IMPORTANT NOTICE

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

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

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

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

THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THIS PROSPECTUS MAY ONLY BE DISTRIBUTED IN OFFSHORE TRANSACTIONS AS DEFINED IN, AND AS PERMITTED BY, REGULATION S, OR WITHIN THE UNITED STATES TO QIBs IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

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

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

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

Under no circumstances shall the Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Notes in any jurisdiction in which such offer, solicitation or sale would be unlawful. The Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) or the Financial Services and Markets Act 2000 does not apply to the communication.

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

UKRAINE

(Represented by the Minister of Finance of Ukraine acting upon instructions of the Cabinet of Ministers of Ukraine)

U.S.$2,000,000,000 9.25 per cent. Notes due 2017

Issue price: 100 per cent.

The U.S.$2,000,000,000 9.25 per cent. Notes due 2017 (the "**Notes**") to be issued by Ukraine, represented by the Minister of Finance of Ukraine acting upon instructions of the Cabinet of Ministers of Ukraine (the "**Issuer**" or "**Ukraine**"), will mature on 24 July 2017 and will be redeemed at par at that date.

Interest will accrue on the outstanding principal amount of the Notes from and including 24 July 2012, and will be payable semi-annually in arrear on 24 July and 24 January in each year, commencing on 24 January 2013. The Notes will bear interest at a rate of 9.25 per cent. per annum.

SEE "*RISK FACTORS*" FOR A DISCUSSION OF CERTAIN FACTORS TO BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE NOTES ON PAGES 13 to 15.

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

The Notes will be rated B+ by Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**"), B2 by Moody's Deutschland GmbH ("**Moody's Investor Services**"), and B by Fitch, Inc. and Fitch Ratings Ltd. (together "**Fitch**") and, together, with Standard & Poor's and Moody's Investor Services the "**Rating Agencies**"). The Rating Agencies have also issued ratings in respect of the Issuer as set out in this Prospectus. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. As of the date of this Prospectus, Standard & Poor's, Moody's Investor Services and Fitch Ratings Ltd are rating agencies established in the EEA and registered under Regulation (EC) No 1060/2009, as amended (the "**CRA Regulation**"). Fitch, Inc. is not established in the EEA, but the ratings is has given to the Notes and the Issuer are endorsed by a Fitch Ratings Ltd, which is established in the EEA and registered under the CRA Regulation.

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

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

The Notes will be offered and sold outside the United States in reliance on Regulation S under the Securities Act ("**Regulation S**") and within the United States to "qualified institutional buyers" only (as defined in Rule 144A under the Securities Act ("**Rule 144A**")) in reliance on Rule 144A. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

The Notes will be offered and sold in registered form in denominations of U.S.$200,000 or any amount in excess thereof which is an integral multiple of U.S.$1,000. Notes which, in each case, are offered and sold in reliance on Regulation S (collectively, the "**Unrestricted Notes**") will each be represented by beneficial interests in a global Note (the "**Unrestricted Global Note**") in registered form without interest coupons attached, which will be registered in the name of Citivic Nominees Limited, as nominee for, and shall be deposited on or about 24 July 2012 (the "**Closing Date**") with, Citibank Europe plc, as common depositary (the "**Common Depositary**") for, and in respect of interests held through, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, société anonyme, Luxembourg ("**Clearstream, Luxembourg**"). Notes that, in each case, are offered and sold in reliance on Rule 144A (collectively, the "**Restricted Notes**") will each be represented by beneficial interests in a global Note the "**Restricted Global Note**" and, together with the Unrestricted Global Note, the "**Global Notes**" in registered form without interest coupons attached, which will be deposited on or about the Closing Date with a custodian (the "**Custodian**") for, and registered in the name of Cede & Co. as nominee for, The Depository Trust Company ("**DTC**"). Interests in the Restricted Global Note will be subject to certain restrictions on transfer. Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, certificates will not be issued in exchange for beneficial interests in the Global Notes.

The Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under Directive 2003/71/EC, as amended (the "**Prospectus Directive**"). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. This Prospectus constitutes a Prospectus for the purposes of the Prospectus Directive.

Application has been made to the Irish Stock Exchange for the Notes to be admitted to the official list (the "**Official List**") and trading on its Main Securities Market (the "**Market**"). The Market is a regulated market for the purposes of Directive 2004/39/EC (the "**Markets in Financial Instruments Directive**").

Joint Lead Managers

J.P. Morgan **Morgan Stanley** **Troika Dialog** **VTB Capital**

This Prospectus is dated 20 July 2012.

*The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (having made all reasonable enquiries and having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. This Prospectus has been approved by the Central Bank, which is the competent authority for the purpose of the Prospectus Directive and the relevant implementing measures in Ireland. The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. No person has been authorised to give any information or to make any representation other than those contained in this Prospectus in connection with the offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or J.P. Morgan Securities plc, Morgan Stanley & Co. International plc, VTB Capital plc or SIB (Cyprus) Limited (together the "**Joint Lead Managers**"). Effective from the date of commencement of discussions concerning the Issuer or sale of Notes, prospective purchasers of Notes and each of their employees, representatives or other agents may disclose to any and all persons, without limitation of any kind, the U.S. federal income tax treatment and tax structure of the offering and all materials of any kind, including opinions or other tax analyses that the Issuer has provided to such prospective purchasers relating to such U.S. federal income tax treatment and tax structure. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer since the date hereof. This Prospectus may only be used for the purpose for which it has been published.*

*References herein to "**Terms and Conditions**" shall mean to the Terms and Conditions of the Notes. As used in this Prospectus, the terms "**Agency Agreement**" and "**Trust Deed**" refer to the "Agency Agreement" and the "Trust Deed", respectively, as defined in the Terms and Conditions.*

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

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

None of the Joint Lead Managers have separately verified the information contained in this Prospectus. Accordingly, no representation, warranty or undertaking, express or implied, is made, and no responsibility or liability is accepted by any of the Joint Lead Managers nor any of their respective affiliates as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer in connection with the Notes or their distribution. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date of this Prospectus. The contents of this Prospectus are not, are not to be construed as and should not be relied on as legal, business or tax advice. Each prospective investor should consult its own advisors for legal, business, tax and related advice regarding an investment in the Notes.

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

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

*All references in this Prospectus to "**Government**" or "**Parliament**" are to the Government or Parliament of Ukraine, references to "**CIS**" are to the Commonwealth of Independent States, references to "**UAH**" and "**hryvnia**" are to the currency of Ukraine, references to "**U.S. dollars**" and "**U.S.$**" are to the currency of the United States of America, references to "**JPY**", "**yen**" and "**¥**" are to the currency of Japan, references to "**DM**" and "**deutschmark**" are to the currency of Germany prior to the introduction of the euro, references to "**CHF**" and "**Swiss Franc**" are to the currency of Switzerland and references to "**EUR**", "**euro**" and "**€**" are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended by the Treaty on European Union. References to "**SDRs**" are to special drawing rights allocated by the International Monetary Fund (the "**IMF**"). As at 16 July 2012, the official exchange rate of the National Bank of Ukraine (the "**NBU**") was U.S.$1.00 to UAH 7.99.*

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

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

*Statistical data appearing in this Prospectus has, unless otherwise stated, been obtained from the State Statistics Service (the "**State Statistics Service**"), the Ministry of Finance of Ukraine (the "**Ministry of Finance**"), the Ministry of Economy now being reorganised into the Ministry of Economic Development and Trade of Ukraine (the "**Ministry of Economy**") and the NBU similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. Information included in this Prospectus and identified as being derived from information published by Ukraine or one of its agencies or instrumentalities is included herein on the authority of such publication as a public official document of Ukraine. All other information herein with respect to Ukraine is included herein as a public official statement made on the authority of the Ministry of Finance. Although every effort has been made to include in this Prospectus the most reliable and the most consistently presented data, no assurance can be given that such data was compiled or prepared on a basis consistent with international standards. However, as far as the Issuer is aware and is able to ascertain from information published by these parties, the information has been accurately reproduced and no facts have been omitted which would render the reproduced information inaccurate or misleading.*

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421 B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421 B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

FORWARD LOOKING STATEMENTS

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

In addition to the factors described in this Prospectus, including, but not limited to, those discussed under "*Risk Factors*", the following factors, among others, could cause future results to differ materially from those expressed in any forward looking statements made herein: (i) decisions of international organisations, such as the IMF, regarding the terms of their financial assistance to Ukraine and accordingly the net cashflow to or from such international organisations over the life of the Notes; (ii) adverse external factors, such as higher international interest rates, low commodity prices or recession or low growth in Ukraine's trading partners or increases in world oil and gas prices, which could each decrease Ukraine's fiscal and foreign exchange revenues and could negatively affect the current account, balance of payments and international reserves and cause or contribute to recession or low growth in Ukraine; (iii) adverse domestic factors, such as recession, decreases in foreign direct investment ("**FDI**") and portfolio investment, high domestic inflation, high domestic interest rates, exchange rate volatility, a reduction in gas supplies, difficulties in borrowing in the domestic and foreign markets, trade and political disputes between Ukraine and its trading partners, including Russia, political uncertainty or lack of political consensus, which could each lead to lower growth in Ukraine and lower international currency reserves; (iv) decisions of Ukraine's official creditors, including the European Union ("**EU**"), Germany, the United States and Japan, regarding the provision of new loans following the implementation of the Paris Club debt rescheduling agreed in July 2001; (v) decisions of international financial institutions such as the IMF, the World Bank, the European Bank for Reconstruction and Development (the "**EBRD**") and the European Investment Bank (the "**EIB**") regarding the funding of new or existing projects over the life of the Notes; and (vi) political factors in Ukraine, which affect the timing and structure of economic reforms, the climate for FDI and the pace, scale and timing of privatisations.

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RISK FACTORS

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

Risk Factors Relating to Ukraine

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

The global economic downturn which began in 2008 had a severe impact on Ukraine's economy. The severity with which the Ukrainian economy was affected was primarily due to the fact that a significant portion of Ukraine's economy is based on the production and exploration of metal and agricultural products and is therefore especially vulnerable to decreases in demand for exports, decreases or fluctuations in world commodity prices and the imposition of import tariffs by the United States, the EU or other major export markets. For example, as the global economic downturn took hold of Ukraine's export markets, Ukraine's industrial output decreased dramatically in the fourth quarter of 2008, the full year-on-year drop in industrial output in 2008 amounting to 5.2 per cent., compared to growth of 7.6 per cent. in 2007. Industrial output further declined in 2009 by 21.9 per cent., as a result of which industrial output returned to the levels recorded in 2003 and 2004, or approximately 80.4 per cent. of the level recorded in 1990. In 2010 and 2011, industrial output recorded an upswing, increasing at an annual rate of 11.2 and 7.6 per cent., respectively, with 2011 industrial output standing at 88.6 per cent. of the pre-downturn 2007 level and 96.2 per cent. of the level recorded in 1990. Of particular importance is Ukraine's reliance on exports of ferrous and non-ferrous metals and their products (33.7 per cent., 32.3 per cent. and 29.7 per cent. of total goods exports value in 2010, 2011 and in the first quarter of 2012, respectively) making the country's export revenues and, by extension, its broader macroeconomic performance, vulnerable to decreases or fluctuations in global metal demand or prices. In line with a decrease in industrial output, real gross domestic product ("**GDP**") declined by 14.8 per cent. in 2009 compared to 2008. However, in 2010, Ukraine's economy came out of recession and began to recover to a certain extent as real GDP increased by 4.1 per cent. that year compared to 2009 and continued to increase in 2011, growing by 5.2 per cent. in 2011 as compared to 2010. In the first quarter of 2012, data suggests Ukraine's real GDP increased by 2.0 per cent. on an annualised basis, and, however, if the global, and in particular the EU, economy continues to experience difficulties, there is a risk that Ukraine will not achieve the full year 2012 GDP growth assumption (3.9 per cent.) underlying the 2012 Ukraine State Budget.

The economic crisis also contributed to an increase in Ukraine's State Budget deficit as a percentage of its GDP. Although this percentage remains relatively low in absolute terms, it increased significantly from 1.3 per cent. for 2008 to 3.9 per cent. for 2009. The 2010 State Budget Law, as amended, provided for a budget deficit of not more than 4.99 per cent. of GDP, whereas the actual deficit of the 2010 State Budget amounted to 5.9 per cent. of GDP. The 2011 State Budget Law, as amended, provided for a budget deficit of not more than 2.7 per cent. of GDP, whereas the actual deficit of the 2011 State Budget amounted to 2.0 per cent. of GDP. The 2012 State Budget provides for a budget deficit of not more than 1.7 per cent. of GDP. See "*Public Finance and Fiscal Policy—The Central Local Fiscal Relationship" and "Public Finance and Fiscal Policy—The Budget Process*".

The rate of inflation in Ukraine was also severely affected by the economic crisis, with annual Consumer Price Inflation ("CPI") averaging 22.3 per cent. in 2008, and although this ultimately declined to 4.6 per cent. in 2011, there can be no assurance that continued pressure on energy and food prices will not lead to higher levels of inflation again. Wholesale prices are also vulnerable to increases in world prices for metal products and grain, as well as natural gas and oil, so the annual rate of inflation, as measured by the Wholesale Price Index ("**WPI**"), remained high, at 14.2 per cent. in 2011, 18.7 per cent. in 2010, 14.3 per cent. in 2009 and 23.0 per cent. in 2008, although as at 30 April 2012, WPI inflation was 4.8 per cent. Furthermore, inflation

can directly impact the State Budget performance, as Ukraine subsidises the cost of certain basic food items, and any increase in the real costs of these items could impact State Budget expenditure. See "*Economy of Ukraine—Inflation*".

Another effect of the global economic crisis on Ukraine's economy was to restrict the access of Ukrainian borrowers to funding in the international capital markets. Prior to the global financial crisis, relatively easy access to liquidity, both from within Ukraine and internationally, was a significant factor facilitating growth in Ukraine's GDP. The reduced availability of external financing to Ukrainian companies contributed to a decrease in industrial production, investment projects and capital expenditure generally. Any further deterioration of global or regional economic conditions, including a so-called "double dip" recession, may stall any current recovery or lead to a worsening of the economic and financial condition of Ukraine. Continued access to external liquidity is important should changing external or internal conditions cause an external funding gap to emerge. Although Ukraine did not have to look to external sources of financing for much of 2011 and the NBU holds gold and currency reserves of U.S.$31.7 billion as at 30 April 2012, equivalent to 3.4 months of import coverage, the widening of the current external account or significant net capital outflows could cause the stock of international reserves to fall or prompt the devaluation of hryvnia. Any such developments, including continued unavailability of external funding and increases in world prices for goods imported to Ukraine or decreases in world prices for goods exported from Ukraine, may have or continue to have a material adverse effect on the economy and thus on the ability of Ukraine to perform its obligations under the Notes.

Investments in emerging market countries such as Ukraine carry risks not typically associated with risks in more mature markets.

An investment in a country such as Ukraine, which achieved independence 20 years ago and whose economy is in transition, is subject to substantially greater risks than an investment in a country with a more developed economy and more mature political and legal systems. Although some progress has been made since independence in 1991 in reforming Ukraine's economy and political and judicial systems, to a large extent Ukraine still lacks the necessary legal infrastructure and regulatory framework that are essential to support market institutions, the effective transition to a market economy and broad based social and economic reforms. In addition, Ukraine may become subject to heightened volatility due to regional economic, political or military conflicts. As a consequence, an investment in Ukraine carries risks that are not typically associated with investing in more mature markets.

These risks may be compounded by incomplete, unreliable or unavailable economic and statistical data on Ukraine, including elements of the information provided in this Prospectus. See "*Official economic data and third party information may not be reliable*".

Accordingly, investors should exercise particular care in evaluating the risks involved in an investment in the Notes and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investments in emerging markets, such as Ukraine, are only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult their own legal and financial advisors before making an investment in the Notes.

Ukraine's Government may be unable to sustain political consensus, which may result in political instability.

Historically, a lack of political consensus in the Verkhovna Rada, or Parliament, of Ukraine has made it difficult for the Government to secure the necessary support to implement policies intended to foster liberalisation, privatisation and financial stability.

The 2010 presidential elections were the subject of a number of controversies involving Parliament, the Government and the President. Eighteen candidates, including the then incumbent President and Prime Minister and Speaker of Parliament, participated in the first round of elections on 17 January 2010. The two candidates who received the largest number of votes in the first round, Viktor Yanukovych and Yuliya Tymoshenko, participated in a run off that took place on 7 February 2010. On 14 February 2010, Mr. Yanukovych was declared the official winner of the run off, having received 48.95 per cent. of votes,

compared to 45.47 per cent. received by Ms. Tymoshenko. Although Ms. Tymoshenko initially challenged the results of the run off, she subsequently withdrew her challenge, and Mr. Yanukovych was inaugurated as President on 25 February 2010. On 11 March 2010, Parliament appointed Mykola Azarov, a member of the Party of Regions, as the new Prime Minister and endorsed the Government.

In July 2010, 252 members of Parliament requested the Constitutional Court of Ukraine to opine on the constitutionality of the 2004 law which was the basis of a constitutional reform implemented in 2006. On 30 September 2010, the Constitutional Court of Ukraine issued a ruling declaring the 2004 law unconstitutional (the "**CCU Ruling**"). As a result of the CCU Ruling, since 30 September 2010, Ukraine has been governed by the Constitution that was in effect before the amendments were introduced by the 2004 law. Following the CCU Ruling, certain legislation may contradict the Constitution of Ukraine and require amendment. This may result in uncertainty regarding the distribution of powers among State authorities and may lead to further political uncertainty in Ukraine. In particular, the CCU Ruling resulted in a lack of clarity regarding the length of the term of office of the current Parliament.

In February 2011, a new law amending the Constitution to unify the terms of office of the President, Parliament and local councils (the "**2011 Constitution Amendment Law**") came into effect. The 2011 Constitution Amendment Law provides for the reinstatement of the five-year term of office for Parliament which the CCU Ruling had reduced to four years. According to the 2011 Constitution Amendment Law, the next parliamentary elections will take place in October 2012 (rather than March 2011, as provided in the 2004 Constitution). On 9 February 2011, 53 members of Parliament requested the Constitutional Court of Ukraine to opine on the constitutionality of the 2011 Constitution Amendment Law. However, on 1 July 2011 the Constitutional Court of Ukraine dismissed the commencement of proceedings in this case. See *"Description of Ukraine—Recent Political Developments" and "Political Framework—The Constitution and the President"*.

As at the date of this Prospectus, the procedures and rules governing the political process in Ukraine remain in a state of uncertainty and may be subject to change through the normal process of political alliance building or, if the required action is taken, through constitutional amendments and decisions of the Constitutional Court of Ukraine. Recent political developments have also highlighted potential inconsistencies between the Constitution of Ukraine and various laws and presidential decrees. Furthermore, such developments have raised questions regarding the judicial system's independence from economic and political influences. See "*Description of Ukraine—Recent Political Developments*".

A number of additional factors could adversely affect political stability in Ukraine, including:

- lack of agreement within the factions and between individual deputies;
- disputes between factions within the parliamentary majority and opposition factions on major policy issues, including Ukraine's foreign and energy policy;
- court action taken by opposition politicians against decrees and other actions of the President and Government; and
- court action taken by the President against parliamentary or governmental resolutions or actions.

If political instability continues or heightens, it may have negative effects on the Ukrainian economy including on access to the international capital markets and borrowing from multilateral organisations, and, as a result, a material adverse effect on Ukraine's capacity to perform its obligations under the Notes.

Political instability may affect economic indicators and result in a negative effect on the economy of Ukraine.

In recent years, Ukraine has undergone substantial political transformation from a constituent republic in a federal socialist state to an independent sovereign democracy. In parallel with this transformation, Ukraine is moving from a centrally planned economy to a market economy. However, this process of economic transition is not complete.

Although Ukraine made significant progress in 2007 and 2008 in increasing its GDP, increasing real wages and improving its trade balance, political instability compounded the negative effects that the global economic downturn had on key economic indicators in 2009, as well as undermining business confidence. However, GDP returned to growth in 2010, increasing by 4.1 per cent. for the year, primarily as a result of increases in gross added value in certain sectors of the economy (including mining and processing, industries and production, and distribution of electricity, water and gas). Growth continued in 2011, with Ukraine's real GDP increasing by 5.2 per cent. in 2011 as compared to 2010, but slowed to 1.8% for the first quarter of 2012. See "*Economy of Ukraine*" and "*External Sector*". Parliamentary elections are scheduled to take place in Ukraine on 28 October 2012, with campaigning commencing on 30 July 2012. If political instability continues or heightens, it may have further negative effects on the Ukrainian economy and, as a result, a material adverse effect on Ukraine's capacity to perform its obligations under the Notes.

Positive developments in the economy may not be achieved if certain important economic and financial structural reforms are not made.

The negative impact of the global economic and financial downturn has been compounded by weaknesses in the Ukrainian economy, which is sensitive to external and internal events. In particular, although the Government has generally been committed to economic reform, the implementation of reform has been impeded by lack of political consensus, controversies over privatisation (including privatisation of land in the agricultural sector and privatisation of large industrial enterprises), restructuring of the energy sector, and removal of exemptions and privileges for certain State-owned enterprises or for certain industry sectors.

The negative trends in the Ukrainian economy may continue unless Ukraine undertakes certain important economic and financial structural reforms. The most critical structural reforms that need to be implemented or continued include: (i) further reform of Ukrainian tax legislation (including the development and approval of subordinate legislation implementing the Tax Code as defined below) with a view to broadening the tax base by bringing a substantial portion of the shadow economy into the reporting economy; (ii) reform of the energy sector through the introduction of uniform market based energy prices and improvement in collection rates (and, consequently, the elimination of the persistent deficits in that sector); and (iii) reform of social benefits and pensions.

The implementation of the Tax Code led to a significant improvement in tax collection in 2011. These measures may not, however, continue to increase tax revenues at the same rate or achieve the results expected by the Government.

Failure to achieve the political consensus necessary to support and implement such reforms could adversely affect the country's macroeconomic indices and economic growth. Furthermore, future political instability in the executive or legislative branches could hamper efforts to implement necessary reforms. If the political initiatives necessary to achieve these reforms or any other reforms described elsewhere in this Prospectus do not continue, are reversed or fail to achieve their intended aims, then Ukraine's economy may suffer. Rejection or reversal of reform policies favouring privatisation, industrial restructuring and administrative reform may have negative effects on the economy and, as a result, a material adverse effect on Ukraine's capacity to perform its obligations under the Notes.

The Ukrainian banking system may be vulnerable to stress due to fragmentation, undercapitalisation and a potential increase in non-performing loans, all of which could have a material adverse effect on the real economy.

The recent global financial crisis has led to the collapse or bailout of some Ukrainian banks and to significant liquidity constraints for others due in part, to high levels of deposit withdrawals. The crisis has prompted the Government to inject substantial funds into the banking system amid reports of difficulties among Ukrainian banks and other financial institutions. See "*The Banking System and Securities and Financial Services Markets in Ukraine—Recent Developments in the Banking Sector*". The Government's policy has been to intervene in support only of banks whose size is such that their failure would create systemic risk for the Ukrainian economy.

Despite progress with the restructuring and recapitalisation of Ukrainian banks, problems with asset quality and indebtedness persist. Asset quality was affected significantly by the devaluation in the hryvnia in 2008 (52.5 per cent. against the dollar and 46.3 per cent. against the euro) and further exacerbated by the 14.8 per cent. contraction of the economy in 2009.

Despite Government and NBU intervention and progress in stabilising the foreign exchange market towards the end of 2009 and during the first half of 2010, the high dollarisation in the Ukrainian financial system increased exchange rate risk and could contribute to a worsening in bank asset quality. 30.6 per cent. of the money supply in circulation in Ukraine was denominated in U.S. dollars in 2008, since which time this level has remained fairly constant, amounting to 31.7 per cent. in 2009, 29.1 per cent. in 2010 and 30.3 per cent. as at 31 December 2011. Doubtful and bad loans are another factor affecting the asset quality of Ukrainian banks. The proportion of loans represented by doubtful and bad loans was 3.8 per cent., 13.1 per cent., 14.9 per cent., 14.3 per cent. and 14.0 per cent. as at 31 December 2008, 2009, 2010, 2011 and as at 30 April 2012, respectively. Although the rate of growth in the share of doubtful and bad loans in banks' loan portfolios has slowed, a future increase in this rate could place additional strain on the banking system. Furthermore, in addition to the loans that the NBU categorises as doubtful and bad, a significant proportion of Ukrainian banks' loan portfolios could be described as substandard. The IMF provided two estimates for loans which could be categorised as non-performing based on two different definitions of non-performing loans. The broad definition of non-performing loans includes loans classified as substandard, doubtful and loss-making. According to the IMF country report on Ukraine of February 2011, 41.0 per cent. of loans held by Ukrainian banks were non-performing as at 30 September 2010, based on this broad definition. The narrower definition of non-performing loans does not include substandard loans that are being serviced in a timely manner. Under this definition, the IMF estimated that 17.0 per cent. of loans were non-performing as at 30 September 2010. As at 31 December 2011, the aggregate share of substandard, doubtful and bad loans in the banking sector was equal to 37.8 per cent., with substandard loans equal to 23.5 per cent. and as at 30 April 2012, the aggregate share of substandard, doubtful and bad loans in the banking sector was equal to 39.3 per cent. with substandard loans equal to 25.3 per cent.

The fragile condition of the Ukrainian banking system has also been the main factor in restricting the availability of domestic credit required by domestic businesses to continue to grow their operations. Troubled domestic banks are in many cases unwilling or unable to lend to domestic businesses in need of renewed or further funding. This stagnation of credit conditions within Ukraine is likely to have a negative effect on Ukraine's GDP growth if it continues as a result of bank profitability remaining low and the anticipated recovery being slow to materialise. Furthermore, increased domestic borrowing by the Government is likely to reduce the availability of domestic credit for Ukrainian businesses, exacerbating the effect on GDP levels.

The continuation or worsening of the financial crisis, further insolvencies of Ukrainian banks, increased liquidity constraints, growth in the share of doubtful and bad loans, the need for the Government to inject more capital into the banking system and the failure to adopt and implement a system of banking regulation that achieves an increased degree of soundness and stability in the nation's banks could all have a material adverse effect on the Ukrainian economy and the ability of Ukraine to perform its obligations under the Notes.

The Ukrainian currency is subject to volatility and depreciation.

In view of the high dollarisation of the Ukrainian economy and the reliance of Ukrainian borrowers on external markets, Ukraine has become increasingly exposed to the risk of hryvnia exchange rate fluctuations. Since September 2008, the interbank U.S. dollar/hryvnia exchange rate has fluctuated significantly, between a low of U.S.$1.00 to UAH 4.7204 and a high of U.S.$1.00 to UAH 8.8896. See "*The Monetary System—Exchange Rates*".

The official U.S. dollar/hryvnia exchange rate increased from UAH 4.85 to U.S.$1.00 as at 24 September 2008 to UAH 7.87 to U.S.$1.00 as at 19 December 2008. In total, in 2008, the hryvnia depreciated against the dollar by 52.5 per cent. and against the euro by 46.3 per cent. as compared to year-end 2007, and further depreciated against these currencies in 2009 by 3.7 per cent. and 5.5 per cent., respectively.

The NBU sought to address the hryvnia instability by taking administrative measures (including certain foreign exchange market restrictions), and used approximately U.S.$3.9 billion and U.S.$10.4 billion of its foreign exchange reserves to support the Ukrainian currency in 2008 and 2009, respectively. In 2010, due to increased supply, and resulting surplus, of foreign currency in the market, the hryvnia appreciated against the U.S. dollar by 0.29 per cent. and depreciated against the euro by 7.65 per cent. In 2011, the hryvnia depreciated against the dollar by 0.35 per cent. and appreciated against the euro by 2.6 per cent. compared to 1 January 2011. In the four months ended 30 April 2012, the average official hryvnia to U.S. dollar exchange rate was UAH 7.9878 to U.S.$1.00. The official exchange rate was UAH 7.99 to U.S.$1.00 as at 16 July 2012.

Amid concerns that the worsening economic environment in the Eurozone may lead to hryvnia depreciation, the NBU renewed interventions through the sale of international reserves. The NBU also adopted measures to limit foreign currency transactions in the shadow economy. Significant worsening of external conditions, in particular in the Eurozone, could lead to increased hryvnia volatility.

Government borrowing in the international markets has increased markedly over the last couple of years. Total State external debt has risen from approximately U.S.$18.5 billion as at 31 December 2008 to U.S.$37.5 billion as at 31 December 2011. Domestic debt denominated in a foreign currency, which consists of U.S. dollar and euro denominated T-bills sold domestically, also carries an exchange rate risk and as at 30 April 2012, the total amount of such debt outstanding was U.S.$1,019.8 million and EUR 275.0 million, respectively. Regarding total loans, both internal and external, as at 30 April 2012, 42.3 per cent. were denominated in foreign currencies. The increases in both external debt and U.S. dollar and euro denominated domestic debt expose the Government to a heightened foreign exchange risk and as a result a significant depreciation of the hryvnia may affect the Government's ability to continue to service its external debt. Any attempt to restructure or refinance such external debt would also be made more complicated by the increased size of the debt and the larger number of lenders and sources of credit involved.

Any further currency fluctuations may negatively affect the Ukrainian economy in general and, as a result, have a material adverse effect on Ukraine's capacity to perform its obligations under the Notes.

Inability to obtain financing from external sources could affect Ukraine's ability to meet financing expectations in its budget.

Ukraine's internal debt market remains illiquid and underdeveloped compared with markets in most Western countries. See "*Public Debt—Internal Debt*". In the wake of the emerging market crisis in the autumn of 1998 and until the second half of 2002, loans from multinational organisations such as the EBRD, the World Bank, the European Union (the "**EU**") and the IMF comprised Ukraine's only significant sources of external financing.

From 2003 until 2008, the international capital markets were Ukraine's main source of external financing but they ceased to be available from mid-2008 due to the global economic and financial crisis. As a result, Ukraine sought IMF financing. In November 2008, the IMF approved a two-year stand-by arrangement (the "**2008 SBA**") with Ukraine for approximately U.S.$16.4 billion to assist the Government in restoring financial and economic stability. In 2008 and 2009, total disbursements under the 2008 SBA amounted to approximately U.S.$10.6 billion.

In November 2009, a third tranche of IMF financing under the 2008 SBA of approximately U.S.$3.9 billion was suspended due to the failure of the parties to reach agreement with respect to the results of the third review of Ukraine's compliance with the terms of the 2008 SBA.

Between March and July 2010, after the new President of Ukraine took office, IMF missions visited Ukraine to review the macroeconomic situation and budgetary, fiscal and monetary policy of the Government and the NBU and to consider possible resumption of IMF support. On 28 July 2010, the IMF Executive Board approved a new stand-by arrangement (the "**2010 SBA**") for Ukraine of approximately U.S.$15.2 billion to be extended in ten tranches between 2010 and 2012, with two tranches scheduled for 2010 and four tranches scheduled for each of 2011 and 2012, subject, in each case, to Ukraine's compliance with the terms of the 2010 SBA.

Drawdowns of IMF financing are contingent upon Ukraine's satisfaction of certain performance criteria. The 2010 SBA set out quantitative and continuous performance criteria to be met by Ukraine, including, among other things, a cap on the cash deficit of the general government, a floor on net international reserves of the NBU, a cap on net domestic assets and a cap on State-guaranteed debt. On 2 August 2010, Ukraine received the first tranche under the 2010 SBA in the amount of approximately U.S.$1.9 billion. On 27 December 2010, following the first review, Ukraine received the second tranche in the amount of approximately U.S.$1.5 billion, approximately U.S.$1.0 billion of which was earmarked for the financing of the State Budget deficit. The disbursement of the third tranche, expected to take place in May 2011, was deferred. The IMF mission visited Kyiv from 21 May to 28 May 2012 to assess Ukraine's economic performance, in accordance with Article IV of the IMF's Articles of Agreement, by which member states are monitored. Following the earlier February 2011 visit, a revised schedule of increases of gas tariffs charged to consumers was agreed and certain additional budgetary measures were identified to assist Ukraine in maintaining the consolidated budget and the deficit of National Joint Stock Company "Naftogaz of Ukraine" ("**Naftogaz**") within the levels agreed as part of the 2010 SBA, including pension reform. Following the May 2012 IMF mission, the IMF noted that the Ukrainian public is benefiting from lower inflation supported by the NBU's monetary policy, reacted positively to pension reform and the new customs code and considered progress to have been made in deregulating and simplifying tax laws. However, despite this progress, further disbursements remain subject to raising domestic gas tariffs as previously agreed. The raising of domestic gas tariffs is politically challenging. Such challenges are exacerbated by recent increases in natural gas tariffs for imported gas in accordance with the tariff schedule arranged in 2009 with OJSC Gazprom ("**Gazprom**"). Ukraine is currently in negotiations to amend the tariff schedule with Gazprom but no agreement has yet been reached. See "*Ukraine's economy depends heavily on its trade flows with Russia and certain other CIS countries and any major change in relations with Russia could have adverse effects on the economy*". Any further increase in imported gas prices would require an increase either in domestic gas tariffs to unaffordable levels (for many Ukrainian people and commercial entities) or Government subsidies for Naftogaz. The discussions with the IMF are ongoing, but there is no assurance that the third tranche or subsequent tranches will be disbursed if the IMF deems that performance criteria under the programme are not satisfactorily met. See "*Public Debt—External Debt—International Financial Institutions—IMF*".

More generally, external borrowings from multilateral organisations such as the IMF, the EBRD, the World Bank or the EU may be conditional on Ukraine's satisfaction of various requirements. These requirements may include:

- implementation of strategic, institutional and structural reforms;
- limits on the consolidated budget deficit;
- reduction of overdue tax arrears;
- absence of increases of budgetary arrears;
- improvement of sovereign debt credit ratings; and
- reduction of overdue indebtedness for electricity and gas.

If Ukraine is unable to meet these requirements, multilateral organisations may withhold or suspend funding, as occurred with respect to the third tranche of IMF financing under the 2008 SBA. If Ukraine is unable to resort to the international capital markets or syndicated loan markets, a failure by official creditors and of multilateral organisations to grant adequate financing could put pressure on Ukraine's budget and foreign exchange reserves and have a material adverse effect on its ability to perform its obligations under the Notes.

Ukraine has experienced liquidity difficulties in the past and continues to be subject to a significant liquidity risk. In addition, Ukraine will face higher debt service obligations over the next several years than in the recent past.

As at year-end 2008, Ukraine's total debt as a percentage of GDP, including both State debt (direct debt) and State guaranteed debt (contingent liabilities), was 20.0 per cent. Total debt of Ukraine as a percentage of GDP increased to 34.8 per cent. and 39.5 per cent. as at year-end 2009 and 2010, respectively. In 2011,

Ukraine's total debt as a percentage of GDP decreased to 36.0 per cent. and the Government expects that total debt as a percentage of GDP will remain at 36.0 per cent. as at year-end 2012.

Total State external debt service has been rising over the past several years. The ratio of State external debt service (including principal, interest and fees but excluding debt owed to the IMF by the NBU) to GDP was approximately 0.5 per cent. in 2008, approximately 1.9 per cent. in 2009, approximately 1.0 per cent. in 2010 and approximately 1.55 per cent. in 2011. Total State external debt service (excluding payments to the IMF by the NBU) was approximately U.S.$897.0 million in 2008, approximately U.S.$2,168.0 million in 2009, approximately U.S.$1,360.0 million in 2010 and approximately U.S.$2,658.0 million in 2011. The increase in 2009 as compared to 2008 resulted from the repayment of U.S.$500 million in floating rate notes in August 2009 and from the exercise of a bondholder put on CHF 768 million in 3.5 per cent. bonds initially due in 2018, which then became due in September 2009. Total IMF debt service and repayment was approximately U.S.$385.2 million in 2008, approximately U.S.$285.0 million in 2009, approximately U.S.$234.6 million in 2010 and approximately U.S.$362.9 million in 2011 and is estimated to total U.S.$4,186.4 million in 2012 (including payments to the IMF by the NBU). See "*Public Debt— External Debt—Commercial Creditors*".

Total State external debt service will be considerably higher in 2012, than in 2011 or in prior years and is expected to remain significantly higher than historic levels from 2013 to 2016. In 2012, the Government expects total State external debt service (excluding payments to the IMF by the NBU) to be approximately U.S.$4,730.0 million, which includes the repayment of U.S.$1.0 billion of external debt to JSC VTB Bank on 6 June 2012. 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 continue to be significantly higher from 2013 to 2016, peaking at U.S.$5,088.7 million in 2013. This includes a scheduled repayment of debt owed to the IMF by the Government in 2013 of U.S.$2,908.8 million and redemption in 2013 of Ukraine's U.S.$1,000.0 million 7.65 per cent. Notes due 2013. All of the foregoing excludes debt owed to the IMF by the NBU. The NBU has scheduled debt service on IMF debt of approximately U.S.$3,036.6 million in 2012 and approximately U.S.$3,526.1 million in 2013. The increased level of debt service described above does not include any additional debt issuance or guarantees of debt by Ukraine or refinancing of existing debt. For further information on total debt service on IMF debt, see "*Public Debt Estimated IMF Debt Service for 2012-2017*". Furthermore, the substantial payment obligations of some State-owned companies falling due from 2012 to 2016 (including debt repayments and payments for natural gas supplied for domestic consumption to Ukraine) is likely to exert additional pressure on Ukraine's liquidity. The Ministry of Finance anticipates that in 2012 and 2013, debt obligations totalling UAH 9,571.8 million and UAH 11,530 million, respectively, will fall due with regard to State-owned companies.

This pressure on Ukraine's liquidity may intensify if the State does not meet its budgeted revenue targets in 2012. In 2009, revenues of the Consolidated Budget were UAH 273.0 billion, or UAH 51.7 billion below the budgeted target, largely due to the effect of the financial and economic downturn globally and in Ukraine. Of that amount, UAH 4,054.1 million, UAH 13,046.3 million and UAH 9,917.9 million reflect decreased collection of import duties, value added tax ("**VAT**") and corporation tax, respectively. In 2010, revenues of the Consolidated Budget were approximately UAH 314.5 billion, or UAH 10.9 billion below the budgeted target. Of that amount, UAH 4,376.6 million and UAH 2,315.7 million reflect decreased collection of VAT and excise duty on domestic goods. In 2011, revenues of the Consolidated Budget were UAH 398.6 billion, or UAH 3.5 billion over the budgeted target. The Ministry of Finance forecasts that revenues of the Consolidated Budget will amount to UAH 458.1 billion in 2012. See "*Public Finance and Fiscal Policy*". If these factors occur or persist, Ukraine may experience a lack of liquidity.

Continued adverse changes in global or domestic political or economic conditions or in the international capital markets may place renewed pressure on Ukraine's foreign exchange reserves and increase its liquidity risk. However, liquidity risk is not uniquely driven by external pressure nor uniquely relates to foreign currency liquidity. For instance, Ukraine is susceptible to changes in sentiment over the stability of hryvnia. A lack of resident confidence in the hryvnia can cause an increase in the number of retail foreign currency transactions. Regardless of whether these transactions cause official reserves to fall significantly, the potential effects on hryvnia liquidity may cause interbank lending rates to increase. This could impact bank lending and adversely affect Ukraine's economic growth as well as reduce resources available for budget

financing, which would undermine its ability to comply with payment obligations under the Notes. See "*Inability to obtain financing from external sources could affect Ukraine's ability to meet financing expectations in its budget*".

In addition, it should be noted that many companies in the Ukrainian private sector have significant levels of indebtedness, and as a result of the financial crisis may experience difficulty accessing new financing. Although private sector debt, unlike State debt, does not have a direct negative effect on the Government's exchange liquidity, high levels of indebtedness of, and limited availability of new credit to, the private sector may complicate economic recovery and pose a significant risk in an already challenging economic environment.

Ukraine's economy depends heavily on its trade flows with Russia and certain other CIS countries and any major change in relations with Russia could have adverse effects on the economy. Further, the difference between the price paid to the Russian gas supplier Gazprom and the price charged for natural gas in Ukraine has necessitated significant Government support for Naftogaz.

Ukraine's economy depends heavily on its trade flows with Russia and other Commonwealth of Independent States (the "**CIS**") countries, largely because Ukraine imports a large proportion of its energy requirements, especially from Russia (or from countries that transport energy related exports through Russia). In addition, a large share of Ukraine's services receipts comprise transit charges for oil, gas and ammonia from Russia, which are delivered to the EU via Ukraine and, furthermore, in 2011, approximately 29.0 per cent. of all Ukrainian exports of goods went to Russia.

Ukraine therefore considers its relations with Russia to be of strategic importance. Until recently, relations between Ukraine and Russia were strained to a certain extent due to factors including:

- disagreements over the prices and methods of payment for gas delivered to, and transported through, Ukraine by the Russian gas supplier Gazprom;
- issues relating to the delineation of the Russia-Ukraine maritime border;
- issues relating to the temporary stationing of the Russian Black Sea Fleet (Chernomorskyi Flot) in the territory of Ukraine; and
- a Russian ban on imports of meat and milk products from Ukraine and anti dumping investigations conducted by Russian authorities in relation to certain Ukrainian goods.

However relations with Russia strengthened following the election of President Yanukovych in 2010. On 21 April 2010, Ukraine and Russia signed a new agreement on issues of the stationing of Russia's Black Sea Fleet on Ukrainian territory, under which the term of the stationing of Russia's Black Sea Fleet in Sevastopol was extended for a further 25 year period with an additional five year extension option. See "*Political Framework—Russia*".

If bilateral trade relations were to deteriorate or if Russia were to stop transiting a large portion of its oil and gas through Ukraine or if Russia halted supplies of natural gas to Ukraine, Ukraine's balance of payments and foreign currency reserves could be materially and adversely affected.

Russia has, recently and in the past, threatened to cut off the supply of oil and gas to Ukraine in order to apply pressure on Ukraine to settle outstanding gas debts and maintain the low transit fees for Russian oil and gas through Ukrainian pipelines to European consumers. In line with its threats, Gazprom substantially decreased natural gas supplies to Ukraine in early January 2009, due to a failure to agree terms regarding the supply of natural gas.

Pursuant to contracts between Naftogaz and Gazprom dated 19 January 2009 for natural gas supply and transit from 2009 to 2019, the price for natural gas supplied to Ukraine for domestic consumption and the tariff for its transit through Ukraine is to be determined pursuant to formulae included in these contracts. In 2009, the average weighted price for natural gas was approximately U.S.$210.2 per 1,000 cubic metres. In 2010, the average weighted price for natural gas increased further. In April 2010, Gazprom agreed to give

Naftogaz certain discounts from the otherwise applicable price for natural gas supplied for domestic consumption to Ukraine As a result, the average weighted annual price for natural gas was U.S.$256.7 and U.S.$309.02 per 1,000 cubic metres in 2010 and 2011, respectively. The price for such imported natural gas being paid as at 30 April 2012 is U.S.$415.71 per 1,000 cubic metres. However, Naftogaz and Gazprom are currently in negotiations about the pricing of gas for domestic consumption in 2012 and any failure to come to an acceptable compromise may force Ukraine to continue to subsidise Naftogaz to maintain affordable gas prices for Ukrainians, thereby jeopardising the next drawdown from the IMF loan programme. See "*Economy of Ukraine —Principal Sectors of the Economy—Oil and Gas*".

In addition, Naftogaz and its subsidiaries accounted for approximately 11.4 per cent. (or UAH 36.0 billion), 10.9 per cent. (or UAH 26.3 billion) and 18.8 per cent. (or UAH 39.4 billion) of revenues to Ukraine's State Budget in 2011, 2010 and 2009 respectively. However, the State Budget revenues received from Naftogaz and its subsidiaries have been offset by direct subsidies from the State Budget to cover differences between the purchase price of imported gas and the price charged to municipal heating enterprises and other domestic consumers. For instance, UAH 3.4 billion and UAH 4.1 billion were extended from the State Budget to Naftogaz to cover this difference in 2010 and 2009 respectively, although in 2011 comparable payments were not made from the State Budget. In addition to these direct subsidies, the Government may use other measures to support Naftogaz, including but not limited to deferral of taxes and increasing the statutory capital of Naftogaz through the issuance of additional shares and their exchange for T-bills. Further increases in the price of imported natural gas would continue to put pressure on the Government to continue to support, or to increase support to, Naftogaz to the extent not offset by higher tariffs for domestic consumption. Failure to reduce such support for Naftogaz may continue to delay the drawdown of the third tranche of IMF financing thereby having a significant adverse effect on the economy of Ukraine.

In May 2011, it was reported that Russia plans to divert approximately 20 billion cubic metres of gas per annum from Ukraine's gas transit system to the Nord Stream and South Stream pipelines bypassing Ukraine. The Nord Stream pipeline commenced commercial operations in November 2011. This amount would be equivalent to approximately 20.3 per cent. of all gas transported from one foreign country to another via Ukraine in 2010. Ukraine is seeking to minimise any potential adverse effect to Naftogaz and its economy in general, including through assurances on transport volumes. Such efforts may not be successful and any decreases in the volumes of gas transportation (due to the launch of Nord Stream, South Stream and other pipelines bypassing Ukraine), further Russian increases in gas supply prices or other developments could adversely affect Naftogaz's future results of operations, reducing the revenue the State Budget receives from Naftogaz or increasing Naftogaz's need for support. Reduced revenue from Naftogaz, or any further adverse changes in Ukraine's relations with Russia, or an increased need for support, could put pressure on the State Budget and have a material adverse effect on Ukraine's ability to perform its obligations under the Notes.

Failure to fulfil privatisation plans will adversely affect achievement of financing levels anticipated in the State Budget.

The State Budget is dependent to a significant extent on receipts from privatisations. For 2008, privatisation receipts were UAH 482.7 million, or 79.4 per cent. of the revised annual target. For 2009, target privatisation receipts were set at approximately UAH 8.5 billion and actual privatisation receipts were only UAH 814.9 million, or 9.6 per cent. of the annual target. For 2010, target privatisation receipts were initially set at UAH 10.0 billion, but were subsequently decreased in July 2010 to UAH 6.35 billion. In 2010, actual privatisation receipts were only UAH 1,093.0 million, or 17.22 per cent. of the revised annual target. The significant shortfall in actual privatisation receipts in 2008, 2009 and 2010 as compared to the respective targets was principally due to the failure to privatise OJSC "Ukrtelecom", JSC "Odesa Port Plant", OJSC "Turboatom" and a number of regional energy distribution companies. Certain of such privatisations were either cancelled or significantly delayed in 2008, 2009 and 2010 due to decrees of the President of Ukraine prohibiting or suspending these privatisations. See "*Economy of Ukraine—Privatisation*".

On 10 December 2010, a previous presidential decree of 16 May 2008 restricting the privatisation of certain assets was repealed by a further presidential decree, thereby allowing those assets to be added to the list of assets subject to privatisation. As a result, the State Property Fund of Ukraine (the "**SPF**") now considers possible the privatisation of State-owned shareholdings in a number of attractive State-owned companies

previously prohibited for privatisation. Certain of these companies have already been included in the 2011 to 2012 privatisation list.

The 2011 State Budget aimed for privatisation proceeds totalling UAH 10.0 billion. In March 2011, the SPF executed an agreement for the sale of a 92.79 per cent. stake in OJSC "Ukrtelecom" to ESU LLC for UAH 10.57 billion, who made payment on 10 May 2011. In 2011, the State Budget had received privatisation proceeds equal to UAH 11.480 billion. The 2012 State Budget assumes privatisation proceeds totalling UAH 10.0 billion in 2012 and as at 14 May 2012, privatisation proceeds received by the State amounted to UAH 5.07 billion.

Although the Government exceeded its budgeted privatisation receipts for 2011, the success of future privatisations will depend on the implementation of structural and other reforms. In 2010, an economic reform programme covering the period from 2010 to 2014 was launched, which seeks to encourage efficiency within the State and a more competitive economy (the "**2010 to 2014 Economic Reform Programme**"). Failure to fully implement the 2010 to 2014 Economic Reform Programme may hinder the Government's ability to fulfil its privatisation goals. The 2012 to 2014 privatisation programme, which it is anticipated will further reduce state ownership, as well as generating privatisation proceeds, received presidential approval on 31 January 2012. See "*Economy of Ukraine—Privatisation*". In addition, the failure to privatise key State-owned assets may reduce the willingness of multilateral organisations to provide financial support to Ukraine. See "*—Inability to obtain financing from external sources could affect Ukraine's ability to meet financing expectations in its budget*".

Ukraine's developing legal system creates risks and uncertainties for investors in Ukraine and for participants in the Ukrainian economy.

Since independence in 1991, as Ukraine has been developing from a planned to a market based economy, the Ukrainian legal system has also been developing to support this market based economy. As a result, Ukraine's legal system has been, and continues to be, in transition and is, therefore, subject to greater risks and uncertainties than a more mature legal system. In particular, risks associated with the Ukrainian legal system include:

- inconsistencies between and among the Constitution of Ukraine and various laws, presidential decrees, governmental, ministerial and local orders, decisions, resolutions and other acts;
- provisions in the laws and regulations that are ambiguously worded or lack specificity and thereby raise difficulties when implemented or interpreted;
- the fact that it is not unusual in Ukraine for laws to be enacted with retroactive effect or to be published some time after their enactment;
- authority or guidance for interpreting provisions of Ukrainian legislation remains rare;
- difficulty in predicting the outcome of judicial application of Ukrainian legislation due to, among other factors, a general inconsistency in the judicial interpretation of such legislation in the same or similar cases; and
- the fact that not all Ukrainian resolutions, orders, decrees, decisions and similar governmental, regulatory and judicial acts are readily available to the public or available in comprehensibly organised form.

These and other factors that have an impact on Ukraine's legal system make an investment in the Notes subject to greater risks and uncertainties than an investment in a country with a more mature legal system.

Official economic data and third party information may not be reliable.

Although a range of governmental ministries, along with the NBU and the State Statistics Service, produce statistics on Ukraine and its economy, there can be no assurance that these statistics are as substantially complete or reliable as those compiled in many more developed countries. Prospective investors in the Notes

should be aware that figures relating to Ukraine's GDP and many other aggregate figures cited in this Prospectus may be subject to some degree of uncertainty and may not be fully in accordance with international standards.

Furthermore, standards of accuracy of statistical data may vary from ministry to ministry or from period to period due to the application of different methodologies. In this Prospectus, data are presented as provided by the relevant ministry to which the data is attributed, and no attempt has been made to reconcile such data to the data compiled by other ministries or by other organisations, such as the IMF. Since the first quarter of 2003, Ukraine has produced data in accordance with the IMF's Special Data Dissemination Standard.

The IMF standard has not always been fully implemented or correctly applied. The existence of a sizeable unofficial or shadow economy may also affect the accuracy and reliability of statistical information. In addition, Ukraine has experienced variable rates of inflation, including periods of hyperinflation. Unless otherwise indicated, the information and figures presented in this Prospectus have not been restated to reflect such inflation and, as a result, period to period comparisons may not be meaningful. Prospective investors should be aware that none of these statistics have been independently verified.

Ukraine has also provided information on certain matters pertaining to documentation that belongs to independent third parties. In certain of these circumstances, Ukraine has relied on reported information in presenting such matters but is unable to independently verify such information.

Changes in relations with Western governments and multinational institutions may adversely affect the development of the Ukrainian economy.

Ukraine aims to achieve a closer relationship with the EU and, with effect from 30 December 2005, Ukraine was given market economy status by the EU. Other than Russia, the EU is the largest external trade partner of Ukraine and continues to grow in importance, increasing from 25.4 per cent. of all exports in 2009 to 26.3 per cent. in 2011. As a consequence, Ukraine's relationship with governments in the EU and with multinational institutions is of great importance. Their perception of the commitment to and nature of legislative and regulatory reform programmes in Ukraine, the improvement and continued independence of the judicial system and political developments in Ukraine could significantly impact those relations. There have been reports that the timing and circumstances of the arrest and subsequent imprisonment of the former Ukrainian prime minister, Yuliya Tymoshenko, for abuse of power has caused a negative reaction among representatives of some governments and institutions and has affected relations with such governments and institutions. In particular, EU authorities have indicated that the signing of Ukraine's Association Agreement with the EU may be delayed pending a satisfactory resolution of the Yuliya Tymoshenko case. See "*Description of Ukraine—Political Developments since the 2010 Presidential Election*".

Any major changes in Ukraine's relations with Western governments and institutions, may have negative effects on the economy. See "*Political Framework—International Relations*".

Ukraine has been identified by the media and analysts as having corruption and money laundering issues.

Independent analysts and media reports have identified corruption and money laundering as problems in Ukraine. In May 2010, a new law was passed to implement the recommendations of the Financial Action Task Force on Money Laundering (the "**FATF**"), an inter-governmental body, and the EU directive on money laundering and terrorist financing. Furthermore, in June 2009, Parliament adopted several laws setting forth a general framework for the prevention and counteraction of corruption in Ukraine, which were to become effective on 1 January 2011. However, in December 2010 Parliament repealed the package of earlier adopted anti-corruption laws, the repeal taking effect from 5 January 2011. A new anti-corruption law was passed by Parliament on 7 April 2011, which became fully effective from 1 January 2012. From 27 October 2011, Ukraine has no longer been subject to FATF's monitoring for the purposes of AML/CFT compliance. Although the new legislation facilitates anti-corruption efforts in Ukraine there has been no quantifiable recorded decrease in the level of prosecutions or overall levels of corruption in the country. Any future allegations of corruption against Ukraine or evidence of money laundering in Ukraine could have a negative effect on its ability to attract foreign investment and, more generally, on the economy of Ukraine and thus on Ukraine's ability to perform its obligations under the Notes.

Uncertainties relating to the judicial system may hamper development of the economy.

The independence of the judicial system and its immunity from economic and political influences in Ukraine remain questionable. The system of constitutional jurisdiction itself remains complicated and, accordingly, it is difficult to ensure smooth and effective removal of discrepancies between the Constitution and applicable Ukrainian legislation on the one hand and among various laws of Ukraine on the other hand.

The court system is understaffed and underfunded. Because Ukraine is a civil law jurisdiction, judicial decisions under Ukrainian law generally have no precedential effect (subject to certain exceptions). Courts themselves are generally not bound by earlier decisions taken under the same or similar circumstances, which can result in the inconsistent application of Ukrainian legislation to resolve the same or similar disputes.

Not all Ukrainian legislation is readily available to the public or organised in a manner that facilitates understanding. Furthermore, to date only a relatively small number of judicial decisions have been publicly available and, therefore, the role of judicial decisions as guidelines in interpreting applicable Ukrainian legislation to the public at large is generally limited.

The Ukrainian judicial system has become more complicated and hierarchical as a result of the recent judicial reforms. The generally perceived result of these reforms is that the Ukrainian judicial system is now even slower than before.

All of these factors make judicial decisions in Ukraine difficult to predict and effective redress uncertain and court orders are not always enforced or followed by law enforcement institutions. The uncertainties of the Ukrainian judicial system could have a negative effect on the economy and thus on the ability of Ukraine to perform its obligations under the Notes.

Judicial or arbitral proceedings may result in significant foreign currency awards against Ukraine.

Adverse decisions in legal proceedings, involving Ukraine, its state agencies and its political subdivisions may result in the award of substantial damages or other remedies. In particular, Ukraine is currently involved in an arbitration proceeding with the Russian company OJSC "Tatneft" ("**Tatneft**"). The arbitration concerns disputes over the shareholder structure and management of PJSC "Ukrtatnafta", a Ukrainian company. Tatneft is currently seeking an award in the amount of U.S.$2.4 billion. If the tribunal ultimately decides the case against Ukraine, Ukraine may become liable to pay significant damages denominated in a foreign currency. See "*Description of Ukraine—Legal Proceedings— Tatneft arbitration*".

An adverse decision in the Tatneft arbitration, or in other proceedings resulting in awards of substantial damages or other monetary remedies denominated in currency other than the hryvnia, could strain Ukraine's foreign currency reserves and have a negative effect on its ability to perform its obligations under the Notes.

Risk Factors Relating To The Notes

Judgments relating to assets in Ukraine and Ukrainian assets in other jurisdictions may be difficult to enforce.

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

It may not be possible to effect service of process against Ukraine in courts outside Ukraine or in a jurisdiction to which Ukraine has not explicitly submitted. Moreover, it may not be possible in the courts of Ukraine to enforce foreign court judgments against Ukraine that are predicated upon the laws of foreign jurisdictions without a re-examination of the merits of such judgment in the Ukrainian courts. Furthermore,

if a foreign judgment were to provide for an enforcement procedure contravening Ukrainian legal requirements, a Ukrainian court may refuse to recognise and enforce the judgment. Courts in Ukraine will not recognise and/or enforce a judgment obtained in a court established in a country other than Ukraine unless such recognition and/or enforcement is provided for by an international treaty ratified by Parliament, and then only in accordance with the terms of such treaty and Ukrainian law in effect at that time. Such treaties are in existence with certain CIS countries and other countries including, among others, Cyprus, Turkey, Hungary, Bulgaria and China. However, there is no such treaty or arrangement in effect between Ukraine and Ireland, the United Kingdom or the United States. See "*Political Framework—International Relations*".

In the absence of a treaty providing for recognition and/or enforcement, the courts of Ukraine may recognise or enforce a foreign court judgement on the basis of the principle of reciprocity. Ukrainian law does not provide for any clear rules on the application of the principle of reciprocity and there is no official interpretation or court practice. Accordingly, there can be no assurance that the courts of Ukraine will recognise or enforce a judgment rendered by the courts of Ireland, the United Kingdom, the United States or any other country, on the basis of the principle of reciprocity. Furthermore, the courts of Ukraine might refuse to recognise or enforce a foreign court judgment on the basis of the principle of reciprocity on the grounds provided in the applicable Ukrainian legislation in effect when recognition and/or enforcement is sought, including on the basis that Ukraine's national interests may be threatened. Regarding arbitral awards, although Ukraine is a member of the New York Convention, this membership is subject to a reservation concerning the applicability of arbitral awards made within non-New York Convention states and enforcing any award, especially within Ukrainian territory, may be challenging.

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

Gross-up obligations may be unenforceable.

The Tax Code generally prohibits contractual provisions with non-residents where a resident entity takes responsibility for covering a foreign party's tax liability. If interpreted broadly, although Ukrainian law does not currently impose withholding tax on payments to non-residents of Ukraine on State securities, such restriction would also apply to obligations of the Issuer to pay additional amounts under Condition 7 of the Terms and Conditions of the Notes. A residual risk exists that Ukrainian courts may construe the "gross-up" provisions of Condition 7 as invalid and, therefore, unenforceable against the Issuer. See "*Taxation—Ukraine Income Tax—Tax Implications for Non-Residents of Ukraine—Gross Up Obligations*".

An active trading market for the Notes may not develop.

Although application has been made to list the Notes on the Irish Stock Exchange, there can be no assurance that an active trading market for the relevant series of Notes will develop or, if one does develop, that it will be maintained.

If an active trading market in the relevant series of the Notes does not develop or is not maintained, the market price and liquidity of such Notes may be adversely affected. The market for securities issued by Ukraine is influenced by economic and market conditions in Ukraine and, to a varying degree, economic conditions in other CIS and Eastern European markets as well as global, emerging and developed markets generally. There can be no assurance that events may not occur which would cause volatility of the sort which occurred in worldwide financial markets in the past and, in relation to the CIS and the Eastern European region, in particular in 1998, or that any such volatility will not adversely affect the price or liquidity of the Notes.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, EU member states are required to provide to the tax authorities of another EU member state details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other EU member state or to

certain limited types of entities established in that other EU member state. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13 November 2008 the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of those proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

If, following implementation of this Directive, a payment were to be made or collected through an EU member state which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer nor any paying agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If withholding tax is imposed on payment made by a paying agent following implementation of this Directive, the Issuer will be required to maintain a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to the Directive.

TERMS AND CONDITIONS OF THE NOTES

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

The U.S.$2,000,000,000 9.25 per cent. Notes due 2017 (the "**Notes**", which expression shall in these conditions (the "**Conditions**"), unless the context otherwise requires, include any further notes issued pursuant to Condition 15 (*Further Issues*) and forming a single series therewith) issued by Ukraine, represented by the Minister of Finance of Ukraine acting upon instructions of the Cabinet of Ministers of Ukraine (the "**Issuer**" or "**Ukraine**"), are constituted by, subject to, and have the benefit of, a trust deed dated 24 July 2012 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and The Law Debenture Trust Corporation p.l.c. as trustee (the "**Trustee**", which expression includes all persons serving for the time being as trustee or trustees appointed under the Trust Deed). The Notes are the subject of an agency agreement dated 24 July 2012 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, Citibank, N.A., London Branch in its capacity as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor or additional paying agent appointed from time to time in connection with the Notes) and in its capacity as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), Citibank Europe plc in its capacity as Dublin paying agent (the "**Dublin Paying Agent**", and together with the Principal Paying Agent, the "**Paying Agents**") and Citibank, N.A., London Branch in its capacity as the transfer agent (the "**Transfer Agent**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes).

References herein to the "**Agents**" are to the Registrar, the Paying Agents and the Transfer Agent and any reference to an "**Agent**" is to any one of them. Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and are subject to their detailed provisions. Noteholders will be entitled to the benefit of, bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement. Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Trustee, being at the date hereof Fifth Floor, 100 Wood Street, London EC2V 7EX, England, and at the Specified Office (as defined in the Agency Agreement) of each of the Agents.

For purposes of these Terms and Conditions, "**Issue Documents**" means the Trust Deed and the Agency Agreement.

1. Form, Denomination and Status

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

The Notes will be issued in registered form, without interest coupons. The Notes (i) sold in offshore transactions in reliance on Regulation S under the United States Securities Act of 1933, as amended (the "**Securities Act**"), will be issued in denominations of U.S.$200,000 and in integral multiples of U.S.$1,000 in excess thereof and (ii) sold in reliance on Rule 144A will be issued in a minimum denomination of U.S.$200,000 and in integral multiples of U.S.$1,000 in excess thereof (each denomination of Notes referred to in (i) and (ii), an "**authorised denomination**").

(b) ***Status***

The Notes constitute direct, unconditional and, subject to the provisions of Condition 3 (*Negative Pledge*), unsecured obligations of the Issuer and (subject as aforesaid) rank *pari passu* without any preference among themselves. The payment obligations of the Issuer under the Notes shall rank at least *pari passu* with all other unsecured and unsubordinated obligations of the Issuer, present and future, save only for such obligations as may be preferred by mandatory provisions of applicable law.

2. Register, Title and Transfers

(a) ***Register***

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

(b) ***Title***

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

(c) ***Transfers***

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

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

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

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

(e) ***No charge***

Registration or transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agent but against payment or such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty or

governmental charge of whatsoever nature which may be levied or imposed in connection with such registration or transfer.

(f) ***Closed periods***

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

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

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

3. Negative Pledge

So long as any Note remains outstanding (as defined in the Trust Deed), the Issuer will not grant or permit to be outstanding, and it will procure that there is not granted or permitted to be outstanding, any Security Interest (other than a Permitted Security Interest) over any of its present or future assets or revenues or any part thereof, to secure any Relevant Indebtedness unless Ukraine shall (i) before or at the same time procure that the Issuer's obligations under the Notes are secured equally and rateably therewith to the satisfaction of the Trustee or (ii) promptly thereafter ensure that the Issuer's obligations under the Notes have the benefit of such other security as shall be approved by the Trustee in its absolute discretion or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders, being not materially less beneficial to the interests of the Noteholders.

"**Relevant Indebtedness**" means any indebtedness (whether being any principal, premium, interest or other amounts constituting such indebtedness), present or future, of Ukraine in the form of or represented by notes, bonds or other similar instruments whether or not (a) incurred by means of a loan, the making of which has been directly funded by the issue by a fiduciary (or other person whose liability is conditional upon the payments due in respect of the loan) of notes, bonds or other similar instruments; or (b) issued directly by Ukraine, where, in any such case, such notes, bonds or other similar instruments are (i) capable of being traded on any stock exchange or other securities market and (ii) denominated in a currency other than the legal currency of Ukraine.

"**Permitted Security Interest**" means:

(i) any Security Interest arising by operation of law which has not been foreclosed or otherwise enforced against the assets to which it applies; or

(ii) any Security Interest existing on any property at the time of its acquisition; or

(iii) any Security Interest upon any property to secure indebtedness incurred for the purpose of financing the acquisition of such property (or property which forms part of a class of assets of a similar nature where the Security Interest is by reference to the constituents of such class from time to time); or

(iv) any Security Interest securing or providing for the payment of indebtedness incurred in connection with any Project Financing *provided that* such Security Interest applies solely to (x) any property which is, or forms part of, the subject of such Project Financing or (y) revenues or claims which arise from the operation, failure to meet specifications, exploitation, sale or loss, or failure to complete or damage to, any such property; or

(v) any renewal or extension of any Security Interest described in sub paragraphs (ii) - (iv) above, *provided that* the principal amount of the indebtedness secured thereby is not increased.

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

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

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

4. Interest

The Notes bear interest from and including 24 July 2012 at the rate of 9.25 per cent. per annum (the "**Rate of Interest**"), payable semi annually in arrear on 24 July and 24 January in each year, commencing on 24 January 2013 (each an "**Interest Payment Date**"). Interest will be paid subject to and in accordance with the provisions of Condition 6 (*Payments*). Each Note will cease to bear interest from the due date for redemption unless, after surrender of such Note, payment of principal is improperly withheld or refused or unless default otherwise occurs in respect of the payment, in which case interest shall continue to accrue on such portion of outstanding principal in accordance with this Condition 4 until whichever is the earlier of (i) the day on which payment in full of such portion of outstanding principal is received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders in accordance with Condition 14 (*Notices*) that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable in respect of each Note on each Interest Payment Date shall be calculated by applying the Rate of Interest to the principal amount of such Note, dividing the product by two and rounding the resulting figure to the nearest U.S. cent (half a U.S. cent being rounded upwards). The amount of interest payable if interest is otherwise required to be calculated in respect of any period which is shorter or longer than 6 months, shall be calculated by applying the Rate of Interest to the principal amount of each Note, multiplying the product by the Day Count Fraction and rounding the resulting figure to the nearest U.S. cent (half a U.S. cent being rounded upwards), where:

"**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period (calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed) divided by 360.

5. Redemption, Purchase and Cancellation

(a) ***Redemption***

Unless previously redeemed, or purchased and cancelled as provided below, the Issuer will redeem the principal amount of the Notes on 24 July 2017, subject as provided in Condition 6 (*Payments*).

(b) ***Purchase***

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

(c) ***Cancellation***

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

6. Payments

(a) ***General***

Payments of principal and interest in respect of the Notes will be made by U.S. Dollar cheque drawn on a bank in New York City and mailed to the Holder by uninsured first class mail (airmail if overseas), at the address appearing in the Register at the opening of business on the relevant Record Date (as defined in Condition 6(e) (*Record date*)) or, upon application by a Noteholder to the Specified Office of the Principal Paying Agent not later than the 15th day before the due date for any such payment, by transfer to a U.S. Dollar account maintained by the payee with a bank in New York City. Payments can also be made at the specified office of the Dublin Paying Agent.

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

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

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

Where payment is to be made by transfer to a U.S. Dollar account with a bank in New York City, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by a U.S. Dollar cheque drawn on a bank in New York City, the cheque will be mailed on the due date for payment. A Noteholder shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 6 arriving after the due date for payment or being lost in the mail.

In these Conditions, "**business day**" means any day (other than a Saturday or Sunday) on which commercial banks are open for business (including dealings in foreign currencies) in London, New York City and Dublin.

(d) ***Partial payments***

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

(e) ***Record date***

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

7. Taxation

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

withholding or deduction been required, except that no such increased amount shall be payable in respect of any Note:

(i) to a Holder, or to a third party on behalf of a Holder, if such Holder is liable for such Taxes in respect of such Note by reason of having some connection with Ukraine other than the mere holding of such Note; or

(ii) to a Holder, or to a third party on behalf of a Holder, who would not be liable or subject to the withholding or deduction of Taxes by making a declaration of non residence or other similar claim for exemption to the relevant tax authority; or

(iii) where such withholding or deduction is imposed or levied on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(iv) if the Note Certificate representing such Note is surrendered for payment more than 30 days after the Relevant Date, except to the extent that the Holder would have been entitled to such increased amounts on surrender of such Note Certificate for payment on the last day of such period of 30 days.

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

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

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

8. Events of Default

If any of the following events (each an "**Event of Default**") occurs and is continuing, then the Trustee at its discretion may and, if so requested in writing by Holders of at least one quarter in principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution, shall, subject to (other than in the case of paragraphs (a), (b), (c), (d), (e), (f) (insofar as it relates to a payment obligation) and (g) (insofar as it relates to a payment obligation) below) the Trustee having certified in writing that the happening of such event is in its opinion materially prejudicial to the interests of the Noteholders and (in all cases) to the Trustee having been indemnified and/or prefunded and/or provided with security to its satisfaction, give written notice to the Issuer declaring the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their unpaid principal amount plus accrued interest as provided in the Trust Deed:

(a) ***Non payment***

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

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

The Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes or the Trust Deed and such default (i) is, in the opinion of the Trustee,

incapable of remedy or (ii) being a default which is, in the opinion of the Trustee, capable of remedy, remains unremedied for 30 days or such longer period as the Trustee may agree after the Trustee has given written notice requiring the same to be remedied to the Issuer; or

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

If any Relevant Indebtedness shall become due and payable prior to the stated maturity thereof following a default or any security therefor becomes enforceable or Ukraine fails to make any payment of any Relevant Indebtedness on the due date for payment thereof or, if applicable, at the expiration of any grace period originally applicable thereto or any guarantee of, or indemnity in respect of, any Relevant Indebtedness of any other Person given by Ukraine shall not be honoured when due and called upon; *provided that* the aggregate amount of such Relevant Indebtedness is in excess of EUR 25,000,000 (or its equivalent in any currency or currencies) and provided further that the acceleration of the maturity of or any payment default in respect of any Old Notes or Old Loan will not constitute an Event of Default; or

(d) ***Authorisation***

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

(e) ***Moratorium***

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

(f) ***Unlawfulness***

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

(g) ***Invalidity***

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

Upon the Notes becoming due and payable and remaining unpaid, the Trustee may take such action as is provided in Condition 13 (*Enforcement*).

"**Old Notes**" means any and all of the outstanding Deutsche Mark denominated 16 per cent. Notes due 2001 issued on a Fiduciary basis by Chase Manhattan Bank Luxembourg S.A. (the "**DM Notes**") as may be amended from time to time.

"**Old Loan**" means the outstanding Deutsche Mark denominated loan made to Ukraine by Chase in furtherance of the DM Notes.

9. Prescription

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

10. Replacement of Note Certificates

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar or the Transfer Agent subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with

such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

11. Trustee and Agents

Under the Trust Deed, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances including relief from taking action unless indemnified to its satisfaction and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

In the exercise of its powers and discretion under these Conditions and the Trust Deed, the Trustee will have regard to the general interests of the Noteholders as a class (and shall not have regard to any interests arising from circumstances particular to individual Noteholders whatever their number) and in particular will not be responsible for any consequence for individual Holders of Notes as a result of such Holders being connected in any way with a particular territory or taxing jurisdiction.

The Trustee is exempted from any liability with respect to any loss or theft or reduction in value of the Notes, and from any obligation to insure or procure the insurance of the Notes.

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

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior written approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar, principal paying agent or additional or successor paying agents and transfer agents; *provided however*, *that* the Issuer shall at all times maintain a principal paying agent and a transfer agent, as well as a registrar and (i) so long as the Notes are listed on the Irish Stock Exchange, such paying and/or transfer agents as the guidelines of the Irish Stock Exchange may require, and (ii) a paying agent with a specified office in a EU member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC.

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

12. Meetings of Noteholders; Modification and Waiver

(a) ***Meetings of Noteholders***

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to their interests, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or the Trustee at any time and the Trustee shall be obliged to do so (subject to it being indemnified and/or prefunded and/or secured to its satisfaction) upon the request in writing of Noteholders holding not less than 10 per cent. of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, one or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided*, *however*, *that* certain proposals (including any proposal to accept any exchange offer in respect of the Notes, to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to change the currency of payments under the Notes or to change the quorum requirements relating to meetings or the majority required

to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which one or more persons holding or representing not less than two-thirds or, at any adjourned meeting, one-third of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) ***Modification and Waiver***

The Trustee and the Issuer may, without the consent of the Noteholders, agree (i) to any modification of these Conditions or the Trust Deed (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and (ii) to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any breach or proposed breach of the Notes or the Trust Deed (other than a breach or proposed breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Any such modification, waiver or authorisation shall be binding on all Noteholders and, unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 14 (*Notices*).

13. Enforcement

After any of the Notes shall have become due and payable and remain unpaid, the Trustee may at any time, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights against the Issuer under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

(i) it has been so requested in writing by the Holders of at least one quarter in principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

(ii) it has been indemnified and/or prefunded and/or provided with security to its satisfaction.

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

14. Notices

All notices to Noteholders may be delivered in person or sent by mail or facsimile transmission or telex to them at their respective addresses, facsimile or telex numbers reflected in the Register. Any such notice shall be deemed to have been given, in the case of a letter delivered by hand, at the time of delivery, in the case of a letter sent by mail, on the fourth weekday (excluding Saturday and Sunday) after the date of mailing, in the case of facsimile transmission, at the time of dispatch or, in the case of a telex, on receipt of an answerback confirmation by the sender, 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. Any such notice shall be deemed to have been given on the date of such publication.

15. Further Issues

The Issuer is at liberty from time to time, without the consent of Noteholders, to create and issue further Notes ranking equally in all respects (or in all respects save for the date and the amount of the first payment of interest thereon) so that the same shall be consolidated and form a single series with the Notes even if further Notes have original issue discount ("**OID**") for U.S. federal income tax purposes and even if doing so may adversely affect the value of the original Notes. Any further notes which are to form a single series with the Notes shall be constituted by a deed supplemental to the Trust Deed.

16. Governing Law and Submission to Jurisdiction

The Trust Deed, the Agency Agreement and the Notes are governed by, and will be construed in accordance with, English law.

The Issuer has in the Trust Deed irrevocably agreed, for the benefit of the Trustee and the Noteholders, and subject to Clause 25.4 (*Arbitration*) of the Trust Deed, that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed or the Notes and that accordingly any suit, action or proceedings arising thereunder or in connection therewith (together referred to as "**Court Proceedings**") may be brought in the courts of England. Nothing contained herein or in the Trust Deed shall limit, subject to Clause 25.4 (*Arbitration*) of the Trust Deed, any right of the Trustee and/or each of the Noteholders to take Court Proceedings against the Issuer in any other court of competent jurisdiction, nor shall the taking of Court Proceedings in any one or more jurisdictions preclude the taking of Court Proceedings in any other jurisdiction, whether concurrently or not.

The Issuer has in the Trust Deed irrevocably and unconditionally waived any objection which it may have now or subsequently to the laying of the venue of any Proceedings in the courts of England on the grounds that such Court Proceedings have been brought in an inconvenient forum and has further irrevocably and unconditionally agreed that a judgment or order of the courts of England in connection with the Trust Deed or the Notes shall be conclusive and binding upon the Issuer, and may be enforced against it in the courts of any other jurisdiction to which the Issuer is or may be subject.

The Issuer has in the Trust Deed appointed the Ambassador of Ukraine to the United Kingdom of Great Britain and Northern Ireland at the Embassy of Ukraine in London, from time to time, to act as its agent to receive service of process in any Court Proceedings in England based on the Trust Deed or the Notes. If for any reason the appointment of such agent for service of process lapses, the Issuer has in the Trust Deed agreed that it will promptly appoint a substitute process agent (acceptable to the Trustee) and notify the Noteholders in accordance with Condition 14 (*Notices*) of such appointment. Nothing herein or in the Trust Deed shall affect the right to serve process in any other manner permitted by law.

Ukraine has also specifically and expressly agreed in the Trust Deed that any disputes which may arise out of or in connection with the Trust Deed or the Notes (including any questions regarding their existence, validity or termination) shall, at the sole option of the Trustee exercisable in accordance with Clause 25.4 (*Arbitration*) of the Trust Deed, be referred to and finally resolved by arbitration instituted by the Trustee under the Rules of the London Court of International Arbitration. The arbitration tribunal shall consist of three arbitrators to be approved in accordance with Clause 25.5 (*Formation of Arbitration Tribunal*) of the Trust Deed. The seat of arbitration shall be London and the language English.

To the extent that the Issuer or any of its revenues, assets or properties are entitled, in England or any other jurisdiction where Proceedings may at any time be brought against it or any of its revenues, assets or properties, to any immunity from suit, from the jurisdiction of any such court, from set off, from attachment in aid of execution of a judgment, from execution of a judgment or from any other legal or judicial process or remedy (other than a pre judgment attachment which is expressly not waived), and to the extent that in any such jurisdiction there shall be attributed such an immunity, the

Issuer has in the Trust Deed irrevocably agreed not to claim and has irrevocably waived such immunity to the fullest extent permitted by the laws of such jurisdiction (and consents generally for the purposes of the State Immunity Act 1978 to the giving of any relief or the issue of any process in connection with any Proceeding). The Issuer reserves the right to plead sovereign immunity under the U.S. Foreign Sovereign Immunities Act of 1976 with respect to actions brought against it in any court of or in the United States of America under any United States federal or State securities law. The waiver of immunities referred to in the Trust Deed constitutes only a limited and specific waiver for the purposes of the Notes and the Trust Deed and under no circumstances shall it be interpreted as a general waiver by the Issuer or a waiver with respect to proceedings unrelated to the Notes and the Trust Deed. The Issuer has not waived such immunity in respect of property which is (i) used by a diplomatic or consular mission of the Issuer (except as may be necessary to effect service of process), (ii) property of a military character and under the control of a military authority or defence agency, or (iii) located in Ukraine and dedicated to a public or governmental use (as distinct from property dedicated to a commercial use).

17. Contracts (Rights of Third Parties) Act

No rights are conferred on any person under the Contracts (Right of Third Parties) Act 1999 to enforce any term of the Notes, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

18. Currency Indemnity

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

USE OF PROCEEDS

The net proceeds of the issue of the Notes are expected to amount to U.S.$2,000,000,000 and will be used by Ukraine for general budgetary purposes.

DESCRIPTION OF UKRAINE

Area and Population

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

Ukraine is subdivided into 24 oblasts (or regions). Two Ukrainian cities, Kyiv, the capital of Ukraine, and Sevastopol, currently the site of a major naval base of the Russian Federation, are granted special status under the Ukrainian Constitution in respect of certain administrative and budgetary matters. The Autonomous Republic of Crimea, a partially self-governing region within Ukraine, is located on the Crimean Peninsula on the country's Black Sea and Azov Sea coast.

Based on figures from the State Statistics Service, as at the date of this Prospectus, the population of Ukraine totals approximately 46 million. According to the Ukrainian census of 2001, about 78 per cent. of the country's population were ethnic Ukrainians and 17 per cent. ethnic Russians. Other groups, including Belarusians, Moldavians, Bulgarians, Crimean Tatars, Hungarians, Romanians, Greeks and Poles, accounted for about 5 per cent. of the population. The official language is Ukrainian, although approximately 80 per cent. of the population is bilingual, speaking both Ukrainian and Russian fluently. The literacy rate is approximately 98 per cent.

Between 1980 and 1990, the population grew by 0.4 per cent. annually, but this trend has reversed since 1991, reflecting the mixed economic and social conditions seen post-independence. As a result, the population of Ukraine has declined by approximately 6.3 million persons since 1992. The Government estimates that the population is currently decreasing at a rate of 0.4 per cent. per year.

History

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

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

In 1654, the leader of the Ukrainian (Zaporozhian) Cossacks accepted the protection of the Russian Tsar under the Treaty of Pereyaslav, and most of what is present day Ukraine remained under Russian administration from that time until World War I. The end of the Russian and Hapsburg Empires brought about by World War I allowed Ukraine briefly to assert its independence. In 1917 and 1918, three separate Ukrainian republics declared independence. However, by 1921, the western part of the traditional territory had been incorporated into Poland and the larger central and eastern parts joined the Soviet Union. As a consequence of the imposition of farm collectivisation by Stalin, around seven million Ukrainians are estimated to have died in the 1930s.

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

The greater openness (glasnost) which followed the accession to power of Mikhail Gorbachev allowed the formation in the mid 1980s of the Ukrainian patriotic movement Rukh, which won 27 per cent. of the vote

in elections in 1990. In a referendum in early 1991, 60 per cent. of voters favoured Ukraine's participation in a new Union of Sovereign States. Ukraine became an independent state on 24 August 1991 following the dissolution of the Soviet Union. Ukraine's Parliament officially adopted the Act Declaring the Independence of Ukraine, a decision ratified by 90.3 per cent. of the votes cast in a subsequent referendum on 1 December 1991. After its declaration of independence, Ukraine experienced separatist activities in the Crimean Peninsula, although such activities ceased after Ukraine's acceptance of the Crimean Peninsula's status as an autonomous region. Crimea is an autonomous republic within Ukraine, with its own constitution, parliament and government, but the Crimean government remains subordinate to the central Government of Ukraine as provided in the Constitution of Ukraine and other applicable legislation.

Recent Political Developments

Prior to 2007, Ukraine experienced periods of political instability, including allegations of electoral irregularities and tensions between the President and Parliament. These issues arose again in 2007, when on 2 April 2007, President Yushchenko signed a decree dissolving Parliament. Notwithstanding the President's decree, Parliament continued to function, claiming that the President did not have sufficient grounds under the Constitution of Ukraine for the early termination of the powers of Parliament.

On 30 September 2007, early elections to Parliament were held as a result of which, out of 20 political parties and election blocs participating in the elections, only five political parties and election blocs managed to collect the 3 per cent. or more of the national vote required to gain seats in Parliament. Of these, Partiya Regioniv (the Party of Regions), led by Viktor Yanukovych, established the largest faction, with 175 seats out of 450 total seats; Yuliya Tymoshenko's Bloc established a faction with 156 seats; Bloc Nasha Ukrayina Narodna Samooborona (Our Ukraine-People's Self Defense Bloc), associated with President Yushchenko, established a faction with 72 seats; and the Communist Party of Ukraine and Lytvyn's Bloc (led by the Speaker of Parliament) established factions with 27 and 20 seats, respectively. On 23 November 2007, the newly elected Parliament held its first session.

The table below shows a breakdown of the number of seats in Parliament for each faction/bloc:

Parliamentary Faction	Total seats as a result of elections[1]	Current number of seats[2]	Percentage of seats in Parliament[2]
Party of Regions	175	192	43.1
Yuliya Tymoshenko's Batkivschyna Bloc[3]	156	100	22.5
Our Ukraine – Persons's Self Defense Bloc	72	65	13.8
Communist Party of Ukraine	27	25	5.6
People's Party[4] (former Lytvyn's Bloc)	20	20	4.5
Reforms for Future Group[5]	–	19	4.2
Out of Faction Deputies	–	29	6.3
Total	**450**	**450**	**100.0**

Notes

(1) As a result of the September 2007 Parliamentary elections.

(2) As at 9 July 2012.

(3) The faction of Yuliya Tymoshenko-Batkivschyna Bloc was formed on the basis of the faction of Yuliya Tymoshenko's Bloc on 16 November 2010.

(4) The faction of People's Party (Narodna Partiya) was formed on the basis of the faction of Lytvyn's Bloc on 19 November 2010.

(5) The Reforms for Future Group was formed on 16 February 2011.

Source: Central Election Commission, Parliament of Ukraine

On 18 December 2007, Parliament appointed Yuliya Tymoshenko as Prime Minister of Ukraine. On 8 October 2008 the President dissolved Parliament and set a date for new parliamentary elections. However, the dissolution of Parliament was challenged successfully in court by Yuliya Tymoshenko's Bloc and cancelled on 20 October 2008. See "*2010 Presidential Election*" and "*—Political Developments since the 2000 Presidential Election*".

2010 Presidential Election

The 2010 presidential election campaign commenced on 19 October 2009. Eighteen candidates participated in the first round of the elections held on 17 January 2010. The two candidates who received the largest number of votes in the first round, Viktor Yanukovych (35.32 per cent.) and Yuliya Tymoshenko (25.05 per cent.), participated in a run off that took place on 7 February 2010. On 14 February 2010, Viktor Yanukovych was declared the official winner of the run off, having received 48.95 per cent. of the votes, compared to 45.47 per cent. received by Yuliya Tymoshenko. The inauguration of new President was scheduled for 25 February 2010.

Following the declaration of the official results of the run off, Yuliya Tymoshenko filed an appeal with the Higher Administrative Court of Ukraine challenging the results of the run off and alleging electoral fraud. On 17 February 2010, the Higher Administrative Court of Ukraine suspended the ruling of the Central Election Commission that declared Viktor Yanukovych as a winner of the election, but did not postpone or cancel the President's inauguration. Subsequently, Yuliya Tymoshenko withdrew her appeal on 20 February 2010 as the Higher Administrative Court in Kyiv rejected some of her petitions, and the inauguration of Viktor Yanukovych as the new President was held on 25 February 2010.

On 11 March 2010, Parliament appointed Mykola Azarov, a member of the Party of Regions, as the new Prime Minister and endorsed the Government.

Political Developments since the 2010 Presidential Election

In September 2010, following the request of a number of members of Parliament, the Constitutional Court of Ukraine ruled that the reform implemented in 2006 was unconstitutional, and the previous presidential-parliamentary system of government was reinstated. See "*Political Framework—The Constitution and the President*", "*Political Framework—The Executive*" and "*Political Framework—The Legislature*".

It has been reported that in December 2010, criminal charges were filed by the Prosecutor General's Office of Ukraine against former prime minister Yuliya Tymoshenko for allegedly misusing €380 million of State funds while in office by illegally diverting revenues received in 2009 from Ukraine's carbon emission rights under the Kyoto Protocol. In addition, it has been reported that in April 2011, criminal charges were filed by the Prosecutor General's Office of Ukraine against Yuliya Tymoshenko for allegedly causing losses to the State by exceeding her authority during the execution of gas contracts in 2009 and that on 5 August 2011, Yuliya Tymoshenko was arrested and detained due to alleged abuse of powers during her time in office as Prime Minister. On 11 October 2011, a judge ruled that Yuliya Tymoshenko had criminally exceeded her powers when she signed the gas contracts with Russia in 2009 and sentenced her to seven years in prison. Later that month, Yuliya Tymoshenko submitted an appeal. On 23 December 2011, according to a statement of the European Commission, the Kyiv Court of Appeals refused Yuliya Tymoshenko's appeal, meaning that she will not participate in the 2012 parliamentary elections, scheduled to take place on 28 October 2012. A new criminal investigation has now reportedly been launched to investigate allegations of fraud committed during Yuliya Tymoshenko's management of the United Energy Systems of Ukraine in the 1990s. There have been reports that the timing and circumstances of the arrest and subsequent imprisonment of the former Ukrainian prime minister for abuse of power, has been questioned by some, causing a negative reaction among and affecting relations with a number of governments and institutions. Furthermore, EU authorities have indicated that the signing of Ukraine's Association Agreement with the EU may be delayed pending a satisfactory resolution of the Yuliya Tymoshenko case. See "*Risk Factors— Risk Factors Relating to Ukraine—Changes in relations with Western governments and multinational institutions may adversely affect the development of the Ukrainian economy*".

Legal Proceedings

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

The following section describes the active material disputes in which Ukraine is currently involved. This section does not describe legal proceedings against State owned companies except to the extent that Ukraine is also a party. For a description of the arbitration proceedings between RosUkrEnergo AG and Naftogaz, see "*Economy of Ukraine—Principal Sectors of the Economy—Oil and Gas—Natural Gas Supply from Russia*".

In addition, from time to time Ukrainian authorities may receive information to the effect that various parties may be contemplating legal or arbitral proceedings against the State or its agencies. Unless and until formal action is taken to commence such proceedings, it is not possible to form a view as to the likelihood such proceedings may commence, the nature and magnitude of any award that might be sought or the merits, if any, of any such claim.

An adverse decision in proceedings involving Ukraine and resulting in awards of substantial damages or other monetary remedies denominated in currency other than the hryvnia, could strain Ukraine's foreign currency reserves and have a negative effect on its ability to perform its obligations under the Notes.

Tatneft arbitration

On 21 May 2008, the Russian company OJSC "Tatneft" ("**Tatneft**") filed a notice of arbitration and statement of claim against Ukraine pursuant to UNCITRAL Arbitration Rules, proposing Paris, France as the seat of the arbitration.

Tatneft is a shareholder in CJSC "Ukrtatnafta" ("**Ukrtatnafta**"). In April 1998, due to the failure of certain shareholders to pay for their shareholdings, a decision was made at the general meeting of shareholders of Ukrtatnafta to sell a number of shares to other foreign investors, as a result of which Tatneft's shareholding was reduced to 8.61 per cent., while new shareholders Amruz Trading AG and Seagroup International Inc. acquired 8.34 per cent. and 9.96 per cent. shareholdings, respectively. Thereafter, the shareholding of the State Committee of the Tatarstan Republic on State Property Management was reduced to 28.78 per cent., while the SPF shareholding decreased to 43.05 per cent. On 27 June 2009, shares owned by Amruz Trading AG and Seagroup International Inc. in the total amount of 18.3 per cent. were sold to another minority shareholder LLC "Korsan", as a result of which its shareholding in Ukrtatnafta increased to 19.4 per cent.

In its notice of arbitration and statement of claim Tatneft claims that Ukraine has allegedly violated the Agreement between the Cabinet of Ministers of Ukraine (the "**Cabinet of Ministers**") and the government of the Russian Federation regarding Facilitation and Mutual Protection of Investments because Tatneft and other foreign shareholders were deprived of the right to effectively control their investments.

Tatneft initially sought reinstatement of what is alleged was the lawful management at Ukrtatnafta, reimbursement of arrears for oil supplies in the amount of U.S.$520 million and payment of compensation for the loss of control over its shareholding in Ukrtatnafta in the amount of U.S.$610 million. On 29 June 2009, Tatneft increased the amount of its claim to U.S.$2.4 billion. The increase in the amount, which includes the previously asserted claims in the amounts of U.S.$520 million and U.S.$610 million, relates to alleged losses in the amount of approximately U.S.$1.3 billion incurred by Tatneft in connection with the sale of an 18.3 per cent. shareholding by Amruz Trading AG and Seagroup International Inc. to LLC "Korsan", such sale allegedly being a forced expropriation of shares held by Amruz Trading AG and Seagroup International Inc in Ukrtatnafta.

On 16 January 2009, the arbitral tribunal was constituted and following a series of submissions and hearings, on 6 April 2012, the arbitral tribunal approved the order for exchange of documents. The documents were provided on 17 April 2012, and 3 August 2012 is the deadline for Taftneft's written submissions.

Vanco arbitration

On 16 July 2008, Vanco Prykerchenska Limited ("**Vanco**") filed a request for arbitration in accordance with the Arbitration Rules of the Arbitration Institute of the Stockholm Chamber of Commerce, pursuant to the termination of the Hydrocarbon Sharing Agreement (the "**Agreement**") entered into on 19 October 2007 for Black Sea hydrocarbon extraction.

By mutual agreement the parties suspended the arbitral proceeding and have come to an amicable settlement. On 9 August 2011, the individuals authorised to execute the settlement agreement were appointed. The parties agreed to extend the arbitral tribunal deadline for rendering the anticipated consent award until 31 July 2012, which will mark the formal conclusion of proceedings.

Torno/Beta arbitration

On 30 March 2012, the International Chamber of Commerce (Paris) received a second request for arbitration from Italian companies Torno Global Contracting S.P.A. (previously known as Torno Internazionale S.p.a.) ("**Torno**") and Beta Funding S.R.L. ("**Beta**") against the Ministry of Transport of Ukraine and the State Road Service of Ukraine ("**Ukravtodor**"). In their request for arbitration, Torno and Beta allege that the Ministry of Transport of Ukraine and Ukravtodor breached the terms of their agreement regarding of the Kyiv Odesa Highway, dated 8 October 2003. The claimants indicated in the request for arbitration that the amount of their claims is €47.0 million. Ukravtodor and the Ministry of Transport of Ukraine must submit their reply before 1 July 2012.

Naftrac Limited arbitration

On 25 November 2009, the Permanent Court of Arbitration (**The Hague**) received a request for arbitration from Naftrac Limited (Cyprus) ("**Naftrac**") against the National Environmental Investment Agency of Ukraine (the "**Agency**") in connection with the provision of equipment by Naftrac to the Agency. The Agency alleged that Naftrac failed to satisfy certain conditions precedent regarding the delivery of the equipment. On 26 March 2012, Naftrac's claim was reduced to approximately U.S.$100 million, the court rejecting Naftrac's claim for financial losses pursuant to the alleged default (which were estimated by Naftrac at U.S.$ 90 million). The court has scheduled 28 September 2012 as the date for the next round of hearings, with submissions to be made by both parties prior to the hearings.

Transportation Investment Limited claims

On 2 July 2010, the Ministry of Justice of Ukraine received a notice from Transportation Investment Limited ("**TIL**") pursuant to Article 8(1) of the investment treaty between Ukraine and the United Kingdom, dated 10 February 1993 (the "**Treaty**"), regarding a claim by TIL for losses in connection with Ukrainian investments made through its subsidiary PE "Ukrtranscontainer" ("**Ukrtranscontainer**"). Ukrtranscontainer was constructing a container terminal in Illichivsk port pursuant to a joint venture agreement entered into by Ukrtranscontainer and State Enterprise "Illichivsk Marine Trade Port" (the "**JAA**"), which was terminated through court proceedings in Ukraine due to a material breach of the JAA by Ukrtranscontainer. TIL currently estimates its losses to exceed U.S.$1 billion, including lost profit under the JAA. Ukraine has rejected the terms of the settlement proposed by TIL. Accordingly, TIL is entitled to submit the dispute to international tribunal pursuant to Article 8(2) of the Treaty. The notice from TIL on 2 July 2010 stated that any settlement had to be agreed within three months of the date of the notice; however, as of the date of this Prospectus no further action has been taken by TIL.

Universal Trading & Investment Company/Foundation Honesty International Claims

On 26 November 2010, Universal Trading & Investment Company and Foundation Honesty International filed a claim against Ukraine with the Massachusetts District Court in the United States. The grounds for the claim are an alleged violation by Ukraine of its obligations in connection with civil proceedings relating to the seizure and return of assets of Mr. Pavlo Lazarenko, a former Prime Minister of Ukraine. The value of the claim is approximately U.S.$272 million. As at the date of this Prospectus, court proceedings in the Massachusetts District Court are continuing.

POLITICAL FRAMEWORK

The Constitution and the President

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

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

As a result of amendments to the Constitution passed on 8 December 2004, which were declared unconstitutional and lost their effect from 30 September 2010, pursuant to the CCU Ruling, Ukraine became a "parliamentary-presidential" republic as the President was no longer empowered to exercise direct executive powers over the decisions and actions of the Government. In particular, from 2004 until the issuance of the CCU Ruling, Parliament was empowered to appoint, upon the President's nomination, the Prime Minister, Minister of Defence and Minister of Foreign Affairs and, upon the nomination of the Prime Minister, the remaining members of the Government. Parliament was also empowered to dismiss these officials, while the President was no longer empowered to appoint members of the Government.

According to other provisions of the 2004 constitutional reform, parliamentary members were required to form a majority, which was entitled to propose a candidate for the position of Prime Minister to the President, who made a further nomination to Parliament. The majority was further entitled to propose candidates for Government office (subject to certain exceptions) to the Prime Minister, who made further nominations to Parliament. The President received new powers for early termination of Parliament. In particular, the President could dissolve Parliament if (i) it failed to form a majority within a month of the commencement of its first session or the dissolution of the previously existing majority; (ii) it failed to appoint the Government within 60 days following the previous Government's dismissal or resignation; or (iii) it failed to convene for a continuous period of 30 days.

However, in July 2010, 252 members of Parliament requested the Constitutional Court of Ukraine to opine on the constitutionality of the 2004 law that was the basis of the constitutional reform implemented in 2006. On 30 September 2010, the Constitutional Court of Ukraine issued the CCU Ruling against the constitutionality of the 2004 law. As a result of the CCU Ruling, Ukraine has become a "presidential-parliamentary" republic as the President is now empowered to exercise direct executive powers over decisions and actions of the Government and certain powers, transferred from the President to Parliament and the Prime Minister as a result of the constitutional reform implemented in 2006, have been transferred back to the President. See "*Risk Factors—Risk Factors Relating to Ukraine—Ukraine's Government may be unable to sustain political consensus, which may result in political instability*".

As a result of the CCU Ruling, the President now has the authority to appoint the Prime Minister, subject to parliamentary approval, to terminate the powers of the Prime Minister and to accept his resignation. In addition, the President has the authority to appoint members of the Cabinet of Ministers, upon the nomination of the Prime Minister, as well as to appoint heads of other central executive bodies and local administrations and to terminate their powers. Furthermore, the President has the authority to appoint, subject to parliamentary approval, the Chairman of the Anti-Monopoly Committee, the Prosecutor General, the Chairman of the SPF and the Chairman of the State Committee on Television and Radio Broadcasting. The President has the right to initiate legislation, the power to veto parliamentary bills and the power to annul acts of the Cabinet of Ministers. The President may also issue his own decrees and directives.

The President is also the head of the National Security and Defence Council (the "**NSDC**") and is authorised to appoint its members. The NSDC was created in 1992 to develop national security policy on domestic and

international matters and to advise the President. Ex-officio members of the NSDC include the Prime Minister, the Minister of Defence, the Head of the Security Service, the Minister of the Interior and the Minister for Foreign Affairs.

The Executive

The powers of the Government of Ukraine are vested in the Cabinet of Ministers, which is the highest body of executive power in Ukraine and includes the Prime Minister, First Vice Prime Minister, Vice Prime Ministers and Ministers. The Cabinet of Ministers is accountable to the President and Parliament and reports to Parliament in accordance with the Constitution of Ukraine. As a result of the CCU Ruling, the President now has the authority to appoint the Cabinet of Ministers upon nomination of the Prime Minister. The powers of an existing Cabinet of Ministers are terminated if a new President is elected, if the Prime Minister resigns or is dismissed by the President or if a vote of no-confidence in the Cabinet of Ministers is passed in Parliament. If any of these events occurs, the President is required to nominate a new candidate who must be affirmed by the majority of the Parliament to act as Prime Minister and to form a government. If the candidate does not obtain the required parliamentary approval, a different candidate must be nominated by the President and this process continues until a candidate has obtained parliamentary approval. The powers of the Cabinet of Ministers include implementation of financial, pricing, investment, labour, social, education, science, environment and tax policies, management of State-owned assets and elaboration and performance of the State Budget Law for each relevant year.

Following the CCU Ruling on 7 October 2010, Parliament approved a new law defining the principal objectives of the Cabinet of Ministers, its organisation and other related issues. The new law introduces, among other things, changes to the relationship between the Cabinet of Ministers, other executive bodies and regional authorities. On 17 March 2011, Parliament approved a new law on central executive authorities which determines the structure, powers and activities of the ministries and other central executive authorities of Ukraine.

On 9 December 2010, an administrative reform was passed by presidential decree pursuant to which the number of ministries and other central governmental agencies was reduced through the merger of a number of those ministries and agencies. As at the date of this Prospectus, Ukraine had 16 ministries and 55 other central executive authorities, and five central executive authorities with special status. As a result of the CCU Ruling, the power to establish, reorganise and disband ministries and other central governmental agencies is vested in the President of Ukraine upon the nomination of the Prime Minister.

The Legislature

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

Following the CCU Ruling, there was a lack of clarity regarding the length of the term of office of the current Parliament. To address this uncertainty, on 19 October 2010, a draft of the 2011 Constitution Amendment Law was submitted to Parliament aimed at amending the Constitution to unify the terms of office of the President, Parliament, and local councils. On 1 February 2011 the 2011 Constitution Amendment Law was adopted by Parliament, and it became effective on 4 February 2011. The 2011 Constitution Amendment Law provides, *inter alia*, for reinstating the five-year term of office of Parliament, which had been reduced to four years as a result of the CCU Ruling. According to the 2011 Constitution Amendment Law, the next parliamentary elections will take place in October 2012 (as opposed to March 2011, as provided in the previously effective Constitution). On 9 February 2011, 53 members of Parliament requested the Constitutional Court of Ukraine to opine on the constitutionality of the 2011 Constitution Amendment Law. However, on 1 June 2011 the Constitutional Court of Ukraine dismissed the application and parliamentary elections are currently scheduled to take place in October 2012.

Since the March 2006 parliamentary elections, all seats have been voted for according to a system of proportional representation from lists of candidates proposed by political parties and electoral blocs. In order to propose candidates the political parties or electoral blocs must account for at least 3 per cent. of the total vote.

On 17 November 2011, Parliament passed new legislation concerning parliamentary elections which came into force on 10 December 2011. This legislation provides that parliamentary elections (including the elections scheduled to take place in October 2012) will use a mixed voting system determined equally on the basis of majority voting and proportional representation. The minimum electoral threshold at which a party may gain representation was increased from 3 to 5 per cent. and strategic alliances of political parties have been prohibited from participating in the electoral process.

In addition to its legislative function, Parliament nominates the Governor of the NBU and confirms the President's appointment of the Prime Minister, the Chairman of the Anti-Monopoly Committee, the Prosecutor General, the Chairman of the SPF and the Chairman of the State Committee on Television and Radio Broadcasting. Parliament also has the power to make judicial appointments to all courts other than the Constitutional Court of Ukraine, in relation to which it can only appoint one third of the judges of the Constitutional Court of Ukraine.

Parliament also considers items such as approval of the general Government agenda, nationwide programmes of economic, scientific, social, cultural and environmental development, the general outlines of domestic and foreign policy, the State Budget and the list of State-owned assets barred from privatisation; the granting of loans to foreign countries and international organisations, and entering into financing arrangements with foreign countries, banks and international financial organisations that are not otherwise envisaged in the State Budget in any given year and the general structure and functions of the Ukrainian armed forces and the Security Service of Ukraine.

The President has the power to dissolve Parliament if it fails to convene for 30 days during a non-recess period.

The Judicial System

In general, the Constitutional Court of Ukraine has exclusive jurisdiction over the interpretation of the Constitution and laws of Ukraine and acts as final arbiter on constitutional issues. The Court consists of 18 judges, six appointed by the President, six appointed by Parliament and six appointed by the Congress of Judges. Judges of the Constitutional Court of Ukraine were chosen for the first time in 1996, as the late adoption of the Constitution hampered development of the judicial system before June 1996.

Judicial reform which commenced in 2002 envisaged the creation of new judicial institutions as well as a system of specialised courts. However, until 2007 the creation of specialised courts had been postponed because of insufficient funds in the State Budget.

On 6 July 2005, the Code of Administrative Procedure of Ukraine was enacted by Parliament. The Code establishes the powers and procedures of the administrative courts and the procedures for the appeal and enforcement of administrative court decisions. In accordance with the Code, any decisions, actions or inaction of governmental or local self-governing authorities and their officials, other than cases in relation to which another procedure is established by the Constitution or laws, can be reviewed by the administrative courts. Under the Code, which came into force on 1 September 2005, as amended, the Higher Administrative Court of Ukraine, as a court of first and last instance, is responsible for deciding cases related to the Central Electoral Commission's decisions, actions or failures to act in connection with the election results determined by the Central Electoral Commission or results of Ukrainian referendums, early termination of powers of a member of Parliament, as well as cases related to challenging of decisions, actions or failures to act of Parliament, the President of Ukraine, the Higher Council of Justice and the Higher Qualification Commission of Judges of Ukraine.

From 1 September 2005, the new Code of Civil Procedure, adopted on 18 March 2004, and the new Code of Administrative Procedure together replaced the previous Code of Civil Procedure by introducing different procedural rules for proceedings in courts of general jurisdiction and administrative courts. In December 2006, the Code of Civil Procedure and the Code of Commercial Procedure were amended to provide that disputes involving individual shareholders in Ukrainian companies and disputes relating to the privatisation of State property would, with certain exceptions, be heard before commercial courts rather than courts of

general jurisdiction. On 14 May 2012, the new Code of Criminal Procedure received presidential approval and takes effect from 20 November 2012.

On 30 July 2010, the Law of Ukraine "On the Judicial System and the Status of Judges" came into force, replacing the existing Laws of Ukraine "On the Judicial System of Ukraine" and "On the Status of Judges". The new law aims to improve the legislative framework governing the judicial system, the judicial process and the status of judges and provides for, among other things, the establishment of the new, Higher Specialised Court of Ukraine for Civil and Criminal Matters.

The Law of Ukraine On Amendment of Certain Laws Regarding Proceedings by the Supreme Court of Ukraine became effective on 13 November 2011. This Law introduces multiple amendments regarding legal proceedings in Ukraine.

The Law of Ukraine "On Arbitration Courts", enacted in 2004, provides for the establishment of independent permanent arbitration courts and ad hoc arbitration tribunals (tribunals formed for the purpose of resolving a particular dispute). Permanent arbitration courts are subject to State registration by the Ministry of Justice of Ukraine or its regional departments.

Historically, only a small number of judicial decisions taken in Ukraine have been publicly available; accordingly, their usefulness to the public in interpreting Ukrainian legislation is limited. However, in accordance with the law "On Access to Court Decisions", which became effective on 1 June 2006, decisions of courts of general jurisdiction in civil, economic, administrative and criminal matters issued from 1 June 2006 (and, in the case of local courts of general jurisdiction, from 1 January 2007) onward, are required to be made available to the public. The Unified State Register of Court Decisions has been established pursuant to this law and is accessible on the official website of the judiciary, which now makes current court decisions available through the Register.

On 17 February 2012, a list setting out which judicial decisions should be made available was finalised by the Judicial Council of Ukraine and the State Court Administration of Ukraine.

Legal Framework

As a result of its relatively recent transition towards a market economy, Ukraine does not yet have a mature legal system comparable to the legal systems of most major European countries. Although new laws have been introduced and amendments have been made to company, property, bankruptcy, securities, taxation, banking and foreign investment laws, this legislation is undeveloped and contains many gaps, thereby failing to provide an adequate underpinning for complex transactions. In order to facilitate the implementation and enforcement of important legislation, such as tax legislation, Parliament has gradually been taking steps to adopt new legislation that consolidates the laws into unified codes. See "*Risk Factors—Risk Factors Relating to Ukraine—Ukraine's developing legal system creates risks and uncertainties for investors in Ukraine and for participants in the Ukrainian economy*."

Regional Administration

Executive power in each of Ukraine's 24 oblasts, special status cities (Kyiv and Sevastopol) and districts (*rayons*) is vested in the respective region's administration. Each regional administration is headed by a governor who is appointed by the President upon nomination of the Cabinet of Ministers. Each municipal government is administered by a local council, a body made up of representatives elected by the population of the region; such councils are elected in villages, cities, districts (*rayons*) and oblasts. Local councils may establish executive bodies for the performance of executive powers as specified. Crimea is an autonomous republic within Ukraine, with its own parliament, government and constitution (passed by the parliament of the Autonomous Republic of Crimea and approved by the Parliament of Ukraine), but remains subject to the Constitution, laws and regulations of Ukraine.

On 30 July 2010, the law governing elections of local council members came into effect. Among the provisions of the new law are a modification of the system for electing members of oblast, city, and district (or *rayon*) councils as well as the parliament of the Autonomous Republic of Crimea. The law replaces the

pure proportional system previously used for the election of members of such bodies with a mixed system, under which half of the seats will be elected by majority voting and the other half under a proportional representation system. In addition, all members of village councils will be elected on the basis of a majority vote. Pursuant to the 2011 Constitution Amendment Law, the term of office of the parliament of the Autonomous Republic of Crimea and local councils is to be extended to five years.

International Relations

Ukraine has established diplomatic relations with 176 countries, is a member of over 100 international organisations and attaches significant importance to developing relations with international organisations. Ukraine is a member of the United Nations ("**UN**"), is a member of several UN bodies and specialised agencies and participates in the organisation's activities in the areas of security, human rights, economic cooperation and environmental protection. Ukraine has signed and ratified the Non-Proliferation Treaty and certain other conventions banning weapons of mass destruction. Ukraine is a member of the IMF, the World Bank, the WTO and a number of other international organisations, and it cooperates closely with the Organisation for Economic Cooperation and Development ("**OECD**").

Ukraine is a party to over 1,000 multilateral treaties and approximately 4,000 bilateral treaties, including treaties on promotion and mutual protection of investments entered into with 79 foreign states. International treaties ratified by Parliament are an integral part of Ukraine's domestic legislation and will prevail over any domestic laws and regulations whose provisions are inconsistent with international treaties.

Ukraine is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**") (with a reservation to the effect that, in respect of awards made in a state that is not a party to the New York Convention, Ukraine will only apply the New York Convention on a reciprocal basis) and the Convention on the Settlement of Investment Disputes between States and Nationals of Other States. Ukraine has entered into treaties on the recognition and enforcement of judgments with certain CIS countries and other countries including Cyprus, Turkey, Hungary, Bulgaria and China. However, Ukraine has not entered into such treaties with Ireland, the United States or the United Kingdom.

The 2010-2014 Economic Reform Programme provides the following targets for Ukrainian foreign policy in the period 2010-2014:

- by the end of 2010, Ukraine was to have implemented comprehensive reforms required for the introduction of a free trade area (the "**FTA**") with the EU and development of relations between Ukraine and the EU in line with the Ukraine-EU association agenda (the "**Association Agenda**"). In addition, Ukraine was to have, among other things, executed a road map outlining steps to liberalise the EU's visa regime for Ukraine, and to have created a regulatory framework for its implementation as well as developing national programmes of cooperation with the OECD and other international financial organisations. Ukraine achieved the foregoing targets in 2010;

- by the end of 2012, Ukraine is to, among other things, complete negotiations on the introduction of the Ukraine-EU FTA, such FTA to become a part of the Association Agreement between Ukraine and the EU. Ukraine should also enter into and implement a FTA agreement with other CIS member states in line with the WTO requirements, and develop and perform the Programme for Long Term Trade and Economic Cooperation with the Russian Federation; and

- by the end of 2014, Ukraine is to, among other things, continue the development of the regulatory framework and customs procedures required for the operation of the FTA with the EU, work towards the creation of FTAs with other key trade partners of Ukraine and implement measures aimed at Ukraine's accession to the OECD.

Supranational Organisations

WTO

In 2008, after an accession process lasting almost 15 years, Ukraine joined the World Trade Organisation. On 5 February of that year, the WTO's General Council approved the accession package and the President

of Ukraine and the Director General of the WTO signed the Protocol of Ukraine's Accession. The law ratifying the Protocol was passed in 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 WTO.

As part of the accession process, Ukraine held bilateral negotiations with more than 50 WTO members. In addition, a number of laws were enacted by Parliament to address inconsistencies between Ukrainian legislation and the WTO agreements and requirements. See "*—The Judicial System and Legal Framework*".

The Government expects to continue amending certain laws and regulations of Ukraine to comply with the WTO agreements and with Ukraine's specific commitments made during the accession process. Expected amendments include changes to laws governing, among other things, standardisation and certification, consumer rights protection and implementation of an additional import duty that could be used as a temporary mechanism in the event of a significant deterioration in the country's balance of payments. Other important tasks in the context of Ukraine's membership in the WTO include Ukraine's participation in the multilateral negotiations of the Doha Development Round and bilateral negotiations on other countries' accession to the WTO, implementation of efficient mechanisms for the State support of national producers and promotion of investments in Ukrainian industrial and agricultural enterprises. On 25 February 2009, Ukraine was given the status of an observer country pursuant to the WTO Agreement on Government Procurement, and in February 2011 Ukraine applied to the WTO Secretariat with a request to open negotiations on Ukraine's accession to this Agreement. Since Ukraine's accession to the WTO, Ukraine is in negotiations regarding the creation of free trade areas with the EU, Canada, Syria, Israel, Morocco, Serbia, Montenegro and Turkey and is currently considering commencement of negotiations on free trade areas with a number of other countries. See "*—EU*". On 24 June 2010, a free trade agreement was signed (becoming effective 1 June 2012) between Ukraine and the European Free Trade Association, whose members are Iceland, Lichtenstein, Norway and Switzerland.

In addition, Ukraine's membership of the WTO offers protection of the country's trade and economic interests, in particular through the WTO dispute settlement mechanism. The WTO dispute settlement mechanism has been used by Ukraine to assist in the resolution of disputes with Georgia, Armenia and Moldova.

EU

Accession to the EU is a long term strategic goal of the Government. The first and most important step towards European integration was the signing of the Partnership and Cooperation Agreement with the EU in June 1994, which came into force in March 1998 ("**PCA**"). On 5 March 2007, Ukraine began negotiations to replace the PCA with a new agreement with the EU (the "**Association Agreement**"). Under the terms of the PCA it will be extended automatically on an annual basis until the execution of the Association Agreement.

At the meeting of the Council for Cooperation between Ukraine and the EU held on 16 June 2009, the Association Agenda was approved. The Association Agenda replaced the EU-Ukraine Action Plan and became an important step towards Ukraine's integration into the EU. The main purpose of the Association Agenda, which became effective on 23 November 2009, is to allow for a deepening of cooperation between Ukraine and the EU, as the Association Agenda requires mutual actions by Ukraine and the EU, in contrast to the earlier EU-Ukraine Action Plan, which largely contained requirements to be met by Ukraine.

The Association Agreement is viewed by Ukraine as one of the stages in the implementation of Ukraine's strategic goal of accession to the EU. Ukraine and the EU have agreed that the grounds for the new agreement should be both the political association and economic integration of Ukraine and the EU. In terms of economic integration, Ukraine intends to satisfy the conditions for its participation in the EU domestic market through the concurrent gradual implementation of free movement of goods, services and capital, and partially free movement of the labour force, based on free market principles. Negotiations on the Association Agreement were held in the form of plenary sessions and by four joint EU and Ukrainian working groups: Political Dialogue Regarding International Relations and Defence Policy; Justice, Freedom and Security; Economic, Regional and Human Rights Issues; and the Creation of a Free Trade Area. Furthermore, draft

Association Agreements provided for a strengthening of cooperation in the regulatory sphere and continuation of Ukraine's work conforming Ukrainian laws to EU legislation in a number of areas, including trade and the associated system of tariffs, corporate governance, capital transfers and intellectual property. These Association Agreements also included stipulations regarding efficient mechanisms for the implementation of legislative changes. On 30 March 2012, the Association Agreement (which includes the establishment of a free trade area ("**FTA**")) was initialed, prior to its formal execution towards the end of 2012.

Ukraine's accession to the WTO fulfilled the necessary conditions for the launch of formal negotiations for introduction of a FTA with the EU, as outlined in the Association Agreement initialed on 30 March 2012. During negotiations on the FTA held between Ukraine and the EU from 2008 to January 2012, the parties discussed a broad spectrum of issues such as tariffs; trade in goods, including technical barriers in trade, cooperation on customs issues; the energy sphere; intellectual property protection and dispute resolution.

In 2005 and 2007, Ukraine signed agreements with the EU relating to trade in certain steel products, which established quotas for Ukrainian steel product exports to the EU. In connection with Ukraine's accession to the WTO, with effect from 28 May 2008, the EU cancelled quotas for Ukrainian steel exports and terminated the related licensing regime. Upon the cancellation of quotas, Ukraine became subject to the EU import surveillance system, which remained in effect until 31 December 2009. Trade in textile products was opened up as a component of the procedure for Ukraine's accession to the WTO.

With effect from 30 December 2005, Ukraine was given market economy status by the EU. The most significant benefit of the new status is that Ukraine is now better protected against charges of illegally dumping goods on the EU market. Any EU member state that takes anti-dumping measures against Ukraine must prove its case, whereas formerly the burden of proof was on the relevant Ukrainian exporter. In 2009, against the background of the global economic downturn, the EU remained the largest external trade partner of Ukraine, with exports of goods and services from Ukraine to the EU amounting in 2009 to U.S.$12.5 billion (25.4 per cent. of total exports of goods and services), and imports of goods and services to Ukraine amounting to U.S.$18.4 billion (36.3 per cent. of total imports of goods and services), or a 43.6 per cent. And 43.6 per cent. decrease compared to 2008, respectively. In 2010, the EU remained the largest external trade partner of Ukraine with exports of goods and services from Ukraine amounting to U.S.$16.2 billion (29.7 per cent. of total exports of goods and services), or a 29.7 per cent. increase compared to 2009, and imports of goods and services to Ukraine amounting to U.S.$22.1 billion (33.4 per cent. of total imports of goods and services), or a 20.0 per cent. increase compared to 2009. In 2011 exports of goods and services from Ukraine to the EU amounted to U.S.$21.5 billion (16.2 per cent. of Ukraine's total exports of goods and services), a 32.6 per cent. increase compared to 2010. Imports of goods and services from the EU to Ukraine amounted to U.S.$29.1 billion (32.0 per cent. of Ukraine's total imports of goods and services), or a 31.5 per cent. increase compared to 2010. In 2011 trade between the EU and Ukraine amounted to U.S.$50.6 billion (29.6 per cent. of Ukraine's total trade turnover), a 32.1 per cent. increase compared to the same period in 2010. In the first quarter of 2012, exports of goods and services from Ukraine to the EU amounted to U.S.$4.7 billion (24.1 per cent. of total exports of goods and services) or a 9.1 per cent. decrease compared to the first quarter of 2011, and imports of goods and services from the EU to Ukraine amounted to U.S.$6.4 billion (30.1 per cent. of total imports of goods and services), or a 7.4 per cent. increase compared to the corresponding period in 2011.

In June 2007, Ukraine and the EU signed agreements on readmission and visa facilitation. The agreements came into force in February 2008 and aim to combat illegal migration and to liberalise the visa regime for Ukrainian citizens travelling to the EU. In October 2008, Ukraine and the EU began discussions with the goal of permitting Ukrainian citizens to travel visa-free to the EU. At the EU-Ukraine Summit held on 22 November 2010 in Brussels, an action plan (the "**Action Plan**") for the liberalisation of the EU's visa regime was presented to Ukraine. The Action Plan establishes a framework for greater harmonisation with the EU and sets out a number of criteria to be met in the following four areas: (i) data protection; (ii) border security and human trafficking; (iii) public order and security; and (iv) the protection of fundamental human rights. Ukraine intends to carry out the Action Plan in two stages: first, the necessary legislation and documentation in the relevant areas will be approved and, second, practical measures will be taken to implement the legislation. In February 2011 the Cabinet of Ministers established a coordination centre for implementation of the Action Plan and a national plan for implementation of the Action Plan was approved by a Presidential

decree dated 22 April 2011. In furtherance of the Action Plan, Ukraine acceded to four international conventions, 11 new laws have been passed, six documents concerning policy and implementation have been approved and a number of new by laws have been implemented. Furthermore, the State Administration on Protection of Personal Data and the State Migration Administration were established. In February 2012, the European Commission published its second progress report regarding Ukraine's implementation of the first stage of the Action Plan, containing guidance on how Ukraine may progress to the second stage.

Discussions regarding international travel are ongoing, but on 14 December 2011 the negotiations amending the 2007 EU and Ukraine agreement on visa facilitation were finalised. Amendments were made to the eligibility criteria for long term visas and their associated fee structure, to the rules regarding journalists and to the issuance of visas allowing repeat entry.

The EU provides substantial financial and technical assistance to Ukraine in various spheres such as legal reform, the strengthening of border infrastructure, the improvement of its anti-money laundering system, and the counteraction of illegal human and drug trafficking. Financial cooperation with the EU aimed at implementation of infrastructure projects in Ukraine is expected to continue, including within the Framework Agreement entered into between Ukraine and the EIB in 2005, the coordination procedure of which was significantly simplified in May 2012. On 25 March 2012, the EIB opened its first permanent EIB representation in Kyiv, confirming the EIB's commitment to the region.

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

In 2007, Ukraine and the EU launched a programme aimed at supporting the development of the energy sector of Ukraine. The total budget of the programme amounts to €87.0 million, to be disbursed in several instalments for funding such projects as the development of the Ukrainian oil and natural gas transportation infrastructure, the integration of the Ukrainian energy system into the European system and the increase in the energy efficiency of the energy infrastructure, including efficiency of the natural gas transit through Ukrainian trunk pipelines. In 2011, €50.0 million was disbursed under the programme and further support programmes are under negotiation.

In 2010, the European Commission agreed to extend €2.5 million to finance a feasibility study into the modernisation of the Ukrainian gas transit corridors and underground storage facilities. The feasibility study was finalised in the autumn of 2011. Based on the results of the feasibility study Ukraine expects to be able to raise funds from international financial institutions for the implementation of specific projects relating to the modernisation of the Ukrainian gas transport system. See "*Public Debt - International Financial Institutions - EBRD*". As part of this process, Naftogaz started modernising and reconstructing the Urengoy-Pomary-Uzhgorod gas pipeline in July 2011. The first stage of modernisation is expected to take three years to complete and requires an investment of U.S.$538.9 million, of which U.S.$230.9 million is expected to be funded by Naftogaz and U.S.$308 million by the EBRD and the EIB in equal share.

On 24 September 2010, Ukraine signed the Protocol on Ukraine's Accession to the European Energy Community (the "**Energy Community**"), to promote investments in the Ukrainian energy sector and facilitate access of Ukrainian companies to the EU's energy markets. On 1 February 2011, Ukraine became a full member of the Energy Community, with its membership obligations implemented through amendments of 7 August 2011 to the Law of Ukraine "On the Basic Principles of the Gas Market".

In June 2010, Naftogaz became an associated member of the European Union of the Natural Gas Industry ("**Eurogas**"). The Government expects that Naftogaz's associated membership of Eurogas will contribute to ensuring safety of natural gas supplies to the European countries and facilitate Ukraine's participation in discussion and resolution of major issues of European energy policy.

NATO

The development of a distinctive relationship with the North Atlantic Treaty Organisation ("**NATO**") continues to be an important element of Ukraine's security policy. Ukraine was the first CIS country to join the "Partnership for Peace" programme in 1994 and is also an active member of the Euro Atlantic Partnership Council.

On 9 July 1997, the "**Charter on a Distinctive Partnership**" (the "**Charter**") between NATO and Ukraine was signed in Madrid and a further supplement to the Charter was signed on 21 August 2009. The key mechanism of bilateral dialogue development is the NATO Ukraine Commission created in 1997 pursuant to the Charter. In addition, as at 31 December 2011 approximately 30 agreements have been signed between NATO and Ukraine governing their cooperation on various practical issues. In the new Strategic Concept adopted by NATO at the Lisbon Summit held in November 2010, NATO further confirmed its intention to develop its relationship with Ukraine.

On 24 February 2011, the NATO Secretary Anders Rasmussen visited Ukraine, meeting with the Ukrainian President to discuss enhanced cooperation between NATO and Ukraine, and on 15 April 2011, at a meeting of foreign ministers representing both NATO and Ukraine, a joint statement was issued setting out common foreign policy goals and promoting co-operation.

At a meeting of the North Atlantic Council in December 2008, it was decided that Ukraine, in cooperation with NATO within the framework of the Ukraine NATO Commission, would develop national annual programmes ("**NAPs**") for implementing necessary reforms. At a meeting held on 7 December 2010, NATO positively appraised Ukraine's performance under the 2010 NAP. The 2011 NAP provided for reforms in the political, defence, military, security and legal areas. Ukraine's current priorities in the development of its relations with NATO include the maintenance of positive political dialogue and practical cooperation as well as the furtherance of reforms within the framework of the NAP using the expert assistance and funding of NATO and, according to the preliminary assessment of the 2011 NAP, it was generally successfully implemented. The 2012 NAP was approved by the President on 19 April 2012 and should encourage further reform in Ukraine.

As of the date of this Prospectus, Ukraine does not intend to become a member state of NATO but intends to continue its cooperation with NATO in various matters of mutual interest.

By way of a decree of 18 November 2010, the President of Ukraine established the Commission on Partnership between Ukraine and NATO which consists of five coordinators of different areas corresponding to the areas of Ukraine's NAP. The Commission's designated role is to oversee effective cooperation with NATO and implementation of the NAP.

Ukraine has sent troops to, and is otherwise actively involved in, a number of NATO led peacekeeping operations, including operations in Afghanistan, Kosovo, Iraq, the Mediterranean. Ukraine and NATO also cooperate in such areas as counter-terrorism, counter-piracy, counter-human trafficking, anti-money laundering, fighting cyber crimes and corruption, utilisation of excessive ammunition supplies, reforms in security and defence sectors, and air traffic. In addition, Ukraine is interested in the cooperation in non-military spheres, including NATO science programmes, environmental protection, rehabilitation and social adaptation of retired military personnel, and counteracting consequences of emergencies and disasters.

CIS and BSEC

Ukraine is, together with Russia and Belarus, one of the founding members of the CIS and considers economic cooperation a priority of its membership in the CIS. At the same time, Ukraine remains responsible for its own affairs at the international level. Ukraine is also one of the 12 member states of the Organisation of Black Sea Economic Cooperation ("**BSEC**"), which also includes the Russian Federation, Georgia and the Republic of Turkey, and has chaired BSEC several times. BSEC was formed with the goal of extending economic cooperation by facilitating contracts between businesses and eliminating barriers to trade among its member states. Organised by BSEC, the Black Sea Trade and Development Bank finances and implements joint regional projects.

During 2011, 15 international and 36 intergovernmental agreements were signed by Ukraine within the framework of the CIS, including the Agreement on a Free Trade Zone, the Programme for Innovative Cooperation until 2020 and the Cooperation Atom-CIS, a framework for the peaceful use of nuclear energy until 2020.

Foreign States

United States

Since independence, Ukraine has considered its relationship with the United States a strategic priority and since 2005, relations with the United States have strengthened. The Generalised System of Preferences was reinstated for Ukraine in 2006, and in 2008, the Office of the U.S. Trade Representative added Ukraine to its Watch List of 30 countries with an improved level of intellectual property protection. Moreover, with effect from 1 February 2006, the United States granted Ukraine market economy status and, on 23 March 2006, the Jackson Vanik amendment restricting Ukrainian exports was repealed by the United States. The United States remains a significant contributor of FDI to Ukraine, accounting for 4.1 per cent. of overall FDI in 2008, 3.5 per cent. in 2009 and 2.7 per cent. in 2010, 2.1 per cent. in 2011 and 2.1 per cent. for the first quarter of 2012. Although the relative share of FDI provided by the United States decreased from 2008 to the end of the first quarter of 2012, in the first quarter of 2012 the United States remained the tenth largest contributor and, in absolute terms, investment from the United States has continued to increase.

In April 2008, Ukraine and the United States signed a "road map" of Ukraine-U.S. relations that outlines the priorities of bilateral cooperation. These priorities include assistance with Ukrainian legal reform and law enforcement, support to reduce corruption, cooperation in the energy sphere, as well as further disarmament and other Ukrainian military reforms. Also in April 2008, Ukraine and the United States signed a Trade and Investment Cooperation Agreement providing for, among other things, establishment of the Ukrainian American Council on Trade and Investments. The Trade and Investment Cooperation Agreement is supplemented by cooperation agreements in other spheres, such as health, science and technology and space exploration. In total, more than 129 agreements have been concluded between Ukraine and the United States.

In accordance with the Ukraine and United States Charter on Strategic Partnership signed in December 2008 (the "**Charter**"), new mechanisms of bilateral cooperation have been launched, with the Ukraine U.S. Commission on Strategic Partnership, set up in December 2009, coordinating such activities. The Commission has focused on Ukraine's economic development, particularly in the energy sector, and on foreign policy, particularly on security and the non-proliferation of weapons of mass destruction, as well as on the democratic reforms and the rule of law. Other bilateral initiatives include the Ukraine Energy Dialogue, Ukraine Business Networking and Ukraine Security.

During the visit to the United States of President Yanukovych in April 2010, the Ukrainian and U.S. presidents reaffirmed cooperation in such spheres as the Ukrainian IMF programme, minimising the impact of the global economic downturn, energy sector reforms, as well as other measures strengthening bilateral cooperation on the basis of the Charter. Furthermore, the important decision to remove its stocks of highly enriched uranium before the September 2012 Seoul Nuclear Security Summit was confirmed by Ukraine. Pursuant to this decision, a substantial share of the nuclear stock was moved to Russia at the end of 2010. President Yanukovych also announced a decision to convert Ukraine's nuclear research facilities so that they operate with low-enriched uranium fuel, to which President Obama responded that the United States was ready to provide Ukraine with technical and financial support for this goal. It was also agreed to enhance the countries' cooperation to support Ukraine's efforts to diversify nuclear fuel supplies.

In July 2010, the U.S. Secretary of State paid an official visit to Ukraine and confirmed the United States' position towards broadening bilateral cooperation with Ukraine. During this visit a second sitting of the Commission on Strategic Partnership was held with discussions on a number of issues, including international and regional security, foreign policy and defence, democracy and the supremacy of law, nuclear safety and non-proliferation, military and technical cooperation. In addition, Ukraine and the United States agreed to establish three new working groups, including a working group on peaceful nuclear energy; a working group on political dialogue and the rule of law; and a working group on science and technology. From 13 to 17 February 2011, a third meeting of the Commission on Strategic Partnership was held, as a

consequence of which several bilateral agreements were signed, including the Cooperation Plan on Combating Human Trafficking, the Memorandum of Understanding on Unconventional Gas Resources and the Partnership Framework Agreement on cooperation in countering HIV/AIDS from 2011 to 2015. A fourth meeting of the Commission on Strategic Partnership is planned to be held in Kyiv in 2012.

From 19 to 23 September 2011, the President of Ukraine visited the United States as part of the 66th session of the UN General Assembly and had several meetings with the President and Secretary of State of the United States. On 26 September 2011, following further negotiations regarding nuclear security, a memorandum of understanding was signed dealing with nuclear security. This builds on what was agreed during the Nuclear Security Summit in April 2010 concerning the provision of assistance for conversion to low-enriched uranium fuel and outlines plans for the construction of a neutron source facility in Ukraine, as well as the modernisation of Ukraine's nuclear infrastructure generally. On 22 March 2012, Ukraine fulfilled its obligations regarding the removal of highly enriched nuclear materials from Kharkiv Institute of Physics and Technology to Russia, with United States and IAEA assistance.

Russia

Ukraine's relations with Russia are also considered to be of strategic importance. The Friendship and Cooperation Agreement of 1997 confirmed Ukrainian territorial integrity, including that of the Crimea (the population of which is approximately two thirds ethnic Russian), as well as other areas of Ukrainian and Russian cooperation. In addition, Ukraine agreed to the stationing of Russia's Black Sea Fleet in Sevastopol, in exchange for Russia's agreement to offset Ukraine's energy debts accumulated by Ukraine prior to 1993. However, certain differences between Ukraine and Russia regarding the performance of the Friendship and Cooperation Agreement and the stationing of the Black Sea Fleet still exist, including the return of navigational facilities to Ukraine, violations of Ukraine's maritime border, environmental issues and the failure to properly formalise relations on the leasing of facilities in the city of Sevastopol.

Relations with Russia have strengthened since the election of President Yanukovych in 2010. A broad spectrum of political and economic issues was discussed during several visits of the Ukrainian President, Prime Minister and Minister for Foreign Affairs to Russia and visits of the Russian President, Prime Minister and Minister for Foreign Affairs to Ukraine which took place from March to December 2010. In particular, on 21 April 2010, Ukraine and Russia signed a new agreement on the stationing of Russia's Black Sea Fleet in Ukrainian territory, under which Russia may station the Black Sea Fleet in Sevastopol for a further 25 year period, with an additional 5 year extension option and the compensation payable for the stationing of the Fleet was increased. This new agreement also provides that a portion of the lease charges payable for the Fleet stationing will be set off against discounts to the price of natural gas supplied by Gazprom for domestic consumption in Ukraine. In addition, a number of bilateral documents were signed during the third meeting of the Ukrainian Russian Interstate Commission that was held in May 2010, including an agreement on the demarcation of Ukraine's land border with Russia.

International relations between Ukraine and Russia have been significantly influenced by the relations between the two countries in the oil and gas sphere. Russia has in the past threatened to cut off the supply of oil and gas to Ukraine in order to apply pressure on Ukraine to settle outstanding gas debts and reduce transit fees for Russian oil and gas through Ukrainian pipelines to European consumers. From 1 January 2005 to 1 January 2008, Gazprom increased prices for Russian natural gas supplied to Ukraine for domestic consumption from U.S.$50 to U.S.$179.5 per 1,000 cubic metres. On 12 March 2008, Naftogaz and Gazprom signed an agreement with the aim of switching to direct Naftogaz and Gazprom supply deals.

In early January 2009, Gazprom substantially decreased and then ceased natural gas supplies to Ukraine, due to a failure to agree terms regarding the supply of natural gas. On 19 January 2009, Naftogaz and Gazprom signed an agreement setting out the terms of natural gas supplies to Ukraine from 2009 to 2019 (the "**Gas Supply Contract**") and an agreement on volumes and conditions of the natural gas transit through the territory of Ukraine (the "**Gas Transit Contract**"). According to the Gas Supply Contract, the price for natural gas supplied for domestic consumption to Ukraine depends on a formula linked to changes in oil price. On 21 April 2010, further to the new agreement between Ukraine and Russia with respect to the stationing of Russia's Black Sea Fleet in Ukrainian territory, amendments to the Gas Supply Contract and

the Gas Transit Contract were signed, under which Gazprom has agreed to give Naftogaz certain discounts from the otherwise applicable price for natural gas supplied for domestic consumption to Ukraine. However, negotiations relating to the price of gas supplied by Gazprom under the Gas Supply Contract are currently ongoing. As gas prices have risen recently in accordance with the schedule contained in the Gas Supply Contract, Naftogaz and Gazprom are currently in negotiations to amend the terms of the scheduled phasing out of discounts pursuant to the Gas Supply Contract. However, Ukraine is under significant pressure from the IMF to cut domestic subsidies on gas supplies to consumers and as a result these negotiations are seen to be of significant importance. See "*Economy of Ukraine—Principal Sectors of the Economy—Oil and Gas*".

Russia increased its oil export duty to a historical maximum of U.S.$495.9 per tonne as at 1 October 2008, which resulted in the temporary establishment of minimum retail prices for fuel by the Government of Ukraine. The export duty has decreased substantially since the end of 2008 due to the decrease in global crude oil prices. As at 1 July 2012, the Russian oil export duty was U.S.$369.3 per tonne. Any future increases could adversely affect the Ukrainian economy.

In June 2007, a programme on economic cooperation for the period from 2008 to 2010 was signed between Russia and Ukraine and on 7 June 2011, a further programme on economic cooperation was signed covering the period from 2011 to 2020. However, despite the cancellation of some tariffs, Ukrainian exporters still experience certain difficulties in promoting their goods on the Russian market. See "*External Sector—International Trade*".

Discussions between Ukraine and Russia continue on an ongoing basis, including periodic meetings between the presidents and prime ministers of the two nations. A number of bilateral agreements were signed during the third meeting of the Ukrainian and Russian Interstate Commission that was held in May 2010, including, among others, agreements on cooperation in the use and development of a global navigation satellite system and scientific and educational cooperation. Several further bilateral agreements were signed during the fourth meeting of the Ukrainian and Russian Interstate Commission that was held in November 2010, including, among others, an agreement on cooperation regarding oil transportation to Ukrainian oil refinery plants and oil transit through the territory of Ukraine. In addition, the Government believes that meetings of the committee on economic cooperation improved Ukrainian and Russian cooperation as a result of the comprehensive modernisation of trade and economic relations and strengthening of the integration processes.

On 18 October 2011, as part of the second Ukrainian and Russian Interregional Economic Forum, Ukraine and Russia signed a number of bilateral documents relating to customs and immigration issues, economic cooperation in trade and support of entrepreneurship, cooperation in science and technology and cooperation in transportation.

Romania

The decision of the UN International Court of Justice ("**ICJ**") to delineate Romania's Black Sea maritime border with Ukraine was issued on 3 February 2009 and resolved a previous area of tension. The area in question, totalling 75,200 square km was divided by a ratio of 2.1 to 1 in favour of Ukraine, which left Ukraine with all explored oil fields and the majority of the explored gas fields located in this area. The ICJ decision has settled one of the most complex issues on Ukraine's agenda with respect to Romania. The Government expects that this decision will have a positive effect on relations between Romania and Ukraine and contribute to the promotion of investments in Black Sea oil and gas exploration and production ventures.

Romania is willing to help Ukraine in its European integration, in particular with regard to the Ukrainian, Moldovan and Romanian axis and furthering Ukraine's participation and understanding of EU regional policies. Examples of such policies include the European Strategy for the Danube Region (which aims to address, among other things, uneven socio-economic development and environmental threats) and the Black Sea Synergy (established to encourage cooperation between the countries surrounding the Black Sea, by providing a forum for tackling common problems and political and economic reform).

ECONOMY OF UKRAINE

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

Background

Prior to commencing the transition to a market economy, Ukraine had a centrally planned economy geared towards Russia and the other countries of the former Soviet Union. Although considerable progress has been achieved in the transition to a market economy in the areas of economic liberalisation, privatisation and financial stabilisation policies, the process remains incomplete in many respects.

The Ukrainian economy grew at an annual average of approximately 7 per cent. in real GDP terms from 2000 to 2008, driven mainly by a rapid increase in foreign demand, rising commodity prices in external markets and the availability of foreign financing. Although these factors have contributed to the pace of Ukrainian economic growth in recent years, they have also increased the economy's vulnerability to external shocks. As a result, when the global economic and financial situation began to deteriorate, Ukraine's economy was one of the most severely affected. In 2009, Ukraine's real GDP decreased by 14.8 per cent. The negative influence of external factors has been compounded by weaknesses in the Ukrainian economy. In particular, although various Governments have generally been committed to economic reform, lack of political consensus and controversies surrounding issues such as privatisation, subsidies to State-owned enterprises and cooperation with international financial institutions have impeded reform. Delays in implementing reforms, together with deteriorating conditions in the social sphere associated with substantial decreases in income and high unemployment, have exerted considerable pressure on limited State resources. The structural weaknesses in the economy that have not yet been corrected are likely to restrain economic growth and continue to impose substantial fiscal pressures on the Government over the coming years. Year-on-year real GDP growth started to recover in 2010, reaching 4.1 per cent. and measuring 5.2 per cent. in 2011. However, in the first quarter of 2012, data suggests that growth has slowed, with real GDP increasing by only 2.0 per cent. on an annualised basis.

Economic Programmes

In May 2010, Parliament approved the Law of Ukraine "On the State Programme for Economic and Social Development of Ukraine for 2010" (the "**2010 Economic Programme**"), the main goals of which were to restore economic growth and build the foundations for stable growth and improve the standard of living of the population in general. The 2010 Economic Programme was based on the provisions of President Viktor Yanukovych's programme "Ukraine for the People" and on co-operative coalition government "Stability and Reform" in the Verkhovna Rada of Ukraine of the Sixth Convocation.

The 2010 to 2014 Economic Reform Programme, which was launched in the second half of 2010, provides for comprehensive reforms of the Ukrainian economy, focusing on the following five main priorities:

- creation of a favourable climate for economic growth by maintaining low levels of inflation and the stabilisation of the public and non-public financial system;
- establishment of a favourable regime for business by reducing the role of the State in the economy, lowering administrative barriers for business development, modernising the tax system and strengthening Ukraine's international economic integration;
- modernisation of existing infrastructure and the main sectors of the economy through the elimination of structural problems in power generation, coal, oil and gas, housing and communal services, transport and land markets and the transition from an economy dependent on public financing to privately financed, autonomous and entrepreneurial manufacturing and services industries;
- preservation and development of social and human capital through increased efficiency and stability in social protection and an improvement of the quality and availability of education and medical services; and

- increased bureaucratic efficiency by means of reform in the civil service and executive administration.

The 2010-2014 Economic Reform Programme establishes three stages for the implementation of reforms in each of the targeted sectors: the first stage was completed in 2010; the second stage should be completed by the end of 2012; and the third stage should be completed by the end of 2014.

A national action plan for 2011 regarding the implementation of the 2010-2014 Economic Reform Programme (the "**2011 Action Plan**") was approved by Presidential decree dated 27 April 2011. According to the 2011 Action Plan, the main social and economic policy objectives for 2011 were to restore economic growth and continue the modernisation of the Ukrainian economy in accordance with the targets of the 2010-2014 Economic Reform Programme determined by the President of Ukraine.

The 2011 Action Plan envisaged enhancing the benefits and minimising the negative consequences of the establishment of the free trade zone with the EU, including completion of the negotiations between Ukraine and the EU on Ukraine's participation. The 2011 Action Plan aims to increase conformity between Ukrainian and EU legislation, consumer safety in relation to processed food and industrial products, information available regarding foreign economic activities of Ukrainian companies, foreign investment in Ukraine, the efficiency of customs authorities, Ukraine's economic competitiveness and cooperation between Ukrainian and EU business entities. Certain EU member states have suggested making the signing of the Association Agreement conditional upon a satisfactory resolution of the Tymoshenko case. See *"Risk Factors-Changes in relations with Western governments and multinational institutions may adversely affect the development of the Ukrainian economy"*.

A strategy for implementing the 2010-2014 Economic Reform Programme in 2012 (the "**2012 Action Plan**") was approved by the President on 12 March 2012. The 2012 Action Plan is far reaching in its objectives, aiming for reform across the Ukrainian economy. Public finances, including management of state assets, privatisation, education and bureaucratic processes are to change, alongside financial services, energy sector and transport and utilities infrastructure reform.

More specifically the 2012 Economic Programme aims to create in the medium-term the framework for:

- an improvement in living conditions of citizens through economic development as a basis for increasing employment, income growth and reduction in the level of inflation by expanding the supply of goods and services;
- raising living standards, developing social and human capital through an improvement in the quality and availability of education and medical services and increasing the efficiency and stability of social protection;
- improving the environment and ensuring environmentally sustainable use of natural resources;
- the establishment of a favourable regime for businesses by strengthening the supremacy of law in practice, reducing the role of the State in the economy, modernising the tax system, launching public private partnerships and creating incentives for investors to develop high-technology production and introduce energy efficient technologies;
- ensuring macroeconomic stability by maintaining relatively low levels of inflation, stabilisation of public finances and recovery of the financial system;
- restoring long term lending to the real sector of the economy and households;
- increasing the competitiveness of domestic goods and services, increasing exports and creating conditions for substituting imported goods with domestically produced ones;
- modernisation of the existing infrastructure, especially transport and energy infrastructure;
- increasing the efficiency of public management by attracting highly skilled staff in state and local authorities; and

- reducing disparities in the development of regions by increasing their investment attractiveness through the effective use of their available economic potential and creating conditions for new "centres" of development.

The Coordination Centre on Implementation of Economic Reforms (the "**Coordination Centre**") was established as an advisory body to the President of Ukraine to ensure the implementation of the main economic reforms in 2010-2014. Practical implementation of the 2010-2014 Economic Reform Programme is performed by the Government together with the Committee on Economic Reforms in accordance with schedules of the implementation of reforms in each direction. The Coordination Centre monitors and controls the implementation of the reforms, coordinates work of governmental agencies and modifies the 2010-2014 Economic Reform Programme as its objectives are being achieved.

Gross Domestic Product

In 2008, real GDP increased by 2.3 per cent., industrial production decreased by 5.2 per cent. and agricultural output increased by 17.1 per cent. The decline in industrial production in 2008 and the more modest rate of real GDP growth for the full year 2008 as compared to the 7.3 per cent. growth recorded in the first half of 2008 are largely attributable to a 26.3 per cent. decline in industrial production in the fourth quarter of 2008 resulting from the global economic downturn, which was partially offset by positive growth dynamics recorded in industries oriented on the domestic market. In particular, in 2008, in the service industries, which include wholesale and retail trade and the transport, and communications sector, gross added value increased by 2.4 per cent. and 9.6 per cent., respectively, as compared to 2007. In 2008 compared to 2007, gross added value in agriculture, hunting and forestry increased by 16.6 per cent., while gross added value in construction, education, and health and social assistance decreased by 29.1 per cent., 0.5 per cent., and 1.0 per cent., respectively.

In 2009, Ukraine's real GDP decreased by 14.8 per cent., industrial production decreased by 21.9 per cent. and agricultural output decreased by 1.8 per cent. The decline in GDP in 2009 was a result of unfavourable external conditions, including both reduced external demand and low export prices, decreased domestic demand and limited volumes of available financing due to the global financial downturn. However, Ukraine's economy was gradually adjusting to external shocks caused by the global economic and financial downturn. As a result, in 2009, cumulative rates of decline in GDP fell throughout the year. The largest decreases in indices of industrial production in 2009 were recorded in machinery manufacturing (44.9 per cent.), production of other non-metallic mineral products (38.5 per cent.), metallurgy (26.7 per cent.) and construction (48.2 per cent.). In addition, in 2009, gross added value in agriculture, transport and communications, trade, and construction declined by 2.0 per cent., 7.2 per cent., 17.5 per cent. and 42.5 per cent., respectively.

In 2011, Ukraine's real GDP increased by 5.2 per cent. to UAH 1,316.6 billion, following real GDP growth of 4.1 per cent. to UAH 1,082.6 billion in 2010. According to a resolution of the Cabinet of Ministers dated 31 August 2011, as amended, real GDP is forecast to increase by between 3.9 and 6.5 per cent. in 2012. However, in the first quarter of 2012, the real GDP growth rate slowed to 2.0 per cent. The main reasons for the Ukrainian economy's recovery from the recession in 2008 and 2009 to growth in 2010 and 2011 include both improved external conditions and a gradual improvement in the domestic market. Factors influencing the slowdown in the first quarter of 2012 include seasonal disparities, adverse weather conditions, low levels of bank lending and external economic issues, such as the renewed downturn in the EU.

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

	Year ended 31 December				Three months ended 31 March	
	2008	2009	2010	2011	2011	2012[1]
GDP						
Nominal GDP (UAH millions)	948,056.0	913,345.0	1,082,569.0	1,316,600.0	261,878.0	296,970.0
Nominal GDP (U.S.$ millions)[1]	179,992.4	117,227.8	136,419.3	165,245.0	32,961.4	37,176.4
Real GDP (% change)	2.3	(14.8)	4.1	5.2	5.4	2.0
Nominal per capita GDP (U.S.$)[1]	3,891.0	2,545.5	2,973.9	3,615.4	720.5	815.1

Notes:

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

Source: State Statistics Service

GDP by Source

The following tables set out the composition of GDP by source for the periods indicated:

	Year ended 31 December							
	2008		2009		2010		2011	
	(UAH millions)	*(%)*	*(UAH millions)*	*(%)*	*(UAH millions)*	*(%)*	*(UAH millions)*	*(%)*
GDP	**948,056.0**	**100.0**	**913,345.0**	**100.0**	**1,082,569.0**	**100.0**	**1,316,600.0**	**100.0**
Industry[1]	247,872.0	26.1	214,358.0	23.5	259,018.0	23.9	318,279.0	24.1
Agriculture, hunting and forestry	65,148.0	6.9	65,758.0	7.2	82,641.0	7.6	108,688.0	8.3
Construction	29,185.0	3.1	21,528.0	2.4	32,518.0	3.0	41,384.0	3.1
Transport and communication	87,078.0	9.2	97,050.0	10.6	111,013.0	10.3	130,715.0	9.9
Trade and services	131,261.0	13.9	129,997.0	14.2	164,826.0	15.2	202,275.0	15.4
Other economic activity[2]	300,170.0	31.7	318,639.0	34.9	349,957.0	32.3	378,826.0	28.8
Services of financial agents	(36,538.0)	(3.9)	(50,849.0)	(5.6)	(45,814.0)	(4.2)	(45,648.0)	(3.4)
Net taxes on products excluding subsidies	123,880.0	13.0	116,864.0	12.8	128,410.0	11.9	182,081.0	13.8

Notes:

(1) Consists of extractive industries (such as mining), manufacturing and energy, gas and water production and distribution.

(2) Includes education, health protection and other segments of the economy.

Source: State Statistics Service

	2011								2012	
	1st quarter		2nd quarter		3rd quarter		4th quarter		1st quarter	
	(UAH millions)	*(%)*	*(UAH millions)*	*(%)*	*(UAH millions)*	*(%)*	*(UAH millions)*	*(%)*	*(UAH millions)*	*(%)*
GDP	261,878.0	100.0	314,620.0	100.0	376,019.0	100.0	364,083.0	100.0	296,970.0	100.0
Industry[1]	67,677.0	25.8	83,528.0	26.6	83,230.0	22.1	83,844.0	23.0	73,165.0	24.7
Agriculture, hunting and forestry	7,667.0	2.9	12,409.0	3.9	58,529.0	15.6	30,083.0	8.3	8,863.0	3.0
Construction	6,029.0	2.3	8,947.0	2.8	11,345.0	3.0	15,063.0	4.1	6,918.0	2.3
Transport and communication	29,176.0	11.1	32,845.0	10.4	33,381.0	8.9	35,313.0	9.7	31,925.0	10.7
Trade and services	39,089.0	14.9	49,659.0	15.8	53,382.0	14.2	60,145.0	16.5	44,870.0	15.1
Other economic activity[2]	83,541.0	32.0	95,342.0	30.3	97,177.0	25.8	102,766.0	28.3	96,186.0	32.4
Services of financial agents	(11,760.0)	(4.5)	(10,481.0)	(3.3)	(11,626.0)	(3.1)	(11,781.0)	(3.3)	(10,255.0)	(3.5)
Net taxes on products excluding subsidies	40,459.0	15.5	42,371.0	13.5	50,601.0	13.5	48,650.0	13.4	45,298.0	15.3

Notes:

(1) Consists of extractive industries (such as mining), manufacturing and energy, gas and water production and distribution.

(2) Includes education, health protection and other segments of the economy.

Source: State Statistics Service

GDP by Use

The following tables set out the composition of GDP by use for the periods indicated:

	Year ended 31 December							
	2008		2009		2010		2011	
	(UAH millions)	*(%)*	*(UAH millions)*	*(%)*	*(UAH millions)*	*(%)*	*(UAH millions)*	*(%)*
GDP	948,056.0	100.0	913,345.0	100.0	1,082,569.0	100.0	1,316,600.0	100.0
Consumption	758,902.0	80.1	772,826.0	84.7	914,230.0	84.5	1,105,201.0	83.9
Private Sector	582,482.0	61.4	581,733.0	63.7	686,082.0	63.4	857,306.0	65.1
Non-profit organizations serving private sector	7,257.0	0.8	7,079.0	0.8	8,222.0	0.8	9,197.0	0.7
Government	169,163.0	17.9	184,014.0	20.2	219,926.0	20.3	238,698.0	18.1
Gross fixed investment	250,158.0	26.4	167,644.0	18.3	195,927.0	18.1	247,850.0	18.8
Change in stock	14,379.0	1.5	(12,274.0)	(1.3)	3,616.0	0.3	34,091.0	2.6
Net acquisition of valuables	346.0	0.0	445.0	0.0	375.0	0.0	533.0	0.1
Net export	(75,729.0)	(8.0)	(15,296.0)	(1.7)	(31,579.0)	(2.9)	(71,075.0)	(5.4)
Export of goods and services	444,859.0	46.9	423,564.0	46.4	549,365.0	50.8	707,953.0	53.8
Import of goods and services	520,588.0	54.9	438,860.0	48.1	580,944.0	53.7	779,028.0	59.2

Source: State Statistics Service

	2011								2012	
	1st quarter		2nd quarter		3rd quarter		4th quarter		1st quarter	
	(UAH millions)	*(%)*	*(UAH millions)*	*(%)*	*(UAH millions)*	*(%)*	*(UAH millions)*	*(%)*	*(UAH millions)*	*(%)*
GDP	261,878.0	100.0	314,620.0	100.0	376,019.0	100.0	364,083.0	100.0	296,970.0	100.0
Consumption	236,580.0	90.4	268,688.0	85.4	285,548.0	75.9	314,385.0	86.3	274,401.0	92.4
Private Sector	182,247.0	69.6	205,293.0	65.3	231,420.0	61.5	238,346.0	65.5	210,999.0	71.1
Non-profit organizations serving private sector	2,251.0	0.9	2,305.0	0.7	2,311.0	0.6	2,330.0	0.6	2,444.0	0.8
Government	52,082.0	19.9	61,090.0	19.4	51,817.0	13.8	73,709.0	20.2	60,958.0	20.5
Gross fixed investment	37,748.0	14.4	50,720.0	16.1	69,698.0	18.5	89,684.0	24.6	47,621.0	16.0
Change in stock	3,931.0	1.5	3,403.0	1.1	38,480.0	10.2	(11,723.0)	(3.2)	(10,670,0)	(3.6)
Net acquisition of valuables	120.0	0.0	99.0	0.0	166.0	0.1	148.0	0.1	173.0	0.1
Net export	(16,501.0)	(6.3)	(8,290.0)	(2.6)	(17,873.0)	(4.7)	(28,411.0)	(7.8)	(14,555.0)	(4.9)
Export of goods and services	156,545.0	59.8	179,626.0	57.1	184,258.0	49.0	187,524.0	51.5	165,458.0	55.7
Import of goods and services	173,046.0	66.1	187,916.0	59.7	202,131.0	53.7	215,935.0	59.3	180,013.0	60.6

Source: State Statistics Service

Inflation

The following table sets out certain consumer price index and wholesale price index information, showing the annual percentage rates of change as at the dates indicated:

	As at 31 December				As at 30 April
	2008	2009	2010	2011	2012
	(*increase/decrease against same date in previous year in %*)				
Consumer Price Index (CPI)	22.3	12.3	9.1	4.6	0.7
Food	24.5	10.9	10.6	1.7	0.5
Wholesale Price Index (WPI)	23.0	14.3	18.7	14.2	4.8

Note:

The State Statistics Service uses international COICOP classification and does not calculate non-food and paid services indices, or reflect alcoholic beverages and tobacco.

Source: State Statistics Service

At year-end 2008 against year-end 2007, Ukraine had a rate of CPI inflation of 22.3 per cent. Inflation during 2008 was largely attributable to the five months ended 31 May 2008, when it reached 14.6 per cent. (against year-end 2007). The reasons for the acceleration of CPI inflation in the five months ended 31 May 2008 included the continuing effects of the high inflation rate during the last quarter of 2007, increasing prices for agricultural production resulting from the agricultural output decline in 2007 as well as from increasing prices for such products in external markets, and an increase in natural gas and oil prices. In June-August 2008, however, the inflation rate decelerated, and in July-August deflation was recorded, for the first time since April 2006. In September-December 2008, the rate of inflation increased again, largely due to increased prices for non-food products and municipal services against the background of the global financial downturn. In this period, increased prices for non-food products were largely caused by a significant devaluation of the hryvnia against foreign currencies. For the full year, the highest levels of inflation were recorded in food products (24.5 per cent.), which included 34.0 per cent., 27.8 per cent., and 37.8 per cent. growth in prices for meat and meat products, bread and bakery products, and fruits, respectively. In 2008, CPI inflation was 25.2 per cent. as compared to 2007. At year-end 2008, against year-end 2007, Ukraine had WPI inflation of 23.0 per cent., which was mainly the result of an increase in natural gas prices for industrial consumers, domestic wholesale agricultural product prices and world prices for metal products, grain and oil, as well as a result of increased wages and intensification of industrial modernisation.

In response to the high inflation levels recorded in the fourth quarter of 2007 and first quarter of 2008, the Government, together with the NBU, developed the Plan of Counter Inflationary Measures (the "**Counter-Inflation Plan**") that called for joint and coordinated activities aimed at the prevention of the growth of the inflationary pressure on the economy. In January 2009, the Counter-Inflation Plan was extended to 2009. In accordance with the Counter-Inflation Plan, during 2008 and 2009, counter inflationary measures focused on four areas:

- reducing the level of demand inflation by means of monetary and fiscal measures;
- preventing unreasonable price increases for certain goods and services, unfair competition and abuses of monopoly positions;
- increasing the efficiency of accumulation and investment of idle funds, including the development of the stock market and the financial markets; and
- reducing energy consumption and the sensitivity of the Ukrainian economy to external energy prices.

In accordance with the Counter-Inflation Plan, in 2008, a number of memoranda (most of which imposed price controls) were entered into with agricultural producers and wholesale traders in order to prevent unjustified increases in wholesale and retail prices for products of social importance, for example, sugar and meat. The NBU also pursued tighter monetary policy aimed at reducing inflationary pressure on the economy.

At year-end 2009 against year-end 2008, Ukraine had 12.3 per cent. inflation as measured by CPI. In 2009, CPI inflation was 15.9 per cent. as compared to 2008. Following the acceleration of CPI inflation in 2008, inflation growth decelerated in 2009 due to good harvests in 2008-2009, reduced wholesale prices for agricultural products, renewal of retail deposits growth, reduced consumer lending, reduced volumes of cash in circulation and money supply and continued implementation of counter inflation measures by the Government and the NBU. The reasons for the deceleration of CPI inflation in this period also include increased unemployment, deceleration of nominal wage growth and restrictions on deposit withdrawals introduced by the NBU in the end of 2008. Factors adversely affecting CPI inflation in 2009 included the following: rising fuel prices, which increased by 46.0 per cent. against year-end 2008, against the background of global oil price growth, a significant increase of oil export duty by Russia and an increase in the consolidated budget deficit; the devaluation of the hryvnia against the U.S. dollar; high inflation expectations in the population; rising prices for tobacco, alcohol and sugar; and prices (tariffs) for certain other goods that remain subject to national price regulation, as well as increased food manufacturers' prices. The 12.3 per cent. inflation in 2009, against year-end 2008, included 10.9 per cent. inflation in food products, 8.2 per cent. inflation in housing, water, electricity, natural gas and other kinds of fuel, and 19.2 per cent. inflation in transport tariffs.

At year-end 2009 against year-end 2008, WPI inflation was 14.3 per cent. as compared to 23.0 per cent. in 2008 against year-end 2007. WPI inflation in 2009 included 17.2 per cent., 42.9 per cent. and 20.3 per cent. WPI inflation in the metallurgy industry, the coke and oil refining industry and food, drinks and tobacco production, respectively. WPI inflation was 6.5 per cent. in 2009 compared to 2008, and was 35.5 per cent. in 2008 compared to 2007. The deceleration in the rate of growth of wholesale prices in 2009 was mainly due to a decrease in world prices for primary export products, the low level of economic activity in the domestic market and deceleration in the growth rate of wages in this period. Factors adversely affecting WPI inflation in 2009 included increased threshold prices for natural gas for industrial consumers, the devaluation of the hryvnia against the U.S. dollar and increased global oil prices.

At year-end 2010 against year-end 2009, the CPI inflation rate was 9.1 per cent. In 2010, the CPI inflation was 9.4 per cent. as compared to 2009. The reasons for the deceleration of CPI inflation in 2010 as compared to 2009 include the relative stability of the hryvnia exchange rate, a good harvest recorded in 2010 and increased agricultural production. The reasons for the deceleration of CPI inflation also include a moderate increase in the current expenditure of the State Budget, an insignificant increase in prices (tariffs) for goods remaining subject to State price regulation, limited consumer lending and recovery in retail deposits growth, which assisted in withdrawing excess liquidity from the consumer market. Factors adversely affecting CPI

inflation in 2010 included external factors such as rising oil and agricultural production prices on global markets (particularly prices for grain and sugar) which contributed to the increase in prices for relevant products on the domestic market. In addition, factors causing inflation in 2010 included internal factors, such as an increase in prices charged by food producers resulting from rising costs of raw materials and an increase in energy prices, as well as an increase of 1.5 times in the prices of natural gas for housing in August 2010. The 9.1 per cent. inflation in 2010, against year-end 2009, included 10.6 per cent. inflation in food products, 13.8 per cent. inflation in housing, water, electricity, natural gas and other kinds of fuel, and 5.0 per cent. inflation in transport tariffs.

At year-end 2010 against year-end 2009, the WPI inflation rate was 18.7 per cent., as compared to 14.3 per cent. at year-end 2009 against year-end 2008. WPI inflation was 20.9 per cent. in 2010 compared to 2009. In 2010, WPI inflation accelerated due to increasing prices on global markets for commodities exported from Ukraine as well as an increase in tariffs for electricity, natural gas and water distribution, which increased at year-end 2010 by 12.5 per cent. compared to 3.9 per cent. increase at year-end 2009. Factors suppressing WPI inflation in 2010 included the maintenance of constant threshold prices for natural gas for industrial consumers from January to April 2010 at the 2009 level and their minor decrease in May-July 2010 as well as stable rail freight tariffs.

As at 30 June 2012, year-end 2011 and year-end 2010, the CPI inflation rate was 0.1 per cent., 4.6 per cent. and 9.1 per cent., respectively. In 2011, the average annual rate of CPI inflation was 8.0 per cent., CPI inflation decreasing in 2011 compared to 2010, primarily due to a good harvest of agricultural produce in 2011, compared to that of the previous year. The plentiful harvest caused an increase in the supply of food products, thereby diluting pricing pressures. This had a significant impact on CPI in 2011, due to the high percentage that food products represent in the CPI calculations, decreasing CPI inflation.

As at 30 June 2012, accumulated WPI inflation was 5.7 per cent. In 2011 and in 2010, WPI inflation was 14.2 per cent. and 18.7 per cent., respectively. The WPI inflation rate declined in 2011 by 1.9 per cent. compared to 2010, but remained high due to favourable pricing conditions for Ukrainian exports and substantial increases in the cost of energy, gas and water production and distribution. This decline in WPI inflation is reflected in the 2012 State Budget Law, which provides for annual WPI inflation of 9.4 per cent. See "*Public Finance and Fiscal Policy - 2012 State Budget*".

Regarding the slowing of the WPI rate of inflation, the underlying factors were moderate increases in prices for oil and steel, as well as lower increases in natural gas and electricity tariffs, improved tax collection receipts and increased retail bank deposits.

The Government forecasted that the annual rate of CPI inflation in 2011 would be 8.9 per cent., while the actual rate of CPI inflation was 4.6 per cent. Inflation measured by WPI was forecasted to be 17.9 per cent., while the actual rate of WPI inflation was 14.2 per cent. In 2011, inflation decreased compared to 2010, due to the good harvest and the removal of imbalances in certain food markets owing to the increased competition between domestic and foreign producers, coupled with the anticipated growth of domestic food industry output. The reduced budget deficit and intensified privatisation programme pursuant to the implementation of the State privatisation programme for 2010-2014 should enable the Government to increase budget funding, which would not affect inflation. According to a resolution of the Cabinet of Ministers dated 31 August 2011, CPI and WPI inflation at year-end 2012 against year-end 2011 are forecasted to be approximately 7.9 per cent. and 9.4-9.7 per cent., respectively.

Price Liberalisation

Ukraine continues to take steps towards liberalising prices, aiming to reduce the misallocation of State resources employed keeping prices at artificially low levels. Starting in 1993, State-determined prices for energy, agricultural products and communal services were gradually raised towards full cost recovery and parity with global market prices. The State eradicated price-distorting practices in most sectors in October 1994.

Currently, the goods and services that remain subject to national price regulation are gas, electricity, certain telecommunications, postal and transport services and such housing and communal services as central heating, water, sewage and housing maintenance services, and certain agricultural products. Gas and

electricity prices are regulated by an independent body, the National Commission on Electric Power Industry Regulation, while local authorities set tariffs on housing maintenance services and certain transport services. In addition, local authorities may regulate the prices of bread, crops, sugar, oil, meat, eggs and dairy products. Pursuant to a law that came into effect on 22 July 2010, powers to set tariffs for heating, water and sewage services were transferred to the National Commission for Regulation of Communal Services Market in Ukraine. By presidential decree dated 8 July 2011, it was resolved to establish the National Commission for Regulation of the Municipal Services Market in Ukraine and the Cabinet of Ministers was instructed to implement measures related to the support of the Commission's operations. Tariffs for certain transport services, in particular, for freight and passenger rail transport, special port and airport services, and air traffic control are regulated by the Ministry of Infrastructure, but require the approval of the Ministry of Economy and the Ministry of Finance.

In recent years, rates for municipal services, such as central heating, water, sewage and housing maintenance services, have increased steadily, with increases in the range of, depending on the type of services provided, 30 to 45 per cent. in 2008, 6 to 40 per cent. in 2009, 4 to 7 per cent. in 2010, 12 to 20 per cent. in 2011, and 2.8 to 6.2 per cent. for the four months ended 30 April 2012. These increases reflect the general policy of gradually allowing such services to reflect the cost of their provision. From September 2006 to January 2011, household electricity tariffs remained stable. Aiming to bring the electricity tariffs to a reasonable economic level, the National Commission for the Electric Power Industry Regulation has increased electricity tariffs by 30 per cent. from 1 February 2011, for households consuming more than 150 kwh each month (250 kwh for households using electric stoves and/or electric heating devices) and by 15 per cent. from 1 April 2011, for all households, irrespective of the level of consumption. Further increases of 50 per cent. and 75 per cent. occurred on 4 May 2012 and 1 July 2012, respectively, in relation to the tariffs applicable to certain groups of electricity users. See "*—Electricity and Natural Gas Tariffs*".

Tariffs for public telecommunications services and access to the telecommunications operator services, which have a dominant market position, as well as for universal postal services, are regulated by the National Commission for the Regulation of Communications.

State Aid and Industrial Development

To stimulate industrial growth, Parliament and the Government of Ukraine have enacted a number of legislative initiatives aimed at developing certain industrial sectors, including car production, ship building, ammunition manufacturing, mining and processing of iron ore, aerospace manufacturing, the defence industry and alternative energy sources.

On 24 June 2004, the Law of Ukraine "On State Support of the Agriculture of Ukraine" was adopted, outlining State policy in the budget, credit, pricing, insurance, regulatory and other spheres of Government with the particular aims of stimulating domestic agricultural production and developing the agricultural market. State support envisaged by the law includes State loans to certain types of agricultural producers, as well as insurance, credit and cattle breeding subsidies. Amendments to this law as well as the Law "On Milk and Dairy Products" enacted in November 2006 were intended to bring State support policy in line with WTO and EU requirements, including in relation to export and import operations with products whose prices are subject to State regulation.

State aid is expected to be influenced by WTO agreements that govern the provision of governmental subsidies affecting trade. Application of WTO rules governing subsidies and compensatory measures is expected to result in structural reforms of the mechanisms, forms and volumes of State support of certain Ukrainian industries, including the coal sector, the agricultural sector, agricultural machine manufacture and the aircraft industry. See "*—Agriculture*".

Principal Sectors of the Economy

Industry

Ukraine inherited a large heavy industrial sector from the Soviet era, especially in iron and steel, aerospace and transport aircraft and other military equipment. However, these sectors have historically been impeded by the lack of structural reform, increased energy costs and market downturns.

The table below shows percentage changes in the rates of industrial production on an annual basis from 2008 to 2011 and for the first quarter of 2012, compared to the first quarter of 2011.

	Year ended 31 December				Three months ended 31 March	
	2008	**2009**	**2010**	**2011**	**2011**	**2012**[1]
	(Increase (decrease) over comparable period of previous year, in %)				*(Increase (decrease) over comparable period of previous year, in %)*	
Total industry	**(5.2)**	**(21.9)**	**11.2**	**7.6**	**10.3**	**0.9**
of which:						
Extractive industry	(4.3)	(10.6)	3.7	7.2	5.5	3.5
Manufacturing (processing)	(6.0)	(26.5)	13.9	8.2	13.1	(0.9)
of which:						
Food, drinks and tobacco industry	(2.1)	(6.0)	3.2	(0.6)	(1.6)	0.7
Light industry	(10.6)	(25.8)	8.9	7.7	20.0	(11.2)
Woodworking industry (other than furniture)..	(2.4)	(24.6)	9.6	9.7	19.9	(6.7)
Pulp, paper and publishing industry	0.1	(18.7)	2.8	(0.9)	7.3	(4.4)
Coke and oil refining industry	(13.4)	(3.4)	(0.2)	(8.5)	(6.7)	(11.8)
Chemical and petrochemical industry	(8.6)	(23.0)	22.5	14.4	18.3	9.2
Non-metallic mineral industry	(2.8)	(38.5)	8.5	12.4	31.0	(7.6)
Metallurgy and metal products.....	(12.3)	(26.7)	12.2	8.9	12.1	(2.3)
Machinery manufacturing	0.3	(44.9)	36.1	17.2	28.1	1.6
Energy, gas and water production and distribution	(1.8)	(11.1)	9.5	5.3	5.1	5.3

Note: The State Statistics Service calculates the index of industrial production on the basis of monthly production volumes through comparing two subsequent months. The indices of industrial production for the respective period are calculated on the basis of monthly indices during this period.

Source: State Statistics Service

The table below shows the annual volume of realised industrial production (goods and services sold) in each sector from 2008 to 2011 and in the first quarter of 2012, compared to the first quarter of 2011.

	Year ended 31 December								Three months ended 31 March			
	2008		**2009**		**2010**		**2011**		**2011**		**2012**	
	(U.S$ millions)	*(%)*	*(U.S.$ mllions)*	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*%*	*(U.S.$ millions)*	*(%)*
Total industry	917,035.5	100.0	806,550.6	100.0	1,065,108.2	100.0	1,120,325.4	100.0	259,338.9	100.0	279,252.7	100.0
of which:												
Extractive industry	85,755.4	9.3	67,242.6	8.3	106,933.7	10.0	141,669.8	12.7	32,573.6	12.6	32,640.8	11.7
Manufacturing (processing)	668,466.4	72.9	559,266.5	69.4	730,544.1	68.6	777,761.3	69.4	168,914.7	65.1	171,534.3	61.4
of which:												
Food, drinks and tobacco industry	139,892.4	15.2	159,550.1	19.8	192,154.1	18.0	166,608.8	14.9	33,719.1	13.0	38,017.5	13.6
Light industry	8,201.5	0.9	7,511.9	0.9	8,529.7	0.8	7,739.7	0.7	1,746.3	0.7	1,723.9	0.6
Woodworking industry (other than furniture)	6,786.6	0.7	6,357.3	0.8	7,384.8	0.7	7,689.6	0.7	1,652.2	0.6	1,778.5	0.6
Pulp, paper and publishing industry	20,539.3	2.2	22,126.3	2.7	26,004.0	2.4	20,921.6	1.9	4,608.4	1.8	4,620.1	1.7
Coke and oil-refining industry	66,135.2	7.2	53,746.4	6.7	73,003.0	6.9	74,375.5	6.6	16,921.9	6.5	15,186.5	5.4
Chemical and petro-chemical industry	55,576.4	6.1	48,473.6	6.0	62,303.9	5.9	79,397.1	7.1	17,206.8	6.6	19,496.6	7.0
Non-metallic industry	34,314.6	3.8	23,987.4	3.0	27,967.3	2.6	31,349.8	2.8	5,196.5	2.0	5,319.5	1.9
Metallurgy and metal products	202,034.6	22.0	141,498.0	17.6	199,901.3	18.8	244,220.4	21.8	57,925.8	22.3	52,627.2	18.8
Machinery manufacturing	121,780.4	13.3	85,833.0	10.6	116,348.5	10.9	134,815.2	12.0	27,677.3	10.7	30,461.6	10.9
Energy, gas and water production and distribution	162,813.7	17.8	180,041.5	22.3	227,630.4	21.4	200,894.3	17.9	57,850.6	22.3	75,077.6	26.9

Industrial production increased by 7.6 per cent. in 2007. However, the worldwide recession, a decrease in demand and a fall in prices on the global commodities markets had an adverse effect on industrial production in Ukraine in 2008 and in 2009. Industrial production decreased by 5.2 per cent. in 2008 and by 21.9 per cent. in 2009. In 2009, industrial production decreased in all sectors of industrial activity, while the main industries contributing to the decline were metallurgy, machinery manufacturing, and the chemical industry, largely due to a reduced demand for the products of those industries in external markets.

Industrial growth resumed in 2010, with volumes of industrial production rising by 11.2 per cent. In 2010, industrial production increased in all sectors of economic activity, including a 3.7 per cent., 13.9 per cent., and 9.5 per cent. growth in the extractive, manufacturing (processing), energy, gas and water production and distribution industries, respectively.

In 2011, industrial production increased by 7.6 per cent. compared to 2010, including an increase in extractive industry of 7.2 per cent., and manufacturing industry of 17.2 per cent. In 2011, industrial production increased in all sectors of the processing industry other than: coke and oil-refining; food, drinks and tobacco; and pulp, paper and publishing. Growth in industrial production was recorded both in export orientated industries, such as the metallurgy and chemical industries and in industries mainly focusing on the domestic market, including light industrial production, non-metalic mineral goods and the woodworking (other than furniture production) industry. The main industries contributing to growth in 2011, were the machinery manufacturing, metallurgy and chemical industries. For the first quarter of 2012, industrial production increased by 0.9 per cent. as compared to the corresponding period in 2011. This slower rate of growth was due to weakening trade and reduced access to credit following the downturn in the USA and the EU.

Growth in industrial production slowed in the third and fourth quarters of 2011 as compared to the first two quarters of 2011. Growth for the full year is primarily attributable to the continuing recovery in the machinery manufacturing industry and metallurgy as a result of both improved external conditions and increased demand from the domestic construction sector and other industries.

Production in the light industry sector decreased by 25.8 per cent. in 2009, including a 28.0 per cent. decline in the production of textiles, garments, fur and related products and a 15.9 per cent. decline in leather and footwear production. The decline in the production of garments, fur and related products as well as leather and footwear was due to saturation of the market with imported products, including those smuggled into the country. In 2010, production in the light industry sector increased by 8.9 per cent., including a 9.5 per cent.

increase in the production of textiles, garments, fur and related products, and a 6.6 per cent. increase in the production of leather, leather goods, and related products. In 2011, production in the light industry sector increased by 7.7 per cent. as compared to 2010. For the first quarter of 2012, production in the light industry sector decreased by 11.2 per cent. as compared to the corresponding period in 2011. This decrease resulted from large quantities of cheap imports mainly from Turkey and China, in "second hand" goods, as well as shadow manufacturing, creating unfair competition with domestically produced products. In addition, the decline in production of leather and leather goods was caused by a reduction in the amount of cattle livestock.

In 2009, production in the woodworking (other than furniture production) industry decreased by 24.6 per cent. as compared to 2008. However, in 2010 and in 2011 year-on-year growth in this sector increased by 9.6 per cent. and 9.7 per cent., respectively. For the first quarter of 2012, production in the woodworking (other than furniture production) industry decreased by 6.7 per cent. as compared to the corresponding period in 2011. Falling production was a consequence of decreased consumer demand and the accumulation of surplus stock in warehouses.

In 2009, the pulp, paper and publishing sector experienced a decrease in production of 18.7 per cent., which was temporarily reversed in 2010 with year-on-year growth of 2.8 per cent., before production decreased again in 2011, as compared to 2010, by 0.9 per cent. The 2011 fall was primarily attributable to reduced demand by the food industry for pulp and paper packaging. In the first quarter of 2012, this decrease in production accelerated to 4.4 per cent., as compared to the corresponding period in 2011. The main factors underlying decreased production, in the first quarter of 2012, were the depreciation of fixed assets and raw material shortages related to the unavailability of domestic raw material production in Ukraine, meaning that domestic manufacturers were dependent on imports of raw materials.

In 2009, production in the other non-metallic mineral industry decreased by 38.5 per cent. as compared to 2008. This trend was reversed when, in 2010 and in 2011, production in this sector grew at a year-on-year rate of 8.5 per cent. and 12.4 per cent., respectively, largely as a result of an increase in output of construction related products. For the first quarter of 2012, however, production decreased by 7.6 per cent. as compared to the corresponding period in 2011, as a consequence of reduced demand from the construction industry and increasingly competitive imports.

In the chemical and petrochemical industry, production decreased by 23.0 per cent. in 2009, largely due to unfavourable conditions in external markets and a reduction in prices of mineral fertilisers. The 23.0 per cent. decline in 2009 included 22.7 per cent. and 23.7 per cent. decreases in chemical production and rubber and plastic production, respectively. During 2009, a number of chemical enterprises (ammonia and nitrogen producers in particular) either stopped production completely or curtailed it significantly. These enterprises were loss-making in this period due to increased natural gas prices and their products failing to compete against cheaper imports from Russia and other CIS countries. However, in 2010 as compared to 2009 and in 2011 as compared to 2010, production in the chemical and petrochemical industry increased by 22.5 per cent. and 14.4 per cent., respectively, due to increased external demand, higher achievable export prices and increased domestic demand for fertilisers. The growth in 2010 and 2011, included increases in chemical production of 26.6 per cent. and 18.4 per cent., respectively. For the first quarter of 2012, production in the chemical and petrochemical industry increased by 9.2 per cent. compared to the corresponding period in 2011.

In the metallurgy and metal products industry, production decreased by 26.7 per cent. in 2009 against a background of unfavourable conditions on external markets, which included reduced external demand and consequently lower export prices for products, as well as reduced domestic demand from the machinery manufacturing segment. The decline in 2009 included decreases of 31.4 per cent., 17.1 per cent. and 32.6 per cent. in the production of pipes, cast iron and steel (not including semi-finished products produced using continuous casting), respectively. In 2010 as compared to 2009 and in 2011 as compared to 2010, production in the metallurgy and metal products industry increased by 12.2 per cent. and 8.9 per cent., respectively, primarily due to increased external demand and higher achievable export prices in 2010 and the first half of 2011. Since the end of the first quarter of 2011, the metallurgy industry experienced slower growth, due, in part, to the impact of the civil unrest in the Middle East and North Africa. The 12.2 per cent. growth in 2010 in the metallurgy and metal products industry resulted from increased production of cast iron and steel (not

including semi-finished products produced using continuous casting) by 6.6 per cent. and 11.4 per cent., respectively. In 2011 as compared to 2010 the increase in the metallurgy and metal products industry of 8.9 per cent. included an increase in the production of cast iron and steel (not including semi-finished products produced using continuous casting) by 5.6 per cent. and 1.3 per cent., respectively. However, production for the first quarter of 2012, decreased by 2.3 per cent. compared to the corresponding period in 2011.

Production in the coke and oil refining industry decreased by 3.4 per cent. in 2009 as compared to 2008. In 2010, production in the coke and oil refining industry decreased by 0.2 per cent. as compared to 2009 due primarily to a 11.8 per cent. decline in petrol production and a 5.0 per cent. decline in diesel fuel production. In 2011, production in the coke and oil refining industry decreased by 8.5 per cent. as compared to 2010, a trend which has continued in the first quarter of 2012, production in the coke and oil refining industry decreasing by 11.8 per cent. compared to the corresponding period in 2011. As coke production is linked to oil refining, movements in the oil refining industry are reflected in the coke production industry.

In the food, drinks and tobacco industry, production decreased by 6.0 per cent. in 2009 as compared to 2008. The decline in 2009 was a result of reduced domestic demand due, among other things, to the reduced purchasing power of the population. The decline in 2009 was also a result of price growth, including fuel and energy price increases, reduction in the investment volumes and available working capital, increased excise duties for tobacco and alcoholic beverages and increased imports. In particular, the production of meat products, dairy products, tobacco and bread and bakery products decreased by 11.4 per cent., 9.9 per cent., 12.6 per cent. and 9.3 per cent., respectively. In 2010, production in the food, drinks and tobacco industry increased by 3.2 per cent. as compared to 2009. This increase was largely due to an 8.4 per cent. increase in production of sunflower oil, as well as an increase in the production of chocolate and other cocoa products (6.5 per cent.), fresh and frozen poultry (6.1 per cent. and 1.3 per cent., respectively), fresh and frozen pork (26.3 per cent. and 39.5 per cent., respectively), milk (4.1 per cent.) and butter (6.4 per cent.). In 2011 as compared to 2010, production in the food, drinks and tobacco industry decreased by 0.6 per cent. due to the fall in production of alcoholic drinks and tobacco products connected with the increase in excise duty on alcohol and tobacco, as well as an increase in grain and spirits prices. There was a fall in the production of certain meat and dairy products connected with a shortage of productive livestock and a deterioration in cattle breeding and husbandry standards. However, for the first quarter of 2012, production in the food, drinks and tobacco industry increased by 0.7 per cent. compared to the corresponding period in 2011.

In 2009, production in the machinery manufacturing industry decreased by 44.9 per cent. as compared to 2008, largely as a result of the reduced demand in the external and domestic markets, including due to reduced consumer lending and lack of available financing for domestic machinery manufacturing enterprises. In 2009 as compared to 2008, production of electric, electronic and optical equipment decreased by 28.2 per cent., machinery and equipment production decreased by 37.6 per cent. and production of vehicles and transport equipment decreased by 57.9 per cent. In 2010, in part as a result of the revival of investment activity in the CIS countries, production in the machinery manufacturing industry rose by 36.1 per cent., including increases of machinery and equipment production of 21.1 per cent., production of electric, electronic and optical equipment of 24.2 per cent., and production of vehicles and transport equipment of 61.9 per cent., respectively (including an increase in production of cargo wagons, buses, and lorries of 211.6 per cent., 81.3 per cent. and 94.3 per cent., respectively). In 2011 as compared to 2010, production in the machinery manufacturing industry increased by 17.2 per cent., including increases in machinery and equipment production of 12.5 per cent., electric, optical and electronic production of 14.7 per cent. and production of vehicles and transport equipment of 22.6 per cent. Since the end of the first quarter of 2011, the machinery manufacturing industry has experienced slower (but still strong) growth, due, in part, to the impact of the civil unrest in the Middle East and North Africa and accordingly for the first quarter of 2012, production increased by only 1.6 per cent. compared to the corresponding period in 2011.

In 2009, as compared to 2008, production in the extractive industry decreased by 10.6 per cent. In 2010, as compared to 2009, production in this industry increased by 3.7 per cent. primarily a result of growth in the extraction of sintered and non-sintered iron ores of 10.6 per cent. and 18.2 per cent., respectively. In 2011, as compared to 2010, production in the extractive industry increased by 7.2 per cent. For the first quarter of

2012, production in the extractive industry increased by 3.5 per cent. compared to the corresponding period in 2011.

In 2009 as compared to 2008, energy, gas and water production and distribution decreased by 11.1 per cent. In 2010 as compared to 2009, production in this industry grew by 9.5 per cent., which was primarily attributable to the increased consumption of electricity by businesses as a result of the revival of manufacturing activity. In 2011, energy, gas and water production and distribution increased by 5.3 per cent. compared to 2010. For the first quarter of 2012, energy, gas and water production and distribution increased by 5.3 per cent. as compared to the corresponding period in 2011.

Mining

Ukraine possesses a large mineral reserve base, with approximately 8,000 deposits of 80 different minerals. It has more than 70 per cent. of the CIS countries' reserves of manganese ores, 60 per cent. of kaolins, approximately 30 per cent. of iron ore deposits, 25 per cent. of cooking salt and 15 per cent. of coal deposits. Ukraine is the world's fifth largest producer of iron ore and has the second largest reserve of manganese after South Africa. It also produces chrome, nickel, titanium and aluminium. Ukraine exported approximately U.S.$2.9 billion, U.S.$1.8 billion, U.S.$3.1 billion and U.S.$4.6 billion of non-metallic minerals and approximately U.S.$1.1 billion, U.S.$617.3 million, U.S.$712.3 million and U.S.$790.5 million of non-ferrous metals in 2008, 2009, 2010 and 2011, respectively. For the first quarter of 2012, Ukraine exported approximately U.S.$1.0 billion of non-metallic minerals and approximately U.S.$0.2 billion of non-ferrous metals.

In 2009, 35.1 million tonnes of coal were produced by State-owned coal mining enterprises, a 10.6 per cent. decrease compared to 2008. In 2010, 35.2 million tonnes of coal were produced, a 0.2 per cent. increase compared to 2009. In 2011, 38.4 million tonnes of coal were produced, a 8.9 per cent. increase compared to 2010. For the four months ended 30 April 2012, 8.04 million tonnes of coal were produced by State-owned coal mining enterprises, an increase of 0.25 million tonnes as compared to the corresponding period in 2011. Exports of coal in 2008, 2009 and 2010, were 4.8 million, 5.3 million and 6.2 million tonnes, respectively. In 2011, exports of coal totalled 6.9 million tonnes. In 2008, 2009, 2010 and 2011 the total value of coal exports was U.S.$534.0 million, U.S.$330.0 million, U.S.$544.4 million and U.S.$755.4 million, respectively. For the first quarter of 2012, exports of coal totalled 1.25 million tonnes, with a total value of U.S.$128.0 million, as compared to exports of coal totalling 1.5 million tonnes, with a value of U.S.$161.3 million for the first quarter of 2011.

The aggregate volume of coal deposits is estimated at approximately 117.5 billion tonnes. This volume represents 95.4 per cent. of the energy reserves of Ukraine and includes industrial reserves located at active mines of approximately 6.5 billion tonnes. The remaining 2 per cent. and 2.6 per cent. were accounted for by oil and natural gas, respectively.

As at the date of this Prospectus, a significant number of coal producing enterprises are loss making. However, due to a lack of funds to cover the costs of the closure of coal producing enterprises, as well as other environmental reasons, redundancy payments and the need for coal supplies to private heating locally, progress on the closure of coal producing enterprises has been delayed. The Government continues to view coal as an important source of energy for Ukraine. In addition, many coal mines are seen as "social assets", as they are the only or largest source of employment for certain communities. As at 29 February 2012, there were 148 coal mining businesses operating in Ukraine and approximately 100 that were in liquidation, with an additional 10 being prepared for liquidation. It is anticipated that UAH 6,602.0 million in State Budget expenditure will be used to support the coal industry in 2012.

In 2009, State financing of the coal industry equalled UAH 10,494.0 million (UAH 5,057.2 million out of the State Budget general fund and UAH 5,436.8 million out of the special fund); this amount included expenditure for additional pension provisions for retired miners in the amount of UAH 3,997.5 million. In 2010, State financing of the coal industry equalled UAH 7,712.2 million (UAH 60.8 million out of the State Budget general fund and UAH 7,651.4 million out of the special fund). In 2011, State financing of the coal industry equalled UAH 10,496.3 million (UAH 9,791.8 out of the State Budget general fund and UAH 704.5

million out of the special fund). In the four months ended 30 April 2012, State financing of the coal industry equalled UAH 3,279.9, which was provided from the State Budget general fund.

Priority tasks of the coal sector reform determined by the Concept for the Coal System Reform include increasing private investment in the coal sector and reconstruction and modernisation of fixed assets of mining enterprises. In addition, as part of legislative changes required as a result of Ukraine's accession to the WTO, a draft law on State support (subsidies) to the coal industry is being developed. This law, if enacted, is expected to contribute to competition between mining enterprises and improve profitability.

In order to fulfil the objectives of the 2010-2014 Economic Reform Programme, Parliament passed legislation on coal privatisation (the "**Coal Privatisation Law**") on 12 April 2012. This regulates the privatisation of coal mining companies and aims at establishing clear and transparent mechanisms for the privatisation of coal mining companies taking into account its social impact, changes in ownership as well as the functioning of market mechanisms in the coal industry. In particular, it sets forth the investment obligations of the new owners and provides for social guarantees for the employees of coal mining companies to be privatised.

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

The process of selling those mines that can be sold and closing the remainder is expected to be completed by 2014.

A public private partnership is one of the alternative methods of attracting private investment, such as by way of a concession, lease or joint activity. The Law of Ukraine "On Peculiarities of Lease or Concession of State-owned Objects of Fuel and Energy Complex" governing public private partnerships came into force on 5 October 2011. The implementation of this law will: enlarge the role of the coal industry in ensuring energy security; promote the development of the domestic metallurgy sector; increase the competitiveness of coal as a commodity in domestic and foreign markets; improve the financial position of fuel and energy companies; gradually reduce State expenditure in support of the coal industry; attract investment to modernise fuel and energy companies through the use of new technology; and increase social provisions in the coal mining regions without the involvement of State budget funds. As at the date of this Prospectus two coal mining companies have been financed as concessions ("Rovenkyantratsyt" and "Sverdlovantratsyt"). On 11 January 2012, a list of State-owned entities which can be financed as concessions was approved by the Cabinet of Ministers.

In December 2011, a facility agreement totalling U.S.$85.0 million was signed between OJSC "Lysychanskvuhillya" as the borrower and China Development Bank as the lender and guaranteed by the State. The proceeds are expected to be spent on the modernisation and updating of the Melnikov coal mine, which is owned by OJSC "Lysychanskvuhillya".

The 2010-2014 Economic Reform Programme also provides for the implementation of the following main measures aimed at reforming Ukraine's mining sector:

- by the end of 2012, Ukraine should bring prices for coal produced by State-owned coal mines in line with market prices; develop auction system for coal trade; liberalise coal imports; complete a transition to a system of direct and transparent subsidies for loss making coal mines; privatise profitable coal mines; liquidate coal mines that either are at the closure or conservation stage, or have depleted their reserves; and ensure provision of State support to employees of liquidated coal mines;
- Ukraine is to shorten significantly the list of enterprises that are not subject to privatisation; and
- by the end of 2014, Ukraine should gradually reduce the amount of subsidies for State-owned coal mines.

Oil and Gas

Production/Consumption

Ukraine imports a significant portion of its primary energy needs, mainly in the form of crude oil and natural gas from Russia. While Ukraine possesses untapped internal energy sources of natural gas and oil, most of Ukraine's external liabilities are generated through imports of oil and gas. Ukraine imports oil almost exclusively from Russia, which has substantially raised its prices to close to world levels. Before 2009, Ukraine was one of the largest importers of natural gas in the world, with imports covering approximately 70 per cent. of its total domestic demand for gas. Ukraine imported 52.6 billion, 26.9 billion and 36.5 billion cubic metres of natural gas in 2008, 2009 and 2010, respectively. The decrease in imports in 2009 was largely attributable to the global economic downturn and increased natural gas prices. Ukraine imported 44.8 billion cubic metres of natural gas in 2011, compared to 36.5 billion cubic metres in 2010. According to preliminary data for the four months ended 30 April 2012, Ukraine imported 10.6 billion cubic metres of natural gas, compared to 21.5 billion cubic metres of natural gas during the corresponding period in 2011. The higher level of imports in 2011 was largely attributable to the severity of the 2010-2011 winter and a policy of increased purchasing, intended to mitigate the effect of anticipated continuance price rises in the near term. Ukraine imported 6.6 million tonnes, 7.2 million tonnes, 7.7 million tonnes and 5.6 million tonnes of oil in 2008, 2009, 2010 and 2011, respectively. For the four months ended 30 April 2012, Ukraine imported 0.75 million tonnes of oil compared to 1.9 million tonnes of oil during the corresponding period in 2011. Fuel and energy sources such as natural gas, oil and coal accounted for 18.8 per cent. of total imports in 2008 and 25.9 per cent. of total imports in 2009, with imports of natural gas alone accounting for 11.0 per cent. and 17.6 per cent., respectively. Fuel and energy sources such as natural gas, oil and coal accounted for 25.3 per cent. of total imports in 2010, with imports of natural gas alone accounting for 15.5 per cent. In 2011, natural gas accounted for 17.0 per cent. of total imports, with imports of oil and coal accounting for 8.5 per cent.

Since mid-2011, Naftogaz has been in negotiations with Gazprom to determine the price and minimum volumes of gas to be supplied to Ukraine in 2012 and future years and, as at the date of this Prospectus, negotiations remain ongoing. Naftogaz has applied to Gazprom several times in order to decrease the annual volume of gas supplies in 2012. On 7 February 2012, Naftogaz submitted a draft supplement to the Gas Supply Contract which envisaged gas supply in the amount of 27.0 billion cubic metres in 2012. A decrease in the volume of gas supplied to Ukraine in 2012 could be partially offset by gas held in underground gas stores.

Total domestic consumption of gas in Ukraine in 2008 and 2009 was 66.3 billion cubic metres (5.0 per cent. less than in 2007) and 51.9 billion cubic metres (21.7 per cent. less than in 2008), respectively. A decrease in domestic gas consumption in 2009 was caused by reduced demand from industrial producers, largely attributable to the significant decrease in industrial production in this period as well as to increased natural gas prices. In 2010, total domestic consumption of gas in Ukraine was 57.7 billion cubic metres, an increase of 11.2 per cent. compared to 2009. In 2011, domestic consumption of gas in Ukraine was 59.3 billion cubic metres, a 2.7 per cent. increase compared to 2010. In the four months ended 30 April 2012, domestic consumption of gas in Ukraine was 26.4 billion cubic metres, a 5.0 per cent. decrease compared to the corresponding period of 2011. In 2008, domestic production of gas increased by 1.7 per cent. compared to 2007 and reached 21.0 billion cubic metres. In 2009, domestic production of gas increased by 1.4 per cent. compared to 2008 and reached 21.3 billion cubic metres. In 2010, domestic production of gas was 20.5 billion cubic metres, a decrease of 4.0 per cent. as compared to 2009. The main reason for the decrease in domestic gas production is that Ukrainian gas reserves are difficult to extract, and the majority of gas fields are at the final stages of exploitation and require special technology and significant investment for their development. In 2011, domestic production of gas in Ukraine was 20.6 billion cubic metres, a decrease of approximately 0.7 per cent. compared to 2010. In the four months ended 30 April 2012, domestic production of gas in Ukraine increased by 1.0 per cent. to 6.9 billion cubic metres. Use of stored natural gas made up the shortfall between consumption (26.4 per cent.) and natural gas volumes imported (10.6 per cent.) or produced domestically (6.9 per cent.).

Total domestic demand for oil is approximately 23 million tonnes per annum, which is substantially less than the consumption of similar sized countries in Western Europe. Domestic oil and gas condensate production was 4.0 million tonnes in 2009, a decrease of 6.8 per cent. compared to 2008. In 2010, domestic production

of oil and gas condensate was 3.5 million tonnes, a decrease of 10.3 per cent. compared to 2009. In 2011, domestic production of oil and gas condensate was 3.3 million tonnes, a decrease of 6.0 per cent. or 0.2 million tonnes compared to 2010. In the four months ended 30 April 2012, domestic production of oil and gas condensate was 1.09 million tonnes, a 3.0 per cent. decrease compared to the corresponding period in 2011. This decrease was partly caused by a depletion of reserves at the main oil deposit fields and a reduction in the volumes of exploration drilling. Recently discovered oil fields in Western Ukraine and the Black Sea may potentially increase the output of the sector. However, available resources in these regions are limited and the costs of exploration are high due to great depths.

Transport

Ukraine has well-developed pipelines to transport gas and oil from the CIS to Western Europe. Ukraine's gas transit system consists of approximately 39.8 thousand km of gas pipelines, 74 compressor stations and 13 underground gas storage facilities (with the capacity to store 32.0 billion cubic metres of gas), with a total transit capacity of approximately 178 billion cubic metres of gas per year, including 142 billion cubic metres of gas per year to central and Western Europe. Approximately 21 per cent. of the pipelines have been in operation for more than 33 years and an additional 30 per cent. of the pipelines have been in operation for about 15 to 25 years. Ukraine's oil transit system consists of 19 oil pipelines with an aggregate length of approximately 4,767.1 km with an aggregate capacity of 114.0 million tonnes per year, 51 pumping stations and 28 tank fields with an aggregate capacity of more than one million tonnes. In June 2001, OJSC Ukrtransnafta ("**Ukrtransnafta**"), a State-owned oil company and 100 per cent. subsidiary of Naftogaz, was established to manage the transport of oil by pipelines through Ukraine. This pipeline infrastructure is a major source of revenue with significant effects on Ukraine's balance of payments. See "*External Sector—Balance of Payments*".

In 2008, 119.6 billion cubic metres of gas were transported from one foreign country to another via Ukraine, an increase of 3.8 per cent. compared to 2007. In 2009, 95.8 billion cubic metres of gas were transported from one foreign country to another via Ukraine, a decrease of 19.9 per cent. compared to 2008. A decrease in gas transit volume in 2009 was largely attributable to European consumption falling due to the global economic downturn. In addition, transit volumes in 2009 were adversely affected by the temporary suspension of transit by Gazprom in January 2009. See "*Economy of Ukraine—Principal Sectors of the Economy—Oil and Gas—Natural Gas Supply from Russia*". In 2010, 98.6 billion cubic metres of gas were transported from one foreign country to another via Ukraine, an increase of 2.9 per cent. compared to 2009. In 2011, 104.2 billion cubic metres of gas were transported from one foreign country to another via Ukraine, compared to 98.6 billion in 2010. According to the available data for the four months ended 30 April 2012, 32.1 billion cubic metres of gas were transported from one country to another via Ukraine, compared to 40.3 billion for the corresponding period in 2011. This decrease was partly a consequence of reduced Italian transit amounts, as well as the impact of the Nord Stream pipeline.

In 2008, 32.8 million tonnes of oil were transported from one foreign country to another via Ukraine, a decrease of 17.0 per cent. as compared to 2007. In 2009, 29.1 million tonnes of oil were transported through Ukraine, a decrease of 11.4 per cent. as compared to 2008. In 2010, 20.1 million tonnes of oil were transported through Ukraine, a decrease of 30.8 per cent. as compared to 2009 largely as a result of the termination of the transit through Ukraine of Kazakh oil that is now transported through Belarus. In 2011, 17.8 million tonnes of oil were transported through Ukraine, as compared to the 20.1 million tonnes in 2010. In the four months ended 30 April 2012, 5.1 million tonnes of oil were transported through Ukraine, a decrease of 0.9 million tonnes compared to the corresponding period in 2011. Pumping of oil for domestic use increased by 16.0 per cent. to 9.4 million tonnes in 2009, compared to 8.1 million tonnes in 2008 and increased by 2.5 per cent. to 9.7 million tonnes in 2010, compared to 2009. In 2011, pumping of oil for domestic use decreased by 11.0 per cent. to 9.8 million tonnes from 11.0 million tonnes in 2010. In the four months ended 30 April 2012, pumping of oil for domestic use was 2.2 million tonnes, a decrease of 1.0 million tonnes compared to the corresponding period in 2011.

Several gas pipelines bypassing Ukraine, including Nord Stream (together with internal European distribution pipelines), South Stream and Nabucco are presently under development by international consortia. Initial production of so-called "technical gas" was pumped into the first line of Nord Stream on 6

September 2011, and commercial operations commenced in November 2011. These pipelines are likely to be used to divert some of the gas currently transported through Ukraine. In May 2011, it was reported that Russia plans to divert approximately 20 billion cubic metres of gas per annum from Ukraine's gas transit system to the Nord Stream and South Stream pipelines bypassing Ukraine. This amount would be equivalent to approximately 20.3 per cent. of all gas transported from one foreign country to another via Ukraine in 2010. Ukraine is seeking to minimise any potential adverse effect to Naftogaz or its economy in general as a result of these new pipelines, including through obtaining assurances on transport volumes.

Reform Programme

The 2010-2014 Economic Reform Programme provides for the implementation of the following main measures aimed at reforming Ukraine's oil and gas sector:

- by the end of 2010, Ukraine was to have abolished natural gas price preferences established for certain industry sectors, commenced negotiations regarding the development and financing of a programme for the modernisation of the domestic and transit gas pipeline systems, and begun to consider a draft programme for the restructuring of Naftogaz (including contemplating the transfer of pipeline network and gas storage facilities to a separate State-owned legal entity);
- by the end of 2012, Ukraine is to gradually bring natural gas prices for consumers up to economically reasonable levels; and
- by the end of 2014, Ukraine is to complete the restructuring of Naftogaz, implement a new model for use of natural gas distribution networks, and proceed with the implementation of a modernisation programme for oil and natural gas transit systems, as well as the implementation of the EU quality standards for oil products and the modernisation of Ukraine's oil refinery capacities.

According to a presidential decree dated 21 December 2010, a Thematic Working Group chaired by the Minister of Energy and Coal Industry was formed in order to work out proposals to reform the oil and gas industry. In addition, according to an Order of the Ministry of Energy and Coal Industry dated 24 March 2011, a working group on the restructuring of Naftogaz was formed. Currently, this working group is dealing with the preparation of a tender for the engagement of advisers for the restructuring of Naftogaz as well as the preparation for listing on foreign stock exchanges. In accordance with the objectives of the 2010-2014 Economic Reform Programme, a law came into force on 6 May 2012, which withdrew the prohibition on the disposal of certain fixed assets of Naftogaz and its subsidiaries, although privatisation of the corporate entities comprising Naftogaz and its subsidiaries remains prohibited. As at the date of this prospectus, discussions between all management of Naftogaz and Gazprom in relation to the establishment of a trilateral consortium reflecting Ukrainian, Russian and German interests are ongoing. This should be resolved once guaranteed volumes of Russian gas transit through Ukraine have been determined and once the international financing is in place to modernise the gas transit system.

Natural Gas Supply from Russia

The history of Ukraine's relations with Russia regarding natural gas supplies has been problematic; for example, discussions regarding the construction and management of large projects, such as the Bogorodchany Uzhgorod gas pipeline. Planning of the Bogorodchany Uzhgorod project commenced in 2003 and is ongoing as at the date of this Prospectus; it is anticipated that the project will increase gas volumes transported through Ukraine by 19 billion cubic metres per annum according to Naftogaz

On 29 July 2004, Naftogaz, Gazprom and RosUkrEnergo AG entered into a series of agreements for the provision of natural gas to, and development of gas transport infrastructure in, Ukraine from 2005 to 2028. In late 2005, Gazprom began negotiations with Naftogaz with a view to increasing prices for natural gas supplied by Gazprom to Ukraine to the levels at which Gazprom sold natural gas to its customers in Western Europe and on 1 January 2006, Gazprom temporarily stopped selling natural gas to Naftogaz in connection with a dispute over an increase in prices. Prices increased from U.S.$50.00 per 1,000 cubic metres in 2005 to U.S.$130 per 1,000 cubic metres in 2007. Transit fees for natural gas through the territories of Ukraine

and the Russian Federation were of U.S.$1.60 per 1,000 cubic metres of gas for each 100 km from 2006 until 1 January 2008.

On 1 October 2007, immediately following the early parliamentary elections in Ukraine, Russia threatened to cut off the supply of gas to Ukraine in order to apply pressure on Naftogaz and Ukrgaz Energo to settle outstanding debts owed by Naftogaz to Ukrgaz Energo, which amounted to approximately U.S.$700 million, as well as outstanding debts owed by Ukrgaz Energo to RosUkrEnergo AG. Pursuant to a settlement agreement reached on 9 October 2007, among Naftogaz, Ukrgaz Energo, RosUkrEnergo AG and Gazprom on the outstanding debts, by 1 November 2007, the U.S.$700 million owed by Naftogaz to Ukrgaz Energo was repaid in full. In December 2007, RosUkrEnergo AG and Ukrgaz Energo agreed to increase the price for natural gas which was supplied for domestic consumption in Ukraine in 2008 to U.S.$179.5 per 1,000 cubic metres.

On 12 March 2008, Naftogaz and Gazprom signed an agreement on the development of relations in the gas sector to switch to direct Naftogaz Gazprom gas supply deals. In addition, in March 2008 Naftogaz and RosUkrEnergo AG entered into a contract to supply 49.8 billion cubic metres of imported natural gas in 2008 at the price of U.S.$179.5 per 1,000 cubic metres at the Russia-Ukraine border. A transit fee for transit of natural gas through the territories of Ukraine was set at U.S.$1.70 per 1,000 cubic metres of gas for each 100 km for 2008. Further to the 12 March 2008 agreement, Gazprom established a subsidiary in Ukraine, "Gazpromzbut Ukraine" LLC, that purchased approximately 3.2 billion cubic metres of natural gas from Naftogaz in each of 2008, 2009 and 2010 for sale to Ukrainian consumers.

In 2008, Naftogaz and Gazprom failed to reach agreement on the terms of natural gas supplies to Ukraine for 2009. On 1 January 2009, Gazprom significantly reduced gas supplies to Ukraine, both for domestic consumption and for transit to European countries. On 7 January 2009, Gazprom suspended natural gas supplies to Ukraine. In order to avoid large scale interruptions, Naftogaz put the gas transportation system into reverse functioning mode, with gas being transported not from east to west, as during normal functioning, but from Western Ukraine (which has substantial gas reserve facilities) to Eastern and Central Ukraine, which consumes more gas. The dispute between Ukraine and Russia over gas supplies was elevated to the European level, and experts from European states were granted access to the Ukrainian gas transportation system for monitoring purposes. On 17-19 January 2009, delegations from the Ukrainian and Russian governments, Naftogaz and Gazprom conducted negotiations in Moscow to resolve outstanding issues and agree the terms of natural gas supplies. On 19 January 2009, contracts for natural gas supplies and transit in 2009-2019 were signed between Gazprom and Naftogaz. The current contracts provide for a European type formula for calculating the price of natural gas supplied for domestic consumption in Ukraine. According to this formula, the natural gas price depends upon the price of oil and oil products in the international markets and is determined on a quarterly basis and is subject to monthly adjustments depending on gas quality. The average weighted price for natural gas in 2009 was U.S.$233.0 per 1,000 cubic metres, such price reflecting a 20 per cent. discount granted by Gazprom in 2009 to the price originally established for the following years.

On 21 April 2010, amendments to the contracts for natural gas supplies from 2009 to 2019 were signed pursuant to which Gazprom has agreed to give Naftogaz certain discounts from the otherwise applicable price for natural gas supplied for Ukrainian consumers. The discount will be U.S.$100.0 if the price for natural gas is equal to or greater than U.S.$333.0 per 1,000 cubic metres, or 30 per cent. of the price if the price is below U.S.$333.0 per 1,000 cubic metres. The discount will constitute part payment of the cost of the stationing of the Russian Black Sea Fleet in the territory of Ukraine. In 2010, the average weighted price (after the application of discounts) for natural gas was U.S.$256.69 per 1,000 cubic metres. The volume of natural gas supplied to Ukrainian consumers in 2010 was increased from up to 33.7 billion cubic metres to up to 36.5 billion cubic metres. The actual average price (after the application of discounts) for imported natural gas in 2011 was U.S.$309.02 per 1,000 cubic metres. In the four months ended 30 April 2012, the average price (after the application of discounts) for imported natural gas was U.S.$415.71 per 1,000 cubic metres. However, Naftogaz and Ukraine are currently attempting to negotiate a reduction in the price of gas set out in the pricing schedule agreed with Gazprom in 2010. So far in 2012, Naftogaz and Gazprom have failed to reach agreement on the terms of natural gas supplies, but Naftogaz expects negotiations to be completed in the near future.

The tariff for natural gas transit through Ukrainian territory remained fixed at U.S.$1.70 per 1,000 cubic metres for each 100km for 2009. Since 2010 the tariff for natural gas transit through Ukraine has been calculated using a formula taking into account the natural gas price. The tariffs for natural gas transit rose from U.S.$2.78 in the first quarter of 2010 to U.S.$3.03 in the fourth quarter of 2011. For the first quarter of 2012, the tariff for natural gas transit per 1,000 cubic metres for each 100 km was U.S.$3.08, rising in April 2012 to U.S.$3.11. The volume of natural gas transit via Ukraine in 2010 was 98.6 billion cubic metres, including up to 95.4 billion cubic metres transported to European countries. In addition, on 26 November 2010, an agreement between Ukraine and Russia on cooperation in the sphere of oil supplies to Ukraine's refineries and its transit through the territory of Ukraine was signed.

In April 2008, RosUkrEnergo AG initiated arbitration proceedings against Naftogaz. According to reports, in June 2010, the arbitral tribunal issued an award in favour of RosUkrEnergo AG obliging Naftogaz to return 11 billion cubic metres of natural gas to RosUkrEnergo AG, transfer to RosUkrEnergo AG an additional 1.1 billion cubic metres of natural gas as a penalty and pay approximately U.S.$197.5 million, which the arbitral tribunal quantifed as RosUkrEnergo AG's loss. In December 2010, pursuant to the arbitral award of the Arbitration Institute of the Stockholm Chamber of Commerce, Naftogaz was ordered to return to RosUkrEnergo AG 12.1 billion cubic metres of natural gas retrieved from underground gas storage. In December 2010, 0.8 billion cubic metres of natural gas was retrieved from underground gas storage and transported to RosUkrEnergo AG. In 2011, 11.3 billion cubic metres of natural gas was retrieved from underground gas storage and transported to RosUkrEnergo AG which fulfilled all requirements of the arbitral award.

Ukrtransnafta Oil Transport Agreement

On 25 October 2010, Ukrtransnafta and CJSC "Belarus Oil Company" signed a three year oil transport agreement, which superseded a previous agreement between Ukrtransnafta, the Russian company OJSC Transneft and the Russian-British joint venture TNK-BP. In 2008, 2009 and 2010, approximately 7.7 million, 8.2 million and 3.1 million tonnes of oil, respectively, were transported along the "State Border UkraineBelarus-MOT-"Pivdenny" route. As at 31 December 2011, 987.3 thousand tonnes of oil had been transported via the "MOT-Pivdenny-Brody-Mozyr" route under the terms of this agreement.

Natural Gas Supply from Turkmenistan

In May 2001, Ukraine and Turkmenistan signed a framework agreement under which Ukraine had the option to buy a total of 250 billion cubic metres of natural gas during the period 2002-2006, with annual volumes set out in separate protocols. This agreement was not extended beyond 2006.

Since the beginning of 2006, no Turkmen gas has been supplied to Ukraine under direct contracts with Turkmenistan. The Government does not expect that such supplies will resume in 2012. In the past, Turkmenistan confirmed the availability of resources necessary to ensure supplies of gas to Ukraine. However, Turkmenistan's position was that such supplies were conditional upon agreeing terms and conditions with Russia for the transit of Turkmen gas to be supplied to Ukraine.

A draft agreement on future long term cooperation in the oil and gas sphere between Ukraine and Turkmenistan was prepared by Ukraine and submitted to Turkmenistan for consideration in 2005. The draft agreement provides for the supply of annual volumes of 40-60 billion cubic metres of natural gas from Turkmenistan during the period of 2007-2031. As at the date of this Prospectus, this draft agreement had not yet been concluded.

Poland and the EAOTC Project

Since 2005, Naftogaz has exported small volumes of natural gas to Poland, totalling approximately 26.8 million cubic metres of gas.

On 14 January 2004, the Cabinet of Ministers approved an agreement with the government of Poland on the use of the Odesa Brody pipeline. In February 2007, Poland proposed to change the bilateral form of this project to a five party joint venture between Ukraine, Lithuania, Poland, Georgia and Azerbaijan. At the

Energy Summit held in May 2007, these five nations agreed to create an inter-governmental working group to formulate criteria for the establishment and function of the joint venture. The purpose of this joint venture is to develop joint energy projects, particularly relating to the Odesa Brody Plotsk Gdansk oil pipeline and the transport of Caspian oil to European consumers. In June 2007, the inter-governmental working group decided to prepare a feasibility study for this project and to include Lithuania, Georgia and Azerbaijan as new shareholders of Sarmatia; these new shareholders joined in January 2008. At the Energy Summit held in October 2007, an Agreement on Cooperation in the Energy Sector was signed by relevant ministries of Ukraine, Lithuania, Poland, Georgia and Azerbaijan, providing for the creation of a comprehensive legal framework for the implementation of the Odesa Brody Plotsk Gdansk project.

In 2009, construction of an oil pipeline that would connect Ukrainian and Polish oil transport infrastructure as part of the EAOTC Project was included in the list of priority projects to be implemented within the framework of the Infrastructure and Environment Operational Programme approved by the European Commission (the "**EU Programme**"). The initial meeting of the Ukrainian and Polish working group took place in Warsaw on 7 November 2011, to discuss the completion of the Odesa Brody Plotsk Gdansk oil pipeline, the capital increase of Sarmatia, the EAOTC Project and the construction of the Brody Plotsk pipeline, with further meetings planned for the future.

Electricity Generation and Nuclear Power

As at 31 March 2012, the total electricity generating capacity of Ukraine was approximately 53.3 gigawatts. Production in 2008, 2009, 2010 and 2011 was recorded at 191.7 billion kwh, 172.9 billion kwh, 187.9 billion kwh and 193.9 billion kwh (an increase of 6.0 billion kwh or 3.2 per cent. compared to 2010), respectively, of which 89.8 billion kwh, 82.9 billion kwh, 89.2 billion kwh and 90.2 billion kwh, respectively, was provided by nuclear energy. In the four months ended 30 April 2012, production of electricity was recorded at 70.6 billion kwh, a 2.8 per cent. increase as compared to the corresponding period in 2011, 31.8 billion kwh of which was produced by nuclear power stations.

In 2009, 48.0 per cent. of the energy generated by United Energy System of Ukraine (a group of Ukrainian power industry entities with a common production regime and a centralised management) was provided by nuclear power stations, 41.1 per cent. was provided by thermal power stations, 6.8 per cent. was provided by hydropower stations and 4.1 per cent. was provided by low capacity thermal fired block stations owned and operated by companies and thermal power stations operated by local authorities. In 2009, production at thermal power stations and nuclear power stations decreased by 11.3 billion kwh and 6.9 billion kwh, respectively, as compared to 2008, while hydropower stations increased production by 0.4 billion kwh. In 2009, 4,108.3 million kwh were exported from Ukraine, a decrease of 3,729.5 million kwh, or 47.6 per cent., compared to 2008. The decrease in electricity export volume in 2009 was largely attributable to European countries, whose consumption generally decreased due to the global economic downturn, and repair works undertaken at the thermal power stations in Western Ukraine that are main producers of the electricity exported to Hungary, Slovakia and Romania.

In 2010, 47.4 per cent. of the energy generated by United Energy System of Ukraine was provided by nuclear power stations, 41.5 per cent. was provided by thermal power stations, 6.9 per cent. was provided by hydropower stations and 4.2 per cent. was provided by low capacity thermal fired block stations owned and operated by companies and thermal power stations operated by local authorities. In 2010, thermal power stations, nuclear power stations and hydropower stations increased production by 6.9 billion kwh, 6.2 billion kwh and 1.2 billion kwh, respectively, each as compared to 2009. In 2010, 4,218.1 million kwh were exported from Ukraine, an increase of 109.8 million kwh, or 2.7 per cent., compared to 2009.

In 2011, 46.5 per cent. of the energy generated by United Energy System of Ukraine was provided by nuclear power stations, 43.7 per cent. was provided by thermal power stations, 5.6 per cent. was provided by hydropower stations and 4.2 per cent. was provided by low-capacity thermal-fired block stations owned and operated by companies and thermal power stations operated by local authorities. In 2011, thermal power stations, nuclear power stations and low-capacity thermal-fired block stations increased production by 6.8 billion kwh, 1.1 billion kwh and 0.3 billion kwh, respectively, and production at hydropower stations decreased by 2.2 billion kwh, compared to the same period in 2010. In 2011, 6.4 billion kwh was exported

from Ukraine, an increase of 2.2 billion kwh, or 52.5 per cent., compared to the same period in 2010. For the four months ended 30 April 2012, 45.1 per cent. of energy generated by United Energy System of Ukraine was provided by nuclear power stations, 45.4 per cent. was provided by thermal power stations, 4.8 per cent. was provided by hydropower stations, 4.5 per cent. was provided by low capacity thermal fired block stations owned and operated by companies and thermal power stations operated by local authorities and 0.2 per cent. was provided by alternative sources of energy. For the four months ended 30 April 2012, thermal power stations, nuclear power stations, alternative sources of energy increased production by 1.5 billion kwh, 1.4 billion kwh and 0.15 billion kwh, respectively, and production at hydropower stations and low-capacity thermal-fired block stations decreased by 0.9 billion kwh and 0.2 billion kwh, respectively, compared to the same period in 2011. In the four months ended 30 April 2012, 2.5 billion kwh was exported from Ukraine, an increase of 0.86 billion kwh, or 52.6 per cent., compared to the same period in 2011. Ukraine currently exports electricity to Hungary, Slovakia, Poland, Romania, Moldova and Belarus, the resumption of exports to Poland, Belarus and Romania causing the large increase in electricity exports in the four months ended 30 April 2012.

Ukraine currently operates 15 nuclear energy reactors located at four nuclear power stations ("**NPSs**"): Zaporizhzhya NPS, with six reactors and a production capacity of 1,000 megawatts each; Rivne NPS, with four reactors and a production capacity of 415 megawatts, 420 megawatts and 1,000 megawatts (two reactors), respectively; Khmelnitsky NPS, with two reactors of 1,000 megawatts each; and Pivdennoukrainska NPS, with three reactors with a production capacity of 1,000 megawatts each. These four power stations have a total production capacity of 13,835 megawatts, or 26.1 per cent. of total electricity production capacity in Ukraine. Most of the nuclear reactors in Ukraine commenced operation during the 1980s and 1990s, with one commencing operations in 1995 and two in 2004. The operational life of 13 of the 15 currently active nuclear reactors is anticipated to come to an end between 2011 and 2025. However, the Government is implementing a refurbishment programme for some of these reactors which will, if successful, extend their operational life by 15 years. In 2010 Energoatom obtained a licence for the extension of the operational life of two of the nuclear power reactors at Rivne NPS for a further 20 years. In light of the Fukushima nuclear accident, Ukraine conducted earthquake stress testing on its nuclear plants in 2011. On 14 October 2011, earthquake stress testing was finished at all four NPSs. At the end of December 2011 a report outlining the results was submitted to the European Commission and the European experts are scheduled to present their analysis by the end of April 2012. On 7 December 2011, the Cabinet of Ministers also adopted a new programme on improving safety at NPSs.

In 2009, Ukrainian nuclear power stations produced 82.9 billion kwh of electricity (as compared to 89.8 billion kwh in 2008), amounting to 48.0 per cent. of the total electricity produced in Ukraine. The NPS capacity use ratio was 68.4 per cent. (compared to 73.9 per cent. in 2008). In 2010, Ukrainian nuclear power stations produced 89.2 billion kwh of electricity (compared to 82.9 billion kwh in 2009), equal to 47.4 per cent. of the total electricity produced in Ukraine. The NPS capacity use ratio amounted to 73.6 per cent. in 2010 (compared to 68.4 per cent. in 2009). In 2011, Ukrainian nuclear power stations produced 90.2 billion kwh of electricity (compared to 89.2 billion kwh in 2010), equal to 46.5 per cent. of the total electricity produced in Ukraine. The NPS capacity use ratio amounted to 74.5 per cent. in 2011, compared to 73.6 per cent. in 2010. In the four months ended 30 April 2012, Ukrainian NPSs produced 31.8 billion kwh of electricity (compared to 30.4 billion kwh in the corresponding period of 2011), equal to 45.1 per cent. of the total electricity produced in Ukraine. The NPS capacity use ratio amounted to 79.2 per cent., a 2.8 per cent. increase as compared to the corresponding period of 2011, due to the reduced time required for repairs and maintenance.

Starting from 2011, two independent suppliers, OJSC TVEL, a Russian company, and Westinghouse Sweden, provide Ukraine's NPSs with nuclear fuel. Under the contract Westinghouse supplies nuclear fuel for three nuclear reactors with a production capacity of 1,000 megawatts each. The other nuclear reactors are supplied with nuclear fuel by OJSC TVEL. In addition, State Concern "Nuclear Fuel" and OJSC TVEL have established a joint venture in order to build a plant producing nuclear fuel in Ukraine.

Following the incident at the Chernobyl NPS in 1986, in accordance with the requirements of international treaties and the Memorandum of Understanding (the "**MOU**") with the G7 states signed in December 1995, the Government has implemented further safety measures.

In accordance with the terms of the MOU, on 15 December 2000, Ukraine permanently stopped operation of the energy reactors at the Chernobyl NPS. To compensate for the loss of production capacity, Ukraine has constructed and put into operation two new nuclear reactors without raising funds from external sources: N4 at the Rivne NPS and N2 at the Khmelnitsky NPS, with total production capacities of 1,000 megawatts each. In August 2004, the new N2 nuclear reactor at the Khmelnitsky NPS was connected to the electrical grid, followed by the connection of the new N4 nuclear reactor at the Rivne NPS in October 2004. Reactor N2 of the Khmelnitsky NPS and Reactor N4 of the Rivne NPS became operational in 2006-2007.

In 2004, Energoatom, Ukraine's nuclear energy company, entered into loan agreements with the EBRD and the European Atomic Energy Community (Euratom) for the purpose of modernising and upgrading the safety features of Ukrainian NPSs. These loans are guaranteed by the State. The total amount of these agreements is U.S.$125.0 million, consisting of a loan from the EBRD of U.S.$42.0 million and a loan from Euratom of U.S.$83.0 million. In addition, in February and October 2008, a €150.0 million loan agreement with the EBRD and a €150.0 million loan agreement with the EIB under a joint EBRD EIB Ukraine "*Construction of the 750 kV Rivne NPP—Kyiv Overhead Transmission Line*" Project were signed. The Government expects that €150 million for this project will be funded by the EIB, with another €150.0 million to be funded by the EBRD. As at 31 December 2011, €14.2 million in EBRD funds had been disbursed for this project. The project aims to alleviate capacity limitations at the Rivne NPS and Khmelnitsky NPS and to improve the reliability of energy supply to consumers in Central Ukraine. In accordance with the "Construction of the 750kV Zaporizhzhya NPS - Kakhovka Overhead Transmission Line" Project, Ukraine borrowed €175 million from each of the EBRD and the EIB. The EBRD and Ukraine are also implementing a project for energy savings in the railway transport sector, the Ukrhydroenergo Rehabilitation Project, for which Ukraine borrowed €200 million from the EBRD, with an additional €200 million proposed to be funded by the EIB. See "*Public Debt—External Debt— International Financial Institutions—EIB and Nordic Investment Bank*".

Ukraine's 2011 electricity grid development programme included provisions for the creation that year of a system for the transfer of electricity from regions with excess capacity (which are generally situated in Western Ukraine) to regions experiencing electricity deficits (which are generally situated in Central and Eastern Ukraine) and was successfully implemented, thereby increasing the reliability of electricity supplies. In 2010, UAH 2.5 billion was disbursed under the development programme, accounting for 45.5 per cent. of the budgeted amount (UAH 5.5 billion). In 2011, UAH 3.5 billion was disbursed under the development programme, accounting for 66.0 per cent. of the budgeted amount (UAH 5.3 billion). As at the date of this Prospectus, NPC "Ukrenergo" is implementing the programme for the transfer of electricity with financing from the International Bank for Reconstruction and Development (the "**IBRD**"). A U.S.$200.0 million credit facility agreement between NPC "Ukrenergo" and IBRD was signed on 5 December 2008 and as at 30 June 2011, U.S.$12.9 million had been disbursed.

The 2010-2014 Economic Reform Programme provides for the implementation of the following main measures aimed at reforming the Ukrainian power generation sector:

- by the end of 2010, Ukraine was to have abolished electricity price preferences established for certain industry sectors; lifted the moratorium on the privatisation of State-owned assets in the energy sector (save for certain exceptions, such as State-owned assets in nuclear and hydropower sectors); and implemented certain measures to improve the revenue collection, including introduction of penalties for overdue payments for electricity and housing and communal services. By the end of 2010 Ukraine had commenced the process of abolishing electricity preferences established for certain industry sectors and had taken the other foregoing measures set out above;
- by the end of 2012, Ukraine is to have abolished the single tariff system, completed the process of bringing the tariffs to economically reasonable levels and privatised energy distribution companies; and
- by the end of 2014, Ukraine is to have privatised thermal energy generating companies.

The Cabinet of Ministers approved a list of State-owned shareholdings in energy production and energy distribution companies that were intended to be sold from 2011 to 2012. As at the date of this Prospectus,

the list includes 4 energy production and 11 energy distribution companies. Shareholdings in these companies of 25 per cent. plus one share will remain State property.

As at the date of this Prospectus, the SPF has carried out auctions for shareholdings in two energy production companies (selling stakes of 25.0 per cent. and 45.1 per cent. in PJSC "Zahidenergo" and PJSC "Dniproenergo"), as well as seven energy distribution companies (where stakes ranging in size from 25.0 per cent. to 50.0 per cent. have been sold).

Electricity and Natural Gas Tariffs

The Electricity Market

In order to prevent cross subsidisation and minimise price distortions between electricity market consumers, the Government adopted a resolution at the end of 2005 to bring tariffs for energy carriers to economically reasonable levels for all categories of consumers. In 2008, 2009, 2010 and 2011, the wholesale market price for electricity was UAH 0.3330 per kwh, UAH 0.4077 per kwh, UAH 0.5025 per kwh and UAH 0.5846 per kwh, respectively. In April 2012, the wholesale market price for electricity was UAH 0.6794 per kwh.

From September 2006 until the end of January 2011, households purchased electricity at an average price of UAH 0.1933 per kwh. As there were no increases in these prices during this period, the subsidies required to fund such a low price became significant. As at 31 December 2011 and 30 April 2012, the electricity tariffs levied on households represented 25.51 per cent. and 25.13 per cent., respectively, of the actual cost of electricity production, transfer and supply. To bring those tariffs to an economically reasonable level resolutions were adopted by the National Commission for the Regulation of the Electric Power Industry which provide for a 30 per cent. increase from 1 February 2011 for households consuming more than 150 kwh each month (250 kwh for households using electric stoves and/or electric heating devices) and a 15 per cent. increase from 1 April 2011 for all households, irrespective of the level of consumption. Increases of 50 per cent. and 75 per cent. for households consuming more than 800 kwh each month (with an exception for households using electric stoves and/or electric heating devices) were implemented from 4 May 2012 and 1 July 2012, respectively.

In Ukraine there is a single tariff for all consumers, with a number of specified exceptions. During the period from November 2008 to October 2009, the single tariffs for the first and second voltage classes remained unchanged at UAH 0.4359 per kwh and UAH 0.5846 per kwh (excluding VAT), respectively. The National Commission for Electrical Power Industry Regulation has been gradually increasing the single tariffs since November 2009. In April 2012, the first class voltage single tariff was UAH 0.7342 per kwh, while the second class voltage single tariff was UAH 0.9346 per kwh (excluding VAT).

The Gas Market

Since 1 January 2008, the threshold price level was UAH 934.7 per 1,000 cubic metres (excluding VAT, transport, underground gas storage and supply tariffs, expenses related to Naftogaz sales and special purpose charges) for State-financed consumers, industrial consumers and other commercial entities. In October 2008, in line with the significant devaluation of the hryvnia against the U.S. dollar, the Government increased threshold price levels for these categories of consumers. In particular, from 15 November 2008 the threshold price was UAH 1,152.0 per 1,000 cubic metres (excluding VAT, transport, distribution and supply tariffs, expenses related to Naftogaz sales and special purpose charges) for State-financed consumers, industrial consumers and other commercial entities. In addition, the Government permitted this price to be subject to indexing based on the ratio of the average monthly hryvnia to U.S. dollar exchange rate and the official hryvnia to U.S. dollar exchange rate. Furthermore, from 1 May 2008 the Government permitted Naftogaz to include the amount of its sales related expenses in the gas sale price for State-financed consumers, industrial consumers and other commercial entities. These expenses amounted to UAH 87.43, UAH 86.95 and UAH 121.0 per 1,000 cubic metres as at 1 May, 1 August and 1 November 2008, respectively.

During 2009 and the four months ended 30 April 2010, the threshold price had risen to UAH 2,020.25 per 1,000 cubic metres (excluding VAT, transport, distribution and supply tariffs, and special purpose charges) for State-financed consumers, industrial consumers and other commercial entities, subject to indexing based

on the ratio of the average monthly hryvnia U.S. dollar exchange rate and the official hryvnia U.S. dollar exchange rate. From 1 May 2010, the threshold price was reduced to UAH 1,992.8 per 1,000 cubic metres (excluding VAT, transport, distribution and supply tariffs, and special purpose charges) for State-financed consumers, industrial consumers and other commercial entities. From 1 August 2010, the threshold price was UAH 2,187.2 per 1,000 cubic metres (excluding VAT, transport, distribution and supply tariffs, and special purpose charges) for all categories of industrial consumers and State-financed consumers, and from 1 January 2011 this threshold price was increased to UAH 2,282.0 per 1,000 cubic metres (excluding VAT, transport, distribution and supply tariffs, and special purpose charges). It remained unchanged during the first quarter of 2011, but increased in April and July 2011, and from October 2011 was further increased to UAH 3,382.0 per 1,000 cubic metres (excluding VAT, transport, distribution and supply tariffs, and special purpose charges). As at 30 April 2012, the threshold price had been increased to UAH 3,509.0 per 1,000 cubic metres (excluding VAT, transport, distribution and supply tariffs, and special purpose charges).

Since 1 June 2008, the threshold price was UAH 710.0 per 1,000 cubic metres (including VAT, transport, underground gas storage and supply tariffs, expenses related to Naftogaz sales and special purpose charges) for municipal heating enterprises. This price increased by 3.5 per cent. monthly in the course of 2008 up to UAH 872.8 per 1,000 cubic metres from 1 December 2008, representing an increase of approximately 27 per cent. as compared to May 2008. In 2009 and the seven months ended 31 July 2010, the threshold price for municipal heating enterprises remained UAH 872.8 per 1,000 cubic metres (including VAT, transport, distribution and supply tariffs, storage expenses and special purpose charges). In September 2009, the National Commission for Electrical Power Industry Regulation decided to increase the threshold price for municipal heating enterprises by 20 per cent. from 1 October 2009. However, because the Kyiv District Administrative Court prohibited the implementation of this increase, no actual increase took place on 1 October 2009. Pursuant to the decision of the National Commission for Electrical Power Industry Regulation, from 1 August 2010, the threshold price for municipal heating enterprises was increased by 50.0 per cent. from UAH 872.78 to UAH 1,309.2 per 1,000 cubic metres (including VAT, transport and distribution tariffs, and special purpose charges) and as at the date of this Prospectus, this threshold price remained unchanged.

Ukraine uses differentiated threshold retail prices for households depending on the volumes of consumption. From 1 September 2008, prices increased to a range of UAH 358.2 to UAH 1,458.6 per 1,000 cubic metres, followed by a further increase to a range of UAH 483.6 to 1,968.6 per 1,000 cubic metres from 1 December 2008. In July 2009, the National Commission for Electrical Power Industry Regulation decided to increase the threshold price for households by 20 per cent. from 1 September 2009. However, the National Forum of Trade Unions of Ukraine challenged this decision before the Kyiv District Administrative Court, which ruled the decision unlawful on 31 August 2009. As a result, the increase was not implemented from 1 September 2009 as planned. In order to comply with the arrangements reached between Ukraine and the IMF, on 13 July 2010, the National Commission for Electrical Power Industry Regulation approved an increase of threshold retail prices for natural gas charged to households by 50 per cent. from 1 August 2010, so that a range of UAH 725.4 to UAH 2,954.1 per 1,000 cubic metres applied and which remains in place as at 14 February 2012.

The threshold prices charged to households, to State-financed consumers and to municipal heating enterprises have been subsidised from the State Budget. In particular, in 2009 and 2010 UAH 4.1 billion and UAH 3.4 billion, respectively, were extended from the State Budget to Naftogaz as a compensation for the difference between the purchase price of imported gas by Naftogaz and the sales price of such gas to municipal heating enterprises. The 2011 State Budget Law does not provide for compensation of this difference. These and a number of other measures are aimed at an improvement of the financial standing of Naftogaz. The Government intends to gradually increase the threshold prices charged to households and municipal heating enterprises to economically reasonable levels. In particular, pursuant to the Memorandum on Economic and Financial Policy entered into within the framework of the 2010 SBA agreed with the IMF, regular increases of gas prices for these categories of consumers are expected to continue until domestic price levels reach import parity. Ukraine's progress in implementing gas price increases was among the most important topics that was discussed with the IMF mission that visited Kyiv in October 2011 in connection with the completion of the second review of Ukraine's compliance with the 2010 SBA.

The National Commission for Electrical Power Industry Regulation considered the option to impose an increase in natural gas retail prices for households of 20 per cent., to be followed by a further increase of 10 per cent. During 2011 and for the four months ended 30 April 2012, natural gas retail prices for households and the threshold price for municipal heating enterprises remained unchanged.

In May 2010, the Parliament of Ukraine adopted amendments to the Law of Ukraine "On Value Added Tax", which exclude natural gas imports to Ukraine from VAT. The exemption became effective as from 1 July 2010. The Tax Code also excludes natural gas imports to Ukraine from VAT.

Due, in part, to the increased efforts of the Government in this area, domestic payment collection rates have improved in comparison to earlier periods. The average cash collection rates for electricity consumption in 2011, 2010, 2009 and 2008 were 97.2 per cent., 98.5 per cent., 97.8 per cent. and 100.7 per cent., respectively. For the four months ended 30 April 2012, the average collection rates for electricity consumption were 95.6 per cent. as compared to 95.5 per cent. in the corresponding period of 2011. Collection rates in excess of 100 per cent. reflect payment of overdue indebtedness from earlier periods. The rate of cash collection for gas consumption was 86.5 per cent. in 2010, 86.4 per cent. in 2009 and 93.9 per cent. in 2008. In 2011, the average collection rate for gas consumption was 86.2 per cent. as compared to 86.5 per cent. in 2010. For the four months ended 30 April 2012, the average collection rate for gas consumption was 81.4 per cent. as compared to 73.6 per cent. in the corresponding period of 2011.

Agriculture

In 2008, agricultural production increased by 17.1 per cent. compared to 2007, reflecting an increase of 35.1 per cent. in the production of agricultural enterprises (both State-owned and private) and an increase of 5.2 per cent. in the agricultural production of household plots (land not registered as an enterprise). The increase in agricultural production in 2008 resulted from a 30.5 per cent. growth in crop production, and especially high production of grain and sunflower products, due to favourable weather conditions. This growth in crop production included an increase of 55.6 per cent. in the production of agricultural enterprises (both State-owned and private) and an increase in the production of household plots of 12.7 per cent. In 2008, livestock production increased by 0.1 per cent. compared to 2007. This minor increase reflected an increase of 6.4 per cent. in the production of agricultural enterprises (both State-owned and private) and a decrease in production of household plots of 3.8 per cent.

In 2009, agricultural production decreased by 1.8 per cent. compared to 2008, reflecting an increase of 0.4 per cent. in the agricultural production of household plots and a decrease of 4.4 per cent. in the production of agricultural enterprises (both State-owned and private). The decrease in agricultural production in 2009 included a 5.2 per cent. decrease in crop production partially offset by a 3.8 per cent. increase in livestock production. The 3.8 per cent. increase in livestock production reflected an increase of 9.9 per cent. in the production of agricultural enterprises (both State-owned and private) and minor decline in the production of household plots of 0.4 per cent., while a 5.2 per cent. decline in crop production included a decrease of 11.3 per cent. in the production of agricultural enterprises (both State-owned and private) and minor growth in production by household plots of 0.9 per cent.

In 2010, agricultural production decreased by 1.5 per cent. compared to 2009. This decrease reflected a decrease of 1.4 per cent. in the production of agricultural enterprises (both State-owned and private) and a decrease of 1.6 per cent. in the agricultural production of household plots. The decrease in agricultural production in 2010 was due to a decrease in crop production of 4.7 per cent., while livestock production showed an increase of 3.2 per cent. The 4.7 per cent. decrease in crop production was due to a decrease of 7.2 per cent. in the production of agricultural enterprises (both State-owned and private) and a decline in production of household plots of 2.5 per cent. The 3.2 per cent. increase in livestock production reflected a of 8.2 per cent. increase in the production of agricultural enterprises (both State-owned and private) and a 0.5 per cent. decrease in the production of household plots.

In 2011, compared to 2010, overall agricultural production increased by approximately 17.5 per cent., including an increase in the production of agricultural businesses of 23.8 per cent. and an increase in household production of 12.3 per cent. For the four months ended 30 April 2012, as compared to the corresponding period in 2011, overall agricultural production increased by 1.1 per cent., the production of

agricultural enterprises (both state-owned and private) increasing by 3.2 per cent., but household plot production decreasing by 0.6 per cent. The agricultural production statistics from the first part of each year are comprised almost entirely of livestock results, as arable crops are not harvested during this period.

The increase in agricultural production in 2011 included a 28.2 per cent. increase in crop production and 2.5 per cent. increase in livestock production. The 28.2 per cent. increase in crop production reflected an increase of 36.2 per cent. in the production of agricultural enterprises (both public and private) and a 21.5 per cent. increase in the production of household plots. The 2.5 per cent. increase in livestock production reflected an increase of 6.2 per cent. in the production of agricultural enterprises (both state-owned and private) and a minor decline in the production of household plots of 0.5 per cent.

In 2011 there were record crop yields, grain production reaching 56.7 million tonnes, potato production 24.3 million tonnes, sugar beet production 18.7 million tonnes, sunflower production 8.7 million tonnes and vegetable production 9.8 million tonnes. In the four months ended 30 April 2012, agricultural production increased by 1.1 per cent., including an increase of 3.2 per cent. in the production of agricultural enterprises (both state-owned and private) and a decrease of 0.6 per cent. in the agricultural production of household plots, compared to the corresponding period of 2011. The reasons for the record crop yields include increases in arable land and the use of mineral fertilisers, as well as favourable weather conditions.

The Ministry of Agriculture forecasts that grain production in 2012 will reach 50.0 million tonnes. On 19 May 2011, Parliament adopted a law introducing customs duties on the export of grain for the period up to 31 December 2011, which became effective on 1 July 2011, replacing the export quotas. The duties were set at 9 per cent. but not less than EUR 17 per tonne for wheat and maslin, 12 per cent. but not less than EUR 20 per tonne for corn and 14 per cent. but not less than EUR 23 per tonne for barley. Customs duties were removed unilaterally as at 7 October 2011, with the exception of duties on barley, which were not removed until 1 January 2012.

From 2005, agricultural producers enjoyed certain tax privileges, including a right to retain the 20 per cent. VAT collected from customers instead of remitting such VAT to the State. The law extending the VAT privileges, including zero rate VAT for certain kinds of meat and dairy producers, applied from 1 January 2005 until 1 January 2009. Pursuant to a law passed in May 2007 as part of the process of WTO accession, from 1 January 2009, zero rate VAT was expected to be abolished. Instead, starting from 1 January 2009, agricultural, forestry and fishery producers were to apply for a special VAT regime providing a 9 per cent. VAT rate for agricultural products and 6 per cent. VAT rate for forestry and fishery products. However, pursuant to a law passed in October 2008 as part of measures aiming to minimise the impact of the financial downturn, from 1 January 2009 agricultural producers apply a new regime. Under this regime, agricultural producers are not required to remit to the State the 20 per cent. VAT received from the customers and may use such VAT to offset the 20 per cent. VAT payable by them to suppliers of agricultural products as well as to finance other business needs. In addition, meat and milk producers receive subsidies from the State Budget at the expense of VAT paid to the State Budget by processing enterprises. These preferential rates were extended by the Tax Code, until 1 January 2015, in relation to the VAT subsidy, and 1 January 2018, in relation to VAT retention. Pursuant to amendments to the Tax Code of 22 December 2011, processing enterprises are required to contribute to the special State Budget a proportion of the VAT levied on meat, milk and their associated products: 30 per cent. in 2012, 40 per cent. in 2013 and 50 per cent. in 2014. The remainder of the tax is to be used to compensate certain livestock and dairy agricultural producers for live weight meat and milk prices.

The Government believes that one of the priorities of the agricultural industry for the near future is the reform of the forms, mechanisms and volumes of State support to the agricultural sector in accordance with the WTO principles. Agreements reached during the negotiations on Ukraine's accession to the WTO permit Ukraine to effectively subsidise the agricultural industry within the specific programmes aimed at the support of livestock and crop production and partially reimburse to agricultural producers their expenditure on borrowings, as well as indirectly support agricultural producers through VAT retention and VAT subsidy mechanisms. At the same time, Ukraine has undertaken not to exceed the maximum permitted cumulative amount of support at the level of UAH 3.4 billion, such amount excluding any amounts spent on "green" programmes, which have a minimal impact on trade, and which are not restricted by the WTO arrangements.

The 2010-2014 Economic Reform Programme provides for a wide range of measures to increase the efficiency and competitiveness of Ukraine's agricultural sector, including the following measures:

- by the end of 2010, Ukraine was to have taken steps to ensure that the State does not improperly intervene in the regulation of prices for agricultural products or establish export restrictions. Ukraine was also to have agreed with the WTO and implemented certain technical regulations for imports in order to reduce low quality imports into Ukraine and to have improved the subsidy system in line with the WTO rules. Ukraine had successfully implemented these measures by the end of 2010; and
- by the end of 2012, Ukraine is to create a transparent market for agricultural land plots based on the single land cadastre system, and harmonise with the WTO rules the system of standards and technical regulations for agricultural products.

As at 31 March 2012, approximately 31.2 per cent. of Ukraine's total population lived in rural areas.

Construction

In 2007, overall construction increased by 15.6 per cent., which included 16.5 per cent. growth in the construction of residential and non-residential buildings (including industrial, commercial, educational and health buildings), 38.9 per cent. growth in the construction and repair of highways, airports and sport facilities and 15.0 per cent. growth in the construction of bridges, flyovers, tunnels and underground infrastructure. In 2008, construction decreased by 15.8 per cent., which included a 13.0 per cent. decline in the construction of residential and non-residential buildings, a 36.3 per cent. decline in the construction of highways, airports and sport facilities and a 6.7 per cent. decline in the construction of bridges, flyovers, tunnels and underground infrastructure. In 2009, construction decreased by 48.2 per cent., which included a 54.5 per cent. decline in the construction of residential and non-residential buildings, a 37.5 per cent. decline in the construction of highways, airports and sport facilities and a 50.6 per cent. decline in the construction of bridges, flyovers, tunnels and underground infrastructure.

In 2010, construction decreased by 5.4 per cent., which included a 9.1 per cent. decline in the construction of residential and non-residential buildings, a 14.9 per cent. decline in the construction of bridges, flyovers, tunnels and underground infrastructure, and a 17.2 per cent. decline in the construction of local pipelines and energy supply lines. These decreases were offset to a certain extent by a 12.4 per cent. growth in the construction of highways, airports and sport facilities, and a 16.0 per cent. growth in the construction of trunk pipelines and energy supply lines. The decline in major types of construction works in 2010 was attributable to the reduced volumes of mortgage lending to the population as well as lending to construction companies by Ukrainian banks and an increase in the cost of construction works resulting from rising prices for construction materials.

In 2011, construction increased by 11.0 per cent. compared to 2010, which included a 10.3 per cent. increase in the construction of residential and non-residential buildings, an increase of 1.9 per cent. in the construction of bridges, flyovers, tunnels and subway infrastructure, as well as an increase of 43.4 per cent. in the construction of highways, airports and sports facilities. These increases were attributable to the positive developments in Ukraine's economy, generating the funds to finance long term investment projects, as well as the preparations for the UEFA Euro 2012 Football Championship (the "**Euro 2012 Championship**"). It is anticipated that 700,000 additional jobs will be created in the construction sector in 2012, with a further 15,000 long term jobs created for the maintenance of infrastructure facilities.

For the four months ended 30 April 2012, construction volumes decreased by 3.0 per cent. compared to the corresponding period in 2011, which included a 6.6 per cent. decrease in the construction of residential and non-residential buildings, a 32.5 per cent. decrease in the construction of bridges, flyovers, tunnels and subway infrastructure and a 26.2 per cent. increase in the construction of highways, airports and sport facilities. Several factors contributed to the decrease in construction volumes in the first four months of 2012, including unfavourable weather conditions beyond the seasonal norm, from mid-January to mid-February, which slowed development activity, slow growth of lending for long-term projects and the completion of Euro 2012 Championship construction (which contributed to the high comparison base of the previous year).

The Ministry of Economy forecasts that construction output will increase by approximately 2.5 per cent. in 2012 as compared to 2011. This is due to the construction work pursuant to the increased demand from domestic businesses, increased lending to investors and the resumption of residential construction.

Transport and Communications

The transport and communication infrastructure of Ukraine includes a wide network of roads and railways and a telecommunications network which requires significant investment. As in many other CIS countries, the transport and communication systems are in need of modernisation. Like other sectors of Ukraine's economy, the transport and communication sector was adversely affected by the decline in domestic investment and the economic crisis of the 1990s as well as the more recent financial and economic downturn in late 2008 and 2009. In 2007 and 2008, output in the transport and communication sectors increased by 11.7 per cent. and 8.1 per cent., respectively, which was followed by a decrease of 12.7 per cent. in 2009 and an increase of 2.0 per cent. in 2010. In 2011, output in the transport sector increased by 7.2 per cent. compared to 2010.

The growth in the transport sector recorded in 2008 was principally caused by the higher real income of the population and an increasing volume of intercity and international traffic as a result of an increase in the volume of trade and exports. In 2009, against the background of the global economic downturn, the growth trend was reversed and transport companies transported 696.2 million tonnes of cargo, a decrease of 21.9 per cent. as compared to 2008, and 7.3 billion passengers, a decrease of 12.7 per cent. as compared to 2008. The decline in transport in 2009 was largely attributable to the reduction in production in the mining, construction and chemical industries and reduction in foreign trade turnover volumes, as well as to a decline in household income. In 2010 transport companies transported 755.9 million tonnes of cargo and 6.8 billion passengers, representing an 8.6 per cent. increase and a 5.9 decrease, respectively, compared with 2009. In 2011, transport companies transported 813.0 million tonnes of cargo and 7.0 billion passengers, representing a 7.6 per cent. increase and a 2.0 per cent. increase, respectively, compared with 2010. The growth in cargo transport in 2010 and 2011 was attributable to the increase in production in the mining, machinery manufacturing, metallurgy and chemical industries, the increase in the volumes of gas and ammonia transported and the increase in foreign trade volumes. For the four months ended 30 April 2012, transport companies transported 198.6 million tonnes of cargo and 1.3 billion passengers, as compared to 199.2 million tonnes of cargo and 1.4 billion passengers in the corresponding period of 2011, a decrease of 0.3 per cent. and 0.8 per cent., respectively. This decrease resulted from reduced cargo transportation in the metallurgy and metal products industry, coke and oil refining industry and other non-metalic industry.

Increasing demand for mobile and international telephone services led to a growth in communications, although mobile and international telephone services penetration has remained fairly static over the last few years. In 2009, mobile communication services accounted for approximately 61.6 per cent. of all communication services, before falling slightly in 2010 to 60.8 per cent., and increasing marginally in 2011 to 61.7 per cent.

The largest international airport in Ukraine is Kyiv's "Boryspil" airport ("**Boryspil**"). In March 2005, the Japanese Bank of International Cooperation extended a ¥19.1 billion (U.S.$178 million at the then-current exchange rate) loan to construct a new passenger terminal at Boryspil to international standards and to convert the airport into a regional hub, capable of handling increasing volumes of air traffic between Russia and the Near East. As at the date of this Prospectus, UAH 1.723 billion of the loan proceeds had been spent on this project and the new passenger terminal became operative on 28 May 2012.

Kyiv is to be linked to Boryspil airport via the "Aerial Express" (the "**Aerial Express**"), a railway line which is expected to be in operation by the end of 2012. The Aerial Express has been financed with a U.S.$372.3 million credit facility granted by Export Import Bank of China in 2011, the Cabinet of Ministers issuing a sovereign guarantee in favour of the State entity co-ordinating the project. Ukraine raised a further U.S.$690.0 million to finance key infrastructure projects with a notes issuance, the Ukrainian Cabinet of Ministers guaranteeing the obligations of a Luxembourg special purpose vehicle "Financing of Infrastructural Projects" on behalf of the sovereign. A U.S.$376.0 million credit facility granted by OJSC

"Sberbank of Russia" in favour of Ukravtodor, the Ukrainian highways agency, was also guaranteed by the Cabinet of Ministers in 2011.

Between 2004 and 2006, the EBRD agreed to lend Ukraine U.S.$120 million to finance high speed trains and €300 million for the reconstruction of the Kyiv Chop highway. In August 2004, the EBRD and Ukraine's main passenger and freight carrier, Ukrzaliznytsya, signed an agreement for a U.S.$120 million loan to finance the development of high speed trains. In January 2009, Ukrzaliznytsya Donetsk Railway and the EBRD signed a U.S.$62.5 million facility agreement for the railway car purchase project for Ukrainian railways. The total planned financing under this project is U.S.$73.5 million, including U.S.$11.0 million to be funded by the railways themselves.

In February 2005, the EBRD and Ukraine signed an agreement for the extension of a second €100 million loan to repair part of the 824 kilometre long Kyiv Chop highway, which connects Kyiv with Western Europe. In December 2006, Ukraine and the EBRD entered into an agreement extending a further €200 million regarding this project. In July 2007, Ukraine and the EIB entered into an agreement providing for a €200 million loan to finance reconstruction of the Kyiv Chop highway jointly with the EBRD. As at 30 April 2012, 756.9 kilometres of the Kyiv Chop highway had been repaired and approximately €794.1 million had been spent, including €562.1 million in EBRD and EIB loans, as well as €232.0 million from the State Budget. The M06 highway is a component of TransEuropean corridors III and V, which connect central Ukraine with the EU member countries and its development is a priority for Ukraine.

In November 2010, Ukravtodor and the EBRD executed a €450 million loan agreement, and in May 2011 Ukravtodor and the EIB executed a €450 million financial agreement, in both cases for the improvement of the quality of main region roads near Kyiv, which came into force on 16 September 2011. The total value of the project is €1,149.4 million, including a loan of €900 million (represented by the EBRD and EIB loans) and the implementation of the project is expected to lead to an improvement of the busiest motorways into and out of Kyiv. As at 30 April 2012, approximately €129.4 million had been drawn down under this agreement. See "*Public Debt—External Debt—International Financial Institutions*".

In addition, in November 2007, Ukraine and the EBRD signed an agreement for the extension of a €26 million loan for the development of the Illichivsk sea trade port. See "*Public Debt—External Debt—International Financial Institutions*".

In April 2009, Ukraine and the World Bank signed a U.S.$400 million facility agreement for the Roads and Safety Improvement Project, which took effect in September 2009. As at 30 April 2012, according to the data provided by Ukravtodor, U.S.$171.5 million had been drawn down under this agreement and the reconstruction of a segment of the Kyiv-Kharkiv-Dovzhanski highway was underway. The preparation of a second Ukraine World Bank reconstruction project for the Kyiv-Kharkiv-Dovzhanski highway on the Lubny-Poltava section has also begun. The expected cost of this project is U.S.$450 million. Ukraine and the World Bank are also performing prelaunch works for a project on the modernisation of Ukraine's railways. It is expected that the loan for this project will be in an amount of up to U.S.$500 million. See "*Public Debt—External Debt—International Financial Institutions*".

On 12 August 2005, the Cabinet of Ministers issued a guarantee to Deutsche Bank AG as lender under a 10-year, U.S.$100 million credit facility, dated 17 August 2005, granted to Ukravtodor as borrower, to complete construction of the Kyiv Odesa highway. On 7 July 2006, the Cabinet of Ministers issued a guarantee to Citibank N.A. London as lender under a 10-year, €279,886,635 credit facility extended to Ukravtodor to finance the construction, reconstruction and capital repair of roads in general use. On 28 January 2009, the Cabinet of Ministers issued a guarantee to Credit Suisse International as lender under a credit facility in the amount of U.S.$465 million extended to Ukravtodor. On 5 February 2009, the Cabinet of Ministers issued a guarantee to JSC "The State Export - Import Bank of Ukraine" ("**Ukreximbank**"), as a lender under a four-year, UAH 2,100.0 million credit line, and to JSC "State Savings Bank of Ukraine" (the "**State Savings Bank of Ukraine**") under a six-year, UAH 980.0 million credit line, in each case granted to Ukravtodor.

In November 2010, the Cabinet of Ministers issued a guarantee to VTB Capital plc as a lender under a seven-year U.S.$440.8 million facility agreement granted to Ukravtodor to finance construction, reconstruction and capital repair of roads in general use and acquisitions of road building machinery.

In July 2011, the Cabinet of Ministers issued a guarantee to Sberbank of Russia as a lender under a U.S.$376 million five-year loan granted to Ukravtodor to finance construction, reconstruction and capital repair of roads in general use and acquisitions of road building machinery for subsidiaries of State Joint Stock Company "Highways of Ukraine", OJSC.

The Government is directing significant capital investment in road and other transport infrastructure modernisation and development in preparation for the Euro 2012 Championship, which will be jointly hosted by Ukraine and Poland. The State Target Programme for the Preparation and Hosting of the Euro 2012 Championship (the "**Programme**"), first approved by the Government in February 2008 sets forth a list of sport, transport, tourism and social infrastructure facilities to be constructed or reconstructed in line with UEFA requirements. As at the date of this Prospectus, the Ministry of Finance forecast that UAH 107.4 billion is required to implement the Programme, including UAH 52.9 billion to be financed from the State Budget and State support programmes, UAH 3.75 billion from local budgets and UAH 50.7 billion from other sources.

Within the framework of preparations for the Euro 2012 Championship, the Government plans to develop Ukraine's road network and related transport by constructing and maintaining roads connecting the main cities of Ukraine involved in the Euro 2012 Championship and Ukrainian border checkpoints, as well as to implement a programme for comprehensive development of airports and railways. In 2008-2010, as part of the implementation of the Programme, UAH 27.4 billion were spent on transport infrastructure projects, including UAH 7.1 billion on the reconstruction of a number of Ukrainian airports, UAH 9.1 billion on the reconstruction of Ukrainian railways and 11.1 billion on the construction and maintenance of roads. In 2011, as part of the implementation of the Programme, UAH 32.41 billion was spent on transport infrastructure projects, including UAH 8.45 billion on airports, UAH 7.74 billion on railways and UAH 16.22 billion on the construction and maintenance of roads.

In addition, in November and December 2009, the Cabinet of Ministers avalised (guaranteed) certain bills of exchange due 2012 in an aggregate amount of approximately UAH 1.6 billion issued by regional road services as a payment for supplied goods, works or services in connection with modernisation of roads in view of hosting the Euro 2012 Championship in Ukraine, liquidation of the consequences of certain natural disasters and other road construction, reconstruction and capital repair projects. On 13 November 2010 and on 21 April 2011, the Cabinet of Ministers issued sovereign guarantees for the obligations of State Enterprise "Financing of Infrastructural Projects" as issuer of U.S.$568 million and U.S.$690 million notes, respectively (approximately UAH 4.5 billion and UAH 5.5 billion, respectively), made available for the purpose of establishing infrastructure required to host a successful Euro 2012 Championship. On 30 December 2010, the Cabinet of Ministers issued a sovereign guarantee to Export-Import Bank of Korea as lender under an approximately U.S.$261.0 million financing to Statute Regional Specialised Association "South Railways" for the supply of 10 two-system interregional trains by Hyundai Corporation, six of which were in operation by the end of June 2012.

The 2010-2014 Economic Reform Programme provides for the implementation between 2010 and 2014 of a number of reforms in the transport sector, including, among other things, the abolition of preferential cargo transport tariffs for certain industries; the gradual increase of transport tariffs to economically reasonable level; restructuring of railway companies; the privatisation of certain assets in the transportation sector; the implementation of nationwide infrastructural projects financed both out of the State Budget and by the World Bank, EBRD and private investors; and the increase of the State Budget financing for modernisation and development of transport infrastructure by 10 per cent. each year.

Privatisation

Ukraine began to implement privatisation in 1992 with the objectives of increasing the private sector's share of the economy, generating foreign direct investment and contributing funds to the State Budget. Between 1992 and March 2012, Ukraine collected approximately UAH 59.04 billion in privatisation receipts. In 2011, UAH 11.480 billion was contributed to the State Budget as privatisation proceeds, exceeding the target by 14.8 per cent. As at 14 May 2012, privatisation receipts amounted to UAH 5.07 billion. Between 1992 and 30 April 2012, 127,680 individual assets were privatised, including 28,820 assets initially in State ownership

and 98,860 assets initially in communal (municipal) ownership. In 2011, 173 assets initially owned by the State and 1,203 assets initially in communal (municipal) ownership were privatised. In the four months ended 30 April 2012, 45 assets initially owned by the State and 379 assets initially in communal (municipal) ownership were privatised.

Initially, the privatisation programme focused on the auction of small scale enterprises (defined before 2000 as enterprises with a book value of fixed assets worth not more than UAH 170 million and after 2000 as enterprises with up to 100 employees). According to figures provided by the SPF, 108,037 small scale entities were privatised between 1992 and 31 March 2012. During the same period 11,209 entities were converted into joint stock companies, and as at 31 March 2012, 683 companies remain at least partially owned by the State.

The SPF administers the privatisation programme in Ukraine. In consultation with various ministries, the SPF identifies enterprises to be privatised each year. Once the Cabinet of Ministers approves the list of companies to be privatised, the SPF proceeds with the conversion of the enterprises into joint stock companies and their sale to investors. Foreign and Ukrainian investors have equal rights in the privatisation processes, subject to certain exceptions, such as a prohibition on land sales and restrictions on companies located in off shore zones (such as British Virgin Islands, Liberia and others) from participating in the privatisation of certain large assets.

Several bills governing the activities of the SPF were approved by Parliament from 2007 to 2009, but were vetoed by the President. At present the activities of the SPF are governed by the Law of Ukraine "On the State Property Fund of Ukraine" which came into effect on 6 January 2012. Pursuant to this law, which clarified the role of the SPF, the SPF is defined as the executive body in charge of the privatisation, alienation, leasing, use and management of State property, including State corporate rights. The activity of the SPF is coordinated by the Cabinet of Ministers and the SPF is responsible to the President.

In September 2006, Parliament enacted a law "On the Management of State-Owned Assets". The law sets out the legal framework for the management of various State-owned assets, including State property transferred to State enterprises and State-owned shares in joint stock companies. The law also defines the powers of various State authorities, including the SPF, which is responsible for maintaining the Unified Register of State-Owned Assets.

Certain laws prohibit the privatisation of particular enterprises in strategic sectors, including power generation, the military and mining, without the consent of the Cabinet of Ministers and, if privatisation of such enterprises involves foreign investments, the approval of Parliament. Furthermore, the State has the right to retain an ownership interest in such enterprises, enabling it to block certain management decisions.

In 2008 and 2009, the privatisation programme was largely undermined by the decisions of the NSDC dated 15 February 2008 and 16 May 2008. These decisions instructed the Government not to permit the privatisation of companies in the fuel and energy, defence, transport, housing and other strategic sectors of the economy pending the approval of privatisation programmes governing privatisation of State-owned assets in such sectors. These decisions also instructed the Government not to permit, pending an approval of the State Privatisation Programme, the privatisation of enterprises having strategic importance for the economy and safety of the State if this would result in the monopolisation of the respective markets.

Pursuant to these decisions, the SPF was ordered to cancel the sale of shareholdings in the six regional energy distribution companies initially contemplated for 2008. For the same reasons the SPF suspended the inclusion of five other large companies on the list of companies subject to sale in 2008. The sale of the State's 99.52 per cent. shareholding in JSC "Odesa Port Plant" was expected to take place in May 2008 with an initial sale price of UAH 3.0 billion. However, in April 2008, the President suspended the effects of the resolution of the Cabinet of Ministers approving the terms of the sale. Finally, the terms of sale in 2008 of the State's 67.79 per cent. shareholding in OJSC "Ukrtelecom" with a nominal value of approximately UAH 5.2 billion failed to receive the approval of the Government in 2008.

For 2009, target privatisation receipts were set at approximately UAH 8.5 billion, and actual privatisation receipts were only UAH 814.9 million, 9.6 per cent. of the annual target. In 2009 the privatisation of certain assets was cancelled following a number of presidential decrees.

For 2010, target privatisation receipts were initially set at approximately UAH 10.0 billion but were subsequently decreased in July 2010 to UAH 6.35 billion. Actual privatisation receipts in 2010 amounted to UAH 1,093 million, or 17.2 per cent. of the revised annual target.

In 2010, 76 per cent. of the share capital of JSC HC "Luganskteplovoz" ("**Luganskteplovoz**") was sold. The initial privatisation of this company happened in 2007 but had been held invalid by the court. The SPF then conducted a tender on 15 June 2010 for the State shareholding in Luganskteplovoz and CJSC "Asset Management Company "Bryanskiy Machine-Building Plant" (Russian Federation) ("**Bryanskiy Machine-Building Plant**"), the initial tender winner in 2007, was again declared the winner with a bid price of UAH 410 million and a sale and purchase agreement was concluded. Following a number of court proceedings relating to, among other things, the termination of this sale and purchase agreement, on 21 March 2011 the SPF and Bryanskiy Machine-Building Plant concluded an amicable settlement agreement, approved by the Resolution of the Kyiv Economic Court. Pursuant to this settlement agreement 76 per cent. of the share capital of Luganskteplovoz was transferred to Bryanskiy Machine-Building Plant and funds paid by Bryanskiy Machine-Building Plant as an initial tender winner in 2007 were set off against its payment of the purchase price under the 2010 sale and purchase agreement. On 28 March 2011, the SPF and Bryanskiy Machine Building Plant executed an Acceptance Certificate with respect to Bryanskiy Machine Building Plant's shareholding stake in Luganskteplovoz.

On 17 August 2010 the SPF sold a 25.02 per cent. stake held by the State in OJSC "Prykarpatyaoblenergo", a regional energy distribution company for consideration equal to UAH 86.36 million. In addition, the sale of 16.24 per cent. of the shares held by the State in OJSC "Poltavaoblenergo", another regional energy distribution company, was completed on 24 December 2010 for a total consideration of UAH 108.74 million. Another 8.76 per cent. interest in OJSC "Poltavaoblenergo" was sold earlier in 2010 for UAH 58.6 million.

The 2011 State Budget Law set privatisation proceeds in the amount of UAH 10.0 billion. In March 2011, the SPF executed a sale and purchase agreement in connection with a 92.79 per cent. shareholding in OJSC "Ukrtelecom" for a total consideration of UAH 10.57 billion. On 10 May 2011, ESU LLC (the purchaser), paid the purchase price in full. As at 31 December 2011, the privatisation proceeds of the State Budget were equal to approximately UAH 11.480 billion, which is 14.8 per cent. above the 10.0 billion target set in the 2011 State Budget Law. The 2012 State Budget Law forecasts privatisation proceeds in the amount of UAH 10.0 billion.

The Cabinet of Ministers approved a list of State-owned shareholdings in energy production and energy distribution companies, planned for partial privatisation in 2011 and 2012. As at the date of this Prospectus, the list includes four energy production and 11 energy distribution companies and shareholdings of between 25 per cent. and 50 per cent. in PJSC "Zahidenergo", PJSC "Donetskoblenergo", PJSC "Chernivtsyoblenergo", PJSC "Zakarpattiaoblenergo", PJSC "Vinnitsaoblenergo", PJSC "Dniproenergo", PJSC "Kyivenergo", PJSC "Dniprooblenergo" and PJSC "Krymenergo" have been sold at auction. See "*Economy of Ukraine - Principal Sectors of the Economy -Electricity Generation and Nuclear Power*".

The 2010-2014 Economic Reform Programme provides for the implementation of the following main measures in the area of privatisation and State-owned property management:

- by the end of 2010, Ukraine was to have prepared a draft law intended to clarify the activities of the SPF and to have removed restrictions on the privatisation of a number of State-owned assets. Ukraine had successfully implemented these measures by the end of 2010;
- by the end of 2012, Ukraine is to continue privatisation of companies in the strategic sectors of economy (including privatisation of banks recapitalised by the Government); and
- by the end of 2014, Ukraine is to have largely completed the privatisation process and changed the focus of the SPF activities from privatisation to accounting and management of State-owned assets. Ukraine should also focus on attraction of private investment into assets that remain controlled by the State.

In July 2010, the SPF prepared a draft law on the privatisation programme for 2010 to 2014, as well as proposed amendments to privatisation legislation aimed at supporting the implementation of the privatisation programme and increasing the efficiency of the privatisation process, with a view to reducing State ownership in the Ukrainian economy to existing levels in developed European countries of approximately 20 to 25 per cent. Under the draft law, the programme is intended to enhance the economic efficiency and competitiveness of the Ukrainian economy. In particular the programme aims to remove many of the obstacles to large scale privatisation as the State is expected to keep only those assets which are necessary to perform State functions and maintain national security. Furthermore, the programme envisages amendments to existing laws governing privatisation to streamline and clarify the privatisation process with the intention of allowing for quicker and more transparent privatisation of smaller assets. It also tightens controls on the monitoring of performance post privatisation and places limits on further sales. On 13 January 2012, the 2012 to 2014 privatisation programme and the amendments to privatisation legislation were passed by Parliament and then signed by the President on 31 January 2012.

State bodies have examined a number of privatisations that took place in previous years under irregular conditions, which were not fully transparent and a special parliamentary commission controlling privatisation supervises compliance with privatisation laws. If the commission determines that such laws have been breached, it may request that the authorised privatisation bodies, including the SPF, cancel illegal orders or unwind illegal actions. If these sales are found to have taken place in violation of applicable laws, the Government may decide to petition the appropriate courts to cancel the sales of the companies concerned. In these circumstances the proceeds from the object sale must be returned to the buyer. As at 31 March 2012, 303 privatised assets (by cumulative total) had been returned to State ownership, including 83 shareholding stakes, 53 integral property complexes and 167 construction projects. In total 163 of the assets returned to State ownership, have been resold, the proceeds from their resale amounting to UAH 98.64 million. Claims are in progress with regard to the termination (invalidation) of 153 privatisation agreements, and also with regard to the return of assets sold pursuant to such agreements. Such claims relate to 22 shareholding stakes, 16 integral property complexes and 115 construction projects.

Moratorium on Forced Sale of Property of State-Owned Enterprises

On 29 November 2001, a temporary moratorium was introduced on the forced sale of property of State enterprises and enterprises in which the State holds an interest greater than 25 per cent., pending the resolution of related legal issues. In addition, in February 2004, Ukraine's bankruptcy laws were amended by introducing a moratorium on the bankruptcy of mining enterprises in which the State holds an interest greater than 25 per cent. These amendments *provided that* bankruptcy proceedings of such enterprises could be initiated not earlier than one year after the beginning of the privatisation of such enterprises. In December 2009, the moratorium was prolonged to 1 January 2013.

Furthermore, in June 2005, a Law of Ukraine "On Measures Aimed at Ensuring Stable Operation of Fuel and Energy Sector Enterprises" was enacted providing for various indebtedness repayment procedures (including indebtedness restructurings and write offs). The law also provides for a register to be established of fuel and energy enterprises that participate in indebtedness repayment procedures and provides that a court may refuse to initiate bankruptcy proceedings and suspend relevant judicial and enforcement proceedings against companies so registered. In January 2011, the moratorium was extended to 1 January 2013.

Environment

To a large extent, the significant environmental problems facing Ukraine stem from the period when it was a part of the Soviet Union. Historically, major problems have included waste accumulation (including toxic waste), water and atmosphere pollution, contamination from the Chernobyl incident, and the closure of mines. In 2010, approximately 4.1 million tonnes of harmful substances were released into the atmosphere in Ukraine by "stationary" sources of pollution (these include enterprises, departments, aggregates, units or other immovable facilities that release harmful substances into the atmosphere), representing a 5.2 per cent. increase compared to 2009. In 2011, approximately 4.4 million tonnes of harmful substances were released into the atmosphere by stationary sources of pollution and approximately 2.5 million tonnes of harmful substances were released into the atmosphere by "mobile" sources of pollution, representing a 3.0 per cent.

increase compared to 2010. In 2011, approximately 1.61 billion cubic metres of polluted run off water drained into Ukrainian waters compared to 1.74 billion cubic metres in 2010.

While the closure of the last working reactor at Chernobyl in December 2000 helped to address the safety concerns of the international community, concerns regarding radiation and contamination in the surrounding area continue to remain high. In addition, the closure resulted in the loss of approximately 5 per cent. of Ukraine's energy generating capacity, thus creating electricity shortages in certain regions that had to be compensated for with additional power from fossil fuel plants. In 2007, 2008 and 2009, the amount of State Budget expenditure on mitigating the consequences of the Chernobyl incident was UAH 528.0 million, UAH 586.6 million and UAH 512.9 million, respectively. In the seven months ended 31 July 2010, the amount of the State Budget expenditures on mitigating the consequences of the Chernobyl incident was UAH 349.0 million, while the amount budgeted for the full year 2010 was UAH 776.9 million. In general, pursuant to official estimates, the economic losses of Ukraine associated with this incident alone will amount to U.S.$130 billion.

Although Ukraine has established a legal framework for environmental protection that is generally consistent with standards accepted by EU member states and set forth in various international treaties, it does not have sufficient resources to fully comply with these standards.

Environmental protection is financed by the State Budget, local budgets, funds of enterprises and organisations, voluntary contributions and other funds. In total, UAH 18.5 billion was spent on environmental protection in 2011, as compared to UAH 13.1 billion in 2010, including expenditure on the operation and maintenance of environmental facilities totalling UAH 12.0 billion (65 per cent.), investments in fixed assets in the amount of UAH 5,607.4 million (30 per cent.) and expenditure on capital repairs in the amount of UAH 843.6 million (5 per cent.). Of these amounts, 10.0 per cent. of capital investments and 3.0 per cent. of current expenditure was financed out of the State Budget and local budgets, while 67.0 per cent. of capital investments and 96.0 per cent. of current expenditure was financed by private enterprises and organisations.

To fund more effective measures to protect the environment in Ukraine, environmental protection funds have been allocated each year within the State Budget, the budget of the Autonomous Republic of Crimea, oblast budgets, the Kyiv and Sevastopol city budgets and local (village, township and city) budgets for the purpose of remedying environmental pollution and damage caused by violations of environmental protection legislation as a result of economic or other activities. In 2007 and 2008, receipts to these funds were UAH 1,107.4 million and UAH 1,182.0 million, respectively, including receipts to the State Fund for Environmental Protection in the amount of UAH 719.8 million and UAH 768.3 million, respectively. In 2009 and 2010, receipts to these funds were UAH 1,150.4 million and UAH 1,374.2 million, of which receipts to the State Fund for Environmental Protection amounted to UAH 345.1 million and UAH 412.2 million, respectively. The Ministry of Environmental Protection intends to streamline the organisation of these funds and to utilise resources from other sources (including grants and loans from foreign sources). To increase financial resources for the implementation of environmental protection measures, Ukraine is reviewing alternative sources of funding, including introducing market oriented instruments (for example, reduction of prices for loans from commercial banks for remedial environmental actions through reimbursement of interest paid) and reforming the system of environmental protection funds.

Ukraine enacted the law "On Environmental Protection" in 1991 and, thereafter, promulgated a number of regulations and guidelines with respect to environmental matters. Furthermore, as at 1 June 2010, Ukraine is a party to 22 international conventions, 15 protocols, and 152 bilateral agreements regarding the environment.

On 4 February 2004, Ukraine ratified the Kyoto Protocol to the UN Framework Convention on Climate Change. The aggregate assigned amount units ("**AAUs**"), available for sale by Ukraine for the period of effectiveness of the Kyoto undertakings amount to 4,604,184,663 tonnes of carbon dioxide equivalent, of which the required reserve is 1,852,385,130 tonnes of carbon dioxide equivalent. In April 2007, the Government established a new central executive authority, the National Ecological Investments Agency. The principal tasks of this Agency include implementation of the mechanisms of the UN Framework Convention on Climate Change and the Kyoto Protocol, including the implementation of environmental protection

projects. In accordance with a decree of the President, the National Ecological Investments Agency was restructured, becoming the State Ecological Investments Agency.

In 2009 and 2010, Ukraine sold AAUs to Japan and Spain pursuant to international agreements. The State Budget received €470 million from these sales, which was allocated to "green investment" schemes. As at the date of this Prospectus, 465 "green projects" have been agreed with Japan and approved by the State Ecological Investments Agency and submitted for approval to the Ministry of Environmental Protection. Agreements on trade in AAUs have been signed with Japan, Spain, the Netherlands, Denmark, Canada, France, Italy, USA and Portugal. In 2011, Ukraine sold AAUs amounting to the equivalent of 48,332,099 tonnes of carbon dioxide and emission reduction units ("**ERUs**") amounting to the equivalent of 20,530,277 tonnes of carbon dioxide. As at 30 April 2012, Ukraine and Ukrainian enterprises sold AAUs amounting to an equivalent of 96.51 million tonnes of carbon dioxide under "green investment" schemes and "early credits" under joint implementation projects, as well as 69.03 ERUs under joint implementation projects.

It has been reported that in December 2010, criminal charges were filed by the Prosecutor General's Office of Ukraine against Yuliya Tymoshenko for allegedly misusing €380 million of State funds while in office by illegally diverting revenues received in 2009 from Ukraine's carbon emission rights under the Kyoto Protocol. See "*Description of Ukraine—Political Developments since the 2010 Presidential Election*".

In 2011, Ukraine continued to finance a number of measures implementing the Kyoto Protocol, as well as initiating several new projects, including the development of a strategy for adapting to climate change. Following the Kyoto Protocol negotiations which took place from 26 November 2011 to 11 December 2011 in Durban (South Africa), Ukraine was added to the group of countries participating in the second stage of the Kyoto Protocol from 2013 to 2017.

On 25 August 2011, the Enforcement Branch of the Compliance Committee of the Kyoto Protocol (the "**Enforcement Branch**"), in accordance with the procedures and mechanisms relating to compliance under the Kyoto Protocol, adopted a preliminary finding regarding Ukraine's compliance with the Kyoto Protocol on the basis of the annual submission of Ukraine for 2010 (the "**2010 ARR**") received by the Compliance Committee in June 2011. The Enforcement Branch noted a lack of action by Ukraine on specific recommendations that earlier expert review teams had repeatedly made, in particular with respect to the energy, industrial processes, land use, land-use changes and forestry sectors. As a result, from 12 October 2011 to 9 March 2012, the Compliance Committee of the Kyoto Protocol temporarily suspended Ukraine's eligibility to participate in the Kyoto Protocol Mechanisms, such as emissions trading of greenhouse gases. Ukraine remained able to participate in joint implementation projects under the international procedure and continued projects within the funds already obtained from the sale of greenhouse gases quotas.

The Law of Ukraine "On Environmental Audit" which was enacted in 2004, provided a framework for environmental auditors to audit businesses and to provide their suggestions with regard to the elimination of breaches of environmental legislation and taking relevant remedial environmental measures. The Law "On Environmental Audit" provides for both voluntary and mandatory audits. Mandatory environmental audits must be performed in such cases, among others, as bankruptcy or privatisation of State-owned companies, establishment of joint ventures on the basis of State-owned assets and long term leases of State-owned assets. In 2007, Regulations on Maintaining the Register of Environmental Auditors and Legal Entities Authorised to Perform Environmental Audit, as well as Regulations on Certification of Environmental Auditors, approved by the order of the Ministry of Environmental Protection of Ukraine, were enacted to implement the environmental audit system. In addition, the Ministry of Environmental Protection created a special Scientific Expert Group and Commission for Environmental Auditors Certification, which is tasked with review and analysis of draft regulatory acts developed further to the Law of Ukraine "On Environmental Audit", as well as holding qualification exams and issuing environmental auditor certificates. Currently, 102 environmental auditors are certified in Ukraine and 55 legal entities are entered in the register of legal entities authorised to carry out environmental audits.

In October 2007, the Government approved the Concept of National Environmental Policy of Ukraine through 2020 (the "**Concept**"). Among the goals of this Concept is tightening environmental liability for users and polluters of natural resources, as well as rationalising the use of natural resources. One of the underlying principles of the Concept is that prevention of damage to the environment should be a priority

task and that comprehensive environmental implications should be taken into account while making any governmental decisions. The Concept also provides for the implementation of an efficient system of public information on environmental protection and sustainable development issues.

On 21 December 2010, the Parliament of Ukraine adopted the Law "On Main Guidelines (Strategy) of the State Ecology Policy until 2020". The law is aimed at improving the State's management of the environmental protection sector, creating a more healthy environment and introducing energy-saving and resource saving technologies. For the purposes of the implementation of this strategy, the EU is to provide €35 million of budget support and €15 million of international technical assistance. The National Plan of Measures for Environmental Protection in Ukraine for 2011 to 2015, which provides for specific measures to be taken to stabilise and improve the environmental situation, was approved by the Cabinet of Ministers on 25 May 2011. The amount of financing to be provided under the National Plan is estimated at UAH 4,412.3 million, comprising UAH 2,545.3 from the State Budget and UAH 409.5 million from the EU budget support mechanism.

State control is exercised over management and protection of land, environmental and radiation safety, protection and management of territories and objects of natural reserve funds, management and disposal of waste products (other than radioactive waste products), hazardous chemical substances, pesticides and agrochemicals, the management, protection and use of the ecological network, as well as over compliance with environmental security standards. In addition, the State exercises geological and geodesic monitoring and control. However, the damages payable for the breach of environmental legislation tend to be low, which reduces their deterrent value and is inadequate compared to the sums required to remedy the consequences of the breach of environmental legislation. Beginning on 1 January 2007, damages paid for breaches of environmental legislation (environment tax) are to be automatically indexed to the CPI for the preceding year. As a result of indexing to the CPI, these damages are expected to increase in line with the inflation rate.

THE LABOUR MARKET

Wages

The average monthly wage of the workforce in the Ukrainian labour market has steadily increased over the last five years. For example, between 2005 and 2010, the average monthly nominal wage increased by approximately 178 per cent. In 2008, the average monthly nominal wage increased by 33.7 per cent. compared to the level in 2007 to UAH 1,806.3 and in 2009, the average monthly nominal wage was UAH 1,905.9, an increase of 5.5 per cent. compared to the level in 2008. In 2010, the average monthly nominal wage was UAH 2,239.0, an increase of 20.0 per cent. compared to 2009. The average monthly real wage increased by 10.2 per cent. in 2010 as compared to 2009. In 2011, the average monthly nominal wage was UAH 2,633.0, an increase of 17.6 per cent. compared to 2010. The average monthly real wage increased in 2011 by 8.7 per cent. as compared to 2010. In the first quarter of 2012, the average monthly nominal wage was UAH 2,813.0, an increase of 17.7 per cent. (or 14.7 per cent. taking into account inflation) as compared to the corresponding period in 2011.

The minimum wage in Ukraine is determined by Parliament on the basis of the Government's recommendation. The Government bases its recommendation on a number of factors, including the forecasts of key macroeconomic indices for the relevant period (for example, inflation) as well as the then-current average wage and employment level and the provisions of collective contracts negotiated with workers. The 2010 State Budget Law provided for an increase of the minimum monthly wage to UAH 869, UAH 884, UAH 888, UAH 907 and UAH 922 from 1 January, 1 April, 1 July, 1 October and 1 December 2010, respectively. In addition, the 2010 State Budget Law provided for a minimum hourly wage in the amount of UAH 5.20, UAH 5.29, UAH 5.32, UAH 5.43 and UAH 5.52 from 1 January, 1 April, 1 July, 1 October and 1 December 2010, respectively. The 2011 State Budget Law provided for increases of the minimum monthly wage to UAH 941, UAH 960, UAH 985 and UAH 1,004 (and for a minimum hourly wage in the amount of UAH 5.66, UAH 5.77, UAH 5.92 and UAH 6.04) at the same intervals during 2011.

The 2012 State Budget Law provides for a minimum monthly salary of: UAH 1,073 from 1 January; UAH 1,094 from 1 April; UAH 1,102 from 1 July; UAH 1,118 from 1 October; and UAH 1,134 from 1 December. The minimum hourly wage is set at: UAH 6.43 from 1 January; UAH 6.56 from 1 April; UAH 6.61 from 1 July; UAH 6.70 from 1 October; and UAH 6.80 from 1 December.

Steady increases in wages have improved household income in recent years. In particular, in 2008, available household income increased by 37.4 per cent., nominal household income increased by 37.2 per cent. and real available household income (adjusted for CPI inflation) increased by 9.6 per cent., each as compared to 2007. In 2009, as a result of the economic downturn, available household income increased by only 6.2 per cent. and nominal household income increased by 6.0 per cent., while real available household income (adjusted for CPI inflation) decreased by 8.5 per cent., each as compared to 2008. In 2010, available household income increased by 27.1 per cent., nominal household income increased by 23.1 per cent. and real available household income increased by 16.2 per cent., each as compared to 2009.

For the two months ended 29 February 2012 the nominal income of the population increased by 19.1 per cent. as compared to the corresponding period in 2011, available income of the population increased by 14.5 per cent. and real available income of the population increased by 6.1 per cent. In 2011 available income per capita amounted to UAH 21,249.5 an increase of 15.0 per cent. as compared to 2010.

Wage Arrears

After several years of reducing wage arrears to employees of all enterprises, institutions and organisations (both operating and bankrupt) ("**total wage arrears**"), this downward trend was reversed and during 2008, total wage arrears increased by UAH 520.0 million, or 77.8 per cent., amounting to UAH 1,188.7 million as at 31 December 2008. During 2009, total wage arrears further increased by UAH 284.7 million, or 23.9 per cent., and as at 31 December 2009 total wage arrears amounted to UAH 1,473.3 million. In 2010 wage arrears declined and as at 31 December 2010 total wage arrears amounted to UAH 1,218.1 million. This decline in wage arrears has continued in 2011 and as at 31 December 2011, total wage arrears amounted to

UAH 977.4 million, a decrease of UAH 240.7 million or 19.8 per cent. compared to the total wage arrears recorded at 31 December 2010. As at 31 December 2011, UAH 436.1 million (44.6 per cent. of total wage arrears) related to operating enterprises, UAH 492.3 million (50.4 per cent. of total wage arrears), related to enterprises subject to bankruptcy or readjustment proceedings and UAH 49.0 million (5.0 per cent. of total wage arrears) related to non-operating enterprises. As at 31 March 2012, total wage arrears amounted to UAH 1,038.3 million, an increase of UAH 60.9 million or 6.2 per cent. as compared to total wage arrears as at 31 December 2011. As at 31 March 2012, of total wage arrears, UAH 485.2 million (or 46.7 per cent.) were arrears related to operating enterprises, UAH 487.6 million (or 47.0 per cent.) were arrears related to enterprises subject to bankruptcy or readjustment proceedings and UAH 65.5 million (or 6.3 per cent.) were arrears related to non-operating enterprises. Wage arrears began to accumulate again due to the global economic downturn, the inefficiency of State property management and inefficient implementation of restructuring, readjustment and bankruptcy procedures.

As at 31 December 2011, wage arrears of operating enterprises in the public sector (i.e., both arrears due from State and local budgets and those due from State-owned and municipal enterprises) were UAH 184.4 million. Of public sector wage arrears as at 31 December 2011, wage arrears of State-owned operating enterprises were UAH 138.4 million (an increase of UAH 22.2 million, or 13.8 per cent., as compared to 31 December 2010), wage arrears of municipal enterprises were UAH 46.1 million (a decrease of UAH 32.8 million, or 41.5 per cent., as compared to 31 December 2010). Wage arrears of operating enterprises payable out of the State Budget were UAH 2.2 million (an increase of UAH 1.0 million, or 83.3 per cent., as compared to 31 December 2010), wage arrears of operating enterprises payable out of the local budgets were UAH0.062 million (a decrease of UAH 0.057 million) and wage arrears of operating enterprises in the private sector were UAH 251.6 million (a decrease of UAH 155.4 million, or 38.2 per cent., as compared to 31 December 2010.

As at 31 March 2012, wage arrears of operating enterprises in the public sector were UAH 223.1 million. Of public sector wage arrears as at 31 March 2012, wage arrears of State-owned operating enterprises were UAH 173.2 million (an increase of UAH 34.8 million, or 25.2 per cent., as compared to 31 December 2011), wage arrears of municipal enterprises were UAH 49.9 million (an increase of UAH 3.8 million, or 8.3 per cent., as compared to 31 December 2011). As at 31 March 2012, wage arrears of operating enterprises payable out of the State Budget were UAH 2.6 million (an increase of UAH 0.4 million or 18.2 per cent. as compared to 31 December 2011), wage arrears of operating enterprises payable out of the local budgets were UAH 0.868 million (an increase of UAH 0.806 million or 92.8 per cent., as compared to 31 December 2011) and wage arrears of operating enterprises in the private sector were UAH 262.1 million (an increase of UAH 10.5 million, or 4.2 per cent., as compared to 31 December 2011). Failure to pay full salaries and benefits on a regular basis and the failure of salaries and benefits to keep up with inflation have led in the past, and could lead in the future, to labour and social unrest. In addition, companies unable to pay their wage arrears may be subject to sanctions or liquidation.

Unemployment

The State Statistics Service calculates unemployment monthly on the basis of all persons between the ages of 15 and 70, using the International Labour Organisation's (the "**ILO**") internationally accepted methodology of household surveys.

The table below shows certain annualised employment data for each of the periods indicated:

	Year ended 31 December			
	2008	**2009**	**2010**	**2011**
Economically active population, millions	22.4	22.2	22.1	22.1
Employed, millions	21.0	20.2	20.3	20.3
Unemployed, millions	1.43	1.96	1.79	1.7
Unemployment rate[1]	6.4	8.8	8.1	7.9

Notes:

(1) Calculated in accordance with ILO methodology

Source: Ministry of Labour and Social Policy and State Statistics Service

According to surveys of household economic activity under ILO methodology, average unemployment in Ukraine was 6.4 per cent. in 2007, 6.4 per cent. in 2008, 8.8 per cent. in 2009, 8.1 per cent. in 2010 and 7.9 per cent. in 2011.

In 2007, the employed population in Ukraine was 20.9 million persons and, during 2008, it increased by 0.3 per cent. to 21.0 million persons as compared to 2007. In 2009, the employed population in Ukraine decreased by 3.7 per cent. to 20.2 million persons, but rebounded slightly to 20.3 million in 2010. In 2011, the employed population in Ukraine was 20.3 million persons. The Government expects that in 2012 the employed population in Ukraine will be between 20.5 and 20.7 million persons. For 2007 there was a decrease in the unemployed population to 1.42 million persons, which was followed by increases to 1.43 million in 2008 and 1.96 million persons in 2009. In 2010 the number of unemployed persons decreased to 1.79 million persons, which was again followed by a decrease to 1.70 million persons in 2011.

In 2009, the average unemployment rate, under the ILO methodology, was 8.8 per cent. overall, with 7.2 per cent. in rural areas and 9.6 per cent. in urban areas. In 2010, the average unemployment rate, under ILO methodology, was 8.1 per cent. overall, with 7.1 per cent. in rural areas and 8.6 per cent. in urban areas. The Government expects that the average unemployment rate in Ukraine will be between 7.2 and 7.9 per cent. in 2012. In 2011, the average unemployment rate under ILO methodology was 7.9 per cent. overall, with 7.5 per cent. in rural areas and 8.0 per cent. in urban areas.

From 2008 measures to limit the deterioration of the labour market were a priority policy, including measures to create new jobs and improve the services offered by the National Employment Service. In September 2010, the Government approved the Principles of the State Employment Policy for 2010-2011. The policy focuses on measures including mitigation of the adverse impact of the global financial and economic downturn on the Ukrainian labour market; promotion of new job creation at the level of not less than 650,000 new jobs in each of 2010 and 2011; promotion of individual entrepreneurship and self employment, in particular, for young persons and disabled; and de-shadowing and regulation of labour migration. The principal objective of the State Employment Policy for 2012-2014 is to further reduce unemployment, with its details currently in the process of being finalised.

The global economic downturn has also affected the Ukrainian labour market for part time employment and involuntary unpaid leave, which became more widespread. From October 2008, the number of persons employed part time or on involuntary unpaid leave increased significantly, especially in such sectors as the metallurgical industry, construction and the chemical industry as well as hotels, restaurants, trade and repair services. Subsequently labour market conditions improved and part time employment and involuntary unpaid leave decreased. As at 31 December 2011, the number of persons employed part time and on involuntary unpaid leave was 345,200 (a decrease of 153,400 persons compared to 31 December 2010) and 32,400 persons (a decrease of 22,680 persons compared to 31 December 2010), respectively.

Pensions, Unemployment Benefits and Social Benefits

The Ukrainian social insurance system consists of pensions, unemployment benefits and other social benefits, including those related to temporary incapacity, work related injury and subsequent inability to make payments, illness and pregnancy, childbirth and child care benefits and funeral payment assistance.

As a part of Ukraine's ongoing transition, the Government is currently working with the World Bank and the IMF in connection with the restructuring of the social insurance system. The restructuring includes the introduction of a new system of collecting and accounting for a single social contribution under a mandatory State social insurance scheme as well as the further development of the Ukrainian pension system.

The 2010-2014 Economic Reform Programme provides for the implementation of the following main measures to reform the Ukrainian labour market and social insurance system:

- by the end of 2010, Ukraine was to have made preparations for the introduction of a defined contribution system of State pension insurance. Ukraine had made such preparations by the end of 2010 and a single social contribution was introduced from 1 January 2011.

- by the end of 2012, Ukraine is to have cancelled certain benefits for early retirees, developed the institutional framework for the operation of a defined contribution system for State pension insurance, and introduced mandatory corporate pension schemes for funding certain types of pensions; and
- by the end of 2014, Ukraine is to continue diversification of non State pension insurance schemes, implementation of joint investment programmes and monitoring and audit of social support programmes.

Ukraine has established a Uniform State Automated Register of Persons Entitled to Benefits. This Register records information on military and labour service veterans, certain categories of pensioners, persons harmed by the Chernobyl disaster and other categories of individuals entitled to benefits. Social security authorities use the Register to verify information received from entities that render services to entitled persons and to make payments for such services. As at 30 April 2012, this Register contained information on approximately 13.2 million persons.

On 8 July 2011, Parliament passed the Law of Ukraine "On Measures to Ensure the Legislative Reform of the Pension System" which became effective on 1 October 2011. Under this law the maximum pension is capped at a multiple of 10 times the subsistence level, the maximum pension for disabled persons was set and provisions were made for the gradual levelling of the retirement age for men and women.

In 2007, social insurance and pension expenditure amounted to UAH 113.5 billion, or 15.9 per cent. of GDP, with pension expenditure amounting to UAH 98.6 billion, and in 2008, social insurance and pension expenditure amounted to UAH 165.9 billion, or 17.5 per cent. of GDP, of which pension expenditure amounted to UAH 150.3 billion. In 2009, social insurance and pension expenditure amounted to UAH 183.4 billion, or 20.0 per cent. of GDP, of which pension expenditure amounted to UAH 165.7 billion. In 2010, social insurance and pension expenditure amounted to UAH 210.7 billion, including pension expenditure of UAH 192.3 billion. According to preliminary data, in 2011 social insurance and pension expenditure amounted to UAH 231.5 billion, including pension expenditure of UAH 209.0 billion. It is expected that in 2012 social insurance and pension expenditure will amount to UAH 245.4 billion, UAH 228.8 billion of which will be pension expenditure.

Pensions and Pension Reform

The average pension, for all categories of pensioners, was UAH 934.32, UAH 1,032.64, UAH 1,151.93 and UAH 1,246.34 per month as at 1 January 2009, 2010, 2011 and 2012, respectively. As at 30 April 2012, the average pension, for all categories of pensioners, was UAH 1,399.21 per month. The minimum retirement pension was increased in several stages from UAH 695.0 as at 1 January 2010 to UAH 800.0 as at 1 December 2011. The 2012 State Budget Law provided for increases of the minimum retirement pension to UAH 822, UAH 838, UAH 844, UAH 856 and UAH 884 per month from 1 January, 1 April, 1 July, 1 October and 1 December 2012, respectively. The pension payment increases from 2008 to 2012 were attributable to an increase in the subsistence level, which is the basis for calculating the minimum pension.

Pension Fund deficits were UAH 13.7 billion, UAH 26.6 billion and UAH 17.8 billion in 2009, 2010 and 2011, respectively, and the 2012 budget forecasts a deficit of UAH 15.3 billion. See "*Public Finance and Fiscal Policies—Pensions*".

The Government expects that large numbers of persons born in the years of population increase following World War II will be retiring in coming years. In order to mitigate the effects of a substantial increase of pension expenditure on the State Budget, the Government intends to change the pay as you earn system of mandatory State pension insurance and to introduce a defined contribution system of State pension insurance. Priority goals in developing the pension system also include the development of non State pension provisions. Despite success in the development of non State pension provisions, a defined contribution system has not yet been implemented. Ukraine's progress in implementing pension reform was discussed with the May 2012 IMF mission, which reacted positively to recent developments in this area.

On 1 January 2004, the Laws of Ukraine "On Mandatory State Pension Insurance" and "On Non-State Pension Provision" came into force providing for the creation of a three-tier system of pension insurance in

Ukraine. The first level is a pay as you earn system of mandatory State pension insurance; the second level is a defined contribution system of State pension insurance; and the third level is non-State pension provisions.

The pay as you earn system of mandatory State pension insurance provides that pensions paid out of the Pension Fund to current retirees are funded by contributions of current employers and employees. Therefore, the viability of such a system depends largely on demographic factors, especially on the ratio of the employed population to the total population of the country. In 2011, the pay as you earn system is funded by employer contributions set at the level varying from 36.8 to 49.7 per cent. of an employee's salary depending on the occupational professional risk rate, with exceptions for certain categories of employees (disabled employees, aviation crew and others), and by a special 3.2 per cent. tax paid by the employee, with exceptions for certain categories of employees (public officials and others). The defined contribution system envisages the creation of a special pension fund composed of individual pension accounts to which employees will transfer up to 7 per cent. of their salaries. 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.

On 9 September 2011, the Law of Ukraine "On Measures to Ensure the Legislative Reform of the Pension System" was signed by the President and took effect on 1 October 2011. This law, among other things, provides that the maximum rate of pensions is equal to 10 times the subsistence level, and extends the length of service required to receive a pension, with incentives for retiring later, gradually levelling the retirement age for men and women.

As at 30 April 2012, the National (formerly State) Commission on the Regulation of Financial Services Markets had information on 97 non-State pension funds. As at 31 December 2009 and 31 December 2010, non-State pension funds held total assets of UAH 857.9 million and UAH 1,144.3 million, respectively, and had approximately 497,000 and 569,000 individual participants, respectively. As at 31 December 2011, non-State pension funds held total assets of UAH 1,387.0 million, an increase of 21.2 per cent. as compared to UAH 1,144.3 million as at 31 December 2010. As at 31 December 2011 private pension funds had approximately 595,000 individual participants, an increase of 26,000 participants, or 4.4 per cent., as compared to 31 December 2010.

Unemployment Benefits

Mandatory unemployment insurance was introduced in Ukraine on 1 January 2001. In 2010 it 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. Independent agricultural workers, as well as Ukrainians working abroad, 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 per month 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 per month. During the second half of 2010 the unemployment benefit was increased in several stages: the minimum unemployment benefit for uninsured unemployed persons and for insured long term unemployed persons was gradually increased to UAH 500 per month from 1 December 2010 and the minimum unemployment benefit for insured unemployed persons was gradually increased to UAH 700 per month from 1 December 2010.

With effect from 1 January 2011, the minimum unemployment benefit for uninsured unemployed persons and for insured long term unemployed persons was UAH 510 per month and the minimum unemployment benefit for insured unemployed persons was UAH 714 per month. These were increased to UAH 520 per month and UAH 729 per month, respectively, with effect from 1 April 2011. The minimum unemployment benefit for uninsured persons and for long-term unemployed persons was increased to UAH 534 and for insured persons to UAH 748 from 1 October 2011.

From 1 January 2012, the minimum unemployment benefit was increased to UAH 544 per month for uninsured unemployed persons and for insured long-term unemployed persons to UAH 841 and UAH 847 per month for insured persons, from 1 April 2012 and 1 July 2012, respectively.

In December 2011 and April 2012, respectively, the amount of unemployment benefit was, on average for each unemployed person, UAH 879 per month and UAH 946 per month, an increase of 13.0 per cent. and 16.0 per cent. as compared to December 2010 and April 2011.

In accordance with Ukrainian employment insurance 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; however, unemployment benefits are limited to 360 calendar days in a two year period. The amount of unemployment benefit is capped at the level of the average monthly salary in the relevant region for the previous month.

The major categories of social services rendered to the unemployed include professional training and assistance in finding employment, including through subsidies to employers for creation of additional jobs in new workplaces and organisation of public works, as well as information 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 work related injury or illness, as well as pregnancy, childbirth and child care benefits. Furthermore, social benefits include subsidies to low income families, cash subsidies for the purchase of fuel and gas, subsidies for the payment of housing and communal services, as well as assistance for health improvement (rehabilitation) and funeral costs.

In 2010, the average monthly insurance payment to employees injured at work as a result of accidents and professional illnesses was UAH 864.6, an increase of 10.6 per cent. as compared to 2009. Since 1 March 2009, 2010, 2011 and 2012, monthly insurance payments to employees injured at work as a result of accidents and professional illnesses increased by 6.3 per cent., 1.0 per cent., 1.1 per cent. and 17.6 per cent., respectively.

Since 2007, childbirth benefits and child care benefits have been 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 third and each additional child. Until 9 April 2011, childbirth benefit for children born after 31 December 2010 amounted to 22 times the monthly subsistence level for a child up to six years old, for the first child (UAH

17,952 as at 1 January 2011), to 45 times the monthly subsistence level for a child up to six years old for a second child (UAH 36,720 as at 1 January 2011), and to 90 times the monthly subsistence level for a child up to six years old for third and each additional child (UAH 73,440 as at 1 January 2011).

With effect from 9 April 2011, Parliament increased the amount of the childbirth benefit for children who were born after 8 April 2011 to 30 times the relevant monthly subsistence level for the first child (meaning that in December 2011 this was increased from UAH 24,960 to UAH 26,100), 60 times the relevant monthly subsistence level for the second child (meaning that in December 2011 this was increased from UAH 49,920 to UAH 52,200), and 120 times the relevant monthly subsistence level for the third and each additional child (meaning that in December 2011 this was increased from UAH 99,840 to UAH 104,400). A portion of these benefits is payable in one instalment at birth in the amount of 10 times the monthly subsistence level, with the remainder payable in instalments over the following periods: 24 months for the first child, 48 months for the second child and 72 months for the third and each additional child thereafter.

In January 2012, the amount of childbirth benefits increased by 10.5 per cent. as compared to December 2011, amounting to UAH 28,830 for the first child, UAH 57,600 for the second child and UAH 115,320 for the third and each additional child.

Childbirth benefits totalled UAH 8,444.8 million and UAH 10,173.2 million in 2009 and 2010, respectively. As at 31 December 2011, the accrued amount of childbirth benefits was UAH 12,650.5 million. The total budgeted amount of childbirth and child adoption benefits in the State Budget for 2011 was UAH 12,841.5 million, and is UAH 13,903.3 million in the State Budget for 2012.

Child care benefits are available until a child is three years old. In 2009, 2010 and 2011, the average amount of monthly child care benefit was UAH 170.9, UAH 306.3 and UAH 377.61, respectively. As at 1 April 2012, the average amount of monthly child care benefit was UAH 419.52. The number of recipients of such benefits has remained steady at approximately 1.3 million as at each of 31 December 2010, 31 December 2011 and 30 April 2012. The aggregate amount of these benefits was approximately UAH 2,506.2 million, UAH 4,645.1 million and UAH 5,751.6 million in 2009, 2010 and 2011, respectively. For the four months ending 30 April 2012, the aggregate amount of these benefits was approximately UAH 1,587.9 million. Certain additional benefits are available to children under guardianship and to single mothers.

In 2009, 2010 and 2011, the average amount of monthly subsidies to low income families was UAH 551.5, UAH 882.2 and UAH 1,129.2 respectively. As at 31 December 2009, 2010 and 2011, as at 31 March 2012, approximately 89.1 thousand, 74.2 thousand, 82.4 thousand and 82.8 thousand families, respectively, were recipients of these subsidies, with approximately UAH 705.4 million, UAH 808.5 million, UAH 1,063.1 million and UAH 339.5 million in benefits given in 2009, 2010 and 2011 and the first quarter of 2012, respectively.

In 2009 and in 2010, the average amount of cash subsidy for the purchase of fuel and gas was UAH 372.3 and UAH 388.9, respectively. In 2011, the average amount of cash subsidy for the purchase of fuel and gas was UAH 536.6. In 2009 and in 2010, 255,400 and 300,300 families, respectively, received these subsidies.

In 2009 and in 2010, the average amounts of subsidy for the payment of housing and communal services were UAH 95.0 and UAH 100.5, respectively. In 2011, the average amount of subsidy for the payment of housing and communal services was UAH 132.2. As at 31 March 2012, approximately 1,324,886 families, respectively, received these subsidies.

As at 31 March 2012, there were no social benefit arrears for subsidies to families with children and low income subsidies.

EXTERNAL SECTOR

Balance of Payments

In 2009, reductions in external demand and world market prices due to the global financial downturn resulted in a significant decrease in revenues of 36.6 per cent. from the export of goods and services. At the same time, a reduction in domestic demand and lack of external financing, as well as a significant devaluation of the hryvnia in late 2008, resulted in a 43.8 per cent. decline in imports. Consequently, in 2009, the current account deficit decreased significantly 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 2009, the capital and financial account deficit amounted to U.S.$12.0 billion, compared to a financial account surplus of U.S.$9.7 billion in 2008. The financial account deficit in 2009 was largely due to low global liquidity, the instability of global and domestic capital markets and the significant volumes of debt that had been accumulated by the private sector in previous years which was maturing in 2009. Specifically, the financial account balance was affected by the net repayment in 2009 of U.S.$9.1 billion of external debt accumulated by the private and public sectors before the global financial downturn. Furthermore, a significant decrease in inflows of foreign direct investments took place in 2009.

In 2010, the current account deficit increased to U.S.$3.0 billion, or 2.2 per cent. of GDP, compared to U.S.$1.7 billion, or 1.5 per cent. of GDP, in 2009. The current account deficit in 2010 was largely due to the increase of the trade deficit in goods, especially during the second half of 2010, as a result of increasing internal demand and higher energy prices, leading to a 35.4 per cent. increase in goods imports, compared to a 29.0 per cent. increase in goods exports in 2010.

In 2010, Ukraine had a capital and financial account surplus of U.S.$8.0 billion (compared to a U.S.$12.0 billion deficit in 2009). This surplus was attributable to high levels of foreign direct investment (U.S.$5.8 billion), public sector borrowing (U.S.$5.1 billion) and real sector borrowing (U.S.$3.4 billion).

In 2011, the current account deficit was U.S.$9.0 billion (or approximately 5.5 per cent. of GDP). This was mainly caused by increased internal demand, leading to a 37.5 per cent. increase in goods imports, compared to a 33.1 per cent. increase in goods exports in 2011. In 2011, the goods trade deficit was U.S.$13.8 billion, compared to U.S.$8.4 billion in 2010. The three key factors influencing trade in goods were increased imports of energy resources, the implementation of investment projects concerning preparation for the Euro 2012 Championship, and a revival in domestic production. The surplus of trade in services decreased in 2011 to U.S.$4.6 billion, compared to U.S.$4.4 billion in 2010.

In 2011, Ukraine had a capital and financial account surplus of U.S.$6.6 billion (forecast to be U.S.$6.3 billion), compared to a U.S.$8.0 billion surplus in 2010. This surplus was due to high volumes of foreign direct investment (U.S.$7.0 billion), most of which was directed at the real sector of the economy (U.S.$5.1 billion) and an increase of external loans to the real sector of the economy of U.S.$5.2 billion (compared to U.S.$3.4 billion in 2010).

In 2011, the overall balance of payments was a deficit of U.S.$2.5 billion (as compared to a surplus of U.S.$5.0 billion in 2010) due to increases in the current account deficit compared with the moderate decrease of capital inflows to the financial account.

In the first quarter of 2012, NBU data shows the current account deficit was U.S.$1.2 billion (or approximately 3.4 per cent. of GDP) and the rate of increase in goods imports slowing by 5.2 per cent. In the first quarter of 2012, the goods trade deficit was U.S.$2.7 billion, compared to U.S.$3.1 billion in the first quarter of 2011. This resulted from a decrease in natural gas imports of 23.6 per cent. Regarding services, the trade surplus amounted to U.S.$1.0 billion, the same as in the first quarter of 2011.

In the first quarter of 2012, Ukraine had a capital and financial account surplus of U.S.$640.0 million, compared to a U.S.$2.5 billion surplus in the first quarter of 2011. This surplus was due to high volumes of foreign direct investment (U.S.$1.4 billion in the first quarter of 2011, compared to U.S.$880.0 million in the first quarter of 2012), most of which was directed at the real sector of the economy, an increase of

external loans to the real sector of the economy of U.S.$200.0 million (compared to U.S.$33.0 million in the first quarter of 2011) and a decrease of cash held outside banks to U.S.$2.0 billion (compared to U.S.$2.4 billion in the first quarter of 2011).

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

	Year ended 31 December				Three months ended 31 March	
	2008	2009	2010	2011	2011	2012[1]
	(in U.S.$ millions)					
Current account	(12,763)	(1,732)	(3,018)	(9,006)	(1,340)	(1,209)
Goods and services (balance)	(14,350)	(1,953)	(3,984)	(8,918)	(2,077)	(1,748)
Export of goods and services	85,612	54,253	69,255	88,844	19,704	20,474
Import of goods and services	(99,962)	(56,206)	(73,239)	(97,762)	(21,781)	(22,222)
Goods (balance)	(16,091)	(4,307)	(8,388)	(13,805)	(3,084)	(2,749)
Services (balance)	1,741	2,345	4,404	4,887	1,007	1,001
Income (balance)	(1,540)	(2,440)	(2,009)	(3,796)	(302)	(145)
Current transfers (balance)	3,127	2,661	2,975	3,708	1,039	684
Capital and financial account	9,700	(11,994)	8,049	6,551	2,453	640
Capital account	5	595	187	98	(13)	39
Direct investment (balance)	9,903	4,654	5,759	7,015	880	1,446
Portfolio investment (stock capital)	398	(99)	294	511	149	–
Loans and bonds	12,412	(9,137)	6,762	2,598	33	200
Medium and long term loans	13,443	(4,663)	3,930	709	138	(546)
Short term loans	(1,031)	(4,474)	2,832	1,889	(105)	746
Other capital	(13,018)	(8,205)	(4,953)	(3,671)	1,404	(1,045)
including foreign currency cash outside banks	(12,897)	(9,713)	(5,600)	(12,052)	(2,358)	(2,033)
Overall balance	(3,063)	(13,726)	5,031	(2,455)	1,113	(569)
Financing	3,063	13,726	(5,031)	2,455	(1,113)	569
Reserves assets[1]	(1,080)	5,654	(8,460)	2,455	(1,113)	1,148
Loans from IMF (net)	4,143	1,228	1,401	–	–	(579)
IMF loan to Ukraine	–	4,798	2,028	–	–	–
SDR	–	2,046	–	–	–	–

Notes:

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

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 2010, Ukrainian exports of goods and services increased from 24.0 per cent. to 50.7 per cent. of GDP, and imports increased from 22.0 per cent. to 53.7 per cent. of GDP. The increasing proportion of exports and imports between 1992 and 2010 as a percentage of GDP reflects, among other factors, the gradual integration of Ukraine into the world economy.

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 expenditure 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. 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 46.4 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 48.0 per cent. of GDP), a decrease of 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 from 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 (of 53.6 per cent.), chemical industry products (of 48.6 per cent.) and mineral products (of 44.6 per cent.). In 2009, the aggregate volume of imported goods amounted to U.S.$45.4 billion, a decrease of 46.9 per cent. as compared to 2008. A sharp decline in imports was recorded in the first quarter of 2009. From the second quarter of 2009, imports increased by an average of 14.3 per cent. per quarter due to the gradual recovery in the Ukrainian economy and a relative stabilisation in 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 the values of volumes of oil and oil refinery products. Imports of chemical and agricultural products decreased by 30.0 per cent. and 23.6 per cent., respectively.

During 2010, volumes of exported goods and services amounted to U.S.$69.3 billion, an increase of 27.7 per cent. (or U.S.$15.0 billion) compared to 2009. In particular, the export of goods increased to U.S.$52.2 billion due to an increase in export volumes and export prices due to the gradual recovery of the global economy. Increases in the value of exports of ferrous metals by 42.7 per cent., and machinery by 33.3 per cent. were the main contributors to the growth in the volume of total goods exports in 2010.

Furthermore, during 2010, volumes of imported goods and services amounted to U.S.$73.2 billion, an increase of 30.3 per cent. (or 17.0 billion) as compared to 2009. In particular the import of goods increased to U.S.$60.6 billion as a result of the gradual recovery in the Ukrainian economy and further increases in prices for imported natural gas and oil. During 2010, the value of imports of mineral products, chemical

industry products and machinery increased by 79.7 per cent., 32.8 per cent., and 33.3 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.$4.4 billion (as compared to U.S.$2.4 billion in 2009) largely due to an increase in natural gas transit charges. In 2011, the trade deficit increased to U.S.$13.8 billion, compared to U.S.$8.4 billion in 2010, as a result of increased demand for raw materials and manufactured goods for use in Ukrainian investment projects and the increase in natural gas supplies. The volumes of exports and imports in 2011 were determined by the recovery in world trade, significant volumes of investment, in particular in preparation for the Euro 2012 Championship, as well as natural gas imports. In 2011, volumes of exported goods and services amounted to U.S.$88.8 billion, an increase of U.S.$19.5 billion (or 28.1 per cent.) compared to 2010. The export of goods amounted to U.S.$69.5 billion, an increase of 33 per cent. as compared to 2010, due to an increase in export volumes attributable principally to increased demand from Ukraine's trading partners (for example, exports of engineering products increased by 29.5 per cent.), an increase in export prices which led to growth in the value of exports of ferrous metals, chemicals and mineral products by 27.6 per cent., 50 per cent. and 53.6 per cent., respectively, and favourable conditions in some food markets (for example, the export of sunflower oil increased by 29.8 per cent.) and a record breaking grain crop (exports of grain increased by 46.9 per cent.).

In the first quarter of 2012, volumes of exported goods and services increased by U.S.$770 million (3.9 per cent.) and amounted to U.S.$20.4 billion. Exports of goods amounted to U.S.$16.4 billion, an increase of 5.2 per cent. as compared to 2011. Increased exports were due to: supplies of grain (cost volumes increased by a factor of 2.8); exports of machinery (an increase of 10.7 per cent, or U.S.$274 million) mainly due to exports of trains to Russia; and exports of petroleum products (an increase of 21.3 per cent., or U.S.$121 million). However, exports of steel products were 8.5 per cent. lower due to unfavorable external pricing pressures.

In 2011, volumes of imported goods and services amounted to U.S.$98 billion, an increase of U.S.$24.7 billion (or 33.8 per cent.) compared to 2010. Imports of goods increased by 37.5 per cent. as a result of the recovery in domestic demand and an increase in the volume of imported natural gas (*ad valorem* volume increased by a factor of 1.5) and oil refining products, (*ad valorem* volume increased by a factor of 1.8). The growth in machinery imports (57.8 per cent.), including electrical and mechanical machines (by a factor of 1.6), was due to the implementation of investment projects in preparation for the Euro 2012 Championship and the revival of domestic production.

In the first quarter of 2012, imports of goods and services amounted to U.S.$22.2 billion, an increase of U.S.$441 million, or 2.0 per cent., as compared to the corresponding period in 2011. The growth in imports was limited by a significant decrease in natural gas imports. Furthermore, imports of machinery products increased by U.S.$1.0 billion, or by 28.4 per cent as compared to 2011. This increase was due to the ongoing updating of Ukrainian enterprises, including installing energy saving technology.

Trade Agreements

A trade regime open to competition 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 tariffs, 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 between 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 Protocol was ratified 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 of the World Trade Organisation. WTO membership is expected to provide Ukraine's exporters with better access to Western and other international markets. On 1 February 1996, an Interim

Trade Agreement with the EU was signed. The Partnership and Cooperation Agreement, which was signed with the EU in 1994, came into force in 1998 and remains in place to date.

Anti-Dumping Measures

As at 17 May 2012, a number of countries are conducting a total of four anti-dumping investigations and two special investigations concerning Ukrainian products. The investigations relate to hot-rolled metal, caustic ash, welded tubes, hollow sections, accumulator battery and the graphitized electrodes used in steel production. The jurisdictions undertaking investigations are the EU, Kazakhstan, Indonesia, India and Brazil, as well as the Customs Union (established in October 2007 by Russia, Belarus and Kazakhstan).

As at 17 May 2012, as a result of previous investigations, there are 25 anti-dumping restrictions and four special restrictions which are applied worldwide against Ukrainian products (mainly chemical and metallurgical products), including, among others, seven anti-dumping measures imposed by the United States, five anti-dumping measures imposed by the EU, four anti-dumping measures imposed by Mexico, four anti-dumping measures imposed by the Customs Union, two anti-dumping measures imposed by Canada and one anti-dumping measure imposed by each of Thailand, Turkey and Argentina. In addition, as at 17 May 2012, five reviews of previously imposed anti-dumping and special measures are in progress, including reviews by the EU, the United States, the Customs Union and Argentina.

As at 17 May 2012, of the six investigations in progress against Ukrainian products worldwide, one special investigation (relating to graphitized electrodes) is underway in the Customs Union. As at 17 May 2012, the Customs Union continues to apply restrictive measures in relation to exports from Ukraine as a result of four previous antidumping investigations (on small and medium diameter pipes, polyamide technical fibre, forged steel rolls, and mechanical fasteners) and three previous special investigations (non-corrosive pipes, mechanical fasteners and boiled sweets).

As at 17 May 2012, Ukraine is conducting five investigations, including three anti-dumping investigations concerning citric acid (monohydrate) imported from China, slate imported from Belarus and float-process glass imported from Russia, Poland, Turkey, Belarus and Bulgaria, a review of anti-dumping measures concerning railroad switches imported from Russia and a special investigation regarding car imports from all countries. As at 17 May 2012, as a result of previous investigations, Ukraine had in place 17 restrictive measures against imports (15 anti-dumping measures and two special anti-dumping measures).

Tariffs

In recent years, the customs and tariff policy of Ukraine has been pursued in light of Ukraine's accession to the WTO in 2008 and, over the long term, harmonisation of tariffs with those of the EU. As a result of the WTO 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 4.8 per cent.

Parliament has enacted a number of laws providing for improvement of intellectual property protection as goods are transferred over Ukraine's customs borders. There have also been changes in the laws governing foreign economic activities including the creation of a list of goods potentially subject to import and export bans and a list of measures which Ukraine may take in response to discriminatory or otherwise prejudicial actions of other states, economic unions or trade blocs. These laws also provide for the establishment of a tariff quota on imports of raw sugar cane and the reduction of the export duties on live cattle, leather and ferrous, alloy and non-ferrous metal scrap and the semi finished products thereof. The majority of these laws became effective upon Ukraine's accession to the WTO emphasising the link between Ukraine's accession to the WTO and a general reduction of tariff rates. However, to offset any adverse consequences of this reduction, transition periods have been established for certain sensitive products, including fish and alcoholic beverages. The Government anticipates that by 2013 Ukraine will complete the process of bringing its tariff rates in line with the WTO requirements.

Composition of Trade

Since gaining its independence, Ukraine's trade has increasingly revolved around raw materials. This reorientation reflects in part the quality and quantity of Ukraine's natural resources, which include large reserves of coal, high grade iron ore, manganese, titanium and magnesium. These resources have formed the basis for the growth of heavy industry since the late nineteenth century.

In 2008, 2009, 2010, 2011 and for the first quarter 2012, ferrous and non-ferrous metals and their products accounted for approximately 41.2 per cent., 32.3 per cent., 33.7 per cent., 31.2 per cent., and 28.8 per cent., respectively, of the value of exports, and the combined trade surplus on these items was U.S.$21.2 billion, U.S.$10.1 billion, U.S.$13.2 billion, U.S.$17.3 billion and U.S.$3.9 billion, respectively. Chemicals accounted for a further 9.0 per cent., 7.7 per cent., 8.1 per cent., 9.3 per cent., and 9.3 per cent. of exports in 2008, 2009, 2010, 2011 and for the first quarter of 2012, respectively. In 2008, the increase in the value of ferrous and non-ferrous metal exports, 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. The decrease in the export value of ferrous and non-ferrous metals, as well as of chemical products in 2009 was due to a deterioration in the market conditions generally and reduced international prices for such products. In 2010, world prices increased, generally, leading to the reduced aggregate value of exports. Fluctuating world prices positively impacted the value of exports in 2011 and the first quarter of 2012.

Agricultural products accounted for 16.2 per cent., 24.0 per cent., 19.3 per cent., 18.8 per cent and 23.4 per cent. of exports in 2008, 2009, 2010, 2011 and for the first quarter of 2012 respectively. Increased exports of crops and processed food products in 2008 were due to the traditionally exported agricultural products benefitting from a successful harvest and increased demand for such products in their respective markets. The decrease in exports of crops and processed food products in 2009 was due to a decrease in global demand. In 2010, demand for agricultural products returned with a resultant increase in exports and despite continued high demand for such products in 2011, demand for other export categories rose at a higher rate, thereby reducing the overall proportion of exports represented by agricultural products.

In addition, machinery and equipment accounted for 9.5 per cent., 12.6 per cent., 11.0 per cent., 9.9 per cent. and 9.9 per cent. of exports in 2008, 2009, 2010, 2011 and for the first quarter of 2012, respectively. 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 a decrease in global prices for machinery. In 2010, the volume of machinery exports increased by 13.1 per cent. compared to 2009 due to intensification of investment activities and increased demand in external markets, as well as the previous year's low comparative basis. In 2011 and for the first quarter of 2012, the volume of machinery exports increased by 19.2 per cent. and by 13.9 per cent. as compared to 2010 and the corresponding period in 2011, respectively. In 2009 fuel and energy product exports also decreased as the temporary closure of several oil refinery plants in 2007, 2008 and 2009 resulted in a decrease in oil refinery volumes and a reduction in export volumes for oil refinery products. Since July 2005, exports of natural gas have been close to zero. In 2010 and 2011, fuel and energy exports increased by 71.8 per cent. and 55.4 per cent., respectively. For the first quarter of 2012, fuel and energy exports increased by 17.6 per cent. as compared to the corresponding period in 2011.

Regarding the breakdown of imports, the largest grouping for 2008, 2009, 2010 and 2011 was fuel and energy products (representing 26.7 per cent., 32.2 per cent., 32.3 per cent. and 34.6 per cent. of imports, respectively). For the first quarter of 2012, fuel and energy products also represented the largest grouping at 35.7 per cent. of imports. Machinery and equipment also accounted for a significant share of Ukrainian imports (representing 15.6 per cent., 13.8 per cent., 13.5 per cent., 15.5 per cent. and 14.7 per cent. of imports for 2008, 2009, 2010, 2011 and for the first quarter of 2012, respectively), with such imports coming mainly from Russia. The figures relating to imports of fuel and energy products reflect the high natural resource requirements of the Ukrainian economy and resulted in a deficit in energy trade of U.S.$18.7 billion in 2008, U.S.$12.5 billion in 2009, U.S.$15.9 billion in 2010 and U.S.$22.9 billion in 2011 and U.S.$5.6 billion in the first quarter of 2012. Increased import volumes of gas and coal and increased gas and oil prices produced higher total imports in 2008. The significant changes in the terms of trade in energy resources 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 relating to goods and services was U.S.$4 billion, U.S.$8.9 billion and U.S.$1.7 billion in 2010, 2011 and the first quarter of 2012, respectively.

Energy intensive production was encouraged in the Soviet economy by the artificially low price of energy resources and by an incentive system that failed to maximise the use of resources. Depletion of domestic energy resources (especially coal) and the steering of industry towards the use of natural gas (another legacy from the Soviet period) have made Ukraine increasingly dependent on imported energy, although some products are imported for the purpose of re-export. The Government is trying to alleviate this situation by reshaping Ukraine's energy needs towards locally available sources and away from costly imported gas.

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								Three months ended 31 March			
	2008		**2009**		**2010**		**2011**		**2011**		**2012**	
	(U.S$ millions)	*(%)*	*(U.S.$ mllions)*	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*%*	*(U.S.$ millions)*	*(%)*
Fuel and Energy Products	4,109.2	6.1	2,130.8	5.4	3,661.3	7.1	5,691.1	8.3	1,036.9	6.8	1,219.4	7.5
Machinery and Equipment ..	6,341.1	9.5	5,013.5	12.6	5,670.7	11.0	6,759.0	9.9	1,407.1	9.2	1,603.3	9.9
Wood and Paper Products	1,675.6	2.5	1,471.9	3.7	1,768.6	3.4	2,183.6	3.2	486.2	3.2	474.6	2.9
Chemical Related Products ..	6,043.0	9.0	3,078.4	7.7	4,164.6	8.1	6,328.0	9.3	1,469.7	9.6	1,500.2	9.3
Agriculture Products	10,837.6	16.2	9,514.9	24.0	9,936.0	19.3	12,804.1	18.8	2,993.4	19.5	3,784.0	23.4
Ferrous Metals and their Products	26,487.7	39.6	12,198.4	30.7	16,607.0	32.3	21,310.4	31.2	5,065.3	33.0	4,648.9	28.8
Non Ferrous Metals and their Products.....	1,106.3	1.6	617.3	1.6	712.4	1.4	790.5	1.2	180.2	1.2	151.6	0.9
Mineral Products	2,936.8	4.4	1,769.3	4.5	3,069.9	6.0	4,568.7	6.7	968.6	6.3	964.8	6.0
Textiles and shoes	1,162.7	1.7	857.5	2.2	910.8	1.8	1,072.7	1.6	249.9	1.6	234.6	1.5
Other	6,267.2	9.4	3,043.7	7.6	4,903.9	9.5	6,886.1	9.8	1,490.7	9.6	1,587.5	9.8
Total.....	**66,967.3**	**100.0**	**39,695.7**	**100.0**	**51,405.2**	**100.0**	**68,394.2**	**100.0**	**15,348.0**	**100.0**	**16,168.9**	**100.0**

Notes:

(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								Three months ended 31 March			
	2008		**2009**		**2010**		**2011**		**2011**		**2012**	
	(U.S$ millions)	*(%)*	*(U.S.$ mllions)*	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*%*	*(U.S.$ millions)*	*(%)*
Fuel and Energy Products ..	22,832.0	26.7	14,638.7	32.2	19,602.7	32.3	28,605.3	34.6	7,390.7	39.9	6,801.8	35.7
Machinery and Equipment..	13,379.8	15.6	6,254.6	13.8	8,174.4	13.5	12,795.1	15.5	2,327.7	12.6	2.806.0	14.7
Wood and Paper Products ..	2,381.0	2.7	1,654.6	3.6	2,007.0	3.3	2,229.7	2.7	500.6	2.7	447.8	2.3
Chemical Related Products	11,435.7	13.3	7,983.1	17.6	10,137.7	16.7	12,519.2	15.1	2,641.7	14.3	2,722.7	14.3
Agriculture Products	6,456.6	7.5	4,936.0	10.9	5,763.6	9.4	6,346.7	7.8	1,549.0	8.4	1,704.7	8.9
Ferrous Metals and their Products	4,732.4	5.6	1,737.3	3.9	2,806.3	4.6	3,961.6	4.8	796.1	4.3	788.6	4.1
Non Ferrous Metals and their Products	1,657.7	1.9	939.2	2.0	1,322.4	2.2	1,735.5	2.1	341.1	1.8	341.4	1.8
Mineral Products	2,609.3	3.0	1,056.4	2.3	1,525.2	2.5	1,424.3	1.7	368.4	2.0	292.3	1.5
Textiles and shoes	2,099.2	2.5	1,416.9	3.1	1,984.4	3.3	1,989.9	2.4	485.3	2.6	437.3	2.3
Other.....	17,951.6	21.2	4,816.3	10.6	7,418.5	12.2	11,000.9	13.3	2,115.9	11.4	2,736.4	14.4
Total	**85,535.3**	**100.0**	**45,433.1**	**100.0**	**60,742.2**	**100.0**	**82,608.2**	**100.0**	**18,516.5**	**100.0**	**19,079.0**	**100.0**

Notes:

(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 substantial trade deficits) and countries which transport their energy exports through Russia. The need to import large quantities of energy products explains the fact that the CIS countries remain the main suppliers of Ukraine's imports, accounting for 42.0 per cent. of total goods imported in 2008, 43.3 per cent. in 2009, 44.0 per cent. in 2010, 45.0 per cent. in 2011 and 45.3 per cent. for the first quarter of 2012. Imports from Russia accounted for 27.8 per cent. in 2008, 29.1 per cent. in 2009, 36.5 per cent. in 2010, 35.3 per cent. in 2011 and 35.3 per cent. for the first quarter of 2012.

The CIS countries also remain Ukraine's main export destinations, accounting for 36.7 per cent. of Ukraine's exports in 2008, 33.9 per cent. in 2009, 36.5 per cent. in 2010, 38.3 per cent. in 2011 and 38.2 per cent. for the first quarter of 2012, of which exports to Russia accounted for 25.7 per cent. of total exports of goods in 2008, 21.4 per cent. in 2009, 26.1 per cent. in 2010, 29.0 per cent. in 2011 and 28.0 per cent. for the first quarter of 2012. A large share of Ukraine's services exports originate from transit charges for Russian oil, gas, ammonia and electricity, which comprised approximately 18.5 per cent. of total services exports in 2008, 21.3 per cent. in 2009, 28.2 per cent. in 2010, 24.5 per cent. in 2011 and 28.6 per cent. for the first quarter of 2012. Exports of goods to Russia increased by 24.3 per cent. in 2008, but decreased by 46.1 per cent. in 2009, followed by an increase of 58.1 per cent. in 2010 as compared to 2009, an increase of 47.6 per cent. in 2011 as compared to 2010 and an increase of 8.2 per cent. for the first quarter of 2012, as compared to the corresponding period in 2011. The significant decrease of goods exported to Russia in 2009 was primarily caused by reductions in exports of machinery by 53.3 per cent., metallurgical products by 57.1 per cent. and agricultural and food products by approximately 28.2 per cent., compared to 2008. Increased exports to Russia in 2010 compared to 2009, and in 2011 as compared to 2010 were largely due to increases in exports of locomotives, fuel, ferrous metals and their by-products, mineral products and oil and oil refining products, which increased by 71.8 per cent., 66.4 per cent., 20.3 per cent. and 29.2 per cent., respectively between 2009 and 2010 and which increased by 79.1 per cent., 110.0 per cent., 52.3 per cent. and 55.3 per cent., respectively, in 2011 as compared to 2010.

Exports of goods to Asia increased year-on-year by 47.1 per cent. in 2008, but decreased by 23.6 per cent. in 2009, followed by an increase of 13.1 per cent. in 2010 and an increase of 29.3 per cent. in 2011 and an increase of 9.0 per cent. for the first quarter of 2012, as compared to the corresponding period in 2011. Exports of goods to the EU increased by 30.3 per cent. in 2008, decreased by 47.6 per cent. in 2009 and increased by 37.4 per cent. in 2010, all as compared to the previous year, increased by 37.7 per cent. in 2011 as compared to 2010, but decreased by 12.6 per cent. for the first quarter of 2012. The decrease in exports of goods to the EU in 2009 was primarily attributable to reductions in exports of ferrous metals and their products, mineral products and chemical products, compared to 2008. Increased exports of goods to the EU in 2010 were largely due to an increase in exports of metallurgical products, machinery, wood and energy materials, oil and oil products of approximately 98.7 per cent., 12.9 per cent., 12.3 per cent. and 49.7 per cent., respectively. Exports of goods to Africa increased by 39.8 per cent. in 2008, decreased by 32.7 per cent. in 2009, increased by 14.3 per cent. in 2010 and increased by 10.8 per cent. in 2011, all as compared to the previous year. For the first quarter of 2012, exports of goods to Africa increased by 87.3 per cent. as compared to the corresponding period in 2011.

In 2006, trade with the EU increased and 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, a decrease of 56.4 per cent. The significant decrease of exports to the EU in 2009 was primarily caused by the global financial downturn, which reduced demand. In 2010, the EU remained one of the major external trade partners of Ukraine, accounting for a 29.7 per cent. share of Ukraine's total external trade, with exports of goods and services from Ukraine amounting to U.S.$16.2 billion, or a 29.7 per cent. increase compared to 2009, and imports of goods and services to Ukraine amounting to U.S.$22.1 billion, or a 20.0 per cent. increase compared to 2009. In 2011, exports of goods and services from Ukraine to the EU amounted to U.S.$21.6 billion, a 32.9 per cent. increase compared to 2010, and imports of goods and services to Ukraine from the EU amounted to U.S.$29.1 billion, a 31.7 per cent. increase compared to 2010,

accounting for a 29.7 per cent. share of Ukraine's external trade turnover. In 2010 the bilateral trade in goods and services with the EU had a U.S.$5.9 billion deficit and in 2011, the bilateral trade in goods and services with the EU had a U.S.$7.6 billion deficit. In the first quarter of 2012, the bilateral trade in goods and services with the EU amounted to a U.S.$1.7 billion deficit. Trade between Ukraine and the EU consists largely of exports of Ukrainian ferrous metals, raw materials, semi finished products, machinery and agricultural products and imports by Ukraine of machinery, vehicles and chemical products (mainly medical products and polymeric materials) from the EU. The main trading partners of Ukraine within the EU are Germany, Poland and Italy.

In 2008, the consolidated trade deficit for goods increased to U.S.$18.6 billion before decreasing in 2009, to U.S.$5.7 billion. The reduction of the consolidated balance of trade in goods in 2008 was due to an increase of import growth rates compared to export growth rates caused by the deterioration of trade conditions and a decrease in world demand. The reduction in the deficit for 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 2010 the consolidated trade balance for goods showed a deficit totalling U.S.$9.3 billion and increased by 62.7 per cent. compared to 2009. In 2011, the consolidated trade balance for goods showed a deficit of U.S.$14.2 billion. For the first quarter of 2012, the consolidated trade balance amounted to a deficit of U.S.$2.9 billion.

In 2008 and 2009, the consolidated balance of trade in goods and services had a deficit totaling U.S.$13.3 billion and U.S.$1.3 billion. The deterioration of the consolidated balance of trade in goods and services in 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 slow pace of technological innovation and an increased need to implement energy saving technologies in the machinery manufacturing, metallurgy and chemical industries, requiring higher levels 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 the deficit for 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 2010 the consolidated deficit for trade in goods and services amounted to U.S.$4.0 billion as compared to the deficit of U.S.$2.0 billion for 2009. In 2011 the consolidated deficit of trade in goods and services amounted to U.S.$8.9 billion as compared to a surplus of U.S.$1.4 billion in 2010. In the first quarter of 2012, the consolidated deficit for trade in goods and services amounted to U.S.$1.7 billion.

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

	Year ended 31 December								Three months ended 31 March			
	2008		**2009**		**2010**		**2011**		**2011**		**2012**	
	(U.S$ millions)	*(%)*	*(U.S.$ mllions)*	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*%*	*(U.S.$ millions)*	*(%)*
Fuel and Energy Products	4,109.2	6.1	2,130.8	5.4	3,661.3	7.1	5,691.1	8.3	1,036.9	6.8	1,219.4	7.5
China	431.7	0.9	1,434.4	3.6	1,316.6	2.6	2,180.0	3.2	466.4	3.0	455.6	2.8
Germany	1,644.5	3.3	1,248.1	3.1	1,499.5	2.9	1,763.8	2.6	437.4	2.9	409.9	2.5
Turkey	3,645.3	7.4	2,126.5	5.4	3,024.0	5.9	3,748.6	5.5	989.7	6.4	808.9	5.0
United States	1,058.0	2.2	250.4	0.6	807.3	1.6	1,113.8	1.6	267.1	1.7	239.1	1.5
Italy	2,675.1	5.4	1,227.6	3.1	2,412.4	4.7	3,039.5	4.4	774.6	5.0	499.1	3.1
Poland	1,636.9	3.3	1,208.0	3.0	1,787.2	3.5	2,794.1	4.1	623.7	4.1	658.8	4.1
Hungary	1,235.1	2.5	730.2	1.8	860.1	1.7	1,340.7	2.0	279.8	1.8	363.1	2.2
Thailand	104.6	0.2	269.2	0.7	432.6	0.8	312.8	0.5	37.3	0.2	76.2	0.5
Slovak Republic	645.2	1.3	433.7	1.1	568.2	1.1	843.0	1.2	213.1	1.4	169.7	1.0
Syria	846.9	1.7	753.3	1.9	646.8	1.3	920.6	1.3	185.9	1.2	170.8	1.1
Lebanon	136.2	0.3	694.1	1.7	1,031.9	2.0	1,362.2	2.0	299.7	2.0	464.9	2.9
Czech Republic	429.0	0.9	340.7	0.9	626.2	1.2	842.4	1.2	197.6	1.3	172.3	1.1
Netherlands	765.7	1.6	594.9	1.5	563.2	1.1	833.4	1.2	213.8	1.4	140.1	0.9
Greece	221.0	0.5	100.3	0.3	164.1	0.3	291.2	0.4	84.6	0.6	32.9	0.2
Spain	557.4	1.1	570.4	1.4	411.7	0.8	970.6	1.4	155.2	1.0	278.2	1.7
Lithuania	363.3	0.7	193.5	0.5	264.4	0.5	317.1	0.5	85.6	0.6	55.5	0.3
Latvia	258.6	0.5	178.0	0.4	180.2	0.4	221.5	0.3	53.3	0.3	71.4	0.4
CIS	18,087.0	36.7	13,472.9	33.9	18,740.6	36.5	26,177.0	38.3	5,539.8	36.1	6,177.1	38.2
Russian Federation	12,668.5	25.7	8,494.9	21.4	13,428.1	26.1	19,819.6	29.0	4,182.3	27.2	4,524.0	28.0
Moldova	911.3	1.8	693.5	1.7	713.5	1.4	874.4	1.3	165.4	1.1	160.4	1.0
Kazakhstan	1,433.5	2.9	1,418.4	3.6	1,300.4	2.5	1,857.5	2.7	347.5	2.3	630.1	3.9
Belarus	1,561.5	3.2	1,258.9	3.2	1,899.2	3.7	1,922.3	2.8	508.5	3.3	408.2	2.5
Turkmenistan	196.6	0.4	325.2	0.8	208.9	0.4	241.9	0.4	39.5	0.3	162.6	1.0
Azerbaijan	631.1	1.3	546.0	1.4	610.8	1.2	708.3	1.0	152.7	1.0	157.6	1.0
Uzbekistan	346.9	0.7	406.2	1.0	228.5	0.4	353.8	0.5	54.7	0.4	60.6	0.4
Other CIS states	337.6	0.7	329.8	0.8	351.7	0.7	399.2	0.6	89.2	0.6	73.6	0.5
Other	14,554.6	29.5	13,869.5	34.9	16,068.3	31.2	19,321.9	28.3	4,443.4	29.0	4,925.3	30.5
Total	**49,296.1**	**100.0**	**39,695.7**	**100.0**	**51,405.2**	**100.0**	**68,394.2**	**100.0**	**15,348.0**	**100.0**	**16,168.9**	**100.0**

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								Three months ended 31 March			
	2008		2009		2010		2011		2011		2012	
	(U.S$ millions)	*(%)*	*(U.S.$ mllions)*	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*%*	*(U.S.$ millions)*	*(%)*
Germany	5,830.0	9.6	3,852.1	8.5	4,605.3	7.6	6,865.7	8.3	1,431.6	7.7	1,469.8	7.7
United States	1,404.5	2.3	1,286.3	2.8	1,766.8	2.9	2,591.2	3.1	577.2	3.1	853.1	4.5
Poland	2,920.5	4.8	2,170.3	4.8	2,788.8	4.6	3,183.4	3.9	632.4	3.4	705.5	3.7
Italy	1,788.7	3.0	1,139.8	2.5	1,390.3	2.3	2,005.8	2.4	349.7	1.9	450.9	2.4
France	1,330.0	2.2	971.5	2.1	1,106.7	1.8	1,501.5	1.8	309.6	1.7	380.1	2.0
Czech Republic	1,154.6	1.9	622.2	1.4	747.9	1.2	1,181.3	1.4	219.0	1.2	307.1	1.6
Slovak Republic	523.5	0.9	306.0	0.7	442.6	0.7	603.9	0.7	115.2	0.6	127.5	0.7
Hungary	1,240.9	2.0	678.3	1.5	1,214.6	2.0	1,326.7	1.6	286.2	1.5	293.2	1.5
United Kingdom	886.4	1.5	651.1	1.4	821.0	1.4	1,128.6	1.4	221.4	1.2	242.8	1.3
Netherlands	881.0	1.5	677.5	1.5	837.9	1.4	1,186.8	1.4	225.9	1.2	213.5	1.1
Austria	800.4	1.3	612.2	1.3	697.6	1.1	713.3	0.9	159.2	0.9	142.5	0.7
Turkey	972.3	1.6	952.2	2.1	1,298.3	2.1	1,481.2	1.8	330.5	1.8	319.9	1.7
Japan	1,406.6	2.3	519.5	1.1	801.7	1.3	1,014.1	1.2	198.7	1.1	330.3	1.7
Switzerland	429.8	0.7	438.0	1.0	508.2	0.8	709.0	1.0	141.1	0.8	157.6	0.8
China	3,307.5	5.5	2,734.3	6.0	4,700.4	7.7	6,268.3	7.6	1,236.1	6.7	1,415.2	7.4
Lithuania	380.4	0.6	410.3	0.9	637.5	1.0	822.8	1.0	114.6	0.6	200.1	1.0
Latvia	118.6	0.2	110.1	0.2	88.1	0.1	98.5	0.1	17.9	0.1	21.9	0.1
CIS	25,469.3	42.0	19,692.6	43.3	26,697.4	44.0	37,212.4	45.0	9,202.0	49.7	8,644.8	45.3
Russian Federation	16,838.2	27.8	13,235.8	29.1	22,198.0	36.5	29,132.2	35.3	8,044.0	43.4	7,210.7	37.8
Turkmenistan	4,707.4	7.8	718.3	1.6	31.4	0.1	736.0	0.9	9.0	0.0	2.2	0.0
Belarus	1,445.4	2.4	1,692.8	3.7	2,567.6	4.2	4,211.8	5.1	707.1	3.8	985.2	5.5
Kazakhstan	1,686.6	2.8	2,033.9	4.5	766.2	1.3	1,675.9	2.0	208.6	1.1	377.4	2.0
Uzbekistan	546.0	0.9	1,640.8	3.6	81.7	0.1	643.9	0.8	30.0	0.2	18.6	0.1
Moldova	168.2	0.3	52.1	0.1	73.6	0.1	130.4	0.2	17.6	0.1	23.9	0.1
Other CIS states	77.5	0.1	318.9	0.7	978.9	1.6	682.3	0.8	185.7	1.0	26.8	0.1
Other	9,773.0	16.1	7,608.8	16.7	9,591.1	15.8	12,713.7	15.4	2,748.1	14.8	2,803.2	14.7
Total	**60,618.0**	**100.0**	**45,433.1**	**100.0**	**60,742.2**	**100.0**	**82,608.2**	**100.0**	**18,516.5**	**100.0**	**19,079.0**	**100.0**

Source: State Statistics Service; International Trade Bulletin

Foreign Investment

As a consequence of the significant shortage of internal financial resources, Ukraine has sought to attract foreign investment as an important contributor to economic growth and structural reform. However, the pace and amount of foreign direct investment ("**FDI**") in Ukraine has been adversely affected by overly complex and inconsistent legislation and opaque procedures, including in the areas of privatisation, Government intervention and taxation, as well as through perceived corruption. Nevertheless, the amount of cumulative FDI has been increasing in recent years. Cumulative FDI increased by 20.6 per cent. in 2008 by 12.5 per cent. in 2009, by 11.9 per cent. in 2010, by 10.2 per cent. in 2011 and by 1.7 per cent. for the first quarter of 2012. As at 31 December 2008, 31 December 2009, 31 December 2010, 31 December 2011 and 31 March 2012 cumulative FDI (including foreign interests in privatisations) was U.S.$35.6 billion, U.S.$40.1 billion and U.S.$44.8 billion, U.S.$49.4 billion and U.S.$50.8 billion, respectively.

The annual amount of FDI capital growth decreased from U.S.$6,073.7 million in 2008 to U.S.$4,436.6 million in 2009 due to the global financial downturn. The decline in FDI capital growth continued in 2010 and 2011, FDI capital growth amounting to U.S.$4,753.0 million and U.S.$ 4,556.3 million, respectively. For the first quarter of 2012, FDI capital growth amounted to U.S.$846.9 million. 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 31 December 2011 and 31 March 2012, cumulative foreign currency FDI was approximately U.S.$1,084.3 per capita and U.S.$1,115.7 per capita, respectively.

The following table shows information on FDI for the periods indicated:

Year ended 31 December	FDI (cumulative total) at the end of the relevant period[1]	Growth of FDI over the relevant period
	(U.S.$ millions)	
2008	35,616.4	6,073.7
2009	40,053.0	4,436.6
2010	44,806.0	4,753.0
2011	49,362.3	4,556.3
First Quarter 2012	50,793.5	846.9

Note:

(1) FDI (cumulative total) measures the volume of FDI starting from 1994.

Source: State Statistics Service

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

	Year ended 31 December								Three months ended 31 March			
	2008		2009		2010		2011		2011		2012	
	(U.S$ millions)	*(%)*	*(U.S.$ mllions)*	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*%*	*(U.S.$ millions)*	*(%)*
United States	1,464.6	4.1	1,309.1	3.3	1,158.1	2.6	1,043.1	2.1	1,100.8	2.4	1,042.3	2.1
Cyprus	7,646.2	21.5	9,005.3	22.5	10,044.9	22.4	12,645.5	25.6	10,665.0	23.4	13,661.9	26.9
Russian Federation	1,847.2	5.2	2,566.4	6.4	3,403.2	7.6	3,594.5	7.3	3,383.3	7.4	3,661.0	7.2
United Kingdom	2,249.8	6.3	2,307.5	5.8	2,287.1	5.1	2,508.2	5.1	2,318.9	5.1	2,345.0	4.6
Netherlands	3,197.4	9.0	3,954.5	9.9	4,683.3	10.5	4,822.8	9.8	4,746.8	10.4	4,906.6	9.7
Germany	6,393.0	17.9	6,601.9	16.5	7,083.0	15.8	7,386.4	15.0	7,153.4	15.7	7,468.0	14.7
Austria	2,443.8	6.9	2,605.2	6.5	2,731.4	6.1	3,423.1	6.9	2,815.7	6.2	3,446.6	6.8
France	1,231.2	3.5	1,630.8	4.1	2,368.1	5.3	2,230.7	4.5	2,399.7	5.3	2,278.5	4.5
Other(1)	9,143.5	25.6	10,072.3	25.0	11,046.9	24.6	11,708.0	23.7	11,018.7	24.1	11,983.6	23.1
Total	**35,616.4**	**100.0**	**40,053.0**	**100.0**	**44,806.0**	**100.0**	**49,362.3**	**100.0**	**45,602.3**	**100.0**	**50,793.5**	**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).

Source: State Statistics Service

In 2008, 2009, 2010 and 2011, Cyprus was the largest contributor of FDI to Ukraine. As at 31 March 2012, Cypriot investments in Ukraine amounted to U.S.$13,661.9 million, constituting 26.9 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, the Netherlands, Russia, Austria, France, the United Kingdom, Sweden, the British Virgin Islands 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.$5,132.7 million in 2009, U.S.$5,684.8 million in 2010 and U.S.$ 2,356.9 million in the first half of 2011) and investments in personal and real property (which were U.S.$384.8 million in 2009, U.S.$245.5 million in 2010 and U.S.$ 371.6 million in the first half of 2011). Investments made in Ukraine to date have primarily been in the fields of industry, financial and banking sector, real estate, trade and repair of cars and household goods, engineering and rendering of services for entrepreneurs. The financial and banking sector was the largest recipient of FDI for the first quarter of 2012 (31.9 per cent.).

The following table sets out cumulative FDI by sector at the end of the periods indicated:

	Year ended 31 December								Three months ended 31 March			
	2008		**2009**		**2010**		**2011**		**2011**		**2012**	
	(U.S$ millions)	*(%)*	*(U.S.$ mllions)*	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*(%)*	*(U.S.$ millions)*	*%*	*(U.S.$ millions)*	*(%)*
Food Industry	1,685.9	4.7	1,828.4	4.6	1,820.5	4.1	2,065.7	4.2	1,923.1	4.2	2,250.0	4.4
Wholesale Trade	3,126.0	8.8	3,578.0	8.9	4,021.7	9.0	5,193.5	10.5	4,915.5	10.8	5,367.9	10.6
Finance/Insurance	10,496.1	29.5	12,431.0	31.0	15,110.5	33.7	16,318.5	33.1	15,037.3	33.0	16,215.2	31.9
Machinery manufacturing	1,075.5	3.0	1,145.0	2.8	1,177.6	2.6	1,226.0	2.5	1,210.7	2.7	1,128.0	2.2
Coke Petroleum derivatives	330.2	0.9	449.1	1.1	456.0	1.0	441.6	0.9	456.9	1.0	398.7	0.8
Transport	1,567.6	4.4	1,626.5	4.1	1,706.8	5.8	1,855.0	3.8	1,770.3	3.9	2,783.5	5.5
Chemical and Petrochemical Industry	985.8	2.8	1,224.3	3.0	1,356.4	3.0	1,375.8	2.8	1,434.3	3.1	1,281.2	2.5
Real estate activities	3,613.8	10.1	4,268.5	10.7	4,788.2	10.7	5,721.5	11.6	4,926.5	10.8	8,385.9	16.5
Metallurgy	5,534.4	15.5	5,557.1	13.9	5,945.8	13.3	6,084.2	12.3	6,004.9	13.2	6,131.7	12.1
Other	7,201.1	20.3	7,945.1	19.9	8,422.5	18.8	9,080.5	18.3	7,922.8	17.3	6,851.4	13.5
Total	**35,616.4**	**100.0**	**40,053.0**	**100.0**	**44,806.0**	**100.0**	**49,362.3**	**100.0**	**45,602.3**	**100.0**	**50,793.5**	**100.0**

Source: State Statistics Service

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

Foreigners are permitted to own up to 100 per cent. of a Ukrainian company, subject to foreign ownership restrictions in certain industry sectors, such as media. The hryvnia is not yet freely tradable, and a withholding tax of 15 per cent. may be applied to profit repatriation, subject to the provisions of treaties on the avoidance of double taxation, which can reduce or eliminate this tax.

PUBLIC FINANCE AND FISCAL POLICY

The Budget Process

Ukraine's consolidated budget (the "**Consolidated Budget**") consists of the State Budget approved by Parliament and local budgets approved by respective administrative regions.

Pursuant to the Constitution, each year, following review by the Cabinet of Ministers, a proposed State Budget is to be submitted to Parliament by 15 September. The deadline for approval of the State Budget Law by Parliament is 1 December. If the State Budget Law is not adopted by 1 January the following year, certain borrowing restrictions apply until the adoption of the State Budget Law for the relevant year.

The Budget Code of Ukraine (the "**Budget Code**") was initially adopted in 2001. On 8 July 2010, Parliament approved a restatement of the Budget Code, which took effect on 1 January 2011, subject to certain exceptions coming into effect on 1 January 2013. The Budget Code, as restated, focuses on, among other things, further development of the programme-target method of the budget process and medium-term budget planning; the introduction of modern forms and methods of budget-fund management and State and local debt management; the improvement of the system for State control over budget performance; tightening the responsibility of budget-process participants; and strengthening the financial independence of local budgets. The Budget Code, as restated, also contemplates the introduction of new local real estate taxes (excluding land) and transfer to local budgets of certain additional revenues, such as revenues from licensing and certification charges, and some of the revenues from charges for natural resources utilisation and State registration.

The Law of Ukraine dated 7 July 2011 "On Amendments to the Budget Code of Ukraine and Some Other Legislative Acts of Ukraine" provides for harmonisation of provisions of Ukrainian law with the Budget Code, the principles of State and local debt management (including guaranteed debt), increasing of the transparency of State finance and the financial self sufficiency of local budgets, improving legislative governance of quasi fiscal operations and compliance of laws with balancing of the State budget.

2011 State Budget

In April 2010, the Government adopted the Budget Declaration for 2011 with the aim of overcoming the effects of the financial and economic downturn, implementing efficient tax and budget policy, changing to a model of economic development encouraging investment and innovation, reducing unemployment, increasing household income and facilitating price and exchange rate stability. The Declaration set out, among other things, the following priorities for budget policy in 2011: (i) creating favourable conditions for industrial growth and incentivising sustainable economic and social development; (ii) the implementation of an effective debt policy; (iii) the gradual increase of social conditions; (iv) the reform of inter-budgetary relations to ensure sustainable social and economic development for the regions; and (v) focusing budget resources on the implementation of priority governmental programmes. The Declaration also established that the budget targets for 2011 included a ratio of State debt to GDP at a level not higher than 40 per cent. and a budget deficit of not more than 4.5 per cent. of GDP.

The 2011 State Budget Law was initially passed in December 2010 and was subsequently amended several times. Revenues were revised upwards to UAH 303.9 billion and expenditure was increased to UAH 342.7 billion, with the budget deficit decreasing to UAH 35.3 billion (or 2.7 per cent. of GDP). The basic assumptions underlying the 2011 State Budget included a real GDP growth rate of 4.7 per cent., nominal GDP of UAH 1,291.0 billion, annual CPI inflation of 8.9 per cent., annual WPI inflation of 17.9 per cent. and an average annual exchange rate of UAH 7.95 to U.S.$1.00. The 2011 State Budget Law contemplated privatisation receipts of UAH 10.0 billion as a source of financing to cover the budget deficit. The 2011 State Budget Law did not provide for the creation of a Stabilisation Fund in 2011. Actual revenues and expenditure of the 2011 State Budget amounted to UAH 314.6 billion and 333.5 billion, respectively. The actual deficit of the 2011 State Budget amounted to UAH 23.6 billion (or 1.8 per cent. of GDP), which was lower, as a percentage of GDP, than the 4.5 per cent. predicted in the Budget Declaration for 2011.

2012 State Budget

As at the date of this Prospectus, the budget policy for 2012 aims for a ratio of total State debt to GDP at a level not higher than 30 per cent. and a decrease in the budget deficit to 2.5 per cent. of GDP.

The 2012 State Budget Law was passed by Parliament on 22 December 2011. The 2012 State Budget as amended envisages revenues of UAH 368.3 billion, expenditure in the amount of UAH 394.2 billion, proceeds of loans repaid to the State Budget totalling UAH 130 billion, loans granted from the State Budget of UAH 12.3 billion and a budget deficit in the amount of UAH 25.1 billion (or 1.7 per cent. of GDP). The 2012 State Budget Law is based on the following assumptions: real GDP growth rate of 3.9 per cent., nominal GDP of UAH 1,500.0 billion, annual CPI inflation of 7.9 per cent., annual WPI inflation of 9.4 per cent. and an average annual exchange rate of UAH 8.10 to U.S.$1.00 in 2012, the fall in WPI inflation based partly on price stabilisation and global economic growth. The 2012 State Budget Law contemplates privatisation receipts of UAH 10.0 billion as a source of financing to cover the budget deficit.

The Consolidated Budget

The Consolidated Budget consists of the State Budget and local budgets combined. The State Budget has two components, the general fund (the "**General Fund**") and the special fund (the "**Special Fund**"). The General Fund includes all revenues of the State Budget, except for those which are designated for the Special Fund and all expenditure financed out of those revenues. The Special Fund consists of special purpose revenues and the expenditure they finance. Special Fund expenditure has permanent budget allocations so as to protect its objectives from adverse market conditions.

The main components of the Consolidated Budget (consisting of the State Budget and local budgets) and actual Consolidated Budget performance for 2009 and 2010 are set out in the table below:

	2009[1]		2010[2]	
	Budget (as amended)	Actual	Budget (as amended)	Actual
	(in UAH millions)			
Revenues[3]				
Tax revenue	240,648.9	208,073.2	243,748.9	234,447.7
of which:				
Personal income tax	46,091.9	44,485.3	52,266.2	51,029.3
Corporation tax	42,966.0	33,048.0	40,566.0	40,359.1
VAT	97,643.0	84,596.7	90,692.5	86,315.9
Excise duty on domestic goods	19,566.4	17,934.5	26,031.0	23,715.3
Excise duty on imported goods	4,387.4	3,690.0	4,374.0	4,600.8
Non-tax revenue	72,709.8	58,435.8	73,840.9	73,837.0
Capital revenue	7,429.4	3,653.1	4,797.8	3,143.2
Official transfers	838.0	645.3	680.5	305.6
Special funds[4]	3,070.4	2,159.5	2,344.7	2,772.7
Total revenues	**324,696.5**	**272,967.0**	**325,412.7**	**314,506.3**
Expenditure				
State function	47,587.7	33,156.0	46,942.7	44,902.5
of which:				
Public and local administration, financial and foreign economic activity	19,502.4	18,675.4	22,447.4	21,643.4
Sovereign debt service[5]	13,063.4	9,783.8	16,457.6	16,395.4
Fundamental research	2,258.4	2,188.3	2,483.9	2,388.9
National defence	12,991.3	9,663.3	13,591.6	11,347.1

	2009[1]		2010[2]	
	Budget (as amended)	Actual	Budget (as amended)	Actual
	(in UAH millions)			
Law enforcing activity and State security and court power	25,465.8	24,346.1	29,554.6	28,825.6
Economic activity	61,763.9	39,753.0	52,387.6	43,832.4
of which:				
General economic, trade and labour activity	1,052.6	806.8	1,108.1	992.0
Agriculture, forestry, fishery and hunting	7,165.3	6,285.6	7,841.1	7,326.9
Fuel and energy complex	14,240.8	11,965.3	13,216.1	12,055.0
Transport	19,057.4	13,711.2	18,467.0	15,283.4
Communication, telecommunication and informatics	249.9	191.7	185.7	174.3
Education	69,646.4	66,773.6	82,302.3	79,826.0
Health	37,001.6	36,564.9	44,638.4	44,745.4
Social protection and insurance	83,038.7	78,775.4	106,947.7	104,534.9
Housing and communal services	8,444.5	7,498.1	8,782.0	5,431.3
Intellectual and physical development	8,794.5	8,330.2	11,947.1	11,525.4
of which:				
Culture and art	4,959.6	4,766.1	6,301.4	6,046.5
Mass media	923.9	848.2	1,208.4	1,147.9
Physical culture and sport	2,882.0	2,687.8	4,382.1	4,290.5
Protection of environment	3,157.5	2,538.8	7,247.0	2,872.4
Total expenditure	**357,891.9**	**307,399.4**	**404,341.1**	**377,842.8**
Domestic lending	3,884.8	2,825.8	1,077.1	1,348.4
External lending	—	—	—	—
Total lending	3,884.8	2,825.8	1,077.1	1,348.4
Balance (surplus/deficit)	(37,174.3)	(37,258.1)	(80,068.5)	(64,684.9)
Balance (% of GDP)	(4.1)	(4.1)	(7.4)	(6.0)
Domestic financing[6]	4,183.3	(7,541.7)	52,822.6	17,510.3
of which: Receipts from privatisation of State property	7,938.1	807.8	1,051.7	1,093.4
External financing[7]	32,991.0	44,799.9	27,245.9	47,174.6
Total financing[8]	**37,174.3**	**37,258.1**	**80,068.5**	**64,684.9**

Notes:

(1) Basic assumptions underlying the 2009 Consolidated Budget, as amended, included a real GDP growth rate of 0.4 per cent., nominal GDP of UAH 1,046.5 billion, annual CPI inflation of 9.5 per cent. and an average annual exchange rate of UAH 7.5 to U.S.$1.00.

(2) Basic assumptions underlying the 2010 Consolidated Budget, as amended, included a real GDP growth rate of 3.7 per cent., nominal GDP of UAH 1,083.1 billion, annual CPI inflation of 13.1 per cent. and an average annual exchange rate of UAH 8.0 to U.S.$1.00.

(3) Actual VAT revenue for 2010 reflects the effect of a VAT refund in the amount of UAH 16.4 billion which was financed through the issue of T-bills to pay VAT refunds in arrears.

(4) Special funds include amounts received into the fund for Social Insurance of Disabled Persons, a fund for the remediation of environmental pollution and special funds established by the parliament of the Autonomous Republic of Crimea and other local governance bodies and authorities in Ukraine.

(5) Does not include repayments of principal.

(6) "Domestic financing" includes domestic issues, domestic repayments, changes in cash volumes and receipts from privatisation of State property. "Domestic financing" is presented net of repayments (i.e. net of domestic issues and domestic repayments).

(7) "External financing" is presented net of repayments (i.e. net of external issues and external repayments).

(8) "Total financing" and components of this line reflect financing of both State and local budgets. State property privatisation receipts are included in the State Budget only.

The main components of the Consolidated Budget (consisting of the State Budget and local budgets) for 2011 and 2012 and the actual Consolidated Budget performance for 2011 and 2012 are set out in the table below:

	2011[1]		2012[]	
	Budget (as amended)	Actual	Budget (as amended)	Actual
	(in UAH millions)			
Revenues				
Tax revenue	334,691.9	73,045.6	390,396.4	83,560.8
of which:				
Personal income tax	60,224.5	12,803.0	68,927.3	14,918.6
Corporate income tax	55,097.0	11,524.0	57,945.0	14,377.4
VAT	130,093.75	29,345.9	163,030.0	31,571.4
Excise duty on domestic goods	26,097.1	5,419.1	32,208.0	5,916.0
Excise duty on imported goods	7,822.1	1,479.0	10,284.0	2,204.6
Non-tax revenue	60,003.7	10,662.8	62,353.6	14,390.7
Capital revenue	2,347.5	494.0	3,850.5	426.9
Official transfers	481.4	9.1	762.4	56.6
Special funds[2]	1,029.1	224.0	687.3	167.4
Total revenues	**398,553.6**	**84,435.5**	**458,050.2**	**98,602.4**
Expenditure				
State function	49,874.7	10,061.7	62,850.4	11,248.6
of which:				
Public and local administration. financial and foreign economic activity	20,389.1	4,178.5	16,669.1	4,289.4
Sovereign debt service[3]	23,949.0	4,760.3	30,854.1	5,585.8
Fundamental research	2,954.2	673.7	3,454.9	754.7
National defense	13,242.2	2,623.4	17,412.7	2,726.0
Law enforcing activity and State security and court power	32,637.7	6,371.4	35,634.3	7,210.1
Economic activity	57,124.1	7,435.5	60,584.7	10,303.4
of which:				
General economic, trade and labour activity	2,107.0	242.6	752.6	265.1
Agriculture, forestry, fishery and hunting	7,642.8	1,022.8	10,217.7	1,249.4
Fuel and energy complex	10,995.9	1,595.2	10,977.0	2,161.9
Transport	18,489.3	2,579.4	16,546.8	4,134.2
Communication, telecommunication and informatics	184.6	32.9	230.2	40.5
Education	86,253.6	19,914.4	92,805.7	24,193.5
Health	48,961.6	9,901.0	55,176.1	11,884.3
Social protection and insurance	105,434.8	24,903.3	125,704.5	27,189.3
Housing and communal services	8,679.3	865.9	13,148.3	1,080.3
Intellectual and physical development	10,754.9	1,971.2	14,787.2	2,431.0
of which:				
Culture and art	6,615.5	1,336.4	9,280.7	1,643.4
Mass media	1,078.0	168.2	1,793.8	208.2
Physical culture and sport	3,012.3	460.1	3,630.6	566.2
Protection of environment	3,890.7	457.1	5,135.3	733.2
Total expenditure	**416,853.6**	**84,504.9**	**483,239.2**	**98,999.7**

	2011[1]		2012[]	
	Budget (as amended)	Actual	Budget (as amended)	Actual
	(in UAH millions)			
Revenues				
Domestic lending	4,757.9	642.9	0.059	314.6
External lending	–	–	–	–
Total lending	4,757.9	642.9	0.059	314.6
Balance (surplus/deficit)	(23,057.9)	(712.3)	(25,129.5)	(711.8)
Balance (% GDP)	(1.8)	–	(1.7)	–
Domestic financing[4]	8,556.3	(6,202.3)	18,846.2	1,568.9
of which: Receipts from privatisation of State property	11,480.3	1,094.4	10,000.0	4,086.3
External financing[5]	14,501.6	6,914.6	6,283.3	(857.0)
Total financing[6]	**23,057.9**	**712.3**	**25,129.5**	**711.8**

Notes:

(1) Basic assumptions underlying the 2011 Consolidated Budget included a real GDP growth rate of 4.7 per cent., nominal GDP of UAH 1,291.0 billion, annual CPI inflation of 8.9 per cent. and an average annual exchange rate of UAH 7.95 to U.S.$1.00.

(2) "Special funds" includes amounts received into the fund for Social Insurance of Disabled Persons, a fund for the remediation of environmental pollution and special funds established by the parliament of the Autonomous Republic of Crimea and other local governance bodies and authorities in Ukraine.

(3) Does not include repayments of principal.

(4) "Domestic financing" includes domestic issues, domestic repayments, changes in cash volumes and receipts from privatisation of State property. "Domestic financing" is presented net of repayments (i.e. net of domestic issues and domestic repayments).

(5) "External financing" is presented net of repayments (i.e. net of external issues and external repayments).

(6) "Total financing" and components of this line reflect financing of both the State Budget and local budgets. State property privatization receipts are included in the State Budget only.

The 2012 Consolidated Budget, as amended, contemplates revenues of approximately UAH 458.1 billion, expenditure of approximately UAH 483.3 billion and a budget deficit of approximately UAH 25.1 billion (or 1.7 per cent. of GDP). Basic assumptions underlying the 2012 Consolidated Budget include a real GDP growth rate of 3.9 per cent., nominal GDP of UAH 1,500.0 billion, annual CPI inflation of 7.9 per cent. and an average exchange rate of UAH 8.10 to U.S.$1.00. In the first quarter 2012, revenues and expenditure amounted to approximately UAH 98.6 billion and UAH 99.0 billion, with the actual budget deficit amounting to UAH 0.7 billion.

The following table sets out the actual (or forecasted for the first quarter of 2012) revenues, expenditure, lending, deficit/surplus, and deficit/surplus as a percentage of GDP as calculated by the Ministry of Finance for the Consolidated and State Budgets between 2009 and 2011 and for the first quarter of 2011 and 2012:

	As at 31 December			Three months ended 31 March	
	2009[1]	2010[2]	2011[3]	2011	2012[1]
	(in UAH millions)				
GDP	913,345.0	1,082,569.0	1,316,000.0	261,878.0	296,970.0
Consolidated Budget					
Revenues[4]	272,967.0	314,506.3	398,553.6	84,435.5	98,602.4
Expenditure	307,399.4	377,842.8	416,853.6	84,504.9	98,999.7
Lending	2,825.8	1,348.4	4,757.9	642.9	314.6
Surplus (Deficit)	(37,258.1)	(64,684.9)	(23,057.9)	(712.3)	(711.8)
Surplus (Deficit)(% of GDP)	(4.1)	(6.0)	(1.8)	–	–
State Budget					
Revenues	209,700.3	240,615.2	314,616.9	66,426.3	77,238.6
Expenditure	242,437.2	303,588.7	333,459.5	66,691.0	75,951.5
Lending	2,780.3	1,292.0	4,715.0	638.5	308.6
Surplus (Deficit)	(35,517.2)	(64,265.5)	(23,557.6)	(903.2)	978.5
Surplus (Deficit)(% of GDP)	(3.9)	(5.9)	(1.8)	–	–

Notes:

(1) Basic assumptions underlying the 2009 Consolidated Budget, as amended, included a real GDP growth rate of 0.4 per cent., nominal GDP of UAH 1,046.5 billion, annual CPI inflation of 9.5 per cent. and an average annual exchange rate of UAH 7.5 to U.S.$1.00.

(2) Basic assumptions underlying the 2010 Consolidated Budget, as amended, included a real GDP growth rate of 3.7 per cent., nominal GDP of UAH 1,083.1 billion, annual CPI inflation of 13.1 per cent. and an average annual exchange rate of UAH 8.0 to U.S.$1.00. Data for 2010 includes a VAT refund in the amount of UAH 16.4 billion which was financed through the issue of T-bills to pay VAT refunds in arrears.

(3) Basic assumptions underlying the 2011 Consolidated Budget included a real GDP growth rate of 4.7 per cent, nominal GDP of UAH 1,291.0 billion, annual GPI inflation of 8.9 per cent. and an average annual exchange rate of UAH 7.95 to U.S.$1.00.

Source: Ministry of Finance

Expenditure

The 2011 Consolidated Budget, as amended, made provision for social expenditure at 57.7 per cent. of the Consolidated Budget. Of this amount, the 2011 State Budget Law, as amended, made provision for social expenditure of 42.2 per cent. of the State Budget, which included wage increases for public sector employees and welfare payment increases. In 2011, actual social expenditure amounted to 60.3 per cent. of Consolidated Budget expenditure and 43.9 per cent. of State Budget expenditure. "Protected" expenditure, including external debt service, wages for public sector employees and certain welfare payments and financing for the implementation of measures relating to the State Programme for the Decommissioning of Chernobyl Nuclear Power Station, including work on the sarcophagus encasing the ruined fourth reactor to minimise environmental damage and strengthening the exclusion zone barriers, amounted to UAH 245.4 billion, or 73.6 per cent. of the State Budget General Fund Expenditure.

The 2012 Consolidated Budget, as amended, contemplates social expenditure at 59.7 per cent. of the Consolidated Budget. Of this amount, the 2012 State Budget Law makes provision for State Budget social expenditure of 44.5 per cent. In the first quarter 2012, actual social expenditure amounted to 66.4 per cent. of Consolidated Budget expenditure and 46.8 per cent. of State Budget expenditure. This included healthcare (12.0 per cent. of Consolidated Budget expenditure and 3.4 per cent. of State Budget expenditure) and education (24.4 per cent. and 13.4 per cent., respectively). Furthermore, some expenditure, for example, in relation to the social programmes surrounding the rehabilitation of Chernobyl victims, is classed as protected and equates to approximately UAH 86.7 billion of the 2012 Consolidated Budget.

Revenues

The following table sets out sources of revenue for the Consolidated Budget (consisting of the State Budget and local budgets) from 2008 to 2011 and for the first quarter of 2011 and 2012, respectively:

	Year ended 31 December			Three months ended 31 March	
	2009	**2010**	**2011**	**2011**	**2012**[1]
			(in UAH millions)		
Tax revenues	**208,073.2**	**234,447.7**	**334,691.9**	**73,045.6**	**83,560.8**
Direct taxes	89,200.6	104,729.1	128,684.0	27,498.9	33,063.7
of which:					
Personal income tax	44,485.3	51,029.3	60,224.5	12,803.0	14,918.6
Corporation tax	33,048.0	40,359.1	55,097.0	11,524.0	14,377.4
Land tax	8,362.7	9,539.9	10,700.9	2,499.5	2,897.4
Property tax (motor vehicle tax)	1,538.3	1,905.4	673.7	203.4	139.9
Uniform tax for small business[1]	1,766.3	1,895.4	1,987.9	469.0	730.4
Indirect taxes	**112,932.7**	**123,483.2**	**175,787.0**	**38,433.1**	**42,310.8**
of which:					
VAT	84,596.7	86,315.9	130,093.75	29,345.9	31,571.4
Excise tax on domestic goods	17,934.5	23,715.3	26,097.1	5,419.1	5,916.0
Excise tax on imported goods	3,690.0	4,600.8	7,822.1	1,479.0	2,204.6
Import duty	6,328.8	8,556.4	10,462.8	2,067.2	2,571.9
Export duty	382.7	294.8	1,311.3	121.9	46.9
Other taxes	5,939.9	6,235.4	30,220.9	7,113.6	8,186.3
Non-tax revenues	**58,435.8**	**73,837.0**	**60,003.7**	**10,662.8**	**14,390.7**
of which:					
Entrepreneurial and property income	17,062.6	30,629.5	17,662.0	1,775.4	4,524.3
Administrative fees and charges non commercial sale income	2,719.0	2,638.1	4,459.05	960.3	1,706.2
Other non-tax revenue[2]	38,654.2	40,569.4	37,882.6	7,927.1	8,160.2
Capital revenue	**3,653.1**	**3,143.2**	**2,347.5**	**494.0**	**426.9**
Official transfers	**645.3**	**305.6**	**481.4**	**9.1**	**56.6**
Special funds	**2,159.5**	**2,772.7**	**1,029.1**	**224.0**	**167.4**
Payments to Fund of Social Insurance of Disabled of Ukraine	227.0	187.5	206.4	85.8	61.7
Collection for pollution of the environment (environmental tax)[3]	1,211.8	1,932.4	2,275.9	125.5	748.9
Special funds established by parliament of Auto governmental bodies and authorities	720.7	652.7	822.7	138.2	105.6
Total revenues[4]	**272,967.0**	**314,506.3**	**398,553.6**	**84,435.5**	**98,602.4**

Notes:

(1) As of 2011 - uniform tax which includes uniform tax of legal entities and uniform tax of individuals.

(2) Includes own source revenues of budgetary institutions and organisations.

(3) Collection for pollution of the environment includes tax revenues as from 2011.

(4) Data for 2010 includes a VAT refund in the amount of UAH 16.4 billion which was financed through the issue of T-bills to pay VAT refunds in arrears.

Source: Ministry of Finance

Tax revenues of the Consolidated Budget in 2011, were UAH 334.7 billion, an increase of 42.8 per cent. as compared to 2010.

Tax revenues of the State Budget in 2011 were UAH 261.6 billion, an increase of 56.8 per cent. as compared to 2010. This increase was mainly due to changes in the budget classification methodology, whereby a number of revenue streams were transferred from non-tax to tax, including rental income and energy payments, as well as the impact of increased VAT revenue (which partly reflected the payment of a VAT refund in 2010 in the amount of UAH 16.9 billion which was financed through the issue of T-bills to pay VAT refund arrears).

The high taxation of enterprises is one of the reasons for the continuing prevalence of the shadow economy, which has impeded revenue collection. State Budget tax arrears at year-end 2010, increased by UAH 4.1 billion to UAH 15.0 billion, compared to tax arrears of UAH 10.9 billion, UAH 8.6 billion and 6.2 billion, at year-end 2009, 2008 and 2007. However, this trend changed in 2011 and State Budget tax arrears deceased by UAH 3.1 billion to UAH 11.9 billion at year-end 2011 and to UAH 11.4 billion as at 1 April 2012. This decrease was mainly due to the measures taken by the State tax administration to ensure repayment of tax arrears.

Corporation Tax

The Tax Code provides for a gradual decrease in the rate of corporation tax from 25 per cent. to 23 per cent., effective 1 April 2011, to 21 per cent., effective 1 January 2012, to 19 per cent., effective 1 January 2013 and to 16 per cent., effective 1 January 2014. However, businesses in the biofuel industry, publishing industry and certain other sectors enjoy preferential tax regimes. In addition to corporation tax, firms have to pay additional amounts of between 36.8 per cent. and 49.7 per cent. of gross wages (depending on the level of risk associated with the particular industry). Firms are also required to withhold and remit a single social contribution at a rate of 3.6 per cent. of each employee's gross salary. The total annual salary used to calculate these mandatory contributions is capped. This cap is established by legislation and is subject to annual revision by Parliament. As at the date of this Prospectus, the cap is UAH 18,598 and will increase to UAH 18,734, UAH 19,006 and UAH 19,278 per employee as from 1 July 2012, 1 October 2012 and 1 December 2012, respectively. Pension Fund duties are also levied on certain types of transaction, such as the purchase and sale of high end jewellery (currently 5 per cent.) and cars (currently 3 per cent.).

Personal Income Tax

The basic rate of personal income tax in Ukraine is 15 per cent., which applies to all income levels. From 1 January 2011, with the introduction of the new Tax Code, an individual who has a personal income in excess of the minimum wage multiplied by a factor of 10, now has to pay a 17 per cent. personal income tax rate. As at 1 January 2011, the minimum wage multiplied by a factor of 10 equalled UAH 10,730.

The personal income tax revenues of 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, the personal income tax revenues of local budgets decreased to UAH 44.5 billion, which was followed by an increase to UAH 51.0 billion in 2010. As from 2011, 50 per cent. of all personal income tax collected in Kyiv is transferred to State Budget revenues. In 2011, the personal income tax revenues of local budgets and the State Budget amounted to UAH 54.1 billion and UAH 6.2 billion, respectively. For the first quarter of 2011, the personal income tax revenues of local budgets and the State Budget amounted to UAH 11.5 billion and 1.3 billion, respectively, which increased to UAH 13.4 billion and UAH 1.5 billion, respectively, for the first quarter of 2012.

VAT

VAT is currently charged 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. as from 1 January 2014. Because VAT serves an important macroeconomic stabilisation role, the Government decided this should be collected centrally. 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 revenue and 56.8 per cent. of the total tax revenue of the 2009 State Budget, 40.0 per cent. of total revenue and 56.1 per cent. of total tax revenue of the 2010 State

Budget (not including the VAT refund of UAH 16.4 billion which was financed through the issue of T-bills to pay VAT refund arrears) and 41.3 per cent. of total revenue and 49.7 per cent. of total tax revenues of the 2011 State Budget. For the first quarter of 2011, VAT collection constituted approximately 44.2 per cent. of total revenue and 51.2 per cent. of total tax revenue, compared to approximately 40.9 per cent. of total revenue and 48.6 per cent. of total tax revenues, respectively, for the first quarter of 2012.

Under the existing tax regime, exporters are entitled to receive VAT refunds for exports. Due to the fact that a significant amount of VAT refunds fell in arrears, the Government from time to time issued T-bills to pay the outstanding amounts. In 2011, no T-bills were issued, and currently no T-bills are due to be issued under the 2011 State Budget Law. As at 1 December 2011, the total amount of VAT refunds in arrears amounted to UAH 22.1 billion. In the first quarter of 2012, VAT proceeds increased by approximately 7.6 per cent. as compared to the corresponding period 2011.

Tax Reforms

In 2008 and 2009, a number of changes were introduced to Ukrainian tax legislation in accordance with WTO requirements, including changes in the taxation of dividends distributable through holding companies, the abolition of customs duties, the reduction of import duties for more than 2,500 goods and changes in the price of licences required for various activities. In addition, a number of tax incentives were introduced, including import duty exemptions for energy saving equipment and materials and equipment powered by non-traditional alternative energy sources. On 20 May 2010, Parliament passed a law increasing excise tax and import duties for a number of products, improving the tax administration system and eliminating certain loopholes in tax legislation, which came into effect in the second half of 2010.

In line with the goals of the 2010-2014 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, corporation 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 in the corporation 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 going forward. Furthermore, under the Tax Code, the VAT 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 ongoing implementation of the Tax Code to result in increased tax revenues for the State Budget.

In addition, pursuant to the 2010-2014 Economic Reform Programme, by the end of 2012, Ukraine should further reduce the number of inefficient taxes and duties through the introduction of a real estate tax.

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 payments that were previously required. This law aims to simplify the operation of the State social insurance system and provide for the collection of insurance contributions by a single authority, the Pension Fund.

Pensions

In 2007 and 2008, the Pension Fund did not have a deficit, which was partially due to the reallocation in 2008 of funds, formerly part of the Temporary Disability Social Insurance Fund, to the Pension Fund, combined with growth in 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 as well as other short term financing requirements. In accordance with the Law on the State Budget for 2009, the Pension Fund was expected to have a UAH 13.7 billion deficit in 2009, which 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 short term financing cash requirements. 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, which 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 short term financing requirements was UAH 25.1 billion. In 2011 the Pension Fund had a UAH 17.8 billion deficit to be covered out of the State Budget. As at 31 December 2011, the outstanding principal amount of loans extended to the Pension Fund to finance shortfalls was UAH 37.2 billion, the outstanding principal amount of loans increasing by UAH 12.1 billion in 2011. The 2012 State Budget Law contemplates that UAH 9.7 billion will be required to cover the deficit in the Pension Fund. See "*The Labour Market - Pensions, Unemployment Benefits and Social Benefits - Pensions and Pension Reform*".

Local Budgets

The Budget Code governs the balance between the State Budget and local budgets and regulates payments between 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, districts (rayons) and other administrative regions, as a result of which there are 692 local budgets to which direct transfers are made from the State Budget. In addition, there are 11,394 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 State Budget funds indirectly through transfers from the higher level subdivisions. The Government is responsible for all national expenditure, while local governments in Ukraine manage a significant portion of expenditure in the social sectors (including approximately 60 per cent. of educational expenditure). Oblasts are responsible for regional expenditure (such as social protection), and districts (rayons) and cities are responsible for providing local facilities and services, such as basic health and sanitation.

In 2009, interbudgetary transfers from the State Budget to local budgets amounted to UAH 62.2 billion. The 2010 State Budget Law estimated interbudgetary transfers from the State Budget to local budgets totalling UAH 81.3 billion, while actual interbudgetary transfers in 2010 amounted to UAH 77.8 billion. The 2011 State Budget Law (as amended) estimated interbudgetary transfers from the State Budget to local budgets totalling UAH 96.1 billion. In 2011 actual interbudgetary transfers from the State Budget to local budgets amounted to UAH 94.9 billion. The 2012 State Budget Law (as amended) estimated interbudgetary transfers in 2012 totalling UAH 110.1 billion. For the first quarter of 2012, interbudgetary transfers from the State Budget to local Budgets amounted to UAH 23.9 billion.

The Budget Code, when initially introduced in 2001, 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 corporation 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 Budget Reform was approved by the resolution of the Cabinet of Ministers dated 23 May 2007 (as amended) with the aim 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 for 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 the redistribution of revenues and expenditure among local budgets at different levels.

The 2010-2014 Economic Reform Programme also provides for the implementation between 2010 and 2014 of a number of measures to improve the efficiency of interbudgetary relations and increase the revenues of 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 the abolishment of inefficient taxes and the 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.

Partially these measures have already been implemented in the restated Budget Code. The Budget Code, as restated, provides for the transfer of certain State Budget revenues to local budgets, including revenues from licensing and certification, State registration and other payments. In addition, the number of sources of revenues excluded from the amount of inter-budgetary transfers and development budget and the cost of expenditures included in the amount of inter-budgetary transfers ensuring release of resources, increased. 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 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 Odesa have issued external debt. Any borrowings by local authorities are subject to prior review by the Ministry of Finance for compliance with applicable budgetary legislation.

The Tax Code, which became effective on 1 January 2011, provides for a considerable reduction in the number of local taxes and duties from fourteen to five.

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

PUBLIC DEBT

General

Historically the State and State-owned enterprises have accumulated significant arrears in payments to employees, including for social benefits. When calculating its public debt figures (including for the purposes of this section) Ukraine takes into account only liabilities of the State (the central Government) for which specific bonds or loans have been issued. The data relating to borrowings and repayments in this section do not include borrowings disbursed to the Special Fund of the State Budget in 2011 or previous years and also take no account of repayments from the Special Fund to the State Budget. See "*Public Debt—Special Fund Borrowings*". The data relating to outstanding State debt includes the debt raised through such borrowings. In some tables shown below, borrowings, outstanding State debt and debt servicing data are presented excluding debt owed to the IMF, which is accounted for as a liability of the NBU as opposed to debt owed to the IMF that is accounted for as a direct debt of the Government (for more information on this see the relevant tables and notes). 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 30 April 2012, the total outstanding debt obligations of the State were approximately U.S.$60.9 billion, including approximately U.S.$46.9 billion in State debt (direct debt) and approximately U.S.$14.0 billion in State-guaranteed debt (contingent liabilities).

The 2011 State Budget Law limited State debt (direct debt) at 31 December 2011 to UAH 375.6 billion, without making any distinction between internal and external State debt. This limit does not include debt owed to the IMF by the Government and the NBU. The 2012 State Budget Law limits State debt (direct debt) at 31 December 2012 to UAH 415.3 billion, while the limit for 2013 is UAH 440 billion (or 25 per cent. of GDP).

The following table sets out the total outstanding debt obligations of the State as at the dates indicated:

	As at 31 December						As at 30 April
	2009		2010		2011		2012
	(in U.S.$ billions)	*(% of GDP)*	*(in U.S.$ billions)*	*(% of GDP)*	*(in U.S.$ billions)*	*(% of GDP)*	*(in U.S.$ billions))*
Total debt	39.81	34.80	54.30	39.49	59.22	36.00	60.90
State debt (direct debt)	28.43	24.86	40.63	29.55	44.72	27.20	46.87
Internal debt (direct debt)[1]	11.41	9.98	17.79	12.94	20.21	12.30	22.34
External debt (direct debt)	17.02	14.89	22.84	16.61	24.51	14.90	24.53
of which: debt to the IMF owed by the Government	6.82	5.96	6.86	4.99	6.84	4.16	8.81
State-guaranteed debt (contingent liabilities)	11.38	9.95	13.67	9.94	14.50	8.8	14.04
Internal debt[1]	1.76	1.54	1.75	1.27	1.53	0.9	1.52
External debt	9.62	8.41	11.92	8.7	12.97	7.9	12.52
of which: *debt to the IMF owed by the NBU*	6.07	5.31	7.38	5.37	7.36	4.5	6.97

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 out Ukraine's total State debt service obligations and total State borrowings incurred (not including contingent liabilities and debt to the IMF owed by the NBU) for the periods indicated:

	Year ended 31 December			Four months ended 30 April
	2009	2010	2011	2012
	(*in U.S.$ millions*)			
Total State debt service	5,014	5,216	8,637	2,445
Internal State debt service[1]	2,846	3,856	5,979	2,096
Principal	2,254	2,483	4,030	1,444
Interest	592	1,373	1,761	652
External State debt service	2,168	1,360	2,658	349
Principal	1,609	781	1,701	154
of which: debt to the IMF owed by the Government	–	–	–	–
Interest	559	580	957	195
of which: debt to the IMF owed by the Government	58	120	188	40
Total State borrowings incurred	**14,625**	**10,220**	**10,227**	**3,681**
Internal borrowing[1]	7,473	3,695	6,801	3,526
External borrowing	7,152	6,525	3,427	155
Securities issued by the State	–	2,500	2,850	–
Multilateral creditors	7,152	2,025	–	155
of which: IMF loans to the Government	6,753	2,025	–	–

Note:

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

The following table sets out Ukraine's estimated State debt service obligations for the periods indicated:[1]

	Year ended 31 December		
	2012	2013	2014
	(*in U.S.$ millions*)		
Principal payments	7,389.4	10,401.7	11,988.0
Internal debt[2]	3,627.7	6,147.7	7,396.3
External debt	3,761.7	4,254.0	4,594.7
Interest payments	2,957.2	4,108.7	4,335.7
Internal debt[2]	1,891.1	2,707.3	2,773.7
External debt	1,066.1	1,401.5	1,562.0
Total payments	**10,346.6**	**14,510.4**	**16,323.7**

Notes:

(1) Estimates of payments for current debt obligations of the State as at 31 December 2011.

(2) Hryvnia amounts have been converted to dollar amounts using an assumed average UAH/U.S.$ exchange rate of UAH 8.1 to U.S.$1.00 for 2012, UAH 8.4 to U.S.$1.00 for 2013 and UAH 8.6 to U.S.$1.00 for 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 34.8 per cent. as at 31 December 2009, 39.5 per cent. as at 31 December 2010 and 36.0 per cent. as at 31 December 2011. The increase in the ratio of total debt to GDP in 2010, was due to an increase in IMF debt, further financing of the recapitalisation programme for Naftogaz and the Ukrainian banking sector in the amount of UAH 13.8 billion, the issue of State domestic bonds for VAT reimbursements and the replenishment of the authorised capital of the State Mortgage Institution and an increase in contingent liabilities.

Of these amounts, State external debt (direct debt) as a percentage of GDP was 14.9 per cent. as at 31 December 2009, 16.6 per cent. as at 31 December 2010, and 14.9 per cent. as at 31 December 2011 and is forecast to be 14.7 per cent, as at 31 December 2012 (on the basis of the GDP growth and other assumptions underlying the 2012 budget). 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 1.9 per cent. for the year ended 31 December 2009, 1.0 per cent. for the year ended 31 December 2010 and 1.6 per cent. for the year ended 31 December 2011 and is forecast to be 2.6 per cent. for the year ended 31 December 2012 (on the basis of the GDP growth and other assumptions underlying the 2012 budget).

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) 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 to U.S.$1.00). State borrowing for 2010 was initially budgeted at approximately UAH 78,253.3 million, or UAH 1,784.2 million less than the amended plan for 2009, including external borrowing for the General Fund of UAH 30,400.0 million (an increase of UAH 15,775.0 million from that planned for 2009) and internal borrowing for the General Fund of approximately UAH 47,853.3 million (a decrease of UAH 17,559.2 million from that planned for 2009). The budgeted amount of internal borrowing included an amount of approximately UAH 30.0 billion borrowed for the recapitalisation of the banking sector. Pursuant to the 2010 State Budget Law, external and internal borrowing was initially budgeted at 61.2 per cent. and 38.8 per cent. of total borrowing, respectively.

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

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

The 2011 State Budget Law (as amended) provided for anticipated total State debt service payments (including principal and interest payments, but excluding debt owed to the IMF by the NBU) of UAH 84,719.6 million, 62.2 per cent. of which (or UAH 52,680.1 million) were external debt payments and 37.8 per cent. (or UAH 32,039.5 million) of which were internal debt payments (equal to U.S.$4,030.1 million at an exchange rate of UAH 7.95 to U.S.$1.00). According to the 2011 State Budget Law (as amended), State borrowing for the General Fund of the State Budget was budgeted at approximately UAH 84,837.5 million, which is UAH 5,915.8 million less than the amended plan for 2010, including external borrowing for the General Fund of UAH 39,750.0 million (an increase of UAH 9,350.0 million from that planned for 2010) and internal borrowing for the General Fund of approximately UAH 45,087.5 million (a decrease of UAH 15,265.8 million from that planned for 2010). Pursuant to the 2011 State Budget Law (as amended), external and internal borrowing was planned to amount to 46.9 per cent. and 53.1 per cent. of total borrowing, respectively.

According to operational data of the Ministry of Finance total debt service payments (including principal and interest payments, but excluding debt owed to the IMF by the NBU) amounted to UAH 67,985.8 million in 2011, 70.0 per cent. of which (or UAH 47,588.6 million) were internal debt payments and 30.0 per cent. (or UAH 20,397.2 million) of which were external debt payments. According to operational data State

borrowing in 2011 amounted to UAH 71,048.0 million, including external borrowing for the General Fund of UAH 22,659.3 million and internal borrowing for the General Fund of UAH 48,388.7 million. Actual internal borrowing for the purpose of recapitalisation of the banking sector and Naftogaz amounted to UAH 21.4 billion in 2011.

The 2012 State Budget Law (as amended) provides for anticipated total State debt service payments (including principal and interest payments, but excluding debt owed to the IMF by the NBU) of UAH 94,690.7 million, 53.2 per cent. of which (or UAH 34,651.0 million) are internal debt payments and 46.8 per cent. (or UAH 30,456.8 million) of which are external debt payments. State borrowing for the General Fund of the State Budget is budgeted at approximately UAH 88,352.6 million, which is UAH 3,515.1 million more than the amended plan for 2011, including external borrowing for the General Fund of UAH 32,400.0 million and internal borrowing for the General Fund of approximately UAH 55,952.6 million. It is envisaged that 36.7 per cent. of borrowing will be external and 63.3 per cent. internal.

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 representing the cap for State internal debt (direct debt) or, alternatively, combined State internal and external debt (direct debt) to be issued for each year, although the 2011 State Budget Law permits additional borrowing by the Government in certain cases, including, among other things, for the purposes of the recapitalisation of banks, financial assistance to banks, increasing the statutory capital of Naftogaz and granting loans to the Agrarian Fund. In addition, the Budget Code allows the Government to switch borrowing sources (from external to internal or vice versa) *provided that* the combined limit on State debt is complied with. On 9 December 2011, Parliament approved an amendment, which came into force on 15 December 2011, allowing foreign currency T-bill issuances. Pursuant to this amendment, as at 21 May 2012, the government had issued U.S.$634.0 million and EUR 276.0 million T-bills.

The following table sets out the total outstanding internal debt obligations of the State and the cap on internal debt under the budget as at the dates indicated:

	Year ended 31 December			Four months ended 30 April
	2009	**2010**	**2011**	**2012**
	(*in UAH thousands*)			
State internal debt (direct debt)	91,070,076.8	141,662,098.1	161,467,006.3	178,473,989.41
of which:				
Obligations under T bills	87,631,511.0	138,355,785.0	158,292,945.7	175,332,992.00
Obligations to the NBU[1]	3,438,565.8	3,306,313.1	3,174,060.5	3,140,997.41
State guaranteed debt (contingent liabilities)	14,062,842.6	13,827,751.4	12,240,693.2	12,115,693.23
Total internal debt	**105,132,919.4**	**155,489,849.5**	**173,707,699.5**	**190,589,682.64**
Budget cap for State internal debt (direct debt)[2]	193,076,747.3	315,715,906.3	375,643,401.9[3]	415,326,338.2[4]

Notes:

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

(2) Including 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) The 2011 State Budget Law limits State debt in 2011 to UAH 375,643,401.9, making no distinction between internal and external State debt.

(4) The 2012 State Budget Law limits State debt in 2012 to UAH 415,326,338.2 thousand, making no distinction between internal and external State debt.

Source: Ministry of Finance

As at 31 December 2009, 2010 and 2011, the ratio of State internal debt (direct debt) to total State internal and external debt (direct debt) was approximately 40.1 per cent., 43.8 per cent. and 45.2 per cent., respectively.

In 2009, the Government issued new T-bills totalling UAH 62.8 billion (not including T-bills issued in exchange for debt to the NBU). The Government also issued guarantees for several State-owned aviation enterprises pursuant to domestic bonds issued in the aggregate amount of UAH 2.5 billion in 2009. In 2010, the total proceeds generated for the State budget from the placement of new T-bills was UAH 70.03 billion.

In 2010 and 2011, the Cabinet of Ministers passed resolutions, providing for the issuance of T-bills totalling UAH 12.5 billion for the purpose of the recapitalisation of Naftogaz. Subsequently on 30 March 2011, on 2 June 2011 and 2 November 2011, Ukraine issued T-bills in an aggregate amount of UAH 12.5 billion. Furthermore, on 6 April 2011, Ukraine issued T-bills for the purpose of capitalising JSC "Rodovid Bank" ("**Rodovid Bank**"), the State Savings Bank of Ukraine and UkrGasBank in the principal amounts of UAH 3.95 billion, UAH 604 million and UAH 4.3 billion, respectively. See "*The Banking System and Securities and Financial Services Markets in Ukraine - Measures taken to stabilise the Banking Sector*".

In April 2000, certain debt owed to the NBU originally incurred to finance the State Budget deficits in 1994 to 1996 was recognised as State debt and restructured. The restructuring provided for the repayment of principal which had matured in an 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 U.S.$1.18 billion of State debt for which the Government paid the NBU U.S.$133 million in 2004, U.S.$50 million in each of the years from 2005 to 2007 and U.S.$33.1 million in 2008. At the end of 2009, new T-bills were issued totalling U.S.$1,000.8 million, maturing in 2012 and 2014, in exchange for the remaining debt of the State to the NBU. As of 2010, the Government also started to repay its UAH 3.44 billion debt to the NBU. As at 30 April 2012, the outstanding amount of this debt was UAH 3.14 billion.

The average annual weighted T-bill yield, across all types of T-bill, was 12.2 per cent. in 2009, 10.4 per cent. in 2010 and 7.85 per cent. in 2011. T-bills are issued in many forms by the Government, impacting their yield. In the four months ended 30 April 2012, the average weighted T-bill yield was 13.7 per cent., 9.3 per cent. and 4.8 per cent., depending on whether the T-bills were denominated in the national currency, U.S. dollars or euro, respectively.

International investment in T-bills is currently limited. As at 28 May 2012, non-residents held approximately 1.69 per cent. of all outstanding T-bills. The Government is wary of the inflationary pressure and instability that non-resident investment in T-bills can create in the money market and certain restrictions under Ukrainian legislation therefore apply to foreign investment in T-bills.

To diversify domestic financing streams, in 2009 Ukraine issued State savings bonds, totalling approximately UAH 1.4 million. No further State savings bonds have been issued since 2009.

The table below sets out the total amount of State internal borrowing through T-bills and State savings bonds issued in each of the periods presented:

	Year ended 31 December			Four months ended 30 April
	2009	2010	2011	2012
	(*in UAH thousands*)			
Security (maturity)				
T bills (twelve year maturity)	1,500,000.0	1,500,000.0	1,500,000.0	1,500,000.0
T bills (eleven year maturity)	3,850,000.0	3,849,981.0	3,849,981.0	3,849,981.0
T bills (ten year maturity)	10,217,189.0	13,312,189.0	19,412,189.0	19,412,189.0
T bills (nine year maturity)	18,470,748.0	21,765,747.0	14,874,399.0	14,874,399.0
T bills (eight year maturity)	9,316,198.0	9,316,198.0	10,416,198.0	10,416,198.0
T bills (seven year maturity)	17,470,000.0	19,870,000.0	28,424,001.0	28,484,001.0
T bills (six year maturity)	–	3,000,000.0	5,500,000.0	5,500,000.0
T bills (five year maturity)	8,108,003.0	25,550,791.0	27,440,748.4	26,047,807.1
T bills (four year maturity)	–	–	1,598,269.0	1,598,269.0
T bills (three year maturity)	9,427,995.0	16,281,350.0	28,905,564.0	29,734,449.6
T bills (two year maturity)	665,800.0	4,478,188.0	6,544,268.0	9,881,280.0
T bills (18 month maturity)	–	2,800,000.0	2,100,000.0	7,563,961.1
T bills (12 month maturity)	4,540,152.0	10,127,341.0	4,628,753.1	8,899,709.8
T bills (9 month maturity)	130,000.0	3,638,000.0	383,350.6	383,355.4
T bills (6 month maturity)	3,744,865.0	2,866,000.0	2,065,224.6	3,320,234.0
T bills (3 month maturity)	189,142.0	440,000.0	650,000.0	3,867,158.0
State savings bonds (1 year maturity)	1,419.0	–	–	–

Source: Ministry of Finance

The Government is continuously taking measures to increase the efficiency of State debt management, including through the further development of the domestic market for State securities. In 2009 to 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: the introduction of market pricing for T-bill placements; broadening the scope of State borrowing instruments; the creation of the State securities primary dealer system; enhancing the transparency of State borrowings; the timely placement of idle State Budget funds; and the improvement of State debt risk management. Pursuant to the Concept, starting from 14 May 2009, a market pricing mechanism has been introduced for the primary placements of T-bills. In 2009 and 2010, five primary dealer tenders were held and 15 banks were selected as State securities primary dealers. In 2011, two primary dealer tenders were held and four banks were selected as State securities primary dealers. As at 31 December 2011, the total number of State securities primary dealers was 16 banks. 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. The NBU's client for these purposes is the Fund for Guaranteeing the Deposits of Individuals. A new policy prohibiting T-bill issuances with maturities of less than one year is in force as at the date of this Prospectus.

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).

As at 31 December 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. As at 31 December 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. As at 31 December 2011, Ukraine's external debt was approximately U.S.$37.5 billion, including State debt (direct debt) of U.S.$24.5 billion and State guaranteed debt of U.S.$13.0 billion. The cap for State debt (direct debt) was set by the 2012 State Budget Law at UAH 415.3 billion, without any breakdown for internal and external State debt.

The following tables set out Ukraine's (i) State external debt structure as at 31 December 2009, 2010, 2011 and 30 April 2012; (ii) actual and estimated external debt service for the year 2012; (iii) estimated payments of State external debt service for the years 2013 to 2020; and (iv) estimated IMF debt service for 2012 to 2015:

State External Debt Structure

	Year ended 31 December			As at 30 April
	2009	**2010**	**2011**	**2012**
	(*in U.S.$ thousands*)			
State external debt (direct debt)	17,022,696.3	22,835,965.2	24,507,050.3	24,531,147.7
of which:				
Multilateral borrowings (IFI loans)	8,486,433.4	10,432,283.8	10,556,509.8	10,680,973.4
of which:				
EBRD	342,574.2	331,329.5	444,690.3	527,474.2
EIB	97,498.4	196,544.0	257,780.0	264,580.0
Debt to the IMF owed by the Government	4,899,032.9	6,860,855.0	6,839,609.3	6,902,621.0
World Bank	3,147,327.9	3,043,555.3	3,014,430.1	2,986,298.1
Bilateral borrowings	1,570,533.2	1,415,650.7	1,341,828.2	1,203,691.3
of which:				
Russia	1,094,605.8	996,855.9	899,105.9	801,355.9
United States	99,699.9	75,666.8	54,401.8	44,481.7
France	12,083.3	8,393.8	5,431.1	4,180.8
Japan	104,395.8	151,534.1	259,112.4	252,523.9
Germany	215,084.1	151,283.7	102,889.2	85,228.9
Italy	44,664.3	31,916.5	20,887.9	15,920.1
SDR allocations received to the State Budget	1,925,124.0	1,891,162.7	1,885,306.5	1,902,675.3
Loans from foreign banks[1]	73.3	2,000,067.9	2,000,065.9	2,000,067.6
State External Bonds 2003	1,000,000.0	1,000,000.0	1,000,000.0	1,000,000.0
State External Bonds 2004	600,000.0	600,000.0	–	–
State External Bonds 2005	860,280.0	796,800.0	773,340.0	793,740.0
State External Bonds 2006	1,380,252.3	1,000,000.0	1,000,000.0	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	2,000,000.0	2,000,000.0
State External Bonds 2011	–	–	2,750,000.0	2,750,000.0
Limit of State external debt (direct debt) under the State Budget Law as at 31 December each year[2]	25,743,566.3[3]	39,464,488.3[3]	47,250,742.4[4]	51,274,856.6
State-guaranteed external debt (contingent liabilities)	9,623,665.9	11,923,490.1	12,967,470.0	12,519,940.3
of which:				
Multilateral borrowings (IFI loans)	6,441,086.7	7,740,642.8	7,701,519.5	7,185,112.9
of which:				
European Atomic Energy Community	77,549.7	65,255.5	55,477.5	52,601.9
EBRD	173,578.4	148,586.7	126,366.9	121,058.6
Debt to the IMF owed by the NBU	6,074,800.9	7,384,466.8	7,361,599.7	6,848,391.7
World Bank	115,157.7	142,333.8	158,075.4	163,060.8
Bilateral borrowings[5]	–	190,593.6	190,593.6	190,593.6
Loans from foreign banks	650,579.6	1,001,077.7	1,580,457.7	1,671,682.6
Other	2,531,999.7	2,991,176.0	3,494,899.3	3,472,551.2
Total external debt	**26,646,362.2**	**34,759,455.3**	**37,474,520.4**	**37,051,088.0**

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 2009, 2010 and 2011 State Budget Laws limited State debt, at the respective year-ends, to UAH 193,076,747.3 thousand, UAH 315,715,906.3 thousand and UAH 375,643,401.9 thousand, without apportioning this between internal and external State debt.

(5) Bilateral borrowings represent debt owed to Canada.

Source: Ministry of Finance

Actual or Estimated External Debt Service for 2012[1]

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct	Nov.	Dec.	Total
						(in U.S.$ millions)[2]							
State external debt (direct debt)	40.9	156.0	87.1	65.5	136.0	1,677.6	1,025.2	384.4	89.4	552.7	377.3	138.0	4,730.0
Interest	4.9	108.7	76.1	5.6	100.9	162.8	8.3	135.7	78.3	51.2	128.7	119.5	980.7
Debt to the IMF owed by the Government	–	–	39.9	–	–	38.0	–	–	66.1	–	–	64.4	–
Principal	36.0	47.3	11.0	59.9	35.1	1,514.8	1,016.9	248.7	11.1	501.5	248.6	18.5	3,749.3
Debt to the IMF owed by the Government	–	–	–	–	–	–	–	206.3	–	438.3	206.3	–	850.8
Payments to IMF (debt of the NBU)	–	622.0	–	–	643.8	–	–	851.4	–	–	858.5	–	2,975.7

Notes:

(1) Figures for January, February, March and April are actual, while figures for other months are estimated.

(2) SDR amounts have been converted to dollar amounts as at the maturity date. The average 2012 exchange rate of SDR is 0.606 to U.S.$1.00. Figures do not include future borrowings.

Source: Ministry of Finance

Estimated State External Debt Service for 2013-2020[1]:

	2013	2014	2015	2016	2017	2018	2019	2020
				(in U.S.$ millions)				
State external debt (direct debt)	19,462.5	15,518.9	15,787.8	13,227.0	11,242.4	10,403.2	9,656.7	7,378.5
Interest	191.5	79.1	21.7	0.5	—	—	—	—
Principal	2,797.3	2,824.6	958.0	—	—	—	—	—

Notes:

(1) For current debt obligations of the State as at 31 March 2012.

Source: Ministry of Finance

As at 31 May 2012, the aggregate 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 in 2013 to U.S.$2,908.8 million, largely due to the scheduled repayment in 2013 of debt owed to the IMF by the Government and the redemption of U.S.$1,000.0 million 7.65 per cent. notes due 2013.

Estimated IMF Debt Service for 2012-2015[1]:

	2012[2]	2013[2]	2014[2]	2015[2]	2016	2017
			(in U.S.$ millions)			
Total debt to IMF	3,994.3	6,434.9	4,201.2	4,206.9	6,494.3	3,992.0
Debt of the Government	1,059.2	2,908.8	2,903.6	979.8	0.45	—
Interest	208.4	191.5	79.1	21.7	0.45	—
Principal	850.8	2,717.3	2,824.6	958.1	—	—
Debt of the NBU	2,935.1	3,526.1	1,297.5	3,227.2		
Interest	177.5	210.6	177.6	163.3		
Principal	2,757.6	3,315.5	1,119.9	3,063.9		

Notes:

(1) For current debt obligations of the State as at the date of this Prospectus.

(2) SDR amounts have been converted to dollars using an assumed average 2012-2015 exchange rate of SDR 0.606 to U.S.$1.00.

Source: Ministry of Finance

Commercial Creditors

Since 1997, Ukraine has been regularly issuing bonds in the international capital markets denominated in various foreign currencies. On 23 September 2010, Ukraine issued U.S.$500.0 million 6.875 per cent. notes

due 2015 and U.S.$1.5 billion 7.75 per cent. notes due 2020. On 21 December 2010, Ukraine issued U.S.$500.0 million 6.7 per cent. notes due 2011 and on 26 January 2011, Ukraine issued U.S.$100.0 million 6.7 per cent. notes due 2011. In February and June 2011, Ukraine issued U.S.$ 1.5 billion 7.95 per cent. notes due 2021 and U.S.$1.25 billion 6.25 per cent. notes due 2016, respectively. In July 2012, Ukraine intends to issue U.S.$1 billion 7.95 per cent. notes due 2014, the total aggregate principal amount of which is expected to be initially purchased by VTB Capital plc for its own account as discussed below. As at the date of this Prospectus, Ukraine has in excess of U.S.$20.0 billion in outstanding bonds.

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 borrowed U.S.$2.0 billion at an initial annual interest rate of 6.7 per cent. The loan was for an initial term of six months and was extended for a number of six-month periods until, in June 2012, Ukraine repaid 50 per cent. of the outstanding loan. Ukraine's obligation to repay the remaining 50 per cent. of the loan was extended until 4 June 2014, subject to an obligation by Ukraine to refinance such remaining amount by way of an issuance of bonds by 1 September 2012. Ukraine intends to satisfy this obligation by the issuance of U.S.$1 billion 7.95 per cent. notes due 2014 to VTB Capital plc, which plans to initially take such notes for its own account. Upon the issuance of such notes to VTB Capital plc, the obligation of Ukraine to repay the remaining 50 per cent. of the loan will be extinguished. Subject to compliance with applicable law, VTB Capital plc is not subject to any contractual restrictions on its ability to freely dispose of all or any of such notes in the market at any time.

International Financial Institutions

Since Ukraine gained independence, credit from international financial organisations has played a significant role in fostering economic and structural reforms. Resources from these organisations provide long term support for economic growth in an environment of low domestic investment and expensive (and sometimes unavailable) commercial borrowing. Since 1992, Ukraine has received loans amounting to U.S.$18.3 billion from the IMF and U.S.$5.2 billion from the World Bank. As at 31 December 2011, Ukraine and Ukrainian companies raised €7.1 billion from the EBRD through more than 296 financings (this figure includes loans raised by Ukrainian companies with and without State guarantees). 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 2009, 2010, 2011 and 31 March 2012, the total amount of debt owing to the IMF stood at U.S.$11.0 billion, U.S.$14.2 billion, U.S.$14.4 billion and U.S.$13.7 billion, respectively (including debt owed to the IMF by the Government amounting to approximately U.S.$6.8 billion, U.S.$6.9 billion, U.S.$6.9 billion and U.S.$6.9 billion, as at 31 December 2009, 31 December 2010, 31 December 2011 and 31 March 2012, respectively). The total amount of direct debt owing to other international organisations stood at U.S.$3.6 billion, U.S.$3.6 billion, U.S.$3.7 billion and U.S.$3.7 billion as at 31 December 2009, 2010, 2011 and 31 March 2012, respectively. Repayments of principal and interest in respect of Government IMF debt for 2010 totalled approximately U.S.$119.6 million, were U.S.$188.1 million in 2011 and are estimated to amount to U.S.$1.06 billion in 2012. Repayments of principal and interest in respect of debt owed to international organisations other than the IMF amounted to U.S.$309.7 million in 2010 and U.S.$354.3 million in 2011 and are estimated to amount to U.S.$378.6 million in 2012.

IMF

During the initial phase of Ukraine's market reforms, Ukraine used the credit resources of the IMF to facilitate monetary reform, support the exchange rate, increase currency reserves, service external debt and finance any payment shortfalls.

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 a two year stand-by arrangement in an aggregate amount of U.S.$16.4 billion for Ukraine. The financing extended under the 2008 SBA 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 2008 SBA 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 macroeconomic policy, a flexible exchange rate policy and a tight fiscal policy.

To achieve these aims, the 2008 SBA focused 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, contemplated following 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 expenditure. 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 the strengthening of the NBU's independence and governance structure. The third element of the arrangement, financial sector policy, envisaged development and the implementation of a comprehensive framework for the recapitalisation and restructuring of the banking system in order to restore financial stability in Ukraine and confidence in the banking sector.

In addition to this, the 2008 SBA provided for a quantitative and continuous performance criteria to be met by Ukraine as at 31 December 2008, 31 March 2009, 31 May 2009, 30 September 2009 and 31 December 2009. Such criteria included, among other things, a cap on the cash deficit of the general government, a limit on net international reserves of the NBU, and a cap on the monetary base. Some of the criteria were revised in 2009 and differ from the original targets.

In 2008 and 2009, Ukraine received three tranches under the 2008 SBA in the total amount of U.S.$10.6 billion, U.S.$4.8 billion of which was earmarked for financing the State Budget deficit, including repayments of external State debt. In November 2009, further IMF financing under the 2008 SBA was suspended due to a failure by the IMF and Ukraine to reach an agreement with respect to the results of the third review.

From March to July 2010, after the new President of Ukraine took office, representatives of the IMF visited Ukraine to review the macroeconomic situation, the budget, fiscal and monetary policy of the Government and the NBU and to consider the possibility of resumption of IMF support. On 28 July 2010, 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 scheduled for 2010, and four tranches scheduled for 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 of approximately U.S.$1.89 billion under the 2010 SBA, approximately U.S.$1.02 billion of which was earmarked for the financing of the State Budget deficit.

The Ukrainian economic programme, which is supported by the 2010 SBA, aims to entrench fiscal and financial stability, advance structural reforms, and facilitate sustainable and balanced growth in Ukraine. To achieve these aims, the 2010 SBA 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 a restoration of confidence and fiscal sustainability by reducing the 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 Naftogaz to 0.4 per cent. of GDP in 2011 and eliminating it thereafter; reducing the public debt to GDP ratio with the objective of stabilising it below 35 per cent. by 2015 (this figure relates only to State direct debt); and taking measures to gradually reduce the tax burden on the economy. The monetary and exchange rate policy contemplated by the arrangement provides for maintaining core CPI inflation in single digits in 2010 (which was achieved) and 2011 and bringing overall CPI inflation 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, focuses on completing the resolution and recapitalisation of systemic banks, strengthening State-owned banks, and enacting key legislation and regulations, including, among other things, creating a framework that properly recognises and facilitates the resolution of impaired loans and implementing consolidated supervision.

In addition, the 2010 SBA sets out quantitative and continuous performance criteria to be met by Ukraine. These criteria include among other things, a cap on the cash deficit of the general government, a limit on the

net international reserves of the NBU, a cap on net domestic assets and a cap on State guaranteed debt. The first compliance review of Ukraine under the 2010 SBA terms took place in December 2010. Ukraine was required to have met certain criteria as to net domestic assets, net international reserves and cash deficit of the governmental sector. 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 representative from the IMF visited Kyiv in February 2011 to hold discussions on the second review. During the visit, a revised schedule increases of gas tariffs charged to consumers was agreed. Following the February 2011 visit, certain additional budgetary measures were identified to assist Ukraine in maintaining the combined general government and Naftogaz deficit within the levels agreed as part of the 2010 SBA, and pension reform legislation was to be enacted. On 9 September 2011 the President signed the Law of Ukraine "On Measures to Ensure the Legislative Reform of the Pension System" dated 8 July 2011, which became effective from 1 October 2011. The IMF mission visited Kyiv, most recently, from 21 May to 28 May 2012, to conduct further discussions on the 2012 Article IV consultation. Principal agenda items were consumer gas tariff increases, maintaining price as well as exchange-rate stability and reinforcing bank balance sheets. The discussions with the IMF are ongoing, but there is no assurance that the third tranche or subsequent tranches will be disbursed until the IMF deems that performance criteria under the programme are satisfactorily met. See "*Risk Factors—Inability to obtain financing from external sources could affect Ukraine's ability to meet financing expectations in its budget*".

Ukraine also receives the IMF's support in the form of SDRs. On 28 August 2009, the IMF allocated to Ukraine 1.017 billion SDRs (equal to U.S.$1.6 billion) as part of a distribution of approximately 161.2 billion SDRs among 186 shareholder states of the IMF. In September 2009, the IMF made an additional allocation to Ukraine in the amount of 292 million SDRs as part of a special one time distribution of SDRs to IMF members. As at the end of 2010, Ukraine utilised 1.2 billion SDRs of the aggregate amount of such IMF allocations. The amount of SDR allocations received by the State Budget is recorded as State borrowings and, therefore, is included as State debt (direct debt).

The IMF's methodology for calculating the target consolidated general government deficit as a percentage of GDP differs from Ukraine's methodology for calculating the projected State Budget deficit as a percentage of GDP in the 2011 State Budget. Therefore, were Ukraine to calculate its consolidated general government deficit using the IMF methodology, that number would differ from the State Budget deficit figure contemplated in the 2011 State Budget.

World Bank

From 1992 to 30 April 2012, the World Bank approved 44 loans and four Global Environment Facility grants to Ukraine amounting to approximately U.S.$7 billion (U.S.$5.2 billion had been raised under such loans as at 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 and State governance sectors. 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, which was subsequently replaced by a Development Policy Loan ("**DPL**") project, intended to support broad improvements in governance, especially political and institutional reforms in the following sectors: investment in climate improvement, improvement of public administration and State finance management, and enhancement of social integration.

In June 2006, the loan agreement under the Access to Financial Services Project was signed, and was ratified by Parliament on 13 December 2006. The amount of loan was U.S.$150.0 million. As at 30 April 2012, 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 the Ukreximbank and the World Bank were ratified on 1 December 2006). As at 30 April 2012, U.S.$151.81 million had been utilised under the Second Export Development Project.

In August 2007, the Board of Directors of the World Bank approved the Power Transmission Project, involving a U.S.$200 million loan, and the Urban Infrastructure Development Project, involving a U.S.$140 million loan. The loan agreements under these projects came into effect on 5 December 2008 and 10 November 2008, respectively. As at 31 March 2012, U.S.$32.49 million and U.S.$35.70 million had been distributed 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 December 2007, the World Bank approved the Strategy for Partnership of the World Bank and the International Finance Corporation ("**IFC**") 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. On 16 February 2012 the World Bank approved a new Partnership Strategy for Ukraine for 2012 to 2016. The Strategy envisages an annual investment lending programme of U.S.$500 million in 2013 and 2014.

In January 2008, the Board of Executive Directors of the World Bank approved the Public Finance Modernisation Project, involving a U.S.$50 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 30 April 2012, approximately U.S.$2.82 million has been distributed under the Public Finance Modernisation Project. The project aims to strengthen public finance management in Ukraine through the improvement of functional efficiency and transparency in the sector, the introduction of an integrated system of public finance management and support of the major reform programmes of the Ministry of Finance.

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 investments in climate improvement needed for further economic development, the creation of a fiscal foundation for economic growth by means of strengthening the public finance sector, a reform of the public sector and improvement of the quality of social services.

In the first quarter of 2009, Ukraine and the World Bank initiated the Programme for Financial Rehabilitation Loan Project, under which Ukraine expects to borrow U.S.$750 million in two tranches. The first tranche under this project 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 with implementing a system of recapitalising, by the State, of large problem banks, consolidating the banking system, strengthening the system to protect individual deposits, and increasing the population's confidence in the banking system.

On 21 April 2009, Ukraine and the World Bank signed a 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 in general use. The facility agreement came into effect on 3 September 2009 and, as at 30 April 2012, U.S.$171.54 million had been drawn down.

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 30 April 2012, the total amount drawn down under this project amounted to U.S.$61.49 million.

Two other World Bank projects are currently at the final stages. First, the Energy Saving Project worth U.S.$200 million, which aims at financing the energy saving improvement measures of Ukrainian industrial companies. This project was approved by the Board of Executive Directors of the World Bank on 17 May 2011. The loan agreement and the guarantee agreement under this project were signed on 10 June 2011, with the guarantee agreement ratified by Parliament on 4 October 2011. Second, the Additional Financing for

Second Export Development Project worth U.S.$150 million, which aims to support the development of exports by private Ukrainian companies which are not State-owned by helping finance the medium- and long-term investment needs of export-oriented companies. This project was approved by the Board of Executive Directors of the World Bank on 25 August 2011. As at 30 April 2012, the total amount drawn down under this project amounted to U.S.$152.19 million.

The activities of other members of the World Bank Group, such as the IFC, the Multilateral Investment Guarantee Agency ("**MIGA**") and the International Development Association are concerned with encouraging foreign private investment in various sectors of the economy. The aim is that this investment will 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 loans for private sector companies; however, the economic downturn, negatively impacted the investment climate. 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.

EIB

Ukraine has been cooperating with the EIB since 2005, when a framework agreement with the EIB was signed. A 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. 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, and in March 2011 the EIB opened its representative office in the Ukraine. The representative office will be directly involved in the implementation of the EIB's projects.

On 30 July 2007, Ukraine and the EIB signed a Financing Agreement relating to the Kyiv Chop Road Rehabilitation Project under which Ukraine borrowed €200 million from the EIB. The EBRD has agreed to provide an additional €200 million in financing; see "*Public Debt—EBRD*". As at 31 March 2012, the EIB had distributed €200.0 million under the Kyiv Chop Road Rehabilitation Project.

On 27 May 2011, Ukraine and the EIB signed a Financing Agreement "Ukraine European Roads of Ukraine II (the project "Improvement of Roads Around Kyiv", under which Ukraine expects to borrow €450.0 million from the EIB. Currently, measures are being taken for implementation of this Agreement under this project. The EBRD will provide an additional €450.0 million in financing of this project.

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 expected €150 million for this project to be funded by the EIB, with another €150 million to be funded by the EBRD. As at 31 March 2012, €14.20 million of EBRD funds had been distributed 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. Currently, measures are being taken for implementation of agreements under this project.

On 16 September 2011, Ukraine and the EIB signed a Financing Agreement for the construction of a 750 kV electrical transmission line "Zaporizhska NPS-Kahovska". Under this agreement, Ukraine expects to borrow €175 million from the EIB. The disbursement of funds is likely to occur in the fourth quarter of 2012.

On 29 September 2011, Ukraine and the EIB signed a Financing Agreement for the Ukrhydroenergo Rehabilitation Project, under which Ukraine expects to borrow €200 million, with an additional €200 million to be funded by the EBRD.

Other projects that are being prepared with the EIB include projects for the construction of electrical transmission lines (such as the 330 kV electrical transmission line "Novoodeska-Artsyz"), under which Ukraine expects to borrow €50 million from the EIB, with an additional €50 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 which has been approved by the EIB; 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 financial institution); and a joint project with the EBRD and the EIB completing the subway construction in Dnipropetrovsk, whereby Ukraine expects to borrow €304 million (€152 million from each financial institution).

The total value of new projects currently under negotiation between Ukraine and the EIB is over €1 billion.

EBRD

As at 31 March 2012, the EBRD portfolio in Ukraine included approximately 297 projects, valued at €7.5 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 G7 and other contributor countries in connection with the clean up of the Chernobyl nuclear reactor disaster.

The EBRD has also supported projects in food processing, the oil and gas industries, transport, telecommunications, finance and agricultural services, as well as municipal infrastructure projects relating to water supply and heating. In addition, joint projects between Ukraine and the EBRD are underway to introduce 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 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.

In April 2011, representatives of Ukraine and the EBRD met to review the portfolio of EBRD loans to Ukraine. The new EBRD strategy of bank activity in Ukraine for 2011-2014 was approved on 15 April 2011 by the Board of Executive Directors of the EBRD. This new strategy for 2011-2014 will be focused on increasing energy efficiency and safety, realising the industrial and agricultural potential of Ukraine, guarantees regarding high quality and reliable infrastructure, and recovery from the crisis impact in the financial sector.

Within the framework of cooperation with the EBRD in the public sector, on 15 January 2007, the Loan Agreement between 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.$80.16 million had been distributed as at 31 March 2012.

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 €185.93 million had been distributed as at 31 March 2012. This project is financed by the EBRD jointly with the EIB, which has agreed to provide an additional €200 million; see "*—EIB*".

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 31 March 2012, €0.5 million had been received by Ukraine under this agreement.

The EBRD and Ukraine are currently considering implementing 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 €378 million to Ukraine. In addition, Ukraine is considering the 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, Ukraine and the EBRD signed a loan agreement in respect of the "Construction of the 750 kV electricity line Zaporizhska NPS - Kahovska" project. This project will be financed jointly by the EBRD and the EIB, who have each agreed to provide a €175 million loan for the project.

On 26 November 2010, a €450 million loan agreement was entered into by Ukraine and the EBRD to implement the project "Improvement of Roads around Kyiv". This project is financed jointly with the EIB, which has agreed to provide an additional €450 million. As at 31 March 2012, €85.95 million has been distributed by Ukraine through this project.

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

The EBRD approved a €45 million loan on 13 December 2011 (which the EIB is considering to match) for UkSATSE, the Ukrainian air navigation services provider, to finance the technological update of its equipment and operations to comply with the standards of service as required by European industry regulators.

In addition, the projects "On Implementation of the Consolidated Programme on Enhancement of safety at the Ukrainian NPSs" (involving a loan in the amount of €500.0 million) and "Modernisation and Reconstruction of the Urengoy Pomary Uzhgorod Gas Pipeline" (involving a loan in the amount of €154.0 million) may be implemented in Ukraine. Agreements under these projects are expected to be signed in 2012.

BSTDB

Ukraine has also undertaken a number of projects jointly with the Black Sea Trade and Development Bank ("**BSTDB**"), which provides support for projects in the transport, communications and energy sectors and for environmental protection in the Black Sea area. The aggregate value of loans under 16 BSTDB projects implemented in Ukraine was approximately EUR184.5 million as at 31 March 2012. As at 31 December 2011, Ukraine ranked third (after Russia and Turkey) in terms of both the projects approved by BSTDB Board of Directors, and those projects actually implemented, accounting for 17.02 per cent. and 16.98 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 Cooperation. 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 to cooperate with commercial banks by providing loan facilities to support trade and small businesses.

Official Creditors

On 13 July 2001, Ukraine reached an agreement with the Paris Club creditors to reschedule U.S.$581.7 million of debt, to be repaid in 18 equal semi-annual instalments commencing on 30 April 2005 and ending on 31 October 2013. Ukraine paid the Paris Club creditors (other than Russia and Turkmenistan) U.S.$136.4 million in 2009, U.S.$103.6 million in 2010 and U.S.$96.3 million in 2011. As at 31 March 2012, outstanding debt to Paris Club creditors was approximately U.S.$432.8 million (excluding debt to Russia, which amounted to U.S.$801.4 million).

Ukraine's largest bilateral creditor is Russia and since 1997, in exchange for a 20 year lease in favour of the Russian Navy for port facilities in Sevastopol in the Crimea, Ukraine had decreased its Russian debt obligations. Debt service payments to Russia are set off against lease payments for the port facilities, with both figures represented in budget calculations. From 2001 to 2010, Ukraine's debt to Russia was reduced by approximately U.S.$97.8 million annually pursuant to this agreement. On 21 April 2010, Ukraine and

Russia signed a new agreement on the stationing of Russia's Black Sea Fleet in Sevastopol for a further 25 years from the expiration of the original 20 year term in 2017.

Further to a €110 million macro-financial support loan to Ukraine approved by the EU in 2002, the European Parliament approved 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 in 2010. As at 28 May 2012, Ukraine and the EU plan to execute a Memorandum of Understanding and a Loan Agreement for a €610.0 million loan. The extension of this macro-financial support loan is expected to be conditional on, among other things, compliance by Ukraine with its commitments under the 2010 SBA.

Contingent Liabilities

Historically, Ukraine issued guarantees not only in favour of State-owned entities, but also other enterprises, including liabilities arising under export credit lines. Ukraine paid U.S.$109.7 million in 2009 and U.S.$33.5 million in 2010 pursuant to guarantees. No payments on outstanding guarantees were made by Ukraine in 2011. In 2009 the IMF issued no recommendation regarding an annual cap for guarantees. The cap recommended by the IMF for the value of guarantees issued in 2010 and 2011 was UAH 15.0 billion per year.

The total value of guarantees issued by Ukraine between 2008 and the first quarter of 2012 was approximately U.S.$7.8 billion and a number of earlier guarantees also remain outstanding. 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 Pivdenne State Design Office for the financing of a joint venture project between Ukraine and Brazil (the 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 the reconstruction of the Kyiv Odesa highway. In July 2006, Ukraine issued a guarantee in favour of 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 2008, Ukraine guaranteed obligations of the State Mortgage Institution under domestic bonds issued in the amount of UAH 3 billion. From 2009 to 2011, there were no further state guaranteed issuances of domestic bonds by the State Mortgage Institution.

The aggregate amount of sovereign guarantees issued by Ukraine in 2009, including guarantees in respect of obligations of Ukravtodor and Naftogaz, was U.S.$4.1 billion. On 28 January 2009, Ukraine issued a guarantee to Credit Suisse International as lender under a credit facility for U.S.$465 million extended to Ukravtodor. On 5 November 2009, sovereign guarantees were issued in respect of the restructured external debt obligations of Naftogaz. The guarantees extend to payment obligations of Naftogaz under the U.S.$1,595,017,000 9.5 per cent. notes issued by Naftogaz on 5 November 2009 as well as one of Naftogaz' 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 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, the Cabinet of Ministers avalised (guaranteed) certain bills of exchange due 2012 in the amount of approximately UAH 1.6 billion. The bills of exchange were 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*".

In addition, in 2009 the Cabinet of Ministers issued sovereign guarantees in favour of Ukreximbank for the obligations of Ukravtodor in the amount of UAH 2.1 billion and for the obligations of the State enterprise "Ukrmedpostach" in the amount of U.S.$17.0 million and in favour of State Savings Bank of Ukraine for the obligations of Ukravtodor in the amount of UAH 1.7 billion and for the obligations of Naftogaz in the amount of UAH 3.8 billion.

The 2010 State Budget Law, prior to the IMF recommendation to cap guarantees for 2010 at UAH 15.0 billion, authorised the Cabinet of Ministers to issue a number of State guarantees in 2010, in an amount not exceeding UAH 45.0 billion. This amount includes 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 Trust Services Limited, as trustee, for 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 into a guarantee in favour of Korea Export Import Bank in relation to its U.S.$261.0 million financing of Pivdenna Zaliznytsya (Southern Railway) for the supply of 10 twosystem inter-regional trains by Hyundai Corporation.

The 2011 State Budget Law authorised the Cabinet of Ministers to issue a number of sovereign guarantees in 2011 in an amount not exceeding UAH 15.0 billion. This amount includes 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 Euro 2012 Championship, and to the State Agency on Investments and Management of National Projects of Ukraine, but does not include funding provided by the IMF and other multinational institutions.

In 2011, the Cabinet of Ministers issued sovereign guarantees for the obligations of the State enterprise "Financing of Infrastructural Projects" as issuer of U.S.$690.0 million notes, for the obligations of Ukravtodor in the amount of U.S.$376.0 million under a credit facility granted by OJSC "Sberbank of Russia" and also for the obligations of the State enterprise "Yuzhnoye State Design Office" in the amount of U.S.$260.0 million under a credit facility granted by OJSC "Sberbank of Russia" and also for the obligations of the OJSC "Lysychanskvuhillyo" in the amount of U.S.$85.0 million under a credit facility granted by China Development Bank.

The 2012 State Budget Law authorised the Cabinet of Ministers to issue a number of sovereign guarantees in 2012, with a cumulative total not to exceed UAH 15.0 billion. In the first quarter of 2012, the cabinet of ministers issued a sovereign guarantee for the obligations of UkrEximBank in the amount of U.S.$150.0 million under a credit facility granted by the International Bank for Reconstruction and Development.

Special Fund Borrowings

In addition to borrowing 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.$14,625.4 million, U.S.$10,220.3 million, U.S.$8,936.8 million and U.S.$2,836.3 million in 2009, 2010, 2011 and for the three months ended 31 March 2012, respectively, Government borrowing has also been accounted for in the Special Fund of the State Budget. Such borrowing includes certain loans from international financial organisations and special issuances of T-bills to replenish the Stabilisation Fund, including for the purpose of financing the measures connected with holding of the Euro 2012 Championship in Ukraine and for the purpose of financing the Agrarian Fund in 2011, although the majority of financing from international financial organisations and T-bill issuances is accounted for in the General Fund of the State Budget. In 2010, the amount of external borrowing by the Special Fund of the State Budget amounted to UAH 2,536.0 million (U.S.$317.0 million). In 2011, the amount of external borrowing by the Special Fund of the State Budget amounted to UAH 4,591.6 million (U.S$575.5 million). An aggregate UAH 791.8 million (U.S.$99.2

million) of borrowing by the Special Fund of the State Budget is planned for 2012. As at 31 March 2012 the amount of external borrowing by the Special Fund of the State Budget amounted to UAH 675.6 million (U.S.$84.7 million).

The following table sets out the borrowing made by the Special Fund of the State Budget and repayments of principal from the Special Fund of the State Budget in the periods indicated (no interest payments from the Special Fund of the State Budget were made in these periods):

	Year ended 31 December			Four months ended 30 April
	2009	2010	2011	2012
	(*in U.S.$ millions*)			
Borrowing accounted for in the Special Fund	905.0	4,735.6	993.4	154.9
Internal borrowing	590.9	4,413.2	903.9	–
External borrowing	314.1	322.4	89.5	154.9
Repayments from the Special Fund	97.8	97.8	97.8	97.8
Internal borrowing	–	–	–	–
External borrowing	97.8	97.8	97.8	97.8

Debt Ratings

The foreign currency long term debt of Ukraine is rated "B+" (negative) by Standard & Poor's, "B2" (negative) by Moody's Investors Service, "B" (stable) by Fitch and "B+" (stable) by R&I. The national currency long term debt of Ukraine is rated "B+" by S&P, "B2" by Moody's and "B+" by Fitch. A credit 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, if circumstances in the future so warrant in the judgment of the assigning rating agency. Ukraine has no obligation to inform Noteholders of any revision, downgrade or withdrawal of its current or future sovereign credit ratings. A suspension, downgrade or withdrawal at any time of a credit rating assigned to Ukraine may adversely impact the price of the Notes.

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 Activity" 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 approving, on an annual basis, monetary lending policy as well as supervising the performance thereof. 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 became fully effective 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 agreed between Ukraine, 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 the stability of the banking system to the extent this does not prevent price stability, and
- facilitate stable economic growth and support the economic policy of the Government, to the extent this does not prevent price stability and the stability of the banking system.

Among other things, the law provides for changes in the procedures for the distribution of profits of the NBU as well as the transfer thereof to the State Budget; it tightens the 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 2012 have been developed by the NBU and submitted for approval by the NBU Council. In accordance with the policy guidelines for 2012, the main aims of the monetary and lending policy for 2012 include price stability, ensuring the decrease of the rate of CPI inflation (year on year) to less than 5 per cent. by 2014 and maintaining it thereafter between 3 and 5 per cent. It is also anticipated that in 2012 the NBU will mainly focus on reviving investment lending and ensuring the stability of the banking system. In addition, the policy guidelines provide for the NBU to gradually decrease the regulatory restrictions applicable to its foreign currency and exchange rate policy, reduce exchange rate controls, eliminate disparities in the balance of payments and ensure continuous growth in the demand for the hryvnia.

Monetary Policy

The NBU is responsible for implementing monetary policy. In making monetary decisions, the NBU primarily relies on forecasts for real sector development and the development of the balance of payments and financial markets which are based on analysis of a large spectrum of macroeconomic, 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 implemented under challenging macroeconomic 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 which reflected in the stabilisation of the foreign exchange market, an increase in the foreign currency supply in 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, 2010 and 2011, the monetary and lending market was materially affected by fiscal factors such as Government spending, IMF loan funding and mandatory repurchasing of T-bills by the NBU. Under such circumstances, the NBU implemented 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, counteracting inflationary pressures and ensuring that the credit support extended by banks to the economy was not unduly restricted by monetary measures. Furthermore, given the instability in the financial markets, the NBU applied a flexible approach in regulating banks' liquidity. In particular, in the first quarter of 2009, in order to address the outflow of funds from the banking system, the NBU's focus was to support banks' liquidity. Since the second quarter of 2009, when banks started to form a liquidity surplus, the NBU shifted its focus from refinancing transactions to mobilisation transactions, for example, through the placement of NBU deposit certificates in the amount of UAH 246.1 billion during 2010 and UAH 166.8 billion in 2011. In the four months ended 30 April 2012, the NBU placed deposit certificates totalling UAH 9.9 billion. Starting from May 2010, the NBU has gradually relaxed its monetary lending policy by decreasing the discount rate and other NBU interest rates and reducing the volume of 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 the acceleration of CPI inflation 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, converting external Government borrowings into hryvnia, in the second half of 2009 and during 2010, the NBU on several occasions strengthened its mandatory reserve requirements and increased the number of transactions with T-bills on a two way quotation basis. In particular, in 2010, 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 on a two way quotation basis. In 2011, the NBU sold T-bills in the nominal amount of UAH 0.4 billion, and purchased T-bills in the nominal amount of UAH 4.7 billion on a two way quotation basis. In the four months ended 30 April 2012, the NBU sold T-bills in the nominal amount of UAH 1.3 billion and purchased T-bills in the nominal amount of UAH 1.6 billion on a two way quotation basis.

The measures taken by the NBU to control excessive liquidity in the banking system also included the sale of T-bills from its portfolio, repurchase transactions involving T-bills (where the NBU agreed to repurchase T-bills in the future) and reverse repurchase transactions (where the NBU bought T-bills and agreed to sell them in the future). In 2010, T-bill sales, repurchase transactions and reverse repurchase transactions in the total amount of UAH 7.1 billion, UAH 112.0 million and UAH 2.0 billion were made, respectively. In 2011, T-bill sales, repurchase transactions and reverse repurchase transactions in the total amount of UAH 1.4 billion, UAH 23.6 billion, and UAH 1.6 billion, respectively, took place. In the four months ended 30 April 2012, T-bill repurchase transactions amounted to UAH 10.8 billion.

In addition, to ensure the stability of the hryvnia and encourage bank lending, 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 the issue of retail deposit guarantees, recapitalising banks and providing liquidity support by, *inter alia*, extending the mutual of refinancing loans. However, in 2010 the NBU sought to minimise the volume of liquidity support through refinancing mechanisms. As a result of such measures, the outflow of funds from the banking system decreased and, since the second quarter of 2009, an increase in retail deposits was recorded (with the exception of a minor decline in September 2009). In particular, during 2010, retail deposits increased by 28.9 per cent. and further increased by 11.2 per cent. in 2011. In 2011, the total value of deposits in national currency increased by 17.2 per cent. and in foreign currency by 19.6 per cent. The maturity structure of bank deposits also improved in 2010, with the share of long-term deposits in the total deposit portfolio increasing from 24.4 per cent. as at 31 December 2009 to

31.4 per cent. as at 31 December 2010 and to 33.1 per cent. as at 31 December 2011. As at 30 April 2012, the share of long-term deposits in the total deposit portfolio amounted to 33.6 per cent. However, 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 banking credit in 2010 was the issuance by the Government of T-bills to pay VAT refund arrears that provided Ukrainian corporate borrowers with access to liquid resources. In the four months ended 30 April 2012, banking credit increased by 0.1 per cent. to UAH 794.4 billion.

In 2011, the monetary and lending policy was carried out in an improved economic environment with increased credit activity and focused on ensuring hryvnia stability. The main tasks of the NBU in this period included the stabilisation of the situation in the foreign exchange market, the reduction of inflationary pressure and ensuring growth in banking credit in order to support economic growth. In 2011, certain positive trends recorded in 2010 continued. Such trends included, in particular, an increase in deposits, which grew in total by 18.2 per cent. over this period, including retail and corporate deposits. The growth in deposits permitted Ukrainian banks to reduce interest rates under loans and renew lending to corporates. In the four months ended 30 April 2012, deposits increased by 1.4 per cent. to UAH 496.1 billion.

To prevent excessive liquidity in the banking system, in 2011 the NBU continued carrying out mobilisation operations, which in aggregate amounted to UAH 166.8 billion in 2011, while the volume of refinancing transactions was low. Funds were mobilised mainly through the placement of NBU deposit certificates and repo transactions.

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 aimed at regulating banks' liquidity, and transactions for the sale and purchase of T-bills in the open market.

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, 7.75 per cent. effective from 10 August 2010 and 7.50 per cent. effective from 23 March 2012. As at the date of this Prospectus the NBU discount rate equals to 7.50 per cent. This led to a decrease in the cost of money in all segments of the money lending markets by reducing interest rates for deposits, loans and on the interbank borrowing market.

The NBU performs daily deposit operations with banks by issuing deposit certificates (overnight and up to 90 days). In addition, other interbank transactions include 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 liquidity purposes. 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 the stability of a bank's operations. Since 1 March 2004, the NBU has separately determined interest rates on overnight unsecured loans (10.5 per cent. as at 30 April 2012) and overnight loans secured by State securities (8.5 per cent. as at 30 April 2012). Since 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. Fines and charges are payable from the banks' profits. Currently, commercial banks must transfer to their respective reserve fund not 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 liquidity in the banking system and the stability of the Ukrainian hryvnia. Banks are required to maintain reserves in current accounts with the NBU, which are computed as a percentage of certain bank liabilities. Further, since 1 August 2008, Ukrainian banks have generally been required to form reserves for non-resident funds (e.g. loans and deposits) for a term of up to six months and in an amount equal to 6-8 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, of which Ukraine is a member, are exempt from these reserve requirements.

Furthermore, reserve requirements were lowered to encourage lending. From 31 March 2012, 60 per cent. of the mandatory reserves formed in the previous period must be accumulated on a separate account at the NBU, with the remainder of the accumulated mandatory reserves accumulated on a correspondent account at the NBU. The daily opening balance of the mandatory reserves accumulated on the correspondent account must be equal at least 30 per cent. of the mandatory reserves formed in the previous period. From 31 March 2012, reserves are required of at least 8 per cent. for short-term foreign currency deposits (previously 7.5 per cent.), 2 per cent. for long-term foreign currency deposits, 8.5 per cent. for foreign currency on-demand and current accounts (previously 8 per cent.), 2 per cent. for foreign currency bank funds (except Russian Ruble) borrowed from non-resident banks and non-resident financial organizations. Term national currency deposits, national currency on-demand and current accounts, bank funds borrowed from non-resident banks and non-resident financial organisations in national currency, bank funds in Russian Ruble borrowed from non-resident banks and non-resident financial organisations are not subject to these mandatory reserve requirements.

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, the 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 a 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. thereof representing overnight loans, 75.4 per cent. representing stabilisation and other loans, 1.9 per cent. representing up to 14 day and up to 365 day refinancing loans, 0.7 per cent. representing repo transactions, and 2.2 per cent. representing 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. with 3.5 per cent. thereof representing of overnight loans, 8.7 per cent. representing up to 14 day and up to 90 day refinancing loans, 2.2 per cent. representing repo transactions and the remaining 85.6 per cent. representing stabilisation and other loans. The weighted average interest rate under all refinancing instruments in 2010 was 11.6 per cent. per annum. The aggregate volume of refinancing transactions in 2011 amounted to UAH 28.8 billion. In 2011, the weighted average interest rate under all refinancing instruments was 12.39 per cent. per annum and 8.88 per cent. for the four months ended 30 April 2012; for the four months ended 30 April 2012, the aggregate volume of refinancing transactions amounted to UAH 13.4 billion.

Money Supply

The ratio of broad money supply (M3) to GDP was 54.9 in 2009, 49.6 per cent. in 2010 and 48.8 per cent. in 2011. As at 31 December 2010, the broad money supply (M3) amounted to UAH 597.9 billion. The 22.7 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. For the twelve months ended 31 December 2011 broad money supply increased by 14.7 per cent. and (M3) amounted to UAH 685.5 billion. In the four months 30 April 2012, the broad money supply increased by 1.7 per cent. and amounted to UAH 697.4 billion.

The financial and economic downturn materially affected the Ukrainian monetary lending system in 2009. Significant debt pressure in the private sector, along with limited access to external borrowings, put additional devaluation pressure on the hryvnia, despite the gradual improvement of conditions in the external commodity markets. At the same time, the deterioration of borrowers' financial standing affected the financial stability of the banking system. These factors, combined with slow economic reforms and imbalances in the public finance sector, created significant risks for the monetary lending market in 2009. However, due to measures taken by the NBU, the inflation growth rate had decreased significantly by the end of 2009, largely due to the stabilisation of the hryvnia exchange rate and use of other monetary instruments. The 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 given the improvement in macroeconomic conditions and was aimed at facilitating the renewal of the economy's high growth rates and ensuring the stability of the 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 encouraged the inflow of funds to the banking system which, in turn, contributed to a decrease in interest rates under bank loans and gradually improved lending.

In 2009 and 2010, the monetary base increased by 4.4 per cent. and 15.8 per cent., respectively, the monetary base had increased by 6.3 per cent. and amounted to UAH 239.9 billion in 2011. In the four months ended 30 April 2012, the monetary base decreased by 1.3 per cent. and amounted to UAH 236.8 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, among other things, active re-monetisation of the Ukrainian economy at a rate of 49.6 per cent. as at 31 December 2010, as compared to 54.9 per cent. as at 31 December 2009 and 48.1 per cent. as at 31 December 2008. 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. As at 31 December 2011 and 30 April 2012, the money turnover rate was 2.02. per cent. and 2.17 per cent., respectively.

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, 10.3 per cent. in 2010, 8.5 per cent. in 2011 and 10.7 per cent. as at 30 April 2012. The average weighted interest rate on foreign currency deposits decreased from 6.0 per cent. in 2007 to 5.4 per cent. in 2008, but increased to 9.1 per cent. in 2009, decreased to 8.0 per cent. in 2010, decreased again to 6.2 per cent. in 2011 and subsequently decreased to 6.5 per cent. as at 30 April 2012. The average weighted interest rate on credits in the national currency excluding overdrafts fluctuated between 13.9 per cent. in 2007, 17.6 per cent. in 2008, 21.3 per cent. in 2009, 14.8 per cent. in 2010, 15.0 per cent. in 2011 and 15.6 per cent. as at 30 April 2012. The average weighted interest rate on credits in foreign currency excluding overdrafts increased from 11.3 per cent. in 2007 to 11.6 per cent. in 2008, decreased to 10.5 per cent. in 2009, increased to 10.8 per cent. in 2010, decreased to 9.5 per cent. in 2011 and subsequently decreased again to 8.0 per cent. as at 30 April 2012..

The following table sets out information concerning Ukraine's money supply (including accrued interest) as at the dates indicated:

	Year ended 31 December			As at 30 April
	2009	2010	2011	2012
	(in UAH millions except as noted)			
Money outside banks (M0)	157,029	182,990	192,665	194,475
Money supply (Ml)	233,748	289,894	311,047	315,283
Money supply (M2)	484,772	596,841	681,801	690,564
Money supply (M3)	487,298	597,872	685,515	697,371
as % of the previous year	94.5	122.7	114.7	101.7
as % of GDP	54.9	49.6	48.8	
Monetary base	194,965	225,691	239,885	236,790
as % of the previous year	104.4	115.8	106.3	98.7
Deposits in local currency	173,586	239,918	281,105	287,812
Deposits in foreign currency	154,156	173,933	208,031	208,277
Credit extended	717,540	733,332	793,277	794,439

Banking Credit

According to NBU statistics, overall banking credit to the economy decreased by 2.1 per cent. in 2009. In 2010, it increased by 0.9 per cent. and, in 2011, by 9.6 per cent. In the four months ended 30 April 2012, overall banking credit to the economy increased by 0.1 per cent. The 2011 increase reflected a 21.6 per cent. increase in national currency lending and a 4.2 per cent. decrease in foreign currency lending. Long term (over one year) lending as a percentage of total lending decreased in 2009, representing 68.1 per cent. of total lending, as compared to 69.8 per cent. in 2008, and further decreased in 2010, representing 66.9 per cent. of total lending. There was a further decrease of 49.4 per cent. as at 30 April 2012. Foreign currency lending accounted for 51.3 per cent. of total lending in 2009, 46.6 per cent. in 2010, 40.7 per cent. in 2011, and 42.3 per cent. as at 30 April 2012.

Treasury Bills

T-bills are placed in the market through an auction process carried out by the NBU as agent for the Ministry of Finance. Auctions are currently conducted through the NBU's electronic communication network pursuant to a schedule approved and published in advance. Since 19 February 2010, T-bills in the primary market are only sold to primary dealers selected by the Ministry of Finance. In addition, T-bills in the primary market may be sold to the NBU acting upon instruction and at the expense of its clients. See "*Public Debt—General*". According to data of the Ministry of Finance, the Government in 2009 placed T-bills with maturities ranging from three months to twelve years in the aggregate amount of approximately UAH 62.8 billion. This amount included T-bills of approximately UAH 2.7 billion for the increase of the statutory capital of 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 Naftogaz 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 State-owned banks. T-bills of approximately UAH 7.4 billion for the increase of the statutory capital of Naftogaz, T-bills of approximately UAH 16.4 billion to pay accumulated VAT refund arrears and T-bills sold in the market in the aggregate amount of approximately UAH 40.4 billion.

In 2011, the Government sold T-bills with maturities ranging from three months to over five years of almost UAH 50.26 billion and U.S$ 0.412 billion. As at 21 May 2012, the government had issued U.S.$634 million and EUR 276 million T-bills denominated in U.S. dollars and euros.

The amount of T-bills held by non-residents decreased significantly in 2009 due to foreign capital outflow resulting from the global financial downturn and the devaluation of the hryvnia, but increased again during 2010. As at 31 December 2010 and 30 April 2012, holdings of Ukrainian T-bills by non-residents were approximately 8.3 per cent. and 2.3 per cent., respectively.

Interest Rates

The average yield for T-bills sold in the market was 20.1 per cent. in 2009, 12.7 per cent. in 2010 and 8.9 per cent. in 2011.

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

	Treasury bill yield 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 pay VAT refund arrears**
2009	16.7	12.2	20.1	9.5	–
2010	11.6	10.4	12.7	9.5	5.5
2011	12.4	9.2*	8.9	9.5	–
4 months ended 30 April 2012	8.88	13.7*	13.7	9.7	–

* Denominated in UAH

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.

Exchange Rates

The currency of Ukraine, the hryvnia, was introduced in 1996. In 2008, drastic fluctuations in 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 foreign currency deficit 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 in the market, the hryvnia appreciated against the dollar by 0.29 per cent. and against the euro by 7.65 per cent. In 2011 the hryvnia depreciated against the dollar by 0.35 per cent. and appreciated against the euro by 2.6 per cent. In the four months ended 30 April 2012, the hryvnia depreciated against the euro by 2.64 per cent. and did not change significantly against the dollar.

In 2008 and 2009, as a result of the NBU's intervention, the foreign currency deficit amounted to U.S.$3.9 billion and U.S.$10.4 billion, respectively, which helped to improve exchange rate stabilisation. In addition, at the end of 2008, the NBU introduced foreign currency auctions for banks as a new form of intervention and, starting from February 2009, the NBU introduced special auctions where foreign currency funds were sold in the domestic market for the purpose of paying retail loans in foreign currency. In 2009, the NBU sold foreign currency in an amount equal to U.S.$2,248.3 million in foreign currency auctions, U.S.$1,413.1 million was sold at auctions held for retail loan repayments. In 2010, the NBU sold foreign currency in an amount equivalent to U.S.$68.2 million at auctions for retail loan repayments. The NBU

believes that foreign currency auctions are an efficient instrument that contribute to the reduction of pressure in the Ukrainian foreign exchange market.

Starting from September 2008, as a result of decreased foreign currency proceeds under export transactions and external borrowings resulting from the global financial downturn and reduced external demand, a significant deficit of foreign currency deficit was recorded. On 7 October 2008, the NBU Council revised the official hryvnia/U.S. dollar exchange rate target at the level of UAH 4.95 to 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 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 between UAH 4.57 and 8.90 to U.S.$1.00.

During 2009, a foreign currency deficit 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 the 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 between UAH 7.57 and 8.65 to U.S.$1.00. Starting from February 2010, supply of foreign currency in the foreign exchange interbank market has been increasing which helps to strengthen the hryvnia and reduce 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 between UAH 7.89 and 8.06 to 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. In 2011, the average official hryvnia/U.S. dollar exchange rate was UAH 7.9676 to U.S.$1.00. In the four months ended 30 April 2012, the average official hryvnia/U.S. dollar exchange rate was UAH 7.9878 to U.S.$1.00.

The official hryvnia/U.S. dollar exchange rate reported by the NBU on 16 July 2012 was UAH 7.99 to U.S.$1.00.

The following table sets out the average official hryvnia/U.S. dollar exchange rates for the relevant periods, as reported by the NBU:

	Average	**Period end**
2008	5.27	7.70
2009	7.79	7.99
2010	7.94	7.96
2011	7.97	7.99
Jan 2012	7.99	7.99
Feb 2012	7.99	7.99
March 2012	7.99	7.99
April 2012	7.99	7.99
May 2012	7.99	7.99
June 2012	7.99	7.99

Source: NBU

In line with the Memorandum on Economic and Financial Policy entered into in 2008 and 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 on the Ukrainian foreign exchange market as at 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 foreign currency deficit in the Ukrainian foreign exchange market increased 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. Given the temporary nature of

these factors, the NBU intervened in the foreign exchange market and increased 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 an increase of 0.15 per cent. and a decrease of 0.46 per cent. In 2011, fluctuations varied between decreases of 0.04 per cent. and 0.39 per cent. For the four months ended 30 April 2012, fluctuations varied between decreases of 0.36 per cent. and 0.52 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 the Ukrainian economy was gradually increasing, along with a slowdown in foreign currency outflow from Ukraine, as a result of which the foreign currency deficit on the interbank market changed into a surplus. This helped to strengthen the hryvnia market exchange rate and replenish international reserves. Starting from the end of August 2010, there was a seasonal increase in foreign currency demand, which was driven by negative market expectations caused by, among other things, increases in tariffs for municipal services and prices for certain consumer goods.

The NBU has a number of additional monetary tools available to support the hryvnia. These include the 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.

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 contributed to a 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 30 April 2012, the economy dollarisation level was 29.9 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.

From 2008 to 2011, 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, simplifying purchase of foreign currency funds for repatriation of investments and improving the procedure for repatriation of foreign investments in securities traded on Ukrainian stock exchanges. Also, in 2008, the NBU liberalised rules governing physical transfers of cash and banking metals out of and into Ukraine.

From October 2008, the NBU introduced a number of currency control limitations, some of which have since been removed. The following restrictions remain in place as at the date of this Prospectus:

- a restriction, with certain exceptions, on exchange of foreign currencies that are not freely convertible into hard currencies and vice versa; 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; and
- 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, among 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. This limit was increased to UAH 150,000 by an NBU resolution approved on 11 August 2011 which came into effect on 23 September 2011. 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.

With effect from May 2011, within the framework of its policy of liberalising the Ukrainian foreign exchange market, the NBU has permitted banks:

- to act as both seller and buyer in transactions on sale/purchase of any foreign currency at the interbank foreign exchange market;
- to conduct their operations within the open currency position limits free from obligations;
- to use purchased foreign currency for the repayment of loans in foreign currency, without limitation of the amount of foreign currency purchased by the amount of funds borrowed and sold for UAH; and
- to perform interbank sale/purchase of currency on swap terms.

From 5 September 2011, the transfer of foreign currency from Ukraine to foreign lenders by any Ukrainian guarantor or surety provider under the respective guarantees or suretyships entered into in respect of

obligations of Ukrainian borrowers does not require a separate individual license for the transfer of foreign currency, provided the underlying loan agreements have been registered with the NBU.

Ukrainian legislation of 22 September 2011, which came into force on 16 October 2011, prohibited consumer loans in foreign currency. From 31 October 2011 to 31 January 2012, the balance of consumer loans in foreign currency decreased by 9.1 per cent. to UAH 110.9 billion. These developments allow banks to apply modern risk hedging mechanisms by minimising consumer exposure to exchange rate fluctuations.

Furthermore, pursuant to the Memorandum on Economic and Financial Policy between the IMF and Ukraine, the NBU intends to align gradually the methodology for calculation of banks' compliance with general long-term and general short-term currency position limits with well-recognised international standards. To this end, with effect from May 2011 off balance sheet claims and liabilities are now included in the calculation of a bank's open currency position. The next step expected is to include reserves for active operations in foreign currency into the calculation of the currency position.

On 22 December 2011, the NBU approved regulations for the international transfer of Ukrainian securities in documentary form, including how such transfers are licensed by the NBU.

International Reserves

As at 31 December 2009 as compared to 31 December 2008, international reserves (which comprises gold, as well as currency, reserves) decreased by U.S.$5.0 billion or 16.0 per cent. to U.S.$26,505.1 million, equivalent to approximately 4.4 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 had increased by U.S.$8,071.3 million, or 30.5 per cent., to U.S.$34,576.4 million, equivalent to approximately 4.5 months of import coverage. This increase was mainly due to funding received from the NBU, funding from two tranches under the IMF stand-by arrangement and other external sovereign borrowings. As at 31 December 2011, international reserves amounted to U.S.$31,794.6 million, a decrease of 8.0 per cent. as compared to 31 December 2010, which is equivalent to approximately 3.6 months of import coverage. As at 30 April 2012, international reserves amounted to U.S.$31,660.6 million, a decrease of 0.4 per cent. as compared to 31 December 2011, which is equivalent to 3.4 months of import coverage.

	As at 31 December				As at 30 April
	2008	2009	2010	2011	2012
	(*U.S.$ millions*)				
International reserves[1]	31,543.2	26,505.1	34,576.4	31,794.6	31,660.6
Including:					
Monetary gold[2]	529.6	680.5	903.2	1,008.6	1,092.0
Reserves in SDR and reserve position in IMF	8.6	63.6	8.0	17.9	96.5
Foreign currency[3]	31,005.0	25,761.0	33,665.2	30,768.1	30,472.0
Import coverage (months)[4]	6.7	4.4	4.5	3.6	3.4

Notes:

(1) International reserves are equal to the sum of foreign currency, SDR and monetary gold.

(2) Cost of gold is calculated on the basis of the price for one ounce of gold in U.S. dollars at the London Precious Metal Exchange.

(3) Including securities issued by non-residents.

(4) Imports of goods and services of the immediately succeeding month are used for these calculations.

Source: NBU

In 2008 and 2009, NBU interventions resulted in decreases in international reserves of U.S.$3.9 billion and U.S.$10.4 billion, respectively. The decreases in the balance helped to stabilise the hryvnia exchange rate. At the end of 2008, NBU began currency auctions for banks. In February 2009, the NBU introduced special foreign currency auctions to support repayments of loans in foreign currency. In 2009, NBU sold U.S.$2,248.3 million at foreign currency auctions, including U.S.$1,413.1 million for the repayment of loans in foreign currency by individuals. In 2010, NBU sold U.S.$68.2 million for the repayment of loans in foreign currency by individuals.

The improvement in the foreign exchange market allowed the NBU, as from March 2010, to resume the purchase of foreign currency in order to replenish international reserves. In particular, in 2010 the intervention by the NBU resulted in a foreign exchange surplus of U.S.$1.3 billion. In 2011, the negative balance of foreign exchange interventions amounted to U.S.$3.7 billion. In the four months ended 30 April 2012, the negative balance of foreign exchange interventions amounted to U.S.$551.0 million.

THE BANKING SYSTEM, SECURITIES AND FINANCIAL SERVICES MARKETS IN UKRAINE

The Banking System in Ukraine

A two tier banking structure exists in Ukraine, comprising a supervisory body (the NBU), with the banks underneath, which operate on a multi purpose or specialised (mortgage, investment, savings or clearing) basis. Following Ukraine's accession to the WTO in May 2008, Ukraine's banking system now includes branches of foreign banks established and functioning in the territory of Ukraine. The Law of Ukraine "On Banks and Banking Activity" gave the NBU power and independence to pursue monetary policy and to regulate and supervise the banking sector by, for example, granting the NBU the power to limit, terminate or suspend certain high risk transactions, to revoke a bank's licence and to put a bank into liquidation.

Banks operating in Ukraine are divided by the NBU into four groups according to the value of their assets as at 30 November 2011. The first group included 17 major banks with total assets of more than UAH 15,000 million; the second group included 19 banks with total assets ranging from UAH 5,000 million to UAH 15,000 million; the third group included 22 banks with total assets ranging from UAH 3,000 million to 5,000 million; and the fourth group included 117 banks with total assets of less than UAH 3,000 million.

As at 30 April 2012, the aggregate total assets of all banks in Ukraine amounted to UAH 1,232.7 billion (U.S.$154.3 billion), total loans amounted to UAH 831.5 billion (U.S.$104.1 billion), total equity capital amounted to UAH 158.0 billion (U.S.$19.8 billion), total capital received from corporate entities amounted to UAH 171.0 billion (U.S.$21.4 billion) and total deposits from individuals amounted to UAH 332.4 billion (U.S.$41.6 billion), with the foregoing U.S.$ conversions being based on the official hryvnia/U.S. dollar exchange rate of UAH 7.99 to U.S.$1.00 as at 16 July 2012.

With effect from 24 November 2009, the minimum statutory capital requirement for banks as at the date of their registration was UAH 75 million, applying only to banks that registered after 24 November 2009. Since 17 June 2011, the minimum statutory capital requirement for banks as at the date of their registration has been UAH 120 million. Banks that registered before 17 June 2011 have five years to increase their statutory capital to UAH 120 million. Since 5 August 2009, banks may only be established in the form of a public joint stock company or a cooperative bank. Banks existing in the form of an open joint stock company or a closed joint stock company had to be converted into public joint stock companies before 30 April 2011.

In Ukraine the sum of a Bank's principal and additional capital (the regulatory capital) must not be less than the statutory capital of a bank. With effect from 17 June 2011, the NBU revised the minimum regulatory capital requirement for the banks, establishing a minimum threshold of UAH 120 million for all banks. Banks below the minimum required amount had to increase the capital to comply with the newly established requirements by 1 January 2012.

To fulfil the regulatory capital adequacy ratio (solvency ratio) requirements of the NBU existing banks must have a ratio of at least 10 per cent. For banks that have been operating for less than 12 months, this threshold 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 across the Ukrainian banking sector was 17.83 per cent. as at 30 April 2012. 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 14.58 per cent. as at 30 April 2012. Since February 2008, the NBU Directive on Ukrainian Banking Activity Regulation required banks to take account of foreign exchange risks in the calculation of the regulatory capital adequacy ratio as well as to maintain a sufficient level of regulatory capital to cover risks arising out of disparities in asset and liability maturity dates.

Two of the largest banks in Ukraine, Ukreximbank and the State Savings Bank of Ukraine, are fully State-owned.

As at 30 April 2012, 53 banks with foreign stakes of at least 10 per cent. were operating in Ukraine and 22 of these banks were fully foreign owned. The share of foreign capital in the total registered statutory capital of Ukrainian banks amounted to 41.4 per cent. as at 30 April 2012.

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 included acquisitions by: Raiffeisen International Bank Holding AG (Austria) of Bank Aval; BNP Paribas of 51 per cent. of the shares in UkrSibbank; Russian Vneshtorgbank of 98 per cent. of the shares in Bank Mriya; Credit Agricole S.A. of 98 per cent. of the shares in Index Bank; Hungarian OTP Bank of 100 per cent. of the shares in Raiffeisen Bank Ukraina; Prestige Bank by the Austrian Erste Bank; TAS Kommerzbank by Swedbank; Ukrsotsbank by Bank Austria Creditanstalt AG; Bank Forum by Commerzbank; Pravex Bank by Intesa Sanpaolo; and Prominvestbank by Vnesheconombank.

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 Activity". One of the prerequisites 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 regarding bank supervision and the harmonisation of the principles and terms of such supervision. To date, such agreements have been signed with the banking regulators of a number of countries, including Armenia, Belarus, China, Cyprus, Kyrgyzstan, Latvia, Lithuania, Luxembourg, Poland, Russia, Hungary, Turkey, Sweden and Greece.

Since 1997, Ukraine has been implementing a series of banking sector reforms under the IMF reform programme with the aim of supporting 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

The NBU is responsible for banking regulation and supervision, including their restructuring and liquidation. As at 30 April 2012, 23 banks had been placed in liquidation. See "*—Measures taken to stabilise 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, including on a daily, weekly and monthly basis, permitting continual review by the NBU of the banks' performance and financial position. In addition, banks are required to publish quarterly and annual financial statements in printed form in mass media outlets, as well as certain other information required by the NBU, including information on a 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. The planned inspections are usually carried out not more than once per year, although the NBU has the power to also decide to carry out an extra inspection if it has sufficient grounds. Financial statements of banks that are submitted to the NBU are subject to annual inspection by an auditor certified by the Audit Chamber of Ukraine and registered with the NBU.

If a bank violates banking laws and regulations or engages in high risk 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 Activity", depending on the nature and the extent of the violation. Such measures include written restrictions, convening a general meeting of shareholders, a management or supervisory board meeting of the bank to adopt a programme for financial rehabilitation or a bank reorganisation plan, execution of written agreements, issuance of regulations, suspension of dividend payments, increase of economic ratios or 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, temporary dismissal of a bank officer, reorganisation of a bank and the appointment of a temporary administrator. From 22 September 2012, the NBU will no longer have direct authority to put banks into temporary administration. The Guarantee Fund for the Deposits of Individuals will be provided with enhanced powers to perform this function. The NBU will, however, retain oversight of this function, as the Guarantee Fund is obligated to report any such action to the NBU.

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 previously existing system. 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 upon 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 events. The Guarantee Fund guarantees deposits with banks, including any interest, up to UAH 150,000 per depositor in each of the Guarantee Fund member banks, including temporary member banks. 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 State Savings Bank of Ukraine, 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 30 June 2012, the Guarantee Fund had 169 member banks and four temporary member banks. As at 31 March 2012 the reserve accumulated by the Guarantee Fund was UAH 5,312.0 million. Furthermore, the NBU has approved its regulations on the extension of loans by the NBU to the Guarantee Fund in certain circumstances, including if the aggregate amount of deposits to be reimbursed by the Guarantee Fund exceeds 80 per cent. of the Guarantee Fund's available resources.

Banks must keep reserves to cover exposures to potential losses on their assets 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 that are 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) where the credit is not granted on demand (i. e. non-risk commitments), 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 and require varying levels of provisioning. 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. where borrowers have no foreign currency earnings) for standard loans; 7 per cent. (100 per cent. where borrowers have no foreign currency earnings) for loans on watch; 25 per cent. (100 per cent. where borrowers have no foreign currency earnings) for substandard loans; 60 per cent. (100 per cent. where borrowers have no foreign currency earnings) for doubtful loans; and 100 per cent. for bad loans. Provisioning requirements applicable to consumer loans in hryvnia are determined by reference to the same five categories: 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. Banks are required to form provisions in the currency of the relevant loan and 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 to exceed 3 per cent. with respect to foreign currency denominated standard and substandard loans, as well as loans on watch in relation to borrowers who have no foreign currency earnings. However, the NBU prepared and submitted for the consideration of the Parliament in June 2011 a draft law aimed at repealing the above provision on the basis that the introduction of such requirements has no regard to the borrower's financial position and solvency, nor to debt service quality. This draft law is schedule to be discussed during the current session of Parliament (which runs from 7 February 2012 until 13 July 2012).

Performance and Balance Sheet of the Banking System

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

From 2002 until 2008, bank lending increased rapidly. 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 term structure and reductions in interest rates on loans were the main reasons for the progress in 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 in the Ukrainian banking system as a result of discrepancies 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 2011, long term loans increased by 3.0 per cent., or UAH 22.8 billion, and long term deposits increased by 23.6 per cent., or UAH 30.7 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. In 2011, this gap again decreased by UAH 7.1 billion and amounted to UAH 1.8 billion.

The NBU continues to asses the size and structure of the assets and liabilities of Ukrainian banks, attempting to limit the risks inherent to their activities.

Liabilities

As at 30 April 2012, the aggregate liabilities of Ukrainian banks amounted to UAH 921.8 billion, representing an increase of 2.6 per cent. as compared to UAH 898.8 billion as at 31 December 2011, deposits of individuals having increased by 8.5 per cent., set off by deposits of corporate entities decreasing by 8.2 per cent.. At the same time, interbank loans and deposits, as well as the NBU's funds, decreased during this period by 0.7 per cent. and 9.5 per cent., respectively.

As at 30 April 2012, the ratio of foreign currency liabilities to total liabilities was 53.6 per cent. compared to 55.1 per cent. as at 30 April 2011. As at 30 April 2012, Ukrainian banks had the following liability structure:

- deposits of economic entities amounted to UAH 171.0 billion (18.5 per cent. of the banking sector's liabilities) compared to UAH 174.3 billion (19.9 per cent. of the banking sector's liabilities) as at 30 April 2011;
- retail deposits amounted to UAH 332.4 billion (36.1 per cent. of the banking sector's liabilities) compared to UAH 290.1 billion (33.1 per cent. of the banking sector's liabilities) as at 30 April 2011;
- interbank credits and deposits amounted to UAH 165.3 billion (17.9 per cent. of the banking sectors' liabilities) compared to UAH 171.5 billion (19.6 per cent. of the banking sectors' liabilities) as at 30 April 2011;

- budget and non-budget funds amounted to UAH 8.6 billion (0.9 per cent. of the banking sector's liabilities) compared to UAH 5.7 billion (0.6 per cent. of the banking sector's liabilities) as at 30 April 2011;
- NBU deposits amounted to UAH 63.4 billion (6.9 per cent. of the banking sector's liabilities) compared to UAH 66.1 billion (7.6 per cent. of the banking sector's liabilities) as at 30 April 2011;
- deposits of non-bank financial institutions amounted to UAH 15.8 billion (1.7 per cent. of the banking sector's liabilities) compared to UAH 15.3 billion (1.8 per cent. of the banking sector's liabilities) as at 30 April 2011;
- subordinated debt amounted to UAH 33.6 billion (3.6 per cent. of the banking sector's liabilities) compared to UAH 35.6 billion (4.1 per cent. of the banking sector's liabilities) as at 30 April 2011;
- own debt securities amounted to UAH 10.3 billion (1.1 per cent. of the banking sector's liabilities) compared to UAH 5.2 billion (0.6 per cent. of the banking sector's liabilities) as at 30 April 2011;
- loans from international and other financial institutions amounted to UAH 30.0 billion (3.3 per cent. of the banking sector's liabilities) compared to UAH 39.6 billion (4.5 per cent. of the banking sector's liabilities)as at 30 April 2011;
- correspondent accounts of other banks amounted to UAH 14.8 billion (1.6 per cent. of the banking sector's liabilities) compared to UAH 14.0billion (1.6 per cent. of the banking sector's liabilities) as at 30 April 2011; and
- other liabilities amounted to UAH 76.6billion (8.4 per cent. of the banking sector's liabilities) compared to UAH 57.6 billion (6.6 per cent. of the banking sector's liabilities) as at 30 April 2011.

As at 30 April 2012 and as at 31 December 2011, the domestic liabilities of Ukrainian banks amounted to UAH 227.8 billion and UAH 229.7 billion, with approximately 24.7 per cent. and 25.6 per cent. of these liabilities to non-residents. The statistics reflect the inflow of funds from parent companies.

Assets

Assets (total assets less accumulated reserves on active transactions) amounted to UAH 1,079.8 billion as at 30 April 2012, representing an increase of 2.4 per cent. from UAH 1,054.3 billion as at 31 December 2011. Total assets amounted to UAH 1,232.7 billion as at 30 April 2012, compared to total assets of UAH 1,176.3 billion as at 30 April 2011.

As at 30 April 2012, Ukrainian banks' total assets consisted of the following:

- loan portfolio of UAH 831.5 billion (67.5 per cent. of the banking sector's total assets) compared to UAH 779.5 billion (66.3 per cent. of the banking sector's total assets) as at 30 April 2011;
- investments in securities of UAH 96.9 billion (7.9 per cent. of the banking sector's total assets) compared to UAH 102.1 billion (8.7 per cent. of the banking sector's total assets) as at 30 April 2011;
- accounts receivable of UAH 57.7 billion (4.7 per cent. of the banking sector's total assets) compared to UAH 38.8 billion (3.3 per cent. of the banking sector's total assets) as at 30 April 2011;
- fixed assets and intangible assets amounted to UAH 55.0 billion (4.5 per cent. of the banking sector's total assets) compared to UAH 51.8 billion (4.4 per cent. of the banking sector's total assets) as at 30 April 2011;
- accrued revenues that have not yet been received amounted to UAH 54.4 billion (4.4 per cent. of the banking sector's total assets) compared to UAH 51.7 billion (4.4 per cent. of the banking sector's total assets) as at 30 April 2011;
- funds at the NBU amounted to UAH 24.6 billion (2.0 per cent. of the banking sector's total assets) compared to UAH 27.5 billion (2.3 per cent. of the banking sector's total assets) as at 30 April 2011;

- cash and bullion reserves amounted to UAH 27.2 billion (2.2 per cent. of the banking sector's total assets) compared to UAH 28.0 billion (2.4 per cent. of the banking sector's total assets) as at 30 April 2011; and
- other assets amounted to UAH 85.4 billion (6.8 per cent. of the banking sector's total assets) compared to UAH 96.9 billion (8.2 per cent. of the banking sector's total assets) as at 30 April 2011.

The loan portfolio of Ukrainian banks increased by 6.7 per cent. in the four months ended 30 April 2012, having increased by 9.3 per cent. in 2011. The loan portfolio consisted of the following borrowers as at 30 April 2012:

- loans granted to economic entities of UAH 591.0 billion (71.1 per cent. of the total loan portfolio) compared to UAH 536.1 billion (68.8 per cent. of the total loan portfolio) as at 30 April 2011;
- loans granted to individuals of UAH 167.2 billion (20.1 per cent. of the total loan portfolio) compared to UAH 183.1 billion (23.5 per cent. of the total loan portfolio) as at 30 April 2011;
- deposits placed with other banks and loans granted to other banks of UAH 64.7 billion (7.8 per cent. of the total loan portfolio) compared to UAH 51.4 billion (6.6 per cent. of the total loan portfolio) as at 30 April 2011;
- loans granted to non-banking financial institutions of UAH 0.2 billion (0.03 per cent. of the total loan portfolio) compared to UAH 0.1 billion (0.02 per cent. of the total loan portfolio) as at 30 April 2011; and
- loans granted to State authorities of UAH 8.4 billion (1.0 per cent. of the total loan portfolio) compared to UAH 8.8 billion (1.1 per cent. of the total loan portfolio) as at 30 April 2011.

In 2009, long term loans decreased by 13.0 per cent. while loans relating to investment activities increased by 3.3 per cent. In 2010, long term loans decreased by 4.7 per cent. while loans in investment activities decreased by 1.1 per cent. The decrease in the number of long term loans in 2009 and 2010 was largely due to the outflow of deposits from the banking system in the first quarter of 2009, limited access to borrowings on the international markets, a reduction in the proportion of long term loans permitted in the lending profile of Ukrainian banks, an increase in the volume of problematic loans and the resulting increase in provisions to cover defaults, the deterioration in financial standing of borrowers as a result of unfavourable conditions globally and low domestic demand. Furthermore, borrowing was less attractive as pledging assets as security under loans reduces liquidity, coupled with the absence of an efficient insurance mechanism and limited investment opportunities.

The share of doubtful and bad loans in the loan portfolio, the two worst categories requiring 50 to 100 per cent. provisioning under the NBU methodology, increased from 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 31 December 2010. The significant increase in doubtful and bad 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. The share of doubtful and bad loans in loan portfolios amounted to 14.3 per cent. as at 31 December 2011 and 14.0 per cent. as at 30 April 2012.

In 2011, as compared to 2010, and for the first four months ended 30 April 2012, as compared to 31 December 2011, the share of doubtful and bad loans decreased by 5.8 per cent. (UAH 7.7 billion) and 0.9 per cent. (UAH 1.3 billion), respectively. At the same time the share of doubtful and bad loans to corporate entities increased by 2.5 per cent. (UAH 2.3 billion) and 0.4 per cent. (UAH 0.4 billion) and to individuals by 2.5 per cent. (UAH 4.0 billion) and 3.1 per cent. (UAH 1.3 billion).

According to NBU calculations as at 30 April 2012, the aggregate share of substandard, doubtful and bad loans was equal to 39.3 per cent. with substandard loans equal to 25.3 per cent.

The IMF provided its own estimates as to the quality of the banking assets in its country report on Ukraine in February 2011. The IMF groups as non-performing, substandard, doubtful and bad loans under a broad definition, estimating that 39.3 per cent. of loans held by Ukrainian banks were non-performing as at 30 April

2012. Under a narrower definition the IMF excludes from non-performing loans those substandard loans that are serviced in a timely manner, the IMF estimating that 14.0 per cent. of loans were non-performing as at 30 April 2012, based on the narrower definition.

Revenues and Profitability

In comparison to 2009, revenues of banks decreased in 2010 by 4.3 per cent. to UAH 136.8 billion, which included interest revenues of UAH 113.3 billion (82.8 per cent. of total revenues) and commission revenues of UAH 15.3 billion (11.2 per cent. of total revenues). In 2011, revenues of banks were UAH 142.8 billion, an increase of 4.3 per cent. as compared to 2010. This figure included interest revenues of UAH 113.4 billion (79.4 per cent. of total revenues). Commission revenues amounted to UAH 18.5 billion (12.9 per cent. of total revenues).In the four months ended 30 April 2012, revenues of banks were UAH 46.8 billion, an increase of 2.0 per cent. as compared to the corresponding period in 2011. This figure includes interest revenues of UAH 37.3 billion (79.6 per cent. of total revenues) and commission revenues of UAH 6.4 billion (13.6 per cent. of total revenues).

As at 31 December 2009, 31 December 2010, 31 December 2011 the total losses in the banking sector were UAH 38.4 billion, UAH 13.0 billion and UAH 7.7 billion. In 2010 and 2011, the total annual losses in the banking sector were UAH 13.0 billion and UAH 7.7 billion, respectively. In the first four months of 2012, the banking sector returned to profitability, with profits of UAH 1.8 billion for the first quarter of 2012, compared to total losses in the banking sector of UAH 0.5 billion in the first quarter of 2011.

Measures taken to stabilise the Banking Sector

Until 2008, Ukrainian banks aggressively expanded their loan portfolios, largely because of 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. Overall, the financial crisis revealed significant weaknesses in the Ukrainian banking system resulting in massive withdrawals of deposits and lending freezes, meaning that many Ukrainian banks have faced significant problems with liquidity.

In light of threats to solvency, between October 2008 and 31 December 2011 the NBU imposed temporary administration and a moratorium on the satisfaction of the claims of creditors in respect of 27 banks, including five banks that belonged to the group of the largest banks. Out of those banks, 18 banks have entered liquidation (seven banks in 2009, eight banks in 2010 and three banks in 2011) while seven banks resumed normal operation (four banks in 2009, one bank in 2010 and two banks in 2011). In August 2011, temporary administration was lifted from one of the largest banks, PJSC CB "Nadra" ("**Nadra Bank**") and in September 2011 from Rodovid Bank. As at 30 April 2012, the temporary administration procedure was in place in relation to one bank and liquidation procedures were ongoing in respect of 23 banks, including 12 banks in respect of which liquidation procedures were commenced between 2010 and 2011. The liquidation procedures relating to 10 banks were finalised between 2009 and 2010. Under the Law of Ukraine "On Banks and Banking Activity" temporary administration may be imposed for a period up to one year. As recently amended, this law now provides that this period may be extended to 18 months by the NBU for systemic banks (meaning banks with liabilities constituting at least 10 per cent. of the aggregate liabilities of the banking sector).

A regulatory framework has also been established for the recapitalisation of Ukrainian banks by the Government through the purchase of their shares. 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 regarding recapitalisation of particular banks is taken by the Cabinet of Ministers upon the NBU's recommendation. The amount of internal State borrowing (through the issuance of T-bills) made in 2009 for the purpose of the refinancing of the banking system and the Naftogaz recapitalisation was UAH 19.6 billion. The amount of internal State borrowing (through the issuance of T-bills) made in 2010 for the

purpose of the banking system recapitalisation was approximately UAH 6.4 billion. The amount of internal State borrowing raised (through the issuance of T-bills) in 2011 for the purpose of the banking system recapitalisation (recapitalisation of OJSB "UKrGasBank", the State Savings Bank of Ukraine and Rodovid Bank) was UAH 8.8 billion.

On 10 June 2009, the Cabinet of Ministers 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 Rodovid Bank. Furthermore, 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 Rodovid Bank (to ensure a repayment of retail deposits transferred from Ukrprombank (see below). In 2011, the additional recapitalisation of JSB "UkrGasBank" totalling UAH 4.3 billion and Rodovid Bank totalling UAH 3.9 billion against contributions of T-bills by the Government was carried out. As at 31 December 2011, the governmental shareholdings in these banks are equal to 93 per cent. in UkrGasBank and over 99 per cent. in each of JSCB Kyiv and Rodovid Bank. The NBU and the Ministry of Finance are currently considering a mechanism for a transfer of problematic assets from UKrGasBank and JSCB Kyiv to Rodovid Bank, the bank allocated to hold "bad" assets, on the basis of trust agreements.

The method chosen in 2009 by the Government and the NBU for Ukrprombank's recapitalisation was a transfer of retail deposits from Ukrprombank to Rodovid Bank, together with a certain share of its assets, on the basis that and the total share capital of Rodovid Bank was correspondingly increased. Consequently, the parties approved a mechanism for the transfer of retail deposits and assets from Ukrprombank to Rodovid Bank and a corresponding transfer agreement was signed. However, only the liabilities of Ukrprombank were transferred to Rodovid Bank, assets remaining on the balance sheet of Ukrprombank. From 23 November 2009, Rodovid Bank started repaying to Ukrprombank's depositors those deposits which have become due and payable. On 21 January 2010, the NBU terminated the banking licence of Ukrprombank and initiated its liquidation and in July 2010 a share of the assets and liabilities of Ukrprombank was transferred to Delta Bank.

On 30 March 2011, the Cabinet of Ministers and the NBU approved a resolution providing for a transfer of retail deposits from Rodovid Bank (also including retail deposits transferred to Rodovid Bank from Ukrprombank) to the State Savings Bank of Ukraine. The resolution provided for an increase, in connection with the contemplated transfer, of the statutory capital of the State Savings Bank of Ukraine of UAH 604 million, which took place in June 2011. Furthermore, it provided for the additional capitalisation of Rodovid Bank in the amount of approximately UAH 3,950 million through the contribution of T-bills by the Government. These T-bills were issued on 6 April 2011 and on 21 April 2011 UAH 3,836 million was transferred by Rodovid Bank to the State Savings Bank of Ukraine. This was at par value, which correlates with the amount of transferred retail deposits in accordance with the Agreements on Assets and Obligations Transfer of Rodovid Bank of 13 April 2011 executed between Rodovid Bank and the State Savings Bank of Ukraine and approved by the Ministry of Finance and the NBU. On 14 September 2011, the Cabinet of Ministers approved an instruction which provides for the establishment of a "bad" bank on the basis of Rodovid Bank to manage Rodovid Bank's problematic assets. This "bad" bank will manage the debt collection and recovery for the problem assets of Rodovid Bank. On 15 September 2011 the NBU terminated the temporary administration of Rodovid Bank. Aside from the specific legislation on Rodovid Bank, the transfer of problematic assets of banks capitalised by the State to "bad" banks is currently being reviewed in the context of the banking system as a whole and may lead to further legislation on these matters.

On 23 December 2011, the NBU approved a resolution providing for the terms of the registration, licensing and commencement of activity for a "bad" bank to manage Rodovoid Bank's problematic assets, as well as its supervision. On 18 January 2012, this resolution was registered by the Ministry of Justice and became effective on 5 February 2012.

The Government has determined a strategy for the further development of recapitalised banks and options for disposing of its shareholdings in such banks. The SPF, in accordance with World Bank requirements, has developed a proposed procedure for disposing of such State shareholdings in recapitalised banks, involving

the transfer of problematic assets of banks capitalised by the State to a "bad" bank, as occurred with Rodovoid Bank. Under this procedure, effective from 14 April 2012, the Government decides as to the 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.

Nadra Bank was recently recapitalised with the provisional administrative powers over Nadra Bank terminating on 13 August 2011. Centragas Holding AG increased Nadra Bank's authorised capital to UAH 3.5 billion and Nadra Bank obtained funds in the form of subordinated debt in the amount of UAH 419 million. The consequences of this were increased liquidity, meaning that Nadra Bank was able to meet its financing obligations. The NBU is considering whether proposals should be submitted to the Government with respect to the recapitalisation of any other banks.

On 23 June 2009, Parliament passed a law in an effort to address the negative consequences of the financial crisis in Ukraine, which was amended by Parliament on 22 October 2009, 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 prohibition (until 1 January 2011) on arrangements of foreign currency loans to individuals, except for loans for the payment for the services of non-residents for medical treatment or overseas study in non-cash form subject to submission of the respective documents. It also established new rules for the restructuring by banks of their problematic loans as well as a prohibition on enforcement against mortgaged residential real estate other than in restricted circumstances.

A number of draft laws have been developed to improve regulation of the banking sector. One of these laws provides for, among other things, the introduction of banking supervision on a consolidated basis and the implementation of a number of measures to ensure better protection of rights of creditors.

On 15 February 2011, the Parliament adopted the amendments to Law of Ukraine on Banks and Banking (the "**Banking Law Amendment**") aimed at among other things, the improvement of banking supervision by identifying the true owners of banks and the persons who control them. The Banking Law Amendment came into effect on 16 June 2011 and in order to implement the Banking Law Amendment, the NBU approved a number of statutory instruments.

On 19 May 2011, Parliament adopted a law (effective from 19 December 2011) which significantly expands the powers of the NBU to monitor the activities of Ukrainian banking groups (parent banks and their Ukrainian and foreign subsidiaries and/or affiliated entities having the status of a financial institution or a group of two or more financial institutions with banking as a primary activity). Since 16 October 2011, making retail bank loans in foreign currency has been prohibited.

The recently passed Law of Ukraine "On the System for Guaranteeing the Deposits of Individuals", which becomes effective on 22 September 2012, and prepared in collaboration with the NBU, envisages the creation of an "intermediary" bank as an instrument to assist in the financial rehabilitation of problematic banks. Under this law, the NBU, the Guarantee Fund and the National (formerly State) Securities and Stock Markets Commission will work together to establish the rules for the creation, registration, simplified licensing framework and share issuance procedures of an intermediary bank. In addition, the law provides for a significant increase of the Guarantee Fund's powers by authorising it to exercise the powers of a temporary administrator and liquidator in relation to Ukrainian banks and to remove insolvent banks from the market, specifically through the transfer of assets and liabilities when in liquidation and the sale of an insolvent and/or intermediary bank.

A draft law was approved on the first reading in March 2011 and is currently being prepared for a second reading which is intended to conform the Law "On Banks and Banking Activity" with the Law "On Joint Stock Companies". It provides for a definition of the term "conflict of interest" and establishes requirements for avoiding conflicts of interest; improves the management structure of banks; raises the qualification requirements for boards of banks; establishes a proper system of internal controls to maintain efficient banking operations; and improves risk management systems.

The 2010-2014 Economic Reform Programme provides for the implementation in 2010-2014 of the following principal measures aimed at increasing the role of the financial sector in the development of the Ukrainian economy:

- in 2010, Ukraine 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 problematic 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 and tightened disclosure requirements and liability for the misuse of inside information at the securities market;
- by the end of 2012, Ukraine is to continue the further capitalisation of banks and facilitation of the consolidation in the financial sector, improve prudential supervision over financial institutions (including the introduction of supervision on a 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 State sponsored recapitalisation in 2009 and develop regulatory framework for transactions with derivatives; and
- by the end of 2014, Ukraine should introduce new market instruments to develop and distribute long term financial resources, including measures to be taken regarding the introduction of the defined contribution system of State pension insurance.

The Securities Markets in Ukraine

Currently exchange based trading of corporate and municipal securities in Ukraine is 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 and the Ukrainian Stock Exchange, which have 140 and 178 member companies, respectively, as at 30 April 2012.

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

In 2011, the aggregate volume of registered share issuances in Ukraine increased by UAH 17.20 billion as compared to in 2010 and amounted to UAH 57.79 billion. The National Securities and Stock Market Commission of Ukraine registered 558 share issuances during this period. In 2011, the aggregate volume of registered corporate bond issuances increased by UAH 26.21 billion as compared to 2010 and amounted to UAH 35.70 billion. The National Securities and Stock Market Commission of Ukraine registered 209 corporate bond issuances during this period. In 2011, the National Securities and Stock Market Commission of Ukraine registered 8 issuances of internal local bonds, the aggregate volume of which amounted to UAH 584.5 million. In 2011 the aggregate volume of registered collective investment scheme securities increased by UAH 39.05 billion as compared to 2010. In 2011, the aggregate volume of registered AMC investment certificate issuances increased by UAH 39.15 billion as compared to 2010 and amounted to UAH 75.75 billion. In 2011, the aggregate volume of registered corporate investment fund shares issuances decreased by UAH 103.17 million as compared to 2010 and amounted to UAH 8.77 billion.

In the first quarter of 2012, the aggregate volume of registered share issuances in Ukraine decreased by UAH 14.12 billion, as compared to the corresponding period in 2011, amounting to UAH 2.40 billion through 42 share issuances. In the first quarter of 2012, the aggregate volume of registered corporate bond issuances decreased by UAH 562.78 million, as compared to the corresponding period in 2011, and amounted to UAH 6.39 billion through 42 corporate bond issuances. In the first quarter of 2012, the aggregate volume of registered collective investment scheme securities decreased by UAH 4.45 billion, as compared to the corresponding period in 2011, amounting to UAH 9.71 billion. In the first quarter of 2012, the aggregate volume of registered AMC investment certificate issuances decreased by UAH 10.11 billion, as compared to the corresponding period in 2011, amounting to UAH 3.84 billion. However, in the first quarter of 2012, the

aggregate volume of registered corporate investment fund shares issuances increased by UAH 5.66 billion, as compared to the corresponding period in 2011 and amounted to UAH 5.87 billion.

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 the global financial downturn, the 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 and 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. in 2009). The second largest trading volumes were recorded for 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. in 2009). In 2011, trading volumes on organised securities markets amounted to UAH 235.84 billion, an increase of UAH 104.55 billion compared to the UAH 131.29 billion figure recorded in 2010. For the first quarter of 2012, trading volumes on organised securities markets amounted to UAH 44.22 billion, a decrease of UAH 11.98 billion compared to the UAH 56.20 billion figure recorded in the corresponding period in 2011.

The National 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 at 31 March 2012, there were 1,654 professional participants in the securities markets, including 719 securities traders, two depositaries conducting both depositary and clearing activities, 385 custodians, 175 registrars, 10 stock exchanges and 361 asset management companies.

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 National 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 National 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, the 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 and early 2011, the National Securities and Stock Market Commission of Ukraine considered a number of draft regulations aimed at the 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 maintaining a State register of securities issuances; and regulations on the procedures for consolidating and/or splitting the shares of a joint stock company. With the aim of raising the requirements for Stock Market participants and ensuring compliance with Ukrainian legislation, on 8 November 2011 the National Securities and Stock Market Commission of Ukraine created new regulations regarding licensing requirements.

The Financial Services Markets in Ukraine

The National Commission for the Regulation of Financial Services Markets in 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, pawnbrokers, financial companies rendering services such as financial leasing, factoring and the provision of sureties and guarantees, as well as legal entities that do not have the status of a financial institution, but are permitted to render specific kinds of financial services.

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

	As at 31 December				As at 30 April
	2008	2009	2010	2011	2012
Credit unions	829	755	659	612	613
Insurance companies	469	450	456	442	443
Pawnbrokers	314	373	426	456	458
Legal entities which do not have the status of financial institution but are permitted to render specific kinds of financial services (financial leasing)	208	216	199	217	220
Insurance and reinsurance brokers	61	61	60	60	62
Financial companies	193	208	221	251	259
Administrators of non-State pension funds	51	44	43	40	40
Non-State pension funds	109	108	101	96	97
State entities providing financial services	29	29	29	29	29
Other non-bank credit institutions	20	32	42	49	51

In comparison with 2008, in 2009 the growth in the assets of insurance companies and non-State pension funds slowed down, and the assets of credit unions decreased, which was a result of the financial and economic downturn in Ukraine and globally, political instability, limited access of market participants to lending, a decline in companies' solvency and suspension of investment projects. Specifically, 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 15.3 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 117.8 per cent. in 2008) to UAH 857.9 million. 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. The significant movement 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 the 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 the main economic indicators of non-bank financial institutions as at the end of the periods indicated:

	Year ended 31 December			
	2008	**2009**	**2010**	**2011**
Number of executed insurance agreements (thousands)	675,498	574,972	619,112	617,992
Total assets (UAH million) (at period end).....	41,931	41,970	45,235	48,123
Insurance reserves (UAH million) (at period end)	10,904	10,141	11,375	11,179
Gross insurance premiums (UAH million).....	24,009	20,442	23,082	22,694
Gross insurance payments (UAH million)	7,051	6,737	6,105	4,864
Financial companies				
Total assets (UAH million) (at period end).....	6,012	7,579	10,227	19,894
Volume of rendered services (UAH million)	19,610	24,237	29,304	29,008
Credit unions				
Number of members (thousands) (at period end).....	2,669	2,190	1,570	1,062
Total assets (UAH million) (at period end).....	6,065	4,218	3,432	2,387
Volume of extended loans to members (UAH million)	5,573	3,909	3,350	2,237
Volume of raised deposits of members (UAH million)	3,951	2,959	1,945	1,186
Pawnbrokers				
Total assets (UAH millions) (at period end).....	525	619	888	1,204
Volume of loans extended during the period (UAH million).....	2,127	3,505	5,503	7,325
Non-State pension funds				
Number of participants under executed pension contracts (thousands) (at period end)	483	497	569	595
Total assets (UAH million) (at period end).....	612	858	1,144	1,387
Pension contributions (UAH million).....	583	755	925	1,102
Pension disbursements (UAH million)	27	90	158	209

As at 31 December 2011, the total assets of insurance companies amounted to UAH 48,123 million reflecting an increase of 6.4 per cent. as compared to UAH 45,235 million as at 31 December 2010. As at 31 December 2011, the total assets of financial companies amounted to UAH 19,894 million, a 94.5 per cent. increase compared to UAH 10,227 million as at 31 December 2010.

As at 31 December 2011, the assets of credit unions amounted to UAH 2,387.0 million, representing a decline of 30.4 per cent. as compared to UAH 3,432 million as at 31 December 2010. This decrease is largely attributable to 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 31 December 2011, the assets of pawnbrokers amounted to UAH 1,204 million, an increase of 35.6 per cent. as compared to UAH 888 million as at 31 December 2010.

As at 31 December 2011, the assets of non-State pension funds amounted to UAH 1,387 million, representing an increase of 21.2 per cent. as compared to UAH 1,144 million as at 31 December 2010. The growth in the assets of non-State pension funds in the first nine months of 2011 was principally due to an 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 from 16 May 2013 certain limitations on insurance intermediary activities will be eliminated. 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 all sectors as well as providing initial insurance in a restricted number of areas, such as marine transportation, commercial aviation, missile launching and freight

(including satellites). Moreover, a requirement for non-resident insurance and re-insurance brokers to act solely through a permanent establishment was removed. However, before authorisation for a foreign insurer to perform any activities in Ukraine is granted, several conditions need to be satisfied, including the execution of an agreement between the National Commission for the Regulation of Financial Services Markets of Ukraine and an insurance supervisory authority of the foreign state where the relevant non-resident insurer is registered concerning information exchange, as well as the existence of a double taxation treaty between Ukraine and the foreign state where the relevant non-resident insurer is registered.

From 2007 to 2010, the National Commission for Regulation of Financial Services Markets of Ukraine enacted a number of regulations aimed at improving 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 their autonomous professional bodies, establishing a licensing framework for activities of construction financing and real estate funds, including detailed requirements for insurance reserves, as well as amending regulatory requirements for insurance companies, credit unions and pawnbrokers.

Furthermore, during this period the National Commission for the Regulation of Financial Services Markets in Ukraine developed a number of laws, including a law aimed at improving protection of individual investors by preventing financial abuse in 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.

Furthermore, 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 regulators, improve their general performance and improve client confidentiality.

On 2 June 2011, the Law of Ukraine "On Amending Certain Laws of Ukraine concerning Regulation of Financial Services Markets" was passed, empowering the regulatory authorities to take more stringent measures to counteract money laundering within the financial services markets. In particular, the law sets out specific requirements for information disclosure by financial institutions, stipulates that approval has to be obtained from the National Commission for Regulation of Financial Services Markets for the acquisition of 10 per cent. (or more) of the authorised capital of a financial institution and also provides for prudential supervision over banks as well as non-banking financial institutions. The law came into effect on 8 January 2012. Furthermore, on 22 December 2011 the Ukrainian Parliament passed the Law of Ukraine "On Amending Certain Laws of Ukraine Concerning Powers of Authorities on Setting the Requirements for Investment Assets". This will come into effect on 13 May 2012 and was developed in conjunction with the National Commission for Regulation of the Financial Services Markets of Ukraine, defining the powers of the Commission to make stipulations regarding the quality of assets held in reserve by insurers.

The State 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. In 2010 these factors resulted in reductions in the value of assets held by these financial market participants. Other factors that had a negative impact on the Ukrainian non bank financial sector in 2010 include a freeze on deposits held by financial market participants with problematic banks and a decline in the market value of financial instruments, especially those which were held by insurance companies and non State pension funds, adversely impacting the profitability of these entities and the reserve levels they maintain to cover obligations to customers.

The priorities of the National Commission for Regulation of the Financial Services Markets of Ukraine for 2012 include: ensuring that financial services markets operate in an open and transparent manner; protection of consumer rights; increased supervision over non-banking financial institutions, including assessments linked more closely to the risk they pose to the wider economy; ensuring business practice conforms with Directive 2009/138/EC of the European Parliament and Council regarding Insurance and Reinsurance (Solvency II); enhancing the legal and institutional framework to support lending conditions; introducing guarantees for credit union deposits and life insurance payments; advancing IFRS criteria in the preparation of financial statements; and increasing their reach through increased capacity and operational autonomy.

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 at the date hereof and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Payments of Interest

General

It is expected and this 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. Under the U.S.-Ukrainian Tax Treaty, gain realised by a U.S. Holder on the sale or retirement of a Note is not subject to tax in the Ukraine *provided that* the U.S. Holder is eligible for the benefits of the treaty. Consequently, a U.S. Holder may not be entitled to a foreign tax credit with respect to the sale or retirement of a Note. The rules governing foreign tax credits are complex and, therefore, U.S. Holders should consult their tax advisors regarding the availability of foreign tax credits in their particular circumstances.

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 effective from 1 April 2011.

Tax on Issue of the Notes

No state duty or similar tax will be payable in Ukraine upon the issue of the Notes.

Tax Implications for Non-Residents of Ukraine

According to the Tax Code, no withholding tax shall be levied on income earned by non-resident (legal entities or individuals) in the form of interest or income (discount) on state securities provided that such state securities have been sold to (placed among) non-residents outside the territory of Ukraine through non-resident agents. Given that the Notes qualify as state securities for Ukrainian tax purposes, and on the basis that they are placed outside the territory of Ukraine through non-resident agents, no withholding tax shall be levied on income earned by non-residents in the form of interest or income (discount) on the Notes.

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.

Any capital gains realised by a non-resident from disposal of the Notes would be considered as Ukrainian source income 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 Ukrainian 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 generally prohibits contractual provisions with non-residents where a resident entity takes responsibility for covering a 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 invalid and, therefore, unenforceable against the Issuer.

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 (the "**EU Savings Directive**") 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 and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at a rate of 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.

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.

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented amend or 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 the Joint Lead Managers or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Distributions of principal and interest with respect to book entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by Euroclear or Clearstream, Luxembourg from the Principal Paying Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg customers in accordance with the relevant system's rules and procedures.

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 on the Clearing System Business Day before the due date for such payment in accordance with the rules and procedures of DTC, Euroclear and Clearstream, Luxembourg (the "**Record Date**"), where "**Clearing System Business Day**" means a day on which each clearing system in which the Global Note is being held is open for business. 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 "*Forms of Notes and Transfer Restrictions—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

The Joint Lead Managers have, in a subscription agreement dated 20 July 2012 (the "**Subscription Agreement**") and made between Ukraine and the Joint Lead Managers upon the terms and subject to the conditions contained therein, agreed to subscribe and pay for the respective number of Notes set forth opposite their names below at their respective issue price of 100 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. The Joint Lead Managers have performed investment banking and other services for Ukraine in the past and received customary compensation for such services.

	Principal Amount of Notes (U.S.$)
Joint Lead Managers	
J.P. Morgan Securities plc	500,000,000
Morgan Stanley & Co. International plc	500,000,000
VTB Capital plc	500,000,000
SIB (Cyprus) Limited	500,000,000
Total	2,000,000,000

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 of the Joint Lead Managers 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 each of the Joint Lead Managers may through its respective U.S. agents or affiliates resell a portion of the Notes within the United States only to qualified institutional buyers in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

Each of the Joint Lead Managers has represented and agreed, 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.

Russian Federation

The Joint Lead Managers have agreed that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law.

Ukraine

Each of the Joint Lead Managers 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.

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 any of the Joint Lead Managers that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each of the Joint Lead Managers has undertaken that it will, to the best of its knowledge and belief, comply with all applicable laws and regulations in each jurisdiction in which it acquires, purchases, offers, sells or delivers Notes or has in its possession or distributes 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 Certain Issues of Carrying Out the State External Borrowings in 2012" dated 18 July 2012, No. 648.

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 2,500.

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 080875819. The ISIN for the Unrestricted Global Note is XS0808758196.

The Restricted Global Notes have been accepted for clearance through DTC under the Common Code No. of 035187618. The ISIN for the Restricted Global Note is US903724AD47. The CUSIP for the Restricted Global Note is 903724AD4.

Litigation

Save as disclosed in this Prospectus on pages 33-35, 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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acting upon instructions of the Cabinet of Ministers of Ukraine
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