods of up to 6 months from non resident lenders/depositors. This requirement had been provisionally decreased to 0 per cent. from 13 October 2008 to 30 September 2010.

At the end of 2010, the NBU cancelled a number of foreign exchange control restrictions, which were originally introduced as part of anti-crisis measures. In particular, the limitations on operations in hryvnia that may be performed through the correspondent bank accounts of non-resident banks opened with Ukrainian banks were cancelled and non-resident banks were again entitled to: place interbank deposits in hryvnia with Ukrainian banks and make interbank transactions with other non-resident banks through their correspondent accounts with Ukrainian banks.

In addition, the following restrictions were relaxed by the NBU at the end of 2010:

- purchasers of foreign currency to pay for services worth in excess of €100,000 are no longer required to obtain a "pricing examination act" before the purchase;
- a five business day maximum period during which a resident company must use foreign currency funds purchased for hryvnias was increased back to ten days;
- residents making payments pursuant to an individual license issued by the NBU may make such payments not only out of their own foreign currency funds, but also purchase foreign currency for such payments.

Furthermore, the NBU was granted the right to make interventions into the interbank foreign exchange market of Ukraine by buying or selling of foreign currency on swap terms for a period of up to three months. The swap currency interventions of the NBU are considered to be the first step toward the implementation of a modern mechanism of risk hedging.

Within the framework of the regulation of the foreign exchange market, the NBU is currently considering routes for further development in currency risk hedging instruments and improving procedures for the licensing certain foreign exchange transactions. In addition, the NBU plans to improve the main mechanisms and instruments of regulation of financial capital import and export. To this end, the NBU expects that a new law on currency regulation will be enacted contributing to, amongst other things, a reduction in the use of foreign currencies in the territory of Ukraine.

In February 2009, due to the necessity to reduce volumes of speculative transactions at the interbank foreign exchange market, the NBU imposed a temporary prohibition on performance of sales/purchases of foreign currency on "forward" and "spot" terms. Such restrictions for spot operations were partly removed in September 2009 and restrictions for forward operations were removed in October 2009. Starting from 20 November 2009, Ukrainian banks may sell, within a business day, to one individual cash foreign currencies in an amount not exceeding the equivalent of UAH 80,000. A bank is also prohibited, within a business day, from changing its cash foreign exchange rates as compared to the rates set by that bank at the beginning of the day.

The NBU also intends to relax the existing restrictions on certain transactions involving derivatives and is currently developing a regulatory framework to this end. Pursuant to the arrangements reached with the IMF following the results of the first review of the 2010 IMF stand-by programme, such regulatory framework is to be put in place by June 2011.

International Reserves

As at 31 December 2008 as compared to 31 December 2007, international reserves decreased by U.S.$920.1 million, or 2.8 per cent., to U.S.$31,543.2 million, equivalent to approximately 6.9 months of import coverage. This decrease was principally attributable to large volumes of sales by the NBU of foreign currencies in the fourth quarter of 2008, volumes of State debt repayments as well as positive exchange difference as a result of the strengthening in value of the U.S. dollar as compared to other hard currencies. At the same time, in 2008, the dynamics of the international reserves were positively influenced by the State borrowings from the World Bank, EU and IMF.

As at 31 December 2009 as compared to 31 December 2008, international reserves decreased by U.S.$5.0 billion or 16.0 per cent. to U.S.$26,505.1 million, equivalent to approximately 4.9 months of import coverage. The decrease was attributable to the deficit of the balance of the NBU interventions and volumes of State debt repayments, as well as to the transfer by the Government of its foreign currency funds held at the NBU to the Government's accounts at commercial banks. In May and July 2009, international reserves increased as a result of borrowings from the IMF.

As at 31 December 2010, international reserves increased by U.S.$8,071.3 million, or 30.5 per cent., to U.S.$34,576.4 million, equivalent to approximately 5.2 months of imports coverage. This increase was mainly due to the surplus of the balance of the NBU interventions, receiving two tranches under the IMF stand-by arrangement and other external sovereign borrowings. According to preliminary data, as at 1 February 2011 international reserves amounted to U.S.$ 35,139 million, an increase of 1.6 per cent. as compared to 1 January 2011.

	As at 31 December		
	2008	**2009**	**2010**
		U.S.$ millions	
International reserves[(1)]	31,543.2	26,505.1	34,576.4
including:			
Monetary gold[(2)]	529.6	680.5	903.2
Reserves in SDR and reserve position in IMF	8.6	63.6	8.0
Foreign currency[(3)]	31,005.0	25,761.0	33,665.2
Import coverage (month)[(4)]	6.7	4.9	5.2

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 months are used for these calculations.

Source: NBU

THE BANKING SYSTEM AND SECURITIES AND FINANCIAL SERVICES MARKETS IN UKRAINE

The Banking System in Ukraine

A two tier banking system exists in Ukraine, comprising the NBU, which supervises the banks, and the banks, which operate as multi purpose or specialised (mortgage, investment, savings or clearing) banks. Following Ukraine's accession to the WTO in May 2008, Ukraine's banking system may include branches of foreign banks established and functioning in the territory of Ukraine. The Law of Ukraine "On Banks and Banking" gave the NBU power and independence to pursue monetary policy and to regulate and supervise the banking sector by, for example, authorising the NBU to revoke a bank's licence to conduct banking activities and to initiate a liquidation of banks whose licences have been revoked.

As of 1 January 2011, 194 banks were registered in Ukraine (of which 176 held licences from the NBU to perform banking transactions and 18 banks were in the process of liquidation). The total registered and paid statutory capital of all operating banks registered in Ukraine was UAH 145.9 billion, representing a 22.4 per cent. increase in statutory capital in 2010. As of 1 January 2011, the total assets of such banks amounted to UAH 1,090.1 billion (U.S.$136.9 billion), their loan portfolio amounted to UAH 755.3 billion (U.S.$94.9 billion), equity capital amounted to UAH 141.7 billion (U.S.$17.8 billion), the total amount of the capital received from corporate entities amounted to UAH 144.0 billion (U.S.$18.1 billion) and their deposits from individuals amounted to UAH 270.7 billion (U.S.$34.0 billion), using the then current official hryvnia/U.S. dollar exchange rate of UAH 7.96 = U.S.$1.00.

For 2011, banks operating in Ukraine were divided by the NBU into four groups according to the value of their assets as at 1 December 2010. The first group included 17 major banks with total assets of more than UAH 14,000 million; the second group included 22 banks with total assets ranging from UAH 4,500 million to UAH 14,000 million; the third group included 21 banks with total assets ranging from UAH 2,000 million to 4,500 million; and the fourth group included 115 banks with total assets of less than UAH 2,000 million.

With effect from 24 November 2009, the minimum statutory capital requirement for banks as at the date of their registration is UAH 75 million. Such requirement applies only to banks which have been registered after 24 November 2009. In addition, from 4 October 2006 until 5 August 2009 banks may have been established only in the form of an open joint stock company or a cooperative bank (i.e. it was not permitted to establish banks in the form of a closed joint stock company or a limited liability company and banks existing in the form of a closed joint stock company or a limited liability company had three years until 4 October 2009 to change their form into an open joint stock company or a cooperative bank).

In Ukraine, the regulatory capital of a bank (i.e. the sum of principal and additional capital) must not be less than the minimum statutory capital. With effect from October 2008, the NBU revised the minimum regulatory capital requirement for the banks establishing a €10 million minimum amount of regulatory capital for all banks (as opposed to previously-effective differentiated requirements based on the period of a bank's activity). With effect from 17 July 2010, the NBU revised the minimum regulatory capital requirement for the banks establishing a UAH 120 million minimum amount of regulatory capital for all banks. Banks with the regulatory capital below the minimum required amount have to increase the capital to comply with the newly established requirements by 1 January 2012. Regulatory capital requirements are subject to periodic increases, which may present problems for banks that are insufficiently capitalised.

The minimum regulatory capital adequacy ratio of existing banks (the 'solvency ratio') as set by the NBU is currently 10 per cent. For banks that have been operating for less than 12 months, this minimum ratio is 15 per cent., and for banks that have been operating between 12 and 24 months, this ratio is 12 per cent. The average regulatory capital adequacy ratio of all Ukrainian banks was 20.83 per cent. as of 1 January 2011. The minimum ratio of regulatory capital to total assets reflects the amount of the regulatory capital necessary for the banks to perform active operations and is set by the NBU at 9 per cent. The average ratio of regulatory capital to total assets of all Ukrainian banks was 14.57 per cent. as of 1 January 2011. Starting from December 2007, the NBU Directive on Ukrainian Banking Activity Regulation requires banks to take account of foreign exchange risks in the calculation of the regulatory capital adequacy ratio as well as to maintain sufficient level of regulatory capital to cover risks arising out of mismatches in the assets' and liabilities' maturities.

In 2009, the registered and paid statutory capital of Ukrainian banks increased by 44.6 per cent. during the course of the year and amounted to UAH 119.2 billion at 31 December 2009; their regulatory capital increased by 10.3 per cent. and amounted to UAH 135.8 billion, and the equity capital (net worth) of these banks decreased by 3.4 per cent. and amounted to UAH 115.2 billion as at the same date. In 2010, the aggregate regulatory capital of Ukrainian banks increased by 18.5 per cent., amounting to UAH 160.9 billion as at 31 December 2010 and the registered and paid-up statutory capital increased by 22.4 per cent., amounting to UAH 145.9 billion as at the same date. In 2010, own equity capital (net worth) increased by 23.0 per cent. and amounted to UAH 141.7 billion . The increase in the regulatory capital of Ukrainian banks was largely attributable to the increase in registered and paid in statutory capital by UAH 26.6 billion and the increase in subordinated debt by UAH 8.3 billion.

Two of the largest banks in Ukraine, the State Export Import Bank of Ukraine ("Ukreximbank") and the State Oschadnyi Bank (Savings Bank), are fully State owned. From 2006 to 2010, the Cabinet of Ministers approved increases in the statutory capital of Oschadnyi Bank and Ukreximbank by UAH 13,189.0 million and 15,649.5 million, respectively. In particular, the statutory capital of Ukreximbank was increased in 2009 and in 2010, by UAH 6,941.0 million and UAH 6,390.0 million, respectively. The statutory capital of Oschadnyi Bank was not increased in 2009 and 2010.

As at 1 January 2011, 55 banks with foreign capital were operating in Ukraine, and 20 of these banks were fully foreign owned. The share of foreign capital in the total registered statutory capital of Ukrainian banks increased from 35.8 per cent. as at 31 December 2009 to 40.6 per cent as at 31 December 2010.

In recent years, certain banks with foreign capital have become more active in the Ukrainian market. The Polish bank PKO Bank Polski S.A. acquired Kredyt Bank, Russian NRB Ukraine acquired Energobank and SEE International Group acquired Bank Ajio through the Lithuanian Vilniaus Bankas. Significant takeovers in 2005-2009 also include the acquisition by Raiffeisen International Bank Holding AG (Austria) of Bank Aval, the acquisition by BNP Paribas of 51 per cent. of the shares in UkrSibbank, the acquisition by the Russian Vneshtorgbank of 98 per cent. of the shares in Bank Mriya, the acquisition by Credit Agricole S.A. of 98 per cent. of the shares in Index Bank, the acquisition by the Hungarian OTP Bank of 100 per cent. of the shares in Raiffeisen Bank Ukraina, the acquisition of Prestige Bank by the Austrian Erste Bank, the acquisition of TAS Kommerzbank by Swedbank, the acquisition of Ukrsotsbank by Bank Austria Creditanstalt AG, the acquisition of Bank Forum by Commerzbank, the acquisition of Pravex Bank by Intesa Sanpaolo and the acquisition of Vnesheconombank by Prominvestbank.

The NBU expects the Ukrainian banking market to become more competitive as a result of the enactment of laws permitting foreign banks to operate branch offices in Ukraine and Ukraine's accession to the WTO. Starting from 16 May 2008, foreign banks may operate branch offices in Ukraine, subject to certain access criteria established by the Law "On Banks and Banking". One of the pre requisites to be satisfied before general permission is granted to open and operate a branch is that the NBU and a bank supervisory authority of the foreign State where the relevant parent is head quartered execute an agreement about their cooperation in the bank supervision field and the harmonisation of principles and terms of such supervision. To date, only a few such agreements have been signed by the NBU, including with banking regulators of such countries as Armenia, Belarus, China, Cyprus, Kyrgyzstan, Latvia, Lithuania, Luxembourg, Poland, Russia, Hungary and Turkey.

The Ukrainian banking sector has suffered from a number of significant weaknesses, which have included undercapitalisation, weak corporate governance and management, poor asset quality and excessive political interference in certain banks. Since 1997, Ukraine has been implementing a series of banking sector reforms under the IMF reform programme with the aim of supporting commercial banks that undertake structural reforms and demonstrate long term stability. Since the beginning of 1998, banks have been required to prepare accounts that are based in many respects on International Accounting Standards and International Financial Reporting Standards.

Banking Sector Regulation

In 2001, the Law of Ukraine "On the Fund for Guaranteeing the Deposits of Individuals" (the "**Deposits Securing Law**") introduced a system of securing deposits held by individuals with Ukrainian banks that modified the existing system, which was established in 1998 by the Presidential Decree "On Measures for the Protection of Rights of Individuals—Depositors of Commercial Banks of Ukraine" (the "**Decree**"). Pursuant to the Deposits Securing Law, commercial banks in Ukraine are obliged to remit to the Guarantee Fund, which was established under the Decree and which operates according to the Deposits Securing Law, an initial duty in the amount of 1 per cent. of their registered statutory capital, payable once after obtaining a banking licence, as well as a regular duty in the amount of 0.25 per cent. of the aggregate amount of deposits, including interest accrued, payable twice a year and a special duty established by the Guarantee Fund upon the occurrence of certain circumstances. The Guarantee Fund guarantees deposits with commercial banks, including any interest, up to a maximum amount. From 1 January 2011, under the Deposits Securing Law, the guaranteed deposit amount with a commercial bank, including interest, was decreased from a maximum of UAH 150,000 per depositor back to UAH 1,200 per depositor, the level in place prior to October 2008. Nevertheless, the Guarantee Fund decided to retain the maximum guaranteed amount for deposits opened by individuals in one bank at the level of UAH 150,000 per depositor. Deposits are recognised as unavailable, i.e. eligible for compensation, on the day of appointment of a bank's liquidator. The Deposits Securing Law does not apply to the Oschadnyi Bank, whose retail deposits are guaranteed by the State. Since Ukraine's accession to the WTO, the Deposits Securing Law applies to branch offices of foreign banks operating in Ukraine. As at 1 January 2011, the Guarantee Fund had 170 member banks and five temporary member banks and the total accumulated by the Guarantee Fund was approximately UAH 3,390.3 million. Furthermore, the NBU has approved its regulations on extension of loans by the NBU to the Guarantee Fund in certain circumstances including, among other things, if the aggregate amount of deposits to be reimbursed by the Guarantee Fund exceeds 80 per cent. of the Guarantee Fund's available resources.

The NBU is responsible for the reorganisation or closure and liquidation of insolvent banks to strengthen confidence in the banking sector. As at 31 December 2009 and 31 December 2010, 14 and 18 banks were in liquidation, respectively. See "*—Recent Developments in the Banking Sector*".

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 to the NBU financial and statistical data on daily, weekly, monthly and other bases that permits permanent review by the NBU of the banks' performance and financial position. In addition, banks are required to publish in printed mass media quarterly and annual financial statements as well as certain other information required by the NBU, including information on bank's shareholders directly or indirectly holding 10 per cent. or more of the share capital of the bank.

The NBU oversees the activities of banks using both off site and on site inspections and through a system of audits by auditors certified by the NBU and the Audit Chamber of Ukraine. The planned inspection may be carried out not more than once per year. The NBU may also decide to carry out an extra inspection if it has sufficient grounds for such inspection.

If a bank violates banking laws and regulations or engages in risky operations threatening the interests of its depositors or other creditors, the NBU may use one of the various measures provided for in the Law of Ukraine "On Banks and Banking", depending on the nature and the extent of the violation. Such measures include suspension of dividend payments; increase of provisioning requirements; limitation, termination or suspension of certain high risk transactions; prohibition on extending unsecured loans; the imposition of penalties on the bank and its management; and the appointment of a temporary administrator.

Banks must keep reserves to cover exposures under asset transactions (potential losses from lending and securities transactions and accounts receivable) and review those provisions on a monthly basis. Some loans and securities transactions do not require any provisions. These include "budget loans", credit transactions between entities within the system of one bank (for banks 100 per cent. owned by foreign entities, credit transactions with the parent company if such company is assigned an investment grade credit rating), real estate backed leasing transactions, subordinated loans, uncommitted off balance sheet credit lines (other than commitments extended to banks), funds in foreign currency transferred to the NBU, securities issued by central State executive authorities and the NBU as well as shares in stock exchanges, securities depositaries, payment systems and credit bureaus. The NBU sets forth separate provisioning requirements for loans in national and foreign currency as well as for certain consumer loans.

Loans are classified into five categories, subject to varying provisioning requirements. The following provisioning requirements are set forth for loans in national currency: 1 per cent. for standard loans; 5 per cent. for loans on watch; 20 per cent. for substandard loans; 50 per cent. for doubtful loans; and 100 per cent. for bad loans. Provisioning requirements applicable to loans in foreign currency are higher than for loans in national currency in line with an NBU policy aimed at reducing credit risks, especially under loans in foreign currencies and are as follows: 2 per cent. (50 per cent. for loans to borrowers who have no foreign currency earnings) for standard loans; 7 per cent. (100 per cent. for loans to borrowers who have no foreign currency earnings) for loans on watch; 25 per cent. (100 per cent. for loans to borrowers who have no foreign currency earnings) for substandard loans; 60 per cent. (100 per cent. for loans to borrowers who have no foreign currency earnings) for doubtful loans; and 100 per cent. for bad loans. Provisioning requirements applicable to consumer loans in hryvnia are: 2 per cent. for standard loans; 10 per cent. for loans on watch; 40 per cent. for substandard loans; 80 per cent. for doubtful loans; and 100 per cent. for bad loans. Provisioning requirements applicable to consumer loans in foreign currencies are: 50 per cent. for standard loans and 100 per cent. for loans on watch, substandard loans, doubtful loans and bad loans. Since October 2008, banks have been prohibited from purchasing foreign currency for the purpose of forming provisions under loans denominated in foreign currency.

On 20 May 2010, Parliament approved a law that instructed the NBU to establish, within one month of the law coming into effect, provisioning requirements not higher than 3 per cent. with respect to foreign currency denominated standard, substandard loans and loans on watch for borrowers who have no foreign currency earnings. The NBU has not yet established such provisioning requirements and is currently preparing a draft law aimed at cancelling the above provision.

Performance and Balance Sheet of the Banking System

The banking sector's asset and liability structure reflects the history of Ukraine's macro economic development.

The hyperinflation experienced from 1992 to 1995 and bank defaults on household deposits undermined public confidence in the banking sector. The banking sector continued to derive the bulk of its profit from foreign exchange operations in 1997. In 1998, the NBU restricted foreign exchange transactions to prevent a further destabilisation of the hryvnia. The 1998-1999 recession led to a sharp reduction of loan disbursements to domestic market participants. The poor credit quality of loan portfolios and the lack of institutional infrastructure for debt recovery accounted for a major part of losses on long term credits. From 2002 until 2008, bank lending to the economy was rapidly increasing and in 2006 and 2007 it increased by 71.0 per cent. and 74.1 per cent., the highest growth rates in recent years. The rapid accumulation of credit resources, improvement of the term structure and reduction in interest rates on credits were the main reasons for the development of lending activity. At the same time, the efforts of Ukrainian banks to increase long term lending against a background of scarcity of long term resources intensified liquidity and solvency risks of the Ukrainian banking system as a result of mismatches in the term structure of assets and liabilities. For instance, in 2008, long term loans increased by 73.9 per cent., or UAH 215.8 billion, while long term deposits grew by only 22.6 per cent., or UAH 29.4 billion. In 2009, long term loans decreased by 3.8 per cent., or UAH 19.7 billion and long term deposits decreased by 49.9 per cent., or UAH 79.4 billion.

In 2010, long term loans decreased by 4.7 per cent., or UAH 21.0 billion, while long-term deposits increased by 62.9 per cent. or UAH 50.2 billion. In 2009, the gap between long term assets and liabilities decreased by UAH 77.0 billion. In 2010, this gap decreased by UAH 7.1 billion and amounted to UAH 8.9 billion.

The NBU continues to balance the size and the structure of assets and liabilities of Ukrainian banks and to limit the risks inherent to their activities. One of the measures taken for this purpose is the introduction, starting from December 2007, of a requirement that banks take account of foreign exchange risks in the calculation of the regulatory capital adequacy ratio and maintain a sufficient level of regulatory capital to cover risks arising out of mismatches in the maturities of their assets and liabilities.

Liabilities

As at 1 January 2011, the aggregate liabilities of Ukrainian banks amounted to UAH 803.8 billion, representing an increase of 5.1 per cent. during 2010, which was mainly due to deposits of individuals and corporate entities increase by 28.9 per cent. and by 25.0 per cent., respectively. At the same time, the interbank loans and deposits, as well as the NBU's funds, decreased during this period by 10.9 per cent. and 16.3 per cent., respectively.

As at 1 January 2011, the ratio of foreign currency liabilities to total liabilities was 55.5 per cent.

As of 1 January 2011, Ukrainian banks had the following liability structure:

- funds of economic entities amounted to UAH 144.0 billion (17.9 per cent. of the total sum of bank liabilities);
- retail deposits amounted to UAH 270.7 billion (33.7 per cent.);
- interbank credits and deposits amounted to UAH 172.8 billion (21.5 per cent.);
- budget and non budget funds amounted to UAH 3.7 billion (0.5 per cent.);
- funds of the NBU amounted to UAH 70.7 billion (8.8 per cent.);
- funds of non bank financial institutions amounted to UAH 15.8 billion (2.0 per cent.);
- subordinated debt amounted to UAH 35.7 billion (4.4 per cent.);
- own debt securities amounted to UAH 3.0 billion (0.4 per cent.);
- loans from international and other financial institutions amounted to UAH 39.1 billion (4.9 per cent.);
- correspondent accounts of other banks amounted to UAH 12.8 billion (1.6 per cent.); and
- other liabilities amounted to UAH 35.5 billion (4.3 per cent.).

As at 1 January 2011, the liabilities of Ukrainian banks to foreign entities amounted to UAH 243.9 billion or approximately 30.3 per cent. of their total liabilities, and foreign owned banks accounted for approximately 74 per cent. of the total liabilities of Ukrainian banks to foreign entities; this was mainly due to the funds inflow from their parent companies.

Assets

In 2010, assets (total assets less accumulated reserves on active transactions) increased by 7.4 per cent. and amounted to UAH 945.5 billion. During the same period, total assets increased by 8.8 per cent. and amounted to UAH 1,090.1 billion.

As at 1 January 2011, Ukrainian banks' total assets consisted of the following assets:

- loan portfolio amounted to UAH 755.3 billion (69.3 per cent.);
- investments in securities amounted to UAH 83.5 billion (7.7 per cent.);
- accounts receivable amounted to UAH 21.1 billion (1.9 per cent.);
- fixed assets and intangible assets amounted to UAH 43.4 billion (4.0 per cent.);
- accrued revenues that have not yet been received amounted to UAH 50.3 billion (4.6 per cent.);
- funds at the NBU amounted to UAH 26.2 billion (2.4 per cent.);
- cash and bank metals amounted to UAH 26.7 billion (2.5 per cent.); and
- other assets amounted to UAH 83.6 billion (7.6 per cent.).

The loan portfolio of Ukrainian banks increased by 1.1 per cent. in 2010 as compared to 2009, mainly as a result of an increase in loans extended to economic entities, by 7.1 per cent. In this period, loans denominated in foreign currencies decreased by 7.5 per cent., while loans in hryvnia increased by 10.7 per cent. The loan portfolio of Ukrainian banks has the following structure as of 1 January 2011:

- loans granted to economic entities amounted to UAH 508.6 billion (67.3 per cent. of the total volume of the loan portfolio);
- loans granted to individuals amounted to UAH 186.6 billion (24.7 per cent.);
- deposits placed with other banks and loans granted to other banks amounted to UAH 51.3 billion (6.8 per cent.);
- loans granted to non banking financial institutions amounted to UAH 0.1 billion (0.01 per cent.); and
- loans granted to State authorities amounted to UAH 8.8 billion (1.2 per cent.).

In 2009, long term loans decreased by 13.0 per cent. and loans in investment activities increased by 3.3 per cent. In 2010, long term loans decreased by 4.7 per cent. and loans in investment activities decreased by 1.1 per cent., respectively. The decrease in the amount of long term loans in 2009 and 2010 was largely due to outflow of customers' funds from the banking system in the first quarter of 2009, limited access to borrowings in international markets; reduction in the share of long term funds in the borrowings' structure, increase in the volumes of problem loans and resulting increase in provisions to cover exposures under such loans; deterioration in financial standing of borrowers as a result of unfavourable conditions in external markets and low domestic demand; lack of liquid security under loans and absence of an efficient insurance mechanism; and limited investment opportunities for the use of idle funds.

The share of doubtful and bad loans in the loans portfolio increased from 2.5 per cent. as at 31 December 2007 to 3.8 per cent. as at 31 December 2008 to 13.1 per cent. as at 31 December 2009 and 14.9 per cent. as at 30 November 2010. The significant increase in problem loans in 2009 and 2010 was largely attributable to the deterioration in the financial standing of corporate entities and a decrease in household income against the background of overall economic and political instability. In the eleven months ended 30 November 2010, the amount of doubtful and bad loans increased by 13.7 per cent., or UAH 15.9 billion, including an increase of doubtful and bad loans granted to economic entities by 11.5 per cent., or UAH 9.2 billion, and an increase of doubtful and bad retail loans by 17.3 per cent., or UAH 5.9 billion.

The IMF, in connection with approving in July 2010 a new stand-by agreement with Ukraine provided two estimates for loans which could be categorised as nonperforming. Under a broad definition of non performing loans that includes loans classified as substandard, doubtful and loss, the IMF estimated that 41.6 per cent. of loans held by Ukrainian banks were non performing as at 31 March 2010. Under a narrower definition that does not count as nonperforming those substandard loans that are serviced in a timely manner, the IMF estimated that 15 per cent. of loans were non performing as at 31 March 2010.

Revenues

In comparison to the eleven months ended 30 November 2009, revenues of banks decreased in eleven months ended 30 November 2010 by 6.3 per cent. and as of 1 December 2010 amounted to UAH 123.1 billion, which included interest revenues of UAH 103.4 billion (84.0 per cent. of total revenues), commission revenues of UAH 13.6 billion (11.0 per cent.), results from trade operations of UAH 1.9 billion (1.6 per cent.) and other revenues of UAH 4.2 billion (3.4 per cent.).

Recent Developments in the Banking Sector

In recent years, Ukrainian banks aggressively expanded their loan portfolios, largely due to improved access to foreign financing. However, the global financial turmoil and the economic downturn in developed economies in the second half of 2008 limited the Ukrainian banking system's access to foreign financing. In addition, political instability has eroded investors' confidence in the country's prospects, which contributed to the withdrawal of foreign capital from Ukraine. These factors, along with negative trends in the real economy, became the main drivers which undermined the period of growing stabilisation in the Ukrainian banking sector. Overall, the financial crisis revealed significant weaknesses in the Ukrainian banking system resulting in massive withdrawals of deposits and lending freezes, such that many Ukrainian banks face problems with liquidity.

From 2008 to 2010, the NBU, together with experts from international financial organisations, carried out several diagnostic reviews of all Ukrainian banks in order to identify banks that required additional capital. According to the results of the reviews undertaken in 2008 and 2009, 56 banks initially required additional capital in an aggregate amount of UAH 38.7 billion. The NBU required owners of such banks to increase their banks' share capital based on the results of the diagnostic review. 48 banks complied with these requirements, the other eight were either put into temporary administration (five banks) or entered liquidation (three banks). According to the review undertaken in 2010, 61 banks required additional capital in the aggregate amount of UAH 41.0 billion. In particular, the NBU set regulatory capital levels for each of the 61 banks which they were required to meet by 1 January 2011. Out of these 61 banks, as of 1 January 2011, 52 banks fully complied with requirements of the NBU with respect to increase of their regulatory capital (including one bank in which the State became a shareholder). These 52 banks represent all of the banks then operating under the normal regime, i.e. those not in liquidation or administration and those not recapitalised by the State. As at 1 January 2011, nine banks failed to comply with these requirements. All banks identified in the diagnostic reviews are subject to ongoing monitoring by the NBU.

In view of threats to solvency, between November 2008 and February 2011 the NBU imposed temporary administration and a moratorium on the satisfaction of claims of creditors in respect of 29 banks, including five banks that belonged to the group of the largest banks. Out of those banks, fifteen banks have entered liquidation (six banks in 2009 and nine banks in 2010) while nine banks resumed normal operation (three banks in 2009 and six banks in 2010). In March 2009, the temporary administration was removed from one of the largest banks, Prominvestbank, which was acquired by Vnesheconombank. As of 3 February 2011, temporary administration remained in place in six banks, and liquidation procedures have been initiated in respect of 18 banks including 9 banks in respect of which liquidation procedures were commenced in 2010. The liquidation procedures relating to 10 banks were finalised between 2009 and 2010. Parliament has recently enacted legislation to extend the permitted period of temporary administration from 12 to 18 months, however, as at 9 February 2011 such law remained to be signed by the President and officially promulgated to become effective.

The NBU has taken a number of administrative measures to address the instability in the Ukrainian banking sector, including measures aimed at preventing funds outflow, ensuring due liquidity levels and uninterrupted settlements as well as balancing foreign currency demand and supply. In particular, since late 2008, the NBU has adopted several resolutions widening the range of possible means to receive NBU liquidity support by Ukrainian banks, loosening restrictions on several economic ratios and subordinated debt and establishing certain exchange control restrictions. For instance, the purchase of foreign currency by banks for their own purposes is now limited to amounts within their open currency position and is allowed only at maturity of the relevant payment obligation in the same currency. In addition, the NBU took measures aimed at restricting the early withdrawal of deposits from the Ukrainian banking system. Although such restrictions were subsequently removed, the NBU is expected to bring in restrictions on withdrawals of fixed-term deposits in the near future. See also "*The Monetary System—Exchange Rates*".

Against the background of the significant withdrawal of funds from the banking system, especially of retail deposits, which has adversely affected the banking system, the NBU, as a lender of last resort, refinances affected banks. The NBU has also approved regulations on credit support of Ukrainian banks in case of a real threat to the stability of their operations, which govern procedures for extension and prolongation of emergency loans to banks that have approved financial rehabilitation programmes. In 2009, the NBU also approved a number of regulations aimed at allowing Ukrainian banks to efficiently restructure problem loans in their loan portfolio or change the currency of such loans.

Further, the NBU has approved special procedures for financial rehabilitation of banks that provide for simplified procedures and reduced deadlines for the share capital increase registration. The NBU has also approved new regulations governing financial rehabilitation of a bank once a temporary administration has been imposed and regulations governing recapitalisation with participation of the State and other investors. In particular, a temporary administrator has been granted powers to carry out a reorganisation of a bank, reduce the share capital of a bank, determine new nominal value and approve share consolidation as well as additional share issuances. In addition, the NBU has introduced a "supervisor" position, being a new special control instrument for banks that are likely to experience problems. A main function of the supervisor appointed by the NBU is to carry out a detailed evaluation of the bank's financial standing and prospects and to reveal risks inherent in its activities. In late 2009 and in 2010, the NBU approved a number of further regulations aimed at improvement of procedures for reorganisation and liquidation of troubled banks.

On 31 October 2008, Parliament passed the Law of Ukraine "On Immediate Measures to Avoid Negative Consequences of the Financial Crisis and Amendments to Certain Legislative Acts of Ukraine" which, together with the relevant regulation of the Cabinet of Ministers of Ukraine and resolutions of the NBU, establishes the regulatory framework for recapitalisation of Ukrainian banks by the Government through the purchase of shares of such banks. In particular, the Government has to own or control at least 75 per cent. plus one share of a bank's share capital as a result of recapitalisation (or at least 60 per cent. plus one share of a bank's share capital if the State participates in the recapitalisation together with a third party investor).

The decision on recapitalisation of particular banks is made by the Cabinet of Ministers of Ukraine upon the NBU's proposal. The amount of internal State borrowings (through issuance of T-bills) planned for 2009 for the purpose of the banking system and Naftogas recapitalisation was approximately UAH 44.0 billion. The actual amount of State internal borrowings raised in 2009 (through issuance of T-bills) for the purpose of the banking system recapitalisation was UAH 19.6 billion. The amount of internal State borrowings (through issuance of T-bills) planned for 2010 for the purpose of the banking system recapitalisation was approximately UAH 30.0 billion. The actual amount of internal State borrowings raised (through issuance of T-bills) in 2010 for the purpose of the banking system recapitalisation (recapitalisation of Ukreximbank) was UAH 6.4 billion.

On 10 June 2009, the Cabinet of Ministers of Ukraine approved resolutions for the recapitalisation of three Ukrainian banks through the purchase of shares in the banks against contributions of T-bills by the Government. In July 2009, the Government contributed T-bills in the approximate principal amounts of UAH 3.1 billion to OJSB "UkrGasBank", UAH 3.6 billion to JSCB "Kyiv", and UAH 2.8 billion to JSC "Rodovid Bank". Further in 2009, the Government contributed additional T-bills in the aggregate principal amount of UAH 1.9 billion to OJSB "UkrGasBank" and UAH 5.6 billion to JSC "Rodovid Bank" (to ensure a repayment of retail deposits transferred from Ukrprombank (see below). No contributions were made in 2010 and as at 10 February 2011, the government shareholdings in these banks continue to be 87.7 per cent. in UkrGasBank and over 99 per cent. in each of the other two banks.

The method chosen in 2009 by the Government and the NBU for Ukrprombank's recapitalisation was a transfer of retail deposits from Ukrprombank to JSC "Rodovid Bank", together with a certain share of its assets, and *provided that* the amount of the share capital of JSC "Rodovid Bank" was to be respectively increased. Further to this decision, the relevant parties approved a mechanism for the transfer of retail deposits and assets from Ukrprombank to JSC "Rodovid Bank" and a corresponding transfer agreement was signed. However, only liabilities of Ukrprombank were transferred to JSC "Rodovid Bank", while assets remained on the balance sheet of Ukrprombank. From 23 November 2009, JSC "Rodovid Bank" started repaying to Ukrprombank depositors those deposits which have become due and payable. On 21 January 2010, the NBU terminated banking licence of Ukrprombank and initiated its liquidation. As at 1 February, 2011, JSC "Rodovid Bank" expects to get its share of Ukrprombank assets and liabilities due under the transfer agreement in the due course of liquidation process. In July 2010, part of the assets and liabilities of Ukrprombank were transferred to Delta Bank. As at 10 February 2011 there were no further developments with respect to Ukrprombank assets and liabilities.

The Government is currently considering a strategy for further development of recapitalised banks and options for disposing of its shareholdings in such banks. The SPF has developed a proposed procedure for disposing of such State shareholdings in recapitalised banks. As at 1 February 2011, Ukraine is seeking agreement to this procedure from the World Bank. Under the proposed procedure, the Government will decide as to disposition of such shareholdings upon the proposal of the Ministry of Finance and with prior approval of the sale plan by the SPF and the NBU. Under this procedure, the Government may sell the State's shareholding to other shareholders of the relevant bank or, if these shareholders are not interested in the purchase, to third party investors through an auction.

The discussion on the recapitalisation methods (for instance purchase of shares by the State and/or private investors etc.) of the Open Joint Stock Company "Joint Stock Commercial Bank "Nadra"" ("**Nadra Bank**") and the conditions to such recapitalisation (for instance external debt restructuring, repayment of arrears to public sector) has been taking place for several years. The latest NBU proposals to the Ministry of Finance in this respect (as of December 2010) included recapitalisation through (i) lending State funds (as subordinated debt), (ii) attracting private investors' funds and (iii) taking internal measures to reduce the need for additional capital. However, as at 9 February 2011 the Ministry of Finance has not yet decided on the final recapitalisation scenario for Nadra Bank.

In addition, the NBU is considering whether proposals should be submitted to the Government with respect to recapitalisation of any other banks.

On 23 June 2009, Parliament passed a new law in an effort to address the negative consequences of the financial crisis in Ukraine, such law having been amended by Parliament on 22 October 2009 and 27 April 2010 and 2 December 2010. The law contains, among other things, a number of provisions relating to Ukrainian banks and banking services. In particular, the law introduced a temporary (until 1 January 2011) prohibition on physical cash pay outs on foreign currency loans and extension of foreign currency loans to individuals other than for certain limited purposes, and established new rules for the restructuring by banks of problem loans as well as a prohibition on enforcement against mortgaged residential real estate other than in specified circumstances.

In addition, the draft Law of Ukraine "On the Fund for Guaranteeing the Deposits of Individuals", developed with the participation of the NBU, envisages the creation of an "intermediary" bank as an instrument to assist in the financial rehabilitation of problem banks. Under this draft law, the NBU, the Guarantee Fund, the State Securities and Stock Markets Commission will work together to establish the rules for the creation, registration, simplified licensing procedures and share issuance procedures of such intermediary bank.

A number of draft laws have been developed to improve regulation of the banking sector. One of such draft laws provides for significant extension of powers of the Guarantee Fund and allows the Guarantee Fund to perform the functions of temporary administrator and liquidator for Ukrainian banks. Another draft law is aimed at improvement of banking supervision and establishes a mechanism for identifying the real owners and persons controlling Ukrainian banks. Other draft laws provide for, among other things, introduction of banking supervision on consolidated basis and implementation of a number of measures to ensure better protection of rights of creditors. As at 10 February 2011, most of these draft laws have been submitted for consideration by Parliament.

Furthermore, the Economic Reform Programme provides for the implementation in 2010 2014 of the following main measures aimed at increasing the role of the financial sector in the development of the Ukrainian economy:

- by the end of 2010, Ukraine had, among other things, passed a law governing the independence and transparency of the NBU; urged banks to comply with recapitalisation requirements; developed a number of draft laws and proposals to facilitate the restructuring of problem assets; continued the process of recapitalising, reorganising or liquidating banks that became insolvent during the 2008 2009 financial and economic downturn; developed a draft law to improve the system guaranteeing retail deposits which is currently being considered by the office of the President; and tightened disclosure requirements and liability for the misuse of inside information at the securities market;

- by the end of 2012, Ukraine should continue further capitalisation of banks and facilitation of the consolidation in the financial sector; improve prudential supervision over financial institutions (including introduction of supervision on the consolidated basis); complete a transition to the preparation of financial statements by all financial institutions in accordance with the IFRS; privatise banks, which became state owned following their recapitalisation with participation of the State in 2009; and develop regulatory framework for transactions with derivatives; and

- by the end of 2014, Ukraine should introduce new market instruments for accumulation and re allocation of long term financial resources, including measures to be taken within the framework of introduction of the defined contribution system of State pension insurance.

The Securities Markets in Ukraine

In 2010, exchange based trading of corporate and municipal securities in Ukraine was concentrated on two main exchanges, although the country has 10 stock exchanges in total. The two main exchanges are the First Securities Trading System Stock Exchange with 174 member companies and the Ukrainian Stock Exchange with 165 member companies as at 5 January 2011, respectively.

The cumulative aggregate volume of securities issuances registered with the State Securities and Stock Market Commission of Ukraine increased by UAH 162.7 billion, or 28.2 per cent., during 2009 to UAH 740.1 billion as of 31 December 2009. The cumulative aggregate volume of securities issuances registered with the State Securities and Stock Market Commission of Ukraine further increased by UAH 96.34 billion, or 13.02 per cent., during 2010 to UAH 836.1 billion as of 31 December 2010.

In 2009, the total trading volume on all organised and over the counter securities markets in Ukraine was UAH 1,067.3 billion (UAH 883.4 billion in 2008). As at 30 September 2010, the total trading volume on all organised and over the counter securities markets in Ukraine was 1,040.0 billion. Against the background of global financial downturn, trading volume on organised securities markets in 2009 amounted to UAH 36.0 billion as compared to UAH 37.8 billion in 2008. Trading volume on organised securities markets in 2010 amounted to UAH 131.2 billion. In 2010, the largest trading volumes were recorded in T-bills (UAH 60.86 billion or 46.0 per cent. of all contracts executed on organised securities markets as compared to 22.5 per cent. recorded in 2009). The second largest trading volumes were recorded with shares in joint stock companies (40.0 per cent. of all contracts executed on organised securities markets in 2010 as compared to 37.0 per cent. recorded in 2009).

The State Securities and Stock Market Commission of Ukraine, which was established in 1995, has responsibility for regulating the primary and secondary markets, the licensing and regulation of securities traders, registrars and joint investment institutions, as well as stock exchanges and securities custodians and depositaries. As of 1 January 2011, there were 1,808 professional participants in the securities markets, including 763 securities traders, two depositaries conducting only depositary activities, two depositaries conducting both depositary and clearing activities, 372 custodians, 297 registrars and 10 stock exchanges.

All companies with more than 150 shareholders are required to have an independent registrar. Entities involved in trading securities are not permitted to manage institutional investors' assets but may engage in custodial and registrar business.

The Commission has developed a draft of the 2011-2015 Securities Markets' Development Programme aimed at developing a balanced regulatory, structural and operational approach to convert the securities market of Ukraine into an efficient investment accumulation and supply instrument. The draft programme is aimed at increasing consumer/investor protection, decreasing speculative trading in securities in favour of the real investment transactions, increasing the competitiveness of the Ukrainian securities market, bringing Ukrainian financial instruments and organised markets up to European standards and harmonising Ukrainian financial and corporate regulatory framework with European regulations.

Throughout 2006 and 2007, the State Securities and Stock Market Commission of Ukraine enacted a number of regulations, including new licence requirements for professional participants in the securities market, new regulations governing procedures for disclosure of information by issuers, new regulations on depositary, registrar and clearing activities, and new regulations governing share, corporate bond and mortgage bond issuances, some of which have been amended during 2008. In addition, in December 2007, the State Securities and Stock Market Commission of Ukraine enacted new regulations on the capital adequacy and investment ratios of security traders. Such regulations are designed to limit the risks arising out of their professional activities and have become effective from 1 November 2008.

In June 2008, a number of changes were introduced to the license requirements for professional participants in the securities markets. Among these changes was the requirement that a participant maintain its own equity capital in an amount not less than the amount of its registered statutory capital.

On 30 April 2009, a law "On Joint Stock Companies" became effective, providing for a two year transitional period for existing joint stock companies to change their form into that of a public or private joint stock company. The new law is aimed at eliminating gaps in various laws and regulations of Ukraine relating to joint stock companies, including, among other things, corporate governance matters, pre emptive share purchase rights, mandatory buy outs, and shareholders' rights protection, especially for minority shareholders. In addition, the law requires public joint stock companies to be listed on at least one stock exchange. Such requirement is expected to contribute to the development of the organised securities market in Ukraine by increasing its size and improving liquidity.

The global financial and economic downturn in 2008 and 2009 adversely affected the Ukrainian securities market, including aggregate market capitalisation and the structure of assets of professional securities market participants, especially joint investment institutions. In order to address the challenges posed by the global financial crisis and to minimise its adverse effects on the domestic stock market, Parliament introduced changes to the Law of Ukraine "On Joint Investment Institutions (Mutual and Corporate Investment Funds)" effective as of 13 February 2009. These amendments, among other things, allow joint investment institutions to diversify their assets and provide for a wider range of stock market instruments, which can be employed by market participants for investment. In addition, in January 2009, more stringent liability rules for securities market participants were introduced, in particular with regard to insider trading and price manipulation.

In 2010, a number of changes were introduced to the licensing rules for professional participants in the securities markets. These changes are aimed at establishing increased requirements for such participants, including brokers, custodians, registrars, depositaries and stock exchanges, to ensure better protection for their clients. Among other things, these changes require stock exchanges that are engaged in settlement of derivative transactions, to maintain, unless relevant transactions are fully secured, a reserve fund in order to reduce non performance risks. These changes also tighten prior record requirements for directors of professional stock market participants. In addition, a law providing for more stringent requirements for professional stock market participants became effective on 27 July 2010. In particular, minimum statutory capital requirements for depositaries and minimum own capital requirements for clearing depositaries were established at UAH 15.0 million and UAH 25.0 million, respectively.

In 2010, the State Securities and Stock Market Commission of Ukraine considered a number of draft regulations aimed at further implementation of the law "On Joint Stock Companies" and the law "On Securities and Stock Market", including regulations on the procedure for increasing/decreasing the share capital of a public or private company; regulations on the procedure for the registration of the share issuances of joint stock companies created through privatisation and corporatisation; regulations on the procedure for maintenance of the State register of securities issuances; and regulations on the procedures for consolidating and/or splitting the shares of a joint stock company. It is expected that such regulations will be enacted in early 2011.

The Financial Services Markets in Ukraine

The State Commission for Regulation of Financial Services Markets of Ukraine, which was established in 2003, has responsibility for regulating and supervising the non bank financial sector. The non bank financial sector of Ukraine includes insurance companies, insurance and reinsurance brokers, credit unions and other non bank credit institutions, State entities providing financial services, non-state pension funds and their administrators, pawnshops, financial companies (rendering such services as financial leasing, factoring, provision of sureties and guarantees) and legal entities that do not have the status of financial institution but are permitted to render specific kinds of financial services.

The following table sets forth information concerning numbers of non bank financial institutions as at the end of the periods indicated:

	31 December			
	2007	**2008**	**2009**	**2010**
Credit unions	800	829	755	659
Insurance companies	446	469	450	457
Pawnshops	309	314	373	426
Legal entities which do not have the status of financial institution but are permitted to render specific kinds of financial services (financial leasing)	171	208	216	199
Insurance and reinsurance brokers	69	61	61	60
Financial companies	171	193	208	221
Administrators of non state pension funds	50	51	44	43
Non state pension funds	96	109	108	101
State entities providing financial services	27	29	29	29
Other non bank credit institutions	8	20	32	42

In 2009, the growth in the assets of insurance companies and non state pension funds decelerated, and the assets of credit unions reduced, as compared to 2008, as a result of the financial and economic downturn in Ukraine and globally, political instability, limited access of the market participants to the borrowed funds, decline in companies' solvency and suspension of investment projects. In particular, in 2009, the assets of insurance companies increased by 0.1 per cent. (as compared to an increase of 30.2 per cent. in 2008) to UAH 42.0 billion, the assets of credit unions decreased by 30.5 per cent. (as compared to an increase of 15.2 per cent. in 2008) to UAH 4.2 billion and the assets of non state pension funds increased by 40.1 per cent. (as compared to an increase of 117.9 per cent. in 2008) to UAH 857.9 million, respectively. The decline of the assets of credit unions in 2009 was largely attributable to the freeze on new lending in late 2008 and 2009 as well as to a withdrawal of deposits by credit union members and an increase in bad loans in this period. The significant deceleration in the growth rate of the assets of non state pension funds in 2009 was principally due to the increase in the amount of pension disbursements, as well as to a suspension or significant reduction of pension contributions by certain legal entities and individuals as a result of the financial and economic downturn.

The following table sets forth information concerning main indicators of activities of non bank financial institutions as at the end of the periods indicated:

	31 December			30 September
	2007	2008	2009	2010
Insurance				
Number of executed insurance agreements (thousands)	559,767	675,498	574,972	453,030
Total assets (UAH million)	32,213	41,931	41,970	43,917
Insurance reserves (UAH million)	8,423	10,904	10,141	10,139
Gross insurance premiums (UAH million)	18,008	24,009	20,442	15,435
Gross insurance payments (UAH million)	4,213	7,051	6,737	3,954
Financial companies				
Total assets (UAH million)	3,274	6,012	7,579	7,914
Volume of rendered services (UAH million)	20,898	19,610	24,237	20,902
Credit unions				
Number of members (thousand person)	2,392	2,669	2,190	1,631
Total assets (UAH million)	5,261	6,065	4,218	3,255
Volume of extended loans to members (UAH million)	4,512	5,573	3,909	3,084
Volume of raised deposits of members (UAH million)	3,451	3,951	2,959	2,135
Pawnshops				
Total assets (UAH million)	368	525	619	837
Volume of loans extended during the period (UAH million)	1,404	2,127	3,505	3,836
Non state pension funds				
Number of participants under executed pension contracts (thousand person)	279	483	497	484
Total assets (UAH million)	281	612	858	1,057
Pension contributions (UAH million)	234	583	755	887
Pension disbursements (UAH million)	9	27	90	144

As at 30 September 2010, the total assets of insurance companies amounted to UAH 43,917 million reflecting an increase of 4.6 per cent. as compared to UAH 41,970 million as at 31 December 2009. As at 30 September 2010, the total assets of financial companies amounted to UAH 7,914 million, an 4.4 per cent. increase compared to UAH 7,579 million as at 31 December 2009.

As at 30 September 2010, the assets of credit unions amounted to UAH 3,255 million demonstrating a decline of 22.8 per cent. as compared to UAH 4,218 million as at 31 December 2009. This decrease largely attributable to the reduced volumes of new lending as well as to a withdrawal of deposits by credit union members and an increase in bad loans in the period. As at 30 September 2010, the assets of pawnshops amounted to UAH 837 million, an increase of 35.2 per cent. as compared to UAH 619 million as at 31 December 2009.

As at 30 September 2010, the assets of non-state pension funds amounted to UAH 1,057 million demonstrating an increase of 23.2 per cent. as compared to UAH 858 million as at 31 December 2009. The growth in the assets of non-state pension funds in the nine months ended 30 September 2010 was principally due to the increase in the amount of pension contributions and an increase in profits from investments made by non-state pension funds.

The Government expects the Ukrainian non bank financial sector, and in particular the insurance sector, to become more competitive as a result of Ukraine's accession to the WTO. Pursuant to the changes to the Law of Ukraine "On Insurance" enacted for the purpose of harmonising Ukrainian legislation with WTO requirements, foreign insurers will be permitted to operate branch offices in Ukraine, and certain limitations on insurance intermediary activities will be eliminated, from 16 May 2013. In addition, since 16 May 2008, foreign insurers have been permitted, subject to certain access criteria established by the Law "On

Insurance", to perform re insurance activities in any area as well as insurance activities in a limited number of areas, such as insurance of certain risks related to marine transportation, commercial aviation, missile launching and freight (including satellites). However, before a general permission for a foreign insurer to perform any activities in Ukraine is granted, several pre requisites need to be satisfied, including execution of an agreement between the State Commission for the Regulation of Financial Services Markets of Ukraine and an insurance supervisory authority of the foreign state where the relevant insurer is head quartered concerning information exchange as well as the existence of a double taxation treaty between Ukraine and the foreign state where the relevant insurer is headquartered.

From 2007 to 2009, the State Commission for Regulation of Financial Services Markets of Ukraine enacted a number of regulations aimed at improving of the regulatory framework for financial services markets. These regulations include rules that govern the activities of non state pension funds and non state pension fund administrators and the functioning of self regulated organisations of such administrators, establish a licensing framework for activities of construction financing and real estate funds, set out detailed requirements for insurance reserves as well as amend regulatory requirements for insurance companies, credit unions and pawnshops.

Furthermore, during that period the State Commission for Regulation of Financial Services Markets of Ukraine developed a number of laws, including a law aimed at improving protection of individual investors by preventing financial abuses in the residential real estate construction, which came into effect in July 2010, and a law to improve the regulation of factoring transactions, which came into effect in October 2010.

In addition, the Law "On Amending the Law of Ukraine "On Financial Services and the State Regulation of Financial Services Markets" was passed on 7 September 2010 and came into effect in October 2010 aiming to promote international cooperation by national regulators, improve their general performance and to improve the level of confidentiality of information regarding clients of financial institutions.

The priorities of the State Commission for Regulation of Financial Services Markets of Ukraine for 2011 include: ensuring transparency and openness of financial services markets and protection of interests of financial services consumers; introduction of prudential supervision over non banking financial institutions and transition to supervision based on risk evaluation; improvement of temporary administration, stabilisation and financial rehabilitation mechanisms in non banking financial institutions; introduction of a system for guaranteeing the deposits of credit union members and insurance payments under life insurance agreements; introduction of capital adequacy, asset diversification and asset quality ratios limiting the risks of insurers' operations with financial assets; and taking measures for the transition to the preparation of financial statements in accordance with IFRS.

To achieve these aims, in December 2010 the State Commission for Regulation of Financial Services Markets of Ukraine submitted to the Cabinet of Ministers a draft law on disclosure of information by financial institutions, including information in respect of beneficial owners, and improvement of corporate governance system. However, the draft is still being considered by the relevant Parliamentary Committee.

The Ukrainian non bank financial sector has been adversely affected by the global financial crisis largely due to a decline in the quality of banking assets, significant devaluation of the hryvnia and negative changes in the structure of Ukraine's balance of payments and exports as well as a decline in foreign borrowings. These factors have resulted in 2010 in reductions in the value of assets of the respective financial market participants. Other factors that had a negative impact on the Ukrainian non bank financial sector in the nine months ended 30 September 2010 include a freeze on deposits held by financial market participants with problem banks and a decline in market value of financial instruments, especially those which were held by insurance companies and non state pension funds, that adversely affected the profitability of these entities and the levels of reserves they maintain to cover future payments to customers.

The State Commission for Regulation of the Financial Services Markets of Ukraine expects that in 2011 the negative trends in the non bank financial sector will slow down and the downturn in sector indices will be reversed. The main factors that may adversely affect the non bank financial sector in 2011 are expected to be: continued expectations of high inflation; high levels of activity in the shadow economy; unavailability of funds deposited by financial institutions with Ukrainian banks; a lack of effective consumer protection,;

increased foreign exchange and credit risk and the resulting re-evaluation of investment assets; increased general risks and a general decrease in confidence in non banking financial institutions. The Commission expects the insurance market to become more integrated as a result of the liberalisation of insurance services, the increasing capitalisation of insurance companies, increasing concentration of foreign insurance companies and the improved quality of traditional products and introduction of new insurance products. The Commission expects credit unions and non state pension funds to experience difficulties but in general the sector is expected to stabilise and the assets of the sector are forecast to increase in 2011.

TAXATION

The following discussion summarises certain United States federal income tax and Ukrainian tax considerations that may be relevant to holders of Notes. It also includes a limited discussion of certain EU and United Kingdom tax considerations. 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

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

The following is a summary of certain material 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 initial purchasers of Notes at the issue price that are U.S. Holders and that will hold the Notes as capital assets. 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, 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).

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 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 of 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 discussion assumes that either the issue price of the Notes will equal the stated principal amount of the Notes or the Notes will be issued with no more than a *de minimis* amount of original issue discount ("**OID**"). Therefore, 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.

Fungible Issue

The Issuer may, without the consent of the Holders of outstanding Notes, issue further Notes with identical terms. These further Notes, even if they are treated for non tax purposes as part of the same series as the original Notes, in some cases may be treated as a separate series for U.S. federal income tax purposes. In such a case, the further Notes may be considered to have been issued with OID even if the original Notes had no OID, or the further Notes may have a greater amount of OID than the original Notes. These differences may affect the market value of the original Notes if the further Notes are not otherwise distinguishable from the original Notes.

Sale and Retirement of the Notes

A U.S. Holder will generally recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and the tax basis of the Note. A U.S. Holder's tax basis in a Note will generally be its cost. The amount realised does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income. Gain or loss recognised by a U.S. Holder on the sale or retirement of a Note will be capital gain or loss and will be long term capital gain or loss if the Note was held by the U.S. Holder for more than one year. Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source.

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.

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.

This summary of Ukrainian tax implications is based on the assumption that the Notes will bear interest. Different taxation rules will apply in Ukraine for notes which do not bear any interest and which are issued at a discount to the nominal value. This summary is based on the provisions of the Tax Code that replaced the various tax laws having been effective in Ukraine, with the section of the Tax Code related to taxation of legal entities to take effect from 1 April 2011. The law establishing the corporate taxation of legal entities of Ukraine that remains effective until the relevant section of the Tax Code takes effect contains similar rules to the Tax Code, which are summarised below.

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 article 160.4 of the Tax Code, no withholding tax shall be levied on income earned by non-residents (legal entities and individuals) in the form of interest on state securities provided that such state securities have been sold to (placed among) non-residents outside the territory of Ukraine through non-resident agents.

The 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.

The gain realised by a non-resident from sale of the Notes to a resident legal entity in Ukraine should be subject to withholding tax in Ukraine at the rate of 15 per cent. (for a legal entity) or 15 and/or 17 per cent. (for an individual). 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 legislation.

Gross-Up Obligations

Condition 7 of the Terms and Conditions of the Notes provides for an obligation for the Issuer, in case of withholding or deduction of any taxes, to increase the payment of interest and principal, as the case may be, to holders of the Notes by such amounts as would result in the receipt by such persons of the amounts as would have been received by them, had no such withholding or deduction been required (except where the holder is subject to taxation by reason of having some connection with Ukraine other than the mere holding of the Notes, etc., as provided under Condition 7 of the Terms and Conditions of the Notes).

The Tax Code prohibits contractual provisions with non-residents where a resident entity takes responsibility for covering foreign party's tax liability. A residual risk exists that Ukrainian courts may construe the "gross-up" provisions under Condition 7 of the Terms and Conditions of the Notes as null and void, should the legislation change and withholding taxation become applicable to income derived by non-residents in the form of interest income on state securities.

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, will be subject to corporate profit taxation in Ukraine by self-assessment at an applicable rate.

Interest income received by resident individuals from the Notes shall be subject to personal income tax at the rate of 5 per cent. Income in the form of gain from Notes disposal is subject to personal income tax at the 15 and/or 17 per cent. progressive rates.

The foregoing summary is included for general information only. Prospective investors should consult their own tax advisor as to the tax consequences under the laws of Ukraine of the acquisition, ownership and disposition of the Notes. Such laws and regulations are subject to change or varying interpretations, possibly with retroactive effect. 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, indeed, that the law may be amended with retroactive effect. 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.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required, from 1 July 2005, to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non EU countries to the exchange of information relating to such payments. Belgium has replaced this withholding tax with a regime of exchange of information to the Member State of residence as from 1 January 2010.

Also with effect from 1 July 2005, a number of non EU countries, and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

On 13 November 2008, the European Commission published a proposal for amendments to the Directive, which included a number of suggested changes which, if implemented, would broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

UK Paying Agent

Insofar as the Principal Paying Agent pays interest to or receives interest on behalf of another person, the Principal Paying Agent may be required to provide certain information to the United Kingdom HM Revenue & Customs regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries.

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 the section entitled "*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 Citibank Europe plc, as 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 Custodian for, and registered in the name of Cede & Co. as nominee for, DTC. 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 CUSIP and ISIN numbers and Common Codes.

2. Transfer Restrictions

Transfers of interests in Global Notes within DTC, Euroclear and Clearstream 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 Agreements) 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 Trust Deeds) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 (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 qualified institutional buyer within the meaning of Rule 144A ("**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 U.S. 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 RESALES 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 Agreements) 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 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 Agreements) 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 U.S. 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 a Restricted Global Note in a name other than DTC or a successor depositary or one of their respective nominees will not be permitted in respect of the Notes unless (a) such depositary notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Notes or ceases to be a "clearing agency" registered under the United States Securities Exchange Act of 1934 (the "**Exchange Act**"), or is at any time no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of such depositary or (b) following a failure to pay principal in respect of the relevant Notes at maturity or upon acceleration of any such Note, and the Trustee has received a request from the registered holder of the Restricted Global Note requesting exchange of the Restricted Global Note for individual note certificates (the "**Restricted Note Certificates**").

Registration of title to Notes initially represented by the Unrestricted 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 Trustee 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 Trustee has received a request from the registered holder of the Unrestricted Global Note requesting exchange of the Unrestricted Global Note for individual note certificates (the "**Unrestricted Note Certificates**", and together with the Restricted Note Certificates, 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 Terms and Conditions of the Notes. See "*Terms and Conditions of the Notes—Register, Title and Transfers*". Note Certificates may not be eligible for trading in the DTC, 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. DTC, Euroclear and Clearstream, Luxembourg Arrangements

So long as DTC or its nominee or Euroclear, Clearstream, Luxembourg or the nominee of their common depositary is the registered holder of a Global Note, DTC 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 Trust Deeds, Agency Agreements and the Notes. Payments of principal, interest and additional amounts, if any, in respect of the Global Notes will be made to DTC, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, as the registered holder thereof. None of the Issuer, the Trustee, any Agent or any Joint Lead Manager 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.

Holders of book entry interests in Notes held through DTC will receive from the Principal Paying Agent through DTC, to the extent received by DTC from the Principal Paying Agent, all distributions of principal and interest made with respect to book entry interests in such Notes. Distributions in the United States will be subject to relevant U.S. tax laws and regulations.

As long as the Notes are represented by a Global Note, payments of interest and principal on the Notes will be paid to the holder shown on the Register in accordance with the rules and procedures of DTC, Euroclear and Clearstream, Luxembourg (the "**Record Date**"). Trading between the Restricted Global Note and the Unrestricted Global Note, as the case may be, will therefore be net of accrued interest from the Record Date to the relevant interest payment date.

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 DTC, 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, Clearstream, Luxembourg and DTC 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 (i) Citivic Nominees Limited and (ii) Cede & Co. to reflect the amounts of Notes held through Euroclear and Clearstream, Luxembourg and DTC, respectively. Beneficial ownership of Notes will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

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 DTC, Euroclear and Clearstream, Luxembourg and their book entry systems from sources made publicly available by DTC, 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.

Trading between DTC Participants

Secondary market sales of book entry interests in Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to U.S. corporate debt obligations in DTC's Same Day Funds Settlement System.

Trading between DTC Seller and Euroclear/Clearstream Purchaser

When a book entry interest in Notes is to be transferred from the account of a DTC participant holding a beneficial interest in the Restricted Global Note to the account of a Euroclear or Clearstream accountholder wishing to purchase a beneficial interest in the Unrestricted Global Note (subject to such certification procedures as are provided in the Agency Agreements), the purchaser must send instructions to Euroclear or Clearstream at least one business day prior to the settlement date. Euroclear or Clearstream, as the case may be, will instruct the common depositary to receive the beneficial interest and make payment for it. Payment will include interest accrued on the beneficial interest in the Notes from and including the last interest payment date to and excluding the settlement date. On the settlement date, the common depositary will make payment to the DTC participant's account against delivery of the beneficial interest. After settlement has been completed, the beneficial interest will be credited to the respective clearing system, and by the clearing system, in accordance with its usual procedures, to the Euroclear or Clearstream accountholder's account. The securities credit will appear the next day, European time. The cash debit will be back valued to, and interest on the Unrestricted Global Note will accrue from, the value date, which will be the preceding day when settlement occurs in New York. If settlement is not completed on the intended value date, that is, if the trade fails, the Euroclear or Clearstream cash debit will be valued instead as of the actual settlement date, whenever that may be.

The Euroclear or Clearstream accountholder will need to make available to its clearing system the funds necessary to process same day funds settlement. The most direct means of doing so is to pre position funds for settlement, either from cash on hand or existing lines of credit, as it would for any pre settlement occurring within Euroclear or Clearstream. Under this approach, the purchasing accountholder may take on credit exposure to Euroclear or Clearstream until the beneficial interest in the Unrestricted Global Note is credited to its account one day later. As an alternative, if Euroclear or Clearstream has extended a line of credit to the purchasing accountholder, it can elect not to pre position funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, the Euroclear or Clearstream accountholder purchasing the beneficial interest in the Unrestricted Global Note would incur overdraft charges for one day, assuming it cleared the overdraft when the beneficial interest was credited to its account. However, interest on the Unrestricted Global Note would accrue from the value date. Therefore, in many cases, the investment income on the Unrestricted Global Note earned during that one day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each accountholder's particular cost of funds.

Because the settlement is taking place during New York business hours, the DTC participant can use its usual procedures for transferring a beneficial interest in the Global Notes to the common depositary for the benefit of the Euroclear or Clearstream accountholder. The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the DTC participant, a cross market transaction will settle no differently than a trade between two DTC participants.

Day traders that use Clearstream or Euroclear to purchase interests in the Bonds from DTC participants for delivery to Clearstream participants or Euroclear participants should note that these trades will automatically fail on the sale side unless affirmative action is taken. At least three techniques should be readily available to eliminate this potential problem:

- Borrowing through Clearstream or Euroclear for one day, until the purchase side of the day trade is reflected in their Clearstream or Euroclear accounts, in accordance with the clearing system's customary procedures; or
- Borrowing the interests in the United States from a DTC participant no later than one day prior to settlement, which will give the interests sufficient time to be reflected in their Clearstream or Euroclear account in order to settle the sale side of the trade; or
- Staggering the value date for the buy and sell sides of the trade so that the value date for the purchase from the DTC participant is at least one day prior to the value date for the sale to the Clearstream participant or Euroclear participant.

Trading between Euroclear/Clearstream Seller and DTC Purchaser

Due to time zone differences in its favour, a Euroclear or Clearstream accountholder may employ customary transfer procedures when transferring a book entry interest in the Unrestricted Global Note to the account of a DTC participant wishing to purchase a beneficial interest in the Restricted Global Note (subject to such certification procedures as are provided in the Agency Agreements). The seller must send instructions to Euroclear or Clearstream at least one business day prior to the settlement date. Euroclear or Clearstream will instruct the common depositary to credit the beneficial interest in the Global Notes to the DTC participant's account and receive payment. Payment will include interest accrued on the beneficial interest in the Notes from and including the last interest payment date to and excluding the settlement date. Payment will be reflected in the account of the Euroclear or Clearstream accountholder the following day. Receipt of cash proceeds in the Euroclear or Clearstream accountholder's account will be back valued to the value date, which will be the preceding day, when settlement occurs in New York. If the Euroclear or Clearstream accountholder has a line of credit with its clearing system and elects to draw on such line of credit in anticipation of receipt of sale proceeds in its account, the back valuation may substantially reduce or offset any overdraft charges incurred over that one day period. If settlement is not completed on the intended value date, that is, if the trade fails, receipt of the cash proceeds in the Euroclear or Clearstream accountholder's account will instead be valued as of the actual settlement date, whenever that may be.

For a further description of restrictions on the transfer of Notes, see "—*Transfer Restrictions*" above.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes (including, without limitation, the presentation of Global Notes for exchange as described above) only at the direction of one or more participants in whose account with DTC interests in Global Notes are credited and only in respect of such portion of the aggregate principal amount of the relevant Global Notes as to which such participant or participants has or have given such direction. In the circumstances described above, DTC will surrender the Global Notes for exchange for individual Note Certificates, which will, in the case of Restricted Note Certificates, bear the legend applicable to transfers pursuant to Rule 144A.

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and to facilitate the clearance settlement of transactions between its participants through electronic book entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. DTC participants include securities brokers and dealers, banks, trust companies and clearing corporations and may in the future include certain other organisations. Indirect access to the DTC system is also available to banks, brokers, dealers and trust companies that clear through, or maintain a custodial relationship with, a participant, either directly or indirectly. DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers.

Euroclear and Clearstream have advised the Issuer as follows: Euroclear and Clearstream 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 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 interface with domestic securities markets. Euroclear and Clearstream accountholders are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organisations. Indirect access to Euroclear or Clearstream 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 accountholder, either directly or indirectly.

Although the foregoing sets out the procedures of DTC, Euroclear and Clearstream to facilitate transfers of beneficial interests in Global Bonds among participants and accountholders of DTC, Euroclear and Clearstream, none of DTC, Euroclear or Clearstream 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 DTC, Euroclear or Clearstream 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 DTC or the Custodian, Notes represented by individual Notes Certificates will not be eligible for clearing or settlement through DTC. While a Global Note is lodged with Euroclear or Clearstream or the common depository for Euroclear or Clearstream, Notes represented by individual Note Certificates will not be eligible for clearing or settlement through Euroclear or Clearstream.

6. Notices

So long as the Unrestricted 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 Unrestricted 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 and so long as the Restricted Global Note is held on behalf of DTC or an Alternative Clearing System, notices to holders of Notes represented by a beneficial interest in the Restricted Global Note may be given by delivery of the relevant notice to DTC or the Alternative Clearing System; except that, so long as the notes are listed on the Irish Stock Exchange, notices will also be published either via the Companies Announcement Office of the Irish Stock Exchange or in the Irish Times.

SUBSCRIPTION AND SALE

J.P. Morgan Securities Ltd., Morgan Stanley & Co. International plc and VTB Capital plc (each a "**Joint Lead Manager**", and together the "**Joint Lead Managers**") have, in a subscription agreement dated 18 February 2011 (the "**Subscription Agreement**") and made between Ukraine and the Joint Lead Managers upon the terms and subject to the conditions contained therein, severally and not jointly agreed to subscribe and pay for the respective number of Notes set forth opposite their names below at their respective issue price of 100.00 per cent. of their principal amount. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the relevant series of Notes.

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. Certain Joint Lead Managers have performed investment banking and other services for Ukraine in the past and received customary compensation for such services. VTB Capital plc is lender under a credit facility to which Ukraine is a party. See "*Public Debt—External Debt—Commercial Creditors*".

	Principal Amount of Notes
Joint Lead Managers	
J.P. Morgan Securities Ltd.	500,000,000
Morgan Stanley & Co. International plc	500,000,000
VTB Capital plc	500,000,000
Total	1,500,000,000

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 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.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes within the United States, and it will have sent to each dealer to which it sells Notes (other than a sale pursuant to Rule 144A) during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States. Terms used in this paragraph have the 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 the Joint Lead Managers may through their 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 Joint Lead Manager has represented and agreed, 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 Joint Lead Manager has represented and agreed 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. After any such purchase in the secondary market, a Ukrainian resident may sell such Notes only if it is licensed as a professional securities trader or if the Notes are sold through a licensed institution.

Republic of Italy

The offering of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("**CONSOB**") pursuant to Italian securities legislation. Each Joint Lead Manager has represented and agreed that any 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 will be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulation.

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 must be:

(i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 58 of 24 February 1998, CONSOB Regulation No. 16190 of 29 October 2007 and Legislative Decree No. 385 of 1 September 1993 (in each case as amended from time to time); and

(ii) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

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 the Irish Stock Exchange, no action has been taken by the Issuer or 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 Joint Lead Manager 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 the 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.

GENERAL INFORMATION

Authorisation

The issue of the Notes is duly authorised by the Instruction of the Cabinet of Ministers of Ukraine "On Mandating the Execution of the State External Borrowings" dated 19 January 2011, No. 28-p and the Resolution of the Cabinet of Ministers of Ukraine "On Carrying Out External State Borrowing in 2011" dated 16 February 2011, No. 122.

Contact Details

The Issuer's address is 12/12 Grushevsky Street, Kyiv, Ukraine. The Issuer's telephone number is +38 044 277 5393.

Listing

Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Market. The Market is a regulated market for the purposes of the Markets in Financial Instruments Directive.

The expenses in connection with the admission of the Notes to the Official List and to trading on the Market are expected to amount to approximately EUR 2,940.

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 the Irish Stock Exchange for the purpose of the Prospectus Directive.

Clearing Systems

The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Unrestricted Global Note have been accepted for clearance through Euroclear and Clearstream, Luxembourg under the Common Code No. of 059439081. The ISIN for the Unrestricted Global Note is XS0594390816.

The Restricted Global Notes have been accepted for clearance through DTC under the Common Code No. of 059466755. The ISIN for the Restricted Global Note is US126826AH97. The CUSIP for the Restricted Global Note is 126826AH9.

Litigation

Save as disclosed in this Prospectus on pages 53-57, the Issuer is not involved in any 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 the Irish Stock Exchange, physical copies of the Trust Deed, the Agency Agreement and the Subscription Agreement may be inspected at the registered office of the Paying Agent in Dublin and the offices of the Issuer, as set forth on the back cover of this Prospectus and the latest Law of Ukraine "On the State Budget of Ukraine" (in the Ukrainian language) will be available on the Internet site www.rada.gov.ua. This internet site does not form part of this Prospectus for the purpose of its approval or the listing of the Notes.

Foreign Language

The language of the 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

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tel: + 44 (0) 20 7613 1800   document number 4290